

OFFERING CIRCULAR

Prime Optical Fiber Corporation

(Incorporated as a company limited by shares in Taiwan, Republic of China)

U.S.\$10,000,000

Zero Coupon Convertible Bonds due 2008

Issue Price: 100%

The U.S.\$10,000,000 Zero Coupon Convertible Bonds due 2008 will be issued in bearer form by Prime Optical Fiber Corporation (the “**Company**” or the “**Issuer**”). The Bonds will not bear interest except in limited circumstances. Unless previously purchased and cancelled, redeemed or converted, each Bond will be redeemed on 15 April, 2008 at 121.84% of its principal amount in U.S. Dollars. See “Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation”.

The Bonds may be converted at any time on or after 15 April, 2004 and prior to the close of business (at the place where the Bond is deposited for conversion) on 31 March, 2008 into the common shares, par value NT\$10 per share, of the Company (the “**Shares**”) at a Conversion Price (as defined herein) which will initially be NT\$13.02 per Share, based on a fixed rate of exchange of NT\$34.75 = U.S.\$1.00. The Conversion Price is subject to adjustment in certain circumstances. In addition, the Conversion Price will be adjusted from time to time in certain circumstances relating to the then prevailing closing price of the Shares relative to the Conversion Price. See “Terms and Conditions of the Bonds — Conversion — Conversion Price Reset”. The Shares are listed on the Taiwan Stock Exchange (the “**TSE**”). On 10 March, 2003, the closing price of the Shares on the TSE was NT\$12.05 per Share.

Unless previously purchased and cancelled, redeemed or converted, the Company will, at the option of a Bondholder, redeem all or some only of the Bonds held by that Bondholder on 15 April, 2006 at 112.60% of their principal amount.

The Company has the option, having given not less than 60 nor more than 90 days’ notice to the Bondholders, to redeem all or some only of the Bonds at any time after 15 April, 2006 at the Early Redemption Amount (as calculated in the manner set out in Terms and Conditions of the Bonds – Redemption, Purchase and Cancellation – Redemption at the Option of the Issuer) if the Closing Price (as defined herein) of the Shares, translated into U.S. Dollars at the prevailing exchange rate, for each of the 20 consecutive Trading Days (as defined herein), the last of which occurs not more than 10 days prior to the date upon which notice of such redemption is published, is at least 140% of the Conversion Price then in effect, translated into U.S. Dollars at the fixed exchange rate of NT\$34.75 = U.S.\$1.00, on each such Trading Day. The Company also has the option to redeem all (but not less than all) of the Bonds at their principal amount if certain changes relating to Republic of China (“**ROC**” or “**Taiwan**”) taxation have been made which will result in additional costs to the Company.

Investing in the Bonds carries certain risks. For a discussion of certain factors that should be considered in connection with an investment in the Bonds, see the section on “Risk Factors”.

The Bonds and the Shares to be issued upon conversion of the Bonds have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”) and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons. The Bonds are being offered and sold outside the United States in accordance with Regulation S under the Securities Act and may not be offered or sold within the United States or to, or for the benefit of, U.S. persons (as defined in Regulation S under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Bonds may not be offered, sold or delivered in the ROC.

The International Commercial Bank of China

Taiwan Securities (Hong Kong) Company Limited

The date of this Offering Circular is 12 April, 2003

The Company, having made all reasonable inquiries, confirms that (i) this Offering Circular contains all information with respect to the Company, the Company and its subsidiaries taken as a whole, the Bonds and the Shares which is (in the context of the issue, offering and sale of the Bonds and the Shares) material (including, without limitation, all information required by applicable laws of the ROC), (ii) the information contained herein is true and accurate in all material respects and is not misleading in any material respect, (iii) the opinions, forward-looking statements (if any) and intentions expressed herein are honestly held or made and are not misleading in any material respect and have been reached after considering all relevant circumstances and are based on reasonable assumptions, (iv) there are no other material facts, the omission of which would, in the context of the issue, offering and sale of the Bonds or the Shares, make this Offering Circular as a whole or any of such information contained herein or the expression of any such opinions, forward-looking statements or intentions, misleading in any material respect, (v) all proper inquiries have been made by the Company to ascertain or verify the accuracy of the information contained herein, and (vi) this Offering Circular does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements herein, in the light of the circumstances under which they are made, not misleading. The Company accepts full responsibility for the accuracy of the information contained in this document accordingly. Information provided herein with respect to the ROC, its political status and economy, has been derived from government and other public sources, and the Company accepts responsibility only for accurately extracting information from such sources.

The distribution of this Offering Circular and the offering and sale of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Company and the Managers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of the Bonds and distribution of this Offering Circular, see “Subscription and Sale”. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of, the Company or the Managers to subscribe for or purchase, any of the Bonds in any jurisdiction in which such offer or invitation would be unlawful.

No person is authorised in connection with the issue, offering or sale of the Bonds to give any information or to make any representation not contained in this Offering Circular and any information or representation not contained herein must not be relied upon as having been authorised by the Company or the Managers. Neither the delivery of this Offering Circular nor any sale or allotment made in connection with the issue of the Bonds shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Company since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

The Managers make no representations or warranties (express or implied) as to the accuracy or completeness of the information contained herein and nothing contained in this Offering Circular is, or shall be relied upon, as a promise or representation, whether as to the past or the future. The Managers have not independently verified any such information and assume no responsibility for its accuracy or completeness.

The Bonds will be represented by beneficial interests in a global bond (the “**Global Bond**”) in bearer form and shall be deposited on or about the Issue Date (which is expected to be on 15 April, 2003) with a common depositary for, Euroclear Bank S.A./N.V. as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”). Bonds in definitive form (the “**Definitive Bonds**”) will be issued to Bondholders only if (a) either Euroclear or Clearstream, Luxembourg (or any other clearing system as shall have been designated by the Company and approved by the Trustee on behalf of which the Bonds evidenced by the Global Bond may be held) is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, or (b) an Event of Default (as defined in the Conditions) occurs.

In connection with this issue, the Lead Manager may (to the extent permitted by applicable laws) over-allot or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail for a limited period after the Issue Date. However, there may be no obligation on the Lead Manager to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.

References to the “ROC” are to the island of Taiwan and other areas under the effective control of the Republic of China.

The Company has prepared its audited financial statements as at and for the years ended 31 December, 1999, 31 December, 2000 and 31 December, 2001 and for the 6 month period ended 30 June, 2002 contained herein. These financial statements were prepared in conformity with generally accepted accounting principles in the ROC (“**ROC GAAP**”) which differ in certain material respects from generally accepted accounting principles in the United States (“**U.S. GAAP**”). See “Summary of Significant Differences Between ROC GAAP and U.S. GAAP”.

In making an investment decision, investors must rely on their own examination of the Company and the terms of the issue of the Bonds, including the merits and risks involved. See “Risk Factors” for a discussion of certain factors to be considered in connection with an investment in the Bonds.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements under “Summary of the Company”, “Risk Factors”, “Business, Management and Principal Shareholders” and “Industry Overview” and elsewhere in this Offering Circular constitute “forward-looking statements”. All statements other than statements of historical facts included in this Offering Circular, including, without limitation, those regarding the Company’s financial position, business strategy, plans and objectives relating to the Company’s products, are forward-looking statements. Forward-looking terminology includes “may”, “will”, “except”, “anticipate”, “estimate”, “continue”, “believe”, “forecasts”, “project” and other similar words. Statements that include such terminology are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results or performance of the Company or industry results to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company’s present and future business strategies and the environment in which the Company will operate in the future. Among the important factors that could cause the Company’s actual results or performance to differ materially from those in the forward-looking statements include, among others, political, social and economic conditions in the ROC, overall trends in the Company’s principal industries, the market supply of and average selling prices for the Company’s principal products, the financial condition and results of operations of the Company’s customers, the availability and price of raw materials, and the ability of the Company to successfully expand and integrate its business. Additional factors that could cause actual results or performance to differ materially include, but are not limited to, those discussed in “Risk Factors”. These forward-looking statements speak only as of the date of this Offering Circular. The Company undertakes no obligation after the date of this Offering Circular to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future which may affect information contained herein.

ENFORCEABILITY OF FOREIGN JUDGMENTS IN THE ROC

The Company is a company limited by shares incorporated in the ROC under the Company Law of the ROC. All of the Company’s directors and executive officers, its respective supervisors and certain other parties named herein are residents of the ROC, and a substantial portion of the assets of the Company and such persons are located in the ROC. As a result, it may not be possible for investors to effect service of process upon the Company or such persons outside of the ROC, or to enforce against any of them judgments obtained in courts outside of the ROC.

Any final judgment obtained against the Company or such persons in any court other than the courts of the ROC in respect of any legal suit or proceeding arising out of or relating to the Bonds will be enforced by the courts of the ROC without further review of the merits only if the court of the ROC in which enforcement is sought is satisfied that:

- (i) the court rendering the judgment has jurisdiction over the subject matter according to the laws of the ROC;
- (ii) the judgment is not contrary to the public order or good morals of the ROC;
- (iii) the judgment is a final judgment for which the period for appeal has expired or from which no appeal can be made;
- (iv) if the judgment was rendered by default by the court rendering the judgment, the Company or such persons were served within the jurisdiction of such court, or process was served on the Company or such persons with judicial assistance of the ROC; and
- (v) judgments of the courts of the ROC are recognised and enforceable in the court rendering the judgment on a reciprocal basis.

A party seeking to enforce a foreign judgment in the ROC would, except under limited circumstances, be required to obtain foreign exchange approval from the Central Bank of China for the payment out of the ROC of any amounts recovered in connection with the judgment denominated in a currency other than NT Dollars. Remittance out of the ROC of any amount recovered from enforcing a foreign judgment in the ROC is also subject to the Foreign Exchange Control Statute and regulations as described in “Foreign Investment and Exchange Controls in the ROC” herein.

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CERTAIN DEFINED TERMS, CONVENTIONS AND CURRENCY OF PRESENTATION

Except where the context otherwise requires, all references herein to “**POFC**” or “**Prime Optical**” are to Prime Optical Fiber Corporation and all references herein to the “**Issuer**” or the “**Company**” are to Prime Optical Fiber Corporation or Prime Optical Fiber Corporation and its subsidiaries, as the context requires. All references herein to “**Taiwan**” or the “**ROC**” are to the island of Taiwan and other areas under the effective control of the Republic of China. All references herein to the “**ROC Government**” or the “**ROC Company Law**” are references to the government of the Republic of China and the Company Law of the Republic of China, respectively. All references herein to “**ROC GAAP**” are to the “**Rules Governing Preparation of the Financial Statements of Securities Issuers**” and accounting principles generally accepted in the ROC and all references herein to “**U.S. GAAP**” are to accounting principles generally accepted in the United States. All references herein to “**PRC**” are to the People’s Republic of China. All references herein to the “**TSE**” are references to the Taiwan Stock Exchange and all references herein to the “**OTC Exchange**” are to the ROC Over-the-Counter Securities Exchange.

References herein to the Company and to financial or statistical information relating to the Company are for convenience of presentation only. Except as otherwise indicated, all financial information set forth herein with respect to various members of the Company has been presented in New Taiwan Dollars.

The Company publishes its financial statements in New Taiwan Dollars, the lawful currency of the ROC. All references herein to “**New Taiwan Dollars**”, “**NT Dollars**” and “**NT\$**” are to New Taiwan Dollars and all references herein to “**United States Dollars**”, “**U.S. Dollars**” and “**U.S.\$**” are to United States Dollars. The fixed exchange rate between the NT Dollar and the U.S. Dollar on 31 March, 2003 was NT\$34.75 = U.S.\$1.00.

Certain figures included in this Offering Circular have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

SUMMARY OF THE COMPANY

Overview

The Company designs, develops and produces a wide array of optical fiber products, including singlemode optical fiber, multimode optical fiber, specialty fiber and passive optical components. The Company is the first in Taiwan with the technology to produce bare optical fibers. It unites the designers and experts in the industry to develop technology and processes to facilitate the design and manufacturing of fiber drawing and measurements.

POFC acts as an agent for several strategic partners, including Micron Optics Inc., Eigenlight Corporation, Bragg Photonics and Japan's NTT-AT. The Company also plans to expand its own brand name. With the demand for optical fiber growing, POFC intends to seek, through innovation, to become Asia's top optical fiber provider.

The Shares have been listed on the TSE since 8 March, 2002. The Company's market capitalisation as of 10 March, 2003, based on a closing price of NT\$12.05, was NT\$895.67 million.

Competitive Strengths

The Company believes that strong optical fiber engineering expertise contributes to its competitive position in the global optical fiber market. The Company believes that it is the first company in Taiwan with the technology to produce bare optical fibers. The Company's strength in optical fiber engineering also allows it to meet the demands of clients by developing new products and moving them to mass production quickly.

The primary basis of competition is a combination of: engineering capability, services, manufacturing quality, attractive prices, production capacity, manufacturing technology, design expertise, breadth of product range, time to production and reliability of delivery. POFC believes that it currently competes favourably with respect to all of these factors. However, to remain competitive, it must continue to provide technologically advanced manufacturing services, maintain quality levels, offer flexible and reliable delivery and provide competitive pricing.

The Company operates in an international market characterised by intense competition among companies that engage in optical fiber manufacturing. It competes with different companies, depending on the type of product or geographic area. While these companies are largely fragmented throughout different sectors of the industry, a number of companies are much larger and have greater manufacturing, financial, R&D and marketing resources than POFC. The following table lists the Company's major competitors.

Competitor	Products
Corning.....	Singlemode, Multimode, Specialty fiber
Alcatel.....	Singlemode, Multimode, Specialty fiber
Sumitomo	Singlemode, Multimode, Specialty fiber
Fujikura	Singlemode, Multimode, Specialty fiber
Furukawa.....	Singlemode, Multimode, Specialty fiber

Strategy

The Company's principal objectives are to provide customers worldwide with the best performance / cost ratio fiber products in the world. It is dedicated to establishing its own manufacturing technology for the production of various fiber products.

POFC will focus on improving its sales weighting of high margin products, and on reducing the weighting of singlemode fibers. Accordingly, it will shift the current main production line from singlemode fiber to multimode and specialty fiber in the future, and develop niche products such as Erbium doped Fiber and fiber sensing business and elements.

Reduce exposure to singlemode fiber

Due to lower profitability and higher competition in singlemode fiber, POFC plans to lower its sales weighting of singlemode fiber.

Dominate multimode preforms

The Company has the production capability to manufacture the preforms for multimode fibers. For this part of its global marketing strategy, POFC aims to become a dominant supplier of multimode preforms by using the same model employed by Shinetsu to become a dominant supplier of singlemode preforms. By supplying multimode preforms to manufacturers with drawing capabilities, POFC is looking to enlarge its market share in the multimode fiber market.

Increase capacity

The Company has built new plants to increase capacity for multimode and specialty fibers. Currently the Company is developing high-temperature gas-phase Ion-doping technology and new equipment, in order to develop new technology to raise yield rates and reduce production costs. Consequently, the Company's competitive advantages in the multimode and specialty fiber markets should be secured.

Find new uses for existing technology

POFC has developed various specialty fibers for commercial purposes by using existing optical fiber technology. The Company believes its newly developed specialty fibers will be able to compete with brand name products giving it up to a quarter of the global market.

Develop new products

In order to boost the Company's earnings and increase its share of value-added products, it has developed a series of fiber optics applications. Some examples are as follows:

- Distribute the most advanced Fiber Bragg Grating-Interrogation System for US Micron Optics; Inc. this system can simultaneously monitor thousands of sensors.
- Distribute mature optical fiber sensors for Japan NTT-AT; combining with the company's own R&D, to develop various applicable optical fiber sensors.
- Introduce and integrate the most advanced Optical Fiber Sensing/Monitor Technology to provide a total solution for security monitoring systems.
- The application of new optical fiber sensing can enhance the safety of public construction in Taiwan and help avoid danger.
- With the super resolution of optical fiber sensing, even movements on the nano level ($1\text{nm}=10^{-9}\text{m}$), or 10 times atomic level, can be tested. This is beyond the capability of traditional electronic sensors. Thus, revolutionary optical fiber sensors will replace traditional ones.
- With the installation of optical sensors on precision equipment (which needs IC or memory chip manufacturing) at companies such as TSMC, UMC, Winbond and others, the status of the production equipment can be monitored dynamically. Therefore, if the equipment has even the slightest failure-inducing vibration or strain, the operator will know first hand and be able to act quickly and stop the production run, decreasing the amount of scrap or nonconforming products. Other benefits include the long term monitoring of the health of production related equipment.

Seek out valuable partnerships

Owning specialty fiber production technology has enabled the Company to work with foreign companies on an OEM basis and increase its capacity. For instance, POFC has formed a strategic alliance with Bragg Photonics and MOI by becoming their FBG sensor manufacturer in East Asia and business partner in the world market.

THE OFFERING

Issuer	Prime Optical Fiber Corporation.
Lead Manager	The International Commercial Bank of China.
Co-Lead Manager	Taiwan Securities (Hong Kong) Company Limited (together with the Lead Manager, the “ Managers ”).
Issue.....	U.S.\$10,000,000 Zero Coupon Convertible Bonds due 2008 convertible into fully-paid common shares with a par value of NT\$10 each of the Issuer (“ Shares ”).
Issue Price.....	100%.
The Offering	The Bonds will not be offered or sold in the United States. The Bonds will be offered or sold only in offshore transactions in reliance on Regulation S under the U.S. Securities Act of 1933. The Bonds may not be offered, sold or delivered in the ROC.
Issue Date	15 April, 2003.
Maturity Date.....	15 April, 2008.
Status	The Bonds constitute direct, unconditional, unsecured and unsubordinated general obligations of the Issuer and shall at all times rank at least <i>pari passu</i> and without any preference or priority amongst themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by mandatory provisions of applicable law and subject to Condition 3, at all times rank at least equally with all its respective other present and future direct, general, unconditional, unsecured and unsubordinated obligations.
Interest	No interest will be payable on the Bonds prior to maturity, except in certain circumstances where an event of default has occurred.
Withholding Tax.....	Premium (if any) payable on the Bonds to non-residents of the ROC is subject to a withholding tax in the ROC equal to 20% of the gross amount of such premium (if any). The Issuer will gross up such amounts as will result in the receipt by the Bondholders of the net amounts after such withholding or deduction equal to the amounts which would otherwise have been receivable by them had no such withholding or deduction been required.
Tax Redemption	The Issuer may at any time redeem all (but not some only) of the Bonds at their Early Redemption Amount in the event of certain changes in ROC taxation which would require the Company to gross up for payment of principal or premium (if any) at the rate exceeding 20%. See “Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Redemption for Taxation Reasons”.
Negative Pledge.....	The Issuer will not, and will procure that its subsidiaries do not, create or permit to subsist security for the benefit of holders of any International Investment Securities (as defined herein) or for any guarantee thereof without granting equivalent security in respect of the Bonds. See “Terms and Conditions of the Bonds — Negative Pledge”.
Conversion.....	Subject to prior permitted redemption and subject as otherwise provided herein, the Bonds are convertible at any time on or after 15 April, 2004 and prior to the close of business (at the place where the Conversion

Notice and the Definitive Bond (if issued) in respect of such Bond are deposited for conversion) on 31 March, 2008, except during any Closed Period (as defined herein), into Shares at a conversion price per Share (subject to adjustment in certain circumstances) (the “**Conversion Price**”) of NT\$13.02 per Share based on a fixed exchange rate of NT\$34.75 = U.S.\$1.00. The Conversion Price will be subject to adjustment for, among other things, free distributions or bonus issues of Shares, declarations of dividends or other distributions in respect of Shares and re-classifications of the Shares (including a subdivision or consolidation of outstanding Shares). For a fuller description, see “Terms and Conditions of the Bonds — Conversion.” In addition, if the Company shall set up a depositary receipts programme in relation to the Shares, the Bondholders shall have the rights (but not the obligations) to elect to convert the Bonds into depositary receipts which represent ownership interests in certain Shares that are on deposit with the relevant depositary bank. See “Terms and Conditions of the Bonds — Conversion — Depositary Receipts”.

Conversion Price Reset.....	The Conversion Price shall be adjusted downward on each Reset Date (as defined herein) if the average of the Closing Prices (as defined herein) for the 20 consecutive Trading Days (as defined herein) prior to the Reset Date, converted into U.S. Dollars at the then Prevailing Rate (as defined herein) is lower than the Conversion Price in effect on the relevant Reset Date, converted into U.S. Dollars at the fixed exchange rate of NT\$34.75 = U.S.\$1.00. Any adjustment to the Conversion Price shall be limited so that the Conversion Price so adjusted shall not be less than 80% of the initial Conversion Price. See “Terms and Conditions of the Bonds — Conversion — Conversion Price Reset”.
Special Reset	The Issuer may at its option reset the Conversion Price (“ Special Reset Price ”) on the date falling 45 days prior to (i) 15 April, 2006 or (ii) the Maturity Date in certain circumstances relating to the then prevailing Closing Price of the Shares relative to the Conversion Price. See “Terms and Conditions of the Bonds – Conversion – Special Reset”.
Final Redemption	Unless previously purchased and cancelled, redeemed or converted in the circumstances referred in “Terms and Conditions of the Bonds”, the Bonds will be redeemed at 121.84% of their principal amount in U.S. Dollars on 15 April, 2008. See “Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation”.
Redemption at the Option of the Issuer	The Issuer may, having given not less than 60 nor more than 90 days’ notice to the Bondholders, redeem all or from time to time some only of the Bonds on or at any time after 15 April, 2006 at the Early Redemption Amount (as calculated in the manner set out in Terms and Conditions – Redemption, Purchase and Cancellation – Redemption at the Option of the Issuer) if the Closing Price (as defined herein) of the Shares, translated into U.S. Dollars at the prevailing exchange rate, for each of the 20 consecutive Trading Days, the last of which occurs not more than 10 days prior to the date upon which notice of such redemption is published, is at least 140% of the Conversion Price then in effect, translated into U.S. Dollars at the fixed exchange rate of NT\$34.75 = U.S.\$1.00 on each such Trading Day. See “Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Redemption at the Option of the Issuer and Redemption for Taxation Reasons”.

Redemption at the Option of Bondholders.....	Unless previously purchased and cancelled, redeemed or converted, the Issuer will, at the option of the holder of any Bond, redeem all or some only of the Bonds held by that Bondholder on 15 April, 2006 at 112.60% of their principal amount. See “Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Redemption at the Option of Bondholders”.
Form of the Bonds	The Bonds are in bearer form in the denomination of U.S.\$10,000 each and title to the Bonds shall pass by delivery. The Issuer, the Trustee, the Replacement Agent, the Paying Agent and the Conversion Agent may deem and treat the bearer of any Bond as the absolute owner of such Bond (whether or not such Bond shall be overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for the purpose of receiving payment and for all other purposes.
Governing Law	English law.
Trustee	The Bank of New York, London Branch.
Paying Agent and Conversion Agent	The Bank of New York, London Branch.
Use of Proceeds	The net proceeds from the offering of the Bonds are estimated to be approximately U.S.\$10,000,000. The Company intends to use the net proceeds to construct factories and purchase equipment.

RISK FACTORS

Prior to making an investment decision, you should carefully consider the following risk factors, along with the other matters set out in this Offering Circular. The following risk factors could affect the Company's actual results and could cause them to differ materially from estimates in any forward-looking statements given by or on behalf of the Company. ROC laws and regulations may differ from the laws and regulations in other countries.

Risks Relating to the Company's Business

The following discussion does not purport to be a complete account of risks relating to the Company's business and investors are advised to read carefully the section headed "Business, Management and Principal Shareholders" to ascertain other risks that are specific to the business and operations of the Company. Investors are strongly advised to consult their own financial advisers if they require further information about the risks involved.

