# ABIT Computer Corporation

## US$75,000,000
## Zero Coupon Convertible Bonds Due 2006

The US$75,000,000 Zero Coupon Convertible Bonds Due 2006 (the "Bonds") will be issued by ABIT Computer Corporation (the "Company"), a company limited by shares and incorporated in Taiwan, Republic of China ("ROC" or "Taiwan"). Unless previously redeemed, repurchased and cancelled, or converted, the Bonds will be redeemed on November 28, 2006 at their principal amount.

The Bonds may be redeemed, in whole or in part (being US$1,000 in principal amount or integral multiples thereof), at the option of the Company at any time on or after May 28, 2004 and prior to November 28, 2006 at their principal amount in US dollars if the Closing Price (as defined herein) of the common shares, par value NT$10 per share, of the Company (the "Shares") on the TSE (as defined herein) translated into US dollars at the Prevailing Rate (as defined herein) with respect to such Closing Price for 20 Trading Days (as defined herein) within a period of 30 consecutive Trading Days, is at least 130% of the Conversion Price (as defined herein) of the Bonds then in effect, translated into US dollars at a fixed exchange rate of NT$34.027 = US$1.00 on each such Trading Day. The Bonds may also be redeemed, in whole but not in part, at the option of the Company at their principal amount in US dollars if at least 90% in principal amount of the Bonds has already been redeemed, repurchased and cancelled, or converted. The Bonds may also be redeemed in whole at any time at the option of the Company at their principal amount in the event of certain changes relating to ROC taxation. The Company will, at the option of the holder of any Bond, redeem all (or any portion of the principal amount that is US$1,000 or integral multiples thereof) of such holder's Bond on November 29, 2004 at 100.5% of its principal amount and on November 28, 2005 at 100.9% of its principal amount.

The Bonds may be converted (unless previously redeemed, repurchased and cancelled, or converted and except during a Closed Period (as defined herein)) at any time on or after December 18, 2003 and prior to the close of business (at the place the Bond is deposited for conversion) on October 29, 2006 into Shares. The Conversion Price will initially be NT$15.1 per Share and will be subject to adjustment in the manner provided herein. A fixed rate of exchange of NT$34.027 = US$1.00 will apply upon conversion of the Bonds. See "Description of the Bonds — Conversion." The Shares are listed on the Taiwan Stock Exchange (the "TSE") and application will be made to list the Shares to be issued on conversion of the Bonds on the TSE. On November 20, 2003, the closing price of the Shares on the TSE was NT$15.00 per Share.

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**ISSUE PRICE: 100%**

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Investing in the Bonds involves risks. See "Risk Factors" beginning on page 8.

The Bonds and the Shares to be issued upon conversion of the Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, US persons (as defined in Regulation S under the Securities Act ("Regulation S")) unless registered under the Securities Act or an exemption from the registration requirements under the Securities Act is available. The Bonds are being offered and sold pursuant to this Offering Circular only outside the United States to non-US persons in reliance on Regulation S under the Securities Act. For a description of these and certain other restrictions on offers and sales of the Bonds and the Shares to be issued upon conversion of the Bonds, and distribution of this Offering Circular, see "Transfer Restrictions" and "Plan of Distribution."

Hua Nan Securities (H.K.) Limited (the "Manager") expects to deliver the Bonds against payment therefor on or about November 28, 2003 (the "Closing Date").

***Manager***

*Hua Nan Financial Group*
**Hua Nan Securities (H.K.) Limited**

Offering Circular dated November 20, 2003

# Supplement No.2 to Offering Circular

## ABIT COMPUTER CORPORATION

## US$75,000,000
## Zero Coupon Convertible Bonds due 2006

ABIT Computer Corporation (the "Company") hereby supplements and amends the Offering Circular, dated November 20, 2003 (the "Offering Circular"), in respect of its Zero Coupon Convertible Bonds due 2006 as follows:

1. The information contained on the cover page of the Offering Circular is hereby supplemented and amended to read as follows:

   The Bonds may be converted (unless previously redeemed, repurchased and cancelled, or converted and except during a Closed Period (as defined herein)) at any time on or after **December 29**, 2003 and prior to the close of business (at the place the Bond is deposited for conversion) on October 29, 2006 into Shares.

2. The information contained in the Offering Circular under "Summary — The Offering — Conversion" on page 5 is hereby supplemented and amended to read as follows:

   Subject to prior permitted redemption and subject as otherwise provided herein, the Bonds are convertible at any time on or after **December 29**, 2003 and prior to the close of business (at the place at which the Bond is deposited for conversion) on October 29, 2006, except during any Closed Period, into Shares at a Conversion Price per Share of NT$15.1 (subject to adjustment as described herein) (the ''Conversion Price''), determined on the basis of a fixed exchange rate of NT$34.027 = US$1.00. The Company will neither issue fractions of Shares nor make any cash adjustments in respect of fractions of Shares. See ''Description of the Bonds — Conversion.''

3. The information contained in the Offering Circular under "Description of the Bonds — Conversion — Conversion Right" on page 50 is hereby supplemented and amended to read as follows:

   (i) *Conversion Period*. Each holder of the Bonds has the right hereunder to convert any Bond into Shares subject to the terms set forth herein (the ''Conversion Right''). Subject to and upon compliance with the provisions of this Condition 5, the Conversion Right attaching to any Bond may be exercised, at the option of the holder of the Bonds and to the extent provided herein, at any time (a) on or after **December 29**, 2003 and prior to the close of business (at the place where such Bond is deposited for conversion) on October 29, 2006 (or if such day shall not be a Business Day (as defined below), on the immediately preceding Business Day) (but in no event thereafter) or (b) if such Bond shall have been called for redemption prior to November 28, 2006 (or if such day shall not be a Business Day, on the immediately preceding Business Day), then up to the close of business (at the place aforesaid) on the seventh day prior to the date fixed for redemption thereof (or if such day shall not be a Business Day, on the immediately preceding Business Day or (c) if an event of default occurs, the Conversion Right attaching to a Bond shall continue to be exercisable in accordance with Condition 5(A)(iv) (the ''Conversion Period''); provided, however, that the Conversion Right during any Closed Period (as defined below) shall be suspended and the Conversion Period shall not include any such Closed Period.

Capitalized terms used in this Supplement and not otherwise defined have the same meanings as ascribed in the Offering Circular referred to above.

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# Hua Nan Securities (H.K.) Limited

November 28, 2003

Supplement to Offering Circular

# ABIT COMPUTER CORPORATION

## US$75,000,000
## Zero Coupon Convertible Bonds due 2006

ABIT Computer Corporation (the "Company") hereby supplements and amends the Offering Circular, dated November 20, 2003 (the "Offering Circular"), in respect of its Zero Coupon Convertible Bonds due 2006 as follows:

1. The information contained in the Offering Circular under "Summary — The Offering — Conversion Price Reset" on page 5 is hereby supplemented and amended to read as follows:

   The Conversion Price will be adjusted on **March 30**, 2004, **March 30**, 2005 and **March 30**, 2006 (each a ''Reset Date'') in the event that the Reset Reference Price of the Shares for the 20 consecutive Trading Days immediately prior to the Reset Date converted into US dollars at the then Prevailing Rate is less than the Conversion Price then in effect converted into US dollars, at the fixed exchange rate of NT$34.027 = US$1.00; provided that, among others, any adjustment to the Conversion Price shall be limited so that the adjusted Conversion Price shall not be less than 80% of the initial Conversion Price (but may be adjusted to reflect any adjustments required under the Description of the Bonds which may have occurred prior to the relevant Reset Date). See ''Description of the Bonds — Conversion.''

2. The information contained in the Offering Circular under "Description of the Bonds — Conversion — Conversion Price Reset" on page 55 is hereby supplemented and amended to read as follows:

   If the Reset Reference Price (as defined below) for a Reset Date (as defined below), converted into US dollars at the Prevailing Rate (as defined below) for the 20 consecutive Trading Days immediately before the Reset Date, is less than the Conversion Price, converted into US dollars at the Fixed Exchange Rate, the Conversion Price shall be adjusted on **March 30**, 2004, **March 30**, 2005 and **March 30**, 2006 (each, a ''Reset Date'') in accordance with the following formula:

Capitalized terms used in this Supplement and not otherwise defined have the same meanings as ascribed in the Offering Circular referred to above.

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# Hua Nan Securities (H.K.) Limited

November 27, 2003

*The Company, having made all reasonable enquiries, confirms that this Offering Circular contains all information with respect to the Company, its subsidiaries, 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 (save as set out below) 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 respect and that all reasonable enquiries 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 Manager 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 "Plan of Distribution" and "Transfer Restrictions". This Offering Circular does not constitute an offer of, or an invitation by or on behalf of, the Company or the Manager to subscribe for or purchase any of the Bonds in any jurisdiction in which such offer or invitation would be unlawful.*

*No person is authorized in connection with the issue, offering or sale of the Bonds to give any information or to make any representation not contained in this Offering Circular and any information or representation not contained herein must not be relied upon as having been authorized by the Company or the Manager. 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 at any time subsequent to its date.*

*The Bonds will be represented by beneficial interests in a permanent global certificate (the "Global Certificate") in registered form, which will be registered in the name of a nominee of, and shall be deposited on or about the Closing Date 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"). Except as described herein, definitive certificates for the Bonds will not be issued in exchange for beneficial interests in the Global Certificate. Interests in the Global Certificate will be subject to certain restrictions on transfer. See "Transfer Restrictions" and "Summary — The Offering — Form and Denomination of the Bonds."*

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

Payment of principal on the Bonds will be made after withholding for or on account of certain taxes of the ROC and the Company will pay additional amounts in respect of such withholding to the extent set forth under "Description of the Bonds — Taxation."

In this Offering Circular, references to the "PRC" are to the People's Republic of China and do not include Hong Kong, Macau or Taiwan. References to the "ROC", "Taiwan" and the Republic of China are to the island of Taiwan and other areas under the effective control of the Republic of China.

The Company has prepared the audited consolidated and unconsolidated financial statements as of and for the years ended December 31, 2000, 2001 and 2002 and the unaudited unconsolidated financial statements as of and for the nine months ended September 30, 2002 and 2003 contained herein. These financial statements were prepared in conformity with the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and generally accepted accounting principles in the ROC (together referred to herein as "ROC GAAP") which differ in certain material respects from generally accepted accounting principles in the United States ("US GAAP"). See "Summary of Principal Differences between ROC GAAP and US GAAP."

**In connection with this issue, to the extent permitted by, and in accordance with, applicable laws and regulations, the Manager may 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 Manager to do this. Such stabilizing, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.**

## FORWARD-LOOKING STATEMENTS

Certain statements under "Summary", "Risk Factors", "Business" and "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. Factors that could cause actual results or performance to differ materially include, but are not limited to, those discussed in "Risk Factors." These forward-looking statements speak only as of the date of this Offering Circular. The Company expressly disclaims any obligation or undertaking to release publicly updates or revisions to any forward-looking statement contained herein to reflect any change in the Company's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statement was based.

## ENFORCEABILITY OF FOREIGN JUDGMENTS IN THE ROC

The Company is a company limited by shares and incorporated under the Company Law of the ROC (the "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 the ROC, or to enforce against any of them judgments obtained in courts outside the ROC, including those predicated upon the civil liability provisions of the securities laws of the United States or any State or territory within the United States.

The Company has been advised by Lee & Li, its legal adviser in the ROC, that any final judgment obtained against the Company or such persons in any court other than the courts of the ROC in respect of any legal suit or proceeding arising out of or relating to the Bonds or the Shares will be enforced by the courts of the ROC without further review of the merits only if the court of the ROC in which enforcement is sought is satisfied that: (i) the court rendering the judgment has jurisdiction over the subject matter according to the laws of the ROC; (ii) the judgment and the court procedures based on which such judgment was rendered are not contrary to the public order or good morals of the ROC; (iii) the judgment is a final judgment for which the period for appeal has expired or from which no appeal can be taken; (iv) if the judgment was rendered by default by the court rendering the judgment, and (x) the Company or such persons were duly served during a reasonable time within the jurisdiction of such court in accordance with the laws and regulations of such jurisdiction, or (y) process was served on the Company or such persons with judicial assistance of the ROC; and (v) judgments of the courts of the ROC are recognized and enforceable in the jurisdiction of the court rendering the judgment on a reciprocal basis. Moreover, a party seeking to enforce a foreign judgment in the ROC would, except under limited circumstances, be required to obtain foreign exchange approval from the Central Bank of China (the "CBC") for the remittance out of the ROC of any amounts recovered in respect of such judgment denominated in a currency other than NT dollars (as defined herein).

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*Unless otherwise specified or the context requires, references to "US dollars" and "US$" are to the lawful currency of the United States of America and references to "New Taiwan dollars", "NT dollars" and "NT$" are to the lawful currency of the ROC. Unless otherwise specified, where financial information in relation to the Company has been translated into US dollars, it has been so translated, for convenience only, at the exchange rate of NT$33.78 = US$1.00 (the noon buying rate in the City of New York cable transfer in NT dollars per US dollar as certified for customers purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate") on September 30, 2003). All amounts translated into US dollars as described above are provided solely for the convenience of the reader and no representation is made that the NT dollar or US dollar amounts referred to herein could have been or could be converted into US dollars or NT dollars, as the case may be, at any particular rate or at all. For further information relating to exchange rates, see "Exchange Rate Information."*

Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

# SUMMARY

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

## The Company

The Company specializes in designing, developing and manufacturing of motherboards and video graphics accelerator ("VGA") cards for personal computers ("PCs"). The Company sells its motherboards and VGA cards under its own brand name into the clone market through regional system integrators and distributors. The Company also distributes its motherboard and VGA card products to brand name PC manufactures on an original equipment manufacture ("OEM") or original design manufacture ("ODM") basis. Net operating revenues from the sale of motherboards accounted for approximately 64.8%, 77.5% and 42.0% of the Company's unconsolidated net operating revenues in 2000, 2001 and 2002, respectively, and approximately 26.3% of the Company's unconsolidated net operating revenues in the nine months ended September 30, 2003. Net operating revenues from the sale of VGA cards accounted for approximately 2.0%, 9.2% and 20.1% of the Company's unconsolidated net operating revenues in 2000, 2001 and 2002, respectively, and approximately 6.1% of the Company's unconsolidated net operating revenues in the nine months ended September 30, 2003.

The Company has also since 2001 diversified into the designing and manufacturing of system products, both under its own brand name and on an OEM/ODM basis. Net operating revenues from the sale of system products accounted for approximately 8.9% and 18.8% of the Company's unconsolidated net operating revenues in 2001 and 2002, respectively, and approximately 57.3% of the Company's unconsolidated net operating revenues in the nine months ended September 30, 2003.

The Company outsourced the production of its products to a contract manufacturer, Rolly Technology (Suzhou) Co., Ltd., which has production facilities located in Suzhou, PRC. The Company's research and development facilities are located in Taiwan, whereas the core technologies are controlled by the research and development team in Taiwan.

The Company was incorporated in the ROC in September 1989 under the ROC Company Law. The Company's registered address is 1F, No. 323, Yangguang Street, Neihu, Taipei, Taiwan. The Company's Shares have been listed on the TSE since June 2000.

## Strategy

***Differentiate itself from other motherboard makers by continuing to emphasize on the design and manufacture of high-end high-margin motherboard products***

Unlike other motherboard makers in Taiwan, the Company has committed significant resources to the design and manufacture of high-end high-margin motherboards targeting highly sophisticated PC users in the clone market. The Company has in the past introduced high-end motherboards with innovative technologies targeting such users. For instance, the Company is the first motherboard maker to introduce "jumperless" technology, by which end-users may adjust central processing unit ("CPU") settings by entering the basic input output system ("BIOS") setup without opening the computer chassis to change a jumper on the motherboards. More recently in 2002, the Company introduced "MAX" serious motherboards, a re-designed PC motherboard introducing certain high-end functions derived from a server board. The Company intends to differentiate itself from other motherboard makers by continue to focus on the design of innovative solutions for high-end motherboard products in an effort to meet the demanding needs of sophisticated end-users in the clone market.

***Enhancing the Company's strong brand image in the design and manufacture of high-end motherboards in the clone market***

The Company currently commands a strong brand image and a competitive position in the high-end motherboard clone market in many regional and country markets. The Company's branded high-end motherboard business has also grown significantly, and it plans to continue expanding this business. As the Company believes that the demanding needs from sophisticated PC end-users in the clone market will be continuing and that innovative motherboard designs, time-to-market and comprehensive after-sales services and support are critical to the success in the high-end motherboard clone market, it intends to leverage its current leading position in the branded motherboard business to further increase its market share in the clone market.

***Utilize partnerships and alliances with key suppliers***

The Company believes that the joint development arrangements and alliances it has established with other companies in the PC hardware industry have been fundamental to its success. The Company's strategy is to continue to build on these alliances and partnerships. Maintaining close links with major computer and chip vendors, including industry leaders such as Intel Corporation ("Intel"), Advanced Micro Devices, Inc. ("AMD"), NVIDIA Corporation ("nVidia") and VIA Technologies, Inc. ("VIA"), ensures that the products developed and introduced by the Company are relevant, up-to-date, and at the leading edge of technology in the industry. The Company plans to continue to maintain close relationships with its key suppliers so that (i) the Company's research and development department can constantly liaise with suppliers to develop components that are fully compatible with the new products it develops, (ii) the Company can procure reliable supplies of raw materials, both in terms of quantity and quality, even when there is a general supply shortage in the market, and (iii) the Company can negotiate better pricing for its raw materials.

***Continue to provide high standard after-sales services and technical support***

The Company believes that in order to provide a high standard of customer services and technical support, it needs to establish a presence in, or near, its key markets. For this reason, the Company has established customer service offices to provide after-sales services and technical support in the United Kingdom, the United States, the Netherlands, Singapore, Hong Kong and Taiwan. These offices offer advice and assistance to customers by telephone, e-mail, fax and on-site visit. In addition, these offices provide a full range of repair services for the Company's products. The Company intends to continue to maintain close relationships with its customers and end-users all over the world.

## Recent Developments

There were no decreases for the period from October 1, 2003 to November 17, 2003, as compared with the corresponding period in the preceding year, in net operating revenues, gross income, operating income, income before income tax or the total or per-share amounts of net income (all comparisons on an unconsolidated basis), except that there was a decrease in current assets of NT$294.0 million, a decrease in net property, plant and equipment of NT$2.7 million and a decrease in total assets of NT$298.3 million.

## SELECTED FINANCIAL INFORMATION

The following tables set forth selected financial information derived from the Company's (i) audited consolidated financial statements as of and for the years ended December 31, 2000, 2001 and 2002 and (ii) the unaudited unconsolidated financial statements as of and for the nine months ended September 30, 2002 and 2003. The financial statements of the Company are prepared in conformity with ROC GAAP. ROC GAAP differs in certain material aspects from US GAAP. See "Summary of Principal Differences between ROC GAAP and US GAAP." The amounts expressed in US dollars do not form part of any of the audited consolidated or unconsolidated financial statements of the Company and are provided solely for the convenience of the reader.

| | Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2002 |
| | (NT$ million) | (NT$ million) | (NT$ million) | (US$ million) |
| **Consolidated Income Statement Data:** | | | | |
| Net operating revenues | 19,046.2 | 19,522.1 | 19,314.3 | 571.7 |
| Cost of goods sold | 17,423.4 | 17,721.6 | 18,651.3 | 552.1 |
| Gross profit | 1,622.8 | 1,800.5 | 663.0 | 19.6 |
| Unrealized intercompany gain | (5.0) | (8.7) | (6.1) | (0.2) |
| Realized intercompany gain | 2.7 | 5.0 | 8.7 | 0.3 |
| Realized gross profit(1) | 1,620.5 | 1,796.8 | 665.6 | 19.7 |
| Operating expenses | | | | |
| Selling expenses | 613.7 | 478.7 | 428.6 | 12.7 |
| Administrative expenses | 222.2 | 515.8 | 662.6 | 19.6 |
| Research and development expenses | 125.1 | 168.7 | 217.2 | 6.4 |
| Operating profit (loss) | 659.5 | 633.6 | (642.8) | (19.0) |
| Non-operating income | 272.7 | 329.0 | 117.0 | 3.5 |
| Non-operating expenses | 279.2 | 245.9 | 509.3 | 15.1 |
| Income (loss) before income tax | 653.0 | 716.7 | (1,035.1) | (30.6) |
| Income tax benefit (expense) | (99.4) | (65.3) | 7.8 | 0.2 |
| Gain (loss) before purchase | 15.1 | (0.9) | (75.4) | (2.2) |
| Minority interest net income | 33.2 | (4.7) | (6.4) | (0.2) |
| Net income | 601.9 | 645.8 | (1,109.1) | (32.8) |

| | As of December 31, | | | |
|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2002 |
| | (NT$ million) | (NT$ million) | (NT$ million) | (US$ million) |
| **Consolidated Balance Sheet Data:** | | | | |
| Current assets | 6,395.2 | 6,586.7 | 4,307.4 | 127.5 |
| Long-term investments | 518.5 | 1,318.7 | 3,024.4 | 89.5 |
| Property, plant and equipment | 1,485.1 | 2,507.8 | 1,865.6 | 55.2 |
| Intangible assets | 891.3 | 1,204.0 | 1,424.6 | 42.2 |
| Other assets | 107.5 | 61.0 | 627.3 | 18.6 |
| Total assets | 9,397.6 | 11,678.2 | 11,249.3 | 333.0 |
| Current liabilities | 3,341.1 | 3,648.3 | 2,685.8 | 79.5 |
| Long-term debts | 449.7 | 1,986.9 | 1,933.6 | 57.3 |
| Other liabilities | 1,457.0 | 317.8 | 122.7 | 3.6 |
| Total liabilities | 5,247.8 | 5,953.0 | 4,742.1 | 140.4 |
| Total stockholders' equity | 4,149.8 | 5,725.2 | 6,507.2 | 192.6 |
| Total liabilities and stockholders' equity | 9,397.6 | 116,678.2 | 11,249.3 | 333.0 |

(1) Does not include unrealized gross profit arising from intra-company transactions. For example, the gross profit arising from the sale of product by the Company to a subsidiary is not recognized as "realized gross profit" until such product is sold outside of the Company as a consolidated entity.

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | (NT$ million) | (NT$ million) | (US$ million) |
| **Unconsolidated Income Statement Data:** | | | |
| Net operating revenues | 5,131.9 | 7,825.1 | 231.6 |
| Cost of goods sold | 4,811.5 | 7,070.5 | 209.3 |
| Gross profit | 320.4 | 754.6 | 22.3 |
| Unrealized intercompany gain | (20.4) | (53.0) | (1.5) |
| Realized intercompany gain | 54.9 | 20.4 | 0.6 |
| Realized gross profit[1] | 354.9 | 722.0 | 21.4 |
| Operating expenses | | | |
| Selling expenses | 210.2 | 148.4 | 4.4 |
| Administrative expenses | 172.0 | 171.3 | 5.1 |
| Research and development expenses | 163.6 | 104.4 | 3.1 |
| Operating profit (loss) | (190.9) | 297.9 | 8.8 |
| Non-operating income | 82.8 | 743.7 | 22.0 |
| Non-operating expenses | 525.6 | 241.3 | 7.1 |
| Income (loss) before income tax | (633.7) | 800.3 | 23.7 |
| Income tax benefit (expense) | 99.8 | 3.6 | 0.1 |
| Net income (loss) | (533.9) | 803.9 | 23.8 |

| | As of September 30, | | |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | (NT$ million) | (NT$ million) | (US$ million) |
| **Unconsolidated Balance Sheet Data:** | | | |
| Current assets | 5,362.0 | 3,695.0 | 109.4 |
| Long-term investments | 3,636.3 | 7,076.4 | 209.5 |
| Property, plant and equipment | 1,775.5 | 1,732.8 | 51.2 |
| Other assets | 694.3 | 595.3 | 17.6 |
| Total assets | 11,468.1 | 13,099.5 | 387.7 |
| Current liabilities | 2,321.4 | 3,600.0 | 106.5 |
| Long-term debts and other liabilities | 1,951.2 | 1,654.4 | 49.0 |
| Other liabilities | 35.9 | 67.4 | 2.0 |
| Total liabilities | 4,308.5 | 5,321.8 | 157.5 |
| Total stockholders' equity | 7,159.6 | 7,777.7 | 230.2 |
| Total liabilities and stockholders' equity | 11,468.1 | 13,099.5 | 387.7 |

(1) Does not include unrealized gross profit arising from intra-company transactions. For example, the gross profit arising from the sale of product by the Company to a subsidiary is not recognized as "realized gross profit" until such product is sold outside of the Company as a consolidated entity.

## The Offering

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

| | |
|---|---|
| Issuer . . . . . . . . . . . . . . | ABIT Computer Corporation |
| Issue . . . . . . . . . . . . . . . | US$75,000,000 Zero Coupon Convertible Bonds Due 2006. The Bonds are being offered by the Manager outside the United States in reliance on Regulation S under the Securities Act. |
| Issue Price . . . . . . . . . . . | 100% of the principal amount of the Bonds |
| Closing Date . . . . . . . . . | November 28, 2003 |
| Status . . . . . . . . . . . . . . | The Bonds constitute direct, unconditional, unsecured and unsubordinated obligations of the Company and rank *pari passu* without any preference or priority among themselves and, subject to the provision of Condition 3, shall at all times rank at least equally with all other present and future direct, unconditional, unsecured and unsubordinated obligations of the Company, except as may be preferred by mandatory provisions of law. |
| Conversion . . . . . . . . . . . | Subject to prior permitted redemption and subject as otherwise provided herein, the Bonds are convertible at any time on or after December 18, 2003 and prior to the close of business (at the place at which the Bond is deposited for conversion) on October 29, 2006, except during any Closed Period, into Shares at a Conversion Price per Share of NT$15.1 (subject to adjustment as described herein) (the "Conversion Price"), determined on the basis of a fixed exchange rate of NT$34.027 = US$1.00. The Company will neither issue fractions of Shares nor make any cash adjustments in respect of fractions of Shares. See "Description of the Bonds — Conversion." |
| Conversion Price Reset . . | The Conversion Price will be adjusted on February 28, 2004, February 28, 2005 and February 28, 2006 (each a "Reset Date") in the event that the Reset Reference Price of the Shares for the 20 consecutive Trading Days immediately prior to the Reset Date converted into US dollars at the then Prevailing Rate is less than the Conversion Price then in effect converted into US dollars, at the fixed exchange rate of NT$34.027 = US$1.00; provided that, among others, any adjustment to the Conversion Price shall be limited so that the adjusted Conversion Price shall not be less than 80% of the initial Conversion Price (but may be adjusted to reflect any adjustments required under the Description of the Bonds which may have occurred prior to the relevant Reset Date). See "Description of the Bonds — Conversion." |
| Special Conversion Price Reset . . . . . . . . . . . . . | The Company may, by giving the holders of the Bonds notice as soon as practicable after each Special Reset Date (as defined below), offer the holders of the Bonds the option to convert their Bonds for a period of up to seven Business Days (as defined herein), which period shall start on a day selected by the Company (which shall be a date after the date of notification from the Company) but, in the event of holders' exercise of the option to convert their Bonds prior to each Holders' Put Date, end no later than twelve (12) Business Days prior to the applicable Holders' Put Date (exclusive of such Holders' Put Date), at 90.46%, 90.10% and 90.91%, respectively, of the applicable Special Reference Price (as defined herein) for any or all of October 17, 2004, October 17, 2005 and October 17, 2006 (each a "Special Reset Date"). See "Description of the Bonds — Conversion — Special Conversion Price Reset." |

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| Negative Pledge . . . . . . . | The Company will not, and will not permit any of its Principal Subsidiaries (as defined in "Description of the Bonds — Negative Pledge") to, create security for the benefit of holders of any International Investment Securities (as defined in "Description of the Bonds — Negative Pledge") or for any guarantee thereof without granting equivalent security in respect of the Bonds. See "Description of the Bonds — Negative Pledge." |
| Final Redemption . . . . . . | Unless previously redeemed, repurchased and cancelled, or converted in the circumstances referred to in "Description of the Bonds", the Bonds will be redeemed at their principal amount in US dollars on November 28, 2006. See "Description of the Bonds — Redemption, Purchase and Cancellation — Redemption at Maturity." |
| Redemption at the Option of the Company . . . . . . . . | The Company may, having given not less than 30 nor more than 60 days' notice to the holders of the Bond, at the option of the Company at any time on or after May 28, 2004 and prior to November 28, 2006, redeem the Bonds, in whole or from time to time in part (being US$1,000 in principal amount or integral multiples thereof), at their principal amount, if the Closing Price of the Shares, translated into US dollars at the Prevailing Rate, for 20 Trading Days within a period of 30 consecutive Trading Days, is at least 130% of the Conversion Price then in effect, translated into US dollars at a fixed exchange rate of NT$34.027 = US$1.00 on each such Trading Day. The Company may, having given not less than 30 nor more than 60 days' notice to the holders of the Bonds, at the option of the Company at any time, redeem, in whole but not in part, the Bonds at their principal amount, in US dollars, if at least 90% of principal amount of the Bonds has already been redeemed, repurchased and cancelled, or converted. See "Description of the Bonds — Redemption, Repurchase and Cancellation — Redemption at the Option of the Company." |
| Redemption at the Option of Holders of the Bonds . . | Until and unless previously redeemed, repurchased and cancelled, or converted, each holder of the Bonds shall have the right, at such holder's option, to require the Company to redeem all (or any portion of the principal amount thereof that is US$1,000 or integral multiples thereof) of such holder's Bonds on November 29, 2004 at 100.5% of its principal amount and on November 28, 2005 at 100.9% of its principal amount. See "Description of the Bonds — Redemption, Repurchase and Cancellation — Redemption at the Option of the Holders." |
| Tax Redemption . . . . . . . | The Company may at any time redeem the Bonds, in whole but not in part, at their principal amount, in the event of certain changes in ROC taxation which would require the Company to gross up for payments of principal or to gross up for payments of interest or premium, if any, at a rate exceeding 20%. See "Description of the Bonds — Redemption, Purchase and Cancellation — Redemption for Taxation Reasons." |
| Form and Denomination of the Bonds . . . . . . . . . . | The Bonds will be issued in registered form in the denominations of US$1,000. The Bonds will be offered, sold and transferred in principal amounts of US$1,000 or integral multiples thereof.<br><br>The Bonds will be represented by beneficial interests in the Global Certificate, which will be registered in the name of a nominee of, and shall be deposited on or about the Closing Date with The Bank of New York as a common depositary for, Euroclear and Clearstream, Luxembourg. |

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| Transfer of the Bonds . . . | Transfers of interests in the Bonds and the Shares to be issued upon conversion of the Bonds will be subject to certain restrictions. For a discussion of these restrictions, see "Description of the Bonds — Transfers of the Bonds; Issue of Certificates", "Plan of Distribution" and "Transfer Restrictions." |
| Governing law . . . . . . . . | The laws of the State of New York |
| Trustee . . . . . . . . . . . . . | The Bank of New York |
| Use of Proceeds . . . . . . . | The net proceeds of the issue of the Bonds are expected to amount to approximately US$74.0 million. The net proceeds will be used by the Company to purchase raw material overseas and make investments in overseas subsidiaries. |

## RISK FACTORS

### Risks Relating to the Company's Business

***The Company's future revenues will depend on continuing demand for personal computers and related products.***

In each of the three years ended December 31, 2000, 2001 and 2002, approximately 66.8%, 86.7% and 62.1%, respectively, of the Company's non-consolidated net sales were attributable to motherboard and VGA card sales, which historically have been dependent on PC sales. The Company is therefore vulnerable to adverse changes in the PC industries. The PC industries have in the past been highly cyclical and the business of the Company accordingly is dependent, among other things, on the cycles of the PC industries. Industry downturns have in the past resulted in reduced demand for the Company's products, lower average selling prices and reduced margins, and there can be no assurance that industry downturns will not continue to adversely and materially affect the Company's results of operations and financial condition.

Since the end of 2000, the global PC market has been experiencing severe volatility resulting from general worldwide economic downturn. In addition, the terrorists' attack in the United States in September 2001, the potential continuous terrorist attacks worldwide and the uncertainty of the impact of the war against The Republic of Iraq have all had significant negative effects on the timing of global economic recovery. It is not possible for the Company to predict as to when the PC market will fully recover, if ever. If the market downturn continues, the Company's results of operations and financial condition may be materially and adversely affected.

***The Company's operating results depend on its ability to keep pace with product innovations and changes in technology, which is partly dependent on the Company's relationships with its major chipset suppliers.***

The motherboard industry is characterized by rapid changes in design and technology. Most motherboard products have relatively short product lives due to frequent product introductions, rapidly changing technology and evolving industry standards, particularly with respect to two key components for motherboards, the CPUs and chipsets. The Company's success will depend in part on its ability to keep pace with technological developments and emerging industry standards and developing and introducing new products. The Company has established cooperative relationships with leading companies in the high technology industry, including the two CPU suppliers, Intel and AMD and major chipset suppliers such as Intel, VIA and nVIDIA. There can be no assurance that the Company will be able to maintain these relationships or keep pace with technological developments in the industries in which its businesses operate. Failure to do so could have a material adverse effect on the Company's results of operations and financial condition.

***The Company may be subject to a significant loss and decline in market share as a result of defects in its products.***

The Company sourced all the raw materials and components for the manufacture of motherboard and other products from third-party suppliers. Although the Company believes it has conducted sufficient quality testing on incoming raw materials and components which meet industry standards, raw materials and components sourced from suppliers may still contain errors or defects, especially when first introduced to the market. For instance, since the beginning of 2002, the capacitors installed in some of the Company's motherboard products sold into the US market were found to be subject to a great failure in function. Such defective motherboard products accounted for approximately 50%, in terms of units sold and net sales, of all the motherboard products sold into the US market between January and September 2001. The Company started to replace such defective products since such defect was found and suffered a significant decline in market share of motherboard products in the US markets in 2002 as a result. This event was also the primary reason for the Company's operating loss of NT$642.9 million (US$19.0) million in 2002. There can be no assurance that despite testing by the Company, defects and errors will not be found in the Company's products after commencement of usage, which will result in loss of revenues, delay in market acceptance, incurrence of unexpected replacement costs or exposure to potential product liability claims, which could have a material adverse effect upon the Company's business, operating results and financial condition.

***The Company depends on contract manufacturer for the manufacture of all its products. If such contract manufacturer is unable to fill the Company's orders on a timely and reliable basis, its revenue and profitability may decline.***

In 2002, the Company shifted the manufacturing of all its products to Rolly Technology (Suzhou) Co., Ltd., a contract manufacturer which has production facilities in Suzhou, PRC. The Company indirectly held 39.3% of the outstanding shares of Rolly Technology (Suzhou) Co., Ltd. as of September 30, 2003. The Company typically procures certain key raw materials and components, such as chipsets and dynamic random access memory ("DRAMs"), used for the production of its products and delivers them to Rolly Technology (Suzhou) Co., Ltd. The Company also provides Rolly Technology (Suzhou) Co., Ltd. with design and processing support. The Company has not entered into any long-term exclusive outsourcing contract with Rolly Technology (Suzhou) Co., Ltd. To the extent the Company continues to outsource the production of its products to a contract manufacturer, it faces the following risks:

- that the manufacturing costs may be higher than planned;
- that the reliability of the Company's products may decline;
- such contract manufacturer's unwillingness to devote adequate capacity to produce the Company's products; and
- the reduction of the Company's control over the management of the operation of the facilities of such contract manufacturer, or over the delivery schedules and costs of the Company's products.

If any of these risks is realized, the Company could experience an interruption in supply or an increase in costs, which could delay or decrease the Company's revenue or reduce the Company's profitability.

***The Company's performance depends in part on its ability to maintain cost leadership in motherboard and VGA card production.***

The ability to offer motherboard and VGA card products comparable in specification and performance to competitors' products but at lower costs is central to the Company's strategy. In order to be able to pursue this strategy, the Company must maintain a cost structure lower than that of its competitors. The Company currently aims to reduce the per unit costs of its motherboards and VGA cards by manufacturing in the PRC and managing the sourcing of raw material components. The Company believes that it is able to offer its products at competitive prices while generating satisfactory margins to sustain its operations. However, there can be no assurance that the Company will continue to be able to produce products at lower or even comparable prices as compared to its competitors in the future while maintaining its margins. If the Company is unable for any reason to maintain its cost leadership in the future, the Company's results of operations and financial condition would be materially and adversely affected.

***The Company does not usually enter into long-term supply contracts with its customers and therefore some of its customers may cancel their orders, change production quantities or delay production.***

The Company does not generally enter into firm, long-term supply contracts with its customers and it continues to experience reduced lead-times in orders from its customers. The Company's customers may cancel their orders, change production quantities or postpone production for a number of reasons. Cancellations, reductions or postponements by a significant customer or by a group of customers could materially and adversely affect the Company's results of operations. In addition, the Company has made significant decisions, including determining production schedules, components and raw material procurement commitments and other resource requirements, based on its estimates of customer requirements. The short-term nature of some 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 put stress on the Company's resources and reduce profit margins. The Company may not allocate 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 demand from its customers could impact the Company's gross margins and operating income.

***The motherboard and VGA card manufacturing industries are highly competitive.***

The Company principally produces motherboards and VGA cards for regional system integrators, distributors and brand name PC manufacturers. The PC industry, including the motherboard and VGA card sectors, is subject to rapid changes in market demand as a result of technological developments, as well as intense competition among rival motherboard and VGA card manufacturers. Such competition, combined with significant consolidation in the PC market, has resulted in the Company's experiencing increasing pressure on prices and margins. In response to current demand and in anticipation of continued growth in demand for its products, the Company is continuing to focus on the development of high-end high-margin motherboard products targeting sophisticated PC end-users in the clone market and to expand its distribution and after-sales service capabilities. The Company's operating results could be adversely affected if the Company fails to successfully compete with other motherboard and VGA card manufacturers, some of which have substantially greater production, financial, research and development resources than the Company. A number of the Company's competitors are much larger and have greater manufacturing, financial, research and development and marketing resources than the Company. Some of these competitors also carry product lines that the Company does not carry and provide services that the Company does not provide. Although the Company believes that it will continue to maintain its competitive position in the motherboard and VGA card sectors, particularly in the clone market, there can be no assurance that the Company will be able to continue to compete successfully in its relevant markets.

