



High Tech Computer Corp.

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

US\$60,000,000

Zero Coupon Convertible Bonds Due 2008

Issue price 100 per cent.

Sole Lead Manager and Bookrunner

UBS Warburg

Co-Manager

Yuanta Core Pacific Securities Limited

The US\$60,000,000 Zero Coupon Convertible Bonds due 2008 (the “Bonds,” which term shall include any Optional Bonds referred to below) will be issued by High Tech Computer Corp. (the “Company” or “we”), a company limited by shares incorporated in Taiwan, the Republic of China (“Taiwan” or the “ROC”). Unless previously redeemed, repurchased and cancelled, or converted, the Bonds will be redeemed on January 29, 2008 at their Accreted Principal Amount (as defined herein) in US dollars.

Up to and including February 28, 2003, UBS AG acting through its business group UBS Warburg (“UBS Warburg”), on behalf of the managers named under “Subscription and sale” (together with UBS Warburg, the “Managers”), is entitled at any time to require us to issue up to a further US\$6,000,000 aggregate principal amount of the Bonds (the “Optional Bonds”) on one or more occasions. We will notify the Luxembourg Stock Exchange if we issue any of the Optional Bonds.

We may, at our option at any time on or after January 29, 2006 and prior to January 29, 2008, redeem the Bonds, in whole or in part (being US\$1,000,000 in principal amount or an integral multiple thereof), at their Accreted Principal Amount in US dollars if the closing price of our common shares, par value NT\$10 per share (the “Shares”), on the Taiwan Stock Exchange (the “TSE”), translated into US dollars at the Prevailing Rate (as defined herein), for a period of 30 consecutive Trading Days (as defined herein), the last of which occurs not more than five Trading Days prior to the date upon which notice of such redemption is given is at least 130% of the conversion price of the Bonds then in effect, translated into US dollars at a fixed exchange rate of NT\$34.658 = US\$1.00, on each such trading day. We may, at our option at any time, redeem the Bonds, in whole but not in part, at their Accreted Principal Amount in US dollars if at least 95% in principal amount of the Bonds has already been redeemed, repurchased and cancelled, or converted or in the event of certain changes relating to ROC taxation.

Each holder of the Bonds will have the right, at such holder’s option, to require us to redeem all (or any portion of the principal amount thereof that is US\$1,000 or any integral multiple thereof) of such holder’s Bonds on April 29, 2004 at their Accreted Principal Amount, in US dollars.

Except during a Closed Period (as defined herein), the Bonds may be converted (unless previously redeemed, repurchased and cancelled, or converted) at any time on or after February 28, 2003 and prior to the close of business (at the place the Bond is deposited for conversion) on January 9, 2008 into Shares. The conversion price will initially be NT\$205.32 per Share and will be subject to adjustment in the manner provided herein. A fixed rate of exchange of NT\$34.658 = US\$1.00 will apply upon conversion of the Bonds. See “Description of the Bonds — Conversion.” The Shares are listed and traded on the TSE. On January 23, 2003, the closing price of the Shares on the TSE was NT\$174 per Share.

Application has been made to list the Bonds on the Luxembourg Stock Exchange.

Investing in the Bonds involves risks. See “Risk Factors” beginning on page 14.

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”), or any state securities laws of the United States 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 (as defined in Regulation S under the Securities Act (“Regulation S”)) unless registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. The Bonds and the Shares to be issued upon conversion of the Bonds are being offered and sold pursuant to this Offering Circular only outside of the United States to non-U.S. persons in reliance on Regulation S. For a description of these and other restrictions on offers and sales of the Bonds and the Shares to be issued upon conversion of the Bonds and on the distribution of this Offering Circular, see “Transfer restrictions” and “Subscription and sale.”

UBS Warburg expects to deliver the Bonds against payment therefor on or about January 29, 2003.

We, having made all reasonable enquiries, confirm that (i) this Offering Circular contains all information with respect to us, our subsidiaries, the Bonds and the Shares that is material in the context of the issue and offering of the Bonds (including all information required by applicable laws of the ROC); (ii) the information contained herein (except as set forth below) is true and accurate in all material respects and is not misleading; (iii) the opinions and intentions expressed herein are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts the omission of which

would, in the context of the issue and offering of the Bonds, make this Offering Circular as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect; and (v) all reasonable enquiries have been made by us to verify the accuracy of such information. We accept responsibility accordingly. Information provided herein with respect to the ROC, its political status and its economy has been derived from government and other public sources, and we accept responsibility only for accurately extracting information from such sources.

The Managers make no representation or warranty, express or implied, as to the accuracy or completeness of the information set forth 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 of such information and assume no responsibility for its accuracy or completeness.

The distribution of this Offering Circular and offers and sales of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by us and the Managers (as defined in “Subscription and sale”) 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 “Transfer restrictions” and “Subscription and sale.” This Offering Circular does not constitute an offer of, or an invitation by or on behalf of us, UBS Warburg or the Trustee to subscribe for or purchase any of the Bonds in any jurisdiction in which such offer or invitation would be unlawful. You may not use this Offering Circular for any purpose other than considering an investment in the Bonds.

No person is authorized 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 authorized by us, UBS Warburg or the Trustee. 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 our affairs since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

The Bonds will be represented by beneficial interests in a permanent global certificate (the “Global Certificate”) in registered form, which will be registered in the name of a nominee of, and shall be deposited on or about the closing date of this offering (the “Closing Date”) with, The Bank of New York, as common depository for Euroclear Bank S.A./N.V., as operator of the Euroclear System (“Euroclear”), and Clearstream Banking, société anonyme (“Clearstream, Luxembourg”).

The Bonds and the Shares to be issued upon conversion of the Bonds have not been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Bonds or the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offence in the United States.

Payment of principal, premium, if any, or interest, if any, in respect of the Bonds will be made after withholding for or on account of certain taxes of the ROC, and we will pay Additional Amounts (as defined herein) in respect of such withholding to the extent set forth under “Description of the Bonds — Taxation.”

We have prepared the unconsolidated audited financial statements as of and for the years ended December 31, 1999, 2000 and 2001 and the unconsolidated unaudited financial statements as of and for the nine months ended September 30, 2001 and 2002, including the notes thereto, that are included in this Offering Circular. These financial statements were prepared in conformity with the “Rules Governing Preparation of Financial Statements of Securities Issuers” and generally accepted accounting principles in the ROC (together referred to herein as “ROC GAAP”), which differ in certain material respects from generally accepted accounting principles in the United States (“US GAAP”). See “Summary of certain differences between ROC GAAP and US GAAP.”

In connection with this issue, UBS Warburg, on behalf of the Managers, may, subject to applicable ROC laws, overallocate or effect transactions with a view to supporting the market price of the Bonds or the Shares at a level higher than that might otherwise prevail for a limited period after the Closing Date. However, there is no obligation on the part of UBS Warburg to do so. Such stabilizing, if commenced, may be discontinued at any time.

Forward-looking statements

All statements contained in this Offering Circular, statements made in press releases and oral statements that may be made by us or our officers, directors or employees acting on our behalf that are not statements of historical fact constitute “forward-looking statements.” You can identify some of these forward-looking statements by terms such as “expects,” “believes,” “plans,” “intends,” “estimates,” “anticipates,” “may,” “will,” “would” and “could” or similar words. However, you should note that these words are not the exclusive means of identifying forward-looking statements. All statements regarding our expected financial position, business strategy, plans and prospects are forward-looking statements. These forward-looking statements, including statements as to:

- our revenue, profitability and anticipated capital expenditures;
- expected growth in consumer demand;
- other expected industry trends;
- anticipated dates for new projects; and
- other matters discussed in this Offering Circular regarding matters that are not historical facts

are only forecasts. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. These risks, uncertainties and other factors include, among others:

- changes in our relationship with our primary customer;
- changes in market prices for our products;
- the success of new product introductions, including wireless Pocket PCs, and Smartphones;
- our rate of growth and ability to meet the demands relating to our growth, especially our ability to fund capital expenditures;
- changes in the availability and prices of components;
- changes in customer preferences;
- changes in competitive conditions, and our ability to compete under these conditions;
- changes in political, social and economic conditions and the regulatory environment in the ROC;
- changes in currency exchange rates among the NT Dollar and the US Dollar; and
- other factors beyond our control.

Given the risks and uncertainties that may cause our actual future results, performance or achievements to be materially different than expected, expressed or implied by the forward-looking statements in this Offering Circular, we advise you not to place undue reliance on those statements. We are not representing or warranting to you that our actual future results, performance or achievements will be as discussed in those statements. Further, we disclaim any responsibility to update any of those forward-looking statements or publicly announce any revisions to those forward-looking statements to reflect future developments, events or circumstances.

Enforceability of foreign judgments in the ROC

We are a company limited by shares incorporated under the Company Law of the ROC (the “ROC Company Law”). Most of our Directors and executive officers, our Supervisors and certain other parties named herein are residents of the ROC and a substantial portion of our and such persons’ assets are located in the ROC. As a result, it may not be possible for investors to effect service of process upon us or such persons outside the ROC or to enforce against any of them judgments obtained in courts outside the ROC, including those predicated upon the civil liability provisions of the securities laws of the United States or any state or territory within the United States.

We have been advised by Lee & Li, our legal adviser in the ROC, that any final judgment obtained against us 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 or the Shares 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) if the judgment was rendered by default by the court rendering the judgment, we or such persons were served within the jurisdiction of such court, or process was served on us or such persons with judicial assistance of the ROC; and (iv) judgments of the courts of the ROC are recognized and enforceable in the jurisdiction of the court rendering the judgment on a reciprocal basis. Moreover, 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 (the “CBC”) for the remittance out of the ROC of any amounts recovered in respect of such judgment denominated in a currency other than the NT dollar.

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All references in this Offering Circular to “Taiwan” or the “ROC” are to the island of Taiwan and other areas under the effective control of the Republic of China, and all references to the “ROC government” are references to the government of the Republic of China. All references to the “PRC” are to mainland China and do not include Hong Kong, Macau or Taiwan. All references to the “Company,” “we,” “us” and “our” in this Offering Circular are references to High Tech Computer Corp., and, as the context may require, our subsidiaries. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding. All references to the Offering assume no issuance of the Optional Bonds, unless stated otherwise.

All references in this Offering Circular to “Compaq” are to Compaq Computer Corporation or, for periods subsequent to its merger with Hewlett-Packard Company, to Hewlett-Packard Company (“Hewlett-Packard”).

We publish our financial statements in New Taiwan Dollars, the lawful currency of the ROC. In this Offering Circular, references to “United States Dollars,” “US Dollars” and “US\$” are to United States Dollars; references to “New Taiwan Dollars,” “NT Dollars” and “NT\$” are to New Taiwan Dollars. Unless otherwise noted, all translations from NT Dollars to US Dollars were made at the noon buying rate in The City of New York for cable transfers in NT Dollars per US Dollar as certified for customs purposes by the Federal Reserve Bank of New York (the “Noon Buying Rate”) as of September 30, 2002, which was NT\$34.92 = US\$1.00 as of such date. All translations from NT Dollars to US Dollars as of and for the periods ended December 31, 2001, were made at the Noon Buying Rate as of December 31, 2001, which was NT\$35.00 = US\$1.00 as of such date. All amounts translated into US Dollars in this Offering Circular are provided solely for your convenience and no representation is made that the NT Dollar or US Dollar amounts referred to herein could have been or could be converted into US Dollars or NT Dollars, as the case may be, at any particular rate or at all. For further information relating to exchange rates, see “Exchange rates.” On January 23, 2003, at 4:00 p.m., the exchange rate between NT Dollar and US Dollar quoted from Taipei Forex Inc. was NT\$34.658 = US\$1.000.

Summary

The following summary is qualified in its entirety by the more detailed information and financial statements contained elsewhere in this Offering Circular.

THE COMPANY

We are the world's largest original design manufacturer ("ODM") of Windows CE-based Pocket PCs. Our mission is to become the global market leader of smart handheld devices by providing our customers value-added design, world-class manufacturing and logistic and service capabilities.

In May 2000, we developed Compaq's first iPAQ Pocket PC which we believe helped establish Compaq as a leader in the Pocket PC market. Our market focus is the global smart handheld device market which includes Pocket PCs as well as converged wireless devices, such as wireless Pocket PCs and Smartphones. As an ODM for smart handheld devices, we design, develop and manufacture innovative products that our customers market under their own brand names.

We moved into our new headquarters and manufacturing facilities located in Taoyuan County, Taiwan, which also houses our information appliance engineering division, in April 2001. We have a separate facility in Taipei for our wireless mobile engineering division. We are registered with the Ministry of Economic Affairs of the Republic of China with a registration number of 16003518. Our shares of common stock are listed on the TSE and began trading on March 26, 2002.

INDUSTRY OVERVIEW

International Data Corporation ("IDC") projects that global shipments of smart handheld devices, including converged wireless products, will grow from 15.7 million units in 2001 to 94.5 million units in 2006, which translates to a compound annual growth rate ("CAGR") of approximately 43%. Within the smart handheld device market, the converged wireless device sector, including wireless Pocket PCs and Smartphones, is expected to have the strongest growth in the future. IDC forecasts that global shipments in this market will grow from approximately 1.1 million units in 2001 to 62.9 million units in 2006, or a CAGR of approximately 126%.

The key driver for this expected growth momentum is the increasing convergence of voice and data solutions that leads Pocket PC makers to focus on wireless Pocket PCs and causes the transition of mobile phone manufacturers from providing pure voice-centric products to voice-plus-data solutions. Moreover, underpinning this expected growth are the rapid advancement and widespread availability of wireless technologies, particularly GPRS infrastructure, and the heightened capital expenditures of wireless carriers in providing robust data content and services to their subscribers.

From a geographical standpoint, Taiwan is increasingly gaining market share in the production of smart handheld devices, particularly relative to the United States, Singapore and Korea. The expected substantial growth in Taiwan unit shipments is mainly due to the increased outsourcing orders of global smart handheld device vendors and wireless carriers to Taiwanese companies.

COMPETITIVE ADVANTAGES

In April 1998, we introduced our first palm-size Pocket PC and since then, we have quickly established our global market leadership position in the Pocket PC ODM segment. We believe that our customers associate us with high-quality and innovative products that we can efficiently manufacture in a short period of time. The success of our business model is principally due to our following competitive advantages:

Superior research and development capabilities

We believe we have one of the largest research and development teams in the Windows CE-based smart handheld device industry. We had approximately 420 engineers as of December 31, 2002, or approximately 20% of our entire workforce, solely dedicated to product development and process improvement of smart handheld devices.

Our research and development core competencies include logic and mechanical design, software, power and radio frequency (“RF”), which are critical given the complexity in developing these products. Furthermore, we are highly experienced in design-for-manufacturability analysis, component engineering and a full range of testing and quality services.

Strong strategic relationships with global technology leaders

We have developed strong strategic relationships with Intel Corp. (“Intel”), Microsoft Corp. (“Microsoft”), QUALCOMM Corp. (“QUALCOMM”) and Texas Instruments Inc. (“TI”). Generally, we develop products with them in parallel from the initial stage to complement our internal research and development efforts. Since early in our history, we have worked closely with Microsoft on each generation of the Windows CE operating system and have been recognized as a Product Creation Partner of Microsoft. In June 2001, QUALCOMM made a strategic investment in our company and granted us a license to develop, manufacture and sell subscriber units with its code division multiple access (“CDMA”) technology. We have also licensed global system for mobile communication (“GSM”)/general packet radio service (“GPRS”) technologies from TI and have started collaborating with TI in adopting its wireless solution based on its digital signal processing (“DSP”) technology in our next generation wireless handheld devices. In addition, we maintain a strong relationship with Intel in the design and application of CPUs that are used in our smart handheld devices.

Early mover advantage and focus on smart handheld devices

Since our early entry in the smart handheld device market in 1997, we have focused principally on designing and developing innovative Pocket PCs and converged wireless devices. We were successful in utilizing leading edge technologies and components in developing the first Compaq iPAQ in 2000. At that time, we believe that we were the first to use the Intel StrongARM processor, low temperature polymer silicon (“LTPS”) liquid crystal display (“LCD”) and lithium polymer battery for application in Pocket PCs, which are now widely used in the industry. Furthermore, we have designed and manufactured the Orange SPV, which we believe is the first commercially launched Smartphone based on Microsoft’s Smartphone operating platform. With our early experience and proven track record as a major supplier of Compaq’s iPAQs, coupled with our superior internal research and development capabilities and strong strategic relationships, we believe we are well-positioned to maintain our existing roster of customers and continue to expand into the converged wireless device sector.

Ability to provide high value-added, innovative design solutions

Capitalizing on our superior research and development capabilities and our strong strategic relationships with global technology leaders, we have the ability to provide high-value added, innovative design solutions for our customers’ smart handheld devices. As the smart handheld device industry is still in its infancy, we work closely with our component suppliers to design non-standard components. This collaboration affords us the opportunity to help design new input components before they reach the market, allowing us to implement design modifications in our own devices ahead of our competitors. This differentiates us from some of our competitors, which only provide manufacturing services based on their customers’ product design specifications.

Deep experience and superior capability in high quality mass production

Given our early mover advantage and leadership position in the Windows CE-based smart handheld device sector, we have been able to attain a production scale ahead of most of our handheld ODM peers. We currently have a production monthly run rate of over 170,000 units. We believe that this critical scale has created entry barriers for new market entrants and has given us several competitive advantages, including a more efficient cost structure, stronger relationships with component suppliers, as well as faster time-to-volume and time-to-market capabilities.

BUSINESS STRATEGY

We focus on leveraging our leadership position in the Pocket PC market to extend our foothold in the fast growing converged wireless handheld device market. Key elements of our strategy are as follows:

Continue to invest in research and development

We plan to continue to invest in technology development and improve our design and manufacturing capabilities, particularly in the area of converged wireless smart handheld devices. Our research and development department has grown from approximately 120 engineers in 1998 to approximately 420 as of December 31, 2002. We plan to continue our commitment to invest in research and development in the future by recruiting experienced engineers, particularly in the fields of RF and software.

Strengthen and expand our strategic relationships with global technology leaders

To maintain our leading position in the technology-intensive and rapidly evolving smart handheld device industry, we seek to strengthen and expand our strategic technology relationships and gain early access to the latest technologies ahead of our competitors. We are also focused on developing close working relationships with potential smart handheld device customers, particularly in their design process. We believe that by being involved at an early stage, we provide our customers with access to our technological expertise in the design of superior products with advanced features.

Continue to focus on designing innovative smart handheld devices and expand our product mix

Our early mover advantage has helped establish our position as the leading ODM of innovative Windows CE-based smart handheld devices. We plan to leverage our leading Pocket PC industry position and experience in continuing to design innovative smart handheld devices and expand our product mix to include more higher end and higher margin wireless Pocket PCs and Smartphones.

Diversify our customer base

We seek to further diversify our customer base and channels of distribution, particularly outside our traditional customers. Given the competitive telecommunications landscape, mobile operators are increasingly trying to differentiate their products and services to expand their subscriber base and enhance user loyalty. We intend to capitalize on this potential wireless market opportunity by allowing mobile operators to bundle our customized converged wireless products with their other service offerings. We have recently commenced shipments of our wireless Pocket PCs to:

- mmO2, the holding company for O2 (formerly BT Cellnet) in the UK;
- T-Mobile USA, Inc. (formerly VoiceStream Wireless Corporation) in the US; and
- Siemens AG, which plans to sell its wireless Pocket PCs through the distribution channels of AT&T Wireless in the US.

We have also commenced shipments of the Orange SPV, a Smartphone based on Microsoft's Smartphone operating platform, 2002 OS, to Orange SA, the mobile-phone unit of France Telecom SA. We hope our success in winning these customers will enable us to obtain increased outsourcing business in the converged wireless handheld device sector.

Selected financial information

The following table presents selected financial data for our company. The selected audited financial data as of and for the years ended December 31, 1999, 2000 and 2001 set forth below are qualified by reference to, and should be read in conjunction with, our audited financial statements for such periods included herein. The selected unaudited financial data as of and for the nine months ended September 30, 2001 and 2002 set forth below are qualified by reference to, and should be read in conjunction with our unaudited financial statements for such periods included herein. The results for the nine-month periods ended September 30, 2001 and 2002 are not necessarily indicative of the results that may be expected for the full year. Our financial statements are prepared and presented in accordance with ROC GAAP. ROC GAAP differs in certain material respects from U.S. GAAP. See “Summary of certain differences between ROC GAAP and U.S. GAAP.” You should also read the “Management’s discussion and analysis of financial condition and results of operations” section, which describes a number of factors that have affected our financial results, including demand for our products, the prices of raw materials and machinery and equipment, the average realized sales price of our products and the appreciation or depreciation of the NT Dollar against the US Dollar.

	Year ended, and as of, December 31,				Nine months ended, and as of, September 30,		
	1999 NT\$	2000 NT\$	2001 NT\$	2001 US\$	2001 NT\$	2002 NT\$	2002 US\$
	(unaudited)						
	(in thousands except earnings (losses) per share)						
Statement of Income:							
Net sales	1,476,923	4,334,752	15,117,688	431,934	10,931,773	13,230,925	378,892
Cost of revenues	1,387,364	3,962,019	13,429,918	383,712	9,675,225	11,571,600	331,375
Gross profit	101,560	602,389	2,120,445	60,584	1,541,286	2,222,193	63,636
Operating expenses	388,993	517,582	935,505	26,729	693,363	1,021,426	29,250
Income (Loss) from operations	(287,433)	84,807	1,184,940	33,855	847,923	1,200,767	34,386
Non-operating income	38,303	152,130	255,943	7,313	196,910	388,442	11,124
Non-operating expenses	31,099	127,388	450,632	12,875	294,732	836,381	23,951
Income (Loss) before income tax	(280,229)	109,549	990,251	28,293	750,101	752,828	21,559
Income tax (expense) benefit	—	22,028	(27,523)	(786)	(22,380)	(41,573)	(1,191)
Net income (Loss)	(280,229)	131,577	962,728	27,507	727,721	711,255	20,368
Earnings (Losses) per share ⁽¹⁾	(2.80)	1.21	7.62	0.22	4.53	4.37	0.13
Balance Sheet:							
Current assets	910,021	3,369,442	4,402,907	125,797	4,296,845	4,955,410	141,908
Long-term investments	—	11,126	9,007	258	8,813	18,109	519
Fixed assets	431,258	1,005,116	2,220,442	63,441	2,152,274	2,197,896	62,941
Total assets	1,414,979	4,478,128	7,051,483	201,471	6,856,854	7,496,805	214,686
Current liabilities	820,052	2,660,285	3,877,586	110,788	4,003,085	3,791,413	108,575
Long-term debts ⁽²⁾	34,124	120,859	87,638	2,504	2,231	73,312	2,100
Total liabilities	862,844	2,794,438	3,977,899	113,654	4,020,017	3,881,810	111,164
Shareholders’ equity	552,135	1,683,690	3,073,584	87,817	2,836,837	3,614,995	103,522

(1) The earnings (losses) per share data have been calculated by dividing the net income for the relevant period by the weighted-average number of Shares outstanding during the relevant period. The weighted average number of Shares used in the calculation of earnings (losses) per share for the years ended December 31, 1999, 2000 and 2001 and the nine months ended September 30, 2001 and 2002 was 100,000,000, 108,493,000, 126,375,000, 160,631,000 and 162,720,000, respectively.

(2) Include long-term loans, net of current portion.

The Offering

The following is only a summary and is qualified in its entirety by reference to the Indenture. Capitalized terms used and not defined have the meaning given to them in “Description of the Bonds.”

Issuer	High Tech Computer Corp.
Issue	US\$60,000,000 Zero Coupon Convertible Bonds due 2008. The Bonds are being offered by the Managers outside the United States in reliance on Regulation S.
Optional Bonds	Up to and including 30 days after the date hereof, UBS Warburg, on behalf of the Managers, is entitled at any time to require us to issue up to a further US\$6,000,000 aggregate principal amount of the Bonds in whole or in part on one or more occasions.
Issue Price	100%
Issue Date	January 29, 2003
Status	The Bonds will be our direct, unconditional, unsecured and unsubordinated obligations and will rank <i>pari passu</i> without any preference or priority among themselves and shall at all times rank at least equally with all our other present and future direct, unconditional, unsecured and unsubordinated obligations, except as may be preferred by mandatory provisions of law.
Conversion	Except during a Closed Period, the Bonds are convertible (subject to prior redemption and as otherwise provided herein) at any time on or after February 28, 2003 and prior to the close of business (at the place at which the Bonds are deposited for conversion) on January 9, 2008 into Shares at a Conversion Price of NT\$205.32 per Share (subject to adjustment as described herein) (the “ Conversion Price ”), determined on the basis of a fixed exchange rate of NT\$34.658 = US\$1.00. We will neither issue fractions of Shares nor make any cash adjustments in respect of fractions of Shares. See “Description of the Bonds — Conversion.”
Negative Pledge	We will not, and will not permit any of our Principal Subsidiaries to, create security for the benefit of holders of any International Investment Securities or for any guarantee thereof without granting equivalent security in respect of the Bonds. See “Description of the Bonds — Certain covenants.”
Final Redemption	Unless previously redeemed, repurchased and cancelled, or converted in the circumstances referred to in “Description of the Bonds,” the Bonds will be redeemed at their Accreted Principal Amount in US dollars on January 29, 2008 (“ Maturity Date ”). See “Description of the Bonds — Redemption, repurchase and cancellation — Redemption at maturity.”

Redemption at the Option of the Company

We may, having given not less than 30 nor more than 60 days' notice to the holders of the Bonds, at our option at any time on or after January 29, 2006 and prior to January 29, 2008, redeem the Bonds, in whole or from time to time in part (being US\$1,000,000 in principal amount or integral multiples thereof), at their Accreted Principal Amount, if the Closing Price of the Shares, translated into US dollars at the Prevailing Rate, for a period of 30 consecutive Trading Days, the last of which occurs not more than five Trading Days prior to the date upon which notice of such redemption is given, is at least 130% of the Conversion Price then in effect, translated into US dollars at a fixed exchange rate of NT\$34.658 = US\$1.00 on each such Trading Day. We may, having given not less than 30 nor more than 60 days' notice to the holders of the Bonds, at our option at any time, redeem, in whole but not in part, the Bonds at their Accreted Principal Amount, in US dollars, if at least 95% of principal amount of the Bonds has already been redeemed, repurchased and cancelled, or converted. See "Description of the Bonds — Redemption, repurchase and cancellation — Redemption at the option of the company."

Redemption at the Option of Holders of the Bonds

Until and unless previously redeemed, repurchased and cancelled, or converted, each holder of the Bonds shall have the right, at such holder's option, to require us to redeem all (or any portion of the principal amount thereof that is US\$1,000 or any integral multiple thereof) of such holder's Bonds on April 29, 2004 ("Holders' Put Date") at their Accreted Principal Amount. See "Description of the Bonds — Redemption, repurchase and cancellation — Redemption at the option of the holders."

Tax Redemption

We may at any time redeem the Bonds, in whole but not in part, at their Accreted Principal Amount in the event of certain changes in ROC taxation that would require us to gross up for payments of principal or to gross up for payments of interest or premium, if any, at a rate exceeding 20%. See "Description of the Bonds — Redemption, repurchase and cancellation — Redemption for taxation reasons."

Any holder of the Bonds may elect not to have its Bonds redeemed by us in such event, in which case, such holder will not be entitled to receive payment of such additional amounts. See "Description of the Bonds — Redemption, repurchase and cancellation — Bondholder's tax option."

Form and Denomination of the Bonds

The Bonds will be issued in registered form in the denomination of US\$1,000. The Bonds will be offered, sold and transferable in principal amounts of US\$1,000 or an integral multiple thereof.

The Bonds will be represented by beneficial interests in the Global Certificate, which will be registered in the name of a nominee of, and shall be deposited on or about the Closing Date with, The Bank of New York, as common depositary for Euroclear and Clearstream, Luxembourg.

Transfer of the Bonds	Transfers of interests in the Bonds and the Shares to be issued upon conversion of the Bonds will be subject to certain restrictions. For a discussion of these restrictions, see “Description of the Bonds — Transfers of the Bonds; Issue of Certificates,” “Transfer restrictions” and “Subscription and sale.”
Governing Law	The laws of the State of New York.
Trustee	The Bank of New York
Listing	Application has been made to list the Bonds on the Luxembourg Stock Exchange. The Shares are listed and traded on the TSE.
Use of Proceeds	The net proceeds of the issue of the Bonds will be approximately US\$58.9 million (or US\$64.8 million if the option granted to UBS Warburg in respect of the Optional Bonds is exercised in full). We intend to use the net proceeds of the Offering for the import of raw materials and input components. We expect that such overseas raw materials and input components will be used for the production of smart handheld devices. See “Use of proceeds.”

Risk factors

We are governed in the ROC by a legal and regulatory environment that in some material respects may be different from that prevailing in other countries. You should carefully evaluate each of the following risk factors and all of the other information set forth in this Offering Circular before deciding to invest in the Bonds. If any of the following risk factors and uncertainties develops into actual events, our business, financial condition or results of operations could be materially adversely affected. In such case, the trading price of the Bonds or the Shares could decline. This Offering Circular also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere in this Offering Circular. See "Forward-looking statements."

RISKS RELATING TO OUR INDUSTRY AND OUR BUSINESS

We derive a significant portion of our total revenues from a single customer

We derive a significant portion of our total revenues from a single customer, Compaq. Our direct sales to Compaq accounted for 84.2%, 86.0% and 70.7% of our total revenues in 2000, 2001 and the first nine months of 2002, respectively. This concentration of our customer base may affect our business materially and adversely due to:

- the loss, material reduction or cancellation of business from Compaq;
- significant changes in scheduled deliveries to Compaq; or
- decreases in the prices of the products sold to Compaq.

In early May 2002, Compaq merged with Hewlett-Packard. Therefore, our market position depends, to a certain extent, on our continuing relationship with the merged entity in the future. On the one hand, there have been reports that Compaq has added LG Electronics as an additional source for one of the iPAQ lines, which may affect our sales to the merged entity. On the other hand, in connection with the merger, the merged entity has announced that it will adopt iPAQ as its sole line of smart handheld devices, which we believe will help us to maintain our position as a major supplier of iPAQs. However, there can be no assurance that we will be able to maintain a customer relationship with the merged entity that is comparable with our relationship with Compaq.

We operate principally in the emerging smart handheld device industry; if this industry fails to grow as we anticipate or if we fail to meet the needs of this industry, our sales will be adversely affected

We operate principally in the emerging smart handheld device industry, which is characterized by rapidly changing technology and customer preferences, short product life cycles and severe industry-wide competition for market share. Proceeds from sales of smart handheld devices, as a percentage of our total revenues, amounted to 80.0%, 83.9%, 90.0% and 92.0% in 1999, 2000, 2001 and the first nine months of 2002, respectively. In response to current demand and in anticipation of continued growth in the demand for our products, we have expanded and intend to continue to expand our production and distribution capacity. Our business, financial condition and results of operations could be adversely affected should we be unable to:

- anticipate customer requirements accurately;
- maintain short design cycles while meeting evolving industry performance standards;
- manage our product transitions, inventory levels and manufacturing processes effectively; or
- distribute our products quickly and efficiently in response to customer demand.

In addition, although the smart handheld device market has experienced significant growth in the past few years, this industry is still relatively new and an accurate demand forecast is difficult to achieve. Our future growth depends in part on the continued growth of our industry and our third generation wireless Pocket PCs and Smartphones. However, the future growth rate in the smart handheld device industry is uncertain. A reversal of, or a slowdown in, this trend could adversely affect our business and financial results. Thus, despite the recent successful launch of our new wireless Pocket PC and Smartphone products, there is no assurance that our further

Risk factors

expansion into the new wireless Pocket PC and Smartphone sectors will continue to succeed. Furthermore, this Offering Circular contains various third party forecasts of future growth in the smart handheld device market. There can be no assurance that the growth rates forecasted in these reports will be realized. Factors that could negatively affect the smart handheld device market, such as slow market acceptance of wireless Pocket PCs and Smartphones, could have a material adverse effect on our business and financial results.

Our business depends on the success of our products that are resold by our customers under their own brand names, and if these products do not receive favorable market response, our net sales would likely decline

Our net sales are directly affected by sales of our products that are resold by our customers under their own brand names. As an ODM manufacturer, we do not market or sell our products directly to the end users. Instead, we rely on the success of our vendor-customers in marketing these products. The value of any design win depends upon the commercial success of our target customers' products that are manufactured by us. These products embody technology that has only recently been introduced to the market and the level of consumer interest and acceptance is difficult to predict.

We are subject to a variety of risks beyond our control that influence the success or failure of a particular smart handheld device, including, among others, the following:

- competition faced by the vendor;
- the vendor's ability to adapt to the rapidly changing technology and evolving industry standards;
- market acceptance of the vendor's products;
- marketing and management capabilities of the vendor; and
- financial and other resources of the vendor.

There can be no assurance that any of our products, even if successfully marketed by our customers, will generate sales or not be quickly rendered obsolete by changing consumer preferences or products embodying new technologies or features. If these products do not receive favorable market response, our net sales may be adversely affected.

We face substantial and increasing competition in the smart handheld device industry

The market for smart handheld devices is highly competitive and competition is expected to become more intense. We have recently experienced price and margin pressures in our products due to intense competition. Although we believe we enjoy a first-mover advantage as a result of our early focus on Windows CE-based, many Taiwanese and Korean notebook PC companies are entering our industry due to slow growth in the global PC market. Certain PC designers and manufacturers have the ability to cross-sell their smart handheld devices to their existing roster of PC customers and may have more financial or other resources than us. Many Taiwanese and Korean PC companies also have research and development and manufacturing capabilities to compete with us in the smart handheld device market. Moreover, there have been reports that Compaq, our major customer, which has since merged with Hewlett-Packard, has added LG Electronics as an additional source for one of the iPAQ lines. In addition, as we expand into the converged wireless handheld device sector, we expect increased competition from mobile phone makers and handset ODMs. Increased competition could result in significant price competition, reduced revenues, lower profit margins or loss of market share, any of which would have a material adverse effect on our business, financial condition and results of operations. We cannot be certain that we will be able to compete successfully against either current or potential competitors in the future.

In addition, our smart handheld devices are based on the Windows CE operating system, and we and our smart handheld device customers compete with designers and manufacturers of smart handheld devices based on other operating systems, such as the Palm operating system, which currently enjoys a significant advantage in market share over Windows CE-based products. Although we believe the superior functionality of the Windows CE operating system will help Windows CE-based smart handheld devices to continue to gain market share, successful product introductions by our competitors could reduce the sales and market acceptance of our products, cause price competition or make our products obsolete, which would materially adversely affect our results of operations.

Risk factors

Our operating results depend on our ability to continue to timely develop and introduce new and enhanced smart handheld devices that incorporate the latest technologies

The smart handheld device industry is characterized by rapidly changing technology and user preferences, evolving industry standards and the frequent introduction of new products and enhancements. Because of the pace of technological advances in our industry, the life cycle of our products ranges from 9 to 12 months. As a result, the price of a particular model of smart handheld devices tends to decline over its product life cycle, reflecting product obsolescence, decreased costs of input components, decreased demand and increased competition as more manufacturers are entering the industry to produce similar products.

To maintain profitability, we aim to design new generations of Pocket PCs, wireless Pocket PCs and Smartphones ahead of our competitors. These newer generation Pocket PCs, wireless Pocket PCs and Smartphones generally carry higher profit margins but require intense research and development efforts or the acquisition of new technologies. Our product strategy focuses in part on designing and manufacturing products that comply with evolving industry performance standards, meet customer quality expectations and are available at prices appealing to our customers. We also try to mitigate the effects of price declines in our Pocket PCs by reducing our input component costs, reducing inventory costs and lowering operating costs.

There can be no assurance that we will be successful in designing new generations of smart handheld devices or in maintaining our profitability. Because of the pace of technological advances in the smart handheld device industry, we must introduce on a timely basis new products that offer customers the latest competitive technologies while managing the production of our existing products. The success of any new product is dependent on several factors, including the timely completion of new product design, achieving acceptable production yields and market acceptance. The product design process requires significant component customization and software development. Because the product design process is sometimes carried out well in advance of production and sales, we have to anticipate several factors, including the expected demand for the product as well as advances in technology. We cannot assure you that new products designed by us will gain market acceptance or will not be adversely affected by new technological changes or new product designs by our competitors. Any delay in developing new products with anticipated technological advances or in commencing commercial production of new products may have an adverse effect on our business. In addition, when we develop new smart handheld devices, we sometimes replace existing products with these newer models. These product transitions may adversely affect our business, financial condition and results of operations.

Our business depends on adequate supplies of input components

Our production depends on obtaining adequate supplies of input components on a timely basis. We purchase our main input components from various third-party component manufacturers that can satisfy our quality standards and meet our volume requirements. The possibility of defective parts, an increase in input component costs, reduced control over delivery schedules and shortages of input components could adversely affect our operations or financial condition. Certain input components critical to the production of our products have been subject to periodic shortages of supply in the past. For example, there was an industry-wide shortage of LCD panels from the fourth quarter of 1998 to the first quarter of 2000. We cannot assure you that this or other shortages will not occur in the future. If shortages of input components occur, we cannot be sure that we will be able to obtain an adequate supply, even with a favorable allocation from our suppliers, or that we will be able to pass on all of the increased costs of the input components to our customers.

Some of our components, such as CPU and LCD, come from a single or limited number of suppliers. Alternative sources may not currently be available for some of these components. If suppliers are unable to meet our demand for these components and if we are unable to obtain an alternative source at prices acceptable to us, or at all, we may not be able to maintain timely and cost-effective production of our products, and our financial condition and results of operations may be adversely affected.

Our manufacturing processes are highly complex, costly and potentially vulnerable to disruptions that can significantly increase our costs and delay product shipments to our customers

Our manufacturing processes are highly complex, require advanced and costly equipment and are periodically modified to improve manufacturing output and product performance. We face the risk of production difficulties from time to time that could cause delivery delays and reduced output. Although we believe our concurrent

Risk factors

design and manufacturing development would help us to reduce any potential incompatibility between our product design and our manufacturing technology, there can be no assurance that we will not face difficulties in our manufacturing process. Failure to address these manufacturing difficulties in a timely manner would adversely affect our business.

Possible future expansion of our operations to the People's Republic of China would increase our capital expenditures and expose us to additional political, regulatory, economic and foreign investment risks

In anticipation of future capacity requirements, we are considering expanding our operations to the PRC for the production, sale and distribution of smart handheld devices in the PRC. We have obtained the necessary ROC regulatory approval for such expansion in the PRC. Such expansion would increase our capital expenditures. In addition, such expansion in the PRC is subject, to a significant degree, to the political and economic situation, regulatory control and general legal developments in the PRC and other foreign investment risks. Furthermore, any such expansion plan could be adversely affected if relations between the PRC and the ROC deteriorate.

The loss of any key management personnel may disrupt our business

Our future success depends largely upon the continued services of key senior management, including our president, Mr. H.T. Cho, our vice president for wireless mobile engineering, Mr. Peter Chou, our vice president for OEM operation, Mr. Fred Liu, and our vice president for MFG operation, Mr. C.S. Wang. We do not carry key person life insurance on any of our senior management personnel. If we lose the services of key senior management personnel, it would be very difficult to find and integrate replacement personnel in a timely manner or at all, which would adversely affect our business.

We depend on our technical and engineering personnel, and the inability to attract and retain them would jeopardize our operations

Our future success depends on our ability to attract and retain skilled employees, particularly technical and engineering personnel. Without sufficient numbers of skilled employees, our operations would suffer, resulting in the deterioration in design and production standards and would adversely impact our plans to expand into the wireless mobile segments. Competition for qualified technical and engineering personnel in Taiwan is intense and the replacement of skilled employees is difficult. We may encounter this problem in the future as we require increased number of skilled employees, particularly RF and software engineers. If we are unable to attract and retain our technical and engineering personnel and other employees, this may adversely affect our business.

Our business depends on intellectual property, and we may become involved in intellectual property litigation and disputes

Our success will depend in part on our ability to protect our intellectual property rights and to operate without infringing on the intellectual property rights of others. We currently rely on a combination of patents and contractual provisions to establish and protect our intellectual property rights in our products. For a more complete description of our intellectual property, you should read "Business — Intellectual property." We cannot be certain that the steps we take to protect our intellectual property will adequately protect our proprietary rights, that others will not independently develop or otherwise acquire equivalent or superior technology or that we can maintain such technology as trade secrets. In addition, other parties may hold or receive patents that could hinder or prevent the sale of our products or require us to obtain licenses on such technology, which may not be available on acceptable terms or at all.

The industries in which we operate frequently feature disputes over intellectual property. Although we are currently not involved in any such disputes, there can be no assurance that other third parties would not claim an infringement of their intellectual property rights in the future. Any litigation or disputes in the future could result in substantial costs to, and a diversion of efforts by, us. An adverse determination could also force us to take specific actions, including ceasing to sell our products that use the challenged intellectual property, seeking from third parties a right to sell or use the relevant technology or redesigning those products that infringe on the intellectual property of others. There can be no assurance that any such licenses would be available on acceptable terms or at all, or that we could develop alternative technology at an acceptable cost or at all. Any of these events could have a material adverse effect on our business, financial condition and results of operations.

Fluctuations in exchange rates could adversely affect our business

In the past few years, the currencies of many Asian countries, including the ROC, have experienced considerable volatility and depreciation. The Central Bank of China has, from time to time, intervened to minimize the

Risk factors

fluctuation of the US dollar/NT dollar exchange rate and prevent significant declines in the NT dollar value with respect to the US dollar. The NT dollar has depreciated against the US dollar from the Noon Buying Rate of US\$1.00 = NT\$27.52 on January 2, 1997 to a Noon Buying Rate of US\$1.00 = NT\$34.92 on September 30, 2002. See “Exchange rates.”

Nearly all of our net sales are currently denominated in US dollars. Currently, the majority of our cost of sales is denominated in US dollars and the remainder is denominated principally in NT dollars and Japanese yen. Our financial statements are expressed in NT dollars. We record an import or export transaction on the date it occurs at the effective exchange rate for such date as set by the ROC Government. At the end of each month, we re-state the balances of foreign currency assets and liabilities, including amounts outstanding under our forward exchange contracts and foreign currency option contracts, at the month-end spot rate of exchange and credit or charge to current income the resulting foreign exchange gains or losses, as the case may be. Fluctuations in exchange rates, particularly among the US dollar, the NT dollar and Japanese yen, affect our gross and operating profit margins and could result in foreign exchange and operating losses. In the first nine months of 2002, losses from our foreign currency derivative financial instruments for non-trading activity purpose amounted to NT\$354.6 million. Such losses were primarily due to foreign currency option contract losses incurred in the first half of 2002. Our forward exchange contracts and foreign currency options as of September 30, 2002, would cause a loss of NT\$70.5 million to a gain of NT\$38.8 million, assuming exchange rates of NT\$34.00-35.30 to US\$1.00 and ¥118.00-128.00 to US\$1.00 in the fourth quarter of 2002. We can provide no assurance that our actual foreign exchange loss would not be materially higher. For information regarding our foreign exchange activities, see “Management’s discussion and analysis of financial condition and results of operations — Exchange rates and market risk.”

We cannot predict the impact of future exchange rate fluctuations on our results of operations. The primary foreign currencies to which we are exposed are the US dollar and the Japanese yen. We attempt to reduce the effect of such exposure through forward exchange contracts and foreign currency option contracts, but we cannot assure you that we will be successful. For information regarding our foreign currency derivative financial instruments, see “Management’s discussion and analysis of financial condition and results of operations — Exchange rates and market risk,” Note 21 of Notes to the Audited Annual Financial Statements and Note 20 of Notes to the Unaudited Interim Financial Statements.

Our Chairperson may not provide additional guarantees for our future financing needs, which may adversely affect our ability to make future borrowings

A significant portion of our debt is short term. As of September 30, 2002, we had total outstanding debt of NT\$1,194.4 million (US\$34.2 million), of which NT\$1,067.4 million (US\$30.6 million) was short term and we had total debt availability of NT\$7,284.9 million (US\$208.6 million), of which NT\$7,157.9 million (US\$205.0 million) was short term. We will need to refinance this debt in the near future. All of our outstanding debt is guaranteed by our Chairperson, Ms. Cher Wang. Ms. Wang is under no obligation to, and may not, provide such guarantees to us in the future. Without Ms. Wang’s personal guarantees, we may need to seek alternative sources of financing, funds may only be available to us on less favorable terms or other collateral may be required.

Our controlling shareholders may have interests that differ from yours

Based on information available to us, as of June 16, 2002, VIA Technologies, Inc., its Chairperson, Ms. Cher Wang, who is also our Chairperson, and its President, Mr. Wen-Chi Chen, who is also our Director, collectively controlled, directly and indirectly through majority-owned entities, approximately 63.2% of our Shares. See “Principal shareholders” and “Management — Directors and supervisors” for more information, including additional shareholding information of Ms. Wang as of November 30, 2002. As a result, VIA Technologies and its related parties have the power as controlling shareholders to exercise significant influence over our management and policies. The interests of these shareholders may differ from your interests or the interests of other shareholders.

RISKS RELATING TO DOING BUSINESS IN TAIWAN

Your investment may be adversely affected by political considerations relating to the ROC

We are incorporated in Taiwan, and most of our assets are located in Taiwan. In addition, most of our revenues are derived from our operations in Taiwan. Taiwan has a unique international political status. The People’s Republic of China (the “PRC”) asserts sovereignty over all of China (i.e., Taiwan, certain other islands and all of mainland China) and does not recognize the legitimacy of the ROC government. Although significant

Risk factors

economic and cultural relations have been established during recent years between the ROC and the PRC, the PRC government has indicated that it may use military force to gain control over Taiwan in certain circumstances, such as the declaration of independence by Taiwan. Relations between the ROC and the PRC have been particularly strained in recent years. Certain past developments in relations between the ROC and the PRC have occasionally adversely affected the market value of Taiwanese companies and the values of the Taiwan Stock Exchange Weighted Stock Index (the “TSE Index”) and the ROC GreTai Securities Market Index. Relations between the ROC and the PRC and other factors affecting the political or economic conditions of Taiwan could also affect our business and the market price and the liquidity of the Bonds and the Shares.

An increase in tensions between the ROC and PRC may affect the availability of the PRC as an export market for our products. The possibility of instability and uncertainty could adversely affect the market price of our Shares traded on the TSE and have a significant adverse impact on the economy of the ROC, and investors may adopt a more cautious approach towards the ROC’s securities markets or investments in the ROC in general, and such factors could cause the value of our Bonds and our Shares to fall.

Your investment may be adversely affected by natural disasters in Taiwan

On March 31, 2002, a major earthquake registering 6.8 on the Richter Scale struck northeast Taiwan, with an epicenter approximately 44.3 kilometers east of Hualien County, followed by another earthquake registering 6.2 on the Richter Scale on May 15, 2002 in northeast Taiwan, with an epicenter approximately 9.3 kilometers northeast of Suao in Ilan County. We did not experience any major structural damage to our facilities as a result of these earthquakes. Damages suffered by us in connection with the March 2002 earthquake consisted primarily of inventory losses. Our losses from the March 2002 earthquake were approximately NT\$10.0 million, most of which were covered by insurance. We did not suffer any damages in connection with the May 2002 earthquake.

On September 21, 1999, a major earthquake registering 7.3 on the Richter Scale struck central Taiwan, with an epicenter approximately 160 kilometers south of Taipei. This was followed by another strong earthquake on October 22, 1999 near the city of Chiayi, about 300 kilometers south of Taipei, registering 6.4 on the Richter Scale and a third earthquake on November 2, 1999 in Taitung county, which registered 6.9 on the Richter Scale. We did not suffer any damage in connection with these earthquakes.

We cannot guarantee that future earthquakes will not cause damage to our facilities or property or cause significant business interruptions. Although we maintain insurance for some of these risks, there is no guarantee that future damage or business loss from earthquakes will be covered by such insurance or that we will be able to collect from our insurance carriers. We do not currently maintain any business interruption insurance.

Taiwan is particularly vulnerable to earthquakes because most of Taiwan is located in a collision zone between the Philippine Sea plate and the Eurasian plate. Our production facilities as well as some of our suppliers are located in Taiwan. As a result, a major earthquake in Taiwan could result in damage to our production facilities or to those of our suppliers. If our suppliers are affected, it could result in shortages of raw materials and other supplies that we require to manufacture our products. In addition, an earthquake could cause power outages, which may disrupt our operations. A major earthquake in Taiwan could therefore adversely affect our results of operations and financial condition and the market price of the Bonds and the Shares.

Taiwan is also susceptible to typhoons, which may cause damage and business interruption to companies with facilities located in Taiwan. In 2001, Taiwan experienced severe damage from typhoons, including a typhoon on September 16 that caused over 100 deaths, severe flooding and extensive damage to property and businesses. Although we did not experience any damage or business interruption from the increased typhoon activity in Taiwan, there can be no assurance that we will not suffer damage or business interruption due to typhoons, or that our results of operations or financial condition will not be adversely affected as a result.

In May 2002, Taiwan experienced a severe drought. Although our manufacturing process does not rely on an adequate supply of water and we were not affected by the May 2002 drought directly, any temporary or sustained adverse impact from any future droughts may have on Taiwan’s economic, social or political conditions may lead to fluctuations in the market price of the Bonds and the Shares.

RISKS RELATING TO THE BONDS AND THE SHARES

The value of your investment may be adversely affected by the volatility of the ROC securities market

The ROC securities market is smaller and more volatile than the securities markets in the United States, Europe and certain other countries. Our Shares trade on the TSE. As of January 23, 2003, the aggregate market capitalization of the TSE was NT\$10.3 trillion. The TSE has had substantial fluctuations in the prices and volumes of sales of listed securities and there are currently limits on the range of daily price movements on the TSE. The TSE Index peaked at 12,495.23 in February 1990 and subsequently fell to a low of 2,560.47 in October 1990. As of January 23, 2003, the TSE Index closed at 5,078.80. Such market size and volatility could adversely affect the market price and liquidity of the securities of ROC companies, including the Shares, in both domestic and international markets.

The market for the Bonds and the Shares may not be liquid

There has been no trading market for the Shares outside Taiwan and currently the only trading market for the Shares is the TSE. Application has been made to list the Bonds on the Luxembourg Stock Exchange. However, there can be no assurance that an active trading market for the Bonds will develop. In addition, the Managers may make a market with respect to the Bonds but is not obligated to do so, and any market-making with respect to the Bonds may be discontinued at any time without notice.

ROC exchange controls may adversely affect the ability of a holder to receive proceeds from the sale of the subscription rights for our Shares

Under existing ROC law, a holder of the Bonds, after becoming a holder of Shares, must obtain foreign exchange approval from the CBC 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 US\$100,000 per remittance. Although such approvals have been routinely granted in the past, there can be no assurance that in the future any such approval will be obtained in a timely manner or at all.

Further issues of our Shares, including pursuant to employee stock bonuses, could dilute your holdings and associated rights with respect to the Shares

Companies in the ROC generally pay bonuses (in the form of cash or stock) to their employees. Our Articles of Incorporation provide that, after deducting prior year's losses, paying outstanding taxes and setting aside legal reserves and special reserves (if any), at least 5% of our net income shall be distributed as employee bonuses. See "Description of the Shares" and "Dividends and dividend policy." We did not pay any stock bonuses to our employees in respect of the year ended December 31, 2000. We paid stock bonuses of NT\$96 million to employees in respect of the year ended December 31, 2001, the number of Shares issuable being calculated by reference to the par value of NT\$10 per share, notwithstanding that the market value of the Shares as of the date of the declaration or distribution of the stock bonuses was higher than such par value. Such distributions in the form of new Shares, or further issuances of new Shares, will effectively dilute the holdings and associated rights of holders of the Bonds who convert the Bonds to Shares.

A holder of the Bonds will be required to appoint local agents in Taiwan if such holder converts the Bonds into Shares and becomes holder of our Shares

When a non-ROC holder of the Bonds exercises its conversion rights to receive Shares and register as our shareholder, such holder will be required to appoint an agent (a "Tax Guarantor") in the ROC. Such Tax Guarantor will be required to meet the qualifications set by the ROC Ministry of Finance and will act as the guarantor of such holder's tax payment obligations. Evidence of the appointment of a Tax Guarantor and the approval of such appointment is required as conditions to receiving such holder's profits derived from the sale of Shares. There can be no assurance that such holder will be able to appoint and obtain approval for a Tax Guarantor in a timely manner.

In addition, under current ROC law, a converting holder of the Bonds is required to appoint a local agent in the ROC to open a securities trading account with a local securities brokerage firm and a New Taiwan Dollar bank account, remit funds, exercise a shareholder's rights and perform such other matters as may be designated by such converting holder of the Bonds. Further, such converting holder of the Bonds must appoint a local bank to act as custodian for confirmation and settlement of trades, safekeeping of securities and cash proceeds and reporting of information. Without satisfying these requirements, a converting holder of Bonds would not be able to hold, sell or otherwise transfer Shares on the TSE.

Risk factors

A holder of the Bonds or its designee requesting the conversion of its Bonds into Shares may be required to provide certain information to us, and failure to provide such information may prevent conversion or cause the conversion to be delayed

A holder of the Bonds or its designee requesting the conversion of its Bonds may be required to provide certain information to us or the Paying, Transfer and Conversion Agent, including the name and nationality of the person to be registered as the holder of our Shares and the number of Shares such person is acquiring and has acquired in the past as a result of the conversion of the Bonds it holds, and supporting documents, before such conversion is effected. Under applicable ROC laws, we are required to report to the ROC Securities and Futures Commission (the “ROC SFC”) if the person to be registered as a shareholder: (i) is a “related party” of ours as defined in Statement of Financial Accounting Standard No. 6 of the ROC or (ii) will hold, immediately following such conversion, more than 10% of the total number of Shares deliverable upon conversion of the aggregate principal amount of all Bonds at the time of issue. The conversion of the Bonds may be delayed if such information is not provided.

Capitalization

The following table sets forth our unconsolidated short-term debt and total capitalization as of September 30, 2002, as adjusted to give effect to this Offering and as further adjusted to give effect to the application of proceeds from the Offering, in each case including underwriting commissions and other expenses and assuming no Optional Bonds are issued. This table should be read in conjunction with our unaudited financial statements as of and for the nine months ended September 30, 2001 and 2002, including the notes thereto, found elsewhere in this Offering Circular. Our unaudited financial statements are prepared and presented in accordance with ROC GAAP. ROC GAAP differs in certain material respects from U.S. GAAP. See “Summary of certain differences between ROC GAAP and U.S. GAAP.”

There has been no material change in our total capitalization since September 30, 2002.

	As of September 30, 2002			
	Actual NT\$	US\$	As Adjusted for Offering of Bonds NT\$	US\$
		(unaudited)		
		(in thousands)		
Short-term debt:				
Short-term borrowings (including current portion of long-term debt) and commercial bills	<u>1,123,293</u>	<u>32,168</u>	<u>1,123,293</u>	<u>32,168</u>
Long-term debt:				
Long-term debt (excluding current portion of long-term debt).....	71,081	2,036	71,081	2,036
The Bonds (now being issued) ⁽¹⁾	—	—	2,095,200	60,000
Total shareholders' equity:				
Common Stock, par value NT\$10 per share, 200,000,000 shares authorized, 162,720,000 shares issued and outstanding	1,627,200	46,598	1,627,200	46,598
Capital surplus	832,812	23,849	832,812	23,849
Legal reserve.....	96,273	2,757	96,273	2,757
Accumulated earnings	1,056,277	30,248	1,056,277	30,248
Unrealized valuation loss on long-term investment	(107)	(3)	(107)	(3)
Cumulative translation adjustments.....	<u>2,540</u>	<u>73</u>	<u>2,540</u>	<u>73</u>
Total shareholders' equity	<u>3,614,995</u>	<u>103,522</u>	<u>3,614,995</u>	<u>103,522</u>
Total capitalization.....	<u>3,686,076</u>	<u>105,558</u>	<u>5,781,276</u>	<u>165,558</u>

(1) Assuming no Optional Bonds are issued.