The Company operates in a highly competitive market environment

The markets in which the Company operates are becoming increasingly competitive and the Company may experience considerable pressure on its prices and margins. The Company may expect technological advances and further aggressive pricing strategies as a competitive pressure. Some of the Company's competitors may have substantially greater financial, marketing, manufacturing, R&D and technological resources, greater brand-name recognition, and larger customer bases than the Company. There is no assurance that the Company can compete successfully with large competitors.

Risks Relating to the Offering

The ability to exercise conversion rights may be limited

Investors will not be able to exercise their conversion rights during certain Closed Periods. In addition, under current ROC law, regulations and policy, PRC persons are not permitted to hold or to convert the Bonds or to register as the Company's shareholders.

An active trading market for the Bonds may not develop

The Bonds represent a new issue of securities for which there is currently no trading market. The Company cannot predict whether an active trading market for the Bonds will develop or be sustained. If an active trading market were to develop, the Bonds could trade at prices that may be lower than the initial offering price. Whether or not the Bonds could trade at lower prices depends on many factors, including:

- prevailing interest rates and the markets for similar securities;
- general economic conditions;
- the Company's financial condition, historic financial performance and future prospects.

If an active market for the Bonds fails to develop or be sustained, the trading price of such Bonds could be materially adversely affected. The Company does not intend to apply for listing of the Bonds on any securities exchange.

No assurance can be given that the market for the Shares will be active and liquid; the offering of the Bonds will not result in additional liquidity to those markets until the commencement of the Conversion Period, if at all

No assurance can be given that the liquidity of the Company's Shares will be maintained or enhanced after the offering of the Bonds. Since the holders of the Bonds cannot convert the Bonds into the Company's Shares until 15 April, 2004 and may elect never to exercise their conversion rights, the sale of the Bonds will not result in additional liquidity of the Company's Shares until such dates, if at all. Volatility in the price of the Company's Shares may be caused by factors outside the Company's control and may be unrelated or disproportionate to the Company's operating results.

Shares eligible for future sale by the current shareholders may adversely affect the market price of the Shares

While the Company is not aware of any plans by any major shareholders to dispose of a significant amount of Shares, no assurance can be given that one or more of its shareholders will not dispose of Shares in the future. The Company also cannot predict the effect, if any, that future sales of the Shares, or the availability of the Shares for future sale, will have on the market price of the Shares prevailing from time to time. Sales of substantial amounts of Shares in the public market, or the perception that such sales may occur, could adversely affect the prevailing market price of the Shares.

Holders of the Bonds will be required to appoint several local agents in Taiwan if they convert the Bonds into Shares, which may make ownership burdensome

Non-ROC persons wishing to convert the Bonds into Shares are required under current ROC laws and regulations to appoint an agent, called a tax guarantor, in Taiwan for filing tax returns and making tax payments on their behalf. A tax guarantor must meet certain qualifications set by the Ministry of Finance of the ROC and, upon appointment, becomes a guarantor of the holder's ROC tax obligations. Holders wishing to repatriate profits derived from the sale of Shares will be generally required to submit evidence of appointment of a tax guarantor and the approval of the appointment by the ROC tax authorities. No assurance can be given that investors will be able to appoint and obtain approval for a tax guarantor in a timely manner.

In addition, under current ROC law, non-ROC holders of the Bonds who exercise their conversion rights to receive Shares will be required to appoint a local agent in Taiwan to, among other things, open a securities trading account with a local securities brokerage firm and a bank account, remit funds and exercise shareholders' rights. They must also appoint a local bank to act as custodian for handling confirmation and settlement of trades, safekeeping of securities and cash proceeds and reporting and declaration of information. Without this local agent, the custodian and the opening of the trading account and bank account, they will not be able to hold, sell or otherwise transfer Shares on the TSE.

Political, Regulatory and Economic Risks

An investment in the Bonds may be adversely affected by political considerations relating to the ROC

The Company is incorporated in Taiwan. The Company's business and results of operations, the market price of the Bonds as well as the Shares may be affected by changes in Taiwan governmental policies, taxation, inflation or interest rates and by social instability and diplomatic and social developments in or affecting Taiwan which are outside the Company's control.

Taiwan has a unique international political status. The PRC asserts sovereignty over mainland China and Taiwan and does not recognise the legitimacy of the ROC government. Although significant economic and cultural relations have been established during recent years between Taiwan and the PRC, the government in mainland China has indicated that it may use military force to gain control over Taiwan if Taiwan declares independence or indefinitely delays progress towards unification as well as if any foreign power interferes in Taiwan's affairs. The PRC has threatened to take hostile action toward Taiwan if Taiwan does not officially endorse the PRC's "one China" policy.

Mr. Chen Shui-Bian, a member of the Democratic Progressive Party, was formally inaugurated as President of the ROC on 20 May, 2000, thus ending 50 years of rule over the ROC by the Kuomintang. The Democratic Progressive Party has in the past formally advocated Taiwan's independence from China. Certain past developments in relations between the ROC and the PRC have occasionally adversely affected the market value of Taiwanese companies and the value of the TSE Weighted Stock Index, or the TSE Index, and the OTC Exchange. Relations between the ROC and the PRC and other factors affecting the political or economic condition of Taiwan could also affect the Company's business, its market price, and the liquidity of the Bonds and the Shares.

Foreign exchange approvals may be required

Under existing ROC law, foreign exchange approvals must be obtained from the Central Bank of China on a payment-by-payment basis for the conversion into foreign currencies of the net proceeds realised from sale of subscription rights for newly issued shares if the proceeds are in excess of U.S.\$100,000 per remittance. In addition, foreign persons may, subject to certain required documents, but without foreign exchange approval of the Central Bank of China, remit outside and into the ROC foreign currencies of up to U.S.\$100,000 (or its equivalent) for each remittance. There can be no assurance that any such approval will be obtained in a timely manner or at all. See "Foreign Investment and Exchange Controls in the ROC — Overseas Corporate Bonds".

Financial reporting and accounting standards in the ROC differ from other countries; bonus share issuance

The Company's financial statements were prepared using accounting principles, procedures and reporting practices generally accepted in the ROC. ROC GAAP differs in many material respects from U.S. GAAP. See "Summary of Significant Differences Between ROC GAAP and U.S. GAAP". Potential investors should consult their own professional advisers for an understanding of such differences and how they might affect the financial information contained herein.

USE OF PROCEEDS

The net proceeds from the offering are estimated to be approximately U.S.\$10,000,000. The Company intends to use the net proceeds to construct factories and purchase equipment.

EXCHANGE RATES

Fluctuations in the exchange rate between NT Dollars and U.S. Dollars will affect the U.S. Dollar equivalent of the NT Dollar price of the Shares on the TSE and, as a result, may affect the market price of the Bonds.

The following table shows the exchange rates for New Taiwan Dollars expressed in New Taiwan Dollars per U.S.\$1.00.

For the year ended 31 December,	Average (of month-end rate)	High	Low	At period-end
1996.....	27.461	27.980	27.131	27.491
1997.....	28.948	33.500	27.270	32.638
1998.....	33.412	35.300	31.750	32.216
1999.....	32.233	33.450	31.378	31.395
2000.....	31.336	33.200	30.261	32.992
2001.....	33.893	35.174	32.227	35.080
2002.....	34.510	35.248	32.768	34.635

Sources: Taipei Forex Inc., Bloomberg

CAPITALISATION

The Managers make no representations or warranties (express or implied) as to the accuracy or completeness of the information contained in this section of the Offering Circular and nothing contained herein is, or shall be relied upon, as a promise or representation. The Managers have not independently verified any such information and assume no responsibility for its accuracy or completeness.

The following table sets forth the unaudited non-consolidated short-term debt and capitalisation of the Company as at 30 September, 2002, and as adjusted to reflect the issuance of the Bonds in the aggregate principal amount of U.S.\$10,000,000:

Unit: '000

	As at 30 September, 2002			
	Actual		As adjusted	
	NT\$ ⁽¹⁾	U.S.\$ ⁽¹⁾	NT\$ ⁽¹⁾	U.S.\$ ⁽¹⁾
Short-term debt:				
Short-term borrowings.....	81,479	2,333	81,479	2,333
Notes payable.....	11,445	327	11,445	327
Current portion of long-term debt	13,384	383	13,384	383
Total short-term debt.....	<u>106,308</u>	<u>3,043</u>	<u>106,308</u>	<u>3,043</u>
Long-term debt:				
Bonds to be issued.....	0	0	349,180	10,000
Long-term loans.....	0	0	0	0
Total long-term debt.....	<u>0</u>	<u>0</u>	<u>349,180</u>	<u>10,000</u>
Stockholders' equity:				
Common stock.....	743,300	21,287	743,300	21,287
Retained earnings.....	(3,876)	(111)	(3,876)	(111)
Total stockholders' equity.....	<u>739,424</u>	<u>21,176</u>	<u>739,424</u>	<u>21,176</u>
Total capitalisation ⁽²⁾	<u>845,732</u>	<u>24,219</u>	<u>1,194,912</u>	<u>34,219</u>

- Notes:
- (1) NT\$ amounts have been converted into U.S. dollars and the principal amount of the Bonds has been converted into NT\$ using the closing exchange rate provided by the Central Bank of China of NT\$34.918 = U.S.\$1.00 as at 30 September, 2002.
 - (2) There has been no material change in the capitalisation of the Company since 30 September, 2002.

THE SECURITIES MARKET OF THE ROC

The information included herein has been extracted from various publicly available documents which have not been prepared or independently verified by the Company, the Managers, the Trustee or any of their respective affiliates or advisers in connection with the issue of the Bonds. The Company and the Managers make no representation as to the accuracy or completeness of such information, which may not be consistent with information compiled from other sources or with other information included elsewhere herein.

In 1960, the ROC Government established the Securities and Exchange Commission to supervise and control all aspects of the securities market. The Securities and Exchange Commission of the ROC was restructured in early 1997 and renamed as the Securities and Futures Commission (“SFC”). In the 1970s and the early 1980s, the ROC Government implemented a number of steps designed to upgrade the quality and importance of the ROC securities market, such as encouraging listing on the TSE and establishing an over-the-counter market. In the mid-1980s, the ROC Government began to revise its laws and regulations in a manner designed to facilitate the gradual internationalisation of the ROC securities market.

The Taiwan Stock Exchange

In 1961, the ROC SFC established the TSE to provide a marketplace for securities trading. The TSE is a corporation owned by government-controlled and private banks and enterprises. The TSE is independent of entities transacting business through it, each of which pays a user’s fee. Subject to limited exceptions, all transactions in listed securities by brokers, traders and integrated securities firms must be made through the TSE.

The TSE commenced operations in 1962. During the early 1980s, the SFC actively encouraged new listings on the TSE and the number of listed companies grew from 119 in 1983 to 598 by the end of December 2002. As of 31 December, 2002, the market capitalisation of companies listed on the TSE was NT\$8,912 billion.

Historically, Taiwan companies have listed only shares and bonds on the TSE. However, the ROC SFC has encouraged companies to list other types of securities. In 1988, the SFC permitted the issuance of Taiwan’s first convertible bonds. Since 1989, there have been offerings of domestic convertible bonds and convertible preferred shares. In addition, beneficiary units evidencing beneficiary interests in closed-end investment funds and Dragon Bonds issued by Asian Development Bank are also listed on the TSE. The SFC also has regulations which permit foreign issuers to list their equity securities directly on the TSE or through the use of depositary receipts. Foreign issuers have listed their equity securities on the TSE through the use of depositary receipts in accordance with these regulations.

The TSE requirements for listing are based on the following company attributes:

- the number and distribution of stockholders;
- length of time in business;
- amount of capital; and
- profitability.

However, special listing criteria apply to technology companies and key businesses engaging in national economic development.

The ROC Over-the-Counter Securities Exchange (“OTC Exchange”) (also known as Gre Tai Securities Market) and the Emerging Market

To complement the TSE, the OTC Exchange was established in September 1982 on the initiative of the ROC SFC to encourage the trading of securities of companies who do not qualify for listing on the TSE. As of 31 December, 2002, 358 companies have listed equity securities on the OTC Exchange and the total market capitalisation of those companies was NT\$767 billion.

In addition, the Emerging Market on the OTC was established on 2 January, 2002 on the initiative of the ROC SFC to encourage trading of securities of companies that are public companies but do not qualify for listing on the TSE or the OTC Exchange. Companies whose shares are traded on the Emerging Market, must (i) be under a securities firm’s assistance for applying for listing on the TSE or trading on the OTC Exchange, (ii) be recommended by two securities firms, and (iii) have a professional agent dealing with shares related affairs in the place where the OTC Exchange is situated. The price of shares is decided by negotiation between securities firms and investors. As of 18 February, 2003, 208 companies have registered equity securities on the Emerging Market on the OTC.

The following table shows for the periods indicated information relating to the OTC Exchange Index:

Period ended	Number of listed companies at period-end	Index high	Index low	Index at period-end
1995	41	101.96	94.02	101.96
1996	79	234.83	99.92	233.09
1997	114	343.99	210.22	245.05
1998	176	281.41	163.89	165.80
1999	264	207.18	138.99	207.18
2000	300	329.47	99.86	104.93
2001	333	136.23	106.74	136.23
2002	358	164.57	89.20	94.28

Sources: OTC Monthly Review; OTC Data Base; Taiwan Economic Journal.

Taiwan Stock Exchange Index

The TSE Index is calculated on the basis of a wide selection of listed shares weighted according to the number of shares outstanding. This weighted average method is also used for the Standard & Poor’s Index in the United States and the Nikkei Stock Average in Japan. The TSE Index is compiled by dividing the market index in Taiwan.

The weighting of stocks in the index is fixed as long as the number of shares outstanding remains constant. When the total number of shares outstanding changes, the weight of each stock is adjusted. Stock splits and stock dividends are adjusted automatically. Cash dividends are not included in the calculation.

The following table shows for the periods indicated information relating to the TSE Index:

Period ended	Number of listed companies at period-end	Index high	Index low	Index at period--end
1990	199	12,495.34	2,560.47	4,530.16
1991	221	6,305.22	3,316.26	3,377.06
1992	256	5,391.63	3,327.67	4,600.67
1993	285	6,070.56	3,135.56	6,070.56
1994	313	7,183.75	5,196.63	7,124.66
1995	347	7,051.49	4,503.37	5,173.73
1996	375	6,982.81	4,690.22	6,933.94
1997	404	10,116.84	6,820.35	8,187.27
1998	437	9,277.09	6,251.38	6,418.43
1999	462	8,608.91	5,475.00	8,448.84
2000	474	10,202.20	8,349.91	8,842.63
2001	584	6,104.24	3,446.26	5,551.24
2002	598	6,484.93	3,845.76	4,452.45

Sources: TSE; Taiwan Economic Journal.

Note: As indicated above, the performance of the TSE has in recent years been characterised by extreme price volatility.

Price Limits, Commissions, Transaction Tax and Other Matters

The TSE has placed limits on block trading and on the range of daily price movements. Transactions that involve 500 trading lots or more must be registered and executed pursuant to certain TSE guidelines. Fluctuations in the price of stock traded on the TSE are currently subject to a restriction of 7% above and below the previous day's closing price (or reference price set by the TSE if the previous day's closing price is not available because of lack of trading activity) in the case of equity securities, and 5% in the case of debt securities. However, these restrictions have been modified from time to time by the Ministry of Finance based on market conditions. The ROC SFC has announced that limitations on price fluctuations may be relaxed with a view to eventually abolishing all share price fluctuation controls. Brokerage commissions are proposed by the TSE and approved by the ROC SFC. The current approved maximum brokerage commission is 0.1425% of the transaction price for equity securities; however, a lower rate may be charged to clients by securities firms at their sole discretion, provided that they must report such rate to the TSE. A securities transaction tax, currently levied at the rate of 0.3% of the transaction price, is payable by the seller of equity securities and a tax at the rate of 0.1% of the transaction price is payable by the seller of debt securities other than governmental bonds. Such securities transaction taxes are withheld at the time of the transaction giving rise to such taxes. According to the amended Statute for Upgrading Industries effective as of 1 February, 2002, no securities transaction tax will be imposed on the sale of corporate bonds and financial debentures from 1 February, 2002 to 31 December, 2009. Sales of shares of companies listed on the TSE are currently sold in lots of 1,000 shares. Odd lot trading, or the purchase or sale of less than 1,000 shares, can be conducted in after-hours trading. Investors who desire to sell odd lots of shares of a listed company occasionally experience delays in effecting such sales.

Regulation and Supervision

The ROC SFC has been under the jurisdiction of the Ministry of Finance since 1981. The ROC SFC has extensive regulatory authority over companies on the TSE, companies whose shares are traded on the OTC Exchange and unlisted publicly issuing companies whose capital exceeds the currently specified minimum amount of NT\$500 million. Such companies are generally required to obtain approval from, or registration with, the ROC SFC for all securities offerings. The ROC SFC has promulgated regulations requiring, unless otherwise exempted, periodic reporting of financial and operating information by all public companies. In addition, the ROC SFC is responsible for the establishment of standards for financial reporting and carries out licensing and supervision with respect to the other participants in the ROC securities markets. The ROC SFC has responsibility for implementation of the ROC Securities and Exchange Law and for overall administration of governmental policies in the ROC securities markets. It has extensive regulatory authority over the offering, issuing and trading of securities. In addition, the ROC Securities and Exchange Law specifically empowers the ROC SFC to promulgate rules under certain circumstances.

The ROC Securities and Exchange Law prohibits market manipulation. It permits a company to recover certain short-term trading profits made through purchases and sales within six months by directors, managerial personnel, supervisors (including their spouses, minor children and nominees) and shareholders, together with their spouses, minor children and nominees, holding 10% or more of the shares of the company. The ROC Securities and Exchange Law prohibits trading by "insiders" based on non-public information that materially affects share price movement. Pursuant to the ROC Securities and Exchange Law, the term "insiders" includes directors, supervisors, managers and shareholders having a shareholding of 10% or more, together with their spouses, minor children and nominees, or any person who has learned such information due to an occupational or controlling relationship with the issuing company and any person who has learned such information from any of the foregoing. Sanctions can include prison terms. In addition, damages may be awarded to persons injured by the transaction.

The ROC Securities and Exchange Law also imposes criminal liability on certified public accountants and lawyers who make false certifications in their examination and audit of a company's contracts, reports and other evidentiary documents that are related to securities transactions. ROC SFC regulations require that other financial reports of listed companies be audited by accounting firms consisting of at least three certified public accountants and be signed by at least two certified public accountants.

The ROC Securities and Exchange Law also provides for, among other things, regulations relating to public offerings of securities; measures to strengthen the capital structure of issuers; civil liability for material misstatements or omissions made by issuers; more stringent regulation of the securities activities of officers, supervisors, directors and major shareholders of issuers; regulations regarding tender offers; and a significant expansion of the prohibitions against insider trading, including the imposition of treble civil damages and criminal sanctions.

The ROC SFC does not have criminal or civil enforcement powers under the ROC Securities and Exchange Law. Criminal actions may be pursued only by prosecutors. Under ROC law, civil actions may only be brought by plaintiffs who assert that they have suffered damages. The ROC SFC is directly empowered to curb abuses and violations of applicable laws and regulations only through administrative measures.

In addition to providing a market for securities trading, the TSE has primary responsibility for reviewing applications by issuers to list securities on the TSE and the OTC Exchange has primary responsibility for reviewing applications by issuers to list securities on the OTC Exchange. The ROC SFC reviews all securities offerings by listed companies. If issuers of listed securities violate relevant laws and regulations or encounter significant difficulties, the TSE and the OTC Exchange may, with the approval of the ROC SFC, delist securities of such issuers.

SELECTED FINANCIAL AND OPERATING DATA

The Managers make no representations or warranties (express or implied) as to the accuracy or completeness of the information contained in this section of the Offering Circular and nothing contained herein is, or shall be relied upon, as a promise or representation. The Managers have not independently verified any such information and assume no responsibility for its accuracy or completeness.

The following table presents summary financial data for the Company. The data presented in this table are derived from the Company's audited financial statements and notes thereto that are included elsewhere in this Offering Circular. The Company's financial statements were prepared using accounting principles, procedures and reporting practices generally accepted in the ROC and are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions, including the U.S. and the U.K., other than those in the ROC. ROC GAAP differs in many material respects from U.S. GAAP. For a discussion of these differences, see "Summary of Significant Differences Between ROC GAAP and U.S. GAAP" included elsewhere in this Offering Circular. The selected financial data set forth below should be read in conjunction with the Company's financial statements and the notes to those statements included elsewhere in this Offering Circular.

Unit: NT\$ '000,000

PROFIT AND LOSS	For the year ended 31 December,						For the 9 months ended 30 September, 2002
	1996	1997	1998	1999	2000	2001	
Net Sales	140	177	169	108	576	790	175
Cost of Sales	109	140	175	134	494	482	178
Gross Profit	30	36	(7)	(26)	82	308	(3)
Operating Expenses	60	35	39	42	60	70	47
SG&A	18	19	24	19	36	47	34
R&D	43	15	15	23	24	23	13
Operating Income	(30)	2	(46)	(67)	22	238	(50)
Non-operating Income	5	19	25	15	34	40	10
Interest income	3	9	18	9	7	11	3
Investment income	0	0	0	0	0	0	0
Gain on disposal	1	0	2	2	3	1	0
Foreign exchange gain	0	0	0	0	5	26	0
Other income	1	10	6	5	19	2	7
Non-operating expenses	5	16	17	29	11	8	56
Interest expense	4	6	7	6	9	7	2
Investment loss	0	0	0	0	0	0	0
Loss on disposal	0	0	0	0	0	1	0
Foreign exchange loss	0	4	4	2	0	0	12
Other loss	0	6	7	21	2	1	41
Pretax Profit	(30)	4	(37)	(81)	45	270	(96)
Income Tax	(5)	(5)	0	(13)	(18)	30	3
Net Income	(25)	9	(37)	(68)	64	240	(99)

Unit: NT\$ '000,000

BALANCE SHEET	As of 31 December,						As of 30 September, 2002
	1996	1997	1998	1999	2000	2001	
Current Assets	191	566	463	440	591	793	677
Cash & equivalents	123	390	272	156	316	415	197
Marketable securities	0	0	21	61	17	18	22
A/R & N/R	25	49	51	25	92	75	32
Inventory	33	112	92	169	101	226	390
Prepayments	2	7	7	9	18	10	10
Other current assets	8	8	20	21	47	49	26
LT Investments	0	0	0	0	22	39	74
Fixed Assets	119	182	258	239	216	201	186
Land	0	0	0	0	0	0	0
Buildings	0	0	0	0	0	0	0
Machinery and equipment	106	155	238	244	294	304	304
Other fixed assets	56	88	103	11	74	82	91
Accu. Depreciation	(43)	(61)	(840)	(116)	(152)	(184)	(209)
Other Assets	19	12	16	25	12	3	6
Total Assets	328	761	736	704	841	1,037	943
Current Liabilities	59	132	89	138	210	183	203
ST loans	17	93	46	81	130	79	81
A/P & N/P	5	18	26	29	39	61	76
Accrued expenses	9	11	11	13	21	19	20
Accrued income tax	0	0	0	0	0	0	0
Current portion of LT loans	16	9	3	13	18	18	13
Other current liabilities	12	0	3	2	2	6	12
LT Liabilities	12	3	58	45	27	9	0
Other Liabilities	0	0	0	1	0	0	1
Accrued pension payable	0	0	0	1	0	0	1
Total Liabilities	71	135	147	183	237	192	204
Paid-in Capital	400	600	60	600	620	620	743
Capital Surplus	0	160	160	0	0	0	0
Retained Earnings	(143)	(134)	(171)	(79)	(15)	225	(4)
Total Shareholders' Equity	257	626	589	521	605	845	739

INDUSTRY OVERVIEW

The information included herein has been extracted from various public and private publications. This information has not been prepared or independently verified by the Company, the Managers, the Trustee or any of their respective affiliates or advisers in connection with the issue of the Bonds. The Company and the Managers make no representation as to the accuracy or completeness of such information, which may not be consistent with information compiled from other sources or with other information included elsewhere herein.