***The Company's diversification into new business or product lines may not be successful.***

The Company intends to further diversify its product range to include system products, such as servers and barebone systems, and other sophisticated add-on card products. The Company's expansion into such product business represents a move by the Company into a highly technical and complex business area in which it has limited business experience. In connection with its expansion, the Company expects to incur additional costs (including increased management attention) and to face intense competition from other companies, including those with more relevant technological and managerial experience.

The Company's diversification into new businesses will put pressure on its managerial, technical, financial, production, operational and other resources, and its ability to manage future financing controls and hire additional skilled personnel as well as manage relationships with a greater number of customers, suppliers, equipment vendors and other third parties.

There can be no assurance that the Company will be able to successfully compete in these businesses or products; that demand in these businesses or for these products will grow to the extent that the Company expects; that its server and barebone system products will gain market acceptance; that these businesses or products will provide the returns that the Company expects them to or that the Company's attempts to position itself to take advantage of any growth in these businesses or with respect to these products will be successful. Moreover, there can be no assurance that the implementation of such plans, including the management attention that such implementation is expected to require, will not adversely affect the Company's existing operations.

***The Company's operating results vary significantly.***

The Company experiences significant fluctuations in its results of operations. The factors which contribute to fluctuations include:

- loss of revenues and incurrence of unexpected replacement costs or exposure to potential product liability claims resulted from defective products;
- the timing of customer orders;
- the volume of these orders relative to the Company's capacity;
- market acceptance of the Company's new products;
- changes in demand for the Company's products and product obsolescence;
- the timing of the Company's capital expenditures in anticipation of future orders;

- the Company's effectiveness in managing manufacturing processes of its contract manufacturer;
- changes in the cost and availability of human resources and components;
- changes in the Company's product mix;
- changes in economic conditions; and
- local factors and events that may affect the Company's contract manufacturer's production volume.

In particular, the markets for the Company's products are subject to a certain degree of seasonality. These markets exhibit particular strength toward the end of each year in connection with holiday season sales. Accordingly, the Company's third- and fourth-quarter revenues are usually higher, and its first- and second-quarter sales are usually lower than average.

***The Company may experience shortages of raw materials and components.***

The Company's production depends on its ability to obtain adequate supplies of components on a timely basis. The Company and its contract manufacturer purchase their key components from a limited number of component manufacturers which can meet their quality standards and volume requirements. The key components for motherboards include static random access memory ("SRAMs"), chipsets, printed circuit boards ("PCBs"), integrated circuit ("IC"), passive components and connectors. The principal components of VGA cards are chipsets, connectors, PCBs, memory chips, IC components and passive components. From time to time periodic shortages of such components have occurred. A shortage in any of these components would likely increase their prices and would depress the Company's margins to the extent that the Company is unable to pass these higher component prices to its customers. In addition, any shortage in a key component could limit the number of units of a particular product that can be manufactured. The Company believes that such shortages are cyclical, and there can be no assurance that shortages of key components will not occur in the future or that any such shortages will not have a material adverse effect on the operations of the Company.

***The manufacturing processes for the Company's products are complex and potentially vulnerable to disruptions that can increase its production costs, cause delivery delays and reduce output.***

The manufacturing processes for the Company's products are highly complex and require specialized equipment. There is a risk that from time to time there will be production difficulties that could cause delivery delays and reduced output. There can be no assurance that the Company or its contract manufacturer will not experience manufacturing or sourcing problems in achieving acceptable output, and/or product delivery delays, in the future as a result of, among other things, capacity constraints, construction delays, difficulties in upgrading or expanding existing facilities, difficulties in changing manufacturing line technologies or delays in delivery of equipment; any of which could result in a loss of future revenues.

***The Company may not be able to protect its intellectual property.***

The Company has proprietary intellectual property rights and information with respect to certain of its products and manufacturing processes. The Company believes that it has taken appropriate steps to protect this proprietary information and will actively seek to protect its intellectual property rights. Notwithstanding these steps, the Company's protective measures may not be sufficient to prevent the misappropriation or unauthorized disclosure of the Company's intellectual property or proprietary information. There can be no assurance that the Company will be successful in defending against infringement claims that may be brought by third parties, or that the Company will be successful in its own intellectual property enforcement actions. Even if the Company is successful, it may have to incur significant costs and time to litigate its claims or defend itself against the claims of third parties.

Seeking patent protection can be expensive and time consuming. There can be no assurance that patents will be issued from pending or future applications or that, if patents are issued, they will provide meaningful protection or other commercial advantage to the Company. Moreover, there can be no assurance that any patent rights will be upheld in the future.

***The Company may be involved in intellectual property disputes.***

The Company may from time to time receive communications from third parties asserting patent rights to the Company's products and, in such circumstances, it will enter into discussions with such parties as to their respective positions and the terms of any possible licenses in respect of such patent rights. Although the Company actively seeks to protect the intellectual property rights for its products and its internal know-how, there can be no assurance that claims will not be brought by third parties against the Company from time to time. Irrespective of the validity or successful assertion of these claims, the Company could incur significant costs with respect to the defense of such claims which could have a material adverse effect on the Company's business, such as stoppage of utilizing some key components manufactured by certain suppliers, and the Company's financial condition, results of operation and future prospects.

***The Company is dependent on its ability to attract and retain qualified employees.***

The Company's success depends to a significant extent on the skills and efforts of key managerial, technical and other employees and upon its ability to continue to attract, retain and motivate qualified personnel. The Company competes with other motherboard and VGA card manufacturers as well as other manufacturing companies for managerial, technical and other employees, and the competition for such employees is intense. There can be no assurance that the Company will be able to continue to attract and retain the services of qualified employees essential for the Company's growth. The loss of the services of certain of these employees or an inability to attract or retain qualified employees could have a material adverse effect on the Company.

***The Company is exposed to the risks of currency exchange rate fluctuations.***

Historically, a majority of the operating costs and expenses of the Company have been denominated in U.S. Dollars and NT Dollars and the Company's revenue has been denominated primarily in U.S. Dollars. Accordingly, a portion of the Company's consolidated costs of sales, operating expenses and revenues are exposed to fluctuations between the U.S. Dollars and NT Dollars. Although the Company attempts to mitigate the effects of exchange rate fluctuations primarily through the use of some derivative instruments, fluctuations in exchange rates may have an adverse impact on the Company's future gross and operating margins and results of operations. See "Exchange Rates" and "Management's Discussion and Analysis of Financial Condition and Results of Operations".

**Risks Relating to the ROC**

***The Company is subject to risks associated with political status and international relations of the ROC.***

The Company is incorporated in the ROC, and a substantial portion of its assets are located in, and a substantial portion of its revenues are derived from its operations in the ROC. The ROC has a unique international political status. The People's Republic of China (the "PRC") asserts sovereignty over all of China (*i.e.*, Taiwan, certain other islands and all of mainland China) and does not recognize the legitimacy of the ROC government.

Although significant economic and cultural relations have been established during recent years between the ROC and the PRC, the government of the PRC has indicated that it may use military force to gain control over Taiwan in some circumstances, such as a declaration of independence by Taiwan. Relations between the ROC and the PRC have been particularly strained in recent years. Certain past developments in relations between the ROC and the PRC have occasionally adversely affected the market value of Taiwanese companies and the value of the Taiwan Stock Exchange Weighted Stock Index (the "TSE Index") and the ROC GreTai Securities Market Index.

An increase in tension between the ROC and the PRC could adversely affect the market price and liquidity of the Shares and the Bonds, the availability of the PRC as an export market for the Company's products and the ability of the Company to implement present and future plans for the development of production facilities in the PRC.

***The recent outbreak of severe acute respiratory syndrome ("SARS") may have an adverse effect on the economies of certain Asian countries and may adversely affect our results of operations.***

Beginning March 2003, China, Hong Kong, Taiwan, Singapore, Vietnam and certain other Asian countries encountered an outbreak of SARS, a highly contagious form of atypical pneumonia. Although the World Health Organization has removed its travel advisory against non-essential travel to China, Hong Kong and Taiwan and the Company's operation was not seriously interrupted as a result of this SARS outbreak, the long-term impact of the SARS outbreak is unclear at this time, the perception that the SARS outbreak has not been contained may have an adverse effect on the economic conditions of certain countries in Asia. Each of the governments of Taiwan, Hong Kong and Singapore has revised downward its gross domestic product growth forecasts for 2003 due to SARS. As a result, the economic fallout of the SARS outbreak resulted in a temporary decrease in the demand for our products immediately following the outbreak and may in the future result in further decreases in such demand, which would have a material adverse effect on the Company's results of operations. In addition, the Company's production operations and that of the Company's suppliers or customers may be seriously interrupted due to future SARS outbreak or the measures taken by the governments of the ROC, Hong Kong, PRC or other countries against SARS, which may have a material adverse effect on the Company's results of operations. A prolonged shutdown of one of the Company's contract manufacturer's facilities would materially adversely affect the Company's results of operations.

***Taiwan is susceptible to natural disasters that could disrupt the normal operation of the Company's business and adversely affect earnings.***

Taiwan is susceptible to earthquakes. On September 21, October 22 and November 2, 1999 and June 11, 2000, Taiwan experienced severe earthquakes that caused significant property damage and loss of life, particularly in the central part of Taiwan. These earthquakes caused damage to production facilities and adversely affected the operations of many companies. Although the Company did not experience major structural damage to its facilities, there can be no assurance that future earthquakes will not occur and result in major damage to the Company's facilities, which would have a material adverse effect on the Company's results of operations and financial condition.

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

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

***The value of the Shares and the Bonds may be adversely affected by the volatility of the ROC securities market.***

The ROC securities market is smaller and more volatile than the securities markets in the United States and in certain European countries. The TSE Index has had substantial fluctuations in the prices of listed securities and has shown particular volatility following certain political events, market events and scandals and there are currently limits on the range of daily price movements on the TSE Index. The TSE Index peaked at 12,495 points in February 1990, and subsequently fell to a low of 2,560 points in October 1990. On November 20, 2003, the TSE Index closed at 5,834.24 points. See "Appendix B — The Securities Market of the ROC." The TSE Index has experienced problems such as market manipulation, insider trading and payment defaults. In addition, the ROC Ministry of Finance (the "MOF") has on occasion restricted the daily downward price movements on the TSE Index to 3.5% from the usual limit of 7% in response to certain political and economic events. The recurrence of these or similar problems could adversely affect the market price and liquidity of the securities of ROC companies, including the Bonds and the Shares in both domestic and international markets.

***ROC exchange controls may adversely affect the ability of a holder to receive proceeds from the sale of the subscription rights for the Company's Shares.***

Under existing ROC law, a holder of the Bonds, after becoming a holder of Shares, must obtain foreign exchange approval from the CBC on a payment-by-payment basis for conversion from NT dollars into other currencies in respect of the proceeds from the sale of subscription rights for newly issued Shares if the proceeds are in excess of US$100,000 per remittance. Although such approvals have been routinely granted in the past, there can be no assurance that in the future any such approval will be obtained in a timely manner or at all. See "Appendix A — Foreign Investment and Exchange Controls in the ROC."

**Risks Related to Ownership of the Bonds and the Shares**

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

There has been no trading market for the Shares outside the ROC and the only trading market for the Shares will be the TSE. In addition, the Bonds will not be listed on any stock exchange, and there can be no assurance that an active trading market for the Bonds will develop.

In addition, the Manager, or its affiliates, intends to purchase Bonds for their own account and enter into transactions relating to the Bonds, including asset swaps, repackagings and other transactions, which may involve a substantial proportion of the Bonds and may adversely affect the liquidity of any trading market in the Bonds. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any offering, sale or resale of the Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Bonds). Furthermore, to the extent permitted by, and in accordance with, applicable laws and regulations, the Manager 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.

***Holders of the Bonds will be required to appoint an ROC Tax Guarantor.***

Holders of the Bonds (being either individuals or legal entities) who are non-ROC persons, upon exercising their conversion rights, will be required to appoint an agent in the ROC for filing tax returns and making tax payments. Such agent (a "Tax Guarantor") will be required to meet the qualifications set by the MOF and to act as the guarantor of the converting bondholder's tax payment obligations. There can be no assurance that a holder of the Bonds will appoint and obtain approval for a Tax Guarantor in a timely manner.

Under current ROC laws, repatriation of profits by holders of the Bonds is subject to the submission of evidence of the appointment of a Tax Guarantor to, and approval of such submission by, the tax authority or submission of tax clearance certificates to the tax authority so long as the capital gains from securities transactions are exempt from ROC income tax. Notwithstanding the above requirement for the appointment of a Tax Guarantor or submission of tax clearance certificates as provided in the applicable ROC regulations, the CBC has not required submission of such evidence or tax clearance certificates as a condition to repatriation of sale proceeds of the Shares. However, there can be no assurance that the CBC will not require submission of such evidence or tax clearance certificates in the future.

In addition, under current ROC law, a non ROC converting holder of the Bonds, when exercising its conversion right to convert the Bonds into Shares, is required to register with TSE and if applicable, to obtain the approval from the CBC (if such holder is an offshore foreign institutional investors, that is, a company incorporated in a jurisdiction outside of the ROC under the laws of such foreign jurisdiction) and to appoint a local agent in the ROC to, among other things, open a securities trading account with a local securities brokerage firm, remit funds, exercise shareholders' rights and custodian for handling confirmation and settlement of trades, safekeeping of securities and cash proceeds and reporting of information. Without meeting foregoing requirements, holder of the Bonds will not be able to hold, sell or otherwise transfer the Shares on the TSE.

***Further issues of the Company's Shares, including pursuant to employee stock bonuses, could dilute the holdings and associated rights with respect to the Shares.***

Companies in the ROC generally pay employee bonuses (in the form of cash or stock) to their employees and the Company's Articles of Incorporation provide that (after certain deductions and provisions) employees should receive bonuses of at least 8% of the Company's distributable retained earnings if the Company decides to distribute the earnings. If stock bonuses are issued, the number of Shares issuable is calculated by reference to the par value of NT$10 per share, notwithstanding that the market value of the Shares as of the dates of the declaration and distribution of the stock bonuses were significantly higher than such par value. Such distributions in the form of new Shares, or further issuances of new Shares, will effectively dilute the holdings and associated rights of holders of the Bonds who convert the Bonds to Shares.

## USE OF PROCEEDS

The net proceeds of the issue of the Bonds are expected to amount to approximately US$74.0 million and will be used by the Company to purchase raw materials overseas and to make investments in overseas subsidiaries.

## CAPITALIZATION

Set out below are the unconsolidated borrowings and shareholders' equity of the Company as of September 30, 2003, as derived from the Company's unaudited unconsolidated financial statements as of that date and as adjusted to reflect the issue of the Bonds. The following table should be read in conjunction with the unaudited unconsolidated financial statements of the Company and notes thereto for the nine months ended September 30, 2002 and 2003 included elsewhere in this Offering Circular. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

| | As of September 30, 2003 | | | |
|---|---|---|---|---|
| | Actual | | As adjusted | |
| | (NT$ million) | (US$ million)(1) | (NT$ million) | (US$ million)(1) |
| **Borrowings:** | | | | |
| Short-term debt | | | | |
| Short-term bank loans | 2,243.7 | 66.4 | 2,243.7 | 66.4 |
| Commercial paper | 45.9 | 1.4 | 45.9 | 1.4 |
| Current portion of long-term liabilities | 175.1 | 5.2 | 175.1 | 5.2 |
| Total short-term borrowings | 2,464.7 | 73.0 | 2,464.7 | 73.0 |
| Long-term debt (net of current portion) | 1,654.4 | 49.0 | 1,654.4 | 49.0 |
| The Bonds (now being issued) | — | — | 2,533.5 | 75.0 |
| Total long-term borrowings | 1,654.4 | 49.0 | 4,187.9 | 124.0 |
| Total borrowings | 4,119.1 | 122.0 | 6,652.6 | 197.0 |
| **Stockholders' equity:** | | | | |
| Common stock(2) | 5,727.3 | 169.5 | 5,727.3 | 169.5 |
| Capital reserve | 1,269.2 | 37.6 | 1,269.2 | 37.6 |
| Retained earnings | | | | |
| Undistributed earnings | 803.9 | 23.8 | 803.9 | 23.8 |
| Cumulative translation adjustment | (22.7) | (0.7) | (22.7) | (0.7) |
| Total stockholders' equity | 7,777.7 | 230.2 | 7,777.7 | 230.2 |
| Total capitalization(3)(4) | 9,432.1 | 279.2 | 11,965.6 | 354.2 |

(1) For convenience purposes only, this figure has been translated at the Noon Buying Rate of NT$33.78 = US$1.00 on September 30, 2003.

(2) The Company's authorized share capital as of September 30, 2003 was NT$10.0 billion, divided into 1 billion Shares, of which 572.7 million Shares have been issued. All the Shares of the Company have been fully paid up.

(3) Includes long-term borrowings (net of current portion), total stockholders' equity on September 30, 2003 and, as adjusted, the Bonds (now being issued).

(4) Except as disclosed herein, there has been no material change in the Company's capitalization since September 30, 2003.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

*You should read the following discussion of the Company's financial condition and results of operations together with the audited consolidated and unconsolidated financial statements and the notes to such statements for the years ended December 31, 2000, 2001 and 2002, and the unaudited unconsolidated financial statements and the notes to such statements for the nine months ended September 30, 2002 and 2003, included in this Offering Circular. The Company's audited consolidated and unconsolidated financial statements and unaudited unconsolidated financial statements, respectively, are prepared in accordance with ROC GAAP, which differ in many material respects from US GAAP. For a discussion of these differences, see "Summary of Principal Differences Between ROC GAAP and US GAAP."*

## Overview

The principal businesses of the Company are the designing, developing and manufacturing of motherboards and VGA cards for PCs. The Company has also since 2001 diversified into the designing and manufacturing of system products, both under its own brand name and on an OEM/ODM basis. In addition, the Company engages in long-term investment activities both directly and through certain investment subsidiaries. The Company's consolidated net sales comprise primarily of net sales of its consolidated subsidiary, Treasure World Holdings Inc., and net sales from the Company's sales of motherboards and VGA cards, including sales of such products by the Company's consolidated subsidiaries, Amor Computer B.V. and ABIT Computer (USA) Corporation. Treasure World Holdings Inc. is a holding company holding several operating entities engaging in various businesses. See "Business — Principal Subsidiaries." In 2000, 2001 and 2002, net sales from Treasure World Holdings Inc. accounted for 60.8%, 60.6% and 66.9%, respectively, of the Company's consolidated net sales, with the remaining from net sales from the Company's sales of motherboards and VGA cards, including sales of such products by its consolidated subsidiaries, Amor Computer B.V. and ABIT Computer (USA) Corporation.

The net sales in the unconsolidated financial statements of the Company comprise of net sales derived primarily from the sales of motherboards and VGA cards. Net sales of motherboards accounted for approximately 64.8%, 77.5% and 42.0% of the Company's unconsolidated net sales in 2000, 2001 and 2002, respectively, and approximately 26.3% of the Company's unconsolidated net sales in the nine months ended September 30, 2003. Net sales of VGA cards accounted for approximately 2.0%, 9.2% and 20.1% of the Company's unconsolidated net sales in 2000, 2001 and 2002, respectively, and approximately 6.1% of the Company's unconsolidated net sales in the nine months ended September 30, 2003.

### *Operating Revenues*

The Company's consolidated operating revenues are derived primarily from the following sources:

*Sale of Motherboards, VGA Cards and other products.* The Company purchases certain key raw material and components for the manufacturing of motherboards, VGA cards and barebone systems, delivers them to a contract manufacturer, Rolly Technology (Suzhou) Co., Ltd. for production, and sells such products to its customers. The Company also sells certain of its motherboards and VGA cards to its consolidated subsidiaries, Amor Computer B.V. and ABIT Computer (USA) Corporation, for distribution. Sales made directly by the Company's consolidated subsidiaries to end customers are included in consolidated net sales, but excluded from the Company's unconsolidated net sales. The Company recognizes revenue from the sale of such products when the products are delivered, so long as no uncertainties exist surrounding product acceptance, prices for the products are fixed and determinable, and collection is probable.

*Income from Consolidated Subsidiaries.* Operating revenues on the Company's consolidated financial statements consists of operating revenues of the Company's consolidated subsidiary, mainly Treasure World Holdings Inc.

### *Net Sales*

Net sales consist of operating revenues less sales returns and sales allowances. The Company grants credit to its customers on unsold merchandise under certain conditions. At the time the Company recognizes revenue from the sale of its products, it records sales allowances based on actual customers accommodations for its products, such as price discounts and rebates, and establish sales returns based on estimates of future returns. The Company bases this amount on its historical experience, inventories, the nature of the titles and other factors. The Company currently offers a limited warranty on its products sold by the Company or its authorized dealers in the United States and Canada against defects for a period of three years.

***Operating Costs***

*Acquisition Costs.* Acquisition costs include costs of raw materials and components purchased from other vendors for the Company's own production and purchase price paid to the Company's contract manufacturer, Rolly Technology (Suzhou) Co., Ltd., for its semi-finished and finished products. Such costs are deducted as operating costs when revenues from the sale of the products are recognized.

*Production Costs.* Production costs include payments made to the Company's direct labors in connection with manufacturing and product assembly. Such costs are deducted as operating costs when revenues from the sale of the products are recognized. Starting from early 2003, the Company ceased all its inhouse production operations and outsourced its entire production requirement to a contract manufacturer, Rolly Technology (Suzhou) Co., Ltd. and therefore there was no such costs since then.

***Operating Expenses***

The Company's operating expenses consist of the major sources:

*Selling Expenses.* Selling expenses consist primarily of (i) costs associated with marketing activities to promote the Company's products and brand name, customer incentive programs and research and evaluation of its current customers and markets, (ii) salaries for the Company's sales force, (iii) shipping costs and (iv) costs for the provision of after-sales services.

*Administrative Expenses.* A majority of the Company's administrative expenses consist primarily of (i) personnel and related costs for general corporate functions, (ii) fees for outside service providers, including underwriters, accountants and legal counsels and (iii) expenses related to depreciation of office building and computers and amortization of computer software to support its administrative operations.

*Research and Development Expenses.* Research and development expenses of the Company consist primarily of (i) salaries and benefits for its research and development staffs, (ii) royalty payment, (iii) consultant costs and (iv) expenses related to depreciation of computers and amortization of research and development facilities.

***Gross Profit and Gross Profit Margin***

Gross profit consists of net operating revenues less operating expenses. The Company's gross profit margin in any period varies depending on the mix of types of products sold. The Company typically enjoys higher profit margins from the sale of motherboards than from the sale of VGA cards and other products.

***Non-Operating Income and Expenses***

Non-operating income consists primarily of interest income, investment income, gain on disposal of investments and foreign exchange gains. Investment income consists of income from long-term investments accounted for by the equity method.

Non-operating expenses consist primarily of interest expense, investment losses, loss on inventory price decline and slow-moving items and foreign exchange loss. Loss on inventory price decline and slow-moving items include losses due to inventory identified by the Company as slow-moving or obsolete, whether as a result of requests from customers for accommodations or otherwise. The loss reflects a write-down of the value of such inventory to its estimated net realizable value.

***Consolidation***

Under ROC GAAP, the Company is required to consolidate the financial results of any subsidiary if the total assets or net operating revenues of such subsidiary exceed 10% of its unconsolidated total assets or net operating revenues, as the case may be. In addition, the ROC Securities and Futures Commission requires the Company to consolidate the financial statements of each subsidiary whose total assets or net operating revenues exceed 3% of its unconsolidated total assets or net operating revenues, as the case may be, if the assets or net operating revenues of all unconsolidated subsidiaries exceed 30% of its unconsolidated total assets or net operating revenues, as the case may be. As of December 31, 2000, 2001 and 2002, the Company's consolidated subsidiaries were ABIT Computer (USA) Corporation, Treasure World Holdings Inc. and Amor Computer B.V.

***Recent Developments***

There were no decreases for the period from October 1, 2003 to November 17, 2003, as compared with the corresponding period in the preceding year, in net operating revenues, gross income, operating income, income before income tax or the total or per-share amounts of net income (all comparisons on an unconsolidated basis), except that there was a decrease in current assets of NT$294.0 million, a decrease in net property, plant and equipment of NT$2.7 million and a decrease in total assets of NT$298.3 million.

**Unconsolidated Results of Operations of the Company**

***Nine months ended September 30, 2003 as compared to nine months ended September 30, 2002***

*Net sales*

Net sales increased by 52.5% to NT$7,825.1 million (US$231.6 million) in the nine months ended September 30, 2003 from NT$5,131.9 million in the nine months ended September 30, 2002. The increase in the Company's net sales was attributable to an increase in net sales of system products, due primarily to increases in units sold and average selling price as a result of market recovery.

*Operating costs*

Operating costs increased by 47.0% to NT$7,070.5 million (US$209.3 million) in the nine months ended September 30, 2003 from NT$4,811.5 million in the nine months ended September 30, 2002. The increase in operating costs was in line with the increase in net sales.

*Gross profit*

Gross profit increased by 135.5% to NT$754.6 million (US$22.3 million) in the nine months ended September 30, 2003 from NT$320.4 million in the nine months ended September 30, 2002. Accordingly, gross margin increased to 9.6% in the nine months ended September 30, 2003 from 6.2% in the nine months ended September 30, 2002. The increase in gross margin reflected principally an increase in the average selling price of motherboards and a reduction in operating costs relating to the production of motherboards.

*Operating expenses*

Operating expenses decreased by 22.3% to NT$424.1 million (US$12.6 million) in the nine months ended September 30, 2003 from NT$545.8 million in the nine months ended September 30, 2002, primarily due to decreases in selling expenses. Selling expenses decreased in the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002 as a result of a higher after-sales expenses in the nine months ended September 30, 2002 in connection with the replacement of defective motherboard products sold to the United States market in 2002. As a percentage of net sales, operating expenses decreased to 5.4% in the nine months ended September 30, 2003 from 10.6% in the nine months ended September 30, 2002.

*Net operating income (loss)*

As a result of the foregoing factors, the Company recorded net operating income of NT$297.9 million (US$8.8 million) in the nine months ended September 30, 2003, compared to a net operating loss of NT$190.9 million in the nine months ended September 30, 2002, and operating margin increased to 3.8% in the nine months ended September 30, 2003 from minus 3.7% in the nine months ended September 30, 2002.

*Net non-operating income (expenses)*

The Company had net non-operating income of NT$502.4 million (US$14.9 million) in the nine months ended September 30, 2003, as compared to net non-operating expenses of NT$442.8 million in the nine months ended September 30, 2002. Net non-operating income in the nine months ended September 30, 2003 was due primarily to income from the Company's long-term investments accounted for by the equity method, principally its investment in Treasure World Holdings Inc., of NT$647.6 million (US$19.2 million). Net non-operating expenses in the nine months ended September 30, 2002 was due primarily to loss from the Company's long-term investments accounted for by the equity method, principally its investment in Treasure World Holdings Inc., of NT$341.9 million.

*Net income*

As a result of the above factors, the Company generated an income before income tax of NT$800.3 million (US$23.7 million) in the nine months ended September 30, 2003, as compared to a loss before income tax of NT$633.7 million in the nine months ended September 30, 2002. Income tax benefit decreased to NT$3.6 million (US$0.1 million) in the nine months ended September 30, 2003 from NT$99.8 million in the nine months ended September 30, 2002, primarily as a result of a lose before income tax in 2002. The Company recorded a net income of NT$803.9 million (US$23.8 million) in the nine months ended September 30, 2003 as compared to a net loss of NT$533.9 million in the nine months ended September 30, 2002.

**Consolidated Results of Operations**

***Year ended December 31, 2002 compared to year ended December 31, 2001***

*Net sales*

Net sales decreased by 1.1% to NT$19,314.3 million (US$571.7 million) in 2002 from NT$19,522.1 million in 2001. The decrease in the Company's net sales was attributable to a decrease in its unconsolidated net sales, primarily the sales of motherboards, which was partially offset by increases in net sales of VGA cards and system products. Net sales of motherboards decreased by 55.3% to NT$2,700.2 million (US$79.9 million) in 2002 from NT$6,042.4 million in 2001, primarily due to a decrease in units sold as a result of the defective motherboard products sold in the United States market in 2002. See "Risk Factors — *The Company may be subject to a significant loss and declines in market share as a result of defects in its products.*" Net sales of VGA cards increased by 80.1% to NT$1,292.2 million (US$38.3 million) in 2002 from NT$717.6 million in 2001, primarily due to an increase in average selling price of such products as a result of the introduction of new VGA card products supporting the OTES cooling systems which have higher selling prices. Net sales of system products increased by 73.6% to NT$1,205.0 million (US$35.7 million) in 2002 from NT$694.0 million in 2001, primarily due to increases in both units sold and average selling price of such products as a result of the Company's obtaining one purchase order from its major OEM customer, Hewlett Packard.

*Operating Costs*

Operating costs increased by 5.2% to NT$18,651.3 million (US$552.1 million) in 2002 from NT$17,721.6 million in 2001. The increase in operating costs was due primarily to the costs for the provision of after-sales services in connection with the replacement of its defective motherboard products sold to the United States market in 2002. See "Risk Factors — *The Company may be subject to a significant loss and declines in market share as a result of defects in its products.*"

*Gross profit*

Gross profit decreased by 63.2% to NT$663.0 million (US$19.6 million) in 2002 from NT$1,800.5 million in 2001. Accordingly, gross margin decreased to 3.4% in 2002 from 9.2% in 2001. The decrease in gross margin reflected principally a decrease in net sales of motherboards, a decreased margin of motherboard products and a decrease in utilization rate of the Company's production facilities.

*Operating expenses*

Operating expenses increased by 12.5% to NT$1,308.4 million (US$38.7 million) in 2002 from NT$1,163.2 million in 2001, primarily due to an increase in depreciation costs relating to the Company's new office building completed in 2002 and an increase in severance pay to employees laid off due to the Company's outsourcing of its entire production operation to Rolly Technology (Suzhou) Co., Ltd. As a percentage of net sales, operating expenses decreased to 6.8% in 2002 from 6.0% in 2001.

*Net operating income (loss)*

As a result of the foregoing factors, the Company recorded net operating loss of NT$642.8 million (US$19.0 million) in 2002, as compared to a net operating income of NT$633.6 million in 2001, and operating margin decreased to minus 3.3% in 2002 from 3.2% in 2001.

*Net non-operating income (expenses)*

The Company had net non-operating expenses of NT$392.3 million (US$11.6 million) in 2002, as compared to net non-operating income of NT$83.1 million in 2001. Net non-operating expenses in 2002 was primarily due to loss on investments, primarily investments in Rolly Technology (Suzhou) Co., Ltd., of NT$152.0 million (US$4.5 million) and interest expenses payable under long-term and short-term bank borrowings and corporate bonds of NT$191.0 million (US$5.7 million). Net non-operating income in 2001 was primarily due to exchange gain of NT$146.7 million as a result of the appreciation of US dollars against NT dollars and its effects on the Company's US dollar-denominated accounts receivable, and commission income of NT$74.7 million for the Company's provision of compatibility testing services to DRAM manufacturers, partially offset by the interest expenses payable under long-term and short-term bank borrowings and corporate bonds of NT$180.3 million.

*Net income*

As a result of the above factors, the Company generated a loss before income tax of NT$1,035.1 million (US$30.6 million) in 2002, as compared to an income before income tax of NT$716.7 million in 2001. Income tax benefit was NT$7.8 million (US$0.2 million) in 2002 as compared to income tax expenses of NT$65.3 million in 2001, primarily as a result of the Company's loss before income tax in 2002. The Company recorded a net loss of NT$1,109.1 million (US$32.8 million) in 2002 as compared to a net income of NT$645.8 million in 2001.

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

*Net sales*

Net sales increased by 2.5% to NT$19,522.1 million in 2001 from NT$19,046.2 million in 2000. The increase in the Company's net sales was attributable to an increase in the net sales from its consolidated subsidiary, Amor Computer B.V., due primarily to an increase in net sales of the Company's products in Europe. The Company's unconsolidated net sales remained stable, while the product mix shifted to decrease the sales of trading of excess components and increase the sales of system products and VGA cards.

*Operating Costs*

Operating costs increased by 1.7% to NT$17,721.6 million in 2001 from NT$17,423.4 million in 2000.

*Gross profit*

Gross profit increased by 10.9% to NT$1,800.5 million in 2001 from NT$1,622.8 million in 2000. Accordingly, gross margin increased to 9.2% in 2001 from 8.5% in 2000. The increase in gross margin reflected principally an increase in average selling price of the Company's motherboard products.

*Operating expenses*

Operating expenses increased by 21.0% to NT$1,163.2 million in 2001 from NT$961.0 million in 2000, primarily due to an increase in administrative expenses as a result of the underwriting fee paid to the underwriter for the Company's 2001 domestic bond issuance. As a percentage of net operating revenues, operating expenses increased to 6.0% in 2001 from 5.0% in 2000.

*Net operating income (loss)*

As a result of the foregoing factors, the Company's net operating income decreased by 3.9% to NT$633.6 million in 2001 from NT$659.5 million in 2000, and operating margin decreased to 3.2% in 2001 from 3.5% in 2000.

*Net non-operating income (expenses)*

The Company had net non-operating income of NT$83.1 million in 2001, as compared to net non-operating loss of NT$6.5 million in 2000. Net non-operating income in 2001 was primarily due to exchange gain of NT$146.7 million as a result of the appreciation of US dollars against NT dollars and its effects on the Company's US dollar-denominated accounts receivable, and commission income of NT$74.7 million for the Company's provision of compatibility testing services to DRAM manufacturers, which was partially offset by the interest expenses payable under long-term and short-term bank borrowings and corporate bonds of NT$180.3 million. Net non-operating loss in 2000 was primarily due to the interest expenses payable under long-term and short-term bank borrowings of NT$166.8 million and other non-operating income, which were partially offset by an exchange gain of NT$184.5 million as a result of the appreciation of US dollars against NT dollars in the second half of 2000 and its effects on the Company's US dollar-denominated accounts receivable.

*Net income*

As a result of the above factors, the Company's income before income tax increased by 9.8% to NT$716.7 million in 2001 from NT$653.0 million in 2000. Income tax expenses were NT$65.3 million and NT$99.4 million, respectively, in 2001 and 2000. The Company's net income was NT$645.8 million and NT$601.9 million, respectively, in 2001 and 2000.

**Liquidity**

The Company funds its operations and capital expenditures primarily through drawdowns on its credit facilities and proceeds from sales of its equity securities. The Company historically has deposited its cash balances with financial institutions.

***Cash Flows***

In the nine months ended September 30, 2003, the Company generated net cash of NT$75.8 million (US$2.2 million). Net cash generated during this period was attributable to NT$808.3 million (US$23.9 million) provided by financing activities due to increases in corporate bonds payable and bank loans, partially offset by NT$728.9 million (US$21.6 million) used in investing activities and NT$3.5 million used in operating activities. Net cash used in investing activities was due primarily to an increase in long-term investments, principally Treasure World Holdings Inc., partially offset by a decrease in restricted assets, principally deposits under pledge. Net cash used in operating activities was primarily due to an increase in accounts receivable and a gain from long-term investments accounted for by the equity method, partially offset by a decrease in accounts payable to non-related parties.

In 2002, the Company used net cash of NT$775.4 million (US$23.0 million). Net cash used during this period was attributable to NT$2,348.8 million (US$69.5 million) used in investing activities due primarily to an acquisition of the Company's subsidiary, Effective Score Limited, partially offset by NT$1,561.4 million (US$46.2 million) provided by financing activities due primarily to an increase in cash from proceeds of capital increases.

***Credit Facilities***

As of September 30, 2003, the Company had NT$1,799.6 million (US$53.3 million) outstanding under its long-term credit facilities. The interest rates for these long-term credit facilities ranged from 0.75% to 5.7% in the nine months ended September 30, 2003. The Company typically provided its lands and buildings as mortgages to secure its repayment obligations under these long-term borrowings.

As of September 30, 2003, the Company had NT$2,243.7 million (US$66.4 million) outstanding under its short-term credit facilities. The interest rates for these short-term credit facilities ranged from 1.60% to 6.35% in the nine months ended September 30, 2003.

On June 28, 2001, the Company issued NT$1.0 billion of unsecured zero coupon convertible bonds due June 2006. The bonds are convertible at the option of the bondholders beginning in September 2001 and are redeemable by the Company under certain circumstances beginning in June 2002. The terms of these bonds also provide for early redemption at the option of the bondholders in June 2003, 2004 and 2005. These convertible bonds have not received any credit rating. As of October 31, 2003, the Company had issued 39,969,066 Shares to bondholders as a result of their exercise of the conversion rights.

On February 28, 2003, the Company issued US$17.0 million of unsecured convertible bonds due February 2008. The interest rate of the bonds at par was 0.75% per annum. The bonds are convertible at the option of the bondholders beginning in March 2003 and are redeemable by the Company under certain circumstances beginning in February 28, 2004. The terms of these bonds also provide for early redemption at the option of the bondholders in February 2005, 2006 and 2007. These convertible bonds have not received any credit rating. As of July 14, 2003, the Company had issued 73.4 million Shares to bondholders as a result of their exercise of the conversion rights.

The Company believes that the proceeds of this offering, together with its current cash and cash equivalent balances, its lines of credit and net cash provided by operating activities will be sufficient to meet its material commitments and anticipated cash needs for working capital for at least the next 12 months. The Company may seek additional debt or equity financing. There can be no assurance that such financing will be available on terms acceptable to the Company. The sale of additional equity could result in dilution to the Company's shareholders.

**Exchange Rate Fluctuations**

In 2002 and the nine months ended September 30, 2003, 23.8% and 8.3%, respectively, of the Company's operating costs were denominated in NT dollars, with the remaining denominated in US dollars. In contrast, in 2002 and the nine months ended September 30, 2003, 1.3% and 7.2%, respectively, of the Company's net sales were denominated in NT dollars, with the remaining denominated in US dollars. The Company's financial statements are expressed in NT dollars, its functional currency.

The Company record an import or export transaction on the date it occurs at the effective exchange rate for such date as set by the ROC government. Gains or losses resulting from the application of different foreign exchange rates when cash in foreign currency is converted into NT dollars or when foreign-currency receivables and payables are settled are credited or charged to income in the year of conversion or settlement. Period-end balances of foreign-currency assets and liabilities are restated at prevailing exchange rates. The Company recorded a foreign exchange loss, mainly from depreciation of US dollar against NT dollar and its effects on the Company's US dollar-denominated accounts receivable, of NT$114.0 million in the nine months ended September 30, 2003 and a foreign exchange gain of NT$0.5 million (US$0.0 million) in 2002.