(2) If all the Bonds (assuming no Optional Bonds are issued) were converted at their initial Conversion Price, an additional 10,127,995 Shares would be issued.

Use of proceeds

The net proceeds to be received by us for this Offering will be approximately US\$58.9 million (or US\$64.8 million if the option granted to UBS Warburg in respect of the Optional Bonds is exercised in full) after we deduct underwriting discounts and estimated offering expenses. We intend to use the net proceeds of the Offering for the import of raw materials and input components. We expect that such overseas raw materials and input components will be used for the production of smart handheld devices. We may use the net proceeds in excess of the amount required for the import of raw materials and input components for working capital and general corporate purposes, for which we will need to obtain the necessary approvals, including from our board of directors and relevant regulatory authorities. Before we apply the net proceeds of this Offering to the uses described above, we intend to invest the net proceeds in interest-bearing time deposits or other short-term instruments.

Management's discussion and analysis of financial condition and results of operations

The following discussion should be read in conjunction with "Selected financial information," our audited financial statements as of and for the years ended December 31, 1999, 2000 and 2001, and our unaudited financial statements as of and for the nine months ended September 30, 2001 and 2002, including the notes thereto, included elsewhere in this Offering Circular. Our audited and unaudited financial statements are prepared and presented in accordance with ROC GAAP. ROC GAAP differs in certain material respects from U.S. GAAP. See "Summary of certain differences between ROC GAAP and U.S. GAAP."

OVERVIEW

We were founded on May 15, 1997, and currently have our headquarters in Taoyuan County, Taiwan. We are currently the world's largest Windows CE-based ODM of Pocket PCs. In May 2000, we developed Compaq's first iPAQ Pocket PC which we believe helped establish Compaq as a leader in the Pocket PC market. Our business has grown rapidly in the last few years, as reflected by our employee headcount, which increased to approximately 2,100 as of December 31, 2002, from approximately 470 at the end of 1999. From 1999 to 2001, we experienced significant growth in net sales and net income primarily as a result of increased global demand for Pocket PCs, our market leadership position in the Windows CE-based smart handheld device market, and increased market share by our major Pocket PC vendor customer, Compaq. Our net sales increased 248.8% to NT\$15,117.7 million (US\$431.9 million) in 2001 from NT\$4,334.8 million in 2000 and increased 193.5% in 2000 from NT\$1,476.9 million in 1999. Our net income increased 631.7% to NT\$962.7 million (US\$27.5 million) in 2001 from NT\$131.6 million in 2000 as compared to a net loss of NT\$280.2 million in 1999. Our net sales increased 21.0% to NT\$13,230.9 million (US\$378.9 million) in the first nine months of 2002 from NT\$10,931.8 million in the corresponding period in 2001, and our net income decreased 2.3% to NT\$711.3 million (US\$20.4 million) in the first nine months of 2002 from NT\$727.7 million in the corresponding period in 2001. See "— Results of operations."

Dependence on smart handheld devices

Our primary products are Pocket PCs and converged wireless devices like wireless Pocket PCs and Smartphones. The smart handheld device market is characterized by rapidly changing technology and evolving industry standards. Because of the pace of technological advances in our industry, the life cycle of our products ranges from 9 to 12 months. Our success in the smart handheld device market is dependent upon the level of consumer acceptance of our products that are resold by our customers, which may be affected by changing consumer preferences and the introduction of products embodying new technologies or features. Many of these products have only recently been introduced to the market and the level of consumer interest and acceptance is difficult to predict. In addition, the product design process requires significant component customization and software development, resulting in higher development costs than desktop and notebook PC makers.

Pricing

We price our products principally on the basis of contracts agreed with our customers. Our pricing policy is based on four major elements: (i) anticipated component costs, (ii) anticipated research and development costs, (iii) anticipated manufacturing and overhead costs, plus (iv) an agreed margin over the anticipated total costs. We usually review these estimated costs on a monthly basis with our customers in order to reflect changing market and operational conditions, particularly in the price of our input components, which can often be volatile. Selling prices are usually highest at the time of product introduction and decline over time in accordance with overall trends in the smart handheld device industry, competition and customers' expectations. Fluctuations in our products' selling prices would have an impact on our margins. We have attempted to limit the effect of the declining average realized sales prices for any one particular product by introducing more advanced versions of our existing products incorporating new features and focusing on developing higher end products in the converged wireless sector.

Customers and inventory

We are an ODM of smart handheld devices and market substantially all of our products through our direct sales force to other smart handheld device vendors, who sell our products to end users under their own brand names.

We do not market our products under our own brand names. In 2001, approximately 87.2%, 8.2%, 0.3% and 4.3% of our total revenues were derived from sales into the United States, Taiwan, the rest of Asia, and the rest of the world, respectively. We believe that, as we sell our products to branded smart handheld device vendors who resell them to end-users worldwide, the actual geographic distribution of our products is more diverse than indicated above. Therefore, we believe that we are less susceptible to economic downturn in any particular region. See "Business — Sales and marketing." We derive a significant portion of our total revenues from a single customer, Compaq. Our direct sales to Compaq accounted for 84.2%, 86.0% and 70.7% of our total revenues in 2000, 2001 and the first nine months of 2002, respectively.

Our sales contracts are generally one- to three-year renewable umbrella agreements providing the basic terms for sales of multiple products to a single customer. Customers typically provide us with weekly rolling forecasts of their requirements for the coming three to six months and sales are made on the basis of purchase orders placed with us. Purchase orders are subject to price renegotiations and changes in delivery schedules in order to accommodate changes in the customers' requirement. Our customers generally place purchase orders approximately eight weeks prior to delivery. These purchase orders, however, are subject to limited increases or decreases at the option of the customers according to the specific terms of the sales agreements. Purchase orders typically cannot be modified fewer than 30 days before scheduled delivery.

Sales and development cycle

We believe we have a short time-to-market in relation to our product development cycle. We estimate that the length of time between our initial contact with a customer and the time when we begin commercial production of a new product will vary from six to twelve months. Due to this lengthy sales and development cycle, we generally experience a time lag between the time we incur expenses for research and development and administrative and selling efforts, and the time we generate the corresponding sales, if any.

The smart handheld device industry is subject to seasonal fluctuations in sales. In 2001, we experienced strongest sales in the second and fourth quarters, with the third quarter being the weakest. Our sales are affected by the timing of new product introductions. For example, our introduction of third-generation wireless Pocket PCs in the second quarter of 2002 and the launch of our Smartphones in the fourth quarter of 2002 may affect the seasonality of our sales. In addition, the seasonality in our sales may, at times, be overshadowed by general market trends and customer-specific circumstances.

Forecasts

We were required by the ROC SFC to report our financial forecasts for the year ending December 31, 2002, and did so on April 30, 2002. On January 15, 2003, we announced our intention to revise our financial forecasts for 2002 upwards. On January 23, 2003, we announced our reviewed revised forecasts. Our forecast for total revenues increased to NT\$20.6 billion from NT\$20.2 billion, gross profit increased to NT\$3.6 billion from NT\$2.8 billion, income from operations increased to NT\$2.1 billion from NT\$1.3 billion and income before income tax increased to NT\$1.5 billion from NT\$1.1 billion. In addition, our forecasts for accounts receivable, notes and accounts payable and inventories were revised to NT\$4.6 billion, NT\$3.8 billion and NT\$1.8 billion, respectively. You should not place undue reliance on these forecasts as they are based on many assumptions regarding the smart handheld device industry, our business activities and general market, political and economic conditions, and many other factors, some of which are beyond our control, as well as the factors described in the "Risk factors" and "Forward-looking statements" sections. We do not expect to update you on any possible difference between the forecasts we have published or will publish in the future and the information included in this Offering Circular, including forward-looking statements.

Equity investments

As permitted under ROC GAAP, we have elected not to consolidate the financial results of our subsidiaries (i) whose individual total sales and total assets were each less than 10% of our unconsolidated total sales and total assets or (ii) whose aggregate total sales or aggregate total assets were less than 30% of our unconsolidated total sales or total assets during the periods discussed. See "Summary of certain differences between ROC GAAP and US GAAP." In 2001, our sole direct subsidiary, H.T.C. (B.V.I.) Corp., accounted for less than 1% of our total assets and 1% of our net sales.

Foreign currency exchange

Our financial statements are expressed in NT dollars. We record an import or export transaction on the date it occurs at the effective exchange for such date as set by the ROC Government. At the end of each month, we

restate the balances of foreign currency assets and liabilities, including amounts outstanding under our forward exchange contracts and foreign currency option contracts, at the month-end spot rate of exchange and credit or charge to current income the resulting foreign exchange gains or losses, as the case may be. See Note 2 of Notes to the Audited Annual Financial Statements and Note 2 of Notes to the Unaudited Interim Financial Statements. Thus, changes in the rate of exchange between the NT dollar and other currencies, particularly the US dollar, affect our results of operations. See “— Exchange rates and market risk” for a discussion of how we manage our exchange rate risks.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements and disclosures in conformity with accounting principles generally accepted in the ROC requires management to make judgments, assumptions and estimates that affect the amounts reported in our financial statements and the accompanying notes. Note 2 to our financial statements included elsewhere in this Offering Circular describes the significant accounting policies and methods used in the preparation of the financial statements for the three years ended December 31, 2001 and the nine-month periods ended September 30, 2001 and 2002. The amounts of assets and liabilities reported in our balance sheets and the amounts of revenues and expenses reported for each of the periods are affected by estimates and assumptions which are used for, but not limited to, the accounting of revenue recognition, short-term investments, long-lived assets and identifiable intangible assets, allowance for doubtful accounts, inventory and deferred tax assets. Actual results could differ from these estimates. The following critical accounting policies are significantly affected by judgments, assumptions and estimates used in the preparation of our financial statements.

Revenue recognition

We recognize revenue from sales of smart handheld devices upon shipment, net of estimated returns, provided that collection is determined to be probable and no significant obligations remain. Product revenues from customers are subject to agreements allowing for limited rights of returns. Accordingly, we reduce revenues for our estimates of these rights at the time the related sale is recorded. The estimates for returns are adjusted periodically based upon historical rates of returns, inventory levels in the channel and other related factors. Actual results could differ from these estimates.

Short-term investments

At the end of each quarter, we evaluate the fair market value of our short-term investment securities in listed companies. If the aggregate fair value of the short-term investment portfolio is less than the carrying amount, we charge this difference to earnings.

Long-lived assets and identifiable intangible assets

We review our long-lived assets and certain identifiable intangible assets, including purchased intangible assets, for impairment, whenever we feel that events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable. We measure recoverability of our assets to be held and used by comparing the carrying amount of an asset to the fair value of the asset. If we consider our assets to be impaired, the impairment we would recognize is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Furthermore, assets to be disposed of are reported at the lower of the carrying amount or fair value, less the cost to sell.

Allowance for doubtful accounts

The allowance for doubtful accounts is based on our assessment of the collectibility of individual accounts, past loss experience and other pertinent factors. If there is a deterioration of a major customer's creditworthiness or actual defaults are higher than our historical experience, our estimates of recoverability of amounts due to us could be adversely affected.

Inventory

Inventory purchases and purchase commitments are based upon future demand forecasts. We value our inventory at the lower of cost or market. Cost is determined using the moving average method. Market value is based on replacement cost, except for finished goods, which are valued based on net realizable values. If we believe that demand no longer allows us to sell our inventory above cost or at all, then we write down that inventory to market or write off excess inventory levels. If customer demand subsequently differs from our forecasts, our cost of revenues may be impacted because we are able to sell inventory that has been previously written down.

Management's discussion and analysis of financial condition and results of operations

Deferred tax assets

Deferred tax assets represent temporary differences that will result in deductible amounts in future years, including net operating loss carryforward and investment and research and development tax credits based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances on deferred tax assets are provided if such assets are not expected to be realized.

RESULTS OF OPERATIONS

The following table summarizes historical results of operations as a percentage of total revenues for the periods shown.

	Year Ended December 31,			Nine Months Ended September 30,	
	1999	2000	2001	2001	2002
Net sales	99.2%	95.0%	97.2%	97.5%	95.9%
Other revenues	0.8	5.0	2.8	2.5	4.1
Total revenues.....	100.0	100.0	100.0	100.0	100.0
Cost of revenues	93.2	86.8	86.4	86.3	83.9
Gross profit	6.8	13.2	13.6	13.7	16.1
Operating expenses:					
Administrative and selling.....	13.1	4.5	2.9	2.9	3.8
Research and development.....	13.0	6.8	3.1	3.3	3.6
Total operating expenses	26.1	11.3	6.0	6.2	7.4
Income (loss) from operations.....	(19.3)	1.9	7.6	7.6	8.7
Non-operating income.....	2.6	3.3	1.6	1.8	2.8
Non-operating expenses	2.1	2.8	2.9	2.6	6.1
Income (loss) before income tax.....	(18.8)	2.4	6.3	6.7	5.5
Income tax benefit (income tax).....	0.0	0.5	(0.2)	(0.2)	(0.3)
Net income (loss).....	<u>(18.8)</u>	<u>2.9</u>	<u>6.1</u>	<u>6.5</u>	<u>5.2</u>

Net sales include sales of our smart handheld devices and related peripherals.

Other revenues consist of revenues generated by the provision of technology assistance and other services to our customers during the design process of our customers' products.

Cost of revenues is almost entirely comprised of input component costs and, to a much lesser extent, direct labor costs and production costs. Input components, comprised primarily of LCDs, integrated circuits ("ICs"), Flash ROM, batteries, CPUs, passive components, printed circuit boards ("PCBs") and SDRAM, represented approximately 86.6%, 88.8%, 91.0% and 89.5% of our total cost of revenues in 1999, 2000, 2001 and the first nine months of 2002, respectively. See "Business — Supply." Production costs include depreciation of production machinery and equipment and utility costs. Machinery and equipment used in our production process are depreciated over their useful lives in accordance with ROC tax regulations, generally two to five years, plus one year for salvage value, using the straight-line method. Depreciation expenses for such machinery and equipment represented 1.5% and 2.0% of the cost of revenues for 2001 and the first nine months of 2002, respectively.

Operating expenses include research and development expenses, and administrative and selling expenses. Research and development expenses consist primarily of salaries of research and development employees and the costs of equipment and materials used in research and development activities. Administrative expenses consist primarily of salaries of administrative personnel and depreciation of assets other than machinery and equipment used in actual production. See Note 2 of Notes to the Audited Annual Financial Statements and Note 2 of Notes to the Unaudited Interim Financial Statements for an explanation of our depreciation policy for our fixed assets. Selling expenses consist primarily of after sales service costs, salaries of sales personnel and transportation costs.

Non-operating income includes interest income, gain on sale of investments, gain on physical inventories, foreign currency exchange gain and others. Interest income consists primarily of interest earned on time deposits. Gain on sale of investments consists primarily of gains from the sale of fixed income mutual funds and other equity investments. Gain on physical inventory reflects a net increase in recorded inventory balance as a result of the physical inventory observation. Foreign currency exchange gain consists primarily of net profits on settlement of foreign currency transactions and net gains resulting from the month-end restatement of our foreign currency assets and liabilities.

Non-operating expenses include interest expense, investment losses on equity method, losses on disposal of property, plant and equipment, losses on physical inventory, foreign currency exchange losses, provision for loss on decline in value of inventory and others. Interest expense consists primarily of interest on bank loans. Investment losses on equity method consist of our share of the losses of our long-term equity investments. Losses on disposal of property, plant and equipment consist of losses recognized by us upon the sale or other disposition of our fixed assets. Losses on physical inventory consist of net losses attributed to lost inventory that is not accounted for in our inventory review. Foreign currency exchange losses consist primarily of net losses resulting from the settlement of foreign currency transactions and derivative financial instruments and the month-end restatement of our foreign currency assets and liabilities. Provision for loss on decline in value of inventory consists primarily of losses due to declines in the market value of inventory and disposal of inventory. These losses and write-offs of inventory are normal, recurring adjustments made due to rapid technological obsolescence and declining market prices of inventory and quality control measures relating to inventory.

Nine months ended September 30, 2002 compared to nine months ended September 30, 2001

Net Sales, Other Revenues and Total Revenues. Net sales increased 21.0% to NT\$13,230.9 million (US\$378.9 million) in the first nine months of 2002 from NT\$10,931.8 million in the corresponding period in 2001. This increase reflected increased sales volume and increased average realized sales price for our products. The increased sales volume was primarily the result of the commencement of volume shipment of our third-generation wireless Pocket PCs that commenced in the second quarter of 2002 and continued through the third quarter of 2002. Average realized sales price in the first nine months of 2002 increased primarily due to the volume shipment of our third-generation wireless Pocket PCs and the introduction of more advanced versions of our customers' Pocket PCs, which commanded higher sales prices. Other revenues increased 97.7% to NT\$562.9 million (US\$16.1 million) in the first nine months of 2002 from NT\$284.7 million in the corresponding period in 2001, primarily due to increased technology assistance and other services provided to our customers in connection with increased new product development that commenced in the second half of 2001 and continued through the first nine months of 2002. Total revenues increased 23.0% to NT\$13,793.8 million (US\$395.0 million) in the first nine months of 2002 from NT\$11,216.5 million in the corresponding period in 2001, primarily reflecting the foregoing.

Cost of Revenues and Gross Profit. Cost of revenues increased 19.6% to NT\$11,571.6 million (US\$331.4 million) in the first nine months of 2002 from NT\$9,675.2 million in the corresponding period in 2001. The increase resulted primarily from increased input component costs due to the increase in sales volume. Gross profit increased 44.2% to NT\$2,222.2 million (US\$63.6 million) in the first nine months of 2002 from NT\$1,541.3 million in the first nine months of 2001, and gross profit margin increased to 16.1% in the first nine months of 2002 from 13.7% in the first nine months of 2001.

Operating Expenses and Income from Operations. Operating expenses increased 47.3% to NT\$1,021.4 million (US\$29.3 million) in the first nine months of 2002 from NT\$693.4 million in the corresponding period in 2001, as a result of increases in administrative and selling expenses and research and development expenses. Administrative and selling expenses increased 60.3% to NT\$521.1 million (US\$14.9 million) in the first nine months of 2002 from NT\$325.0 million in the corresponding period in 2001, primarily as a result of increased expenses associated with after-sales services due to an increase in sales volume and increased salary expenses due to an increase in the number of sales and administrative employees to support increased operations in the first nine months of 2002. Research and development expenses increased 35.8% to NT\$500.3 million (US\$14.3 million) in the first nine months of 2002 from NT\$368.3 million in the corresponding period in 2001. This increase resulted primarily from an increase in salary expenses due to an increase in research and development personnel and increased test material costs in connection with our continued research and development efforts

for new products, including wireless Pocket PCs and Smartphones, in the first nine months of 2002. As a result, income from operations increased 41.6% to NT\$1,200.8 million (US\$34.4 million) in the first nine months of 2002 from NT\$847.9 million in the corresponding period in 2001, and operating profit margin increased to 8.7% in the first nine months of 2002 from 7.6% in the corresponding period in 2001.

Non-Operating Income. Non-operating income increased 97.3% to NT\$388.4 million (US\$11.1 million) in the first nine months of 2002 from NT\$196.9 million in the corresponding period in 2001, primarily as a result of increased other non-operating income, partially offset by lower foreign currency exchange gain. Other non-operating income increased 324.0% to NT\$383.8 million (US\$11.0 million) in the first nine months of 2002 from NT\$90.5 million in the corresponding period in 2001, primarily due to increased income from non-recurring payments in the first nine months of 2002 from two of our customers in settlement of our claims for obsolete component inventory as a result of such customers' cancellation of their purchase orders in 2001. Foreign currency exchange gain decreased to nil in the first nine months of 2002 from NT\$103.7 million in the corresponding period in 2001, primarily due to losses from our foreign currency derivative financial instruments for non-trading activity purpose incurred in the first nine months of 2002.

Non-Operating Expenses and Income Before Income Tax. Non-operating expenses increased 183.8% to NT\$836.4 million (US\$24.0 million) in the first nine months of 2002 from NT\$294.7 million in the corresponding period in 2001, primarily as a result of increased foreign currency exchange loss and increased provision for loss on decline in value of inventory. Foreign currency exchange loss increased to NT\$351.8 million (US\$10.1 million) in the first nine months of 2002 from nil in the corresponding period in 2001 primarily due to losses from our foreign currency derivative financial instruments for non-trading activity purpose incurred in the first nine months of 2002. Such losses were primarily due to foreign currency option contract losses incurred in the first half of 2002. See "— Exchange rates and market risk." Provision for loss on decline in value of inventory increased 134.1% to NT\$440.6 million (US\$12.6 million) in the first nine months of 2002 from NT\$188.2 million in the corresponding period in 2001, primarily due to increased provisions for obsolete component inventory as a result of two customers' cancellation of their purchase orders. As a result of all the foregoing factors, income before income tax increased 0.4% to NT\$752.8 million (US\$21.6 million) in the first nine months of 2002 from NT\$750.1 million in the corresponding period in 2001.

Income Tax and Net Income. We recognized income tax of NT\$41.6 million (US\$1.2 million) in the first nine months of 2002, as compared to NT\$22.4 million in the corresponding period in 2001. As a result of all of the foregoing factors, net income decreased 2.3% to NT\$711.3 million (US\$20.4 million) in the first nine months of 2002 from NT\$727.7 million in the corresponding period in 2001, and net profit margin decreased to 5.2% in the first nine months of 2002 from 6.5% in the corresponding period in 2001.

Year ended December 31, 2001 compared to year ended December 31, 2000

Net Sales, Other Revenues and Total Revenues. Net sales increased 248.8% to NT\$15,117.7 million (US\$431.9 million) in 2001 from NT\$4,334.8 million in 2000. This increase reflected increased sales volume and slightly increased realized sales price for Pocket PCs. The increased sales volume was primarily the result of increased global demand for Pocket PCs. Average realized sales price of Pocket PCs in 2001 increased slightly as compared to 2000 primarily due to the introduction of more advanced versions of our customers' Pocket PCs, which commanded a higher sales price and offset the declining sales price of older versions of our customers' Pocket PCs. Other revenues increased 88.4% to NT\$432.7 million (US\$12.4 million) in 2001 from NT\$229.7 million in 2000, primarily due to increased technology assistance and other services provided to our customers as a result of increased net sales. Total revenues increased 240.7% to NT\$15,550.4 million (US\$444.3 million) in 2001 from NT\$4,565.4 million in 2000, primarily reflecting the foregoing.

Cost of Revenues and Gross Profit. Cost of revenues increased 239.0% to NT\$13,429.9 million (US\$383.7 million) in 2001 from NT\$3,962.0 million in 2000. The increase resulted primarily from the increase in sales volume in 2001 and increased depreciation in connection with the commencement of commercial production in our newly constructed manufacturing facilities in Taoyuan in early 2001. Gross profit increased 252.0% to NT\$2,120.4 million (US\$60.6 million) in 2001 from NT\$602.4 million in 2000, and gross profit margin increased to 13.6% in 2001 from 13.2% in 2000 reflecting realized economies of scale from increased production.

Operating Expenses and Income from Operations. Operating expenses increased 80.7% to NT\$935.5 million (US\$26.7 million) in 2001 from NT\$517.6 million in 2000 as a result of increases in administrative and selling

expenses and research and development expenses. Administrative and selling expenses increased 118.5% to NT\$451.5 million (US\$12.9 million) in 2001 from NT\$206.7 million in 2000 primarily as a result of increased expenses associated with after-sales services due to an increase in sales volume in 2001 and increased salary expenses due to an increase in the number of employees in 2001. Research and development expenses increased 55.7% to NT\$484.0 million (US\$13.8 million) in 2001 from NT\$310.9 million in 2000. This increase resulted primarily from an increase in salary expenses due to an increase in research and development personnel and increased test material costs in connection with continued research and development efforts for new products, including wireless Pocket PCs and Smartphones, in 2001. As a result, income from operations increased 1,297.2% to NT\$1,184.9 million (US\$33.9 million) in 2001 from NT\$84.8 million in 2000, and operating profit margin increased to 7.6% in 2001 from 1.9% in 2000.

Non-Operating Income. Non-operating income increased 68.2% to NT\$255.9 million (US\$7.3 million) in 2001 from NT\$152.1 million in 2000, primarily as a result of increased other non-operating income and foreign currency exchange gain, partially offset by lower interest income. Other non-operating income increased 204.2% to NT\$118.7 million (US\$3.4 million) in 2001 from NT\$39.0 million in 2000, primarily due to increased income from the technical assistance and other services to our suppliers. Foreign currency exchange gain increased 33.3% to NT\$123.9 million (US\$3.5 million) in 2001 from NT\$93.0 million in 2000, primarily due to the depreciation of the NT dollar against the US dollar. Interest income decreased 84.0% to NT\$3.1 million (US\$0.09 million) in 2001 from NT\$19.2 million in 2000, primarily due to lower cash balances as a result of increased working capital requirements in 2001 compared to 2000.

Non-Operating Expenses and Income Before Income Tax. Non-operating expenses increased 253.7% to NT\$450.6 million (US\$12.9 million) in 2001 from NT\$127.4 million in 2000 primarily as a result of increases in the provision for loss on decline in value of inventory, interest expense and other non-operating expense. Provision for loss on decline in value of inventory increased 304.2% to NT\$302.7 million (US\$8.6 million) in 2001 from NT\$74.9 million in 2000, primarily due to the write-off of obsolete inventory, primarily notebook PCs, palm-size PCs and related components. Interest expense increased 147.7% to NT\$76.2 million (US\$2.2 million) in 2001 from NT\$30.8 million in 2000, primarily as a result of increased borrowings to fund working capital requirements. Other non-operating expense increased 1,513.4% to NT\$26.2 million (US\$0.7 million) in 2001 from NT\$1.6 million in 2000, primarily due to penalties paid to suppliers as a result of the cancellation of purchase orders for certain components due to changes in the design of some of our products in 2001. As a result of all the foregoing factors, income before income tax increased 803.9% to NT\$990.3 million (US\$28.3 million) in 2001 from NT\$109.5 million in 2000.

Income Tax and Net Income. We recognized income tax of NT\$27.5 million (US\$0.8 million) in 2001 as compared with an income tax benefit of NT\$22.0 million in 2000. As a result of all of the foregoing factors, net income increased 631.7% to NT\$962.7 million (US\$27.5 million) in 2001 from NT\$131.6 million in 2000, and net profit margin increased to 6.2% in 2001 from 2.9% in 2000.

Year ended December 31, 2000 compared to year ended December 31, 1999

Net Sales, Other Revenues and Total Revenues. Net sales increased 193.5% to NT\$4,334.8 million in 2000 from NT\$1,476.9 million in 1999. This increase reflected increased sales volume and slightly increased average realized sales price for Pocket PCs. Sales volume increased in 2000 primarily due to the launch of iPAQ by Compaq and increased global demand for Pocket PCs. Average realized sales price of Pocket PCs in 2000 increased slightly as compared to 1999 primarily due to the introduction of iPAQs by Compaq in May 2000, which commanded a higher sales price. Other revenues increased 1,813.6% to NT\$229.7 million in 2000 from NT\$12.0 million in 1999, primarily due to increased technology assistance and other services provided to our customers as a result of increased net sales. Total revenues increased 206.6% to NT\$4,564.4 million in 2000 from NT\$1,488.9 million in 1999, primarily reflecting the foregoing.

Cost of Revenues and Gross Profit. Cost of revenues increased 185.6% to NT\$3,962.0 million in 2000 from NT\$1,387.4 million in 1999. The increase resulted primarily from an increase in sales volume in 2000. As a result, gross profit increased 493.1% to NT\$602.4 million in 2000 from NT\$101.6 million in 1999, and gross profit margin increased to 13.2% in 2000 from 6.8% in 1999.

Operating Expenses and Income from Operations. Operating expenses increased 33.1% to NT\$517.6 million in 2000 from NT\$389.0 million in 1999, primarily as a result of increases in research and development expenses. Research and development expenses increased 60.4% to NT\$310.9 million in 2000 from NT\$193.8 million in

1999. This increase resulted primarily from an increase in salary expenses due to an increase in research and development personnel and increased test material costs in connection with increased research and development efforts for new products, including new Pocket PCs and wireless Pocket PCs. As a result, we recorded an income from operations of NT\$84.8 million in 2000 as compared to a loss from operations of NT\$287.4 million in 1999, and our operating profit margin increased to 1.9% in 2000 from a negative 19.3% in 1999.

Non-Operating Income. Non-operating income increased 297.2% to NT\$152.1 million in 2000 from NT\$38.3 million in 1999, primarily as a result of increased foreign currency exchange gain, other non-operating income and interest income, partially offset by lower gain on sale of investments. We recorded a net foreign currency exchange gain of NT\$93.0 million in 2000, compared to a net foreign currency exchange loss of NT\$0.3 million in 1999, primarily due to the depreciation of the NT dollar against the US dollar. Other non-operating income increased 589.4% to NT\$39.0 million in 2000 from NT\$5.7 million in 1999, primarily as a result of increased income from a non-recurring payment from one of our customers in settlement of our claim for obsolete inventory as a result of such customer's cancellation of a purchase order in 2000. Interest income increased 985.4% to NT\$19.2 million in 2000 from NT\$1.8 million in 1999, primarily due to increased cash balances as a result of our capital increase in 2000. Gain on sale of investments decreased 96.7% to NT\$0.9 million in 2000 from NT\$27.6 million in 1999, primarily due to the sale of our stock holdings in VIA Technologies in 1999.

Non-Operating Expenses and Income (Loss) Before Income Tax. Non-operating expenses increased 309.6% to NT\$127.4 million in 2000 from NT\$31.1 million in 1999, primarily due to increases in our provision for loss on decline in value of inventory, interest expense and losses on disposal of property, plant and equipment. Provision for loss on decline in value of inventory increased 267.4% to NT\$74.9 million in 2000 from NT\$20.4 million in 1999, primarily due to increased provisions relating to stagnant inventory, primarily notebook PCs, the production of which was discontinued in 2000, palm-size PCs and related components. Interest expense increased 197.3% to NT\$30.8 million in 2000 from NT\$10.4 million in 1999, primarily as a result of increased borrowings to fund working capital requirements. Losses on disposal of property, plant and equipment increased to NT\$13.2 million in 2000 from nil in 1999, primarily due to a one-time disposal of obsolete machinery and equipment for the assembly of notebook PCs. As a result of all the foregoing factors, we recorded an income before income tax of NT\$109.5 million in 2000, compared to a loss before income tax of NT\$280.2 million in 1999.

Income Tax Benefit and Net Income or Loss. Income tax benefit increased to NT\$22.0 million in 2000 from nil in 1999, primarily due to the delayed recognition of loss carryforward in 2000 resulting from our losses in 1999, which we were unable to recognize in 1999 due to our prior history of losses. As a result of all of the foregoing factors, we recorded a net income of NT\$131.6 million in 2000, compared to a net loss of NT\$280.2 million in 1999, and net profit margin increased to 2.9% in 2000 from a negative 18.8% in 1999.

WORKING CAPITAL

We believe that careful management of our working capital is an important part of our operations. Accounts receivable, notes receivable and inventories, three principal components of our current assets, will continue to require significant amounts of working capital, particularly if our net sales continue to increase. Accounts payable and notes payable, the two largest components of our current liabilities, serve as sources of working capital as we attempt to take advantage of extended payment terms from our suppliers when we make purchases.

Management's discussion and analysis of financial condition and results of operations

The following table summarizes our accounts receivable and notes receivable, inventories, accounts payable and notes payable, and cash conversion cycle positions at the dates and for the periods indicated.

	Year Ended December 31,						Nine Months Ended September 30,	
	1999		2000		2001		2002	
	NT\$ (millions)	Average Days	NT\$ (millions)	Average Days	NT\$ (millions)	Average Days	NT\$ (millions)	Average Days
Accounts receivable and notes receivable ⁽¹⁾	411.1	76	1,512.8	77	2,596.5	48	2,785.7	53
Inventories ⁽²⁾	346.6	46	1,493.8	85	1,705.0	43	2,136.8	45
Accounts payable and notes payable ⁽³⁾	317.1	45	1,368.7	65	1,717.6	43	2,015.2	47
Cash conversion cycle ⁽⁴⁾	—	77	—	96	—	48	—	51

- (1) The average days for accounts receivable and notes receivable for a particular period is equal to (i) the simple average of the accounts receivable and notes receivable (before allowance for doubtful accounts and allowance for sale returns) at the end of that period and the accounts receivable and notes receivable (before allowance for doubtful accounts and allowance for sales returns) at the end of the immediately preceding year divided by (ii) the total revenues (in the case of the nine months period ended September 30, 2002, multiplied by 4/3) in such period, multiplied by 365.
- (2) The average days for inventory turnover for a particular period is equal to (i) the simple average of the inventories (before valuation allowance) at the end of that period and the inventories (before valuation allowance) at the end of the immediately preceding year divided by (ii) the cost of revenues (in the case of the nine months period ended September 30, 2002, multiplied by 4/3) in such period, multiplied by 365.
- (3) The average days for accounts payable and notes payable for a particular period is equal to (i) the simple average of the accounts payable and notes payable at the end of that period and the accounts payable and notes payable at the end of the immediately preceding year divided by (ii) net purchases (in the case of the nine months period ended September 30, 2002, multiplied by 4/3) in such period, multiplied by 365.
- (4) The cash conversion cycle (the length of time between our purchase of inventory and the receipt of cash from accounts receivable and notes receivable) for a particular period is equal to the sum of the average days for accounts receivable and notes receivable plus average days for inventory turnover after deducting the average days for accounts payable and notes payable.

We generally trade with our principal customers on an open account basis, allowing credit terms of between 30 to 60 days. The average number of days required for collection of our accounts receivable and notes receivable was 76 days in 1999, 77 days in 2000 and 48 days in 2001. The improvement in 2001 was due to more favorable credit terms from Compaq, which has become our major customer since the second half of 2000. The average number of days increased to 53 days in the first nine months of 2002 primarily because of the increase in the number of our new customers. We generally have not experienced material problems in collecting from our customers and historically have enjoyed a relatively low level of bad debt provisioning expense. Bad debt provisioning expense, as a percentage of net sales, amounted to 0% in 1999, 0.01% in 2000, 0.02% in 2001 and 0% in the first nine months of 2002.

Average inventory turnover days were 46 days in 1999, 85 days in 2000, 43 days in 2001 and 45 days in the first nine months of 2002. The increase in 2000 was due to increased production in anticipation of the launch of iPAQs by our major customer, Compaq, and the improvement since 2000 was due to the write-off of certain obsolete inventory, primarily notebook PCs, palm-sized PCs and related components, in 2001.

Our key suppliers typically allow us credit terms of between 30 and 90 days. We attempt to take advantage of the credit terms offered to us while still ensuring that we make payments in a timely manner. The average number of days within which we paid our accounts payable and notes payable was 45 days in 1999, 65 days in 2000, 43 days in 2001 and 47 days in the first nine months of 2002. Currently, approximately 25.0% of our input component purchases are made on a letter of credit basis. After payment is made by one of our issuing banks, the outstanding amount under a letter of credit is automatically converted into a short-term loan.

RECENT MONTHLY RESULTS

Our unaudited total revenues, prepared on an ROC GAAP basis, increased 40.8% to NT\$1,723.0 million in October 2002 from NT\$1,223.9 million in October 2001, increased 71.0% to NT\$2,530.9 million in November 2002 from NT\$1,479.9 million in November 2001 and increased 61.4% to NT\$2,596.6 million in December 2002 from NT\$1,608.7 million in December 2001. These increases primarily reflected increased sales of Pocket PCs and Smartphones in October through December 2002 compared to the corresponding period in 2001. These unaudited total revenues are not necessarily indicative of our results for any future period.

LIQUIDITY AND CAPITAL RESOURCES

Our principal source of liquidity is cash flow from operations and financing activities, including borrowings and equity issuances. Our principal use of cash in the first nine months of 2002 was for working capital requirements. Our principal use of cash in 2001 was for working capital requirements and the funding of capital expenditures related to the establishment of our headquarters and manufacturing facilities in Taoyuan and the purchase of related machinery and equipment. For a description of our production facilities, see "Business — Facilities." Our principal use of cash in 2000 was for working capital requirements and the funding of capital expenditures related to the construction of our headquarters and manufacturing facilities in Taoyuan. Our principal use of cash in 1999 was for the funding of working capital requirements.

As of December 31, 2002, we had cash and cash equivalents of NT\$139.1 million (US\$4.0 million). In the first nine months of 2002, we had a net increase in cash and cash equivalents of NT\$194.7 million (US\$5.6 million) as compared to a net decrease in cash and cash equivalents of NT\$208.4 million in the corresponding period in 2001, bringing our cash and cash equivalents position to NT\$211.0 million (US\$6.0 million) as of September 30, 2002, as compared with NT\$22.8 million as of September 30, 2001. In 2001, we had a net decrease in cash and cash equivalents of NT\$214.9 million (US\$6.1 million) as compared to a net increase of NT\$206.8 million in 2000, bringing our cash and cash equivalents position to NT\$16.3 million (US\$0.5 million) as of December 31, 2001 as compared with NT\$231.2 million as of December 31, 2000. In 2000, we had a net increase in cash and cash equivalents of NT\$206.8 million as compared to a net decrease of NT\$31.5 million in 1999, bringing our cash and cash equivalents position to NT\$231.2 million as of December 31, 2000 as compared with NT\$24.5 million as of December 31, 1999.

Net cash provided by operating activities in the first nine months of 2002 was NT\$1,208.4 million (US\$34.6 million), primarily reflecting net income of NT\$711.3 million (US\$20.4 million), depreciation and amortization of NT\$316.8 million (US\$9.1 million), an increase in notes and accounts payable of NT\$297.7 million (US\$8.5 million) and an increase in other current liabilities of NT\$123.2 million (US\$3.5 million), which were partially offset by increases in notes and accounts receivable of NT\$216.6 million (US\$6.2 million). Net cash provided by operating activities in 2001 was NT\$460.5 million (US\$13.2 million), primarily reflecting net income of NT\$962.7 million (US\$27.5 million), depreciation and amortization of NT\$304.5 million (US\$8.7 million), an increase in notes and accounts payable of NT\$348.9 million (US\$10.0 million) and an increase in accrued expenses of NT\$124.2 million (US\$3.5 million), which were partially offset by increases in notes and accounts receivable of NT\$1,079.2 million (US\$30.8 million) and inventories of NT\$208.2 million (US\$5.9 million). Net cash used in operating activities in 2000 was NT\$849.8 million, primarily reflecting increases in notes and accounts receivable of NT\$1,073.6 million and inventories of NT\$1,070.1 million, partially offset by net income of NT\$131.6 million, depreciation and amortization of NT\$97.0 million and an increase in notes and accounts payable of NT\$1,051.6 million. Net cash used in operating activities in 1999 was NT\$212.0 million, primarily reflecting net loss of NT\$280.2 million and increases in notes and accounts receivable of NT\$201.4 million and inventories of NT\$326.2 million, partially offset by depreciation and amortization of NT\$42.4 million and an increase in notes and accounts payable of NT\$219.1 million.

Net cash used in investing activities in the first nine months of 2002 was NT\$325.2 million (US\$9.3 million), which was used primarily for the purchase of additional machinery and equipment for our new headquarters and manufacturing facilities in Taoyuan. Net cash used in investing activities in 2001 was NT\$1,667.8 million (US\$47.7 million), which was used primarily for the purchase of machinery and equipment for our new headquarters and manufacturing facilities in Taoyuan. Net cash used in investing activities in 2000 was NT\$735.1 million, which was used primarily for the establishment of our in-house manufacturing capabilities. Net cash used in investing activities in 1999 was NT\$215.2 million, which was used primarily for the purchase of machinery and equipment.

Management's discussion and analysis of financial condition and results of operations

Net cash used in financing activities in the first nine months of 2002 was NT\$688.6 million (US\$19.8 million), primarily reflecting a decrease in short-term commercial bills and short-term borrowings and an increase in cash dividends paid. Net cash provided by financing activities in 2001 was NT\$992.4 million (US\$28.4 million), primarily reflecting net increases in short-term borrowings and commercial bills and proceeds from the issuance of common stock, partially offset by repayment of a portion of our long-term debt. Net cash provided by financing activities in 2000 was NT\$1,791.7 million, primarily reflecting proceeds from the issuance of common stock and additional long-term borrowings and net increases in short-term borrowings and commercial bills. Net cash provided by financing activities in 1999 was NT\$395.7 million, primarily reflecting proceeds from net increases in short-term borrowings and commercial bills.

As of September 30, 2002, we had total availability of NT\$7,157.9 million (US\$205.0 million) in short-term credit facilities. As of September 30, 2002, we had NT\$1,067.4 million (US\$30.6 million) of short-term borrowings outstanding. The interest rates for such short-term credit facilities ranged from 0.59% to 2.40%. As of September 30, 2002, we also had total availability of NT\$127.0 million (US\$3.6 million) under our NT\$300 million long-term credit facility with First Commercial Bank, all of which was outstanding. As of September 30, 2002, the outstanding current portion of such long-term credit facilities was NT\$55.9 million (US\$1.6 million). As of September 30, 2002, the interest rate for such long-term debt ranged from 1.15% to 3.10%. All of our short-term borrowings and long-term debt are guaranteed by our Chairperson, Ms. Cher Wang, and our long-term debt are secured by our machinery and equipment. As of September 30, 2002, we had outstanding unused letters of credit not reflected in our unaudited financial statements of US\$2.3 million, ¥12.5 million and €17,000. In addition, from time to time, we sell a portion of our accounts receivable to banking institutions to manage our cash flow.

Set forth below are the aggregate amounts, as of September 30, 2002, of our future cash payment obligations under our existing debt and lease arrangements:

Contractual Obligations	Payments Due by Period				
	Total	Less than			
		1 year	1-3 years	4-5 years	After 5 years
	(in NT\$ millions)				
Short-Term Debt ⁽¹⁾	1,067.4	1,067.4	—	—	—
Long-Term Debt	127.0	55.9	71.1	—	—
Operating Leases	3.6	2.3	1.3	—	—
Total Contractual Cash Obligations.....	<u>1,198.0</u>	<u>1,125.6</u>	<u>72.4</u>	<u>—</u>	<u>—</u>

(1) Including short-term commercial bills.

In addition to the contractual obligations set forth above, we also have continuing obligations to make cash royalty payments under our technology license agreements, the amounts of which are determined based on sales of our products. We have not entered into any financial guarantees or similar commitments to guarantee the payment obligations of third parties. In addition, we do not have any convertible or exchangeable bonds outstanding or any written options on non-financial assets.

We made capital expenditures of NT\$279.5 million (US\$8.0 million), NT\$1,467.0 million (US\$41.9 million), NT\$655.7 million and NT\$228.0 million in the first nine months of 2002, and in 2001, 2000 and 1999, respectively, primarily related to the purchase of machinery and equipment. For 2002, we have budgeted NT\$433.0 million for capital expenditures related to the purchase of additional machinery and equipment. The budgeted amounts may vary from the actual amounts of capital expenditures for a variety of reasons, including changes in market conditions and other factors. In addition, in anticipation of future capacity requirements, we are considering expanding our operations to the PRC. Such expansion would increase our capital expenditures. We expect to meet our cash requirements through our cash and cash equivalents, cash generated from future operations and financing activities. Due to rapid changes in technology in the smart handheld device industry, we have frequent demand for investment in new manufacturing technologies. In the future, we may consider additional debt or equity financing, depending on market conditions, our financial performance and other relevant factors. There can be no assurance that we will be able to raise additional capital, should that become necessary, on terms acceptable to us or at all.

EXCHANGE RATES AND MARKET RISK

A substantial portion of our net sales are currently denominated in US dollars. As of September 30, 2002 and December 31, 2001, 78.2% and 99.3% of our accounts receivable and notes receivable, respectively, and 33.1% and 45.0% of our accounts payable, respectively, were denominated in US dollars, with the remainder denominated primarily in Euros and NT dollars. Even though most of our revenues are denominated in US dollars and a substantial portion of our costs are denominated in US dollars and Japanese yen, our financial statements are expressed in NT dollars. (See “— Overview”). We record an import or export transaction on the date it occurs at the effective exchange rate for such date as set by the ROC Government. At the end of each month, we restate the balances of foreign currency assets and liabilities, including forward exchange contracts and foreign currency option contracts, at the month-end spot rate of exchange and credit or charge to current income the resulting foreign exchange gains or losses, as the case may be. See Note 2 of Notes to Audited Annual Financial Statements. As a result, changes in the rate of exchange between the NT dollar and the US dollar affect our gross and operating profit margins and could result in foreign exchange and operating losses. We recorded a net foreign currency exchange loss of NT\$351.8 million (US\$10.1 million) in the first nine months of 2002, net foreign currency exchange gains of NT\$123.9 million (US\$3.5 million) and NT\$93.0 million in 2001 and 2000, respectively, and a net foreign currency exchange loss of NT\$0.3 million in 1999.

Depreciation of the NT dollar against the US dollar generally results in foreign exchange gains for us due to the accounting principles described above. The impact of future exchange rate fluctuations on our financial condition and results of operations cannot be predicted, however.

The primary foreign currencies to which we are exposed are the US dollar and the Japanese yen. We attempt to reduce the effect of such exposure through forward exchange contracts and foreign currency option contracts. In the first nine months of 2002, losses from our foreign currency derivative financial instruments for non-trading activity purpose amounted to NT\$354.6 million. Such losses were primarily due to foreign currency option contract losses incurred in the first half of 2002. Since then, we have taken actions to control our foreign currency derivatives exposure. We have, as required by the ROC SFC, adopted Guidelines for Handling of Financial Derivatives Transactions, which provides for the approval by different levels of authorized officers or the board of directors depending on the transaction amounts of derivative financial instruments we entered into. We have set up a special committee to approve all foreign currency derivatives transactions. In addition to complying with the Guidelines for Handling of Financial Derivatives Transactions, all foreign currency derivatives transactions must be approved by our Chairperson or the persons designated by the Chairperson. Pursuant to new ROC SFC regulations, we will amend our Procedures for Handling of Acquisition and Disposal of Assets to include the major contents of our Guidelines for Handling of Financial Derivatives Transactions. As of September 30, 2002, our net short position in foreign currency option contracts decreased to US\$59.3 million from US\$121.3 million as of June 30, 2002. We also had outstanding forward exchange contracts with a net long position of US\$17.0 million as of September 30, 2002. Our forward exchange contracts and foreign currency options as of September 30, 2002 would cause a loss of NT\$70.5 million to a gain of NT\$38.8 million, assuming exchange rates of NT\$34.00-35.30 to US\$1.00 and ¥118.00-128.00 to US\$1.00 in the fourth quarter of 2002. For more information regarding such contracts as of September 30, 2002, see Note 20 of the Notes to the Unaudited Interim Financial Statements. We entered into these transactions with various financial institutions. We believe the risk of non-performance by the counterparties under these contracts is remote.

TAXATION

Since our incorporation, we have enjoyed preferential tax treatment in certain respects under the Statute for Upgrading Industries (“SUI”), including income tax credit and various five-year tax holidays.

The SUI provides various incentives to investors and companies, including shareholders' investment tax credits or companies' five-year tax holidays. Prior to the amendment to the SUI on December 31, 1999, the shareholders may claim an investment tax credit up to 20% of their subscription amounts in connection with rights offerings for cash against their tax payable within five years after holding the shares for more than two years. With effect from January 1, 2000, the amended SUI provides that corporate shareholders are entitled to a tax credit of up to 20% of their subscription amounts against taxes payable within five years after holding the shares for more than three years. Individual shareholders, however, are only entitled to a tax credit for up to 10% of their subscription amounts after holding the shares for more than three years, and such tax credit will be further reduced by 1% every two years after January 1, 2000. Instead of applying the shareholders' tax credit, the

shareholders may select by vote at a shareholders' meeting to apply for an exemption from corporate income tax for a period of five consecutive years and waive the shareholders' investment tax credit; *provided, however*, that once the selection is made, no change thereto shall be allowed. Furthermore, the company may choose the commencement date of the tax holiday within two years after the first sale of the products or the provision of services by the company. The commencement date can be deferred for up to four years after the first sale of the products or the provision of services.

We qualify for these tax exemptions by utilizing a portion of the funds we received from our shareholders for the construction of or capital equipment purchases for our production facilities. After our initial capitalization in May 1997, we increased our authorized capital in March 1998, October 1998, August 2000 and June 2001. Our shareholders have elected to have the tax exemptions for us under the SUI for our capital increases in October 1998 and August 2000, with the period of 5 years commencing on January 1, 2003 and April 26, 2001, respectively. Our shareholders have applied to elect tax exemptions for us with respect to our capital increase in 2001, but approval from the relevant authorities for this application is still pending. For information relating to our capital increases, see "Changes in share capital."

Under the SUI, we are also entitled to other tax incentives generally available to Taiwanese companies. We may take tax credits currently at rates ranging between 5% and 20% of the amount spent on qualifying machinery and equipment, and at the maximum rate of 30% (25% prior to February 2002) for qualifying research and development costs and employee training expenses. An additional tax credit may also be available to us, equal to 50% of the amount by which the qualifying research and development costs or employee training expenses in a given year exceed the average qualifying research and development costs or employee training expenses for the previous two years. The tax credit can be utilized within five years from the year it arises. The available tax credit in each year is limited to 50% of the corporate tax payable in that year, except for the last of the five years for which there is no limit. Such income tax credit saved us approximately NT\$104.5 million (US\$3.0 million) and NT\$95.8 million (US\$2.7 million) in 2001 and in the first nine months of 2002, respectively.

In 1997, the ROC Legislative Yuan passed an amendment to the ROC Income Tax Law to integrate corporate income tax and shareholder dividend tax. Under the amendment, all after tax earnings generated after January 1, 1998 and not distributed to shareholders as dividends for the year in which such retained earnings were generated will be assessed a 10% tax. For each of the years ended December 31, 1999, 2000 and 2001 and the nine months ended on September 30, 2002, tax payable by us arising from the amendment was NT\$0, NT\$0, NT\$9.1 million (US\$0.2 million) and NT\$34.2 million (US\$1.0 million), respectively. If we distribute any such formerly undistributed retained earnings to our shareholders as dividends after the year in which such earnings were generated, our shareholders will be entitled to offset their proportion of the undistributed retained earnings taxes paid by us against their dividend income tax.

INFLATION

We do not believe that inflation in the ROC has had a material impact on our financial position or results of operations.

Business

OVERVIEW

We are the world's largest ODM of Windows CE-based Pocket PCs. In May 2000, we developed Compaq's first iPAQ Pocket PC which we believe helped establish Compaq as a leader in the Pocket PC market. We design, develop and manufacture innovative smart handheld devices which our customers market under their own brand names. Our market focus is the global smart handheld device market which includes Pocket PCs as well as converged wireless devices, such as wireless Pocket PCs and Smartphones. We focus on leveraging our leadership position in Pocket PCs to continue expanding into the fast growing converged wireless device sector.

As an ODM for smart handheld devices, we work very closely with our customers in designing and producing innovative products, unlike many of our competitors which only provide manufacturing services based on their customers' product specifications. Given this early and deep involvement with our clients' product development process, we have developed a better understanding of the end-market demand trends and possess the competitive ability to develop innovative and leading edge products that address our customers' needs.

Our mission is to become the global market leader in the original design manufacture of smart handheld devices. We aim to achieve this goal by continuing to provide value-added design, world-class manufacturing and after-service support capabilities. Taken together, these competencies allow us to offer our customers a "one-stop" solution for their smart handheld device needs. Our competitive strengths underpinning these design and manufacturing competencies include our superior research and development capabilities, particularly in logic design, software, mechanical, power and RF; strong strategic relationships with technology leaders, including Intel, Microsoft, QUALCOMM and TI; our early mover advantage and focus on the smart handheld device sector; and our manufacturing expertise.

We believe that the success of our devices has helped define industry standards in the smart handheld device market. Since our inception on May 15, 1997, we have achieved numerous significant milestones as testaments to our superior design and manufacturing capabilities:

- In April 1998, we introduced our first palm-size PCs, based on the second generation of the Windows CE operating system and with certification from National Software Testing Labs;
- In September 1999, we introduced our ultra-thin palm-size PCs;
- In May 2000, we started to produce iPAQs for Compaq;
- In December 2000, we introduced our Chinese Pocket PCs;
- In January 2001, we introduced our first generation wireless Pocket PCs;
- In March 2001, Microsoft and we announced our cooperation in the development of Smartphones using Microsoft's Smartphone software platform, Stinger;
- In April 2001, we commenced our collaboration with TI to adopt its wireless solution based on its DSP/OMAP technology in our next generation wireless handheld devices;
- In June 2001, QUALCOMM made a strategic investment in our company and granted us a full CDMA license to develop, manufacture and sell subscriber units based on its latest CDMA technology;
- In May, June and October 2002, we commenced shipments of our wireless Pocket PCs, featuring color display panels, to O2, T-Mobile USA and Siemens, respectively; and
- In October 2002, we introduced the Orange SPV, which we believe is the first commercially launched Smartphone based on Microsoft's Smartphone operating platform, 2002 OS, rolled out by Orange SA in the U.K., France, Denmark and Switzerland.

In developing the first Compaq iPAQ, we believe we were the first to utilize cutting edge technologies and components such as the Intel StrongARM processor, LTPS LCD and lithium polymer battery for application in Pocket PCs.

Our shares of common stock are listed on the TSE and began trading on March 26, 2002. We moved into our new headquarters and manufacturing facilities located in Taoyuan County, Taiwan, which also houses our information appliance engineering division, in April 2001. We have a separate facility in Taipei for our wireless mobile engineering division. We are registered with the Ministry of Economic Affairs of the Republic of China with a registration number of 16003518.

INDUSTRY OVERVIEW

IDC projects that global shipments of smart handheld devices, including converged wireless products, will grow from 15.7 million units in 2001 to 94.5 million units in 2006, which translates to a CAGR of approximately 43%. The principal factors driving this expected growth are the strong commitment of technology leaders in developing and expanding this sector; rapid technological development, particularly in the converged wireless area; enhanced device affordability and functionality (including new form factors, faster processors, graphics capabilities, improved display resolutions, better audio and additional expansion options) which help stimulate end-user demand; as well as the increasing corporate adoption of enterprise handheld solutions and the rising consumer disposable income.

Within the smart handheld device market, the converged wireless device sector, including wireless Pocket PCs and Smartphones, is expected to have the strongest growth in the future. While the integration of both voice and data into a single device has met slow adoption in the past few years, we believe that the high functionality and user friendliness of converged wireless devices that have been introduced this year will become more apparent, particularly given the increasing new lines of applications and services. IDC forecasts that global shipments in this market will grow from approximately 1.1 million units in 2001 to 62.9 million units in 2006, or a CAGR of approximately 126%. The key driver for this expected growth momentum is the increasing convergence of voice and data solutions that leads Pocket PC makers to focus on wireless Pocket PCs and causes the transition of mobile phone manufacturers from providing pure voice-centric products to voice-plus-data solutions. Moreover, underpinning this expected growth are the rapid advancement and widespread availability of wireless technologies, particularly GPRS infrastructure, and the heightened capital expenditures of wireless carriers in providing robust data content and services to their subscribers.