The global optical fiber market has grown rapidly since 2000 due to strong demand from wide band adoptions. As local area networks continue to develop, demand for multimode optical fiber is expected to grow and outpace singlemode demand growth. Consumption of bandwidth is the key demand growth factor for the use of multimode optical fiber, and Asia-Pacific is expected to be the fastest growing region for demand for optical network equipment.

According to RHK, a market research firm specialising in optical networks and components, Asia-Pacific's optical networks market has succumbed to global pressures in 2002, declining from U.S.\$5.1 billion last year to an expected U.S.\$4.5 billion. Despite this likely 12% drop, the Asia-Pacific market will grow modestly in 2003 as deregulation, improving carrier health and macroeconomic strength pay off. From 2002 to 2006, annual growth should average 9%, with the market reaching U.S.\$6.5 billion in 2006, 39% of the projected global optical networks total. Asia-Pacific's regional splits will fluctuate with build cycles and deregulation, but China should remain the largest region in terms of spending and Japan will see the most advanced network applications and deployments.

BUSINESS, MANAGEMENT AND PRINCIPAL SHAREHOLDERS

The Managers make no representations or warranties (express or implied) as to the accuracy or completeness of the information contained in this section of the Offering Circular and nothing contained herein is, or shall be relied upon, as a promise or representation. The Managers have not independently verified any such information and assume no responsibility for its accuracy or completeness.

Overview

The Company designs, develops and produces a wide array of optical fiber products, including singlemode optical fiber, multimode optical fiber, specialty fiber and passive optical components. The Company is the first in Taiwan with the technology to produce bare optical fibers. It unites the designers and experts in the industry to develop technology and processes to facilitate the design and manufacturing of fiber drawing and measurements.

POFC acts as an agent for several strategic partners, including Micron Optics Inc., Eigenlight Corporation, Bragg Photonics and Japan's NTT-AT. The Company also plans to expand its own brand name. With the demand for optical fiber growing, POFC intends to seek, through innovation, to become Asia's top optical fiber provider and establish a presence in the global markets.

Financial Overview

Unit: NT\$ '000

Summary financial data	For the 9 months ended 31 December,			For the 9 months ended 30 September, 2002
	1999	2000	2001	
Sales	108	576	790	175
Growth (%)	(35.9%)	432.7%	37.3%	(75.3%)
Gross profit	(26)	82	308	(3)
% of net sales	(23.9%)	14.2%	39.0%	(1.8%)
EBITDA	52	66	129	110
% of net sales	47.7%	11.5%	16.3%	62.6%
Operating profit	(67)	22	238	(50)
% of net sales	(62.4%)	3.8%	30.1%	(28.8%)
Net Income	(68)	64	240	(99)
% of net sales	(62.9%)	11.1%	30.3%	(56.6%)

The Shares have been listed on the TSE since 8 March, 2002. The Company's market capitalisation as of 10 March, 2003, based on a closing price of NT\$12.05, was NT\$895.67 million.

Strategy

The Company's principal objectives are to provide customers worldwide with the best performance / cost ratio fiber products in the world. It is dedicated to establishing its own manufacturing technology for the production of various fiber products.

POFC will focus on improving its sales weighting of high margin products, and on reducing the weighting of singlemode fibers. Accordingly, it will shift the current main production line from singlemode fiber to multimode and specialty fiber in the future, and develop niche products such as Erbium doped Fiber and fiber sensing business and elements.

Reduce exposure to singlemode fiber

Due to lower profitability and higher competition in singlemode fiber, POFC plans to lower its sales weighting of singlemode fiber.

Dominate multimode preforms

The Company has the production capability to manufacture the preforms for multimode fibers. For this part of its global marketing strategy, POFC aims to become a dominant supplier of multimode preforms by using the same model employed by Shinetsu to become a dominant supplier of singlemode preforms. By supplying multimode preforms to manufacturers with drawing capabilities, POFC is looking to enlarge its market share in the multimode fiber market.

Increase capacity

The Company has built new plants to increase capacity for multimode and specialty fibers. Currently the Company is developing high-temperature gas-phase Ion-doping technology and new equipment, in order to develop new technology to raise yield rates and reduce production costs. Consequently, the Company's competitive advantages in the multimode and specialty fiber markets should be secured.

Find new uses for existing technology

POFC has developed various specialty fibers for commercial purposes by using existing optical fiber technology. The Company believes its newly developed specialty fibers will be able to compete with brand name products giving it up to a quarter of the global market.

Develop new products

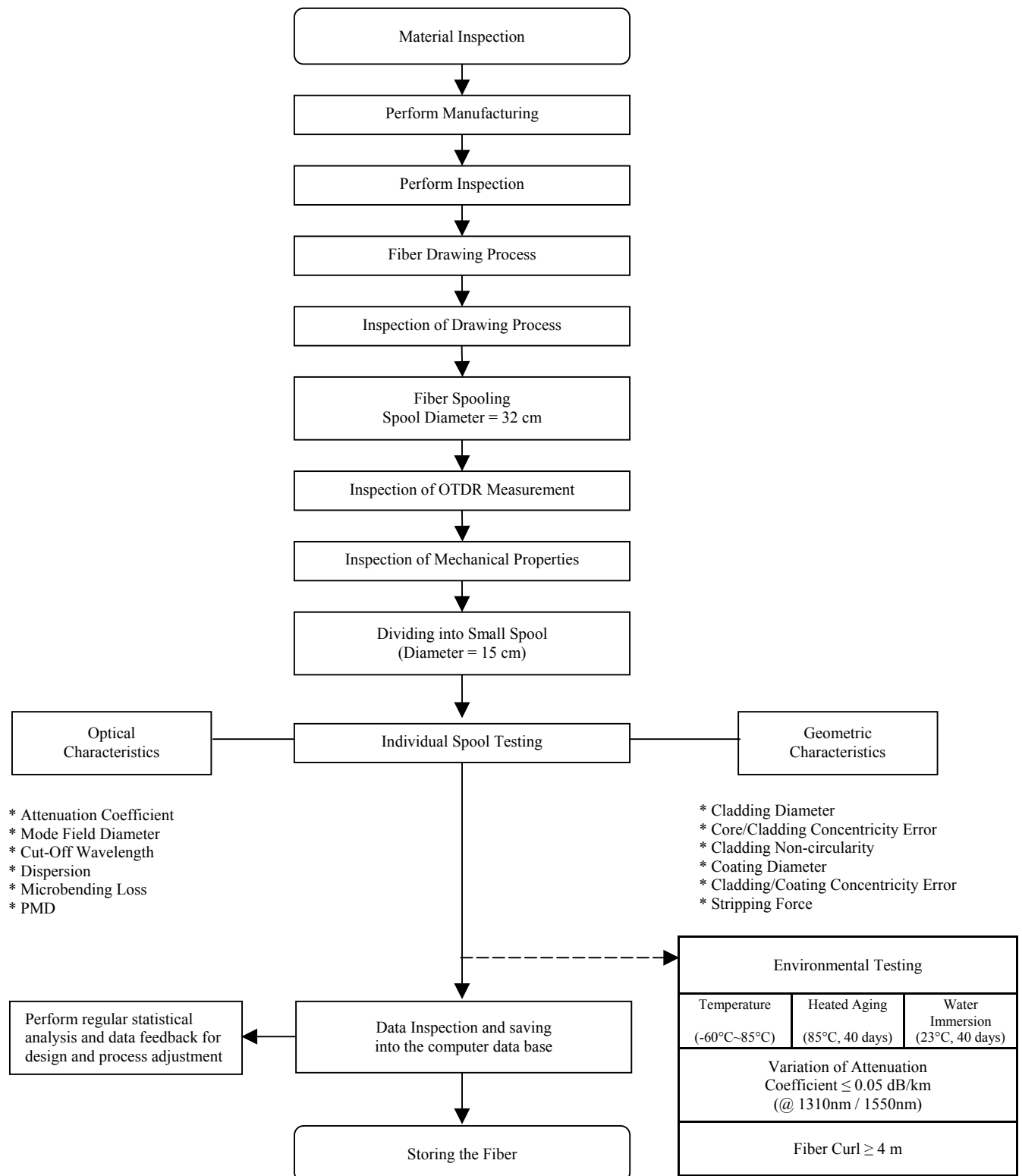
In order to boost the Company's earnings and increase its share of value-added products, it has developed a series of fiber optics applications. Some examples are as follows:

- Distribute the most advanced Fiber Bragg Grating-Interrogation System for US Micron Optics, Inc.; this system can simultaneously monitor thousands of sensors.
- Distribute mature optical fiber sensors for Japan NTT-AT; combining with the Company's own R&D, to develop various applicable optical fiber sensors.
- Introduce and integrate the most advanced Optical Fiber Sensing/Monitor Technology to provide a total solution for security monitoring systems.
- The application of new optical fiber sensing can enhance the safety of public construction in Taiwan and help avoid danger.
- With the super resolution of optical fiber sensing, even movements on the nano level ($1\text{nm}=10^{-9}\text{m}$), or 10 times atomic level, can be tested. This is beyond the capability of traditional electronic sensors. Thus, revolutionary optical fiber sensors will replace traditional ones.
- With the installation of optical sensors on precision equipment (which needs IC or memory chip manufacturing) at companies such as TSMC, UMC, Winbond and others, the status of the production equipment can be monitored dynamically. Therefore, if the equipment has even the slightest failure-inducing vibration or strain, the operator will know first hand and be able to act quickly and stop the production run, decreasing the amount of scrap or nonconforming products. Other benefits include the long term monitoring of the health of production related equipment.

Seek out valuable partnerships

Owning specialty fiber production technology has enabled the company to work with foreign companies on an OEM basis and increase its capacity. For instance, POFC has formed a strategic alliance with Bragg Photonics and MOI by becoming their FBG sensor manufacturer in East Asia and business partner in the world market.

Production Process



Products and Services

The Company capitalises on its optical fiber engineering and production expertise, as well as its expertise in low cost, high quality mass production to offer quality products to its customers. Its products can be categorised as follows:

Singlemode optical fiber

With low transmission loss, high bandwidth and low dispersion, singlemode fiber can be used for transmissions in long-haul network backbones.

Multimode optical fiber

Multimode optical fiber includes preforms, PrimeLaser™ Fiber and fiber for desktop applications. Freedom from electromagnetic interference and the ease of fusion splicing make multimode fiber ideal for LANs.

Specialty fiber

Specialty fibers are used in dense wavelength division multiplexing (DWDM) systems, including photosensitive fiber, erbium doped optical fiber and short wavelength fiber, helping to resolve bandwidth problems.

Passive optical components

Attenuators, Patch cords, and WDM Pump and Tap couplers.

Production Facilities

The Company operates one production facility located in the Hsinchu Science-based Industrial Park in Taiwan. This facility manufactures singlemode fiber, multimode fiber, specialty fiber and other passive optical components.

Plant Address

12-1, Creation Forth Road, Science-based Industrial Park, Hsinchu, Taiwan, R.O.C.

Building Size

3,611 m²

Land Size

-

Products produced	For the year ended 31 December,									For the 9 months ended 30 September, 2002		
	1999			2000			2001					
	Capacity usage rate	Capacity	Amount produced (NT\$ '000)	Capacity usage rate	Capacity	Amount produced (NT\$ '000)	Capacity usage rate	Capacity	Amount produced (NT\$ '000)	Capacity usage rate	Capacity	Amount produced (NT\$ '000)
Singlemode Fiber (KM)	20.32%	497,650	90,018	71.10%	497,650	317,621	71.18%	656,600	403,146	40%	656,600	167,637
Multimode Fiber (KM)			72,583			149,331			129,865			87,092
GGP Fiber (KM)	-	-	-	-	-	-	45.25%	6,300	3,385	-	-	2730
Preform (KG)	43.49%	3,803	83,487	61.69%	3,639	12,654	61.74%	3,071	142,595	76%	2,745	88,719

Research and Development (“R&D”)

The Company believes that its continuing research and development efforts facilitate its ability to periodically introduce innovative, technologically advanced new products. Over the past three years, it has made substantial expenditure on research and development. It invests significant resources in research and development through in-house research and development activities, joint development with major customers and strong incentives to employees. POFC endeavours to apply approximately 2% to 3% of its net revenues to R&D. It finances its research and development activities primarily through the use of working capital. The following table summarises the backgrounds of key R&D members as of 31 October, 2002:

Name	Position	Education	Work experiences
Hen-Tai Shang.....	President	Univ. of Illinois at Urbana-Champaign, Ph.D.	AT&T Bell Lab, Product development manager
I-Wen Wu.....	Manager	Yale University, U.S.A. Ph.D.	Shipley Taiwan Co. Ltd, Lab Manager
Bochien Lin.....	Director	Rutgers University, U.S.A. NJ. Ph.D.	China Steel Corp., Engineer
Lee-May Huang.....	Project Manager	National Tsing Hua University, Taiwan Ph.D.	Industrial Technology Research Institute Union Chemical Laboratory Researcher
Gary Chou.....	Project Deputy Manager	National Central University, Taiwan MS	Prime Optical Fiber Corp.
Vicky Liu.....	Project Deputy Manager	National Central University, Taiwan MS	Prime Optical Fiber Corp.
Ray Hsieh.....	Deputy Research	National Tsing Hua University, Taiwan MS	Silicon Integrated System Corp. Engineer
Allen Cheng.....	Deputy Research	National Taiwan University, Taiwan MS	Prime Optical Fiber Corp.
Linda Chen.....	Deputy Research	Van Nung Institute of Technology, Taiwan	Prime Optical Fiber Corp.
Chih-Ying Chien.....	Deputy Research	Chung Hua University, Taiwan B.S.	Prime Optical Fiber Corp.
Sheng-Hsiang Hsu.....	Project Engineer	S.J.S.M. Institute of Technology, Taiwan	Prime Optical Fiber Corp.
Casper Lin.....	Project Engineer	Chin Min Institute of Technology, Taiwan	Prime Optical Fiber Corp.

Sales and Marketing

The Company’s sales and marketing efforts are conducted by a direct sales force. As of 31 October, 2002, it had 6 sales employees located in Taiwan.

As of	Number of sales people in Taiwan
31 December, 1999.....	3
31 December, 2000.....	3
31 December, 2001.....	4
31 December, 2002.....	6

The Company sells its products based on specific customer purchase orders. The sales and marketing process starts when a customer qualifies the Company as an approved vendor or supplier. This process typically involves exchanges of information through written surveys, presentations, site visits, formal audits, sample quotations and first piece builds (meaning the first sample product produced). The Company has been an approved vendor for major optical fiber manufacturers including AKSH Opti Fiber Limited, Pirelli Telecom Cables & Sys. Australia Pty Limited, Handsome World Wide Limited, APEC Co., Ltd, Showa Electric Wire & Cable Co., Ltd, Fort Mill Plant, Baycom Opto-electronics Technology Co., Ltd, Nulink Solutions Sdn. Bhd, 3M Company, and Belden Australia Pty Ltd.

POFC’s customers are generally invoiced upon product delivery with varying credit terms depending, in part, on where the customer is located and the product type. The Company’s pricing policy takes into account a number of factors, including customer relations, product specification, cost of production, mode of transportation, market condition and order size.

Cost Structure & Raw Materials

The Company's operating costs consist of direct material costs, direct labour costs and manufacturing expenses. The following table gives a breakdown of the Company's operating costs.

Unit: NT\$ '000

Product		For the year ended 31 December,						For the 9 months ended 30 September, 2002	
		1999		2000		2001		Amount	%
		Amount	%	Amount	%	Amount	%		
Singlemode Fiber	Direct material	60,123	67%	229,729	78%	290,466	72%	116,577	68%
	Labour cost.....	3,794	4%	17,234	6%	20,157	5%	6,724	4%
	Factory overhead.....	20,602	23%	40,064	14%	81,684	20%	40,568	24%
	Depreciation.....	5,499	6%	7,688	3%	10,839	3%	8,489	5%
Multimode Fiber	Direct material	35,207	49%	66,542	55%	74,279	57%	44,279	49%
	Labour cost.....	5,601	8%	11,087	9%	10,628	8%	20,111	22%
	Factory overhead.....	14,823	20%	29,683	25%	38,965	30%	13,082	15%
	Depreciation.....	16,952	23%	13,463	11%	5,993	5%	12,131	14%
Preform	Direct material	10,429	58%	14,588	60%	11,162	50%	4,807	52%
	Labour cost.....	1,329	7%	1,512	6%	3,963	18%	1,404	15%
	Factory overhead.....	3,587	20%	3,559	15%	5,073	23%	1,481	16%
	Depreciation.....	2,756	15%	4,719	19%	2,235	10%	1,553	17%

The Company uses a variety of raw materials and components in its manufacturing process. Raw materials are basically applied in the manufacturing process of optical components and include Tube, VAD, Coating and GeC14. The Company relies on third party suppliers for components and parts. Primary raw materials and parts as well as the key suppliers are as follows:

Unit: NT\$ '000

Material	For the year ended 31 December,						For the 9 months ended 30 September, 2002	
	Supplier	Amount	Supplier	Amount	Supplier	Amount	Supplier	Amount
Tubes	Shin-etsu Quartz Products, Co.	15,358	Shin-etsu Quartz Products, Co.	26,015	Shin-etsu Quartz Products, Co.	31,897	Shin-etsu Quartz Products, Co.	14,455
	TSL	1,967	QSIL	6,174	Saint-Gobain	3,336	Saint-Gobain	1,173
	General	3,888	TSL	2,546	QSIL	3,686	QSIL	2,602
			General	1,552				
Chemical	STARRICK	6,686	YAMANAKA	40,486	STARRICK	9,388	STARRICK	6,312
	YAMANAKA	31,257	E. Merck	205	YAMANAKA	43,904	YAMANAKA	12,110
	E. Merck	513					Hsien Ang Industrial Co., Ltd.	4,977
Gas	BOC Lienhwa Industrial Gases Co., Ltd.	9,487	BOC Lienhwa Industrial Gases Co., Ltd.	11,394	BOC Lienhwa Industrial Gases Co., Ltd.	17,739	BOC Lienhwa Industrial Gases Co., Ltd.	11,892
Singlemode Preforms	Topco	78,717	Topco	197,193	Topco	281,796	Topco	170,594
Cladding material	BORDEN	618	BORDEN	12,347	BORDEN	22,359	BORDEN	13,507
	DSM	7,945	DSM	6,982				

The Company has not experienced any significant delay or constraint in production due to disruption of supply of raw materials and components.

Long Term Investments

In 2000, POFC invested NT\$21.6 million in Copax Photonics Corp. for the development of multimode fiber and specialty fiber applications. Copax Photonics is located in Taiwan and its businesses include designing, manufacturing and marketing wire line telecommunications equipment, telecommunications devices and telecommunications components.

POFC established Prime Industry Inc. in 2001, investing NT\$17.24 million to obtain a 100% holding. Prime Industry Inc. is a holding company located in the Cayman Islands solely for the purpose of overseas investment and marketing.

Related Party Transactions

The Company, its subsidiaries and certain of its affiliates, in the ordinary course of business or from time to time, enter into transactions with each other. The Company believes that all such transactions are based on general commercial practice.

Unit: NT\$ '000					
Name of related party	Purpose of transaction	For the year ended 31 December,			For the 9 months ended 30 September, 2002
		1999	2000	2001	
UFOC	SALES	67,270	68,141	24,450	0
Copax Photonics Corp	SALES	-	-	19	109

Company History

The Company designs, develops and produces a wide array of optical fiber products, including singlemode optical fiber, multimode optical fiber, specialty fiber and passive optical components. The Company is the first in Taiwan with the technology to produce bare optical fibers. It unites the designers and experts in the industry to develop technology and processes to facilitate the design and manufacturing of fiber drawing and measurements.

POFC acts as an agent for several strategic partners, including Micron Optics Inc., Eigenlight Corporation, Bragg Photonics and Japan's NTT-AT. The Company also plans to expand its own brand name. With the demand for optical fiber growing, POFC intends to seek, through innovation, to become Asia's top optical fiber provider.

The table below summarises POFC's principal milestones and capital increases over its history:

Year	Event
June 1991	POFC established
March 1992	Moved to current address
February 1994	Developed on FDDI 62.5um multimode fiber
November 1996	Received SGS European Quality Certification Institute ISO-9002
June 1999	Developed specialty optical fiber for DWDM
May 2000	Formed a Strategic Alliance with 3M
November 2000	Invested in Copax Photonics Corp.
December 2000	Introduced Photo Sensitive Fiber to market
June 2001	Invested in Pine Photonics
August 2001	Received Award on Photo Sensitive Fiber from PIDA
January 2002	Invested in Micron Optics Inc.
March 2002	Listed on the Taiwan Stock Exchange

History of Capital Increases

The table below summarises the history of the Company's capital formation:

Date	Offer -ing price	Authorised Capital		Paid-in-Capital		Notes		
		Shares	Amount	Shares	Amount	Source of Capital	Cash paid with non cash assets	Others
June 1991	-	10,000,000	100,000,000	5,000,000	50,000,000	Cash & Technology know-how	Technology know-how, 1,250,000 shares	-
November 1992	-	10,000,000	100,000,000	10,000,000	100,000,000	Cash & Technology know-how	Technology know-how, 1,250,000 shares	-
November 1993	-	20,000,000	200,000,000	12,500,000	125,000,000	Rights issue	-	-
September 1994	-	20,000,000	200,000,000	17,500,000	175,000,000	Rights issue	-	-
July 1996	-	40,000,000	400,000,000	40,000,000	400,000,000	Rights issue	-	-
September 1997	-	120,000,000	1,200,000,000	60,000,000	600,000,000	Rights issue	-	-
August 2000	-	120,000,000	1,200,000,000	62,000,000	620,000,000	Rights issue	-	-
August 2002	-	120,000,000	1,200,000,000	74,330,000	743,300,000	Capital Increase by Earnings Re-capitalisation	-	-

Business Operations of the Company

Primary Customers

The Company supplies optical fiber to key customers in the wire line and optical fiber industries. As of 30 September, 2002, the Company's largest customer and second largest customer accounted for 37.2% and 10.0%, respectively, of total revenues. For 2000 and 2001, the Company's largest customer accounted for 62.3% and 24.7% of total revenues, respectively.