Depreciation of the US dollar against the NT dollar generally results in foreign exchange loss for the Company due to the accounting principles described above. The impact of future exchange rate fluctuations on the Company's results of operations cannot be predicted, however.

**Market Risk**

The Company's exposure to financial market risks derives primarily from changes in the interest rates and foreign exchange rates. To mitigate these risks, the Company utilizes derivative financial instruments, the application of which is for hedging, and not for speculative purposes.

### *Interest Rate Risks*

The Company's exposure to interest rate risks relates primarily to its floating rate debt, which is normally incurred to support its corporate activities. The Company currently does not enter into derivative transactions with regard to interest rates, but would consider engaging in currency interest rate swaps to lock in favorable currency and interest rate levels from time to time, if available, on terms considered attractive by it.

### *Foreign Currency Risks*

The Company held forward exchange contracts and foreign currency options contracts for hedging purposes. Although the counterparties of forward exchange contracts and foreign currency options contracts are reputable financial institutions in Taiwan, such as Bank SinoPac, The International Commercial Bank of China, Far Eastern International Bank and KBC Bank, the Company is subject to the risk of non-performance of such contracts by the counterparties. As of September 30, 2003, the Company did not have forward exchange contracts or option contracts outstanding.

## Taxation

The Company used to benefit from the tax incentives generally available to technology companies in Taiwan, including tax credits applicable against corporate income tax typically in the amount of 20% to 30% of the amount of certain research and development and employee training expenses. In 2000, 2001 and 2002, tax credits due to purchase of automatic machinery, employee training expenses, establishing brand image and research and development were NT$33.6 million, NT$38.6 million and NT$61.9 million (US$1.8 million), which were offset by income tax payable of NT$33.6 million and NT$38.6 million in 2000 and 2001, respectively.

## Overview

The Company specializes in designing, developing and manufacturing of motherboards and VGA cards for PCs. The Company sells its motherboards and VGA cards under its own brand name into the clone market through regional system integrators and distributors. The Company also distributes its motherboard and VGA card products to brand name PC manufactures on an OEM or ODM basis. Net operating revenues from the sale of motherboards accounted for approximately 64.8%, 77.5% and 42.0% of the Company's unconsolidated net operating revenues in 2000, 2001 and 2002, respectively, and approximately 26.3% of the Company's unconsolidated net operating revenues in the nine months ended September 30, 2003. Net operating revenues from the sale of VGA cards accounted for approximately 2.0%, 9.2% and 20.1% of the Company's unconsolidated net operating revenues in 2000, 2001 and 2002, respectively, and approximately 6.1% of the Company's unconsolidated net operating revenues in the nine months ended September 30, 2003.

The Company has also since 2001 diversified into the designing and manufacturing of system products both under its own brand name and on an OEM/ODM basis. Net operating revenues from the sale of system products accounted for approximately 8.9% and 18.8% of the Company's unconsolidated net operating revenues in 2001 and 2002, respectively, and approximately 57.3% of the Company's unconsolidated net operating revenues in the nine months ended September 30, 2003.

The Company outsourced the production of its products to a contract manufacturer, Rolly Technology (Suzhou) Co., Ltd., which has production facilities located in Suzhou, PRC. The Company's research and development facilities are located in Taiwan, whereas the core technologies are controlled by the research and development team in Taiwan.

The Company was incorporated in the ROC in September 1989 under the ROC Company Law. The Company's registered address is 1F, No. 323, Yangguang Street, Neihu, Taipei, Taiwan. The Company's Shares have been listed on the TSE since June 2000.

## Strategy

### *Differentiate itself from other motherboard makers by continuing to emphasize on the design and manufacture of high-end high-margin motherboard products*

Unlike other motherboard makers in Taiwan, the Company has committed significant resources to the design and manufacture of high-end high-margin motherboards targeting highly sophisticated PC users in the clone market. The Company has in the past introduced high-end motherboards with innovative technologies targeting such users. For instance, the Company is the first motherboard maker to introduce "jumperless" technology, by which end-users may adjust CPU settings by entering the BIOS setup without opening the computer chassis to change a jumper on the motherboards. More recently in 2002, the Company introduced "MAX" serious motherboards, a re-designed PC motherboard introducing certain high-end functions derived from a server board. The Company intends to differentiate itself from other motherboard makers by continue to focus on the design of innovative solutions for high-end motherboard products in an effort to meet the demanding needs of sophisticated end-users in the clone market.

### *Enhancing the Company's strong brand image in the design and manufacture of high-end motherboards in the clone market*

The Company currently commands a strong brand image and a competitive position in the high-end motherboard clone market in many regional and country markets. The Company's branded high-end motherboard business has also grown significantly, and it plans to continue expanding this business. As the Company believes that the demanding needs from sophisticated PC end-users in the clone market will be continuing and that innovative motherboard designs, time-to-market and comprehensive after-sales services and support are critical to the success in the high-end motherboard clone market, it intends to leverage its current leading position in the branded motherboard business to further increase its market share in the clone market.

*Utilize partnerships and alliances with key suppliers*

The Company believes that the joint development arrangements and alliances it has established with other companies in the PC hardware industry have been fundamental to its success. The Company's strategy is to continue to build on these alliances and partnerships. Maintaining close links with major computer and chip vendors, including industry leaders such as Intel, AMD, nVIDIA and VIA, ensures that the products developed and introduced by the Company are relevant, up-to-date, and at the leading edge of technology in the industry. The Company plans to continue to maintain close relationships with its key suppliers so that (i) the Company's research and development department can constantly liaise with suppliers to develop components that are fully compatible with the new products it develops, (ii) the Company can procure reliable supplies of raw materials, both in terms of quantity and quality, even when there is a general supply shortage in the market, and (iii) the Company can negotiate better pricing for its raw materials.

*Continue to provide high standard after-sales services and technical support*

The Company believes that in order to provide a high standard of customer services and technical support, it needs to establish a presence in, or near, its key markets. For this reason, the Company has established customer service offices to provide after-sales services and technical support in the United Kingdom, the United States, the Netherlands, Singapore, Hong Kong and Taiwan. These offices offer advice and assistance to customers by telephone, e-mail, fax and on-site visit. In addition, these offices provide a full range of repair services for the Company's products. The Company intends to continue to maintain close relationships with its customers and end-users all over the world.

## Products

The products sold by the Company can be categorized as follows:

- motherboards;
- VGA cards;
- system products, including servers, barebone systems, motherboards for servers and PC components sold on a "complete-knock-down" basis; and
- other products, including add-on cards for data backup and data security purposes.

The following table shows the breakdown of the Company's unconsolidated net sales by category of principal products in 2000, 2001 and 2002:

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2000 | | 2001 | | 2002 | |
| | NT$ million | % | NT$ million | % | NT$ million | % |
| **Product** | | | | | | |
| Motherboards | 5,037.8 | 64.8 | 6,042.4 | 77.5 | 2,700.2 | 42.0 |
| VGA cards | 154.3 | 2.0 | 717.6 | 9.2 | 1,292.2 | 20.1 |
| System products[(1)] | — | — | 694.0 | 8.9 | 1,205.0 | 18.8 |
| Others[(2)] | 2,583.3 | 33.2 | 340.0 | 4.4 | 1,229.3 | 19.1 |
| Net sales | 7,775.4 | 100.0 | 7,794.0 | 100.0 | 6,426.7 | 100.0 |

(1) Includes the sales of servers, barebone systems, motherboards for servers and PC components sold on a "complete-knock-down" basis.

(2) Includes the sale of security add-on cards, redundant array of independent disks (RAID) add-on cards and trading of excess components.

The following table shows the breakdown of the Company's unconsolidated net sales by category of principal products for the nine months ended September 30, 2002 and 2003:

| | Nine months Ended September 30, | | | |
|---|---|---|---|---|
| | 2002 | | 2003 | |
| | NT$ million | % | NT$ million | % |
| **Product** | | | | |
| Motherboards | 2,133.3 | 41.6 | 2,059.7 | 26.3 |
| VGA cards | 1,008.4 | 19.6 | 472.9 | 6.1 |
| System products(1) | 858.2 | 16.7 | 4,486.7 | 57.3 |
| Others(2) | 1,132.0 | 22.1 | 805.8 | 10.3 |
| Net sales | 5,131.9 | 100.0 | 7,825.1 | 100.0 |

(1) Includes the sales of servers, barebone systems, motherboards for servers and PC components sold on a "complete-knock-down" basis.

(2) Includes the sale of security add-on cards, RAID add-on cards and trading of excess components.

### *Motherboards*

Along with CPU and mass storage devices, such as hard disks and optical storage drives, a motherboard is one of the main pieces of hardware in a computer, and determines the performance and stability of a computer. A motherboard comprises a PCB on which various semiconductor components including discrete devices, ICs and chipsets are connected to each other by electronic circuitry. The design layout determines the quality of the motherboard.

Two of the key determining factors of the design of a motherboard are the dimensions or "form factor" of the PC in which it is to be incorporated and the type of CPU it is designed to support. The chipsets mounted on a motherboard are also selected by reference to the type of CPU which the motherboard is designed to support. Each chipset typically comprises two microprocessor chips depending on the desired functionality of the PC in which the motherboard is incorporated.

In 2002, the Company developed and delivered over 32 different motherboard models. The Company's motherboards are capable of incorporating most types of CPUs and chipsets and being installed in a variety of different PC chassis. Currently the Company's motherboard products are designed to support either Intel Pentium 4 CPUs or AMD Athlon XP CPUs. The Company also designs its motherboard products to incorporate chipsets produced by various chipset manufacturers, including Intel, VIA, SiS and nVIDIA. Historically, substantially all of the Company's motherboards supporting Intel CPUs installed chipsets manufactured by Intel, with the remaining installed chipsets manufactured by SiS. As a result of the settlement of patent disputes reached between Intel and VIA, the Company has started to design motherboards that support Intel CPUs with chipsets manufactured by VIA since the second quarter of 2003. These motherboards were introduced to the market in September 2003. The Company's motherboard products designed to support AMD CPUs install chipsets manufactured by nVIDIA and VIA.

The Company has been developing motherboard-related technologies for many years. Its research and development activities have led to the development of various innovative products including the following:

- *ABIT SoftManu™ Technology.* ABIT SoftManu™ technology is a "jumperless" overclocking function designed for the Company's motherboards. Traditionally, sophisticated PC end-users tend to adjust CPU settings by changing a jumper on the motherboards in order to speed up their computers beyond the manufacturers' specifications. With the Company's ABIT SoftManu™ technology, end-users may adjust CPU settings by entering the BIOS setup without opening the computer chassis to change jumper on the motherboards. The Company believes it is the first motherboard manufacturer in the world developing such function for motherboard products.

- *ABIT ATA RAID Technology.* RAID was developed initially for servers and stand-alone disk storage systems but now is increasingly becoming available in desktop PCs. RAID is a set of two or more hard disks and a specialized disk controller that contains the RAID functionality. ABIT ATA RAID technology is designed to increase performance and provides fault tolerance. Performance improvement is achieved by disk striping, which interleaves bytes or groups of bytes across multiple devices, so more than one disk is reading and writing simultaneously. Fault tolerance is achieved by mirroring or parity: mirroring is a 100% duplication of the data on two drives, and parity calculates the data in two drives and store the results on a third drive. A failed drive can be hot swapped with a new one, and the RAID controller automatically rebuilds the lost data.

- *ABIT uGuru Technology.* ABIT uGuru is based on a dedicated micro-controller chip which acts as a second microprocessor in PC systems to constantly monitor all system information, such as voltage, fan speed, current overclocking setting and temperature, without any CPU assistance. This technology provides end-users with a user-friendly Window-based interface to monitor system information and make adjustments to maximize system performance and reliability. This technology can share certain system monitoring function originally conducted by CPU, so that the CPU can be used for data computing alone. This technology can also provide better protection for PC systems by monitoring them to prevent abnormal conditions and by shutting them down when abnormal conditions occur or the CPU is hanging.

For the years ended December 31, 2000, 2001 and 2002, sales of motherboards accounted for 64.8%, 77.5% and 42.0%, respectively, of the Company's unconsolidated total net sales. For the nine months ended September 30, 2002 and 2003, sales of motherboards accounted for 41.6% and 26.3%, respectively, of the Company's unconsolidated total net sales.

***VGA cards***

The Company manufactures a wide range of VGA cards, which are display controller cards that provide enhanced graphics functions for computer monitors. Most of the Company's VGA cards incorporate chipsets manufactured by nVIDIA, the world's largest manufacturer of chipsets for graphics accelerator cards. The Company currently sells seven different models of VGA cards in three series, GeForce™ FX 5900, GeForce™ FX 5600 and GeForce™ FX 5200.

The newest Siluro FX5900 OTES VGA cards are designed based on nVIDIA's latest and the most advanced GeForce™ FX5900 graphics engine with the Company's own outside thermal exhaust system (OTES) cooling system. Equipped with the second-generation nVIDIA CineFX™ engine with the industry's only true 128-bit precision processing, the GeForce™ FX 5900 can produce cinematic quality special effects while providing the compatible and reliable gaming platform.

For the years ended December 31, 2000, 2001 and 2002, sales of VGA cards accounted for 2.0%, 9.2% and 20.1% of the Company's unconsolidated total net sales. For the nine months ended September 30, 2002 and 2003, sales of VGA cards accounted for 19.6% and 6.1% of the Company's unconsolidated total net sales.

***System Products***

**Servers and Motherboards for Servers.** A computer server comprises a motherboard, one or more hard disk drives, one or more switching power supply units, CPU, memory and, depending on its intended use, may also incorporate one or more floppy disk drives or an optical storage drive. Computer servers are principally used for operating network systems and storing a large amount of information which is shared by network users. One of the largest groups of users of computer servers are Internet service providers.

The computer server market has grown significantly during the past few years. The Company believes that this growth is largely attributable to the increase in demand for data applications as a result of the growth of the Internet and increased office automation and computer networking, and expects such growth to continue for the foreseeable future. The Company currently manufactures over three motherboard models specifically designed for SCSI- or SATA-interfaced storage critical servers and for security hardware as critical Internet security solution. The Company also intends to design and manufacture home servers when home entertainment PCs become more popular. The Company believes that manufacturing computer servers is a natural extension to the Company's existing production of server motherboards.

**Barebone systems.** In response to increasing market demand for system products, the Company began manufacturing what are commonly referred to as "barebone" systems. A barebone system is a PC chassis which contains a motherboard and a switching power supply, but typically does not contain a hard disk, optical storage drive, CPU, memory or floppy disk drive. The key advantages to PC manufacturers for purchasing barebone systems are that they can lower assembly costs and inventory and therefore reduce inventory financing costs, and reduce the number of component suppliers from whom they purchase. Manufacturing barebone systems enables the Company to offer a more complete and therefore higher margin product and enhances the Company's components purchasing power. In September 2003, the Company launched its brand name barebone system products "DigiDice", a compact-sized stylish barebone system embedded with high performance and expansion capability.

In terms of appearance, barebone system products are mainly distinguished from each other on the basis of the design of the front panel of their chassis. The Company supplies barebone systems which incorporate the panel designs selected by customers by geographic region on an exclusive basis.

**PC components sold on a "Complete-Knock-Down Basis"**. The Company also sells PC components on a "complete-knock-down", or CKD, basis, under which its customer may request the Company to deliver un-assembled PC components in one single purchase order, which typically includes a motherboard, a power supply, DRAMs and other components are requested.

For the years ended December 31, 2001 and 2002, sales of system products accounted for 8.9% and 18.8% of the Company's unconsolidated total net sales. For the nine months ended September 30, 2002 and 2003, sales of system products accounted for 16.7% and 57.3% of the Company's unconsolidated total net sales. The Company believes that there will be significant demand for these systems in the future as customers will increasingly require a more complete solution from one vendor.

**Production Process**

Both motherboards and VGA cards consist of PCBs with various semiconductor components attached to them, including ICs, chipsets, SRAMs and connectors. These components are connected to each other by electronic circuitry.

The two main technologies used to fix components onto the Company's motherboards and VGA cards are the surface mount technology ("SMT") and direct insert procedure ("DIP") technology, which are incorporated in separate production lines at the manufacturing facilities operated by the Company's contract manufacturer, Rolly Technology (Suzhou) Co., Ltd.

Raw materials are first processed on an SMT production line, where components are mechanically soldered onto a PCB. The DIP lines involve manual component insertion and application of flux and wave welding. After these processes, the motherboards undergo vibration testing, visual inspection, in-circuit testing and function testing. After passing all such tests, products are sent to the warehouses of Rolly Technology (Suzhou) Co., Ltd. located in Suzhou. Once an order for the products is received, the motherboards and VGA cards are packed and shipped to the Company's customers.

Quality control tests are conducted on raw materials used in the production process. In addition, quality control procedures and tests are conducted at each manufacturing and assembly stage. The Company also arranges for certain of its customers to conduct periodic on-site quality inspections. See "— Quality Control".

Although the Rolly Technology (Suzhou) Co., Ltd. has installed computerized equipment to increase the automation of its production process, the Company believes that manual assembly will continue to be one of the important elements in the production of certain of its products.

**Quality Control**

The quality control of the Company's products manufactured by Rolly Technology (Suzhou) Co., Ltd. is undertaken by Rolly Technology (Suzhou) Co., Ltd. The Company stations some of its employees at Rolly Technology (Suzhou) Co., Ltd.'s production facilities to supervise the production and quality control processes carried out at the facilities, in order to ensure that these processes comply with the Company's required standards. Quality control is undertaken at every stage of the manufacturing process, from purchasing of manufacturing supplies and components to packaging. The Company seeks to continually improve its quality testing by ensuring that it incorporates the latest technology in its testing processes. There are four principal stages in the Company's quality assurance process — engineering and design, incoming quality control, production quality control and outgoing quality control.

Rolly Technology (Suzhou) Co., Ltd.'s production facilities in Suzhou have been certified as meeting ISO-9002 quality standards in May 1999 and ISO-0991 quality standards in November 1999. The ISO certification process involves subjecting the production and research and development processes and the quality management systems at its production facilities to review and surveillance at fixed intervals. ISO certification is required by certain European countries in connection with sales of industrial products in such countries. Rolly Technology (Suzhou) Co., Ltd.'s production facilities have also been qualified by leading brand name PC customers, including NEC and Compaq, for the manufacture of their products on an OEM/ODM basis.

**Key Components and Materials**

The main components of motherboards are SRAMs, chipsets, ICs, connectors, PCBs and sockets, all of which the Company and its contract manufacturer, Rolly Technology (Suzhou) Co., Ltd., purchase from third-party suppliers. The Company purchases chipsets from Intel, VIA, nVIDIA and SiS. Rolly Technology (Suzhou) Co., Ltd. purchases PCBs, SRAMs and ICs from various suppliers in Taiwan, Japan, the United States and Hong Kong and connectors from various suppliers in Taiwan and the PRC. The Company's policy is to have multiple sources of supply for each key component used in its products except for particular chipsets of which there is only one supplier. The principal components of VGA cards are chipsets, connectors, PCBs, memory chips and ICs. The Company purchases most chipsets used in its VGA cards from nVIDIA. Rolly Technology (Suzhou) Co., Ltd. purchases connectors manufactured in Taiwan and the PRC, memory chips from suppliers in Taiwan and Japan and ICs from suppliers in Taiwan.

In addition to a motherboard, the principal components used in a barebone system are a chassis and power supply, which Rolly Technology (Suzhou) Co., Ltd. sources from suppliers in Taiwan and the PRC.

The Company selects component suppliers based on the selection of the individual components they offer and the attributes of the supplier, including production capacity, technological capabilities, reliability and quality. Before a new product is produced, the Company's production management division provides a complete production specification to the research and development department which then designs the product and selects the components to be incorporated in the product. The research and development department and the procurement department then together select component suppliers. Individual components are selected on the basis of various criteria including cost, design, performance and function. However, the Company may incur significant losses if the components installed on the Company's products are found to be defective. For example, since 2002, the capacitors installed on some of the Company's motherboard products sold into the US market were found to be subject to a great failure in function. The Company started to replace such defective products and has incurred a significant net loss as a result. See "Risk Factors — Risks Relating to the Company's Business — *The Company may be subject to a significant loss and decline in market share as a result of defects in its products.*"

The Company's research and development department provides assistance to certain component manufacturers in developing new components by providing input at the design and planning stage and by testing prototype components. The Company's procurement department also works closely with component suppliers to try to ensure that suppliers have sufficient inventories of components required by the Company and that components are delivered on time.

**Outsourcing of Manufacturing**

The Company outsources its entire production requirement to a contract manufacturer, Rolly Technology (Suzhou) Co., Ltd., which has production facilities located in Suzhou, PRC. The Company indirectly held 39.3% of Rolly Technology (Suzhou) Co., Ltd.'s outstanding shares through Rolly Technology Holdings Limited as of September 30, 2003. The Company typically procures certain key raw materials and components, including chipsets and DRAMs, used for the production of its products and provides Rolly Technology (Suzhou) Co., Ltd. with design and processing support. The Company has not entered into any long-term exclusive outsourcing contract with Rolly Technology (Suzhou) Co., Ltd. See

"Risk Factors — Risks Relating to the Company's Businesses — *The Company depends on contract manufacturer for the manufacture of all its products. If such contract manufacturer is unable to fill the Company's orders on a timely and reliable basis, its revenue and profitability may decline*."

Rolly Technology (Suzhou) Co., Ltd. owns the land use right for the land on which the production facilities are located for a period of 50 years. As of September 30, 2003, the production facilities operated by Rolly Technology (Suzhou) Co., Ltd. employ approximately 1,270 employees with total floor area of the plant of approximately 59,710 square. It currently has 11 SMT lines and 8 DIP lines, with an estimated full capacity of approximately 200,000 to 250,000 motherboards per month. All the production capacity of this facilities is currently engaged in the production of motherboards and other products for the Company. The Company stations some of its employees at Rolly Technology (Suzhou) Co., Ltd.'s production facility to supervise the production and quality control processes carried out at the facilities, in order to ensure that these processes comply with the Company's required standards.

The Company believes that the existing production facilities operated by Rolly Technology (Suzhou) Co., Ltd. are adequate to meet current production requirements, and that suitable additional or substitute space will be available as needed to accommodate any further expansion for production, corporate operations and other purposes. The Company has not experienced any significant interruptions in production at the production facilities operated by Rolly Technology (Suzhou) Co., Ltd. due to equipment failure or breakdown, raw material shortages, power interruptions, fire, labor disputes or other causes.

**Intellectual Property**

The Company entered into a license agreement with IBM in 1998 for the licensing of certain patents held by IBM relating to the manufacturing of its motherboard products. The Company is required to make fixed licensing fees in five installments for using such patents under this license agreement. This agreement expired in December 2002 and the Company is currently in the process of renewing such agreement with IBM. The Company expects to finalize the renewal of this licensing agreement with similar terms by the end of 2003.

A number of elements of the Company's products and technological processes are proprietary in nature and are owned by the Company. As of September 30, 2003, the Company held a total of 19 patents registered in Taiwan, the PRC, the United States, the United Kingdom and Germany for products and technologies developed through its own efforts as well as joint research and development efforts with other companies. Most of the Company's current patents will expire between 2006 and 2016. In addition, as of September 30, 2003, the Company also had over 12 patents either pending or under review in various jurisdictions, including Taiwan, the PRC, the United States, Japan and the Germany. The Company generally intends to continue to seek patent protection on any new inventions in design or process technology.

The Company has registered 11 trademarks and service marks in the ROC and 6 trademarks in the PRC, Austria and European Union.

**Competition**

The motherboard industry in Taiwan is extremely competitive. The number of major motherboard manufacturers in Taiwan has steadily declined since the mid-1980s, when there were several hundred manufacturers, to around 10 to 15 today. The main motherboard manufacturers in Taiwan include ASUSTeK, Elitegroup, Foxconn Company and Gigabyte. Compared to those motherboard manufacturers which design and manufacture their motherboard products for brand name PC manufacturers on an OEM basis, the Company focuses more on the design and manufacture of high-performance high-margin motherboard products targeting sophisticated end-users in the clone market.

The motherboard and VGA card market is driven by technological developments in software and hardware which have dramatically improved the performance and functionality of computers and computer-related products. The main elements of competition are price, innovativeness, product performance, product quality, marketing, distribution capability and reputation. The Company believes that one of the key reasons for its ability to successfully compete is its emphasis on research and development, which has enabled it to introduce new products in a timely fashion and develop technological improvements capable of being patented. See "— Products" for details of technology and products developed by the Company. The

Company's ability to continue to successfully compete may depend upon its ability to continue adapt to technological advances and failure to do so could have a material adverse impact on the Company's profitability.

**Sales and Marketing**

The Company sells its products to three major categories of customers: distributors, systems integrators and OEM/ODM customers.

Distributors and systems integrators are historically the Company's biggest customers. For the year ended December 31, 2002, on an unconsolidated basis, 81.2% of its total net sales were attributable to distributors and systems integrators, with the remaining 18.8% being attributable to OEM/ODM customers. For the nine months ended September 30, 2003, 100% of the Company's total net sales were attributable to distributors and system integrators.

***Distributors***

Distributors are wholesalers who sell computer parts and peripherals to value-added resellers and other retailers.

The Company sells its products to distributors worldwide, including in the United States, the United Kingdom, Central and South America, Europe and the PRC. Some distributors act as exclusive distributors for the Company's products; others carry a variety of other computer-related products. Some of the Company's distributors may give the Company a rolling forecast of one month in advance. The Company believes it maintains close relationships with its distributors, and distributors place firm orders with the Company on a periodic basis.

The Company sells its products to distributors through its subsidiaries and affiliated companies in the United States, Europe and Asia.

Net sales to distributors are made in US dollars (or in local currencies based on US dollar prices). Such sales are made on the basis of cash in advance to a credit term of as long as 30 days, depending on the customers' credit standings and track records assessed by the Company.

***Systems integrators***

Systems integrators are principally PC vendors who are regional brand name leaders and are typically country-level PC assemblers. Systems integrators purchase parts from various sources, and assemble them into a complete PC, typically for sale under their own brand names.

The Company typically does not enter into contracts with its systems integrator customers. These customers typically provide the Company with a rolling forecast of one month in advance. Such customers generally place firm orders with the Company on a monthly basis.

Net sales to systems integrators are made in US dollars (or in local currencies based on US dollar prices), with average credit terms of 30 days.

***OEM/ODM customers***

The Company's OEM/ODM customers include Compaq, one of the world's top-tier brand name PC vendors. The Company entered into a one-year purchase contract with Compaq, which will be automatically renewed for another one year unless one of the parties thereto objects. Compaq will give the Company a rolling forecast of three months in advance, and firm orders are placed with the Company two weeks in advance. The Company generally only initiates production for OEM/ODM customers based on firm orders from them.

The following table sets forth the breakdown of the Company's unconsolidated net sales and percentages of net sales to different regions:

| | Year Ended December 31, | | | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2000 | | 2001 | | 2002 | | 2002 | | 2003 | |
| | (NT$ millions, except percentages) | | | | | | | | | |
| | | % | | % | | % | | % | | % |
| Asia (excluding Taiwan) | 3,510.4 | 45.2 | 2,701.4 | 34.7 | 3,187.0 | 49.6 | 2,547.4 | 49.6 | 5,041.6 | 64.4 |
| Europe | 2,522.1 | 32.4 | 3,004.6 | 38.6 | 2,061.5 | 32.1 | 1,559.4 | 30.4 | 1,406.3 | 18.0 |
| North and South America | 1,354.3 | 17.4 | 1,515.2 | 19.4 | 870.2 | 13.5 | 658.0 | 12.8 | 569.0 | 7.3 |
| Taiwan | 388.6 | 5.0 | 571.3 | 7.3 | 299.0 | 4.7 | 248.9 | 4.9 | 758.2 | 9.7 |
| Others | — | — | 1.5 | 0.0 | 9.0 | 0.1 | 118.2 | 2.3 | 50.0 | 0.6 |
| Total | 7,775.4 | 100% | 7,794.0 | 100% | 6,426.7 | 100% | 5,131.9 | 100% | 7,825.1 | 100% |

## Environmental Matters

The manufacturing processes of motherboards and other products generate solid and liquid waste as well as discharge of waste water and gaseous emissions. Liquid waste generated from the manufacturing processes mainly includes the water used for cooling purpose in SMT and DIP processes. The Company's contract manufacturer, Rolly Technology (Suzhou) Co., Ltd., is subject to environmental regulations in the PRC relating to the use, storage, discharge and disposal of solid and liquid waste.

The Company believes that Rolly Technology (Suzhou) Co., Ltd. has adopted comprehensive environmental compliance and abatement programs for all of its industrial processes. Under the Company's guidelines, solid waste is either recycled, as in the case of glass scrap produced by molding and grinding processes, or is removed under contract by waste management service providers that have been certified by the applicable environment authorities in the handling of the relevant materials. Waste water from industrial processes is treated and gaseous emissions are filtered before being discharged.

The Company believes that Rolly Technology (Suzhou) Co., Ltd. is in substantial compliance with all material environmental regulations. In addition, neither the Company nor Rolly Technology (Suzhou) Co., Ltd. has ever been subject to any material fines or legal action involving non-compliance with any relevant environmental regulations. The Company is not aware of any threatened or pending action against it by any environmental regulatory authority in Taiwan or the PRC.

## Legal Proceedings

Since June 30, 1997, the Company, through its wholly-owned subsidiary, ABIT Computers (USA) Corporation ("ABIT USA"), has sold its motherboard products to Greenleaf Distribution Inc. ("Greenleaf"), a distributor of PC hardware and related equipment. In June 1997, ABIT USA entered into a security agreement ("Security Agreement") under which Greenleaf granted ABIT USA a security interest in certain collateral, including all ABIT USA's products in the possession or in transit between ABIT USA and Greenleaf's customers, vendors, creditors and assignees. In December 1997, Greenleaf's president signed a financing statement ("Financing Statement") whereby Greenleaf granted to ABIT USA a security interest in the above mentioned collaterals. ABIT USA filed the Financing Statement and the Security Agreement with the California Secretary of State in December 1997.

In January 2002, Greenleaf stopped payment on checks to ABIT USA for goods delivered. Greenleaf failed to honor those checks in February 2002 and refused to return the goods, thus placing Greenleaf in default under the Security Agreement. In the same month, one of Greenleaf's creditors, GE Capital, filed a complaint with the Superior Courts of the State of California ("Court") for appointment of a receiver, recovery of personal property, loss of use of personal property and enforcement of credit agreement. The Court granted GE Capital's motion and appointed a receiver. At the end of February 2002, ABIT USA sent a statement of claim to the receiver for Greenleaf indicating that ABIT USA is a secured creditor, and in March 2002, ABIT sent a letter to the receiver for Greenleaf requesting the receiver's acknowledgment of ABIT USA's status as a secured creditor of Greenleaf's assets. The receiver declined ABIT USA's request and therefore ABIT USA filed a complaint with the Court to intervene into the proceedings claiming an interest in the assets collected by the receiver.

According to the report of the receiver in March 2002, the assets collected by the receiver in the proceedings amounted to US$5.7 million. As of February 2002, the total unpaid amount of the purchase price owed to ABIT USA reached US$3.7 million. Based on its legal counsel's evaluation, ABIT USA should be entitled to a first priority within the amount of US$2.0 million of the interest in the assets collected based on its rights under the Security Agreement. This case is currently pending in the Court. At the same time, GE Capital, as the largest creditor of Greenleaf with a definite credit of US$10.5 million, initiated another legal action against ABIT USA denying ABIT USA's privileges by claiming the terms of the Security Agreement are in defect and the case is currently pending in the Superior Court of State of California.

Other than the litigation mentioned above, neither the Company nor any subsidiary of the Company is involved in any litigation or other proceedings the outcome of which the Company believes might, individually or taken as a whole, materially affect the financial results or operations of the Company or any subsidiary of the Company.

### Insurance

The Company maintains insurance policies with independent third parties in respect of buildings, goods in transit, equipment and certain inventories covering loss due to fire, explosion, typhoon, flood and certain other risks. While the Company believes its insurance policies are adequate and 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 have a material adverse effect on the Company. Insurance coverage on property, plant, equipment and certain inventories amounted to approximately NT$1,249.1 million, NT$1,573.5 million, NT$1,620.7 million (US$48.0 million) as of December 31, 2000, 2001 and 2002, respectively. The Company does not carry business interruption insurance or key-personnel insurance or any policy of a similar nature.

### Principal Subsidiaries

The following table sets forth certain information as of September 30, 2003 regarding our principal subsidiaries. All amounts due from the Company for ownership of the capital stock held by the Company in all of these subsidiaries have been paid in full.

| Name and Registered Address | Main Business | Place of Incorporation | Date of Incorporation | Book Value of the Company's Investment (NT$ million) | The Company's direct or indirect Equity Interest (%) |
|---|---|---|---|---|---|
| ABIT Computer (USA) Corp. 46808 Lakeview Blvd., Fremont, CA 94538, USA . . . . . . . . . . . . . . . . | Trading | United States | 12/24/1996 | — | 100% |
| ABIT Computer Corporation Limited 7–10 Chandos St., Cavendish Square, London W1G 9DQ, UK . . . . . . . . | Trading | United Kingdom | 09/16/1997 | 57.7 | 100% |
| ABIT Computer (HK) Company Limited 16F, Standard & Chartered Bank Building, 4–4A Des Voeux Rd., Central, HK . . . . . . . . . . . . . . . . | Trading | Hong Kong | 10/03/1997 | 100.5 | 100% |
| Amor (Computer) B.V. Van Coehoornstraat 7, 5916PH Venlo, Holland . . . . . . . . | Trading | Holland | 06/27/1996 | — | 100% |
| ABIT Computer (Singapore) Private Limited 12 Kaki Bukit Crescent, #01-00 Kaki Bukit Techpark I, Singapore 416243 | Trading and services | Singapore | 09/05/2001 | 29.7 | 100% |

| Name and Registered Address | Main Business | Place of Incorporation | Date of Incorporation | Book Value of the Company's Investment (NT$ million) | The Company's direct or indirect Equity Interest (%) |
|---|---|---|---|---|---|
| Treasure World Holdings Inc. Shellbourne Trust Company (BVI) Limited Beaufort House, P.O. Box 438, Road Town, Tortola, British Virgin Islands | Investment | British Virgin Islands | 03/04/1998 | 6,414.2 | 100% |
| ABIT Investment Holdings Limited 4th Floor, Harbour Centre, P.O. Box 613, George Town, Grand Cayman, Cayman Islands, British West Indies . . . . . . . . . . . . . . . . | Investment | Cayman Islands | 10/16/2000 | 441.6 | 100% |
| ABIT Net Technology Inc. 1F, No. 12, Lane 150, Hsing Yun St., Neihu, Taipei, Taiwan . . . . . . . . . . . . . . . . . . . | Internet services | ROC | 11/21/2000 | 7.3 | 79.8% |
| Welltop Business Development Inc. P.O. Box 439GT, Grand Cayman, Cayman Islands. . . . . . . . . . . . . . | Investment & services | Cayman Islands | 02/06/2001 | 3.5 | 100% |

# Management

## Directors and Supervisors

The ROC Company Law and the Articles of Incorporation of the Company provide that the Company's Directors are to be elected by the shareholders for three-year terms in a shareholders' meeting at which a quorum, consisting of a majority of all issued and outstanding common shares, is present. The Chairman is a Director elected from and among the Directors.

The term of office of the Directors and the Supervisors is three years. They may serve any number of consecutive terms and may be removed from office at any time by a resolution adopted at a meeting of shareholders. Normally, all members of the Board of Directors are elected at the same time, except where the posts of one-third or more of the Directors are vacant, at which time a special meeting of shareholders shall be convened to elect Directors to fill the vacancies. The Board of Directors has ultimate responsibility for the management of the business and affairs of the Company.

Under ROC Company Law, the Supervisors are responsible for overseeing the activities of the Board of Directors and have the power to investigate the business and financial condition of the Company, examine its books, records and documents and request the Board of Directors to submit reports. The Supervisors may engage independent experts to carry out any investigations or examinations at the cost of the Company. Any of the Company's Supervisors can also convene a meeting of shareholders when the Board of Directors do not or cannot convene a meeting of shareholders and/or when such a meeting is necessary for the benefit of the Company. In accordance with the laws of the ROC relating to corporations, each supervisor is elected by shareholders and cannot concurrently serve as a director, managerial officer or other staff member. For a public company, such as the Company, the ROC Company Law requires at least two supervisors be appointed at all times and that a supervisor's term of office be up to three years.

At present, there are five Directors and three Supervisors who are elected by the shareholders of the Company at the Company's general shareholders' meeting. The Chairman is the legal representative of the Company under the Company Law of the ROC.

The following table sets forth information regarding the present Board of Directors and the Supervisors as elected by the shareholders of the Company on June 27, 2003 for three-year terms expiring on June 26, 2006:

| Name | Position within the Company |
|---|---|
| Yi-Tsun Lu | Chairman |
| Edwin Lin | Director & President |
| Shao-Li Hsu | Director & Vice President of Sales Division |
| Cheng-En Ke | Director |
| Chi-Bin Meng | Director |
| Chun-Hsiu Li | Supervisor |
| Yi-Min Chang | Supervisor |
| Su Yun Liao[1] | Supervisor |

(1) Representative of Liching Investment Company Limited.

As of June 27, 2003, the Directors and the Supervisors had a registered holding of 9.5% of the Company's issued shares. No remuneration was paid to the Directors and the Supervisors of the Company in their capacities as such, in accordance with the resolution in the shareholders' meeting, for the year ended December 31, 2002 and 2003.

None of the Directors or Supervisors has any options to subscribe for the Company's Shares.