From a geographical standpoint, Taiwan is increasingly gaining market share in the production of smart handheld devices, particularly relative to the United States, Singapore and Korea. Based on estimates of Taiwan's Market Intelligence Center, shipments of smart handheld devices from Taiwan is expected to increase from approximately 2.0 million units in 2001 to about 10.3 million units in 2004. This expected substantial growth in Taiwan unit shipments is mainly due to the increased outsourcing orders of global smart handheld device vendors and wireless carriers to Taiwanese companies. Similar to the prominence that Taiwanese manufacturers have established in other sectors such as PC and notebook manufacturing, Taiwanese ODMs are well positioned to capitalize on the smart handheld device outsourcing opportunity given their excellent product development capabilities; their manufacturing scale and flexibility; close relationships with component suppliers; as well as the ability to provide their customers with a more efficient cost base.

In relation to operating platforms, the Palm operating system is currently the market leader in the smart handheld device sector. However, Windows CE-based products are increasingly closing the gap relative to Palm-based devices. In terms of worldwide handheld device shipments, excluding converged wireless products, IDC estimates that the Palm operating system market share will decrease from 52.8% in 2001 to 41.7% in 2006 as compared with the increasing market share of the Windows CE operating system from 21.1% in 2001 to 34.6% in 2006. The key drivers of this Windows CE growth are PC vendors' aggressive entry into the Pocket PC market and the greater acceptance of Windows CE among hardware and PC vendors, principally due to its better multimedia functionality and greater compatibility with existing PC software.

COMPETITIVE ADVANTAGES

In April 1998, we introduced our first palm-size Pocket PC and since then, we have quickly established our global market leadership position in the Pocket PC ODM segment. We believe our customers associate us with high-quality and innovative products that we can efficiently manufacture in a short period of time. The success of our business model is principally due to our following competitive advantages:

Superior research and development capabilities

We believe we have one of the largest research and development teams in the Windows CE-based smart handheld device industry. We had approximately 420 engineers as of December 31, 2002, or approximately 20% of our entire workforce, solely dedicated to product development and process improvement of smart handheld devices. Our management team that spearheads these research and development efforts comes from a strong engineering background with expertise in software design and system integration. For instance, both our president and our vice president for wireless mobile engineering were former engineers at Digital Equipment Corporation. Moreover, our research and development team is staffed with engineers possessing deep experience in each facet of the design and manufacturing processes of our smart handheld devices.

The core competencies of our research and development team include logic and mechanical design, software, power and RF, among others, which are critical given the complexity in developing these products. Furthermore, we are highly experienced in design-for-manufacturability analysis, component engineering and a full range of testing and quality services. Our concurrent engineering approach has allowed our design and manufacturing teams to effectively work in tandem during the product development cycle to ensure that our leading-edge designs can be concretely realized in our manufacturing process in a cost-effective manner.

Strong strategic relationships with global technology leaders

We have established strong strategic relationships with various global technology leaders to complement our internal research and development efforts in developing leading edge, innovative products. Since early in our history, we have worked closely with Microsoft on each generation of the Windows CE operating system and have been recognized as a Product Creation Partner of Microsoft. In June 2001, QUALCOMM made a strategic investment in our company and granted us a full CDMA license for the development, manufacture and sale of subscriber units using its latest generation of CDMA technology. We have also licensed GSM/GPRS technologies from TI and have started collaborating with TI in adopting its wireless solution based on its DSP technology in our next generation wireless handheld devices. In addition, we maintain a strong relationship with Intel in the design and application of CPUs that are used in our smart handheld devices. We are also a member of the Pocket PC 2002 hardware alliance. Finally, juxtaposed with these strategic relationships, we have also developed close working relationships with our top-tier customers, such as Compaq, in leveraging their market intelligence and extensive research and development infrastructure in the design and development of our smart handheld device offerings.

Early mover advantage and focus on smart handheld devices

Since our early entry in the smart handheld device market in 1997, we have focused principally on designing and developing innovative Pocket PCs and converged wireless devices. Capitalizing on this early mover advantage, we believe we have developed design and manufacturing expertise that is superior to that of other smart handheld device ODMs in Taiwan and that we believe has helped define the standards for the rest of the industry. For example, we were successful in utilizing leading edge technologies and components in developing the first Compaq iPAQ in 2000. At that time, we believe that we were the first to use the Intel StrongARM processor, LTPS LCD and lithium polymer battery for application in Pocket PCs, which are now widely used in the industry. Furthermore, we have designed and manufactured the Orange SPV, which we believe is the first commercially launched Smartphone based on Microsoft's Smartphone operating platform. In contrast, most of our Taiwanese ODM peers have other major core businesses like desktop and notebook PC manufacturing aside from their recent efforts to enter the smart handheld device sector. We believe that the diffused focus of our peers may hinder their research and development efforts in smart handheld devices as they may need to reallocate financial and engineering resources across their different product groups.

Ability to provide high value-added, innovative design solutions

Capitalizing on our superior research and development capabilities and our strong strategic relationships with global technology leaders, we have the ability to provide high-value added, innovative design solutions for our customers' smart handheld devices, and have been able to attract top tier customers. As the smart handheld device industry is still in its infancy stage and given the size limitations of smart handheld devices, we work closely with our component suppliers to design non-standard components; develop our own system software based on the Windows CE operating system, including system drivers and system management utilities; and customize licensed technologies for use in our wireless handheld devices, such as the development of RF software based on technologies we licensed from TI. This collaboration affords us the opportunity to help design new input components before they reach the market, allowing us to implement design modifications in our own devices ahead of our competitors. Furthermore, given our ODM business model, we are able to work with customers during their product design stage. This early access to the product development of leading technology companies provides us with a more in-depth understanding of the end-user market trends as well as the ability to access and leverage the extensive research and development infrastructure of our customers to enhance the design and functionality of our product offerings. This differentiates us from some of our competitors, which only provide manufacturing services based on their customers' product design specifications.

Deep experience and superior capability in high quality mass production

Given our early mover advantage and leadership position in the Windows CE-based smart handheld device sector, we have been able to attain a production scale that we believe is ahead of most of our handheld ODM peers. We currently have a production monthly run rate of over 170,000 units. We believe that this critical scale has created entry barriers for new market entrants and has given us several competitive advantages, including a more efficient cost structure; strong relationships with component suppliers which generally provide us with better access to components supply and ability to transfer inventory carry-risk to some suppliers; as well as faster time-to-volume and time-to-market capabilities.

Moreover, we have been able to effectively work with our component suppliers through the non-standard and frequent product specification changes typical in an emerging industry. Our integrated product design and manufacturing approach has allowed us to reduce potential increases in costs due to incompatibility between our product design and our manufacturing processes. Moreover, since the manufacturing process for wireless Pocket PCs and Smartphones is similar to that for Pocket PCs, we also do not have to incur significant additional capital expenditures in expanding into the converged wireless handheld sector.

BUSINESS STRATEGY

Our mission is to become the global market leader of smart handheld devices by providing our customers value-added design, world-class manufacturing and logistic and service capabilities. We believe that we are well positioned to take advantage of the increased global demand for smart handheld devices, particularly in the converged wireless sector. Key elements of our strategy are as follows:

Continue to invest in research and development, particularly for converged wireless handheld devices

As wireless communications and mobile information become more intertwined, we plan to continue to invest in technology development and improve our design and manufacturing capabilities, particularly in the area of converged wireless smart handheld devices. Our research and development department has grown from approximately 120 engineers in 1998 to approximately 420 as of December 31, 2002. We plan to continue our commitment to invest in research and development in the future by recruiting experienced engineers, particularly in the fields of RF and software. Moreover, we plan to continue to leverage the strong research and development infrastructure we have already established to enhance our existing products and to develop and expand new offerings, such as new generations of wireless Pocket PCs and Smartphones that possess the requisite functionality and affordability for our customers and their end-users.

Strengthen and expand our strategic relationships with global technology leaders

We benefit from our strong strategic relationships with Compaq, Intel, Microsoft, QUALCOMM and TI in the design and development of our smart handheld devices. In order to maintain our leading position in the technology-intensive and rapidly evolving smart handheld device industry, we seek to strengthen and expand our strategic relationships with leading technology vendors and gain early access to the latest technologies ahead of our competitors as well as to increase our supplier base and improve our negotiating position in terms of pricing

and supply. Moreover, we focus on developing close working relationships with our potential smart handheld device customers, particularly in their design process. We believe that by being involved at an early stage, we provide our customers with access to our technological expertise in the design of superior products with advanced features.

Continue to focus on designing innovative smart handheld devices and expand our product mix

Our early mover advantage in the smart handheld device market has helped establish our position as the leading ODM of innovative Windows CE-based smart handheld devices. We plan to continue to leverage our leading Pocket PC industry position and experience in continuing to design innovative smart handheld devices and expand our product mix to include higher end and higher margin wireless Pocket PCs and Smartphones. We shipped our first and second generation wireless Pocket PCs in 2001 and commenced shipments of our third-generation wireless Pocket PCs, featuring color display panels, in May 2002. We also commenced shipment of the Orange SPV, a Smartphone based on Microsoft's Smartphone operating platform, 2002 OS, in October 2002. We expect that sales of these newer, higher-margin products to gradually account for an increasing percentage of our total revenues in the future, and to help us achieve a more balanced revenue mix.

Diversify our customer base

We plan to leverage our existing competitive advantages and resources, which we have marshalled in our successful development of iPAQs, to diversify our customer base and channels of distribution, particularly outside our traditional customers. Given the competitive telecommunications landscape, mobile operators are increasingly trying to differentiate their products and services to expand their subscriber base and enhance user loyalty. Customized converged wireless devices may serve as an excellent differentiation opportunity. We intend to capitalize on this potential wireless market opportunity by allowing mobile operators to bundle our customized converged wireless products with their other service offerings. We focus on continuing to penetrate the wireless carrier markets with our current GSM/GPRS solutions and have recently commenced shipments of our wireless Pocket PCs to:

- O2 in the UK;
- T-Mobile USA in the US; and
- Siemens AG, which plans to sell its wireless Pocket PCs through the distribution channels of AT&T Wireless in the US.

We have also commenced shipments of the Orange SPV, a Smartphone based on Microsoft's Smartphone operating platform, 2002 OS, to Orange SA, the mobile-phone unit of France Telecom SA. We hope our success in winning these customers will enable us to obtain increased outsourcing business in the converged wireless handheld device sector.

PRODUCTS

General

As a designer and manufacturer of smart handheld devices, we currently focus on the production of three types of products:

- Pocket PCs — Windows CE-based smart handheld devices that have accessing and managing data as their core functionalities, often designed as desktop or notebook PC supplements;
- wireless Pocket PCs — Pocket PCs that include integrated or add-on wireless data and/or telephony capabilities that allow them to be used for wireless voice communication and Internet access; and
- Smartphones — digital wireless handsets that offer significant data capabilities.

From 1999 to 2001, our primary products were Pocket PCs, which were also called palm-size PCs in the past. Sales of smart handheld devices accounted for 80.0%, 83.9%, 90.0% and 92.0% of our total revenues in 1999, 2000, 2001 and the first nine months of 2002, respectively. In 2001, we commenced shipments of our first- and second-generation wireless Pocket PCs. Starting in the fourth quarter of 2002, we have added Smartphones to our product mix. We expect wireless Pocket PCs and Smartphones to account for an increasing percentage of our total revenues in the near future.

We also manufacture and sell peripherals for our smart handheld devices.

For a percentage breakdown of our total revenues categorized by geographic segments, see “— Sales and marketing.”

Pocket PCs

We design and manufacture a wide range of Pocket PCs in cooperation with our customers. A Pocket PC provides personal information management functions such as calendar, contacts, notes and tasks. A Pocket PC can also provide the same working environment as a regular PC with pocket word processors and spreadsheets. Our Pocket PCs are equipped with color displays and acoustics output for multimedia entertainment, supporting Windows media player, games, music and videos, as well as providing other applications. We are a major supplier of Compaq’s iPAQs, and our direct sales to Compaq accounted for 84.2%, 86.0% and 70.7% of our total revenues in 2000, 2001 and the first nine months of 2002, respectively.

Wireless Pocket PC

Aside from personal information management functions, a wireless Pocket PC allows users to browse the web, receive and send wireless electronic messages, and make and receive phone calls. We plan to continue developing new products based on Microsoft’s operating system platform, which currently is the Pocket PC 2002 Phone Edition. In 2001, we commenced shipments of our first- and second-generation wireless Pocket PCs. In 2001, we started to collaborate with TI to adopt its wireless solution based on its DSP technology in our next generation wireless devices. We commenced shipments of wireless Pocket PCs to O2 and T-Mobile USA in the second quarter of 2002. In the third quarter of 2002, we commenced shipments of wireless Pocket PCs to Siemens. We are working on both GSM/GPRS and CDMA solutions for our wireless Pocket PCs based on technologies licensed from TI and QUALCOMM.

Smartphones

A Smartphone provides significant data capabilities in addition to the normal functions of a mobile phone. With Smartphones, users can access information such as voice, SMS, emails and instant messages anywhere, anytime. Smartphones enable users to browse the internet with an extraordinary mobile explorer, supporting WML, XML, HTML and cHTML formats, provide personal information management and enable users to download applications, music, video and games to the Smartphones. In October 2002, we introduced and commenced shipment of the Orange SPV, a Smartphone based on Microsoft’s Smartphone operating platform, 2002 OS, rolled out by Orange SA in the U.K., France, Denmark and Switzerland. We are responsible for the design, manufacturing and system-integration of the Orange SPV.

DESIGN, RESEARCH AND DEVELOPMENT

The smart handheld device industry is characterized by rapidly evolving technological advances as evidenced by frequent introductions of new products and enhancements. Changes in our customers’ products drive our research and development efforts. Our research and development policy for the last three years has been to stay ahead of the market by developing innovative products in anticipation of future customer demand. As our customers’ products are both decreasing in size and increasing in functionality, we must continually develop advanced technologies to support them. We are especially experienced in design-for-manufacturability analysis, component engineering and a full range of testing and quality services. Our research and development efforts also benefit considerably from our strong strategic relationships with Intel, Microsoft, QUALCOMM and TI. Going forward, we expect to continue focusing our research and development efforts on wireless smart handheld devices, such as wireless Pocket PCs and Smartphones. We also plan to continue to recruit additional software and RF engineers in the near future in anticipation of growth in the wireless handheld segment.

Unlike traditional PC OEMs, which merely manufacture products based on their customers’ own design specifications, using standardized components and system software, we are involved from the very beginning with our customers’ product development and generally are in charge of the overall design of our smart handheld devices in close coordination with our customers. We believe that the ability to provide innovative designs plays an important role in our success. We emphasize quality and reliability in the design, development and manufacture of our products. We believe that fundamental quality problems are most likely to occur during the

design stage. As a result, we place particular emphasis on the design review process. We design new products and develop their manufacturing processes concurrently to the extent practicable. Each of our project teams in the research and development department is responsible for the quality of the product which it designs. We believe that our high value-added, innovative design capabilities have helped to set us apart from our industry peers.

Our research and development expertise includes software, logic, power, mechanical, RF and electronic computer aided design. We implement a strict engineering process during the product development phase. We utilize an advanced computerized statistical design methodology to analyze critical design areas and to identify potential design weaknesses that are difficult to be detected manually.

Design for smart handheld devices entails the efficient packaging of several dissimilar components such as CPUs, ASICs, SDRAM, analog circuitry like audio, power and RF components, and batteries fitting into small handheld casings. At the same time, to differentiate our products, we must be able to provide additional features such as increased battery life, increased multimedia capabilities or increased ruggedness to our products. Our testing engineer team evaluates a product to ensure that it is built to proper specifications and strives to exceed customer expectation for design quality. Our system integration test team rigorously tests software components to ensure the integrity of the user interface and functionality. To ensure design and component quality, our product assurance team performs comprehensive hardware testing under various simulated severe environments such as dropping, vibration, extreme temperature and humidity.

As the smart handheld device industry is still in its infancy and given the size limitations of smart handheld devices, we work closely with our suppliers to design non-standard components. For example, a supplier will send a prototype of an input component to us and we will test it for its functionality in our products and provide design suggestions for improvements in the component's performance. We believe this collaboration affords us access to new input components before they reach the market, giving us an opportunity to implement design modifications in our own products before our competitors.

In addition, we develop our own system software based on the Windows CE operating system, including system drivers and system management utilities, as standard system software is not currently available. We also customize licensed technologies for use in our wireless handheld devices, such as the development of radio software based on technologies we licensed from TI.

Besides electronics design, software development and integration and components design, we also provide industrial design support for our customers. As smart handheld devices are marketed as mobile, personal electronic companions to end-users, ergonomics design considerations play a major role in the platform technology. Therefore, we work closely with our customers to develop stylish and convenient packaging and pursue new material finishing for our smart handheld devices.

Our research and development department is divided into two divisions, the information appliance ("IA") engineering division and the wireless mobile ("WM") engineering division, based on the different customer bases of the two divisions. Both our IA and WM divisions focus on research and development in the traditional handheld sector, including Pocket PCs, as well as the wireless handheld sector, such as wireless Pocket PCs and Smartphones. Our research and development expenditures increased 35.9% to NT\$500.4 million (US\$14.3 million) in the first nine months of 2002 from NT\$368.3 in the corresponding period of 2001. In 2001, our annual turnover in research and development employees was 7.9%. Our research and development expenditures increased 55.7% to NT\$484.0 million (US\$13.8 million) in 2001 from NT\$310.9 million in 2000 and 60.4% in 2000 from NT\$193.8 million in 1999.

MANUFACTURING PROCESS

Production

Throughout the entire production cycle, a dedicated manufacturing team is assigned responsibility for each individual smart handheld device we produce. This team is comprised of experts from each of the manufacturing processes: new product verification, supply management, inventory control and quality assurance. We currently have approximately 1,100 manufacturing personnel.

As our customers typically require short delivery times, we maintain a flexible production system so that we can cater to each customer's specific needs and requirements. Under our build-to-order production model, after we have completed the design process, we produce, typically in batch form, fully assembled smart handheld devices after receiving an order for a particular model from our customers. Final products are shipped to our customers or their distributors for subsequent delivery to retailers or end-users or are shipped directly by us to our customers' designated retailers or, in some instances, end-users. We generally manufacture our products within approximately one week and ship our products shortly thereafter to minimize inventory buildup.

At the beginning of our manufacturing process, input components are mechanically soldered to the surface of a printed circuit board on our surface mount technology ("SMT") lines. This process is performed by machines at speeds of less than 0.1 second per input component. Each assembled printed circuit board takes approximately 45 minutes to manufacture. We then carry out intermediate testing procedures to detect short or open circuits and input component failures and errors. Once the assembled printed circuit board passes intermediate quality control and testing, it is stored in our semi-final product inventory for use in the final assembly stage. Input components and peripherals, such as LCD, CPU, SDRAM, battery and casing are installed in the final assembly stage. After the final assembly stage, we put the assembled smart handheld device through a "run-in" test, which requires the product to run for approximately 2 to 12 hours to determine whether all the components and peripherals are performing satisfactorily. In some instances, our customer may then choose to inspect the product. The product is then serialized and packed for shipping.

Quality Assurance

We believe we have strict quality assurance procedures, including hiring highly skilled research and development personnel, redesigning our smart handheld devices on a periodic basis and implementing stringent design, inspection and manufacturing controls throughout the production process. We monitor our production efficiency through our Quality Improvement Program, which provides us with daily defect and failure data.

We have implemented procedures designed to incorporate our customers into the qualification process of our new products and manufacturing technologies in order to reduce time to market and at the same time to ensure that our products meet all customer expectations as well as industry standards. Only after new products have demonstrated conformity with all quality requirements by passing the qualification process can their shipment to customers commence.

We have earned numerous recognitions for our quality systems. We have received and currently hold ISO-9001 and TL9000 certifications for our products and manufacturing processes from International Standards Organization, an organization formed by delegates from member countries to establish international quality assurance standards.

SALES AND MARKETING

We sell our products to customers who market these products under their own brand names. We aim to establish long-term relationships with customers who seek to outsource design and production of high quality smart handheld devices. We target new customers who we believe have product strategies that fit our growth strategy and to whom we believe we can add value through our competitive strengths. Direct sales to our largest customer, Compaq, accounted for approximately 84.2%, 86.0% and 70.7% of our total revenues in 2000, 2001 and the first nine months of 2002, respectively. We actively seek to diversify our customer base by gaining more design wins and obtaining orders from new customers for both our Pocket PCs and converged wireless devices. We expect Compaq to account for a declining percentage of our total revenues going forward as we expand our customer roster and offer new products.

We work with our customers throughout the entire product life-cycle, from product design to after-market support. Substantially all of our marketing is conducted through customer visits. Both sales and research and development personnel participate in these visits, at which we discuss how our products and capabilities can be effectively utilized by customers in their product strategies. We collaborate with customers to manage product planning, including essential measures such as usage scenarios, customer requirements, feasibility studies, component analysis, product customization and value chain analysis.

Business

As of December 31, 2002, we had 25 sales and marketing staff located in Taiwan, as well as two authorized service providers in North America, four in Europe and five in Asia in the provision of after-sales support in those regions.

The following table sets forth, for the periods indicated, the percentage breakdown of our total revenues, categorized by geographic segments.

	Year Ended December 31,			Nine Months Ended September 30,
	1999	2000	2001	2002
The United States.....	1.0%	83.4%	88.7%	78.0%
Taiwan	89.7	9.5	5.8	5.5
Asia (exclude Taiwan).....	7.4	5.6	0.5	3.8
Others	1.9	1.5	5.0	12.7
Total.....	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

We believe that, as we sell our products to branded smart handheld device vendors who resell them to end-users worldwide, the actual geographic distribution of our products is more diverse than indicated in the table above. In each of 2000, 2001 and the first nine months of 2002, of the percentage of total revenues derived from our direct sales to our US customers, a substantial portion was attributable to resales by our customers outside the United States to Europe, the Middle East, Africa, Asia and the rest of the world. Therefore, we believe that we are less susceptible to economic downturn in any particular region.

Our sales contracts are generally one- to three-year renewable umbrella agreements providing the basic terms for sales of multiple products to a single customer. Customers typically provide us with weekly rolling forecasts of their requirements for the coming three to six months and sales are made on the basis of purchase orders placed with us. Purchase orders are subject to price renegotiations and changes in delivery schedules in order to accommodate changes in the customers' requirement. Our customers generally place purchase orders approximately eight weeks prior to delivery. These purchase orders, however, are subject to limited increases or decreases at the option of the customers according to the specific terms of the sales agreements. Purchase orders typically are not modified fewer than 30 days before scheduled delivery.

A substantial portion of our sales are denominated in US dollars. Going forward, we expect that a portion of our sales will be denominated in Euros, as we increase the number of our European customers.

We price our products principally on the basis of contracts agreed with our customers. Our pricing policy is based on four major elements: (i) anticipated component costs, (ii) anticipated research and development costs, (iii) anticipated manufacturing and overhead costs, plus (iv) an agreed margin over the anticipated total costs. We usually review these estimated costs on a monthly basis with our customers in order to reflect changing market and operational conditions, particularly in the price of our input components, which can often be volatile.

To the extent that our actual costs are different from our anticipated total costs, our realized margin may differ from the agreed amount from time to time. Our actual costs, and, therefore, profitability, may vary depending on our yield improvement and cost reduction efforts. This pricing arrangement provides us with a profit incentive to maximize our efficiency and procurement power. On the other hand, if conditions are adverse, as in the case of the global shortage of LCD panels in 1999 and 2000, we may be exposed to reduced margins in the short term. We believe our pricing arrangement permits some risk sharing and is equitable to us and our customers.

SUPPLY CHAIN MANAGEMENT

We provide comprehensive logistics and distribution services to our customers. Through our service network, we are able to deliver a finished product to a customer, its distributor, its designated retailer or an end-user in any part of the world.

We have installed an electronic data interchange (“EDI”) system in order to enhance our global supply chain management system. The EDI system enables us to exchange all supply chain data, including details of purchase orders relating to particular transactions with our suppliers, customers and service providers. We believe that with our EDI system, we can deliver our products to end users in major cities within seven days of receiving an order.

We offer our customers a flexible, just-in-time delivery service by coordinating shipments with our customers’ inventory requirements. Increasingly, we deliver products directly to our customers’ distribution channels or to end-users. We believe that this service provides our customers with a comprehensive distribution solution and enables them to respond quickly to market demands.

COMPETITION

We are the world’s largest ODM of Windows CE-based Pocket PCs. The principal factors relating to our competition in the smart handheld device industry include design, features, performance, price, corporate reputation as well as service and support. We believe that our superior research and development, design and manufacturing capabilities as well as our strong strategic relationship with global technology leaders enable us to compete favorably in these areas.

Our principal competitors include:

- Other designers and manufacturers of Windows CE-based smart handheld devices; and
- Designers and manufacturers of smart handheld devices based on other operating systems, such as the Palm operating system.

Competition in the regular Windows CE-based Pocket PC market is expected to become more intense since a number of Taiwanese and Korean PC companies have recently entered this industry. Therefore, we have experienced margin pressures in our regular Windows CE-based Pocket PC products. However, we believe that our fully dedicated research and development efforts in the smart handheld device sector, which we believe differentiates us from these PC companies, will continue to enable us to lead the competition in designing and manufacturing wireless Pocket PCs and Smartphones. In addition, as we expand into the converged wireless handheld device sector, we expect increased competition from mobile phone makers and handset ODMs.

Our market position depends, to a certain extent, on our continuing relationship with the newly merged Hewlett-Packard, a product of the recent merger between Compaq and Hewlett-Packard. There have been reports that Compaq has added LG Electronics as an additional source for one of the iPAQ lines. However, the newly merged Hewlett-Packard has announced that it will adopt iPAQ as its sole line of smart handheld devices, which we believe will help us to maintain our role as a major supplier of iPAQs.

Our smart handheld devices are currently based on Microsoft’s Windows CE operating system, and we and our smart handheld device customers compete with designers and manufacturers of smart handheld devices based on other operating systems, such as the Palm operating system, which currently enjoys a significant advantage in market share over Windows CE-based products. We believe the superior functionality of the Windows CE operating system will help Windows CE-based smart handheld devices to continue to gain market share in the near future. In terms of worldwide handheld device shipments, excluding converged wireless products, IDC estimates that the Palm operating system market share will decrease from 52.8% in 2001 to 41.7% in 2006 as compared with the increasing market share of the Windows CE operating system from 21.1% in 2001 to 34.6% in 2006. We believe that this expected growth in the market share of Windows CE products will benefit our competitive position in the next few years.

SUPPLY

As one of the early entrants in the Windows CE-based smart handheld device industry, we have worked through the non-standard and frequent product specification changes and have built strong relationships with component suppliers. As one of the largest Windows CE platform builders, we maintain a strong partnership with Intel on the StrongArm CPU and Microsoft on the Windows CE operation system. We also have RF support from QUALCOMM and TI. See “— Design, research and development” and “— Intellectual property.” Our strategic

relationships with our suppliers provide us with early access to key technologies, a more stable supply in times of shortage as well as technology and after market support. We expect these relationships to be further strengthened as we continue to work with these suppliers to improve and expand the usage of their product offerings in the smart handheld device industry.

Input components generally comprise the largest single cost for all of our products and accounted for approximately 87.2%, 86.3%, 91.0% and 89.5% of our total cost of revenues in 1999, 2000, 2001 and the first nine months of 2002, respectively. The following key input components are used in the manufacture of our smart handheld devices — LCDs, ICs, Flash ROM, batteries, CPUs, passive components, PCBs and SDRAM.

The following table sets forth our current principal suppliers for some of our key input components.

Input Component	Principal Suppliers
LCD	Sony, Mitsui, TMD, Hitachi
IC	MAXIM, Toshiba, Fairchild
Flash ROM	Intel
Batteries	Danionics, Toshiba, Sony, Samsung
CPU	Intel

Passive components, PCBs and SDRAM are commodity products that we believe we will be able to procure from multiple sources. We maintain a certain amount of inventories of input components to meet our customers' increasing demand for shipment. We utilize a supply chain tracking system to monitor our input component and inventory levels. See "— Supply chain management."

We generally do not enter into long-term supply contracts. We provide our suppliers, on a weekly basis, three-to six-month rolling forecasts of our input component requirements, which are based on forecasts provided to us by our customers' requirements. We then submit firm purchase orders for our short-term requirements closer to the time of delivery. The prices we pay for input components are typically not set at the time we place our firm orders. Rather, we negotiate prices with our suppliers periodically — typically on a monthly basis. Payment terms are between 30 to 90 days from the date of invoicing.

In addition, from time to time, some of our customers enter into their own contracts with suppliers for input components that we use in our production process. These contracts typically provide for shipping of input components directly to us for assembly and testing. We pay for these input components ourselves and add the costs to our manufacturing costs. In such cases, we can take advantage of our customers' procurement power to secure an adequate supply of input components.

In 2000, we experienced shortages of LCD panels and we might not always be able to procure input components we need in a timely manner. However, because we have developed strong relationships with our suppliers, we have in general received favorable allocations from our suppliers. However, if shortages of input components occur, we cannot be certain that we will be able to obtain an adequate supply, even with a favorable allocation from our suppliers, or that we would be able to pass on all of the increased costs of the input components to our customers.

FACILITIES

Currently, we have two facilities. Our Taoyuan facility serves as our headquarters and our manufacturing facility and hosts our IA engineering division. The Taoyuan facility has been in operation since April 2001. It has 49,913 square meters of floor space and we own the land on which it is located. The production facility has 15 SMT lines with current annual capacity of 3.0 million units. Currently, approximately 1,850 employees work in our Taoyuan facility.

Our Taipei facility hosts the WM engineering division. The Taipei facility has been in operation since May 1997. It has 4,235 square meters of floor space and we own a portion of the land on which it is located and lease the rest of the floor space from VIA Technologies, Inc.

In addition, in anticipation of future capacity requirements, we are considering expanding our operations to the PRC for the production, sale and distribution of smart handheld devices in the PRC. We have obtained the necessary ROC regulatory approval for such expansion in the PRC.

INTELLECTUAL PROPERTY

As of December 31, 2002, we owned 16 patents in Taiwan, six patents in the United States and 20 patents in the PRC primarily relating to mechanical designs, power management, wireless communication and software technology in Pocket PCs, wireless Pocket PCs and Smartphones. As of December 31, 2002, we had approximately 219 pending patent applications in Taiwan, the United States, Europe, Japan and Korea. We also have one major trademark, "LifeSync" and a pending logo application in Taiwan.

We currently license certain intellectual property from third parties for use in manufacturing our products. We have a worldwide royalty-bearing CDMA subscriber unit and modem card license agreement with QUALCOMM. Under this agreement, we have been granted a CDMA second- and third-generation (3G) license by QUALCOMM to develop, manufacture and sell subscriber units and CDMA modem card products for standards including CDMA2000, WCDMA and TD-SCDMA. Under the terms of the license, royalties are paid quarterly according to the number of units sold.

We have a GSM/GPRS license agreement with TI. Under this ten-year technology agreement, we have been granted the use of TI's GSM/GPRS technologies to design wireless communication handset terminals incorporating TI's digital signal processors. We have also been granted a license to reproduce and distribute software as firmware embedded in a TI DSP or its external memory and to modify any source code that may be provided in the software. TI also provides us with RF technical support and helps us in training our technical personnel. We are required to pay royalties under this agreement.

We also have a royalty-bearing OEM embedded operating systems license agreement with Microsoft under which we have been granted a license for Microsoft Windows for Pocket PC 2002 Edition. We make quarterly minimum commitment payments to Microsoft and to the extent that sales-based royalty payments due in any quarter would exceed the minimum commitment payments, we make such excess royalty payments on a monthly basis.

We require all of our employees to sign an employment agreement which prohibits the disclosure of any of our trade secrets and proprietary technologies and also requires technical personnel to assign to us any inventions they develop that are related to our business.

ENVIRONMENTAL MATTERS

We are primarily engaged in the production of smart handheld devices, which does not result in the production of a significant amount of pollutants. We have not incurred any losses due to environmental problems in the past three years and believe we are in compliance with all relevant ROC environmental protection laws. Under applicable ROC environmental laws, we are not required to obtain permits for our waste facilities or for waste emission, nor are we required to pay pollution prevention fees. We are required to establish, and have established, an environmental protection department to monitor our environmental compliance. We have received and currently hold ISO-14001 certification for our environmental management system.

GOVERNMENT REGULATION

Our products are subject to certain regulatory controls in a number of jurisdictions, including the United States, where a substantial portion of our products are sold. These controls include measures relating to safety and EMI. We monitor developments in and compliance with these regulations as part of our operations.

All of our products sold in the United States meet applicable regulations, including Federal Communication Commission rules in relation to EMI requirements and Department of Health and Human Services rules in relation to safety requirements. Similarly, all of our products sold in Europe meet applicable regulations of the European Union, including requirements relating to electro-magnetic compatibility (encompassing EMI and electro-magnetic susceptibility) and safety. There are also a series of ergonomic European country-specific measures with which products distributed in those countries must comply.

LEGAL PROCEEDINGS

We are not involved in any material legal proceedings.

INSURANCE

We maintain insurance policies with independent third parties in respect of buildings, equipment and certain inventories covering losses due to fire, earthquake, flood and a wide range of natural disasters. Insurance coverage for inventories as of September 30, 2002 amounted to NT\$2.3 billion and insurance coverage for our fixed assets, other than land, amounted to NT\$1.9 billion as of September 30, 2002. We also maintain long-term insurance policies in respect of marine, air and inland transit risks for our imports and exports. We do not maintain business interruption insurance or key-man life insurance on our executive officers. Significant damages to any of our production facilities and buildings, whether as a result of fire or other causes, could have a material adverse effect on our results of operations. For 2001, we paid an aggregate of approximately NT\$6.5 million in insurance policy premiums. See “Risk factors — Due to our location in Taiwan, we and many of our customers and suppliers are vulnerable to natural disasters and other events outside our control, which may seriously disrupt our operation.” We consider our insurance coverage to be adequate.

EMPLOYEES

As of December 31, 2000, 2001 and 2002, we had approximately 850, 1,800 and 2,100 employees, respectively. As of December 31, 2002, approximately 70 of our employees were senior management, approximately 420 (excluding the senior management) were employed in research and development, approximately 340 were production technician and engineering employees, approximately 110 were administrators, approximately 100 were employed in sales and marketing and approximately 1,150 were employed as manufacturing operators. Almost 50% of our employees are production engineers, technicians or research scientists. Our continued success is dependent in large part on our ability to attract, retain, train and motivate qualified operational, technical and management personnel. In 2001, our overall turnover rate was 14.6% including operators and 11.9% excluding operators.

Our employees are not covered by any collective bargaining agreements. We consider our relationships with our employees to be good. To date we have not experienced labor disputes. We believe our wages are competitive with other Taiwanese companies in our industry. In addition, we provide our employees with benefits such as lunch and transportation to work and, in the case of our foreign employees, housing subsidies. In compliance with ROC law, we also provide health benefits to our employees under the National Health Insurance Plan and the Labor Insurance Plan.

We have a profit sharing program for our employees. Under our Articles of Incorporation, one percent of our net income (after making up losses incurred in prior years, paying taxes, setting aside 10% of our net income as legal reserve and a special reserve) shall be allocated as remuneration for Directors and Supervisors and at least five percent of our net income (after the same adjustments and deductions) shall be allocated as bonuses to employees. These profit sharing amounts to employees may be made in cash or Shares or a combination thereof. If Shares are to be issued, the amount of the allowable percentage is based on the par value of our Shares. Our shareholders must approve the issuance of Shares for this purpose at a shareholders’ meeting. See “Description of the Shares.” In March 2002, our shareholders approved employee bonuses of NT\$130.0 million and Directors’ and Supervisors’ remuneration of NT\$8.7 million. See “Dividends and dividend policy.” We may, in the future, adopt an employee stock option plan. Any such plan is subject to approval by our Board of Directors and the applicable regulatory authorities.

We maintain a pension plan for our employees in accordance with the ROC Labour Standards Law (the “Labour Law”). Pursuant to the ROC’s Rules for the Allocation and Management of Employees’ Retirement Fund (the “Rules”), we have an obligation to contribute on a monthly basis an amount ranging from two percent to 15% of an employee’s total monthly wages to the retirement fund of our pension plan. The applicable rate of contribution under the Rules is determined by taking into account the seniority of employees, the wage structure, the employee turnover rate during the preceding five years, the number of employees who will retire over the succeeding five years and the amount of funds that were in our retirement account prior to the effectiveness of the Rules. The contribution rate used by us, determined in accordance with the Rules and approved by the relevant government authorities, was 2% in 2001. As of September 30, 2002, our retirement fund had

approximately NT\$37.8 million (US\$1.1 million) deposited with the Central Trust of China, a government designated custodian of pension funds managed by the Pension Fund Administration Committee. See “Summary of certain differences between ROC GAAP and US GAAP” for a description of certain differences between accounting for pensions under ROC GAAP and US GAAP. Actual payment of pension or retirement benefits under the Labour Law and our retirement benefits plan is financed by this pension fund, and any insufficiency is funded by us and charged to income. See Notes 2 and 16 of Notes to Audited Annual Financial Statements.

On December 11, 2002, we adopted our first employee stock option plan. We filed a report with the ROC SFC for the issuance of employee stock options, which report became effective on December 25, 2002. Under this plan, for a period of one year from such effective date, we may issue up to 7,000,000 employee stock options on one or more occasions. Each option entitles the holder to purchase one Share at the price equal to the closing market price on the date of the option issuance. The option is exercisable to the extent vested for five years and is vested for 35%, 70% and 100% in the second, third and fourth anniversary dates, respectively. The options are generally not transferable. Currently, no such stock option has been issued.

PRINCIPAL SUBSIDIARY AND INVESTEE COMPANY

The following table sets forth certain information as of September 30, 2002 regarding our direct subsidiary H.T.C. (B.V.I.) Corp. and our principal investee company, Auto Hi-Tech Computer Corp.

Name and registered office	Book Value of the Company's Investment	Percentage Interest held by the Company	Principal Business
H.T.C. (B.V.I.) Corp. 3F Omar Hodge Building Wickhams Cay I P.O. Box 362 Roadtown Tortola, B.V.I.	NT\$9.7 million	100%	Holding company for Qtek, Inc.
Auto Hi-Tech Computer Corp. 6F, #201-24 Tung-Hwa N. Road Taipei, Taiwan, ROC	NT\$4.1 million	20%	Automobile electronic product design and manufacturing company

H.T.C. (B.V.I.) Corp. is incorporated in the British Virgin Islands and is a holding company for Qtek, Inc. In 2000, we invested NT\$12.8 million and acquired a 100% ownership interest in it and accounted for such investment under the equity method. In 2001, we increased our investment in H.T.C. (B.V.I.) Corp. to NT\$19.4 million. In the first nine months of 2002, we increased our investment by an amount of NT\$5.9 million, of which NT\$2.4 million was reflected as a prepayment for H.T.C. (B.V.I.) Corp. because the registration process had not been completed. H.T.C. (B.V.I.) Corp. has a 100%-owned U.S.-based subsidiary, Qtek, which is engaged in technology development. We did not receive any dividends from H.T.C. (B.V.I.) Corp. with respect to 2001. As of September 30, 2002, there was no intercompany debt owed by H.T.C. (B.V.I.) Corp. to us. Under ROC GAAP, we are not required to consolidate H.T.C. (B.V.I.) Corp.'s financial statements with ours because its total assets and total sales, individually, are less than 10% of our total assets and total sales.

Auto Hi-Tech Computer Corp. is an automobile electronic product design and manufacturing company based in Taiwan. It has an issued share capital of NT\$20 million. In December 2000, we invested NT\$4.0 million and acquired a 20% ownership interest in it and accounted for such investment under the equity method. We did not receive any dividends from Auto Hi-Tech Computer with respect to 2001. As of September 30, 2002, there was no intercompany debt owed by Auto Hi-Tech Computer Corp. to us.

Management

DIRECTORS AND SUPERVISORS

The ROC Company Law and our Articles of Incorporation provide that the Board of Directors is to be elected by our shareholders for three-year terms in a shareholders' meeting at which a quorum, consisting of a majority of all issued and outstanding Shares, is present. The Chairperson is a Director elected by the Board of Directors. Our five-member Board of Directors is responsible for the management of our business.

We currently have three Supervisors. Supervisors are typically elected at the time that Directors are elected. The Supervisors' duties and powers include, but are not limited to, investigation of our condition, inspection of our corporate records, verification of some statements by our Board of Directors prior to the shareholders' meetings, calling of shareholders' meetings, representing us in negotiations with our 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 our Articles of Incorporation or any resolution adopted at our shareholders' meeting. In accordance with the laws of the ROC relating to corporations, a Supervisor cannot concurrently serve as a Director, managerial officer or other staff member. The ROC Company Law requires at least one Supervisor be appointed at all times.

The term of office for our Directors and Supervisors is three years from the date of election. They may serve any number of consecutive terms and may be removed from office at any time by a resolution adopted at a shareholders' meeting. The Director or Supervisor being removed without a reason could claim for damages from us.

In accordance with ROC laws and regulations, each of our Directors and Supervisors is elected either in his or her capacity as an individual or as an individual representative of a corporate or government shareholder. A Director or Supervisor who serves as a representative of a legal entity may be removed or replaced at any time at the discretion of that legal entity, and the replacement Director or Supervisor may serve the remainder of the term of the office of the replaced Director or Supervisor.

The present members of the Board of Directors and our Supervisors took office on April 23, 2001 for three-year terms. The following table sets forth certain specified information with respect to each Director and Supervisor as of November 30, 2002:

Name	Position	Position Held Since	Number of Shares Held Directly	Number of Shares Held		Percentage of Total Shares Issued and Outstanding ⁽¹⁾
				Through Spouse and Minor Children		
Cher Wang ⁽²⁾	Chairperson	4/23/2001	6,721,895	—		4.13%
Wen-Chi Chen ⁽³⁾	Director	4/23/2001	5,519,524	—		3.39
H.T. Cho.....	Director	4/23/2001	670,000	—		*
Zhi-Guo Lin	Director	4/23/2001	2,400	—		*
Yue-Jiang Yu.....	Director	4/23/2001	2,444	—		*
Che Chen ⁽⁴⁾	Supervisor	4/23/2001	10,801,544	—		6.64
We-Cheng Huang ⁽⁴⁾	Supervisor	4/23/2001	750,000	—		*
Mei-Yuan Chang ⁽⁴⁾	Supervisor	4/23/2001	7,200	—		*

* Less than 1%.

- (1) Calculated by dividing the number of Shares held by such person and such person's spouse and minor children as indicated above by the number of total issued and outstanding Shares in each case as of November 30, 2002.
- (2) Ms. Wang is also the Chairperson of VIA Technologies, Inc. See "Principal and selling shareholders" for more shareholding information for Ms. Cher Wang, Mr. Wen-Chi Chen and VIA Technologies.
- (3) Mr. Chen is also the President of VIA Technologies, Inc. See "Principal and selling shareholders" for more shareholding information for Ms. Cher Wang, Mr. Wen-Chi Chen and VIA Technologies.
- (4) Mr. Chen serves in his capacity as the representative of Way-Chi Investment Co., Mr. Huang serves in his capacity as the representative of Alliance Investment & Management Corporation, and Ms. Chang serves in her capacity as the representative of CAPTEC Partners (Taiwan) Corp. The total number of Shares held by such persons indicated above represented the shareholding of the respective corporation for which they act as representatives.

Management

No Director or Supervisor holds any option to purchase our Shares.

The business address of each Director and Supervisor is our registered office.

Set forth below is a short biography of each of our Directors and Supervisors:

Cher Wang, the Chairperson of the Board of Directors, holds a master's degree in economics from the University of California at Berkeley. Ms. Wang is the Chairperson of the Board of Directors of VIA Technologies, Inc., H.T.C. (B.V.I.) and Auto Hi-Tech Computer Corp.

Wen-Chi Chen, a Director, holds a master's degree in electric engineering from the California Institute of Technology. Mr. Chen is a Director and the President of VIA Technologies. He is also the CEO of Symphony, a U.S. company.

H.T. Cho, a Director, is a graduate of National Taipei Technologies College. Mr. Cho also serves as our President. Prior to joining us, he served as a Director at Digital Equipment Corporation. He worked for Digital Equipment Corporation from 1975 to 1996. Mr. Cho is the President of Qtek, our indirect subsidiary, and the President of Auto Hi-Tech Computer Corp., our 20% investee company.

Zhi-Guo Lin, a Director, holds an MBA from Nankai University, the PRC. Mr. Lin served as a senior Vice-President at Siliconware Precision Industries Co., Ltd. Mr. Lin is the CEO of Global Advanced Packaging Technical Limited.

Yue-Jiang Yu, a Director, is a graduate of Hsing Wu College. Mr. Yu is the Chairperson of Cheng Da Footware Corp. and He Tai Zipper Corp.

Che Chen, acting as the representative of Way-Chi Investment Co., a Supervisor, holds a Ph.D in chemical engineering from the University of Florida. Prior to joining us, Mr. Chen was an assistant manager at Nan Ya Plastic Corporation. Mr. Chen is a Director of VIA Technologies Inc. and a Director of Nan Ya Plastics Corporation.

We-Cheng Huang, acting as the representative of Alliance Investment & Management Corporation, a Supervisor, holds a BA in enterprise research from National Cheng-Chi University. Mr. Huang served as Vice-President for China Motors. He is a Director of Yulon Motor.

Mei-Yuan Chang, acting as the representative of CAPTEC Partners (Taiwan) Corp., a Supervisor, holds a master's degree in industry and system engineering from Ohio State University. Ms. Chang is also the President of CAPTEC Partners (Taiwan) Corp.

EXECUTIVE OFFICERS

The following table sets forth certain information relating to our executive officers as of November 30, 2002. Our executive officers are appointed by our Board of Directors.

Name	Position	Age	Position Held Since
H.T. Cho	President	52	February 1, 1997
Peter Chou.....	Vice President	45	May 31, 1997
Fred Liu.....	Vice President	44	August 3, 1998
C.S. Wang.....	Vice President	54	March 2, 2001

No executive officer holds any option to purchase our Shares.

The business address of each executive officer is our registered office.

Set forth below is a short biography of each of our executive officers, other than Mr. H.T. Cho, whose biography is set forth under "— Directors and supervisors":

Peter Chou is the Vice President of our Wireless Mobile Engineering Division. He holds a BS degree in electrical engineering from National Taiwan Ocean University. Prior to joining us, Mr. Chou was a Director at Digital Equipment Corporation. He worked for Digital Equipment Corporation from 1983 to 1997.

Management

Fred Liu is the Vice President of our OEM Operation Division. He holds a BS degree in electrical engineering from Tatung University. Prior to joining us, Mr. Liu served as a Director at Digital Equipment Corporation. He worked for Digital Equipment Corporation from 1984 to 1998.

C.S. Wang is the Vice President of our MFG Operation Center. He holds an MBA from Michigan State University. Prior to joining us, Mr. Wang was a Managing Director of Manufacturing Operation at RCA. He worked for RCA from 1973 to 1997.

COMPENSATION OF DIRECTORS, SUPERVISORS AND EXECUTIVE OFFICERS

In 2001, we did not make any payment of remuneration and benefits to our Directors and Supervisors. The aggregate remuneration and benefits in kind paid to our executive officers were approximately NT\$18.5 million (US\$0.5 million) in 2001. See “Business — Employees.” In March 2002, our shareholders approved employee bonuses of NT\$130.0 million and Directors’ and Supervisors’ remuneration of NT\$8.7 million. See “Dividends and dividend policy.”

INTERESTS OF MANAGEMENT IN CERTAIN TRANSACTIONS

Certain of our Directors, Supervisors and executive officers also serve as directors, supervisors or executive officers of companies with which we do business. These companies include our indirect subsidiary Qtek and our affiliate, Auto Hi-Tech Computer Corp. See “Principal shareholders,” “Related party transactions” and Note 22 of the Notes to our Audited Annual Financial Statements as of and for the years ended December 31, 1999, 2000 and 2001 and Note 21 of the Notes to our Unaudited Interim Financial Statements as of and for the nine months ended September 30, 2001 and 2002. We conduct these transactions on an arms’ length commercial basis. There are no outstanding loans or loan guarantees granted by us to members of the administrative, management and supervisory bodies. None of our Directors, Supervisors or executive officers engaged in any unusual transaction in 2001 and the first nine months of 2002.

Principal shareholders

The following table sets forth certain information as of June 16, 2002, the latest record date, with respect to the Shares owned by each person who, according to our share register, held 5% or more of our Shares.

Name of Shareholder	Number of Shares	Percentage of Total Issued and Outstanding Shares ⁽¹⁾
Way-Chi Investment Co. ⁽²⁾	12,167,544	7.48%
Hon-Mou Investment Co. ⁽³⁾	11,999,544	7.37
VIA Technologies, Inc. ⁽⁴⁾	10,465,669	6.43

- (1) Calculated by dividing the number of Shares held by such person by the number of total issued and outstanding Shares in each case as of June 16, 2002.
- (2) Way-Chi Investment Co. is 94%-owned by Ms. Cher Wang, our Chairperson, who is the Chairperson of VIA Technologies. Ms. Wang is also the Chairperson of Way-Chi Investment Co. See “Management — Directors and supervisors” for additional information on Way-Chi Investment Co.’s shareholding as of November 30, 2002.
- (3) Hon-Mou Investment Co. is 94%-owned by Ms. Cher Wang, our Chairperson, who is the Chairperson of VIA Technologies. Ms. Wang is also the Chairperson of Hon-Mou Investment Co.
- (4) VIA Technologies also controlled indirectly, through majority-owned subsidiaries, 13,702,281 Shares, or approximately 8.42% of our Shares as of June 16, 2002.

Ms. Cher Wang, our Chairperson, held directly approximately 5.9 million Shares, or approximately 3.6% of our Shares, and controlled indirectly, through majority-owned investment companies, including Way-Chi Investment Co. and Hon-Mou Investment Co., our principal shareholders, approximately 60.3 million Shares, or approximately 37.1% of our Shares, in each case as of June 16, 2002. Mr. Wen-Chi Chen, our Director, held directly approximately 5.5 million Shares, or approximately 3.4% of our Shares, and controlled indirectly, through a majority-owned investment company, approximately 6.9 million Shares, or approximately 4.3% of our Shares, in each case as of June 16, 2002. As of June 16, 2002, our Directors, Supervisors and executive officers as a group held approximately 27.8 million Shares, or approximately 17.1% of our total issued and outstanding Shares. See “Management — Directors and supervisors” for additional information on the shareholding of our Directors and Supervisors, including Ms. Wang and Way-Chi Investment Co., as of November 30, 2002.

No Director, Supervisor or executive officer holds any option to purchase our Shares.

Changes in issued share capital

Changes in our issued share capital since our inception, not including this Offering, are set forth below.

Record Date	Type of Issue	Number of Shares Issued (thousands of shares)	Number of Shares Outstanding Following the Issue (thousands of shares)
May 15, 1997	Initial issuance of Shares for cash	500	500
March 11, 1998	Issuance of Shares for cash	19,000	19,500
October 23, 1998.....	Issuance of Shares for cash	80,500	100,000
August, 30, 2000	Issuance of Shares for cash	25,000	125,000
June 22, 2001	Issuance of Shares for cash	2,600	127,600
June 16, 2002	Issuance of Shares for stock dividends and employee bonuses	35,120	162,720

Related party transactions

We from time to time have engaged in a variety of transactions with our affiliates. Our policy on transactions with affiliates is that these transactions will be conducted on terms substantially as favorable to us as we could obtain at the time in a comparable arm's-length transaction with a person other than an affiliate. Any material related party transactions, depending on the nature and size of the transaction, must be approved in writing by a majority of the members of our Board of Directors. We have not extended any loan or credit to any of our Directors, Supervisors or executive officers, and we have not provided any guarantee for borrowings by any of these persons. We have not entered into any fee-paying agreements with any of these persons for him to provide services that are not within his capacity as our Director, Supervisor or executive officer.

Leo Systems Inc.

Prior to March 2000, we subcontracted out to Leo Systems Inc., a manufacturer of desktop and notebook PCs and smart handhold devices, the manufacture of our products, including the procurement of certain input components. In 1999 and 2000, we paid Leo Systems for such services in the amount of NT\$1,215.1 million and NT\$277.0 million, respectively, representing 72.4% and 5.8% of our total net purchases in 1999 and 2000, respectively. Leo Systems is also one of our ODM customers for Pocket PCs. In 1999, 2000, 2001 and the first nine months of 2002, we had total sales to Leo Systems of NT\$184.6 million, NT\$64.2 million, NT\$97.7 million (US\$2.8 million) and NT\$6.3 million (US\$0.2 million), respectively, representing 12.4%, 1.4%, 0.6% and 0.05% of our total revenues in the three years and the first nine months of 2002, respectively.

Our Chairperson, Ms. Cher Wang, is a Director of Leo Systems Inc.

First International Computer, Inc.

In 1999 and 2000, our sales to Compaq were made through First International Computer, Inc. ("FIC"), a manufacturer of motherboards and desktop and notebook PCs, as we were not yet qualified by Compaq. In 1999 and 2000, we had total sales to FIC of NT\$998.1 million and NT\$259.4 million, respectively, representing 67.0% and 5.7% of our total revenues in the two years, respectively. We made no sales to FIC in 2001 and the first nine months of 2002.

Our Chairperson, Ms. Cher Wang, is one of the immediate family members of FIC's Chairperson.

FIC Europe B.V.

FIC Europe B.V. is one of our authorized service providers in Europe. In 2000 and 2001, we paid service warranty expenses to FIC Europe B.V. of NT\$9.6 million and NT\$94.2 million, respectively, representing 34.4% and 48.2% of our total warranty expenses in the two years, respectively. In the first nine months of 2002, we paid service warranty expenses to FIC Europe B.V. of NT\$12.3 million (US\$0.4 million), representing 8.7% of our total warranty expenses for the period. In the first nine months of 2002, we had total sales to FIC Europe B.V. of NT\$26.3 million (US\$0.8 million), representing 0.2% of our total revenues in the period.

FIC Europe B.V. is a subsidiary of FIC.

Chander Electronics Corp.

In 2001, we purchased inventories and services from Chander Electronics Corp., a semiconductor, electronic component and software distributor, of NT\$26.1 million, representing 0.2% of our total net purchase. In the first nine months of 2002, we purchased inventories and services from Chander in the amount of NT\$195.8 million (US\$5.6 million), representing 1.8 % of our total net purchases for the period.

Our Chairperson, Ms. Cher Wang, is the also the Chairperson of Chander Electronics Corp.

Xander International (HK) Ltd.

In 1999 and 2000, we sold Pocket PCs on an ODM basis and had total sales to Xander International (HK) Ltd., an electronics product distributor, of NT\$12.8 million and NT\$114.1 million, respectively, representing 0.9% and 2.5% of our total revenues in the two years, respectively. We made no sales to Xander in 2001 and 2002.

Our Director, Mr. Wen-Chi Chen, is the Chairperson of Xander International Corp., the parent company of Xander International (HK) Ltd.

Related party transactions

VIA Technologies, Inc.

In December 1999, we transferred to VIA Technologies, Inc., a manufacturer of chipsets and microprocessors, some of our notebook PC technologies, for an aggregate amount of NT\$15.8 million. The related revenue, recognized as other operating revenues, for the year ended December 31, 1999 and 2000, amounted to NT\$2.7 million and NT\$13.1 million respectively. We also lease offices owned by VIA, and the rental payment was determined based on the prevailing rates in the surrounding area. From 1999 to 2001, we made rental payments NT\$3.6 million, NT\$7.2 million and NT\$11.5 million (US\$0.3 million) to VIA, respectively, representing 27.5%, 19.1% and 51.3% of our rental expenses, respectively. In the first nine months of 2002, we made rental payments NT\$5.3 million (US\$0.2 million) to VIA, representing 54.1% of our rental expenses.

Our Chairperson, Ms. Cher Wang, is also VIA's Chairperson.

