



SECURITY COVER

OFFERING CIRCULAR

**SINTEK PHOTRONIC CORP.***(Incorporated as a company limited by shares in Taiwan, the Republic of China)***U.S.\$50,000,000****Zero Coupon Convertible Bonds due 2008****Issue Price: 100 percent**

The U.S.\$50,000,000 Zero Coupon Convertible Bonds due 2008 (the "Bonds") will be issued in registered form by SINTEK PHOTRONIC CORP. (the "Company"). Unless previously purchased and cancelled, converted or redeemed, the Bonds will be redeemed on March 12, 2008 at their principal amount. See "Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation".

The Bonds may be redeemed, in whole or in part, at the option of the Company at any time after March 12, 2005, at their Early Redemption Amount (as defined herein) (i) if the Closing Price (as defined herein) of the common shares, par value NT\$10 per share, of the Company (the "Shares") on the Taiwan Stock Exchange ("TSE") translated into U.S. dollars at the Prevailing Rate (as defined herein) on each of the 20 consecutive Trading Days (as defined herein), the last of which occurs not more than 10 days prior to the date upon which notice of such redemption is published, is at least 130 percent of the Conversion Price (as defined herein) of the Bonds then in effect, translated into U.S. dollars at the Fixed Exchange Rate (as defined herein) on each such Trading Day or (ii) if more than 90 percent in principal amount of the Bonds have already been redeemed, converted, or purchased and cancelled. The Bonds may also be redeemed in whole but not in part, at any time at the option of the Company at their Early Redemption Amount in the event that certain changes relating to the Republic of China ("ROC" or "Taiwan") taxation have been made which will result in additional costs to the Company. The Company will, at the option of the holder of any Bond (the "Bondholder"), redeem such Bonds on March 12, 2005 and March 12, 2006 at 106.01 percent and 109.15 percent, respectively, of their principal amount. In addition, a Bondholder shall have the right to require the Company to purchase all (but not less than all) of such Bondholder's Bonds in the event the Shares cease to be listed or admitted to trading on the TSE, at their Early Redemption Amount. See "Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation".

The Bonds may be converted at any time on or after April 11, 2003 and prior to the close of business (at the place the Bond is deposited for conversion) on February 11, 2008 into Shares unless previously redeemed, converted or purchased and cancelled and except during a Closed Period (as defined herein).

Investing in the Bonds involves certain risks. See the section of "Risk Factors".

The Conversion Price will initially be NT\$19.4 per Share subject to adjustment in the manner provided herein and with a fixed rate of exchange applicable on conversion of the Bonds of U.S.\$1.00 = NT\$34.592 (the "Fixed Exchange Rate"). In addition, the Conversion Price will be adjusted on a date falling 45 days prior to each anniversary of the Closing Date (as defined herein) in certain circumstances relating to the then prevailing Closing Price of the Shares relative to the Conversion Price. See "Terms and Conditions of the Bonds — Conversion — Conversion Price reset". In the event that the Market Price (as defined herein) translated into U.S. dollars at the prevailing Spot Rate (as defined herein) is lower than the Conversion Price translated into U.S. dollars at the Fixed Exchange Rate on the Special Reset Date (as defined herein) and upon a notice from the Company, a Bondholder shall be entitled (during the Special Conversion Price Period (as defined herein)) to convert its Bonds at the Special Conversion Price (as defined herein). See "Terms and Conditions of the Bonds — Conversion — Special Conversion Price Reset". The Shares are listed on the TSE and application will be made to list the Shares issued upon conversion of the Bonds on the TSE. On March 5, 2003, the Closing Price of the Shares on the TSE was NT\$18.5 per Share.

Application has been made to list the Bonds on the Société de la Bourse de Luxembourg S.A. (the "Luxembourg Stock Exchange").

The Bonds and the Shares to be issued upon conversion of the Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act).

*Global Coordinator and Sole Bookrunner***Citicorp International Limited***Co-Lead Managers***Fubon Securities Co., Ltd.****President Securities (Hong Kong) Ltd.***Co-Manager***SinoPac Securities (Asia) Limited**

The date of this Offering Circular is March 5, 2003

The Company, having made all reasonable inquiries, confirms that this Offering Circular contains all information with respect to the Company, the Company and its subsidiary and affiliates taken as a whole, the Bonds and the Shares which is material in the context of the issue and offering of the Bonds (including all information required by applicable laws of the ROC), that the information contained herein is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed herein are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions, that 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 respects and that all reasonable inquiries have been made by the Company to verify the accuracy of such information and that this Offering Circular does not contain an untrue statement of a material fact or omit to state a material fact required to be stated herein or necessary in order to make the statements herein, in the light of the circumstances under which they are made, not misleading. The Company accepts responsibility accordingly. Information provided herein with respect to the ROC, its political status and economy, has been derived from government and other public sources and the Company accepts responsibility only for accurately extracting information from such sources.

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

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

The Managers make no representations or warranties as to the accuracy or completeness of the information contained herein.

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

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 (as defined herein) with a common depositary for, Euroclear Bank S.A./N.V., as operator of the Euroclear System (“Euroclear”) and Clearstream Banking, *société anonyme* (“Clearstream, Luxembourg”). Definitive Certificates will be issued to Bondholders only if either Euroclear or Clearstream, Luxembourg (or any other clearing system as

shall have been designated by the Company and approved by the Trustee on behalf of which the Bonds evidenced by the Global Certificate may be held) is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

The Company has prepared its audited non-consolidated financial statements as at and for the years ended December 31, 2000, 2001 and 2002. These financial statements were prepared in conformity with generally accepted accounting principles in the ROC (“ROC GAAP”) which differ in certain material respects from generally accepted accounting principles in the United States (“U.S. GAAP”). See “Summary of Principal Differences Between ROC GAAP and U.S. GAAP”.

The Company is not required by the laws and regulations of the ROC to prepare consolidated financial statements, as the subsidiary of the Company does not meet the criteria for consolidation under ROC GAAP.

SPECIAL NOTES REGARDING FORWARD-LOOKING STATEMENTS

Certain statements under “Summary”, “Risk Factors”, “Business of the Company”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Offering Circular constitute “forward-looking statements”. All statements other than statements of historical facts included in this Offering Circular, including, without limitation, those regarding the Company’s financial position, business strategy, plans and objectives of management for future operations (including development plans and objectives relating to the Company’s products), are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results or performance of the Company or industry results to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company’s present and future business strategies and the environment in which the Company will operate in the future. Among the important factors that could cause the Company’s actual results or performance to differ materially from those in the forward-looking statements include, among others, political, social and economic conditions in the ROC, overall trends in the TFT-LCD and color filters industries, the market supply of and average selling prices for the Company’s principal products, the financial condition and results of operations of the Company’s customers, the availability and price of raw materials, and the ability of the Company to successfully expand and integrate its business. Additional factors that could cause actual results or performance to differ materially include, but are not limited to, those discussed in “Risk Factors”. These forward-looking statements speak only as of the date of this Offering Circular.

ENFORCEABILITY OF FOREIGN JUDGMENTS IN THE ROC

The Company is a company limited by shares and incorporated in the ROC under the ROC Company Law. Substantially all of the Company's directors and executive officers, its supervisors and certain other parties named herein are residents of the ROC and a substantial portion of the assets of the Company and such persons are located in the ROC. As a result, it may not be possible for investors to effect service of process upon the Company or such persons outside of the ROC, or to enforce against any of them judgments obtained in courts outside of the ROC. Any final judgment obtained against the Company or such person in any court other than the courts of the ROC in respect of any legal suit or proceeding arising out of or relating to the Bonds will be enforced by the courts of the ROC without further review of the merits only if the court of the ROC in which enforcement is sought is satisfied that: (i) the court rendering the judgment has jurisdiction over the subject matter according to the laws of the ROC; (ii) the judgment is not contrary to the public order or good morals of the ROC; (iii) if the judgment was rendered by default by the court rendering the judgment, the Company or such persons were served within the jurisdiction of such court, or process was served on the Company or such persons with judicial assistance of the ROC; and (iv) judgments of the courts of the ROC are recognized and enforceable in the court rendering the judgment on a reciprocal basis. Remittance out of the ROC of any amount recovered from enforcing a foreign judgment in the ROC is also subject to the Foreign Exchange Control Statute and regulations as described in "Foreign Investment and Exchange Controls in the ROC" herein.

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FOR THE THREE YEARS ENDED DECEMBER 31, 2000, 2001 AND 2002 F-1

Except where the context otherwise requires, all references herein to “Sintek” are to Sintek Photronic Corp. and all references to the “Company” are to Sintek or Sintek and its subsidiary, as the context requires. All references herein to “affiliate” are to a person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the person specified, as these terms are defined in Rule 405 under the Securities Act. All references herein to “Taiwan” or the “ROC” are to the island of Taiwan and other areas under the effective control of the Republic of China. All references herein to the “ROC Government” or the “ROC Company Law” are references to the government of the Republic of China and the Company Law of the Republic of China, respectively. All references herein to “ROC GAAP” are to the “Rules Governing Preparation of the Financial Statements of Securities Issuers” and accounting principles generally accepted in the ROC and all references herein to “U.S. GAAP” are to accounting principles generally accepted in the United States. All references herein to the “PRC” or “mainland China” are to the People’s Republic of China and do not include Hong Kong, Macau or Taiwan. All references herein to the “TSE” are references to the Taiwan Stock Exchange. All references herein to the “GTSM” are references to The GreTai Securities Market (previously known as the ROC Over-the-Counter Securities Market).

Unless otherwise specified or the context requires, references to “U.S. dollars” and “U.S.\$” are to the lawful currency of the United States of America, references to “New Taiwan dollars”, “NT dollars”, “NT\$” and “\$” are to the lawful currency of the ROC and references to “JPYen”, “¥” or “Japanese Yen” are to the lawful currency of Japan. Unless otherwise specified, where financial information in relation to the Company has been translated into U.S. dollars, it has been so translated, for convenience only, at the rate of NT\$34.75 = U.S.\$1.00 using the average spot exchange rate quoted by the Bank of Taiwan on December 31, 2002. Such translation should not be construed as a representation that the amounts in question have been, could have been or could be converted into U.S. dollars at that or any other rate. The closing average spot exchange rate between the NT dollar and the U.S. dollar on March 5, 2003 was NT\$34.6 = U.S.\$1.00.

SUMMARY

The following summary is qualified in its entirety by the more detailed corporate information and financial statements appearing elsewhere herein.

Sintek Photronic Corp.

Established in 1999, the Company was Taiwan's largest and the world's fifth largest independent manufacturer of color filters in terms of its production volume and capacity in 2002. Color filters are primarily used for the manufacturing of Thin Film Transistor Liquid Crystal Display ("TFT-LCD") and are the most costly and essential component of TFT-LCD. Currently, the Company sells most of its products to TFT-LCD manufacturers in Taiwan and to Dai Nippon Printing Co., Ltd. ("DNP") on an original equipment manufacturing ("OEM") basis.

The Company's current manufacturing operations are conducted at its plant based in the northern part of Taiwan. The production plant, located in Hsin-Chu Industrial Park, Hsin-Chu County, has two production lines geared for 3.5th generation and 4th generation color filter production. The 3.5th generation production line has the capacity to produce approximately 65,000 sheets of glass substrate (620 mm x 750 mm) per month and the 4th generation production line has the capacity to produce approximately 75,000 sheets of glass substrate (680 mm x 880 mm) per month. The Company's 4th generation production line (680 mm x 880 mm) is convertible into a 4.5 generation production line capable of manufacturing 730 mm x 920 mm glass substrates. The Company plans to invest in a 5th generation plant in the Tainan Science-based Industrial Park, which is located in the southern part of Taiwan. The 5th generation plant is expected to have the production capacity of 60,000 sheets of glass substrate (1200 mm x 1300 mm) per month by the 4th quarter of 2004.

For the year ended December 31, 2001, the Company had total net sales of NT\$1.6 billion (U.S.\$45.3 million). For the year ended December 31, 2002, the Company had total net sales of NT\$3.7 billion (U.S.\$105.7 million). Total net sales for the year ended December 31, 2002 represented a 133.2 percent increase over total net sales for the year ended December 31, 2001.

The Company is incorporated as a company limited by shares in Taiwan, and its common shares (the "Common Shares") have been listed on the Taiwan Stock Exchange since September 2002. As of March 4, 2003, the Company had a market capitalization of approximately NT\$7.8 billion (U.S.\$223.3 million). The registered office of the Company is located at No. 2-1, Wenhua Rd., Hsin-Chu Industrial Park, Hukou Shiang, Hsin-Chu County, Taiwan, ROC.

The Issue	
Issuer	SINTEK PHOTRONIC CORP.
Issue	U.S.\$50,000,000 Zero Coupon Convertible Bonds due 2008
Issue Price.....	100 percent
Closing Date	March 12, 2003 (the “Closing Date”)
Maturity Date	March 12, 2008
Status.....	The Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of the Company 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 other present and future direct, unconditional, unsubordinated and unsecured obligations of the Company, except as may be preferred by mandatory provisions of law.
Interest	No interest will be payable on the Bond, except in certain circumstances where an event of default has occurred. See “Terms and Conditions of the Bonds — Events of Default”.
Withholding Tax	Premium and interest (if any) payable on the Bonds to non-residents of the ROC is subject to a withholding tax in the ROC equal to 20 percent of the gross amount of such premium and interest (if any). The Company will gross up such amounts as will result in the receipt by the Bondholders of the net amounts after such withholding or deduction equal to the amounts which would otherwise have been receivable by them had no such withholding or deduction been required.
Conversion	Subject to prior redemption and subject as otherwise provided herein, the Bonds are convertible at any time on or after April 11, 2003 and prior to the close of business (at the place at which the Bond is deposited for conversion) on February 11, 2008, except during any Closed Period (as defined herein), into Shares at a conversion price per Share (subject to adjustment) (the “Conversion Price”) of NT\$19.4, determined on the basis of a fixed exchange rate of NT\$34.592 = U.S.\$1.00 (the “Fixed Exchange Rate”). For a fuller description, see “Terms and Conditions of the Bonds — Conversion”.

Conversion Price Reset	In addition to any downward adjustments for anti-dilution protection as referred to under Condition 6(C) of the Bonds, the Conversion Price will be adjusted on the date falling 45 days prior to March 12, 2004, March 12, 2005, March 12, 2006, March 12, 2007, and March 12, 2008 (each a “Reset Date”), in the event that the average of the Closing Price (as defined herein) for the 20 consecutive Trading Days (as defined herein) immediately preceding each Reset Date translated into U.S. dollars based on the then Prevailing Rate (as defined herein) is less than the Conversion Price, translated into U.S. dollars based on the Fixed Exchange Rate; provided that any adjustment to the Conversion Price pursuant to this mechanism shall be limited to the extent that the adjusted Conversion Price shall not be less than 80 percent of the initial Conversion Price, as adjusted to reflect any adjustments pursuant to Condition 6(C) of the Bonds. See “Terms and Conditions of the Bonds — Conversion — Conversion Price Reset”.
Special Conversion Price Reset . .	In the event that the Market Price (as defined herein) translated into U.S. dollars at the prevailing Spot Rate is lower than the Conversion Price translated into U.S. dollars at the Fixed Exchange Rate on the Special Reset Date (as defined herein) and upon a notice from the Company, a Bondholder shall be entitled (during the Special Conversion Price Period (as defined herein)) to convert its Bonds at the Special Conversion Price (as defined herein). See “Terms and Conditions of the Bonds — Conversion — Special Conversion Price Reset”.
Negative Pledge	The Company will not create or permit to subsist security for the benefit of holders of any International Investment Securities (as defined hereafter) or for any guarantee thereof without granting equivalent security in respect of the Bonds. See “Terms and Conditions of the Bonds — Negative Pledge”.
Final Redemption	Unless previously redeemed, converted or purchased and cancelled in the circumstances referred to in “Terms and Conditions of the Bonds”, the Bonds will be redeemed at their principal amount in U.S. dollars on March 12, 2008. See “Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Redemption at Maturity”.

Redemption at the Option of the Company	The Bonds may be redeemed, in whole or in part, at their Early Redemption Amount, in U.S. dollars, at the option of the Company, at any time after March 12, 2005, upon not less than 40 nor more than 60 days' notice to the holders of the Bonds, (i) if the Closing Price of the Shares on the TSE (translated into U.S. dollars at the Prevailing Rate), for a period of 20 consecutive Trading Days, the last of which occurs not more than ten days prior to the date upon which notice of such redemption is published, is at least 130 percent of the Conversion Price of the Bonds then in effect (translated into U.S. dollars at the Fixed Exchange Rate on each such Trading Day); or (ii) if more than 90 percent in principal amount of the Bonds have already be redeemed, converted, or purchased and cancelled. See "Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Redemption at the Option of the Company".
Redemption at the Option of the Bondholders	The Company will, at the option of the Bondholders redeem all or some of such Bonds on March 12, 2005 and March 12, 2006 (each a "Put Date") at 106.01 percent and 109.15 percent, respectively. See "Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Redemption at the Option of the Bondholders".
Delisting Put Right	A Bondholder shall have the right, at such Bondholder's option, to require the Company to purchase all (but not less than all) of such Bondholder's Bonds at their Early Redemption Amount, in the event that the Shares cease to be listed or admitted to trading on the TSE.
Tax Redemption	The Company may at any time redeem all (but not less than all) of the Bonds at any time at their Early Redemption Amount in the event of certain changes in ROC taxation which would result in additional costs to the Company. See "Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Redemption for Taxation Reasons".

Form and Registration of the

Bonds.....

The Bonds will be issued in registered form in the denomination of U.S.\$1,000 and integral multiples thereof and will be transferable in principal amounts of U.S.\$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 a common depositary for, Euroclear and Clearstream, Luxembourg. Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Except as described herein, definitive certificates for the Bonds will not be issued in exchange for beneficial interests in the Global Certificate.

Lock-up Undertakings

The Company has agreed in the Subscription Agreement that, except as described below, neither it nor any person acting on its behalf will issue, offer, sell, contract to sell or otherwise dispose of any interest in any Shares or securities of the same class as the Bonds or Shares (other than pursuant to employee benefits plans or distributions of dividends or employee dividends in the form of Shares and other than Shares issued upon conversion of the Bonds or the domestic convertible bonds previously issued by the Company) or any securities convertible into, exchangeable for or which carry rights to subscribe or purchase the Bonds, Shares or securities of the same class as the Bonds, Shares or other instruments representing interests in the Bonds, Shares or other securities of the same class as them, or announce or otherwise make public an intention to do any of the foregoing, in any such case without the prior written consent of the Managers between the date thereof and the date which is 90 days after the Closing Date (both dates inclusive).

The foregoing lock-up provisions shall not be applied to Shares issued in connection with merger and acquisitions; *provided, however*, that (i) the persons to whom Shares are issued by the Company will not sell, contract to sell or otherwise dispose of any interest in the Shares issued as a result of such merger and acquisitions between the date of the effective date of merger and acquisitions and the date which is 90 days after the Closing Date, and (ii) the Lead Manager shall be notified by five-day prior notice of these issuances.

	In addition, Ho Tung Chemical Corp., Si-Chung Chang, Zortec Corporation and Paoze Investment Limited have agreed that none of them will offer, sell, contract to sell or otherwise dispose of any interest in any Shares or securities of the same class as the Shares or any securities convertible into, exchangeable for or which carry rights to purchase the Shares or other instruments representing interests in the Shares or other securities of the same class as them, or announce or otherwise make public an intention to do any of the foregoing, in any such case without the prior written consent of the Managers between the date hereof and the date which is 90 days after the Closing Date (both dates inclusive).
Governing Law	English law.
Trustee.	The Bank of New York.
Listing	Application has been made to list the Bonds on the Luxembourg Stock Exchange. The Shares are listed on the TSE and application will be made for the Shares issuable upon conversion of the Bonds to be listed on the TSE.
Use of Proceeds.	The net proceeds from the offering of the Bonds will be approximately U.S.\$49,200,000. The net proceeds of issue of the Bonds will be used to invest in a new subsidiary and to repay loans.

RISK FACTORS

Investing in the Bonds involves risks, and any potential investor and buyer of the Bonds should carefully consider the risks described below before making an investment decision. In addition, any potential investor or buyer should carefully consider all of the information contained in the Offering Circular, including financial statements and related notes. Any potential investor or buyer should note that the Company is governed in the ROC by a legal and regulatory environment which in some respects may be different from that prevailing in other countries.

Risks Relating to the Company and its Business

The Company's business is highly dependent on the performance of Taiwanese TFT-LCD manufacturers and the TFT-LCD market, which is highly cyclical

Currently, all of the color filters manufactured by the Company are sold either directly or indirectly through other color filter vendors to Taiwanese TFT-LCD manufacturers and hence the Company's business is highly dependent upon the future development of the TFT-LCD industry in Taiwan. The TFT-LCD industry in Taiwan has been experiencing significant price volatility and domestic TFT-LCD manufacturers are facing lower profitability margins due to the intense competition among themselves and with South Korean TFT-LCD manufacturers. The South Korean TFT-LCD manufacturers are the market price leaders and have had a longer history and more experience in the mass production of TFT-LCDs. The expected significant increase in TFT-LCD supply over the next two years as Taiwanese TFT-LCD manufacturers increase their 5th generation color filter production facilities may further depress TFT-LCD prices. There is no assurance that the Taiwanese TFT-LCD manufacturers can remain competitive in the long term. As a result, the future performance of TFT-LCD manufacturers could have a significant adverse impact on the Company's business.

High reliance on technology licensed from DNP

The Company has entered into an exclusive technology license agreement with DNP for the transfer of 3.5th, 4th and 5th generation color filter production technologies. DNP has a ten percent ownership interest in the Company and is currently discussing with the Company the investment of South Sintek Photronic Corp. ("South Sintek"), the Company's subsidiary, to manufacture 5th generation color filter for TFT-LCD. As DNP is not bound to invest in South Sintek and for other reasons, there can be no assurance that the Company will have or continue to have access to DNP's or other advanced color filter technologies in the future on satisfactory terms. In the event that the Company fails to obtain licenses for the transfer of advanced technologies from DNP on satisfactory terms, the Company may be required to develop such technologies internally. The Company cannot guarantee that it is able to successfully develop the required technologies internally. Any of the foregoing factors could materially and adversely affect the business and the financial conditions of the Company.

The Company has a limited operating history

The Company was established in December 1999 as a professional independent color filters manufacturers. The Company was a company under development stage between December 1999 and December 2001. The Company introduced various of new products and technology during its development, and, as a result, recorded an operating loss in 2000 and 2001, loss before income tax in 2001 and net income in 2000, 2001 and 2002. In addition, the Company has only a limited operating history with which the Bondholders can evaluate its business and its prospects. As a result of its

limited operating history, the Company's business strategy is unproven and it cannot be certain that the Company will be able to successfully expand its operations, ramp up its new 5th generation facilities and technologies or enter into the market for new products. Further, the Bondholders should not place undue reliance on its net sales data for the periods ended December 31, 2002. The Company's limited operating history also provides limited historical basis to assess the impact of its critical accounting policies and for the Company to forecast future trends.

Highly competitive market for color filters

The Company competes with a number of foreign and domestic color filter manufacturers, including Toppan Printing Co., Ltd. ("Toppan"), DNP, Toppan CFI (Taiwan) Co., Ltd., ("CFI"), Toray International Inc. ("Toray"), Sustainable Titania Technology Inc. ("STI"), Cando Corporation ("Cando"), and Allied Material Technology Corporation ("AMTC"). Many of these manufacturers are increasing production by investing in a newer generation of color filter production lines. As a result, the industry is likely to face the pressure of oversupply and downward price adjustment. In order to stay competitive, the Company may be required to lower the unit sales price for its products and reduce its operating costs. Lower product pricing may not however necessarily stimulate higher levels of sales and cost reduction efforts may not necessarily offset the effects of lower product pricing. In addition, the Company faces potential competition from the manufacturing operations of its current and prospective customers, which continually evaluate the merits of manufacturing color filters internally. For example, AU Optronics has announced that it will build 5th generation color filter facilities in 2003. There is no assurance that the Company will be able to compete successfully with its competitors, which could result in an adverse effect on the financial condition and results of operation of the Company.

Potential downward pressure on margins

The highly competitive environment and cyclical nature of the TFT-LCD industry may put pressure on the Company's prices and margins. Other factors which may affect the Company's gross margins include fluctuation of foreign exchange rates, reductions in average sale price of the color filters during their life cycles, fluctuation in the supply and demand for principal components and raw materials, and the Company's ability to reduce unit manufacturing costs. The Company's gross margins may be subject to downward pressure as a result of the factors mentioned above, which could have a material adverse effect on the Company's results of operations and prospects.

Risk relating to future business development

As part of the Company's business development plan, the Company entered into a shareholders' agreement with HannStar to co-establish South Sintek in Taiwan, ROC, which will be able to manufacture 5th generation color filters. The Company currently owns 80.0 percent of the equity interest of South Sintek and has been approved by its board of directors to invest in additional NT\$735.0 million in South Sintek. The Company plans to finance such development plans with cash flow generated from operations and external financing. In addition, DNP is currently discussing with the Company and HannStar to invest in South Sintek by way of rights issue. If DNP successfully invest in South Sintek as discussed, the Company, together with its affiliates and/or employees, will eventually own 61.0 percent of South Sintek after DNP's investment.

There can be no assurance that the investment in South Sintek will proceed as planned or at all, since DNP is under no obligation to make the investment and the Company may not have sufficient internal or external fund to invest in South Sintek. Either failure to secure DNP's investment or to obtain appropriate funding would affect the implementation of the Company's business plan and may adversely impact the Company's future operations.

The commencement of the Company's new production facilities may be delayed

The construction and the commencement of commercial operation of the Company's new production facilities may be delayed due to events beyond its control, including:

- ▶ a major design and/or construction change caused by changes to the initial building space utilization plan or equipment layout;
- ▶ disputes or disagreements among the joint venture partners for the 5th generation plant;
- ▶ shortages or late delivery of building materials and equipment;
- ▶ a shortage of construction workers;
- ▶ strikes and labor disputes;
- ▶ on-site construction problems such as industrial accidents, fires and structural collapse;
- ▶ delays in securing the necessary governmental approvals; and
- ▶ delays in the achievement of full commercial operations following the construction of the plant.

If the Company experiences delays or other constraints in the expansion or construction of its new production facilities, planned increase in its capacity could be delayed and its results of operations could be negatively affected.

Highly dependent on access to key components

The Company relies on external suppliers to provide raw materials and the key components for the production of its color filters. There is no assurance that the Company can obtain sufficient supplies of raw materials and key components from its suppliers on satisfactory terms. In addition, the Company could face fluctuations in supply and pricing of raw materials and key components. There can be no assurance that the Company will not experience any shortages of raw materials and key components in the future. A shortage in the supply of any of these raw materials and key components could result in an increase in the prices of such raw materials and key components; and could cause disruption to the Company's production, which could in turn, adversely affect the Company's margins and ability to meet its production timeline.

Highly dependent on key customers for a substantial portion of the Company's net sales

In 2002, the Company's top three customers accounted for 80.3 percent of the Company's total net sales for the year ended December 31, 2002. The Company's key customers operate in cyclical businesses and as the Company is not a party to any long-term supply contracts with these key customers, the Company cannot offer assurance that these key customers will continue to place orders in the future at similar levels or at all. The loss of one or more of such key customers, or a reduction in order from such key customers, could materially adversely affect the Company's sales.

The Company does not usually enter into long-term supply contracts with its customers and therefore its customers may cancel, reduce or postpone their orders

The Company does not generally enter into firm, long-term supply contract with its customers and it continues to experience reduced lead-times in customer orders. Customers may cancel their orders or change the size or timing of their orders for a number of reasons. Cancellations, reductions or postponements of purchase orders by a significant customer or by a group of customers could seriously adversely affect the Company's results of operations.

In addition, the Company makes significant decisions, including determining the levels of business that it will seek and accept, production schedules, components and raw material procurement commitments, personnel needs and other resource requirements, based on its estimates of customer requirements. The short-term nature of the Company's customers' commitments and the possibility of rapid changes in demand for their products reduce the Company's ability to estimate accurately future customer requirements. On occasion, customers may require rapid increases in production, which can stress the Company's resources. Although the Company has increased its manufacturing capacity and plans further capacity increases, it may not have sufficient capacity at any given time to meet its customers' demands. In addition, because many of the Company's costs and operating expenses are relatively fixed, a reduction in customer demand could impact its gross margins and operating income.

The Company may not be able to develop new products or keep pace with technological change

The Company's future success will depend in part on its ability to develop and market products and manufacturing processes which meet changing customer needs and to successfully anticipate or respond to technological changes in manufacturing processes in a cost-effective and timely manner. Many of the Company's products have short product life cycles due to frequent product introductions, rapidly changing technology and evolving industry standards. There can be no assurance that the Company will be successful in developing new products as a result of its research and development efforts or that it will keep pace with technological changes taking place in the market. Failure to do so or delay in reacting to the technological changes could have a material adverse effect on the Company's business or on its results of operations.

The Company's operating results may vary significantly

The Company may experience significant fluctuations in its results of operations. The factors that contribute to fluctuations include:

- ▶ ability and result of research and development;
- ▶ the timing of customer orders;
- ▶ the volume of these orders relative to the Company's capacity;
- ▶ market acceptance of new products;
- ▶ changes in demand for the products and product obsolescence;
- ▶ the timing of the Company's expenditures in anticipation of future orders;
- ▶ the Company's effectiveness in managing manufacturing processes;

- ▶ changes in the cost and availability of labor and components;
- ▶ changes in economic conditions; and
- ▶ local factors and events that may affect the Company's production volume, such as local holidays.

If the Company is unable to manage its manufacturing process successfully, the Company will not be able to achieve satisfactory production yields and its results of operations will suffer

The Company's manufacturing process for its products is complex and involves a number of precise steps. Defective production can result from a number of factors including:

- ▶ the cleanliness of the manufacturing environment;
- ▶ human error;
- ▶ equipment malfunction;
- ▶ use of defective components and parts; and
- ▶ inadequate testing.

From time to time, the Company has experienced lower than anticipated production yields as a result of these factors, particularly in connection with the expansion of its capacity or changes in its processing methods. The Company's yield on new products is often lower as time is required for it to develop expertise and experience in producing these products. If the Company fails to maintain high quality production standards and yields, its reputation and profitability may suffer and the Company's customers may cancel their orders or return products.

The Company may be unable to manage its growth effectively

The Company has grown rapidly. The Company's ability to manage growth effectively will require it to continue to implement and improve its operational, financial and management systems, continue to develop the management skills of its managers, and continue to train, motivate and manage its employees. If the Company fails to manage growth effectively, the Company's results of operations could be adversely affected.

Risk with regards to the manufacturing risks; occurrence of any such risks may result in delivery delays or material product defects, which will harm operating results and corporate reputation

The Company continuously updates the manufacturing process for color filters in order to improve efficiency and to reduce product defects and unit manufacturing costs. There is a risk that, delivery delays and/or reduced output would be caused by production defects from time to time. Although the Company has not experienced any significant manufacturing difficulties in the past, there can be no assurance that the Company will not experience manufacturing difficulties in achieving acceptable output, and/or product delivery delays as a result of capacity constraints, construction delays, difficulties in upgrading or expanding existing facilities, in changing its manufacturing lines or delays in delivery of equipment or products to customers, any of which could result in a loss of future revenues for the Company.

Intellectual property and litigation

The Company is dependent on DNP's technological facilities in its production and is exposed to the risk that intellectual property disputes over the technology used by the Company may arise. The Company's success will depend, in part, on its ability to protect its proprietary rights and to operate without infringing on the proprietary rights of third parties. The infringement of other's intellectual property could hinder or prevent the manufacturing, sales and marketing of the Company's products or require the Company to obtain licenses to such technology, which may not be available on commercially reasonable terms. The Company could also incur substantial costs to redesign its products or to defend any legal action taken against the Company. Furthermore, the Company could be enjoined from further infringement and be required to pay damages to the infringed party.

As of February 20, 2003, the Company held three patents registered and had 20 patent applications pending in the ROC. There can be no assurance that any of the Company's current or future patent applications will result in issued patents, that the scope of the claims in any patents currently held by, or which will be issued to the Company will prevent competitors from introducing competitive products or that any patents currently held by, or which will be issued to the Company would be enforceable if challenged. In addition, other parties may hold or receive patents that contain claims covering other technology included in the Company's current or future products that could hinder or prevent the sale of the Company's products or require the Company to obtain licenses to such technology, which might not be available on acceptable terms or at all.

Foreign currency exchange rate fluctuations

Currently, the majority of the Company's payments in royalties to its licensors and raw materials and equipment procurement are denominated in Japanese Yen ("JPYen"). In the year ended December 31, 2002, payments in JPYen accounted for approximately 69.4 percent of the Company's net payments. In addition, approximately 80.6 percent of the Company's cost of revenue, primarily associated with the purchase of components (including finished products) and raw materials were paid for in U.S. dollars and JPYen with 19.4 percent being paid for in NT dollars. Accordingly, the Company is exposed to movements in the exchange rates between the U.S. dollar on the one hand, and NT dollar and JPYen on the other hand. In addition, these fluctuations could result in foreign exchange losses and increased costs. Despite hedging transactions that the Company engages in are to hedge against such currency fluctuations, the impact of future currency rate fluctuations in these currencies on the Company's financial condition and results of operations cannot be accurately predicted, and there can be no assurance that the Company's attempts to mitigate the adverse effects of exchange rate fluctuations will be successful or that such exchange rate fluctuations will not in future have a material adverse effect on the financial condition, results of operations and future prospects of the Company.