## Executive Officers

The following table sets forth information regarding the Company's executive officers and key employees as of August 31, 2003:

| Executive Officers | Position | Current Position Since |
|---|---|---|
| Feng-Hwa Hsu . . . . . . . . . . . | Manager of Auditor Office | 01/01/2001 |
| Chien-Yuen Yang . . . . . . . . . | Vice President of Legal Office | 01/01/2002 |
| Der-Han Tseng . . . . . . . . . . . | Vice President of Financial Department | 05/15/2003 |
| Cheng-Yi Yin . . . . . . . . . . . . | Manager of Human Resources and Administration Department | 02/01/2002 |
| Hong-Chen Yuan. . . . . . . . . . | Manager of Procurement Department | 09/01/2002 |
| Yong-Tian Li . . . . . . . . . . . . | Vice President of Research and Development Division | 01/01/2001 |

## Biographies of Directors, Supervisors and Executive Officers

*Mr. Yi-Tsun Lu* has served as the Company's Chairman since June 2003. He is also the Director of ABIT Computer (USA) Corp, ABIT Net Technology Inc., Akom Technology Corporation, Welltop Business Development Inc., Timerwell Technology Holdings Ltd., Rolly Technology Holdings Ltd., Welltop Management Consulting Co., Ltd., Effective Score Ltd., Timerwell Computer Ltd., Asguard Computer Ges. m.b.H., Timerwell Technology (Taiwan) Co., Ltd., Caliber Computer Corporation, Rolly Technology (Suzhou) Co., Ltd. and Anco (Shanghai) Trading Co., Ltd. Mr. Lu holds a master's degree in finance from National Taiwan University and a degree in computer science from Feng Chia University.

*Mr. Edwin Lin* has served as the Company's Director since June 2003 and as the Company's President since August 2001. He is also the Director of ABIT Computer (Singapore) Private Limited, ABIT Investment Holdings Limited, Treasure Worlding Holdings Inc., ABIT Computer (UK) Corp. and ABIT Computer (HK) Co., Ltd. Before joining the Company, he served as the section chief of COPAM Electronics Co., Ltd. Mr. Lin holds a degree in engineering from National Cheng Kung University.

*Mr. Shao-Li Hsu* has served as the Company's Director since June 2003 and as the Company's Vice President of Sales Department since June 1, 2002. He is also the Director of Timerwell Technology Holdings Ltd., Effective Score Ltd., Timerwell Technology (China) Ltd., Timerwell Computer Ltd., Asguard Computer Ges. m.b.H., Timerwell Technology (Taiwan) Co., Ltd. and Caliber Computer Corporation. Before joining the Company, he served as the President of Timerwell Technology (Taiwan) Co., Ltd. Mr. Hsu holds a master's degree in business administration from Baruch College, the City University of New York, USA.

*Mr. Cheng-En Ke* has served as the Company's Director since June 2003. He is also the Supervisor of Taiwan Stock Exchange Corporation and The Farmers Bank of China and the Director of Chinese Petroleum Corp. and GreTai Securities Market. Before joining the Company, he served as the Dean of College of Management of National University of Taiwan.

*Mr. Chi-Bin Meng* has served as the Company's Director since June 2003. He is also the Director of Timerwell Technology Holdings Ltd., Rolly Technology Holdings Ltd., Effective Score Ltd., Timerwell Technology (China) Ltd., Timerwell Computer Ltd., Caliber Computer Corporation, Rolly Technology (Suzhou) Co., Ltd., and Anco (Shanghai) Trading Co., Ltd. Before joining the Company, he served as the Vice President of Deltamax Corporation USA. Mr. Meng holds a degree in business mathematics from Soochow University.

*Mr. Chun-Hsiu Li* has served as the Company's Supervisor since June 2003. He is also the Director of Taiwan Futures Exchange and Securities & Futures Institute and the Independent Director of Tsann Kuen Enterprise Co., Ltd., Merry Electronics Co., Ltd. and System General Corporation. Before joining the Company, he served as the Dean of the Department and Graduate Institute of Finance of National University of Taiwan.

*Mr. Yi-Min Chang* has served as the Company's Supervisor since June 2003. He is also the Supervisor of Chenming Mold Ind. Corp., Timerwell Technology (Taiwan) Co., Ltd., and Yi-Rui Co., Ltd. and the Director of Fu-Lian Ind. Co., Ltd. Before joining the Company, he served as the Partner of Cheng Yan Accounting Firm. Mr. Chang holds a degree in accounting from Tamkang University.

*Ms. Su Yun* Liao has served as the Company's Supervisor since June 27, 2003. She is also the Supervisor of Federal Corporation. Before joining the Company, she served as Supervisor of First Steamship Co., Ltd. Ms. Liao graduated from Chia-yi Vocational School.

*Ms. Feng-Hwa Hsu* has served as the Company's Manager of Auditor Office since January 1, 2001. Before joining the Company, she served as the manager of Arima Computer Corporation. Ms. Hsu graduated from Chihlee Institute of Technology.

*Mr. Chien-Yuen Yang* has served as the Company's Vice President of Legal Office since January 1, 2002. Mr. Yang holds a master's degree in law from Georgetown University, USA.

*Mr. Der-Han Tseng* has served as the Company's Vice President of Financial Department since May 15, 2003. Before joining the Company, he served as the Vice President in Debt Capital Market of Hongkong & Shanghai Banking Corporation Ltd. Mr. Tseng holds a master's degree in international business from National Taiwan University.

*Ms. Cheng-Yi Yin* has served as the Company's Manager of Human Resources and Administration Department since February 1, 2002. Before joining the Company, she served as Director in DFS Group Limited. Ms. Yin holds a master's degree in business administration from Brigham Young University.

*Mr. Hong-Chen Yuan* has served as the Company's Manager of Procurement Department since September 1, 2002. Mr. Yuan graduated from National Chin-Yi Institute of Technology.

*Mr. Yong-Tian Li* has served as the Company's Vice President of Research and Development Division since June 1, 2002. Before joining the Company, he served as the Vice President of Hon-Chi Technology Co., Ltd. Mr. Li holds a degree in electronic engineering from National Taiwan University.

The business address of each of the Company's Directors, Supervisors and Executive Officers is the Company's registered office.

## MARKET PRICE OF THE SHARES

The Shares of the Company have been listed on the TSE since June 2000.

The following table sets out the high and low closing prices of the Company's Shares on the TSE, adjusted for the effects of rights issues and stock dividends, and the high and low closing values of the TSE Index, for the periods indicated:

| | | Price per Share of the Company | | TSE Index | |
|---|---|---|---|---|---|
| | | High (NT$) | Low (NT$) | High | Low |
| 2000 . . . . . . | Second Quarter (since June 22) | 90.5 | 80.5 | 10,186.17 | 8,120.89 |
| | Third Quarter | 57.5 | 28.9 | 8,585.52 | 6,185.14 |
| | Fourth Quarter | 29.7 | 12.6 | 6,353.67 | 4,614.63 |
| 2001 . . . . . . | First Quarter | 40.4 | 13.6 | 6,104.24 | 4,894.79 |
| | Second Quarter | 36.9 | 24.9 | 5,608.50 | 4,768.55 |
| | Third Quarter | 35.4 | 24.1 | 4,886.86 | 3,493.78 |
| | Fourth Quarter | 37.4 | 24.4 | 5,551.24 | 3,446.26 |
| 2002 . . . . . . | First Quarter | 36.1 | 28.2 | 6,242.64 | 5,488.33 |
| | Second Quarter | 30.6 | 17.5 | 6,462.30 | 5,071.76 |
| | Third Quarter | 19.2 | 9.2 | 5,416.50 | 4,185.95 |
| | Fourth Quarter | 10.1 | 6.9 | 4,823.67 | 3,850.04 |
| 2003 . . . . . . | First Quarter | 9.2 | 7.0 | 5,141.57 | 4,240.60 |
| | Second Quarter | 13.6 | 6.7 | 5,088.54 | 4,044.73 |
| | Third Quarter | 17.9 | 13.6 | 5,757.57 | 5,019.78 |
| | Fourth Quarter (through November 20) | 17.5 | 15.0 | 6,142.32 | 5,581.66 |

On November 20, 2003, the reported closing price of the Company's Shares was NT$15.00 per Share and the TSE Index closed at 5,834.24.

There is no public market outside Taiwan for the Company's Shares. The TSE has experienced fluctuations in the prices of listed securities and there are currently limits on the range of daily price movements.

## DIVIDENDS

All dividend payments are subject to a legally required minimum reserve. Dividends may be distributed either in cash, common stock or a combination of cash and common stock. The ratio between any cash dividend and stock dividend is proposed by the Board of Directors and determined by the shareholders at a shareholders' meeting. Under the Articles of Incorporation of the Company, the dividends to be distributed in the form of cash shall be limited between 5% and 20%. Dividends are paid annually to shareholders usually within four months, in respect of both cash dividends and stock dividends, of shareholder approval being received. The dividends paid by the Company in respect of each of 2000, 2001 and 2002 are set out in the following table:

| Year | Aggregate Number of Shares Issued[1] | Cash Dividends Per Share | Stock Dividends Per Share[2] |
|---|---|---|---|
| | | (NT$) | (NT$) |
| 2000 | 48,100,000 | 0.2 | 2.0 |
| 2001 | 69,053,474 | 0.2 | 1.5 |
| 2002 | — | — | — |

(1) Aggregate number of Shares outstanding on the record date applicable to the dividend payment.

(2) The Company expresses stock dividends as an NT dollar amount per Share. A holder of Shares receives as a stock dividend the number of Shares equal to the NT dollar amount per share of dividends declared multiplied by the number of Shares owned by the holder and divided by the par value of NT$10 per share. Fractional Shares are not issued but are paid in cash.

The dividend in respect of each previous financial year is usually declared in May or June each year, to be paid in July or August of such year. The dividend is recommended at the meeting of the Board of Directors scheduled to be held in either February or March of each year.

## Principal Shareholders

The holders of 2% or more of the Company's Shares as of August 31, 2003, as such holders appear on the register of shares of the Company, are as follows:

| Name | Number of Shares Held | Percentage of Share Capital |
|---|---|---|
| Yi-Tsun Lu | 44,852,869 | 7.87% |
| Taiwan Special Opportunity Funds | 22,880,902 | 4.01 |
| Shi-Shon Wong | 18,628,925 | 3.27 |

## Related Party Transactions

The Company from time to time has engaged in a variety of transactions with the related parties. The Company conducts transactions with its related parties on terms comparable to those for transactions with unrelated parties conducted on an arm's-length basis. For additional information relating to such transactions, see note 5 of notes to the audited consolidated financial statements as of and for the years ended December 31, 2000, 2001 and 2002 and the unaudited unconsolidated financial statements as of and for the nine months ended September 30, 2002 and 2003.

**ABIT Computer (U.K.) Corp. Ltd. ("ABIT UK")**

The Company held 100% of the outstanding shares of ABIT UK as of September 30, 2003. ABIT UK has served as the Company's sales agent for customers in the United Kingdom since its incorporation in September 1997. The Company sold its motherboard and other products to ABIT UK for resale totaling NT$207.3 million, NT$310.0 million, NT$174.2 million (US$5.2 million) and NT$95.7 million (US$2.8 million) respectively, in 2000, 2001, 2002 and the nine months ended September 30, 2003.

ABIT Computer (USA) Corp. and Amor Computer B.V. purchased motherboards and VGA cards from ABIT UK in the amount totalling NT$23.1 million in 2001.

The Company paid repairs and maintenance expenses of NT$0.7 million to ABIT UK in 2000 for maintenance and related services.

The Company paid commission expenses of NT$1.3 million to ABIT UK in 2000 for its services as the Company's sales agent in the United Kingdom.

**ABIT Computer (H.K.) Corp. Ltd. ("ABIT HK")**

The Company held 100% of the outstanding shares of ABIT HK as of September 30, 2003. ABIT HK has served as the Company's sales agent for customers in Hong Kong and PRC since its incorporation in October 1997. The Company sold its motherboard and other products to ABIT HK for resale totaling NT$203.5 million, NT$323.7 million, NT$517.8 million (US$15.3 million) and NT$82.7 million (US$2.4 million) respectively, in 2000, 2001, 2002 and the nine months ended September 30, 2003.

The Company paid repairs and maintenance expenses of NT$10.0 million (US$0.3 million) to ABIT HK in 2002 for maintenance and related services.

**Rolly Technology Holdings Limited**

The Company held 39.3% of the outstanding shares of Rolly Technology Holdings Limited through its wholly-owned subsidiary, ABIT Investment Holdings Limited, as of September 30, 2003. Rolly Technology Holdings Limited in turn held 100.0% of the outstanding shares in Rolly Technology (Suzhou) Co., Ltd. The Company started to outsource its production requirements to Rolly Technology (Suzhou) Co., Ltd. since 2001. Certain key raw materials and components for the production of the Company's products were purchased by the Company and sold to Rolly Technology (Suzhou) Co., Ltd. for its production through Rolly Technology Holdings Limited. Such transactions amounted to NT$1,042.5 million, NT$179.6 million and NT$193.5 million (US$5.7 million) respectively, in 2000, 2001 and 2002. The Company purchased the finished products from Rolly Technology (Suzhou) Co., Ltd. through Rolly Technology Holdings Limited in the amount of NT$1,153.0 million, NT$1,925.9 million (US$57.0 million) and NT$1,859.5 million (US$55.0 million) in 2001, 2002 and the nine months ended September 30, 2003, respectively.

The Company provided guarantee to Rolly Technology Holdings Limited for its borrowings in Hong Kong from International Bank of Taipei, Hong Kong Branch, with the outstanding amount of NT$70.2 million (US$2.1 million) as of September 30, 2003.

The Company sold machinery equipment to Rolly Technology (Suzhou) Co., Ltd. through Rolly Technology Holdings Limited in the amount of NT$152.1 million (US$4.5 million) and NT$6.2 million (US$0.2 million) in 2002 and the nine months ended September 30, 2003.

**ABIT Computer (Singapore) Private Limited ("ABIT Singapore")**

ABIT Singapore was the Company's wholly-owned subsidiary as of September 30, 2003. ABIT Singapore has served as the Company's sales agent for customers in Singapore since its incorporation in September 2001. The Company sold its motherboard and other products to ABIT Singapore for resale totaling NT$28.7 million (US$0.8 million) in 2002.

The Company purchased from ABIT Singapore motherboards in the amount of NT$12.5 million (US$0.4 million) in the nine months ended September 30, 2003.

The Company earned commission revenue from business referrals in the amount of NT$7.8 million (US$0.2 million) and NT$2.2 million (US$0.1 million), respectively, from ABIT Singapore in 2002 and the nine months ended September 30, 2003.

**ABIT Computer (USA) Corp. ("ABIT USA")**

ABIT USA was the Company's wholly-owned subsidiary as of September 30, 2003. ABIT USA has served as the Company's sales agent for customers in the United States since its incorporation in December 1996. ABIT USA was the Company's consolidated subsidiary in 2000, 2001 and 2002 and therefore the sales between these two companies were eliminated and did not appear as related party transactions in the consolidated financial statements for the years ended December 31, 2000, 2001 and 2002. The Company sold its motherboard and other products to ABIT USA for resale totaling NT$566.8 million (US$16.8 million) in the nine months ended September 30, 2003.

**AMOR Computer B.V. ("AMOR")**

AMOR was the Company's wholly-owned subsidiary as of September 30, 2003. AMOR has served as the Company's sales agent for customers in Europe since its incorporation in June 1996. AMOR was the Company's consolidated subsidiary in 2000, 2001 and 2002 and therefore the sales between these two companies were eliminated and did not appear as related party transactions in the consolidated financial statements for the years ended December 31, 2000, 2001 and 2002. The Company sold its motherboard and other products to AMOR for resale totaling NT$721.2 million (US$21.3 million) in the nine months ended September 30, 2003.

**Asguard Company Ges. m.b.H. ("Asguard")**

The Company indirectly held 98.4% of the outstanding shares of Asguard as of September 30, 2003. The Company sold it's motherboard and add-on cards to Asguard for distribution in Austria totaling NT$93.5 million (US$2.8 million) in the nine months ended September 30, 2003.

**Timerwell Technology (Taiwan) Co., Ltd. ("Timerwell Taiwan")**

The Company indirectly held 23.42% of the outstanding shares of Timerwell Taiwan as of September 30, 2003. The Company paid consulting fees of NT$19.6 million (US$0.6 million) to Timerwell Taiwan in 2002 for its consulting services to the Company for the establishment of enterprise resource planning program. The Company purchased assets from Timerwell Taiwan in the amount of NT$10.9 million (US$0.3 million) in 2002.

The Company sold 1,076,000 shares of Timerwell Taiwan at NT$15 per share to Vincent Meng in the amount of NT$16.1 million (US$0.5 million) in 2002.

**Akom Technology Corp.**

The Company held 33.9% of the outstanding shares of Akom Technology Corp. as of September 30, 2003. The Company purchased from Akom Technology ICs for the Company's motherboards in the amount of NT$51.8 million and NT$37.4 million (US$1.1 million), respectively, in 2001 and 2002.

**Welltop Business Development Inc.**

Welltop Business Development Inc. is the Company's wholly-owned subsidiary as of September 30, 2003 for the holding of Welltop Management Consulting Company Limited ("Welltop Consulting"). Welltop Consulting was incorporated in June 2001 to provide general management consulting services to the Company together with its subsidiaries and affiliated companies worldwide. The Company paid consulting fees of NT$20.7 million, NT$18.8 million (US$0.6 million) and NT$6.0 million (US$0.2 million), respectively, to Welltop Consulting through Welltop Business Development Inc. in 2001, 2002 and the nine months ended September 30, 2003.

**Timerwell Technology Holdings Limited**

The Company held 98.35% of the outstanding shares of Timerwell Technology Holdings Limited as of September 30, 2003. The Company provided guarantee to Timerwell Technology Holdings Limited with the outstanding amount of NT$192.5 million (US$5.7 million) in the nine months ended September 30, 2003.

## CHANGES IN SHARE CAPITAL

The following table shows the changes in the issued share capital of the Company since September 1989:

| Record Date | Number of Shares Issued | Type of Issue | Number of Shares Outstanding After Issue |
|---|---|---|---|
| September 1989 . . . . . . . | 500,000 | Share capital established | 500,000 |
| May 1991. . . . . . . . . . . . | 1,500,000 | Issuance of shares for cash | 2,000,000 |
| December 1991. . . . . . . . | 900,000 | Issuance of shares for cash | 2,900,000 |
| October 1992 . . . . . . . . . | 3,100,000 | Issuance of shares for cash | 6,000,000 |
| January 1993 . . . . . . . . . | 4,000,000 | Issuance of shares for cash | 10,000,000 |
| July 1996. . . . . . . . . . . . | 2,000,000 | Issuance of shares for cash | 12,000,000 |
| December 1996. . . . . . . . | 7,000,000 | Issuance of shares for cash | 19,000,000 |
| May 1997. . . . . . . . . . . . | 21,280,000 | Issuance of shares for cash and capitalization of retained earnings | 40,280,000 |
| June 1998. . . . . . . . . . . . | 31,720,000 | Issuance of shares for cash and capitalization of retained earnings | 72,000,000 |
| December 1998. . . . . . . . | 23,000,000 | Issuance of shares for cash | 95,000,000 |
| June 1999. . . . . . . . . . . . | 40,000,000 | Issuance of shares for cash and capitalization of retained earnings and capital reserves | 135,000,000 |
| July 2000. . . . . . . . . . . . | 57,120,000 | Capitalization of retained earnings and capital reserves | 192,120,000 |
| October 2000 . . . . . . . . . | 27,880,000 | Issuance of shares for cash | 220,000,000 |
| August 2001. . . . . . . . . . | 48,100,000 | Capitalization of retained earnings and capital reserves | 268,100,000 |
| October 2001 . . . . . . . . . | 11,142,800 | Conversion of convertible bonds | 279,242,800 |
| December 2001. . . . . . . . | 23,896,000 | Conversion of convertible bonds | 303,138,800 |
| February 2002. . . . . . . . . | 2,073,600 | Conversion of convertible bonds | 305,212,400 |
| August 2002. . . . . . . . . . | 122,222,000 | Issuance of shares for cash | 427,434,400 |
| October 2002 . . . . . . . . . | 69,273,100 | Issuance of shares for cash, capitalization of retained earnings and conversion of convertible bonds | 496,707,500 |
| April 2003 . . . . . . . . . . . | 60,434,800 | Conversion of convertible bonds | 557,142,300 |

## Description of the Bonds

*The following is a description of the terms and conditions (subject to amendment and except for the sentences in italics) of the Bonds (the "Conditions"), which includes summaries of, and is subject to, the more detailed provisions of the Indenture referred to below. Holders of the Bonds should read the Indenture in its entirety as it defines their rights and obligations as holders of the Bonds.*

*The issue of US$75,000,000 Zero Coupon Convertible Bonds Due 2006 (the "Bonds") of ABIT Computer Corporation (the "Company") was authorized by a resolution of its Board of Directors adopted on July 22, 2003. The Bonds will be issued pursuant to an indenture (the "Indenture") dated November 28, 2003 between the Company and The Bank of New York, as trustee (the "Trustee", which term shall include any co-trustee, agent or successor trustee duly appointed under the Indenture) for the holders of the Bonds. The Company has entered into a paying and conversion agency agreement (the "Agency Agreement") dated November 28, 2003 with The Bank of New York, as the Trustee and the registrar and principal paying, conversion and transfer agent appointed thereunder. The Company may appoint further or other paying agents, conversion agents and transfer agents with the consent of the Trustee. The registrar, principal paying and conversion agent, paying agents, conversion agents, transfer agents and replacement agent for the time being are referred to below as the "Registrar", the "Principal Agent", the "Paying Agents" (which expression shall include the Principal Agent), the "Conversion Agents" (which expression shall include the Principal Agent), the "Transfer Agents" (which expression shall include the Registrar) and the "Replacement Agent", respectively, and they are collectively referred to below as the "Agents." Copies of the Indenture and the Agency Agreement are available for inspection by holders of the Bonds during normal business hours at the principal office of the Trustee located on the date hereof at 101 Barclay Street, 21st Floor West, New York, N.Y. 10286 and at the specified offices of each of the Agents. The holders of the Bonds are entitled to the benefit of the Indenture and are bound by, and are deemed to have notice of, all of the provisions of the Indenture and the Agency Agreement.*

### 1. Status

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

### 2. Form, Denomination and Title

(A) *Form and Denomination*

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

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

(B) *Title*

The Bonds shall be registered instruments, and title to the Bonds shall pass by transfer and registration of title in the register of holders of the Bonds. The holder of any Bond shall, except as otherwise required by law, be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of, the Global Certificate, or as the case may be, the Definitive Certificate issued in respect of it) and no person shall be liable for so treating the holder. In these Conditions, "holder of the Bonds" and "holder" in relation to a Bond mean the person in whose name a Bond is registered in the register of holders of the Bonds.

**3. Certain Covenants**

(A) *Negative Pledge*

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

For the purposes of these Conditions:

"International Investment Securities" means bonds, debentures, notes, or other similar investment securities of the Company or any of its Principal Subsidiaries evidencing indebtedness with a maturity of not less than one year that (a) either (i) are by their terms payable, or confer a right to receive payment, in any currency other than NT dollars or (ii) are denominated or payable in NT dollars and more than 50% of the aggregate principal amount thereof is initially distributed outside the Republic of China (the "ROC") by the Company or with the authorization of the Company; and (b) are for the time being, or are capable of being, quoted, listed, ordinarily dealt in or traded on any stock exchange, quotation system or over-the-counter or other similar securities market outside the ROC.

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

(B) *Mergers and Disposals*

The Company shall not merge, amalgamate or consolidate with or into any other corporation or entity (if the Company is not the continuing entity) or sell or transfer all, or substantially all, of the Company's assets, whether as a single transaction or a number of transactions, related or not, to any corporation, entity or person or to one or more members of any group under the common control of any corporation, entity or person unless:

(i) the Company has notified the holders of the Bonds and the Trustee of such event in accordance with Condition 14;

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

Bonds 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 defined in Condition 5(A)(iii)) as adjusted from time to time pursuant to the Indenture; and (c) provisions for adjustments to the Conversion Price that shall be as nearly equivalent as may be practicable to the adjustments provided for in Condition 5; and

(iii) immediately after giving effect to any such merger, no Event of Default (as defined in Condition 9) shall have occurred or be continuing or would result therefrom.

**4. Transfers of Bonds; Issue of Certificates**

(A) *Transfers*

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

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

*The forms of transfer are available at the specified offices of any Transfer Agent during normal business hours. Transfers of interests in the Bonds evidenced by the Global Certificate shall be effected in accordance with the rules of Euroclear or Clearstream, Luxembourg.*

(B) *Delivery of New Definitive Certificates*

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

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

For the purposes of this Condition 4:

"Business Day" means a day (other than a Saturday or Sunday) on which banks are open for business in the city in which the specified office of the Agent with whom a Definitive Certificate and a form of transfer (in case of a Bond represented by a Definitive Certificate) or a form of transfer (in case of a Bond represented by the Global Certificate) is deposited in connection with a transfer is located.

(C) *Formalities Free of Charge*

Registration of transfer of the Bonds shall be effected without charge by or on behalf of the Company or any of the Agents, subject to payment (and the giving of such indemnity as the Company or any of the Agents may require) in respect of any tax or other governmental charges which may be imposed in relation to it and the transfer shall not be effected unless and until the required payment described herein is made.

(D) *Restricted Transfer Period*

No holder of the Bonds may require the transfer of a Bond to be registered (i) during the period of 15 days ending on November 28, 2006, (ii) following selection of such Bond to be redeemed pursuant to Condition 7(B) or 7(C), (iii) following exercise by such holder of its option to require the Company to redeem such Bond pursuant to Condition 7(D) or (iv) following exercise by such holder of its option to convert such Bond pursuant to Condition 5.

(E) *Interest*

The Bonds bear no interest, provided that any amount in respect of the Bonds that is not paid when due shall bear default interest at the rate specified in Condition 6(E).

## 5. Conversion

*The Indenture provides 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 5(C), such term also includes shares of any other class or classes of the Company's capital stock authorized after the date of the Indenture that have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or winding-up.*

(A) *Conversion Right*

(i) *Conversion Period.* Each holder of the Bonds has the right hereunder to convert any Bond into Shares subject to the terms set forth herein (the "Conversion Right"). Subject to and upon compliance with the provisions of this Condition 5, the Conversion Right attaching to any Bond may be exercised, at the option of the holder of the Bonds and to the extent provided herein, at any time (a) on or after December 18, 2003 and prior to the close of business (at the place where such Bond is deposited for conversion) on October 29, 2006 (or if such day shall not be a Business Day (as defined below), on the immediately preceding Business Day) (but in no event thereafter) or (b) if such Bond shall have been called for redemption prior to November 28, 2006 (or if such day shall not be a Business Day, on the immediately preceding Business Day), then up to the close of business (at the place aforesaid) on the seventh day prior to the date fixed for redemption thereof (or if such day shall not be a Business Day, on the immediately preceding Business Day or (c) if an event of default occurs, the Conversion Right attaching to a Bond shall continue to be exercisable in accordance with Condition 5(A)(iv) (the "Conversion Period"); provided, however, that the Conversion Right during any Closed Period (as defined below) shall be suspended and the Conversion Period shall not include any such Closed Period.

For the purposes of these Conditions:

"Closed Period" means (i) the 60-day period prior to the date of any of the Company's general shareholders' meetings; (ii) the 30-day period prior to the date of any of the Company's extraordinary shareholders' meetings; (iii) the period from the third Trading Day (as defined below) prior to the date of notification to the Taiwan Stock Exchange (the "TSE") by the Company of the record date for the determination of shareholders entitled to the receipt of dividends, subscription of new shares or other benefits and bonuses to such record date, and (iv) such other periods during which the Company may be required to close its stock transfer books or the conversion of the Bonds is not allowed under ROC laws and regulations applicable from time to time. The Company shall procure that holders of the Bonds and the Trustee are given not less than 5 days' nor more than 60 days' prior notice in accordance with Condition 14 of the commencement of any Closed Period.

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

For the purposes of this Condition 5 (except for Condition 5(E)):

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

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

*Under current ROC law, a non-ROC converting holder of the Bonds, when exercising its conversion right to convert the Bonds into Shares, is required to register with TSE and if applicable, to obtain the approval from the CBC (if such holder is an offshore foreign institutional investors, that is, a company incorporated in a jurisdiction outside of the ROC under the laws of such foreign jurisdiction). The non-ROC converting holder of the Bonds is also required to appoint a local agent in the ROC with such qualifications as are set by the ROC Securities and Futures Commission. Such local agent shall open a securities trading account with a local brokerage firm and a New Taiwan dollar bank account, act as custodian for the securities, pay ROC withholding taxes, make confirmation and settlement, remit funds, exercise shareholders' rights and perform such other duties as may be designated by such converting holder of the Bonds on behalf of and as agent for such person. In addition, such non-ROC converting holder of the Bonds must appoint a local bank to act as custodian for confirmation and settlement of trades, safekeeping of securities and cash proceeds and reporting of information. Without first obtaining the approval of the TSE on opening such accounts, the converting holder of the Bonds would not be able to hold or to sell or otherwise transfer the Shares on the TSE or otherwise. See "Appendix A — Foreign Investment and Exchange Controls in the ROC" and "Description of the Shares".*

(ii) *Number of Shares Issuable on Conversion.* The number of Shares issuable upon conversion of any Bond shall be determined by dividing the principal amount of the Bond, translated into New Taiwan dollars at a fixed exchange rate of NT$34.027 = US$1.00 (the "Fixed Exchange Rate"), by the Conversion Price (as defined in Condition 5(A)(iii)) in effect on the Conversion Date (as defined in Condition 5(B)(i)). If more than one Bond shall be deposited for conversion at any one time by the same holder of the Bonds, the number of Shares to be issued upon conversion thereof shall be calculated on the basis of the aggregate principal amount of the Bonds so deposited. Fractions of Shares shall not be issued on conversion, and cash adjustments shall not be made in respect thereof by the Company. Notwithstanding the foregoing, in the event of a consolidation or reclassification of Shares by operation of law or otherwise, the Company shall upon conversion of the Bonds pay in US dollars a sum equal to such portion of the principal amount of the Bonds deposited for conversion as corresponds to any fraction of a Share not issued as aforesaid if such sum exceeds US$10. For the purpose of calculating the amount of such payment, the Company will use the Fixed Exchange Rate.

(iii) *Initial Conversion Price.* The price at which Shares shall be issued upon conversion (the "Conversion Price") shall initially be NT$15.1 per Share, but shall be subject to adjustment in the manner provided in Conditions 5(C), 5(D) and 5(E).

(iv) *Revival on Default.* Notwithstanding the provisions of Condition 5(A)(i), if an Event of Default (as defined in Condition 9) occurs, the Conversion Right attaching to a Bond shall continue to be exercisable up to and including the close of business (at the place where the relevant Conversion Notice (as defined in Condition 5(B)(i)) is deposited for conversion) on the date upon which (a) the full amount of the monies payable in respect of such Bond has been duly received by the Trustee or the Principal Agent and (b) notice of such receipt has been duly given to the holders of the Bonds.

(B) *Conversion Procedures*

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

(a) a notice of conversion (a "Conversion Notice") in duplicate, duly completed and signed, in the then current form obtainable from the specified office of any Conversion Agent, together with the relevant Definitive Certificate, if issued, in respect of the relevant Bonds;

(b) any certificates and other documents as may be required under the law of the ROC or the jurisdiction in which such Conversion Agent shall be located; and

(c) any amount to be paid by the holder of the Bonds as required by (ii) below.

Any Conversion Notice or Definitive Certificate, if issued, deposited with a Conversion Agent outside the hours specified above or on a day that 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 Conversion Agent on the next Business Day. Any Conversion Notice or Definitive Certificate, if issued, deposited with a Conversion Agent during a Closed Period shall for all purposes be deemed to have been deposited with that Conversion Agent on the first Business Day after the end of such Closed Period. The Conversion Notice shall contain, among other things, (a) the identification of the status of the converting holder of the Bonds as an offshore foreign institutional investor or offshore foreign individual investor; (b) an appointment of a local agent; (c) an irrevocable instruction to convert the Bonds into Shares; and (d) any other information required by ROC laws and regulations. Once deposited, the Conversion Notice may not be withdrawn without the Company's consent in writing. The price at which such Bond shall be converted shall be the Conversion Price in effect on the Conversion Date.

For the purposes of these Conditions:

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

"Conversion Date" means the first date following the Deposit Date which is a Trading Day not within a Closed Period.

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

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

(iv) *Delivery of Shares.* On the Conversion Date, the Company shall register the converting holder of the Bonds or its designee in the Company's register of shareholders as the owner of the number of Shares to be issued pursuant to Condition 5(B)(iii) upon conversion of such Bonds. Subject to any applicable limitations then imposed by ROC laws and regulations, in accordance with the request made in the relevant Conversion Notice, the Company shall deliver as soon as practicable, and in any event within five Trading Days from the Conversion Date (or such number of Trading Days as stipulated by the relevant laws and regulations applicable from time to time), for the benefit of the converting holder of the Bonds, the following:

(a) the relevant Shares, either through book-entry transfer to an account registered in the name of the converting holder or its designee at Taiwan Securities Central Depositary Co., Ltd. or its successor, or, to the extent permitted by law and at the election of the Company, through the delivery to the local agent appointed by the converting holder of the Bonds, one or more certificates for such Shares registered in the name of the converting holder or its designee;

(b) any other property or cash (including, without limitation, cash payable pursuant to Condition 5(A)(ii)) required to be delivered upon conversion to the local agent appointed by the converting holder; and

(c) such documents as may be required by law to effect the delivery of the relevant Shares, other property and cash to the local agent appointed by the converting holder.

(v) *Retroactive Adjustment of Conversion Price.* If (a) the Conversion Date in relation to any Bond shall be on or after a date with effect from which an adjustment to the Conversion Price takes retroactive effect pursuant to any of the provisions referred to in Condition 5(C) and the Indenture and (b) the relevant Conversion Date falls on a date when the relevant adjustment has not been reflected in the Conversion Price, the Company will, within 20 days after the date of such adjustment of the Conversion Price, issue and deliver to the local agent appointed by the converting holder of the Bond such number of Shares as is equal to the excess of (1) the number of Shares that would have been required to be issued on conversion of such Bond if the relevant retroactive adjustment had been made as of the said Conversion Date over (2) the number of Shares previously issued pursuant to such conversion; and in such event and in respect of such number of Shares, references in Conditions 5(B)(iii) and 5(B)(iv) to the Conversion Date shall be deemed to refer to the date upon which such retroactive adjustment becomes effective, disregarding the fact that it becomes effective retroactively. Fractions of Shares shall not be issued and no cash adjustment shall be made in respect thereof.

(vi) *Dividend Distributions.* To the extent permitted under the law of the ROC, the converting holder of a Bond shall be entitled to the Company's annual dividend distributions if the Conversion Date falls prior to the third Trading Day before the Company's notification to the TSE of the record date (and the relevant closure of the shareholders' register) for determining the identity of shareholders who are entitled to such dividend distributions.

(vii) *Conversion Agents.* The Company reserves the right, subject to the provisions of the Agency Agreement, at any time, to vary or terminate the appointment of any Conversion Agent and to appoint other Conversion Agents. Notice of any such termination or appointment and of any changes in the specified offices of the Conversion Agents shall be given promptly by the Company to the holders of the Bonds in accordance with Condition 14.

(C) *Adjustments to Conversion Price*

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

(i) the making of a free distribution of Shares, including distribution from retained earnings or capital reserve;

(ii) subdivisions, consolidations or reclassifications of Shares;

(iii) the declaration of a dividend in Shares;

(iv) the issue of (a) securities convertible into or exchangeable for Shares at less than the then Current Market Price (as defined below) or (b) options, rights or warrants 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;

(v) a Capital Distribution (as defined below) or other distribution to the holders of Shares of (a) evidences of the Company's indebtedness, (b) the Company's capital stock (other than Shares), (c) assets (other than regular annual and interim dividends in cash not constituting a Capital Distribution) or (d) options, rights or warrants to subscribe for or purchase shares or securities (other than those mentioned in (iv) above);

(vi) the issue of Shares (other than (a) Shares issued upon conversion of the Bonds; (b) Shares issued to shareholders of any company that merges with the Company upon such merger in proportion to their shareholdings in such company immediately prior to such merger; and (c) Shares issued in any of the circumstances (i) through (v) described above), including Shares issued in any employee dividend or employee profit-sharing arrangements, at less than the then Current Market Price; and

(vii) any other event or circumstance that would have in the determination of the Company an effect analogous to any of the events in (i) to (vi) above.

No adjustment shall be made where such adjustment would be less than NT$1.00; but any adjustment that otherwise would be required to be made shall be carried forward and taken into account in determining any subsequent adjustment. Any adjustment shall be notified as soon as possible by the Company to the holders of the Bonds in accordance with Condition 14.

As a result of any adjustment required by this Condition 5(C), the Conversion Price may be reduced to an amount below the par value of the Shares to the extent permitted by ROC law; *provided that* any Shares issued upon the conversion of a Bond at such reduced Conversion Price will be legally issued, fully-paid and non-assessable. The Company will covenant in the Indenture not to take any action that would reduce the Conversion Price to an amount below the par value of the Shares unless under applicable laws then in effect the Bonds could be converted at such reduced Conversion Price into legally issued, fully-paid and non-assessable Shares.

The Trustee shall not be obliged to monitor whether any event has occurred that might fall within (i) to (vii) above and shall assume that none has occurred until it has actual knowledge by way of express notice in writing from the Company to the contrary.

For the purposes of these Conditions:

"Capital Distribution" means any cash dividend, distribution of cash or distribution of assets in specie made by the Company for any fiscal year unless (and to the extent that): (a) it does not exceed (when taken together with all dividends or distributions by the Company of cash or assets previously made or paid in respect of all periods ending after December 31, 2002) 5% of market capitalization of the Company at the time of announcement of such dividend or distribution; (b) it does not exceed (when taken together with all other dividends or distributions by the Company of cash or assets charged or provided for in its accounts for that period) the aggregate amount of dividends (excluding stock dividends) and distributions on such class of capital charged or provided for in its accounts for the immediately preceding fiscal year; or (c) it comprises a purchase or redemption of capital stock of the Company; *provided*, in the case of a purchase of Shares by the Company, that the average price (before expenses) in any one day in respect of such purchases does not exceed by more than 5% of the Current Market Price either (i) on that day, or (ii) where an announcement has been made of the intention to purchase Shares at some future date at a specified price, on the Trading Day immediately preceding the date of such announcement. In computing such amounts, the value of any dividends and distributions and adjustments as are in the opinion of the Company's auditors appropriate to the circumstances shall be taken into account.