Ms. Cher Wang

Our Chairperson, Ms. Cher Wang, has guaranteed all of our short-term borrowings and long-term debt. As of September 30, 2002, we had total availability of NT\$7,157.9 million (US\$205.0 million) in short-term credit facilities. As of September 30, 2002, we had NT\$1,067.4 million (US\$30.6 million) of short-term borrowings outstanding and NT\$127.0 million (US\$3.6 million) of long-term debt outstanding.

Description of the Bonds

The following is a description of the Terms and Conditions of the Bonds, which includes summaries of, and is subject to, the more detailed provisions of the Indenture referred to below. We urge you to read the Indenture in its entirety as it defines your rights and obligations as a holder of the Bonds.

The issue of US\$60,000,000 Zero Coupon Convertible Bonds due 2008 (the “Bonds,” which shall include any Optional Bonds issued pursuant to the option to increase the principal amount of the Bonds described in the Indenture (as defined below)) of High Tech Computer Corp. (the “Company” or “we”) was authorized by a resolution of our Board of Directors adopted on December 26, 2002. The Bonds are issued pursuant to an indenture (the “Indenture”) dated January 29, 2003 between us and The Bank of New York, as trustee (the “Trustee,” which term shall include all persons for the time being appointed as trustee or trustees under the Indenture) for the holders of the Bonds. We have entered into a paying and conversion agency agreement (the “Agency Agreement”) dated January 29, 2003 with The Bank of New York, as the Trustee and the registrar and principal paying, conversion and transfer agent appointed thereunder, and The Bank of New York (Luxembourg) S.A., as the other paying, conversion and transfer agent appointed thereunder (collectively, the “Agents” in relation to the Bonds). The registrar, principal paying and conversion agent, paying agents, conversion agents, transfer agents and replacement agent for the time being are referred to below as the “Registrar,” the “Principal Agent,” the “Paying Agents” (which expression shall include the Principal Agent), the “Conversion Agents” (which expression shall include the Principal Agent), the “Transfer Agents” (which expression shall include the Registrar) and the “Replacement Agent,” respectively. Copies of the Indenture and the Agency Agreement are available for inspection by holders of the Bonds during normal business hours at the principal office of the Trustee being at the date hereof at 101 Barclay Street, 21st Floor West, New York, N.Y. 10286, U.S.A., and at the specified offices of each of the Agents. The holders of the Bonds are entitled to the benefit of the Indenture and are bound by, and are deemed to have notice of, all of the provisions of the Indenture and the Agency Agreement.

1. STATUS

The Bonds constitute direct, unconditional, unsubordinated and, subject to the provisions of Condition 3, unsecured obligations of the Company and rank *pari passu* without any preference or priority among themselves and, subject to the provisions of Condition 3, shall at all times rank at least equally with all other present and future direct, unconditional, unsubordinated and unsecured obligations of the Company, except as may be required by mandatory provisions of law.

2. FORM, DENOMINATION AND TITLE

(A) Form and Denomination

The Bonds shall be issued in registered form, without coupons, and shall be offered, sold and transferred in principal amounts of US\$1,000 or an integral multiple thereof. The Bonds shall initially be represented by a global certificate (the “Global Certificate”), and only under the limited circumstances described in the Indenture Certificate shall definitive bond certificates (each a “Definitive Certificate”) be issued to holders of the Bonds in respect of their individual holdings. Each Definitive Certificate, if issued, shall be serially numbered and shall have an identifying number which shall be recorded on the relevant Certificate and in the register of holders of the Bonds, which the Company shall procure to be kept by the Registrar.

For the purposes of these Conditions, a “Certificate” means a Definitive Certificate or the Global Certificate.

The Bonds shall be represented by the Global Certificate and deposited with, and registered in the name of a nominee of, The Bank of New York, as common depository for Euroclear and Clearstream, Luxembourg.

(B) Title

The Bonds shall be registered instruments, and title to the Bonds shall pass by transfer and registration of title in the register of holders of the Bonds. The holder of any Bond shall, except as otherwise required by law, be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of

Description of the Bonds

ownership, trust or any interest in it or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person shall be liable for so treating the holder. In these Conditions, “holder of the Bonds” and “holder” in relation to a Bond mean the person in whose name a Bond is registered in the register of holders of the Bonds.

3. CERTAIN COVENANTS

(A) Negative Pledge

So long as any of the Bonds remains outstanding (as defined in the Indenture), the Company shall not, and shall not permit any of its Principal Subsidiaries (as defined below) to, create or permit to be outstanding any mortgage, charge, pledge, lien or other form of encumbrance or security interest (“Security”) upon the whole or any part of the property, assets or revenues of the Company or such Principal Subsidiary, as the case may be, present or future, to secure for the benefit of the holders of any International Investment Securities (as defined below) any payment of any sum due in respect of or under any guarantee of or indemnity or other like obligation relating to any such International Investment Securities, unless, in any such case, at the same time or prior thereto, either (1) the same Security is granted to the holders of the Bonds or (2) there is outstanding any guarantee, indemnity or other like obligation or such other security that is not materially less beneficial to the holders of the Bonds or as shall be approved by holders of the Bonds holding not less than 50% of the principal amount of the outstanding Bonds.

For the purposes of these Conditions:

“International Investment Securities” means bonds, debentures, notes, or other similar investment securities of the Company or any of its Principal Subsidiaries (as defined below) evidencing indebtedness with a maturity of not less than one year that (a) either (i) are by their terms payable, or confer a right to receive payment, in any currency other than NT dollars or (ii) are denominated or payable in NT dollars and more than 50% of the aggregate principal amount thereof is initially distributed outside the Republic of China (the “ROC”) by the Company or with its authorization; 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 ROC.

“Principal Subsidiary” means any corporation or other business entity more than 50% of the outstanding voting stock of which is for the time being owned directly or indirectly by the Company and either (a) the net sales or net operating revenues of which, as shown by the accounts (consolidated in the case of an entity which itself has subsidiaries) of such entity upon which the most recent audited consolidated accounts of the Company have been based, are at least 10% of its consolidated net sales or net operating revenues, as the case may be, as shown by such audited consolidated accounts; or (b) the gross assets of which, as shown by the aforementioned accounts, are at least 10% of its consolidated gross assets as shown by such audited consolidated accounts.

(B) Merger, Amalgamation or Consolidation

The Company shall not merge, amalgamate or consolidate with or into any other corporation or entity (if the Company is not the continuing entity) or sell or transfer all, or substantially all, of its assets, 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:

- (i) the Company has notified the holders of the Bonds of such event in accordance with Condition 14;
- (ii) the Company and such corporation, entity or person have executed an indenture supplemental to the Indenture, in form and substance satisfactory to the Trustee, and the supplemental indenture includes the following: (a) the express assumption by such corporation, entity or person of the Company’s obligations under the Bonds, the Indenture and the Agency Agreement, including the covenants contained in this Condition 3(B) relating to subsequent mergers, amalgamations, consolidations, sales or transfers; (b) provisions for the convertibility of each Bond then outstanding into the class and amount of shares and other securities, cash and other property receivable upon such merger, amalgamation, consolidation, sale or transfer by a holder of the number of Shares into which such Bonds would have been convertible immediately prior to such merger, amalgamation, consolidation, sale or transfer (assuming for such purpose

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that the Bonds were convertible at the time of such merger, amalgamation, consolidation, sale or transfer) at the Conversion Price as adjusted from time to time pursuant to the Indenture; and (c) provisions for adjustments that shall be as nearly equivalent as may be practicable to the adjustments provided for in the Condition 5(C);

- (iii) immediately after giving effect to such merger, amalgamation, consolidation, sale or transfer, no Event of Default shall have occurred or be continuing or would result therefrom; and
- (iv) the Company formed by such merger, amalgamation or consolidation or that acquired such assets shall expressly agree, among other things, to indemnify each holder of the Bonds against any tax, assessment or government charge payable by withholding or deduction thereafter imposed on such holder solely as a consequence of such merger, amalgamation, consolidation, sale or transfer with respect to the payment of any amount in connection with the Bonds.

The Company shall submit a copy of the supplemental indenture as well as a supplement to this Offering Circular to the Luxembourg Stock Exchange as soon as practicable, so long as the Bonds are listed on the Luxembourg Stock Exchange.

4. TRANSFERS OF BONDS; ISSUE OF CERTIFICATES

(A) Transfers

A Bond may be transferred as follows: (i) in the case of a Bond represented by a Definitive Certificate, by depositing such certificate at the specified office of any Transfer Agent, with the form of transfer on the back of such certificate duly completed and signed, or (ii) in the case of a Bond represented by the Global Certificate, by delivery at such office of a form of transfer duly completed and executed, and any other evidence that such Transfer Agent may reasonably require. In the case of a transfer of only part of a holding in respect of which a Definitive Certificate is issued, a new certificate shall be issued to the transferee in respect of the part transferred and a new certificate in respect of the balance of the holding not transferred shall be issued to the transferor.

The forms of transfer are available at the specified offices of any Transfer Agent during normal business hours. Transfers of interests in the Bonds evidenced by the Global Certificate shall be effected in accordance with the rules of the relevant clearing systems.

(B) Delivery of New Definitive Certificates

Each new Definitive Certificate to be issued upon transfer of the Bonds shall, within three Business Days of receipt by the Transfer Agent of the form of transfer, be mailed by uninsured mail at the risk of the holder entitled to the Bonds to the address specified in the form of transfer.

Where some but not all the Bonds in respect of which a Definitive Certificate is issued are to be transferred, converted or redeemed, a new certificate in respect of the Bonds not so transferred, converted or redeemed shall, within three Business Days of deposit or surrender of the original certificate with or to the relevant Agent, be mailed by uninsured mail at the risk of the holder of the Bonds not so transferred, converted or redeemed to the address of such holder appearing on the register of holders of the Bonds.

For the purposes of this Condition 4:

“**Business Day**” means a day (other than a Saturday or Sunday) on which banks are open for business in the city in which the specified office of the Transfer Agent with whom a Certificate is deposited in connection with a transfer is located.

(C) Formalities Free of Charge

Registration of transfer of the Bonds shall be effected without charge by or on behalf of the Company or any of the Agents, subject to payment (and the giving of such indemnity as the Company or any of the Agents may require) in respect of any tax or other governmental charges which may be imposed in relation to such registration or transfer.

Description of the Bonds

(D) Restricted Transfer Period

No holder of the Bonds may require the transfer of a Bond to be registered (i) during the period of 15 days ending on the due date for any payment of principal, premium, if any, or interest, if any, on the Bond, (ii) after such Bond has been selected for redemption pursuant to Condition 7(B), (iii) following exercise by the holder of its option to require the Company to redeem the Bonds pursuant to Condition 7(D) or (iv) following exercise by the holder of its option to convert the Bonds pursuant to Condition 5(A).

(E) Provisions on Transfer

All transfers of the Bonds and entries on the register of holders of the Bonds shall be made subject to the detailed provisions concerning transfer of the Bonds set forth in the Agency Agreement. The provisions may be changed by the Company, with the prior written approval of the Trustee and the Registrar. A copy of the current provisions shall be mailed at the Company's expense by the Registrar to any holder of the Bonds upon written request.

5. CONVERSION

We have agreed in the Indenture that, within five Trading Days (as defined below) from each Conversion Date (as defined in Condition 5(B)(i)), we will issue and deliver the Shares to the converting holder or its designee, subject to the provisions of the Indenture relating to the conversion.

The Indenture provides that the term "Shares" means, when used to refer to the class or classes of our capital stock into which the Bonds are convertible and when used in certain other instances, only our common shares, NT\$10 par value per share, but that when used elsewhere, including in Condition 5(C), such term also includes shares of any other class or classes of our capital stock authorized after the date of the Indenture that have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or winding-up.

(A) Conversion Right

(i) *Conversion Period.* Each holder of the Bonds has the right hereunder to convert any Bond into Shares subject to the terms set forth herein (the "**Conversion Right**"). Subject to and upon compliance with the provisions of this Condition 5, the Conversion Right attaching to any Bond may be exercised, at the option of the holder of the Bonds and to the extent provided herein, at any time (i) on or after February 28, 2003 and prior to the close of business (at the place where such Bond is deposited for conversion) on January 9, 2008 (or if such day shall not be a Business Day (as defined below) at such place, on the immediately preceding Business Day at such place) (but in no event thereafter) or (ii) if such Bond shall have been called for redemption prior to January 9, 2008 (or if such day shall not be a Business Day at such place, on the immediately preceding Business Day at such place), then up to the close of business (at the place aforesaid) on the seventh day 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 (as defined below) shall be suspended and the Conversion Period shall not include any such Closed Period.

For the purposes of these Conditions:

"**Closed Period**" means (i) the 60 day period prior to any of the annual ordinary shareholders' meeting of the Company; (ii) the 30 day period prior to any of the extraordinary shareholders' meeting of the Company; (iii) the period from the date which is the third Trading Day (as defined below) prior to the date of the Company's notification to the TSE (and public announcement) of the record date for the determination of shareholders entitled to the receipt of dividends, subscription of new shares or other benefits and bonuses to such record date; and (iv) such other periods during which the Company may be required to close its stock transfer books under ROC laws and regulations applicable from time to time. The Company shall procure that holders of the Bonds are given not less than 7 nor more than 60 days' prior notice in accordance with Condition 14 of the commencement of any Closed Period.

"**Trading Day**" means a day when the TSE is open for business.

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For the purposes of this Condition 5:

“**Business Day**” means a day (other than a Saturday or Sunday) on which commercial banks are open for business in London and the city in which the specified office of the Conversion Agent with whom a Conversion Notice is deposited in connection with the conversion is located.

“**Subsidiary**” means any corporation or other business entity more than 50% of the outstanding voting stock of which is for the time being owned directly or indirectly by the Company.

Under current ROC law, regulation and policy, PRC persons are not permitted to hold or convert the Bonds or to register as our shareholders. Under current ROC law, “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 or other entity organized 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 converting holder of the Bonds, when exercising its conversion right to convert the Bonds into Shares, is required to appoint a local agent, also referred to as a Tax Guarantor, in ROC, to file tax returns and make tax payment on its behalf. In addition, a non-ROC converting holder of the Bonds is required to appoint a local agent in the ROC with such qualifications as are set by the ROC Securities and Future Commission. Such local agent shall open a securities trading account with a local brokerage firm and a New Taiwan dollar bank account, pay ROC withholding taxes, remit funds, exercise shareholders’ rights and perform such other matters as may be designated by such converting holder of the Bonds on behalf of and as agent for such person. In addition, such non-ROC converting holder of the Bonds must also appoint a custodian bank to hold the securities for safekeeping, make confirmation and settlement trades, and report all relevant information. Without first obtaining the approval of the TSE and opening such accounts, the converting holder of the Bonds would not be able to hold or to sell or otherwise transfer the Shares on the TSE 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 issuable upon conversion of any Bond shall be determined by dividing the principal amount of the Bond (translated into New Taiwan dollars at a fixed exchange rate of NT\$34.658 = US\$1.00, the “**Fixed Exchange Rate**”) by the Conversion Price (as defined in Condition 5(A)(iii)) in effect on the Conversion Date (as defined in Condition 5(B)(i)). If more than one Bond shall be deposited for conversion at any one time by the same holder of the Bonds, the number of Shares to be issued upon conversion thereof shall be calculated on the basis of the aggregate principal amount of the Bonds so deposited. Fractions of Shares shall not be issued on conversion, and cash adjustments shall not be made in respect thereof by the Company. Notwithstanding the foregoing, in the event of a consolidation or reclassification of Shares by operation of law or otherwise occurring after January 23, 2003, the Company shall upon conversion of the Bonds pay in US dollars a sum equal to such portion of the principal amount of the Bonds deposited for conversion as corresponds to any fraction of a Share not issued as aforesaid if such sum exceeds US\$10. For the purpose of calculating the amount of such payment, the Company shall use the Fixed Exchange Rate.

(iii) *Initial Conversion Price.* The price at which Shares shall be issued upon conversion (the “**Conversion Price**”) shall initially be NT\$205.32 per Share, but shall be subject to adjustment in the manner provided in Condition 5(C).

(iv) *Revival on default.* Notwithstanding the provisions of Condition 5(A)(i), if the Company shall default in making payment in full in respect of any Bond that shall have been called for redemption prior to January 29, 2008, on the date fixed for redemption thereof, the Conversion Right attaching to a Bond shall continue to be exercisable up to and including the close of business (at the place where the relevant Conversion Notice (as defined in Condition 5(B)(i)) is 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 holders of the Bonds.

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(B) Conversion Procedures

(i) *Exercise procedures; Conversion Notice; Deposit Date; Conversion Date.* To exercise the Conversion Right attaching to any Bond, a holder of the Bond shall deposit the following at its own expense between 9:00 a.m. and 3:00 p.m. on any Business Day during the Conversion Period at the specified office of a Conversion Agent outside the ROC at which the Bond is presented for conversion:

- (a) 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 Definitive Certificate, if issued, in respect of the relevant Bond;
- (b) any certificates and other documents as may be required under the law of the ROC or the jurisdiction in which such Conversion Agent shall be located; and
- (c) any amount to be paid by the holder of the Bond as described in (ii) below.

Any Conversion Notice or Definitive Certificate, if issued, deposited outside the hours specified above or on a day that is not a Business Day shall for all purposes be deemed to have been deposited with that Agent on the next Business Day. The Conversion Notice shall contain, among other things, (i) an appointment of a local agent; (ii) an irrevocable instruction to convert the Bonds into Shares; and (iii) other information required by ROC laws and regulations. Once deposited, the Conversion Notice may not be withdrawn without written consent of the Company. The price at which such Bond shall be converted shall be the Conversion Price in effect on the Conversion Date.

For the purposes of these Conditions:

“**Deposit Date**” means the date on which any Definitive Certificate, if issued, in respect of a Bond and the duly signed and completed Conversion Notice, in duplicate, relating thereto are deposited with a Conversion Agent and the payments, if any, required to be paid by the holder of the Bond are made.

“**Conversion Date**” means the Trading Day next following the Deposit Date which is not within a Closed Period.

(ii) *Taxes and expenses.* As conditions precedent to the exercise of the Conversion Right attaching to any Bond, together with the delivery of the Conversion Notice, the holder of the Bonds must pay to the relevant Conversion Agent all stamp, issue, registration and similar taxes and duties, if any, arising on conversion in the country in which the Bond is deposited for conversion or payable in any jurisdiction upon the issue or delivery of Shares or any other property or cash upon conversion to or to the order of the converting holder of the Bond or any other person. Except as aforesaid, the Company shall pay the expenses arising in the ROC on the issue of Shares upon conversion of the Bond and all charges of the Conversion Agents in connection therewith as provided in the Agency Agreement.

(iii) *Holder of record.* With effect from the opening of business in the ROC on the Conversion Date, the Company shall deem the converting holder of a Bond as indicated in the Conversion Notice to have become the holder of record of the number of Shares to be issued upon such conversion (disregarding any retroactive adjustment of the Conversion Price referred to below prior to the time such retroactive adjustment shall have become effective). At such time, subject to Condition 5(B)(iv), the rights of such converting holder with respect to the Bond deposited for conversion shall cease, except rights arising under Condition 5(B)(v).

(iv) *Delivery of Shares.* On the Conversion Date the Company shall register the converting holder of a Bond or its designee in the Company’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 Bond. Subject to any applicable limitations then imposed by ROC laws and regulations, in accordance with the request made in the relevant Conversion Notice, the Company shall deliver as soon as practicable, and in any event within five Trading Days from the Conversion Date, to the local agent appointed by the converting holder of the Bond the following:

- (a) the relevant Shares, through book-entry transfer to an account registered in the name of the converting holder or the name of its designee;
- (b) any other property or cash (including, without limitation, cash payable pursuant to Condition 5(A)(ii)) required to be delivered upon conversion; and
- (c) such documents as may be required by law to effect the delivery thereof.

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(v) *Retroactive adjustment of Conversion Price.* If (a) 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 Indenture and (b) the relevant Conversion Date falls on a date when the relevant adjustment has not been reflected in the Conversion Price, the Company shall, within 20 days after the date of such adjustment of the Conversion Price, issue and deliver to the local agent appointed by the converting holder of the Bond such number of Shares as is equal to the excess of (1) 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 of the said Conversion Date over (2) 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)(iv) 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 shall not be issued and no cash adjustment shall be made in respect thereof.

(vi) *Dividend and other entitlement.* The converting holder of a Bond shall be entitled to any annual dividend distributions of the Company if the Conversion Date falls prior to the relevant record date for determining the identity of shareholders who are entitled to such dividend distributions.

(vii) *Conversion Agents.* The Company reserves the right, subject to the provisions of the Agency Agreement, at any time, with the prior written consent of the Trustee, to vary or terminate the appointment of any Conversion Agent and to appoint other Conversion Agents; provided that the Company shall at all times maintain Conversion Agents having specified offices in London and, so long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of the exchange so require, in Luxembourg. Notice of any such termination or appointment and of any changes in the specified offices of the Conversion Agents shall be given promptly by the Company to the holders of the Bonds and the Luxembourg Stock Exchange in accordance with Condition 14.

We have certain disclosure obligations and reporting obligations under ROC law and regulation if:

- (i) *the person to be registered as a shareholder is a “related party” of ours under Statements 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 holder of Shares owns Shares converted from the Bonds and the Shares converted exceed 10% 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, the Indenture provides that, if so instructed by us, the Trustee or the Conversion Agent may ask the converting holders of the Bonds 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 Trustee or the Conversion Agent receives the required information and satisfactory evidence of the compliance with relevant laws and regulations by the holders of the Bonds. The information that the holders of the Bonds are required to provide includes the name and nationality of the person to be registered as shareholder and the total number of Shares such person has or will receive as a result of the conversion of the Bonds it holds.

(C) Adjustments to Conversion Price

The Conversion Price shall be subject to adjustment as follows:

(i) Free distribution, bonus issue, division, consolidation and reclassification of Shares:

If the Company shall (a) make a free distribution of Shares, (b) make a bonus issue of its Shares, (c) divide its outstanding Shares, (d) consolidate its outstanding Shares into a smaller number of Shares, or (e) re-classify any of its Shares into other securities of the Company, then the Conversion Price shall be appropriately adjusted so that the holder of any Bond, the Conversion Date in respect of which occurs after the coming into effect of the adjustment described in this Condition 5(C)(i), shall be entitled to receive on exercise of the Conversion Right the number of Shares and/or other securities of the Company which he would have held or have been entitled to receive after the happening of any of the events described above had such Bond been converted immediately prior to the happening of such event (or, if the Company has fixed a prior record date for the determination of

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shareholders entitled to receive any such free distribution or bonus issue of Shares or other securities issued upon any such division, consolidation or reclassification, immediately prior to such record date), but without prejudice to the effect of any other adjustment to the Conversion Price made with effect from the date of the happening of such event (or such record date) or any time thereafter.

Effective date of adjustment: An adjustment made pursuant to this Condition 5(C)(i) shall become effective immediately on the relevant event referred to in this Condition 5(C)(i) becoming effective or, if a record date is fixed therefor, immediately after such record date; provided that in the case of a free distribution or bonus issue of Shares which must, under applicable laws of the ROC, be submitted for approval to a general meeting of shareholders or be approved by a meeting of the Board of Directors of the Company before being legally paid or made, and which is so approved after the record date fixed for the determination of shareholders entitled to receive such distribution or issue, such adjustment shall, immediately upon such approval being given by such meeting, become effective retroactively to immediately after such record date.

(ii) Declaration of dividend in Shares:

If the Company shall declare a dividend in Shares then the Conversion Price shall be appropriately adjusted so that the holder of any Bond, the Conversion Date in respect of which occurs after the coming into effect of the adjustment described in this Condition 5(C)(ii), shall be entitled to receive on exercise of the Conversion Right the number of Shares and/or other securities of the Company which he would have held or have been entitled to receive after the date when such dividend is declared had such Bond been converted immediately prior to the happening of such event (or, if the Company has fixed a prior record date for the determination of shareholders entitled to receive such dividend, immediately prior to such record date), but without prejudice to the effect of any other adjustment to the Conversion Price made with effect from the date of the happening of such event (or such record date) or any time thereafter. No account is to be taken of, or credit given for, the par value of Shares issued in a dividend in Shares in calculating the appropriate conversion price adjustment, so that the full dilutive effect is provided for.

Effective date of adjustment: An adjustment made pursuant to this Condition 5(C)(ii) shall become effective immediately on the relevant event referred to in this Condition 5(C)(ii) becoming effective or, if a record date is fixed therefor, immediately after such record date; provided that in the case of a dividend in Shares which must, under applicable laws of the ROC, be submitted for approval to a general meeting of shareholders of the Company before being legally paid or made, and which is so approved after the record date fixed for the determination of shareholders entitled to receive such dividend, such adjustment shall, immediately upon such approval being given by such meeting, become effective retroactively to immediately after such record date.

(iii) Concurrent adjustment events:

If the Company shall declare a dividend in, or make a free distribution or bonus issue of, Shares, which dividend, issue or distribution is to be paid or made to shareholders as of a record date which is also:

- (a) the record date for the issue of any rights or warrants which requires an adjustment of the Conversion Price pursuant to Condition 5(C)(iv), 5(C)(v) or 5(C)(vi);
- (b) the day immediately before the date of issue of any securities convertible into or exchangeable for Shares which requires an adjustment of the Conversion Price pursuant to Condition 5(C)(viii);
- (c) the day immediately before the date of issue of any Shares which requires an adjustment of the Conversion Price pursuant to Condition 5(C)(ix) or (if applicable) the record date for the determination of stock dividend entitlement as referred to in Condition 5(C)(ix);
- (d) the day immediately before the date of issue of any rights, options or warrants which requires an adjustment of the Conversion Price pursuant to Condition 5(C)(x); or
- (e) determined by the Company and notified by the Company to the Trustee in writing to be the relevant date for an event or circumstance which requires an adjustment to the Conversion Price pursuant to Condition 5(C)(xii),

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then (except where such dividend, bonus issue or free distribution gives rise to a retroactive adjustment of the Conversion Price under Condition 5(C)(i) or 5(C)(ii)) no adjustment of the Conversion Price in respect of such dividend, bonus issue or free distribution shall be made under this Condition 5(C)(iii), but in lieu thereof an adjustment shall be made under Condition 5(C)(iv), 5(C)(v), 5(C)(vi), 5(C)(viii), 5(C)(ix) or 5(C)(x) (as the case may require) by including in the denominator of the fraction described therein the aggregate number of Shares to be issued pursuant to such dividend, bonus issue or free distribution.

(iv) Rights issues to shareholders:

If the Company shall grant, issue or offer to the holders of Shares rights entitling them to subscribe for or purchase Shares, which expression shall include those Shares which are required to be offered to employees and persons other than shareholders in connection with such grant, issue or offer:

- (a) at a consideration per Share receivable by the Company (determined as provided in Condition 5(C)(xv)) which is fixed on or prior to the record date mentioned below and is less than the Current Market Price (as defined in Condition 5(C)(xiv)) per Share at such record date; or
- (b) at a consideration per Share receivable by the Company which is fixed after the record date mentioned below and is less than the Current Market Price per Share on the date the Company fixes the said consideration,

then the Conversion Price in effect (in a case within (a) above) on the record date for the determination of shareholders entitled to receive such rights or (in a case within (b) above) on the date the Company fixes the said consideration shall be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{N} + \text{v}}{\text{N} + \text{n}}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5(C)(xvi)) at the close of business in the ROC (in a case within (a) above) on such record date or (in a case within (b) above) on the date the Company fixes the said consideration.

n = the number of Shares initially to be issued upon exercise of such rights at the said consideration being (aa) the number of Shares which underwriters have agreed to underwrite as referred to below or, as the case may be, (bb) the number of Shares for which applications are received from shareholders as referred to below save to the extent already adjusted for under (aa).

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5(C)(xv)) would purchase at such Current Market Price per Share specified in (a) or, as the case may be, (b) above.

Effective date of adjustment: Subject as provided below, such adjustment shall become effective immediately after the latest date for the submission of applications for such Shares by shareholders entitled to the same pursuant to such rights or (if later) immediately after the Company fixes the said consideration but retroactively to immediately after the record date mentioned above.

Rights not taken up by shareholders: If, in connection with a grant, issue or offer to the holders of Shares of rights entitling them to subscribe for or purchase Shares, any Shares which are not subscribed for or purchased by the persons entitled thereto are underwritten by other persons prior to the latest date for the submission of applications for such Shares, an adjustment shall be made to the Conversion Price in accordance with the above provisions which shall become effective immediately after the date the underwriters agree to underwrite the same or (if later) immediately after the Company fixes the said consideration but retroactively to immediately after the record date mentioned above.

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If, in connection with a grant, issue or offer to the holders of Shares of rights entitling them to subscribe for or purchase Shares, any such Shares which are not subscribed for or purchased by the underwriters who have agreed to underwrite as referred to above or by the shareholders entitled thereto (or persons to whom shareholders have transferred such rights) who have submitted applications for such Shares as referred to above are offered to and/or subscribed by others, no further adjustment shall be made to the Conversion Price by reason of such offer and/or subscription.

(v) Warrants issued to shareholders:

If the Company shall grant, issue or offer to the holders of Shares warrants entitling them to subscribe for or purchase Shares:

- (a) at a consideration per Share receivable by the Company (determined as provided in Condition 5(C)(xv)) which is fixed on or prior to the record date for the determination of shareholders entitled to receive such warrants and is less than the Current Market Price per Share at such record date; or
- (b) at a consideration per Share receivable by the Company which is fixed after the record date mentioned above and is less than the Current Market Price per Share on the date the Company fixes the said consideration,

then the Conversion Price in effect (in a case within (a) above) on the record date for the determination of shareholders entitled to receive such warrants or (in a case within (b) above) on the date the Company fixes the said consideration shall be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{N} + \text{v}}{\text{N} + \text{n}}$$

where:

NCP and OCP have the meanings ascribed thereto in Condition 5(C)(iv) above.

N = the number of Shares outstanding (having regard to Condition 5(C)(xvi) at the close of business in the ROC (in a case within (a) above) on such record date or (in a case within (b) above) on the date the Company fixes the said consideration.

n = the number of Shares to be issued upon exercise of such warrants at the said consideration which, where no applications by shareholders entitled to such warrants are required, shall be based on the number of warrants issued. Where applications by shareholders entitled to such warrants are required, the number of such Shares shall be calculated based upon (aa) the number of warrants which underwriters have agreed to underwrite as referred to below or, as the case may be, (bb) the number of warrants for which applications are received from shareholders as referred to below save to the extent already adjusted for under (aa).

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5(C)(xv)) would purchase at such Current Market Price per Share specified in (a) or, as the case may be, (b) above.

Effective date of adjustment: Subject as provided below, such adjustment shall become effective (i) where no applications for such warrants are required from shareholders entitled to the same, upon their issue and (ii) where applications by shareholders entitled to the same are required as aforesaid, immediately after the latest date for the submission of such applications or (if later) immediately after the Company fixes the said consideration but in all cases retroactively to immediately after the record date mentioned above.

Warrants not subscribed for by shareholders: If, in connection with a grant, issue or offer to the holders of Shares of warrants entitling them to subscribe for or purchase Shares in the circumstances described in (a) and (b) of this Condition 5(C)(v), any warrants which are not subscribed for or purchased by the shareholders entitled thereto are underwritten by others prior to the latest date for the submission of applications for such warrants, an adjustment shall be made to the Conversion Price in accordance with the above provisions which shall become

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effective immediately after the date the underwriters agree to underwrite the same or (if later) immediately after the Company fixes the said consideration but retroactively to immediately after the record date mentioned above.

If, in connection with a grant, issue or offer to the holders of Shares of warrants entitling them to subscribe for or purchase Shares, any warrants which are not subscribed for or purchased by the underwriters who have agreed to underwrite as referred to above or by the shareholders entitled thereto (or persons to whom shareholders have transferred the right to purchase such warrants) who have submitted applications for such warrants as referred to above are offered to and/or subscribed by others, no further adjustment shall be made to the Conversion Price by reason of such offer and/or subscription.

(vi) Issues of rights or warrants for equity-related securities to shareholders:

If the Company shall grant, issue or offer to the holders of Shares rights or warrants entitling them to subscribe for or purchase any securities convertible into or exchangeable for Shares:

- (a) at a consideration per Share receivable by the Company (determined as provided in Condition 5(C)(xv)) which is fixed on or prior to the record date mentioned below and is less than the Current Market Price per Share at such record date; or
- (b) at a consideration per Share receivable by the Company (determined as aforesaid) which is fixed after the record date mentioned below and is less than the Current Market Price per Share on the date the Company fixes the said consideration,

then the Conversion Price in effect (in a case within (a) above) on the record date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (b) above) on the date the Company fixes the said consideration shall be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{N} + \text{v}}{\text{N} + \text{n}}$$

where:

NCP and OCP have the meanings ascribed thereto in Condition 5(C)(iv) above.

N = the number of Shares outstanding (having regard to Condition 5(C)(xvi)) at the close of business in the ROC (in a case within (a) above) on such record date or (in a case within (b) above) on the date the Company fixes the said consideration.

n = the number of Shares initially to be issued upon exercise of such rights or warrants and conversion or exchange of such convertible or exchangeable securities at the said consideration being, in the case of rights, (aa) the number of Shares initially to be issued upon conversion or exchange of the number of such convertible or exchangeable securities which the underwriters have agreed to underwrite as referred to below or, as the case may be, (bb) the number of Shares initially to be issued upon conversion or exchange of the number of such convertible or exchangeable securities for which applications are received from shareholders as referred to below save to the extent already adjusted for under (aa) and which, in the case of warrants, where no applications by shareholders entitled to such warrants are required, shall be based on the number of warrants issued. Where applications by shareholders entitled to such warrants are required, the number of such Shares shall be calculated based upon (x) the number of warrants which underwriters have agreed to underwrite as referred to below or, as the case may be, (y) the number of warrants for which applications are received from shareholders as referred to below save to the extent already adjusted for under (x).

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5(C)(xv)) would purchase at such Current Market Price per Share specified in (a) or, as the case may be, (b) above.

Description of the Bonds

Effective date of adjustment: Subject as provided below, such adjustment shall become effective (a) where no applications for such warrants are required from shareholders entitled to the same, upon their issue and (b) where applications by shareholders entitled to the warrants are required as aforesaid and in the case of applications for convertible or exchangeable securities by shareholders entitled to the same pursuant to such rights, immediately after the latest date for the submission of such applications or (if later) immediately after the Company fixes the said consideration; but in all cases retroactively to immediately after the record date mentioned above.

Rights or warrants not taken up by shareholders: If, in connection with a grant, issue or offer to the holders of Shares of rights or warrants entitling them to subscribe for or purchase securities convertible into or exchangeable for Shares in the circumstances described in this Condition 5(C)(vi), any convertible or exchangeable securities or warrants which are not subscribed for or purchased by the shareholders entitled thereto are underwritten by others prior to the latest date for the submission of applications for such convertible or exchangeable securities or warrants, an adjustment shall be made to the Conversion Price in accordance with the above provisions which shall become effective immediately after the date the underwriters agree to underwrite the same or (if later) immediately after the Company fixes the said consideration but retroactively to immediately after the record date mentioned above.

If, in connection with a grant, issue or offer to the holders of Shares or of rights or warrants entitling them to subscribe for or purchase securities convertible into or exchangeable for Shares, any convertible or exchangeable securities or warrants which are not subscribed for or purchased by the underwriters who have agreed to underwrite as referred to above or by the shareholders entitled thereto (or persons to whom shareholders have transferred such rights or the right to purchase such warrants) who have submitted applications for such convertible or exchangeable securities or warrants as referred to above are offered to and/or subscribed by others, no further adjustment shall be made to the Conversion Price by reason of such offer and/or subscription.

(vii) Capital Distribution:

If the Company shall pay or make any Capital Distribution (as defined below) to its shareholders, then the Conversion Price shall be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{CMP} - \text{fmv}}{\text{CMP}}$$

where:

NCP and OCP have the meanings ascribed thereto in Condition 5(C)(iv).

CMP = the Current Market Price per Share on the last Trading Day preceding the date on which the Capital Distribution is publicly announced.

fmv = the aggregate fair market value on the date of such announcement, as determined in good faith by two leading independent investment banks of international repute selected by the Company and approved by the Trustee and acting as experts, of the portion of the Capital Distribution attributable to one Share.

Effective date of adjustment: Such adjustment shall become effective immediately after the record date for the determination of shareholders entitled to receive such Capital Distribution. Provided that (a) in the case of such a Capital Distribution which must, under applicable law of the ROC, be submitted for approval to a general meeting of shareholders or be approved by a meeting of the Board of Directors of the Company before such Capital Distribution may legally be made and is so approved after the record date fixed for the determination of shareholders entitled to receive such Capital Distribution, such adjustment shall, immediately upon such approval being given by such meeting, become effective retroactively to immediately after such record date and (b) if the fair market value of such Capital Distribution cannot be determined until the record date fixed for the determination of shareholders entitled to receive such Capital Distribution, such adjustment shall, immediately upon such fair market value being determined, become effective retroactively to immediately after such record date.

Description of the Bonds

If the Company shall pay or make any Capital Distribution in cash only then, in such case, the Conversion Price shall be adjusted (with such adjustment to be effective on the record date for the determination of shareholders entitled to receive such Capital Distribution in cash) in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{M} - \text{C}}{\text{M}}$$

where:

NCP and OCP shall have the meanings ascribed thereto in Condition 5(C)(iv).

M = the Current Market Price per Share on such record date.

C = the amount of cash so distributed applicable to one Share.

For the purposes of this Condition 5(C)(vii):

“**Capital Distribution**” means any dividend or distribution, whether of cash, assets or other property, and whenever paid or made and however described (and for these purposes a distribution of assets includes, without limitation, an issue of shares or other Securities (as defined below) credited as fully or partly paid up), provided that:

- (a) where a cash Capital Distribution is announced which is to be, or may at the election of a holder or holders of Shares be, satisfied by the issue or delivery of Shares or other property or assets, then for the purposes of the above formula the Capital Distribution in question shall be treated as a Capital Distribution of (1) the cash Capital Distribution so announced or (2) the fair market value on the date of announcement of such Capital Distribution, of such Shares or other property or assets to be issued or delivered in satisfaction of such Capital Distribution (or which would be issued if all holders of Shares elected therefor, regardless of whether any such election is made) if the fair market value of such Shares or other property or assets is greater than the cash Capital Distribution so announced;
- (b) any issue of Shares falling within Condition 5(C)(ii) shall be disregarded; and
- (c) a purchase or redemption of share capital by or on behalf of the Company (or a purchase of Shares by or on behalf of a Subsidiary) shall not constitute a Capital Distribution unless in the case of purchase of Shares by or on behalf of the Company or by or on behalf of a Subsidiary, the weighted average price (before expenses) on any one day in respect of such purchase exceeds by more than 5% the closing price of the Shares published by the TSE either (1) on that date, or (2) where an announcement has been made of the intention to purchase Shares at some future date at a specified price, on the Trading Day immediately preceding the date of such announcement and, if in the case of either (1) or (2), the relevant day is not a Trading Day, the immediately preceding Trading Day, in which case such purchase shall be deemed to constitute a Capital Distribution in the amount of such excess.

“**Securities**” includes, without limitation, shares in the capital of the Company or options, warrants or other rights to subscribe for or purchase shares in the capital of the Company or evidences of its indebtedness.

(viii) Issue of convertible or exchangeable securities other than to shareholders or on exercise of warrants:

If the Company shall issue any securities convertible into or exchangeable for Shares (other than the Bonds, or in any of the circumstances described in Condition 5(C)(vi) and Condition 5(C)(x)) and the consideration per Share receivable by the Company (determined as provided in Condition 5(C)(xv)) shall be less than the Current Market Price per Share on the date in the ROC on which the Company fixes the said consideration (or, if the issue of such securities is subject to approval by a general meeting of shareholders, on the date on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting), then the Conversion Price in effect immediately prior to the date of issue of such convertible or exchangeable securities shall be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{N} + \text{v}}{\text{N} + \text{n}}$$

Description of the Bonds

where:

NCP and OCP have the meanings ascribed thereto in Condition 5(C)(iv).

N = the number of Shares outstanding (having regard to Condition 5(C)(xvi)) at the close of business in the ROC on the day immediately prior to the date of such issue.

n = the number of Shares to be issued upon conversion or exchange of such convertible or exchangeable securities at the initial conversion or exchange price or rate.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5(C)(xv)) would purchase at such Current Market Price per Share.

Effective date of adjustment: Such adjustment shall become effective as of the calendar day in the ROC corresponding to the calendar day at the place of issue on which such convertible or exchangeable securities are issued.

(ix) Other issues of Shares:

If the Company shall issue any Shares (other than Shares issued upon conversion or exchange of any convertible or exchangeable securities (including the Bonds) issued by the Company or upon exercise of any rights or warrants granted, offered or issued by the Company or in any of the circumstances described in Conditions 5(C)(i) and 5(C)(ii) or to shareholders of any company which merges with the Company in proportion to their shareholdings in such company immediately prior to such merger, upon such merger, but including Shares issued pursuant to any employee dividend or profit-sharing arrangements) for a consideration per Share receivable by the Company (determined as provided in Condition 5(C)(xv)) less than the Current Market Price per Share on the date in the ROC on which the Company fixes the said consideration (or, if the issue of such Shares is subject to approval by a general meeting of shareholders, on the date on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting), then the Conversion Price in effect immediately prior to the issue of such additional Shares shall be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{N} + \text{v}}{\text{N} + \text{n}}$$

where:

NCP and OCP have the meanings ascribed thereto in Condition 5(C)(iv) above.

N = the number of Shares outstanding (having regard to Condition 5(C)(xvi)) at the close of business in the ROC on the day immediately prior to the date of issue of such additional Shares.

n = the number of additional Shares issued as aforesaid.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5(C)(xv)) would purchase at such Current Market Price per Share.

Effective date of adjustment: Such adjustment shall become effective as of the calendar day in the ROC of the issue of such additional Shares or, in the case of an issue to employees under any employee dividend or profit sharing arrangements, where such an issue is announced at the same time as a stock dividend, such adjustment shall become effective as of the record date for determination of the identity of the shareholders entitled to receive any such dividend.

(x) Issue of equity related securities:

If the Company shall grant, issue or offer options, warrants or rights (excluding those rights and warrants referred to in Conditions 5(C)(iv), 5(C)(v), 5(C)(vi) and 5(C)(vii)) to subscribe for or purchase Shares or securities convertible into or exchangeable for Shares and the consideration per Share receivable by the Company (determined as provided in Condition 5(C)(xv)) shall be less than the Current Market Price per Share on the date in the ROC on which the Company fixes the said consideration (or, if the offer, grant or issue of such rights,

Description of the Bonds

options or warrants is subject to approval by a general meeting of shareholders, on the date on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting), then the Conversion Price in effect immediately prior to the date of the offer, grant or issue of such rights, options or warrants shall be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{N} + \text{v}}{\text{N} + \text{n}}$$

where:

NCP and OCP have the meanings ascribed thereto in Condition 5(C)(iv) above.

N = the number of Shares outstanding (having regard to Condition 5(C)(xvi)) at the close of business in the ROC on the day immediately prior to the date of such issue.

n = the number of Shares to be issued on exercise of such rights or warrants and (if applicable) conversion or exchange of such convertible or exchangeable securities at the said consideration.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5(C)(xv)) would purchase at such Current Market Price per Share.

Effective date of adjustment: Such adjustment shall become effective as of the calendar day in the ROC corresponding to the calendar day at the place of issue on which such rights or warrants are issued.

(xi) Tender or exchange offer:

In case a tender or exchange offer made by the Company or any Subsidiary for all or any portion of the Shares shall expire and such tender or exchange offer shall involve the payment by the Company or such Subsidiary of consideration per Share having a fair market value (as determined by the Board of Directors of the Company or such Subsidiary, whose determination shall, if made in good faith, be conclusive evidence of such fair market value) at the last time (the “**Expiration Date**”) tenders or exchanges could have been made pursuant to such tender or exchange offer (as it shall have been amended) that exceeds the Current Market Price per Share, as of the Expiration Date, the Conversion Price shall be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{N} \times \text{CMP}}{\text{fmv} + [(\text{N} - \text{n}) \times \text{CMP}]}$$

where:

NCP and OCP have the meanings ascribed thereto in Condition 5(C)(iv) above.

N = the number of Shares outstanding (including any tendered or exchanged Shares) on the Expiration Date.

CMP = Current Market Price per Share as of the Expiration Date.

fmv = the fair market value of the aggregate consideration payable to the holders of Shares based on the acceptance (up to a maximum specified in the terms of the tender or exchange offer) of all Shares validly tendered or exchanged and not withdrawn as of the Expiration Date (the Shares deemed so accepted up to any such maximum, being referred to as the “**Purchased Shares**”).

n = the number of Purchased Shares.

Effective date of adjustment: Such adjustment shall become retroactively effective immediately prior to the opening of business on the day following the Expiration Date.

Tender or exchange offer not completed: If the Company is obligated to purchase Shares pursuant to any such tender or exchange offer, but the Company is permanently prevented by applicable law from effecting any such purchase or all such purchases are rescinded, the Conversion Price shall again be adjusted to be the Conversion Price which would then be in effect if such tender or exchange offer had not been made.

Description of the Bonds

(xii) Analogous events and modifications:

If (a) the rights of conversion or exchange, purchase or subscription attaching to any options, rights or warrants to subscribe for or purchase Shares or any securities convertible into or exchangeable for, or which carry rights to subscribe for or purchase Shares are modified (other than pursuant to and as provided in the terms and conditions of such options, rights, warrants or securities) or (b) the Company determines or written notice has been given to the Trustee that any other event or circumstance has occurred which has or would have an effect on the position of the holders of the Bonds as a class compared with the position of the holders of all the securities (and options and rights relating thereto) of the Company, taken as a class which is analogous to any of the events referred to in Conditions 5(C)(i) to 5(C)(xi), then, in any such case, the Company shall notify the Trustee thereof or if the Trustee has been notified under (b), the Trustee shall notify the Company thereof and the Company shall consult with two leading independent investment banks of international repute selected by the Company and approved by the Trustee as to what adjustment, if any, should be made to the Conversion Price (and the timing of any such adjustment) to preserve the value of the Conversion Right and will make any such adjustment.

(xiii) Simultaneous issues of different classes of shares:

In the event of simultaneous issues of two or more classes of share capital comprising Shares or rights or warrants in respect of, or securities convertible into or exchangeable for, two or more classes of share capital comprising Shares, then, for the purposes of this Clause, the formula:

$$\text{NCP} = \text{OCP} \times \frac{\text{N} + \text{v}}{\text{N} + \text{n}}$$

shall be restated as:

$$\text{NCP} = \text{OCP} \times \frac{\text{N} + \text{v1} + \text{v2} + \text{v3}}{\text{N} + \text{n1} + \text{n2} + \text{n3}}$$

where v1 and n1 shall have the same meanings as “v” and “n” but by reference to one class of Shares, v2 and n2 shall have the same meanings as “v” and “n” but by reference to a second class of Shares, v3 and n3 shall have the same meanings as “v” and “n” but by reference to a third class of Shares and so on.

(xiv) Current Market Price per Share:

For the purposes of this Condition 5(C), the “Current Market Price” per Share on any date means the average of the daily Closing Prices (as defined below) of the relevant Shares for the 30 consecutive Trading Days (as defined below) commencing 45 Trading Days before the date of any relevant adjustment; provided, however, if no Closing Price is available for one or more Trading Days, such day or days shall be disregarded in any relevant calculation and shall be deemed not to have existed when ascertaining any period of consecutive Trading Days. If the Company has more than one class of share capital comprising Shares, then the relevant Current Market Price for Shares shall be the price for that class of Shares the issue of which (or of rights or warrants in respect of, or securities convertible into or exchangeable for, that class of Shares) gives rise to the adjustment in question.

If during the said 45 Trading Days or any period thereafter up to but excluding the date as of which the adjustment of the Conversion Price in question shall be effected, any event (other than the event which requires the adjustment in question) shall occur which gives rise to a separate adjustment to the Conversion Price under this Condition 5(C), then the Current Market Price as determined above shall be adjusted in such manner and to such extent as two leading independent investment banks of international repute, selected by the Company and approved by the Trustee, shall in its absolute discretion deem appropriate and fair to compensate for the effect thereof.

For the purposes of these Conditions, the “Closing Price” of the Shares for each Trading Day shall be the last reported transaction price of the Shares on the TSE for such day or, if no transaction takes place on such day, the average of the closing bid and offered prices of Shares on the TSE in effect on the Trading Day immediately preceding such day as furnished by a leading independent securities firm licensed to trade on the TSE selected from time to time by the Company for the purpose.

Description of the Bonds

(xv) Consideration receivable by the Company:

For the purposes of any calculation of the consideration receivable by the Company pursuant to Conditions 5(C)(iv), 5(C)(v), 5(C)(vi), 5(C)(viii), 5(C)(ix) and 5(C)(x), the following provisions shall be applicable:

- (a) in the case of the issue of Shares for cash, the consideration shall be the amount of such cash, provided that in no such case shall any deduction be made for any commissions or any expenses paid or incurred by the Company for any underwriting of the issue or otherwise in connection therewith;
- (b) in the case of the issue of Shares for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair value thereof as determined by the Company (and in making such determination the Company shall consult two leading independent investment banks of international repute, selected by the Company and approved by the Trustee and shall take fully into account the advice received from such banks) or, if pursuant to applicable law of the ROC such determination is to be made by application to a court of competent jurisdiction, as determined by such court or an appraiser appointed by such court, irrespective of the accounting treatment thereof;
- (c) in the case of the issue (whether initially or upon the exercise of rights or warrants) of securities convertible into or exchangeable for Shares, the aggregate consideration receivable by the Company shall be deemed to be the consideration received by the Company for such securities and (if applicable) rights or warrants plus the additional consideration (if any) to be received by the Company upon (and assuming) the conversion or exchange of such securities at the initial conversion or exchange price or rate and (if applicable) the exercise of such rights or warrants at the initial subscription or purchase price (the consideration in each case to be determined in the same manner as provided in (a) and (b) above) and the consideration per Share receivable by the Company shall be such aggregate consideration divided by the number of Shares to be issued upon (and assuming) such conversion or exchange at the initial conversion or exchange price or rate and (if applicable) the exercise of such rights or warrants at the initial subscription or purchase price;
- (d) in the case of the issue of rights or warrants to subscribe for or purchase Shares, the aggregate consideration receivable by the Company shall be deemed to be the consideration received by the Company for any such rights or warrants plus the additional consideration to be received by the Company upon (and assuming) the exercise of such rights or warrants at the initial subscription or purchase price (the consideration in each case to be determined in the same manner as provided in (a) and (b) above) and the consideration per Share receivable by the Company shall be such aggregate consideration divided by the number of Shares to be issued upon (and assuming) the exercise of such rights or warrants at the initial subscription or purchase price;
- (e) if any of the consideration referred to in any of the preceding paragraphs of this Condition 5(C)(xiv) is receivable in a currency other than NT dollars, such consideration shall (in any case where there is a fixed rate of exchange between the NT dollar and the relevant currency for the purposes of the issue of the Shares, the conversion or exchange of such securities or the exercise of such rights or warrants) be translated into NT dollars for the purposes of this Condition 5(C)(xiv) at such fixed rate of exchange and shall (in all other cases) be translated into NT dollars at the mean of the exchange rate quotations (being quotations for the cross rate through US dollars if no direct rate is quoted) by a leading bank in the ROC for buying and selling spot units of the relevant currency by telegraphic transfer against NT dollars on the date as of which the said consideration is required to be calculated as aforesaid; and
- (f) in the case of the issue of Shares (including, without limitation, to employees under any employee dividend or profit sharing arrangements) credited as fully paid out of retained earnings or capitalisation of reserves at their par value, the aggregate consideration receivable by the Company shall be deemed to be zero (and accordingly the number of Shares which such aggregate consideration receivable by the Company could purchase at the relevant Current Market Price per Share shall also be deemed to be zero).

Description of the Bonds

(xvi) Cumulative adjustments:

If, at the time of computing an adjustment (the “later adjustment”) of the Conversion Price pursuant to any of Conditions 5(C)(ii), 5(C)(iv), 5(C)(v), 5(C)(viii), 5(C)(ix) and 5(C)(x), the Conversion Price already incorporates an adjustment made (or taken or to be taken into account pursuant to the proviso to Condition 5(C)(xvii)) to reflect an issue of Shares or of securities convertible into or exchangeable for Shares or of rights or warrants to subscribe for or purchase Shares or securities, to the extent that the number of such Shares or securities taken into account for the purposes of calculating such adjustment exceeds the number of such Shares in issue at the time relevant for ascertaining the number of outstanding Shares for the purposes of computing the later adjustment, such excess Shares shall be deemed to be outstanding for the purposes of making such computation.

(xvii) Minor adjustments:

No adjustment of the Conversion Price shall be required if the adjustment would be less than NT\$1.00; provided that any adjustment which by reason of this Condition 5(C)(xvii) is not required to be made shall be carried forward and taken into account (as if such adjustment had been made at the time when it would have been made but for the provisions of this Condition 5(C)(xvii)) in any subsequent adjustment. All calculations under this Condition 5(C) shall be made to the nearest NT\$0.01 with NT\$0.005 being rounded up to the next NT\$0.01.

(xviii) Minimum Conversion Price:

Notwithstanding the provisions of this Condition 5(C), the Conversion Price shall not be reduced below the par value of the Shares (NT\$10 at the date hereof) as a result of any adjustment made hereunder unless under applicable law then in effect Bonds may be converted at such reduced Conversion Price into legally issued, fully-paid and non-assessable Shares.

(xix) Reference to “fixed”:

Any references in this Condition 5(C) to the date on which a consideration is “fixed” shall, where the consideration is originally expressed by reference to a formula which cannot be expressed as an actual cash amount until a later date, be construed as a reference to the first day on which such actual cash amount can be ascertained.

(xx) Trustee not obliged to monitor:

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists within Condition 5(C)(xii) and will not be responsible to Bondholders for any loss arising from any failure by it to do so.

(xxi) Calculations:

All calculations relating to adjustment of the Conversion Price shall be performed by the Auditors (as defined in the Indenture), or such other person as shall be nominated by the Company, before notice of any such adjustment is given to Bondholders.

(D) Conversion Undertakings

(i) Depositary receipts:

Subject to the ROC SFC’s separate approval, and to the extent permitted by applicable laws and regulations, if in the future a depositary receipt facility is established or authorized by the Company, the Company will make arrangements satisfactory to the Trustee for Shares issued on conversion of Bonds to be accepted for deposit (at the option of the converting holder of the Bonds) into such depositary receipt facility, subject always to the terms of such depositary receipt facility, which terms may include certification or other requirements as conditions to the acceptance for deposit of Shares issued on conversion of Bonds. The Company will give notice of any such arrangements to holders of the Bonds in accordance with Condition 14. Any such arrangements shall be in addition to the provisions of these Conditions relating to conversion into Shares.

Description of the Bonds

The Company has not at the date of this Offering Circular established or authorized the establishment of any depositary receipt facility. Accordingly, conversion into depositary receipts is not currently available. There can be no assurance that the Company will in the future establish or authorize any depositary receipt facility or that any arrangements for the deposit of Shares into such depositary receipt facility would be available to all holders of the Bonds.

(ii) Closed Periods:

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

6. PAYMENTS

(A) Manner of Payment

Payment in respect of a Bond shall be made (i) by transfer to the registered account of the holder of the Bond or (ii) if such holder does not have a registered account, by a US dollar check mailed to its registered address. Payments of principal, however, under a Bond represented by a Definitive Certificate shall only be made after surrender of the relevant certificate at the specified office of an Agent.