Reliance on key personnel

The Company's success depends upon, among other factors, the continued service of the Company's key senior executives, research and development, engineering, marketing, sales, manufacturing, support and other key personnel in the Company, as well as the Company's ability to continue to attract, retain and motivate highly qualified personnel, and engineers particularly during periods of rapid growth will also be a key factor. The process of hiring employees with the combination of skills and attributes required to implement the Company's strategy can be extremely competitive and time-consuming. In particular, the Company's planned expansion into 5th generation color filters production would require a large number of knowledgeable and skilled engineers, especially those who specialize in photo spacer, in-plane switching and multi-domain vertical

alignment technologies. The competition for such employees is intense and the loss of the services of any of these key personnel without adequate replacement, or the Company's inability to attract additional qualified personnel, could have a material adverse effect on the Company's financial condition and results of operations.

Risk of violation of environmental regulations

The operations of the Company are subject to a variety of laws and regulations in relation to the use, storage, discharge and disposal of chemical by-products of, and water used in, the Company's manufacturing processes. The Company has not suffered material environmental claims in the past. Environmental claims or the failure to comply with any present or future regulations could result in the imposition of fines against the Company, suspension of production or a cessation of operations. In addition, new regulations in the future could require the Company to acquire costly equipment or to incur other significant expenses.

Risk of inventory losses

Frequent new product innovations in the color filter industry can result in a decline in average selling price of existing models. With the rapid introduction of newer models of color filters, the Company may suffer inventory loss as a result of model replacement. While the Company maintains a close communication with its customers and uses just-in-time standards to deliver its goods, the Company cannot offer assurance that a sudden decrease in orders or subsequent changes to orders will not occur, resulting in an adverse impact on the Company's inventory management and hence operating results.

A fire, earthquake or other natural calamity at any of the facilities of the Company may occur

The Company conducts its operations at a single facility. A fire, earthquake or other natural calamity resulting in significant damage at any of these facilities would have a material adverse effect on the Company's business, financial conditions and results of operations. For example, the Company has in the past experienced a fire damage in May 2001. None of the Company's operations were materially affected by the recent major Taiwan earthquakes which occurred on September 21, 1999 and March 31, 2002. However, in recent years, severe constraints have been placed on the water and electricity supply in the northern Taiwan region. Any shortages of water or electricity could have a material and adverse effect on the Company's operations. Also, the Company's color filter production facilities, as well as many of the Company's customers are located in Taiwan. If the Company's customer are affected by earthquake or other natural disasters, it could result in a decline in the demand for the products. The Company maintains insurance policies covering losses to its buildings, machinery and equipment, including losses due to fire and explosion. While the Company considers its insurance coverage to be consistent with industry practice, there can be no guarantee that it will be sufficient to cover all of the Company's potential losses. Any losses beyond the losses covered by the insurance policies could strain the Company's financial resources and may adversely affect its financial condition.

Risks Relating to the Bonds and the Shares

Limitation on the investors' ability to exercise conversion rights

The Bondholders' ability to exercise their conversion rights may be limited. The Bonds are convertible into Shares at the option of the converting Bondholders pursuant to the terms and conditions of the Bonds. Purchasers of the Bonds will not be able to exercise their conversion rights during the Closed Periods. See "Terms and Conditions of the Bonds — Conversion".

Liquid market for the Bonds may not develop and the market for the Company's Shares may not be liquid

A liquid market for the Bonds and Shares may not develop. Application has been made to have the Bonds listed on the Luxembourg Stock Exchange. However, there can be no assurance that an active trading market or a trading market for the Bonds will develop. The trading market for the Shares is the TSE on which the Shares were listed on September 27, 2002. The Shares will not be listed on the Luxembourg Stock Exchange. There can accordingly be no assurance that a liquid trading market for the Bonds will develop or that a liquid market for the Shares exists or will continue to exist.

Transfers of the Bonds and Shares are restricted

Neither the Bonds nor the Shares have been, nor will they be, registered under the securities laws of the United States or elsewhere and neither the Bonds nor the Shares may be publicly offered, sold, pledged or otherwise transferred in any jurisdiction where such registration may be required. See "Subscription and Sales". The Bonds may not be publicly offered or sold, directly or indirectly in the ROC.

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

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

Upon conversion of the Bonds, the investors will be required to appoint a tax guarantor and a local agent in Taiwan

When a non-ROC Holder exercises its conversion rights to receive the Shares and register as a shareholder of the Company, such holders will be required to appoint an agent (a "Tax Guarantor") in the ROC for filing tax returns and making tax payments. Such Tax Guarantor will be required to meet the qualifications set by the ROC Ministry of Finance (the "ROC MOF") 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 withdrawing such holder's profits derived from the sale of Shares. There can be no assurance that such holders will be able to appoint and obtain approval for a Tax Guarantor in a timely manner.

In addition, under current ROC law, such converting or withdrawing holder is required to appoint a local agent (with such qualifications as required by the ROC Securities and Futures Commission ("SFC")) in the ROC to, among other things, open a securities trading account with a local securities brokerage firm and a NT dollars bank account, remit funds and exercise a shareholder's rights and perform such other matters as may be designated by such converting Bondholder. Further, such converting or withdrawing holder must appoint a local bank to act as custodian for confirmation and settlement of trades, safekeeping of securities and cash proceeds and reporting and declaration of information. Without satisfying these requirements, converting holders would not be able to hold or otherwise transfer the Shares on the TSE.

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

A Bondholder or its designee requesting the conversion of its Bonds into Shares may be required to provide certain information to the Company or the conversion agent, including the name and nationality of the person to be registered as the shareholder and the number of Shares such person is acquiring and has acquired in the past through conversion of Bonds held by it, and supporting documents, before such conversion will be effected. Under applicable ROC laws, the Company is required to report to the ROC SFC if the person to be registered as a shareholder: (i) is a “related party” of the Company as defined in Statement of Financial Accounting Standard No. 6 of the ROC or (ii) will hold, immediately following such conversion, more than ten percent of the total number of Shares deliverable upon the 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.

Risks Relating to the ROC

Volatility of the ROC Securities Market

The ROC securities market is smaller and more volatile than the securities markets in the United States and in certain European and other countries. The TSE has experienced substantial fluctuations in prices and volume of sales of listed securities and there are currently limits on the range of daily price movements on the TSE. The TSE Index (the “TSE Index”) peaked at 12,495.34 in February 1990 and subsequently fell to a low of 2,560.47 in October 1990. For the year 2002, the TSE Index peaked at 6,462.30 on April 22, 2002 and reached a low of 3,850.04 on October 11, 2002. The daily closing values of the Shares, which are listed on the TSE, ranged from NT\$26.1 per Share to NT\$13.65 per Share over the same period. The TSE has in the past experienced problems such as market manipulation, insider trading and payment defaults. The recurrence of these or similar problems and restrictions on price movements could adversely affect the market price and liquidity of the securities of ROC companies, including the Shares, in both the domestic and the international markets.

Financial reporting and accounting standards in the ROC differ from other countries

The Company is subject to financial reporting requirements in the ROC that differ in significant respects from those applicable to companies in certain other countries, including the United States. In addition, the Company’s financial statements are prepared in accordance with the ROC GAAP, which differ in certain material respects from U.S. GAAP. See “Summary of Principal Differences Between ROC GAAP and U.S. GAAP”. Potential investors should consult their own professional advisers for an understanding of such differences and how they might affect the financial information contained herein.

In particular, the distribution of employees bonus shares in the ROC is treated as an allocation from retained earnings when the distribution of employees bonus shares is approved by the shareholders and the relevant regulatory authorities, and the Company is not required to, and does not, charge the value of the employees bonus shares as expense. Under U.S. GAAP, however, the Company would be required to initially accrue the bonuses as compensation costs when services are rendered. When bonuses are approved by shareholders in the subsequent year, an additional compensation cost would be recorded for the difference between the par value and the fair market value/intrinsic value of the shares granted to employees. Correspondingly, the Company’s net income and income per share calculated in accordance with U.S. GAAP would be reduced. This difference in treatment between ROC GAAP and U.S. GAAP may be material.

In addition, because the Shares issued under the employees share bonus scheme are issued at par value, which usually may be less than market value, such issuances may have a dilutive effect on existing shareholders. However, the Conversion Price of the Bonds will be adjusted for such issuances.

Forecasted financial information reported by us pursuant to ROC Securities and Futures Commission requirements may not be reliable

As a listed company newly approved by TSE, the Company is required by the ROC SFC to report the financial forecasts each year until 2005.

To the extent that there is any significant variance between the Company's actual results in any period and the forecasts for the corresponding period included in the annual forecast it has already published, the Company is required to revise out forecasts and publish the revised forecasts as soon as practicable.

The Company urges the Bondholders not to rely on these forecasts as they are derived from assumptions regarding the industries, investments and general market, political and economic conditions, many of which are beyond the Company's control. In addition, the Company advises the Bondholders that none of the information included in this Offering Circular has formed or will form the basis of its future forecasts. The Company does not expect to update the Bondholders on any possible difference presented in its forecasts that it published before and plans to publish in the future, from the information included in this Offering Circular, including forward-looking statements.

The political status and international relations of the ROC may affect the Company and the Bonds

The Company's principal executive office and a substantial portion of its assets are located in Taiwan and most of its net operating revenues are derived from the operations in the ROC. Accordingly, the financial condition and results of operations of the Company and the market price of the Shares may be affected by changes in ROC governmental policies, taxation, inflation, interest rates, social instability and other political, economic, diplomatic or social developments in or affecting the ROC which are outside of the Company's control.

The ROC has a unique international political status. The PRC asserts sovereignty over mainland China and Taiwan and does not recognize the legitimacy of the ROC government. The ROC government resists sovereignty of the PRC and holds the ROC as a state with full sovereignty power equal to the PRC's. President Chen of the ROC recently announced "one side, one state" policy, which was unwelcomed by the PRC government. Although significant economic and cultural relations have been established in recent years between the ROC and the PRC, the government in the PRC has refused to renounce the possibility that it may at some point use force to gain control over the ROC. Relations between the ROC and the PRC and aspects of the ROC's political environment could negatively affect the Company's business and the market price of the Shares. The adverse economic conditions in Taiwan may affect the Company and the prices of its Shares and the Bonds.

The economy in the ROC has experienced significant downturns and related difficulties in recent years. The value of NT dollars has fluctuated significantly since 1998. See "Exchange Rates". In addition, the capital markets in the ROC have experienced substantial downfalls in recent years. The adverse economic conditions in Taiwan could materially and adversely affect the Company's business, results of operations and financial condition. The adverse economic conditions may also adversely affect the prices of the Company's Shares and the Bonds.

USE OF PROCEEDS

The net proceeds of the issue of the Bonds will be approximately U.S.\$49,200,000 and will be used to invest in a new subsidiary and to repay loans.

CAPITALIZATION

The following table sets forth the non-consolidated short-term debt and capitalization of the Company as of December 31, 2002 and as adjusted to reflect the effect of the issuance of the Bonds. The following table shall be read in conjunction with the Company's audited non-consolidated financial statements, including the notices to those statements, included elsewhere in this Offering Circular which were prepared in accordance with ROC GAAP and which may differ in material respects from U.S. GAAP or the generally accepted accounting principles of certain other countries. See "Summary of Principal Differences between ROC GAAP and U.S. GAAP":

	As of December 31, 2002			
	Actual		As adjusted for this offering ⁽¹⁾	
	(in thousand dollars)			
	NT\$	U.S.\$ ⁽²⁾	NT\$	U.S.\$ ⁽²⁾
Short-term borrowings (including current portion of long-term loans)	2,145,047	61,728	2,145,047	61,728
Long-term borrowings:				
Long-term loans.....	2,797,339	80,499	2,797,339	80,499
Bonds payable	800,000	23,022	2,537,500	73,022
Stockholders' equity				
Common stock, NT\$10 par value 600,000,000 shares authorized, 400,000,000 shares issued and outstanding	4,000,000	115,108	4,000,000	115,108
Capital reserve	1,572,216	43,244	1,572,216	43,244
Legal reserve.....	35,321	1,016	35,321	1,016
Undistributed earnings.....	1,172,178	33,732	1,172,178	33,732
Cumulative total stockholders' equity	6,779,715	195,100	6,779,715	195,100
Total capitalization	10,377,054	298,621	12,114,554	348,621

(1) The as adjusted basis gives effect to the issuance of the Bonds in the aggregate amount of U.S.\$50,000,000.

(2) New Taiwan dollar amounts have been translated into U.S. dollars using the average spot exchange rate on December 31, 2002 quoted by the Bank of Taiwan of NT\$34.75 to U.S.\$1.00 solely for the convenience of the reader.

Except as disclosed above, there have been no material changes in the capitalization of the Company since December 31, 2002.

BUSINESS OF THE COMPANY

Introduction

Established in 1999, the Company is Taiwan's largest and the world's fifth largest independent color filter manufacturer in terms of its production volume and capacity. The Company believes that it has the highest production yield rate among all domestic color filter manufacturers. The Company had consistently improved the production yield rate of its 3.5th generation production line in 2002 from 84.9 percent in January to 87.6 percent in December. The Company currently supplies color filters to other color filter vendors and TFT-LCD display manufacturers primarily for the production of large-area TFT-LCD displays that are primarily used as monitors for desktop and notebook computers and screens for flat panel televisions.

The Company's primary production facility is located in the Hsin-Chu Industrial Park, Hsin-Chu County, Taiwan, ROC, which is equipped with two production lines. One of the production lines is a 3.5th generation line, which is geared towards the production of 17-inch, 15-inch and 14-inch color filters and has a monthly production capacity of approximately 65,000 substrate sheets. The other production line is a 4th generation line which commenced production in September 2002 and is geared towards the production of 15-inch and 17-inch color filters and has a monthly production capacity of approximately 75,000 substrate sheets.

Since May 2000, the Company has formed a strategic alliance with DNP by a technology transfer arrangement under which DNP provides 3.5th, 4th and 5th generation color filter production technologies to the Company. In return, DNP charges the Company a royalty and technology transfer fee. On December 24, 2002, the Company entered into a new technical know-how transfer agreement and a new technology license agreement with DNP under which DNP further provides 5th generation color filter production technologies to the Company. The Company plans to assign the rights and obligations under such agreements to South Sintek.

In December 2002, the Company entered into a shareholders' agreement ("Shareholders' Agreement") with HannStar to establish a joint venture company, South Sintek, which will be equipped with the 5th generation color filter technology. According to the Shareholders' Agreement, the Company will initially own 80.0 percent and HannStar will own 20.0 percent of South Sintek's equity interest. DNP is currently discussing with the Company to invest in South Sintek by way of rights issue. If DNP successfully invests in South Sintek as discussed, the Company, together with its affiliates and/or employees, will eventually hold 61.0 percent of South Sintek after DNP's investment. The Company believes that the joint venture arrangement would enable it to lower its capital expenditure and further enhance its relationship with its largest customers and technology providers.

For the year ended December 31, 2002, the Company achieved total net sales of approximately NT\$3.7 billion (U.S.\$105.7 million). Net sales derived from sales of color filters were NT\$3,160.6 million or 86.1 percent of total net sales on 2,678.8 thousands units of substrate panels shipped. Net sales derived from other products were NT\$511.9 million or 13.9 percent of total net sales.

The Company's common shares were quoted and traded on the Emerging Market on January 2, 2002 and began trading on the Taiwan Stock Exchange on September 27, 2002. As of March 4, 2003, the Company had a market capitalization of approximately NT\$7.8 billion (U.S.\$223.3 million) based on the closing price of the Company's shares on that date at NT\$19.4. The registered office of the Company is located at No. 2-1 Wenhua Road, Hsin-Chu Industrial Park, Hukou Shiang, Hsin-Chu County, Taiwan, ROC.

The principal business activities of the Company as provided under the Company's Articles of Incorporation are as follows:

- ▶ production of optical equipment;
- ▶ production of electronic components;
- ▶ the sale and distribution of mechanical equipment;
- ▶ the sale and distribution of refined electronic equipment;
- ▶ the sale and distribution of electronic raw materials;
- ▶ the production of electronic raw materials;
- ▶ international trade;
- ▶ engineering for air conditioning; and
- ▶ production of refined chemical products.

Industry Overview

The Company currently supplies color filters to other color filter vendors and TFT-LCD display manufacturers for the production of large-area TFT-LCD displays that are primarily used as monitors for desktop and notebook computers and screens for flat panel televisions, or TVs. As a result, the Company's business is not only dependent upon the health of the overall TFT-LCD display market but is also dependent on the state of the various ultimate end markets in computer monitors and televisions.

The desktop monitor market is expected to grow steadily over the next few years. The statistics from DisplaySearch, an independent display market research and consulting firm, indicate that the desktop monitor market produced a total of 99 million units in 2001 and will grow at a compound annual growth rate of 6.1 percent to reach a production of 126 million units in 2005. In addition, TFT-LCD monitors have also experienced an increasing popularity over the traditional cathode ray tube monitors. DisplaySearch estimates that TFT-LCD monitors will increase its market share of 18.5 percent in 2001 to account for 76.9 percent of the desktop monitor market in 2005.

Demand for notebook computers, with TFT-LCD as the dominant display technology, is expected to grow rapidly over the next several years. According to DisplaySearch, notebook computer panel demand is expected to grow at a compound annual growth rate of 16.7 percent from 24 million units in 2001 to approximately 45 million units in 2005.

The statistics from DisplaySearch indicate that the production for TVs was comprised of approximately 1.8 million units in 2001 and is expected to grow at an annual compound growth rate of 67 percent to reach 13.9 million units in 2005. Industrial Technology Intelligence Services (“ITIS”) estimates that TFT-LCD TVs will increase its market share from less than one percent in 2002 to 6.5 percent of the TV market in 2006.

As the various displays end markets enjoy healthy growth and TFT-LCD becomes increasingly popular in display applications, demand for TFT-LCD products is expected to grow rapidly over the next few years. Statistics from DisplaySearch indicate that large-area TFT-LCD unit shipments will increase from 44.5 million in 2001 to 156.0 million in 2005, at a compound annual growth rate of 36.8 percent. Accordingly, color filters being an essential component of TFT-LCD products is similarly expected to share a similarly favorable growth rate.

Color Filter Market

Color filters are manufactured either by independent color filter manufacturers such as the Company or by TFT-LCD manufacturers for in-house use. According to ITIS, independent color filter manufacturers accounted for approximately 60 percent of the total global TFT-LCD production in 2001. Japanese producers dominate the independent color filter manufacturers and, according to statistics, the top six Japanese manufacturers accounted for 91.0 percent of total independent color filter production in 2002.

In recent years Taiwan has experienced tremendous growth in TFT-LCD panel production and started to rival Korea as a base for global TFT-LCD panel production. There are now five major TFT-LCD panel manufacturers in Taiwan. Statistics from DisplaySearch indicate that Taiwanese manufacturers produced 34.4 percent of the worldwide large-area TFT-LCD panel production in the fourth quarter of 2002. Taiwanese TFT-LCD component manufacturers, including color filter producers, have benefited from this development. As Taiwan TFT-LCD manufacturers seek to lower their component costs in order to compete in the highly competitive TFT-LCD market, they have increasingly become reliant on sourcing local high quality components. As technology advances, the sourcing of local color filters has become increasingly important due to the costliness and damage risks of shipping larger and fragile color filters from overseas suppliers.

The Taiwanese color filter market is still in the initial stages of development. According to ITIS, Taiwanese independent color filter manufacturers produced approximately 4.0 percent of all color filters (globally) in 2001 and they are currently supplying only 55.0 percent of the local color filter demand due to capacity constraints despite operating at close to full capacity, implying significant room for growth. In particular, the 5th generation color filter production expansion plans at most Taiwanese TFT-LCD panel manufacturers are likely to generate significant demand for color filters from local color filter manufacturers over the next two years. ITIS statistics indicate that the total investment to date in the color filter industry in Taiwan is approximately NT\$30 billion; in light of the 5th generation expansion, it is estimated that such investment will increase to NT\$55 billion by the end of 2003.

As technology advances, TFT-LCD producers may find it difficult to dedicate their own resources to develop and produce new generation color filters and may increase joint-development and out-sourcing of their color filter requirements. Some TFT-LCD players have already announced plans

to jointly develop next generation color filters with local color filters manufacturers. Accordingly, the color filters industry in Taiwan is expected to enjoy a parallel growth to that of the TFT-LCD industry. ITIS estimates that Taiwanese color filter manufacturers will account for 31.3 percent of all color filters produced by independent color filter manufacturers by the end of 2003.

TFT-LCD manufacturers increasingly face pricing pressures as price competition is keen and the lowering of production costs becomes a primary focus. In order to maintain margins, color filter manufacturers have been cutting their own costs by improving their production yields. In addition, they have also been developing better quality and higher value-added products to maintain a competitive edge. The Company believes that the color filter market will experience steady and healthy growth over the next few years.

Business Strategy

The Company's principal objective is to strengthen its leading position in Taiwan's color filter industry. The Company expects to continue to expand its business and operations through internal growth and possible strategic alliances and partnerships in order to enhance its technological and production capabilities, increase its production capacity, through economies of scale to achieve cost competitiveness, and enhance management resources. In order to achieve these goals and enhance its competitive edge in the market, the Company plans to implement the following business strategies:

Establish partnership with major TFT-LCD and color filter manufacturers

Since the color filters industry is highly dependent upon the demand of its downstream customers and the availability of advanced technologies, the Company has adopted a policy of strengthening relationships via strategic alliances or joint ventures with its major customers and technology partners. By doing so, the Company hopes to be better positioned to take advantage of such relationships by securing regular orders from its major customers and obtaining the technological support from its technology partner.

In December 2000, HannStar invested in the Company by acquiring 3.13 percent of its Shares. Furthermore, in March 2001, DNP invested in the Company by acquiring ten percent of its Shares. The Company expects to establish more of such partnerships with TFT-LCD and color filter manufacturers for the development of its 5th generation color filter production capabilities.

In December 2002, the Company entered into Shareholders Agreement with HannStar to establish a joint venture company, South Sintek, which will be equipped with the 5th generation color filter technology. According to the Shareholders Agreement, the Company will initially own 80.0 percent and HannStar will own 20.0 percent of South Sintek's equity interest. DNP is currently discussing with the Company to invest in South Sintek by way of rights issue. If DNP successfully invests in South Sintek as discussed, the Company, together with its affiliates and/or employees, will eventually hold 61.0 percent of South Sintek after DNP's investment. The Company believes that the joint venture arrangement will allow it to secure future purchase orders from HannStar, lower its overall capital expenditure requirements and further enhance its relationship with DNP.

The Company also believes that consolidation with other color filter manufacturers in Taiwan could enhance its leading position in Taiwan and increase its competitiveness in the global and domestic color filter market. The Company has been exploring potential opportunities of consolidation with other color filter manufacturers in Taiwan and is prepared to take a leading role in the process of such consolidations.

Continue to enhance product quality and emphasize low cost and efficient manufacturing

The Taiwanese independent color filter manufacturers are currently supplying only approximately 55.0 percent of the total demand of color filters in Taiwan, indicating that there is room for growth. Taiwanese color filter manufacturers are also best positioned to capture the significant demand associated with the 5th generation TFT-LCD expansion plans over the next two years.

To capture the potential growth, one of the Company's main strategic focus is to improve its product quality and enhance its low cost and efficient manufacturing processes. The Company's emphasis on production quality has been demonstrated by its high production yield for color filter production.

Focus its research and development ("R&D") efforts on developing new products and localize core technology

To cope with the downward pressure on average selling prices of its products, the Company will focus its R&D efforts on higher value-added products that have higher unit sales prices and higher profit margins, including larger sized color filters (17 inch and above) for TFT-LCDs, photo spacers, in-plane switching ("IPS"), multi-domain vertical alignment ("MVA") technologies and higher resolution, brightness, color salutation color filters for low temperature poly-silicon ("LTPS") LCD and LCD TV. Furthermore, the Company seeks to enhance its in-house technology by localizing core technologies such as those used for color resist production.

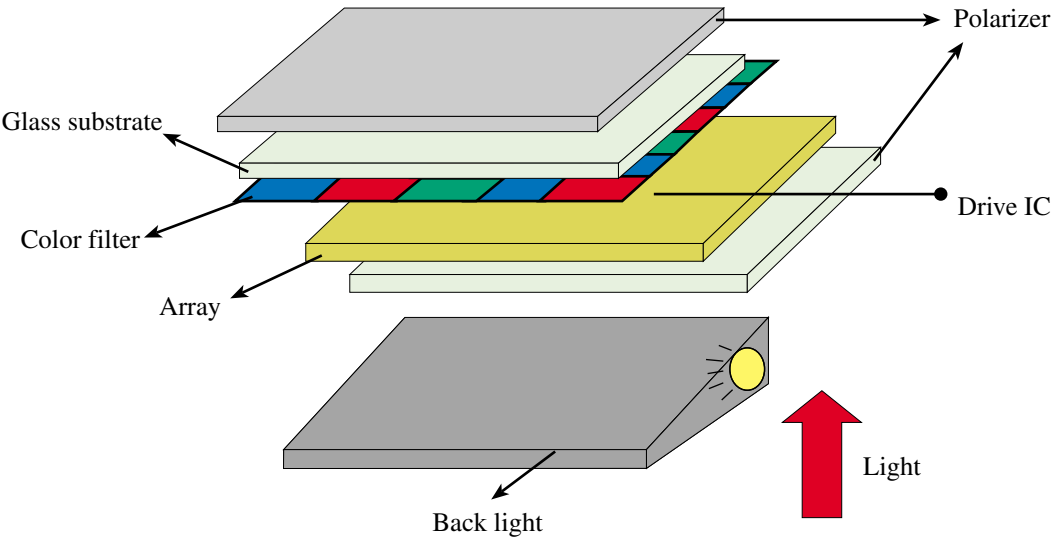
Enhance customer-focused logistics and fulfillment network

Major TFT-LCD manufacturers have increasingly required its component and raw material suppliers to provide product fulfillment and logistics capabilities so that the suppliers can respond to market demands quickly and reduce their inventory risk. The Company offers its customers the ability to receive and service products in Taiwan on a just-in-time ("JIT") basis. The Company also intends to further form a logistics network to enhance its supply chain management system. For TFT-LCD customers, the Company continues to offer the production of color filters on a built-to-order basis and deliver such products to locations designated by customers within approximately seven days from receiving an order. For some TFT-LCD customers, the Company intends to provide "virtual" in-house production by building plants near those of its customers.

Products of the Company

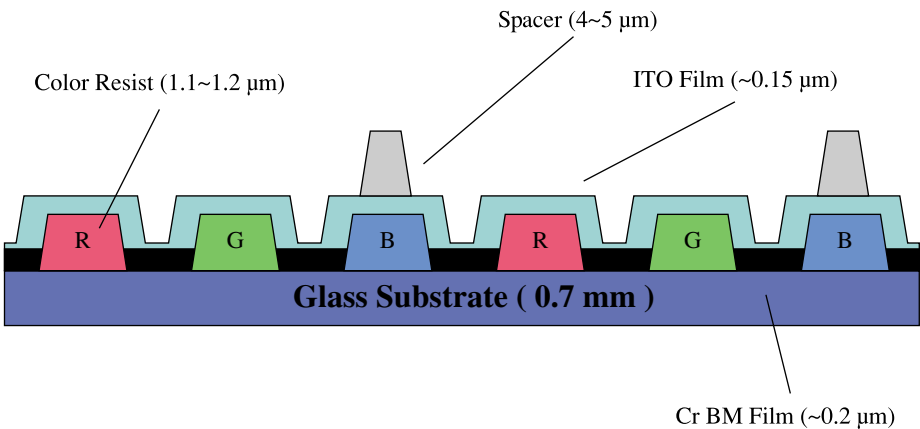
Color filters are one of the most critical and expensive components of a TFT-LCD, accounting for over 20 percent of the total raw material cost and approximately 15 percent of the total cost of a 15 inch TFT LCD monitor. Color filters are a device that generate color for a TFT-LCD; therefore, every TFT-LCD panel needs one color filter. TFT-LCD is a multi-layered structure with liquid crystal filled between two glass plates. The TFT-LCD panel is made of a TFT-array substrate and a color-filter substrate. Thin film transistors ("the TFT"), are arranged in a matrix on a glass substrate and control each individual pixel, while color filters generate color.

The cross section of a TFT-LCD is as follows:

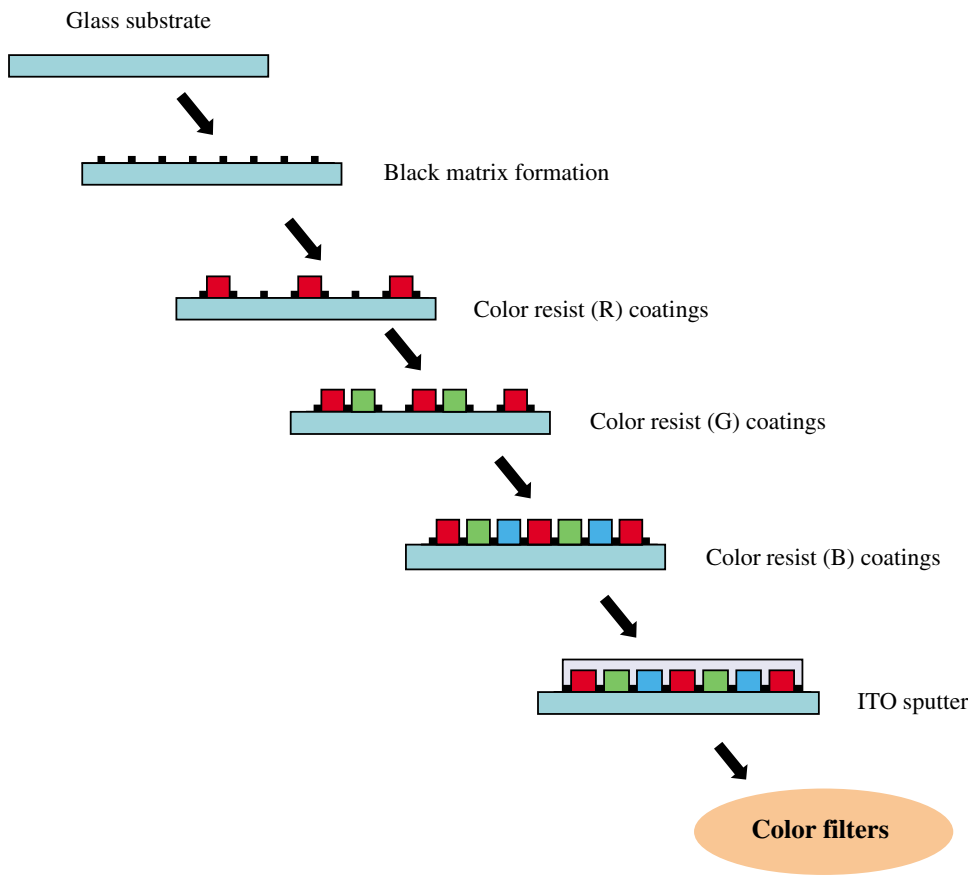


The color filter of a TFT-LCD consists of three primary colors — red (R), green (G), and blue (B) (together “RGB”), which are included on the color-filter substrate. The elements of a color filter line up one-to-one with the unit pixels on the TFT-array substrate. Each pixel in a color liquid-crystal display (“LCD”) is subdivided into three sub-pixels, where one set of RGB subpixels is equal to one pixel. Color filters can be made with either dyes or pigments, utilizing coloring method such as dyeing, diffusion, electro-deposition, and printing. There are several fairly common color-element configurations for LCDs. Stripe is the most prevalent method, followed by mosaic and delta. Among the many combinations of configuration and types of color filter fabrication methods, the color-resist method with stripe-type RGB arrangement is currently the most prevalent for use in both flat panel monitors and notebooks. The common LCDs rely on pixels formed by twisted nematic liquid-crystal that change the angle of light passing through them when an electrical current is charged. As the polarization changes, varying amounts of light are able to pass through a polarizing layer on the surface of the display. There are two primary methods to produce a liquid-crystal image with the pixels, namely, passive and active matrix driving methods.

The cross section of a color filter (with photo spacer type) is as follows:



The production flow of a color filter (without photo spacer type) is as follows:



The Company primarily engages in production of color filters that are designed for large sized TFT-LCD panels. The Company distributes a wide range of color filters that varies in size and specifications. These filters are manufactured by the Company’s two production lines. Each glass substrate from the Company’s 3.5th generation production line is capable of cutting six 14.1-inch color filters for notebook computers or four 17-inch color filters for flat panel monitors. Each glass substrate from the Company’s 4.5th generation production line is capable of cutting six 17-inch or four 20-inch color filters for flat panel monitors.

Given that different customers have different color filter needs, the Company has implemented a program that closely monitors the requirements and specifications of its customers to ensure that the color filters developed would be exactly in line with their requirements. Because it takes approximately three to six months from design to testing and certification by a customer during which the Company will gain an intimate knowledge of its clients’ businesses. Therefore the costs of switching customers are not likely to switch its color filter suppliers as it is costly and time consuming to switch and certify another color filter supplier.

The following table sets out the breakdown of sales by product as a percentage of net sales for each of the periods indicated:

	Year ended December 31,			
	2001		2002	
	(in NT\$'000)	%	(in NT\$'000)	%
Net Sales				
Color filters				
14 inch	126,084	8.0	29,342	0.8
15 inch	218,805	13.9	1,503,778	40.9
17 inch	664,111	42.2	1,627,522	44.3
Liquid-crystal Monitor ("LCM")	51,970	3.3	321,432	8.8
Others	514,188	32.6	190,489	5.2
Total	<u>1,575,158</u>	<u>100</u>	<u>3,672,563</u>	<u>100</u>

The following table sets out the unit sales of color filters for each of the periods indicated:

	Year ended December 31,	
	2001	2002
Unit Sales		
Color filters		
14 inch	130.9	25.3
15 inch	183.7	1,484.9
17 inch	400.3	1,168.6
LCM	5.0	66.7

Unit: per 1,000 substrate panel

Sales and Marketing

Although the Company's manufacturing facility is operating at close to maximum capacity and the current domestic demand for color filters outpaces the domestic supply of color filters, the Company continues to place efforts on sales and marketing of its products. The Company mainly focuses its sales and marketing efforts on its existing key customers. The Company has allocated an account manager for each of the top five customers in order to maintain a good working relationship with each of these customers in order to fully understand their specific needs and requirements. The account manager responsible for each customer works closely with its respective customer and other departments of the Company, including but not limited to the R&D and manufacturing departments, to ensure that the products are manufactured with the specific needs of the customer in mind. The Company believes that the close contact between the Company's sales team and that of the Company's customers serves to strengthen the Company's relationships with its customers. With respect to attracting new customers, the Company mainly targets first-tier companies with whom it is not currently doing business with. To aid in the process of securing purchase orders from new customers, the Company will, often in response to a request for a quotation, set up a team dedicated to a specific potential customer.