"Closing Price" for any Trading Day means the last reported transaction price or, if no transaction takes place on such day, the last available reported transaction price of the Shares on the TSE in effect on the most recent Trading Day preceding such day on which a transaction has taken place or, if the Shares are not listed or admitted to trading on the TSE, 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 by the Company for the purpose.

"Current Market Price" on any day means (a) the average of the Closing Prices for the 30 consecutive Trading Days commencing 45 Trading Days before such day and (b) when used with respect to any issuance or distribution, the average of the Closing Prices for the 30 consecutive Trading Days commencing not more than 45 Trading Days (with the commencement date selected by the Company) before the first day on which the Shares, without the right to receive such issuance or distribution, trade in a regular way on the TSE, other applicable securities exchange or any applicable securities market; *provided, however*, if no Closing Price is available for one or more Trading Days, such day or days shall be disregarded in any relevant calculation and shall be deemed not to have existed when ascertaining any period of consecutive Trading Days.

(D) *Conversion Price Reset*

If the Reset Reference Price (as defined below) for a Reset Date (as defined below), converted into US dollars at the Prevailing Rate (as defined below) for the 20 consecutive Trading Days immediately before the Reset Date, is less than the Conversion Price, converted into US dollars at the Fixed Exchange Rate, the Conversion Price shall be adjusted on February 28, 2004, February 28, 2005 and February 28, 2006 (each, a "Reset Date") in accordance with the following formula:

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

Any adjustment to the Conversion Price pursuant to this Condition 5(D) shall be subject to the following conditions:

(i) the adjusted Conversion Price shall be rounded upwards, if necessary, to the nearest NT$0.01;

(ii) any adjustments shall be limited so that the Conversion Price adjusted in accordance with this Condition 5(D) shall not be less than 80% of the initial Conversion Price (or if the initial Conversion Price has been adjusted to reflect any adjustments required under Condition 5(C) above that may have occurred prior to the relevant Reset Date, of such adjusted Conversion Price);

(iii) the provisions of Condition 5(C) shall apply in a corresponding manner to this Condition 5(D) to ensure that appropriate adjustments shall be made to any Closing Price to reflect any adjustments made to the Conversion Price in accordance with Condition 5(C); and

(iv) for the avoidance of doubt, (x) any adjustments to the Conversion Price made pursuant to this Condition 5(D) shall only be downward adjustments and (y) an adjustment may be made in respect of a subsequent Reset Date notwithstanding that an adjustment may have been made in respect of an earlier Reset Date.

For the purposes of these Conditions:

"Prevailing Rate" for any period means the average of the last available buying rate for the purchase of US dollars against the sale of NT dollars quoted by Taipei Forex Inc. (or a replacement agency selected by the Company) on each Trading Day (as defined in Condition 5(A)(i)) over such period; *provided, however*, if no buying rate is available for one or more Trading Days, such day or days shall be disregarded in any relevant calculation and shall be deemed not to have existed when ascertaining any period of consecutive Trading Days. Prevailing Rate is expressed as the number of NT dollars per US dollar.

"Reset Reference Price", in relation to a Reset Date, means the average of the Closing Prices for the 20 consecutive Trading Days immediately before the Reset Date; *provided, however*, if no Closing Price is available for one or more Trading Days, such day or days shall be disregarded in any relevant calculation and shall be deemed not to have existed when ascertaining any period of consecutive Trading Days.

Any such adjustment shall become effective as of the Reset Date and shall be notified by the Company to the holders of the Bonds as soon as practicable in accordance with Condition 14. The Trustee shall not be obliged to monitor whether any event has occurred that might fall under this Condition 5(D) and shall assume that none has occurred until it has actual knowledge by way of express notice in writing from the Company to the contrary.

(E) *Special Conversion Price Reset*

The Company may, by giving the holders of the Bonds notice (which notice shall be irrevocable and published in accordance with Condition 14 and shall indicate the adjusted Conversion Price referred to below) as soon as practicable after each Special Reset Date (as defined below), offer the holders of the Bonds the option to convert their Bonds for a period of up to seven Business Days (as defined below), which period shall start on a day selected by the Company (which shall be a date after the date of notification from the Company) but, in the event of holders' exercise of the option to convert their Bonds prior to each Holders' Put Date, end no later than twelve (12) Business Days prior to the applicable Holders' Put Date (exclusive of such Holders' Put Date), at 90.46%, 90.10% and 90.91%, respectively, of the Special Reference Price for any or all of October 17, 2004, October 17, 2005 and October 17, 2006 (each a "Special Reset Date").

Any adjustments to the Conversion Price pursuant to this Condition 5(E) shall be subject to the following conditions:

(i) the adjusted Conversion Price shall be rounded upwards, if necessary, to the nearest NT$0.01; and

(ii) for the avoidance of doubt, (x) any adjustments shall only be temporary and the Conversion Price shall be reset to the Conversion Price in effect immediately prior to the Special Reset Date when the option to convert at the adjusted Conversion Price expires and (y) the option to convert at the adjusted Conversion Price may be granted in respect of a subsequent Special Reset Date notwithstanding that a similar one may have been granted in respect of an earlier Special Reset Date.

For the purposes of these Conditions:

"Special Reference Price" for a Special Reset Date means the lowest of the three averages of the Closing Prices for the 10, 15 and 20 consecutive Trading Days immediately before the Special Reset Date; *provided, however,* if no Closing Price is available for one or more Trading Days, such day or days shall be disregarded in any relevant calculation and shall be deemed not to have existed when ascertaining any period of consecutive Trading Days.

For the purposes of this Condition 5(E):

"Business Day" means a day (other than a Saturday and Sunday) on which commercial banks are open for business in Taiwan and in London.

**6. Payments**

(A) *Manner of Payment*

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

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

(B) *Registered Account and Address*

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

(C) *Commissions and Expenses*

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

(D) *Date of Payment*

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

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

(E) *Default Interest and Payment Delay*

If the Company fails to pay any sum in respect of the Bonds when the same becomes due and payable under these Conditions, interest shall accrue on the overdue sum at the rate of 5% per annum from the due date and ending on the date on and after which payment is to be made to the holders of the Bonds in respect thereof (both dates inclusive). Such default interest shall accrue on the basis of the actual number of days elapsed and a 360-day year consisting of 12 months of 30 days each.

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

**7. Redemption, Repurchase and Cancellation**

(A) *Redemption at Maturity*

Unless previously redeemed, repurchased and cancelled, or converted as herein provided, the Company will redeem the Bonds at their principal amount in US dollars on November 28, 2006 ("Maturity Date") or if such day shall not be a Business Day, on the immediately preceding Business Day. The Bonds may be redeemed prior to that date only as provided in Condition 7(B), (C) and (D) below, but without prejudice to Condition 9.

(B) *Redemption at the Option of the Company*

On or at any time after May 28, 2004 and prior to November 28, 2006, the Company may, having given not less than 30 or more than 60 days' notice to the holders of the Bonds (which notice shall be irrevocable and given in accordance with Condition 7(G) and Condition 14), redeem the Bonds in whole, or from time to time in part (being US$1,000 in principal amount or an integral multiple thereof), at their principal amount; provided, however, that no such redemption may be made unless the Closing Price (as defined in Condition 5(C)) of the Shares, translated into US dollars at the Prevailing Rate (as defined in Condition 5(D)) on the same day, for each of the 20 Trading Days with in a period of 30 consecutive Trading Days, is at least 130% of the Conversion Price then in effect, translated into US dollars at the Fixed Exchange Rate. If an event giving rise to a change in the Conversion Price occurs during any such 30 consecutive Trading Day period, appropriate adjustments for the relevant days shall be made for the purpose of calculating the Closing Price for such days.

At any time, the Company may, having given not less than 30 nor more than 60 days' notice to the holders (which notice shall be irrevocable and given in accordance with Condition 7(G) and Condition 14), redeem the Bonds in whole, but not in part, at their principal amount if at least 90% in principal amount of the Bonds has already been converted, redeemed or repurchased and cancelled.

(C) *Redemption for Taxation Reasons*

At any time but not if notice of redemption under Condition 7(B) has already been given to the holders of the Bonds, the Company may, having given not less than 30 or more than 60 days' notice to the holders of the Bonds (which notice shall be irrevocable and given to holders of the Bonds in accordance with Condition 7(G) and Condition 14), redeem the Bonds in whole, but not in part, at their principal amount, provided that the Company satisfies the Trustee immediately prior to the giving of such notice that:

(i) the Company has or shall become obliged to pay Additional Amounts (as defined in Condition 8) as a result of any change in, or amendment to, the laws 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, that would require it to gross up for payments of principal or to gross up for payments of interest or premium (if any) at a rate exceeding 20%; and

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

Notwithstanding the foregoing, 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.

Prior to the publication of any notice of redemption pursuant to this Condition 7(C), the Company will deliver to the Trustee (a) a certificate signed by two of the Company's authorized officers stating that the obligation to pay Additional Amounts (1) exists, (2) cannot be avoided by the Company taking reasonable measures available to it and (3) will require payment of Additional Amounts within 90 days of the proposed notice of redemption, and (b) an opinion addressed to the Trustee by an independent law firm of recognized standing admitted to practice in the ROC or written advice of a qualified tax expert to the effect that the Company has or will become obliged to pay Additional Amounts, and the Trustee shall be entitled to accept such certificate and opinion or advice as sufficient and conclusive evidence of the fulfillment of the conditions precedent referred to in Condition 7(C), in which event it shall be conclusive and binding on the holders of the Bonds. The Bonds in respect of which a notice of redemption has been given under Condition 7(B) or 7(D) shall not be affected by any notice given subsequently under this Condition 7(C).

(D) *Redemption at the Option of the Holders*

Each holder of the Bonds shall have the right ("Holders' Put Right"), at such holder's option, to require the Company to redeem Bonds held by such holders in whole, or in part only (being US$1,000 in principal amount or an integral multiple thereof), on November 29, 2004 at 100.5% of its principal amount and on November 28, 2005 at 100.9% of its principal amount (each of November 29, 2004 and November 28, 2005, a "Holders' Put Date"). The Company will provide sufficient information to the Trustee in sufficient time in accordance with the Indenture to permit the Trustee, at the expense of the Company, within not less than 30 or more than 60 days prior to each Holders' Put Date, to give notice to the holders (which notice shall be given in accordance with Condition 7(G) and Condition 14), informing them of their Holders' Put Right.

(E) *Repurchase and Cancellation*

The Company may at any time and from time to time repurchase the Bonds in the open market or otherwise at any price. The Company may surrender any Bonds so repurchased to the Principal Agent for cancellation or may hold or resell such Bonds subject to applicable laws.

(F) *Cancellation*

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

(G) *Redemption Procedures*

In the event that the Company shall be required to deliver a notice to the holders of the Bonds under this Condition 7, the Company will provide sufficient information to the Trustee in sufficient time to permit the Trustee to give notice to each holder of the Bonds in accordance with Condition 14, which notice shall state, as applicable:

(i) the Holders' Put Date;

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

(iii) the applicable redemption price of a Bond at the Holders' Put Date and the method by which such redemption price will be paid;

(iv) the names and addresses of all Paying Agents and Conversion Agents;

(v) the Conversion Price then in effect;

(vi) the procedures that holders must follow and the requirements that holders must satisfy in order to exercise their Holders' Put Right and Conversion Right; and

(vii) that a Put Notice, once validly given, may not be withdrawn.

To exercise its Holders' Put Right, a holder must deliver a written irrevocable notice of the exercise of such right (a "Put Notice") in the form obtainable from any of the Agents, to any Paying Agent on any Business Day that is not fewer than ten (10) Business Days prior to the Holders' Put Date. Payment of the redemption price upon exercise of the Holders' Put Right attaching to any Bond represented by a Definitive Certificate for which a Put Notice has been delivered is conditioned upon the delivery of such Definitive Certificate (together with any necessary endorsements) to any Paying Agent on any Business Day together with the delivery of such Put Notice and shall be made promptly following the later of the Holders' Put Date and the time of delivery of such Definitive Certificate. If the Paying Agent holds on a Holders' Put Date money sufficient to pay the redemption price for a Bond for which a Put Notice has been delivered, then, whether or not Definitive Certificates representing such Bond have been delivered to the Paying Agent, on and after such Holders' Put Date (i) such Bond shall cease to be outstanding; (ii) the interest, if any, on such Bond shall cease to accrue; (iii) such Bond shall be deemed paid; and (iv) all other rights of the holder shall terminate, other than the right to receive the redemption price.

(H) *Partial Redemption*

In the case of a redemption of less than all of the Bonds then outstanding pursuant to Condition 7(B), the Bonds to be redeemed 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 70 days or less than 20 days prior to the date fixed for redemption.

## 8. Taxation

All payments of principal, interest, if any, premium, if any, and any other amounts by the Company shall be made free and clear of and without any deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature 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. In respect of any such deduction or withholding from any such payment, the Company will pay such additional amounts ("Additional Amounts") as will result in the receipt by the holders of the Bonds of the amounts that would have been receivable in the absence of any such deduction or withholding, except that no Additional Amounts shall be payable in respect of any Bond:

(i) to, or on behalf of, a holder who is subject to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of such holder being connected with the ROC otherwise than merely by holding such Bond or by the receipt of principal, interest, if any, or premium, if any, in respect of the Bond; or

(ii) if the Definitive Certificate, if issued, in respect of such Bond is presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder would have been entitled to such additional amount on surrendering the relevant certificate for payment on the last day of such 30-day period.

For the purposes of this Condition 8:

"Relevant date" in relation to any Bonds means (a) the due date for payment in respect thereof, or (b) if the full amount of the monies payable on such due date has not been received by the Trustee or the Principal Agent on or prior to such due date, the date on which notice is duly given to the holders of the Bonds that such monies have been so received.

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

## 9. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of the Bonds of not less than 25% in principal amount of the Bonds then outstanding shall (but subject to the Trustee being indemnified and/or secured by the holders to its satisfaction), give notice in writing to the Company that the Bonds are immediately due and payable, if any of the following events (each, an "Event of Default") shall have occurred and be continuing; *provided, however*, that if any of the events specified in clauses (vi), (vii) and (viii) shall have occurred, the Bonds shall forthwith become immediately due and payable at their principal amount with the overdue interest payable, if any, in accordance with Condition 6(E), without regard to the giving of any such notice:

(i) the Company fails to pay the principal of, or premium, if any, or interest, if any, on, any of the Bonds within seven days after the same becomes due and payable or fails to pay any other amount due on the Bonds within 15 days after the same shall become due and payable; or

(ii) the Company fails to deliver Shares as and when such Shares are required to be delivered upon the conversion of the Bonds, which failure is not remedied within five Trading Days; or

(iii) the Company defaults in performance or observance of or compliance with any of the Company's other obligations on the Bonds or under the Indenture, which default is incapable of remedy or, if in the opinion of the Trustee such default is capable of remedy, such default is not remedied within 30 days after written notice of such default shall have been given to the Company by the Trustee; or

(iv) (a) any other present or future indebtedness of the Company or any of the Company's Principal Subsidiaries (as defined in Condition 3(A)) for or in respect of monies borrowed becomes due and payable prior to its stated maturity by reason of an event of default (howsoever described), or any such indebtedness is not paid when due or, as the case may be, within any applicable grace period originally provided for or (b) the Company or any of the Company's Principal Subsidiaries fails to pay when due any amount payable by the Company or such Principal Subsidiary under any present or future guarantee or indemnity or arrangement or obligation having a like or similar effect (howsoever described) for any monies borrowed by any person; provided that the aggregate amount of the relevant indebtedness or amounts payable in respect of which one or more events mentioned above in this paragraph (iv) have occurred and is continuing equals or exceeds US$5,000,000 or its equivalent in any other currency (determined as provided below); or

(v) any person entitled to the benefit thereof shall institute legal proceedings to enforce any mortgage, charge, pledge, lien or other encumbrance upon the whole or any material part of the assets, property or revenues of the Company or those of any of its Principal Subsidiaries, unless the Company or such Principal Subsidiary, as the case may be, are contesting such proceedings in good faith by appropriate legal proceedings and have established reserves adequate in the Company's judgment with respect thereto; or

(vi) a decree or order by a court having jurisdiction shall have been entered (a) adjudging the Company or any of its Principal Subsidiaries bankrupt or insolvent, or (b) approving a petition seeking the Company's reorganization or that of any of its Principal Subsidiaries under any applicable bankruptcy, insolvency or reorganization law, or (c) for the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of, or all or substantially all of the business or assets of, or for the winding-up or liquidation of the affairs of, the Company, such Principal Subsidiary or any of the Company's other Principal Subsidiaries; or

(vii) (a) an effective resolution shall be passed for the winding-up or liquidation of the Company or that of any of its Principal Subsidiaries, or (b) the Company or any of its Principal Subsidiaries shall institute proceedings to be adjudicated as a voluntary bankrupt, or shall consent to the filing of a bankruptcy proceeding against it, or shall file a petition or consent seeking reorganization or arrangement under any applicable bankruptcy, insolvency or reorganization law, or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of the Company or such Principal Subsidiary or of all or substantially all of its business or assets or shall admit in writing its inability to pay its debts generally as they become due, or (c) any corporate action shall be taken by the Company or any of its Principal Subsidiaries in furtherance of any of the aforesaid purposes; or

(viii) 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 90 days; or

(ix) it is or will become unlawful for the Company to perform or comply with one or more of its obligations under any of the Bonds, the Indenture or the Agency Agreement; or

(x) any event occurs that under the laws of the ROC has an effect analogous to any of the events referred to in the foregoing paragraphs.

Upon any such notice being given to the Company, the Bonds shall immediately become due and payable at their principal amount with the overdue interest, if any, payable in accordance with Condition 6(E).

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

**10. Prescription**

Claims in respect of payment of the Bonds will be prescribed unless made within six years from the relevant date of payment in respect thereof.

*Under ROC law, claims in respect of the (i) payment of principal would become unenforceable after 15 years and (ii) payment of interest would become unenforceable after 5 years, each measured from the relevant date for payment in respect thereof.*

**11. Enforcement**

At any time after the Bonds shall have become due and payable, the Trustee may, at its discretion and without further notice, take such proceedings against the Company as it may think fit to enforce payment in respect of the Bonds, including any premium (if any) and interest (if any), and to enforce the provisions of the Indenture; *provided, however,* that the Trustee shall not be bound to take any such proceedings unless (a) it shall have been so requested in writing by the holders of at least 25% in principal amount of the Bonds then outstanding and (b) it shall have been indemnified or secured to its satisfaction. No holder of the Bonds shall be entitled to proceed directly against the Company, unless (x) the Trustee, having become bound to take proceedings against the Company, fails to do so and such failure shall have continued for a period of 60 days and (y) no direction inconsistent with the Trustee taking such proceedings has been given to the Trustee during such 60-day period by the holders of not less than a majority in principal amount of the Bonds then outstanding.

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

(A) *Meetings*

The Indenture contains provisions for convening meetings of holders of the Bonds to consider any matter affecting their interests, including the approval of certain amendments or modifications of these Conditions or the provisions of the Indenture upon either the written consent of the holders of not less than a majority in principal amount of the Bonds then outstanding or the approval at a meeting of holders duly called by persons entitled to vote not less than a majority in principal amount of the Bonds then outstanding, with a quorum of two or more persons holding or representing over 50% (or 25% in the case of a meeting adjourned for lack of quorum) in principal amount of the Bonds for the time then outstanding; *provided* that no such modification may, without the consent of each holder of the Bonds affected thereby:

(i) modify the Maturity Date or a redemption date of any Bonds (as fixed in accordance with the provisions of the Indenture);

(ii) reduce the principal, redemption price of, the rate of interest, if any, on, any Bond or increase the Conversion Price (as adjusted in accordance with the provisions of the Indenture);

(iii) change the place or currency of payment of principal and redemption price of, or premium, if any, or interest, if any, on, any Bond or the method of calculating any such payment;

(iv) impair the right to institute suit for the enforcement of any payment on any Bond;

(v) alter the Company's obligations relating to the payment of Additional Amounts as described in Condition 8;

(vi) except to the extent permitted by Condition 12(B) below, modify, cancel or adversely affect in any material respect the Conversion Right or Holders' Put Right;

(vii) reduce the percentage or aggregate principal amount of outstanding Bonds the consent of whose holders is necessary for modification, amendment or waiver of compliance with provisions of the Indenture or waiver of defaults under the Indenture; or

(viii) modify the provisions concerning the voting and quorum required at any meeting of holders of the Bonds.

(B) *Modification of Conversion Right*

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

(C) *Other Modifications and Waivers*

The Trustee may also agree to, without the consent of the holders of the Bonds, (i) any modification of, or the waiver or authorization of any breach or proposed breach of, the Bonds or the Indenture that is not, in the Trustee's opinion, materially adverse to the interests of the holders of the Bonds or (ii) any modification of the Bonds or the Indenture that, in the Trustee's opinion, is of a formal, minor or technical nature or is necessary or appropriate to correct an error, defect or ambiguity in the Indenture, these Conditions or the Bonds or to comply with mandatory provisions of law. In connection with such modification, waiver or authorization, the Trustee may require, at the sole expense of the Company, a certificate from the Company certifying, and a legal opinion advising the Trustee, that the modification, waiver or authorization complies with the requirements of the Indenture. Any such modification, waiver or authorization shall be binding on the holders of the Bonds. Unless the Trustee agrees otherwise, any such modification waiver or authorization shall be notified by the Company to the holders of the Bonds as soon as practicable thereafter in accordance with Condition 14.

(D) *Exercise of Trustee's Functions*

In connection with the exercise of its functions, including but not limited to those in relation to any proposed modification, authorization or waiver, the Trustee shall have regard to the interests of the holders of the Bonds as a class and shall not have regard to the consequences of such exercise for individual holders of the Bonds (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of the exercise of its trusts, powers, authorities or discretion for individual holders of the Bonds (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to, the jurisdiction of any particular territory. The Trustee shall not be entitled to require from the Company, nor shall any holder of the Bonds be entitled to claim from the Company or the Trustee, in the case of a claim by a holder, any indemnification or payment in respect of any tax consequences of any such exercise upon individual holders of the Bonds.

## 13. Replacement of Certificates

The Indenture includes provisions for the replacement of any mutilated, defaced, destroyed, stolen or lost Definitive Certificate at the specified offices of the Registrar and Paying Agents. The main provisions include the following:

(i) replacement certificates shall only be issued upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity to the satisfaction of the Company and the Registrar;

(ii) mutilated or defaced certificates must be surrendered before replacements will be issued; and

(iii) in the event any Bonds represented by a mutilated, destroyed, lost or stolen Definitive Certificate has become or is about to become due and payable, the Company in the Company's discretion may, instead of issuing a new Definitive Certificate representing such Bonds, make payment as consideration for the cancellation of the Bonds represented thereby in accordance with these Conditions.

## 14. Notices

All notices to holders of the Bonds shall be validly given if made in writing in English and mailed to them at their respective addresses in the register of holders of the Bonds maintained by the Registrar.

Any such notice shall be deemed to have been given on the seventh day after being so mailed.

## 15. Indemnification

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

## 16. Agents

The Company reserves the right, subject to the provisions of the Agency Agreement, at any time to vary or terminate the appointment of Agents. Notice of any such termination or appointment, of any changes in the specified offices of the Agents, or of any change in the identity or specified office of any Conversion Agent, Paying Agent or Transfer Agent shall be given promptly by the Company to the holders of the Bonds in accordance with Condition 14.

## 17. Governing Law and Jurisdiction

(A) *Governing Law*

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

(B) *Jurisdiction*

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

(C) *Agent for Service of Process*

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

# The Global Certificate

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

## The Global Certificate

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

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

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

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

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

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

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

**Individual Bonds**

The Company will issue individual Bonds in registered form in exchange for the Global Certificate if:

(i) the Common Depositary or any successor to the Common Depositary notifies the Company in writing that it is at any time unwilling or unable to continue as a depositary and a successor depositary is not appointed by the Company within 90 days, or

(ii) either Euroclear or Clearstream, Luxembourg or a successor clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, or

(iii) an event of default under the Bonds or the Indenture has occurred and is continuing.

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

## EXCHANGE RATE INFORMATION

Fluctuations in the exchange rate between NT dollars and US dollars will affect the US 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.

Set forth below are the period-end spot exchange rates in effect between the NT dollar and the US dollar, expressed in NT dollars per US dollar, for the period indicated.

| Year Ended December 31, | Average (of Month-End Rates) | High | Low | At Period-End |
|---|---|---|---|---|
| 1991 | 26.77 | 27.48 | 25.75 | 25.75 |
| 1992 | 25.16 | 25.96 | 24.51 | 25.40 |
| 1993 | 26.41 | 26.96 | 25.41 | 26.63 |
| 1994 | 26.29 | 27.09 | 26.02 | 26.43 |
| 1995 | 26.51 | 27.55 | 25.17 | 27.29 |
| 1996 | 27.48 | 27.95 | 27.15 | 27.52 |
| 1997 | 29.06 | 33.25 | 27.34 | 32.80 |
| 1998 | 33.50 | 35.00 | 32.05 | 32.27 |
| 1999 | 32.28 | 33.40 | 31.39 | 31.39 |
| 2000 | 31.37 | 33.25 | 30.35 | 33.17 |
| 2001 | 33.91 | 35.13 | 32.23 | 35.00 |
| 2002 | 33.71 | 35.16 | 32.85 | 34.70 |
| 2003 | | | | |
| January | 34.57 | 34.76 | 34.40 | 34.61 |
| February | 34.73 | 34.78 | 34.61 | 34.78 |
| March | 34.72 | 34.80 | 34.62 | 34.75 |
| April | 34.82 | 34.88 | 34.79 | 34.85 |
| May | 34.69 | 34.85 | 34.60 | 34.71 |
| June | 34.63 | 34.70 | 34.52 | 34.61 |
| July | 34.39 | 34.58 | 34.25 | 34.41 |
| August | 34.32 | 34.47 | 34.12 | 34.12 |
| September | 34.00 | 34.15 | 33.72 | 33.78 |
| October | 33.83 | 34.05 | 33.72 | 33.98 |
| November (through November 19) | 34.00 | 34.06 | 33.95 | 34.00 |

# Description of the Shares

Set forth below is certain information relating to the capital stock of the Company including brief summaries of certain provisions of the Company's Articles of Incorporation (the "Articles"), the Securities and Exchange Law of the ROC (the "Securities and Exchange Law") and regulations promulgated thereunder and the ROC Company Law (the "Company Law").

## General

The Company's authorized share capital is NT$10.0 billion consisting of 1.0 billion Shares of common stock with a par value of NT$10 each, of which 50.0 million Shares have been reserved for issuance of employee stock options. All Shares are in registered form and 562.0 million Shares were issued and outstanding as of August 31, 2003.

Following changes in applicable ROC laws and regulations to permit the issuance of employee stock options by ROC companies, the Company obtained the approval of the ROC Securities and Futures Commission in September 2003 for the issuance of employee stock options. In August 2003, the Company's board of directors authorized the issuance of 50 million employee stock options in an effort to attract and retain qualified technical and professional personnel. The Company issued 44.1 million stock options in October 2003. Each option is exercisable for six years and entitles the holder to purchase one share of the Shares at an exercise price of NT$15.3 per share. These stock options were issued to approximately 265 employees, including the Company's executive officers. The Company's Directors and Supervisors who were not also its executive officers did not receive any stock options. As of September 30, 2003, none of the stock options had been exercised.

The Company does not have any equity in the form of preference shares nor are any currently authorized under the Articles.

## Dividends

Except under limited circumstances as permitted by the Company Law, an ROC company is not permitted to distribute dividends or make any other distributions to shareholders for any year in which the company does not have earnings or retained earnings (excluding reserves); provided that if the accumulated Legal Reserve exceeds 50% of the Company's paid-in-capital, the Company may still distribute from the excess portion of the Legal Reserve. In addition, before distributing a dividend or making any other distribution to shareholders, a company must recover any past losses, pay all outstanding taxes and set aside a reserve, referred to as the "Legal Reserve", at 10% of its earnings until such time as its Legal Reserve equals the amount of its total paid-up capital, and a special reserve (if any). Subject to compliance with these requirements, a company may pay dividends from its earnings or make other distributions from its reserves as set forth below.

Under the Company Law, following approval by the shareholders' meeting, dividends are paid to shareholders from a company's earnings (subject to compliance with the above requirements), in proportion to the number of Shares owned by each shareholder as listed on the register of shareholders as of the relevant record date. Dividends declared out of earnings may also be distributed either in cash or in the form of Shares or a combination thereof. Stock dividends may also be distributed in connection with a capitalization of reserves. The ratio between any cash dividend and stock dividend is determined by the shareholders at a shareholders' meeting. Notices of such persons' entitlements to stock dividends are delivered by post, notifying them of the place and date to collect the relevant share certificates or to receive the relevant shares through a book-entry system. In respect of cash dividends, the Company will notify the shareholders and make the payments by check or wire transfer to such accounts as may be designated by the shareholders.

In addition to permitting dividends to be paid out of earnings or retained earnings, the Company Law also permits a company to make distributions to its shareholders in the form of additional shares of capital stock from recapitalization of reserves (including the Legal Reserve and certain other reserves). In the case of a company's capital reserves, subject to the Securities and Exchange Law and applicable regulations of the Securities and Futures Commission of the ROC (the "ROC SFC"), 100% of the capital reserves may be recapitalized through stock distributions to shareholders. In the case of a company's Legal Reserve, however, the recapitalized portion payable out of such Legal Reserve is limited to 50% of the total accumulated Legal Reserve and such recapitalization can only be effected when the accumulated Legal Reserve exceeds 50% of the paid-in capital of the company.

The Articles provide that the Company may, after paying all income taxes in accordance with ROC law, recovering any past losses and deducting the Legal Reserve, allocate at least 80% of the remaining portion of earnings (subject to proposal by the Board of Directors and approval by shareholders) as follows:

(i) at least 8% as employee bonuses;

(ii) 2% as remuneration to directors and supervisors; and

(iii) the remaining balance, if any, to shareholders as dividends (of which cash dividends shall be limited between 5% and 20%).

For information as to ROC taxes on cash and stock dividends, see the section headed "ROC Taxation" below.

**Pre-Emptive Rights and Issue of Additional Shares**

The ROC Company Law provides that between 10% and 15% of any new issue of shares of capital stock sold for cash must be offered first to the Company's employees except in certain limited circumstances. In addition, the Securities and Exchange Law and the relevant securities regulations require that, if a public company (e.g., a company listed on the TSE or whose shares are traded on the GreTai Securities Market), such as the Company, intends to offer new shares for cash, at least 10% of such issue must be offered to the public except under certain circumstances or when exempted by the ROC SFC. Holders of Shares who are listed on the shareholders' register as of the record date have a pre-emptive right to acquire the remaining 75% to 80% of the issue. The Shares not subscribed for by the employees, shareholders and the public, 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 general public by means of public offering or a private placement. The shareholders do not have pre-emptive rights to subscribe for the Bonds.

**Meetings of Shareholders**

The ordinary meeting of shareholders of the Company is usually held in Taoyuan Hsien, Taiwan, or an alternative location within the ROC as determined by the Board of Directors, within the six months following the end of the Company's fiscal year. Notice in writing of ordinary meetings stating the place, time and purpose thereof must be dispatched to each shareholder at least 30 days prior to the date set for the meeting. Extraordinary meetings of shareholders may be convened by resolution of the Board of Directors or by shareholders under certain circumstances. Extraordinary meetings of shareholders may also be convened by a supervisor of the Company when the Board of Directors of the Company does not or cannot convene a shareholders meeting and/or such a meeting is necessary for the benefit of the Company. Notice in writing of extraordinary meetings stating the place, time and purpose thereof must be dispatched to each shareholder at least 15 days prior to the date set for the meeting.

**Voting Rights**

A shareholder has one vote for each share of common stock.

Except as otherwise provided by law, a resolution may be adopted by the holders of a simple majority of the total issued and outstanding Shares represented at a shareholders' meeting at which a majority of the holders of the total issued and outstanding Shares are present. Notwithstanding the above, in order to approve certain major corporate actions, including any amendment to the Articles (which is required for, *inter alia*, any increase in authorized share capital), the dissolution or amalgamation of the Company, the transfer of all or an important part of its business or its property, the taking over of the whole of the business or property of any other company which would have a significant impact on the Company's operations, or the distribution of any stock dividend, 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 shares 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 Shares represented at a meeting of shareholders with a quorum of holders of at least a majority of issued and outstanding Shares.

A shareholder may be represented at a shareholders' 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.

**Registration of Shareholders and Record Dates**

The Company currently uses Asia Securities Inc. as its share registrar to maintain the register of shareholders of the Company at its registered office in 3F, No. 225, Nanking E. Road, Sec. 3, Taipei, Taiwan, ROC. The share registrar of the Company enters transfers of Shares in the register of shareholders upon presentation of the certificates in respect of the Shares transferred accompanied by other required documents, other than those transferred through book-entry system.

As mentioned above, the record date for a dividend will be determined and announced by the Company. For the purpose of determining certain rights, including rights to dividends pertaining to the Shares, the Company Law provides that 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 relevant record date, respectively.

**Annual Report**

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

**Transfers of Capital Stock**

Under the ROC Company Law, the transfer of Shares (in registered form) is effected by endorsement of the transferor's and transferee's seals or chops on the back of the relevant share certificate and delivery of such share certificate to the transferee. 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 Shares is normally carried out on the book-entry system maintained by Taiwan Securities Central Depositary Co., Ltd.

**Acquisition by the Company of Its Own Capital Stock**

Except under limited circumstances, the Company cannot acquire its own capital stock under the Company Law. However, under the Securities and Exchange Law, the Company may, by a board resolution adopted by majority consent at a meeting with two-thirds of the Company's directors present, purchase its capital stock on the TSE or by a tender offer, in accordance with the procedures prescribed by the ROC SFC, for the following purposes: (i) to transfer Shares to the Company's employees; (ii) to convert bonds with warrants, preferred shares with warrants, convertible bonds, convertible preferred shares or certificates of warrants issued by the Company into the Shares; and (iii) if necessary, to maintain the Company's credit and its shareholders' interests provided that the Shares so purchased shall be cancelled thereafter.

The Company is not allowed to purchase more than 10% of its total issued and outstanding Shares. In addition, the Company may not spend more than the aggregate amount of the retained earnings, the premium from issuing stock and the realized portion of the capital reserve to purchase its Shares.

The Company may not pledge or hypothecate any purchased Shares. In addition, the Company may not exercise any shareholders' rights attached to such Shares. In the event that the Company purchases its Shares on the TSE, its affiliates (as defined in Article 369-1 of the ROC Company Law), directors, supervisors, managers and their respective spouses and minor children and/or nominees are prohibited from selling any of the Company's Shares during the period in which the Company purchases its Shares.

### Liquidation Rights

Pursuant to the ROC Company Law, in the event of the liquidation of the Company, the assets remaining after payment of all debts, liquidation expenses, taxes and distribution to holders of preference shares, if any, will be distributed *pro rata* to the shareholders.

### Notices

All notices to shareholders of the Company are delivered by post or published in newspapers with general circulation in the ROC or through a website designated by the ROC SFC (for shareholders holding less than 1,000 shares) as relevant ROC regulations may require.

## TRANSFER RESTRICTIONS

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

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

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

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

(1) The Bonds and the Shares issuable upon conversion of the Bonds have not been and will not be registered under the Securities Act or with any state of the United States and are subject to significant restrictions on transfer;

(2) Each owner purchasing prior to the expiration of 40 days after the later of the commencement of the offering and the latest closing date ("Distribution Compliance Period") is purchasing the Bonds in an offshore transaction meeting the requirements of Rule 903 or 904 of Regulation S;

(3) The Bonds will not be sold, pledged or transferred to, or for the account or benefit of, any US person outside the United States or any person in the United States during the Distribution Compliance Period;

(4) Such owner will not offer, sell, pledge or otherwise transfer any interest in the Bonds or Shares issuable upon conversion of the Bonds except as permitted by the applicable legend set forth in paragraph (5) below; and

(5) The Bonds will bear legends to the following effect, which restrictions the Company will observe unless the Company determine otherwise in compliance with applicable law:

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

**THIS LEGEND WILL BE REMOVED AFTER THE END OF THE DISTRIBUTION COMPLIANCE PERIOD, AFTER WHICH THE BONDS EVIDENCED HEREBY, AND THE COMMON SHARES OF ABIT ISSUABLE UPON CONVERSION OF THE BONDS SHALL NO LONGER BE SUBJECT TO THE RESTRICTIONS PROVIDED IN THIS LEGEND,**

**PROVIDED THAT AT SUCH TIME AND THEREAFTER THE OFFER OR SALE OF THE BONDS EVIDENCED HEREBY AND THE COMMON SHARES OF ABIT ISSUABLE UPON CONVERSION OF THE BONDS WOULD NOT BE RESTRICTED UNDER ANY APPLICABLE SECURITIES LAWS OF THE UNITED STATES OR OF THE STATES OR TERRITORIES OF THE UNITED STATES.**

## ROC TAXATION

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

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

### Premium and Interests on the Bonds

Premium (if any) and interests (if any) on the Bonds paid to Non-ROC Holders are subject to ROC income tax collected by way of withholding at the time of payment. The current rate of withholding for Non-ROC Holders is 20%. The Company has agreed to gross up such withholding tax.

### Sale

According to the amended Statute of Upgrading Industries effective on February 1, 2002, no securities transaction tax will be imposed on the transfer of corporate bonds and financial debentures, including the Bonds, until December 31, 2009.

Under current ROC law, capital gains in transactions of securities issued by ROC companies are exempt from income tax. This exemption applies to capital gains derived from the sale of the Bonds.

### Conversion into Shares

There are no specific provisions under current ROC law 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 with certainty that gain on the conversion of Bonds into Shares will not be deemed a taxable gain, additional interest income (subject to the 20% withholding tax) or otherwise be subject to other ROC tax. There is no ROC transfer, stamp, issue or registration tax imposed on the issuance of Shares upon conversion of the Bonds.

However, a securities transaction tax, gift tax and/or income tax may be imposed in relation to the converting holder's designation of another person to be the holder 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 subject to ROC income tax collected by way of withholding at the time of distribution. The current rate of withholding for Non-ROC Holders is 20% of the amount of the distribution (in the case of cash dividends) or the par value of the shares (in the case of stock dividends). The aforementioned 20% withholding tax may be reduced by an amount which is calculated by multiplying 10% of the amount of dividends distributed by a fraction, the numerator of which is the retained earnings on which the 10% retained earnings tax has been imposed, and the denominator is the accumulated retained earnings as of the distribution date.