References in these Conditions, the Indenture and the Agency Agreement to payment in respect of a Bond shall, where the context so permits, be deemed to include not only a reference to the principal but also to any premium, interest, Additional Amounts (as defined in Condition 8) and other amounts payable thereon.

(B) Registered Account and Address

The registered account and address of a holder of the Bonds means its account and address appearing on the register of holders of the Bonds at the close of business on the second Business Day (as defined below) before the due date for payment.

(C) Commissions and Expenses

All payments are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the holders of the Bonds in respect of such payments.

(D) Date of Payment

Where payment is to be made by transfer to a registered account, payment instructions for value the due date (or, if that date is not a Business Day (as defined below), for value the next Business Day) shall be initiated. Where payment is to be made by check, the check shall be mailed on the due date for payment. Payment of principal in respect of a Bond represented by a Definitive Certificate, however, shall not be made earlier than the Business Day on which the relevant certificate is surrendered at the specified office of an Agent.

For the purposes of this Condition 6 and Condition 7, “**Business Day**” means a day (other than a Saturday or Sunday) on which commercial banks are open for business in The City of New York, in London, in Taiwan and, in the case of the surrender of a Certificate, in the place where the Certificate is surrendered.

(E) Default Interest and Payment Delay

If the Company fails to pay any sum in respect of the Bonds when the same becomes due and payable under these Conditions, interest shall accrue on the overdue sum at the rate of 4% per annum from the due date and ending on the date that the Trustee determines to be the date on and after which payment is to be made to the holders of the Bonds in respect thereof (both dates inclusive) as stated in a notice given to the holders of the Bonds in accordance with Condition 14. Such default interest shall accrue on the basis of the actual number of days elapsed and a 360-day year consisting of 12 months of 30 days each.

Description of the Bonds

Holders of the Bonds shall not be entitled to any interest or other payment for any delay in receiving the amount due if (i) the due date is not a Business Day, (ii) the holder of the Bonds is late in surrendering its Certificate (if required to do so) or (iii) a check mailed in accordance with this Condition 6 arrives after the due date for payment.

7. REDEMPTION, REPURCHASE AND CANCELLATION

(A) Redemption at Maturity

Unless previously redeemed, repurchased and cancelled, or converted as herein provided, the Company shall redeem the Bonds at their Accreted Principal Amount (as defined below) in US dollars on January 29, 2008 (“**Maturity Date**”) or if such day shall not be a Business Day, on the immediately following Business Day. The Bonds may be redeemed prior to that date only as provided in Condition 7(B), (C) and (D) below, but without prejudice to Condition 9.

(B) Redemption at the Option of the Company

At any time on or after January 29, 2006 and prior to January 29, 2008, the Company may, having given not less than 30 nor more than 60 days’ notice to the holders of the Bonds (which notice shall be irrevocable and published in accordance with Condition 7(H) and Condition 14), redeem the Bonds in whole, or from time to time in part only (being US\$1,000,000 in principal amount or an integral multiple thereof), at their Accreted Principal Amount; provided, however, that no such redemption may be made unless the Closing Price (as defined in Condition 5(C)) of the Shares, translated into US dollars at the Prevailing Rate (as defined below), for a period of 30 consecutive Trading Days, the last of which occurs not more than five Trading Days prior to the date upon which notice of such redemption is given, is at least 130% of the Conversion Price then in effect, translated into US dollars at the Fixed Exchange Rate on each Trading Day. If an event giving rise to a change in the Conversion Price occurs during any such 30 consecutive Trading Day period, appropriate adjustments for the relevant days shall be made for the purpose of calculating the Closing Price for such days.

At any time, the Company may, having given not less than 30 nor more than 60 days’ notice to the holders (which notice shall be irrevocable and published in accordance with Condition 7(H) and Condition 14), redeem the Bonds in whole, but not in part, at their Accreted Principal Amount if at least 95% in principal amount of the Bonds has already been redeemed, repurchased and cancelled, or converted.

For the purposes of these Conditions:

“**Prevailing Rate**” for any Trading Day means the last available buying rate for the purchase of US dollars against the sale of NT dollars quoted by Taipei Forex Inc. (or a replacement agency selected by the Company and approved by the Trustee) on such Trading Day or, if no buying rate is quoted on such Trading day, the last available buying rate quoted on the immediately preceding Trading Day.

(C) Redemption for Taxation Reasons

At any time, the Company may, having given not less than 30 or more than 60 days’ notice (a “**Tax Redemption Notice**”) to the holders of the Bonds (which notice shall be irrevocable and given to holders of the Bonds in accordance with Condition 7(H) and Condition 14), redeem the Bonds in whole, but not in part, at their Accreted Principal Amount, on the date fixed for redemption in the Tax Redemption Notice (the “**Tax Redemption Date**”), provided that the Company satisfies the Trustee immediately prior to the giving of such notice that:

- (i) the Company has or shall become obliged to pay Additional Amounts (as defined in Condition 8) as a result of any change in, or amendment to, the laws (including any regulations or rulings promulgated thereunder) of the ROC or such other jurisdiction in which the Company is then organized or any political subdivision or any taxing authority thereof or therein, or any change in the official position regarding the application, interpretation or administration of such laws, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction), which change, amendment, application, interpretation or administration becomes effective on or after January 23, 2003 (or, in the case of any jurisdiction other than the ROC, the date on which the Company first becomes organized in or subject to such other jurisdiction) and would require it to gross up for payments of principal or to gross up for payments of interest (if any) or premium (if any) at a rate exceeding 20%; and

Description of the Bonds

(ii) such obligation cannot be avoided by the Company taking reasonable measures available to it.

Notwithstanding the foregoing, no such Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such Additional Amounts.

Prior to the publication of any Tax Redemption Notice pursuant to this Condition 7(C), the Company shall deliver to the Trustee (1) a certificate signed by two of its authorized officers stating that the obligation referred to in (i) above cannot be avoided by taking reasonable measures available to it, and the Trustee shall be entitled to accept such certificate as sufficient and conclusive evidence of the satisfaction of the condition precedent set out in (ii) above and (2) an opinion addressed to the Trustee by an independent law firm of recognized standing admitted to practice in the ROC or written advice of a qualified tax expert to the effect that the Company has or will become obliged to pay such additional amounts as a result of such change or amendment, and the Trustee shall be entitled to accept such certificate as sufficient and conclusive evidence of the conditions precedent referred to in this Condition 7(C), in which event it shall be conclusive and binding on the holders of the Bonds. The Bonds in respect of which a notice of redemption has been given under Condition 7(B) or 7(D) shall not be affected by any notice given subsequently under this Condition 7(C).

(D) Redemption at the Option of the Holders

Each holder of the Bonds shall have the right (“**Holdings’ Put Right**”), at such holder’s option, to require the Company to redeem the Bonds held by such holder, in whole, or in part only (being US\$1,000 amount or an integral multiple thereof), on April 29, 2004 (“**Holdings’ Put Date**”) at their Accreted Principal Amount.

(E) Repurchase and Cancellation

The Company may at any time and from time to time repurchase the Bonds in the open market or otherwise at any price. The Company shall surrender any Bonds so repurchased to the Principal Paying Agent for cancellation.

(F) Cancellation

All Bonds that are redeemed, repurchased or converted and surrendered to any Agent shall forthwith be cancelled. In the case of Bonds represented by Definitive Certificates, certificates in respect of all Bonds cancelled shall be forwarded to or to the order of the Principal Agent. Bonds cancelled may not be reissued or resold.

(G) Bondholder’s Tax Option

If the Company gives a Tax Redemption Notice, each holder of the Bonds will have the right to elect that his Bond(s) shall not be redeemed and that the provisions of Condition 7(C) shall not apply in respect of any payment of principal or premium to be made in respect of such Bond(s) which falls due after the relevant Tax Redemption Date whereupon no additional amounts shall be payable in respect thereof pursuant to Condition 7(C) and payment of all amounts shall be made (subject to Condition 7(C)) subject to the deduction or withholding required under the laws or regulations of the ROC. For the avoidance of doubt, any increased amounts which had been payable in respect of the Bonds under Condition 7(C) as a result of the laws or regulations of the ROC prior to January 23, 2003, will continue to be payable to such holders of the Bonds. To exercise a right pursuant to this Condition 7(G), the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying Agent a duly completed and signed notice of exercise, in the form for the time being current, obtainable from the specified office of any Paying Agent together with the Certificate evidencing the Bonds on or before the day falling 10 days prior to the Tax Redemption Date.

(H) Redemption Procedures

Not less than 30 nor more than 60 days prior to the Holdings’ Put Date, the Company shall provide sufficient information to the Trustee in sufficient time to permit the Trustee to give notice to each holder of the Bonds and to the Luxembourg Stock Exchange in accordance with Condition 14, which notice shall state, as appropriate:

(A) the Holdings’ Put Date;

(B) the date by which the Put Notice (as defined below) must be given by the holder;

Description of the Bonds

- (C) the redemption price of a Bond at the Holders' Put Date and the method by which such redemption price will be paid;
- (D) the names and addresses of all Paying Agents;
- (E) the Conversion Price then in effect;
- (F) the procedures that holders must follow and the requirements that holders must satisfy in order to exercise their Holders' Put Right and Conversion Right; and
- (G) that a Put Notice, once validly given, may not be withdrawn.

To exercise its Holders' Put Right, a holder must deliver a written irrevocable notice of the exercise of such right (the "Put Notice") in the form obtainable from any of the Agents, to any Paying Agent on any Business Day that is not fewer than ten (10) Business Days prior to the Holders' Put Date.

Payment of the redemption amount upon exercise of the Holders' Put Right attaching to any Bond represented by a Definitive Certificate for which the Put Notice has been delivered is conditioned upon the delivery of such Definitive Certificate (together with any necessary endorsements) to any Paying Agent on any Business Day together with the delivery of such Put Notice and shall be made promptly following the later of the Put Date and the time of delivery of such Definitive Certificate. If the Paying Agent holds on the Holders' Put Date money sufficient to pay the redemption price for a Bond for which a Put Notice has been delivered, then, whether or not Definitive Certificates representing such Bond is delivered to the Paying Agent, on and after such Put Date (i) such Bond shall cease to be outstanding; (ii) the interest, if any, on such Bond shall cease to accrue; (iii) such Bond shall be deemed paid; and (iv) all other rights of the holder shall terminate, other than the right to receive the redemption price.

(I) Partial Redemption

In the case of a redemption of less than all of the Bonds then outstanding pursuant to Condition 7(B), the Bonds to be redeemed shall be selected individually by lot by the Principal Agent, in such place as the Trustee shall approve and in such manner as the Trustee shall deem to be appropriate and fair, not more than 60 days or less than 30 days prior to the date fixed for redemption.

(J) Accreted Principal Amount

As used in these Conditions, the Accreted Principal Amount of a Bond is the principal amount of the Bond plus a premium that shall provide the holder of the Bond on a relevant redemption date a compound yield of 0.5% per annum (accrued from the Issue Date and computed on a semi-annual bond equivalent basis).

8. TAXATION

All payments of principal, premium, if any, interest, if any, and any other amounts by the Company shall be made free and clear of and without any deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature ("Taxes") imposed, levied, collected, withheld or assessed by or on behalf of the government of the ROC or any authority thereof or therein having power to tax, provided that in respect of any such deduction or withholding from any such payment, the Company shall pay such additional amounts ("Additional Amounts") as will result in the receipt by the holders of the Bonds of the amounts that would have been receivable in the absence of any such deduction or withholding, except that no 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 its being connected with the ROC otherwise than merely by holding such Bond or by the receipt of principal, premium, if any, or interest, if any, in respect of the Bond; or
- (ii) if the Definitive Certificate (if issued) in respect of such Bond is presented for payment more than 30 days after the relevant date (as defined below) except to the extent that the holder would have been entitled to such additional amount on surrendering the relevant certificate for payment on the last day of such 30-day period.

Description of the Bonds

For the purposes of this Condition 8:

“**Relevant date**” in relation to any Bonds 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 holders of the Bonds that such monies have been so received.

References in these Conditions to principal, premium, interest and any other amounts shall be deemed also to refer to any Additional Amounts that may be payable in respect thereof under this Condition 8.

9. EVENTS OF DEFAULT

The Trustee at its discretion may, and if so requested in writing by the holders of the Bonds of not less than 25% in principal amount of the Bonds then outstanding shall (but subject to being indemnified or secured by the holders of the Bonds to its satisfaction), give notice in writing to the Company that the Bonds are immediately due and payable, if any of the following events (each an “**Event of Default**”) shall have occurred and be continuing:

- (i) the Company fails to pay the principal on, any of the Bonds within seven days or fails to pay any other amount in respect of the Bonds within 15 days after the same shall become due and payable in accordance with the Conditions; or
- (ii) the Company defaults in performance or observance of or compliance with any of its other obligations (other than the covenant to pay the principal, premium (if any) in respect of any of the Bonds) set out in the Bonds or the Indenture, which default is incapable of remedy or, if in the opinion of the Trustee such default is capable of remedy, such default is not remedied within 30 days after written notice of such default shall have been given to the Company by the Trustee; or
- (iii) there shall have been entered against the Company or any of its Principal Subsidiaries (or any successor thereof) a final judgement, decree or order by a court of competent jurisdiction for the payment of money in excess of US\$10 million with respect to the Company or any of its Principal Subsidiaries (or its equivalent in any other currency or currencies) and 30 days shall have passed since the entry of the order without it being bonded, satisfied, discharged or stayed; or
- (iv) (a) any other present or future indebtedness of the Company or any of its Principal Subsidiaries (as defined in Condition 3) for or in respect of monies borrowed or raised becomes due and payable prior to its stated maturity by reason of an event of default, howsoever 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 (b) the Company or any of its Principal Subsidiaries fails to pay when due any amount payable by the Company or such Principal Subsidiary, as the case may be, under any present or future guarantee or indemnity or arrangement or obligation having a like or similar effect, howsoever described, for any monies borrowed; provided that the aggregate amount of the relevant indebtedness or amount payable in respect of which one or more events mentioned above in this paragraph (iv) have occurred equals or exceeds US\$10 million or its equivalent in any other currency (determined as provided below); or
- (v) an encumbrancer takes possession or a receiver, manager or other similar officer is appointed, or a distress, execution or seizure before judgement is levied, enforced or sued out upon, against or in respect of the whole or any substantial part of the undertaking, property, assets or revenues of the Company or any of its Principal Subsidiaries and the same is not stayed, discharged, released or satisfied (as the case may be) within 60 days (or such longer period as the Trustee may consider appropriate in relation to the jurisdiction concerned) of such taking of possession, appointment, levying, enforcement or suing out (as the case may be); or
- (vi) the Company or any of its Principal Subsidiaries becomes bankrupt or insolvent or is unable to pay its debts as they mature or applies for or consents to or suffers the appointment of an administrator, liquidator (except for the purpose of and followed by a voluntary solvent reorganization, merger, consolidation, amalgamation or other similar arrangement the terms of which have previously been approved by the Trustee or the holders of not less than 75% in principal amount of the Bonds outstanding) or receiver (or

Description of the Bonds

- other similar official) of the Company or any of its Principal Subsidiaries or in respect of the whole or any part of the undertakings, property, assets or revenues of the Company or any of its Principal Subsidiaries or the Company or any of its Principal Subsidiaries takes any proceedings under any applicable law for a readjustment or an arrangement or composition with or for the benefit of its creditors or (except as provided above) stops or threatens to cease to carry on its business or a substantial part of its business; or
- (vii) an order is made or an effective resolution passed for the winding-up or dissolution of the Company or any of its Principal Subsidiaries or the Company or any of its Principal Subsidiaries becomes capable of being dissolved under the ROC laws (except for the purpose of and followed by a solvent reconstruction, merger, consolidation, amalgamation or other similar arrangement the terms of which are approved by the Trustee or the holders of not less than 75% in principal amount of the Bonds outstanding); or
 - (viii) the Company shall merge, amalgamate or consolidate with any other corporation or entity (with the Company not being the continuing entity) or shall sell or dispose of substantially all its business or assets whether as a single transaction or a number of transactions, related or not, to any person without obtaining the prior approval of the holders of not less than 75% in principal amount of the Bonds outstanding and of such person to assume the obligations of the Company under the Bonds and the Indenture; provided that such agreement by such other person shall not be required if such assumption shall be effective by operation of law; or
 - (ix) a moratorium is agreed or declared in respect of any indebtedness of the Company or any of its Principal Subsidiaries or any governmental authority or agency condemns, seizes, compulsorily purchases or expropriates all or a substantial part of the assets or shares of the Company or any of its Principal Subsidiaries; or
 - (x) proceedings shall have been initiated against the Company or any of its Principal Subsidiaries under any applicable bankruptcy, insolvency or reorganization law and such proceedings shall not have been discharged or stayed within a period of 60 days; or
 - (xi) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorization, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order to (i) enable the Company lawfully to enter into, exercise its rights and perform and comply with its obligations under the Bonds and the Indenture, (ii) ensure that those obligations are legally binding and enforceable (subject to the qualifications set out in the New York legal opinion issued in connection therewith) and (iii) make the Bonds and the Indenture admissible in evidence in the courts of the ROC is not taken, fulfilled or done, and such case is incapable of remedy or, if in the opinion of the Trustee is capable of remedy, is not in the opinion of the Trustee remedied within such period (being not less than 30 days) as the Trustee may consider reasonable; or
 - (xii) any event occurs which under the laws of the ROC, has an analogous effect to any of the events referred to in the foregoing paragraphs.

Upon any such notice being given to the Company, the Bonds shall immediately become due and payable at their Accreted Principal Amount.

For the purposes of clause (iv) above, any indebtedness which is in a currency other than US dollars shall be translated into US dollars at the spot rate for the sale of US dollars against the purchase of the relevant currency quoted by any leading bank in the relevant market selected by the Trustee on any day when the Trustee requests such a quotation for such purposes. If no direct spot rate is available, a rate shall be calculated by reference to the cross-rates through US dollars of the relevant currencies.

10. PRESCRIPTION

Claims in respect of payment of principal of, premium, if any, and interest, if any, on the Bonds shall be prescribed unless made within 6 years from the relevant date of payment in respect thereof.

Under ROC law, claims in respect of the (i) payment of principal would become unenforceable after 15 years and (ii) payment of interest and premium would become unenforceable after 5 years, each measured 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 Company as it may think fit to enforce payment in respect of the Bonds, including any premium and interest, and to enforce the provisions of the Indenture; provided, however, that the Trustee shall not be bound to take any such proceedings unless (a) it shall have been so requested in writing by the holders of at least 25% in principal amount of the Bonds then outstanding and (b) it shall have been indemnified or secured to its satisfaction. No holder of the Bonds shall be entitled to proceed directly against the Company, unless (a) the Trustee, having become bound to take proceedings against the Company, fails to do so and such failure shall have continued for a period of 60 days and (b) no direction inconsistent with the Trustee taking such proceedings has been given to the Trustee during such 60-day period by the holders of not less than a majority in principal amount of the Bonds then outstanding.

12. MEETINGS OF BONDHOLDERS, MODIFICATION AND WAIVER

(A) Meetings

The Indenture contains provisions for convening meetings of holders of the Bonds to consider any matter affecting their interests, including the approval of amendments or modifications of the terms and conditions of the Bonds or the provisions of the Indenture upon either the written consent of the holders of not less than a majority in principal amount of the Bonds then outstanding or the approval at a meeting of holders duly called by persons entitled to vote not less than a majority in principal amount of the Bond then outstanding, with a quorum of two or more persons holding or representing over 50% in principal amount of the Bonds for the time then outstanding; provided that no such modification of the terms of conditions of the Bonds or the provisions of the Indenture may, without the consent of each holder of the Bonds affected thereby:

- (i) modify the Maturity Date;
- (ii) reduce the principal, redemption price of, the rate of interest, if any, on, any Bond or increase the Conversion Price (as adjusted in accordance with the provisions of the Indenture);
- (iii) change the place or currency of payment of principal of, or premium, if any, or interest, if any, on, any Bond or the method of calculating any such payment;
- (iv) impair the right to institute suit for the enforcement of any payment on any Bond;
- (v) alter the Company's obligations relating to negative pledge, mergers and disposals, and the payment of Additional Amounts as described in Conditions 3(A), 3(B) and 8 respectively;
- (vi) except to the extent permitted by Condition 12(B) below, modify, cancel or adversely affect the Conversion Right or Holders' Put Right;
- (vii) reduce the above-stated percentage of outstanding Bonds the consent of whose holders of the Bonds is necessary to modify or amend the Indenture;
- (viii) reduce the percentage or aggregate principal amount of outstanding Bonds the consent of whose holders of the Bonds is necessary for waiver of compliance with provisions of the Indenture or for waiver of Defaults under the Indenture;

Description of the Bonds

- (ix) modify the provisions concerning the voting and quorum required at any meeting of holders of the Bonds; or
- (x) release the Company from any obligation under the Indenture other than in accordance with the provisions of the Indenture, or amend or modify any provision relating to such release.

(B) Modification of Conversion Right

Notwithstanding Condition 12(A) above, the Trustee may agree to, without the consent of the holders of the Bonds, any modification to the Conversion Right that (i) is in the Trustee's opinion necessary or desirable to effect or facilitate conversion as contemplated in these Conditions and (ii) is not materially prejudicial to the interests of the holders of the Bonds. The Trustee's agreement may be subject to any condition which the Trustee requires, including but not limited to the delivery of an opinion of a financial or legal or other expert, shall be binding on the holders of the Bonds and, unless the Trustee agrees otherwise, any such modification shall be notified by the Company to the holders of the Bonds as soon as practicable thereafter in accordance with Condition 14 and to the Luxembourg Stock Exchange.

(C) Other Modifications and Waivers

The Trustee may also agree to, without the consent of the holders of the Bonds, (i) any modification of, or the waiver or authorization of any breach or proposed breach of, the Bonds or the Indenture that is not, in the Trustee's opinion, materially prejudicial to the interests of the holders of the Bonds or (ii) any modification of the Bonds or the Indenture that, 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. In connection with such modification, waiver or authorization, the Trustee may require a certificate from the Company certifying, and a legal opinion advising the Trustee, that the modification, waiver or authorization is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provision of law. Any such modification, waiver or authorization shall be binding on the holders of the Bonds and, unless the Trustee agrees otherwise, any such modification, waiver or authorization shall be notified by the Company to the holders of the Bonds as soon as practicable thereafter in accordance with Condition 14 and to the Luxembourg Stock Exchange.

(D) Exercise of Trustee's Functions

In connection with the exercise of its functions, including but not limited to those in relation to any proposed modification, authorization or waiver, the Trustee shall have regard to the interests of the holders of the Bonds as a class and shall not have regard to the consequences of such exercise for individual holders of the Bonds, and the Trustee shall not be entitled to require from the Company, nor shall any holder of the Bonds be entitled to claim from the Company or the Trustee, in the case of a claim by a holder, any indemnification or payment in respect of any tax consequences of any such exercise upon individual holders of the Bonds.

13. REPLACEMENT OF CERTIFICATES

The Indenture includes provisions for the replacement of any mutilated, defaced, destroyed, stolen or lost Definitive Certificate at the specified offices of the Registrar and Paying Agents, including, so long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, a Paying Agent in Luxembourg. The main provisions include the following:

- (i) replacement certificates shall only be issued upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Company and the Registrar may reasonably require;
- (ii) mutilated or defaced certificates must be surrendered before replacements will be issued; and
- (iii) in the event any Bonds represented by a mutilated, destroyed, lost or stolen Definitive Certificate has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Definitive Certificate representing such Bonds, make payment as consideration for the cancellation of the Bonds represented thereby in accordance with the Conditions.

14. NOTICES

All notices to holders of the Bonds shall be validly given if (i) made in writing in English and mailed to them at their respective addresses in the register of holders of the Bonds maintained by the Registrar and (ii) so long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, published in a leading newspaper having general circulation in Luxembourg, which is expected to be the *Luxemburger Wort*.

Any such notice shall be deemed to have been given on the later of the date of such publication and the seventh day after being so mailed.

15. INDEMNIFICATION

The Indenture contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce payment unless indemnified to its satisfaction.

16. AGENTS

The Company reserves the right, subject to the provisions of the Agency Agreement, at any time to vary or terminate the appointment of Agents; provided that it shall at all times maintain an Agent having a specified office in London and so long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, a Paying, Transfer and Conversion Agent in Luxembourg. 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 any Conversion Agent, Paying Agent or Transfer Agent shall be given promptly by the Company to the holders of the Bonds in accordance with Condition 14.

17. GOVERNING LAW AND JURISDICTION; THIRD PARTY RIGHTS

(A) Governing Law

The Indenture, the Agency Agreement and the Bonds are governed by and shall be construed in accordance with the laws of the State of New York.

(B) Jurisdiction

The courts of the State of New York sitting in the Borough of Manhattan, The City of New York, and the federal courts of the United States sitting in the Borough of Manhattan, The City of New York, are to have jurisdiction to settle any disputes which may arise out of or in connection with the Bonds and accordingly any legal action or proceedings arising out of or in connection with the Bonds (“Proceedings”) may be brought in such courts. The Company has in the Indenture irrevocably submitted to the jurisdiction of such courts.

(C) Agent for Service of Process

The Company has irrevocably appointed CT Corporation System, 111 Eighth Avenue, 13th Floor, New York, NY 10011, United States of America as its agent in the State of New York to receive service of process in any Proceedings in the State of New York based on any of the Bonds.

The Global Bond

Capitalized terms used in this section and not otherwise defined shall have the meanings given to them in “Description of the Bonds.”

THE GLOBAL BOND

The Global Bond will be deposited with, and registered in the nominee name of, a common depository for Euroclear and Clearstream (the “**Common Depository**”). Euroclear and Clearstream will credit their respective account holders with the respective principal amounts of the individual interests represented by the Global Bond. Such accounts will be designated initially by or on behalf of the Managers. Ownership of beneficial interests in the Global Bond will be limited to persons who have accounts with Euroclear or Clearstream, or persons who hold interests through such account holders. Ownership of beneficial interests in the Global Bond will be shown on, and the transfer of that ownership will be effected only through, the records maintained by Euroclear and Clearstream (with respect to interests of their respective account holders) and the records of such account holders (with respect to interests of persons with beneficial interests in the Global Bond other than such account holders).

Payments in respect of the Global Bond will be made to the Common Depository or its nominee as the registered owner thereof. None of us, the Trustee, the Common Depository, the Registrar, the Principal Paying Agent, the Paying Agents, any custodian, any transfer agent or any other agent of ours will have any responsibility or liability for the accuracy of any of the records relating to, or payments made on account of, ownership interests in the Global Bond or for any notice permitted or required to be given to persons with beneficial interests in the Global Bond or any consent given or actions taken by such persons. We expect that upon receipt of any payment in respect of the Global Bond representing any Bonds held by it or its nominee, the Common Depository will promptly credit the accounts of the participants of Euroclear and Clearstream with payments proportionate to their respective interests in the amount of the principal of the Global Bond as shown on its records.

Transfers between account holders in Euroclear and Clearstream will be effected in accordance with their respective rules and operating procedures.

The laws of certain jurisdictions require that certain purchasers of the Bonds take physical delivery of such Bonds in definitive form. Accordingly, the ability of beneficial owners to own, transfer or pledge beneficial interests in the Global Bond may be limited by such laws.

Conversion through participants in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Although Euroclear and Clearstream have agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Bond among participants and account holders of Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of us, the Trustee, the Common Depository, the Registrar, the Principal Paying Agent, the Paying Agents, any custodian, any transfer agent, any registrar or any other agent of ours will have any responsibility for the performance by Euroclear or Clearstream, or their respective participants, indirect participants or account holders, of their respective obligations under the rules and procedures governing their operations.

Euroclear and Clearstream each holds the Bonds for participating organizations and facilitates the clearance and settlement of Bond transactions between its respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to Euroclear and Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

INDIVIDUAL BONDS

We will issue individual Bonds in registered form in exchange for the Global Bond if:

- (i) the Common Depositary or any successor to the Common Depositary notifies us in writing that it is at any time unwilling or unable to continue as a depositary and a successor depositary is not appointed by us within 90 days, or
- (ii) either Euroclear or Clearstream or a successor clearing system 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
- (iii) an event of default under the Bonds or the Indenture has occurred and is continuing.

Upon receipt of such notice from Euroclear, Clearstream or the Registrar, as the case may be, we will make arrangements for the exchange of interests in the Global Bond for Definitive Certificates representing individual Bonds and cause such Definitive Certificates to be executed and delivered to the Registrar in sufficient quantities and authenticated by the Registrar for delivery to the holders of the Bonds. Each person exchanging interests in the Global Bond for one or more of these Definitive Certificates will be required to provide to the Trustee, through the relevant clearing system, written instructions and other information required by us and the Registrar to complete, execute and deliver the relevant certificates. Any Definitive Certificates delivered in exchange for the Global Bond or beneficial interests therein will be registered in the names requested, and issued in any denominations approved, by the relevant clearing system.

Transfer restrictions

Because of the following restrictions, we encourage you to consult legal counsel prior to making any offer, resale, pledge or other transfer of Bonds offered and sold in reliance on Regulation S or the Shares issuable upon conversion of the Bonds.

The Bonds may not be offered or sold directly or indirectly in the ROC. The Bonds and the Shares issuable upon conversion of the Bonds have not been and will not be registered under the Securities Act. The Bonds and the Shares issuable upon conversion of the Bonds may not be offered or sold to any person in the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. **In addition, no transfer of any interest in the Bond may be made to any U.S. person outside the United States or any person in the United States for a period of 40 days after the later of the commencement of this offering and the latest closing date of this offering.** Terms used in this section are defined in Regulation S.

Except in certain limited circumstances, interests in the Bonds may only be held through interests in the Global Bond. Such interests in the Bond will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream and their respective direct and indirect participants. See “Description of the Bonds” and “The Global Bond.”

Each purchaser of the Bonds, by accepting delivery of this Offering Circular, will be deemed to have acknowledged and represented to and agreed to as follows:

1. The Bonds and Shares issuable upon conversion of the Bonds have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to significant restrictions on transfer.
2. Each owner purchasing the Bonds prior to the expiration of 40 days after the later of the commencement of the offering and the latest closing date (“Distribution Compliance Period”) is purchasing such Bonds in an offshore transaction meeting the requirements of Rule 903 or 904 of Regulation S.
3. The Bonds will not be sold, pledged or transferred to, or for the account or benefit of, any U.S. person outside the United States or any person in the United States during the Distribution Compliance Period.
4. Such owner will not offer, sell, pledge or otherwise transfer any interest in the Bonds or Shares issuable upon conversion of the Bonds except as permitted by the applicable legend set forth in paragraph (5) below.
5. The Bonds will bear legends to the following effect, which restrictions we will observe unless we determine otherwise in compliance with applicable law:

THE BONDS EVIDENCED HEREBY (THE “BONDS”) AND THE COMMON SHARES OF HIGH TECH COMPUTER CORP. ISSUABLE UPON CONVERSION OF THE BONDS (THE “SHARES”) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND PRIOR TO THE EXPIRATION OF 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING OF THE BONDS AND THE LATEST CLOSING DATE (THE “DISTRIBUTION COMPLIANCE PERIOD”), THE BONDS MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED TO ANY U.S. PERSON OUTSIDE THE UNITED STATES OR ANY PERSON IN THE UNITED STATES. EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THE BONDS EVIDENCED HEREBY, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING AND THE FOLLOWING RESTRICTIONS.

Transfer restrictions

THIS LEGEND WILL BE REMOVED AFTER THE END OF THE DISTRIBUTION COMPLIANCE PERIOD, AFTER WHICH THE BONDS EVIDENCED HEREBY AND THE SHARES ISSUABLE UPON CONVERSION OF THE BONDS SHALL NO LONGER BE SUBJECT TO THE RESTRICTIONS PROVIDED IN THIS LEGEND, PROVIDED THAT AT SUCH TIME AND THEREAFTER THE OFFER OR SALE OF THE BONDS EVIDENCED HEREBY AND THE SHARES ISSUABLE UPON CONVERSION OF THE BONDS WOULD NOT BE RESTRICTED UNDER ANY APPLICABLE SECURITIES LAWS OF THE UNITED STATES OR OF THE STATES OR TERRITORIES OF THE UNITED STATES.

According to Chapter VI, Article 3, Point A/II/2 of the Rules and Regulations of the Luxembourg Stock Exchange, the Bonds shall be freely transferable and therefore no transaction made on the Luxembourg Stock Exchange shall be cancelled.

Description of the Shares

Set forth below is certain information relating to our share capital, including brief summaries of certain provisions of our Articles of Incorporation, the ROC Securities and Exchange Law, the regulations promulgated under the ROC Securities and Exchange Law and the ROC Company Law as of the date of this Offering Circular.

HTC was incorporated on May 15, 1997 as a company limited by shares under the ROC Company Law. Our current authorized and issued capital is NT\$2,000 million (including NT\$72.8 million divided into 7.28 million Shares reserved for the exercise of warrants or warrants attached to any preferred shares or bonds) and NT\$1,627.2 million, respectively, divided into 200 million and 162.72 million Shares, respectively. Our Articles of Incorporation currently only authorize Shares, and do not authorize any preferred shares. All of our issued and outstanding Shares are fully paid and in registered form.

DIVIDENDS AND DISTRIBUTIONS

Except in limited circumstances, the ROC Company Law does not permit us to distribute dividends or make any other distributions to shareholders in respect of any year in which we have no net income or retained earnings (excluding reserve). The ROC Company Law also requires that 10% of our net income for a fiscal year, after deduction of prior years' losses and any payment of taxes, must be set aside as a legal reserve until the accumulated legal reserve equals our paid-in capital. In addition, our Articles of Incorporation require that 1% of our net income for a fiscal year (after making up our losses in the prior year, paying taxes and setting aside any necessary legal and special reserve) shall be paid to the Directors and Supervisors as remuneration and at least 5% of our net income for a fiscal year (after making up our losses in the prior year, paying taxes and setting aside any necessary legal and special reserve) shall be paid to employees as bonuses. The remainder may be distributed as dividends to shareholders subject to approval of the shareholders at a shareholders' meeting; provided that at least 5% of such dividends shall be in the form of stock. See "Dividends and dividend policy."

At the annual general meeting of our shareholders, our Board of Directors submits to our shareholders for their approval of our financial statements for the preceding fiscal year and any proposal for the distribution of dividends or the making of any other distributions to shareholders from our net income (subject to compliance with the requirements mentioned above) for the preceding fiscal year. All Shares issued and outstanding and fully paid as of the relevant record date are entitled to share equally in any dividend or other distribution approved by the shareholders. Dividends may be distributed in cash, in the form of Shares or a combination of cash and Shares, as determined by our shareholders at the annual general meeting.

In addition to permitting dividends to be paid out of earnings, the ROC Company Law also permits us to make distributions to our shareholders of additional Shares (if the Company does not have losses) by capitalizing our reserves (including the legal reserve and capital surplus of premium from issuing stock and earnings from gifts received). However, the capitalized portion payable out of our legal reserve is limited to 50% of the total accumulated legal reserve and the capitalization of the legal reserve can only be effected when the accumulated legal reserve exceeds 50% of our paid-in capital.

Cash dividends which are unclaimed for a period of five years from the date of the relevant notice of distribution may no longer be claimed. Such unclaimed cash dividends will, upon expiry of such five-year period, become our property. However, stock dividends are not subject to any prescription period under ROC law. Thus, uncollected stock dividends will remain in our safekeeping and continue to be claimable by the relevant shareholders.

Grand Cathay Securities Corp. is our share registrar and maintains our share register at its offices at 5/F, No. 2, Section 1, Chung Ching South Road, Taipei, 100, Taiwan, R.O.C, and enters transfers of our Shares in our share register upon presentation of, among other documents, certificates in respect of the Shares transferred.

For information on the dividends paid by us in recent years, see "Dividends and dividend policy." For information as to ROC taxes on dividends and other distributions, see "ROC taxation."

CHANGES IN SHARE CAPITAL AND PRE-EMPTIVE RIGHTS

The ROC Company Law and the ROC Securities and Exchange Law provide that any change in the authorized share capital of a company limited by shares, such as ours, requires an amendment to the company's articles of incorporation approved by the shareholders at a shareholders' meeting. In addition, for a public company such as ours, the approval of the ROC SFC is required if the paid-in capital is increased. The Ministry of Economic Affairs requires us to register changes of our authorized and paid-in share capital. Our authorized but unissued Shares may be issued at such times and, subject to the provisions of the ROC Company Law and the ROC Securities and Exchange Law mentioned below, upon such terms as our Board of Directors may determine.

According to the ROC Company Law, when a company issues new common shares for cash, 10% to 15% of the issue must be offered to its employees. In addition, the Securities and Exchange Law and the relevant securities regulations require that, if a public company listed on the TSE or whose shares are traded on the GreTai Securities Market ("GTSM") intends to offer new shares for cash, at least 10% of the issue must be offered to the public, except under certain circumstances or when exempted by the ROC SFC. This percentage can be increased by a resolution passed at a shareholders' meeting, thereby reducing the number of new shares subject to the preemptive rights of existing shareholders. Unless the percentage of shares to be offered to the public is increased by the shareholders, existing shareholders who are listed on the shareholders' register as of the record date have a pre-emptive right to acquire the remaining 75% to 80% of the issue. The shares not subscribed for by the employees and shareholders at the expiration of the period for the exercise of their rights should be sold to the public or specified persons at the direction of our Board of Directors. The pre-emptive rights provisions will not apply to offering of new shares through a private placement approved at a shareholders' meeting.

MEETINGS OF SHAREHOLDERS

Meetings of our shareholders may be ordinary or extraordinary meetings. Ordinary meetings of our shareholders are generally held in Taoyuan, Taiwan, within six months following the end of each fiscal year. Extraordinary meetings may be convened by our Board of Directors by passing a board resolution or by our Board of Directors upon the written request of any shareholder or shareholders who has or have held 3% or more of our issued and outstanding Shares for a period exceeding one year or be convened by such shareholder or shareholders. Extraordinary meetings of our shareholders may also be convened by a Supervisor. Notice in writing of our shareholders' meetings, stating the place, time and purpose of the meeting, must be dispatched to each shareholder of record at least 30 days (in the case of ordinary meetings) and at least 15 days (in the case of extraordinary meetings) prior to the date set for the meeting.

VOTING RIGHTS

The ROC Company Law provides that a holder of Shares has one vote for each Share held. There is a cumulative voting for the election of Directors and Supervisors unless otherwise provided in our Articles of Incorporation. Ballots for the election of Directors are cast separately from those for the election of Supervisors. Directors and Supervisors are elected by our shareholders at our shareholders' meeting at which ballots for the election are cast. Except as otherwise provided by law and our Articles of Incorporation, a resolution can be adopted by the holders of at least a majority of the Shares represented at our shareholders' meeting at which the holders representing 50% of all issued and outstanding Shares are present. Under the ROC Company Law, however, to approve certain major corporate actions, including any amendment to the articles of incorporation (which is required, among other things, for any increase in the authorized share capital), the dissolution or amalgamation of a company or spin-off, the transfer of the whole or an important part of a company's business, the taking over of the whole of the business of another company which would have a significant impact on the acquiring company's operations, execution, modification or termination of any contracts or agreements relating to the leasing of all of the company's business, joint ventures or mandate of the company's operations to other persons or the distribution of any stock dividend, a meeting of the shareholders must be convened with a quorum of holders of at least two-thirds of all issued and outstanding shares at which the shareholders of at least a majority of the shares represented at the meeting vote in favor of the corporate action. Alternatively, the ROC Company Law provides that in the case of a public company, such as ours, a resolution to approve these major corporate actions may be adopted by the holders of at least two-thirds of the shares represented at a shareholders' meeting at which holders of at least a majority of issued and outstanding shares are present. In addition, our Articles of

Description of the Shares

Incorporation provide that to approve acquisition and merger of other domestic and overseas enterprises, a shareholders' meeting with a quorum of holders of at least two-thirds of all issued and outstanding shares must be convened at which the shareholders of at least a majority of the shares represented at the meeting vote in favor of such acquisition and merger.

A shareholder may be represented at our ordinary or extraordinary meetings by proxy if a valid proxy form is delivered to us at least five days prior to the commencement of the ordinary or extraordinary meeting. Voting rights attached to our Shares that are exercised by our shareholders' proxies shall be subject to ROC proxy regulations.

Any shareholder who has a personal interest in a matter to be discussed at our shareholders' meeting, the outcome of which may impair our interests, shall not vote or exercise voting rights on behalf of another shareholder on such matter.

REGISTER OF SHAREHOLDERS AND RECORD DATES

Under the ROC Company Law we may, by giving advance public notice, set a record date and close our share register for a specified period (60 days, 30 days and 5 days, respectively, immediately before each ordinary meeting of shareholders, extraordinary meeting of shareholders and the relevant record date) in order for us to determine the shareholders who are entitled to certain rights pertaining to the Shares.

OTHER RIGHTS OF SHAREHOLDERS

Under the ROC Company Law, dissenting shareholders are entitled to appraisal rights in certain major corporate actions such as a proposed amalgamation by the company. A dissenting shareholder may request the company to redeem all of the shares owned by the shareholder at a fair price determined by mutual agreement or determined by a court order if an agreement cannot be reached. Shareholders may exercise their appraisal rights by serving written notice on the company prior to the related shareholders' meeting and/or by raising and registering an objection at the shareholders' meeting. In addition to appraisal rights, shareholders have the right to sue for the annulment of any resolution adopted at a shareholders' meeting where the procedures were legally defective within 30 days after the date of the shareholders' meeting. One or more shareholders who have held more than 3% of the issued and outstanding shares of a company for more than one year may require a supervisor to bring a derivative action on behalf of the company against a director as a result of the director's unlawful actions or failure to act.

FINANCIAL STATEMENTS

For a period of at least ten days prior to our annual ordinary shareholders' meeting, our annual financial statements must be available at our principal office in Taoyuan and our share registrar in Taipei for inspection by our shareholders.

TRANSFER OF SHARES

Under the ROC Company Law, the transfer of shares is effected by endorsement and delivery of the related share certificates. However, in order to exercise his shareholder's rights, a transferee of our Shares must have his name and address registered on our share register. Our shareholders are also required to file their respective specimen seals with us. The settlement of trading of shares on the TSE is carried out on the book-entry system maintained by Taiwan Securities Central Depository Co., Ltd.

ACQUISITIONS OF SHARES BY US

With minor exceptions, we may not acquire our Shares under the ROC Company Law.

Under the Securities and Exchange Law, we may, by a board resolution adopted by majority consent at a meeting with two-thirds of our Directors present, purchase our Shares on the TSE or by a tender offer, in accordance with the procedures prescribed by the ROC SFC, for the following purposes: (i) to transfer Shares to our employees; (ii) to convert bonds with warrants, preferred shares with warrants, convertible bonds, convertible preferred shares or certificates of warrants issued by us into Shares; and (iii) if necessary, to maintain our credit and our

Description of the Shares

shareholders' equity; provided that the Shares so purchased shall be cancelled thereafter. Shares purchased by us pursuant to (i) and (ii) above shall be transferred to the intended transferees within three years after the purchase date; otherwise, such Shares shall be cancelled. For Shares to be cancelled pursuant to (iii) above, we are required to complete the amendment registration within six months after the purchase date.

We are not allowed to purchase more than 10% of our total issued and outstanding Shares. In addition, we may not spend more than the aggregate amount of the retained earnings, the premium from issuing Shares and the realized portion of the capital reserve to purchase our Shares.

We may not pledge or hypothecate any purchased Shares. In addition, we may not exercise any shareholders' rights attaching to such Shares. In the event that we purchase our Shares on the TSE, our 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 any of our Shares during the period in which we purchase our Shares.

In addition, effective from November 14, 2001, under the revised ROC Company Law, our subsidiaries may not acquire our Shares. This restriction does not, however, affect any of our Shares acquired by our subsidiaries prior to November 14, 2001.

LIQUIDATION RIGHTS

In the event of our liquidation, the assets remaining after payment of all our debts, liquidation expenses and taxes will be distributed pro rata to our shareholders in accordance with the ROC Company Law.

TRANSFER RESTRICTIONS

The ROC Securities and Exchange Law (i) requires each director, supervisor, manager or shareholder (together with its spouse, minor children and nominee) holding more than 10% of the shares of a public company to report on a monthly basis, any changes in that person's shareholding to the company; and (ii) limits the number of shares that can be sold or transferred on the TSE or on the GTSM by that person per day. The number of Shares that can be sold or transferred on the TSE and the GTSM by any such person per day is either (i) for a company with no more than 30 million outstanding Shares, 0.2% of the outstanding Shares of the company; for a company with more than 30 million outstanding Shares, the aggregate amount of 0.2% of the 30 million Shares plus 0.1% of the outstanding shares exceeding 30 million Shares; or (ii) 5% of the average trading volume (number of Shares) on the TSE or on the GTSM for the 10 consecutive trading days preceding the reporting day on which day the director, supervisor, manager or a shareholder (together with its spouse, minor children and nominee) holding more than 10% of the shares reports the intended share transfer to the ROC SFC.

Dividends and dividend policy

On March 14, 2002, our shareholders approved stock dividends of NT\$255.2 million, cash dividends of NT\$127.6 million, employee bonuses of NT\$130.0 million, including NT\$96.0 million in the form of Shares, and Directors' and Supervisors' remuneration of NT\$8.7 million. The NT\$255.2 million in stock dividends and the NT\$96.0 million in employee stock bonuses were distributed in the form of 25,520,000 Shares and 9,600,000 Shares, respectively, or an aggregate of 35,120,000 Shares. We did not distribute any dividends in prior years.

Except in limited circumstances, under the ROC Company Law we are not permitted to distribute dividends or make other distributions to shareholders in respect of any year in which we did not record net income or retained earnings (excluding reserves). The ROC Company Law also requires that 10% of annual net income (less prior years' losses and outstanding taxes) be set aside as a legal reserve until such time as the accumulated legal reserve equals our paid-in capital. Our Articles of Incorporation provide that 1% of the remainder shall be paid to our Directors and Supervisors as remuneration and at least 5% of the remainder shall be paid to employees as bonuses. In addition, the rest of the remainder may be distributed as dividends to shareholders subject to approval of the shareholders at a shareholders' meeting; provided that at least 5% of such dividends shall be in the form of stock. See "Description of the Shares."

Holders of outstanding Shares on a dividend record date will be entitled to the full dividends declared at the shareholders' meeting approving such dividends without regard to any prior or subsequent transfer of such Shares. Payment of dividends in respect of the prior year is subject to the approval of our shareholders at the annual general shareholders' meeting.

For information relating to ROC withholding taxes payable on cash and stock dividends, see "ROC taxation — Dividends on the shares."

Exchange rates

The following table sets forth the average, high, low and period-end Noon Buying Rates between NT Dollars and US Dollars (in NT Dollars per US Dollar) for the periods indicated. No representation is made that the NT Dollar amounts actually represent such US Dollar amounts or could have been, or could be, converted into US Dollars at the rate indicated, at any other rate or at all.

	NT Dollars/US Dollar Noon Buying Rate			
	Average	High	Low	Period End
1997	28.78	33.25	27.34	32.80
1998	33.55	35.00	32.05	32.27
1999	32.32	33.40	31.39	31.39
2000	31.26	33.20	30.48	33.17
2001	33.82	35.13	32.23	35.00
2002	34.75	34.79	34.70	34.70
2003 ⁽¹⁾	34.55	34.79	34.40	34.59

Source: Federal Reserve Statistical Release H.10 (512), 1997-2003, Board of Governors of the Federal Reserve System.

(1) Through January 22, 2003.

Market price information

The Shares have been listed on the TSE since March 26, 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 and the highest and lowest of the daily closing values of the Taiwan Stock Exchange Index. The closing price for the Shares on the TSE on January 23, 2003 was NT\$174 per share.

	Closing Price per Share		Average Daily Trading Volume in Shares	Taiwan Stock Exchange Index	
	High NT\$	Low NT\$	(in thousands)	High	Low
2002					
First Quarter ⁽¹⁾	212	174	1,000	6,242.64	6,147.75
April.....	270	224	726,378	6,462.30	6,059.21
May	224	167	280,923	5,910.69	5,443.18
June	159	115	198,058	5,599.42	5,071.76
Second Quarter.....	225	115	471,147	6,462.30	5,071.76
July	133	98.5	198,595	5,416.50	4,855.34
August	126.5	104	211,669	4,968.85	4,572.35
September	115.5	108.5	244,707	4,668.01	4,185.95
Third Quarter.....	133	98.5	217,208	5,416.50	4,185.95
October	142	109	338,996	4,601.37	3,850.04
November	148	120	332,297	4,813.53	4,500.55
December	173	144	537,892	4,823.67	4,452.45
Fourth Quarter	173	109	404,150	4,823.67	3,850.04
2003					
January ⁽²⁾	180	150	442,125	5,078.80	4,524.87

Source: Bloomberg.

(1) From March 26, 2002.

(2) Through January 23, 2003

There has been no public market outside Taiwan for the Shares. As of June 16, 2002, there were approximately 2,500 registered holders of our Shares as indicated in our roster of shareholders.

The TSE has experienced substantial fluctuations in the prices of listed securities and there are currently limits on the range of daily price movements. See “Risk factors — Risks relating to the Bonds and the Shares — The value of your investment may be adversely affected by the volatility of the ROC securities market” and “The securities markets of the ROC — The Taiwan Stock Exchange” and “— Taiwan Stock Exchange Index.”

Foreign investment and exchange controls in the ROC

FOREIGN INVESTMENT

Historically, foreign investment in the ROC securities markets has been restricted. Since 1983, the ROC government has periodically enacted legislation and adopted regulations to permit foreign investment in the ROC securities market. Currently, non-ROC persons may invest in ROC securities through the following vehicles.

Depository receipts

In April 1992, the ROC SFC enacted regulations permitting ROC companies with securities listed on the TSE, with the prior approval of the ROC SFC, to sponsor the issue and sale to foreign investors of depository receipts. Depository receipts represent deposited shares of ROC companies. In December 1994, the Ministry of Finance allowed companies whose shares are traded on the GTSM or listed on the TSE, upon approval of the ROC SFC, to sponsor the issue and sale of depository receipts.

A holder of depository receipts may from three months (in the case that the underlying shares are newly issued shares) or immediately (in the case that the underlying shares are not newly issued shares) after the initial issue date for the depository receipts, request the foreign depository issuing the depository receipts to cause the underlying securities to be sold in the ROC and to distribute the proceeds of the sale to the depository receipt holder or to withdraw from the depository receipt facility shares represented by depository receipts and transfer the shares to the depository receipt holder (other than citizens of the PRC and entities organized under the laws of the PRC).

Under existing laws and regulations relating to foreign exchange control, a depository or a holder of depository receipts may, without obtaining further approvals from the Central Bank of China or any other governmental authority or agency of the ROC, convert NT Dollars into other currencies, including US Dollars, in respect of the following: proceeds of the sale of shares represented by depository receipts, proceeds of the sale of shares received as stock dividends which have been deposited into the depository receipt facility and any cash dividends or cash distributions received. In addition, a depository, also without any of these approvals, may convert inward remittances of payments into NT Dollars for purchases of underlying shares for deposit into the depository receipt facility against the creation of additional depository receipts. However, a depository may be required to obtain foreign exchange approval from the Central Bank of China on a payment-by-payment basis for conversion from NT Dollars into other currencies relating to the sale of subscription rights for new shares. Proceeds from the sale of any underlying shares by holders of depository receipts withdrawn from the depository receipt facility may be converted into other currencies without obtaining Central Bank of China approval. Proceeds from sale of the underlying shares withdrawn from the depository receipt facility may be used for reinvestment in the TSE or the GTSM, subject to limitations and restrictions applicable to Qualified Foreign Institutional Investors (as defined below in “— Qualified foreign institutional investors”) or General Foreign Investors (as defined below in “— Other foreign investment”). However, such holder may be required to obtain foreign exchange approval from the Central Bank of China on a payment-by-payment basis for conversion from NT dollars into foreign currencies of the proceeds from the sale of subscription rights for new Shares.

Under current ROC laws, a non-ROC holder of depository receipts, when withdrawing the depository receipts, 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, pay taxes, remit funds, exercise shareholders’ rights and perform such other matters as may be designated by such holder of depository receipts on behalf of and as an agent for such holder of depository receipts. A holder of depository receipts is also required to appoint a custodian bank to hold the securities and any cash proceeds in safekeeping, to make confirmations, to settle trades and to report all relevant information. In addition, such holder of depository receipts is required to appoint a tax guarantor for filing tax returns and making tax payments.

Overseas corporate bonds

Since 1989, the ROC SFC has approved a series of overseas bonds issued by ROC companies listed on the TSE in offerings outside the ROC. Under current ROC law, subject to ROC SFC approval, such overseas corporate bonds can be (i) converted by bondholders, other than persons of the PRC, into shares of ROC companies or (ii) converted into depository receipts issued by the same ROC company or by the issuing company of the exchange shares, in the case of exchangeable bonds. The relevant regulations also permit public issuing companies to issue

Foreign investment and exchange controls in the ROC

corporate debt in offerings outside the ROC. Proceeds from the sale of the shares converted from overseas convertible bonds may be used for reinvestment in securities listed on the TSE or traded on the GTSM, subject to limitations and restrictions applicable to Qualified Foreign Institutional Investors or General Foreign Investors (as applicable).

Under current ROC law, a non-ROC converting bondholder, when exercising his conversion right to convert bonds into Shares, 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, pay ROC taxes, remit funds, exercise shareholders' rights and perform such other matters as may be designated by such converting bondholder on behalf of and as agent for such converting bondholder. Also, the converting bondholder is also required to appoint a custodian bank to hold the securities and any cash proceeds in safekeeping, to make confirmations, to settle trades and to report all relevant information. In addition, such converting bondholder is 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 non-ROC currencies, including US Dollars, for making payments in respect of proceeds of the redemption of the bonds or repayment of principal of and interest on the bonds. A non-ROC converting bondholder may, through its local agent and without obtaining prior approval from the Central Bank of China, convert into foreign currencies net proceeds realized from the sale of converted entitlement certificates, 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 inward remittance of subscription payments in respect of rights offerings. 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.

Qualified foreign institutional investors

On December 28, 1990 the Executive Yuan approved guidelines drafted by the ROC SFC which, since January 1, 1991, allow direct investment in ROC securities listed on the TSE or other ROC securities approved by the ROC SFC by certain qualified foreign institutional investors. Under current guidelines, qualified foreign institutional investors include:

- (i) banks which hold securities assets of at least US\$100 million;
- (ii) insurance companies which hold securities assets of at least US\$100 million;
- (iii) fund management companies which manage assets of at least US\$100 million;
- (iv) offshore fund management companies which are more than 50% owned by an ROC securities investment trust enterprise provided that the funds to be invested do not come from (1) the ROC, (2) self-owned fund of such offshore fund management companies or (3) the PRC;
- (v) general securities firms which have a net worth of at least US\$50 million;
- (vi) offshore securities firms which are more than 50% owned by an 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 an 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 the funds completely come from the government;
- (ix) pension funds;
- (x) mutual funds, unit trusts or investment trusts which have assets of at least US\$100 million;
- (xi) trust companies which hold securities assets in trust of at least US\$100 million;

- (xii) academic or charitable institutions that, according to their articles of incorporation, may invest their funds, provided those investments are managed by a third-party manager; and
- (xiii) other institutional investors which hold securities assets of at least US\$100 million.