The Company conducts market research through its in-house customer service personnel. The Company also provides information in the area of production process technology to its major customers who are planning the launch of new products. The Company makes available to each of its major customers its customer relations management (“CRM”) system to maintain an ongoing interactive channel of communication between the customer and the Company. The CRM system is an internal information system interfaced with the database of the customer, through which the customer can monitor each stage of the progress of products from design to shipping. The CRM system includes many protocols such as forecast, order, order confirmation, change of order, order change confirmation and shipment forecast. The Company believes its CRM system provides a convenient way for customers to interact with the Company and is an important element in achieving customer satisfaction.

The Company enters into arrangements with its key customers whereby, for planning purposes, such customers would supply the Company with non-binding rolling forecasts, which form the basis of purchase orders at a later point in time. The Company generally bills its customers on delivery of goods with a credit term of 90 days. With respect to after sales support, the Company has maintained a customer service department and a quality assurance department to service color filters sold by the Company. Customer queries and complaints are usually discussed at the weekly customer support meeting, and questioned products subject to complaints are immediately relayed to the quality assurance department for testing and the determination of any defects.

Raw Materials and Components

The key raw materials or components for color filters are glass substrate, color resist, target, and chemical materials. For example, the glass substrate, color resist and target (including Indium Tin Oxide (“ITO”) target and Chromium (“Cr”) target) utilized on 1SY08-14 Panel 550x650, a 15-inch color filter, account for approximately 53.7 percent, 17.7 percent and 14.1 percent of the material cost of the color filter respectively, while material cost accounts for approximately 60.0 percent to 70.0 percent of the total cost for the color filters. The Company acquires glass substrate from Corning Display Technologies Taiwan, NH Techno Glass Corporation, and Nippon Electric Glass Co., Ltd., color resist from JSR Corporation, DNP and ITES Co., Ltd. (“ITES”), ITO and Cr target from Taiwan Maruyasu & Co., Ltd.. The Company believes that there are a sufficient number of vendors for most of its components and raw materials. The Company aggressively seeks alternative sources of raw materials and maintains a good relationship with its current suppliers. The Company’s order lead times and cancellation requirements vary by supplier and raw material.

The Company has not experienced any shortage of components and raw materials for its color filter production and does not expect any shortage in the near future. The Company typically contacts its suppliers on a weekly basis and provides them with three-week rolling forecasts. The Company generally accumulates two weeks’ worth of color filter raw materials and components in its inventory. As the largest independent color filter manufacturer in Taiwan, the Company believes it is in a better position than many of its competitors to obtain a reliable supply of necessary components, due largely to the relationships that the Company maintains with its suppliers and the size of its purchases. The Company is currently developing certain key components in-house primarily on the grounds of cost saving and quality control.

Research and Development

As of January 31, 2003, the Company's R&D department comprised of 31 staffs. At each stage of product design and development, the engineers work closely with the sales and marketing personnel and customers and interact with them via the CRM system with respect to specifications, schedule, prices and manufacturing readiness. The Company's R&D budget in 2002 and 2003 accounts for approximately 1.9 percent and 2.0 percent, respectively, of the Company's revenue.

Due to the competitive nature and the rapid price erosion characteristic of the TFT-LCD industry, the Company's R&D efforts are primarily focused on reducing the manufacturing cost of color filters and increasing productivity and yields.

In addition to the R&D efforts in process technology to enhance yield and efficiency, the Company's other recent R&D efforts seek to focus on new and emerging technologies such as photo spacers, IPS and multi-domain vertical alignment ("MVA") technologies and ITO glass. In addition, the Company is developing new black matrix technologies to replace chromium oxide with a resin. Chromium oxide requires a vacuum process for film growth, while resin can be coated or printed in air. The Company has changed the color resist application process from spin-coat to slit application to reduce initial equipment and running costs. The Company is planning to, not only jointly develop with its color resist suppliers a new color resist that has a higher color saturation and aperture to improve on current color filters that absorb too much light, thereby limiting brightness and color dissipate, but also jointly develop with its affiliates back light module that has higher purity and brightness.

Competition

The color filter industry is dominated by two groups of companies - one is headed by Toppan and the other is headed by DNP. Statistics from ITIS indicate that Toppan and DNP collectively account for 63 percent of the shares of the world color filter market in 2001. Most of the other independent color filter manufacturers and TFT-LCD makers who produce color filters in-house have also primarily obtained technology and know-how from these two companies. The Company has formed a strategic alliance with DNP under which DNP provides 3.5th, 4th and 5th generation color filter production technology exclusively to the Company. The Company believes that the royalty and technology transfer fees charged by DNP is competitive as compared to what Toppan is charging its licensees. The Company considers its main competition to be from other Taiwanese color-filter manufacturers such as CFI, AMTC and Cando. According to ITIS, in terms of 2002 estimated production volume, color filters produced domestically cover approximately 55 percent of the total demand from TFT-LCD manufacturers in Taiwan with approximately 45 percent of supply supplied by foreign manufacturers. It is estimated that with domestic color filter manufacturer starting to mass-produce color filters on newer generations of production plants, the domestically produced color filters shall account for approximately 66.0 percent of the Taiwan's color filter market by 2003.

The Company also faces potential competition from the manufacturing operations of its customers, which are continually evaluating the merits of manufacturing color filters internally versus outsourcing to contract manufacturers. For example, AU Optronics has announced that it will build 5th generation color filter production facilities in 2003.

The Company believes that its production capability represents a significant competitive advantage that the Company enjoys over the other domestic color filter manufacturers.

Production Facilities

The Company has its production facility in Hsin-Chu Industrial Park, Hsin-Chu County, which is equipped with two production lines. One of the production lines is a 3.5th generation line, which has a monthly production capacity of 65,000 substrate sheets and is geared towards the production of 17-inch, 15-inch and 14-inch color filters. The other production line is a 4th generation line, which is geared towards the production of 15-inch and 17-inch color filters. The Company's 4th generation production line commenced production in September 2002 and at the end of 2002, approximately 51,500 substrate sheets were produced with yield rate surpassing 86.0 percent.

Quality Control

In the color filter industry, production yield directly translates into profitability. Hence, the Company places particular focus on quality control and has in place strict quality control procedures and tests at various phases of production. As a result, the Company's color filter production has one of the highest yield rates among its competitors in Taiwan.

The quality control tests of the Company are aimed to enforce the strict standards set by the Company for its products. The testing of color filters requires technical expertise and knowledge of the specific applications and functions of the color filters tested. The Company believes that its testing services employ technology and expertise which are among the most advanced in the color filters industry in Taiwan. The Company's testing procedures closely follow the standards prescribed under ISO 9000 and ISO 14000. In addition to maintaining different types of testing equipment, which enables the Company to test a variety of color filters functions, the Company works closely with its customers to design effective testing programs on multiple equipment platforms for particular color filters. The Company also receives feedback reports from customers on a regular basis.

Starting in 2001, the Company's quality control procedures have included the use of automatic inspection systems such as raw material intake quality controls, self-inspection, optical examinations and quality control flow charts under which the Company inspects every stage of the production of color filters. The Company believes that this inspection system helps to ensure quality as early as the design stage, and helps the Company to design, engineer, develop and produce new products with cost and time efficiency.

The Company's policy of high quality and strict control standards has led to the award of ISO certificates to its existing manufacturing facilities in Taiwan. The Hsin-Chu plant received ISO 9002, ISO 9001:2000 and 14001:1996 certifications in 2000, 2002 and 2001 respectively.

Patents and Licenses

As of February 20, 2003, the Company held three patents registered and had 20 patent applications pending in the ROC. The Company believes that it is important to develop and patent its designs and special features in its products and may be able to license out some of the patents in the future.

Environmental Protection

The Company is in substantial compliance with the prescribed environmental regulations of Taiwan, and the Company has not been subject to any material fines or action involving non-compliance with environmental regulations of Taiwan with the exception of the following:

Date of Issue	Issuing Authority	Reason	Fine Imposed
December 12, 2000	The Environmental Bureau of Hsin-Chu	Release of wastewater prior to obtaining approval.	NT\$60,000
August 15, 2001.....	The Environmental Bureau of Hsin-Chu	The oxygen level of wastewater fails to meet the prescribed level.	NT\$120,000
September 24, 2001.....	The Environmental Bureau of Hsin-Chu	The oxygen level of wastewater fails to meet the prescribed level.	NT\$600,000

All above violations have been corrected.

Litigation

The Company sustained fire damage to its plant and equipment on December 13, 2000 in an amount of approximately NT\$781.2 million. The Company had purchased comprehensive insurance policies to cover the loss and damage from six different insurance companies. However, these insurance companies have refused to pay the proceeds with the claim for the reasons that, among other things, the damage at issue did not amount to a total loss. In October 2001, the Company lodged an arbitral claim with the ROC Arbitration Association to seek compensation against these insurance companies. The claim covers a full recovery of damage sustained from the fire incident. The insurance companies have submitted a preliminary response to the arbitrators in March 2002. In the arbitration hearing held on January 27, 2003, the arbitral tribunal instructed both parties to submit the evidence for further verification. The case is currently pending and there is no assurance that the Company's damage can be fully recovered. If the Company is unable to obtain full recovery or partial recover of the claim, the Company may have to write off an amount equal to the difference between the book value of the damaged equipment and the amount recovered from the arbitration award, if any. There can be no assurance that the lack of compensation would not have a material adverse effect on the Company's business, financial condition and results of operations.

Save as disclosed above, the Company is not and has not been involved in, and the Company is not aware of, any material litigation or other proceedings the outcome of which might, individually or taken as a whole, affect the financial condition or results of operations of the Company.

Insurance

The Company maintains insurance policies in respect of buildings, equipment and certain inventories, covering loss due to fire and explosion. Currently, the Company does not have business interruption insurance. Although the Company considers its insurance policies to be in line with industry norms in Taiwan, significant damage to any of the Company's production facilities, whether as a result of fire or other causes, could still have a material adverse effect on the Company.

Employees

As of December 31, 2002, the Company had 592 full-time employees. The number of employees the Company had as of December 31, 1999, 2000 and 2001 are 23, 208, and 406, respectively.

Employees' salaries are reviewed once per year and are adjusted based on industry standards, inflation and individual performances. Under the Company's Articles of Incorporation, the Company's employees are to participate in the Company's profit distribution such that employees are entitled to receive bonuses as an incentive, based on a percentage of allocable surplus income. This profit sharing plan has however yet to be implemented. In addition, on September 27, 2002, the ROC Securities and Futures Commission approved the Company's employees stock option plan to issue additional incentives to the Company's employees. The employees stock option plan reserves 40 million Shares of the Company to be issued to the Company's employees. The SFC has authorized the Company to carry out the employees stock option plan on or prior to September 27, 2003.

The Company has accidental benefits and medical insurance policies to its employees. The Company also collects pension fund contributions for its local employees in accordance with the Labor Standards Law of the ROC. In addition, the Company provides extensive training programs for its employees at various departments on various subjects. The average age of its employees is approximately 24. For 2002, the Company's staff turnover rate, as defined by average monthly changes in the numbers of employees, including new hired and departing employees, divided by the number of employees at the beginning of the month, was approximately 2.0 percent, which was primarily due to the fact that the Company is at the early expanding stage and large numbers of base-level employees were being recruited during this time. The Company does not have any collective bargaining arrangement with its employees, and has never experienced a work stoppage due to labor disputes or labor shortage. The Company believes it maintains a good relationship with its employees.

Subsidiaries

Sin Hsin Investment Ltd. ("Sin Hsin"), a wholly-owned subsidiary of the Company, was established in January 2003. Its registered office is at 1F, No. 326, Kuan-Fu East Road, Fung-Hwung village, Hukou Shiang, Hsin-Chu, Taiwan, ROC. Sin Hsin is an investment holding company which engages in general investment business.

South Sintek Photronic Corporation ("South Sintek"), a subsidiary to be co-established by the Company and HannStar on February 25, 2003, will be equipped with the 5th generation color filter technology. The Company currently owns 80.0 percent of South Sintek's equity interest. Its registered office is at 2F, Building C, No. 3 Nan-Ko, Rd. 7 Science-Based Industrial Park, Tainan, Taiwan, ROC. DNP is currently discussing with the Company and HannStar to invest in South Sintek by way of rights issue. If DNP successfully invests in South Sintek as discussed, the Company, together with its affiliates and/or employees, will eventually hold 61.0 percent of South Sintek after DNP's investment.

MANAGEMENT

Directors and Supervisors

The ROC Company Law and Articles of Incorporation of the Company provide that the Board of Directors of the Company are to be elected by the Company's shareholders at the shareholders' meetings at which a quorum, consisting of a majority of all the issued and outstanding shares in issue, is present. The Chairman is a director elected by the Board of Directors. The Board of Directors is responsible for the management of the business of the Company.

The Articles of Incorporation of the Company provide for five to nine directors (the "Directors") and one to three supervisors (the "Supervisors"). In accordance with the ROC Company Law, Supervisors are elected by the shareholders of the Company and cannot concurrently serve as Directors or officers of, or in staff positions with, the Company. The duties and powers of the Supervisors include, among other things, investigating the condition of the Company, inspecting corporate records, verifying statements prepared by the Board of Directors prior to the annual general shareholders' meetings, calling shareholders' meetings, representing the Company in negotiations with its Directors and notifying, when appropriate, the Board of Directors to cease acting in contravention of applicable law or regulation or in contravention of the Articles of Incorporation or beyond the Company's scope of business.

The term of office for the Directors and Supervisors is three years from the date of election or until the next election, whichever is later. They may serve any number of consecutive terms and may be removed from office at any time for cause by a resolution adopted at a meeting of shareholders.

In accordance with the ROC law, each of the Company's Directors and Supervisors owes fiduciary duties to all shareholders. Of the current Directors and Supervisors, three were nominated by corporate entities; the remaining Directors and Supervisors serve in their capacity as individual shareholders.

The Company's Board of Directors is currently comprised of seven Directors and three Supervisors. Of the seven board seats, two are occupied by independent directors. One of the Company's three Supervisors is an independent supervisor. Directors and Supervisors will be deemed "independent" only if, for at least one year prior to their election, they:

- ▶ do not serve as independent directors or supervisors of five or more other companies;
- ▶ are not employed by the Company or its affiliates and are not directors or supervisors of its affiliates;
- ▶ do not directly or indirectly hold over one percent of the Company's issued and outstanding shares and are not ranked among the top ten individual shareholders of the Company;
- ▶ are not married or related within the second degree of employees of the Company or its affiliates, directors and supervisors, holders (directly or indirectly) of over one percent of the Company's shares or shareholders who are ranked among the top ten individual shareholders of the Company;
- ▶ are not directors, supervisors or employees of corporate shareholders that directly hold more than five percent of the Company's shares or ranked among the top five corporate shareholders of the Company;

- ▶ are not directors, supervisors, managers or holders of more than five percent of the shares of a company or institution with which the Company have a financial or business relationship; and
- ▶ are not a, or a spouse of a, partner, director, supervisor or manager of providers of financial, commercial or legal services to the Company or its affiliates.

In addition, to be deemed “independent”, directors and supervisors must be elected in their individual capacities and have five years of experience in business, legal or financial matters or in the Company’s business and provide proof of attending at least three hours of legal, financial or accounting training each year.

The following table sets forth certain information relating to the Directors and Supervisors.

Name	Position	Elected to office on	Number of Shares held directly as of January 31, 2003	Percentage of total Shares outstanding as of January 31, 2003
Si-Chung Chang.....	Chairman	April 8, 2002	4,200,050	1.05
Wu-Hsiung Chen ⁽¹⁾	Director	April 8, 2002	69,802,930	17.45
Chin-Lung Liu ⁽¹⁾	Director	April 8, 2002	95,135	0.02
Sheng-Feng Hsieh ⁽³⁾	Director	July 11, 2002	—	—
Te-Lang Liao ⁽²⁾	Director	April 8, 2002	1,000	0.00
Lo-HuoChiu ⁽³⁾	Director	April 8, 2002	400,000	0.10
Wen-Yi Chang.....	Director	April 8, 2002	1,887,000	0.47
Yen-Pai Chen.....	Supervisor	July 11, 2002	1,300,000	0.33
Wei-Yu Chen.....	Supervisor	July 11, 2002	1,351,000	0.34
Kuo-An Hsu ⁽⁴⁾	Supervisor	April 8, 2002	5,000	0.00

(1) Representatives of Ho Tung Chemical Corp.

(2) Representative of Sing Chung Investment Co., Ltd.

(3) Independent Director

(4) Independent Supervisor

Set forth below is a short biography of each of the Directors and Supervisors of the Company.

Si-Chung Chang is the Chairman of the Board of Directors of the Company. Dr. Chang has a Ph.D. degree in chemistry from Purdue University in the United States and is currently an associate professor in chemistry at the National Tsing Hua University.

Wu-Hsiung Chen is a Director of the Company representing Ho Tung Chemical Corp. Mr. Chen has a Master’s degree in chemistry from West Virginia State University in the United States.

Chin-Lung Liu is a Director of the Company representing Ho Tung Chemical Corp. Mr. Liu has a vocational degree in tax from the National Taipei College of Business in Taiwan.

Sheng-Feng Hsieh is an independent Director of the Company. Mr. Hsieh has a Bachelor’s degree in chemical engineering from Chung Yuan Christian University in Taiwan.

Te-Lang Liao is a Director of the Company. Mr. Liao has a Master’s degree in management of information system from Fairleigh Dickinson University.

Lo-Huo Chiu is a Director of the Company. Mr. Chiu, has a Master’s degree in business administration from Massachusetts Institute of Technology in the United States.

Wen-Yi Chang is a Director and the CEO of the Company. Mr. Chang has a Bachelor’s degree in physics from Chung Yuan Christian University in Taiwan.

Yen-Pai Chen is a Supervisor of the Company. Mr. Chen has a Master’s degree in management of information system from the University of San Diego in the United States.

Wei-Yu Chen is a Supervisor of the Company. Mr. Chen has a Master’s degree in business administration from Berkeley University in the United States.

Kuo-An Hsu is an independent Supervisor of the Company. Mr. Hsu has a Bachelor’s degree in chemistry from National Zhejiang University.

The business address of each of the Directors and Supervisors is the registered office of the Company.

Executive Officers

The following table sets forth certain information relating to the executive officers of the Company.

<u>Name</u>	<u>Position</u>	<u>Year of Appointment</u>
Yin-Lung Wang.....	President	September 1, 2002
Wen-Yi Chang	Chief Executive Officer	August 1, 1999
Yuan-Sung Lai	Chief Financial Officer/Vice President	February 21, 2000
Pao-Sun Chang	Vice President for Operations	October 11, 1999
Chun-Yu Lin.....	Vice President in Production & Technology Division	November 5, 2002

Set forth below is a short biography of each of the Company’s executive officers.

Yin-Lung Wang is the president of the Company. Mr. Wang holds a Bachelor’s degree in chemistry from Chung Yuang Christian University in Taiwan.

Yuan-Sung Lai is the CFO/Vice President of the Company. Mr. Lai has a vocational degree in finance and taxation from the National Taipei College of Business in Taiwan.

Pao-Sun Chang is Vice President for Operations. Mr. Chang has a Ph.D. degree in chemistry from the Temple University in the United States.

Chun-Yu Lin is the Vice President in Production and Technology Division of the Company. Mr. Lin holds a Master’s degree in chemical engineering from Chung Yuang Christian University in Taiwan.

Share Ownership and Compensation

As of January 31, 2003, the members of the Board of Directors, the Supervisors and the executive officers of the Company, together with members of their immediate families, owned approximately 80.1 million Shares, or approximately 20.0 percent of the total outstanding Shares of the Company.

The aggregate remuneration paid and benefits in kind granted by the Company to Directors, Supervisors and executive officers of the Company in their capacity as such from January 1, 2002 through December 31, 2002 was approximately NT\$9.4 million. There are no outstanding loans granted by the Company to any of the Directors, Supervisors or executive officers and there are no outstanding guarantees provided by the Company for the benefit of any of the Directors, Supervisors or executive officers. The Company has not engaged in any transactions with its Directors, Supervisors or executive officers which are unusual in their nature or conditions.

PRINCIPAL SHAREHOLDERS

The names of the ten largest shareholders of record of the Company and their share ownership as at February 24, 2003 are as follows:

Name	Number of Shares Held	Percentage of Total Shares Outstanding
Ho Tung Chemical Corp.	69,802,930	17.4507
Dai Nippon Printing Co., Ltd.	41,501,936	10.3755
China Development Industrial Bank.....	17,497,373	4.3743
Yuanta Core Pacific Securities.....	14,528,000	3.6320
HannStar Display Corporation	12,500,000	3.1250
Zortec Corporation	12,300,000	3.0750
Paoze Investment Limited.....	11,386,000	2.8465
Hang Profit Ltd.	9,583,022	2.3958
Helix Technology Inc.	5,563,498	1.3909
Si-Chung Chang	4,200,050	1.0500
Total.....	198,862,809	49.7157

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

This discussion and analysis should be read in conjunction with the non-consolidated financial statements of the Company included elsewhere in this Offering Circular. Such financial statements are English translations of the auditors' report and financial statements in Chinese prepared for and used in the ROC. The financial statements are not intended to present the financial position and results of operations and cash flows of the Company in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than those in the ROC. The standards, procedures and practices utilized to audit such financial statements are those generally accepted and applied in the ROC. See "Summary of Principal Differences between ROC GAAP and U.S. GAAP". The Company has not quantified the effect of the differences that would arise in the event its financial condition and results of operations were restated or reconciled to U.S. GAAP; however, some of these differences could be material. See "Risk Factors — Risks Relating to the ROC — Financial reporting and accounting standards in the ROC differ from other countries". This Offering Circular contains non-consolidated financial statements of the Company as of and for the years ended December 31, 2000, 2001 and 2002.

This discussion and analysis contains forward-looking statements. These statements are subject to certain risks and uncertainties, including those discussed below and in Risk Factors, that could cause actual results to differ materially from the expectations expressed in such forward-looking statements. Readers are cautioned not to place undue reliance on any forward-looking statement.

Basis of Presentation

This Offering Circular contains only non-consolidated financial statements of the Company as of and for the years ended December 31, 2000, 2001 and 2002. Under ROC GAAP, a company is required to consolidate financial results of any subsidiary whose total assets or net operating revenues exceed ten percent of the company's non-consolidated total assets or net operating revenues, as the case may be. A subsidiary is defined as any corporation or other business entity more than 50 percent of the outstanding voting stock of which is owned directly or indirectly by the company. In addition, the ROC SFC requires a company to consolidate the financial statements of each subsidiary whose total assets or net operating revenues exceed three percent of the company's non-consolidated total assets or net operating revenues, if the total assets or net operating revenues of all non-consolidated subsidiaries of the company exceed 30 percent of the company's non-consolidated total assets or net operating revenues, as the case may be. Based on this principle, the Company was not required to prepare consolidated financial statements as for the years ended and as of December 31, 2000, 2001 and 2002.

Revenues

The Company derives its operating revenues primarily from the manufacturing and sale of color filters and, to a lesser extent, from the resale of LCMs. The Company has experienced rapid growth in net operating revenues in recent years. The Company was in its inception period in 2000 and did not formally commence mass-production and sales of color filters until August 2001. As a result, revenues increased substantially between 2000 and 2001. In 2002, the Company's net operating revenues further increased 133.2 percent because the Company's 3.5th generation color filter production facilities had a full year of commercial production in 2002, whereas in 2001, the 3.5th generation color filter production facilities only started commercial production in August.

Cost of Goods Sold

The Company's cost of goods sold consists principally of:

- ▶ overhead, including depreciation of property, plant and equipment and amortization of intangible assets;
- ▶ costs of raw materials, including principally glass substrate, color resist, ITO target and Cr target; and
- ▶ direct labor costs.

Gross Margin

The Company's gross margin for 2002 was 32.0 percent, compared with 3.8 percent for 2001 and 7.8 percent for 2000. The Company commenced mass-production of color filters in August 2001. Due to substantial ramp up expenses, the Company recorded a lower than normal gross margin in 2001. Gross margin increased substantially in 2002 despite continuing pressure on average selling prices of the Company's main products principally due to a substantial improvement in production yield of the Company's 3.5th generation color filters. The Company believes that, as it continues to experience pressure on selling prices for its products, it may not be able to maintain the same level of gross margin that it achieved in 2002 in the future.

Operating Income and Margin

The Company was in its inception period in 2000 and recorded an operating loss of NT\$64.3 million for 2000. In 2001, as the Company ramped up its 3.5th generation color filter production, the Company recorded an operating loss of NT\$116.4 million. In 2002, as the Company's net operating revenues substantially increased, the Company recorded an operating income of NT\$861.3 million, representing an operating margin of 23.5 percent.

Product Pricing Trends

The following table sets forth the average selling prices of the Company's color filters and LCMs, based on different product sizes, for the periods indicated:

	Year ended December 31,	
	2001	2002
(NT\$ per panel)		
Color filters		
14 inch.....	963.2	1,159.8
15 inch.....	1,191.1	1,012.7
17 inch.....	1,659.0	1,392.7
LCM.....	10,394.0	4,819.1

The Company's sales are normally priced pursuant to purchase orders negotiated with customers which generally cover one month or less of deliveries. As a result of the short periods covered by purchase orders, the Company is frequently in ongoing discussions with its customers over product prices. In addition, pressure to reduce prices is particularly high for products near the end of their life cycles.

Results of Operations

The following table summarizes certain items from the Company's results of operations for the years ended December 31, 2000, 2001 and 2002, in each case as a percentage of net operating revenues:

	Years ended December 31,		
	2000	2001	2002
	<i>(inception period)</i>		
	%	%	%
Net Operating Revenues.....	100.0	100.0	100.0
Cost of Goods Sold.....	<u>92.2</u>	<u>96.2</u>	<u>68.0</u>
Gross Profit	<u>7.8</u>	<u>3.8</u>	<u>32.0</u>
Operating Expenses.....	494.9	11.2	8.5
Operating Income.....	<u>(487.0)</u>	<u>(7.4)</u>	<u>23.5</u>
Non-operating Income	815.2	10.4	1.9
Non-operating Expenses	193.6	8.3	6.8
Income (Loss) Before Income Taxes.....	<u>134.5</u>	<u>(5.3)</u>	<u>18.6</u>
Income Tax Benefit.....	624.8	21.5	4.7
Net Income (Loss)	<u>759.3</u>	<u>16.2</u>	<u>23.3</u>

2002 compared to 2001

Revenues. Net operating revenues in 2002 were NT\$3,672.6 million (U.S.\$105.7 million), representing an increase of 133.2 percent from NT\$1,575.2 million in 2001. The increase was attributable to increases in sales volume mainly because the Company's 3.5th generation color filter production facilities had a full year of commercial production in 2002, whereas in 2001, the 3.5th generation color filter production facilities only started commercial production in August.

Cost of goods sold. Cost of goods sold increased 64.8 percent from NT\$1,515.8 million in 2001 to NT\$2,497.5 million (U.S.\$71.9 million) in 2002. This increase reflected increases in raw materials costs, direct labor costs and overhead resulted from the increase in the Company's net operating revenues.

Gross profit and gross margin. Gross profit increased significantly by 1,878.5 percent from NT\$59.4 million in 2001 to NT\$1,175.1 million (U.S.\$33.8 million) in 2002. Gross margins in 2001 and 2002 were 3.8 percent and 32.0 percent, respectively. Gross margin increased in 2002 as the Company was able to reduce its cost of goods sold as it achieved higher economies of scale and better production yields despite the declining average selling prices for its products.

Operating expenses and income from operations. Total operating expenses in 2002 increased to NT\$313.7 million (U.S.\$9.0 million), from NT\$175.8 million in 2001, an increase of 78.5 percent over 2001. The increase was attributable to increases in:

- ▶ selling expenses of NT\$64.0 million, primarily due to increases in royalty payment in connection with increased operating revenues and in sampling expenses in connection with payments resulted from certain returned products;
- ▶ administrative expenses of NT\$68.7 million, primarily due to increased compensation expenses for the Company's administrative personnel and increased professional expenses in connection with the listing of the Company's Shares on the TSE; and
- ▶ research and development expenses of NT\$5.2 million, primary due to an increase in compensation expenses for the Company's research and development personnel.

Operating expenses as a percentage of net operating revenues decreased from 11.2 percent in 2001 to 8.5 percent in 2002. Selling expenses were 1.5 percent in 2001 and 2.4 percent in 2002. Administrative expenses were 5.5 percent in 2001 and 4.2 percent in 2002. Research and development expenses were 4.2 percent in 2001 and 1.9 percent in 2002.

Operating income was NT\$861.3 million (U.S.\$24.8 million) in 2002, compared to an operating loss of NT\$116.4 million in 2001. Operating margins were 23.5 percent in 2002.

Non-operating income. Total non-operating income decreased to NT\$71.5 million (U.S.\$2.1 million) in 2002 compared to NT\$163.8 million in 2001. The decrease was mainly attributable to a decrease of NT\$57.9 million in interest income due to a lower cash position and lower interest rate in 2002 and a decrease of NT\$28.0 million in net foreign currency exchange gains resulted from a U.S. dollar depreciation in relation to Japanese Yen, which decreases were partially offset by an increase of NT\$25.5 million in investment income resulted from additional investment in government bonds.

Non-operating expenses. Total non-operating expenses increased to NT\$250.1 million (U.S.\$7.2 million) in 2002, compared to NT\$131.0 million in 2001. The increase was mainly attributable to an increase of NT\$96.2 million in depreciated value of certain equipment, the uses of which were suspended as a result of an accident that occurred on December 31, 2000 involving equipment malfunction and an arbitration proceeding in connection with such accident. See "Business — Litigation". The timing of the resumption of the uses of the equipment, if ever, will depend on the result of the arbitration proceeding.

Net income. Income before income tax increased to NT\$682.8 million (U.S.\$19.6 million) in 2002, compared to a loss of NT\$83.6 million in 2001. Income tax benefits decreased by NT\$167.8 million from NT\$339.3 million in 2001 to NT\$171.5 million (U.S.\$4.9 million) in 2002. Net income increased to NT\$854.3 million (U.S.\$24.6 million) in 2002, compared to NT\$255.8 million in 2001.

2001 compared to 2000

Revenues. Net operating revenues in 2001 were NT\$1,575.2 million, representing an increase of NT\$1,562.0 million from NT\$13.2 million in 2000, principally because the Company commenced commercial production in 2001.

Cost of goods sold. Cost of goods sold increased NT\$1,503.6 million from NT\$12.2 million in 2000 to NT\$1,515.8 million in 2001 principally because the Company commenced commercial production in 2001.

Gross profit and gross margin. Gross profit increased by NT\$58.4 million from NT\$1.0 million in 2000 to NT\$59.4 million in 2001. Gross margins in 2000 and 2001 were 7.8 percent and 3.8 percent, respectively. Gross margin decreased in 2001 because the Company was in the ramp-up stage of its production in 2001.

Operating expenses and income from operations. Total operating expenses in 2001 increased to NT\$175.8 million, from NT\$65.3 million in 2000, an increase of NT\$110.5 million over 2000. The increase was attributable to increases in:

- ▶ selling expenses of NT\$24.0 million primarily due to increased royalty payment in connection with increased operating revenues in 2001;
- ▶ administrative expenses of NT\$26.2 million, primarily due to increased compensation expenses for the Company's administrative personnel; and
- ▶ research and development expenses of NT\$60.3 million, primary due to an increase in compensation expenses for the Company's research and development personnel and increases in depreciation and amortization expenses.

Operating loss in 2001 was NT\$116.4 million, compared to an operating loss of NT\$64.3 million in 2000.

Non-operating income. Total non-operating income increased to NT\$163.8 million in 2001 compared to NT\$107.6 million in 2000. The increase was mainly attributable to an NT\$50.7 million increase in interest income due to higher cash position and an NT\$14.7 million increase in net foreign currency exchange gains resulted from a U.S. dollar appreciation in relation to Japanese Yen.

Non-operating expenses. Total non-operating expenses increased to NT\$131.0 million in 2001 compared to NT\$25.6 million in 2000. The increase was mainly attributable to an increase of NT\$65.3 million in interest expenses because the Company borrowed more short-term and long-term loans in 2001 and an increase of NT\$36.2 million in suspension of work losses as a result of an equipment malfunction in the Company's production facilities. See "— 2002 compared to 2001 — Non-operating expenses".

Net income. Income before income tax was NT\$17.8 million in 2000, compared to a loss of NT\$83.6 million in 2001. Income tax benefit increased by NT\$256.8 million from NT\$82.5 million in 2000 to NT\$339.3 million in 2001. Net income increased to NT\$255.8 million in 2001, compared to NT\$100.3 million in 2000.

Inventories and Receivables

Inventories and receivables are the principal components of the Company's current assets and require a significant amount of working capital support, particularly as the Company's revenues continue to increase. Accordingly, control of inventories and receivables is a key aspect of the Company's business operations.

As of December 31, 2002, the Company's receivables, including receivables from related parties, totaled NT\$1,256.2 million (U.S.\$36.1 million). Average receivables turnover in 2001 and 2002 were 100 days and 105 days, respectively.

The Company invoices customers when goods are shipped. Credit terms are generally 90 days. As of December 31, 2002, the Company's net inventories were NT\$297.9 million. Average inventories turnover in 2001 and 2002 were 54 days and 51 days, respectively.