It is not clear whether distribution of Shares declared by the Company out of capital reserve will be subject to ROC withholding tax.

**Capital Gains**

Under current ROC law, gain realized upon the sale or other disposition of securities is exempt from ROC income tax. This exemption will apply to a sale or other disposition of the Bonds or Shares. On January 4, 1996, the ROC Legislative Yuan passed a bill for the amendment to the ROC Income Tax Law that would have eliminated the exemption from the ROC income tax for gains realized on the sale of ROC securities and imposed a capital gains tax. On January 12, 1996, this amendment was repealed by the Legislative Yuan. The reintroduction of a capital gains tax would require the Legislative Yuan to engage in the full legislative process for the enactment of tax legislation.

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

**Subscription Rights**

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

**Securities Transaction Tax**

The ROC government imposes a securities transaction tax that will apply to sales of Shares. The transaction tax, which is payable by the seller, is generally levied on sales of shares at the rate of 0.3% of the sales proceeds. No securities transaction tax will apply to transfers of the Bonds.

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

**Estate Taxation and Gift Tax**

Subject to allowable exclusions, deductions and exemptions, the ROC estate tax is payable on any property within the ROC of a deceased Non-Resident Individual, and ROC gift tax is payable on any property within the ROC donated by a Non-Resident Individual. Estate tax is currently imposed at rates ranging from 2% of the first NT$600,000 to 50% of amounts in excess of NT$100,000,000. Gift tax is imposed at rates ranging from 4% of the first NT$600,000 donated to 50% of amounts donated in excess of NT$45,000,000. Under ROC estate and gift tax laws, the Bonds and Shares will be deemed to be located in the ROC without regard to the location of the owner.

**Tax Treaty**

At present, the ROC has income tax treaties with Indonesia, Singapore, Australia, New Zealand, Gambia, United Kingdom, Swaziland, Malaysia, Vietnam, Macedonia, South Africa and The Netherlands. It is unclear whether a Non-ROC Holder will be considered to own the Bonds or Shares for the purposes of such treaties. Accordingly, a holder of the Bonds or Shares who is otherwise entitled to the benefit of a treaty should consult its own tax advisers concerning eligibility for benefits under the treaty with respect to the Bonds or Shares. The ROC government has announced a plan to suspend or terminate the tax treaty with South Africa in reaction to South Africa's decision to discontinue diplomatic recognition of the ROC.

## Plan of Distribution

Hua Nan Securities (H.K.) Limited (the "Manager") has, pursuant to a Purchase Agreement dated November 20, 2003, agreed with the Company to subscribe and pay for the Bonds in the principal amounts therein specified at the issue price of 100% of their principal amount less a combined management and underwriting commission, a selling commission aggregating (before allowing for agreed reimbursement of the Company's expenses) 1.35% of their principal amount. The Purchase Agreement provides that the Company will indemnify the Manager against certain liabilities. The Purchase Agreement provides that the obligations of the Manager are subject to certain conditions precedent, and entitles the Manager to terminate it in certain circumstances prior to payment being made to the Company.

The Manager, and/or its affiliates, intends to purchase Bonds for its 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 Manager may, to the extent permitted by, and in accordance with, applicable laws and regulations, 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 Purchase Agreement that, except as described below, neither it nor any person acting on its behalf will issue, offer, sell, contract to sell on otherwise dispose of any interest in any Shares, securities of the same class as the Bonds or Shares or any securities (other than preferred stock) 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 Manager between the date hereof and the date which is 90 days after the Closing Date (both dates inclusive). However, the foregoing restriction shall not apply to (a) any transactions relating to the Bonds, the Shares or other securities acquired in open market transactions after the completion of the offering of the Bonds; (b) any issuance of Shares upon conversion of (x) the Bonds, (y) the NT$1.0 billion zero coupon convertible bonds due June 2006 issued by the Company in June 2001 and (z) the US$17.0 million convertible bonds due February 2008 issued by the Company in February 2003; (c) any issuance of Shares pursuant to employee benefits plans or stock option plans; or (d) any announcement and/or distributions of dividends or employee dividends in the form of Shares.

### 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 the Shares issuable upon conversion of the Bonds may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction.

### United States

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, US 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.

The Manager has agreed that, except as permitted by the Purchase Agreement, it will not offer or sell the Bonds or Shares to be issued upon conversion of the Bonds (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the latest closing date of the Bonds within the United States or to, or for the account or benefit of, US persons, and it will have sent to each dealer to which it sells the Bonds or Shares to be issued upon conversion of the Bonds during the

Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds or Shares, as the case may be, within the United States or to, or for the account or benefit of, US persons. Terms used in this paragraph have the meanings given to them by Regulation S.

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

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

**United Kingdom**

The Manager has represented and agreed that:

(1) it has not offered or sold and, prior to the expiry of a period of six months from the issue date 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 only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Company; and

(3) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

**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**

The Manager has represented and agreed that (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than to persons whose ordinary business it is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong. No advertisement, invitation of document relating to the Bonds, whether in Hong Kong or elsewhere, has been or will be issued, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

**Japan**

The Manager has represented and agreed that the Bonds have not been and will not be registered under the Securities and Exchange Law of Japan (the "Securities and Exchange Law") and that the Bonds which it subscribes will be subscribed by it as principal. The 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 and other applicable laws and regulations of Japan.

# General Information

## 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 authorized by resolutions of the Board of Directors of the Company passed on July 22, 2003.

## Material Change

Except as disclosed in this Offering Circular, there has been no significant change in the financial or trading position since December 31, 2002, the date of the latest audited consolidated financial statements, nor any material adverse change in the financial position or prospects since December 31, 2002 of the Company, except as may be otherwise disclosed or referred to herein.

## Litigation

Save as disclosed herein, neither the Company nor any of its subsidiaries is involved in any litigation or arbitration proceedings which may have, or have had during the 12 months preceding the date of this Offering Circular, an adverse effect on the financial position of the Company and its subsidiaries, nor, so far as any of them is aware, are any such proceedings pending or threatened except as may be otherwise disclosed or referred to herein.

## Auditors

The audited consolidated and unconsolidated financial statements as of and for the years ended December 31, 2000, 2001 and 2002 have been audited by KPMG, independent accountants, in accordance with ROC generally accepted auditing standards as indicated in their report with respect to those financial statements included in this Offering Circular. With respect to the unaudited unconsolidated financial statement as of and for the nine months ended September 30, 2002 and 2003 included in this Offering Circular, KPMG have reported that they applied limited procedures in accordance with professional standards in the ROC for a review of such information. However, their separate report include in the Company's quarterly interim report thereon, states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

## Clearing Systems

The Bonds have been accepted for clearance through the facilities of Euroclear and Clearstream, Luxembourg. The ISIN Number for the Bonds is XS0180226135 and the Common Code is 018022613.

## SUMMARY OF PRINCIPAL DIFFERENCES BETWEEN ROC GAAP AND US GAAP

Our accompanying financial statements have been prepared in conformity with ROC GAAP which differ in certain significant respects from US GAAP. A brief description of certain significant differences between ROC GAAP and US GAAP are set out below. The organizations that promulgate ROC GAAP and US GAAP have projects ongoing that could have a significant impact on future comparisons such as this. This summary is not intended to provide a comprehensive listing of all existing or future differences between ROC GAAP and US GAAP, including those specifically related to us or to the industry in which we operate. Had we undertaken to identify the differences specifically affecting the financial statements presented in this document, other potentially significant differences may have come to our attention which are not provided in the following summary. Accordingly, there can be no assurance that this summary of certain significant differences between ROC GAAP and US GAAP provides a complete description of all differences which may have a significant impact on our consolidated and unconsolidated financial statements. US GAAP is generally more restrictive and comprehensive than ROC GAAP regarding the recognition and measurement of transactions, account classification and disclosure requirements. No attempt has been made in this summary to identify disclosure, presentation of classification differences that would affect the manner in which transactions and events are reflected in our financial statements or the notes thereto.

Certain significant differences between ROC GAAP and US GAAP which would affect the determination of our net income and equity are as follows:

| Subject | ROC GAAP | US GAAP |
|---|---|---|
| Presentation of Unconsolidated Financial Statements . . . . . | Under ROC GAAP requirements, unconsolidated financial statements of a company are presented as the primary financial statements and consolidated financial statements as supplemental financial statements. | Under US GAAP, parent-company-only unconsolidated financial statements are not allowed to be presented as the primary financial statements for any period. |
| | The consolidated financial statements include the accounts of a company and all of its subsidiaries in which more than 50% of the shares are owned by the company and in which total assets and operating revenues exceed 10% of the company's total assets and operating revenues. If the total assets and operating revenues of a subsidiary is less than 10% of the company's total assets and operating revenues, then the subsidiary is accounted for under the equity method of accounting. For those subsidiaries in which more than 50% of the shares are owned by the company and in which total assets and operating revenues do not exceed 10% of the corresponding accounts of the company, and the aggregate total assets and total operating revenues of all theses subsidiaries is less than 30% of the company's total assets and operating revenues, respectively, the financial statements of these subsidiaries are not consolidated into the company's consolidated financial statements. | Under US GAAP, all subsidiaries in which more than 50% of the shares are owned by a company are to be consolidated into such company's consolidated financial statements.<br><br>In January 2003, the U.S. Financial Accounting Standards Board ("FASB") issued FASB Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51." FIN No. 46 requires existing unconsolidated variable interest entities, as defined in the Interpretation, to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. Variable interest entitles that effectively disperse risks will not be consolidated unless a single party holds an interest or combination of interests that effectively recombines risks that were previously dispersed. |
| Guarantor's Accounting and Disclosure Requirements for Guarantees . . . . . | Under ROC GAAP requirements, a guarantor is only required to disclose any off-balance sheet guarantees made to affiliates and other third parties in the contingencies footnote of the financial statements. | "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others" elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. In addition, a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. |

| Subject | ROC GAAP | US GAAP |
|---|---|---|
| Derivative Financial Instrument Transactions . . . . | There are no definitive accounting standards, other than certain disclosure requirements, under ROC GAAP which address accounting for derivative financial instruments such as foreign currency options, futures, interest rate of foreign currency swaps, except for forward exchange contracts. The accounting treatment of forward exchange contracts is similar to US SFAS No. 52. | Beginning January 1, 2001, all derivatives contracts are recognized at fair value. Under US SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities", as amended, accounting for derivative instruments is in large part determined by the purpose for which the instrument was entered into. In general, derivative financial instruments which were entered into for speculative or trading purposes (or which do not meet the criteria for accounting for such items as hedges), rather than to hedge exposures to risks, are accounted for at fair value with all gains and losses recognized currently in earnings. Derivative financial instruments which (i) are entered into in order to hedge certain exposures and (ii) meet defined criteria in order to be classified as hedges, are accounted for in a manner so as to offset the gains and losses applicable to the derivative financial instrument against the gains and losses on the transactions or commitments which are being ledged (i.e., either by recording the gains and losses on derivative financial instruments currently when they are used as hedges of existing (on-balance sheet) transactions or by deferring the gains and losses on derivative financial instruments in the equity section of the balance sheet when they are used as hedges of forecasted transactions). In addition, US SFAS No. 133 also defines the concept of embedded derivatives which may now exist due to a broader definition of a derivative instrument. Embedded derivatives are accounted for in the same manner as any other derivatives. |
| Investment in Debt and Equity Securities . . . . . . | Short-term investments are stated at the lower of aggregate cost or market value. Investments in debt securities are stated at the lower of amortized cost or market value. Long-term investments in listed equity securities in respect of which the company does not exercise significant influence on operating and financial decisions of the investee are stated at the lower of cost or market value, and unrealized losses are deducted from shareholders' equity. Investments in non-listed equity securities in respect of which the company does not exercise significant influence on operating and financial decisions of the investee are stated at cost, subject to permanent impairment test.<br><br>Share dividends received are recorded as an increase in voting shares and not as investment income. | Investments in marketable equity securities are classified in one of three categories: trading, held-to-maturity or available-for-sale. Marketable equity securities classified as trading securities are reported at fair value with unrealized gains and losses included in earnings; marketable debts securities classified as held-to-maturity securities are reported at amortized cost; and marketable debt and marketable equity securities classified as available-for-sale securities are report at fair value with unrealized gains and losses reported in accumulated other comprehensive income. Share dividends received are recorded as investment income based on the fair value of the shares. |

| Subject | ROC GAAP | US GAAP |
|---|---|---|
| Bonuses to Employees, Directors and Supervisor . . . . . | According to ROC regulations and our Articles of Incorporation, a portion of distributable earnings should be set aside as bonuses to employees, directors and supervisors. Bonuses to directors and supervisors are always paid in cash. However, bonuses to employees may be granted in cash or shares or both. All of these appropriations, including share bonuses which are valued at par value of NT$10, are charged against retained earnings under ROC GAAP, after such appropriations are formally approved by the shareholders in the following year. | All bonuses and remuneration are charged to current income in the year incurred. Shares issued as part of these bonuses is recorded at fair market value. Since the amount and form of such bonuses are not finally determinable until the shareholders' meeting in the subsequent year, the total amount of the aforementioned bonuses is initially accrued based on management's estimate regarding the amount to be paid based on the company's Articles of Incorporation. Any difference between the initially accrued amount and the fair market value of the bonuses settled by the issuance of shares is recognized in the year of the shareholders' approval. |
| Share Dividends . . . | Share dividends are recorded as a reduction to retained earnings for the par value of the shares issued, and a like amount is recorded to the capital stock account. | Share dividends are recorded as a reduction to retained earnings based on the fair value of the shares issued, and a like amount is recorded to the capital stock and capital surplus accounts.<br><br>When the number of additional shares issued as share dividends is so great that it has, or may reasonably be expected to have, the effect of materially reducing the share market value, the transaction partakes of the nature of a stock split. |
| Gains on Disposition of Property, Plant and Equipment . . | For all prior periods through December 31, 2001, gains on the dispositions of property, plant and equipment are first credited to non-operating income and then transferred, after deducting the applicable income tax, to capital surplus in the applicable fiscal year. After December 31, 2001, transfers to capital surplus are not allowed. | Any gains on the dispositions of property, plant and equipment is credited to income, with no transfer to capital surplus. |
| Capital Surplus . . . . | Under ROC GAAP, the following items are treated as capital surplus: (a) premium on issuance of shares; (b) revaluation increment on properties, and (c) the value of the assets of a company acquired in a merger in excess of assumed liabilities and the consideration paid for shares of such company in connection with the acquisition. | Under US GAAP, item (a) of the preceding column is the same as in ROC GAAP; items (b) and (c) of the preceding column are not permitted. |
| Accounting for Pensions. . . . . . . | Under ROC Statement of Financial Accounting Standards (SFAS) No. 18 "Accounting for Pensions", the annual pension provision is recognized as a charge to the statement of income over the employees' service period. ROC SFAS No. 18 focuses on the plan's benefit formula as the basis for determining the benefit earned, and therefore the cost incurred for each year. The determination of the benefit earned is actuarially determined, and includes components for service cost, time value of money, return on plan assets and gains or losses from changes in previous assumptions. In certain cases, a minimum liability is recognized through a direct charge to stockholder's equity. Also upon the adoption of ROC SFAS No. 18, the initial difference between the projected benefit obligation and the fair value of the plan assets is recognized in the statement of income over the average expected employees' service period. | Under US GAAP, the annual pension provision is recognized in accordance with US SFAS No. 87. US SFAS No. 87 is substantially similar to ROC SFAS No. 18. However, the unrecognized transitional asset/liability balance, representing the initial difference between the projected benefit obligation and the fair value of plan assets upon adoption of ROC SFAS No. 18, would be different under US SFAS No. 87 as US SFAS No. 87 would have been implemented prior to December 31, 1995. |

| Subject | ROC GAAP | US GAAP |
|---|---|---|
| Equity method investment . . . . . | Equity in net earnings or losses of an investee can be recognized in the following period not exceeding one year. | Under US GAAP, equity in net earnings or losses of an investee can be recognized based on a maximum of three months lag basis. |
| | The difference between the acquisition cost and the equity in net assets of an investee at the purchase date is deferred and amortized to income over a period of not more than five years. | Under US GAAP, the portion of the difference between the cost of an investment and the amount of underlying equity in net assets of an equity method investee that is recognized as goodwill cannot be amortized. |
| Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of . . . . | ROC GAAP has no specific standards which address impairment of long-live assets held and used by an entity. Normally such assets would be carried at cost less accumulated depreciation. | Under US GAAP, US SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed of", as amended by US SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets", requires entities to perform separate calculation for assets to be held and used to determine whether recognition of an impairment loss is required, and if so, to measure the impairment. If the sum of the expected future cash flows, undiscounted and without interest charges, is less than an asset's carrying amount, an impairment loss is recognized; if the sum of the expected future cash flows greater than an asset's carrying amount, an impairment loss cannot be recognized. Measurement of an impairment loss is based on the fair value of the asset. US SFAS No. 121, as amended by US SFAS No. 144, also generally requires that long-lived assets and certain identifiable intangibles to be disposed of be reported at the lower of the carrying amount or fair value less cost to sell. |
| Deferred Expenses. . | Under ROC GAAP, deferred expenses include organization costs, issuance costs of bonds, testing costs of reinstallation of machinery and equipment. Deferred expenses shall be amortized by systematic charges to income over the periods estimated to be benefited. | Under US GAAP, start-up costs are generally expensed as incurred. |
| Computer Software Developed or Obtained for Internal Use . . . . | Under ROC GAAP, there is no specific accounting guideline related to costs of computer software developed or obtained for internal use. | US GAAP provides detail guidance regarding the accounting treatment for internal-use software costs. AICPA Statement of Position 98-1 specifies the requirements for the capitalization of computer software costs obtained for internal use. |
| Amortization of Intangible Assets. | Under ROC GAAP, technology transfer fees can be capitalized and amortized by systematic changes to income over the periods estimated to be benefited or over the terms of the agreements. | Under US GAAP, the technology transfer fees are also amortized over their estimated life, but typically for a shorter period, i.e. 2–3 years. |
| Retained Earnings Tax . . . . . . . . . . | Companies in the ROC are subject to a 10% surtax on profits retained and earned after December 31, 1997. A company may defer the accrual of the surtax in the subsequent year if the manner of distribution of retained earnings is not clearly specified in its articles of incorporation. | Under US GAAP, income tax expense related to the 10% retained profit tax is recorded in the statement of income in the year that the profits were earned, based on the management's estimate of the amount of earnings to be retained. |

| Subject | ROC GAAP | US GAAP |
|---|---|---|
| Income Tax . . . . . . | ROC Statements of Financial Accounting Standards No. 22 (ROC SFAS No. 22) "Accounting for Income Taxes", was issued in June 1994, and was adopted as of January 1, 1995. ROC SFAS No. 22 is substantially similar to US GAAP. However, under ROC GAAP, the cumulative effect of adoption is included in the current year's provision for income tax rather than being separately presented as the cumulative effect of a change in accounting principle. Under ROC GAAP, the criteria for determining whether a valuation allowance is required are less stringent as compared to US GAAP. Under US GAAP, if a company has experienced cumulative losses in recent years, it is not generally able to consider projections of future operating profits for the purpose of determining the valuation allowance for deferred income tax assets. | Under US GAAP, current tax liabilities are recognized for estimated taxes payable for the current period. US SFAS No. 109 requires that all temporary differences between the carrying amounts of assets and liabilities and their respective tax bases be recognized as deferred tax liabilities or assets. A valuation allowance is provided on tax assets to the extent that it is not "more likely than not" that such deferred tax assets will be realized. A change in tax rate or law requires an adjustment to such deferred assets and liabilities in the period of enactment, and is reported as a part of results of operations. |
| | Under ROC GAAP in accordance with ROC SFAS No. 22, the are no differences between annual financial statements and quarterly financial statements on the income tax. | Under US GAAP, tax provisions in interim quarterly financial statements are provided based on an estimated effective tax rate expected to be applicable to the full fiscal year. Such estimated effective tax rate takes into account all anticipated tax attributes for the full fiscal year. |
| Depreciation Lives of Fixed Assets. . | In practice, depreciation is generally provided using the guideline service lives as prescribed by ROC Internal Revenue Code plus one additional year as salvage value. | Depreciation is provided over the asset's estimated useful life. No additional depreciation is provided on fully depreciated assets which continue be used in the business. |
| | ROC SFC regulations applicable to public companies require that when fixed assets have been fully depreciated over the prescribed service life and the underlying assets continues to be used, the remaining unamortized value (i.e. the salvage value portion) is depreciated over the asset's remaining economic life. | |
| Long-term Debt Classification . . . | Under ROC GAAP, there is no specific rule regarding the presentation of long-term debt where certain covenants were breached. Generally, such debt will be presented as non-current as long as there are indications that such breaches will not result in the debt being called by the creditor. | Under US GAAP, breaches on loan covenants may require debt due after one year to be classified as current liabilities. |
| Compensated Absences . . . . . . | ROC GAAP has no specific accounting practice regarding compensated absence. | Compensated absences must be accrued based on the liability for employees' rights to receive compensation for future absences when certain conditions are met. |
| Convertible Bonds. . | When convertible bonds are issued, ROC GAAP does not recognize or account for any beneficial conversion feature embedded in the bonds. | Under US GAAP, beneficial conversion features should be recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to capital surplus. In connection with a company's issuance of convertible bonds, the amount of the beneficial conversion feature would be calculated at the commitment date, or the date in which an event has taken place that triggers beneficial conversion, as the difference between the conversion price and the fair value of the common stock, multiplied by the number of shares into which the security is convertible. |

| Subject | ROC GAAP | US GAAP |
|---|---|---|
| Shipping Revenue Received . . . . . . | Shipping revenue received from customers is accounted as a reduction of selling expenses. | In accordance with EITF 00-10, shipping revenue received from customers is recorded as revenue. |
| Provision for Inventory Obsolescence and Devaluation . . . . | A provision for inventory obsolescence and devaluation is recorded when management determines that the market values of inventories are less than their cost basis, and is included as a component of non-operating expenses. Under ROC GAAP, such provisions can be reversed in whole or in part if management further determines that the market values of inventories are greater than their cost basis. | Under US GAAP, provisions for inventory obsolescence and devaluation become a permanent adjustment to the carrying amount of the specific inventory whose market values are less than their cost basis, as deemed by management. Obsolescence and devaluation provision adjustments are included as part of cost of goods sold under US GAAP, and cannot be reversed once they are recorded. |
| Earnings Per Share . | A company computes earnings per share based on the weighted average number of outstanding shares. The number of outstanding shares is retroactively adjusted for share dividends and new common share issuances issued through unappropriated earnings and capital surplus. | Under US GAAP, when a simple capital structure exists, basic earnings per share is calculated based on the weighted average number of shares outstanding.<br><br>When a complex capital structure exists, diluted earnings per share is calculated based on the weighted average number of shares outstanding plus the number of additional shares that would have been outstanding if dilutive potential common shares had been issued, with appropriate adjustments to income or loss that would result from the assumed conversions of those potential common shares. The materiality of the dilutive effect is not considered.<br><br>Basic and diluted earnings per share calculations are not retroactively adjusted for new shares issued through unappropriated earnings and capital surplus. |
| Comprehensive Income . . . . . . . | There is no requirement to present comprehensive income. | Comprehensive income and its components (revenues, expenses, gains and losses) must be presented in a full set of financial statements under US GAAP. Comprehensive income includes all changes in shareholders' equity during a period, except those resulting from investments by or distributions to owners, including certain items not included in the current results of operations. |
| Function Currency. . | NT$ is always the functional and reporting currency for ROC companies. | Management must make an assessment of the functional currency of a company and its subsidiaries. Such assessment is based on the primary economic environment in which the company and/or its subsidiaries operate. |

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

# INDEX TO FINANCIAL STATEMENTS

# INDEPENDENT AUDITORS' REPORT

The Board of Directors
**ABIT Computer Corporation:**

We have audited the accompanying consolidated balance sheets of ABIT Computer Corporation and subsidiaries as of December 31, 2000, 2001 and 2002 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. As of December 31, 2000, 2001 and 2002, long-term equity investments amounting NT$323,836 thousand, NT$1,274,132 thousand, and NT$1,006,402 thousand, respectively, and the related equity in net earnings (losses) amounting to NT$4,309 thousand, (NT$38,414) thousand and (NT$254,073) thousand in 2000, 2001 and 2002, respectively, were based on financial statements audited there were not audited by us. In addition, we did not audit the financial statements of ABIT Computer (U.S.A.) Corporation and Treasure World Holdings Inc., which statements reflect total assets amounting to NT$698,429 thousand, NT$3,745,641 thousand and NT$4,727,172 thousand constituting 7%, 32% and 42% and total revenues amounting NT$1,626,791 thousand, NT$13,424,397 thousand, and $13,768,996 thousand, constituting 9%, 69% and 71% in 2000, 2001 and 2002, respectively, of the related consolidated totals. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those the aforementioned affiliates and subsidiaries, is based solely on the report of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards and "Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants" of the Republic of China. 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 audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ABIT Computer Corporation and subsidiaries as of December 31, 2000, 2001 and 2002, and the results of their operations and their cash flows for the years then ended in conformity with "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and generally accepted accounting principles of the Republic of China.

As discussed in note 2(a) to the consolidated financial statements, the entities consolidated in 2002 were different from previous years and, accordingly, the Company restated the 2000 and 2001 consolidated financial statements to be comparative with the 2002 financial statements.

The accompanying consolidated financial statements as of and for the year ended December 31, 2002, except for the consolidated statements of changes in stockholder's equity, have been translated into United States dollars solely for the convenience of the readers. We have audited the translated into United States dollars solely for the convenience of the readers. We have audited the translation and, in our opinion, the consolidated financial statements expressed in New Taiwan dollars have been the translated into United States dollars on the basis set forth in note 2 (l) of the notes to the consolidated financial statements.

Taipei, Taiwan, R. O. C.
March 31, 2003, except as to note 9. (1).[7], which is as of April 10, 2003, and note 2(12), which is as of October 14, 2003

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*The accompanying financial statements are intended only to present the financial position, results of operation and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures, and practices to audit such financial statements are those generally accepted and applied in the Republic of China.*

## ABIT COMPUTER CORPORATION AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS
### December 31, 2000, 2001 and 2002
### (Expressed in thousands of New Taiwan dollars and US dollars)

| | 2000 | | 2001 | | 2002 | | |
|---|---|---|---|---|---|---|---|
| | NTD | % | NTD | % | NTD | % | USD |
| **ASSETS** | | | | | | | |
| **Current assets** | | | | | | | |
| Cash and cash equivalents *(Notes 2 and 4.1)* | $ 909,742 | 10 | $ 1,458,410 | 12 | $ 683,032 | 6 | $ 20,220 |
| Notes receivable, net *(Notes 2 and 4.2)* | 2,665 | — | 1,104 | — | — | — | — |
| Accounts receivable, net *(Notes 2 and 4.2)* | 2,953,019 | 32 | 3,140,079 | 27 | 1,454,262 | 13 | 43,051 |
| Accounts receivable — related-party *(Note 5)* | 624,591 | 7 | 79,702 | 1 | 25,562 | — | 757 |
| Other receivables — related-party *(Notes 5,6 and 7)* | — | — | — | — | 206,448 | 2 | 6,112 |
| Inventories, net *(Notes 2 and 4.3)* | 1,320,159 | 14 | 1,300,264 | 11 | 375,053 | 3 | 11,102 |
| Other current assets | 303,510 | 3 | 233,512 | 2 | 412,245 | 4 | 12,204 |
| Restricted assets *(Note 6)* | 281,537 | 3 | 373,642 | 3 | 1,150,780 | 10 | 34,067 |
| | 6,395,223 | 69 | 6,586,713 | 56 | 4,307,382 | 38 | 127,513 |
| **Long-term investments** | | | | | | | |
| Long-term equity investments *(Notes 2 and 4.4)* | 518,523 | 6 | 1,318,662 | 11 | 3,024,440 | 27 | 89,533 |
| **Property, plant, and equipment** *(Notes 2, 4.5, and 6)* | | | | | | | |
| Land | 464,279 | 5 | 1,473,612 | 13 | 1,149,075 | 10 | 34,016 |
| Buildings | 95,958 | 1 | 867,665 | 7 | 651,749 | 6 | 19,294 |
| Machinery | 195,995 | 2 | 196,380 | 2 | 37,235 | — | 1,102 |
| Computer equipment | 14,951 | — | 51,099 | — | 51,812 | 1 | 1,534 |
| Transportation equipment | 14,653 | — | 21,472 | — | 17,511 | — | 518 |
| Furniture and office equipment | 15,484 | — | 36,748 | — | 44,582 | 1 | 1,320 |
| Prepayment for real estate | 778,439 | 8 | — | — | — | — | — |
| Prepayment for equipment | — | — | 3,118 | — | — | — | — |
| Other equipment | 18,649 | — | 10,478 | — | 8,468 | — | 251 |
| Less: Accumulated depreciation | (113,273) | (1) | (152,770) | (1) | (94,853) | (1) | (2,808) |
| | 1,485,135 | 15 | 2,507,802 | 21 | 1,865,579 | 17 | 55,227 |
| **Intangible assets** | | | | | | | |
| Deferred debits *(Notes 2 and 4.6)* | 891,295 | 9 | 1,203,961 | 11 | 1,424,631 | 13 | 42,174 |
| **Other assets** | | | | | | | |
| Idle assets (Notes 2 and 6) | — | — | — | — | 190,172 | 2 | 5,630 |
| Leased assets *(Notes 2 and 6)* | — | — | — | — | 393,933 | 3 | 11,662 |
| Restricted assets *(Notes 2, 6 and 7)* | — | — | — | — | 5,000 | — | 148 |
| Other assets — other *(Notes 2 and 6)* | 107,423 | 1 | 61,095 | 1 | 38,146 | — | 1,129 |
| | 107,423 | 1 | 61,095 | 1 | 627,251 | 5 | 18,569 |
| **TOTAL ASSETS** | $9,397,599 | 100 | $11,678,233 | 100 | $11,249,283 | 100 | $333,016 |

**CONSOLIDATED BALANCE SHEETS — (Continued)**
**December 31, 2000, 2001 and 2002**
**(Expressed in thousands of New Taiwan dollars and US dollars)**

| | 2000 | | 2001 | | 2002 | | |
|---|---|---|---|---|---|---|---|
| | NTD | % | NTD | % | NTD | % | USD |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | | | | |
| **Current liabilities** | | | | | | | |
| Short-term borrowings *(Note 4.7)* | $1,351,682 | 14 | $ 1,951,215 | 17 | $ 1,900,220 | 17 | $ 56,253 |
| Short-term notes payable *(Note 4.8)* | 391,289 | 4 | 344,536 | 3 | 145,815 | 1 | 4,317 |
| Notes payable *(Note 5)* | 412,722 | 4 | 525,440 | 4 | 103,663 | 1 | 3,069 |
| Accounts payable *(Note 5)* | 832,062 | 8 | 390,667 | 3 | 142,959 | 1 | 4,232 |
| Accounts Payable — related-party *(Notes 5)* | — | — | 12,108 | — | 2,524 | — | 75 |
| Income tax payable *(Notes 2 and 4.6)* | 82,210 | 1 | 41,654 | — | 10,347 | — | 306 |
| Accrued expenses | 159,723 | 2 | 171,331 | 2 | 106,857 | 1 | 3,163 |
| Current portion of long-term debt *(Note 4.10)* | 55,356 | 1 | 114,172 | 1 | 111,692 | 1 | 3,306 |
| Other current liabilities | 56,087 | 1 | 97,197 | 1 | 161,758 | 2 | 4,789 |
| | 3,341,131 | 35 | 3,648,320 | 31 | 2,685,835 | 24 | 79,510 |
| **Long-term liabilities** | | | | | | | |
| Corporate bonds payable *(Note 4.9)* | — | — | 183,402 | 2 | 153,603 | 1 | 4,547 |
| Long-term debt *(Note 4.10)* | 449,741 | 5 | 1,803,513 | 15 | 1,768,546 | 16 | 52,355 |
| Long-term accounts payable — related parties | — | — | — | — | 11,442 | — | 338 |
| | 449,741 | 5 | 1,986,915 | 17 | 1,933,591 | 17 | 57,240 |
| **Other liabilities** | | | | | | | |
| Accrued pension liabilities *(Notes 2 and 4.15)* | 5,666 | — | 8,763 | — | 8,284 | — | 245 |
| Other liabilities — others | 47,509 | 1 | 25,864 | 1 | 7,430 | — | 220 |
| Minority interest | 1,403,796 | 15 | 283,217 | 2 | 106,980 | 1 | 3,167 |
| | 1,456,971 | 16 | 317,844 | 3 | 122,694 | 1 | 3,632 |
| Total liabilities | 5,247,843 | 56 | 5,953,079 | 51 | 4,742,120 | 42 | 140,382 |
| **Stockholders' equity** | | | | | | | |
| Capital stock *(Note 4.11)* | 2,200,000 | 23 | 3,031,389 | 26 | 4,967,076 | 44 | 147,042 |
| Entitlement certificates | — | — | 5,801 | — | — | — | — |
| Capital surplus *(Note 2)* | 1,197,134 | 13 | 1,665,551 | 14 | 2,256,844 | 20 | 66,810 |
| Retained earnings | | | | | | | |
| Legal reserve *(Note 4.12)* | 76,096 | 1 | 136,270 | 1 | 200,878 | 2 | 5,947 |
| Undistributed earnings *(Note 4.12)* | 647,986 | 7 | 705,315 | 6 | (1,085,541) | (10) | (32,136) |
| Cumulative translation adjustments *(Notes 2 and 4.4)* | 28,540 | — | 180,828 | 2 | 167,906 | 2 | 4,971 |
| **Total Stockholders' equity** | 4,149,756 | 44 | 5,725,154 | 49 | 6,507,163 | 58 | 192,634 |
| Major commitments and contingencies *(Notes 2 and 7)* | | | | | | | |
| Significant subsequent events *(Notes 9)* | | | | | | | |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | $9,397,599 | 100 | $11,678,233 | 100 | $11,249,283 | 100 | $333,016 |

*The accompanying notes are an integral part to the consolidated financial statements.*

## ABIT COMPUTER CORPORATION AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF OPERATIONS
### For the years ended December 31, 2000, 2001 and 2002
### (Expressed in thousands of New Taiwan dollars)

| | 2000 | | 2001 | | 2002 | | |
|---|---|---|---|---|---|---|---|
| | NTD | % | NTD | % | NTD | % | USD |
| Operating revenue | | | | | | | |
| Gross sales | $19,161,424 | 101 | $19,733,490 | 101 | $19,536,885 | 101 | $578,357 |
| Less: Sales returns | (29,928) | — | (38,107) | — | (45,767) | — | (1,355) |
| Sales allowance | (85,269) | (1) | (173,190) | (1) | (176,828) | (1) | (5,235) |
| Net sales | 19,046,227 | 100 | 19,522,193 | 100 | 19,314,290 | 100 | 571,767 |
| Operating costs | 17,423,373 | 92 | 17,721,647 | 91 | 18,651,331 | 97 | 552,141 |
| Gross profit | 1,622,854 | 8 | 1,800,546 | 9 | 662,959 | 3 | 19,626 |
| Unrealized intercompany gain *(Note 4.4)* | (5,033) | — | (8,703) | — | (6,095) | — | (180) |
| Realized intercompany gain *(Note 4.4)* | 2,653 | — | 5,033 | — | 8,703 | — | 257 |
| Realized gross profit | 1,620,474 | 8 | 1,796,876 | 9 | 665,567 | 3 | 19,703 |
| Operating expenses | | | | | | | |
| Selling expenses | 613,703 | 3 | 478,763 | 2 | 428,580 | 2 | 12,687 |
| Administrative expenses | 222,180 | 1 | 515,763 | 3 | 662,642 | 3 | 19,617 |
| Research and development expenses | 125,084 | 1 | 168,737 | 1 | 217,220 | 1 | 6,430 |
| | 960,967 | 5 | 1,163,263 | 6 | 1,308,442 | 6 | 38,734 |
| Operating income | 659,507 | 3 | 633,613 | 2 | (642,875) | (3) | (19,031) |
| Non-operating income | | | | | | | |
| Interest income | 27,158 | — | 25,529 | — | 17,471 | — | 516 |
| Gain on disposal of property, plant, and equipment *(Note 2)* | 257 | — | — | — | 5,734 | — | 170 |
| Gain on disposal of investments | 1,918 | — | 4,795 | — | — | — | — |
| Gain on physical stock-taking of inventories | 132 | — | 117 | — | — | — | — |
| Exchange gain | 184,460 | 1 | 146,653 | 1 | 544 | — | 16 |
| Commission income | 31,205 | — | 74,747 | — | 51,434 | — | 1,523 |
| Reversal of provision for doubtful accounts | — | — | 6,000 | — | — | — | — |
| Gain on inventory market recovery | — | — | 43,420 | — | — | — | — |
| Miscellaneous income | 27,612 | — | 27,802 | — | 41,779 | — | 1,237 |
| | 272,742 | 1 | 329,063 | 1 | 116,962 | — | 3,462 |
| Non-operating expenses | | | | | | | |
| Interest expense | 166,775 | 1 | 180,338 | 1 | 191,008 | 1 | 5,654 |
| Loss on investments | 44,785 | — | 57,586 | — | 152,027 | 1 | 4,500 |
| Loss on disposal of property, plant, and equipment *(Note 2)* | 2,958 | — | 2,399 | — | — | — | — |
| Loss on disposal of investments | — | — | — | — | 28,427 | — | 84.2 |
| Inventory market decline and obsolescence | 52,573 | — | — | — | 54,000 | — | 1,599 |
| Miscellaneous expenses | 12,117 | — | 5,592 | — | 83,811 | — | 2,481 |
| | 279,208 | 1 | 245,915 | 1 | 509,273 | 2 | 15,076 |
| Income (loss) before income tax | 653,041 | 3 | 716,761 | 2 | (1,035,186) | (5) | (30,645) |
| Income tax benefit (expense) *(Notes 2 and 4.16)* | (99,454) | — | (65,289) | — | 7,855 | — | 233 |
| Gain(loss) before purchase | 15,137 | — | (941) | — | (75,408) | — | (2,232) |
| Minority interest net income | 33,217 | — | (4,744) | — | (6,383) | — | (190) |
| Net income (loss) | $ 601,941 | 3 | $ 645,787 | 2 | $ (1,109,122) | (5) | $ (32,834) |

| | 2000 | | 2001 | | 2002 | | 2002 | |
|---|---|---|---|---|---|---|---|---|
| | Before tax | After tax | Before tax | After tax | Before tax | After tax | Before tax | After tax |
| | NTD | NTD | NTD | NTD | NTD | NTD | USD | USD |
| Earnings per share *(Note 4.13)* | | | | | | | | |
| Basic earnings per share | $2.33 | $2.15 | $2.67 | $2.38 | $(2.67) | $(2.73) | $(0.08) | $(0.08) |
| Diluted earnings per share | $2.33 | $2.15 | $2.56 | $2.29 | $(2.67) | $(2.73) | $(0.08) | $(0.08) |