Qualified foreign institutional investors (each a “Qualified Foreign Institutional Investor” or “QFII”) who wish to invest directly in the Taiwan securities market is required to apply for and receive an investment permit from the ROC SFC. Any application for investment exceeding US\$50 million must also be approved by the Central Bank of China. Such application with the ROC SFC requires the submission of, among other documents, proof of qualification, proof of appointment of a local agent and custodian, credentials of the local agent and custodian and a copy of the custodial contract. Foreign institutional investors who receive a permit may currently invest up to US\$3 billion (with certain limited exceptions, the maximum amount of US\$3 billion may be exceeded). A QFII may remit the full amount into the ROC within two years after receiving the investment permit. 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 ROC may be returned to the ROC within the approved two-year period without the ROC SFC approval, provided that the aggregate inward remittance of the returned capital after netting off all previous outward remittance does not exceed the total investment amount previously approved by the ROC SFC and CBC (if applicable). Capital gains and income on investments may be remitted out of the ROC at any time. Except for certain specified industries under the Negative List as discussed below, investments in ROC-listed companies by Qualified Foreign Institutional Investors are not subject to individual or aggregate foreign ownership limits. Custodians for Qualified Foreign Institutional Investors are also required to submit to the Central Bank of China and the ROC SFC a monthly report of trading activities and status of assets under custody and other matters within the two-year period of time.

Other foreign investment

In addition to Qualified Foreign Institutional Investors, under existing ROC laws and regulations relating to foreign investment, certain individual and institutional foreign investors which meet certain qualifications set by the ROC SFC (“General Foreign Investors”) may invest in the shares of TSE-listed or GTSM-listed companies or other ROC securities approved by the ROC SFC up to a limit of US\$50 million (in the case of institutional investors) and US\$5 million (in the case of individual investors) after obtaining permission from the TSE. General Foreign Investors are also subject to the foreign ownership limitations on certain specified industries as described in the preceding paragraph.

Foreign investors (other than Qualified Foreign Institutional Investors, General Foreign Investors, and investors investing in overseas convertible bonds and depositary receipts) who wish to make direct investments in the shares of ROC companies are required to submit a Foreign Investment Approval application to the Investment Commission of the ROC MOEA or other government authority. The Investment Commission or such other government authority reviews each Foreign Investment Approval application and approves or disapproves each application after consultation with other governmental agencies (such as the Central Bank of China and the ROC SFC).

Under current law, any non-ROC person possessing a Foreign Investment Approval may remit capital for the approved investment and is entitled to repatriate annual net profits, interest and cash dividends attributable to such investment. Dividends attributable to such investment, investment capital and capital gains attributable to such investment may be repatriated after approvals of the Investment Commission or other authorities have been obtained.

In addition to the general restriction against direct investment by non-ROC persons in securities of ROC companies, non-ROC persons (except in certain limited cases) are currently prohibited from investing in certain industries in the ROC pursuant to a Negative List, as amended by the Executive Yuan. The prohibition on foreign investment in the prohibited industries specified in the Negative List is absolute in the absence of specific exemption from the application of the Negative List. Pursuant to the Negative List, certain other industries are restricted so that non-ROC persons (except in certain limited cases) 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.

We are not in the prohibited or restricted industry on the Negative List.

EXCHANGE CONTROLS

The Foreign Exchange Control Statute and regulations provide that all foreign exchange transactions must be executed by banks designated to handle such business by the Ministry of Finance and by the Central Bank of China. Current regulations favor trade-related foreign exchange transactions and Foreign Investment Approval investments. 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 importation of merchandise and services may be purchased freely from the designed foreign exchange banks.

Trade aside, ROC companies and resident individuals may, without foreign exchange approval, remit outside the ROC foreign currency of up to US\$50,000,000 (or its equivalent) and US\$5,000,000 (or its equivalent) respectively in each calendar year. In addition, ROC companies and resident individuals may, without foreign exchange approval, remit into the ROC foreign currency of up to US\$50,000,000 (or its equivalent) and US\$5,000,000 (or its equivalent) respectively in each calendar year. 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 remittances involving a conversion of NT Dollars to a foreign currency and vice versa. A requirement is also imposed on all enterprises to register medium- and long-term foreign debt with the Central Bank of China.

In addition, foreign persons may, subject to certain requirements, but without foreign exchange approval of the Central Bank of China, remit outside and into the ROC foreign currencies of up to US\$100,000 (or its equivalent) for each remittance. The above limit applies to remittances involving a conversion of NT Dollars to a foreign currency and vice versa.

The securities markets of the ROC

The information provided in this section has been extracted from various government and other publicly available publications. References to the ROC SFC in this section include both the ROC Securities and Futures Commission and the ROC Securities and Exchange Commission, its predecessor.

In September 1960, the ROC government established the ROC Securities and Exchange Commission to supervise and control all aspects of the existing domestic securities market and the TSE began to take shape soon thereafter. 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 markets, such as encouraging listing on the TSE and establishing an over-the-counter securities exchange. In the mid-1980s, the ROC government began to revise its laws and regulations in a manner designed to facilitate the gradual internationalization of the ROC securities markets. In 1997, the ROC Securities and Exchange Commission was renamed the ROC Securities and Futures Commission.

THE TAIWAN STOCK EXCHANGE

In 1961, the ROC SFC, working together with private interests, 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 (firms which are permitted to combine the activities of brokerage, dealing and underwriting) must be made through the TSE.

The TSE commenced operations in 1962 and during the remainder of the 1960's grew at a slow pace, largely due to lack of experience among issuers and investors and an unwillingness on the part of ROC businesses to offer their shares to the public. During the early 1980's, the ROC SFC more actively encouraged new listings on the TSE and the number of listed companies grew from 119 in 1983 to 638 on December 31, 2002. As of December 31, 2002, the total market value of shares listed on the TSE was approximately NT\$4.4 trillion.

The instruments traded on the TSE have primarily been limited to common stock and bonds. However, recent legislative revisions and the present attitude of the ROC SFC regarding liberalization of securities regulations have encouraged some innovation. In 1988, the Ministry of Finance permitted the issue of the ROC's first exchangeable bonds (such bonds being exchangeable at the option of the bondholders into shares of companies owned by the issuers). 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 bonds issued by supra-national financial institutions are also listed on the TSE and traded on the GTSM (see below).

The ROC SFC has promulgated regulations that would permit foreign issuers to list their equity securities on the TSE. To date, only four foreign issuers have been approved to list their securities on the TSE in the form of depositary receipts. The TSE has established specific requirements for listing based on the number and distribution of a company's stockholders, years in existence, amount of paid-in share capital and profitability.

For a company to be listed, it must have been established for at least five years, have paid-in capital of at least NT\$600 million upon the application for listing and have at least 1,000 registered stockholders, including not fewer than 500 stockholders holding between 1,000 and 50,000 shares each. These 500 stockholders must together hold either at least 20% of the outstanding shares or at least 10 million shares. The company may not have an accumulated deficit for the previous fiscal year and pre-tax net income and operating income of the company must meet any of the following requirements: (1) having exceeded 6% of paid-in capital for each of the previous two fiscal years or having exceeded 6% in average of the paid-in capital for the previous two fiscal years with the profitability of the most recent fiscal year being superior than that of the preceding fiscal year; or (2) having been no less than 3% of the paid-in capital for each of the previous five fiscal years. However, certain special listing criteria apply to high-tech companies and key businesses engaging in national economic development.

THE GRETAI SECURITIES MARKET

To complement the TSE, the GTSM was established in September 1982 on the initiative of the ROC SFC to encourage the trading of securities of companies that do not qualify for listing on the TSE. As of December 31, 2002, 384 companies had listed equity securities on the GTSM and the total market capitalization of those companies was NT\$627.3 billion.

TAIWAN STOCK EXCHANGE INDEX

The Taiwan Stock Exchange 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 and Poor's Index in the United States and the Nikkei Stock Average in Japan. The Taiwan Stock Exchange Index is compiled by dividing the market value by the base day's total market value for the index shares. The Taiwan Stock Exchange Index is the oldest and most widely quoted 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 sets forth, for the periods indicated, certain information relating to the Taiwan Stock Exchange Index.

Period	No. 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	4,600.67
1992	256	5,391.63	3,327.67	3,377.06
1993	285	6,070.56	3,135.56	6,070.56
1994	313	7,183.75	5,194.63	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	531	10,202.20	4,614.60	4,739.09
2001	584	6,104.20	3,446.30	5,551.24
2002	638	6,484.93	3,845.76	4,452.45

Source: Taiwan Stock Exchange.

As indicated above, the performance of the TSE has in recent years been characterized 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 (500,000 shares) or more must be registered and executed under TSE guidelines. Fluctuations in the price of securities traded on the TSE is restricted to 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. The price limit for movements below the previous day's closing price has been modified from time to time by the Ministry of Finance based on market conditions.

The ROC SFC has indicated that the limits on the share price movements may be further relaxed or abolished entirely. Brokerage commission rates can be any rates not exceeding 0.1425% of the transaction price; provided that the rates are required to be reported to the TSE.

A securities transaction tax of 0.3% of the transaction price is payable by the seller of equity securities and a tax of 0.1% of the transaction price is payable by the seller of debt securities other than government bonds. In addition, according to the amended Statute of Upgrading Industries, which became effective on February 1, 2002, no securities transaction tax will be imposed on the transfer of financial debentures and corporate bonds. These securities transaction taxes are withheld at the time of the transaction until December 31, 2009.

Sales of shares of listed companies on the TSE are generally sold in “round lots” of 1,000 shares. Investors who desire to sell less than 1,000 shares of a listed company occasionally experience delays in making these sales. Transactions that involve 500 trading lots (500,000 shares) or more must be registered and executed in accordance with TSE guidelines.

REGULATION AND SUPERVISION

The ROC SFC has extensive regulatory authority over public companies. Public companies are generally required to obtain approval from, or registration with, the ROC SFC for all securities offerings. The ROC SFC requires periodic reporting of financial and operating information by all public companies. In addition, the ROC SFC establishes standards for financial reporting and carries out licensing and supervision of participants in the Taiwan securities market.

The ROC SFC has responsibility for implementing the Securities and Exchange Law and for overall administration of governmental policies in the Taiwan securities market. It has extensive regulatory authority over the offering, issuing and trading of securities. In addition, the Securities and Exchange Law specifically empowers the ROC SFC to promulgate necessary rules. The Securities and Exchange Law prohibits market manipulation. For example, it permits an issuer to recover short-term trading profits made through purchases and sales within six months by directors, managerial personnel, supervisors (together with the spouses, minor children and nominees of these parties) and stockholders (together with the spouses, minor children and nominees of the stockholders) holding 10% or more of the shares of the issuer. The Securities and Exchange Law prohibits trading by “insiders” based on non-public information that materially affects share price movement. “Insiders” include:

- directors, supervisors, managers (together with spouses, minor children and nominees of these parties) and shareholders (together with the spouses, minor children and nominees of these parties) holding 10% or more of the issuing company’s shares;
- any person who has learned material, non-public information due to an occupational or controlling relationship with the issuing company; and
- any person who has learned material, non-public information from any of the above.

Sanctions for market manipulation and insider trading include imprisonment. In addition, damages may be awarded to persons injured by the transaction.

The Securities and Exchange Law also imposes criminal liability on certified public accountants and lawyers who make false certifications in their examination and audit of an issuer’s contracts, reports and other documents related to securities transactions. The ROC SFC regulations require that 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.

In addition, the Securities and Exchange Law provides for civil liability for material misstatements or omissions made by issuers, and regulation of tender offers.

The securities markets of the ROC

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

- issuance of warnings;
- temporary suspension of operation;
- imposition of administrative fines; and
- revocation of licenses.

In addition to providing a market for securities trading, the TSE reviews applications by Taiwan issuers to list securities on the TSE. If issuers of listed securities violate laws and regulations or encounter significant difficulties, the TSE may, with the approval of the ROC SFC, delist securities of these issuers.

ROC taxation

Prospective investors should consult their own advisers concerning the tax consequences of an investment in the Bonds or Shares:

The following is a summary of the principal ROC tax consequences of the ownership and disposition of the Bonds or Shares to a Non-Resident Individual or Non-Resident Entity that holds the Bonds or Shares (each a “Non-ROC Holder”) under the ROC law currently in effect. As used in the preceding sentence, a “Non-Resident Individual” is a foreign national individual who owns the Bonds or Shares and is not physically present in the ROC for 183 days or more during any calendar year, and a “Non-Resident Entity” is a corporation or a non-corporate body that owns the Bonds or Shares and is organized under the laws of a jurisdiction other than the ROC and has no fixed place of business or other permanent establishment in the ROC. Prospective purchasers of the Bonds should consult their own tax advisers concerning the tax consequences of owning the Bonds or Shares in the ROC and any other relevant taxing jurisdiction to which they are subject.

INTEREST AND PREMIUM ON THE BONDS

Payment of premium and interest (if any) on a Bond to a Non-ROC Holder is subject to ROC withholding tax at the rate of 20% at the time of payment. We have agreed to pay additional amounts in respect of withholding taxes in the payment of premium or interest (if any). See “Description of the Bonds — Taxation.”

DIVIDENDS ON THE SHARES

Dividends (whether in cash or shares) declared by us out of retained earnings and paid out to holders of the Shares are normally subject to ROC income tax collected by way of withholding at the time of distribution. The current rate of withholding for Non-ROC Holders is 20% of the amount of the distribution (in the case of cash dividends) or the par value of the shares (in the case of stock dividends). Distributions of Shares declared by us out of capital reserves will not be subject to ROC withholding tax. In accordance with the Income Tax Law of the ROC, a 10% retained earnings tax will be imposed on a company in respect of its after-tax earnings generated after January 1, 1998 which are not distributed within the following year. The retained earnings tax so paid will further reduce the retained earnings available for future distribution. When we declare 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, gain realized 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 the Bonds or Shares. The introduction of a capital gains tax would require the Legislative Yuan to engage in the full legislative process for the enactment of tax legislation.

ROC law currently provides no specific provisions regarding the ROC income tax consequences of a conversion of the Bonds into Shares. Without further clarification from the ROC tax authorities, it is impossible to conclude definitively that gain on the conversion of the Bonds into Shares will not be deemed as taxable gain, additional interest income (subject to the 20% withholding tax) or otherwise subject to other ROC taxes. Transfers of the 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 the 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 sales proceeds. Pursuant to the amended Statute of Upgrading Industries, which came into effect on February 1, 2002, no securities transaction tax will be imposed on the transfer of corporate bonds and financial debentures (including the Bonds) until December 31, 2009.

ROC taxation

There is no ROC transfer, stamp, issue or registration tax imposed on the issuance of the Shares upon conversion of the Bonds. However, securities transaction tax, gift tax and/or income tax may be imposed in relation to the converting Bondholder's designation of other person to be the holder of the Shares upon conversion of the Bonds.

SUBSCRIPTION RIGHTS

Distributions of statutory 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 realized for Non-Resident Entity, and (ii) 35% of the gains realized for Non-Resident Individual. Subject to compliance with ROC law, we have the sole discretion to determine whether statutory subscription rights are evidenced by securities or not.

ESTATE TAXATION AND GIFT TAX

ROC estate tax is payable on any property within the ROC of a deceased Non-Resident Individual, and ROC gift tax is payable on any property within the ROC donated by a Non-Resident Individual. Estate 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 estate 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 Indonesia, Singapore, Australia, New Zealand, Gambia, Swaziland, Malaysia, Vietnam, Macedonia, South Africa and the Netherlands. It is unclear whether a Non-ROC Holder will be considered to own the Bonds or Shares for purposes of such treaties. Accordingly, a holder of the 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 the Bonds or Shares. The ROC government has announced a plan to suspend or terminate the tax treaty with South Africa in response to South Africa's decision to discontinue diplomatic recognition of the ROC.

Subscription and sale

UBS AG acting through its business group UBS Warburg and Yuanta Core Pacific Securities Limited (together with UBS Warburg, the “Managers”) have, pursuant to a Purchase Agreement dated January 23, 2003, severally but not jointly, agreed with us to purchase and pay for the Bonds in the principal amounts therein specified at the issue price of 100% of their principal amount, less a combined management and underwriting commission and selling commission aggregating (before allowing for agreed reimbursement of our expenses) in an amount of US\$900,000. The Purchase Agreement provides that we will indemnify the Managers against certain liabilities. The Purchase Agreement provides that the obligations of the Managers are subject to certain conditions precedent, and the Managers are entitled to terminate the Purchase Agreement in certain circumstances prior to payment being made to us. The Managers will be obligated to purchase all of the Bonds, if any is purchased.

We have granted UBS Warburg an option exercisable, in whole or in part on one or more occasions, up to and including 30 days after the date hereof to purchase up to an aggregate of US\$6,000,000 million additional principal amount of the Bonds, as UBS Warburg elects on behalf of the Managers, at the offering price set forth on the cover of this Offering Circular.

In connection with the offering of the Bonds, UBS Warburg, on behalf of the Managers, may over-allot or effect transactions which stabilize or maintain the market price of the Bonds on the Luxembourg Stock Exchange or the Shares on the TSE (subject to applicable ROC law) at a level above that which might otherwise prevail in the open market. Such transactions may be effected on the Luxembourg Stock Exchange or the TSE. Such stabilizing, if commenced, may be discontinued at any time.

Each of us, Way-Chi Investment Co., Hon-Mou Investment Co., VIA Technologies, Inc., Ms. Cher Wang and Mr. Wen-Chi Chen has agreed that, during the period commencing on the date of this Offering Circular and ending 90 days after the closing date of this Offering (the “Lock-up Period”), such person will not, nor will any entity controlled by such person or any person acting on such person’s behalf, without the prior written consent of UBS Warburg, (i) issue, offer, pledge, encumber, 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 (A) Bonds, (B) Shares or securities convertible into or exercisable or exchangeable for Shares, (C) securities of the same class as the Bonds or Shares or (D) other instruments representing interests in securities of the same class as the Bonds or Shares (collectively, the “Lock-up Securities”); 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 Lock-up Securities, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of the Bonds or Shares or such other securities, in cash or otherwise, or otherwise make public an intention to do any of the foregoing. The foregoing sentence shall not apply to (A) the issuance and sale of the Bonds in connection with this offering, (B) the issuance of Shares upon conversion of the Bonds, (C) our issuance of employee bonus shares and distribution of stock dividends to shareholders, in each case to the extent that such employee bonus shares or stock dividends have been declared prior to the date hereof, in accordance with our Articles of Incorporation and (D) our issuance of stock options and the related issuances of Shares upon any exercise of such stock options, in each case pursuant to any employee stock option plan, provided that the amount of Shares issuable pursuant to such employee stock option plan may not, in the aggregate, exceed one percent of our outstanding share capital immediately after the completion of this Offering.

In addition, as a result of our initial public offering and listing of our Shares on the TSE on March 26, 2002, each of Ms. Cher Wang, Mr. Wen-Chi Chen, Mr. H.T. Cho, Mr. Yue-Jiang Yu, Mr. Zhi-Guo Lin, Way-Chi Investment Co., Hon-Mou Investment Co., VIA Technologies, Inc., Alliance Investment & Management Corporation and CAPTEC Partners (Taiwan) Corp. is subject to additional ROC regulatory restrictions regarding the sale, transfer or other disposition of our Shares. In particular, at least 50% of the Shares held by each of these shareholders is subject to a two-year restriction on sales, transfers and other dispositions, and the remaining Shares (less any Shares sold in the initial public offering and listing on the TSE) held by such shareholder are subject to a one-year restriction on sales, transfers and other dispositions. With respect to the Shares subject to the two-year restriction, such shareholder may freely sell, transfer or otherwise dispose of 20% of such Shares upon the expiration of such two-year period from March 26, 2002 and at the end of each six-month period thereafter. Furthermore, the Shares subject to the one-year restriction may be freely sold, transferred or otherwise disposed of upon the expiration of such one-year period from March 26, 2002.

GENERAL

No action has been or will be taken in any jurisdiction that would permit (i) a public offering of the Bonds or the Shares to be issued upon conversion of the Bonds in any jurisdiction where action for the purpose is required or (ii) the possession, circulation or distribution in such jurisdiction of this Offering Circular or any other material relating to us, the Bonds or the Shares issuable upon conversion of the Bonds. 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 to be issued 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

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 or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this subsection have the meanings given to them by Regulation S.

The Managers have agreed that, except as permitted by the Purchase Agreement, it will not offer or sell the Bonds or Shares to be issued upon conversion of the Bonds within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the latest closing date of the Bonds, and it will have sent to each dealer to which it sells the Bonds or Shares to be issued upon conversion of the Bonds during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds or Shares, as the case may be, within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph not otherwise defined have the meanings given to them by Regulation S.

The Bonds are being offered and sold outside the United States to persons that are non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Bonds, an offer or sale of the Bonds or Shares to be issued upon conversion of the Bonds within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

UNITED KINGDOM

Each of the Managers has represented and agreed that:

- (1) it has not offered or sold and, prior to the expiry of a period of six months from the Closing Date will not offer or sell any Bonds to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for 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 Offer of Securities Regulations 1995 (as amended);
- (2) 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 Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of the FSMA does not apply to it; and
- (3) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

FRANCE

Each Manager understands that neither this Offering Circular nor any other offering material relating to the Bonds has been submitted to the clearance procedures of the *Commission des opérations de bourse*. Each Manager has severally represented and agreed that the Bonds have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France and neither this Offering Circular nor any other offering material relating to the Bonds has been distributed or caused to be distributed and will be distributed or caused to be distributed to the public in France, and such offers, sales and distributions will be made in France only to qualified investors (*investisseurs qualifiés*) as defined in and in accordance with articles L.411-1 and L.411-2 of the French Code monétaire et financier and French Decree No. 98-880 dated 1 October 1998 relating to offers to qualified investors.

ROC

Each Manager has agreed that it has not offered, sold or delivered, and will not offer, sell or deliver, at any time, directly or indirectly, any Bonds acquired by it as part of the Offering in the ROC or to, or for the account or benefit of, any resident of the ROC.

HONG KONG

Each of the Managers has represented 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 is to buy or sell shares or debentures, whether as principal or agent, or in circumstances that do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong; and (ii) 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 the Bonds that are intended to be disposed of to persons outside Hong Kong or only to persons whose business involves the acquisition, disposal or holding, of securities, whether as principal or agent.

JAPAN

Each of the Managers has represented and agreed that the Bonds have not been and will not be registered under the Securities and Exchange Law of Japan and that the Bonds that it subscribes will be subscribed by it as principal. Each of the Managers has also represented and agreed that, in connection with the initial offering of the Bonds, it will not directly or indirectly offer or sell any Bonds in Japan, or to, or for the benefit of any resident of Japan (which term as used herein means any person residing in Japan, including any corporation or other entity organized under the laws of Japan), except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the Securities and Exchange Law of Japan and other applicable laws and regulations of Japan.

SINGAPORE

Each Manager understands that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore (the “MAS”) under the Securities and Futures Act 2001 (Act 42 of 2001) of Singapore (the “Securities and Futures Act”). Accordingly, each Manager has severally agreed that the Bonds will not be offered or sold or made the subject of an invitation for subscription or purchase nor will this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of such Bonds be circulated or distributed, whether directly or indirectly, to the public or any members of the public in Singapore other than (i) to an institutional investor or other person falling within Section 274 of the Securities and Futures Act, (ii) to a sophisticated investor, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Legal matters

Certain legal matters in connection with the Offering as to ROC law will be passed upon for us by Lee and Li, Taipei, Taiwan. Certain legal matters in connection with the Offering as to New York state and United States federal law will be passed upon for the Managers by Davis Polk & Wardwell, New York, New York.

Independent auditors

The financial statements of High Tech Computer Corp. as of and for each of the three years ended December 31, 1999, 2000 and 2001 included in the Offering Circular have been audited by Deloitte & Touche, independent auditors, as stated in their audit reports appearing elsewhere herein.

General information

We are registered with the ROC Ministry of Economic Affairs. Our registration number is 16003518. According to Article 2 of our Articles of Incorporation, our scope of business is to engage primarily in the design, development, assembly, manufacture, sale and distribution of computer and electronic devices and components thereof, including smart handheld devices.

The Offering and the issue of the Bonds were authorized and approved by our Board of Directors on December 26, 2002, and by the ROC Securities and Futures Commission on January 14, 2003.

Application has been made to list the Bonds on the Luxembourg Stock Exchange. The legal notice relating to the issue of the Bonds, our Articles of Incorporation, the Articles of Incorporation and the By-laws of the Trustee will be registered prior to the listing with the Chief Registrar of the District Court in Luxembourg (*Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg*), where such documents will be available for inspection and where copies thereof can be obtained upon request.

For so long as any of the Bonds are outstanding and listed on the Luxembourg Stock Exchange, The Bank of New York (Luxembourg) S.A. will serve as the intermediary between the Luxembourg Stock Exchange and persons connected with the issue and listing of the Bond, copies of our most recent audited unconsolidated annual and unconsolidated semi-annual financial statements, unaudited unconsolidated quarterly financial statements, our Articles of Incorporation, the Indenture, the Agency Agreement, and this Offering Circular will be available for inspection at the offices of The Bank of New York (Luxembourg) S.A. , currently located at Aerogolf Center, 1A Hoehenhof, L-1736 Senningerberg, Luxembourg, and the Trustee will publish all notices to holders of the Bonds in the *Luxemburger Wort*. We publish audited unconsolidated annual and semi-annual financial statements and unaudited unconsolidated quarterly financial statements which, together with this Offering Circular, will be available free of charge upon request to The Bank of New York (Luxembourg) S.A.

Except as disclosed herein, there has been no significant change in our financial position and our subsidiaries since December 31, 2001, the date of our latest audited unconsolidated annual financial statements, and no material adverse change in our financial condition since December 31, 2001. We will publish our 2002 annual report before April 30, 2003 pursuant to ROC laws.

Neither we nor any of our subsidiaries are involved in any litigation or arbitration proceedings that may have, or have had during the twelve months preceding the date of this Offering Circular, a material adverse effect on our financial condition or our subsidiaries, nor, so far as any of them is aware, is any such proceeding pending or threatened.

The Indenture and the Purchase Agreement are governed by the laws of the State of New York.

The Bonds have been accepted for clearance through the facilities of Clearstream and Euroclear. The ISIN for the Bonds is XS0161829071 and the Common Code number is 016182907.

Summary of certain differences between ROC GAAP and U.S. GAAP

Our financial statements are prepared and presented in accordance with ROC GAAP, which differs in certain material respects from U.S. GAAP. Certain principal differences between ROC GAAP applicable to us and U.S. GAAP are summarized below. Such presentation should not be taken as inclusive of all ROC GAAP/U.S. GAAP differences. Additionally, no attempt has been made herein to identify all disclosure, presentation or classification differences that would affect the manner in which events and transactions are presented in the financial statements or notes thereto. Further, no attempt has been made to identify future differences between ROC GAAP and U.S. GAAP as a result of prescribed changes in accounting standards. Regulatory bodies that promulgate ROC GAAP and U.S. GAAP have significant projects ongoing that could affect future comparisons such as this one.

Subject	ROC GAAP	U.S. GAAP
Presentation of Unconsolidated Financial Statements	Under ROC GAAP requirements, unconsolidated 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 unconsolidated financial statements are not allowed to be presented as the primary financial statements for any period.
Derivative Financial Instrument Transactions	There are no definitive accounting standards, other than certain disclosure requirements, under ROC GAAP which address accounting for derivative financial instruments such as foreign currency options, futures, interest rate or foreign currency swaps. Because the rules are flexible, different companies may apply different accounting practices to derivatives and required to be prepared only annually.	Beginning January 1, 2001, all Derivatives contracts are recognized at fair value. Under SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities," as amended, accounting for derivative instruments is in large part determined by the purpose for which the instrument was entered into. In general, derivative financial instruments which were entered into for speculative or trading purposes (or which do not meet the criteria for accounting for such items as hedges), rather than to hedge exposures to risks, are accounted for at fair value with all gains and losses recognized currently in earnings. Derivative financial instruments which (i) are entered into in order to hedge certain exposures and (ii) meet defined criteria in order to be classified as hedges, are accounted for in a manner so as to offset the gains and losses applicable to the derivative financial instrument against the gains and losses on the transactions or commitments which is being ledged (i.e., either by recording the gains and losses on derivative financial instruments currently when they are used as hedges of existing (on-balance sheet) transactions or by deferring the gains and losses on derivative financial instruments in the equity section of the balance sheet when they are used as hedges of forecasted transactions). In addition, SFAS No. 133 also defines the concept of embedded derivatives which may now exist due to a broader definition of a derivative instrument. Embedded derivatives are accounted for in the same manner as any other derivatives.

Summary of certain differences between ROC GAAP and U.S. GAAP

Subject	ROC GAAP	U.S. GAAP
Investment in Debt and Equity Securities	<p>Short-term investments are stated at the lower of cost or market value, investments in debt securities are stated at the lower of amortized cost or market value. Long-term investments in listed equity securities in respect of which the company does not exercise significant influence on operating and financial decisions of the investee are stated at the lower of cost or market value, and unrealized losses are deducted from shareholders' equity. Investments in non-listed equity securities in respect of which the company does not exercise significant influence on operating and financial decisions of the investee are stated at cost, subject to permanent impairment test.</p> <p>Stock dividends received are recorded as an increase in voting shares and not as investment income.</p>	<p>Investments in marketable equity securities are classified in one of three categories: trading, held-to-maturity or available-for-sale. Marketable equity securities classified as trading securities are reported at fair value with unrealized gains and losses included in earnings; debt securities classified as held-to-maturity securities are reported at amortized cost; and debt and marketable equity securities classified as available-for-sale securities are reported at fair value with unrealized gains and losses reported in a separate component of shareholders' equity. Stock dividends received are recorded as investment income based on the fair value of the shares.</p>
Bonuses to Employees, Directors and Supervisors	<p>According to ROC regulations and our Articles of Incorporation, a portion of distributable earnings should be set aside as bonuses to employees, directors and supervisors. Bonuses to directors and supervisors are typically paid in cash. However, bonuses to employees may be granted in cash or shares or both. All of these appropriations, including share bonuses which are valued at par value of NT\$10, are charged against retained earnings under ROC GAAP, after such appropriations are formally approved by the shareholders in the following year.</p>	<p>All bonuses and remuneration are charged to current income in the year incurred. Shares issued as part of these bonuses is recorded at fair market value. Since the amount and form of such bonuses are not finally determinable until the shareholders' meeting in the subsequent year, the total amount of the aforementioned bonuses is initially accrued based on management's estimate regarding the amount to be paid based on the company's Articles of Incorporation. Any difference between the initially accrued amount and the fair market value of the bonuses settled by the issuance of shares is recognized in the year by shareholders of approval.</p>
Stock Dividends	<p>Stock dividends are recorded as a reduction to retained earnings for the par value of the shares issued, and a like amount is recorded to the capital stock account.</p>	<p>Stock dividends are recorded as a reduction to retained earnings based on the fair value of the shares issued, and a like amount is recorded to the capital stock and capital surplus accounts.</p>
Gains on Disposition of Property, Plant and Equipment	<p>For all prior periods through December 31, 2001, gains on the dispositions of property, plant and equipment are first credited to non-operating income and then transferred, after deducting the applicable income tax, to capital surplus in the applicable fiscal year. After December 31, 2001, transfers to capital surplus are not allowed.</p>	<p>Any gains on the dispositions of property, plant and equipment are credited to income, with no transfer to capital surplus.</p>

Summary of certain differences between ROC GAAP and U.S. GAAP

Subject	ROC GAAP	U.S. GAAP
Capital Surplus	Under ROC GAAP, the following items are treated as capital surplus: (a) premium on issuance of Shares; (b) prior to January 1, 2002, gain, net of applicable income tax, on disposal of properties; (c) donations; (d) revaluation increment on properties, and (e) the value of the 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.	Under US GAAP, items (a) and (c) of the preceding column are the same as in ROC GAAP; item (b) of the preceding column is recorded as part of net income which is then included as a component of retained earnings; items (d) and (e) of the preceding column are not permitted.
Accounting for Pensions	ROC Statement of Financial Accounting Standards (SFAS) No. 18 "Accounting for Pensions," is substantially similar to U.S. SFAS No. 87, except for the effect of the adoption of ROC SFAS No. 18 in relation to the amortization of unrecognized net transitional obligations, and which provides accounting regulations regarding an employer's accounting for employee retirement plans, including pension of companies covered by the Labor Standards Law which require contribution of a percentage of wages and salaries costs to an independent fund. ROC SFAS No. 18 is effective for financial statements in the year ended December 31, 1995. In the year of adoption, certain additional disclosures are required related to pension-related assets and liabilities as determined pursuant to an actuarial valuation; however, net periodic pension cost is not calculated pursuant to an actuarial valuation until the year ended December 31, 1996. Prior to 1996, pension expense under ROC GAAP was generally calculated as a fixed percentage of total annual salaries and wages.	Under U.S. GAAP, the annual pension provision is recognized as a charge to results of the operations over the employees' service period in accordance with SFAS No. 87. U.S. SFAS No. 87 focuses on the plan's benefit formula as the basis for determining the benefit earned, and therefore the cost incurred, for each year. The determination of the benefit earned is actuarially determined, and includes components for service cost, time value of money, return on plan assets and gains or losses from changes in previous assumptions. In certain cases, a minimum liability is recognized through a direct charge to shareholders' equity.
Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of	ROC GAAP has no specific standards which address impairment of long-lived assets held and used by an entity. Normally such assets would be carried at cost less accumulated depreciation.	U.S. GAAP SFAS No. 144 requires entities to perform separate calculations for assets to be held and used to determine whether recognition of an impairment loss is required, and if so, to measure the impairment. If the sum of the expected future cash flows, undiscounted and without interest charges, is less than an asset's carrying value, an impairment loss is recognized; if the sum of the expected future cash flows is greater than an asset's carrying value, an impairment loss can not be recognized. Measurement of an impairment loss is based on the fair value of the asset. U.S. SFAS No. 144 also generally requires that long-lived assets to be disposed of by sale be reported at the lower of the carrying value or fair value less cost to sell. Long-lived assets to be disposed of by other than a sale are considered held and used until disposal. Depreciation of such assets should be adjusted to reflect the disposal.

Summary of certain differences between ROC GAAP and U.S. GAAP

Subject	ROC GAAP	U.S. GAAP
Deferred Expenses	Under ROC GAAP, deferred expenses include organization costs, start-up costs, issuance costs of bonds, testing costs of reinstatement of machinery and equipment. Deferred expenses shall be amortized by systematic charges to income over the periods estimated to be benefited.	Under U.S. GAAP, start-up costs are generally expensed as incurred and starting in fiscal year beginning after December 15, 1998, all start-up costs must be expensed as incurred.
Computer Software Developed or Obtained for Internal Use	Under ROC GAAP, there is no specific accounting guideline related to costs of computer software developed or obtained for internal use.	U.S. GAAP provides detail guidance regarding the accounting treatment for internal-use software costs. AICPA Statement of Position 98-1 specifies the requirements for the capitalization of computer software costs obtained for internal use.
Amortization of Intangible Assets	Under ROC GAAP, technology transfer fees can be capitalized and amortized by systematic charges to income over the periods estimated to be benefited or over the terms of the agreements.	Under U.S. GAAP, an intangible asset with an indefinite useful life is measured at least annually for impairment. The intangible asset balance is then reduced by such impairment amount. Intangible assets that have finite lives will be amortized over their useful lives.
Retained Earnings Tax	Companies in the ROC are subject to a 10% surtax on profits retained and earned after December 31, 1997. If the retained profits are distributed to the shareholders in the following fiscal year, the surtax can be avoided. Under ROC GAAP, surtax is recorded in the statement of income in the following fiscal year if the earnings are not distributed to the shareholders.	Under U.S. GAAP, income tax expense related to the 10% retained profit tax is recorded in the statement of income in the year that the profits were earned.
Income Tax	Prior to January 1, 1995, generally income tax expenses were provided based on current taxable income; deferred income tax was not recognized for timing differences. ROC Statements of Financial Accounting Standards No. 22 (ROC SFAS No. 22) "Accounting for Income Taxes," was issued in June 1994, and has been adopted as of January 1, 1995. ROC SFAS No. 22 is substantially similar to U.S. GAAP. However, under ROC GAAP, the cumulative effect of adoption is included in the current year's provision for income tax rather than being separately presented as the cumulative effect of a change in accounting principle. Under ROC GAAP, a valuation allowance determined is less stringent as compared to U.S. GAAP. Under U.S. GAAP, if a company has experienced cumulative losses in recent years, it is not generally able to consider projections of future operating profits for the purpose of determining the valuation allowance for deferred income tax assets.	Under U.S. GAAP, current tax liabilities are recognized for estimated taxes payable for the current period. U.S. SFAS No. 109 requires that all material temporary differences between the carrying values of assets and liabilities and their respective tax bases be recognized as deferred tax liabilities or assets. A valuation allowance is provided on tax assets to the extent that it is not "more likely than not" that such deferred tax assets will be realized. A change in tax rate or law requires an adjustment to such deferred liabilities in the period of enactment, and is reported as a part of results of operations.

Summary of certain differences between ROC GAAP and U.S. GAAP

Subject	ROC GAAP	U.S. GAAP
Depreciation Lives of Fixed Assets	In practice, depreciation is generally provided using the guideline service lives as prescribed by ROC Internal Revenue Code plus one additional year as salvage value. ROC SFC regulations applicable to public companies require that when fixed assets have been fully depreciated over the prescribed service life and the underlying asset continues to be used, the remaining unamortized value (i.e. the salvage value portion) is depreciated over the asset's remaining economic life. The estimated life of a building under ROC GAAP can be depreciated over a period of 50 years.	Depreciation is provided on a straight-line basis over the asset's estimated useful life. No additional depreciation is provided on fully depreciated assets which continue to be used in the business. In general, 55 years would be considered too long a period over which to depreciate fixed assets.
Long-term Debt Classification	Under ROC GAAP, there is no specific rule on presentation of the portion of long-term debt where certain covenants were breached. Generally, such will be presented as non-current as long as there are indications that such breaches will result in the debt being called by the creditor.	Under U.S. GAAP, breaches of loan covenants may require the portion of long-term debt due after one year to be classified as current liabilities.
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 the benefits can be accumulated or vested over the service period.
Earnings Per Share	A company compute earnings per share based on the weighted average number of outstanding shares, retroactively adjusted for share dividends and new shares issuance issued through unappropriated earnings and capital surplus. No consideration is required to be given to convertible securities with less than a 3% dilutive effect.	Under U.S. GAAP, when a simple capital structure exists, basic earnings per share is calculated based on the weighted average number of shares outstanding. When a complex capital structure exists, diluted earnings per share is calculated based on the weighted average number of shares outstanding plus the number of additional shares that would have been outstanding if dilutive potential Shares had been issued, with appropriate adjustments to income or loss that would result from the assumed conversions of those potential Shares. The materiality of the dilutive effect is not considered. Basic and diluted earnings per share calculations are not retroactively adjusted for new shares issued through unappropriated earnings and capital surplus.

Summary of certain differences between ROC GAAP and U.S. GAAP

Subject	ROC GAAP	U.S. GAAP
Comprehensive Income	There is no requirement to present comprehensive income.	Effective for fiscal year beginning after December 31,1997, comprehensive income and its components (revenues, expenses, gains and losses) must be presented in a full set of financial statements under U.S. GAAP. Comprehensive income includes all changes in shareholders' equity during a period, except changes resulting from investments by or distributions to owners, including certain items not included in the current results of operations.
Functional Currency	NT\$ is always the functional and reporting currency for ROC companies.	Management must make an assessment of its functional currency, based on the primary economic environment in which its operates.

The information set forth above does not in any way attempt to quantify the effects of the aforementioned differences between ROC GAAP and U.S. GAAP and the impact such differences would have on net income or shareholders' equity under U.S. GAAP.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
High Tech Computer Corp.:

We have audited the accompanying balance sheets of High Tech Computer Corp. (the "Company") as of December 31, 1999, 2000 and 2001, and the related statements of operations, changes in stockholders' equity and cash flows for the years then ended (all expressed in New Taiwan dollars). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of China and "Guidelines for Certified Public Accountants' Examinations of and Reports on Financial Statements." Those standards and guidelines require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of High Tech Computer Corp. as of December 31, 1999, 2000 and 2001, and the results of its operations and its cash flows for the years then ended, in conformity with "Regulations Governing the Preparation of Financial Statements of Public Companies" and accounting principles generally accepted in the Republic of China.

The Company maintains its accounts and expresses its financial statements in NT dollars. The translation of the NT dollars financial statements as of and for the year ended December 31, 2001 into US dollars is solely for the convenience of the reader. The convenience translations should not be construed as representations that the NT dollar amounts have been, could have been or could in the future be, converted into US dollars at this or any other exchange rate.

January 28, 2002

Deloitte & Touche
Taipei, Taiwan

The accompanying financial statements 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 other than in the Republic of China. Accordingly, the accompanying balance sheets of High Tech Computer Corp. and the related statements of operations, changes in stockholders' equity and cash flows as of and for the years ended December 31, 1999, 2000 and 2001 are not designed for those who are not informed about accounting principles, procedures and practices in the Republic of China. The standards, procedures and practices utilized in the Republic of China to audit such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China.

HIGH TECH COMPUTER CORP.**BALANCE SHEETS****DECEMBER 31, 1999, 2000 and 2001****(Expressed in Thousands of New Taiwan Dollars and in Thousands of United States Dollars)**

	1999	2000	2001	
ASSETS	NTD	NTD	NTD	USD
CURRENT ASSETS:				
Cash and cash equivalents (Note 3).....	\$ 24,453	\$ 231,212	\$ 16,278	\$ 465
Short-term investments (Notes 2 and 4)	1,971	1,971	—	—
Notes receivable, net (Notes 2 and 5).....	—	946	815	23
Accounts receivable, net (Notes 2 and 5)	16,814	1,463,137	2,559,488	73,128
Accounts receivable from related parties, net (Notes 2 and 22).....	394,152	20,440	3,385	97
Inventories (Notes 2 and 7).....	326,231	1,396,287	1,604,515	45,843
Prepayments (Notes 8 and 25).....	126,632	185,309	144,438	4,127
Other current assets (Notes 2, 8, 19, 21, 22 and 23).....	19,768	70,140	73,988	2,114
Total current assets.....	<u>910,021</u>	<u>3,369,442</u>	<u>4,402,907</u>	<u>125,797</u>
LONG-TERM INVESTMENTS (Notes 2 and 9)	<u>—</u>	<u>11,126</u>	<u>9,007</u>	<u>258</u>
PROPERTY, PLANT AND EQUIPMENT, Net (Notes 2, 10, 22, 23 and 24):				
Cost:				
Land	175,898	175,898	224,244	6,407
Buildings and structures	—	—	760,049	21,716
Machinery and equipment	100,685	326,079	1,165,288	33,294
Molding equipment	56,145	58,416	174,420	4,984
Computer equipment	25,698	38,099	102,494	2,928
Transportation equipment.....	—	604	604	17
Furniture and fixtures	14,859	39,293	73,250	2,093
Leasehold improvements	24,367	37,768	7,331	209
Subtotal	397,652	676,157	2,507,680	71,648
Less accumulated depreciation	(47,244)	(110,612)	(392,689)	(11,220)
Prepayments on construction-in-progress and equipment-in-transit	80,850	439,571	105,451	3,013
Property, plant and equipment, net.....	<u>431,258</u>	<u>1,005,116</u>	<u>2,220,442</u>	<u>63,441</u>
OTHER ASSETS:				
Refundable deposits	8,568	7,770	764	22
Deferred charges (Notes 2 and 25)	24,889	39,716	314,828	8,995
Deferred tax asset (Notes 2 and 19)	40,243	44,958	103,535	2,958
Total other assets.....	<u>73,700</u>	<u>92,444</u>	<u>419,127</u>	<u>11,975</u>
TOTAL	<u>\$1,414,979</u>	<u>\$4,478,128</u>	<u>\$7,051,483</u>	<u>\$201,471</u>

HIGH TECH COMPUTER CORP.
BALANCE SHEETS (continued)
DECEMBER 31, 1999, 2000 and 2001
(Expressed in Thousands of New Taiwan Dollars and in Thousands of United States Dollars)

	1999	2000	2001	
LIABILITIES AND STOCKHOLDERS' EQUITY	NTD	NTD	NTD	USD
CURRENT LIABILITIES:				
Short-term borrowings (Note 11)	\$ 242,695	\$ 391,150	\$1,179,348	\$ 33,696
Short-term commercial bills (Note 12)	114,677	242,664	448,549	12,816
Notes and accounts payable.....	81,657	1,368,699	1,701,650	48,619
Notes and accounts payable due to related parties (Note 22).....	235,465	—	15,903	454
Income tax payable (Notes 2 and 19).....	—	—	90,771	2,593
Accrued expenses (Notes 13 and 22).....	96,962	133,794	257,958	7,370
Payable for purchase of equipment	11,886	24,009	64,441	1,841
Current portion of long-term liabilities (Notes 15 and 23) ...	4,876	433,096	42,062	1,202
Other current liabilities (Notes 14, 21 and 22)	31,834	66,873	76,904	2,197
Total current liabilities	<u>820,052</u>	<u>2,660,285</u>	<u>3,877,586</u>	<u>110,788</u>
LONG-TERM LIABILITIES:				
Long-term debts (Notes 15 and 23).....	34,124	120,859	85,407	2,440
Long-term notes payable.....	—	—	2,231	64
Total long-term liabilities	<u>34,124</u>	<u>120,859</u>	<u>87,638</u>	<u>2,504</u>
OTHER LIABILITIES:				
Accrued pension cost (Notes 2 and 16)	8,668	12,979	12,675	362
Guarantee deposits received (Note 22)	—	315	—	—
Total other liabilities	<u>8,668</u>	<u>13,294</u>	<u>12,675</u>	<u>362</u>
Total liabilities	<u>862,844</u>	<u>2,794,438</u>	<u>3,977,899</u>	<u>113,654</u>
STOCKHOLDERS' EQUITY:				
Common stock (Note 17)	1,000,000	1,250,000	1,276,000	36,457
Capital surplus - additional paid-in capital - common stock (Note 17).....	—	750,000	832,812	23,795
Accumulated earnings (deficit) (Note 18)	(447,865)	(316,288)	962,728	27,507
Cumulative translation adjustments (Note 9)	—	(22)	2,044	58
Total stockholders' equity	<u>552,135</u>	<u>1,683,690</u>	<u>3,073,584</u>	<u>87,817</u>
TOTAL	<u>\$1,414,979</u>	<u>\$4,478,128</u>	<u>\$7,051,483</u>	<u>\$201,471</u>

See notes to financial statements.

**HIGH TECH COMPUTER CORP.
STATEMENTS OF OPERATIONS**

YEARS ENDED DECEMBER 31, 1999, 2000 and 2001

**(Expressed in Thousands of New Taiwan Dollars and in Thousands of United States Dollars,
Earnings Per Share Expressed in New Taiwan Dollars and in United States Dollars)**

	1999	2000	2001	
	NTD	NTD	NTD	USD
REVENUES:				
Gross sales (Note 22).....	\$1,491,019	\$4,378,533	\$15,380,912	\$439,455
Less sales returns and discounts.....	(14,096)	(43,781)	(263,224)	(7,521)
NET SALES	<u>1,476,923</u>	<u>4,334,752</u>	<u>15,117,688</u>	<u>431,934</u>
OTHER REVENUES	<u>12,001</u>	<u>229,656</u>	<u>432,675</u>	<u>12,362</u>
Total revenues.....	1,488,924	4,564,408	15,550,363	444,296
COST OF REVENUES (Note 22)	<u>1,387,364</u>	<u>3,962,019</u>	<u>13,429,918</u>	<u>383,712</u>
GROSS PROFIT	<u>101,560</u>	<u>602,389</u>	<u>2,120,445</u>	<u>60,584</u>
OPERATING EXPENSES (Note 22):				
Administrative and selling expenses.....	191,181	206,657	451,533	12,901
Research and development expenses.....	193,812	310,925	483,972	13,828
Total operating expenses.....	<u>388,993</u>	<u>517,582</u>	<u>935,505</u>	<u>26,729</u>
INCOME (LOSS) FROM OPERATIONS	<u>(287,433)</u>	<u>84,807</u>	<u>1,184,940</u>	<u>33,855</u>
NON-OPERATING INCOME:				
Interest income (Note 22).....	1,772	19,234	3,084	88
Gain on sale of property, plant and equipment.....	—	—	9,525	272
Gain on sale of investments.....	27,644	908	723	21
Gain on physical inventories.....	1,103	—	—	—
Foreign currency exchange gain.....	—	92,981	123,949	3,542
Gain on reversal of bad debt.....	2,126	—	—	—
Other (Note 22).....	5,658	39,007	118,662	3,390
Total non-operating income.....	<u>38,303</u>	<u>152,130</u>	<u>255,943</u>	<u>7,313</u>
NON-OPERATING EXPENSES:				
Interest expense (Note 22).....	10,356	30,785	76,241	2,178
Investment losses on equity method.....	—	5,686	12,694	363
Losses on disposal of property, plant and equipment.....	—	13,210	16,936	484
Losses on physical inventory.....	—	1,179	15,821	452
Foreign currency exchange loss.....	280	—	—	—
Provision for loss on decline in value of inventory.....	20,390	74,903	302,722	8,649
Other.....	73	1,625	26,218	749
Total non-operating expenses.....	<u>31,099</u>	<u>127,388</u>	<u>450,632</u>	<u>12,875</u>
INCOME (LOSS) BEFORE INCOME TAX	<u>(280,229)</u>	<u>109,549</u>	<u>990,251</u>	<u>28,293</u>
INCOME TAX (EXPENSE) BENEFIT (Notes 2 and 19).....	<u>—</u>	<u>22,028</u>	<u>(27,523)</u>	<u>(786)</u>
NET (LOSS) INCOME	<u>\$ (280,229)</u>	<u>\$ 131,577</u>	<u>\$ 962,728</u>	<u>\$ 27,507</u>
(LOSS) EARNINGS PER SHARE (Note 20)	<u>\$ (2.80)</u>	<u>\$ 1.21</u>	<u>\$ 7.62</u>	<u>\$ 0.22</u>

See notes to financial statements.

HIGH TECH COMPUTER CORP.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1999, 2000 and 2001
(Expressed in Thousands of New Taiwan Dollars and in Thousands of United States Dollars)

	Common Stock	Capital Surplus Additional Paid-in Capital Common Stock	Accumulated Earnings (Deficit)	Cumulative Translation Adjustments	Total
BALANCE, JANUARY 1, 1999	NT\$1,000,000	NT\$ —	NT\$(167,636)	NT\$ —	NT\$ 832,364
Net loss for 1999	—	—	(280,229)	—	(280,229)
BALANCE, DECEMBER 31, 1999	1,000,000	—	(447,865)	—	552,135
Issuance of common stock	250,000	750,000	—	—	1,000,000
Net income for 2000	—	—	131,577	—	131,577
Cumulative translation adjustments	—	—	—	(22)	(22)
BALANCE, DECEMBER 31, 2000	1,250,000	750,000	(316,288)	(22)	1,683,690
Transfer of capital surplus to recover accumulated deficit	—	(316,288)	316,288	—	—
Issuance of common stock	26,000	399,100	—	—	425,100
Net income for 2001	—	—	962,728	—	962,728
Cumulative translation adjustments	—	—	—	2,066	2,066
BALANCE, DECEMBER 31, 2001	<u>NT\$1,276,000</u>	<u>NT\$832,812</u>	<u>NT\$962,728</u>	<u>NT\$2,044</u>	<u>NT\$3,073,584</u>
BALANCE, JANUARY 1, 2001	US\$35,714	US\$21,429	US\$(9,037)	US\$(1)	US\$48,105
Transfer of capital surplus to recover accumulated deficit	—	(9,037)	9,037	—	—
Issuance of common stock	743	11,403	—	—	12,146
Net income for 2001	—	—	27,507	—	27,507
Cumulative translation adjustments	—	—	—	59	59
BALANCE, DECEMBER 31, 2001	<u>US\$36,457</u>	<u>US\$23,795</u>	<u>US\$27,507</u>	<u>US\$58</u>	<u>US\$87,817</u>

See notes to financial statements.

HIGH TECH COMPUTER CORP.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1999, 2000 and 2001
(Expressed in Thousands of New Taiwan Dollars and in Thousands of United States Dollars)

	1999	2000	2001	
	NTD	NTD	NTD	USD
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net (loss) income	\$(280,229)	\$ 131,577	\$ 962,728	\$ 27,507
Adjustments to reconcile net income to net cash (used in) provided by operating activities:				
Depreciation	35,855	80,796	272,275	7,779
Amortization	6,561	16,225	32,247	921
Loss on disposal of property, plant and equipment	—	13,210	16,936	484
Gain on disposal of property, plant and equipment	—	—	(9,525)	(272)
Investment losses on equity method	—	5,686	12,694	363
Changes in assets and liabilities provided (used) cash:				
Notes receivable	—	(946)	131	4
Accounts receivable	(11,255)	(1,446,323)	(1,096,351)	(31,324)
Accounts receivable from related parties	(190,175)	373,712	17,055	487
Inventories	(326,231)	(1,070,056)	(208,228)	(5,949)
Prepayments	(85,012)	(58,677)	40,871	1,168
Other current assets	13	(851)	(31,477)	(899)
Notes and accounts payable	77,735	1,287,042	332,951	9,513
Notes and accounts payable due to related parties ...	141,396	(235,465)	15,903	454
Accrued expenses	49,897	36,832	124,164	3,548
Income tax payable	—	—	90,771	2,593
Other current liabilities	29,706	35,113	(50,976)	(1,457)
Deferred income tax asset - current	629	(17,313)	(4,986)	(143)
Deferred income tax asset - noncurrent	(630)	(4,715)	(58,577)	(1,674)
Long-term notes payable	—	—	2,231	64
Accrued pension cost	4,403	4,311	(304)	(9)
Short term investments	335,310	—	—	—
Total adjustments	68,202	(981,419)	(502,195)	(14,349)
Net cash (used in) provided by operating activities	(212,027)	(849,842)	460,533	13,158
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property, plant and equipment	(228,027)	(655,741)	(1,466,973)	(41,913)
Proceeds from sales of property, plant and equipment	—	—	12,393	354
Increase in long-term investments	—	(16,834)	(6,538)	(187)
Decrease in refundable deposits	29,834	798	7,006	200
(Increase) Decrease in pledged time certificates of deposit	—	(32,526)	32,526	929
Increase in deferred charges	(17,523)	(31,052)	(307,359)	(8,782)
Decrease in receivable on forward exchange contracts	(407)	318	89	3
Increase (decrease) in option contracts payable	908	(74)	61,007	1,743
Net cash used in investing activities	(215,215)	(735,111)	(1,667,849)	(47,653)

HIGH TECH COMPUTER CORP.
STATEMENTS OF CASH FLOWS (continued)
YEARS ENDED DECEMBER 31, 1999, 2000 and 2001
(Expressed in Thousands of New Taiwan Dollars and in Thousands of United States Dollars)

	1999	2000	2001	
	NTD	NTD	NTD	USD
CASH FLOWS FROM FINANCING ACTIVITIES:				
Increase in short-term borrowings.....	242,051	4,049,802	12,585,452	359,584
Decrease in short-term borrowings	—	(3,901,347)	(11,797,254)	(337,064)
Net increase in short-term commercial bills.....	114,677	127,987	205,885	5,882
Increase in long-term debts.....	39,000	519,830	127,469	3,642
Decrease in long-term debts	—	(4,875)	(553,955)	(15,827)
Increase (decrease) in guarantee deposits received	—	315	(315)	(9)
Issuance of common stock.....	—	1,000,000	425,100	12,146
Net cash provided by financing activities.....	<u>395,728</u>	<u>1,791,712</u>	<u>992,382</u>	<u>28,354</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS.....	(31,514)	206,759	(214,934)	(6,141)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>55,967</u>	<u>24,453</u>	<u>231,212</u>	<u>6,606</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 24,453</u>	<u>\$ 231,212</u>	<u>\$ 16,278</u>	<u>\$ 465</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Cash paid during the year for:				
Interest (net of amounts capitalized) (Note 10)	<u>\$ 8,492</u>	<u>\$ 30,778</u>	<u>\$ 79,306</u>	<u>\$ 2,266</u>
Income tax.....	<u>\$ 178</u>	<u>\$ 892</u>	<u>\$ 316</u>	<u>\$ 9</u>
PURCHASE OF PROPERTY, PLANT AND EQUIPMENT:				
Cost of property, plant and equipment purchased.....	\$228,157	\$ 667,864	\$ 1,507,405	\$ 43,069
Increase in payable for purchase of equipment.....	<u>(130)</u>	<u>(12,123)</u>	<u>(40,432)</u>	<u>(1,155)</u>
Cash paid for purchase of property, plant and equipment...	<u>\$228,027</u>	<u>\$ 655,741</u>	<u>\$ 1,466,973</u>	<u>\$ 41,914</u>

See notes to financial statements.