Liquidity and Capital Resources

As of December 31, 2002, the Company had NT\$444.6 million (U.S.\$12.8 million) in cash and cash equivalents and NT\$649.3 million (U.S.\$18.7 million) in short-term investment, mainly in bond funds. The Company held cash and cash equivalent in the form of cash, primarily checking and savings accounts with banks and other financial institutions in Taiwan and overseas, and in the form of time deposits.

The Company's operating activities provided net cash of NT\$748.9 million (U.S.\$21.6 million) in 2002. The net cash was primarily derived from net income of NT\$854.3 million (U.S.\$24.6 million). Total depreciation and amortization, including depreciated value of certain suspended equipment, in 2002 was NT\$752.9 million. Additional cash was provided from working capital changes during the period, mainly consisting of a decrease of NT\$330.1 million (U.S.\$9.5 million) in accounts receivable from related parties, an increase of NT\$132.7 million (U.S.\$3.8 million) in accounts payable and a decrease of NT\$90.3 million (U.S.\$2.6 million) in inventories. These cash flows were partially offset by working capital changes, the primary elements of which included an increase of NT\$741.2 million (U.S.\$21.3 million) in accounts receivable.

Net cash flows used in the Company's investing activities in 2002 amounted to NT\$3,365.4 million (U.S.\$96.8 million), largely consisting of an investment of NT\$3,247.3 million (U.S.\$93.4 million) in fixed assets purchases, as well as an increase of NT\$205.0 million (U.S.\$5.9 million) in deferred expenses.

Net cash provided from financing activities in 2002 was NT\$2,038.7 million (U.S.\$58.7 million), which mainly consisted of proceeds from an NT\$1,134.4 million (U.S.\$32.6 million) long-term borrowing. This was partially offset by cash used to repay short-term bills and notes in the amount of NT\$400.0 million (U.S.\$11.5 million).

As of December 31, 2002 the Company had aggregate long-term debt, net of current portion, of NT\$3,597.3 million (U.S.\$103.5 million) and aggregate short-term debt, current portion of long-term debt and other short-term indebtedness of NT\$2,145.0 million. The long-term debt was provided pursuant to four different facilities with commercial and financial institutions. The loans bore interest at rates between 0.66 percent and 6.94 percent per annum as of December 31, 2002, mature between June 27, 2005 and March 11, 2008, and, in general require payments of principal and interest on either a semi-annually or monthly basis throughout the remainder of their terms. The short-term indebtedness consists of letter of credit loans and working capital loans with several banks.

The Company incurred capital expenditure, in the form of additions to color filter plants, property and equipment, of NT\$1,650.6 million, NT\$3,600.3 million and NT\$3,247.3 million (U.S.\$93.4 million) in 2000, 2001 and 2002, respectively. Capital expenditure in these periods related principally to the expansion of the Company's production facilities of color filters.

In 2003, the Company's capital expenditure plans consist mainly of the expansion and upgrade of its existing facilities and capital injection into the joint venture for the 5th generation color filters.

Historically, the Company's primary sources of finance have been net cash provided by operating activities, short-term, long-term, bank borrowings and other lines of credit and the proceeds from new issues of Shares for cash. The Company believes that it will have sufficient resources available to meet its planned capital expenditure requirements, as well as its present working capital requirements.

Inflation

The Company does not believe that inflation in Taiwan has had a material impact on its results of operations. Based on Consumer Price Index published by Directorate General of Budget, Accounting and Statistics, Executive Yuan, ROC, inflation in Taiwan was approximately 1.3 percent, (0.01) percent and (0.2) percent in 2000, 2001 and 2002, respectively.

Foreign Exchange Matters

A large portion of the Company's non-consolidated net operating revenues are denominated in currencies other than NT dollars, principally Japanese Yen and U.S. dollars, while a significant portion of the Company's non-consolidated costs and expenses are denominated in currencies other than NT dollars including Japanese Yen and U.S. dollars. Accordingly, the Company is exposed to movements in the exchange rates between the U.S. dollar on the one hand, and NT dollar and Japanese Yen on the other hand. The Company recorded non-consolidated net exchange gains of NT\$13.3 million, NT\$28.0 million and NT\$9.5 thousands in 2000, 2001 and 2002, respectively, reflecting the depreciation and appreciation of the U.S. dollar in relation to the NT dollar and Japanese Yen.

The effect of future changes in currency exchange rates on the Company's results of operations cannot be accurately predicted. In order to mitigate such risks, the Company attempts to balance to the extent possible the currency of its revenues with the currency of costs and expenses. In addition, from time to time, the Company enters into a number of currency based derivative instruments to hedge its foreign exchange risks.

Income Tax

The Company is currently subject to a 25 percent statutory corporate income tax rate in Taiwan. The Company has been receiving exemptions from ROC income taxes with respect to income attributable to capital increases for the acquisition of equipment in the ROC for the manufacture of the Company's principal products for a period of five years following each of such capital increase. The Company also benefits from other tax incentives generally available to ROC companies, including tax credits ranging from 25 percent to 50 percent of certain research and development and employee training expenses and 10 percent to 20 percent of credits for investment in automation equipment and technology. These tax credits and exemptions resulted in income tax benefits of approximately NT\$82.5 million, NT\$339.3 million and NT\$171.5 million (U.S.\$4.9 million) in 2000, 2001 and 2002, respectively. The ROC government has announced that it is considering reviewing various tax exemptions applicable to several industries. There can be no assurance that the Company will continue to benefit from the tax exemptions for which it currently qualifies.

Under the ROC Income Tax Law of 1997, retained earnings from operations after January 1, 1998 that are not distributed to shareholders by way of dividend for the relevant operating period are subject to a ten percent corporate income tax surcharge. If all or a portion of such retained earnings are subsequently distributed to shareholders, ROC resident shareholders may credit their ratable portion of the corporate income tax surcharge paid against their income tax liabilities in relation to such dividend income. Non-resident shareholders may offset the ratable amount of the corporate income tax surcharge against withholding tax in respect of the dividend income.

DIVIDENDS AND DIVIDEND POLICY

Except in limited circumstances, under the ROC Company Law, the Company are not permitted to distribute dividends or make other distributions to shareholders in respect of any year in which the Company does not record net income or retained earnings (excluding reserves). The ROC Company Law also requires that ten percent 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 such company's paid-in capital.

The Company's Articles of Incorporations provide that the remaining portions of its net income, less prior years' losses, outstanding taxes, the legal reserve, will be distributed as follows:

1. One percent to three percent is set aside as remuneration to directors and supervisors;
2. Not less than ten percent is distributable to employees as bonus; and
3. The balance is distributed to shareholders or retained by the Company in accordance with the resolution adopted at the shareholders' meeting.

Shareholders on a divided record date will be entitled to the full dividend declared without regard to any prior or subsequent transfer of such Shares. Payment of dividends in respect of the prior year, if any, will be made in the following year after approval by the Company's shareholders at a ordinary meeting of shareholders.

For information relating to ROC withholding taxes payable on dividends, see "ROC Taxation of Non-Residents — Dividends on the Shares".

A stock dividend of NT\$2.5 per Share for fiscal year 2002 was proposed by the Company's board of directors to be approved by the ordinary shareholders' meeting scheduled on April, 24 2003.

MARKET PRICE INFORMATION

The Shares have been listed on the TSE since September 27, 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 high and low of the daily closing values of the TSE Index.

	Closing Price		Average Daily	TSE Index	
	per Share		Trading		
	High	Low	Volume	High	Low
	(NT\$)		(in thousands of Shares)		
2002					
September (listing) ⁽¹⁾	26.10	24.36	34	4,208.80	4,191.81
October	22.60	13.65	5,214	4,601.37	3,850.04
November.....	24.00	18.50	6,704	4,500.55	4,813.53
December	20.70	16.30	3,494	4,823.67	4,452.45
2003					
January	19.70	17.00	3,136	5,078.80	4,524.87
February	18.70	16.30	2,962	4,833.58	4,432.46

Source: Bloomberg

(1) From September 27, 2002 to September 30, 2002

On March 5, 2003, the reported closing price of the Shares was NT\$18.5 per Share and the TSE Index closed at 4,418.11.

CHANGES IN ISSUED SHARE CAPITAL

The following table shows the changes in the issued common share capital of the Company since its incorporation in September 1999, are set out below:

Record Date	Type of Issue	Number of Shares Issued	Number of Shares Outstanding After Issue
September 1999	Issuance of Shares for cash	20,000,000	20,000,000
November 1999	Issuance of Shares for cash	54,000,000	74,000,000
November 1999	Issuance of Shares to employees ⁽¹⁾	5,880,000	79,880,000
March 2000	Issuance of Shares for cash	80,120,000	160,000,000
October 2000	Issuance of Shares for cash	200,000,000	360,000,000
December 2001	Issuance of Shares for cash	40,000,000	400,000,000

(1) According to the ROC Company Law, share capital to be contributed other than cash by shareholders may be in the form of monetary credit extended to a company, or the technical know-how or goodwill required by the company. 5,880,000 Shares were issued to employees in the form of the technical know-how.

DESCRIPTION OF THE COMMON STOCK

The following is a summary of certain provisions of the Company's Articles of Incorporation (the "Articles"), the ROC Securities and Exchange Law (the "Securities and Exchange Law") and regulations promulgated thereunder and the Company Law of the ROC (the "Company Law"), all as currently in effect.

General

As of December 31, 2002, the Company's authorised share capital is 600,000,000 Shares with a par value of NT\$10 per Share, among which 40,000,000 Shares are reserved for employee stock options. All issued common Shares of the Company are in registered form and 400,000,000 Shares are issued and fully paid for as of December 31, 2002.

As of the date of this Offering Circular, the Company has not issued any convertible debt securities, exchangeable debt securities or debt securities with warrants attached.

The ROC Company Law and the Securities and Exchange Law provide that any change in the issued share capital of a public company requires the approval of the Board of Directors. In the event that the issuance of any new shares will result in any change in the authorised share capital of the Company, in accordance with the Company Law, the Company must amend its Articles and obtain shareholders' approval at a shareholders' meeting. The Company must also obtain the approval of, or submit a registration to, the ROC SFC and Ministry of Economic Affairs.

Dividends

Under the Company Law, except under certain limited circumstances, a ROC company is not permitted to distribute dividends or make any other distributions to shareholders at any time other than when it is generating net profits ("Earnings"). Before distributing a dividend or making any other distribution to shareholders from Earnings, a company must first apply such Earnings to its losses suffered in previous years, if any, pay all outstanding taxes and set aside the legal reserve referred to below.

Subject to compliance with the above requirements, following approval of the financial statements for the preceding fiscal year by the shareholders in an annual shareholders' meeting, dividends are, unless otherwise stipulated under the Company's articles of incorporation, distributed in proportion to the number of Shares owned by each shareholder as listed on the register of shareholders as at the relevant record date determined by the Board of Directors ("Annual Dividends"). Annual Dividends may be distributed either in cash or in the form of common stock or a combination thereof. The ratio between any cash dividend and stock dividend is proposed by the Board of Directors and is determined by the shareholders at a shareholders' meeting. The stock dividend of the Company is distributed to the shareholders via the Company's share registrar ("Share Registrar") while the cash dividend is distributed by a paying agent appointed by the Company for the specific distribution. The Company has not appointed a paying agent on a standing basis.

The Company Law provides that a company is required to set aside a legal reserve in an amount equal to ten percent of its Earnings (less losses, if any, of previous years and applicable income taxes) until such time as its legal reserve equals its paid-in capital. The Articles further provide that, after recovering any past losses, paying all taxes and deducting the legal reserve, any balance thereof will

be distributed as follows: (i) from one to three percent for remuneration to the Directors and Supervisors; (ii) not less than ten percent for employee bonuses; and (iii) the balance, if any, will be distributed to shareholders or retained by the Company in accordance with the resolution adopted at the shareholders' meeting.

Distribution of Additional Shares

In addition to dividends paid out of Earnings of a company, the Company Law also permits a company to make distributions to shareholders in the form of additional shares from reserves (including its legal reserve referred to above, any special reserve and capital reserve). However, the capitalized portion payable out of a company's legal reserve is limited to 50 percent of the total accumulated legal reserve, and such capitalization can only be effected when and to the extent that the accumulated legal reserve exceeds 50 percent of the paid-in capital of such company. For information as to ROC taxes on cash and stock dividends, see "ROC Taxation of Non-Residents".

Pre-emptive Rights and Issue of Additional Common Stock

The Company Law provides that between ten percent and 15 percent of any new issue of shares of capital stock sold for cash must be offered first to the issuing company's employees. In addition, the Securities and Exchange Law and the relevant securities regulations require that, if a public company listed on the TSE or GTSM intends to offer new shares for cash, at least ten percent of such 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 pre-emptive rights of existing shareholders. Unless the percentage of shares to be offered to the public is increased by shareholders, existing shareholders who are listed on the shareholders' register as of the record date have pre-emptive rights to acquire the remaining 75 to 80 percent of the issue in proportion to their existing shareholdings. The shares not subscribed for by the employees and shareholders at the expiration of the period for the exercise of their rights may be freely offered by the Company (subject to ROC law) to the public or specified person through the arrangement of the 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.

Employees Stock Option Plan

Pursuant to an SFC letter dated September 27, 2002 the Company obtained the approval of the SFC for an employees stock option plan, under which 40 million Shares will be reserved by the Company to be issued to the Company's employees. The price for each share under the stock option plan shall be no lower than the Company's net worth per Share as calculated based on the most recent audited financial statements of the Company. The SFC has authorized the Company to carry out the employees stock option plan on or prior to September 27, 2003.

Meetings of Shareholders

The ordinary meeting of shareholders of the Company is determined by the Board of Directors and is usually held in the Company's head office in Hsin-Chu, Taiwan within six months after the end of each calendar year. Extraordinary meetings of shareholders may be convened by a resolution of the Board of Directors whenever they consider it necessary, or if it is so requested in writing by shareholders holding shares for more than one year and holding not less than three percent of the paid-in capital of the Company. Extraordinary meetings of shareholders may also be convened by a

Supervisor of the Company when necessary. Notice in writing of ordinary and extraordinary shareholders' meetings stating the place, time and purpose thereof must be dispatched to each shareholder of the Company at least 30 days and 15 days, respectively, prior to the date set for the meeting.

Voting Rights

A holder of common stock has one vote for each share of common stock. With respect to the election of Directors and Supervisors by shareholders, it is carried out on a cumulative voting basis.

In general, a resolution can be adopted by the holders of at least a majority of the Shares represented at a shareholders' meeting at which the holders of a majority of all issued and outstanding Shares are present.

Notwithstanding the above, in order to approve certain major corporate actions, including, any amendment to the articles of incorporation (which is required for, *inter alia*, any increase in authorised share capital), the dissolution or amalgamation of a company, the entering into, amendment or termination of any contract for the lease of a company's business in whole, or for entrusted business or for regular joint operation with third parties, the transfer of all or an important part of its business or its properties, the taking over of the whole of the business or properties of any other company which would have a significant impact on the acquiring company's operations, or the distribution of any stock dividend or dissolution or amalgamation, the Company Law provides that a resolution has to be passed at a meeting of the shareholders with a quorum of holders of at least two-thirds of all issued and outstanding common stock at which the majority present vote in favor thereof. Alternatively, in the case of a public company, such as the Company, such a resolution may be approved by the holders of at least two-thirds of the common stock represented at a meeting of shareholders with a quorum of holders of at least a majority of issued and outstanding common stock.

A shareholder may be represented at a meeting or an extraordinary meeting by proxy. A valid proxy form must be delivered to the Company at least five days prior to the date fixed for the ordinary or extraordinary meeting. Voting rights attaching to the Shares exercised by proxy shall be subject to ROC proxy regulation.

Registration of Shareholders and Record Dates

The Company maintains the register of shareholders of the Company at its Share Registrar in Hsin-Chu, Taiwan and enters transfers of common stock in the register of shareholders upon presentation of the certificates in respect of the common stock transferred accompanied by other required documents.

As mentioned above, the record date for an Annual Dividend will be determined and announced by the Company. For the purpose of determining the shareholders of common stock entitled to Annual Dividends and other rights pertaining to the common stock, the Company Law provides that, for a public company, the register of shareholders is closed for a period of 60 days, 30 days and five days immediately before each date of ordinary shareholders' meeting, each extraordinary shareholders' meeting and the record date, respectively.

Annual Financial Statements

Under the Company Law, 10 days before an ordinary shareholders' meeting, the Company's annual audited financial statements must be available at the principal office of the Company for inspection by the shareholders.

Transfers of Common Stock

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

Acquisition by the Company of its own Common Stock

With other minor exceptions and the exceptions in the succeeding paragraphs, the Company cannot acquire its own common stock and any common stock acquired by the Company must be sold by the Company at the current market price within six months after its acquisition.

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

- (a) for transfer of shares to its employees;
- (b) for conversion into shares from bonds with warrants, preferred shares with warrants, convertible bonds, convertible preferred shares or certificates of warrants issued by the company; and
- (c) for maintaining its credit and its shareholders' equity; provided that the shares so purchased shall be cancelled thereafter.

The total Shares purchased by the Company shall not exceed ten percent of its total issued and outstanding Shares. In addition, the total amount for purchase of the Shares shall not exceed the aggregate amount of the retained earnings, the premium from stock issues and the realized portion of the capital reserve.

The Shares purchased by the Company pursuant to items (a) and (b) above shall be transferred to the intended transferees within three years after the purchase, otherwise the Shares shall be cancelled. For the Shares to be cancelled pursuant to item (c) above, the Company shall complete amendment registration for such cancellation within six months after the purchase.

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

Liquidation Rights

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

Transaction 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 ten percent 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 percent of the outstanding Shares of the company; for a company with more than 30 million outstanding Shares, the aggregate amount of 0.2 percent of the 30 million Shares plus 0.1 percent of the outstanding shares exceeding 30 million Shares; or (ii) five percent of the average trading volume (number of Shares) on the TSE or on the GTSM for the ten 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 ten percent of the shares reports the intended share transfer to the ROC SFC.

Notification to shareholders

Information concerning shareholders is published in the local newspapers and a notice is also sent to the shareholders according to the records maintained in the Company's share register. The Company is responsible for the handling of any financial services with respect to the Company's Shares.

TERMS AND CONDITIONS OF THE BONDS

The following terms and conditions (subject to amendment and except for the sentences in italics) will be endorsed on the Certificates issued in respect of the Bonds:

The issue of U.S.\$50,000,000 Zero Coupon Convertible Bonds due 2008 (the “Bonds”) of Sintek Photronic Corp. (the “Company”) was authorized by a resolution of the Board of Directors of the Company adopted on October 8, 2002. The Bonds are constituted by a trust deed (the “Trust Deed”) dated as of March 12, 2003 (the “Closing Date”) and made between the Company and The Bank of New York (the “Trustee”, which term includes any successor trustee under the Trust Deed), as trustee for the holders of the Bonds (the “Bondholders”). The Company has entered into a paying and conversion agency agreement (the “Agency Agreement”) dated as of March 12, 2003 with the Trustee, The Bank of New York as the registrar (the “Registrar”) and the principal paying, transfer and conversion agent (the “Principal Agent”) and The Bank of New York (Luxembourg) S.A. as paying, transfer and conversion agent (the “Paying Agent”, the “Conversion Agent” and the “Transfer Agent” and such expressions shall include the Principal Agent) in relation to the Bonds. The Registrar, the Principal Agent, the Paying Agent, the Conversion Agent and the Transfer Agent are together referred to as the “Agents”. The statements in these Terms and Conditions (“Conditions”) include summaries of, and are subject to, the detailed provisions of the Trust Deed. Copies of the Trust Deed and the Agency Agreement are available for inspection by the Bondholders during normal business hours at the principal office of the Trustee, at the date of issue of the Bonds at One Canada Square, 48th Floor, London E14 5AL, England and at the specified offices of each of the Agents. The Bondholders are entitled to the benefit of the Trust Deed and are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement.

The owners shown in the records of Euroclear Bank S.A./N.V. as operator of the Euroclear System (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream, Luxembourg”) of book-entry interests in the Bonds are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.

1. STATUS

The Bonds constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Company and rank and will rank at least *pari passu* without any preference or priority among themselves and (subject as aforesaid and other than any obligations preferred by mandatory provisions of law) with all other present and future unsubordinated and unsecured obligations of the Company.

2. FORM, DENOMINATION AND TITLE

(A) Form and Denomination

The Bonds will be issued in registered form, without coupons, in denominations of U.S.\$1,000 and integral multiples thereof. The Bonds will be offered, sold and will be transferable in principal amounts of U.S.\$1,000 or an integral multiple thereof. The Bonds are not issuable in bearer form. A bond certificate (each a “Certificate”) will be issued to each Bondholder in respect of its registered holding of Bonds. Each Bond and each Certificate will be serially numbered with an identifying number which will be recorded on the relevant Certificate and in the register of Bondholders which the Company will procure to be kept by the Registrar.

The Bonds will initially be represented by a global certificate (the “Global Certificate”) deposited with The Bank of New York, as common depositary for, and registered in the name of a nominee for, Euroclear Bank S.A./N.V., as operator of the Euroclear System and Clearstream, Luxembourg.

Owners of interests in the Bonds will not be entitled to receive definitive physical certificates in respect of their Bonds except in the limited circumstances described in the Global Certificate. The Bonds are not issuable in bearer form.

(B) Title

Title to the Bonds will pass only by transfer and registration in the register of Bondholders. The registered holder of any Bond will (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 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 will be liable for so treating the holder. In these Conditions, “Bondholder” and (in relation to a Bond) “holder” mean the person in whose name a Bond is registered in the register of Bondholders.

3. NEGATIVE PLEDGE

So long as any of the Bonds remain outstanding (as defined in the Trust Deed), the Company shall not create or permit to be outstanding any mortgage, charge, pledge, lien or other form of encumbrance or security interest (each an “Encumbrance”) upon the whole or any part of its undertaking, property, assets or revenues, present or future, to secure for the benefit of the holders of any International Investment Securities (as defined below) (i) payment of any sum due in respect of any such International Investment Securities, (ii) any payment under any guarantee of any such International Investment Securities or (iii) any payment under any indemnity or other like obligation relating to any such International Investment Securities without in any such case at the same time according to the Bonds, either the same security as is granted to or is outstanding in respect of such International Investment Securities, guarantee, indemnity or other like obligation or such other security as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

As used herein, the term “International Investment Securities” means bonds, debentures, notes, loan stock or investment securities of the Company or any other person evidencing indebtedness with a maturity of not less than one year from the date of their issue which (a) either (i) are by their terms payable, or confer a right to receive payment, in any currency other than New Taiwan Dollars (“NT dollars” or “NT\$”) or (ii) are denominated or payable in New Taiwan Dollars and more than 50 percent of the aggregate principal amount thereof is initially distributed outside Taiwan by or with the authorization of the issuer thereof and (b) are for the time being, or are capable of being, quoted, listed, ordinarily dealt in or traded on any stock exchange, quotation system or over-the-counter or other similar securities market outside the Republic of China (“ROC”).

4. NO INTEREST

No interest will be payable on the Bonds, except as provided in Condition 10.

5. TRANSFERS OF BONDS; ISSUE OF CERTIFICATES

(A) Transfers

Subject to Condition 5(D) below, a Bond may be transferred upon the surrender at the specified office of any Transfer Agent of the Certificate in respect of the Bond to be transferred, together with the form of transfer obtainable from any of the Transfer Agents (the “Form of Transfer”), duly completed and executed and any other evidence that such Transfer Agent may require. In the case of a transfer of only part of a holding of Bonds in respect of which a Certificate is issued, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. The Form of Transfer is available at the specified office of the Paying Agent during normal business hours.

Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.

(B) Delivery of New Certificates

Each new Certificate to be issued upon a transfer of Bonds shall be available for delivery within five business days upon receipt by the Transfer Agent (including the Transfer Agent in Luxembourg) at its specified office of the relevant Certificate and the Form of Transfer. Delivery of the new Certificates shall be made at the specified office of such Transfer Agent to whom the relevant Certificate and the Form of Transfer shall have been surrendered or delivered or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant Form of Transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify.

For the purposes of this Condition 3(B), “business day” shall mean a day on which banks are open for business in the city in which the specified office of the relevant Transfer Agent with which a Certificate is deposited in connection with a transfer is located.

Except in the limited circumstances described in the Global Certificate, owners of interests in the Bonds represented by the Global Certificate will not be entitled to receive definitive physical certificates in respect of their individual holdings of the Bonds.

(C) Formalities Free of Charge

Registration of transfers of the Bonds will be effected without charge by or on behalf of the Company or any Paying Agent, but only upon payment (or the giving of such indemnity as such Paying Agent may require in respect) of any tax or other governmental charges which may be imposed in relation to it.

(D) No Transfer Periods

No Bondholder may require the transfer of a Bond to be registered (i) during the period of ten days ending on the due date for any payment of principal, interest (if any) and premium on

the Bond; (ii) after such Bond has been selected for redemption pursuant to Condition 8(B); (iii) after the Conversion Notice (as defined in Condition 6(B)) and the Certificate in respect of such Bond have been deposited for conversion pursuant to Condition 6; or (iv) following exercise of the Bondholder's put option pursuant to Condition 8(C).

(E) Regulations

All transfers of Bonds and entries on the register of Bondholders will be made subject to the detailed regulations concerning transfer of Bonds (the "Regulations") set forth in the Agency Agreement. The Regulations may be changed by the Company with the prior written approval of the Trustee and the Registrar. A copy of the Regulations will be mailed (free of charge) by the Registrar to any Bondholder who requests one and copies are freely available at the specified office of the Paying Agent and Conversion Agent in Luxembourg.

6. CONVERSION

On exercise of the Conversion Right (as defined below), the converting Bondholders will receive Shares in Taiwan. To convert a Bond into Shares, the Bondholder must deposit the Certificate in respect of that Bond and the Conversion Notice (as defined herein) with the Conversion Agent.

The Company shall, within five Trading Days (as defined in Condition 8(B) and subject to certain exceptions) after the Conversion Date, issue and deliver the Shares converted from the Bond to the converting Bondholder or its designee, subject to the requirements relating to the conversion in the Agency Agreement being satisfied.

The Trust Deed provides, in summary, that the term "Shares" means, when used to refer to the class or classes of the Company's capital stock into which the Bonds are convertible and when used in certain other instances, only the Company's common shares, NT\$10 par value per share, but that when used elsewhere, including in Condition 6(C), such term also includes shares of any other class or classes of the share capital of the Company authorized after the date of the Trust Deed which have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or winding-up of the Company.

(A) Conversion Right

- (i) *Conversion Period:* Each Bondholder has the right during the Conversion Period (as defined below) to convert any Bond into the Company's common shares, NT\$10 par value per share ("Shares"), credited as fully paid as directed in the Conversion Notice (as defined in Condition 6(B)(i)) (the "Conversion Right"). Subject to and upon compliance with the provisions of this Condition, the Conversion Right attaching to any Bond may be exercised, at the option of the holder thereof and as and to the extent provided herein, at any time on or after April 11, 2003 and prior to the close of business (at the place where the Conversion Notice and the Certificate in respect of such Bond is deposited for conversion) on February 11, 2008 (or if such date shall not be a business day (as defined below), on the immediately preceding business day at such place) (but in no event thereafter), or, if such Bond shall have been called for redemption prior to February 11, 2008, then up to the close of business (at the place aforesaid) on the date seven days prior to the date fixed for redemption thereof (or if such day shall not be a business day at such place on the immediately preceding business day at such place) (the "Conversion Period"); provided, however, that the Conversion Right shall be suspended during any Closed Period and the Conversion

Period shall not include any such Closed Period. “Closed Period” shall mean any period during which under the laws and regulations of the ROC the Company shall close its shareholders register, which period includes 60 days prior to the date of an ordinary meeting of shareholders, 30 days prior to an extraordinary shareholders’ meeting, and the period from the third Taiwan Business Day prior to the date for reporting the record date for determination of shareholders entitled to receive annual dividend distributions or other benefits or rights to the Taiwan Stock Exchange (“TSE”) to such record date. In case any amendments are made to the aforesaid laws and regulations, the conversion shall be construed in accordance with the prevailing laws and regulations. The Company shall procure that the Bondholders are given timely prior notice of any Closed Period in accordance with Condition 15.

In this Condition 6(A)(i), “business day” means a day (other than a Saturday or Sunday) on which commercial banks are open for business in London, and in the place where the Conversion Agent with whom the Certificate and the Conversion Notice are deposited is open for business.

A “Taiwan Business Day” means a day (other than a Saturday or Sunday) on which commercial banks in Taipei are open for business.

Under current ROC law, regulation and policy, PRC persons are not permitted to hold or convert the Bonds or to register as a shareholder of the Company. Under current ROC law, a “PRC person” means an individual holding a passport issued by the PRC, a resident of any area of China under the effective control or jurisdiction of the PRC (but not including a special administrative region of the PRC such as Hong Kong or Macau, if so excluded by applicable laws of the ROC), any agency or instrumentality of the PRC and any corporation, partnership and other entity 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 non-ROC converting Bondholder when exercising his Conversion Right to convert a Bond into Shares is required to appoint a local agent in the ROC with such qualifications as are set by the ROC SFC to open a securities trading account with a local brokerage firm and a NT dollar bank account, pay ROC withholding taxes, remit funds, exercise shareholders’ rights, handle conversion applications and perform such other matters as may be designated by such converting Bondholder (or its designee), on behalf of and as agent for such converting Bondholder (or its designee). In addition, such non-ROC converting Bondholder must also appoint a custodian bank to hold the securities for safekeeping, make confirmation and settlement, and report all relevant information. Under existing ROC laws and regulations, without opening such accounts, an investor in the Bonds would not be able to receive, hold, sell or otherwise transfer the Shares into which the Bonds may have been converted on the 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 to be issued upon conversion of any Bond will be determined by dividing the principal amount of the Bond (translated into NT dollars at the fixed exchange rate of NT\$34.592 = U.S.\$1.00 (the “Fixed Exchange Rate”)) by the Conversion Price (as defined in Condition 6(A)(iii)) in effect on the Conversion Date (as defined in Condition 6(B)(ii)).

If a Certificate or Certificates in respect of more than one Bond shall be deposited for conversion at any one time by the same Bondholder, the number of Shares to be issued upon conversion thereof will be calculated on the basis of the aggregate principal amount of the Bonds in respect of which the Certificate(s) were so deposited. Fractions of Shares will not be issued on conversion, and cash adjustments will 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 March 12, 2003, the Company will upon conversion of the Bonds pay in U.S. dollars a sum equal to such portion of the principal amount of the Bond or Bonds converted as corresponds to any fraction of a Share not issued as aforesaid if such sum exceeds U.S.\$10. For the purpose of calculating the amount of such payment, the Company shall use the exchange rate referred to above in this Condition 6(A)(ii).

- (iii) *Initial Conversion Price:* The price at which Shares will be issued upon conversion (the "Conversion Price") will initially be NT\$19.4 per Share, but will be subject to adjustment in the manner provided in Conditions 6(C), 6(D) and 6(E).
- (iv) *Revival on Default:* Notwithstanding the provisions of Condition 6(A)(i), if there shall be default in making payment in full in respect of any Bond which shall have been called for redemption on the date fixed for redemption thereof, the Conversion Right attaching to such Bond will continue to be exercisable up to and including the close of business (at the place where the Certificate in respect of such Bond and the Conversion Notice are deposited for conversion) on the date upon which the full amount of the monies payable in respect of such Bond has been duly received by the Trustee or the Principal Agent and notice of such receipt has been duly given to the Bondholders.

(B) Conversion Procedure

- (i) *Exercise Procedure:* To exercise the Conversion Right attaching to any Bond, the holder thereof must complete, execute and deposit at its own expense between 9:00 a.m. and 3:00 p.m. (local time at the specified office referred to below) on any business day (as defined below) during the Conversion Period at the specified office of a Conversion Agent outside of the ROC, 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 Certificate and any certificates and other documents as may be required under the law of the ROC or the jurisdiction in which such Conversion Agent is located.

A Conversion Notice or a Certificate deposited outside the hours specified above or on a day which is not a business day at the place of the specified office of the relevant Conversion Agent shall for all purposes be deemed to have been deposited with that Agent between 9:00 a.m. and 3:00 p.m. on the next following business day.

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

The Conversion Notice shall contain, *inter alia*, an appointment of a local agent by such converting Bondholder and an irrevocable instruction to exchange the relevant Bond for Shares issued pursuant to Condition 6(B)(iii), as soon as Shares are available. A Conversion Notice once deposited may not be withdrawn without the consent in writing of the Company and the Principal Agent and Trustee being immediately notified in writing of such written consent of the Company accompanied by the relevant Conversion Notice.

In this Condition 6(B)(i), “business day” means a day (other than a Saturday or Sunday) on which commercial banks are open for business in London, and in the city of the Conversion Agent with whom the Certificate and the Conversion Notice are deposited.