The following table summarises the Company's major customers:

Unit: NT\$ '000

For the year ended 31 December,										For the 9 months ended 30 September, 2002		
1999				2000			2001					
No.	Customer	Sales (net)	%	Customer	Sales (net)	%	Customer	Sales (net)	%	Customer	Sales (net)	%
1.	UFOC	67,270	62.26	BELDEN	142,412	24.74	HANDSOME	190,013	24.04	AKSH	65,322	37.22
2.	SHOWA	16,484	15.26	JINRO	69,889	12.14	CHANG HONG	108,938	13.78	Pirelli	17,564	10.01
3.	PIRELLI	6,567	6.08	UFOC	68,141	11.84	BELDEN	107,903	13.65	HANDSOME	12,387	7.06
4.	REMEE	5,369	4.97	REMEE	38,894	6.76	TTCC	64,259	8.13	APEC	10,429	5.94
5.	CHANGHONG	4,837	4.48	TTCC	30,562	5.31	HK	46,936	5.94	SHOWA	10,296	5.87
6.	TATUNG	3,097	2.87	HANDSOME	30,556	5.31	JINRO	42,304	5.35	FORT MILL	8,946	5.10
7.	BELDEN	2,637	2.44	PEWC	24,748	4.30	PIRELLI	32,049	4.05	BAYCOM	8,729	4.97
8.	MEFC	1,611	1.49	SHOWA	22,364	3.89	SHOWA	27,170	3.44	NULINK	7,597	4.33
9.	QPS	1,605	1.49	PIRELLI	21,723	3.77	UFOC	24,450	3.09	3M	7,160	4.08
10.	BAYCOM	1,031	0.95	CHANG HONG	21,716	3.77	APEC	21,779	2.76	Belden	5,000	2.85
		110,508			471,005			665,801			153,430	

Competition

The Company believes that strong optical fiber engineering expertise contributes to its competitive position in the global optical fiber market. The Company believes that it is the first company in Taiwan with the technology to produce bare optical fibers. The Company's strength in optical fiber engineering also allows it to meet the demands of clients by developing new products and moving them to mass production quickly.

The primary basis of competition is a combination of: engineering capability, services, manufacturing quality, attractive prices, production capacity, manufacturing technology, design expertise, breadth of product range, time to production and reliability of delivery. POFC believes that it currently competes favourably with respect to all of these factors. However, to remain competitive, it must continue to provide technologically advanced manufacturing services, maintain quality levels, offer flexible and reliable delivery and provide competitive pricing.

The Company operates in an international market characterised by intense competition among companies that engage in optical fiber manufacturing. It competes with different companies, depending on the type of product or geographic area. While these companies are largely fragmented throughout different sectors of the industry, a number of companies are much larger and have greater manufacturing, financial, R&D and marketing resources than POFC. The following table lists the Company's major competitors.

Competitor	Products
Corning	Singlemode, Multimode, Specialty fiber
Alcatel.....	Singlemode, Multimode, Specialty fiber
Sumitomo	Singlemode, Multimode, Specialty fiber
Fujikura	Singlemode, Multimode, Specialty fiber
Furukawa	Singlemode, Multimode, Specialty fiber

Capital Expenditure

The table below lists the Company's historical capital expenditure.

Unit: NT\$ '000

Item	Date of purchase	Machinery or fixed assets	Original purchase price	Reason for purchase
1	1998~2002	Production equipment	152,609	Production
2	1998~2002	R&D equipment	15,444	R&D
3	1998~2002	Piping & Accessory	19,069	Production

Management and Employees

Management

Directors

The Company's board of directors is elected by the shareholders at a general meeting in which a quorum - a majority of all holders of issued and outstanding shares - is present. The Chairman is elected by the board from among the directors. POFC's seven-member board of directors is responsible for the management of the Company's business. The following table sets forth the name of each Director and Supervisor, such person's position within the Company and his or her shareholding in the Company as of 30 September, 2002, as it appears in the register of shareholders of the Company:

Title	Name	Company shares owned	
		Amount	%
Chairman & CEO	Hen-Tai Shang	5,222,346	7.03
Director.....	Jin, Shih-Tian	827,367	1.11
Director.....	Ni, Tie-Song	396,290	0.53
Director.....	Jheng, Cing-Ciyuan	129,375	0.17
Director.....	China Development Industrial Bank	6,921,850	9.31
Director.....	Hotung Venture Capital Corporation	1,053,975	1.42
Supervisor.....	United Fiber Optic Communication Inc.	6,534,300	8.79
Supervisor.....	Teng, Yi-Guang	71,608	0.10
Supervisor.....	Chen, Jia-Ling	0	0.00

Supervisors

The Company currently has three supervisors, each serving a three-year term. Supervisors are typically elected at the same time as directors are elected. The supervisors' duties and powers include: investigation of the Company's business conditions, inspection of corporate records, verification and review of financial statements presented by POFC's board of directors at shareholders' meetings, convening of shareholders' meetings, representing the Company in negotiations with its directors, and notification, when appropriate, to the board of directors to cease acting in contravention of any applicable law or regulation, or in contravention of the Company's articles of incorporation.

Employees

As of 30 September, 2002, POFC employed a total of 122 employees, approximately 75.4% of which held a college degree or otherwise had a higher educational qualification. The Company places considerable importance on the recruitment, training and retention of a team of qualified and experienced engineers to oversee and manage its operations.

Education level	As of 31 December,			As of 30 September, 2002
	1999	2000	2001	
Graduate School	9	11	13	12
College.....	51	74	76	80
High School.....	29	37	38	30
Total.....	89	122	127	122

POFC believes that it maintains satisfactory relations with its employees and offers competitive benefits and other entitlements. It has not experienced any material labour disputes.

The salaries of the Company's employees in the ROC are adjusted based on industry standards, inflation and individual performance. Subject to certain exceptions, ROC law requires that employees be given pre-emptive rights to subscribe for between 10.0% and 15.0% of any rights issues or share offerings. Currently, POFC does not have any share option schemes. The Company's articles of incorporation provide that 15% of its net income (after deducting the prior year's operating losses and taxes, if any, and setting aside 10% as a legal reserve) shall be allocated as bonuses to employees either in the form of cash or shares.

Principal Shareholders

The table below lists the Company's principal shareholders as of 30 September, 2002:

Top 10 shareholders as of 30 September, 2002		
Principal shareholders	Holding shares	Holding per cent. (%)
1. CDIB.....	6,921,850	9.31
2. UFOC.....	6,534,300	8.79
3. Shang, Hen-Tai.....	5,222,340	7.03
4. Lai, Chu	2,559,900	3.44
5. Huitong Investment (BVI).....	1,957,200	2.67
6. HungYang VC	1,851,018	2.49
7. Linkman Developments Limited (BVI).....	1,115,500	1.50
8. Hotung VC.....	1,053,975	1.42
9. Chung, Ching-Yi.....	1,015,450	1.37
10. Hung, Chien-Wen.....	977,500	1.32
Total	29,239,039	39.34

Material Litigation

The Company is not involved in any litigation, pending or threatened, which the Company believes would, separately or taken as a whole, materially and adversely affect the financial condition or results of operations of the Company.

COMPANY SHARE PRICE INFORMATION

The information included herein has been extracted from various public and private publications. This information has not been prepared or independently verified by the Company, the Managers, the Trustee or any of their respective affiliates or advisers in connection with the issue of the Bonds. The Company and the Managers make no representation as to the accuracy or completeness of such information, which may not be consistent with information compiled from other sources or with other information included elsewhere herein.

The Shares have been quoted and traded on the TSE since 8 March, 2002. The table below sets forth, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the TSE for the Shares (adjusted for the effects of rights issues and stock dividends) and the high and low of the daily closing values of the TSE Index.

		Closing price per Share		Average daily trading volume	TSE Index	
		High	Low		High	Low
		(NT\$)		(in thousands of Shares)		
2000	First Quarter	-	-	-	10,202	8,536
	Second Quarter	-	-	-	10,186	8,121
	Third Quarter	-	-	-	8,586	6,185
	Fourth Quarter	-	-	-	6,354	4,615
2001	First Quarter	-	-	-	6,104	4,895
	Second Quarter	-	-	-	5,609	4,769
	Third Quarter	-	-	-	4,887	3,494
	Fourth Quarter	-	-	-	5,551	3,446
2002	First Quarter	37.9	31.7	1,568	6,243	5,488
	Second Quarter	32.4	15.4	525	6,462	5,072
	Third Quarter	16.2	10.5	249	5,417	4,186
	Fourth Quarter	14.6	10.9	427	4,824	3,850

Source: TSE

On 10 March, 2003, the reported closing price of the Shares was NT\$12.05 per Share and the TSE Index closed at 4,287.23.

DIVIDENDS AND DIVIDEND POLICY

The Managers make no representations or warranties (express or implied) as to the accuracy or completeness of the information contained in this section of the Offering Circular and nothing contained herein is, or shall be relied upon, as a promise or representation. The Managers have not independently verified any such information and assume no responsibility for its accuracy or completeness.

All dividend payments are subject to a legally required minimum reserve. Dividends may be distributed either in cash or in the form of common stock. The ratio between any cash dividend and stock dividend is proposed by the board of directors of the Company and determined by the shareholders at a shareholders' meeting. Dividends are paid annually to shareholders usually within three months, in respect of both cash and stock dividends, of shareholders' approval being received. The dividends paid by the Company in respect of the last four years are set out in the following table:

Unit: NT\$ per Share

	For the year ended 31 December,			
	1999	2000	2001	2002
Cash dividend.....	0	0	0	0
Stock dividend ⁽¹⁾	0	0	0	1.5
Total.....	0	0	0	1.5

Note: (1) The Company declares stock dividends in NT dollar amounts per Share. Holders of Shares receive a stock dividend where the number of Shares distributed equals the amount of the declared dividend, multiplied by the number of Shares owned, divided by the par value of NT\$10 per Share.

Except in limited circumstances, under the ROC Company Law, the Company is not permitted to distribute dividends or make other distributions to shareholders in respect of any year in which the Company did not record retained earnings. The ROC Company Law also requires that 10% of annual net income (less outstanding taxes and prior years' losses) be set aside as a legal reserve until such time as the accumulated legal reserve equals paid-in capital. See "Description of the Shares".

Unless the distribution of dividends is likely to severely dilute profits, the Company distributes dividends in the form of stock. In any event, cash dividends never exceed 50% of the total dividends.

TERMS AND CONDITIONS OF THE BONDS

The following (subject to amendment and other than the words in italics (except for section headings)) are the Terms and Conditions of the Bonds, substantially as they will appear in the Global Bond and endorsed on the reverse of the Bonds in definitive form (if issued).

The issue of U.S.\$10,000,000 Zero Coupon Convertible Bonds due 2008 (the “**Bonds**”) of Prime Optical Fiber Corporation (the “**Issuer**”) was authorised by a resolution of the board of directors of the Issuer passed on 18 December, 2002. The Bonds are constituted by a trust deed (the “**Trust Deed**”) dated 15 April, 2003, and made between the Issuer and The Bank of New York, London Branch (the “**Trustee**”, which term shall, where the context so permits, include all other persons or companies acting as trustee or trustees thereof), as trustee for the holders of Bonds (the “**Bondholders**”). The Issuer has entered into a paying and conversion agency agreement (the “**Agency Agreement**”) dated 15 April, 2003 with the Trustee, The Bank of New York, London Branch as principal paying and conversion agent and the other paying agents and conversion agents named in it (together the “**Agents**” in relation to the Bonds). The principal paying and conversion agent, paying agents, conversion agents and replacement agents for the time being are referred to below as the “**Principal Agent**”, the “**Paying Agents**” (which expression shall include the Principal Agent), the “**Conversion Agents**” (which expression shall include the Principal Agent) and the “**Replacement Agent**” respectively. The statements in these terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed. Copies of the Trust Deed and of the Agency Agreement are available for inspection by the Bondholders at the specified office(s) of the Trustee being, at the date hereof, situated at 48th Floor, One Canada Square, London E14 5AL, England and the specified offices of the Paying Agents and the Conversion Agents. The Bondholders are entitled to the benefit of the Trust Deed and are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement.

Terms and expression used but not defined herein shall have the respective meanings given to them in the Trust Deed available for inspection as described above.

1. **Status**

The Bonds constitute (subject to Condition 3) direct, general, unconditional, unsubordinated and unsecured obligations of the Issuer and shall at all times rank at least *pari passu* and without any preference or priority amongst themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by mandatory provisions of applicable law and subject to Condition 3, at all times rank at least equally with all of its respective other present and future, direct, general, unconditional, unsubordinated and unsecured obligations.

2. **Form, Denomination and Title**

The Bonds are in bearer form in the denomination of U.S.\$10,000 each and title to the Bonds shall pass by delivery. The Issuer, the Trustee, the Replacement Agent and each Paying Agent and Conversion Agent may deem and treat the bearer of any Bond as the absolute owner of such Bond (whether or not such Bond shall be overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for the purpose of receiving payment and for all other purposes.

3. **Negative Pledge**

(A) *Undertaking*

The Issuer undertakes that, so long as any Bond remains outstanding (as defined in the Trust Deed) or any amount is due under or in respect of any Bond or otherwise under the Trust Deed, it will not create or permit to subsist, and will procure that none of its Subsidiaries (as defined in Condition 3(B)) creates or permits to subsist, any mortgage, charge, pledge, lien or other form of encumbrance or security interest (“**Security Interest**”) upon the whole or any part of its undertaking, property, assets or revenues, present or future, to secure any International Investment Securities (as defined in Condition 3(B)) or to secure any guarantee of or indemnity in respect of any International Investment Securities unless in any such case, at the same time or prior thereto, the Issuer’s obligations under the Bonds and the Trust Deed (i) are secured equally and ratably therewith or benefit from a guarantee or indemnity in

substantially identical terms thereto, as the case may be, in each case to the satisfaction of the Trustee, or (ii) have the benefit of such other security, guarantee, indemnity or other arrangement as the Trustee in its reasonable determination shall deem to be not materially less beneficial to the interests of the Bondholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

(B) *Definitions*

For the purposes of these Conditions:

“International Investment Securities” means bonds, debentures, notes or other similar investment securities of the Issuer or any other person evidencing indebtedness with a maturity of not less than one year which (a) either (i) are by their terms payable, or confer a right to receive payment, in any currency other than the currency of the country of incorporation of the Issuer; or (ii) are denominated or payable in the currency of the country of incorporation of the Issuer and more than 50 per cent. of the aggregate principal amount thereof is initially distributed outside of the country of incorporation of the Issuer by or with the authorisation of the Issuer thereof, and (b) are for the time being, or are capable of being, quoted, listed, ordinarily dealt in or traded on any stock exchange, quotation system or over-the-counter or other similar securities market outside the country of incorporation of the Issuer.

“Subsidiary” means a corporation or other business entity more than 50 per cent. of the outstanding voting stock of which is for the time being owned directly or indirectly by the Issuer.

4. **No Interest**

No interest will be payable on the Bonds, except as provided in Condition 9.

If payment of the whole or any part of the principal amount of any Bond is improperly withheld or refused upon due presentation or default is otherwise made in respect of any such payment, interest shall accrue on the principal amount of such Bond payment of which has been improperly withheld or refused at the rate of 6.0 per cent. per annum (both before and after judgment) from the date of such withholding or refusal up to (but excluding) the date on which, upon presentation thereof, payment in full of the principal amount thereof is deemed to have been made or (if earlier) the day after notice is given to the Bondholders in accordance with Condition 14 that the full amount in dollars payable in respect of such Bond is available for payment. Interest shall be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

5. **Conversion**

(A) *Conversion Right*

- (i) *Conversion Period:* Each Bondholder has the right during the Conversion Period (as hereinafter defined) to convert any Bond into Shares (as defined below), credited as fully paid on and subject to the terms set forth herein (the **“Conversion Right”**). Subject to and upon compliance with the provisions of this Condition, the Conversion Right attaching to any Bond may be exercised, at the option of the holder thereof and as and to the extent provided therein, at any time on or after 15 April, 2004, and prior to the close of business (at the place where the Conversion Notice (as defined in Condition 5(B)) and the Bond are deposited for conversion) on 31 March, 2008, or, if such date shall not be a business day at such place, on the immediately preceding business day at such place (but in no event thereafter), or, if such Bond shall have been called for redemption prior to 31 March, 2008, then up to the close of business (at the place aforesaid) on the date 7 days prior to the date fixed for redemption thereof (or if such day shall not be a business day at such place, on the immediately preceding business day at such place) (the **“Conversion Period”**); provided, however, that the Conversion Right during any Closed Period shall be suspended and the Conversion Period shall not include any such Closed Period. **“Closed Period”** shall mean (i) any period during which under the laws of the ROC (as defined in the Trust Deed) the Issuer shall close its shareholders’ register, which period includes 60 days prior to the date of the annual meeting of shareholders and 30 days prior to an extraordinary shareholders’ meeting, (ii) the period from 5 ROC business

days prior to the record date for the distribution of dividends and other distributions, (iii) the period from 3 ROC business days prior to the notification by the Issuer to the Taiwan Stock Market or other stock market on which the Shares are traded in respect of a record date for determination of shareholders' entitlements to receive annual dividend distributions or other rights or benefits in any one year to the date of such record date for that year, or (iv) such other periods determined by ROC law applicable from time to time. The Issuer shall procure that the Bondholders are given not less than 10 nor more than 60 days' prior notice of any Closed Period in accordance with Condition 14.

In this Condition 5(A)(i), "**ROC business day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in the ROC.

In these Conditions, "**Closing Date**" means 15 April, 2003.

In these Conditions, and as defined more fully in the Trust Deed, the term "**Shares**" means the Issuer's common shares, NT\$10 par value per share.

*Under current ROC law, regulation and policy, PRC persons are not permitted to hold or convert the Bonds or to register as a shareholder of the Issuer. Under current ROC law, a "**PRC person**" means an individual holding a passport issued by the PRC, a resident of any area of China under the effective control or jurisdiction of the PRC (but not including a special administrative region of the PRC such as Hong Kong or Macau, if so excluded by applicable laws of the ROC), any agency or instrumentality of the PRC and any corporation, partnership and other entity organised under the laws of any such area or controlled or beneficially owned by any such person, resident, agency or instrumentality.*

*Under current ROC law, a non-ROC converting Bondholder when exercising his Conversion Right to convert the Bonds into Shares is required to appoint a local agent in the ROC with such qualifications as are set by the ROC Securities and Futures Commission ("**ROC SFC**"), to open a securities trading account with a local brokerage firm and a New Taiwan Dollar ("**NT\$**") bank account, pay ROC withholding taxes, remit funds, exercise shareholders' rights, handle conversion applications and perform such other matters as may be designated by such converting Bondholder (or its designee), on behalf of and as agent for such converting Bondholder (or its designee). In addition, such non-ROC converting Bondholders must appoint a custodian bank to hold the securities for safekeeping, to make confirmation and settlement, and report all relevant information. Under existing ROC laws and regulations, without obtaining an approval from the Taiwan Stock Market and opening such accounts, an investor in the Bonds would not be able to receive, hold, sell or otherwise transfer the Shares into which the Bonds may have been converted on the Taiwan Stock Market or otherwise. See "Foreign Investment and Exchange Controls in the ROC" and "Description of the Shares".*

- (ii) *Number of Shares Issuable on Conversion:* The number of Shares to be issued upon conversion of any Bond will be determined by dividing the principal amount of the Bond (translated into NT Dollars at the fixed exchange rate of NT\$34.75 = U.S.\$1.00) by the Conversion Price (as hereinafter defined) in effect on the Conversion Date.

If more than one Bond shall be deposited for conversion at any one time by the same Bondholder, the number of Shares to be issued upon conversion thereof will be calculated on the basis of the aggregate principal amount of the Bonds so deposited. Fractions of Shares will not be issued on conversion, and cash adjustments will not be made in respect thereof by the Issuer. Notwithstanding the foregoing, in the event of a consolidation or re-classification of Shares by operation of law or otherwise occurring after the Closing Date, the Issuer will upon conversion of the Bonds pay in U.S. Dollars a sum equal to such portion of the principal amount of the Bond or Bonds deposited for conversion as corresponds to any fraction of a Share not issued as aforesaid if such sum exceeds U.S.\$10. For the purpose of calculating the amount of such payment, the Issuer shall use the exchange rate referred to above in this Condition 5(A)(ii).

- (iii) *Initial Conversion Price:* The price at which Shares will be issued upon conversion (the "**Conversion Price**") will initially be NT\$13.02 per Share, based on a fixed exchange rate of

NT\$34.75 = U.S.\$1.00, but will be subject to adjustment in the manner provided in Conditions 5(C) and 5(D).

- (iv) *Depository Receipts*: If the Issuer shall set up a depository receipts programme in relation to the Shares, the Bondholders shall have the rights (but not obligations) to elect to convert the Bonds into depository receipts (the “**Depository Receipts**”) which represent ownership interests in certain Shares that are on deposit with the relevant depository bank. Each Bondholder may elect to receive either Shares or Depository Receipts on exercise of the Conversion Right in respect of each U.S.\$10,000 principal amount of Bond. For the avoidance of doubt, a Bondholder may elect to receive both Shares and Depository Receipts on exercise of the Conversion Right provided that such Conversion Right is exercised with respect to at least U.S.\$20,000 principal amount of Bonds. If a converting Bondholder elects to receive Depository Receipts on exercise of the Conversion Right, the number of Depository Receipts to be issued upon conversion of any Bond will be determined by dividing the principal amount of the Bond (translated into NT Dollars at the fixed exchange rate of NT\$34.75 = U.S.\$1.00) by the Conversion Price in effect on the Conversion Date and dividing the number by such figure which represents at the time of conversion the number of Shares represented by one Depository Receipt under the relevant deposit agreement.

All provisions in relation to the conversion of the Bonds into the Shares set out in this Condition 5 shall apply *mutatis mutandis* to the conversion of the Bonds into the Depository Receipts.

- (v) *Revival on Default*: Notwithstanding the provisions of Condition 5(A)(i), if the Issuer shall default in making payment in full in respect of any Bond which shall have been called for redemption prior to 31 March, 2008 or the date fixed for redemption thereof, the Conversion Right attaching to such Bond will continue to be exercisable up to and including the close of business (at the place where the Bond and the Conversion Notice (as defined in Condition 5(B)) are deposited for conversion) on the date upon which the full amount of the monies payable in respect of such Bond has been duly received by the Trustee or the Principal Agent and notice of such receipt has been duly given to the Bondholders.

(B) *Conversion Procedure*

- (i) *Exercise Procedure*: To exercise the Conversion Right attaching to any Bond, the holder thereof must complete, execute and deposit at his own expense between 9:00 a.m. and 3:00 p.m. (local time at the specified office referred to below) on any business day (as defined below) during the Conversion Period at the specified office of a Conversion Agent outside the ROC at which the Bond is presented for conversion, a notice of conversion (a “**Conversion Notice**”) in duplicate, duly completed and signed, in the then current form obtainable from the specified office of any Conversion Agent, together with the relevant Bond and other documents as may be required under the law of the ROC or the jurisdiction in which such Conversion Agent is located and any amount to be paid by the Bondholder. The Conversion Notice shall contain, *inter alia*, an appointment of a local agent by such converting Bondholder and an irrevocable instruction to exchange the Bonds for Shares. A Conversion Notice once deposited may not be withdrawn without the consent in writing of the Issuer. The price at which such Bonds will be converted will be the Conversion Price in effect on the Conversion Date.

Bondholders who deposit a Conversion Notice during a Closed Period will not be permitted to convert their Bonds until the Trading Day following the last day of the Closed Period which (if all other conditions to convert have been fulfilled) will be the Conversion Date (as defined below) for such Bonds. Such Bondholders will not be registered as holders of Shares until the Conversion Date.

In this Condition 5(B)(i), “**business day**” means a day (other than a Saturday or Sunday) on which commercial banks are open for business in London, ROC and Hong Kong and in the place where the Conversion Agent with whom the Conversion Notice is deposited is open for business.

The Issuer may have certain disclosure obligations and reporting obligations under ROC law if:

- (i) the person to be registered as a shareholder is a “**related party**” of the Issuer under the Statement of Financial Accounting Standard No. 6 of the ROC and such person beneficially owns Shares converted from the Bonds; or*
- (ii) the person to be registered as a shareholder owns Shares converted from the Bonds and the Shares converted exceed 10 per cent. of the total number of Shares expected to be converted based on the conversion price at the time of issue of the Bonds.*

Due to these obligations, if so instructed by the Issuer, the Principal Agent (as defined in the Terms and Conditions of the Bonds) may ask the converting Bondholders to disclose the name of the person to be registered as the shareholder and to provide proof of identity and genuineness of any signature and other documents before it will convert the Bonds. The conversion of the Bonds may be delayed until the Principal Agent receives the requested information and satisfactory evidence of the compliance with all laws and regulations by the Bondholders. The information the Bondholders are required to provide may include the name and nationality of the person to be registered as shareholder and the total number of Shares such person is converting or has converted in the past.