HIGH TECH COMPUTER CORP.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001
(Amounts are Expressed in Thousands (Unless Otherwise Stated) of New Taiwan Dollars and
in Thousands of United States Dollars, Per Share Data Expressed in New Taiwan Dollars and
in United States Dollars)

1. ORGANIZATION AND OPERATIONS

High Tech Computer Corp. (the "Company") was incorporated on May 15, 1997, under the Company Law of the Republic of China, to engage in the designing, assembling, and manufacturing of Pocket PC and selling of other peripheral computer equipment. In 1998, the Company's common stock was initially publicly offered and will be listed on the Taiwan Stock Exchange in 2002.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Translations into United States (US) Amounts

The Company maintains its accounts and expresses its financial statements in NT dollars. The translation of the NT dollars financial statements as of and for the year ended December 31, 2001 into US dollars is solely for the convenience of the reader using the noon buying rate in the City of New York for cable transfers in NT dollars per US dollar as certified for customs purposes by the Federal Reserve Bank of New York as of December 31, 2001, which was NT\$35.00 = US\$1.00 at that date. The convenience translations should not be construed as representations that the NT dollar amounts have been, could have been or could in the future be, converted into US dollars at this or any other exchange rate.

Cash Equivalents

Cash equivalents consist primarily of bankers' acceptance and commercial paper which are highly liquid investments with a maturity of three months or less at the date of acquisition.

Short-term Investments

Short-term investments include investments in marketable equity securities and mutual funds, which are carried at the lower of cost or market. The net change on the investment valuation allowance used in the determination of net income is the result of changes in the difference between aggregate costs and market values of investments still held at the respective year end. The cost of investments sold is determined using the moving average method. Stock dividends received are not recognized as income; instead, they are reflected as an increase in the number of shares held in the investee.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is generally provided for notes and accounts receivable due from unrelated and related parties based on management's evaluation of the collectibility of individual accounts, past loss experience, and other pertinent factors.

Inventories

Inventories are stated at the lower of cost or market ("LCM"). Cost is determined using the moving average method. Market value is based on replacement cost, except for finished goods which are valued based on net realizable values. The LCM method is applied to each inventory category.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Interest incurred in connection with the purchase or construction of property, plant and equipment is capitalized. Major renewals and betterments are capitalized, while maintenance and repairs are expensed in the period incurred. Upon sale or disposal of property, plant and equipment, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is credited to or charged against income. Gain on disposal of property, plant and equipment, net of related income tax, is transferred to capital surplus in the same year.

Depreciation is provided on a straight-line basis over the estimated service lives of the assets plus one additional year for salvage value.

HIGH TECH COMPUTER CORP.**NOTES TO FINANCIAL STATEMENTS (continued)****YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001****(Amounts are Expressed in Thousands (Unless Otherwise Stated) of New Taiwan Dollars and in Thousands of United States Dollars, Per Share Data Expressed in New Taiwan Dollars and in United States Dollars)**

Long-term Investments

Investments in companies in which the Company's ownership interest is 20% or more, except where the Company cannot exercise significant influence, are accounted for based on the equity method of accounting. Payment in excess of the proportionate net book value, at the time of investment, of the investee accounted for under the equity method is amortized over five years. All other long-term investments are valued at cost except for investments in listed companies, which are stated at the lower of cost or market value. The cost of an investment sold is determined using the weighted-average method.

In accordance with SFAS No. 7 and "Regulations Governing the Preparation of Financial Statements of Public Companies," entities in which the Company's ownership interest is more than 50% are required to have their financial statements consolidated with that of the Company if their total assets and total sales, individually, are more than 10% of that of the Company and, in the aggregate, are more than 30% of that of the Company.

Deferred Charges

Deferred charges consist of telephone installation charges, computer software and deferred license fees. Installation charges and computer software are amortized on a straight-line basis over three years, and deferred license fees are amortized over ten years.

Employee Retirement Plan

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 18, "Accounting for Pensions," issued by the Accounting Research and Development Foundation of the ROC.

The Company has a pension plan covering all eligible employees in accordance with the Labor Standards Law of the Republic of China ("ROC"). Subsequently, the contributions to the plan are made by the Company based on 2% of employee salaries and wages. The funds are deposited with the Central Trust of China, a government-designated custodian of pension funds, and are managed by the Pension Fund Administration Committee.

The pension fund balance was NT\$3,334, NT\$9,874 and NT\$23,519 at December 31, 1999, 2000 and 2001, respectively.

Revenue Recognition

Revenues are recognized from sales of inventories upon shipment, net of estimated returns, provided that collection is determined to be probable and no significant obligations remain. Product revenues from customers are subject to agreements allowing for limited rights of returns.

Allowance for sales returns is generally based on historical rates of returns, inventory levels in the channel and other pertinent factors.

Income Tax

The Company adopted the provisions of SFAS No. 22, "Accounting for Income Tax," which require an asset and liability approach to financial accounting and reporting for income tax. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense or benefit is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Adjustment of prior years' income tax is added to current income tax expense in the year the adjustment is made.

HIGH TECH COMPUTER CORP.
NOTES TO FINANCIAL STATEMENTS (continued)
YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001
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Under the Amended Income Tax Law of the ROC, the 25% regular corporate income tax and the 20% separate income tax on interest income from short-term investments remain and a 10% additional income tax is levied on distributable earnings earned from 1998 onward that remain undistributed in the following year. Beginning in 1998, every enterprise (except branch, partnership, and not-for-profit organization) is required to maintain an Imputation Credit Account (“ICA”) to keep track of all its income taxes paid and income tax credits received, collectively called Imputation Credit (“IC”), and the allocation of IC to shareholders. When the earnings are distributed as cash or stock dividends to:

- (a) resident individual shareholders (“RIS”), the RIS include the dividend income in their taxable income and claim an IC issued by the enterprise as deduction from their income tax payable;
- (b) non-resident individual or non-resident corporate shareholders (“NRS”), the NRS exclude the dividend income from their taxable income and do not claim an IC; dividends paid to NRS are subject to a 20% withholding tax which can be offset by the 10% additional income tax paid on undistributed earnings;
- (c) resident corporate shareholders (“RCS”), the RCS exclude the dividend income from their taxable income and do not claim the IC as deduction from income tax payable; the IC received is added to the RCS’ own ICA until the IC is allocated to RIS or NRS when the earnings are finally distributed to RIS or NRS.

Foreign Currency Transactions

Foreign currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses caused by different foreign exchange rates applied when cash in foreign currency is actually converted into New Taiwan dollars, or when the foreign currency receivables or payables are settled, are credited or charged against income in the period of actual conversion or settlement. Balances of assets and liabilities denominated in foreign currencies are translated at the balance sheet date exchange rate and any resulting gains or losses are credited to or charged against current income.

Derivative Financial Instruments

Forward exchange contracts that are designated and effective as a hedge of net foreign asset or liability positions are recorded at the contract date exchange rate. The premium or discount on the forward contract, which is the difference between the forward rate and the spot rate on the contract date multiplied by the principal amount of foreign currency, is separately accounted for and amortized to current income over the term of the contract. At year-end, existing forward exchange contracts are restated at the year-end exchange rates, and resulting gains or losses are credited or charged to current income. At closing dates of forward exchange contracts, the difference between the forward rate and the spot rate is credited or charged to current income. Receivables or payables from forward exchange contracts are shown on the accompanying balance sheets in net balance.

Premiums received on short positions or paid on long positions of foreign exchange option contracts, which are treated as non-trading activities for financial reporting purposes, are included in other current liabilities or other current assets. Gain or loss from the execution of the foreign currency option contracts are credited to or charged against current income. The option contract is measured at the balance sheet date using the market value, and any gain or loss is credited to or charged against current income.

Non-derivative Financial Instruments

The recognition and valuation of non-derivative financial assets and liabilities and their related income or expenses are in accordance with the Company’s accounting policies described herein and accounting principles generally accepted in the Republic of China.

HIGH TECH COMPUTER CORP.
NOTES TO FINANCIAL STATEMENTS (continued)
YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001
(Amounts are Expressed in Thousands (Unless Otherwise Stated) of New Taiwan Dollars and
in Thousands of United States Dollars, Per Share Data Expressed in New Taiwan Dollars and
in United States Dollars)

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 1999, 2000 and 2001 consisted of the following:

	<u>1999</u>	<u>2000</u>	<u>2001</u>	
	NTD	NTD	NTD	USD
Cash on hand	\$ 260	\$ 315	\$ 492	\$ 14
Cash in banks.....	21,690	3,067	15,786	451
Time certificates of deposit.....	<u>2,503</u>	<u>227,830</u>	<u>—</u>	<u>—</u>
Total	<u>\$24,453</u>	<u>\$231,212</u>	<u>\$16,278</u>	<u>\$465</u>

At December 31, 1999 and 2000, interest rates on time certificates of deposit ranged from 4.50% and 5.80% to 6.68%, respectively.

4. SHORT-TERM INVESTMENTS

Short-term investments at December 31, 1999, 2000 and 2001 consisted of the following:

	<u>1999</u>	<u>2000</u>	<u>2001</u>	
	NTD	NTD	NTD	USD
Marketable equity securities.....	\$1,971	\$1,971	\$ —	\$ —
Less valuation allowance.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Short-term investments.....	<u>\$1,971</u>	<u>\$1,971</u>	<u>\$ —</u>	<u>\$ —</u>

5. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable at December 31, 1999, 2000 and 2001 were as follows:

	<u>1999</u>	<u>2000</u>	<u>2001</u>	
	NTD	NTD	NTD	USD
Notes receivable	\$ —	\$ 946	\$ 815	\$ 23
Accounts receivable	16,906	1,491,428	2,592,343	74,066
Less allowance for doubtful accounts	(92)	(243)	(4,320)	(123)
Less allowance for sales returns	<u>—</u>	<u>(28,048)</u>	<u>(28,535)</u>	<u>(815)</u>
Accounts receivable, net.....	<u>\$16,814</u>	<u>\$1,464,083</u>	<u>\$2,560,303</u>	<u>\$73,151</u>

HIGH TECH COMPUTER CORP.
NOTES TO FINANCIAL STATEMENTS (continued)
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(Amounts are Expressed in Thousands (Unless Otherwise Stated) of New Taiwan Dollars and
in Thousands of United States Dollars, Per Share Data Expressed in New Taiwan Dollars and
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6. INVENTORIES

Inventories at December 31, 1999, 2000 and 2001 consisted of the following:

	<u>1999</u>	<u>2000</u>	<u>2001</u>	
	NTD	NTD	NTD	USD
Finished goods.....	\$ 80,664	\$ 30,229	\$ 173,375	\$ 4,954
Work-in-process.....	85,441	304,816	601,174	17,176
Raw materials.....	180,516	1,158,783	930,456	26,584
Subtotal	<u>346,621</u>	<u>1,493,828</u>	<u>1,705,005</u>	<u>48,714</u>
Less valuation allowance.....	(20,390)	(97,541)	(100,490)	(2,871)
Inventories	<u>\$326,231</u>	<u>\$1,396,287</u>	<u>\$1,604,515</u>	<u>\$45,843</u>

Insurance coverage for the inventories at December 31, 1999, 2000 and 2001 amounted to NT\$200,000, NT\$1,310,000 and NT\$2,000,000, respectively.

7. PREPAYMENTS

Prepayments at December 31, 1999, 2000 and 2001 consisted of the following:

	<u>1999</u>	<u>2000</u>	<u>2001</u>	
	NTD	NTD	NTD	USD
Prepayments for royalty (Note 25)	\$ 85,443	\$ 93,022	\$123,316	\$3,523
Prepayments for material purchases.....	39,516	89,956	11,969	342
Others.....	<u>1,673</u>	<u>2,331</u>	<u>9,153</u>	<u>262</u>
Total	<u>\$126,632</u>	<u>\$185,309</u>	<u>\$144,438</u>	<u>\$4,127</u>

8. OTHER CURRENT ASSETS

Other current assets at December 31, 1999, 2000 and 2001 consisted of the following:

	<u>1999</u>	<u>2000</u>	<u>2001</u>	
	NTD	NTD	NTD	USD
Income tax refunds receivable.....	\$ 433	\$ 1,070	\$ 1,070	\$ 31
Value-added tax refunds receivable.....	4,758	6,009	3,305	94
Other receivable	2,567	1,530	35,711	1,020
Deferred income tax asset (see Note 19)	11,603	28,916	33,902	969
Receivable on forward exchange contracts, net (see Note 21).....	407	89	—	—
Pledged time certificates of deposit (see Note 23).....	—	<u>32,526</u>	—	—
Total	<u>\$19,768</u>	<u>\$70,140</u>	<u>\$73,988</u>	<u>\$2,114</u>

HIGH TECH COMPUTER CORP.
NOTES TO FINANCIAL STATEMENTS (continued)
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9. LONG-TERM INVESTMENTS

Long-term investments at December 31, 1999, 2000 and 2001 consisted of the following:

	1999		2000		2001					
	Carrying	Ownership	Carrying	Ownership	Original		Carrying		Ownership	
	Value		Value		Cost		Value			
	NTD	%	NTD	%	NTD	USD	NTD	USD	%	
Under the equity method:										
H.T.C. (B.V.I.) Corp.	\$ —	—	\$ 7,126	100.00	\$19,372	\$554	\$2,963	\$ 85	100.00	
Auto Hi-Tech Computer Corp.	—	—	4,000	20.00	4,000	114	4,073	117	20.00	
Under LCM method:										
VIA Technologies, Inc.	—	—	—	—	1,971	56	1,971	56		
Total.....	\$ —		\$11,126		\$25,343	\$724	\$9,007	\$258		

In September 2000, the Company invested NT\$12,834 and acquired 100% ownership interest in H.T.C (B.V.I.) Corp., and accounted for such investment under the equity method. In 2001, the Company increased such investment to NT\$19,372.

In December 2000, the Company invested NT\$4,000 and acquired a 20% ownership interest in Auto Hi-Tech Computer Corp., and accounted for such investment under the equity method.

Equity in net loss of affiliates amounted to NT\$12,694 for the year ended December 31, 2001.

In June 2001, due to the intention of holding shares of VIA Technologies, Inc. over a long period of time, the Company reclassified it from short-term investments to long-term investments.

H.T.C. (B.V.I.) Corp., in which the Company's ownership interest is more than 50%, had not consolidated its financial statements with that of the Company because its total assets and total sales, individually, are less than 10% of that of the Company.

HIGH TECH COMPUTER CORP.
NOTES TO FINANCIAL STATEMENTS (continued)
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(Amounts are Expressed in Thousands (Unless Otherwise Stated) of New Taiwan Dollars and
in Thousands of United States Dollars, Per Share Data Expressed in New Taiwan Dollars and
in United States Dollars)

10. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at December 31, 1999, 2000 and 2001 consisted of the following:

	1999	2000	2001			
	Carrying Value	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NTD	NTD	NTD	NTD	NTD	USD
Land.....	\$175,898	\$ 175,898	\$ 224,244	\$ —	\$ 224,244	\$ 6,407
Buildings and structures	—	—	760,049	34,383	725,666	20,733
Machinery and equipment....	80,553	268,823	1,165,288	206,542	958,746	27,393
Molding equipment	43,110	38,096	174,420	101,934	72,486	2,071
Computer equipment.....	19,767	25,808	102,494	29,401	73,093	2,089
Transportation equipment	—	529	604	176	428	12
Furniture and fixtures.....	12,110	32,103	73,250	17,977	55,273	1,579
Leasehold improvements	18,970	24,288	7,331	2,276	5,055	144
Prepayments on construction-in-progress and equipment-in-transit ..	80,850	439,571	105,451	—	105,451	3,013
Total.....	<u>\$431,258</u>	<u>\$1,005,116</u>	<u>\$2,613,131</u>	<u>\$392,689</u>	<u>\$2,220,442</u>	<u>\$63,441</u>

In August 1998, the Company acquired a parcel of land from Goodyear (Taiwan) Co., to be used as a construction site for a factory and office building for NT\$174,131. The development project was completed in February 2001.

Due to the construction of such factory and office building, the property, plant and equipment increased significantly in 2001.

Insurance coverage for property, plant and equipment, excluding land, at December 31, 1999, 2000 and 2001 amounted to NT\$124,400, NT\$374,497 and NT\$1,937,789, respectively.

Interest capitalized for construction of factory and office building in 1999, 2000 and 2001 amounted to NT\$123, NT\$11,350 and NT\$17,717, respectively.

See Note 23 for the details on property, plant and equipment pledged as collateral for short-term borrowings and long-term debts.

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11. SHORT-TERM BORROWINGS

Short-term borrowings at December 31, 1999, 2000 and 2001 were comprised of the following:

	1999		2000		2001		
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	
	(Fixed)	NTD	(Fixed)	NTD	(Fixed)	NTD	USD
Material procurement loans	2.15%-6.956%	\$ 79,695	2.50%-7.25%	\$ 40,150	0.89%-2.25%	\$ 73,096	\$ 2,089
Unsecured loans	6.10%-6.25%	163,000	5.70%-6.15%	351,000	0.90%-3.40%	1,106,252	31,607
Total		<u>\$242,695</u>		<u>\$391,150</u>		<u>\$1,179,348</u>	<u>\$33,696</u>

12. SHORT-TERM COMMERCIAL BILLS

Short-term commercial bills at December 31, 1999, 2000 and 2001 were comprised of the following:

	1999		2000		2001		
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	
	(Fixed)	NTD	(Fixed)	NTD	(Fixed)	NTD	USD
Commercial paper	4.68%-5.00%	\$115,000	5.78%-6.25%	\$243,200	2.30%-3.30%	\$448,900	\$12,826
Less discount		(323)		(536)		(351)	(10)
Net		<u>\$114,677</u>		<u>\$242,664</u>		<u>\$448,549</u>	<u>\$12,816</u>

13. ACCRUED EXPENSES

Accrued expenses at December 31, 1999, 2000 and 2001 consisted of the following:

	1999	2000	2001	
	NTD	NTD	NTD	USD
Salaries and bonuses.....	\$55,139	\$ 88,133	\$169,474	\$4,842
Insurance	3,993	6,973	10,499	300
Interest.....	3,184	3,404	154	4
Processing fees.....	4,683	—	—	—
Software	2,400	—	—	—
Others.....	27,563	35,284	77,831	2,224
Total	<u>\$96,962</u>	<u>\$133,794</u>	<u>\$257,958</u>	<u>\$7,370</u>

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Other current liabilities at December 31, 1999, 2000 and 2001 consisted of the following:

	1999	2000	2001	
	NTD	NTD	NTD	USD
Advance receipts.....	\$14,222	\$19,775	\$ 6,280	\$ 179
Reserve for warranty expenses.....	14,778	44,266	—	—
Receipts for custody.....	1,926	1,963	2,200	63
Option on forward contracts, net (see Note 21)	908	834	61,841	1,767
Other	—	35	6,583	188
Total	<u>\$31,834</u>	<u>\$66,873</u>	<u>\$76,904</u>	<u>\$2,197</u>

15. LONG-TERM DEBTS

A summary of long-term debts at December 31, 1999, 2000 and 2001 was as follows:

	1999	2000	2001	
	NTD	NTD	NTD	USD
Secured loan from Far East National Bank for the factory building. The total borrowing was NT\$750,000, and the interest rate was at 6.00% on December 31, 2000. Principal payment was due on the maturity date. The Company repaid the loan on July 3, 2001.	\$ —	\$420,980	\$ —	\$ —
Secured loan from Bank of Overseas Chinese for purchase of automatic machinery. The total borrowing was NT\$29,000, and the interest rate was at 6.765% on December 31, 2000. Except for the final principal payment of NT\$1,805, principal payments were due in 15 equal quarterly installments commencing on July 15, 2000. The Company repaid the loan on August 31, 2001.	29,000	25,375	—	—
Secured loan from Bank of Overseas Chinese for purchase of automatic machinery. The total borrowing was NT\$10,000, and the interest rate was at 6.765% on December 31, 2000. Principal payments were due in 16 equal quarterly installments commencing on July 15, 2000. The Company repaid the loan on August 31, 2001.	10,000	8,750	—	—
Secured loan from Bank of Overseas Chinese for purchase of automatic machinery. The total borrowing was NT\$61,000, and the interest rate was at 6.765% on December 31, 2000. Principal payments were due in 16 equal quarterly installments commencing on January 15, 2002. The Company repaid the loan on August 31, 2001.	—	61,000	—	—

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	<u>1999</u>	<u>2000</u>	<u>2001</u>	
	NTD	NTD	NTD	USD
Secured loan from Bank of Overseas Chinese for purchase of automatic machinery. The total borrowing was NT\$37,850, and the interest rate was at 6.765% on December 31, 2000. Except for the final principal payment of NT\$2,360, principal payments were due in 15 equal quarterly installments commencing on October 15, 2001. The Company repaid the loan on August 31, 2001.	—	37,850	—	—
Secured loan from First Commercial Bank for purchase of automatic machinery. The total borrowing is NT\$130,900, and the interest rate is 3.45% (floating) on December 31, 2001. Principal and interest payments are counted monthly under annuity method.....	—	—	127,469	3,642
Subtotal	39,000	553,955	127,469	3,642
Less current portion of long-term liabilities.....	(4,876)	(433,096)	(42,062)	(1,202)
Long-term debts	<u>\$34,124</u>	<u>\$ 120,859</u>	<u>\$ 85,407</u>	<u>\$ 2,440</u>

See Note 23 for assets pledged of collateral for long-term debts.

16. EMPLOYEE BENEFIT PLAN

The Company has a defined benefit pension plan covering all eligible employees. The benefits are based primarily on an employee's years of service and average compensation for the one-month period prior to retirement.

According to the Statements of Financial Accounting Standards ("SFAS") No. 18, "Accounting for Pensions," issued by the Accounting Research and Development Foundation of the ROC, pension cost should be calculated by the actuarial method and the related disclosure is as follows:

The composition of net pension cost in 1999, 2000 and 2001 were as follows:

	<u>1999</u>	<u>2000</u>	<u>2001</u>	
	NTD	NTD	NTD	USD
Service cost	\$7,359	\$10,409	\$12,411	\$355
Interest cost	321	728	1,311	37
Projected return of plan assets	—	(349)	(805)	(23)
Amortization of unrecognized net transition obligation, net.	77	77	77	2
Amortization of net pension benefit.....	(20)	(14)	—	—
Net pension cost.....	<u>\$7,737</u>	<u>\$10,851</u>	<u>\$12,994</u>	<u>\$371</u>

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The reconciliation between pension fund status and accrued pension liabilities at December 31, 1999, 2000 and 2001 were as follows:

	1999	2000	2001	
	NTD	NTD	NTD	USD
Actuarial present value of benefit obligation:				
Vested benefits	\$ —	\$ —	\$ (262)	\$ (8)
Nonvested benefits	(4,396)	(8,292)	(21,114)	(603)
Accumulated benefit obligation	(4,396)	(8,292)	(21,376)	(611)
Additional benefit at future salaries	(7,738)	(14,507)	(29,860)	(853)
Projected benefit obligation	(12,134)	(22,799)	(51,236)	(1,464)
Plan assets at fair value	3,346	10,221	24,165	691
Projected benefit obligation in excess of plan assets	(8,788)	(12,578)	(27,071)	(773)
Unrecognized transition obligation, net	1,620	1,543	1,465	42
Unrecognized pension benefit.....	(1,500)	(1,944)	12,931	369
Accrued pension cost	<u>\$ (8,668)</u>	<u>\$(12,979)</u>	<u>\$(12,675)</u>	<u>\$ (362)</u>

Assumptions used in determining the actuarial present value of the projected benefit obligation were as follows:

	1999	2000	2001
Weighted-average discount rate.....	6.00%	5.75%	4.75%
Assumed rate of increase in future compensation	6.00%	6.00%	5.00%
Expected long-term rate of return on plan assets	6.00%	5.75%	4.75%

The vested benefits as of December 31, 1999, 2000 and 2001 all amounted to NT\$0.

17. CAPITAL STOCK

The Company's outstanding common stock at January 1, 1999 amounted to NT\$1,000,000, divided into 100,000,000 shares with a par value of NT\$10 each.

The Company's outstanding common stock at January 1, 2000 amounted to NT\$1,000,000, divided into 100,000,000 shares with a par value of NT\$10 each. In August of 2000, the Company issued 25,000,000 shares of NT\$10 par value common stock at NT\$40 per share through cash subscription; NT\$750,000 of the additional paid-in capital from the issuance of such common stock were accounted for as "capital surplus."

The Company's outstanding common stock at January 1, 2001 amounted to NT\$1,250,000, divided into 125,000,000 shares at NT\$10 par value each. In June of 2001, the Company issued 2,600,000 shares of NT\$10 par value common stock at NT\$163.5 per share through cash subscription; NT\$399,100 of the additional paid-in capital from the issuance of such common stock were accounted for as "capital surplus." The Company's outstanding common stock at December 31, 2001 amounted to NT\$1,276,000, divided into 127,600,000 shares at NT\$10 par value each.

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18. APPROPRIATION OF RETAINED EARNINGS AND DIVIDEND POLICY

According to the Company Law of the ROC and the Company's Articles of Incorporation, 10% of the Company's annual earnings, after paying tax and offsetting deficit, if any, shall first be appropriated to legal reserve until such reserve equals the amount of common stock.

The remaining balance shall be appropriated 1% as bonuses to directors and supervisors, and no less than 5% as bonuses to employees.

The Company engages in a technology and capital-intensive industry. In consideration of the environment around the Company and the characteristics of industry development, the long-term interests of stockholders, maintaining operating efficiency, and meeting its capital expenditure budget and financial goals, the Company would consider the real operating status and capital expenditure budget of next year to determine the proper dividend.

The appropriation of retained earnings should be proposed by the board of directors and approved by the stockholders in their annual meeting.

In 2001, the Company transferred NT\$316,288 of capital surplus to cover accumulated deficit.

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19. INCOME TAX

The income tax returns for the years through 1998 have been examined and approved by the tax authority.

Income tax payable at December 31, 1999, 2000 and 2001 was computed as follows:

	1999	2000	2001	
	NTD	NTD	NTD	USD
Income (loss) before income tax	\$(280,229)	\$ 109,549	\$ 990,251	\$28,293
Add:				
Excess depreciation allowance	—	—	18,000	514
Provision for loss on decline in value of inventory	20,390	74,903	2,949	84
Investment losses on equity-method	—	5,686	12,694	363
Excess meal allowance	—	3,889	15,431	441
Unrealized foreign currency exchange loss, net	—	—	40,336	1,153
Unrealized reserve for warranty expense	14,778	29,488	—	—
Unrealized pension cost	3,157	4,311	—	—
Others	—	12,510	28,585	817
Less:				
Gain on disposal of investments	(27,644)	(908)	(723)	(21)
Realized reserve for warranty expense	—	—	(44,266)	(1,265)
Unrealized foreign currency exchange gain, net	—	(28,288)	—	—
Realized foreign currency exchange loss, net	(6,553)	—	—	—
Others	(145)	—	—	—
Total income	(276,246)	211,140	1,063,257	30,379
Less income exempt from tax	—	—	(83,230)	(2,378)
Prior year loss carryforwards	—	(211,140)	(233,843)	(6,681)
Taxable income	(276,246)	—	746,184	21,320
Tax rate	x25%	x25%	x25%	x25%
Subtotal	—	—	186,546	5,330
Income tax credit	—	—	(10)	—
Estimated income tax provision	—	—	186,536	5,330
Unappropriated earnings additional 10% income tax	—	—	9,057	258
Less investment research and development tax credits	—	—	(104,507)	(2,986)
Current income tax expense	—	—	91,086	2,602
Less prepaid and withheld income tax	(178)	(892)	(315)	(9)
Income tax payable (receivable)	<u>\$ (178)</u>	<u>\$ (892)</u>	<u>\$ 90,771</u>	<u>\$ 2,593</u>

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The tax effects of deductible temporary differences and loss and tax credit carryforwards that gave rise to deferred tax assets as of December 31, 1999, 2000 and 2001 consisted of the following:

	1999	2000	2001	
	NTD	NTD	NTD	USD
Temporary differences:				
Unrealized pension cost.....	\$ 1,855	\$ 3,245	\$ 3,169	\$ 91
Unrealized depreciation.....	—	—	7,695	220
Provision for loss on decline in value of inventory.....	5,098	23,823	25,122	718
Unrealized investment losses.....	—	1,421	4,595	131
Unrealized foreign currency exchange loss.....	617	—	3,615	103
Unrealized reserve for warranty expense.....	3,694	11,066	—	—
Other.....	767	3,883	9,150	261
Tax credit carryforwards.....	81,040	204,016	237,157	6,776
Prior year loss carryforwards.....	123,565	67,025	—	—
Total deferred tax asset.....	216,636	314,479	290,503	8,300
Less valuation allowance.....	(164,790)	(234,150)	(153,066)	(4,373)
Total deferred tax asset, net.....	51,846	80,329	137,437	3,927
Deferred tax liability:				
Unrealized foreign currency exchange gain, net.....	—	(6,455)	—	—
	51,846	73,874	137,437	3,927
Less current portion.....	(11,603)	(28,916)	(33,902)	(969)
Deferred tax assets - noncurrent.....	<u>\$ 40,243</u>	<u>\$ 44,958</u>	<u>\$ 103,535</u>	<u>\$ 2,958</u>

Details of the tax credit carryforwards:

		1999	2000	2001	
Year Occur	Period of Validity	NTD	NTD	NTD	USD
1997.....	1997-2001	\$ 6,710	\$ 6,710	\$ —	\$ —
1998.....	1998-2002	29,982	29,982	—	—
1999.....	1999-2003	44,348	49,092	—	—
2000.....	2000-2004	—	118,232	99,509	2,843
2001.....	2001-2005	—	—	137,648	3,933
		<u>\$81,040</u>	<u>\$204,016</u>	<u>\$237,157</u>	<u>\$6,776</u>

According to the Income Tax Law of ROC, the investment research and development tax credits can be carried forward for five years. The total credits used in each year can not be over half of estimated income tax provision, except for the expired year.

Valuation allowance is based on management's evaluation of the amount of tax credits that can be carried forward for five years, and the Company's financial forecasts.

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The income tax expense for the year ended December 31, 1999, 2000 and 2001 consisted of the following:

	<u>1999</u>	<u>2000</u>	<u>2001</u>	
	NTD	NTD	NTD	USD
Current income tax expense	\$ —	\$ —	\$ 91,086	\$ 2,602
Increase in deferred income tax assets	—	(22,028)	(63,563)	(1,816)
Income tax expense (benefit).....	<u>\$ —</u>	<u>\$(22,028)</u>	<u>\$ 27,523</u>	<u>\$ 786</u>

The related information for the integrated income tax system is disclosed as follows:

	<u>1999</u>	<u>2000</u>	<u>2001</u>	
	NTD	NTD	NTD	USD
Balance of imputation credit account.....	\$22	\$25	\$ 340	\$ 10
Unappropriated earnings attributed to 1998 and years after.....	—	—	962,728	27,507
Expected creditable ratio (including income tax payable)		—	9.46%	9.46%

20. EARNINGS PER SHARE

Earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding during each year. The weighted average number of shares used in the calculation of earnings per share was 100,000,000, 108,493,000 and 126,375,000 in 1999, 2000 and 2001, respectively.

21. FINANCIAL INSTRUMENTS

In accordance with the Approval Documents (85) Tai-Tsai-Tseng (6) No. 00263 of Securities and Futures Commission of ROC and Statement of Financial Accounting Standards No. 27 "Disclosure of Financial Instruments," the Company discloses related information as follows:

Amount of Contract and Credit Risk

Forward Exchange contracts

	<u>1999</u>	
	<u>Contract Amount</u>	<u>Credit Risk</u>
Forward exchange contracts	<u>US\$3,000</u>	<u>—</u>
	<u>2000</u>	
	<u>Contract Amount</u>	<u>Credit Risk</u>
Forward exchange contracts	<u>US\$2,000</u>	<u>—</u>

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Foreign Currency Option Contracts

1999						
Buy/Sell	Trade Date	Expiry Date	Call/Put	Contract Amount	Strike Rate	Credit Risk
Buy	1999.11.16	2000.11.16	NTD/USD	US\$2,000	32.400	—
Buy	1999.12.06	2000.02.02	NTD/USD	US\$1,000	31.800	—
Buy	1999.12.28	2000.01.27	NTD/USD	US\$1,000	31.700	—
Sell	1999.08.23	2000.02.23	USD/NTD	US\$2,000	32.400	—
Sell	1999.08.25	2000.03.23	USD/NTD	US\$2,000	32.420	—
Sell	1999.09.14	2000.04.13	USD/NTD	US\$2,000	32.280	—
Sell	1999.10.27	2000.10.27	USD/NTD	US\$2,000	32.490	—
Sell	1999.11.02	2000.11.02	USD/NTD	US\$2,000	32.450	—
Sell	1999.11.23	2000.12.22	USD/NTD	US\$2,000	32.400	—
Sell	1999.12.06	2000.12.06	USD/NTD	US\$2,000	32.110	—
Sell	1999.12.07	2000.12.07	USD/NTD	US\$2,000	32.120	—
Sell	1999.12.28	2000.09.27	USD/NTD	US\$1,000	30.900	—
Sell	1999.12.28	2000.10.27	USD/NTD	US\$1,000	32.000	—
2000						
Buy/Sell	Trade Date	Expiry Date	Call/Put	Contract Amount	Strike Rate	Credit Risk
Sell	2000.10.19	2001.02.21	USD/NTD	US\$1,000	33.060	—
Sell	2000.10.19	2001.03.21	USD/NTD	US\$1,000	33.060	—
2001						
Buy/Sell	Trade Date	Expiry Date	Call/Put	Contract Amount	Strike Rate	Credit Risk
Sell	2001.03.07	2002.03.07	USD/NTD	US\$3,000	35.50	—
Sell	2001.05.25	2002.05.27	USD/NTD	US\$3,000	37.00	—
Sell	2001.05.29	2002.05.29	USD/NTD	US\$3,000	36.00	—
Sell	2001.06.13	2002.06.13	USD/NTD	US\$3,000	36.00	—
Sell	2001.08.15	2002.02.15	USD/NTD	US\$1,000	35.10	—
Buy	2001.08.23	2002.02.25	NTD/USD	US\$1,000	34.40	—
Sell	2001.09.21	2002.03.22	USD/JPY	US\$1,500	118.00	—
Sell	2001.09.25	2002.03.22	USD/JPY	US\$1,000	116.50	—
Sell	2001.09.25	2002.03.25	USD/JPY	US\$1,000	118.00	—
Sell	2001.09.27	2002.09.30	USD/NTD	US\$1,300	37.00	—
Sell	2001.10.02	2002.03.22	USD/JPY	US\$3,000	118.50	—
Buy	2001.10.04	2002.01.07	NTD/USD	US\$2,000	34.50	—
Sell	2001.10.18	2002.02.04	USD/NTD	US\$2,000	35.00	—
Sell	2001.11.16	2002.05.16	USD/JPY	US\$5,000	121.30	—
Buy	2001.11.19	2002.01.17	NTD/USD	US\$5,000	34.50	—
Sell	2001.11.19	2002.05.17	USD/JPY	US\$1,900	120.00	—
Buy	2001.11.20	2002.01.18	NTD/USD	US\$2,840	34.40	—
Sell	2001.11.20	2002.05.17	USD/JPY	US\$4,400	121.00	—
Sell	2001.11.20	2002.05.21	USD/JPY	US\$5,000	122.00	—
Buy	2001.11.21	2002.02.08	NTD/USD	US\$3,500	34.50	—
Buy	2001.11.21	2002.02.21	NTD/USD	US\$5,000	34.50	—
Buy	2001.11.29	2002.05.17	USD/JPY	US\$ 850	121.00	—

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2001						
Buy/Sell	Trade Date	Expiry Date	Call/Put	Contract Amount	Strike Rate	Credit Risk
Sell	2001.12.13	2002.06.13	USD/JPY	US\$2,000	121.00	—
Sell	2001.12.19	2002.03.19	USD/NTD	US\$3,000	34.71	—
Buy	2001.12.19	2002.06.13	USD/JPY	US\$2,000	121.00	—
Sell	2001.12.19	2002.06.13	JPY/USD	US\$2,000	121.00	—
Buy	2001.12.20	2002.05.16	USD/JPY	US\$ 500	121.30	—
Sell	2001.12.21	2002.03.22	USD/NTD	US\$2,000	35.00	—
Sell	2001.12.25	2002.02.25	USD/NTD	US\$1,000	35.35	—
Sell	2001.12.26	2002.03.26	USD/NTD	US\$1,000	34.51	—
Sell	2001.12.26	2002.03.26	USD/NTD	US\$3,000	34.60	—
Sell	2001.12.26	2002.03.26	USD/NTD	US\$2,000	34.58	—
Sell	2001.12.26	2002.06.26	USD/NTD	US\$2,000	34.74	—

The Company only deals with banks with good credit, which is based on banks' reputation and the Company's past experience with them. Moreover, the Company has established a series of control procedures for transactions of derivative financial instruments. No credit risks are expected.

Market Risk

Forward exchange contracts and foreign currency option are measured at the balance sheet date using the market value. As of December 31, 2001, the Company recorded unrealized foreign exchange losses of NT\$52,603 in these contracts.

Liquidity Risk, Cash Flow Risk and the Amount, Timing and Uncertainty of Future Cash Requirements Risk

The Company's forward exchange contracts and foreign currency options will cause a loss of NT\$24,979, assuming an exchange rate at NT\$35.2 to US\$1 and US\$1 to JPY135.4 for the first half year of 2002. Because the Company has sufficient working capital to settle those contracts, no future cash requirements risk exist. Meanwhile, because the Company would not intend to sell foreign currency options before their maturity dates, no liquidity risk is expected.

Purpose and Category of Financial Instrument Held

The Company held derivative financial instruments for non-trading activity purpose in an attempt to reduce the effect of foreign exchange fluctuations.

Disclosures of Derivative Instruments in the Financial Statements

The receivables and payables generated from foreign currency option and forward exchange contracts shall be offset, and the net balance will be included in other current assets or other current liabilities. As of December 31, 2001, the net balance recorded in other current liabilities was NT\$61,841. Net profit and premium generated from transactions of derivative financial instruments for non-trading activities for the year ended December 31, 1999, 2000 and 2001, amounted to NT\$4,133, NT\$1,155 and NT\$7,321, respectively.

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Fair Value of Financial Instruments

Derivative Financial Instruments

	1999		2000		2001			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NTD	NTD	NTD	NTD	NTD	USD	NTD	USD
Assets:								
Forward exchange contracts.....	\$407	\$407	\$ 89	\$ 89	\$ —	\$ —	\$ —	\$ —
Liabilities:								
Foreign currency option contracts.....	908	908	834	834	61,841	1,767	61,841	1,767

The fair value of derivative financial instruments are the estimated amounts that the Company would receive or pay if contracts are closed at the balance sheet date. The Company obtained quotes from banks to estimate the fair value.

Non-derivative Financial Instruments

	1999		2000		2001			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NTD	NTD	NTD	NTD	NTD	USD	NTD	USD
Assets:								
Cash and cash equivalents.....	\$ 24,453	\$ 24,453	\$ 231,212	\$ 231,212	\$ 16,278	\$ 465	\$ 16,278	\$ 465
Short-term investments.	1,971	3,682	1,971	3,889	—	—	—	—
Receivables	410,966	410,966	1,484,523	1,484,523	2,563,688	73,248	2,563,688	73,248
Other current financial assets	7,758	7,758	41,135	41,135	40,086	1,145	40,086	1,145
Long-term investments .	—	—	11,126	11,126	9,007	257	9,702	277
Other financial assets ...	8,568	8,160	7,770	7,389	764	22	728	21
Liabilities:								
Short-term borrowings .	357,372	357,372	633,814	633,814	1,627,897	46,511	1,627,897	46,511
Payables.....	317,122	317,122	1,368,699	1,368,699	1,717,553	49,073	1,717,553	49,073
Current portion of long-term debts	4,876	4,876	433,096	433,096	42,062	1,202	42,062	1,202
Other current financial liabilities	126,460	126,460	204,901	204,901	483,794	13,823	483,794	13,823
Long-term debts	34,124	34,124	120,859	120,859	85,407	2,440	85,407	2,440
Long-term notes payable	—	—	—	—	2,231	64	2,126	61
Other financial liabilities	—	—	315	315	—	—	—	—

HIGH TECH COMPUTER CORP.
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The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

For instruments with short maturities, including cash and cash equivalents, receivables, other current financial assets, payables, short-term borrowings and other current financial liabilities, the carrying amount approximated the fair value because of the short maturities of such instruments.

The fair value of long-term investments and short-term investments are measured based on quoted market prices for these instruments. If the securities do not have market prices, fair value is measured based on financial or other information.

The fair value of other financial assets and other financial liabilities are based on the discounted value of the future cash flows expected to be received. The discount rate is based on the average interest rate of time deposits in banks.

The fair value of long-term debts, including current portion, are estimated based on their floating rates that are comparable to current rates of long-term debts with the same terms and maturities.

22. RELATED PARTY TRANSACTIONS

The names and relationships of related parties are as follows:

Related Party	Relationship with the Company
First International Computer, Inc. ("FIC")	Chairperson is one of the immediate family members of the Company's chairperson
VIA Technologies, Inc.	Chairperson is the Company's chairperson
Idot Computer, Inc.	Chairperson is the Company's chairperson
Leo Systems, Inc.	One of its directors is the Company's chairperson
Xander International Corp.	Chairperson is one of the Company's directors
Chander Electronics Corp.	Chairperson is the Company's chairperson
Xander International (HK) Ltd.	A subsidiary of Xander International Corp.
Everex System	A subsidiary of FIC
FIC Europe B.V.	A subsidiary of FIC
Everex System, Taiwan Branch	A subsidiary of Everex System

Major transactions with related parties are summarized below:

Purchases of Inventories and Services

	Years Ended December 31						
	1999		2000		2001		
	Amount	% of Total Net	Amount	% of Total Net	Amount	% of Total Net	
Related Party	NTD	Purchases	NTD	Purchases	NTD	USD	Purchases
Chander Electronics Corp.	\$ —	—	\$ —	—	\$26,188	\$748	0.20
Leo Systems, Inc.	1,215,117	72.42	276,987	5.80	—	—	—
Others	1,028	0.06	63,663	1.34	765	22	0.01
Total	<u>\$1,216,145</u>	<u>72.48</u>	<u>\$340,650</u>	<u>7.14</u>	<u>\$26,953</u>	<u>\$770</u>	<u>10.21</u>

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The Company entered into a contract with Leo Systems, Inc. under which Leo Systems purchased raw materials and manufactured products designed by the Company. The Contract commenced on January 1, 1998 and terminated on April 30, 2000. See Note 25 for more explanations. The prices are not comparable because of the different characters of the specified products.

Terms of payment for both related and unrelated parties are similar.

Sales and Services Provided

	Years Ended December 31						
	1999		2000		2001		
	Amount	% of Total	Amount	% of Total	Amount		% of Total
Related Party	NTD	Revenues	NTD	Revenues	NTD	USD	Revenues
Leo Systems, Inc.	\$ 184,553	12.40	\$ 64,231	1.41	\$97,703	\$2,792	0.63
FIC.....	998,147	67.04	259,391	5.68	—	—	—
Everex System, Taiwan Branch	60,641	4.07	—	—	—	—	—
Everex System.....	2,693	0.18	—	—	—	—	—
Xander International (HK) Ltd.....	12,785	0.86	114,095	2.50	—	—	—
Others.....	9,905	0.66	18,677	0.41	423	12	—
Total	<u>\$1,268,724</u>	<u>85.21</u>	<u>\$456,394</u>	<u>10.00</u>	<u>\$98,126</u>	<u>\$2,804</u>	<u>0.63</u>

Selling prices and terms of payment for both related and unrelated parties are similar.

Notes and Accounts Receivable

	December 31						
	1999		2000		2001		
	Amount	% of Total	Amount	% of Total	Amount		% of Total
Related Party	NTD	Notes and	NTD	Notes and	NTD	USD	Notes and
		Accounts		Accounts			Accounts
		Receivable		Receivable			Receivable
Notes receivable:							
VIA Technologies, Inc.	\$ —	—	\$ 945	0.06	\$ —	\$ —	—
Idot Computers, Inc.	—	—	1	—	—	—	—
Total	<u>\$ —</u>	<u>—</u>	<u>\$ 946</u>	<u>0.06</u>	<u>\$ —</u>	<u>\$ —</u>	<u>—</u>

HIGH TECH COMPUTER CORP.

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	December 31							
	1999		2000		2001			
	Amount	% of Total Notes and Accounts Receivable	Amount	% of Total Notes and Accounts Receivable	Amount		% of Total Notes and Accounts Receivable	
Related Party	NTD		NTD		NTD	USD		
Accounts receivable:								
Leo Systems, Inc.	\$ 12,189	2.97	\$ 8,104	0.54	\$3,385	\$97	0.13	
FIC	301,642	73.38	11,892	0.78	—	—	—	
Everex System	79,616	19.37	—	—	—	—	—	
Everex System, Taiwan Branch	102	0.02	—	—	—	—	—	
Others.....	630	0.15	444	0.03	—	—	—	
Total	<u>\$394,179</u>	<u>95.89</u>	<u>\$20,440</u>	<u>1.35</u>	<u>\$3,385</u>	<u>\$97</u>	<u>0.13</u>	

Notes and Accounts Payable

	December 31							
	1999		2000		2001			
	Amount	% of Total Notes and Accounts Payable	Amount	% of Total Notes and Accounts Payable	Amount		% of Total Notes and Accounts Payable	
Related Party	NTD		NTD		NTD	USD		
Leo Systems, Inc.	\$235,444	74.24	\$ —	—	\$14,722	\$421	0.86	
Chander Electronics Corp.	—	—	—	—	1,181	34	0.07	
Others.....	21	0.01	—	—	—	—	—	
Total	<u>\$235,465</u>	<u>74.25</u>	<u>\$ —</u>	<u>—</u>	<u>\$15,903</u>	<u>\$455</u>	<u>0.93</u>	

Other Receivable

	December 31							
	1999		2000		2001			
	Amount	% of Total Other Receivable	Amount	% of Total Other Receivable	Amount		% of Total Other Receivable	
Related Party	NTD		NTD		NTD	USD		
VIA Technologies, Inc.	\$1,122	43.71	\$50	3.27	\$ —	\$ —	—	
Leo Systems, Inc.	412	16.05	—	—	—	—	—	
Everex System.....	296	11.53	—	—	—	—	—	
Others.....	57	2.22	—	—	—	—	—	
Total	<u>\$1,887</u>	<u>73.51</u>	<u>\$50</u>	<u>3.27</u>	<u>\$ —</u>	<u>\$ —</u>	<u>—</u>	

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	December 31						
	1999		2000		2001		
	Amount	% of Total Other	Amount	% of Total Other	Amount		
Related Party	NTD	Receivable	NTD	Receivable	NTD	USD	Receivable
VIA Technologies, Inc.	<u>\$13,167</u>	<u>92.58</u>	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>	<u>\$ —</u>	<u>—</u>

In December 1999, the Company transferred to VIA Technologies, Inc. notebook PC technologies, which amounted to NT\$15,800. The related revenue, recognized as other operating revenue, under the agreement for the year ended December 31, 1999 and 2000, amounted to NT\$13,167 and NT\$2,663, respectively.

Accrued Expenses

	December 31						
	1999		2000		2001		
	Amount	% of Total Accrued	Amount	% of Total Accrued	Amount		
Related Party	NTD	Expenses	NTD	Expenses	NTD	USD	Expenses
VIA Technologies, Inc.	\$ —	—	\$1,334	1.00	\$2,034	\$58	0.79
Idot Computers, Inc.	—	—	138	0.10	135	4	0.05
FIC Europe B.V.	—	—	2,790	2.09	—	—	—
Leo Systems, Inc.	4,131	4.26	—	—	—	—	—
Xander International Corp.	2,197	2.26	—	—	—	—	—
Others.....	686	0.71	241	0.18	—	—	—
Total	<u>\$7,014</u>	<u>7.23</u>	<u>\$4,503</u>	<u>3.37</u>	<u>\$2,169</u>	<u>\$62</u>	<u>0.84</u>

Service Warranty Expense

	Years Ended December 31						
	1999		2000		2001		
	Amount	% of Warranty	Amount	% of Warranty	Amount		
Related Party	NTD	Expenses	NTD	Expenses	NTD	USD	Expenses
FIC Europe B.V.	<u>\$ —</u>	<u>—</u>	<u>\$9,559</u>	<u>34.35</u>	<u>\$94,218</u>	<u>\$2,692</u>	<u>48.20</u>

Service expense resulted from authorizing the above related party to provide after sales service.

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Research and Development Expense

	Years Ended December 31						
	1999		2000		2001		
	Amount	% of Total R&D	Amount	% of Total R&D	Amount		% of Total R&D
Related Party	NTD	Expense	NTD	Expense	NTD	USD	Expense
Leo Systems, Inc.	\$7,681	3.96	\$299	0.10	\$ —	\$—	—
Others.....	689	0.36	562	0.18	499	14	0.10
Total	<u>\$8,370</u>	<u>4.32</u>	<u>\$861</u>	<u>0.28</u>	<u>\$499</u>	<u>\$14</u>	<u>0.10</u>

Non-Operating Income

Other Income

	Years Ended December 31						
	1999		2000		2001		
	Amount	% of Total Other	Amount	% of Total Other	Amount		% of Total Other
Related Party	NTD	Income	NTD	Income	NTD	USD	Income
Leo Systems, Inc.	\$ —	—	\$23,634	60.59	\$ —	\$ —	—
Chander Electronics Corp.	—	—	1,366	3.50	—	—	—
FIC.....	1,822	32.20	—	—	—	—	—
Everex System, Taiwan Branch	355	6.28	—	—	—	—	—
Everex System.....	297	5.25	—	—	—	—	—
Others.....	231	4.08	24	0.06	—	—	—
Total	<u>\$2,705</u>	<u>47.81</u>	<u>\$25,024</u>	<u>64.15</u>	<u>\$ —</u>	<u>\$ —</u>	<u>—</u>

Other income from Leo Systems, Inc. for year 2000 mainly represented compensation for obsolete inventory due to order cancellation.

Interest Income

	Years Ended December 31						
	1999		2000		2001		
	Amount	% of Total Interest	Amount	% of Total Interest	Amount		% of Total Interest
Related Party	NTD	Income	NTD	Income	NTD	USD	Income
Everex System.....	\$ —	—	\$9,660	50.22	\$ —	\$ —	—

Interest income for year 2000 mainly represented charge for extension and delay of payment for accounts receivable.

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Non-Operating Expense

Interest Expense

	Years Ended December 31						
	1999		2000		2001		
	Amount	% of Total Interest Expense	Amount	% of Total Interest Expense	Amount	% of Total Interest Expense	
Related Party	NTD		NTD		NTD	USD	
Leo Systems, Inc.	<u>\$2,822</u>	<u>27.25</u>	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>	<u>\$ —</u>	<u>—</u>

In 1999, Leo Systems, Inc. purchased raw materials for the Company. Interest expenses represented interest on keeping such raw materials in inventory.

Leasing - Lessee

Operating Expense - Rental Expense

	Years Ended December 31						
	1999		2000		2001		
	Amount	% of Rental Expense	Amount	% of Rental Expense	Amount	% of Rental Expense	
Related Party	NTD		NTD		NTD	USD	
VIA Technologies, Inc.	<u>\$3,597</u>	<u>27.51</u>	<u>\$7,195</u>	<u>19.10</u>	<u>\$11,478</u>	<u>\$328</u>	<u>51.29</u>

The Company leases offices owned by VIA Technologies, Inc., and the rental payment was determined based on the prevailing rates in the surrounding area.

Property Transaction

In 1999, the Company acquired computer equipment from Leo Systems, Inc. and VIA Technologies, Inc., in the amount of NT\$677 and NT\$180, respectively. In 2000, the Company did not acquire any computer equipment from related parties. In 2001, the Company acquired computer equipment from Leo Systems, Inc. in the amount of NT\$177 (US\$5).

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23. PLEDGED ASSETS

At December 31, 2001, 2000 and 1999, the following assets were pledged to secure short-term borrowings and long-term debts:

	<u>1999</u>	<u>2000</u>	<u>2001</u>	
	NTD	NTD	NTD	USD
Land	\$175,898	\$175,898	\$ —	\$ —
Machinery and equipment	49,891	182,313	408,423	11,669
Pledged time certificates of deposit (included in other current assets).....	—	32,526	—	—
Total	<u>\$225,789</u>	<u>\$390,737</u>	<u>\$408,423</u>	<u>\$11,669</u>

24. COMMITMENTS AND CONTINGENCIES

As of December 31, 2001, outstanding unused letters of credit not reflected in the accompanying financial statements amounted to US\$7,442 and JPY7,541.

25. SIGNIFICANT CONTRACT

OEM Agreement

The Company entered into an agreement with Leo System, Inc. (“Leo”), to manufacture Pocket-PC and other peripheral computer equipment for the Company. The contract commenced on January 1, 1998 and terminated on April 30, 2000. According to the Company’s purchase orders, Leo purchased materials and produced specified products. The prices were determined by Leo’s purchase costs plus assembly costs negotiated by each other. Term of payment was one month. According to the contract, if the Company’s monthly actual purchase quantities were below the contracted quantities, the Company should pay to Leo as compensation NT\$278 (not expressed in thousands) for each Pocket-PC and NT\$36 (not expressed in thousands) for each by-product not purchased.

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Patent Agreement

As of December 31, 2001, the Company had patent agreements with Texas Instruments France, Microsoft and QUALCOMM Incorporated as follows:

<u>Contractor</u>	<u>Contract period</u>	<u>Description</u>
Texas Instruments France	January 14, 2000 to January 14, 2005	Authorization in using GSM system software. Payment for the royalty is within the schedule of agreement.
Microsoft	April 20, 1999 to April 20, 2000	Authorization in using disk operating system. Quarterly payment for the royalty.
Microsoft	December 1, 2000 to December 31, 2002	Authorization in using embedded operating system. Quarterly payment for the royalty.
QUALCOMM Incorporated	December 20, 2000 to the following dates: (a) if the Company shall commit any material breach of any covenant, and shall have failed to remedy such breach within 30 days after written notice thereof by QUALCOMM. (b) any time when the Company is not using any of QUALCOMM's Intellectual Property, the Company may terminate this agreement upon 60 days' prior written notice to QUALCOMM.	(a) Authorization in using CDMA technology to manufacture and sell units. (b) The up-front license fee amounted to US\$7,500 was paid within six months from the effective date of the agreement and was recorded in deferred charges, amortized on a straight-line basis over ten years. Royalty is paid quarterly according to units sold.