- (ii) *Taxes and Expenses; Deposit Date and Conversion Date:* Together with deposit of the Conversion Notice, the Bondholder must pay to the relevant Conversion Agent all stamp, issue, registration, excise and similar taxes or duties or transfer costs (if any) arising on conversion in the country in which the Bond is deposited for conversion, or payable in any jurisdiction consequent upon the issue or delivery of Shares or any other property or cash upon conversion to or to the order of a person other than the converting Bondholder. Except as aforesaid, the Company will pay the expenses arising in the ROC on the issue of Shares on conversion of Bonds and all charges of the Conversion Agents in connection therewith. The date on which, in respect of any Bond, the relevant Certificate and the Conversion Notice (in duplicate) relating thereto, together with any certificates and other documents as may be required under applicable law, are deposited with a Conversion Agent and the payments, if any, required to be paid by the Bondholder are made is hereinafter referred to as the “Deposit Date”. The “Conversion Date” applicable to a Bond shall mean the next day following the Deposit Date, which day both is a Trading Day and occurs during the Conversion Period.
- (iii) *Holder of Record:* With effect from the opening of business in the ROC on the Conversion Date, the Company will deem the converting Bondholder (or its designee) as indicated in the Conversion Notice to have become the holder of record of the number of Shares to be issued upon such conversion to such holder (disregarding any retroactive adjustment of the Conversion Price referred to below prior to the time such retroactive adjustment shall have become effective) and at such time, subject to Condition 6(B)(v), the rights of such converting Bondholder as a Bondholder with respect to such Bonds deposited for conversion shall cease (except rights arising under Conditions 6(B)(iv) and 6(B)(vi)).
- (iv) *Availability of Shares:* The Company shall, as soon as possible and in any event, no later than five Trading Days after the Conversion Date, for the benefit of Bondholders, ensure that sufficient Shares which are listed on the TSE are available to satisfy the Conversion Right.
- (v) *Delivery of Shares:* As of the Conversion Date, the Company will register the converting Bondholder (or its designee) in the Company’s register of shareholders as the owner of the number of Shares to be issued pursuant to Condition 6(B)(iii) upon conversion of such Bonds and, subject to any applicable limitations then imposed by

ROC laws and regulations, according to the request made in the relevant Conversion Notice, the Company shall deliver, as soon as practicable, and in any event within five Trading Days after the Conversion Date, to the local agent appointed by the converting Bondholder the following:

- (a) the relevant Shares, through book-entry transfer to an account registered in the name of the converting Bondholder or the name of its designee;
 - (b) any other property or cash (including, without limitation, cash payable pursuant to Condition 6(A)(ii)) required to be delivered upon conversion; and
 - (c) such documents as may be required by law to effect the delivery thereof.
- (vi) *Retroactive Adjustment of Conversion Price:* If the Conversion Date in relation to any Bond shall be on or after a date with effect from which an adjustment to the Conversion Price takes retroactive effect pursuant to any of the provisions referred to in Condition 6(C) and the Trust Deed and the relevant Conversion Date falls on a date when the relevant adjustment has not been reflected in the Conversion Price, the Company will, within a reasonable period of time after the effective date of such adjustment of the Conversion Price, issue and deliver (to the local agent appointed by the converting Bondholder) such number of Shares as is equal to the excess of the number of Shares that would have been required to be issued on conversion of such Bond if the relevant retroactive adjustment had been made as at the said Conversion Date over the number of Shares previously issued pursuant to such conversion, and in such event and in respect of such number of Shares, references in Condition 6(B)(v) to the Conversion Date shall be deemed to refer to the date upon which such retroactive adjustment becomes effective (disregarding the fact that it becomes effective retroactively).
- (vii) *Dividends and Other Entitlements:* The converting Bondholders will be entitled to the annual dividend distributions or other benefits if the Conversion Date falls prior to the third Taiwan Business Day prior to the date for reporting the record date for determination of shareholders entitled to receive such dividend distribution or benefits to the TSE.
- (viii) *Conversion Agents:* The Company reserves the right, subject to the provisions of the Agency Agreement, at any time to vary or terminate the appointment of any Conversion Agent and to appoint further or other Conversion Agents; provided that the Company will at all times maintain a Conversion Agent having specified offices in London and, so long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, in Luxembourg. Notice of any such termination or appointment and of any changes in the specified offices of the Conversion Agents will be given promptly by the Company to the Principal Agent, the Trustee, and the Bondholders and to the Luxembourg Stock Exchange.

The Company has 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 the Company 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 ten percent of the total number of the Shares expected to be converted based on the conversion price at the time of issue of the Bonds.*

Due to these obligations, the Company 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 Company 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 will be subject to adjustment in the manner set forth in the Trust Deed upon the occurrence of certain events set out in the Trust Deed, including:

- (i) the making of a free distribution or bonus issue of Shares;
- (ii) subdivisions, consolidations or reclassifications of Shares;
- (iii) the declaration of a dividend in Shares;

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

- (iv) the grant, issue or offer to the holders of Shares of rights or warrants to subscribe for or purchase Shares at less than the then Current Market Price (as defined in the Trust Deed) or to subscribe for or purchase any securities convertible into or exchangeable for Shares at less than the then Current Market Price;
- (v) the distribution to the holders of Shares of evidences of indebtedness of the Company or of shares of capital stock of the Company (other than Shares) or of assets (other than regular periodic dividends in cash) or of rights or warrants to subscribe for or purchase shares or securities (other than those mentioned in (iv) above);

- (vi) the issue of securities (other than the Bonds and those mentioned in (iv) and (v) above) convertible into or exchangeable for Shares at less than the then Current Market Price or of rights or warrants (other than those mentioned in (iv) and (v) above) to subscribe for or purchase Shares at less than the then Current Market Price or to subscribe for or purchase securities convertible into or exchangeable for Shares at less than the then Current Market Price;
- (vii) the issue of Shares (other than (a) Shares issued on conversion of convertible bonds, including the Bonds, or (b) Shares issued to shareholders of any company which merges with the Company upon such merger and in proportion to their shareholdings in such company immediately prior to such merger, or (c) in any of the circumstances described above; but including Shares issued under any employee bonus or profit-sharing arrangements) at less than the then Current Market Price; and

Under the terms of the Trust Deed, no account is to be taken of, or credit given for, the par value of Shares issued in any employee bonus or profit-sharing arrangements in calculating the appropriate Conversion Price adjustment, so that the full dilutive effect is provided for.

- (viii) any other event or circumstance which would have in the determination of the Company or the Trustee an analogous effect to any of the events in (i) to (vii) above including, but not limited to, issues of receipts or certificates entitling holders to receive securities, in accordance with the formula stipulated in the Trust Deed.

No adjustment will be made where such adjustment would be less than one percent of the Conversion Price then in effect; provided, however, that any adjustment that otherwise would be required to be made will be carried forward and taken into account in determining any subsequent adjustment. Any adjustment will be notified promptly by the Company to the Bondholders in accordance with Condition 15 and to the Luxembourg Stock Exchange.

The Trust Deed provides that the Conversion Price may be reduced, as a result of any adjustment required by this Condition 6(C), below the par value of the Shares for the time being to the extent permitted by ROC law, provided that any Shares issued on conversion of Bonds at such reduced Conversion Price would be legally issued and non-assessable Shares.

The Trustee will not be obliged to monitor whether any event has occurred which might fall within (i) to (viii) above and until it has actual knowledge by way of express notice in writing from the Company to the contrary.

(D) Conversion Price Reset

The Conversion Price may be adjusted on the date falling 45 days prior to March 12, 2004, March 12, 2005, March 12, 2006, March 12, 2007, and March 12, 2008 (each a "Reset Date") in the event that the average of the Closing Prices (as defined in Condition 8(B)) of the Shares on the TSE for the 20 consecutive Trading Days (as defined in Condition 8(B)) immediately preceding the relevant Reset Date (the "Average Closing Price") translated into U.S. dollars at the then Prevailing Rate (as defined below) is less than the Conversion Price in effect on the relevant Reset Date translated into U.S. dollars at the Fixed Exchange Rate, in accordance with the following formula:

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

Such adjusted Conversion Price shall be rounded upwards, if necessary, to the nearest NT\$0.01, provided that:

- (i) any adjustment to the Conversion Price pursuant to this Condition 6(D) shall be limited so that the Conversion Price adjusted in accordance with this Condition 6(D) shall not be less than 80 percent of the initial Conversion Price (as adjusted to reflect any adjustments required under Condition 6(C) above, which may have occurred prior to the Reset Date);
- (ii) the provisions of Condition 6(C) shall apply *mutatis mutandis* to this Condition 6(D) to ensure that appropriate adjustments shall be made to any Closing Price to reflect any adjustments made to the Conversion Price in accordance with Condition 6(C) during the period of calculation of the Average Closing Price; and
- (iii) for the avoidance of doubt any adjustments to the Conversion Price made pursuant to this Condition 6(D) shall only be downward adjustments.

The “Prevailing Rate” for the translation of the Closing Prices shall be the arithmetic average of the closing rate for the purchase of U.S. dollars with NT dollars quoted by Taipei Forex Inc. at the close of business on each day during the relevant 20 consecutive Trading Days period.

For the purpose of the formula in this Condition, the Prevailing Rate shall be expressed as the number of NT dollars per U.S.\$1.00.

Any such adjustment shall become effective as of the relevant Reset Date and the Bondholders, the Trustee and the Luxembourg Stock Exchange shall be notified promptly of any adjustment to the Conversion Price in accordance with Condition 15.

(E) Special Conversion Price Reset

February 10, 2005 and February 10, 2006 shall be the “Special Reset Date”. In the event that the Market Price translated into U.S. dollars at the prevailing Spot Rate is lower than the Conversion Price translated into U.S. dollars at the Fixed Exchange Rate on the applicable Special Reset Date, and upon a notice from the Company to the Bondholders (the “Special Conversion Price Notice”), a Bondholder shall be entitled, provided that the Conversion Right is exercised on a Deposit Date which is within a period of seven Taiwan Business Days starting at the seventh Taiwan Business Day after the Special Reset Date (such period being the “Special Conversion Price Period”), to convert its Bonds at a conversion price (the “Special Conversion Price”), which is equal to 85.76 percent and 83.29 percent of the applicable Market Price.

The Special Conversion Price Notice shall be issued by the Company on the Special Reset Date in accordance with Condition 15 and to the Luxembourg Stock Exchange. The Special Conversion Price Notice shall, *inter alia*, state:

- (i) that the Special Conversion Price reset for the Special Conversion Price Period is in effect;
- (ii) the Market Price;
- (iii) the Special Conversion Price; and
- (iv) the Special Conversion Period.

The Special Conversion Price shall only apply for the duration of the Special Conversion Price Period, and shall not apply prior to or after such period.

Not less than 30 nor more than 60 days notice of the commencement of the Special Reset Date (and the Special Conversion Price Period) shall be given to the holders of the Bonds by the Company in accordance with Condition 15 and to the Luxembourg Stock Exchange.

The “Market Price” refers to the lowest among the average closing prices of the Shares on the TSE for 10, 15 and 20 consecutive Trading Days immediately preceding the Special Reset Date.

The “Spot Rate” refers to the closing rate for the purchase of U.S. dollars with NT dollars quoted by Taipei Forex Inc. on the relevant date.

(F) Mergers; Disposals

The Company will not merge, amalgamate or consolidate with or into any other corporation or entity where the Company is not the continuing entity or sell or transfer all, or substantially all, of the assets of the Company, whether as a single transaction or a number of transactions, related or not, to any corporation, entity or person or to one or more members of any group under the common control of any corporation, entity or person unless the Company shall have notified the Bondholders of such event in accordance with Condition 15 (with a copy of such notice sent to the Luxembourg Stock Exchange for so long as the Bonds are listed thereon) and the Company and such corporation, entity or person shall have executed a trust deed supplemental to the Trust Deed in form and substance satisfactory to the Trustee providing that such corporation, entity or person shall assume the obligations of the Company under the Bonds, the Trust Deed and the Agency Agreement and providing that each Bond then outstanding shall be convertible into the class and amount of shares and other securities, cash and other property receivable upon such consolidation, amalgamation, merger, sale or transfer by a holder of the number of Shares into which such Bond would have been convertible immediately prior to such consolidation, amalgamation, merger, sale or transfer (assuming for such purpose that the Bonds were convertible at the time of such consolidation, amalgamation, merger, sale or transfer) at the Conversion Price as adjusted from time to time pursuant to the Trust Deed. Such supplemental Trust Deed will provide for adjustments which will be as nearly equivalent as may be practicable to the adjustments provided for in the foregoing provisions to this Condition. The above provisions of this Condition 6(F) will apply in the same way to any subsequent or further consolidations, amalgamations, mergers, sales or transfers.

(G) Conversion Undertakings

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

(H) Company’s Undertakings

The Company will use its best efforts (a) to obtain and maintain a listing on the TSE for all the Shares, including Shares issued upon the conversion of the Bonds and (b) subject to the provisions of Condition 8(F), if the Company is unable to obtain or maintain such listing, to obtain and maintain a listing for all such Shares, including Shares issued upon the conversion of the Bonds, on any other exchanges as the Company may from time to time (with the written consent of the Trustee) determine. The Company will forthwith give notice to the Bondholders as soon as practicable in accordance with Condition 15 and to the Luxembourg Stock Exchange of the listing or delisting of such Shares by the TSE or any such stock exchange.

7. PAYMENTS**(A) Principal, Premium and Interest (if any)**

Payment of principal, premium and interest (if any) will be made against surrender of the relevant certificate at the specified office of any Agent by transfer to the registered account of the Bondholder or by U.S. dollar cheque drawn on a bank in New York City mailed to the registered address of the Bondholder if it does not have a registered account. Payments of principal, interest (if any) and premium will only be made after surrender of the relevant Certificate at the specified office of any Agent.

(B) Registered Accounts

A Bondholder's registered account means the U.S. dollar account maintained by or on behalf of it with a bank in New York City details of which appear on the register of Bondholders at the close of business on the second business day (as defined below) before the due date for payment and a Bondholder's registered address means its address appearing on the register of Bondholders at that time.

(C) Fiscal Laws

All payments are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 9. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

(D) Payment Initiation

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, for value the next following business day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed, on the later of the due date for payment and the business day on which the relevant Certificate is surrendered (if applicable) at the specified office of an Agent.

(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 six percent per annum from the due date. Such default interest shall accrue on the basis of the actual number of days elapsed and a 360-day year.

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

(F) Business Days

In this Condition 7, the term "business day" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in New York City and London and, in the case of the surrender of a Certificate, in London or otherwise, in the place where the Certificate is surrendered.

(G) Partial Payments

If the amount of principal, interest (if any) and premium which is due on the Bonds is not paid in full, the Registrar will annotate the register of Bondholders with a record of the amount of principal and/or interest and/or premium, in fact paid.

8. REDEMPTION, PURCHASE AND CANCELLATION

(A) Redemption at Maturity

Unless previously redeemed, converted or purchased and cancelled as herein provided, the Company will redeem the Bonds at their principal amount in U.S. dollars on March 12, 2008 ("Maturity Date").

The Bonds may be redeemed in whole or in part prior to that date only as provided in paragraphs (B), (C) and (D) below (but without prejudice to Condition 10).

(B) Redemption at the Option of the Company

On or at any time after March 12, 2005, the Company may, having given not less than 40 nor more than 60 days' notice to the Bondholders (which notice will be irrevocable), redeem all or, from time to time, in part (being U.S.\$1,000 in principal amount or an integral multiple thereof) of the Bonds, at their Early Redemption Amount (as defined below):

- (i) if the Closing Price (as defined below) of the Shares on the TSE translated into U.S. dollars at the Prevailing Rate, as defined above, for each of the 20 consecutive Trading Days, the last of which occurs not more than ten days prior to the date upon which notice of such redemption is given, is at least 130 percent of the Conversion Price then in effect, translated into U.S. dollars at the Fixed Exchange Rate, on each such Trading Day. If there shall occur an event giving rise to a change in the Conversion Price during any such 20 consecutive Trading Days period, appropriate adjustment for the relevant days shall be made for the purpose of calculating the Closing Price for such days. If the Closing Price cannot be determined for one or more consecutive Trading Days, such day or days will be disregarded in the relevant calculation and will be deemed not to have existed when ascertaining such 20 Trading Days period; or
- (ii) if more than 90 percent of the Bonds has been previously converted, redeemed, or purchased and cancelled.

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

The “Early Redemption Amount” of each Bond means its principal amount plus an amount of premium, rounded up to the nearest cent determined in accordance with the following formula:

$$\text{Amount of premium} = \text{U.S.}\$1,000 \times \text{Premium} \times \frac{\text{Days Outstanding}}{\text{Relevant Period}}$$

where

“Premium” means:

6.01 percent with respect to a date for redemption falling in the period from March 12, 2003 to March 12, 2005 (“Period A”)

9.15 percent with respect to a date for redemption falling in the period from March 13, 2005 to March 12, 2006 (“Period B”)

0 with respect to a date for redemption falling in the period from March 13, 2006 to March 12, 2008

“Relevant Period” means:

720 days with respect to Period A

1,080 days with respect to Period B

“Days Outstanding” means the numbers of days from, and including, March 12, 2003 to, but excluding the date for redemption and/or purchase, calculated on the basis of a year of 360 days consisting of 12 months of 30 days each.

The term “Trading Day” means a day on which the TSE (as defined in the Trust Deed) is open for business. For the purpose of this Condition 8(B), the term “Closing Price” for any Trading Day means the last reported transaction price or, if no transaction takes place on such day, the average of the closing bid and offered prices of Shares for such day as furnished by a leading independent securities firm licensed to trade on the TSE selected from time to time by the Company for the purpose.

(C) Redemption at the Option of Bondholders

The Company will, at the option of the holder of any Bond, redeem the Bonds held by that Bondholder on March 12, 2005 or March 12, 2006 (each a “Put Date”) at 106.01 percent or 109.15 percent of their principal amounts, respectively.

To exercise such option, the holder must deposit the Certificate in respect of such Bond with any Agent and a duly completed redemption notice in the form obtainable from any of the Agents, not more than 60 nor less than 30 days prior to the relevant Put Date. No Bond so deposited may be withdrawn (except as provided in the Agency Agreement) without the prior written consent of the Company and such written consent must be notified by the Company to the Principal Agent no later than seven days prior to the Put Date. The Company shall give the Bondholders not less than 30 nor more than 45 days notice of the commencement of the period for the deposit of Certificates for redemption pursuant to this paragraph (C) in accordance with Condition 15. The exercise of the Bondholders’ option under this Condition 8(C) in respect of any Bonds then outstanding shall override any exercise of the Company’s right under Condition 8(B) with respect to those Bonds, irrespective of the dates fixed for redemption under Condition 8(B) and 8(C) or the timing of the notices given by the Bondholders or the Company pursuant thereto.

(D) Redemption for Taxation Reasons

At any time, the Company may, having given not less than 40 nor more than 60 days' notice to the Bondholders in accordance with Conditions 8(I) and 15 (which notice shall be irrevocable) redeem the Bonds, in whole but not in part, at their Early Redemption Amount, if (i) the Company determines immediately prior to the giving of such notice that it has or will become obliged to pay additional amounts as provided or referred to in Condition 9(C) as a result of any change in, or amendment to, the laws or regulations of the ROC or any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after March 12, 2003 and (ii) such obligation cannot be avoided by the Company taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such additional amounts were a payment in respect of the Bonds then due. Prior to the giving of any notice of redemption pursuant to this paragraph, the Company shall deliver to the Trustee a certificate signed by two directors of the Company stating that the obligation referred to in (i) above cannot be avoided by the Company taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedents set out in (ii) above, in which event it shall be conclusive and binding on the Bondholders. Bonds in respect of which a notice of redemption has been given under Condition 8(B), Condition 8(C) and Condition 8(F) shall not be affected by any notice given subsequently under this Condition 8(D).

(E) Purchase

The Company may at any time and from time to time purchase Bonds in the open market or otherwise. Bonds so purchased shall be surrendered to the Principal Agent for cancellation and may not be held and reissued or resold. If purchases by the Company are made by tender, the tender must be made to all Bondholders alike.

(F) Delisting Put Right

- (i) In the event the Shares cease to be listed or admitted to trading on the TSE (a "Delisting"), each Bondholder shall have the right (the "Delisting Put Right"), at such Bondholder's option, to require the Company to purchase all (but not less than all) of the Bonds held by that Bondholder on a day (the "Delisting Put Date") that is the 30th business day (as defined in Condition 7(F)) after the Bondholder has been notified by the Company of the Delisting as specified in the notice of the Delisting Put Price. The notice of the Delisting Put Price shall also be sent to the Luxembourg Stock Exchange separately. The "Delisting Put Price" shall be equal to the Early Redemption Amount calculated in accordance with Condition 8(B) as if the Bonds are to be redeemed on the Delisting Put Date.

- (ii) Promptly after becoming aware of a Delisting, the Company shall notify the Bondholders of the Delisting and of their Delisting Put Right in accordance with Condition 15, which notice shall state:
 - (a) the Delisting Put Date;
 - (b) the date of such Delisting and, briefly, the events causing such Delisting;
 - (c) the date by which the Purchase Notice (as defined below) must be given;
 - (d) the amount of the Delisting Put Price and the method by which such amount will be paid;
 - (e) the names and addresses of all Paying Agents; and
 - (f) that a Purchase Notice, once validly given, may not be withdrawn.

To exercise its right to require the Company to purchase its Bonds, the Bondholder must deliver a written notice of the exercise of such right (a "Purchase Notice") to any Paying Agent on any business day (as defined in Condition 7(F)) prior to the close of business at the specified office of such Paying Agent on such day and which day is not less than 10 business days (as defined in Condition 7(F)) prior to the Delisting Put Date.

Payment of the Delisting Put Price upon exercise of the Delisting Put Right for any Certificate for which a Purchase Notice has been delivered is conditional upon delivery of such Certificate (together with any necessary endorsements) to any Paying Agent on any business day (as defined in Condition 7(F)) together with the delivery of such Purchase Notice and will be made promptly and no later than five days following the later of the Delisting Put Date or the time of delivery of such Certificate. If the Paying Agent holds on the Delisting Put Date money sufficient to pay the Delisting Put Price of Bonds for which Purchase Notices have been delivered in accordance with the provisions hereof upon exercise of such right, then, whether or not such Bond is delivered to the Paying Agent, on and after such Delisting Put Date, (i) such Bond will cease to be outstanding, (ii) such Bond will be deemed paid; and (iii) all other rights of the Bondholder shall terminate (other than the right to receive the Delisting Put Price).

(G) Selection of Bonds

In the case of redemption of some only of the Bonds pursuant to Condition 8(B), the Bonds to be redeemed will 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 and not less than 30 days prior to the date fixed for redemption.

(H) Cancellation

All Bonds which are redeemed or converted or purchased and surrendered to any Agent will forthwith be cancelled. Certificates in respect of all Bonds cancelled will be forwarded to or to the order of the Principal Agent and such Bonds may not be reissued or resold.

(I) Redemption Notices

All notices to Bondholders given by or on behalf of the Company pursuant to this Condition will specify the date fixed for redemption, the redemption price, the Conversion Price as at the date of the relevant notice, the Closing Price of the Shares and the aggregate principal amount of the Bonds outstanding as at the latest practicable date prior to the publication of the notice and, in the case of a partial redemption, a list of the Bonds called for redemption all in accordance with Condition 15.

9. TAXATION

- (A) All payments of principal, premium and interest (if any) by the Company will 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 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, unless deduction or withholding of such taxes, duties, assessments or governmental charges is compelled by law.
- (B) Where such withholding or deduction is in respect of ROC withholding tax on premium or interest (if any) payments at the rate of up to and including 20 percent, the Company will increase the amount of premium or interest (if any) paid by it to the extent required so that the net amount of premium or interest (if any) received by Bondholders (without prejudice to Condition 7) would be equal to the amounts which would have been receivable in the absence of any such withholding or deduction.
- (C) In the event that any such withholding or deduction in respect of principal or any additional withholding or deduction in excess of 20 percent in respect of interest (if any) or premium is required, the Company will pay such additional amounts by way of principal, premium and interest (if any), as will result in the receipt by the Bondholders of the amounts which would have been receivable in the absence of any such withholding or deduction, except that no such additional amounts shall be payable in respect of any Bond:
 - (i) to, or on behalf of, a holder who is subject to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his being connected with the ROC other than merely by holding such Bond or by the receipt of principal, premium or interest (if any) in respect of the Bond; or
 - (ii) if the Certificate in respect of such Bond is surrendered more than 30 days after the relevant date except to the extent that the holder would have been entitled to such additional amount on surrendering the relevant Certificate for payment on the last day of such 30 day period.

For this purpose, the “relevant date” in relation to any Bond means (a) the due date for payment in respect thereof or (b) (if the full amount of the monies payable on such due date has not been received by the Trustee or the Principal Agent on or prior to such due date) the date on which notice is duly given to the Bondholders that such monies have been so received.

- (D) References in these Conditions to principal, premium or interest shall be deemed also to refer to any increased or additional amounts which may be payable in respect thereof under this Condition or any undertaking given in addition to or substitution for it under the Trust Deed.

10. EVENTS OF DEFAULT

The Trustee at its discretion may, and if so requested in writing by the holders of not less than 25 percent in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders shall (but subject to being indemnified or provided with security to its satisfaction), give notice in writing to the Company that the Bonds are immediately due and payable, if any of the following events (an "Event of Default") shall have occurred and be continuing:

- (i) the Company fails to pay the principal of or interest (if any) or premium on any of the Bonds within seven business days (as defined in Condition 7(F)) after the same shall become due and payable in accordance with these 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 or interest (if any) in respect of the Bonds) set out in the Bonds or the Trust Deed which default is, in the opinion of the Trustee, incapable of remedy or, if in the opinion of the Trustee such default is capable of remedy, such default is not in the opinion of the Trustee remedied within 30 days after written notice of such default shall have been given to the Company by the Trustee; or
- (iii) any other present or future indebtedness of the Company, or of any of its Principal Subsidiaries, for or in respect of monies borrowed or raised becomes (or becomes capable of being declared) 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 the Company or any of its Principal Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee or indemnity or arrangement or obligation having a like or similar effect (howsoever described) for any monies borrowed or raised by any person, provided that the aggregate amount of the relevant indebtedness and guarantees in respect of which one or more events mentioned above in this paragraph (iii) have occurred and is continuing equals or exceeds U.S.\$5,000,000 or its equivalent in any other currency (determined as provided below), and provided further that where two or more of the Company and/or its Principal Subsidiaries are liable for the payment of the same relevant indebtedness or guarantee (whether liable jointly and severally, by way of guarantee, surety or otherwise), any such amount shall be counted once only; or
- (iv) an execution by a court having jurisdiction is levied or enforced or sued out, or other legal enforcement process is levied or sued out upon, commenced or issued 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 in any such case is not discharged or stayed within 60 days of having been so levied, sued out, commenced or issued; or
- (v) any person entitled to the benefit thereof shall institute appropriate legal proceedings to enforce any Encumbrance (as defined in Condition 3) upon the whole or any substantial part of the assets or revenues of the Company or any Principal Subsidiary; or

- (vi) the Company or any of its Principal Subsidiaries becomes bankrupt or insolvent, 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 an Extraordinary Resolution of the Bondholders) or receiver (or other similar official) in bankruptcy or insolvency of the Company or any of its Principal Subsidiaries or in respect of the whole or any substantial 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 stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts; or
- (vii) an order issued by a court with competent jurisdiction is made or an effective resolution passed by the Company or any of its Principal Subsidiaries for the winding-up or dissolution of the Company or any of its Principal Subsidiaries (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 an Extraordinary Resolution of the Bondholders); or
- (viii) 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
- (ix) 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
- (x) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorization, exemption, filing, license, 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 Trust Deed, (ii) ensure that those obligations are legally binding and enforceable (subject to the qualifications set out in the legal opinion issued in connection therewith) and (iii) make the Bonds and the Trust Deed admissible in evidence in the courts of the ROC is not taken, fulfilled or done, and such case is incapable of remedy or, if in the opinion of the Trustee is capable of remedy, is not in the opinion of the Trustee remedied within 30 days after written notice requiring such remedy shall have been given to the Company by the Trustee; or
- (xi) 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 will immediately become due and payable at the Early Redemption Amount, and overdue interest on the amounts due, from the date on which such amounts first become due, shall be payable, to the extent permitted by law, at the rate of six percent per annum.

For the purposes of Condition 10 (iii) above, any indebtedness which is in a currency other than U.S. dollars shall be translated into U.S. dollars at the spot rate for the sale of U.S. 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 U.S. dollars and relevant currencies.

For the purpose of this Condition, “Subsidiary” means any corporation or other business entity more than 50 percent of the outstanding voting stock of which is for the time being owned directly or indirectly by the Company, and “Principal Subsidiary” means any Subsidiary (i) whose total revenues, as shown by the latest audited accounts (consolidated in the case of a company which itself has subsidiaries) of such Subsidiary at the time that the event of default occurs, are at least ten percent of the total revenues of the Company and its consolidated Subsidiaries as shown by the latest audited consolidated accounts of the Company or (ii) whose gross assets, as shown by the latest audited accounts (consolidated in the case of a company which itself has subsidiaries) of such Subsidiary at the time that the event of default occurs are at least ten percent of the gross assets of the Company and its consolidated Subsidiaries as shown by the latest audited consolidated accounts of the Company.

11. PRESCRIPTION

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

For the purposes of this Condition 11, “default interest” means interest that will accrue on any unpaid amount of the Bonds which are due and payable, in accordance with the Conditions herein.

12. 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 of the Bonds together with premium and interest (if any) with respect thereto and to enforce the provisions of the Trust Deed, but it will 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 percent in principal amount of the Bonds then outstanding or so directed by an Extraordinary Resolution and (b) it shall have been indemnified and/or been provided security to its satisfaction. No Bondholder will be entitled to proceed directly against the Company, unless the Trustee, having become bound to do so, fails to do so and such failure shall have continued for a period of 60 days and no direction inconsistent with such written request or Extraordinary Resolution has been given to the Trustee during such 60-day period by the holders of a majority in principal amount of the outstanding Bonds.

13. MEETINGS OF BONDHOLDERS, MODIFICATION AND WAIVER

(A) Meetings

The Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Bonds or the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing over 50 percent in principal amount of the Bonds for the time being outstanding or, at any such meeting which has been adjourned, two or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity date of the Bonds or the put right of the Bondholders under Condition 8(C) and 8(F), (ii) to reduce or cancel the amount of principal, premium or interest (if any) payable in respect of the Bonds, (iii) to change the currency of payment of the Bonds, (iv) to modify or cancel the Conversion Right (except in accordance with Condition 6(B) and 13(B)) or to modify the circumstances in which the Bonds may be redeemed or converted at the option of the Company or to shorten the Conversion Period, (vi) to modify the provisions relating to the adjustment and resetting of the Conversion Price, (vii) to modify the provisions concerning the quorum required at any meeting of the Bondholders or the majority required to pass an Extraordinary Resolution or sign a resolution in writing, in which case the necessary quorum for passing an Extraordinary Resolution will be two or more persons holding or representing over two-thirds, or at any adjourned such meeting over one-third, in principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of Bondholders will be binding on all Bondholders, whether or not they are present at the meeting, and will be conclusive and binding upon all future Bondholders.

The Trust Deed provides that a written resolution signed by or on behalf of the holders of not less than 90 percent of the aggregate principal amount of Bonds outstanding shall be as valid and effective as a duly passed Extraordinary Resolution.

The Trust Deed defines "Extraordinary Resolution" as a resolution passed at a meeting of Bondholders duly convened and held in accordance with these provisions by a majority consisting of not less than three-quarters of the votes cast.

(B) Modification of Conversion Right

Notwithstanding Conditions 13(A)(iv) and (vii) above, the Trustee may agree, without the consent of the Bondholders, to any modification to or variation of the Conversion Right (including modification of and additions to the declarations and statements to be made by Bondholders in a Conversion Notice) which is in its opinion necessary or desirable to effect or facilitate conversion as contemplated in these Conditions and which is not materially prejudicial to the interests of the Bondholders. The Trustee's agreement may be subject to any condition which the Trustee requires, including but not limited to obtaining, at the sole expense of the Company, an opinion of an investment bank or legal or other expert. Any such modification shall be binding on all Bondholders. The Company shall notify Bondholders of such modification in accordance with Condition 15 as soon as practicable.

(C) Other Modifications and Waivers

The Trustee may (but shall not be in any way be obligated to) agree, without the consent of the Bondholders, to (i) any modification (except as mentioned above) of, or the waiver or authorization of any breach or proposed breach of, the Bonds or the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or (ii) any modification of the Bonds or the Trust Deed which, in the Trustee's opinion, is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provisions of law. Any such modification, waiver or authorization will be binding on the Bondholders and, unless the Trustee agrees otherwise, any such modification will be notified by the Company to the Bondholders in accordance with Condition 15 as soon as practicable thereafter.

(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 Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders, and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Company or the Trustee, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Bondholders not applicable to Bondholders as a class.

14. REPLACEMENT OF CERTIFICATES

If any Certificate is mutilated, defaced or is alleged to be destroyed, stolen or lost, it may be replaced at the specified office of the Registrar 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 may reasonably require (which terms will require, *inter alia*, that if such Certificate is subsequently deposited for conversion into Shares there shall be paid to the Company on demand such costs (equal to the principal, premium and interest (if any) due on the relevant Bond at the Fixed Exchange Rate). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

15. NOTICES

All notices to Bondholders shall be validly given if mailed to them at their respective addresses in the register of Bondholders maintained by the Registrar, and, 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.

If it is impracticable to publish any notices to Bondholders as provided above, then any other form of notification approved by the Trustee shall constitute sufficient notice to such Bondholders for every purpose hereunder.

16. INDEMNIFICATION

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce payment unless indemnified or secured to its satisfaction. In addition, the Trustee is entitled to enter into business transactions with the Company and any entity relating to the Company without accounting for any profit.

17. 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 the Company will at all times maintain Agents having specified offices in London and, so long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, a paying, transfer and conversion agent in Luxembourg, a Registrar and a Principal Agent. Notice of any such termination or appointment, of any changes in the specified offices of the Agents or of any change in the identity or specified office of the Registrar or the Principal Agent will be given promptly by the Company to the Bondholders and the Trustee in accordance with Condition 15.

18. GOVERNING LAW AND JURISDICTION

(A) Governing Law

The Trust Deed, the Agency Agreement and the Bonds are governed by and shall be construed in accordance with English law.

(B) Jurisdiction

The courts of England are to have jurisdiction over 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 Trust Deed irrevocably submitted to the jurisdiction of such courts.

(C) Agent for Service of Process

The Company has irrevocably appointed Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX as its agent in England to receive service of process in any Proceedings in England based on any of the Bonds.