- (ii) *Taxes and Expenses; Deposit Date and Conversion Date:* As conditions precedent to conversion, together with the Conversion Notice, the Bondholder must pay to the relevant Conversion Agent all stamp, issue, registration, excise and similar taxes and duties (if any) or transfer costs (if any) arising on conversion in the country in which the Bond is deposited for conversion, or payable in any jurisdiction consequent upon the issue or delivery of Shares or any other property or cash upon conversion to or to the order of a person other than the converting Bondholder. Except as aforesaid, the Issuer will pay the expenses arising in the ROC on the issue of Shares on conversion of Bonds and all charges of the Conversion Agents in connection therewith as provided in the Trust Deed and Agency Agreement. The date on which any Bond and the Conversion Notice (in duplicate) relating thereto, together with any certificates and other documents as may be required under applicable law, are deposited with a Conversion Agent and the payments, if any, required to be paid by the Bondholder are made is hereinafter referred to as the “**Deposit Date**”. The “**Conversion Date**” applicable to a Bond shall mean the third ROC business day (as defined in Condition 5(A)(i)) from the Deposit Date, which day both is a Trading Day as defined in Condition 7(B)(i) and occurs during the Conversion Period.
- (iii) *Holder of Record:* In the event Shares are to be received by the Bondholder upon conversion, with effect from the opening of business in the ROC on the Conversion Date, the Issuer will deem the converting Bondholder (or its designee) as indicated in the Conversion Notice to have become the holder of record of the number of Shares to be issued upon such conversion to such holder (disregarding any retroactive adjustment of the Conversion Price referred to below prior to the time such retroactive adjustment shall have become effective) and at such time, subject to Condition 5(B)(v), the rights of such converting Bondholder as a Bondholder with respect to the Bonds deposited for conversion shall cease (except rights arising under Conditions 5(B)(iv) and 5(B)(vi)).
- (iv) *Availability of Shares:* The Issuer shall, for the benefit of Bondholders, ensure that sufficient Shares, which are listed on the Taiwan Stock Market are available as soon as possible but in any event no later than 5 Trading Days after receipt of the Conversion Notice by the Issuer (subject to applicable laws and regulations).
- (v) *Delivery of Shares:* On the Conversion Date, the Issuer will register the Bondholder (or its designee), as applicable, in the Issuer’s register of shareholders as the owner of the number of Shares to be issued pursuant to Condition 5(B)(iii) upon conversion of such Bonds and, subject to any applicable limitations then imposed by ROC laws and regulations, according to the request made in the relevant Conversion Notice, procure that, as soon as practicable, and in any event within 5 Trading Days (or such number of Trading Days as stipulated by the relevant laws and regulations applicable from time to time) after receipt of the Conversion

Notice by the Issuer, there be delivered to the local agent appointed by the converting Bondholder (if Shares are to be received by the converting Bondholder), a certificate or certificates for the relevant Shares, registered in the name specified for that purpose in the relevant Conversion Notice, together with any other property or cash (including, without limitation, cash payable pursuant to Condition 5(A)(ii)) required to be delivered upon conversion and such assignments and other documents (if any) as may be required by law to effect the delivery thereof.

- (vi) *Retroactive Adjustment of Conversion Price:* If the Conversion Date in relation to any Bond shall be on or after a date with effect from which an adjustment to the Conversion Price takes retroactive effect pursuant to any of the provisions referred to in Condition 5(C) and the Trust Deed and the relevant Conversion Date falls on a date when the relevant adjustment has not been reflected in the Conversion Price, the Issuer will, within 20 days after the effective date of such adjustment of the Conversion Price, issue and deliver (to the local agent appointed by the converting Bondholder) such number of Shares as is equal to the excess of the number of Shares that would have been required to be issued on conversion of such Bond if the relevant retroactive adjustment had been made as at the said Conversion Date over the number of Shares previously issued pursuant to such conversion, and in such event and in respect of such number of Shares, references in Conditions 5(B)(iii) and 5(B)(v) to the Conversion Date shall be deemed to refer to the date upon which such retroactive adjustment becomes effective (disregarding the fact that it becomes effective retroactively). Fractions of Shares will not be issued and no cash adjustment will be made in respect thereof.
- (vii) *Dividends and other entitlements:* To the extent permitted under the laws of the ROC, Shares received by the converting Bondholders will be entitled to any annual dividends, distributions or other benefits accruing to such Shares and approved by the immediately preceding annual general meeting of shareholders if the Conversion Date in respect of the conversion of the Bonds takes place prior to a day which is 3 ROC business days (as defined in Condition 5(A)(i)) before the notification by the Issuer to the Taiwan Stock Market in respect of a record date (and the relevant closure of the shareholders' register) for determining the identity of shareholders who are entitled to such distributions in each relevant year.
- (viii) *Conversion Agents:* The Issuer reserves the right, subject to the provisions of the Agency Agreement, at any time to vary or terminate the appointment of any Conversion Agent and to appoint further or other Conversion Agents; provided that the Issuer will at all times maintain a Conversion Agent having specified offices in London. Notice of any such termination or appointment and of any changes in the specified offices of the Conversion Agents will be given promptly by the Issuer to the Bondholders in accordance with Condition 14.

(C) *Adjustments to Conversion Price*

The Conversion Price will be subject to adjustment in the manner set forth in the Trust Deed upon the occurrence of certain events set out in the Trust Deed, including:

- (i) the making of a free distribution or bonus issue of Shares;
- (ii) the declaration of a dividend or other distribution in respect of Shares;
- (iii) the re-classification of the Shares (including a sub-division or consolidation of the outstanding Shares);

Under the terms of the Trust Deed, no account is to be taken of, or credit given for, the par value of Shares issued in any stock dividend in calculating an appropriate conversion price adjustment, so that the full dilutive effect of stock dividends is provided for.

- (iv) the grant, issue or offer to the holders of Shares of options, rights or warrants to subscribe for or purchase either any Shares at less than the then Current Market Price (as defined in the Trust Deed) or any securities convertible into, or exchangeable for, or which confer rights to purchase, Shares at less than the then Current Market Price;

- (v) the making of a distribution to the holders of Shares of evidences of indebtedness of the Issuer or of shares of capital stock of the Issuer (other than Shares) or of assets (other than regular periodic dividends in cash) or of rights or warrants to subscribe for or purchase shares or securities (other than those referred to in (iv) above);
- (vi) the issue of any securities (other than the Bonds and those referred to in (iv) above) convertible into, or exchangeable for, Shares at less than the then Current Market Price or of rights or warrants (other than those referred to in (iv) above) to subscribe for or purchase Shares at less than the then Current Market Price or to subscribe for or purchase securities convertible into, or exchangeable for, Shares at less than the then Current Market Price (other than those referred to in (iv) above);
- (vii) the issue of Shares (other than (a) Shares issued on conversion of the Bonds, or (b) in any of the circumstances described above, or (c) Shares issued in any employee, dividend, bonus or profit-sharing arrangements) at less than the then Current Market Price; or
- (viii) any other event or circumstances which would have in the determination of the Issuer an analogous effect to any of the events in (i) to (vii) above including, but not limited to, issues of receipts or certificates entitling holders to receive securities,

in accordance with the formulae stipulated in the Trust Deed.

No adjustment shall be made to the Conversion Price if the Issuer decreases its Shares as a result of cancellation of treasury stocks.

No adjustment shall be made to the Conversion Price if the Issuer issues Shares to shareholders of any company which merges with the Issuer in proportion to their shareholdings in such company immediately prior to such merger.

No adjustment shall be made where such adjustment would be less than 1 per cent. of the Conversion Price in effect prior to any such adjustment; provided, however, that any adjustment that otherwise would be required to be made under the Trust Deed will be carried forward and taken into account in determining any subsequent adjustment. Any adjustment will be notified promptly by the Issuer to the Bondholders in accordance with Condition 15.

The Trustee shall not be obliged to monitor whether any event has occurred which might fall within the events giving rise to adjustment to the Conversion Price as set out in the Trust Deed or (i) to (viii) above and, until it has actual knowledge by way of express notice in writing from the Issuer to the contrary, shall assume that none has.

(D) *Conversion Price Reset*

(1) Annual Reset

If the average of the Closing Prices (as defined in Condition 7(B)) of the Shares on the Taiwan Stock Market or other stock market on which the Shares are then traded for the period of 20 consecutive Trading Days (as defined in Condition 7(B)) immediately prior to and excluding the Reset Date (as defined below), converted into U.S. Dollars at the Prevailing Rate (as defined below), is lower than the Conversion Price in effect on the relevant Reset Date, converted into U.S. Dollars at the fixed exchange rate of NT\$34.75 = U.S.\$1.00 (the “**Fixed Exchange Rate**”), the Conversion Price shall be adjusted downward in accordance with the following formula:

$$\text{Adjusted Conversion Price} = \text{Market Price} \times \frac{\text{Fixed Exchange Rate}}{\text{Prevailing Rate}}$$

where

“**Market Price**” is :

the average Closing Prices of the Shares for the period of 20 consecutive Trading Days immediately prior to and excluding the relevant Reset Date.

Such Adjusted Conversion Price shall be rounded upwards, if necessary, to the nearest NT\$0.01

Provided that:

- (i) any adjustment to the Conversion Price pursuant to this Condition 5(D)(1) shall be limited so that the Conversion Price adjusted in accordance with this Condition 5(D)(1) shall not be less than 80 per cent. of the initial Conversion Price (as adjusted to reflect any adjustments required under Condition 5(C) above, which may have occurred prior to the relevant Reset Date) (the “**Reset Price Floor**”);
- (ii) the provisions of Condition 5(C) shall apply *mutatis mutandis* to this Condition 5(D) to ensure that appropriate adjustments shall be made to any Closing Price to reflect any adjustments made to the Conversion Price in accordance with Condition 5(C) during the period of calculation of the Average Closing Price; and
- (iii) for the avoidance of doubt (x) any adjustments to the Conversion Price made pursuant to this Condition 5(D) shall only be downward adjustments and (y) an adjustment may be made in respect of any Reset Date notwithstanding that an adjustment may have been made in respect of a preceding Reset Date.

The “**Prevailing Rate**” for the translation of the Closing Prices shall be the arithmetic average of the closing rate of U.S. Dollars to NT Dollars quoted by Taipei Forex Inc. at the close of business on each day of the relevant 20 consecutive Trading Day period. For the purpose of the formula in this Condition, the Prevailing Rate shall be expressed as the number of NT Dollars per U.S.\$1.00.

Any such adjustment shall become effective as of the relevant Reset Date and shall be notified to the Bondholders within 10 days of the relevant Reset Date in accordance with Condition 14.

In this Condition 5(D)(1), “**Reset Date**” means each of days falling 45 days prior to 15 April in the years 2004, 2005, 2006, 2007 and 2008.

(2) Special Reset

Notwithstanding the foregoing, the Issuer may at its option reset the Conversion Price (“**Special Reset Price**”) based on the following formula in each case on the date falling 45 days prior to (i) the Put Date (the “**Put Reset Date**”) or (ii) the Maturity Date (the “**Maturity Reset Date**”, together with the Put Reset Date, the “**Special Reset Dates**”, and the “**Special Reset Date**” means any of them as the context may require). The Special Reset Price shall be in effect for a period of 7 business days (the “**Special Reset Period**”) and shall commence on a date within 15 business days from the Put Reset Date or, as the case may be, the Maturity Reset Date, in each case as decided by the Issuer by giving 10 days prior notice to the Bondholders in accordance with Condition 14. During the Special Reset Period, the Special Reset Price shall be the Conversion Price for the purposes of any conversion of the Bonds exercised during such period. Upon the expiry of the Special Reset Period, the Conversion Price in force shall revert to such Conversion Price which would have been in effect but for the existence of this Condition 5(D)(2).

$$\text{Special Reset Price} = \text{Market Price} \times \text{Special Reset Rate} \times \frac{\text{Fixed Exchange Rate}}{\text{Prevailing Rate}}$$

where,

“**Market Price**” is the lowest of:

- (x) the average Closing Prices of the Shares for the period of 10 consecutive Trading Days immediately prior to and excluding the relevant Special Reset Date;

- (y) the average Closing Prices of the Shares for the period of 15 consecutive Trading Days immediately prior to and excluding the relevant Special Reset Date; and
- (z) the average Closing Prices of the Shares for the period of 20 consecutive Trading Days immediately prior to and excluding the relevant Special Reset Date.

“**Special Reset Rate**” means in relation to the Put Reset Date, 84.58 per cent.; and in relation to the Maturity Reset Date, 78.15 per cent.

“**Fixed Exchange Rate**” has its meaning given in Condition 5(D)(1).

“**Maturity Date**” has its meaning given in Condition 7(A).

“**Prevailing Rate**” means the arithmetic average of the closing rate of U.S. Dollars to NT Dollars quoted by Taipei Forex Inc. at the close of business on each day of the relevant period, being the period of such 10 or 15 (as the case may be) or 20 (as the case may be) consecutive Trading Days immediately prior to and excluding the relevant Special Reset Date with reference to which the Market Price is determined. For the purpose of the formula in this Condition, the Prevailing Rate shall be expressed as the number of NT Dollars per U.S.\$1.00.

“**Put Date**” has its meaning given in Condition 7(C).

For avoidance of doubt, the Special Reset Price will not be subject to the Reset Price Floor as described in paragraph (1)(i) above.

In this Condition 5(D)(2), “**business day**” means a day (other than a Saturday or Sunday) on which commercial banks are open for business in London, ROC and Hong Kong.

(E) *Mergers; Disposals*

The Issuer will not merge, amalgamate or consolidate with or into any other corporation or entity (the Issuer not being the continuing entity) or sell or transfer all, or substantially all, of the assets of the Issuer, whether as a single transaction or a number of transactions, related or not, to any corporation, entity or person or to one or more members of any group under the common control of any corporation, entity or person unless the Issuer shall have notified the Bondholders of such event in accordance with Condition 14 and the Issuer and such corporation, entity or person shall have executed a trust deed supplemental to the Trust Deed in form and substance satisfactory to the Trustee providing that such corporation, entity or person shall assume the obligation of the Issuer under the Bonds, the Trust Deed and the Agency Agreement and providing that each Bond then outstanding shall be convertible into the class and amount of shares and other securities, cash and other property receivable upon such consolidation, amalgamation, merger, sale or transfer by a holder of the number of Shares into which such Bond would have been convertible immediately prior to such consolidation, amalgamation, merger, sale or transfer (assuming for such purpose that the Bonds were convertible at the time of such consolidation, amalgamation, merger, sale or transfer) at the Conversion Price as adjusted from time to time pursuant to the Trust Deed. Such supplemental trust deed will provide for adjustments which will be as nearly equivalent as may be practicable to the adjustments provided for in the foregoing provisions to this Condition. The above provisions of this Condition 5(E) will apply in the same way to any subsequent consolidations, amalgamations, mergers, sales or transfers.

(F) *Conversion Undertakings*

Closed Periods: The Issuer undertakes to ensure that any Closed Period is as short a period as is reasonably practicable having regard to applicable ROC laws, regulations and practices.

(G) *Notice of Change in Conversion Price*

The Issuer shall give notice to the Bondholders in accordance with Condition 14 of any change in the Conversion Price. Any such notice relating to a change in the Conversion Price shall set forth the event giving rise to the adjustment, the Conversion Price prior to such adjustment, the adjusted Conversion Price and the effective date of such adjustment.

6. **Payment**

(A) *Principal*

Payments of principal, premium (if any) and interest (if any) will be made against presentation and surrender of the Bonds at the specified office of any of the Paying Agents, at the option of the bearer, by transfer to a U.S. dollar account maintained by the payee with, or by a U.S. dollar cheque drawn on, a bank in New York City, subject in each case to any fiscal or other laws or regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8.

(B) *Paying Agents*

The names of the initial Principal Agent and other Paying Agents (if any) and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents, provided that the Company will at all times maintain a Paying Agent having a specified office in London. If the conclusions of the ECOFIN Council Meeting of 26-27 November, 2000 are implemented, the Issuer shall appoint a Paying Agent in a European Union Member State that will not be obliged to withhold or deduct tax pursuant to the European Saving Tax Directive. Notice of any such termination or appointment and of any changes in the specified offices of the Paying Agents will be given promptly by the Company to the Bondholders in accordance with Condition 14.

(C) *Payment initiation*

Where payment is to be made by electronic funds transfer, payment instructions (for value the due date or, if that is not a business day (as defined below), for value the first following day which is a business day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (at the risk and, if mailed at the request of the holder otherwise than by ordinary uninsured mail, expense of the holder) on the due date for payment (or, if it is not a business day, the immediately following business day) or, in the case of a payment of principal and premium (if any), if later, on the business day on which the relevant Bond is presented for payment (if applicable) at the specified office of a Paying Agent provided that the Principal Agent shall have received the relevant funds in full from the Issuer in accordance with the Agency Agreement.

(D) *Delay in payment*

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a business day, if the Bondholder is late in presenting its Bond (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

(E) *Business day*

In this Condition, “**business day**” means a day (other than a Saturday or a Sunday) on which commercial banks are open for business in London and New York and, in the case of presenting a Bond, in the place where the Bond is presented for payment.

(F) *Rounding*

When making payments to Bondholders, fractions of 1 cent will be rounded down to the nearest cent.

7. **Redemption, Purchase and Cancellation**

(A) *Maturity*

Unless previously purchased and cancelled, redeemed or converted as herein provided, each Bond will be redeemed on 15 April, 2008 (the “**Maturity Date**”) at 121.84 per cent. of their principal amount in U.S. Dollars. The Bonds may be redeemed in whole or in part prior to that date only as provided in paragraphs (B), (C) and (D) of this Condition (but without prejudice to Condition 9).

(B) *Redemption at the option of the Issuer*

- (i) (a) On or at any time after 15 April, 2006, the Issuer may, having given not less than 60 nor more than 90 days' notice to the Bondholders in accordance with Conditions 7(H) and 14 (which notice shall be irrevocable), redeem all or from time to time some only of the Bonds at the Early Redemption Amount (as calculated in the manner set out in paragraph (b) below) if the Closing Price of the Shares, translated into U.S. Dollars at the prevailing exchange rate, for each of the 20 consecutive Trading Days, the last of which occurs not more than 10 days prior to the date upon which notice of such redemption is published, is at least 140 per cent. of the Conversion Price then in effect, translated into U.S. Dollars at the fixed exchange rate of NT\$34.75 = U.S.\$1.00, on each such Trading Day. If there shall occur an event giving rise to a change in the Conversion Price during any such 20 Trading Day period, appropriate adjustments for the relevant days shall be made for the purpose of calculating the Closing Price for such days. If the Closing Price cannot be determined for 1 or more consecutive Trading Days, such day or days will be disregarded in the relevant calculation and will be deemed not to have existed when ascertaining such 20 Trading Day period.

Upon the expiry of any such notice, the Issuer shall be bound to redeem the Bonds to which such notice relates at the price aforesaid applicable at the date fixed for redemption.

- (b) The Early Redemption Amount of a Bond shall be determined by any of the following calculations as applicable:

- (aa) if the date fixed for redemption or on which the Bond becomes immediately due and repayable pursuant to Condition 9 falls on or before 15 April, 2004, then the Early Redemption Amount shall be calculated as follows:

$$PA \times \left(1 + AR \times \frac{DA}{360} \right)$$

- (bb) if the date fixed for redemption or on which the Bond becomes immediately due and repayable pursuant to Condition 9 is after 15 April, 2004 but on or before 15 April, 2005, then the Early Redemption Amount shall be calculated as follows:

$$PA \times \left\{ 1 + AR + \left(AR_1 \times \frac{DB}{360} \right) \right\}$$

- (cc) if the date fixed for redemption or on which the Bond becomes immediately due and repayable pursuant to Condition 9 is after 15 April, 2005 but on or before 15 April, 2006, then the Early Redemption Amount shall be calculated as follows:

$$PA \times \left\{ 1 + AR + AR_1 + \left(AR_2 \times \frac{DC}{360} \right) \right\}$$

- (dd) if the date fixed for redemption or on which the Bond becomes immediately due and repayable pursuant to Condition 9 is after 15 April, 2006 but on or before 15 April, 2007, then the Early Redemption Amount shall be calculated as follows:

$$PA \times \left\{ 1 + AR + AR_1 + AR_2 + \left(AR_3 \times \frac{DD}{360} \right) \right\}$$

- (ee) if the date fixed for redemption or on which the Bond becomes immediately due and repayable pursuant to Condition 9 is after 15 April, 2007 but on or before 15 April, 2008, then the Early Redemption Amount shall be calculated as follows:

$$PA \times \left\{ 1 + AR + AR_1 + AR_2 + AR_3 + \left(AR_4 \times \frac{DE}{360} \right) \right\}$$

where,

AR = Accretion Rate = 4.03 per cent.;

AR₁ = AR(1+AR);

AR₂ = AR(1+AR)(1+AR);

AR₃ = AR(1+AR)(1+AR)(1+AR);

AR₄ = AR(1+AR)(1+AR)(1+AR)(1+AR);

PA = the principal amount of such Bond;

DA = the number of days (not exceeding 360) from and including 15 April, 2003 to but excluding the date fixed for redemption of the Bonds or, as the case may be, the date on which the Bonds become immediately due and repayable; the number of days will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each (and, in the case of an incomplete month, the actual number of days elapsed);

DB = the number of days (not exceeding 360) from and including 15 April, 2004 to but excluding the date fixed for redemption of the Bonds or, as the case may be, the date on which the Bonds become immediately due and repayable; the number of days will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each (and, in the case of an incomplete month, the actual number of days elapsed);

DC = the number of days (not exceeding 360) from and including 15 April, 2005 to but excluding the date fixed for redemption of the Bonds or, as the case may be, the date on which the Bonds become immediately due and repayable; the number of days will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each (and, in the case of an incomplete month, the actual number of days elapsed);

DD = the number of days (not exceeding 360) from and including 15 April, 2006 to but excluding the date fixed for redemption of the Bonds or, as the case may be, the date on which the Bonds become immediately due and repayable; the number of days will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each (and, in the case of an incomplete month, the actual number of days elapsed);

DE = the number of days (not exceeding 360) from and including 15 April, 2007 to but excluding the date fixed for redemption of the Bonds or, as the case may be, the date on which the Bonds become immediately due and repayable; the number of days will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each (and, in the case of an incomplete month, the actual number of days elapsed).

The term “**Trading Day**” means a day on which the Taiwan Stock Market or the stock market on which the Shares are then traded is open for business. The term “**Closing Price**” for any Trading Day means the last reported transaction price or, if no transaction takes place on such day, the average of the closing bid and offered prices of Shares for such day as furnished by a leading independent securities firm licensed to trade on the Taiwan Stock Market or the stock market on which the Shares are then traded as selected from time to time by the Issuer for the purpose.

The term “**prevailing exchange rate**” in this Condition 7(B) means the closing rate of U.S. Dollars to NT Dollars quoted by Taipei Forex Inc. at the close of business on any relevant Trading Day.