*The accompanying notes are an integral part to the consolidated financial statements.*

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
**For the years ended December 31, 2000, 2001 and 2002**
**(Expressed in thousands of New Taiwan dollars)**

| | Capital Stock | Entitlement Certificates | Capital Surplus | Retained Earnings: Legal Reserve | Retained Earnings: Unappropriated Earnings | Cumulative Translation Adjustments | Total |
|---|---|---|---|---|---|---|---|
| **2000** | | | | | | | |
| Balance — January 1, 2000 | $1,350,000 | $ — | $ 577,421 | $28,994 | $488,249 | $(27,945) | $2,416,719 |
| Capital increase in cash | 278,800 | — | 808,520 | — | — | — | 1,087,320 |
| Gain on sale of fixed assets transferred to capital surplus | — | — | 193 | — | (193) | — | — |
| 1999 earnings appropriation: | | | | | | | |
| Legal reserve | — | — | — | 47,102 | (47,102) | — | — |
| Employee bonus | 31,200 | — | — | — | (31,200) | — | — |
| Compensation to directors and supervisors | — | — | — | — | (7,800) | — | (7,800) |
| Capitalization of retained earnings | 351,000 | — | — | — | (351,000) | — | — |
| Capitalization of capital surplus | 189,000 | — | (189,000) | — | — | — | — |
| Net income for 2000 | — | — | — | — | 601,941 | — | 601,941 |
| Cumulative translation adjustments | — | — | — | — | — | 56,485 | 56,485 |
| Decrease in retained earnings due to subscription to new shares of investee companies by subsidiaries not in proportion to ownership | — | — | — | — | (4,909) | — | (4,909) |
| Balance — December 31,2000 | $2,200,000 | $— | $1,197,134 | $76,096 | $647,986 | $28,540 | $4,149,756 |
| **2001** | | | | | | | |
| Balance — January 1, 2001 | $2,200,000 | $ — | $1,197,134 | $ 76,096 | $647,986 | $ 28,540 | $4,149,756 |
| 2000 earnings appropriation: | | | | | | | |
| Legal reserve | — | — | — | 60,174 | (60,174) | — | — |
| Employee bonus | 41,000 | — | — | — | (41,067) | — | (67) |
| Distribution of cash dividend | — | — | — | — | (44,000) | — | (44,000) |
| Compensation to directors and supervisors | — | — | — | — | (10,267) | — | (10,267) |
| Capitalization of retained earnings | 418,000 | — | — | — | (418,000) | — | — |
| Capitalization of capital surplus | 22,000 | — | (22,000) | — | — | — | — |
| Corporate bonds converted into common stock | 350,389 | 5,801 | 490,417 | — | — | — | 846,607 |
| Net income for 2001 | — | — | — | — | 645,787 | — | 645,787 |
| Cumulative translation adjustments | — | — | — | — | — | 152,288 | 152,288 |
| Decrease in retained earnings due to subscription to new shares of investee companies by subsidiaries not in proportion to ownership | — | — | — | — | (14,950) | — | (14,950) |
| Balance — December 31, 2001 | $3,031,389 | $5,801 | $1,665,551 | $136,270 | $705,315 | $180,828 | $5,725,154 |
| **2002** | | | | | | | |
| Balance — January 1, 2002 | $3,031,389 | $5,801 | $1,665,551 | $136,270 | $ 705,315 | $180,828 | $5,725,154 |
| Capital increase in cash | 1,222,220 | — | 733,332 | — | — | — | 1,955,552 |
| 2001 Earnings appropriation: | | | | | | | |
| Legal reserve | — | — | — | 64,608 | (64,608) | — | — |
| Distribution of Shareholder cash dividend | 49,383 | — | — | — | (49,394) | — | (11) |
| Compensation to directors and supervisors | — | — | — | — | (12,348) | — | (12,348) |
| Cash dividends | — | — | — | — | (85,500) | — | (85,500) |
| Capitalization of retained earnings | 470,178 | — | — | — | (470,178) | — | — |
| Capitalization of capital surplus | 170,974 | — | (170,974) | — | — | — | — |
| Corporate bonds converted into common stock | 22,932 | (5,801) | 23,159 | — | — | — | 40,290 |
| Gain from disposal of fixed assets transferred to retained earnings | — | — | (294) | — | 294 | — | — |
| Net income for 2002 | — | — | — | — | (1,109,122) | — | (1,109,122) |
| Cumulative translation adjustments | — | — | — | — | — | (12,922) | (12,922) |
| Increase in retained earnings due to subscription to new shares of investee companies by subsidiaries not in proportion to ownership | — | — | 6,070 | — | — | — | 6,070 |
| Balance — December 31, 2002 | $4,967,076 | $ — | $2,256,844 | $200,878 | $(1,085,541) | $167,906 | $6,507,163 |

*The accompanying notes are an integral part to the consolidated financial statements.*

## CONSOLIDATED STATEMENTS OF CASH FLOWS
**For the years ended December 31, 2000, 2001 and 2002**
**(Expressed in thousands of New Taiwan dollars and US dollars)**

| | 2000 | 2001 | 2002 | |
|---|---|---|---|---|
| | NTD | NTD | NTD | USD |
| **Cash flows from operating activities:** | | | | |
| Net income (loss) | $ 601,941 | $ 645,787 | $(1,109,122) | $(32,834) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Minority interest net income (loss) | 33,217 | — | — | — |
| Depreciation | 41,020 | 51,456 | 53,449 | 1,582 |
| Unrealized (realized) gross profit from sales | 2,380 | 3,669 | (2,608) | (77) |
| Bad debt expense | (5,510) | (5,021) | 63,211 | 1,871 |
| Gain on inventory market recovery | 52,574 | (43,426) | 54,000 | 1,599 |
| Losses on idle asset valuation loss | — | — | 22,000 | 651 |
| Loss (gain) on long-term investments | (1,993) | 57,586 | 152,027 | 4,501 |
| Loss on disposal of fixed assets | 2,701 | 2,416 | 5,734 | 170 |
| Other expenses | (3,258) | 4,329 | 19,572 | 579 |
| Loss on disposal of investments | — | — | 28,427 | 842 |
| Amortization | 55,053 | 113,424 | 121,860 | 3,607 |
| Interest provision for redemption of convertible bonds | — | — | 10,491 | 311 |
| Changes in: | | | | |
| Notes receivable | (1,093) | 1,561 | 1,104 | 33 |
| Accounts receivable | (582,238) | (293,652) | 1,619,268 | 47,936 |
| Receivables — related-party | (324,570) | 545,152 | 54,140 | 1,603 |
| Other receivables — related-party | — | — | (206,448) | (6,112) |
| Inventories | (27,552) | 121,787 | 880,156 | 26,056 |
| Other current assets | (32,898) | 136,269 | (151,066) | (4,472) |
| Notes payable | (34,237) | 112,718 | (421,777) | (12,486) |
| Accounts payable | 286,346 | (471,696) | (1,134,726) | (33,592) |
| Accounts payable — related-party | (86,766) | (19,652) | (9,584) | (284) |
| Accrued expenses | 16,066 | 1,486 | (66,901) | (1,981) |
| Income tax payable | 5,060 | (40,556) | (31,307) | (927) |
| Lease obligations payable | — | 450 | (200) | (6) |
| Other current liabilities | (89,417) | 40,660 | 64,761 | 1,917 |
| Accrued pension liabilities | 2,117 | 3,097 | (479) | (14) |
| Long-term accounts payable — related-parties | — | — | 11,442 | 338 |
| Other liabilities — other | 4,050 | (24,607) | (15,414) | (456) |
| **Net cash provided by operating activities** | (87,007) | 940,237 | 12,010 | 355 |
| **Cash flows from investing activities:** | | | | |
| Restricted assets | (20,258) | (72,105) | (782,138) | (23,154) |
| Other assets — other | 425 | 31,528 | (8,901) | (264) |
| Purchase of property, plant, and equipment | (640,840) | (1,081,504) | (90,037) | (2,665) |
| Proceeds from sale of property, plant, and equipment | 527 | 190 | 124,874 | 3,696 |
| Deferred charges | (16,284) | (10,244) | (15,755) | (466) |
| Increase in long-term equity investments | (194,705) | (719,975) | (111,316) | (3,295) |
| Guarantee deposits received | (2,825) | (956) | 3,011 | 89 |
| Restricted assets — non-current | (10,651) | — | — | — |
| Sales of long-term investments | — | — | 1,406 | 42 |
| Gains on sales of short-term investments | — | — | 89,314 | 2,644 |
| Acquisition of subsidiary | (14,382) | (347,759) | (1,382,986) | (40,941) |
| Acquisition of minority interest equity ownership | (253,240) | (1,133,668) | (176,237) | (5,217) |
| **Net cash used in investing activities** | $(1,152,233) | $(3,334,493) | $(2,348,765) | $(69,531) |

**CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)**
**For the years ended December 31, 2000, 2001 and 2002**
**(Expressed in thousands of New Taiwan dollars and US dollars)**

| | 2000 | 2001 | 2002 | |
|---|---|---|---|---|
| | NTD | NTD | NTD | USD |
| **Cash flows from financing activities:** | | | | |
| Increase (decrease) in short-term borrowings | $ 339,895 | $599,532 | $(60,148) | $(1,781) |
| Increase in commercial paper | 302,517 | (46,752) | (198,721) | (5,883) |
| Increase in long-term debt | 80,468 | 1,678,845 | 95,000 | 2,812 |
| Repayment of long-term debt | (25,000) | (267,376) | (132,447) | (3,921) |
| Increase in corporate bonds | — | 1,030,009 | — | — |
| Distribution of cash dividends | — | (44,000) | (85,500) | (2,531) |
| Employee bonuses | — | (67) | (11) | — |
| Compensation to directors and supervisor | (7,800) | (10,267) | (12,348) | (365) |
| Capital increase in cash | 1,087,320 | — | 1,955,552 | 57,891 |
| **Net cash provided by financing activities** | 1,777,400 | 2,939,924 | 1,561,377 | 46,222 |
| Net increase (decrease) in cash and cash equivalents | 538,160 | 548,668 | (775,378) | (22,954) |
| Exchange rate influence | 9,828 | — | — | — |
| Cash and cash equivalents, beginning of the period | 361,754 | 909,742 | 1,458,410 | 43,174 |
| Cash and cash equivalents, end of the period | $ 909,742 | $1,458,410 | $ 683,032 | $20,220 |
| Supplemental disclosure of cash flow information: | | | | |
| Interest paid in the period | $ 161,527 | $ 171,788 | $ 168,236 | $ 4,980 |
| Income taxes paid in the period | $ 66,147 | $ 94,488 | $ 37,193 | $ 1,101 |
| **Investing and financing activities with no effects on cash flows:** | | | | |
| Sales of long-term investment | $ — | $ — | $ 89,314 | $ 2,644 |
| Current portion of long-term debt | $ 55,356 | $ 326,192 | $ 111,692 | $ 3,306 |
| Capitalization of employee bonus | $ 31,200 | $ 41,000 | $ 49,383 | $ 1,462 |
| Property, plant, and equipment exchanged for housing and land | $ — | $ 144,129 | $ — | $ — |
| Convertible bonds converted into common stock | $ — | $ 82,280 | $ 40,290 | $ 1,193 |
| Corporate bonds interest payable | $ — | $ — | $ 10,491 | $ 311 |
| Property, plant, and equipment transferred to idle assets | $ — | $ — | $ 190,172 | $ 5,630 |
| Property, plant, and equipment transferred to leased assets | $ — | $ — | $ 393,933 | $11,662 |

| | 2000 | 2001 | 2002 |
|---|---|---|---|
| | USD | USD | USD |
| Total assets acquired from acquisition of subsidiaries (including goodwill) | $1,832 | $13,217 | $66,631 |
| Less: Liabilities assumed | 1,382 | 3,217 | 26,631 |
| Cash paid | 450 | 10,000 | 40,000 |
| Less: Cash received at the date of acquisition | 13 | 37 | 110 |
| Net cash out flow | $ 437 | $ 9,963 | $39,890 |

*The accompanying notes are an integral part to the consolidated financial statements*

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**For the years ended December 31, 2000, 2001 and 2002**
**(Expressed in thousands of New Taiwan dollars and US dollars unless otherwise stated)**

## 1. ORGANIZATION AND BUSINESS

ABIT Computer Corporation (the "Company") was established on September 25, 1989 with primary business scope as follows:

(1) Design, production, processing, and trading of computers and peripherals.

(2) Design, production, processing, and trading of monitors, interface cards, motherboards, keyboards, printers, P.C. servers, and parts and components.

(3) Imports and exports of related businesses, except for futures.

(4) Bidding and quotation business of domestic and foreign products.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (1) Basis for consolidation of financial statements

(i) Subsidiaries included in consolidated financial statements:

| Company Name | Business Scope | Ownership |
|---|---|---|
| ABIT Computer (U.S.A.) Corporation — established in December 1996. . . . . . . . . . | 1. Design, production, processing, and trading of computers and peripherals.<br>2. Design, production, processing and trading of monitors, interface cards, motherboards, keyboards, printers, P.C. servers, and computer parts<br>3. Imports and exports. | 100% |
| Treasure World Holdings Inc.- founded in March 1998 . . . . | Investment | 100% |
| Amor Computer B.V. — established in June 1996 . . . | Purchase and sale of motherboards. | 100% |

Amor Computer B.V.'s, ABIT Computer (U.S.A.) Corporation's, and Treasure World Holdings Inc.'s operating revenue as of 2002 has already reached 10% of the parent company, and therefore are included in the consolidated financial statements. Although the Company holds over 50% ownership and has controlling interests in ABIT Computer (U.K.) Corporation Ltd., ABITNET Technology Inc., ABIT Computer (Singapore) Private Ltd., Welltop Business Development Inc., and ABIT Investment Holding Ltd., their total assets or operating revenues do not reach 10% of the Company's respective accounts and therefore in accordance with generally accepted accounting principles, were not consolidated.

ABIT Computer (H.K.) Company Ltd. fulfilled consolidation requirements for 2001 but in 2002 its total assets and operating revenues did not exceed 10% of the Company's respective accounts and therefore was not included in the consolidation statements.

AMOR Computer B.V.'s operating revenue as of 2001 and 2002 has already reached 10% of the parent company but in 2000 its total assets and operating revenue did not exceed 10% of the Company's respective accounts and therefore the consolidated financial statements for 2000 were restated to facilitate comparison and analysis.

(ii) As consolidated financial statements were compiled, the Company's investment in the subsidiary is offset against stockholders' equity of a subsidiary, so are related claims and obligations. Unrealized gain from downstream transactions between the Company and subsidiaries and from transactions between investee companies accounted for under the equity method are fully eliminated.

**(2) Cash Equivalents**

Cash equivalents refer to Treasury bills, certificates of convertible time deposits, commercial paper, and bank acceptances with maturity of less than 3 months from the investment date.

**(3) Allowance for Doubtful Accounts**

Allowance for doubtful accounts is provided for by reviewing receivables at year-end.

**(4) Inventories**

Inventories are stated at cost by the weighted-average method on a perpetual inventory basis and are evaluated at lower of cost or market at year-end. Market value of raw materials and supplies is replacement cost; whereas that of goods in process, finished goods, obsolete and slow-moving inventories is the net realizable value. For market value based on replacement (reproduction) cost, it should not exceed net realizable value nor be less than the balance of net realizable value minus ordinary gross margin.

Consigned manufacturing refers to inventories sent for processing and then returned to the Company, and title of such inventory is retained by the Company prior to transfer. Accounting treatment of consigned manufacturing is in compliance with 1998 Securities and Futures Commission (SFC) Letter Ruling No.(6)00747 dated March 18, 1998.

**(5) Long-Term Equity Investments**

Long-term equity investments of common stock of companies not publicly traded in which the Company has no influence are accounted for under the cost method. Should sufficient evidence exist indicating that investment value indeed decreased and the likelihood of recovery is remote, loss on investment is recognized immediately, with book value after loss recognition as the new cost. Stock dividends received from capitalization of capital surplus or retained earnings are not recorded as investment income, and only memo entries are made regarding the increase in number of shares, with cost per share or book value is recalculated.

Long-term equity investments in common stock of companies not publicly traded in which the Company has significant influence are accounted for under the equity method, unless it may be verified that significant influence does not exist.

Upon sale of long-term equity investments, cost is computed by the moving-average method.

Difference between cost of long-term equity investments and net equity worth is amortized over five years by the straight-line method.

For foreign investments accounted for under the equity method, original investment is stated by actual remittance in New Taiwan dollars on the balance sheet date. Book value of such investment is adjusted by cumulative translation adjustments, including current operating income/loss of investee companies, investment income/loss recognized by average exchange rate of the year, and net worth of investee companies evaluated per shareholding ratio.

Long-term equity investments where the Company has controlling interests over the investee companies are accounted for under the equity method, and consolidated financial statements are required. However, consolidation is not required if any of the following conditions is met:

(1) Nature of business of a subsidiary is different from that of the Company such that consolidation is not appropriate;

(2) A subsidiary has declared bankruptcy or reorganization has been decreed by the court;

(3) A subsidiary is prohibited from remitting dividends to the Company due to foreign exchange controls exercised by the country where it is registered to operate;

(4) A subsidiary reports negative net worth, unless the Company has financial undertakings of the subsidiary or makes other financial commitment, or the loss is temporary in nature with sufficient evidence of loss recovery and becoming profitable in the near future;

(5) Total assets and operating revenue of a subsidiary do not reach 10% of the respective accounts of the Company.

Nevertheless, if combined assets or operating revenue of all such subsidiaries exceed 30% of the respective accounts of the Company, then 3% of total assets or operating revenue of these subsidiaries must be consolidated. Unless the percentage declines to 20% subsequently, consolidation should continue.

Should an investee company incur a net loss, and if the Company has financial undertaking or provides guarantee for the investee company's obligations, loss recognition should continue per ownership. If long-term investments are insufficient to offset investment losses, then accounts receivable (or related party receivables) are adjusted. Deferred credits are recognized if a deficiency still exists.

Should an investee company issue new shares and the Company does not purchase the new shares proportionately causing changes in ownership and net worth, then capital surplus is adjusted accordingly. If the adjustment to capital surplus is not enough to offset, then the difference shall be debited to retained earnings.

The unrealized gains and losses from intercompany transactions between the Company and investee company are deferred. If the gains and losses come from depreciated or amortized assets, then the recognition of such gains and losses shall be spread over the useful lives of such assets. Otherwise, the recognition shall be in the year when the gains or losses are realized.

Gain/loss on investments is recognized immediately if common or preferred shares with voting rights exceeds 50% of total voting shares of an investee company or regulations set forth in Clause 369 No.2-2 are met such that the Company could control, directly or indirectly, financial, operation, or personnel issues of the investee company, or if all of the following criteria are met:

(1) Net equity worth of the long-term equity investment at the beginning of the year exceeds $50 million and amounts to over 5% of the Company's paid-in capital;

(2) Ownership of the investee company by the Company exceeds 30% or the Company and its directors, supervisors, managers, and other investee companies controlled directly and indirectly, jointly own over 50% voting shares of the investee company;

(3) The Company is one of the 3 largest shareholders, or the Company appoints the Chairman or the President of the investee company.

In preparing the first and third quarter financial statements, the equity method is not required to account for investments of ownership between 20% and 50%. For investee companies where ownership by the Company exceeds 50%, the equity method is adopted.

**(6) Property, Plant, and Equipment, Depreciation, and Gain/Loss on Disposal**

Property, plant, and equipment are stated at cost. Major additions, improvements, and replacements are capitalized. Repairs and maintenances are recorded as current expenses. Interest incurred in acquisition of property, plant, and equipment before such assets are ready for use are capitalized and included as cost.

Depreciation is provided by the straight-line method over the estimated useful lives prescribed by the government plus one year's salvage value. Assets still in use after full depreciation may be depreciated over the estimated salvage value and useful lives. Useful lives of major assets are listed below:

| | |
|---|---|
| Buildings | 8~55 years |
| Machinery | 3~8 years |
| Computer equipment | 3~10 years |
| Transportation equipment | 5 years |
| Furniture and office equipment | 3~8 years |

Gain or loss on disposal of property, plant, and equipment is recognized currently.

**(7) Deferred Charges**

Deferred charges are stated at cost and amortized equally over 2 to 5 years.

**(8) Income Taxes**

Income tax is provided in accordance with the Income Tax Law and related regulations. Adjustment of prior years' income tax is recorded as current income tax expense. Intra-period income tax allocation will be made with respect to temporary differences between accounting and taxable income. Income tax effects due to significant taxable temporary differences are recognized as deferred income tax liabilities, while income tax effects arising from deductible temporary differences, loss carry forwards from prior years, and investment tax credits are recorded as deferred income tax assets. Valuation allowance will be provided after assessing the likelihood of realization of deferred income tax assets.

The 10% surtax on undistributed earnings is reported as current expense on the date of the annual stockholder's meeting declaring the distribution of earnings.

**(9) Foreign Currency Transactions**

Non-forward contract foreign currency transactions are recorded in New Taiwan dollars and translated by the exchange rates in effect as transactions occur. Translation differences from settlement of foreign currency assets or liabilities are included in current income, as well as those from year-end adjustments of balance sheet accounts by the prevailing rate then.

**(10) Pension Plan**

The Company has a pension plan covering all regular employees. 2 units are granted for every year of service until the 15th year, and 1 unit per year thereafter up to a maximum of 45 units. A unit is equal to average monthly salary for the 6-month period prior to approved retirement.

The Company contributes 2% of gross salary paid to a pension fund reserve on a monthly basis and deposits the reserve into a designated account at the Central Trust of China.

Effective December 31, 1996 the Company adopted the FAS Statement No. 18, "Accounting for Pensions". Unrecognized net transitional assets or benefit obligations should be computed as the governing rules of pension shifted. In compliance with SFC Letter Ruling No. (6)00142 dated January 20, 1995, effective 1997, such unrecognized net transitional assets or net benefit obligation would be amortized by the straight-line method over the average remaining years of service of employees eligible for pension benefits. If years of service are estimated to be shorter than 15 years, then 15 years will be used and recorded as net pension costs, which comprise of the followings:

a. Service cost;

b. Interest cost;

c. Expected return on plan assets;

d. Amortization of unrecognized prior service cost;

e. Amortization of unrecognized pension gain or loss;

f. Amortization of unrecognized transitional net assets or net benefit obligation.

g. Gains and losses from liquidation

Difference between actual pension contributions and net pension costs is reflected as "accrued pension liabilities" or "prepaid pensions." The minimum pension liability is the amount required to be reflected on the balance sheet.

**(11) Commitments and Contingencies**

If loss on commitments and contingencies is highly likely and the amount thereof can be reasonably estimated, such loss recognized immediately. Otherwise only the nature will be disclosed in notes to financial statements.

**(12) Convenience translation into U.S. dollars**

The consolidated financial statements are stated in New Taiwan dollars. Translation of the 2002 of New Taiwan dollars amounts into U.S. dollars amounts are included solely for the convenience of the readers, using the noon buying rate of the Federal Reserve Bank of New York on September 30, 2003, of NT$33.78 to US$1. The convenience translations should not be construed as representations that the New Taiwan dollars amounts have been, or could in the future be converted into thousands of U.S. dollars at this rate or any other rate of exchange.

## 3. REASONS FOR AND EFFECTS OF ACCOUNTING CHANGES: None

## 4. SUMMARY OF MAJOR ACCOUNTS

### (1) Cash and Cash Equivalents

| | December 31, | | | |
|---|---|---|---|---|
| | 2000 | 2001 | 2002 | |
| | NTD | NTD | NTD | USD |
| Cash and petty cash | $ 1,305 | $ 55,000 | $ 32,244 | $ 955 |
| Checking accounts | 211,058 | 522,263 | 101,384 | 3,001 |
| Savings accounts | 373,930 | 484,835 | 107,244 | 3,175 |
| Foreign currency demand deposits | 176,433 | 395,961 | 393,538 | 11,650 |
| Time deposits | 147,016 | 351 | 48,622 | 1,439 |
| Total | $909,742 | $1,458,410 | $683,032 | $20,220 |

### (2) Notes and Accounts Receivable, Net

| | December 31, | | | |
|---|---|---|---|---|
| | 2000 | 2001 | 2002 | |
| | NTD | NTD | NTD | USD |
| Notes receivable | $ 2,665 | $ 1,104 | $ — | $ — |
| Accounts receivable | 2,973,282 | 3,154,058 | 1,531,452 | 45,336 |
| Less: Allowance for doubtful accounts | (20,263) | (13,979) | (77,190) | (2,285) |
| Total | $2,955,684 | $3,141,183 | $1,454,262 | $43,051 |

### (3) Inventories

| | December 31, | | | |
|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2002 |
| | NTD | NTD | NTD | USD |
| Raw materials | $ 346,237 | $ 286,357 | $150,871 | $ 4,466 |
| Work-in-process | 278,326 | 432,393 | 1,115 | 33 |
| Finished goods | 110,994 | 97,259 | 51,891 | 1,536 |
| Merchandise | 642,426 | 498,653 | 248,061 | 7,343 |
| Total | 1,377,983 | 1,314,662 | 451,938 | 13,378 |
| Less: Allowance for market decline and obsolescence | (57,824) | (14,398) | (76,885) | (2,276) |
| Net | $1,320,159 | $1,300,264 | $375,053 | $11,102 |

As of December 31, 2000, 2001 and 2002 fire insurance coverage for inventories stated above was NTD971,120 thousand, NTD700,000 thousand and NTD700,000 thousand.

### (4) Long-Term Equity Investments

As of December 31, 2000, 2001 and 2002 long-term equity investments of the Company and subsidiaries were as follows:

| Name of investee company | December 31, 2000 | | 2001 | | 2002 | | |
|---|---|---|---|---|---|---|---|
| Accounted for under the cost method | % | NTD | % | NTD | % | NTD | USD |
| Welltop Business Development Inc. (Original investment: NTD6,566 thousand in both 2001 and 2002) | — | $ — | 100% | $ 1,359 | 100% | $ 2,304 | $ 68 |
| Akom Technology Corp. (Original investment: NTD33,940 thousand in both 2001 and 2002) | — | — | 33.94% | 31,720 | 33.94% | 26,545 | 786 |
| ABIT Computer (U.K.) Corp. Ltd. (Original investment: NTD48,114 thousand in 2000, 2001 and 2002) | 100% | 53,646 | 100% | 62,528 | 100% | 65,024 | 1,925 |
| Hollyhock Group Ltd. (Original investment: USD6,000 thousand in 2001) | — | — | 40% | 208,887 | — | — | — |
| ABIT Computer (Singapore) Private Ltd. (Original investment NTD1,930 thousand and NTD39,604 thousand in 2001 and 2002 respectively) | — | — | 100% | — | 100% | 37,476 | 1,109 |
| ABIT Investment Holding Ltd. (Original investment: NTD195,806 thousand in 2000 and NTD828,708 thousand in both 2001 and 2002 respectively) | 100% | 186,796 | 100% | 833,424 | 100% | 614,742 | 18,198 |
| Abitnet Technology Inc. (Original investment: NTD9,940 thousand in 2000 and NTD23,940 thousand in both 2001 and 2002) | 99.4% | 7,624 | 79.80% | 11,451 | 79.80% | 7,313 | 216 |
| ABIT Computer (H.K.) company Ltd. (Original investment: NTD232,786 thousand in 2000, 2001 and 2002) | 100% | 187,063 | 100% | 169,293 | 100% | 121,356 | 3,593 |
| Timerwell Technology (Taiwan) Company Ltd. (Original investment: USD6,549 thousand in 2002) | — | — | — | — | 23.81% | 167,804 | 4,968 |
| Rolly Technology Holdings Ltd. (Original investment: NTD83,394 thousand in 2000) | 8.07% | 83,394 | — | — | — | — | — |
| Subtotal | | 518,523 | | 1,318,662 | | 1,042,564 | 30,863 |
| Loan Notes | | — | | — | | 1,981,876 | 58,760 |
| | | $518,523 | | $1,318,662 | | $3,024,440 | $89,533 |

(1) All financial reports of investee companies for the years ended 2000, 2001 and 2002 are accounted for under the equity method and based upon audited financial statement for the same period except for the 2001 financial report of ABIT Computer (Singapore) Private Ltd. Their investment income (loss), translation adjustment and unrealized income (loss) from intercompany transactions is listed below:

| 2000 | Investment Income (Loss) | Translation Adjustment (Credit Balance) | Unrealized Income (Loss) from intercompany transactions |
|---|---|---|---|
| ABIT Computer (U.K.) Co., Ltd. | $ 8,676 | $ 1,496 | $2,307 |
| ABIT Computer (H.K.) Co., Ltd. | (46,778) | (9,977) | — |
| ABIT Investment Holding Ltd. | (8,284) | 725 | — |
| Abitnet Technology Inc. | (2,316) | — | — |
| Rolly Technology Holding Ltd. | 3,917 | — | 2,726 |
| | $(44,785) | $(7,756) | $5,033 |

| 2001 | Investment Income (Loss) | Translation Adjustment (Credit Balance) | Unrealized Income (Loss) from intercompany transactions |
|---|---|---|---|
| ABIT Computer (U.K.) Co. Ltd. | $ 7,299 | $ (1,583) | $8,706 |
| ABIT Computer (H.K.) Co., Ltd. | (39,736) | (10,613) | (23) |
| ABIT Investment Holding Ltd. | (3,127) | (25,905) | 20 |
| Abitnet Technology Inc. | (10,957) | — | — |
| Akom Technology Corporation | (2,934) | — | — |
| Welltop Business Development Inc. | (5,281) | (74) | — |
| ABIT Computer (Singapore) Private Ltd. | (2,323) | 19 | — |
| Hollyhock Group Ltd. | (527) | — | — |
| | $(57,586) | $(38,156) | $8,703 |

| 2002 NTD | Investment Income (Loss) | Translation Adjustment (Credit Balance) | Unrealized Income (Loss) from intercompany transactions |
|---|---|---|---|
| ABIT Computer (U.K.) Co., Ltd. | $(3,524) | $(6,021) | $2,447 |
| ABIT Computer (H.K.) Co., Ltd. | (46,923) | 1,014 | 3,648 |
| ABIT Investment Holding Ltd. | (213,069) | 5,613 | — |
| Abitnet Technology Inc. | (4,138) | — | — |
| Akom Technology Corporation | (5,175) | — | — |
| Welltop Business Development Inc. | 956 | 11 | — |
| ABIT Computer (Singapore) Private Ltd. | (301) | (515) | — |
| True Grace Co., Ltd. | 110,403 | — | — |
| Timerwell Technology (Taiwan) Co., Ltd. | 9,744 | — | — |
| | $(152,027) | $102 | $6,095 |

| 2002 USD | Investment Income (Loss) | Translation Adjustment (Credit Balance) | Unrealized Income (Loss) from intercompany transactions |
|---|---|---|---|
| ABIT Computer (U.K.) Co., Ltd. | $(104) | $(174) | $72 |
| ABIT Computer (H.K.) Co., Ltd. | (1,389) | 29 | 108 |
| ABIT Investment Holding Ltd. | (6,308) | 162 | — |
| Abitnet Technology Inc. | (122) | — | — |
| Akom Technology Corporation | (153) | — | — |
| Welltop Business Development Inc. | 28 | 1 | — |
| ABIT Computer (Singapore) Private Ltd. | (9) | (15) | — |
| True Grace Co., Ltd. | 3,269 | — | — |
| Timerwell Technology (Taiwan) Co., Ltd. | 288 | — | — |
| | $(4,500) | $3 | $180 |

(2) In 2000, 2001 and 2002 amortization of the difference between investment cost and net equity worth was as follows:

| | December 31, | | | |
|---|---|---|---|---|
| | 2000 | 2001 | 2002 | |
| | NTD | NTD | NTD | USD |
| True Grace Co., Ltd. | $34,381 | $36,308 | $37,250 | $1,103 |
| Timerwell Technology (Taiwan) Ltd. | 75 | 79 | 1,414 | 42 |
| Caliber Computer Co. | 13,153 | 13,891 | 14,251 | 422 |
| Asguard GSMBH | 895 | 945 | 970 | 29 |
| Welton Technology Co., Ltd. | — | 8,780 | — | — |
| Radware Technology Ltd | — | 5,286 | 5,423 | 160 |
| Timerwell Technology Holdings Ltd. | (5,831) | (11,204) | — | — |
| Effective Score Ltd. | — | — | 15,012 | 444 |
| Amor Computer B.V. | 1,507 | — | — | — |
| | $44,180 | $54,085 | $74,320 | $2,200 |

(3) Adjustments to the amount of capital surplus and accumulation of gain/loss due to increased investment in subsidiaries which the Company did not follow ownership ratio and increased investment in investee companies which the subsidiaries did not follow ownership ratio are shown below:

| Name of investee company | Not recognizing and stating by ownership ratio; instead increasing (decreasing) capital surplus | Not recognizing and stating by ownership ratio; instead increasing (decreasing) accumulation of gain/loss |
|---|---|---|
| **2000 NTD** | | |
| Timerwell Technology Holdings Ltd. | $ — | $ 4,910 |
| **2001 NTD** | | |
| Abitnet Technology Inc. | $783 | $ — |
| Akom Technology Corporation | 714 | — |
| ABIT Investment Holding Ltd. | — | (9,052) |
| Timerwell Technology Holdings Ltd. | (1,497) | (5,898) |
| | $ — | $(14,950) |
| **2002 NTD** | | |
| Timerwell Technology (Taiwan) Co., Ltd. | $(4,560) | $ — |
| Timerwell Technology Holdings Ltd. | 10,630 | — |
| | $ 6,070 | $ — |
| **2002 USD** | | |
| Timerwell Technology (Taiwan) Co., Ltd. | $ (135) | $ — |
| Timerwell Technology Holdings Ltd. | 315 | — |
| | $ 180 | $ — |

(4) Investment income/loss of Rolly Technology Holdings Ltd. and ABIT Computer Trading (Shanghai) Co., Ltd was accounted for under the equity method by ABIT Investment Holding Ltd., ABIT computer (H.K.) company Ltd. and detailed in Note 4.4.(1). Unrealized gain/loss of downstream transactions between the Company and investee companies and transactions between various investee companies were disclosed therein as well.

Although the Company has more than 50% ownership and subsequent controlling interests in ABIT Computer (UK) Corporation Ltd., ABIT computer (H.K.) company Ltd., Welltop Business Development Inc., ABIT Computer (Singapore) Private Ltd., Abitnet Technology Inc., and ABIT Investment Holding Ltd., but because the total assets or operating revenue of the above investee companies do not reach 10% of the Company's respective accounts, they are not included in the consolidated financial statements.

(5) On December 31, 2001 since the Company's investment in ABIT Computer (Singapore) Private Ltd. accounted for under the equity method incurred a loss greater than its the book value, resulting in a long term investment credit balance of NT$412 thousand.

(6) In September 2002, the Company participated in the cash capitalization of Timerwell Technology (Taiwan) Co., Ltd. for NT$71,451 thousand. The purchased shares amounted to NT$12 per share for a total of 5,954,000 shares. To meet requirements for listed companies, the Company sold all of its holdings of Timerwell Technology (Taiwan) Co., Ltd., resulting in a gain of NT$20,122 thousand.

(7) Pursuant to share purchase agreement dated December 31, 2002, the subsidiary of the Company("the Vendor") sold all equity interest in True Grace Company Limited and its subsidiaries (as below) at a consideration of US$57,164 thousand to third party purchaser.

The consideration was paid in form of unsecured Loan Notes which was issued by purchaser. The Vendor is entitled to receive interest on loan notes receivable from purchaser at a rate of 7.5% per annum in arrear on 31st day of December in each year. In accordance with a supplementary agreement dated December 31, 2002, the group is entitled to buy back the equity interest of True Grace upon notice given to the purchaser.

It is agreed as follows:

(i) Vendor may at any time after 31 December 2003 give not less than 30 days' notice in writing to the Purchaser of its intention to re-purchase the shares.

(ii) However, the Vendor may not exercise this right after 31 December 2010, unless the purchaser has failed to settle the loan note in full before 31 December 2010.

(iii) Upon receive of the notice, the vendor and the purchaser shall jointly appoint a third party to conduct a valuation of the Shares.

(iv) If the total value of the Shares is not more than 120% of the Purchase Price, the total consideration should by adjusted according to the increment in value.

(v) If the total value of the Shares is more than 120% of the Purchase Price, the total consideration should be 120% of the Purchase Price.

(vi) If the total value of the Shares is less than the Purchase Price, the total consideration should be adjusted according to the decrease in value.

(vii) The Purchaser undertakes and guarantees that the value of the Shares shall not be less than 80% of the Purchase Price, failing which a penalty equal to the decrease of value should be payable by the Purchaser to the Vendor. The penalty will be satisfied by deduction form the cash consideration to be repaid to the Purchaser.

| **Name of investee** | **Location and primary activity** | | **Ownership** |
|---|---|---|---|
| True Grace Co., Ltd. | B.V.I. | Investment holding | 100% |
| Subsidiaries of True Grace Co., Ltd. | | | |
| Timerwell (UK) Co., Ltd. | United Kingdom | Distributor of computer components | 100% |
| Bios Sp Zoo | Poland | Distributor of computer components | 100% |
| Radware Technology Ltd. | Cayman Islands | Distributor of server Management software | 100% |
| Timerwell Technology (H.K.) Limited | Hong Kong | Distributor of server Management software | 100% |
| Hollyhock Group Ltd. | B.V.I. | Investment holding | 100% |
| Rich-Mate Technology Ltd. | Hong Kong | Provision of Web design and marketing service | 100% |

Gains from disposal of long-term investments

| **Gain from disposal** | **The Group 2002 USD('000)** |
|---|---|
| Original investment | $59,466 |
| Disposal price | 57,164 |
| | (2,302) |
| Amortized goodwill | 4,337 |
| Accumulated recognized loss | 2,035 |
| Total | $ — |

## (5) Property, Plant, and Equipment

(1) As of December 31, 2000, 2001 and 2002, the total amount of insurance for property, plant, and equipment was NT$277,994 thousand, NT$873,500 thousand and NT$920,667 thousand respectively.