Sales Agreement

<u>Contractor</u>	<u>Contract period</u>	<u>Description</u>
Leo Systems, Inc.	April 1, 1998 to March 31, 2000	(a) Authorization in selling the Pocket-PC and Note Book the Company developed. (b) Terms of payment are determined by confirmed selling quantity.
Leo Systems, Inc.	November 22, 2000 to November 21, 2002	Authorization in selling the Pocket-PC the Company developed.

HIGH TECH COMPUTER CORP.**NOTES TO FINANCIAL STATEMENTS (continued)****YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001****(Amounts are Expressed in Thousands (Unless Otherwise Stated) of New Taiwan Dollars and in Thousands of United States Dollars, Per Share Data Expressed in New Taiwan Dollars and in United States Dollars)****26. SEGMENT INFORMATION****Financial Information by Industrial Types**

The principal business of the Company is the manufacturing of palm-size PC. Because the Company's business is concentrated, there is no need to disclose financial information by industry types.

Foreign Operations

The Company does not have any foreign operations.

Export Sales

Export sales for the years ended December 31, 1999, 2000 and 2001 are as follows:

	<u>1999</u>	<u>2000</u>	<u>2001</u>	
	NTD	NTD	NTD	USD
Asia.....	\$110,336	\$ 254,649	\$ 42,406	\$ 1,212
America	14,616	3,806,808	13,556,593	387,331
Others.....	<u>29,020</u>	<u>70,167</u>	<u>668,045</u>	<u>19,087</u>
Total	<u>\$153,972</u>	<u>\$4,131,624</u>	<u>\$14,267,044</u>	<u>\$407,630</u>

Dominant Customers Information

Sales to a major customer for the years ended December 31, 1999, 2000 and 2001 amounted to NT\$0, NT\$3,840,826 and NT\$13,379,576, respectively.

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors of
High Tech Computer, Corp.:

We have reviewed the accompanying balance sheets of High Tech Computer Corp. (the "Company") as of September 30, 2001 and 2002, and the related statements of operations, changes in stockholders' equity and cash flows for the nine-month periods then ended. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with "Standards for review of interim financial statements of public companies" of the Republic of China. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such financial statements for them to be in conformity with accounting principles generally accepted in the Republic of China.

As described in Note 2 to the financial statement, the Company maintains its accounts and expresses its financial statements in New Taiwan (NT) dollars. The translation of the NT dollars financial statements as of and for the nine-month period ended September 30, 2002 into US dollars at NT\$34.92 to US\$1.00 was made solely for the convenience of the reader. The convenience translations should not be construed as representations that the NT dollar amounts have been, could have been or could in the future be, converted into US dollars at this or any other exchange rate.

October 14, 2002

Deloitte & Touche
Taipei, Taiwan

The accompanying financial statements 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 other than in the Republic of China. Accordingly, the accompanying balance sheets of High Tech Computer, Corp. and the related statements of operations, changes in stockholders' equity and cash flows as of and for the nine-month periods ended September 30, 2001 and 2002 are not designed for those who are not informed about accounting principles, procedures and practices in the Republic of China. The standards, procedures and practices utilized in the Republic of China to review such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China.

HIGH TECH COMPUTER CORP.**BALANCE SHEETS****SEPTEMBER 30, 2001 AND 2002****(Expressed in Thousands of New Taiwan Dollars and in Thousands of United States Dollars)**

	UNAUDITED		
	2001	2002	
ASSETS	NTD	NTD	USD
CURRENT ASSETS:			
Cash and cash equivalents (Note 3).....	\$ 22,785	\$ 210,954	\$ 6,041
Short-term investments (Notes 2 and 4)	188,400	—	—
Notes receivable (Notes 2 and 5).....	831	360,633	10,327
Accounts receivable, net (Notes 2 and 5)	1,855,527	2,416,294	69,195
Accounts receivable from related parties (Note 21).....	23,774	4,325	124
Inventories (Notes 2 and 6)	1,974,067	1,603,131	45,909
Prepayments (Note 7)	131,579	152,345	4,363
Other current assets (Notes 2, 8 and 18).....	72,882	207,728	5,949
Total current assets.....	<u>4,269,845</u>	<u>4,955,410</u>	<u>141,908</u>
LONG-TERM INVESTMENTS (Notes 2 and 9)	<u>8,813</u>	<u>18,109</u>	<u>519</u>
PROPERTY, PLANT AND EQUIPMENT, Net (Notes 2, 10, 21 and 22):			
Cost:			
Land	176,599	224,244	6,422
Buildings and structures	712,673	764,624	21,896
Machinery and equipment	1,117,078	1,257,426	36,009
Molding equipment.....	156,413	242,323	6,939
Computer equipment	95,687	115,372	3,304
Transportation equipment.....	604	1,315	38
Furniture and fixtures	67,863	83,204	2,383
Leasehold improvements.....	7,331	10,231	293
Subtotal	<u>2,334,248</u>	<u>2,698,739</u>	<u>77,284</u>
Less accumulated depreciation	(303,143)	(658,093)	(18,846)
Prepayments on construction-in-progress and equipment-in-transit	<u>121,169</u>	<u>157,250</u>	<u>4,503</u>
Property, plant and equipment, net.....	<u>2,152,274</u>	<u>2,197,896</u>	<u>62,941</u>
OTHER ASSETS:			
Refundable deposits	7,331	811	23
Deferred charges (Note 2).....	323,829	283,855	8,129
Deferred tax asset (Notes 2 and 18)	94,762	40,724	1,166
Total other assets.....	<u>425,922</u>	<u>325,390</u>	<u>9,318</u>
TOTAL	<u>\$6,856,854</u>	<u>\$7,496,805</u>	<u>\$214,686</u>

HIGH TECH COMPUTER CORP.
BALANCE SHEETS (continued)
SEPTEMBER 30, 2001 AND 2002

(Expressed in Thousands of New Taiwan Dollars and in Thousands of United States Dollars)

	UNAUDITED		
	2001	2002	
	NTD	NTD	USD
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings (Note 11)	\$1,957,396	\$1,017,461	\$ 29,137
Short-term commercial bills (Note 12)	799,446	49,942	1,430
Notes and accounts payable.....	752,598	1,998,352	57,227
Notes and accounts payable due to related parties (Note 21).....	3,923	16,891	484
Income tax payable (Notes 2 and 18).....	91,439	95,789	2,743
Accrued expenses (Notes 13 and 21).....	225,429	306,491	8,777
Payable for purchase of equipment.....	25,590	34,531	989
Current portion of long-term liabilities (Notes 15 and 22).....	—	55,890	1,601
Other current liabilities (Notes 14 and 20).....	147,264	216,066	6,187
Total current liabilities	<u>4,003,085</u>	<u>3,791,413</u>	<u>108,575</u>
LONG-TERM LIABILITIES:			
Long-term debts (Notes 15 and 22).....	—	71,081	2,036
Long-term notes payable.....	2,231	2,231	64
Total long-term liabilities	<u>2,231</u>	<u>73,312</u>	<u>2,100</u>
OTHER LIABILITIES:			
Accrued pension cost (Note 2).....	14,701	17,085	489
Total liabilities	<u>4,020,017</u>	<u>3,881,810</u>	<u>111,164</u>
STOCKHOLDERS' EQUITY:			
Capital stock (Note 16) - Common stock	1,276,000	1,627,200	46,598
Capital surplus - additional paid-in capital - common stock (Note 16).....	832,812	832,812	23,849
Retained earnings (Note 17):			
Legal reserve.....	—	96,273	2,757
Accumulated (deficit) earnings	727,721	1,056,277	30,248
Unrealized valuation loss on long-term investments.....	—	(107)	(3)
Cumulative translation adjustments (Note 2).....	304	2,540	73
Total stockholders' equity	<u>2,836,837</u>	<u>3,614,995</u>	<u>103,522</u>
TOTAL	<u>\$6,856,854</u>	<u>\$7,496,805</u>	<u>\$214,686</u>

See notes to financial statements.

**HIGH TECH COMPUTER CORP.
STATEMENTS OF OPERATIONS**

NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2001 AND 2002

**(Expressed in Thousands of New Taiwan Dollars and in Thousands of United States Dollars,
Earnings Per Share Expressed in New Taiwan Dollars and in United States Dollars)**

	UNAUDITED		
	2001	2002	
	NTD	NTD	USD
REVENUES:			
Gross sales.....	\$11,162,935	\$13,289,960	\$380,583
Less sales returns and discounts.....	(231,162)	(59,035)	(1,691)
NET SALES.....	10,931,773	13,230,925	378,892
OTHER REVENUES.....	284,738	562,868	16,119
Total revenues.....	11,216,511	13,793,793	395,011
COST OF REVENUES (Note 21).....	9,675,225	11,571,600	331,375
GROSS PROFIT.....	1,541,286	2,222,193	63,636
OPERATING EXPENSES (Note 21):			
Administrative and selling expenses.....	325,024	521,071	14,922
Research and development expenses.....	368,339	500,355	14,328
Total operating expenses.....	693,363	1,021,426	29,250
INCOME FROM OPERATIONS.....	847,923	1,200,767	34,386
NON-OPERATING INCOME:			
Interest income.....	2,274	858	24
Investment gains on equity-method.....	—	2,825	81
Gain on sale of property, plant and equipment.....	—	612	18
Gain on sale of investments.....	371	373	11
Foreign currency exchange gain.....	103,771	—	—
Other.....	90,494	383,774	10,990
Total non-operating income.....	196,910	388,442	11,124
NON-OPERATING EXPENSES:			
Interest expense.....	54,879	32,238	923
Investment losses on equity-method.....	11,149	—	—
Losses on disposal of property, plant and equipment.....	16,934	—	—
Losses on physical inventory.....	9,544	1,215	35
Foreign currency exchange loss.....	—	351,794	10,074
Provision for loss on decline in value of inventory.....	188,179	440,584	12,617
Other.....	14,047	10,550	302
Total non-operating expenses.....	294,732	836,381	23,951
INCOME BEFORE INCOME TAX.....	750,101	752,828	21,559
INCOME TAX EXPENSE (Notes 2 and 18).....	(22,380)	(41,573)	(1,191)
NET INCOME.....	<u>\$ 727,721</u>	<u>\$ 711,255</u>	<u>\$ 20,368</u>
PRIMARY EARNINGS PER SHARE BEFORE INCOME TAX (Note 19) ..	<u>\$ 4.67</u>	<u>\$ 4.63</u>	<u>\$ 0.13</u>
PRIMARY EARNINGS PER SHARE AFTER INCOME TAX.....	<u>\$ 4.53</u>	<u>\$ 4.37</u>	<u>\$ 0.13</u>

See notes to financial statements.

HIGH TECH COMPUTER CORP.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2001 AND 2002
(Expressed in Thousands of New Taiwan Dollars and in Thousands of United States Dollars)

	UNAUDITED							
	Capital Stock		Retained Earnings			Cumulative Translation Adjustments	Unrealized Valuation Loss on Long-Term Investments	Total
	Common Stock	Capital Surplus Additional Paid-in Capital	Legal Reserve	Accumulated Earnings (Deficit)				
		Common Stock						
BALANCE, JANUARY 1, 2001	NT\$1,250,000	NT\$750,000	NT\$ —	NT\$(316,288)	NT\$—	NT\$(22)	NT\$1,683,690	
Transfer of capital surplus to recover accumulated deficit.....		(316,288)		316,288			—	
Issuance of common stock	26,000	399,100					425,100	
Net income for the nine-month period ended September 30, 2001				727,721			727,721	
Cumulative translation adjustments						326	326	
BALANCE, SEPTEMBER 30, 2001..	<u>1,276,000</u>	<u>832,812</u>	<u>—</u>	<u>727,721</u>	<u>—</u>	<u>304</u>	<u>2,836,837</u>	
BALANCE, JANUARY 1, 2002	1,276,000	832,812	—	962,728	—	2,044	3,073,584	
Appropriation and distribution of 2001 net earnings:								
Legal reserve.....			96,273	(96,273)			—	
Stock dividend issued.....	255,200			(255,200)			—	
Transfer of employees bonuses to capital stock.....	96,000			(96,000)			—	
Employees bonuses.....				(33,968)			(33,968)	
Cash dividend.....				(127,600)			(127,600)	
Director's remuneration				(8,665)			(8,665)	
Net income for the nine-month period ended September 30, 2002				711,255			711,255	
Cumulative translation adjustments						496	496	
Unrealized valuation loss on long-term investments.....					(107)		(107)	
BALANCE, SEPTEMBER 30, 2002..	<u>NT\$1,627,200</u>	<u>NT\$832,812</u>	<u>NT\$96,273</u>	<u>NT\$1,056,277</u>	<u>NT\$(10)</u>	<u>NT\$2,540</u>	<u>NT\$3,614,995</u>	
BALANCE, JANUARY 1, 2002	US\$36,541	US\$23,849	US\$ —	US\$27,569	US\$—	US\$59	US\$88,018	
Appropriation and distribution of 2001 net earnings:								
Legal reserve.....			2,757	(2,757)			—	
Stock dividend issued.....	7,308			(7,308)			—	
Transfer of employees bonuses to capital stock.....	2,749			(2,749)			—	
Employees bonuses.....				(973)			(973)	
Cash dividend.....				(3,654)			(3,654)	
Director's remuneration				(248)			(248)	
Net income for the nine-month period ended September 30, 2002				20,368			20,368	
Cumulative translation adjustments						14	14	
Unrealized valuation loss on long-term investments.....					(3)		(3)	
BALANCE, SEPTEMBER 30, 2002..	<u>US\$46,598</u>	<u>US\$23,849</u>	<u>US\$2,757</u>	<u>US\$30,248</u>	<u>US\$(3)</u>	<u>US\$73</u>	<u>US\$103,522</u>	

See notes to financial statements.

HIGH TECH COMPUTER CORP.
STATEMENTS OF CASH FLOWS
NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2001 AND 2002
(Expressed in Thousands of New Taiwan Dollars and in Thousands of United States Dollars)

	UNAUDITED		
	2001	2002	
	NTD	NTD	USD
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 727,721	\$ 711,255	\$ 20,368
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation.....	182,133	265,443	7,601
Amortization.....	20,452	51,355	1,471
Loss (gain) on disposal of property, plant and equipment	16,934	(612)	(18)
Investment losses (gains) on equity-method.....	11,149	(2,825)	(81)
Changes in assets and liabilities provided (used) cash:			
Notes receivable.....	115	(359,818)	(10,304)
Accounts receivable.....	(392,390)	143,194	4,101
Accounts receivable from related parties.....	(3,334)	(940)	(27)
Inventories.....	(577,780)	1,384	40
Prepayments.....	53,730	(7,907)	(226)
Other current assets.....	16,750	(19,745)	(565)
Notes and accounts payable.....	(616,101)	296,702	8,497
Notes and accounts payable due to related parties.....	3,923	988	28
Accrued expenses.....	91,635	48,533	1,390
Income tax payable.....	91,439	5,018	144
Other current liabilities.....	133,709	123,180	3,527
Deferred income tax asset - current.....	(19,492)	(113,995)	(3,265)
Deferred income tax asset - noncurrent	(49,804)	62,811	1,799
Long-term notes payable	2,231	—	—
Accrued pension cost.....	1,722	4,410	126
Short-term investment.....	(186,429)	—	—
Total adjustments.....	(1,219,408)	497,176	14,238
Net cash (used in) provided by operating activities	(491,687)	1,208,431	34,606
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	(1,344,750)	(279,451)	(8,003)
Proceeds from sales of property, plant and equipment.....	105	1,213	35
Increase in long-term investments.....	(8,509)	(5,888)	(169)
Decrease (increase) in refundable deposits.....	439	(47)	(1)
Increase in deferred charges.....	(304,565)	(14,339)	(411)
Increase in payable on forward exchange contracts.....	8,523	13,521	387
Decrease in option contracts payable	(61,841)	(40,172)	(1,150)
Net cash used in investing activities	(1,710,598)	(325,163)	(9,312)

HIGH TECH COMPUTER CORP.
STATEMENTS OF CASH FLOWS (continued)
NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2001 AND 2002
(Expressed in Thousands of New Taiwan Dollars and in Thousands of United States Dollars)

	UNAUDITED		
	2001	2002	
	NTD	NTD	USD
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (decrease) in short-term borrowings	1,566,246	(161,887)	(4,636)
Net increase (decrease) in short-term commercial bills.....	556,782	(398,607)	(11,415)
Decrease in long-term debts.....	(553,955)	(498)	(14)
Decrease in guarantee deposits received	(315)	—	—
Issuance of common stock	425,100	—	—
Cash dividend	—	(127,600)	(3,654)
Net cash provided by (used in) financing activities	<u>1,993,858</u>	<u>(688,592)</u>	<u>(19,719)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS ...	(208,427)	194,676	5,575
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>231,212</u>	<u>16,278</u>	<u>466</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 22,785</u>	<u>\$ 210,954</u>	<u>\$ 6,041</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION -			
Cash paid during the period for:			
Interest (net of amounts capitalized).....	<u>\$ 58,401</u>	<u>\$ 30,533</u>	<u>\$ 874</u>
Income tax	<u>\$ 237</u>	<u>\$ 87,708</u>	<u>\$ 2,512</u>
NON CASH INVESTING AND FINANCING ACTIVITIES:			
Transfer of long-term debts to current portion of long-term debts	<u>\$ —</u>	<u>\$ 55,890</u>	<u>\$ 1,601</u>
Transfer of cost of property, plant and equipment to deferred charges	<u>\$ —</u>	<u>\$ 6,043</u>	<u>\$ 173</u>
PURCHASE OF PROPERTY, PLANT AND EQUIPMENT:			
Cost of property, plant and equipment purchased	\$1,346,331	\$ 249,541	\$ 7,146
(Increase) decrease in payable for purchase of equipment	<u>(1,581)</u>	<u>29,910</u>	<u>857</u>
Cash paid for purchase of property, plant and equipment	<u>\$1,344,750</u>	<u>\$ 279,451</u>	<u>\$ 8,003</u>
BONUS TO EMPLOYEES AND DIRECTORS' REMUNERATION:			
Appropriation of cash dividend, bonus to employees and directors' remuneration.....	\$ —	\$ 42,633	\$ 1,221
Increase in payable for cash dividend, bonus to employees and directors' remuneration.....	<u>—</u>	<u>(42,633)</u>	<u>(1,221)</u>
Cash paid	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

See notes to financial statements.

HIGH TECH COMPUTER CORP.
NOTES TO FINANCIAL STATEMENTS
NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2001 AND 2002
(Amounts are Expressed in Thousands (Unless Otherwise Stated) of New Taiwan Dollars and
in Thousands of United States Dollars, Per Share Data Expressed in New Taiwan Dollars and
in United States Dollars)

1. ORGANIZATION AND OPERATIONS

High Tech Computer Corporation (the "Company") was incorporated on May 15, 1997, under the Company Law of Republic of China, to engage in the designing, assembling, and manufacturing of Pocket PC and selling of other peripheral computer equipment. In 1998, the Company's common stock was initially publicly offered and in March 2002, listed on the Taiwan Stock Exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Translations of New Taiwan (NT) Dollars into United States (US) Dollars

The Company maintains its accounts and expresses its financial statements in NT dollars. The translation of the NT dollars financial statements as of and for nine-month period ended September 30, 2002 into US dollars is solely for the convenience of the reader using the noon buying rate in the City of New York for cable transfers in NT dollars per US dollar as certified for customs purposes by the Federal Reserve Bank of New York as of September 30, 2002, which was NT\$34.92 = US\$1.00 at that date. The convenience translations should not be construed as representations that the NT dollar amounts have been, could have been or could in the future be, converted into US dollars at this or any other exchange rate.

Cash Equivalents

Cash equivalents consist primarily of bankers' acceptance and commercial paper which are highly liquid investments with a maturity of three months or less at the date of acquisition.

Short-term Investments

Short-term investments include investments in marketable equity securities and mutual funds, which are carried at the lower of cost or market. The net change on the investment valuation allowance used in the determination of net income is the result of changes in the difference between aggregate costs and market values of investments still held at the respective year end. The cost of investments sold is determined using the moving average method. Stock dividends received are not recognized as income; instead, they are reflected as an increase in the number of shares held in the investee.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is generally provided for notes and accounts receivable due from unrelated and related parties based on management's evaluation of the collectibility of individual accounts, past loss experience, and other pertinent factors.

Inventories

Inventories are stated at the lower of cost or market ("LCM"). Cost is determined using the moving average method. Market value is based on replacement cost, except for finished goods which is valued based on net realizable values. The LCM method is applied to each inventory category.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Interest incurred in connection with the purchase or construction of property, plant and equipment is capitalized. Major renewals and betterments are capitalized, while maintenance and repairs are expensed in the period incurred.

Depreciation is provided on a straight-line basis over the estimated service lives of the assets plus one additional year for salvage value.

HIGH TECH COMPUTER CORP.
NOTES TO FINANCIAL STATEMENTS (continued)
NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2001 AND 2002
(Amounts are Expressed in Thousands (Unless Otherwise Stated) of New Taiwan Dollars and
in Thousands of United States Dollars, Per Share Data Expressed in New Taiwan Dollars and
in United States Dollars)

Long-Term Investments

Investments in companies in which the Company's ownership interest is 20% or more, except where the Company cannot exercise significant influence, are accounted for based on the equity method of accounting. Payment in excess of the proportionate net book value, at the time of investment, of the investee accounted for under the equity method is amortized over five years. All other long-term investments are valued at cost except for investments in listed companies, which are stated at the lower of cost or market value. Permanent decline in value of investments that is not readily marketable is recognized as realized loss. The cost of an investment sold is determined using the weighted-average method.

Deferred Charges

Deferred charges consist of telephone installation charges, computer software and deferred license fees. Installation charges and computer software are amortized on a straight-line basis over three years, and deferred license fees are amortized over ten years.

Employee Retirement Plan

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 18, "Accounting for Pensions," issued by the Accounting Research and Development Foundation of the ROC.

The Company has a pension plan covering all eligible employees in accordance with the Labor Standards Law of the Republic of China ("ROC"). The contributions to the plan are made by the Company based on 2% of employee salaries and wages. The funds are deposited with the Central Trust of China, a government-designated custodian of pension funds, and are managed by the Pension Fund Administration Committee.

The pension fund balance was NT\$18,337 and NT\$37,798 at September 30, 2001 and 2002, respectively.

According to SFAS No. 23, "Interim Financial Reporting and Disclosures," the interim financial statements are not required to follow the principles in the SFAS No. 18, i.e., the Company did not remeasure the minimum pension liability and pension cost for current interim period.

Income Tax

The Company adopted the provisions of SFAS No. 22, "Accounting for Income Tax," which require an asset and liability approach to financial accounting and reporting for income tax. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense or benefit is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Adjustment of prior years' income tax is added to current income tax expense in the year the adjustment is made.

Under the Amended Income Tax Law of the ROC, the 25% regular corporate income tax and the 20% separate income tax on interest income from short-term investments remain and a 10% additional income tax is levied on distributable earnings earned in 1998 onward that remain undistributed in the following year. Beginning from 1998, every enterprise (except branch, partnership, and not-for-profit organization) is required to maintain an Imputation Credit Account ("ICA") to keep track of all its income taxes paid and income tax credits received, collectively called Imputation Credit ("IC"), and the allocation of IC to shareholders. When the earnings are distributed as cash or stock dividends to:

- (a) resident individual shareholders ("RIS"), the RIS include the dividend income in their taxable income and claim an IC issued by the enterprise as deduction from their income tax payable;

HIGH TECH COMPUTER CORP.
NOTES TO FINANCIAL STATEMENTS (continued)
NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2001 AND 2002
(Amounts are Expressed in Thousands (Unless Otherwise Stated) of New Taiwan Dollars and
in Thousands of United States Dollars, Per Share Data Expressed in New Taiwan Dollars and
in United States Dollars)

- (b) non-resident individual or non-resident corporate shareholders (“NRS”), the NRS exclude the dividend income from their taxable income and do not claim an IC; dividends paid to NRS are subject to 20% withholding tax which can be offset by the 10% additional income tax paid on undistributed earnings;
- (c) resident corporate shareholders (“RCS”), the RCS exclude the dividend income from their taxable income and do not claim the IC as deduction from income tax payable; the IC received is added to the RCS’ own ICA until the IC is allocated to RIS or NRS when the earnings are finally distributed to RIS or NRS.

Foreign Currency Transactions

Foreign currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses caused by different foreign exchange rates applied when cash in foreign currency is actually converted into New Taiwan dollars, or when the foreign currency receivables or payables are settled, are credited or charged against income in the period of actual conversion or settlement. Balances of assets and liabilities denominated in foreign currencies are translated at the balance sheet date exchange rate and any resulting gains or losses are credited to or charged against current income.

Derivative Financial Instruments

Forward exchange contracts that are designated and effective as a hedge of net foreign asset or liability positions are recorded at the contract date exchange rate. The premium or discount on the forward contract, which is the difference between the forward rate and the spot rate on the contract date multiplied by the principal amount of foreign currency, is separately accounted for and amortized to current income over the term of the contract. At year-end, existing forward exchange contracts are restated at the year-end exchange rates, and resulting gains or losses are credited or charged to current income. At closing dates of forward exchange contracts, the difference between the forward rate and the spot rate is credited or charged to current income. Receivables or payables from forward exchange contracts are shown on the accompanying balance sheets in net balance.

Premiums received on short positions or paid on long positions of foreign exchange option contracts, which are treated as non-trading activities for financial reporting purposes, are included in other current liabilities or other current assets. Gain or loss from the execution of the foreign currency option contracts are credited to or charged against current income. The option contract is measured at the balance sheet date using the market value, and any gain or loss is credited to or charged against current income.

Non-Derivative Financial Instruments

The recognition and valuation of non-derivative financial assets and liabilities and their related income or expenses are in accordance with the Company’s accounting policies described herein and accounting principles generally accepted in the Republic of China.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at September 30, 2001 and 2002 consisted of the following:

	<u>2001</u>	<u>2002</u>	
	NTD	NTD	USD
Cash on hand.....	\$ 392	\$ 493	\$ 14
Cash in banks.....	12,037	210,461	6,027
Time certificates of deposit	10,356	—	—
Total	<u>\$22,785</u>	<u>\$210,954</u>	<u>\$6,041</u>

HIGH TECH COMPUTER CORP.
NOTES TO FINANCIAL STATEMENTS (continued)
NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2001 AND 2002
(Amounts are Expressed in Thousands (Unless Otherwise Stated) of New Taiwan Dollars and
in Thousands of United States Dollars, Per Share Data Expressed in New Taiwan Dollars and
in United States Dollars)

4. SHORT-TERM INVESTMENTS

Short-term investments at September 30, 2001 and 2002 consisted of the following:

	<u>2001</u>	<u>2002</u>	
	NTD	NTD	USD
Marketable equity securities.....	\$188,400	\$ —	\$ —
Less valuation allowance.....	<u>—</u>	<u>—</u>	<u>—</u>
Short-term investments.....	<u>\$188,400</u>	<u>\$ —</u>	<u>\$ —</u>

5. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable at September 30, 2001 and 2002 were as follows:

	<u>2001</u>	<u>2002</u>	
	NTD	NTD	USD
Notes receivable	\$ 831	\$ 360,633	\$10,327
Accounts receivable	1,926,577	2,420,746	69,323
Less allowance for doubtful accounts.....	(68,126)	(4,452)	(128)
Less allowance for sales returns.....	<u>(2,924)</u>	<u>—</u>	<u>—</u>
Accounts receivable, net.....	<u>\$1,856,358</u>	<u>\$2,776,927</u>	<u>\$79,522</u>

6. INVENTORIES

Inventories at September 30, 2001 and 2002 consisted of the following:

	<u>2001</u>	<u>2002</u>	
	NTD	NTD	USD
Finished goods.....	\$ 173,403	\$ 63,781	\$ 1,826
Work-in-process	868,584	994,646	28,484
Raw materials	<u>1,190,790</u>	<u>1,078,357</u>	<u>30,881</u>
Subtotal	2,232,777	2,136,784	61,191
Less valuation allowance.....	<u>(258,710)</u>	<u>(533,653)</u>	<u>(15,282)</u>
Inventories.....	<u>\$1,974,067</u>	<u>\$1,603,131</u>	<u>\$ 45,909</u>

Insurance coverage for the inventories at September 30, 2001 and 2002 amounted to NT\$2,300,000.

HIGH TECH COMPUTER CORP.
NOTES TO FINANCIAL STATEMENTS (continued)
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7. PREPAYMENTS

Prepayments at September 30, 2001 and 2002 consisted of the following:

	<u>2001</u>	<u>2002</u>	
	NTD	NTD	USD
Prepayments for royalty (Note 24)	\$109,529	\$120,302	\$3,445
Prepayments for material purchases.....	17,635	18,241	523
Others.....	4,415	13,802	395
Total	<u>\$131,579</u>	<u>\$152,345</u>	<u>\$4,363</u>

8. OTHER CURRENT ASSETS

Other current assets at September 30, 2001 and 2002 consisted of the following:

	<u>2001</u>	<u>2002</u>	
	NTD	NTD	USD
Income tax refunds receivable.....	\$ 409	\$ 315	\$ 9
Value-added tax refunds receivable.....	5,075	16,033	459
Other receivable	18,938	43,043	1,233
Deferred income tax asset (see Note 18)	48,408	147,897	4,235
Receivable on forward exchange contracts, net (see Note 20)	52	—	—
Others.....	—	440	13
Total	<u>\$72,882</u>	<u>\$207,728</u>	<u>\$5,949</u>

9. LONG-TERM INVESTMENTS

Long-term investments at September 30, 2001 and 2002 consisted of the following:

Investee	<u>2001</u>		<u>2002</u>				
	Carrying		Original Cost		Carrying Value		Ownership
	Value	Ownership	NTD	USD	NTD	USD	
	NTD	%	NTD	USD	NTD	USD	%
Under the equity method:							
H.T.C. (B.V.I.) Corp.....	\$2,811	100.00	\$22,826	\$654	\$ 9,742	\$279	100.00
Auto Hi-Tech Computer Corp.....	4,031	20.00	4,000	114	4,070	117	20.00
Prepayments for long-term investments -							
H.T.C. (B.V.I.) Corp.....	—	—	2,433	70	2,433	70	—
Under LCM method -							
VIA Technologies, Inc.	<u>1,971</u>	—	<u>1,971</u>	<u>56</u>	<u>1,864</u>	<u>53</u>	—
Total	<u>\$8,813</u>		<u>\$31,230</u>	<u>\$894</u>	<u>\$18,109</u>	<u>\$519</u>	

In September 2000, the Company invested NT\$12,834 and acquired a 100% ownership interest in H.T.C (B.V.I.) Corp., and accounted for such investment under the equity method. At the end of September 2002, the Company increased such investment to NT\$22,826. In the third quarter of 2002, the Company increased its investment by an amount of NT\$2,433 which was reflected as a prepayment for H.T.C. (B.V.I.) Corp., because the registration process had not finished.

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In December 2000, the Company invested NT\$4,000 and acquired a 20% ownership interest in Auto Hi-Tech Computer Corp., and accounted for such investment under the equity method.

Financial statements of equity affiliates were not examined by independent auditors. Equity in net loss or gain of affiliates amounted to NT\$11,149 and NT\$2,825 for the nine-month periods ended September 30, 2001 and 2002, respectively.

In June 2001, due to the intention of holding shares of VIA Technologies, Inc. over a long period of time, the Company reclassified it from short-term investments to long-term investments.

10. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at September 30, 2001 and 2002 consisted of the following:

	2001		2002		
	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NTD	NTD	NTD	NTD	USD
Land	\$ 176,599	\$ 224,244	\$ —	\$ 224,244	\$ 6,422
Buildings and structures	691,874	764,624	74,033	690,591	19,776
Machinery and equipment.....	961,213	1,257,426	369,622	887,804	25,424
Molding equipment	70,068	242,323	131,397	110,926	3,177
Computer equipment.....	72,172	115,372	49,313	66,059	1,891
Transportation equipment	453	1,315	281	1,034	30
Furniture and fixtures.....	53,212	83,204	29,434	53,770	1,540
Leasehold improvements	5,514	10,231	4,013	6,218	178
Prepayments on construction-in-progress and equipment-in-transit	121,169	157,250	—	157,250	4,503
Total	<u>\$2,152,274</u>	<u>\$2,855,989</u>	<u>\$658,093</u>	<u>\$2,197,896</u>	<u>\$62,941</u>

In August 1998, the Company acquired a parcel of land from Goodyear (Taiwan) Co., to be used as a construction site for a factory and office building for NT\$174,131. The development project was completed in February 2001.

Insurance coverage for property, plant and equipment, excluding land, at September 30, 2001 and 2002 amounted to NT\$1,792,000 and NT\$1,866,154, respectively.

Interest capitalized for construction of factory and office building and machinery and equipment for the nine-month periods ended September 30, 2001 and 2002 amounted to NT\$16,350 and NT\$1,945, respectively.

See Note 22 for the details on property, plant and equipment pledged as collateral for short-term borrowings and long-term debts.

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11. SHORT-TERM BORROWINGS

Short-term borrowings at September 30, 2001 and 2002 were comprised of the following:

	2001		2002		
	Interest Rate (Fixed)	Amount NTD	Interest Rate (Fixed)	Amount NTD	USD
Material procurement loans	1.05%~4.40%	\$ 406,696	0.5850%	\$ 75	\$ 2
Unsecured loans	4.00%~4.60%	1,550,700	0.90%~2.40%	1,017,386	29,135
Total		<u>\$1,957,396</u>		<u>\$1,017,461</u>	<u>\$29,137</u>

See Note 22 for the details on property, plant and equipment pledged as collateral for short-term borrowings and long-term debts.

12. SHORT-TERM COMMERCIAL BILLS

Short-term commercial bills at September 30, 2001 and 2002 were comprised of the following:

	2001		2002		
	Interest Rate (Fixed)	Amount NTD	Interest Rate (Fixed)	Amount NTD	USD
Commercial paper	3.28%~4.15%	\$800,100	2.30%	\$50,000	\$1,432
Less discount		(654)		(58)	(2)
Net.....		<u>\$799,446</u>		<u>\$49,942</u>	<u>\$1,430</u>

13. ACCRUED EXPENSES

Accrued expenses at September 30, 2001 and 2002 consisted of the following:

	2001	2002	
	NTD	NTD	USD
Salaries & bonuses	\$130,447	\$161,174	\$4,616
Insurance	6,672	13,637	390
Interest.....	—	1,566	45
Professional fees	19,611	3,558	102
Royalties (see Note 24)	—	38,138	1,092
Others.....	68,699	88,418	2,532
Total	<u>\$225,429</u>	<u>\$306,491</u>	<u>\$8,777</u>

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14. OTHER CURRENT LIABILITIES

Other current liabilities at September 30, 2001 and 2002 consisted of the following:

	2001	2002	
	NTD	NTD	USD
Advance receipts.....	\$ 17,797	\$ 31,661	\$ 907
Reserve for warranty expenses.....	82,857	69,498	1,990
Receipts for custody.....	2,374	36,826	1,054
Payable on forward contracts, net (see Note 20).....	—	13,521	387
Payable on option contracts (see Note 20).....	17,250	21,669	621
Employee bonus payable.....	—	33,968	973
Directors' remuneration.....	—	8,665	248
Other.....	26,986	258	7
Total.....	<u>\$147,264</u>	<u>\$216,066</u>	<u>\$6,187</u>

15. LONG-TERM DEBTS

A summary of long-term debts at September 30, 2001 and 2002 was as follows:

	2001	2002	
	NTD	NTD	USD
Secured loan from First Commercial Bank for purchase of automatic machinery. The total borrowing was NT\$130,900, and the interest rate is 3.10% (floating) on September 30, 2002. Principal and interest payments were counted monthly under annuity method.	\$ —	\$ 95,869	\$ 2,746
Secured loan from First Commercial Bank for purchase of automatic machinery. The total borrowing is JPY108,900 thousand, and the interest rate is at 1.154% on September 30, 2002. Principal payments are due in 30 equal quarterly installments commencing on October 15, 2002.	—	31,102	891
Subtotal.....	—	126,971	3,637
Less current portion of long-term liabilities.....	—	(55,890)	(1,601)
Long-term debts.....	<u>\$ —</u>	<u>\$ 71,081</u>	<u>\$ 2,036</u>

See Note 22 for assets pledged of collateral for long-term debts.

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16. CAPITAL STOCK

The Company's outstanding common stock at January 1, 2001 amounted to NT\$1,250,000, divided into 125,000,000 shares at NT\$10 par value each. In June of 2001, the Company issued 2,600,000 shares of NT\$10 par value common stock at NT\$163.5 per share through cash subscription; NT\$399,100 of the additional paid-in capital from the issuance of such common stock were accounted for as "capital surplus." The Company's outstanding common stock at September 30, 2001 amounted to NT\$1,276,000, divided into 127,600,000 shares at NT\$10 par value each.

In March 2002, the stockholders approved to transfer retained earnings amounting to NT\$255,200 and employees bonuses amounting to NT\$96,000 to capital stock. As a result, the Company's outstanding common stock at September 30, 2002 was increased to NT\$1,627,200, divided into 162,720,000 common shares at NT\$10 par value each.

17. APPROPRIATION OF RETAINED EARNINGS AND DIVIDEND POLICY

According to the Company Law of the ROC and the Company's Articles of Incorporation, 10% of the Company's annual earnings, after paying tax and offsetting deficit, if any, shall first be appropriated to legal reserve until such reserve equals the amount of common stock.

The remaining balance shall be appropriated 1% as bonuses to directors and supervisors, and no less than 5% as bonuses to employees.

The appropriation of retained earnings should be proposed by the board of directors and approved by the stockholders in their annual meeting.

In 2001, the Company transferred NT\$316,288 of capital surplus to cover accumulated deficit.

The Company engages in a technology and capital-intensive industry and is in the development stage of industry cycle. Under the consideration of the current environment around the Company and the characteristics of industry development, the long-term interests of stockholders, maintaining the operating efficiency, and meeting its capital expenditure budget and the financial goals, the Company considers the current operating status and capital expenditure budget of next year to determine the dividends to be paid.

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18. INCOME TAX

The income tax returns for the years through 2000 have been examined and approved by the tax authority.

The Company is exempt from paying corporation income tax on revenue from sales of pocket PC and Smartphones for five consecutive years commencing on April 26, 2001 under the Statute for Upgrading Industries.

Income tax payable at September 30, 2001 and 2002 was computed as follows:

	2001	2002	
	NTD	NTD	USD
Income before income tax.....	\$ 750,101	\$ 752,828	\$ 21,559
Add:			
Unrealized pension cost.....	—	4,410	126
Provision for loss on decline in value of inventory.....	161,169	433,164	12,404
Investment losses on equity-method	11,149	—	—
Excess depreciation allowance	13,500	—	—
Unrealized foreign currency exchange loss, net	42,426	—	—
Unrealized reserve for warranty expense	38,592	60,512	1,733
Capitalize expense.....	15,784	—	—
Less:			
Gain on disposal of investments	(371)	(373)	(11)
Realized pension cost	(728)	—	—
Unrealized foreign currency exchange gain, net	—	(53,290)	(1,526)
Investment gains on equity method	—	(2,825)	(81)
Realized depreciation	—	(14,378)	(411)
Others	(200)	(5,235)	(150)
Total income.....	1,031,422	1,174,813	33,643
Less income exempt from tax	(76,152)	(545,018)	(15,608)
Prior year loss carryforwards.....	(258,053)	—	—
Taxable income	697,217	629,795	18,035
Tax rate	25%	25%	25%
Subtotal	174,304	157,449	4,508
Income tax credit	(10)	(10)	—
Estimated income tax provision	174,294	157,439	4,508
Unappropriated earnings (additional 10% income tax)	9,057	34,234	980
Less investment research and development tax credits	(91,675)	(95,837)	(2,744)
Current income tax expense.....	91,676	95,836	2,744
Less prepaid and withheld income tax.....	(237)	(47)	(1)
Income tax payable	<u>\$ 91,439</u>	<u>\$ 95,789</u>	<u>\$ 2,743</u>

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The tax effects of deductible temporary differences and loss and tax credit carryforwards that gave rise to deferred tax assets as of September 30, 2001 and 2002 consisted of the following:

	<u>2001</u>	<u>2002</u>	
	NTD	NTD	USD
Temporary differences:			
Unrealized pension cost.....	\$ 3,427	\$ 4,271	\$ 122
Unrealized loss on disposal of property, plant and equipment.....	3,375	4,100	117
Provision for loss on decline in value of inventory.....	64,677	133,413	3,821
Capitalize expense.....	4,873	14,298	409
Unrealized foreign currency exchange loss	4,138	—	—
Unrealized reserve for warranty expense	20,714	15,128	433
Other.....	3,448	16	1
Tax credit carryforwards.....	<u>199,868</u>	<u>325,746</u>	<u>9,328</u>
Total deferred tax asset.....	304,520	496,972	14,231
Less valuation allowance.....	<u>(161,351)</u>	<u>(298,643)</u>	<u>(8,552)</u>
Total deferred tax asset, net.....	143,169	198,329	5,679
Deferred tax liability - Unrealized foreign currency exchange gain, net.....	—	<u>(9,707)</u>	<u>(278)</u>
	143,169	188,622	5,401
Less current portion.....	<u>(48,407)</u>	<u>(147,898)</u>	<u>(4,235)</u>
Deferred tax assets - noncurrent	<u>\$ 94,762</u>	<u>\$ 40,724</u>	<u>\$ 1,166</u>

Details of the tax credit carryforwards:

Year Occur	Period of Validity	<u>2001</u>	<u>2002</u>	
		NTD	NTD	USD
1999.....	1999~2003	\$ —	\$ 49,092	\$1,406
2000.....	2000~2004	56,699	79,780	2,284
2001.....	2001~2005	143,169	155,563	4,455
2002.....	2002~2006	—	41,311	1,183
		<u>\$199,868</u>	<u>\$325,746</u>	<u>\$9,328</u>

According to the Income Tax Law of ROC, the investment research and development tax credits can be carried forward for five years. The total credits used in each year can not be over half of estimated income tax provision, except for the expiry year.

Valuation allowance is provided based on management's evaluation of the amount of tax credits that can be carried forward for five years, and the Company's financial forecasts.

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The income tax expense for the nine-month periods ended September 30, 2001 and 2002 consisted of the following:

	2001		2002	
	NTD	NTD	NTD	USD
Current income tax expense	\$ 91,676	\$ 95,836	\$ 95,836	\$ 2,744
Increase in deferred income tax assets	(69,296)	(51,184)	(51,184)	(1,466)
Over estimation of prior year's income tax	—	(3,079)	(3,079)	(87)
Income tax expense	<u>\$ 22,380</u>	<u>\$ 41,573</u>	<u>\$ 41,573</u>	<u>\$ 1,191</u>

The related information for the integrated income tax system is disclosed as follows:

	2001		2002	
	NTD	NTD	NTD	USD
Balance of imputation credit account	\$ 254	\$ 88,058	\$ 88,058	\$ 2,522
Unappropriated earnings attributed to 1998 and years after	727,721	1,056,668	1,056,668	30,248
Expected creditable ratio (including income tax payable)	12.60%	17.01%	17.01%	17.01%

19. EARNINGS PER SHARE

Before tax and after tax earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding during each year. The weighted average number of shares used in the calculation of earnings per share was 160,631,000 and 162,720,000 for the nine-month periods ended 2001 and 2002, respectively. Earnings per share for the nine-month period ended September 30, 2001 was calculated after giving retroactive effect of the stock dividend distribution in 2002.

20. FINANCIAL INSTRUMENTS

In accordance with the Approval Documents (85) Tai-Tsai-Tseng (6) No. 00263 of Securities and Futures Commission of ROC and Statement of Financial Accounting Standards No. 27 "Disclosure of Financial Instruments," the Company discloses related information as follows:

Amount of Contract and Credit Risk

Forward Exchange Contracts

	September 30			
	2001		2002	
	Contract Amount	Credit Risk	Contract Amount	Credit Risk
Forward exchange contracts	<u>US\$15,370</u>	<u>US\$—</u>	<u>US\$17,000</u>	<u>US\$—</u>

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Foreign Currency Option Contracts

September 30, 2001						
Buy/Sell	Trade Date	Expiry Date	Call/Put	Contract Amount	Strike Rate	Credit Risk
Sell	2001.09.06~ 2001.09.28	2001.12.17~ 2002.03.29	USD/JPY	US\$12,400	116.00~120.60	—
Sell	2001.07.09~ 2001.09.13	2002.01.09~ 2002.03.14	JPY/USD	US\$ 7,530	118.00~124.00	—
Sell	2001.03.07~ 2001.09.27	2001.10.02~ 2002.09.30	USD/NTD	US\$47,300	34.00~37.00	—
Buy	2001.09.21	2001.12.17	JPY/USD	US\$ 2,000	118.00	—
Buy	2001.08.23	2002.02.25	NTD/USD	US\$ 1,000	34.40	—

September 30, 2002						
Buy/Sell	Trade Date	Expiry Date	Call/Put	Contract Amount	Strike Rate	Credit Risk
Buy	2002.05.31~ 2002.06.28	2002.10.02~ 2003.06.02	JPY/USD	US\$75,000	131.00~131.50	—
Sell	2002.04.02~ 2002.09.27	2002.10.02~ 2003.03.17	JPY/USD	US\$75,750	126.00~134.80	—
Sell	2002.05.31~ 2002.06.01	2003.05.30~ 2003.06.03	USD/NTD	US\$60,000	34.50	—

The Company only deals with banks with good credit, which is according to banks' reputation and the Company's past experience with them. Moreover, the Company has established a series of control procedures for transactions of derivative financial instruments. No credit risks are expected.

Market Risk

Forward exchange contracts and foreign currency options are measured at the balance sheet date using the market value. As of September 30, 2002, the Company has recorded unrealized foreign exchange losses amounted to NT\$35,180.

Liquidity Risk, Cash Flow Risk and the Amount, Timing and Uncertainty of Future Cash Requirements Risk

The Company's foreign currency options will cause a (loss) gain of NT\$(70,463)~NT\$38,802, assuming an exchange rate, based on foreign currency exchange rate forecasts, at NT\$34.00~NT\$35.30 to US\$1 and US\$1 to JPY118~128 for the last quarter of 2002. Because the Company has sufficient working capital to settle those contracts, no future cash requirements risk exist. Meanwhile, because the Company would not intend to sell foreign currency options before maturity dates, no liquidity risk is expected.

Purpose and Category of Financial Instrument Held

The Company held derivative financial instruments for non-trading activity purposes in an attempt to reduce the effect of foreign exchange fluctuations.

Disclosures of Derivative Instruments in the Financial Statements

The receivables and payables generated from foreign currency option and forward exchange contracts shall be offset, and the net balance will be included in other current assets or other current liabilities. As of September 30, 2002, the net balance recorded in other current liabilities was NT\$35,180. Gains and (losses) generated from transactions involving derivative financial instruments for non-trading activities for the nine-month periods ended September 30, 2001 and 2002, amounted to NT\$19,744 and NT\$(354,640), respectively.

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Fair Value of Financial Instruments

Derivative Financial Instruments

	September 30					
	2001		2002			
	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NTD	NTD	NTD	USD	NTD	USD
Assets:						
Forward exchange contracts	\$ 52	\$ 52	\$ —	\$ —	\$ —	\$ —
Liabilities:						
Foreign currency option contracts	17,250	17,250	21,669	621	21,669	621
Forward exchange contracts	—	—	13,521	387	13,521	387

The fair value of derivative financial instruments are the estimated amount that the Company would receive or pay if contracts are closed at the balance sheet date. The Company obtained quotes from banks to estimate the fair value.

Non-derivative Financial Instruments

	September 30					
	2001		2002			
	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NTD	NTD	NTD	USD	NTD	USD
Assets:						
Cash and cash equivalents.....	\$ 22,785	\$ 22,785	\$ 210,954	\$ 6,041	\$ 210,954	\$ 6,041
Short-term investments.....	188,400	188,456	—	—	—	—
Receivables	1,880,132	1,880,132	2,781,252	79,646	2,781,252	79,646
Other current financial assets.....	24,422	24,422	59,831	1,713	59,831	1,713
Long-term investments	8,813	8,846	18,109	519	18,109	519
Other financial assets	7,331	7,067	811	23	794	23
Liabilities:						
Short-term borrowings and commercial bills	2,756,842	2,756,842	1,067,403	30,567	1,067,403	30,567
Payables	756,521	756,521	2,015,243	57,711	2,015,243	57,711
Current portion of long-term debts.....	—	—	55,890	1,601	55,890	1,601
Other current financial liabilities	427,689	427,689	585,768	16,775	585,768	16,775
Long-term debts	—	—	71,081	2,036	71,081	2,036
Long-term notes payable..	2,231	2,231	2,231	64	2,231	64

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The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

For investments with short maturities, including cash and cash equivalents, receivable, other current financial assets, payables, short-term borrowings and other current financial liabilities, the carrying amount approximated the fair value because of the short maturities of such instruments.

The fair value of long-term investments and short-term investments are measured based on quoted market prices for these instruments. If the securities do not have market prices, fair value is measured based on financial or other information.

The fair value of other financial assets and other financial liabilities are based on the discounted value of the future cash flows expected to be received. The discount rate is based on the average interest rate of time deposits in banks.

The fair value of long-term debts, including current portion, are estimated based on their floating rates that are comparable to current rates of long-term debts with same terms and maturities.

21. RELATED PARTY TRANSACTIONS

The names and relationships of related parties are as follows:

Related Party	Relationship with the Company
First International Computer, Inc. ("FIC")	Chairperson is one of the immediate family members of the Company's chairperson
VIA Technologies, Inc.	Chairperson is the Company's chairperson
Leo Systems, Inc.	One of the directors is the Company's chairperson
Chander Electronics Corp.	Chairperson is the Company's chairperson
FIC Europe B.V.	A subsidiary of FIC

Major transactions with related parties are summarized below:

Purchases of Inventories and Services

Related Party	Nine-Month Periods Ended September 30				
	2001		2002		% of Total Net Purchases
	Amount	% of Total Net Purchases	Amount	% of Total Net Purchases	
	NTD		NTD	USD	
Chander Electronics Corp.	\$2,997	0.03	\$195,766	\$5,606	1.79
Others.....	765	0.01	—	—	—
Total	<u>\$3,762</u>	<u>0.04</u>	<u>\$195,766</u>	<u>\$5,606</u>	<u>1.79</u>

Terms of payment for both related and unrelated parties are similar.

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NOTES TO FINANCIAL STATEMENTS (continued)
NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2001 AND 2002
(Amounts are Expressed in Thousands (Unless Otherwise Stated) of New Taiwan Dollars and
in Thousands of United States Dollars, Per Share Data Expressed in New Taiwan Dollars and
in United States Dollars)

Sales and Services Provided

	Nine-Month Periods Ended September 30				
	2001		2002		
	Amount	% of Total	Amount		% of Total
Related Party	NTD	Revenues	NTD	USD	Revenues
FIC Europe B.V.....	\$ —	—	\$26,329	\$754	0.19
Leo Systems, Inc.	93,920	0.84	6,294	180	0.05
FIC.....	649	0.01	—	—	—
Others.....	387	—	339	10	—
Total	<u>\$94,956</u>	<u>0.85</u>	<u>\$32,962</u>	<u>\$944</u>	<u>0.24</u>

Selling prices and terms of payment for both related and unrelated parties are similar.

Notes and Accounts Receivable

	September 30				
	2001		2002		
	Amount	% of Total	Amount		% of Total
Related Party	NTD	Notes and	NTD	USD	Notes and
		Accounts			Accounts
		Receivable			Receivable
Accounts receivable:					
Leo Systems, Inc.	\$23,753	1.22	\$2,270	\$ 65	0.08
FIC.....	—	—	2,036	58	0.07
Others.....	21	—	19	1	—
Total	<u>\$23,774</u>	<u>1.22</u>	<u>\$4,325</u>	<u>\$124</u>	<u>0.15</u>

Notes and Accounts Payable

	September 30				
	2001		2002		
	Amount	% of Total	Amount		% of Total
Related Party	NTD	Notes and	NTD	USD	Notes and
		Accounts			Accounts
		Payable			Payable
Chander Electronics Corp.	\$2,742	0.36	\$16,891	\$484	0.82
Leo Systems, Inc.	1,181	0.16	—	—	—
Total	<u>\$3,923</u>	<u>0.52</u>	<u>\$16,891</u>	<u>\$484</u>	<u>0.82</u>

HIGH TECH COMPUTER CORP.
NOTES TO FINANCIAL STATEMENTS (continued)
NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2001 AND 2002
(Amounts are Expressed in Thousands (Unless Otherwise Stated) of New Taiwan Dollars and
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Accrued Expenses

	September 30				
	2001		2002		
	Amount	% of Total	Amount		% of Total
Related Party	NTD	Accrued Expenses	NTD	USD	Accrued Expenses
VIA Technologies, Inc.	\$2,021	0.90	\$818	\$23	0.27
Others	371	0.16	—	—	—
Total	<u>\$2,392</u>	<u>1.06</u>	<u>\$818</u>	<u>\$23</u>	<u>0.27</u>

Service Warranty Expense

	Nine-Month Periods Ended September 30				
	2001		2002		
	Amount	% of	Amount		% of
Related Party	NTD	Warranty Expenses	NTD	USD	Warranty Expenses
FIC Europe B.V.....	<u>\$42,702</u>	<u>38.92</u>	<u>\$12,280</u>	<u>\$352</u>	<u>8.67</u>

Service expense resulted from authorizing the above related party to provide after sales service.

Leasing - Lessee

Operating Expense - Rental Expense

	Nine-Month Periods Ended September 30				
	2001		2002		
	Amount	% of	Amount		% of
Related Party	NTD	Rental Expenses	NTD	USD	Rental Expenses
VIA Technologies, Inc.	<u>\$5,293</u>	<u>27.36</u>	<u>\$5,292</u>	<u>\$152</u>	<u>54.13</u>

The Company leases offices owned by VIA Technologies, Inc., and the rental payment was determined based on the prevailing rates in the surrounding area.

Property Transaction

For the nine-month period ended September 2001, the Company acquired computer equipment from Leo Systems, Inc. in the amount of NT\$177.

HIGH TECH COMPUTER CORP.
NOTES TO FINANCIAL STATEMENTS (continued)
NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2001 AND 2002
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22. PLEDGED ASSETS

At September 30, 2001 and 2002, the following assets were pledged to secure short-term borrowings and long-term debts:

	2001	2002	
	NTD	NTD	USD
Machinery and equipment	\$ —	\$298,005	\$8,534

23. COMMITMENTS AND CONTINGENCIES

As of September 30, 2002, outstanding unused letters of credit not reflected in the accompanying financial statements amounted to EUR17, US\$2,255 and JPY12,500.

24. SIGNIFICANT CONTRACT

Patent Agreement

For enhancing the quality of the products and manufacturing technologies, the Company has patent agreements with Texas Instruments France, Microsoft and QUALCOMM Incorporated as follows:

Contractor	Contract period	Description
Texas Instruments France	January 14, 2000 to January 14, 2005	Authorization in using GSM system software. Payment for the royalty is within the schedule of agreement.
Microsoft	December 1, 2000 to August 30, 2003	Authorization in using embedded operating system. Quarterly payment for the royalty.
QUALCOMM Incorporated	December 20, 2000 to the following dates:	
	(a) if the Company shall commit any material breach of any covenant, and shall have failed to remedy such breach within 30 days after written notice thereof by QUALCOMM.	(a) Authorization in using CDMA technology to manufacture and sell units.
	(b) any time when the Company is not using any of QUALCOMM's Intellectual Property, the Company may terminate this agreement upon 60 days' prior written notice to QUALCOMM.	(b) The up-front license fee amounted to US\$7,500 was paid within six months from the effective date of the agreement and was recorded in deferred charges, amortized on a straight-line basis over ten years. Royalty is paid quarterly according to units sold.

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