(D) Third Party Rights

No rights are conferred on any person to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

THE GLOBAL CERTIFICATE

The Global Certificate contains provisions which apply to the Bonds in respect of which the Global Certificate is issued, some of which modify the effect of the terms and conditions of the Bonds (the “Conditions”) set out in this Offering Circular. Terms defined in the Conditions have the same meaning in the paragraphs below. The following is a summary of those provisions:

Meetings

The registered holder (as defined in the Conditions) of the Global Certificate will be treated as being two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, as having one vote in respect of each U.S.\$1,000 in principal amount of Bonds for which the Global Certificate is issued. The Trustee may allow a person with an interest in Bonds in respect of which the Global Certificate has been issued to attend and speak (but not to vote) at a meeting of Bondholders on appropriate proof of his identity and interest.

Cancellation

Cancellation of any Bond following its redemption, conversion or purchase by the Company will be effected by a reduction in the principal amount of the Bonds in the register of Bondholders.

Trustee’s Powers

In considering the interests of Bondholders while the Global Certificate is registered in the name of a nominee for a clearing system, the Trustee may, without being obliged to do so, have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to Bonds and may consider such interests as if such accountholders were the holders of the Bonds.

Conversion

Subject to the requirements of Euroclear and Clearstream, Luxembourg, the Conversion Right attaching to a Bond in respect of which the Global Certificate is issued may be exercised by the presentation to or to the order of the Principal Agent of one or more Conversion Notices duly completed by or on behalf of a holder of a book-entry interest in the Bond. Deposit of the Global Certificate with a Conversion Agent together with the relevant Conversion Notice shall not be required. The exercise of the Conversion Right shall be notified by the Principal Agent to the Registrar and the holder of the Global Certificate.

Payments

Payments of principal and any other amounts in respect of Bonds represented by the Global Certificate will be made without presentation or, if no further payment is to be made in respect of the Bonds, against presentation and surrender of the Global Certificate to or to the order of the Principal Agent or such other Paying Agent as shall have been notified to the Bondholders for such purpose.

Notices

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg or the Alternative Clearing System (as defined below), notices to Bondholders may be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg or the Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the Conditions except that so long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, notices shall also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).

Put Options

The Bondholders' put options in Conditions 8(C) and 8(F) may be exercised by the holder of the Global Certificate giving notice to the Principal Agent of the principal amount of Bonds in respect of which the relevant option is exercised and presenting the Global Certificate for endorsement or exercise within the time limits specified in Conditions 8(C) and 8(F).

Call Option

The call option exercisable by the Company in Conditions 8(B) and 8(D) may be exercised by the Company giving notice to the Bondholder within the time limits set out in and containing the information required by those Conditions and Condition 8(I).

Registration of Title

Certificates in definitive form for individual holdings of Bonds will not be issued in exchange for interests in Bonds in respect of which the Global Certificate is issued, except where either Euroclear or Clearstream, Luxembourg (or any alternative clearing system on behalf of which the Bonds evidenced by the Global Certificate may be held (the "the Alternative 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.

Transfers

Transfers of interests in the Bonds will be effected through the records of Euroclear and Clearstream, Luxembourg and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants.

Enforcement

For the purposes of enforcement of the provisions of the Trust Deed, the persons named in a certificate of the holder of the Bonds in respect of which the Global Certificate is issued shall be recognized as the beneficiaries of the trusts set out in the Trust Deed, to the extent of the principal amount of their interest in the Bonds set out in the certificate of the holder, as if they were themselves the holders of Bonds in such principal amounts.

Accountholders

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

EXCHANGE RATES

Fluctuations in the exchange rate between NT dollars and U.S. dollars will affect the U.S. dollar equivalent of the NT dollar price of the Shares on the TSE and, as a result, are likely to affect the market price of the Bonds.

The following table sets forth the period-end spot exchange rates in effect between the NT dollar and the U.S. dollar expressed in NT dollars per U.S. dollar, for the period indicated.

Period	New Taiwan dollars per U.S. dollar noon buying rate			
	Average	High	Low	Period-end
	NT\$ (of month end rates)	NT\$	NT\$	NT\$
Year ended December 31,				
1998.....	33.547	35.000	32.050	32.270
1999.....	32.322	33.400	31.390	31.390
2000.....	31.260	33.250	30.350	33.170
2001.....	33.911	35.130	32.230	35.000
2002.....	34.526	35.160	32.850	34.700
2003 (through March 4).....	34.652 ⁽¹⁾	34.819	34.400	34.660

(1) Average of daily rates during the period.

Source: Federal Reserve Statistical Release, Board of Governors of the Federal Reserve System

The closing average spot exchange rate between the NT dollar and the U.S. dollar quoted by the Bank of Taiwan on March 5, 2003 was NT\$34.6 = U.S.\$1.00.

FOREIGN INVESTMENT AND EXCHANGE CONTROLS IN THE ROC

The information presented in this appendix has been extracted from publicly available documents which have not been prepared or independently verified by the Company, the Managers, the Trustee or any of their respective affiliates or advisors in connection with the offering.

Foreign Investment

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

Overseas Corporate Bonds

Since 1989, the ROC SFC has approved a series of overseas corporate bond issues (“OCBs”) by ROC companies listed on the TSE in offerings directed outside the ROC. Since December 1994, the ROC SFC has also permitted ROC companies whose shares are traded on the GTSM to issue and offer OCBs. In 2002, the ROC SFC further permitted public-issue companies to issue OCBs on a private placement basis.

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

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

Unless otherwise limited by the CBC, an ROC Company may, without obtaining further approvals from the CBC or any other government authority of the ROC, convert NT dollars to other currencies, including U.S. dollars, in respect of the proceeds of the redemption of the Bonds or payment of interest on, or the repayment of principal upon maturity of, the Bonds. However, a converting bondholder must obtain prior 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 is in excess of U.S.\$100,000 per remittance.

In addition, a non-ROC converting bondholder may, through its local agent and without obtaining prior approval from the CBC, convert NT dollars into foreign currencies of net proceeds realized from the sale of the converted shares or any stock dividends relating to such shares, or any cash dividend or other cash distribution in respect of such shares, as well as for inward remittances of subscription payments in connection with a rights offering and tax payment.

Any such cash received by the converting bondholder (qualified as a QFII or General Foreign Investor) may be used for further investment in ROC securities subject to the requirements and restrictions generally applicable to QFIIs and General Foreign Investors (as applicable). Such further investment will be used in calculating the applicable investment quota.

Depository Receipts

In April 1992, the ROC SFC promulgated regulations permitting ROC companies with securities listed on the TSE, with the prior approval of the ROC SFC, to sponsor the issuance and sale to foreign investors of depository receipts. Depository receipts evidence depository shares representing deposited shares of ROC companies. In December 1994, a series of new regulations (the “**Regulations**”) was promulgated by the ROC Ministry of Finance allowing companies whose shares are traded on the GTSM or listed on the TSE to sponsor, upon approval by the ROC SFC, the issuance and sale of depository receipts. Any such approval will be granted (1) if the underlying shares are newly issued shares, for a fixed number of depository receipts or (2) if the underlying shares are not newly issued shares, for a maximum number of depository receipts and, with limited exceptions (as described below), may not be increased without additional approvals by the ROC SFC. In 2002, the ROC SFC further permitted public companies to participate the issuance of depository receipts on a private placement basis.

The Regulations, as amended, provide that any depository receipt holder may, from three months after the issue date of the depository receipts (in the case that the deposited shares are new shares) or immediately (in the case that the deposited shares are existing shares), request the depository bank either to cause the underlying shares to be sold in the ROC and distribute the proceeds of such sale to the depository receipt holder or to withdraw the underlying shares from the depository receipt facility and deliver such shares to such holder. A citizen of the PRC or an entity organized under the laws of the PRC is not permitted to withdraw and hold the Shares.

Under existing ROC laws and regulations, a depository may, without obtaining further approvals from the CBC or any other government authority or agency of the ROC, convert NT dollars into other currencies, including U.S. dollars, in respect of the proceeds of the sale of shares represented by depository receipts or received as stock dividends in respect of such shares and deposited into the depository receipt facility and any cash dividends or distributions received in respect of such shares. In addition, a depository may convert inward remittances of payments into NT dollars for purchases of underlying shares for deposit in the depository receipt facility against the creation of additional depository receipts. With respect to conversion from NT dollars into foreign currencies in respect of the proceeds from the sale of subscription rights for new shares, proceeds in excess of U.S.\$100,000 per remittance may not be remitted overseas unless CBC approval is obtained. In addition, a depository receipt holder may, after becoming a holder of shares, convert NT dollars into other currencies for proceeds from the sale of any underlying shares withdrawn from the depository receipt facility and delivered to the depository receipt holder and for conversion from foreign currencies into NT dollars for subscription payments in respect of rights offering. A depository must obtain foreign exchange approval from the CBC on a payment-by-payment basis for conversion from NT dollars into

foreign currencies in respect of the proceeds from the sale of subscription rights for new shares or the depository's conversion from foreign currencies into NT dollars for subscription payments in respect of rights offerings. It is expected that the Central Bank of China will grant such foreign exchange approval as a routine matter.

A depository receipt holder wishing to withdraw shares represented by depository receipts in order to hold the shares is required to appoint a qualified local agent to, amongst other things, open a securities account with a local securities brokerage firm, remit funds and exercise shareholders' rights. In addition, the withdrawing holder 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. Without making these appointments and opening these accounts, the withdrawing holder would be unable to hold or subsequently sell shares withdrawn from a depository receipt facility on the TSE or otherwise. Furthermore, the withdrawing holder is required to appoint a tax guarantor in the ROC for filing tax returns and making tax payments.

In addition, any such cash received by the depository receipt holder (qualified as a QFII (as hereinafter defined) or a non-ROC resident foreign investor ("**General Foreign Investor**")) may be used for further investment in ROC securities, subject to the requirements and restrictions generally applicable to QFIIs and General Foreign Investors (as applicable). Such further investment will be calculated towards the applicable investment quota.

Direct Share Offerings

The ROC Government has permitted ROC companies listed on the TSE or the GTSM to issue shares directly (not through depository receipt facilities) overseas. In addition, public-issue companies may issue shares directly overseas on a private placement basis.

Qualified Foreign Institutional Investors

The Executive Yuan has approved guidelines for direct investment in ROC securities listed on the TSE. GTSM or emerging stocks or other ROC securities approved by the ROC SFC by certain qualified foreign institutional investors (each a "**QFII**") that applied for and received, ROC SFC and, if applicable, CBC approval, including:

- (i) banks which hold securities assets of at least U.S.\$100 million;
- (ii) insurance companies which hold securities assets of at least U.S.\$100 million;
- (iii) fund management institutions which manage securities assets of at least U.S.\$100 million;
- (iv) offshore fund management companies which are more than 50 percent owned by a ROC securities investment trust enterprise, provided that the funds to be invested do not come from sources in the ROC or PRC and are not owned by such offshore fund management companies;
- (v) general securities firms which have a net worth of at least U.S.\$50 million;
- (vi) offshore securities firms which are more than 50 percent owned by a ROC securities firm, or other offshore securities firms which are wholly owned by such offshore securities firms;

- (vii) offshore securities firms which are wholly-owned by a ROC securities firms, or other offshore securities firms which are more than 51 percent owned by such offshore securities firms;
- (viii) foreign government-owned investment institutions, provided that all the funds to be invested shall be owned by the foreign government;
- (ix) pension funds;
- (x) mutual funds, unit trusts or investment trusts which have assets of at least U.S.\$100 million;
- (xi) trust companies which hold securities assets in trust of at least U.S.\$100 million;
- (xii) academic or charitable institutions that, according to their articles of incorporation, may invest their funds, provided those investments are managed externally by a third party; and
- (xiii) any other professional institutional investors which hold securities or assets of at least U.S.\$100 million.

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

General Foreign Investors

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

Foreign Investment Approval

With the exception of QFIIs, General Foreign Investors and investors in OCBs and depositary receipts, under existing ROC laws and regulations relating to foreign investment, investors (both institutional and individual) who are not ROC persons and wish to make direct investment in the shares of ROC companies are required to submit a Foreign Investment Approval ("FIA") application to the Investment Commission of the MOEA or other government authority. The Investment Commission or such other government authority reviews each FIA application and approves or

disapproves each application after consultation with other government agencies (such as the CBC and the ROC SFC). Under current law, any non-ROC person possessing an FIA may remit capital for the approved investment and is entitled to repatriate annual net profits, interest and cash dividends attributable to such investment. Stock dividends, investment capital and capital gains attributable to such investment may be repatriated after approvals of the Investment Commission or other government authorities have been obtained.

Prohibited and Restricted Industries

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

Exchange Controls

The ROC's Foreign Exchange Control Statute and regulations thereunder provide that all foreign exchange transactions must be executed by banks designated to handle such business by the ROC MOF and by the CBC. Current regulations favor trade-related foreign exchange transactions.

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

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

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

THE SECURITIES MARKET OF THE ROC

The information presented in this appendix has been extracted from publicly available documents which have not been prepared or independently verified by the Company, the Managers, the Trustee or any of their respective affiliates or advisors in connection with the offering.

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

The Taiwan Stock Exchange

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

The TSE commenced operations in 1962. During the early 1980s, the ROC SFC actively encouraged new listings on the TSE and the number of listed companies grew from 119 in 1983 to 638 by December 31, 2002. As of December 31, 2002, the market capitalization of companies listed on the TSE was NT\$9,091.5 billion.

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

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

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

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

The 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 who do not qualify for listing on the TSE. As of December 31, 2002, 384 companies have listed equity securities on the GTSM and the total market capitalization of those companies was NT\$862.2 billion.

In addition, the Emerging Market was established on January 2, 2002 on the initiative of the ROC SFC to encourage trading of securities of companies that do not qualify for listing on the TSE or the GTSM. The price of shares is decided by negotiation between securities firms and investors.

Taiwan Stock Exchange Index

The TSE Index is calculated on the basis of a wide selection of listed shares weighted according to the number of shares outstanding. This weighted average method is also used for the Standard and Poor's Index in the United States and the Nikkei Stock Average in Japan. The TSE Index is compiled by dividing the market value by the base day's total market value for the index shares. The TSE Index is the oldest and most widely quoted market index in Taiwan.

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

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

<u>Period ended</u>	<u>Number of Listed Companies at period end</u>	<u>Index high</u>	<u>Index low</u>	<u>Index at period end</u>
1990	199	12,495.34	2,560.47	4,530.16
1991	221	4,305.22	3,316.26	3,377.06
1992	56	5,391.63	3,327.67	4,600.67
1993	285	6,070.56	3,135.56	6,070.56
1994	313	7,183.75	5,194.63	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
				6,418.43
1998	437	9,277.09	6,251.38	
1999	462	8,608.91	5,475.00	8,448.84
2000	474	10,202.20	8,349.91	8,842.63
2001	584	6,104.24	3,446.26	5,551.24
2002	638	6,462.3	3,850.04	4,452.45

Source: Status of Securities Listed on Taiwan Stock Exchange.

As indicated above, the performance of the Taiwan Stock Exchange 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 or more must be registered and executed pursuant to certain TSE guidelines. Fluctuations in the price of stock traded on the TSE are currently subject to a restriction of 7 percent 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 percent in the case of debt securities. Brokerage commissions are proposed by the TSE and approved by the ROC SFC. The current approved maximum brokerage commission is 0.1425 percent of the transaction price for equity securities; however, a lower rate may be charged to clients by securities firms at their sole discretion, provided that they must report such rate to the TSE. A securities transaction tax, currently levied at the rate of 0.3 percent of the transaction price, is payable by the seller of equity securities and a tax at the rate of 0.1 percent of the transaction price is payable by the seller of debt securities other than government bonds. Such securities transaction taxes are withheld at the time of the transaction giving rise to such taxes. According to the amended Statute for Upgrading Industries effective as of February 1, 2002, no securities transaction tax will be imposed on the sale of the Bonds from February 1, 2002 to December 31, 2009. Sales of shares of companies listed on the TSE are currently sold in lots of 1,000 shares. Odd lot trading, or the purchase or sale of less than 1,000 shares, can be conducted in after-hours trading. Investors who desire to sell odd lots of shares of a listed company occasionally experience delays in effecting such sales.

Regulation and Supervision

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

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

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

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

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

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

ROC TAXATION OF NON-RESIDENTS

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

The following is a summary under present law of the principal ROC tax consequences of the ownership and disposition of Bonds and Shares to a Non-Resident Individual or Non-Resident Entity that holds Bonds or Shares (each a “Non-ROC Holder”). As used in the preceding sentence, a “Non-Resident Individual” is a foreign national individual who owns Bonds or Shares and is not physically present in the ROC for 183 days or more during any calendar year and a “Non-Resident Entity” is a corporation or a non-corporate body that owns 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 Bonds should consult their own tax advisers concerning the tax consequences of owning Bonds or Shares in the ROC and any other relevant-taxing jurisdiction to which they are subject.

Premium and Interest

Payments of premium or interest (if any) on a Bond to a Non-ROC Holder are subject to ROC withholding tax, currently at a rate of 20 percent at the time of payment. The Company has agreed to pay additional amounts in respect of such withholding tax on the payments of premium or interest (if any).

Conversion

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

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

Dividends on the Shares

Dividends (whether in cash or shares) declared by the Company out of retained earnings and paid out to holders of 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 percent 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). In accordance with the ROC Income Tax Law, a ten percent 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 ten percent of the declared dividends will be credited against the 20 percent withholding tax imposed on the Non-ROC Holder.

Capital Gains

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

Securities Transaction Tax

The ROC government imposes a securities transaction tax that will apply to sales of Shares. The transaction tax, which is payable by the seller, is generally levied on sales of shares at the rate of 0.3 percent of the sales proceeds. Sale of Bonds and conversion of Bonds into Shares is not subject to ROC securities transaction tax.

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 two percent of the first NT\$600,000 to 50 percent of amounts in excess of NT\$100,000,000. Gift tax is imposed at rates ranging from four percent of the first NT\$600,000 donated to 50 percent 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, New Zealand, Australia, South Africa, Gambia, Swaziland, Malaysia, Macedonia and Vietnam and the United Kingdom. It is unclear whether a Non-ROC Holder will be considered to own Bonds or Shares for the purposes of such treaties. Accordingly, a holder of Bonds or Shares who is otherwise entitled to the benefit of a treaty should consult its own tax advisers concerning eligibility for benefit under the treaty with respect to Bonds or Shares.

Tax Reform

In order to increase Taiwan's competitiveness, an amendment to the ROC Income Tax law ("Amendment") was enacted on January 1, 1999, to integrate the corporate income Tax and the shareholder dividend tax with the aim of eliminating the double taxation effect for resident shareholders of ROC companies. The Amendment will have the following effect upon Non-ROC Holders of the Shares a ten percent retained earnings tax will be imposed on a company for its after-tax earnings generated after January 1, 1999 which are not distributed in the following year. The retained earnings tax so paid will further reduce the retained available for future distribution. When the company declares dividends out of those retained earnings, a maximum amount of up to ten percent of the declared dividends will be credited against the 20 percent withholding tax imposed on the Non-ROC Holders of its Shares.

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

The financial statements are prepared and presented in accordance with ROC GAAP, which differ in certain material respects from U.S. GAAP. Certain differences between ROC GAAP and U.S. GAAP applicable to the Company are summarized below. Such delineation should not be construed as being exhaustive. Additionally, no attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions and events are presented in the audited unconsolidated 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
Employee stock bonus	It is a statutory requirement that bonuses paid to employees and remuneration paid to directors and supervisors out of retained earnings are not regarded as expenses, but instead are reported as a distribution from retained earnings and recorded in the year the shareholders approved the distribution of earnings. Under certain circumstances, employee bonuses may be paid in the form of newly issued stocks, in which case the stock issuance is recorded at par value. The stock bonus to employees is given retroactive effect in the computation of earnings per share.	Under U.S. GAAP, employee bonuses and remuneration issued to directors and supervisors, irrespective of whether the bonuses, are paid in the form of cash or stock are charged to income as compensation expense in the year the services are rendered. For bonuses paid in stock, the shares are valued using the fair value or the intrinsic value method and the difference with the amount initially recorded is recorded in the period the shareholders approved the distribution of earnings. Under U.S. GAAP, stock bonus to employees is given only prospective effect in the computation of earnings per share.
Stock dividends	Under ROC GAAP, the issuance of stock dividends is recorded based on the par value of the shares, multiplied by the number of shares issued.	Under U.S. GAAP, when the ratio of distribution is less than 25 percent of shares of the same class outstanding, stock dividends are generally recorded based on the fair value method, with the par value recorded in capital stock accounts and the excess of fair value over the par value being recorded as additional paid-in capital. Distribution in excess of 25 percent is generally considered as stock split.

Subject	ROC GAAP	U.S. GAAP
Gain on disposal of fixed assets	Under ROC GAAP, gains and losses from the disposal of fixed assets are both recorded as non-operating income or expenses. The gain, net of tax, from disposal of fixed assets is reclassified from retained earnings to capital reserve. However, according to amendments in ROC Company Law, such reclassification of gain to capital reserve shall no longer be required with effect on January 1, 2001.	Under U.S. GAAP, the reclassification of the gain from disposal of fixed assets from retained earnings to capital reserve is not permitted.
Impairment of long-lived assets or long-lived assets to be disposed	No specific standards address impairment of long-lived assets; normally such assets would be carried at cost less accumulated depreciation. Assets purchased for use in the business but not subsequently used for that purpose are generally recorded as idle assets and reclassified from fixed assets to other assets, in which case there is a requirement to assess the net realizable value such that idle assets are not recorded at an amount in excess of net realizable value.	U.S. GAAP requires that long-lived assets held for use by an entity be reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable. If the sum of the expected future cash flows is less than the carrying amount of the asset, an impairment loss is recognized for the difference between the carrying value and the fair value based on discounted cash flow.
Prepayment of fixed assets	Under ROC GAAP, prepayment of fixed assets is presented as part of fixed assets.	Under U.S. GAAP, prepayment of fixed assets should be presented as other assets.
Depreciation of fixed assets	Depreciation is generally provided using the guideline service lives as prescribed by the ROC Tax Authorities plus one additional year as salvage value.	Depreciation is provided over the asset's estimated economic useful life. Salvage value, if any, is based on the estimated net realizable value of the asset at the end of its estimated economic useful life.

Subject	ROC GAAP	U.S. GAAP
Comprehensive Income	Under ROC GAAP, there are no standards for accounting and reporting of comprehensive income.	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 (e.g., cumulative translation adjustments under SFAS52, minimum pension liabilities under SFAS87 and unrealized gains and losses on available-for-sale securities under SFAS115, and the effective portion of the change in the fair value of cash flow and net investment hedges under FAS133).
Accounting for derivative instruments	There are no specific accounting standards under ROC GAAP which address measurement for derivative instruments such as options, swap arrangements, and interest rate swap contracts, except for foreign currency forward contracts. Because the rules are flexible, different companies may apply different accounting practices to derivatives. The foreign currency forward contracts are classified as either hedge or speculative contracts. Forward contracts in the form of hedges are recorded and translated using the exchange rates prevailing on the contract date. The discount or premium on the forward exchange contract is amortized over the contract period. The balance at period-end is translated into New Taiwan dollars at the exchange rates prevailing at the balance sheet date, and any translation is recognized in the current year's net income.	Under U.S. GAAP, accounting for derivative instruments requires that all entities recognize derivative instruments as assets and liabilities in the statement of financial position and subsequently measure them at fair value. If certain conditions are met, entities may elect to designate a derivative instrument as one of the following: Fair value hedge — a hedge of the exposures to changes (that are attributable to a particular risk) in the fair value of (1) a recognized asset or liability or (2) an unrecognized firm commitment; Cash-flow hedge — a hedge of the exposure to variability (that is attributable to a particular risk) in the cash flows of a forecasted transaction; and

Subject	ROC GAAP	U.S. GAAP
		Foreign-currency hedge — a hedge of the foreign-currency exposure of (1) an unrecognized firm commitment, (2) an available-for-sale security, (3) a forecasted transaction, or (4) a net investment in a foreign operation.
Compensated absences	ROC GAAP has no specific accounting practice regarding compensated absences.	Compensated absences must be accrued based on the liability for employees' rights to receive compensation for future absences when certain conditions are met.
Cost of sales	Under ROC GAAP, provisions for normal inventory scrap and obsolescence are recorded as non-operating expenses.	Under U.S. GAAP, provisions for normal inventory scrap and obsolescence are generally charged to cost of sales.
Deferred charges	Under the ROC Company Law, expenses of obtaining new capital by issuing common or preferred stock can be charged to current expenses or capitalized as deferred charges and then amortized over three years under the straight-line method.	Under U.S. GAAP, expenses of issuing common or preferred stock should be charged directly to the capital in excess of par or capital in excess of stated value. Retained earnings may be charged when legal regulations prohibit charging stock issue costs to capital accounts.
Concentration of risk	ROC GAAP has no specific disclosure requirements concerning concentration of risk.	Disclose concentration of risk on one or more parties, as appropriate, including such parties as major customer, suppliers, franchisers, distributors, general agents, borrowers or lenders is required.
Ten percent additional income tax on undistributed earnings	Under the current tax regulations, current year's earnings, on tax basis, not distributed in the following year are subject to ten percent additional income tax. This ten percent additional income tax is recognized as a tax expense in the following year when the amount is determined.	Under U.S. GAAP, this ten percent additional income tax is recognized in the period during which the related income is generated and the impact of the ten percent tax is measured for both current and deferred tax.

The effects of the above differences between ROC GAAP and U.S. GAAP has not been quantified. Accordingly, there is no assurance that net income and stockholders' equity reported in accordance with ROC GAAP would not be lower if determined in accordance with U.S. GAAP.

SUBSCRIPTION AND SALE

Pursuant to a subscription agreement (the “Subscription Agreement”) dated March 5, 2003 between Citicorp International Limited and the other Managers named therein (together, the “Managers”) and the Company, the Managers have severally agreed with the Company, subject to the fulfillment of certain conditions, to subscribe and pay for the Bonds in the principal amounts therein specified at the issue price of 100 percent of their principal amount less an underwriting commission and a selling concession aggregating 1.6 percent of their principal amount. In addition, the Company has agreed to reimburse the Managers for certain of their expenses in connection with the issue of the Bonds and to indemnify the Managers against certain liabilities. The Subscription Agreement provides that the obligations of the Managers are subject to certain conditions precedent, and entitles the Managers to terminate it in certain circumstances prior to payment being made to the Company.

The Managers, or their affiliates, may purchase Bonds for their own account and enter into transactions relating to the Bonds, including asset swaps, repackagings and other transactions. Such transactions would be carried out as bilateral trades with selected counter-parties and separately from any offering, sale or resale of the Bonds to which this Offering Circular relates (notwithstanding that such selected counter-parties may also be purchasers of the Bonds). These transactions may involve a substantial portion of the Bonds. Furthermore, the Managers may make a market with respect to the Bonds but are not obligated to do so, and any market-making with respect to the Bonds may be discontinued at any time without notice.

The Company has agreed in the Subscription Agreement that, except as described below, neither it nor any person acting on its behalf will issue, offer, sell, contract to sell or otherwise dispose of any interest in any Shares or securities of the same class as the Bonds or Shares (other than pursuant to employee benefits plans or distributions of dividends or employee dividends in the form of Shares and other than Shares issued upon conversion of the Bonds or the domestic convertible bonds previously issued by the Company) or any securities convertible into, exchangeable for or which carry rights to subscribe or purchase the Bonds, Shares or securities of the same class as the Bonds, Shares or other instruments representing interests in the Bonds, Shares or other securities of the same class as them, or announce or otherwise make public an intention to do any of the foregoing, in any such case without the prior written consent of the Managers between the date thereof and the date which is 90 days after the Closing Date (both dates inclusive).

The foregoing lock-up provisions shall not be applied to Shares issued in connection with merger and acquisitions; *provided, however*, that (i) the persons to whom Shares are issued by the Company will not sell, contract to sell or otherwise dispose of any interest in the Shares issued as a result of such merger and acquisitions between the date of the effective date of merger and acquisitions and the date which is 90 days after the Closing Date, and (ii) the Lead Manager shall be notified by five-day prior notice of these issuances.

In addition, Ho Tung Chemical Corp., Si-Chung Chang, Zortec Corporation and Paoze Investment Limited have agreed that none of them will offer, sell, contract to sell or otherwise dispose of any interest in any Shares or securities of the same class as the Shares or any securities convertible into, exchangeable for or which carry rights to purchase the Shares or other instruments representing interests in the Shares or other securities of the same class as them, or announce or otherwise make public an intention to do any of the foregoing, in any such case without the prior written consent of the Managers between the date hereof and the date which is 90 days after the Closing Date (both dates inclusive).

General

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

United States

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 paragraph have the meanings given to them by Regulation S under the Securities Act ("Regulation S").

Each Manager has agreed that it will not offer or sell the Bonds or the Shares to be issued upon conversion of the Bonds (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 Closing Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells the Bonds or the 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 the Shares to be issued upon conversion of the Bonds, 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 have the meanings given to them by Regulation S.

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

In addition, until 40 days after the later of the commencement of the offering of the Bonds and the latest closing date for an issue of Bonds, an offer or sale of the Bonds or the Shares to be issued upon conversion of the Bonds within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has represented and agreed that:

- (1) it has not offered or sold and prior to the date six months after the issue of the Bonds 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 the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offer of Securities Regulations 1995;

- (2) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the “FSMA”) with respect to anything done by it in relation to the Bonds or Shares in, from or otherwise involving the United Kingdom; and
- (3) it has only issued or passed onto any person in the United Kingdom any document received by it in connection with the issue of the Bonds, if that person is of a kind described in Articles 19, 47 or 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (as amended) or is a person to whom such document may otherwise lawfully be issued or passed on.

The ROC

The Bonds may not be offered, sold or delivered, directly or indirectly, in the ROC, as part of the distribution of the Bonds.

Hong Kong

Each Manager has represented and agreed that (1) 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 which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong; and (2) it has not issued or had in its possession and will not issue or have in its possession any document, invitation or advertisement relating to the Bonds in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are intended to be disposed of to persons outside Hong Kong or only to persons whose business involves the acquisition, disposal or holding of securities, whether as principal or agent.

Singapore

Each Manager has acknowledged that the Offering Circulars have not been registered as a prospectus with the Monetary Authority of Singapore, and the Bonds will be offered in Singapore only pursuant to exemptions invoked under Sections 274 and/or 275 of the Securities and Futures Act 2001 (the “SFA”). Accordingly, each Manager offering the Bonds acknowledges and agrees that it has not offered or sold and will not offer or sell the Bonds nor will it circulate or distribute the Offering Circulars or any other offering document or material relating to the Bonds, either directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor or other person specified in Section 274 of the SFA, (ii) to a sophisticated investor, and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

Japan

Each Manager has represented and agreed that the Bonds have not and will not be registered under the Securities and Exchange Law of Japan. Each Manager has represented and agreed that the Bonds which it subscribes will be subscribed by it as principal. Each Manager 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 resident 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.

GENERAL INFORMATION

Listing

Application has been made to list the Bonds on the Luxembourg Stock Exchange. The legal notice relating to the issue of the Bonds and the Articles of Incorporation of the Company will be registered prior to the listing with the Registrar of the District Court in Luxembourg (*Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg*), where such documents are available for inspection and copies thereof can be obtained upon request. As long as the Bonds are listed on the Luxembourg Stock Exchange, an Agent for making payments on, transfers and conversions of, the Bonds will be maintained in Luxembourg.

Authorizations

The Company has obtained all necessary consents, approvals and authorizations in connection with the issue of the Bonds. The issue of the Bonds was authorised by a resolution of the Board of Directors of the Company passed on October 8, 2002.

Material Change

Except as disclosed in this Offering Circular, there has been no material adverse change in the financial position or prospects of the Company since December 31, 2002.

Litigation

Save as disclosed in the section "Business of the Company — Litigation and Legal Issues", the Company is not involved in any litigation or arbitration proceedings which may have, or have had during the 12 months preceding the date of this Offering Circular, a significant effect on the financial position of the Company, and so far as the Company is aware, there are no such proceedings pending or threatened.

Independent Accountants

The financial statements of the Company as of December 31, 2000, 2001 and 2002 and for the years then ended, have been audited by Diwan, Ernst & Young Certified Public Accountants, independent certified public accountants to the extent indicated in their report thereon. The Company is not required to prepare consolidated financial statements under the ROC laws.

Documents Available

Copies (and certified English translations where the documents are not in English) of the following documents may be inspected at the specified office of the Paying and Conversion Agent in Luxembourg for as long as the Bonds are listed on the Luxembourg Stock Exchange:

- Articles of Incorporation of the Company;
- a copy of the reports of the independent accountants, the audited financial statements of the Company as at and for the years ended December 31, 2000, 2001 and 2002;

- the Subscription Agreement relating to the Bonds; and
- the Trust Deed constituting the Bonds (which includes the form of the Global Certificate and the definitive Certificates) and the Agency Agreement.

In addition, copies of the reports of the independent accountants, the audited financial statements of the Company as at and for the years ended December 31, 2000, 2001 and 2002 and the most recent annual financial statements and interim financial statements of the Company published by the Company, will be available at the specified office of the Paying, Conversion and Transfer Agent in Luxembourg for as long as the Bonds are listed on the Luxembourg Stock Exchange. The Company does not and is not required to prepare consolidated financial statements.

Clearing Systems

The Bonds have been accepted for clearance through the facilities of Euroclear and Clearstream, Luxembourg. Relevant trading information for the Bonds is set forth below:

Common Code	016454524
ISIN.....	XS0164545245

**INDEPENDENT AUDITORS' REPORT AND AUDITED FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED DECEMBER 31, 2000, 2001 AND 2002**

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
SINTEK PHOTRONIC CORPORATION

We have audited the accompanying balance sheets of Sintek Photronic Corporation as of December 31, 2000, 2001 and 2002, and the related statements of income, stockholders' equity, and cash flows for the years ended December 31, 2000, 2001 and 2002. 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 audit.