- (ii) The Issuer may at any time, having given not less than 60 nor more than 90 days' notice to the Bondholders in accordance with Conditions 7(H) and 14 (which notice shall be irrevocable), redeem all (but not less than all) of the Bonds at the Early Redemption Amount (as calculated in accordance with paragraph (i)(b) above) if not more than U.S.\$1,000,000 in principal amount of the Bonds is outstanding.

Upon the expiry of any such notice, the Issuer shall be bound to redeem the Bonds to which such notice relates at the price aforesaid applicable at the date fixed for redemption.

(C) *Redemption at the Option of Bondholders*

The Issuer shall at the option of the holder of any Bond, redeem all or some only of the Bonds held by that Bondholder on 15 April, 2006 at 112.60 per cent. of their principal amount (the "**Put Date**"). To exercise such option the holder must deposit the Bond with any Paying Agent, Conversion Agent or Transfer Agent and a duly completed redemption notice in the form obtainable from any of the Paying Agent, Conversion Agent or Transfer Agent not less than 30 nor more than 60 days prior to the Put Date. No Bonds so deposited may be withdrawn (except as provided in the Agency Agreement) without the prior written consent of the Issuer. Not less than 30 nor more than 45 days' notice of the commencement of the period for the deposit of Bonds for redemption (if issued) and the redemption notice pursuant to this Condition 7(C) shall be given to the Bondholders by the Issuer in accordance with Condition 14. The exercise of the Bondholders' option under this Condition 7(C) shall override any exercise of the Issuer's rights under Condition 7(B).

(D) *Redemption for Taxation Reasons*

At any time (but not if notice of redemption under Condition 7(B) has already been given to Bondholders), the Issuer may, having given not less than 60 nor more than 90 days' notice to the Bondholders in accordance with Conditions 7(H) and 14 (which notice shall be irrevocable) redeem all but not some only of the Bonds at their Early Redemption Amount (as calculated in accordance with Condition 7(B)(i)(b)), if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of the ROC or any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 12 April, 2003 and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Bonds then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee a certificate signed by two directors of the Issuer stating that the obligation referred to in (i) above cannot be avoided by the Issuer taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedents set out in (ii) above, in which event it shall be conclusive and binding on the Bondholders. Bonds in respect of which a notice of redemption has been given under Conditions 7(B) and 7(C) shall not be affected by any notice given subsequently under this Condition 7(D).

(E) *Purchase*

The Issuer may at any time and from time to time purchase Bonds in the open market or otherwise. Bonds so purchased shall be surrendered for cancellation.

(F) *Selection of Bonds*

In the case of redemption of some only of the Bonds pursuant to Condition 7(B), the Bonds to be redeemed will be selected individually by lot by the Principal Agent in such manner as the Trustee shall deem to be appropriate and fair not more than 60 days and not less than 15 days prior to the date fixed for redemption.

(G) *Cancellation*

All Bonds which are redeemed or converted or purchased and surrendered to any Agent will forthwith be cancelled in accordance with the provisions of the Agency Agreement. All Bonds cancelled will be forwarded to or to the order of the Principal Agent and such Bonds may not be reissued or resold.

(H) *Redemption Notices; Precedence of Notices*

All notices to Bondholders given by or on behalf of the Issuer pursuant to this Condition 7 will specify the date fixed for redemption, the redemption price, the Conversion Price as at the date of the relevant notice, the Closing Price of the Shares and the aggregate principal amount of the Bonds outstanding as at the latest practicable date prior to the publication of the notice and, in the case of a partial redemption, a list of the Bonds called for redemption (when applicable).

No notice of redemption pursuant to Condition 7(D) shall be effective if it specifies a due date for redemption falling during the period commencing 60 days and ending 30 days (both inclusive) prior to the Put Date (and if given shall not be effective). Any notice of redemption given under Condition 7(D) before the Put Date and specifying a due date for redemption after the 30th day prior to any Put Date shall be without prejudice to the rights of holders of the Bonds under Condition 7(C) and shall not apply in respect of any Bonds in respect of which the option under Condition 7(C) shall be or has been exercised.

8. **Taxation**

- (A) All payments of principal and premium (if any) by the Issuer under or in respect of the Trust Deed and the Bonds will be made free and clear of, and without withholding or making any deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the ROC or any political subdivision or any authority thereof or therein having power to tax (unless the deduction or withholding of such taxes, duties, assessments or governmental charges is compelled by law).
- (B) Where such withholding or deduction is in respect of ROC withholding tax on premium (if any) payments at the rate of up to and including 20 per cent., the Issuer will increase the amount of premium (if any) paid by it to the extent required so that the net amount of premium (if any) received by Bondholders (without prejudice to Condition 6) would be equal to the amounts which would have been receivable in the absence of any such withholding or deduction.
- (C) In the event that any such withholding or deduction in respect of principal or any additional withholding or deduction in excess of 20 per cent. in respect of premium (if any) is required, the Issuer will pay such additional amounts by way of principal and premium (if any), as will result in the receipt by the Bondholders of the amounts which would have been receivable in the absence of any such withholding or deduction, except that no such additional amounts shall be payable in respect of any Bond:
- (i) to, or on behalf of, a holder who is subject to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his being connected with the ROC otherwise than merely by holding such Bond or by the receipt of principal in respect of the Bond; or
 - (ii) if the Bond is surrendered more than 30 days after the relevant date except to the extent that the holder would have been entitled to such additional amount on surrendering the Bond for payment on the last day of such 30 day period. For this purpose, the “**relevant date**” in relation to any Bond means (a) the due date for payment in respect thereof or (b) (if the full amount of the monies payable on such due date has not been received by the Trustee or the Principal Agent on or prior to such due date) the date on which notice is duly given to the Bondholders that such monies have been so received.
- (D) References in these Conditions to principal or premium shall be deemed also to refer to any increased or additional amounts which may be payable in respect thereof under this Condition or any undertaking given in addition to or substitution for it under the Trust Deed.

9. Events of Default

If any of the following events (“**Events of Default**”) occurs and is continuing, the Trustee at its discretion may, and if so requested in writing by the holders of not less than 25 per cent. in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders, shall (subject to the Trustee’s rights under the Trust Deed to be indemnified to its satisfaction), give notice in writing to the Issuer that the Bonds are immediately due and payable at the Early Redemption Amount (as calculated in accordance with Condition 7(B) plus an amount representing 6 per cent. of the principal amount of the Bonds calculated as of the date that the Bonds are declared due and payable and determined in accordance with Condition 7(B):

- (i) a default is made for more than 7 business days in the payment of the principal or premium (if any) or default is made for more than 14 business days in payment of any other amount in respect of any of the Bonds when and as the same shall become due and payable in accordance with these Conditions; or
- (ii) a default is made by the Issuer in the performance or observance of any covenant, condition or provision contained in the Trust Deed or in the Bonds and on its part to be performed or observed (other than the covenant to pay the principal and premium (if any) in respect of any of the Bonds) and such default continues for the period of 30 days next following the service by the Trustee on the Issuer of notice requiring such default to be remedied; or
- (iii) any other present or future indebtedness of the Issuer or any Subsidiary for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of an event of default (however called or described) or any such indebtedness is not paid when due or, as the case may be, within any applicable grace period originally provided for, or the Issuer or, as the case may be, such Subsidiary fails to pay when due or, as the case may be, within any applicable grace period originally provided for, any amount payable by it under any present or future guarantee or indemnity for or in respect of moneys borrowed or raised provided that the aggregate amount of the relevant indebtedness or amount payable in respect of which one or more of the events mentioned above in this paragraph (iii) shall have occurred equals or exceeds U.S.\$1,000,000 or its equivalent; or
- (iv) a resolution is passed or any order of a court of competent jurisdiction is made for the winding up or dissolution or administration (or equivalent procedure) of the Issuer or any Subsidiary, or the Issuer or any Subsidiary ceases or threatens to cease to carry on the whole or a material part of its business or operations except (a) for the purposes of or pursuant to and followed by a consolidation or amalgamation with or merger into the Issuer or any of its other Subsidiaries, (b) for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger, reconstruction or reorganisation (other than as described in (a) above) the terms of which shall have previously been approved in writing by an Extraordinary Resolution of the Bondholders, or (c) by way of a voluntary winding up or dissolution where there are surplus assets in such Subsidiary and such surplus assets attributable to the Issuer and/or any other Subsidiary are distributed to the Issuer or such Subsidiary; or
- (v) an encumbrancer takes possession or an administrator or other receiver or any manager (or equivalent person) is appointed or the directors of the Issuer or any Subsidiary request any person to appoint such an administrator or receiver or manager (or equivalent person) of the whole or a material part of the assets or undertaking of the Issuer or any Subsidiary; or
- (vi) a distress, attachment, execution or seizure before judgment (other than in connection with an acquisition for hire, compulsory acquisition, seizure, expropriation, nationalisation or sequestration by any governmental or other competent authority, other than a court pursuant to the enforcement of a debt or mortgage or pursuant to any action for breach of contract or for breach of any relevant laws or regulations by the Issuer or any Subsidiary) is levied or enforced upon or sued out against the whole or a material part of the property of the Issuer or any Subsidiary (as the case may be) and is not discharged, or adequate security is not provided to facilitate the release of such property, within 30 days thereof (or such longer period as the Trustee in its absolute discretion may consider appropriate in relation to the jurisdiction concerned); or

- (vii) the Issuer or any Subsidiary is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts as and when they fall due; stops, suspends or threatens to stop or suspend payment of all or substantially all of its debts; shall initiate or consent to proceedings relating to itself under applicable bankruptcy, reorganisation or insolvency law or make any agreement for the deferral, rescheduling or other readjustment of all of its debts (or any party which it will or might otherwise be unable to pay when due), or make an assignment for the benefit of, or enter into any composition with, its creditors; or
- (viii) proceedings shall have been initiated against the Issuer or any Subsidiary under any applicable bankruptcy, reorganisation or insolvency law and such proceedings shall not have been discharged or stayed within a period of 30 days (or such longer period as the Trustee may in its absolute discretion consider appropriate in relation to the jurisdiction concerned); or
- (ix) the Company or any Subsidiary shall initiate or consent to proceedings relating to itself under any applicable bankruptcy, composition, reorganisation or insolvency law or shall make an assignment for the benefit of, or enter into any composition with, its creditors; or
- (x) any event occurs which has an analogous effect under the laws of the ROC to any of the events referred to in paragraphs (iv) to (viii) above; or
- (xi) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, license, order, recording or registration) at any time required to be taken, fulfilled or done in order to (i) enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Bonds and the Trust Deed, (ii) ensure that those obligations are legally binding and enforceable (subject to the qualifications set out in the legal opinion issued in connection therewith) and (iii) make the Bonds and the Trust Deed admissible in evidence in the courts of the ROC is not taken, fulfilled or done and such case is incapable of remedy; or
- (xii) it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Bonds or the Trust Deed; or
- (xiii) (a) all or any substantial part of the undertaking, assets and revenues of the Issuer or any of the Subsidiaries is condemned, seized or otherwise appropriated by any person acting under the authority of any national, regional or local government or (b) the Issuer or any of the Subsidiaries is prevented by any such person from exercising normal control over all or any substantial part of its undertaking, assets and revenues; or
- (xiv) the total shareholders' funds of the Company are negative as at the end of any financial year of the Company; or
- (xv) if any auditor's report in connection with the Company's financial statements, annual report or accounts is qualified in any way, or any disclaimer is given with respect thereof, by its auditors; or
- (xvi) any representation, warranty or statement made under Clause 3.1 of the Subscription Agreement is or proves to have been incorrect when made or in the case of any representation and warranty in relation to assumptions, projections or forecasts, proves not to have been fair and reasonable when made.

For the purposes of this Condition 9 only, "**Subsidiary**" means at any time any Subsidiary (as defined in Condition 3(B) above) of the Issuer.

References to accounting terms include (where appropriate) references to other accounting terms in respect of like items, as determined by the auditors of the Issuer.

10. **Prescription**

Claims in respect of principal, premium (if any) and default interest will become void and unenforceable unless made within 10 years (in the case of principal or premium (if any)) and 5 years (in the case of default interest) from the relevant date (as defined in Condition 8) in respect thereof.

For the purposes of this Condition 10, “**default interest**” means interest that will accrue on any unpaid amount of the Bonds which are due and payable, in accordance with the terms and conditions of the Bonds.

Under ROC law, claims in respect of (a) principal and (b) premium (if any and deemed as interest) and default interest will become unenforceable after 15 years and 5 years, respectively, from the relevant date for payment in respect thereof.

11. **Enforcement**

At any time after the Bonds shall have become due and payable, the Trustee may, at its discretion and without further notice, take such proceedings against the Issuer as it may think fit to enforce payment of the Bonds together with premium (if any) and to enforce the provisions of the Trust Deed, but it will not be bound to take any such proceedings unless (a)(i) it shall have been so requested in writing by the holders of not less than 25 per cent. in principal amount of the Bonds then outstanding or (ii) shall have been so directed by an Extraordinary Resolution of the Bondholders, and (b) in case of both (a)(i) and (ii), it shall have been indemnified (with or without security for such indemnity) to its satisfaction. No Bondholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within 60 days and such failure shall be continuing.

12. **Meetings of Bondholders, Modification and Waiver**

(A) *Meetings*

The Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of modification or arrangement in respect of the Bonds or the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution shall be 2 or more persons present in person holding or representing in the aggregate over 50 per cent. in principal amount of the Bonds for the time being outstanding or, at any adjourned such meeting, 2 or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented, unless the business of such meeting includes consideration or proposals, *inter alia*, (i) to modify the Maturity Date of the Bonds, the date for redemption at the option of the Bondholders or the due date for any payment in respect of the Bonds, (ii) to reduce or cancel the amount of principal or premium (if any) payable on any date in respect of the Bonds or making the Bonds interest-bearing or to determine the method of calculating the amount of any payment in respect of the Bonds on redemption or maturity or the date of such payment, (iii) to change the currency of payment of the Bonds, (iv) subject to Condition 12(B), to cancel or modify the right to convert the Bonds into Shares (except in accordance with Conditions 5(B) and 12(B)) or to modify the circumstances in which Bonds may be redeemed or converted at the option of the Issuer or to shorten the Conversion Period, (v) subject to Condition 12(B), to modify the provisions relating to the resetting of the Conversion Price, (vi) to modify the status of the Bonds, or (vii) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution or sign a resolution in writing, or (viii) to amend the definition of Reserved Matters (as contained in the Trust Deed) in which cases the necessary quorum for passing an Extraordinary Resolution will be 2 or more persons holding or representing over two-thirds, or at any adjourned such meeting over one-third, in principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of Bondholders will be binding on all Bondholders, whether or not they are present at the meeting. The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of more than 90 per cent. of the aggregate principal amount of Bonds outstanding shall be as valid as an Extraordinary Resolution passed at a meeting of the Bondholders duly convened and held in accordance with the terms of the Trust Deed.

(B) *Modification of Conversion Rights*

Notwithstanding Conditions 12(A)(iv) and 12(A)(v) above, the Trustee may agree, without the consent of the Bondholders, any modification to or variation of the Conversion Rights (including modification of and additions to the declarations and statements to be made by the Bondholders in a Conversion Notice) which is in its opinion necessary or desirable to effect or facilitate conversion as contemplated in these Conditions and which is not, in the Trustee's opinion, materially prejudicial to the interests of the Bondholders. The Trustee's agreement may be subject to any condition which the Trustee requires.

(C) *Modifications and waivers*

The Trustee may agree, without the consent or sanction of the Bondholders, to (i) any modification (except as mentioned in Condition 12(B) above) of, or the waiver or authorisation of any breach or proposed breach by the Issuer of, the provisions of the Trust Deed, or the Agency Agreement or the Conditions or determine that an Event of Default or Potential Event of Default (as defined in the Trust Deed) will not be treated as such or (ii) any modification of the Trust Deed, or the Agency Agreement or the Conditions which, in the Trustee's opinion, is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provisions of law. The Trustee may also so agree to any modification to the Trust Deed, the Agency Agreement or the Conditions which is in its opinion not materially prejudicial to the interests of the Bondholders. Any such modifications, waivers or authorisations will be binding on all the Bondholders and, unless the Trustee agrees otherwise, shall be notified by the Issuer to the Bondholders as soon as practicable in accordance with Condition 14.

(D) *Substitution*

The Trust Deed contains provisions permitting the Trustee to agree, subject to any such amendment of the Trust Deed and such other conditions as the Trustee may require but without the consent of the Bondholders, to the substitution at any time of any other company in place of the Issuer, or of any previous substituted company (the "**Substituted Obligor**"), as principal debtor under the Trust Deed and the Bonds provided that, inter alia, a deed is executed or undertaking given by the Substituted Obligor to the Trustee, in a form and manner satisfactory to the Trustee, agreeing to be bound by the Trust Deed and the Bonds (with consequential amendments as the Trustee may deem appropriate) as if the Substituted Obligor had been named in the Trust Deed and the Bonds as the principal debtor in place of the Issuer. Any such substitution shall be binding on the Bondholders and, unless the Trustee requires otherwise, shall be notified by the Issuer to the Bondholders as soon as practicable in accordance with Condition 14.

(E) *Exercise of Trustee's functions in the interests of Bondholders*

In connection with the exercise of its functions, powers, authorities or discretions (including but not limited to those in relation to any proposed modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Bondholders as a class but shall not have regard to any interest arising from circumstances particular to individual Bondholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of the exercise of its functions, powers, authorities or discretions for individual Bondholders (whatever their number) resulting from their being, for any purpose, domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular jurisdiction and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer or the Trustee, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Bondholders, except to the extent already provided for in Condition 9.

13. **Replacement of Bonds**

If any Bond is mutilated, defaced, destroyed, stolen or lost, it may be replaced at the specified office of the Transfer Agent upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity that the Issuer, the Trustee, and the Transfer Agent may require. Mutilated or defaced Bonds must be surrendered before replacements will be issued.

14. **Notices**

All notices to the Bondholders required to be given by these Conditions, the Trust Deed or the Agency Agreement shall be deemed to have been duly given if published in a leading daily newspaper printed in the English language and with general circulation in Asia (which is expected to be the *Asian Wall Street Journal*). Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the date of the first such publication. If publication as aforesaid is not practicable, then notice may, in lieu of publication in the relevant place, be given by publication in an English language newspaper of general circulation in Asia as approved in writing by the Trustee or be given in such other manner as shall be approved by the Trustee. All costs and expenses of such publication shall be borne by the Issuer.

While all the Bonds are represented by a Global Bond and the Global Bond is deposited with a common depositary for Euroclear and/or Clearstream, Luxembourg, notices to Bondholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and such notices shall be deemed to have been given to Bondholders on the seventh day after the date of delivery to Euroclear and/or Clearstream, Luxembourg.

15. **Agents**

The names of the initial Agents are set out at the end of these Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of additional or other Agents, provided that the Issuer will at all times maintain Agents having specified offices in London. Notice of any such termination or appointment, of any changes in the specified offices of the Agents or of any change in the identity or specified office of the Principal Agent, the Conversion Agent or the Transfer Agent will be given promptly by the Issuer to the Bondholders and the Trustee. Any such termination or appointment shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 60 nor less than 30 days' notice thereof shall have been given to the Bondholders in accordance with Condition 14 and shall not take effect during the period commencing 15 business days in the relevant city of the Agent (being days (other than Saturdays or Sundays) on which banks in such city are open for normal banking business) before and ending 15 such business days after any date upon which a payment pursuant to these Conditions is due or the last day on which any Bondholder or the Trustee may exercise Conversion Rights.

16. **Indemnification**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce repayment unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer or any Subsidiary and any entity related to it without accounting for any profit therefrom.

17. **Governing Law and Jurisdiction**

The Bonds, the Trust Deed and the Agency Agreement are governed by, and shall be construed in accordance with, English law. The courts of England shall have jurisdiction to hear and determine any suit, action or proceedings and to settle any disputes which may arise out of or in connection with the Bonds. The Issuer has in the Trust Deed irrevocably submitted to the jurisdiction of the courts of England. The Issuer has appointed Walkers as its agent for service of process in England at its registered office for the time being (currently at 48 Gracechurch Street, London EC3V 0EJ, England).

18. **Third Party Rights**

No person shall have any right to enforce any of the Conditions of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

THE GLOBAL BOND

The Global Bond contains provisions which apply to the Bonds while they are in global form, some of which modify the effect of the Conditions set out in this document. Terms defined in the Conditions have the same meanings in paragraphs 1 to 10 (inclusive) below. The following is a summary of certain of those provisions:

1. Exchange of Global Bond

The Bonds will, on issue, be represented by the Global Bond which will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg, for credit to the accounts of the Bondholders at Euroclear and Clearstream, Luxembourg.

The Global Bond will be exchangeable in whole for Definitive Bonds upon notice being given to the Company and the Principal Agent by the holder of the Global Bond (acting on the instructions of Accountholders (as defined below)) if (a) either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, or (b) an Event of Default (as defined in the Conditions) occurs.

Thereupon, the Company will deliver Definitive Bonds within 60 days after the date of such notice and such notice as aforesaid shall give rise to the issue of Definitive Bonds in exchange for the total amount of the Bonds represented by the Global Bond.

2. Accountholders

For so long as any of the Bonds is represented by the Global Bond and the Global Bond is held on behalf of Euroclear and/or Clearstream, Luxembourg, each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Bonds (each an “**Accountholder**”) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Bonds standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Bonds for all purposes (including for the purposes of any quorum requirements of, or in the right to demand a poll at, meetings of the Bondholders) other than with respect to the payment of principal, premium (if any) and interest on such Bonds, the right to which shall be vested, as against the Company and the Trustee, solely in the bearer of the relevant Global Bond in accordance with and subject to its terms and the terms of the Trust Deed. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the Global Bond.

3. Purchase and Cancellation

Cancellation of any Bond represented by the Global Bond required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the Global Bond whereupon the principal amount of the Global Bond shall be reduced accordingly.

4. Payments

Payments of principal and premium (if any) in respect of Bonds represented by the Global Bond will be made against presentation for endorsement and, if no further payment remains to be made in respect of the Bonds, surrender of the Global Bond to the order of the Principal Agent or such other Paying Agent as shall have been notified to the Bondholders for such purposes. A record of each payment made will be endorsed on the appropriate schedule to the Global Bond by or on behalf of the Principal Agent.

5. Notices

So long as all the Bonds are represented by the Global Bond, and such Global Bond is held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Bondholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by it to entitled Accountholders in substitution for notification as required by the Conditions. Any such notice given by delivery as aforesaid shall be deemed to have been given on the seventh day after that on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg, as the case may be, as aforesaid.

6. Call Option

The options of the Company provided for in Condition 7(B) may be exercised by the Company giving not less than 60 nor more than 90 days' notice to the Bondholders in accordance with Condition 14 (which notice will be irrevocable) in which case the Company will be bound to redeem the Bonds to which such notice relates and on the due date of such redemption the Global Bond shall be presented to the Principal Agent for notation accordingly.

7. Put Option

The option of the Bondholders provided for in Condition 7(C) may be exercised by the Bondholders giving a duly completed redemption notice in the form obtainable from the specified office of any of the Paying Agents to the Principal Agent relating to the principal amount of the Bonds in respect of which such option is exercised and at the same time presentation of the Global Bond to the Principal Agent for notation accordingly within the time limits set forth in that Condition.

8. Prescription

Claims against the Company in respect of principal, premium (if any) and default interest on the Bonds while the Bonds are represented by the Global Bond will become void unless it is presented for payment within a period of 10 years from the appropriate Relevant Date (as defined in Condition 8).

9. Clearing Systems

All references herein to Euroclear or Clearstream, Luxembourg shall include such alternative or additional clearing system or systems as may be approved by the Trustee.