We conducted our audit in accordance with "Guidelines for Certified Public Accountants' Examination and Reporting on Financial Statements" and auditing standards generally accepted in the Republic of China on Taiwan. Those standards 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Sintek Photronic Corporation as of December 31, 2000, 2001 and 2002, and the results of its operations and the cash flows for the years ended December 31, 2000, 2001 and 2002, in conformity with "Regulations Governing the Preparation of Financial Statements by Securities' Issuers" and accounting principles generally accepted in the Republic of China on Taiwan.

February 6, 2003

Taipei, Taiwan, R.O.C.

SINTEK PHOTRONIC CORPORATION
BALANCE SHEETS
December 31, 2000, 2001 and 2002
(Amounts in thousands)

		December 31			
		2000			
	NOTES	(inception	2001	2002	
		period)			
				NT\$	US\$
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	2 & 4a	1,012,845	1,022,313	444,564	12,793
Short-term investments	2 & 4b	956,530	611,862	649,283	18,684
Accounts receivable, net.....	2 & 4c	16,301	205,146	946,338	27,233
Receivables from related parties, net.....	2 & 5	0	639,940	309,848	8,917
Inventories, net	2 & 4d	52,845	388,190	297,893	8,572
Prepayments		10,060	6,814	395,766	11,389
Other current assets.....	2 , 4e & 5	55,002	99,954	146,054	4,203
Deferred tax assets — current	2 & 4t	300	91,842	175,413	5,048
Restricted current assets	4f & 6	629,920	445,513	231,312	6,656
Total Current Assets		2,733,803	3,511,574	3,596,471	103,495
LONG-TERM EQUITY INVESTMENTS	2 & 4g	0	0	50,000	1,439
PROPERTY, PLANT AND EQUIPMENT	2, 4h, 5, & 6				
Cost:					
Land.....		0	216,851	217,085	6,247
Buildings and improvements.....		17,080	1,137,659	1,393,925	40,113
Machinery and equipment.....		161,384	2,888,291	5,964,774	171,648
Transportation equipment		628	1,272	1,272	37
Office equipment.....		25,670	166,988	211,508	6,087
Miscellaneous equipment.....		33,346	926,943	1,392,683	40,077
Total cost		238,108	5,338,004	9,181,247	264,209
Less: accumulated depreciation		(1,426)	(267,999)	(798,100)	(22,967)
Construction in progress.....		422,702	2,570	0	0
Advanced payments for equipment		1,398,176	298,433	129,526	3,727
Net Property, Plant and Equipment		2,057,560	5,371,008	8,512,673	244,969
INTANGIBLE ASSETS	2 & 4i	894,750	1,104,484	984,985	28,345
OTHER ASSETS.....		97,662	530,895	790,669	22,753
Deferred tax assets — non-current	2 & 4t	82,200	330,519	485,718	13,977
Other assets	2 & 4j	15,462	200,376	304,951	8,776
TOTAL ASSETS		5,783,775	10,517,961	13,934,798	401,001

(Continued)

The accompanying notes are an integral part of the financial statements.

SINTEK PHOTRONIC CORPORATION
BALANCE SHEETS
December 31, 2000, 2001 and 2002 - continued
(Amounts in thousands)

		December 31			
		2000 (inception period)	2001	2002	
	NOTES	NT\$	NT\$	NT\$	US\$
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Short-term loans.....	4k	147,496	903,682	1,407,979	40,517
Short-term bills payable	4l	0	400,000	0	0
Notes payable		17,799	76,453	0	0
Accounts payable		33,206	303,285	435,955	12,545
Income tax payable	4t	0	0	65,244	1,878
Accrued expenses.....	5	523,853	269,605	189,623	5,457
Payables on equipment.....	5	183,574	170,514	600,333	17,275
Long-term loans — current portion	4n	0	0	737,068	21,211
Other current liabilities		8,190	68,991	121,542	3,498
Total Current Liabilities		914,118	2,192,530	3,557,744	102,381
LONG-TERM DEBTS					
Corporate bonds payable	4m	0	0	800,000	23,021
Long-term loans	4n	0	2,400,000	2,797,339	80,499
Total Long-term debts		0	2,400,000	3,597,339	103,520
TOTAL LIABILITIES		914,118	4,592,530	7,155,083	205,901
COMMITMENTS AND CONTINGENT LIABILITIES					
	7				
STOCKHOLDERS' EQUITY:					
Common stock	4p	3,600,000	4,000,000	4,000,000	115,108
Capital reserve	2 & 4q	1,172,216	1,572,216	1,572,216	45,244
Legal reserve	2	0	9,744	35,321	1,016
Undistributed retained earnings	2 & 4r	97,441	343,471	1,172,178	33,732
TOTAL STOCKHOLDERS' EQUITY		4,869,657	5,925,431	6,779,715	195,100
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY					
		5,783,775	10,517,961	13,934,798	401,001

The accompanying notes are an integral part of the financial statements.

SINTEK PHOTRONIC CORPORATION
STATEMENTS OF INCOME
For the years ended December 31, 2000, 2001 and 2002
(Amounts in thousands, except for earnings per share)

	<i>NOTES</i>	2000 (inception period)	2001	2002	
		<i>NT\$</i>	<i>NT\$</i>	<i>NT\$</i>	<i>US\$</i>
OPERATING REVENUES.....	2 & 4s	13,204	1,575,158	3,672,563	105,685
COST OF GOODS SOLD		12,174	1,515,767	2,497,510	71,871
GROSS PROFIT		1,030	59,391	1,175,053	33,814
OPERATING EXPENSES					
Selling expenses.....		0	23,992	88,026	2,533
Administrative expenses.....		60,132	86,288	155,033	4,461
Research and development expenses.....		5,208	65,503	70,656	2,033
Total operating expenses.....		65,340	175,783	313,715	9,027
OPERATING INCOME (LOSS)		(64,310)	(116,392)	861,338	24,787
NON-OPERATING INCOME					
Interest income		29,732	80,392	22,494	647
Investment income		50,659	11,465	36,925	1,063
Rental income	5	0	7,343	481	14
Foreign exchange gain, net.....		13,330	28,018	9	0
Others		13,918	36,608	11,626	335
Total Non-operating Income		107,639	163,826	71,535	2,059
NON-OPERATING EXPENSES					
Interest expense		13,576	78,872	105,578	3,038
Inventory loss provision.....		0	0	10,000	288
Suspension of work losses.....		0	36,213	132,437	3,811
Others		11,990	15,907	2,089	60
Total Non-operating Expenses		25,566	130,992	250,104	7,197
INCOME (LOSS) BEFORE INCOME TAX...		17,763	(83,558)	682,769	19,649
INCOME TAX BENEFIT	4t	82,500	339,332	171,515	4,936
NET INCOME		100,263	255,774	854,284	24,585
PRIMARY EARNINGS (LOSS) PER SHARE					
(Dollar)	2 & 4u				
Income (loss) before income tax		0.10	(0.23)	1.71	0.00
Income tax benefit		0.44	0.93	0.43	0.00
Net income		0.54	0.70	2.14	0.00

The accompanying notes are an integral part of the financial statements.

SINTEK PHOTRONIC CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the years ended December 31, 2000, 2001 and 2002
(Amounts in thousands)

	Subscribed		Capital Reserve	Legal Reserve	Accumulated profit (deficit) during inception period		Undistributed Retained Earnings	Stockholders' Equity
	Common Stock	Capital Stock			NT\$	NT\$		
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
Balance, December 31, 1999	200,000	550,800	0	0	(2,822)	0	747,978	
First issuance of additional common shares for cash	540,000	(550,800)	10,800	0	0	0	0	0
Issuance of additional common shares for technical know-how	58,800	0	1,176	0	0	0	0	59,976
Second issuance of additional common shares for cash	801,200	0	160,240	0	0	0	0	961,440
Third issuance of additional common shares for cash	2,000,000	0	1,000,000	0	0	0	0	3,000,000
Net income, 2000	0	0	0	0	100,263	0	0	100,263
Balance, December 31, 2000	3,600,000	0	1,172,216	0	97,441	0	4,869,657	
Transfer of accumulated profit during inception period to undistributed retained earnings	0	0	0	0	(97,441)	97,441	0	0
Appropriations to legal reserve	0	0	0	9,744	0	(9,744)	0	0
Stock issuance for cash	400,000	0	400,000	0	0	0	0	800,000
Net income, 2001	0	0	0	0	0	255,774	255,774	
Balance, December 31, 2001	4,000,000	0	1,572,216	9,744	0	343,471	5,925,431	
Appropriations to legal reserve	0	0	0	25,577	0	(25,577)	0	0
Net income, 2002	0	0	0	0	0	854,284	854,284	
Balance, December 31, 2002	4,000,000	0	1,572,216	35,321	0	1,172,178	6,779,715	

The accompanying notes are an integral part of the financial statements.

SINTEK PHOTRONIC CORPORATION
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2000, 2001 and 2002
(Amounts in thousands)

	2000 (inception period)	2001	2002	
	NT\$	NT\$	NT\$	US\$
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	100,263	255,774	854,284	24,585
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation.....	1,412	230,548	406,180	11,689
Suspension of work losses.....	0	36,213	125,334	3,606
Loss on disposal of property, plant and equipment	0	43	0	0
Amortization	292	71,809	221,353	6,370
Gains on derivatives — hedging transactions	(1,092)	0	0	0
Increase (Decrease) in short-term investments	(723,444)	344,668	(37,421)	(1,077)
Increase in notes receivable.....	(16,301)	0	0	0
Increase in accounts receivable	0	(188,845)	(741,192)	(21,329)
(Increase) Decrease in receivables from related parties	0	(639,940)	330,092	9,499
(Increase) Decrease in inventories	(52,845)	(335,345)	90,297	2,598
Increase (Decrease) in prepayments.....	(9,986)	3,246	(388,952)	(11,193)
Increase in other current assets	(50,711)	(44,952)	(46,100)	(1,327)
Increase in deferred income tax assets — current.....	(300)	(91,542)	(83,571)	(2,405)
Increase in deferred income tax assets — non-current	(82,200)	(248,319)	(155,199)	(4,466)
Increase (Decrease) in notes payables	13,950	62,503	(76,453)	(2,200)
Increase in accounts payable	32,973	270,079	132,670	3,818
Increase in income tax payable.....	0	0	65,244	1,877
Increase (Decrease) in accrued expenses	40,536	46,950	(220)	(6)
Increase (Decrease) in other current liabilities.....	(636)	60,800	52,575	1,513
Net cash provided for (used in) operating activities	(748,089)	(166,310)	748,921	21,552
CASH FLOWS FROM INVESTING ACTIVITIES.....				
Decrease in receivables from derivatives — hedging transactions	7,704	0	0	0
Purchases of property, plant and equipment.....	(1,650,616)	(3,600,311)	(3,247,299)	(93,447)
Purchases of long-term equity investments	0	0	(50,000)	(1,439)
Proceeds from disposal of property, plant and equipment	0	3,150	3,939	113
Increase in other assets	(13,878)	(185,573)	(205,032)	(5,900)
Increase in intangible assets	(255,012)	(581,997)	(87,469)	(2,517)
Increase in refundable deposits.....	(86)	(85)	(690)	(20)
Decrease (Increase) in restricted time deposits	(540,098)	184,407	221,201	6,365
Net cash used in investing activities.....	(2,451,986)	(4,180,409)	(3,365,350)	(96,845)

(Continued)

SINTEK PHOTRONIC CORPORATION
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2000, 2001 and 2002 - continued
(Amounts in thousands)

	2000 (inception period)	2001	2002	
	NT\$	NT\$	NT\$	US\$
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase in short-term loans	147,496	756,186	504,297	14,512
Increase (Decrease) in short-term bills payable	0	400,000	(400,000)	(11,511)
Increase (Decrease) in security deposits	23	1	(24)	(1)
Stock issuance for cash	3,961,440	800,000	0	0
Increase in long-term loans	0	2,400,000	1,134,407	32,645
Increase in corporate bonds payable	0	0	800,000	23,022
Net cash provided by financing activities	4,108,959	4,356,187	2,038,680	58,667
Net increase (decrease) in cash and cash equivalents..	908,884	9,468	(577,749)	(16,626)
Cash and cash equivalents at beginning of period.....	103,961	1,012,845	1,022,313	29,419
Cash and cash equivalents at end of period	1,012,845	1,022,313	444,564	12,793
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Cash paid during the period for:				
Interest	12,362	86,259	98,610	2,838
Income tax	0	9,994	2,011	58
DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES				
Stock issuance for technical know-how	59,976	0	0	0
Long-term loans-current portion	0	0	737,068	21,211
SUPPLEMENTAL DISCLOSURES OF PARTLY-CASH INVESTING AND FINANCING ACTIVITIES				
Additions to fixed assets	1,838,039	3,583,402	3,677,118	105,816
Add: payables on equipment, beginning of period	0	187,423	170,514	4,907
Less: payables on equipment, end of period	(183,574)	(170,514)	(600,333)	(17,275)
notes payable on equipment, end of period.....	(3,849)	0	0	0
Cash payments made for purchases of fixed assets	1,650,616	3,600,311	3,247,299	93,448
Additions to Intangible assets.....	736,306	280,799	7,707	222
Add: payables on intangible assets, beginning of period	0	481,294	180,096	5,182
Less: payables on intangible assets, end of period.....	(481,294)	(180,096)	(100,334)	(2,887)
Cash payments made for purchases of intangible assets	255,012	581,997	87,469	2,517

The accompanying notes are an integral part of the financial statements.

SINTEK PHOTRONIC CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2000, 2001 AND 2002
(Amounts in thousands except share, per share and percentages)

1. ORGANIZATION AND BUSINESS

Sintek Photronic Corporation ("the Company") was incorporated under the Company Law of the Republic of China ("ROC") on September 18, 1999. After a development phase from September 18, 1999 to December 31, 2000, the Company started its principal business activities. The Company's principal business activities include the sale, manufacturing and research and development of color filter products. The Company's share capital was NT\$200,000 at inception. After several issuances of additional common shares, the Company's capital increased to NT\$4,000,000 as of December 31, 2002.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, and so near to their maturity that they present insignificant risk of changes in interest rates. Commercial paper, negotiable certificates of deposits, and bank acceptances with maturity of three months or less from the date of investment are considered to be cash equivalents.

b. Short-term investments

Short-term investments are recorded at cost when acquired and are stated at the lower of aggregate cost or market value at the balance sheet date. Except for mutual funds which are recorded individually, cost is calculated by using the moving weighted average method. No income is recognized when stock dividends are received. Instead, the number of shares increases and the cost per share is recalculated.

c. Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on a collectibility and the aging analysis of notes receivable, accounts receivable, and other receivables.

d. Inventories

Inventories are recorded at cost when acquired and calculated by using the weighted average method. At the balance sheet date, inventories are stated at the lower of aggregate cost or market value. Replacement cost is used to determine the market value of raw materials and supplies. Net realizable value is used to determine the market value of work in process and finished goods.

e. Long-term equity investments

Long-term investments are stated at cost when acquired. The equity method is used to account for long-term equity investments when the Company owns 20% or more of the investee's voting stock or where the Company exercises significant influence over the investee's operations and financial decisions. Long-term investments are stated at cost when the Company owns less than 20% of the investee's voting stock or has no material influence over the investee companies. Under the cost method, when the investee company is a listed company, the investment is valued at the lower of cost or market value and any unrealized loss is recorded as a reduction in the stockholders' equity. When the investee company is a non-listed company, the investment is valued at cost. However, if a loss becomes permanent or the likelihood of the recovery of such loss becomes remote, such loss will be expensed in the period incurred.

SINTEK PHOTRONIC CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

The Company is required to prepare annual consolidated financial statements when it owns, directly or indirectly, 50% or more than 50% of ownership of investee companies. However, if the total assets or total revenue of the investee companies do not exceed 10% of the Company's unconsolidated total assets or revenue, the Company has an option of whether or not to consolidate such subsidiaries.

f. **Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is provided on the straight-line basis over the following useful lives:

Buildings and improvements	3 - 35 years
Machinery and equipment	3 - 25 years
Transportation equipment.....	5 years
Office equipment.....	3 - 6 years
Miscellaneous equipment	2 - 15 years

Improvements and replacements are capitalized and depreciated over their estimated useful lives while ordinary repairs and maintenance are expensed as incurred. Gains or losses resulting from the disposal of property, plant and equipment are recorded as non-operating income (expenses) or extraordinary gains (loss).

In addition, gains on disposal of property, plant, and equipment, net of related income tax, are transferred from retained earnings to capital reserve in the year incurred. Effective from 2001, in accordance with an amendment to Taiwan Company Law, such gains are no longer transferred to capital reserve

g. **Intangible assets**

Intangible assets consist primarily of patents and technical know-how. Intangible assets are recorded at cost and are amortized on the straight-line basis over their estimated useful lives (five to eight years).

h. **Deferred costs**

Deferred costs mainly consist of major repairs and maintenance, which are amortized over 1-5 years using the straight-line method.

The costs of issuing corporate bonds are amortized on a straight-line basis over 5 years, starting from the date of bond issuance.

i. **Pension plan**

The Company has a retirement plan covering substantially all of its employees. Under this plan, employees are entitled to 2 base points for every year of service for the first 15 years and 1 base point for every additional year of service up to a maximum of 45 base points. Employee pension obligation is determined on the years of service and average salaries or wages for the 6 months prior to approved retirement. In accordance with the Labor Standards Law of the ROC, the Company makes a monthly contribution equal to 2% of the wages and salaries paid during the period to a pension fund maintained with the Central Trust of China. The fund is administered by the Employees' Retirement Fund Committee and is deposited in the committee's name. Therefore, the pension fund is not included in the financial statements of the Company.

The Company adopted ROC Statement of Financial Accounting Standard No.18 in 2000. The Statement requires that the pension plan assets and the benefit obligation to be determined on an actuarial basis and that the minimum pension liability be recorded for the excess of accumulated pension obligation over the fair value of plan assets. The net transition asset or obligation is amortized on a straight-line basis over twenty-five years. Gains or losses from the plan assets are amortized on a straight-line basis over the employees' average remaining service period.

SINTEK PHOTRONIC CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

j. **Legal reserve and capital reserve**

Capital reserve

According to the ROC Company Law, capital reserve derived from additional paid-in capital shall be exclusively utilized to offset a deficit or to use as a capital increase.

Legal reserve

According to the ROC Company Law, 10% of the Company's net income, after deducting previous years' losses, if any, is appropriated as legal reserve prior to any distribution until such reserve is equal to the Company's paid-in capital. The reserve may be utilized to offset a deficit or to use as a capital increase but not as cash dividends.

k. **Revenue recognition**

The Company adopted ROC Statement of Financial Accounting Standard No. 32 "Accounting for Revenue Recognition" to recognize its revenue.

l. **Income tax**

In accordance with ROC statement of Financial Accounting Standards No. 22 "Accounting for Income Tax", deferred income tax liabilities are recognized for tax consequences of taxable temporary differences by applying enacted statutory tax rates, and deferred income tax assets are recognized for tax consequences of deductible temporary differences, operating loss carry forwards and investment tax credits. A valuation allowance is provided when a portion or all of the deferred income tax assets will not be realized. Deferred income tax assets and liabilities are classified as current and non-current items according to the classification of the related assets and liabilities. If deferred income tax assets or liabilities are not related to any assets or liabilities, they are classified according to the period of realization.

Undistributed earnings are subject to a 10% additional tax. This undistributed earnings tax is recorded as an expense on the date of the stockholders' resolution on earnings distribution.

In accordance with ROC Statement of Financial Accounting Standards No. 12 "Accounting for Income Tax Credits", the Company adopts the flow-through method to record income tax credits derived from purchases of equipment, research and development expenditures, and investments in equity stock. This method recognizes the entire reduction in income tax payable in the year when the credit arises.

m. **Foreign currency transactions**

Transactions denominated in foreign currencies are recorded in New Taiwan dollars at the exchange rate prevailing on the date of the transactions. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into New Taiwan dollars at the exchange rates prevailing at the balance sheet date. Gains or losses resulting from settlement of such transactions or translation of foreign currency assets and liabilities at the balance sheet date are credited or charged to the statement of operations in the current period.

Speculative forward contracts are recorded at forward rates throughout the terms of the contracts. At the balance sheet date, receivables and payables denominated in foreign currencies are adjusted to reflect the exchange rate for the remaining terms of the contract. Gains or losses resulting from speculative forward contracts are credited to or charged against current income.

SINTEK PHOTRONIC CORPORATION NOTES TO FINANCIAL STATEMENTS (Continued)

If foreign exchange forward contracts are designated to hedge the foreign exchange rate fluctuations on net assets or net liabilities denominated in foreign currencies, the related foreign currency assets and liabilities are recorded based on the transaction rate indicated in the forward contracts. At the date of settlement, gains or losses resulting from the different exchange rates between the contract date and the date of settlement are credited or charged to the statement of operations in the current period. At the balance sheet date, the outstanding forward contracts are adjusted by the expected exchange rate for the remaining period in the contract, and the related gains or losses are credited or charged to the statement of operations in the current period.

Option contracts, which are entered to hedge foreign currency exposures, are not recorded as assets or liabilities when the contracts are signed. When purchasing (selling) foreign currency options to hedge, associated premiums received (paid) are credited (charged) to the statement of operations. Unrealized gains or losses from option transactions, which are intended to hedge committed or uncommitted future foreign currency exposures, are not credited or charged to the statement of operations at the balance sheet date, but are deferred until the underlying transaction is settled at the actual settlement date.

n. Research and development subsidies recognition

Government subsidies for research and development are recorded as other income and the related costs are recognized when the following criteria are met:

- (1) Expenditures are qualified for the subsidies.
- (2) Collectibility is definite.

o. Primary earnings per share

Primary earnings per share is calculated by dividing net income by the weighted average number of shares outstanding during the year or period.

p. Information expressed in US dollars

The financial statements are stated in New Taiwan dollars, the national currency of the ROC. Translation of New Taiwan dollar amounts into US dollar amounts is included solely for the convenience of readers outside of Taiwan and has been made at the rate of NT\$34.75 to US\$1, the approximate exchange rate on December 31, 2002. No representation is made that the New Taiwan dollar amounts could have been, or could be, converted into US dollars at that or any other rate.

3. REASONS AND EFFECTS OF A CHANGE IN ACCOUNTING POLICIES

None.

SINTEK PHOTRONIC CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

4. DETAILS OF SIGNIFICANT ACCOUNTS

a. Cash and cash equivalents

	December 31			
	2000	2001	2002	2002
	NT\$	NT\$	NT\$	US\$
Cash on hand.....	679	498	447	13
Checking accounts	596	217	11,574	333
Savings accounts.....	21,348	91,098	422,543	12,159
Time deposits.....	990,222	930,500	10,000	288
Total	1,012,845	1,022,313	444,564	12,793
Interest rates for time deposits.....	4.30%~4.75%	2.10%~2.40%	1.55%	1.55%

b. Short-term investments

	December 31, 2000		December 31, 2001		December 31, 2002			
	Cost	Market value	Cost	Market value	Cost	Market value	Cost	Market value
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	US\$	US\$
Mutual funds.....	432,376	432,376	174,900	174,918	643,754	643,754	18,525	18,525
Government bonds .	524,154	527,226	436,962	464,058	—	—		
Securities listed on TSE	—	—	—	—	5,529	6,146	159	177
Sub-total	956,530	959,602	611,862	638,976	649,283	649,900		18,702
Less: provision for losses	—		—		—			
Net	956,530		611,862		649,283		18,684	

As of December 31, 2000, 2001 and 2002, government bonds sold under a repurchase clause amounted to \$0, \$107,288 and \$0, respectively. The Company agreed to repurchase the bonds at a specified date at an agreed price of \$90,465, including interest. Please refer to Note 6 for short-term investments pledged as collateral.

c. Accounts receivable

	December 31			
	2000	2001	2002	2002
	NT\$	NT\$	NT\$	US\$
Accounts receivable	16,301	205,146	965,338	27,780
Less: allowance for doubtful accounts.....	—	—	(19,000)	(547)
Net	16,301	205,146	946,338	27,233

Please refer to Note 6 for accounts receivable pledged as collateral.

SINTEK PHOTRONIC CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

d. **Inventories**

	December 31			
	2000	2001	2002	2002
	NT\$	NT\$	NT\$	US\$
Raw materials	48,614	56,089	126,840	3,650
Supplies	5,429	37,268	77,844	2,240
Work in process	2	239,878	55,394	1,594
Finished goods	—	56,211	50,206	1,445
Merchandise	—	1,135	—	—
Total	54,045	390,581	310,284	8,929
Less: allowance for market value declines and obsolescence	(1,200)	(2,391)	(12,391)	(357)
Net	52,845	388,190	297,893	8,572
Insurance coverage	88,000	600,000	390,000	11,223

e. **Other current assets**

	December 31			
	2000	2001	2002	2002
	NT\$	NT\$	NT\$	US\$
VAT	2,253	—	—	—
VAT carried forward	—	—	30,763	885
Taxes refund	25,010	11,536	11,536	332
Interest receivable	16,480	2,788	202	6
Forward contracts receivables, net	9,895	—	—	—
Temporary payments — CDA project	—	19,328	19,807	570
Other receivables	—	43,908	—	—
Others	1,364	22,394	83,746	2,410
Total	55,002	99,954	146,054	4,203

- (1) Temporary payments — CDA project represented the subsequent payments for restoring the impaired equipment caused by the fire which occurred on December 31, 2000. These payments will be reimbursed once the insurance compensation is finalized. Please refer to Note 7.(e) for details of temporary payments — CDA project.
- (2) As of December 31, 2001, other receivables included receivables from the insurance compensation for the explosion at the site of Taiwan K.F.I. Corporation. This case was settled in 2002 and the Company did not suffer any significant losses.
- (3) As of December 31, 2001, other current assets-others included receivables from factoring of accounts receivable amounting to NT\$72,694. Please refer to Note 7.(j) for details.

SINTEK PHOTRONIC CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

f. **Restricted current assets**

	December 31			
	2000	2001	2002	2002
	NT\$	NT\$	NT\$	US\$
Restricted time deposits	629,920	445,513	231,312	6,656
Interest rates for time deposits	4.55%~6.55%	2.10%~4.80%	1.35%~2.30%	1.35%~2.30%

Please refer to Note 6 for restricted time deposits pledged as collateral.

g. **Long term equity investments**

	December 31, 2000		December 31, 2001		December 31, 2002		
	Percentage of		Percentage of		Percentage of		
	Amount	ownership	Amount	ownership	Amount	Amount	ownership
					NT\$	US\$	
Sin Hsin Investment Ltd....	—	—	—	—	50,000	1,439	—

As of December 31, 2002, Sin Hsin Investment Ltd. has not started operations.

SINTEK PHOTRONIC CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

h. Property, plant and equipment

	December 31			
	2000	2001	2002	2002
	NT\$	NT\$	NT\$	US\$
Cost:				
Land	—	216,851	217,085	6,247
Buildings and improvements	17,080	1,137,659	1,393,925	40,113
Machinery and equipment	161,384	2,888,291	5,964,774	171,648
Transportation equipment	628	1,272	1,272	37
Office equipment	25,670	166,988	211,508	6,087
Miscellaneous equipment	33,346	926,943	1,392,683	40,077
Construction in progress	422,702	2,570	—	—
Advanced payments for equipment	1,048,133	298,433	129,526	3,727
Advanced payments for real estate	350,043	—	—	—
Total cost	<u>2,058,986</u>	<u>5,639,007</u>	<u>9,310,773</u>	<u>267,936</u>
Less: Accumulated depreciation				
Buildings and improvements	12	20,438	45,734	1,316
Machinery and equipment	532	138,987	460,651	13,256
Transportation equipment	52	246	458	13
Office equipment	494	13,973	25,251	727
Miscellaneous equipment	336	94,355	266,006	7,655
Total accumulated depreciation	<u>1,426</u>	<u>267,999</u>	<u>798,100</u>	<u>22,967</u>
Net property, plant and equipment	<u>2,057,560</u>	<u>5,371,008</u>	<u>8,512,673</u>	<u>244,969</u>

(1) *Land*

Location	Area	December 31			
		2000	2001	2002	2002
		NT\$	NT\$	NT\$	US\$
(a) HsinChu County	7,792m ²	—	146,139	146,139	4,205
(b) HsinChu County	3,896m ²	—	70,712	70,946	2,042
		<u>—</u>	<u>216,851</u>	<u>217,085</u>	<u>6,247</u>

- (2) The insurance coverage for property, plant and equipment amounted to NT\$1,536,997, NT\$4,594,900 and NT\$5,330,725 as of December 31, 2000, 2001 and 2002, respectively.
- (3) As of December 31, 2002, miscellaneous machinery equipment with a book value of NT\$1,001,995 was temporarily suspended and will be used for production and R&D purposes after the arbitration between the Company and insurance company is settled. The related depreciation expense were NT\$36,213 and NT\$125,334 in 2001 and 2002, respectively, was recorded as “suspension of work losses”.
- (4) Capitalized interest expense for construction in progress and advance payments for equipment amounted to NT\$0, NT\$15,334 and NT\$35,004 in 2000, 2001 and 2002, respectively.
- (5) Please refer to Note 6 for property, plant and equipment pledged as collateral.
- (6) Please refer to Note 5 for details of advance payments for real estate.

SINTEK PHOTRONIC CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

i. **Intangible assets**

	December 31			
	2000	2001	2002	2002
	NT\$	NT\$	NT\$	US\$
Technical know-how	894,750	1,104,484	984,985	28,345

The technical know-how includes the technology for manufacturing color filters.

j. **Other assets**

	December 31			
	2000	2001	2002	2002
	NT\$	NT\$	NT\$	US\$
Refundable deposits	152	237	927	27
Deferred costs.....	15,310	193,139	304,024	8,749
Restricted time deposits	—	7,000	—	—
Total	15,462	200,376	304,951	8,776

(1) Deferred costs mainly consist of major repairs and maintenance, software costs and costs of issuing corporate bonds, which are amortized over 1-5 years using the straight-line method.

(2) Please refer to Note 6 for restricted time deposits pledged as collateral.

SINTEK PHOTRONIC CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

k. **Short-term loans**

Bank	Type	December 31, 2000		December 31, 2001		December 31, 2002		
		Interest rate	Amount	Interest rate	Amount	Interest rate	Amount	Amount
		%	NT\$	%	NT\$	%	NT\$	US\$
Grand Commercial Bank..	L/C	—	—	—	—	1.31-2.60	112,442	3,236
China Farmer Bank	"	—	—	—	—	1.5	53,806	1,548
Overseas Chinese Bank....	"	—	—	—	—	0.88-1.50	9,276	267
Tai Chung Bank	L/C	2.25-2.50	17,863	1.60	670	—	—	—
China Trust Bank	"	8.1395	47,179	—	—	1.33-1.136	2,531	73
Bank of Taiwan	"	1.60	2,213	—	—	0.91	119,072	3,427
First Bank	L/C, O/A	1.586-1.661	634	1.15-4.54	10,423	1.133-1.166	64,507	1,856
Taiwan Cooperative Bank.	"	2.25	29,973	—	—	0.8747- 0.8774	6,829	197
Land Bank	O/A	1.3147-2.25	8,732	2.25	9,186	1.14-2.62	53,353	1,535
Cathay Bank	O/A	5.34	1,577	—	—	1.3742	5,075	146
Taishin Bank	L/C, O/A	1.7418	6,802	1.127-5.2766	198,270	1.0758- 4.6619	170,623	4,910
Bank of Panshin	O/A	1.2956-1.546	17,607	0.9646- 1.1562	4,373	1.185-1.2010	24,017	691
Taipei Commercial Bank..	"	—	—	1.1628	16,472	—	—	—
Asia Pacific Bank	L/C	—	—	1.75-5.25	24,057	1.75	2,611	75
Hwa Nan International Bank	"	—	—	—	—	4.02	159,728	4,596
Mizuho Bank	O/A	—	—	0.74	88,704	0.85-1.75	93,716	2,697
Jihsun Bank	L/C	2.3784-8.27	14,916	1.17-2.00	20,913	1.17-2.30	85,538	2,461
Chang Hwa Bank	"	—	—	1.54-2.06	9,230	0.93-3.20	8,671	250
I. C. B. C.	L/C, O/A	—	—	1.50	89,400	1.40	124,189	3,574
Hsinchu International Bank	L/C	—	—	—	—	4.09-4.36	174,354	5,017
Chinfon Bank	Unsecured	—	—	6.75	20,000	—	—	—
Taishin Bank	"	—	—	4.75	50,000	2.50	87,641	2,522
Bank of Panshin	"	—	—	—	—	2.30	50,000	1,439
First Bank	"	—	—	5.55	50,000	—	—	—
Tai Chung Bank	"	—	—	6.15	8,219	—	—	—
Grand Commercial Bank..	"	—	—	5.20-5.50	25,500	—	—	—
Chang Hwa Bank	"	—	—	5.75	38,000	—	—	—
Jihsun Bank	"	—	—	5.25	50,000	—	—	—
Land Bank	Secured	—	—	4.45	80,000	—	—	—
Chang Hwa Bank	Unsecured	—	—	4.40	20,000	—	—	—
Chung Hsing Securities Co.	RS	—	—	4.75	90,265	—	—	—
Total			<u>147,496</u>		<u>903,682</u>		<u>1,407,979</u>	<u>40,517</u>

Please refer to Note 6 for assets pledged for short-term loans.

SINTEK PHOTRONIC CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

1. Short-term bills payable

December 31, 2000 and 2002: None

Guarantor	December 31, 2001	
	Interest rate	Amount
	%	NT\$
Hsinchu International Bank	2.75	100,000
Chung Hsing Bills Finance Corp.	2.95	100,000
International Bills Finance Corp.	2.45	100,000
Ta Ching Bills Finance Corp.	2.50	50,000
Dan Chung Bills Finance Corp.	2.77	50,000
Total		<u>400,000</u>

m. Corporate bonds payable

December 31, 2000 and 2001: None

	December 31, 2002	
	NT\$	US\$
Corporate bonds payable	<u>800,000</u>	<u>23,021</u>

The Company issued its first secured corporate bonds on December 11, 2002. The significant terms of the corporate bonds are as follows:

- (1) Total amount issued: NT\$800,000.
- (2) Face value: NT\$1,000 par value.
- (3) Issue period: December 11, 2002 to November 11, 2007 (5 years).
- (4) Issuance price: As face value.
- (5) Interest: 2.7% per annum.
- (6) Method of redemption: Repayable at 33%, 33% and 34% of face value at the end of 3rd year, 4th year and 5th year, respectively.
- (7) Method of interest payment: Annual payment.
- (8) Trustee: Hwa Nan International Bank, I.C.B.C, International Central Trust of China, Taipei Bank Co., Ltd. Hsinchu International Bank, Fubon Bank, Lank Bank, Taiwan Business Bank, Taiwan Cooperative Bank and E. Sun Commercial Bank
- (9) Guarantor: Hwa Nan International Bank
- (10) Please refer to Note 6 for the assets pledged for corporate bonds payable.

In addition, on November 12, 2002, the Company obtained an approval from the Securities and Futures Commission, Ministry of Finance, R.O.C. to issue US\$50,000 unsecured European convertible bonds (ECB). As of December 31, 2002, none of the ECB has been issued.

SINTEK PHOTRONIC CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

n. **Long-term loans**

Bank	Maturity	Interest rate	December 31, 2001	December 31, 2002		Repayment terms
		<i>%</i>	<i>NT\$</i>	<i>NT\$</i>	<i>US\$</i>	
Syndication loan (type A) from Taishin Bank	06.27.2001- 03.08.2006	3.5201	2,000,000	2,000,000	57,554	Syndication loans with an aggregate credit limit of NT\$2,400,000 from 15 banks; repayable in 7 semi- annual installments, beginning 24 months after the first drawdown.
Syndication loan (type B) from Taishin Bank	03.08.2001- 03.08.2006	6.9400	400,000	400,000	11,511	
Chiao Tung Bank (Note 1)	02.2002- 04.2006	—	—	17,650	508	12 installments settled by issuing promissory notes within 3 months after the completion of planned products
Chiao Tung Bank	06.28.2002- 06.27.2005	5.015- 5.115	—	150,000	4,317	5 semi-annual installments, beginning 1 year after the first drawdown
Syndication loan (type A) from Hwa Nan International Bank	09.11.2002- 03.11.2008	5.21- 5.3350	—	50,000	1,439	Syndication loan with an aggregate credit limit of NT\$24,000,000 (including a credit line for corporate bonds payable) from 11 banks; repayable in 6 semi-annual installments, beginning 30 months after the first drawdown
I.C.B.C.	11.08.2002- 11.08.2007	4.50	—	143,000	4,115	17 quarterly installments, beginning 1 year after the first drawdown
Hwa Nan International Bank (Note 2)	07.08.2002- 05.30.2003	0.66-4.74	—	773,757	22,266	Usance L/C
Subtotal			2,400,000	3,534,407	101,710	
Less: current portion			—	(737,068)	(21,211)	
Total			<u>2,400,000</u>	<u>2,797,339</u>	<u>80,499</u>	

SINTEK PHOTRONIC CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

- (1) The NT\$150,000 loan from Chiao Tung Bank is subject to a financial covenants in which the Company is required to keep its current ratio (current assets divided by current liabilities) at least 100% and a liability ratio (liabilities divided by net assets) of less than 150%.
- (2) The loan from usance letters of credits of Hwa Nan International Bank are to purchase machinery equipment for the 4.0 generation TFT-LCD color filter production line. As the loans are to be refinanced by a long-term syndication loan from Hwa Nan International Bank, they are classified as long-term loans.
- (3) Please refer to Note 6 for assets pledged for long-term loans.

o. Pension

In accordance with SFAS No.18, the Company recognized net periodic pension costs starting in 2000. The Company carried out actuarial valuations with measurement dates of December 31, 2000, 2001 and 2002. The reconciliation of the funded status and accrued pension liability as of December 31, 2000, 2001 and 2002 is summarized below:

	<u>2000</u>	<u>2001</u>	<u>2002</u>	
	<i>NT\$</i>	<i>NT\$</i>	<i>NT\$</i>	<i>US\$</i>
Benefit obligations:				
Vested benefit obligations	—	—	—	
Non-vested benefit obligations	(260)	(1,851)	(5,529)	(159)
Accumulated benefit obligations	(260)	(1,851)	(5,529)	(159)
Additional benefits based future salaries	(253)	(1,845)	(3,348)	(96)
Projected benefit obligations	(513)	(3,696)	(8,877)	(255)
Fair value of plan assets	733	4,001	8,651	249
Funded status	220	305	226	6
Unrecognized transition benefit obligations	(220)	(102)	(93)	(3)
Unrecognized pension gains	—	715	1,246	36
Prepaid pension expense	(109)	—	—	—
Prepaid pension expense, balance	<u>(109)</u>	<u>(918)</u>	<u>(927)</u>	<u>(27)</u>

The pension expense for 2001 and 2002, based on the actuarial reports of 2000 and 2001, were NT\$2,482 and NT\$4,501, respectively. The components of net pension costs for year 2001 and 2002 are summarized as follows:

	<u>2001</u>	<u>2002</u>	
	<i>NT\$</i>	<i>NT\$</i>	<i>US\$</i>
Service cost	2,625	4,573	132
Interest cost	31	166	5
Expected return on plan assets	(187)	(241)	(7)
Amortization	(9)	(9)	—
Actual return on plan assets	22	12	—
Net pension costs	<u>2,482</u>	<u>4,501</u>	<u>130</u>

SINTEK PHOTRONIC CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

Actuarial assumptions are as follows:

	<u>2000</u>	<u>2001</u>	<u>2002</u>
Discount rate	6.00%	4.50%	3.50%
Salary increase rate	3.20%	3.00%	2.00%
Expected rate of return on plan assets	6.00%	4.50%	3.50%

p. **Common shares**

As of January 1, 2000, the Company's authorized and issued capital was NT\$800,000 and NT\$200,000, divided into 80,000 thousand shares and 20,000 thousand shares at NT\$10 par value, respectively.

Pursuant to the resolution of the special stockholders meeting on November 2, 1999, the Company increased its capital by NT\$ 540,000 through the issuance of 54,000 thousand shares with a NT\$10 par value, issued at NT\$10.20. In addition, pursuant to the above resolution of the stockholders meeting, the Company issued 5,880 thousand shares in exchange for technical know-how with a NT\$10 par value and issued at NT\$10.20 (based on the appraisal value of NT\$79,644). Pursuant to the resolution of the annual stockholders meeting on March 1, 2000, the Company increased its capital by NT\$ 801,200 through the issuance of 80,120 thousand shares with a NT\$10 par value, issued at NT\$12 per share. The registration was completed and approved by the government.

Pursuant to the resolution of the board of directors on October 20, 2000, the Company increased its capital by NT\$ 2,000,000 through the issuance of 200,000 thousand shares with a NT\$10 par value, issued at NT\$15. The registration was completed and approved by the government.

Pursuant to the resolution of the board of directors on August 17, 2001, the Company increased its capital by NT\$ 400,000 through the issuance of 40,000 thousand shares with a NT\$10 par value, issued at NT\$20 per share. The effective date of this capital cash increase was December 6, 2001. The registration was completed and approved by the government.

Pursuant to the resolution of the board of directors on April 30, 2002, the Company applied to increase its capital by NT\$ 1,200,000. The application was approved by the government. However, as the primary purpose for the capital increase changed, the Company cancelled the application for capital increase following a resolution of the board of director.

As of December 31, 2002, total common stock shares issued by the Company were 400,000 thousand shares at NT\$4,000,000 with par value of NT\$10 per share.

The Company obtained an approval from the Securities and Futures Commission, Ministry of Finance, R.O.C. to issue 40,000 units of employee stock warrants on September 27, 2002. The employee stock warrants are subject to 40,000 thousand shares of common stocks upon execution. After two years of issuance, the holders of the employee stock warrants are entitled to exercise the warrants under the stipulated terms. The effective period for the warrants is 6 years. As of December 31, 2002, none of the employee stock warrants have been issued.

SINTEK PHOTRONIC CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

q. **Capital reserve**

	December 31, 2000	December 31, 2001	December 31, 2002	
	<i>NT\$</i>	<i>NT\$</i>	<i>NT\$</i>	<i>US\$</i>
Stock premium	<u>1,172,216</u>	<u>1,572,216</u>	<u>1,572,216</u>	<u>45,244</u>

r. **Earnings distributions**

- (1) The Company's articles of incorporation provide that the earnings shall be appropriated as follows:

10% of the Company's net income, after deducting the previous years' losses and taxes, must first be appropriated as the legal reserve. Up to 3% of the remainder, if any, is appropriated as remuneration for directors and supervisors' service. The rest may be appropriated or distributed with no less than 10% as employee bonuses upon the resolution of a shareholders' meeting.

- (2) Pursuant to the resolution of the shareholders' meeting in 2002, except for the appropriation to the legal reserve, no other distributions from 2001 earnings were made.

- (3) The stockholders' resolution to appropriate employee bonus and the remuneration to the directors and supervisors for 2001 are provided on web site of the Market Observation Post System.

s. **Operating revenues**

	2000	2001	2002	
	<i>NT\$</i>	<i>NT\$</i>	<i>NT\$</i>	<i>US\$</i>
Sales of Merchandise	13,204	1,491,215	3,897,270	112,152
Construction revenue	—	101,130	—	—
Royalty revenue	—	—	64,500	1,856
Other revenue	—	—	4,320	124
Gross operating revenues	<u>13,204</u>	<u>1,592,345</u>	<u>3,966,090</u>	<u>114,132</u>
Less: Sales return and discounts	—	(17,187)	(293,527)	(8,447)
Operating revenue, net	<u><u>13,204</u></u>	<u><u>1,575,158</u></u>	<u><u>3,672,563</u></u>	<u><u>105,685</u></u>

SINTEK PHOTRONIC CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

t. **Income taxes**

	December 31, 2000	December 31, 2001	December 31, 2002	
	NT\$	NT\$	NT\$	US\$
(1) Deferred tax assets				
a. Total deferred tax assets	82,500	476,967	831,131	23,917
b. Total deferred tax liabilities	—	4,606	—	—
c. Valuation allowance for deferred tax assets	—	50,000	170,000	4,892
d. Temporary differences that generated deferred tax assets or liabilities				
Investment tax credits	73,245	440,838	827,165	23,803
Inventory provision	1,200	2,391	12,391	357
Loss carryforward (expired: 2006)	35,819	142,125	—	—
Unrealized foreign exchange gains, net	—	18,424	—	—
Unrealized foreign exchange losses	—	—	3,742	108
(2) Deferred tax assets — current	300	96,448	175,413	5,048
Deferred tax liabilities — current	—	(4,606)	—	—
Net deferred tax assets — current	300	91,842	175,413	5,048
(3) Deferred tax assets — non-current	82,200	380,519	655,718	18,869
Valuation allowance for deferred tax assets — non-current	—	(50,000)	(170,000)	(4,892)
Net deferred tax assets — non-current	82,200	330,519	485,718	13,978
	2000	2001	2002	
	NT\$	NT\$	NT\$	US\$
(4) Current income tax expense for continuing operations	—	(475)	(67,255)	(1,935)
Deferred tax benefit (expense) resulting from temporary differences :				
Investment tax credits	73,245	367,593	386,327	11,117
Inventory provision	300	298	2,500	72
Loss carryforward	7,955	26,577	(35,531)	(1,022)
Valuation allowance for deferred tax assets	1,000	(50,000)	(120,000)	(3,453)
Net foreign exchange losses	—	(4,606)	5,474	157
Individually taxed income tax	—	(55)	—	—
Income tax benefit for continuing operations	82,500	339,332	171,515	4,936

SINTEK PHOTRONIC CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

- (5) The reconciliation of income tax and income tax payable for December 31, 2000, 2001 and 2002 is as follows:

	2000	2001	2002	
	<i>NT\$</i>	<i>NT\$</i>	<i>NT\$</i>	<i>US\$</i>
Income (loss) before income tax	17,763	(83,558)	682,769	19,648
Tax adjustments				
Gains on sales of short-term investments, net	(50,659)	(11,465)	(36,925)	(1,063)
Inventory provision	1,200	1,191	10,000	288
Unrealized foreign exchange gains	—	(17,981)	3,472	100
Others	29	(2,504)	18,424	530
Loss carryforward	—	—	(139,600)	(4,017)
Estimated taxable income	<u>(31,667)</u>	<u>(114,317)</u>	<u>538,080</u>	<u>15,486</u>
Estimated income tax	—	—	134,510	3,870
Add (less): Undistributed earnings tax	—	949	—	—
Tax credits	—	(475)	(67,255)	(1,935)
Individually taxed income tax	—	55	—	—
Current income tax expense for continuing operations	—	529	67,255	1,935
Less: prepaid income tax	(2,125)	(9,993)	(2,011)	(58)
Income tax payable (receivables)	<u>(2,125)</u>	<u>(9,464)</u>	<u>65,244</u>	<u>1,877</u>

- (6) The ROC Tax authorities have examined and assessed the Company's income tax returns through 1999.
- (7) As of December 31, 2002, the Company's tax credits to reduce future income tax expenses are as follows.

Item	Total tax credits	Unused tax credits	Year of expiry
Purchase of equipment	825,368	800,204	2006
Research and development expenditures	69,051	26,961	2006

- (8) *Information regarding imputation income tax system*

	December 31		
	2000	2001	2002
	<i>NT\$</i>	<i>NT\$</i>	<i>NT\$</i>
Shareholders tax credits balance	<u>—</u>	<u>—</u>	<u>2,011</u>
	2000	2001	2002
Percentage tax credit for shareholders	<u>—</u>	<u>—</u>	<u>0.14%</u>

SINTEK PHOTRONIC CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

u. **Primary earnings (loss) per share**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	
Weighted average number of common shares outstanding (thousand shares)	186,056	362,849	400,000	400,000
Income (loss) before income tax	NT\$17,763	NT\$(83,558)	NT\$682,769	US\$19,649
Income tax benefit	82,500	339,332	171,515	4,936
Net income	100,263	255,774	854,284	24,585
Earnings (loss) per share (dollar)				
Income (loss) before income tax	NT\$0.10	NT\$(0.23)	NT\$1.71	US\$—
Income tax benefit	0.44	0.93	0.43	—
Net income	0.54	0.70	2.14	—

5. RELATED PARTY TRANSACTION

a. **Name and relationship with related parties**

<u>Name</u>	<u>Relationship</u>
Helix Technology Inc.	The Chairman of the Company is the Chairman of Helix Technology Inc.
Chia Ho Genome Express, Inc.	The Chairman of Chia Ho Genome Express is Director of the Company.
Dai Nippon Printing Co., Ltd.	Major shareholder who holds more than 10% of the Company's common shares.
Dai Nippon Printing (Taiwan) Co., Ltd.	Its parent company is a major shareholder of the Company.
Ho Tung Chemical Corporation	The Chairman of Ho Tung Chemical Corporation is Director of the Company.

b. **Significant related party transactions**

1. *Sales:*

	<u>2000</u>		<u>2001</u>		<u>2002</u>	
	<u>Amount</u>	<u>Percentage of total sales</u>	<u>Amount</u>	<u>Percentage of total sales</u>	<u>Amount</u>	<u>Percentage of total sales</u>
	<i>NT\$</i>		<i>NT\$</i>		<i>NT\$</i>	<i>US\$</i>
Dai Nippon Printing (Taiwan)	—	—	796,825	50.59	1,559,077	44,866
	43.21					

The sales prices and terms of collection with the related party were not significantly different from those to non-related parties.

SINTEK PHOTRONIC CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

2. *Purchases:*

	2000		2001		2002		
	Amount	Percentage of total purchases	Amount	Percentage of total purchases	Amount	Amount	Percentage of total purchases
	NT\$		NT\$		NT\$	US\$	
Dai Nippon Printing Co., Ltd.	—	—	526,490	39.67	41,051	1,181	2.38

The purchase prices and terms of payment with the related party were not significantly different from those to non-related parties.

3. *Receivables and payables*

(1) *Receivables*

	2000		2001		2002		
Accounts Receivable	Amount	%	Amount	%	Amount	Amount	%
	NT\$		NT\$		NT\$	US\$	
Dai Nippon Printing (Taiwan)	—	—	639,940	75.72	309,848	8,917	25.69

	2000		2001		2002		
Other receivables	Amount	%	Amount	%	Amount	Amount	%
	NT\$		NT\$		NT\$	US\$	
Helix Technology Inc.	—	—	2,155	9.25	—	—	—
Dai Nippon Printing Co., Ltd.	—	—	—	—	1,753	50	1.16
Total	—	—	2,155	9.25	1,753	50	1.16

(2) *Advanced payments for equipment*

	2000	2001	2002	
	NT\$	NT\$	NT\$	US\$
Helix Technology Inc.	711,665	—	—	—

SINTEK PHOTRONIC CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

(3) Payables to related parties

Accounts Payable	2000		2001		2002		
	Amount	%	Amount	%	Amount	Amount	%
	NT\$		NT\$		NT\$	US\$	
Dai Nippon Printing Co., Ltd...	—	—	202,756	66.85	—	—	—

Payables on equipment	2000		2001		2002		
	Amount	%	Amount	%	Amount	Amount	%
	NT\$		NT\$		NT\$	US\$	
Helix Technology Inc.....	—	—	29,944	17.56	119,310	3,433	19.87
Dai Nippon Printing (Taiwan) ..	—	—	2,756	1.62	36,314	1,045	6.05
Total	—	—	32,700	19.18	155,624	4,478	25.92

Accrued expenses	2000		2001		2002		
	Amount	%	Amount	%	Amount	Amount	%
	NT\$		NT\$		NT\$	US\$	
Helix Technology Inc.....	18,288	3.49	1,665	0.62	—	—	—
Dai Nippon Printing Co., Ltd...	—	—	191,804	71.14	108,166	3,113	99.85
Dai Nippon Printing (Taiwan) ..	—	—	627	0.23	—	—	—
Ho Tung Chemical Corporation	—	—	—	—	166	5	0.15
Total	18,288	3.49	194,096	71.99	108,332	3,118	1000

4. Operating lease

Lessor/lessee	Location	Lease term	Rental revenue (expense)			
			2000	2001	2002	
			NT\$	NT\$	NT\$	US\$
Lessee — Helix Technology Inc.	8, 9 F, 2-1, Wenhua Rd, Hukou, Hsin-Chu county	3.16.2001 – 3.15.2002	—	6,810	649	19
Lessor — Chia Ho Genome Express, Inc.	10, 10-1, 10-2, 10-3, Jungshing Rd, Wugu Shiang, Taipei county	8.18.2000 – 12.31.2000	(18,023)	—	—	—

SINTEK PHOTRONIC CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

5. *Property plant and equipment transactions*

(1) Purchases of production equipment from related parties are summarized as follows

(1) Helix Technology Inc.

	2000	2001	2002	
	<i>NT\$</i>	<i>NT\$</i>	<i>NT\$</i>	<i>US\$</i>
a. In-Line Sputtering System NEW ARISRO 1400				
- Total contract				
amount	260,000	260,000	0	0
- Amount paid.....	210,000	260,000	0	0
b. In-Line Sputtering System NEW ARISRO 1200L				
- Total contract				
amount	—	439,824	439,824	12,657
- Amount paid.....	—	226,211	384,329	11,060
c. Other equipments				
- Total contract				
amount	212,020	212,020	49,586	1,427
- Amount paid.....	151,622	182,076	24,793	713

Transaction prices for the above transactions were calculated at 10% mark-up of the estimated cost (a. and b. above) or 5% mark-up of the estimated cost (c. above).

d. Additionally, Helix Technology Inc. provided technical support to the company regarding the improvement of manufacturing process, and the related technical expense amounted to NT\$30,000 is recorded as the cost of machinery equipment.

(2) During 2000, 2001 and 2002, the Company purchased equipment from Dai Nippon Printing Co., Ltd. for NT\$0, NT\$10,555 and NT\$0, respectively.

(3) During 2000, 2001 and 2002, the Company purchased equipment from Dai Nippon Printing (Taiwan) Co., Ltd. for NT\$0, NT\$125,109 and NT\$90,668, respectively.

(2) The Company purchased real estate, including land and building (located in Hsinchu county), from Helix Technology Inc. in 2000. The transaction price, NT\$700,087, was based on the appraisal value, NT\$700,835. As of December 31, 2000, the advanced payment was NT\$350,043. The remainder was settled in full in 2001.

6. The Company entered into a new product development contract with Helix Technology Inc. The contract expired in May 2001. As of December 31, 2001, the total contract for NT\$ 3,000 (VAT inclusive) had been settled in full.

7. The Company entered into a technology transfer agreement with Dai Nippon Printing Co., Ltd. Please refer to note 7.(d) for details

SINTEK PHOTRONIC CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

6. COLLATERAL

Assets pledged as collateral	Book value				Secured financial institutions	Purposes
	December 31, 2000	December 31, 2001	December 31, 2001			
	NT\$	NT\$	NT\$	US\$		
Restricted time deposits	629,920	452,513	231,312	6,656	Land Bank, Dai-Ichi Kangyo Bank, China Trust, International Bank of Taipei	Short-term loans, Bonded goods Security for foreign labor Security for agreement with Industrial Development Bureau
Short-term investment — government bonds	—	107,243	—	—	Chung Hsing Securities Corp.	Short-term loans
Property, plant and equipment						
- land	—	146,139	217,085	6,247	Taishin Bank Hwa Nan Bank	Syndication loans
- buildings and improvements	—	1,011,904	1,015,132	29,212	Taishin Bank Hwa Nan Bank	Syndication loans
- Machinery and miscellaneous equipment (including advance payments)	—	3,219,899	4,333,951	124,718	Taishin Bank Hwa Nan Bank	Syndication loans
- Miscellaneous equipment	—	—	24,701	711	Taishin Bank Hwa Nan Bank	Syndication loans
Accounts receivable	—	10,276	—	—	Tai Chung Bank	Short-term loans
Total	629,920	4,947,974	5,822,181	167,544		

SINTEK PHOTRONIC CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

7. COMMITMENTS AND CONTINGENCIES

The Company's commitments and contingencies not recorded in the financial statements as of December 31, 2002 were as follows.

- a. The unused letters of credit for the purchase of raw materials and machinery amounted to EUR412, JPY1,636,527 and NT\$129,235.
- b. The Company's unpaid tariffs and goods tax for importing materials amounted to NT\$27,084.
- c. The details of the Company's significant construction and equipment contracts are as follows:

Item	Total Contract Amount	paid	unpaid
Building & Utility Systems	NT\$374,950	NT\$334,855	NT\$40,095
Machinery Equipment.....	EUR\$21,850	EUR\$9,090	EUR\$12,760

- d. The Company entered into technology transfer agreement with Dai Nippon Printing Co., Ltd. Dai Nippon Printing Co., Ltd. agreed to transfer the technology for color filter production to the Company for 6 to 8 years starting from the date the targeted production rates have been achieved. The details of the technology fees and royalty fees are as follows:

Item	Technology Fees	Royalty Fees				
		Basis of royalty	2000	2001	2002	
			NT\$	NT\$	NT\$	US\$
3.5th generation	JPY 2,500,000	2% of net sales of jointly-produced products	—	14,175	36,299	1,045
4.0th generation	JPY 1,000,000 (as of December 31, 2002, JPY 340,000 of unpaid amount was guarantied by stand-by L/C)	1-2% of net sales of jointly-produced products	—	—	5,205	150

The Company, acting on behalf of South Sintek Photronic Corporation (a prospective subsidiary of the Company in 2003), entered into a technology transfer agreement with Dai Nippon Printing Co., Ltd. in December 2002. The board of directors of South Sintek Photronic Corporation has thereafter agreed to accept all the obligations and rights of the agreement.

SINTEK PHOTRONIC CORPORATION NOTES TO FINANCIAL STATEMENTS (Continued)

- e. On December 31, 1999, a fire damaged the Company's production machinery. The damaged machinery was repaired using the insurance proceeds provided by the insurance company. However, the Company claimed that the machinery could not maintain its previous production capacity. The Company made further claims disputing the adequacy of the insurance compensation and the arbitration between the Company and the insurance company. The arbitration was still in progress.
- f. The Company entered into a color filter patent agreement with IBM, Japan, effective for five years (expires in 2004).
- g. The guarantee notes received from the contractors and equipment suppliers amounted to NT\$129,692.
- h. The promissory notes issued for bank loans and commercial papers amounted to NT\$10,162,825 and USD\$1,500, respectively.
- i. The Company entered into an agreement with the Industrial Development Bureau of the Ministry Of Economic Affairs for developing materials for color filters. According to the terms of the agreement, the Company will pay 2% of sales, as a royalty to the Industrial Development Bureau after commencing sales at maximum of 40% of NT\$17,650.
- j. The Company entered into factoring agreements with banks to sell its accounts receivable without recourse. The Company received 80% of the amounts of accounts receivable sold, and the remaining amount will be collected upon customers' payments. However, the Company is required to pay factoring fees and interests during the collection periods using the pre-agreed interest rates. The line of credit for such transaction is NT\$600,000. As of December 31, 2002, the total amount of factored accounts receivable was NT\$363,314, and the proceeds received from the transactions were NT\$290,620.

8. SIGNIFICANT DISASTER LOSS

None.

9. IMPORTANT SUBSEQUENT EVENTS

In January 2003, the Company signed a joint venture agreement with HannStar Display Corporation to set-up a new company -South Sintek Photronic Corporation for producing 5.0th generation TFT-LCD color filters at Taiwan Industrial Park. The issued capital for the new company is NT\$1,750,000, and the Company invested NT\$1,400,000 to obtain 80% of interest in the new company.

10. FINANCIAL INSTRUMENTS

a. Derivatives:

- (1) The Company employs derivatives such as foreign exchange contracts and options to reduce foreign exchange risk exposures arising from the fluctuations in foreign exchange rates of engaged and expected transactions.

SINTEK PHOTRONIC CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

(2) *Options*

As of December 31, 2000, 2001 and 2002, the Company's outstanding foreign currency option contracts are summarized as follows:

		December 31, 2000		
Type		Principal (\$1,000)	Strike Price	Maturity
Buy.....	Call options:	JPY 2,530,000 US 5,000	110 (USD:JPY) 30.83 (USD:NT)	2001.01.09-2001.04.27 2001.02.01
	Put options:	USD 23,000 NT 154,150	110 (USD:JPY) 30.83 (USD:NT)	2002.01.24-2002.12.11 2001.02.01
Sell.....	Call options:	USD 55,000	110-113 (USD:JPY)	2001.01.09-2001.05.31
	Put options:	JPY 5,877,500 EUR 3,012	110-113 (USD:JPY) 0.83 (USD:EUR)	2001.01.09-2001.05.31 2001.02.21
		December 31, 2001		
Type		Principal (\$1,000)	Strike Price	Maturity
Buy.....	Call options:	JPY 2,832,000 EUR 3,000	126-131 (USD:JPY) 0.87 (USD:EUR)	2002.01.24-2002.12.11 2002.02.04
	Put options:	USD 24,610	126-131 (USD:JPY) 0.87 (USD:EUR)	2002.01.24-2002.12.11
Sell.....	Call options:	USD 44,660	126-135 (USD:JPY) 0.87 (USD:EUR)	2002.01.24-2002.12.11
	Put options:	JPY 5,503,875 EUR 3,000	126-135 (USD:JPY) 0.87 (USD:EUR)	2002.01.24-2002.12.11 2002.02.04
		December 31, 2002		
Type		Principal (\$1,000)	Strike Price	Maturity
Buy.....	Call options:	JPY 7,586,600 EUR 5,000	123-125 (USD:JPY) 1.010 (USD:EUR)	2003.01.06-2004.02.05 2003.04.16
	Put options:	USD 66,050	123-125 (USD:JPY)	2003.01.06-2004.02.05
Sell.....	Call options:	USD 149,760	123-127.1 (USD:JPY)	2003.01.30-2004.02.05
	Put options:	JPY 18,736,220	123-127.1 (USD:JPY)	2003.01.30-2004.02.05

- 2 The Company expects to have signification foreign currency requirements as it commits to raw material purchases and equipment acquisitions in 2003. In order to hedge the risk of foreign exchange rates fluctuations, the Company enters into option contracts with financial institutions.

SINTEK PHOTRONIC CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

- 3 The net premiums received (paid) from option contracts were NT\$(6,612), NT\$3,055 and NT\$ 10,320 in 2001 and 2002 respectively, which were recorded as non-operating income (expenses).

(3) *Forward Exchange Contracts*

December 31, 2002: None

As of December 31 2000 and 2001, details of the outstanding forward exchange contracts were as follows:

December 31, 2000					
Bank	Maturity	Exchange Currency	Contract Amount	Amount NT\$	
				Receivable	Payable
Tai Chung Bank	2001.01.11 ~ 2001.04.17	USD	10,000	330,800	310,120
China Trust Bank	2001.02.06 ~ 2001.02.20	USD	13,000	430,040	401,583
Sub-total				<u>760,840</u>	<u>711,703</u>
Less: Forward contracts payable				(711,703)	
Less: Premium on for ward contracts				(3,145)	
Less: Deferred gain on foreign exchange				(31,968)	
Less: Amortized on of deferred premium (discount) on forward contracts				<u>(4,129)</u>	
Net (recorded as other current assets)				<u>9,895</u>	

December 31, 2001					
Bank	Maturity	Exchange Currency	Contract Amount	Amount NT\$	
				Receivable	Payable
Hwa Shin	2001.2.26~ 2001.3.27	USD	7,000	236,239	245,490
Sub-total				<u>236,239</u>	<u>245,490</u>
Less: Receivable					(236,239)
Less: Discount					<u>(1,829)</u>
Net (recorded as other current liabilities) ...					<u>7,422</u>

- (4) Foreign exchange gains resulting from foreign exchange contracts and options amounted were NT\$4,018 to NT\$62,958 and NT\$6,972 in 2000, 2001 and 2002.

SINTEK PHOTRONIC CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

(5) *Credit risks*

Credit risks represent risks associated with transaction defaults. The Company enters into financial instrument contracts only with financial institutions with a good credit standing. In addition, to reduce credit risks, the truncations are settled in net balances. Therefore, the likelihood that the credit risk will be realized is minimal.

(6) *Market risks*

Market risks, which represent risks associated with fluctuations in interest rates or foreign exchange rates, may cause the Company to suffer losses as a result of engaging in related transactions.

The exercise price of the options are determined based on the market price, and the terms are based on the payment dates of payables settled in foreign currencies and future cash flow requirements. Therefore, at the end of the term, when the Company is to exercise the options, the foreign currency payables are settled accordingly. As a result, the fluctuation of exchange rates has a minimal effect on the Company. In addition to control market risks, the Company engages in these transactions only within a set limit.

The Company enters into forward exchange contracts to reduce foreign exchange risk exposures. The Company purchases or sells foreign currency at a pre-determined foreign exchange rate under the forward exchange contracts. Therefore, the effect of any fluctuation of exchange rates and the market risks to the Company is minimal.

(7) *Liquidity Risk*

Liquidity risk represents the uncertainty of future cash flow requirements which includes the risk in raising funds to meet commitments or the risk that cash flows with monetary assets will fluctuate significantly. The Company utilizes financial instruments from the money markets and foreign exchange markets to manage its cash flow requirements.

b. **FAIR VALUE OF FINANCIAL INSTRUMENTS**

	December 31, 2000		December 31, 2001		December 31, 2002			
	Book value	Fair Value	Book value	Fair Value	Book value	Fair Value	Fair Value	Fair Value
Non-derivative	NT\$	NT\$	NT\$	NT\$	NT\$	US\$	NT\$	US\$
Assets:								
Cash and cash equivalents	1,012,845	1,012,845	1,022,313	1,022,313	444,564	12,793	444,564	12,793
Restricted assets	629,920	629,920	445,513	445,513	231,312	6,656	231,312	6,656
Short-term investments ...	956,530	959,602	611,862	638,976	649,283	18,684	649,900	18,702
Notes and accounts receivable	16,301	16,301	845,086	845,086	1,256,186	36,150	1,256,186	36,150
Liabilities:								
Notes and accounts payable	51,005	51,005	379,738	379,738	435,955	12,545	435,955	12,545
Accrued expenses	523,853	523,853	269,605	269,605	189,623	5,457	189,623	5,457
Short-term and Long-term loans	147,496	147,496	3,703,682	3,703,682	4,942,386	142,227	4,942,386	142,227
Corporate bonds payable	—	—	—	—	800,000	23,021	800,000	23,021
Payables on equipment ...	183,574	183,574	170,514	170,514	600,333	17,275	600,333	17,275

SINTEK PHOTRONIC CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

The assumptions and methods in deriving the fair value of the financial instruments are as follows:

- (1) The current financial instruments' fair values are the book values in the balance sheet since they have short-term maturity. This method is applied to cash, cash equivalents, restricted assets, accounts and notes receivable, accrued expenses, payables on equipment, short-term loans and accounts and notes payable.
- (2) For securities where market value information is available, the market value is determined to be the fair value. Other financial information is used if market value information is not available.
- (3) The fair values of the long-term loans are determined based on their present values using the borrowing rates as the discount rates.
- (4) The fair values of the convertible bonds payable, which calculate their interests using the fixed interest rates, are determined based on their present values using the borrowing rate as the discount rates. The borrowing rates are determined using the interest rates of similar type of bonds.

11. SEGMENT FINANCIAL INFORMATION

a. Financial information by industry

Not applicable.

b. Financial information by geographic area

Not applicable.

c. Export sales information

Not applicable.

d. Major customers information

Customer	2001		2002		
	Amount	Percentages of	Amount	Amount	Percentages of
		total sales			total sales
	NT\$	%	NT\$	US\$	%
A	796,825	50.59	1,559,077	44,866	42.45
B	372,252	23.63	972,252	27,978	26.47
C	—	—	414,971	11,942	11.30
D	203,094	12.89	222,055	6,390	6.05

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