10. Conversion

Subject to the requirements of Euroclear and Clearstream, Luxembourg, the Conversion Right attaching to Bonds for which the Global Bond may be exchanged may be exercised by the presentation to or to the order of the Principal Agent of one or more duly completed Conversion Notices. Deposit of the Global Bond with the Principal Agent, together with the relevant Conversion Notice(s), shall not be required. The exercise of the Conversion Right shall be notified by the Principal Agent to the holder of the relevant Global Bond.

TAXATION

The Bonds may be deemed by taxing authorities in various jurisdictions to be issued with original issue discount. Prospective investors should consult their own advisers concerning the tax consequences of an investment in Bonds or Shares.

ROC Taxation of Non-Residents

The following is a summary under present law of the principal ROC tax consequences of the ownership and disposition of Bonds and Shares to a Non-ROC Resident Individual or Non-ROC Resident Entity that holds Bonds or Shares (each a “**Non-ROC Holder**”). As used in the preceding sentence, a “**Non-ROC Resident Individual**” is a foreign national individual who owns Bonds or Shares and is not physically present in the ROC for 183 days or more during any calendar year and a “**Non-ROC Resident Entity**” is a profit seeking corporation or a non-corporate body that owns Bonds or Shares and is organised under the laws of a jurisdiction other than the ROC and has no fixed place of business or other permanent establishment in the ROC.

Dividends on the Shares

Dividends (whether in cash or Shares) declared by the Company out of retained earnings and paid out to Non-ROC Holders of Shares (converted from the Bonds by the Non-ROC Holder) are normally subject to ROC income tax collected by way of withholding at the time of distribution, currently at a rate of 20% of the amount of the distribution, in the case of cash dividends, or on the par value of the distributed shares in the case of stock dividends. It is not clear whether distributions of shares declared by the company out of capital reserves will be subject to ROC withholding tax. In accordance with the ROC Income Tax Law, a 10% retained earnings tax will be imposed on a company for its after-tax earnings generated after 1 January, 1998 which are not distributed in the following year. The retained earnings tax so paid will further reduce the retained earnings available for future distribution. When the Company declares dividends out of those retained earnings, a maximum amount of up to 10% of the declared dividends will be credited against the 20% withholding tax imposed on the Non-ROC Holder.

Capital Gains

Under current ROC law, gains realised upon the sale or other disposition of securities is exempt from ROC income tax. This exemption will apply to a sale or other disposition of Shares.

ROC law currently provides no specific provisions regarding the ROC income tax consequences of a conversion of Bonds into Shares. Without further clarification from the ROC tax authorities, it is impossible to conclude definitively that gains on the conversion of Bonds into Shares will not be deemed as taxable gains, additional interest income (subject to the 20% withholding tax) or otherwise subject to other ROC taxes. Transfers of Bonds by Non-ROC Holders are regarded as transactions outside the ROC and thus any gains derived therefrom are not subject to ROC income tax.

Securities Transaction Tax

The ROC Government imposes a securities transaction tax that will apply to sales of Shares. The transaction tax, which is payable by the seller, is generally levied on sales of Shares at the rate of 0.3% of the transaction price and at the rate of 0.1% of the transaction price for sales of corporate bonds. However, pursuant to a ruling from the Ministry of Finance of the ROC dated 17 January, 2001, this securities transaction tax is not applicable to the sales of bonds outside the ROC. In addition, according to the amended Statute of Upgrading Industries, which became effective on 1 February, 2002, no securities transaction tax will be imposed on the transfer of the bonds from 1 February, 2002 to 31 December, 2009.

There is no ROC stamp, issue or registration tax imposed on the issuance of Shares upon conversion of the Bonds.

Inheritance Tax and Gift Tax

ROC inheritance tax is payable on any property within the ROC of a deceased Non-ROC Resident Individual, and ROC gift tax is payable on any property within the ROC donated by a Non-ROC Resident Individual. Inheritance tax is currently imposed at rates ranging from 2% of the first NT\$600,000 to 50% of

amounts in excess of NT\$100,000,000. Gift tax is imposed at rates ranging from 4% of the first NT\$600,000 donated to 50% of amounts donated in excess of NT\$45,000,000. Under ROC inheritance and gift tax laws, the Bonds and Shares will be deemed to be located in the ROC without regard to the location of the owner.

Tax Treaty

At present, the ROC has income tax treaties with, among other countries, Indonesia, Singapore, New Zealand, Australia, South Africa, Gambia, Swaziland, Malaysia, Vietnam, Macedonia and the Netherlands. It is unclear whether a Non-ROC Holder will be considered to own Bonds or Shares for the purposes of such treaties. Accordingly, a holder of Bonds or Shares who is otherwise entitled to the benefit of a treaty should consult its own tax advisers concerning eligibility for benefit under the treaty with respect to Bonds or Shares.

Withholding Tax on Payments of Premium

Premium (if any) payable on the Bonds to the Non-ROC Holders is subject to a withholding tax in the ROC currently equal to 20% of the gross amount of such premium (if any) at the time of payment.

Subscription Rights

Distributions of subscription rights for the Shares in compliance with the ROC Company Law are not subject to ROC tax. Proceeds derived from sales of statutory subscription rights evidenced by securities are currently exempted from income tax but are subject to securities transaction tax, currently at the rate of 0.3% of the gross amount received. Proceeds derived from sales of statutory subscription rights that are not evidenced by securities are subject to capital gains tax at the rate of (i) 25% of the gains realised for Non-ROC Resident Entities, and (ii) 35% of the gains realised for Non-ROC Resident Individuals. Subject to compliance with ROC law, the Company has the sole discretion to determine whether statutory subscription rights are evidenced by securities or not.

DESCRIPTION OF THE SHARES

The Managers make no representations or warranties (express or implied) as to the accuracy or completeness of the information contained in this section of the Offering Circular and nothing contained herein is, or shall be relied upon, as a promise or representation. The Managers have not independently verified any such information and assume no responsibility for its accuracy or completeness.

*The following is a summary of information relating to the Company's share capital, including certain provisions of the Company's articles of incorporation, the ROC Securities and Exchange Law (the "**Securities and Exchange Law**") and regulations promulgated thereunder and the ROC Company Law, all as currently in effect.*

General

As of 31 December, 2002, the Company's authorised share capital was NT\$1,200,000,000 divided into 120,000,000 common shares (the "**Shares**") with a par value of NT\$10 per Share, of which 46,670,000 Shares are available for conversion of convertible bonds. As of 31 December, 2002, the paid-in capital is NT\$743,300,000 representing 74,330,000 Shares, all of which are issued and outstanding and in registered form. Other than the Shares and the Bonds offered hereby, the Company does not have any other equity interests outstanding as of the date of this Offering Circular.

Under the ROC Company Law, any change in the Company's authorised share capital requires an amendment to the articles of incorporation, which in turn requires approval at a shareholders' meeting. Authorised but unissued Shares may be issued subject to the ROC Company Law, upon terms that the board of directors may determine.

The Articles of Incorporation

According to the ROC newly amended Company Law, company may engage in all businesses unless such business is in violation of law. According to Article 2 of the Company's articles of incorporation, the business scope of the Company is as follows:

- manufacture machineries and equipment;
- manufacture electric wire and electric cables;
- business of telecommunication engineering; and
- services of information software.

Dividends and Distribution

Under the ROC Company Law, except under certain limited circumstances, an ROC company is not permitted to distribute dividends or make any other distributions to shareholders in any year in which the Company has no earnings (including retained earnings).

The ROC Company Law and the articles of incorporation also require that 10% of the Company's annual income, less prior years' losses and outstanding tax, if any, be set aside as a legal reserve until the accumulated legal reserve equals the paid-in capital. The retention is accounted for by transfers to a legal reserve upon approval at the annual stockholders' meeting.

The Company's articles of incorporation provide that the Company may distribute earnings to shareholders after having set aside the following items in the order they are listed:

1. payment of all taxes;
2. recovery of any past losses;
3. 10% of net profits as legal reserve;

4. 3% of net profits, as compensation to directors and supervisors; and
5. 15% of net profits, as employee bonus.

At each annual ordinary shareholders' meeting, the Company's board of directors submits to the shareholders for their approval its financial statements for the preceding fiscal year and any proposal for the distribution of a dividend or the making of any other distribution to shareholders from the Company's retained earnings (subject to compliance with the requirements set out above) for the preceding fiscal year. All common shares outstanding and fully paid as of the relevant record date are entitled to share equally in any dividends or other distribution so approved. Dividends may be distributed in cash, in the form of shares or a combination of the two, as determined by the shareholders at the meeting.

The Company is not permitted to distribute dividends and bonuses if it does not generate profit. However, under the ROC Company Law if the legal reserve exceeds 50% of the paid-in capital, the Company may use the excess amount to distribute dividends and bonuses. In addition, the Company is also permitted to make distributions to its shareholders of additional Shares by capitalising reserves (including the legal reserve and any special reserve or certain types of capital surplus). However, amounts payable by capitalising the legal reserve are limited to 50% of the total accumulated legal reserve and this capitalisation can only be effected when the accumulated legal reserve exceeds 50% of the Company's paid-in capital.

Pre-emptive Rights

Under the ROC Company Law (and subject to certain exceptions), when the Company issues new shares for cash, existing shareholders who are listed on the shareholders' register as of the record date have pre-emptive rights to subscribe for the new issue in proportion to their existing shareholdings, while the Company's employees, whether or not they are existing shareholders, have a similar right to subscribe for 10% to 15% of the new issue.

In addition, in accordance with the ROC Securities and Exchange Law, a public company that intends to offer new shares for cash must conduct a public offering of at least 10% of the shares to be sold. This percentage can be increased by a resolution passed at a shareholders' meeting, which would diminish the number of new shares subject to the pre-emptive rights of existing shareholders. The shares not subscribed for by the employees and shareholders at the expiration of the period of the exercise of their rights may be freely offered by the Company (subject to ROC laws) to the public or any specific persons through the arrangement of the board of directors. According to the amended Securities and Exchange Law which became effective on 8 February, 2002, the pre-emptive rights provisions will not apply to offerings of new shares through a private placement approved at a shareholders' meeting. The shareholders do not have pre-emptive rights to subscribe for the Bonds or the Shares issued upon conversion of the Bonds.

Meetings of Shareholders

The ordinary meeting of the Company's shareholders is usually held at Hsin-chu County, Taiwan, ROC, as determined by the board of directors, within the first 6 months after the end of each calendar year. Extraordinary meetings of shareholders may also be convened by resolution of the board of directors of the Company when it deems necessary or, under certain circumstances, by shareholders or the supervisors. Notice in writing of ordinary and extraordinary shareholders' meetings stating the place, time and purpose thereof must be despatched to each Company shareholder at least 30 days and 15 days, respectively, prior to the date set for the meeting.

Voting Rights

The Company's articles of incorporation provide that a holder of the Shares has one vote for each Share. The ROC Company Law also provides for cumulative voting for the election of directors and supervisors, unless otherwise provided in the Company's articles of incorporation.

In general, a resolution can be adopted by the holders of at least a majority of the Shares represented at a shareholders' meeting at which the holders of a majority of all issued and outstanding Shares are present. Under the ROC Company Law, the approval by at least a majority of the Shares represented at a shareholders' meeting in which a quorum of at least two-thirds of all issued and outstanding Shares are represented is required for major corporate actions, including:

- amendment to the articles of incorporation;
- transfer of the whole or substantial part of the Company's business or assets;
- execution, amendment or termination of any contract that leases the Company's whole business, mandates the Company's operation to other persons, or operates frequently the business for the joint interest of the Company and other persons;
- taking over of the whole of the business or assets of any other company which would have a significant impact on the Company's operations;
- distribution of any stock dividend;
- dissolution; and
- amalgamation or spin off.

Alternatively, the ROC Company Law provides that in the case of a public company, such as the Company, a resolution may be adopted by the holders of at least two-thirds of the Shares represented at a meeting of shareholders at which holders of at least a majority of issued and outstanding Shares are present.

A shareholder may be represented at an ordinary or extraordinary meeting by proxy if a valid proxy form is delivered to the Company 5 days before the commencement of the ordinary or extraordinary shareholders' meeting. Voting rights attached to the Shares that are exercised by the Shareholders' proxies shall be subject to ROC proxy regulations.

Annual Financial Statements

Under the ROC Company Law, 10 days before the ordinary shareholders' meeting, the Company's annual audited financial statements must be available at the registered office of the Company at No. 12-1, Creation Fourth Road, Science-Based Industrial Park, Hsin-chu County, Taiwan, ROC, for inspection by the shareholders.

Transfers of Common Shares

Under the ROC Company Law, the transfer of Shares (in registered form) is effected by endorsement and delivery of share certificates. In order to assert shareholders' rights against the Company, the transferee must have his name and address registered on the Company's register of shareholders. Shareholders are required to register their respective specimen seal or chop with the Company. The settlement of trading of the common stock is normally carried out on the book-entry system maintained by Taiwan Securities Central Depository Co., Ltd.

Acquisition by the Company of its Own Common Shares

Under the ROC Company Law, with minor exceptions, the Company cannot acquire its own Shares. Any Share acquired by the Company must be sold by the Company at the current market price within six months after its acquisition.

Under the amendment to the ROC Securities and Exchange Law, a company whose shares are listed on the TSE and OTC Exchange may, pursuant to a board resolution adopted by a majority consent at a meeting attended by more than two-thirds of the directors and pursuant to the procedures prescribed by the ROC Securities and Futures Commission (the "ROC SFC"), purchase its shares on the TSE or OTC Exchange, as applicable, or by a tender offer for the following purposes:

- for transfer of shares to its employees;
- for conversion into shares from bonds with warrants, preferred shares with warrants, convertible bonds, convertible preferred shares or certificates of warrants issued by the company; and

- for maintaining its credit and its shareholders' equity, provided that the shares so purchased shall be cancelled thereafter.

The total shares purchased by the Company shall not exceed 10% of its total issued and outstanding shares. In addition, the total amount for purchase of the shares shall not exceed the aggregate amount of the retained earnings, the premium from stock issues and the realised portion of the capital reserve.

The shares purchased by the Company pursuant to the first two items above shall be transferred to the intended transferees within 3 years after the purchase, otherwise the shares shall be cancelled. For the shares to be cancelled pursuant to the third item above, the Company shall complete amendment registration for such cancellation within 6 months after the purchase.

The shares purchased by the Company shall not be pledged or hypothecated. In addition, the Company may not exercise any shareholders' rights attaching to such shares. The Company's affiliates (as defined in Article 369-1 of the ROC Company Law), directors, supervisors, managers and their respective spouses and minor children and/or nominees are prohibited from selling the shares of the company held by them during the period in which the Company purchases its own shares.

Liquidation Rights

In the event of the Company's liquidation, the assets remaining after payment of all debts, liquidation expenses, taxes and distributions to holders of preferred shares, if any, will be distributed pro rata to the shareholders in accordance with the ROC Company Law.

Significant Shareholders and Transfer Restrictions

The ROC Securities and Exchange Law currently requires that each director, supervisor, manager or significant shareholder (i.e. a shareholder who, together with his or her spouse, minor children or nominees, holds more than 10% of the shares of a public company) holding such common shares for more than a 6 month period report his or her intent to transfer any shares traded on the TSE or OTC Exchange to the ROC SFC at least 3 days before the intended transfer, unless the number of shares to be transferred is less than 10,000.

In addition, except for certain situations approved by the ROC SFC, the number of shares that can be sold or transferred on the TSE or OTC Exchange by any person subject to the restrictions described above on any given day may not exceed:

- 0.2% of the outstanding shares of a company, in the case of a company with no more than 30 million outstanding shares; or
- 0.2% of 30 million shares plus 0.1% of the outstanding shares exceeding 30 million shares in the case of a company with more than 30 million outstanding shares; or
- in any case, 5% of the average trading volume (number of shares) on the TSE or OTC Exchange for the 10 consecutive trading days preceding the reporting date on which day the director, supervisor, manager or substantial shareholder reports the intended share transfer to the ROC SFC.

Limitation on Shareholdings in the Company and Reporting Obligations

The ROC Securities and Exchange law requires each director, supervisor, manager or significant shareholder to report any change in that person's shareholding to the Company before each fifth day of each month and the Company shall report the same to the ROC SFC before the fifteenth day of each month. Such persons are also required to report to the Company immediately the pledge of their company shares and the Company shall report the same to the ROC SFC within 5 days from the pledge date. A person or a person who along with other persons acquires more than 10% of the issued and outstanding Shares of the Company shall report to the ROC SFC, within 10 days from the acquisition date, the acquisition purpose, funding sources and other information required by the ROC SFC.

Register of Shareholders

The Company maintains its shareholder register at its office at No. 12-1, Creation Fourth Road, Science-Based Industrial Park, Hsin-chu County, Taiwan, ROC. The ROC Company Law permits the Company to set a record date and close its shareholder register for a specified period in order for the Company to determine the shareholders or pledges that are entitled to certain rights pertaining to the Company's Shares by giving advance public notice. As provided in the articles of incorporation, the Company's register is closed for a period of 60 days before each ordinary meeting of shareholders, a period of 30 days before each extraordinary meeting of shareholders and a period of 5 days before each record date for distribution of dividends, bonuses or other interests.

Increase in Capital; Delivery of Certificates

Unless otherwise provided by laws, regulations or governmental rulings, the Company is required under ROC laws and regulations to file an amendment to its corporate registration within 15 days after the capital increase record date. Under the ROC Securities and Exchange Law and applicable regulations, the Company is required to deliver Share certificates to the relevant purchasers within 30 days after receiving approval from the relevant ROC government agencies of the Company's amendment to its corporate registration.

Under the ROC Company Law, as amended in November, 2001, when a public company, such as the Company, issues new shares, it could:

- issue multiple share certificates and deliver them to shareholders;
- issue a single share certificate representing the total number of new shares and deposit the certificate with the Taiwan Securities Central Depositary Co., Ltd.; or
- register the new shares with the Taiwan Securities Central Depositary Co., Ltd. in lieu of issuing new share certificates.

SUBSCRIPTION AND SALE

The Managers have, pursuant to a Subscription Agreement dated 12 April, 2003 (the “**Subscription Agreement**”), agreed with the Company to subscribe for, or procure the subscription and payment for, the Bonds at the issue price of 100% of their principal amount less the management fee specified therein. In addition, the Company has agreed to reimburse the Managers for certain of their expenses in connection with the issue of the Bonds and to indemnify the Managers for certain liabilities, including the liabilities under the Securities Act, in connection with the offering of the Bonds.

The Company has agreed in the Subscription Agreement that, without the prior written consent of the Lead Manager (such consent not to be unreasonably withheld), it will not, during the period ending 120 days after the date of the Subscription Agreement, (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any equity shares or any securities convertible into or exercisable or exchangeable for equity shares, or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the equity shares, whether any such transaction described in (i) or (ii) above is to be settled by delivery of common stock or such other securities, in cash or otherwise. The foregoing sentence shall not apply to (i) the issue and sale of the Bonds under the Subscription Agreement, (ii) the issue of the Shares upon the conversion of the Bonds, (iii) the issuance by the Issuer of any Shares upon the exercise of options issued pursuant to any employee share option schemes of the Issuer or the issue of further options under such schemes and (iv) the issuance by the Issuer of Shares in connection with a merger or acquisition.

General

No action has been or will be taken in any jurisdiction that would permit a public offering of the Bonds or the Shares issuable upon conversion of the Bonds, or possession or distribution of this Offering Circular or any other material in relation thereto, in any jurisdiction where action for the purpose is required. Accordingly, neither the Bonds nor any Shares issuable upon conversion of the Bonds may be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Bonds or the Shares issuable upon conversion of the Bonds may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction.

United States

Each Manager has represented, warranted and agreed that the Bonds and the Shares to be issued upon conversion of the Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

United Kingdom

Each Manager has represented, warranted and agreed that:

- (1) it has not offered or sold and will not offer or sell any Bonds to persons in the United Kingdom prior to the expiry of a period of 6 months after the issue date of the Bonds, except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;
- (2) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the “**FSMA**”) with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom; and
- (3) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the

meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Company.

The ROC

Each Manager has represented, warranted and agreed that the Bonds may not be offered, sold or delivered in the ROC, as part of the distribution of the Bonds.

Hong Kong

Each Manager has represented, warranted and agreed that (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than to persons whose ordinary business it is to buy or sell shares or debentures, (whether as principal or agent), or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong; and (ii) unless it is a person permitted to do so under the securities laws of Hong Kong, it has not issued and will not issue any invitation or advertisement relating to the Bonds in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are intended to be disposed of to persons outside Hong Kong, or to be disposed of in Hong Kong only to persons whose business involves the acquisition, disposal or holding of securities, whether as principal or agent.

LEGAL MATTERS

Certain legal matters with respect to the Bonds will be passed upon for the Company by LCS & PARTNERS, and for the Managers by Sidley Austin Brown & Wood, Hong Kong. Sidley Austin Brown & Wood, Hong Kong will rely upon LCS & PARTNERS with respect to certain matters of ROC law. LCS & PARTNERS will rely upon Sidley Austin Brown & Wood, Hong Kong with respect to certain matters of English law.

INDEPENDENT AUDITORS

The financial statements of the Company as of and for the years ended 31 December, 1999, 31 December, 2000 and 31 December, 2001 and for the 6 month period ended 30 June, 2002 included in this Offering Circular have been audited by PricewaterhouseCoopers, independent auditors, as stated in their report appearing herein.

GENERAL INFORMATION

1. The Company is registered with the Ministry of Economic Affairs of the ROC under a uniform registration number of 22099786. The Company's registered office is located at No. 12-1, Creation Fourth Road, Science-Based Industrial Park, Hsin-chu County, Taiwan, ROC.

2. The Company, having made all reasonable inquiries, confirms that (i) this Offering Circular contains all information with respect to the Company, the Company and its subsidiaries taken as a whole, the Bonds, and the Shares which is (in the context of the issue, offering and sale of the Bonds and the Shares) material (including, without limitation, all information required by applicable laws of the ROC), (ii) the information contained herein is true and accurate in all material respects and is not misleading in any material respect, (iii) the opinions, forward-looking statements and intentions expressed herein are honestly held or made and are not misleading in any material respect and have been reached after considering all relevant circumstances and are based on reasonable assumptions, (iv) there are no other material facts, the omission of which would, in the context of the issue, offering and sale of the Bonds or the Shares, make this Offering Circular as a whole or any of such information contained herein or the expression of any such opinions, forward-looking statements or intentions, misleading in any material respect, (v) all proper inquiries have been made by the Company to verify the accuracy of the information contained herein, and (vi) this Offering Circular does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements herein, in the light of the circumstances under which they are made, not misleading. The Company accepts full responsibility for the accuracy of the information contained in this document accordingly. Information provided herein with respect to the ROC, its political status and the economy, has been derived from government and other public sources, and the Company accepts responsibility only for accurately extracting information from such sources.

3. The issue of the Bonds was authorised and approved by the Company's board of directors on 18 December, 2002 and by the ROC SFC.

4. Copies (and certified English translations where the documents are not in English) of the following documents may be inspected at the specified office of the Paying Agent during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for the term of the Bonds:

- the Company's articles of incorporation;
- a copy of the annual reports of the independent accountants, containing the audited financial statements of the Company as at and for the years ended 31 December, 1999, 31 December, 2000 and 31 December, 2001 and for the 6 month period ended 30 June, 2002;
- the Subscription Agreement relating to the Bonds; and
- the Trust Deed constituting the Bonds (which includes the form of the Global Bond) and the Agency Agreement.

In addition, copies of this Offering Circular, the most recent annual financial statements of the Company and the Company's unaudited quarterly financial statements (in each case in English), will be available for inspection at the specified office of the Paying Agent for the term of the Bonds.

5. Except as disclosed herein, there has been no material change in the financial position of the Company and its subsidiaries since 30 June, 2002, the date of the latest audited financial statements contained herein.

6. The Subscription Agreement, the Agency Agreement and the Trust Deed in connection with the issue of the Bonds are governed by English law.

7. The Bonds have been accepted for clearance by Euroclear and Clearstream, Luxembourg. Relevant clearance and settlement information for the Bonds is set forth below:

Common Code	016675369
ISIN.....	XS0166753698

8. Save as disclosed in the Offering Circular, neither the Company, nor any member of the Company, is involved in any legal or arbitration proceedings which may have, or have had in the past 12 months, a material adverse effect on the Company, nor is the Company aware that any such proceedings are pending or threatened. See “Business, Management and Principal Shareholders — Material Litigation”.

9. The Company has not at the date of this Offering Circular established or authorised the establishment of any depositary receipt facility. Accordingly, conversion of the Company’s Shares into depositary receipts is not currently available. However, if the Company shall set up a depositary receipts programme in relation to the Shares, the Bondholders shall have the rights (but not the obligations) to elect to convert the Bonds into depositary receipts which represent ownership interests in certain Shares that are on deposit with the relevant depositary bank. See “Terms and Conditions of the Bonds — Conversion — Depositary Receipts”.

SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ROC GAAP AND U.S. GAAP

The Company's financial statements were prepared using accounting principles, procedures and reporting practices generally accepted in the ROC and are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions (including the U.S. and U.K.) other than those in the ROC. The generally accepted accounting principles in the ROC, or "ROC GAAP", differ in many material respects from generally accepted accounting principles in the U.S. or "U.S. GAAP". Significant differences between ROC GAAP and U.S. GAAP applicable to the Company are summarised below. The summary should not be construed to be all-inclusive or exhaustive. In addition, no attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions and events are presented in the Company's financial statements or notes thereto. Further, an attempt has been made to identify future differences between ROC GAAP and U.S. GAAP as a result of prescribed changes in accounting standards.

ROC GAAP

U.S. GAAP

1. Presentation of Non-Consolidated Financial Statements

Under ROC SEC requirements, non-consolidated financial statements of a company are presented as the primary financial statements and consolidated financial statements as supplemental financial statements.

Under U.S. GAAP, parent-company-only non-consolidated financial statements are not allowed to be presented as the primary financial statements for any period

2. Investments in Debt and Equity Securities (excluding investments accounted for under the equity method)

Investments are classified as short-term or long-term depending on the management's intention as to how long the investments will be held.

Investments in debt securities and short-term investments are stated at the lower of amortised cost or market value. Long-term investments in listed equity securities that represent less than 20% of the investee's common stock ownership are stated at the lower of cost or market value, and unrealised losses are deducted from stockholders' equity. Long-term investments in non-listed equity securities that represent less than 20% of the investee's common stock ownership are stated at cost, subject to a permanent impairment rest.

Debt and equity securities are classified as held-to-maturity, held-for-trading, or available-for-sale, primarily based on management's intent and ability. Debt and equity securities classified as held-for-trading securities are reported at fair value with unrealised gains and losses included in current operating results; debt securities classified as held-to-maturity are reported at amortised cost; and debt and equity securities classified as available-for-sale securities are reported at fair value with unrealised gains and losses reported in stockholders' equity as part of other comprehensive income.

3. Employee Share Purchase

In connection with a number of new shares issued to shareholders, the Company also issued shares to employees at the same issue price, which usually represented a discount to the quoted market price. Under ROC GAAP, such issues are recorded as a capital contribution for the cash amount received from the employees.

Under U.S. GAAP, such issues would be recorded as capital contribution for the cash amount received from the employees. In addition, compensation expense would be recorded, for the difference between the shares' issues price and the fair market value or the intrinsic value, during the period when such issues were made.

ROC GAAP

U.S. GAAP

4. Retained Earnings-Surtax

Companies in the ROC are subject to a 10% surtax on profits retained and earned after 31 December, 1997. A company may defer the accrual of the surtax to the subsequent year if the manner of distribution of retained earnings is not clearly specified in its articles of incorporation and subject to shareholder approval

Under U.S. GAAP, income tax expense related to the 10% surtax on undistributed retained earnings would be recorded in current operations and based on management's estimate of the amount of earnings to be retained.

5. Deferred Income Taxes

Under ROC Statement of Financial Accounting Standards ("SFAS") No. 22, "Accounting for Income Tax," the liability method is applied. Current tax liabilities are recognised for estimated taxes payable for the current period. All temporary differences between the carrying values of assets and liabilities and their respective tax bases are recognised as deferred income tax liabilities or assets. A valuation allowance is provided on deferred income tax assets to the extent that it is not "more likely than not" such deferred income tax assets will be realised. A change in tax rate or law requires an adjustment to such deferred income tax assets and liabilities in the period of enactment, and is reported in current operations.

The requirements under U.S. Statement of Financial Accounting Standards SFAS No. 109, "Accounting for Income Taxes," are similar to ROC SFAS No. 22, except for the application of the "more likely than not" criteria on the recognition of a deferred income tax asset valuation allowance, which may result in a difference between U.S. and ROC GAAP due to different tax rules and regulations.

6. Capital Surplus

According to the Company Law and the Law of Business Accounting, the following items are treated as capital surplus before 12 November, 2001:

Under U.S. GAAP, items (a) and (c) of the preceding column are reported as additional paid-in capital. Item (b) remains a component of retained earnings. Items (d) and (e) of the preceding column are not permitted.

- (a) any premium on issuance of capital stock;
- (b) any after tax gain on disposal of property, plant and equipment;
- (c) any donated surplus;
- (d) any revaluation increment of property, plant and equipment; and
- (e) the value of assets of a company acquired in a merger in excess of assumed liabilities and the consideration paid for shares of such company in connection with the acquisition.

ROC GAAP

U.S. GAAP

The Capital Surplus in the Company Law is obliterated in 12 November, 2001, and the items of Capital Surplus in the Law of Business Accounting are revised in 26 December, 2001 that only premiums on issuance of capital stock and premiums on issuance of treasury stock could be treated by a company as capital surplus.

7. Earnings Per Share

The Company computes earnings per share based on the weighted average number of outstanding shares. The number of outstanding shares is retroactively adjusted for stock dividends and new common stock issuance issued through unappropriated earnings and capital surplus.

Under U.S. GAAP, when a simple capital structure exists, earnings per share are based on the weighted average number of shares outstanding.

8. Stock Dividends

Under ROC GAAP, stock dividends are recorded at the par value of common stock issued, with a reduction from unappropriated retained earnings and an increase to common stock.

Under U.S. GAAP, stock dividends are recorded as a reduction of retained earnings at the fair value of the common stock issued and as an addition to common stock at the par value of the common stock issued. The excess of fair value over par value is recorded as additional paid-in capital.

9. Consolidation

Consolidation is based on ownership. Generally, majority interest is defined as ownership, directly or indirectly, of over 50% of outstanding voting shares of another company. Some enterprises that are de facto controlled but not majority owned may be excluded from consolidation.

Consolidation is based on ownership. Generally, a majority interest is defined as ownership, directly or indirectly, of over 50% of outstanding voting shares of another company.

Additionally, subsidiaries may be excluded when:

Under U.S. GAAP, subsidiaries may be excluded when:

- (1) The activities are so dissimilar that consolidated accounts would be misleading,
- (2) The subsidiary is in bankruptcy or reorganisation proceedings, or
- (3) It is located overseas and cannot remit dividends.

- (1) Control by the parent is likely to be temporary,
- (2) Control does not rest with the majority owner, or
- (3) When severe foreign exchange restrictions, controls, or governmentally imposed uncertainties are present.

Also, a company may elect not to consolidate subsidiaries if they meet one or both of the following criteria:

- (1) Total assets or sales of the subsidiary is less than 10% of the parent company's unconsolidated total assets or sales, or

ROC GAAP

U.S. GAAP

(2) The subsidiary is in a deficit position.

If the combined total assets or sales of all unconsolidated subsidiaries exceed 30% of a company's respective unconsolidated amounts, any individual subsidiary with total assets or sales greater than 3% of the company's respective amount should be consolidated.

10. Asset Impairment

ROC GAAP does not have any specific accounting principles addressing the valuation of long-lived assets or long-lived assets to be disposed of for impairment. Assets purchased for use in the business but not subsequently used for that purpose are generally recorded as idle assets and reclassified from fixed assets to other assets, in which case there is a requirement to assess the net realisable value such that idle assets are not recorded at an amount in excess of net realisable value.

U.S. SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," requires that long-lived assets held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In assessing the recoverability, the entity estimates the future cash flows, undiscounted and without interest charges, expected to result from the use of the asset and its eventual disposal. If the sum of such expected future cash flow is less than the carrying amount of the asset, an impairment loss is recognised.

U.S. SFAS No. 121 also requires that long-lived assets to be disposed of be reported at the lower of carrying amount or fair value less the cost to sell.

11. Prepayment of Fixed Assets

Under ROC GAAP, prepayments for acquisition of fixed assets are presented as part of fixed assets.

Under U.S. GAAP, prepayments for acquisition of fixed assets should be presented as other assets.

12. Accounting for Derivative Financial Instruments

There are no definitive accounting standards under ROC GAAP addressing the accounting of derivative financial instruments such as options, futures, and swaps. In general practice, hedge accounting is applied when two criteria are met:

- (1) The derivative is not intended to be used as a speculative instrument, and
- (2) The derivative is not transacted in a frequent manner.

Furthermore, there are no accounting standards similar to that of SFAS No. 133, as amended, and therefore, the derivatives are not necessarily recorded on the balance sheet at fair value.

Effective all fiscal years beginning after 15 June, 2000, companies are required to adopt SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities—an amendment of FASB Statement No. 133." SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. All derivatives, whether designated in hedging relationships or not, will be required to be recorded on the balance sheet at fair value. If the derivative is designated in a fair-value hedge, the changes in the fair value of the derivative and the hedged item will be recognised in earnings. If the derivative is designated in a cash-flow hedge, changes in the fair value of the derivative will be recorded in other comprehensive income and will be recognised in the income statement when the hedged item affects earnings.

SFAS No. 133 also defines new requirements for designation and documentation of hedging relationships as well as ongoing effectiveness assessments in order to use hedge accounting. For a derivative that does not qualify as a hedge, changes in fair value will be recognised in earnings.

Prior to the application of SFAS No. 133, as amended, SFAS No. 52 addresses the accounting for foreign currency transactions, including derivatives. In order to qualify for hedge accounting, the derivative must be, along with other requirements, designated as, and effective as, a hedge.

13. Capitalised Costs

Under ROC GAAP, start-up (organisation) costs, costs to raise capital, and testing costs of reinstallation of machinery and equipment are generally capitalised as assets. The costs capitalised are amortised by systematic changes to income over the periods estimated to be benefited.

Under U.S. GAAP, all start-up costs and system testing costs of reinstallation of machinery and equipment should be expensed as incurred. Costs to raise capital reduce the amount of capital contributed.

14. Computer Software Developed or Obtained for Internal Use

There are no specific accounting guidelines related to costs of computer software developed or obtained for internal use.

U.S. GAAP has detailed rules regarding the accounting treatment for internal-use software costs. AICPA Statement of Position 98-1 specifies the requirements for the capitalisation of internal-use computer software costs.

ROC GAAP

U.S. GAAP

15. Comprehensive Income

There is no requirement to present comprehensive income.

SFAS No. 130, "Reporting Comprehensive Income", establishes standards for the reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements. Comprehensive income includes the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners.

16. Bonuses to Employees, Remuneration to Officers and Directors

Under ROC GAAP, the employee bonuses and officers/directors remuneration are paid in accordance with the ROC Company Law applicable to the distribution of earnings. Such compensation is recorded as an appropriation from retained earnings according to resolutions reached in the annual stockholders' meeting. Bonuses to employees in the form of common stock are recorded based on the par value of the common stock issued. Remuneration paid to officers and directors must be in cash and may not be settled through the issuance of common stock.

U.S. GAAP requires that all such bonuses and remuneration be recorded as compensation expense at a defined measurement date. Bonuses in the form of common stock are recorded as an expense based on the fair value of common stock issued.

17. Interim Reporting

In accordance with ROC SFAS No. 23, "Presentation and Disclosure of Interim Financial Information", as amended in 1999, income tax provision in interim quarterly financial statements is subject to ROC SFAS No. 22, "Accounting for Income Tax". Deferred tax consequences related to temporary differences are recognised in the company's interim non-consolidated financial statements.

Under U.S. GAAP, income tax provision in interim quarterly financial statements are provided based on an estimated effective tax rate expected to be applicable to the full fiscal year. Such estimated effective tax rate takes into consideration all anticipated tax attributes for the full fiscal year.

Under ROC GAAP, a company is not required to prepare interim financial statements on a consolidated basis. Instead the company is only required to recognise investment income/loss in majority-owned subsidiaries.

ROC GAAP

U.S. GAAP

18. Accounting for Changes in Ownership Interests of Investees

Under ROC GAAP, when an investee issues additional shares causing changes in the investor's ownership interest, any resulting difference between the investor's investment balance and its proportionate share of investee's underlying equity is recorded in its investment account and in its additional paid-in capital (or retained earnings if the additional paid-in capital is inadequate to stand the charge).

There are two methods of accounting for the effects of the decreased ownership interest under U.S. GAAP as follows:

- (a) To adjust the additional paid-in capital, or
- (b) To treat the difference as a gain or loss in current operations.

Once an election is made, the method is to be applied consistently thereafter

19. Depreciation of Property, Plant and Equipment

Depreciation is generally provided using the guideline service lives as prescribed by the ROC Tax Authorities plus one additional year as salvage value.

Depreciation is provided over the asset's estimated useful life. No additional depreciation is provided on fully depreciated assets, which continue to be used in the business.

ROC SEC regulations applicable to public and listed companies require that when property, plant and equipment have been fully depreciated over the prescribed service life and the underlying asset continues to be used, the remaining unamortised value (i.e. the salvage value portion) is depreciated over the asset's remaining economic life.

20. Compensated Absences

ROC GAAP has no specific accounting practice regarding compensated absences.

Compensated absences must be accrued based on the liability for employees' rights to receive compensation for future absences when certain conditions are met.

FINANCIAL STATEMENTS AND INFORMATION

[Financial statements and information of the Company to be inserted.]

APPENDIX - FOREIGN INVESTMENT AND EXCHANGE CONTROLS IN THE ROC

The information included in this appendix has been extracted from publicly available documents which have not been prepared or independently verified by the Company, the Managers, the Trustee or any of their respective affiliates or advisers in connection with the issue of the Bonds. The Company and the Managers make no representation as to the accuracy or completeness of such information, which may not be consistent with information compiled from other sources or with other information included elsewhere herein.

Foreign Investment

Historically, foreign investment in the ROC securities market has been restricted. From 1983 onwards, however, the ROC Government has from time to time enacted legislation and adopted regulations to permit foreign investment in the ROC securities market.

Overseas Corporate Bonds

Since 1989, the ROC SFC has approved a series of overseas corporate bond issues (“OCBs”) by ROC companies listed on the TSE in offerings directed outside the ROC. Since December 1994, the ROC SFC has also permitted ROC companies whose shares are traded on the OTC Exchange to issue and offer OCBs.

Under the current ROC laws and policies, OCBs can be converted by bondholders (other than PRC persons) into shares of the relevant ROC companies or (subject to the ROC SFC approval) may be converted into depositary receipts issued under the sponsorship of the same ROC company or the shares of other companies, in the case of exchangeable bonds. Public issuing companies may issue corporate debt in offerings outside the ROC. Proceeds from sales of the shares converted from OCBs may be used for re-investment in securities listed on the TSE or traded on the OTC Exchange. These reinvestments will need to comply with the limitations and restrictions which apply to qualified foreign institutional investors or general foreign investors discussed below.

Under current ROC law, a converting bondholder when exercising the conversion right to convert the bonds into shares of an ROC company is required to appoint a local agent (with such qualifications as are set by the ROC SFC) to open a securities trading account with a local brokerage firm, remit funds, exercise shareholders’ rights and perform such other actions as may be designated by such converting bondholder, on behalf of and as agent for such converting bondholder. In addition, the converting bondholder is required to appoint a custodian bank to hold the securities and cash proceeds in safekeeping, make confirmations and settle trades and report all relevant information, and such converting bondholder is also required to appoint a tax guarantor for filing tax returns and making tax payments.

Unless otherwise limited by the Central Bank of China, an ROC Company may, without obtaining further approvals from the Central Bank of China or any other government authority of the ROC, convert NT Dollars to other currencies, including U.S. Dollars, in respect of the proceeds of the redemption of the Bonds or payment of interest on, or the repayment of principal upon maturity of, the Bonds.

In addition, a non-ROC converting bondholder may, through its local agent and without obtaining prior approval from the Central Bank of China, convert NT Dollars into foreign currencies of net proceeds realised from the sale of the converted shares or any stock dividends relating to such shares, or any cash dividend or other cash distribution in respect of such shares, as well as for inward remittances of subscription payments in connection with a rights offering and tax payments. However, a converting bondholder must obtain prior approval from the Central Bank of China on a payment-by-payment basis for conversion from NT dollars into other currencies in respect of the proceeds from the sale of subscription rights for newly issued shares if the proceeds are in excess of U.S.\$100,000 per remittance.

Direct Share Offerings

The ROC Government has permitted ROC companies listed on the TSE or the OTC Exchange to issue shares directly (not through depositary receipt facilities) overseas.

Qualified Foreign Institutional Investors

The Executive Yuan has approved guidelines for direct investment in ROC securities listed on the TSE or OTC Exchange or other ROC securities approved by the ROC SFC by certain qualified foreign institutional investors (each a “**QFII**”) that applied for and received, ROC SFC and, if applicable, Central Bank of China approval, including:

- (i) banks which hold securities assets of at least U.S.\$200 million and have experience in custody or management of securities assets and in international financial, securities or trust businesses;
- (ii) insurance companies which hold securities assets of at least U.S.\$200 million;
- (iii) fund management institutions which manage assets of at least U.S.\$200 million;
- (iv) general securities firms which have a net worth of at least U.S.\$100 million and experience in international securities investments;
- (v) offshore fund management companies which are more than 50% owned by a ROC securities investment trust enterprise provided that the funds to be invested do not come from sources in the ROC or PRC and are not owned by such offshore fund management companies;
- (vi) offshore securities firms which are more than 50% owned by a ROC securities firm, or other offshore securities firms which are wholly-owned by such offshore securities firms;
- (vii) offshore securities firms which are wholly-owned by a ROC securities firm, or other offshore securities firms which are more than 51% owned by such offshore securities firms;
- (viii) foreign government-owned investment institutions provided that all the funds to be invested shall be owned by the foreign government;
- (ix) pension funds;
- (x) mutual funds, unit trusts or investment trusts which have assets of at least U.S.\$200 million;
- (xi) trust companies which hold securities assets in trust of at least U.S.\$200 million and have experience in custody or management of securities or assets and in international financial or trust businesses; and
- (xii) any other professional institutional investors which hold securities or assets of at least U.S.\$200 million.

Each QFII who wishes to invest directly or indirectly in the ROC securities market is required to apply for an investment permit from the ROC SFC, provided that any application for investment exceeding U.S.\$50 million will require approvals from both the Central Bank of China and the ROC SFC. QFIIs who receive the permit(s) may currently invest up to U.S.\$3 billion, with certain limited exceptions, and are required to remit the full amount into the ROC within two years of receiving the investment permit. Except for some restrictions imposed by specific law and regulation, from 1 January, 2001, the individual and aggregate foreign ownership of the issued share capital in a TSE listed company or a OTC Exchange quoted company is not restricted. ROC custodians for QFIIs are required to submit to the Central Bank of China and the ROC SFC a report of trading activities and status of assets under custody and other matters every month. Capital remitted to the ROC under these guidelines may be remitted out of the ROC at any time after the date such capital is remitted to the ROC. Capital remitted out of the ROC may be returned to the ROC within the approved years of the outward remittance without ROC SFC approval so long as its aggregate inward remittance after netting off its aggregate outward remittance does not exceed the investment amount approved by the ROC SFC and the Central Bank of China (if applicable). Capital gains and income on investments may be remitted out of the ROC at any time. Except for certain specified industries described below, investments in ROC listed companies by QFIIs are not subject to individual or aggregate ownership limits.

General Foreign Investors

Except for QFIIs, General Foreign Investors (“GFIIs”) may currently invest in ROC securities up to U.S.\$5 million (in the case of individual investors) and U.S.\$50 million (in the case of institutional investors) after obtaining approval issued by the TSE. GFIs are also subject to the foreign ownership limitations on certain industries described below.

Foreign Investment Approval

With the exception of QFIIs, GFIs and investors in OCBs and depositary receipts, under existing ROC laws and regulations relating to foreign investment, investors (both institutional and individual) who are not ROC persons and wish to make direct investment in the shares of ROC companies are required to submit a Foreign Investment Approval (“FIA”) application to the Investment Commission of the MOEA or other government authority. The Investment Commission or such other government authority reviews each FIA application and approves or disapproves each application after consultation with other government agencies (such as the Central Bank of China and the ROC SFC). Under current law, any non-ROC person possessing an FIA may remit capital for the approved investment and is entitled to repatriate annual net profits, interest and cash dividends attributable to such investment. Stock dividends, investment, capital and capital gains attributable to such investment may be repatriated after approvals of the Investment Commission or other government authorities have been obtained.

Prohibited and Restricted Industries

In addition to the general restriction against direct investment by non-ROC persons in shares of ROC companies, non-ROC persons are currently prohibited from investing in certain industries in the ROC pursuant to the Negative List as amended by the Executive Yuan from time to time. The prohibition on foreign investment in the prohibited industries specified in the Negative List is absolute and provides no specific exemption from its application. Pursuant to the Negative List, certain other industries are restricted so that non-ROC persons may invest in such industries only up to a specified level and with the specific approval of the relevant competent authority which is responsible for enforcing the relevant legislation which the Negative List is intended to implement. The businesses in which the Company is engaged are not prohibited or restricted under the Negative List.

Exchange Controls

The ROC’s Foreign Exchange Control Statute and regulations thereunder provide that all foreign exchange transactions must be executed by banks designated to handle such business by the ROC Ministry of Finance and by the Central Bank of China. Currently regulations favour trade-related foreign exchange transactions.

Consequently, foreign currency earned from exports of merchandise and services may now be retained and used freely by exporters, and all foreign currency needed for the import of merchandise and services may be purchased freely from the designated banks for conducting foreign exchange.

ROC companies and resident individuals may also, without foreign exchange approval, remit into and out of the ROC foreign currencies of up to U.S.\$50 million (or its equivalent) and U.S.\$5 million (or its equivalent), respectively, in each calendar year. The above limits apply to remittances involving a conversion between NT Dollars and U.S. Dollars or other foreign currencies. Furthermore, any remittance of foreign currency into the ROC by an ROC company or resident individual in a year will be offset by the amount remitted out of the ROC by the company or individual (as applicable) within its annual quota and will not use up its annual inward remittance quota to the extent of such offset. The above limits apply to remittance involving a conversion between NT Dollars and U.S. Dollars or other foreign currencies. A requirement is also imposed on all enterprises to register medium-and-long-term foreign debt with the Central Bank of China.

In additional, foreign persons may, subject to certain required documents, but without foreign exchange approval of the Central Bank of China, remit outside and into the ROC foreign currencies up to U.S.\$100,000 (or its equivalent) for each remittance. The above limit applies only to remittances involving conversion between NT Dollars and U.S. Dollars or other foreign currencies.

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