(2) In 2000, 2001 and 2002, interest expense was NT$166,804 thousand, NT$180,343 thousand and, NT$191,008 thousand respectively. The amount of interest capitalization was NT$29 thousand, NT$5 thousand and NT$0, respectively.

(3) Please refer to Note 6 for details on property, plant, and equipment provided as collateral.

## (6) Deferred Debits

Deferred debits resulting from investments by the Company and its subsidiaries that incurred costs that exceeded stockholders' equity net worth are listed below:

| Investee Companies | 2000 | 2001 | 2002 | |
|---|---|---|---|---|
| | NTD | NTD | NTD | USD |
| True Grace Co., Ltd | $644,601 | $ 646,300 | $ — | $ — |
| Timerwell Technology (Taiwan) Ltd. | 1,415 | 1,419 | — | — |
| Caliber Computer Co. | 249,415 | 250,236 | 234,348 | 6,938 |
| Asguard GSMBH | 17,886 | 17,998 | 16,910 | 501 |
| Welton Technology Co., Ltd. | — | 188,167 | — | — |
| Radware Technology Ltd.. | — | 113,285 | — | — |
| Timerwell Technology Holdings Ltd. | (23,906) | (13,821) | (8,602) | (255) |
| Amor Computer B.V.. | 1,884 | 377 | — | — |
| Effective Score Ltd.. | — | — | 1,181,975 | 34,990 |
| Total | $891,295 | $1,203,961 | $1,424,631 | $42,174 |

The differences between the above balance for 2000, 2001 and 2002 and note 4(4)(1) is due to differences in exchange rate.

## (7) Short-Term Borrowings

| December 31, 2000 | | NTD |
|---|---|---|
| Loans to purchase raw materials — domestic | Within one year | $ 549,079 |
| Loans to purchase raw materials — foreign | Within one year | 297,994 |
| Credit loans | Within one year | 238,096 |
| Collateralized loans | Within one year | 266,513 |
| Total | | $1,351,682 |

| December 31, 2001 | | NTD |
|---|---|---|
| Loans to purchase raw materials — domestic | Within one year | $ 583,397 |
| Loans to purchase raw materials — foreign | Within one year | 396,620 |
| Collateralized loans | Within one year | 369,279 |
| Credit loans | Within one year | 601,919 |
| Total | | $1,951,215 |

| December 31, 2002 | Period | NTD | USD |
|---|---|---|---|
| Loans to purchase raw materials — domestic | Within one year | $1,000,070 | $29,605 |
| Loans to purchase raw materials — foreign | Within one year | 228,580 | 6,767 |
| Credit loans | Within one year | 264,000 | 7,815 |
| Collateralized loans | Within one year | 407,570 | 12,066 |
| Total | | $1,900,220 | $56,253 |

In 2000, 2001 and 2002, interest rates of short-term borrowings were floating and ranged from 1.59% to 8.75%, 1.10% to 8.24% and from 1.35% to 7.80% respectively.

## (8) Commercial Paper

| December 31, 2000 | Period | NTD |
|---|---|---|
| Commercial paper | August 3, 2000 to May 8, 2001 | $394,000 |
| Less: Unamortized discount | | (2,711) |
| Net book value | | $391,289 |

| December 31, 2001 | Period | NTD |
|---|---|---|
| Commercial paper | August 14, 2001 to March 21, 2002 | $345,000 |
| Less: Unamortized discount | | (464) |
| Net book value | | $344,536 |

| December 31, 2002 | Period | NTD | USD |
|---|---|---|---|
| Commercial paper | August 14, 2002 to February 10, 2003 | $146,000 | $4,322 |
| Less:eUnamortized discount | | (185) | (5) |
| Net book value | | $145,815 | $4,317 |

In 2000, 2001 and 2002, outstanding period of short-term notes payable was within 180 days with annual interest rates ranging from 5.47% to 7.57%, 3.15% to 7.10% and from 3.07% to 3.23%, respectively.

## (9) Corporate bonds payable

| | December 31, | | | |
|---|---|---|---|---|
| | 2000 | 2001 | 2002 | |
| | NTD | NTD | NTD | USD |
| Unsecured convertible corporate bonds issued | $— | $1,000,000 | $1,000,000 | $ 29,603 |
| Less: Converted amount | — | (822,800) | (861,300) | (25,497) |
| Add: interest payable | — | 6,202 | 14,903 | 441 |
| Total | $— | $ 183,402 | $ 153,603 | $ 4,547 |

As of December 31, 2000, 2001 and 2002, the amount of interest payable offset due to converting corporate bonds into common stock was NT$0, NT$23,807 thousand and NT$25,597 thousand, respectively.

The Company's issue of corporate bonds follow the requirements stated below:

### (1) *Period of issue*

Period of issue is five years starting from June 28, 2001 to the maturity date of June 27, 2006.

**(2)** ***Corporate bond interest rate at par, right to sell back yield***

The interest rate at par is 0%. Starting from two years after the issue date to the day right before three years after the issue date, the bond holder can execute the right to sell back for a yield of 5.25%. Starting from three years after the issue date to the day right before four years after the issue date, the bond holder can execute the right to sell back for a yield of 6.5%. Starting from four years after the issue date to the day right before date of maturity, the bondholder can sell back for a yield of 7%. (compound interest, face value plus interest compensation is 110.78%, 120.79%, 131.08% of the face value respectively.)

## (10) Long-Term Debt

| Item | Repayment Term | NTD |
|---|---|---|
| **December 31, 2000** | | |
| Loan with land and building as collateral | Repayable in fixed installments on the 23rd of each month form October 1997. | $ 24,593 |
| Loan with land and building as collateral | Repayable in fixed monthly installments from July 1997. | 110,439 |
| Loan with land and building as collateral | Lump-sum repayment. Three years from the first date of loan withdrawal. | 212,000 |
| Loan with machinery as collateral | Repayable in fixed installments in January, April, July, and October each year from October 1997. | 2,670 |
| Loan with machinery as collateral | Repayable in fixed installments in January, April, July, and October each year from October 1997. | 26,775 |
| Loan with machinery as collateral | Quarterly repayment of principal from June 1997. | 28,620 |
| Loan with certificate of time deposits as collateral | Repayable in fixed quarterly installments from June 2001. | 100,000 |
| | | 505,097 |
| Less: Current portion | | (55,356) |
| Net | | $449,741 |

| Item | Repayment Term | NTD |
|---|---|---|
| **December 31, 2001** | | |
| Loan with land and building as collateral | Starting from October 1999, 23rd day of each month | $ 22,618 |
| Loan with land and building as collateral | Starting from July 1997 monthly fixed payments | 104,583 |
| Loan with machinery as collateral | Starting from October 1997, January, April, July, and October of each year monthly fixed payments | 1,958 |
| Loan with machinery as collateral | Starting from October 1997, January, April, July, and October of each year monthly fixed payments | 19,635 |
| Loan with machinery as collateral | Starting from June 2000 quarterly fixed payments | 22,260 |
| Loan with certificate of time deposits as collateral | Starting from June 2001 quarterly installments repayment of principal | 66,667 |
| Loan with certificate of time deposits as collateral | From June 2001, 25th day of each month fixed payments | 41,126 |
| Loan with machinery as collateral | Starting from December 2003, 96 equal monthly repayments of principal | 420,000 |
| Loan with machinery as collateral | From December 2001, 120 monthly equal repayments of principal and interest by the annuity method | 148,838 |
| Loan with machinery as collateral | From January 2004, 156 monthly equal repayments of principal and interest by the annuity method | 320,000 |
| Loan with machinery as collateral | From January 2003, 48 monthly equal repayments of principal and interest by the annuity method | 140,000 |
| Loan with machinery as collateral | From January 2002, 180 monthly equal repayments of principal and interest by the annuity method | 132,000 |
| Loan with machinery as collateral | From March 2002, 180 monthly equal repayments of principal and interest by the annuity method | 128,000 |
| Loan with machinery as collateral | From January 2002, 180 monthly equal repayments of principal and interest by the annuity method | 150,000 |
| Credit loans | From April 2004, repayments every six months, for a total of 6 installments. First four repayments total $30,000, thousand. The last two repayments total $40,000, thousand. | 200,000 |
| | | 1,917,685 |
| Less: Current portion | | (114,172) |
| Net | | $1,803,513 |

| Item | Repayment Term | NTD | USD |
|---|---|---|---|
| **December 31, 2002** | | | |
| Loan with land and building as collateral | Starting from October 1997, 23rd day of each month | $20,344 | $602 |
| Loan with land and building as collateral | Starting from July 1999 day of each month | 97,619 | 2,890 |
| Loan with certificate of time deposits as collateral | From June 2001, 25th day of each month fixed payments | 24,892 | 737 |
| Loan with machinery as collateral | Starting from December 2003, 96 equal monthly repayments of principal | 420,000 | 12,433 |
| Loan with machinery as collateral | From December 2001, 120 monthly equal repayments of principal and interest by the annuity method | 134,791 | 3,990 |
| Loan with machinery as collateral | From January 2004, 156 monthly equal repayments of principal and interest by the annuity method | 320,000 | 9,473 |
| Loan with machinery as collateral | From January 2003, 48 monthly equal repayments of principal and interest by the annuity method | 140,000 | 4,144 |
| Loan with machinery as collateral | From January 2002, 180 monthly equal repayments of principal and interest by the annuity method | 143,580 | 4,250 |
| Loan with machinery as collateral | From March 2002, 180 monthly equal repayments of principal and interest by the annuity method | 123,206 | 3,647 |
| Loan with machinery as collateral | From January 2002, 180 monthly equal repayments of principal and interest by the annuity method | 126,318 | 3,740 |
| Loan with machinery as collateral | From April 2002, 120 monthly equal repayments of principal and interest by the annuity method | 64,744 | 1,917 |
| Loan with machinery as collateral | From April 2002, 120 monthly equal repayments of principal and interest by the annuity method | 64,744 | 1,917 |
| Credit loans | From April 2004, repayments every six months, for a total of 6 installments. First four repayments total $30,000 thousand. The last two repayments total $40,000 thousand. | 200,000 | 5,921 |
| | | 1,880,238 | 55,661 |
| Less: Current portion | | (111,692) | (3,306) |
| Net | | $1,768,546 | $52,355 |

In 2000, 2001 and 2002, interest rate of long-term debt were floating and ranged from 6.63% to 8.725%, from 1.45% to 8.68 and from 1.20% to 6.28%, respectively.

## (11) Capital Stock

The Company was founded in 1989. Paid-in capital was NT$5,000 thousand. After past years of increased cash investment of NT$2,536,460 thousand, capitalization from earnings of NT$1,471,738, capitalization from capital surplus of NT$457,974 thousand, capitalization from employee bonuses of NT$121,583 thousand, creditor's right to switch to equity of NT$1,000 thousand, negotiable corporate debt converted to common stock of NT$373,321 thousand, for a total amount of capital of NT$4,967,076 thousand as of December 31, 2002.

### (12) Distribution of earnings

The Company policy towards distribution of earnings is to first pay taxes, offset past years losses, set 10% as legal reserve and if there is a realistic need then set aside a special surplus. The remainder should be appropriated as follows:

Shareholder's bonuses: 90%

Remuneration to directors and supervisors: 2%

Employee bonuses: 8%

Dividend policy as approved in the temporary Stockholders' Meeting on September 20, 2000 was incorporated into Articles of Incorporation per SFC Letter Ruling No. (1) 100116 dated January 3, 2000 and detailed as follows:

The Company is in hi-tech industry and currently is in the growth phase of business life cycle. To expand business and pursue permanent operation by sound financial planning, dividends shall be distributed per rules set forth in the preceding paragraph, in light of operation needs and future capital expenditures of the Company. At least 80% of distributable earnings of the current year shall be appropriated as dividends, of which between 5% and 20% shall be set aside as cash dividends with the rest as stock dividends.

Information regarding employee bonuses and compensation to directors and supervisors distributed in 2001 is as follows:

| | Proposed Distribution | Actual Distributed | Difference |
|---|---|---|---|
| Legal reserve | $ 64,608 | $ 64,608 | $ — |
| Stockholders' bonuses — stock | 445,734 | 470,178 | (24,444) |
| Stockholders' bonuses — cash | 81,043 | 85,500 | (4,457) |
| Employee bonuses | 46,825 | 49,394 | (2,569) |
| Compensation to directors and supervisors | 11,706 | 12,348 | (642) |
| Total | $649,916 | $682,028 | $(32,112) |

Proposed and actual distributed employee bonuses was 4,682,000 and 4,938,000 shares, respectively, or 0.943% and 0.994% of the number of shares outstanding as of December 31, 2002. In 2002, the proposed cash capitalization was NT$1,000 million, for a price of $22 per share for a total of NT$2,200 million. Due to price decline, the amount of capital increased was NT$1,222,220 thousand. Since the investors of this cash capitalization are able to receive distributed earnings of 2001, the stockholders resolved to change the earnings distribution to distribute 110 shares of stock dividends and $200 of cash dividends per thousand shares issued.

If the above employee bonus was included in current expenses, then calculated basic earnings per share (after tax)would be $2.16.

The proposal for the appropriation of employee bonus and remuneration to directors and supervisors for 2002 has yet to be presented in the shareholders' meeting. Information regarding employee bonus and remuneration to directors and supervisors distributed shall be posted on the market observation post system after the related meetings are held.

### (13) Earnings per share

Earnings per share is calculated by taking the net income of the current period and dividing it by the weighted average number of common shares outstanding, and taking the number of shares of the capitalization of earnings or capital surplus retroactively adjusted. If the Company's convertible corporate debt are common stock equivalents and have a earnings per share dilution effect greater than 3%, then it is included in the calculation of the earnings per share.

### (14) Capital surplus

| | 2000 | 2001 | 2002 | |
|---|---|---|---|---|
| | NTD | NTD | NTD | USD |
| Cash capitalization of common shares premium | $1,196,848 | $1,174,840 | $1,737,198 | $51,427 |
| Convertible bonds interest payable | — | 23,807 | 25,597 | 758 |
| Gains on disposal of assets | 294 | 294 | — | — |
| Convertible corporate debt conversion premium | — | 466,610 | 487,979 | 14,446 |
| Increase in retained earnings due to subscription to new shares of investee companies by subsidiaries not in | — | — | 6,070 | 179 |
| Total | $1,197,134 | $1,665,551 | $2,256,844 | $66,810 |

### (15) Pension Plan

The Company deposited the pension fund into a designated account at the Central Trust of China. In 2000, 2001 and 2002, changes in pension fund account were as follows:

| | 2000 | 2001 | 2002 | |
|---|---|---|---|---|
| | NTD | NTD | NTD | USD |
| Beginning balance | $14,526 | $20,422 | $26,771 | $792 |
| Current contribution | 4,697 | 5,421 | 5,907 | 175 |
| Current interest yield | 1,199 | 928 | 675 | 20 |
| Ending balance | $20,422 | $26,771 | $33,353 | $987 |

Effective December 31, 1996, the Company adopted the FAS Statement No. 18 "Accounting for Pensions", and actuarial reports on pensions dated February 15, 2001 January 11, 2002 and January 29, 2003 were secured with December 31, 2000, 2001 and 2002 as the measurement dates. Components of net pension cost were as follows:

| | 2000 | 2001 | 2002 | |
|---|---|---|---|---|
| | NTD | NTD | NTD | USD |
| Service cost | $6,259 | $7,686 | $8,593 | $254 |
| Interest cost | 1,684 | 1,815 | 1,141 | 34 |
| Projected return on pension plan assets | (1,199) | (1,363) | (1,229) | (36) |
| Amortization and deferred amount | 692 | 380 | (42) | (1) |
| Net periodic pension cost | $7,436 | $8,518 | $8,463 | $251 |

Actuarial assumptions adopted to calculate net periodic pension cost and reconciliation of funding status and accrued pension liabilities per books at year-end are as follows:

| | 2000 | 2001 | 2002 |
|---|---|---|---|
| Discount rate | 6.00% | 6.00% | 3.50% |
| Future salary increase rate | 4.00% | 4.00% | 3.00% |
| Projected long-term rate of return on pension plan assets | 6.00% | 6.00% | 3.50% |

| | 2000 | 2001 | 2002 | |
|---|---|---|---|---|
| | NTD | NTD | NTD | USD |
| Benefit obligation: | | | | |
| Vested benefit obligation | $ — | $ (423) | $ (655) | $ (19) |
| Non-vested benefit obligation | (14,978) | (23,448) | (18,712) | (554) |
| Accumulated benefit obligation | (14,978) | (23,871) | (19,367) | (573) |
| Effect of future salary increase | (15,486) | (14,896) | (13,229) | (392) |
| Projected benefit obligation | (30,464) | (38,767) | (32,596) | (965) |
| Fair value of pension plan assets | 20,423 | 26,771 | 33,353 | 987 |
| Funded status | (10,041) | (11,996) | 757 | 22 |
| Unrecognized net transitional benefit obligation | 4,052 | 3,684 | 3,316 | 98 |
| Unrecognized gain (loss) on pension plan assets | 323 | (451) | (12,357) | (365) |
| Retroactive accrual of pension liabilities | — | — | — | — |
| Accrued pension liabilities | $(5,666) | $(8,763) | $(8,284) | $(245) |

As of December 31, 2000, 2001 and 2002, vested benefit obligation for both years amounted to NT$0, NT$423 thousand and NT$655 thousand respectively.

## (16) Income Taxes

(1) 2000, 2001 and 2002, components of income tax expense of the Company and subsidiaries were as follows:

| | 2000 | 2001 | 2002 | |
|---|---|---|---|---|
| **Domestic** | NTD | NTD | NTD | USD |
| Current income tax expense | $71,250 | $62,832 | $16,046 | $ 474 |
| Deferred income tax expense | 1,227 | 3,550 | (2,000) | (59) |
| 10% surtax on undistributed earnings | 1,284 | 12,389 | 9,268 | 274 |
| **Overseas** | | | | |
| Current income tax expense | 26,602 | 7,647 | (23,156) | (685) |
| Deferred income tax expense (benefit) | (909) | (21,129) | (8,013) | (237) |
| Total | $99,454 | $65,289 | $(7,855) | $(233) |

(2) As of December 31, 2000, 2001 and 2002, deferred income tax assets (liabilities) of the Company and subsidiaries were as follows:

| | 2000 | 2001 | 2002 | |
|---|---|---|---|---|
| | NTD | NTD | NTD | USD |
| Current: | | | | |
| Deferred income tax assets | $24,750 | $17,000 | $26,750 | $792 |
| Valuation allowance — deferred income tax assets | — | — | (26,750) | (792) |
| Deferred income tax assets, net | 24,750 | 17,000 | — | — |
| Deferred income tax liabilities | (9,100) | (4,000) | (—) | (—) |
| Current deferred income tax assets, net | $15,650 | $13,000 | $ — | $ — |
| Non-current: | | | | |
| Deferred income tax assets | $ 1,400 | $ 2,000 | $ 170,375 | $ 5,044 |
| Valuation allowance - deferred income tax assets | — | — | (167,125) | (4,948) |
| Deferred income tax assets, net | 1,400 | 2,000 | 3,250 | 96 |
| Deferred income tax liabilities | (15,500) | (17,000) | (3,250) | (96) |
| Non-current deferred income tax liabilities, net | $(14,100) | $(15,000) | $ — | $ — |

(3) As of December 31, 2000, 2001 and 2002, deferred income tax assets/liabilities of the Company and subsidiaries due to temporary differences and effects on income taxes were as follows:

| | December 31, 2000 | | | December 31, 2001 | | | December 31, 2002 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | NTD | | | NTD | | | NTD | | | USD | | |
| | | Income Tax Effect | | | Income Tax Effect | | | Income Tax Effect | | | Income Tax Effect | |
| | Amount | Current | Non-current | Amount | Current | Non-current | Amount | Current | Non-current | Amount | Current (USD) | Non-current (USD) |
| Deductible temporary difference due to inventory market decline | $5,100 | $12,750 | $ — | $13,000 | $ 3,250 | $ — | $67,000 | $16,750 | $— | $1,939 | $496 | $— |
| Deductible temporary difference due to employee pension expense | 5,604 | — | 1,400 | 8,296 | — | 2,000 | 13,549 | — | 3,375 | 391 | — | 100 |
| Deductible temporary difference due to unrealized exchange loss | — | — | — | — | — | — | 20,958 | 5,000 | — | 606 | 148 | — |
| Deductible temporary difference resulting from unrealized sales profit | 48,524 | 12,000 | — | 54,566 | 13,750 | — | 20,437 | 5,000 | — | 590 | 148 | — |
| Investment tax credits | — | — | — | — | — | — | 61,934 | — | 62,000 | 1,789 | — | 1,836 |
| Loss carryforwards | — | — | — | — | — | — | 424,919 | — | 105,000 | | — | 3,108 |
| Subtotal | | 24,750 | 1,400 | | 17,000 | 2,000 | | 26,750 | 170,375 | | 792 | 5,044 |
| Less: Valuation allowance | | — | — | | — | — | | (26,750) | (167,125) | | (792) | (4,948) |
| Allowance for Valuation deferred income tax assets | | — | — | | | | | | | | | |
| Taxable temporary difference due to recognition of investment income | (62,356) | — | (15,500) | (68,267) | — | (17,000) | 13,308 | — | (3,250) | 385 | — | (96) |
| Taxable temporary difference due to unrealized exchange gain | 36,406) | (9,100) | — | (15,537) | (4,000) | — | — | — | — | | — | — |
| | | $15,650 | $(14,100) | | $13,000 | $(15,000) | | $ — | $— | | $ — | $— |

(4) As of December 31, 2000, 2001 and 2002, information on undistributed earnings was as follows:

| | 2000 | 2001 | 2002 | |
|---|---|---|---|---|
| | NTD | NTD | NTD | USD |
| Accumulated prior to 1997 (included) | $ 839 | $ 839 | $ — | $ — |
| Accumulated after 1998 | 647,147 | 704,476 | (1,085,541) | 32,136 |
| Total | $647,986 | $705,315 | $(1,085,541) | $32,136 |

In 2000, 2001and 2002, investment tax credits due to purchase of automatic machinery, human resource training, establishing brand image, and research and development was NT$33,613 thousand, NT$38,619 thousand, and NT$61,934 thousand, which were offset against current income tax payable then of NT33,613 thousand, NT$38,619 thousand and NT$0, respectively. Further, income before tax of NT$341,862 thousand NT$423,054 thousand and NT$0 of 2000, 2001 and 2002, respectively, qualified for the 5-year tax exemption.

The Company's corporate income tax returns through 2000 were assessed by the Tax Authority.

As of December 31, 2002, information regarding loss carryforwards is as follows:

| Year loss incurred | Expiration date | NTD |
|---|---|---|
| 2002 | 2007 | $424,919 |

As of December 31, 2000, 2001 and 2002, balance of stockholders' imputation credit account was $38,022 thousand, $59,882 thousand and $33,091 thousand, respectively. It was estimated that after filing of corporate income tax for 2002, deductible ratio of earnings distributed for R.O.C residents was approximately 0%. Actual deductible ratio of earnings distributed for 2001 was 12.76%.

**(17) Financial Instruments**

**(1)** ***Financial derivative instruments***

(i) *Contract amount and credit risk*

| | December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2000 | | 2001 | | 2002 | |
| | Contract amount | Credit risk | Contract amount | Credit risk | Contract amount | Credit risk |
| **Financial instruments** | | | | | | |
| Forward remittance contract | | | | | | |
| USD | $— | $— | $13,000 | $— | $— | $— |
| Options held | | | | | | |
| Call options sold | | | | | | |
| — USD | $— | $— | $— | $— | $2,500 | $— |
| — Euro | $— | $— | $— | $— | $8,400 | $— |
| Put options sold | | | | | | |
| — USD | $— | $— | $— | $— | $7,500 | $— |
| Call options purchased | | | | | | |
| — USD | $— | $— | $— | $— | $2,500 | $— |

Credit risk arises when the transaction party can not follow the terms stated in the contract. Therefore the Company deals with banks with good credit and uses past experience to determine the maximum remittance amount that the transaction party will not likely to default on. Therefore the chance of credit risk occurring is very low.

(ii) *Market price risk*

Since the non-derivative financial instruments the Company uses have hedging quality, therefore losses due to interest rate and exchange rate fluctuations will be offset by the hedging items so market price risk will not be significant.

(iii) *Current risk, cash flow risk and amount, period, and uncertainty of future cash demands*

Future cash outflow and inflow estimated for 2003 resulting from options and forward exchange contracts amounted to EUR8,400 thousand, JPY945,000 thousand and USD15,510 thousand, respectively. In 2002, cash outflow and inflow amounted to USD13,000 thousand and NT$448,257 thousand, respectively. The Company has an ample amount of operating capital and therefore no risk of not raising enough capital. The exchange rates for the forward remittance contracts have been already set so there will be a minimal amount of cash flow risk.

(iv) *Types, goal, and strategy of holding financial derivative instruments*

The Company holds financial derivative instruments not for the purpose of transacting. They are held mainly for the purpose of engaging in forward remittance contracts is to avoid the risk that arises from foreign currency rights, debt, and guarantee when exchange rate changes occur. The Company's policy of dealing with risk is to avoid the majority of market price risk. The Company uses financial derivatives that are highly inversely related to the fair price of risky items as hedging tools. The derivatives' effectiveness are periodically reviewed.

(v) *Stating financial derivative instruments in the financial statements*

Account receivables and account payables balances that arise from forward remittance contract are subtracted from each other and the difference is stated as forward remittance receivable or forward remittance payable. As of December 31, 2000, 2001 and 2002, the amount of forward remittance contract balance was NT$0, NT$7,783 thousand and NT$0, respectively. As of December 31, 2000, 2001 and 2002, the exchange loss was NT$0, NT$8,967 and NT$0, respectively, and is stated as non-operating expense.

In 2002, gains from derivative instruments transactions totaled NT$3,421 thousand reflected under non-operating income.

**(2)** ***Fair Value of Financial Instruments:***

| | 2000 | | 2001 | | 2002 | | | |
|---|---|---|---|---|---|---|---|---|
| | NTD | | NTD | | NTD | | USD | |
| | Book Value | Fair Value | Book Value | Fair Value | Book Value | Fair Value | Book Value | Fair Value |
| **Financial Assets:** | | | | | | | | |
| Book value equal to fair value | $5,362,882 | $5,362,882 | $5,158,336 | $ 518,336 | $3,621,811 | $3,621,811 | $107,218 | $107,218 |
| Long-term investment | 518,523 | 518,523 | 1,318,662 | 1,318,662 | 1,042,564 | 1,042,564 | 30,863 | 30,863 |
| **Financial Liabilities:** | | | | | | | | |
| Book value equal to fair value | $3,403,229 | $3,403,229 | $3,461,941 | $3,461,941 | $2,439,331 | $2,439,331 | $ 72,212 | $ 72,212 |
| Long-term liabilities | 449,741 | 449,741 | 1,986,915 | 1,986,915 | 1,933,591 | 1,933,591 | 57,240 | 57,240 |
| **Off-balance-sheet financial instruments** | | | | | | | | |
| Letters of credit | — | NTD319,861 | — | NTD154,202 | — | NTD 8,521 | — | USD 252 |
| Letters of credit | — | USD 386 | — | USD 3,031 | — | USD 274 | — | USD 274 |
| Letters of credit | — | — | — | JPY 48,000 | — | — | — | — |
| Endorsement guarantees | — | — | — | — | — | NTD328,500 | — | USD9,725 |

Methods and assumptions adopted by the Company in estimating the fair value of financial instruments are as follows:

(i) Financial assets and liabilities with fair value equal to book value refer to short-term financial instruments of which fair value is the book value reflected on the balance sheets. Since such financial instruments will mature with short notice, book value is a reasonable basis in estimating the fair value. This comprises of cash and cash equivalents, notes and accounts receivable and payable, other receivables and payables, restricted deposits, short-term bank loans, other short-term borrowings, short-term bills payable, income tax payable, accrued expenses, collection on behalf of others, long-term loans, guarantee deposits-in and refundable deposits, and accrued pension liabilities.

(ii) Long-term equity investments held by the Company and subsidiaries refer to domestic and overseas investee companies held. Since these companies are not publicly traded, fair value thereof cannot be estimated in practice. As of December 31, 2000, 2001 and 2002, original investment was NT$253,860 thousand, NT$1,142,044 thousand and NT$1,179,718 thousand, respectively, and their book value amounted to NT$248,066 thousand, NT$1,077,643 thousand and NT$848,216 thousand, respectively. In 2000, 2001and 2002, there were 3, 6 and 6 investee companies, respectively. As of December 31, 2000, 2001 and 2002, total assets of these companies amounted to NT$272,526 thousand, NT$1,412,388 thousand and NT$889,194 thousand with stockholders' equity equal to NT$248,112, thousand, NT$1,075,831 thousand and NT$850,067 thousand, respectively. In 2000, 2001 and 2002, total operating revenue amounted to NTD$285,711 thousand NT$1,392,686 thousand and NT$785,239 thousand, and net loss amounted to NT $1,924, thousand, NT$55,999 thousand and NT$48,967 thousand, respectively.

(iii) Letters of credit/guarantees: Fair value thereof is the amount of contracts.

**(3)** ***Financial Instruments with Off-Balance-Sheet Credit Risks:***

As of December 31, 2000, 2001 and 2002, unused letters of credit was NT$319,861, thousand, US$386 thousand, NT$154,202 thousand US$3,031 thousand, JPY48,000 thousand and NT$8,521 thousand, US$273 thousand, respectively. Terms of these letters of credit vary between 5 to 7 months, and they are primarily used for purchases from others. Fair value of these letters of credit is equal to the amount of contracts.

**(4) *Information on Concentration of Credit Risks:***

Primary implicit credit risk of the Company and subsidiaries arises from cash and receivables. Cash held by the Company is deposited at various financial institutions. The Company further controls exposure to credit risks with each financial institution, and deems that cash of the Company and subsidiaries is not subject to significant concentration of credit risk.

Clients of the Company and subsidiaries concentrate in the retail business. To minimize credit risk, the Company and subsidiaries evaluate financial positions of their clients on a periodical basis and will request for collateral or guarantee if deemed necessary. The Company and subsidiaries also regularly assess the collectibility of accounts receivable and provide for allowance for doubtful accounts accordingly, and loss on bad debts is generally within management's expectation. As of December 31, 2000, 2001 and 2002, a total of 7, 7 and 4 clients accounted for 67%, 77% and 60%, respectively, of accounts receivable of the Company and subsidiaries, resulting in concentration of credit risk. Nevertheless, the Company and subsidiaries will reinforce credit control and account management to reduce credit risk.

## 5. RELATED-PARTY TRANSACTIONS

### (1) Name of Related-Party and Relationship of the Company

| Name of related party | Relationship with the Company |
|---|---|
| ABIT Computer (H.K.) Corp. Ltd. | Subsidiary |
| ABIT Computer (S.G.) Corp. Ltd. | Subsidiary |
| ABIT Investment Holding Ltd. | Subsidiary |
| ABIT Computer (U.K.) Corp. Ltd. | Subsidiary |
| Akom Technology Corp. | Investee company accounted for under the equity method |
| Rolly Technology Holdings Ltd. | An investee company accounted for under the equity method by a subsidiary of the Company (from October 2000) |
| ABITNET Technology Inc. | Subsidiary |
| Welltop Business Development Inc. | A company affiliated with the Company |
| Welltop Holdings Ltd. | A company affiliated with the Company |
| Timerwell Technology (Taiwan) Co., Ltd. | A company affiliated with the Company |
| Vincent Meng | Responsible party for the Company's affiliate |

### (2) Significant Transactions with Related-Parties

**(1) *Sales***

In 2000, 2001 and 2002, sales to related-parties were as follows:

| | 2000 | | 2001 | | 2002 | | | |
|---|---|---|---|---|---|---|---|---|
| | NTD | % | NTD | % | NTD | % | USD | % |
| ABIT Computer (U.K.) Corp. Ltd. | $207,268 | 3 | $309,980 | 1 | $174,201 | 1 | $ 5,157 | 1 |
| ABIT Computer (H.K.) Corp. Ltd. | 203,496 | 3 | 323,720 | 2 | 517,820 | 3 | 15,329 | 3 |
| Rolly Technology Holdings Ltd. | 1,042,478 | 13 | 179,586 | 1 | 193,507 | 1 | 5,728 | 1 |
| ABIT Computer (S.G.) Corp Ltd. | — | — | — | — | 28,731 | — | 851 | — |
| | $1,453,242 | 19 | $813,286 | 4 | $914,259 | 5 | $27,065 | 5 |

In 2000, 2001 and 2002, collection period for sales to related-parties was 90 days, 90 days and 45~90 days, respectively, and that for other customers in general was T/T to 90 days.

In 2000, 2001 and 2002, prices of sales to related-parties were 4.55%~12.65%, 4.55%~12.65% and 1.72~15.99%, respectively, lower than those to other customers in general, and there was no significant difference in other terms of transactions.

For information on the elimination of unrealized gain on downstream transactions and transactions between investee companies, please refer to Note 4.(4).

**(2)** ***Purchases***

| | 2000 | | 2001 | | 2002 | | | |
|---|---|---|---|---|---|---|---|---|
| | NTD | % | NTD | % | NTD | % | USD | % |
| Rolly Technology Holdings Ltd.. | $— | — | $1,153,005 | 6 | $1,925,853 | 13 | $57,012 | 13 |
| ABIT Computer (U.K.) Corp., Ltd.. | — | — | 23,126 | — | — | — | — | — |
| Akom Technology Corp. | — | — | 51,766 | — | 37,382 | — | 1,106 | — |
| | $— | — | $1,227,897 | 6 | $1,963,235 | 13 | $58,118 | 13 |

For 2001 and 2002, purchases from related parties had a paying deadline of 7~45 days and 45~60 days. For regular customers L/C 0 to 105 days and 7~120 days.

In 2001 and 2002, purchases from related parties of the Company comprised of products not purchased from others, there was no basis for price comparison as a result. Payment was remitted via wire transfer.

For information on the elimination of unrealized gain on downstream transactions and transactions between investee companies, please refer to Note 4.(4).

### (3) *Receivables and Payables*

Receivables and payables, all exempt from interests, with related-parties were as follows:

| | December 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2000 | | 2001 | | 2002 | | | |
| | NTD | % | NTD | % | NTD | % | USD | % |
| Accounts Receivable: | | | | | | | | |
| ABIT Computer (H.K.) Corp. Ltd. | $ 92,520 | 14 | $25,337 | 32 | $ — | — | $ — | — |
| ABIT Computer (U.K.) Corp., Ltd. | 9,412 | 2 | 35,218 | 44 | 8,892 | 35 | 263 | 35 |
| Rolly Technology Holdings Ltd. | 4,622 | 1 | 19,147 | 24 | — | — | — | |
| ABIT Computer (S.G.) Corp, Ltd. | — | — | — | — | 16,670 | 65 | 494 | 65 |
| Welltop Holdings Ltd. | 518,037 | 83 | — | — | — | — | — | — |
| | $624,591 | 100 | $79,702 | 100 | $25,562 | 100 | $757 | 100 |
| Other receivables | | | | | | | | |
| ABIT Computer (S.G.) Corp, Ltd. | $— | — | $— | — | $ 7,806 | 4 | $ 231 | 4 |
| Rolly Technology Holdings Ltd. | — | — | — | — | 198,642 | 96 | 5,881 | 96 |
| | $— | — | $— | — | $206,448 | 100 | $6,112 | 100 |

*Note:* For purchases of raw materials, disposal of machinery equipment, commission and information service income.

| | 2000 NTD | % | 2001 NTD | % | 2002 NTD | % | 2002 USD | % |
|---|---|---|---|---|---|---|---|---|
| Accounts Payable: | | | | | | | | |
| Akom Technology Corp. | $— | — | $ 3,591 | 30 | $ 1 | — | $— | — |
| Welltop Business Development Inc. | — | — | — | — | 1,219 | 48 | 36 | 48 |
| Rolly Technology Holdings Ltd. | — | — | 8,517 | 70 | 1,304 | 52 | 39 | 52 |
| | $— | — | $12,108 | 100 | $2,524 | 100 | $75 | 100 |
| Notes Payables: | | | | | | | | |
| Welltop Business Development Inc. | $— | — | $ 3,615 | 22 | $ — | — | $ — | — |
| Akom Technology Corp. | — | — | 12,516 | 78 | 1,733 | 100 | 51 | 100 |
| | $— | — | $16,131 | 100 | $ 1,733 | 100 | $ 51 | 100 |
| Advance Sales Receipts | | | | | | | | |
| ABIT Computer (H.K.) Corp. Ltd. | $— | — | $— | — | $102,925 | 100 | $3,047 | 100 |

**(4) *Others***

(i) *Services*

In 2000, 2001 and 2002, payment to subsidiaries for repair and maintenance services rendered by the Company to customers along with commissions and expenses in connection with business referral between the Company and subsidiaries were as follows:

| | 2000 | 2001 | 2002 | |
|---|---|---|---|---|
| | NTD | NTD | NTD | USD |
| **Repairs and maintenance expenses** | | | | |
| ABIT Computer (H.K.) Corp., Ltd. | $ — | $— | $ 9,971 | $296 |
| ABIT Computer (S.G.) Corp. Ltd. | — | — | 69 | 2 |
| Rolly Technology Holdings Ltd. | — | — | 26 | — |
| ABIT Computer (U.K.) Corp., Ltd. | 676 | — | — | — |
| | $676 | $— | $10,066 | $298 |

| | 2000 | 2001 | 2002 | |
|---|---|---|---|---|
| | NTD | NTD | NTD | USD |
| **Commission revenues** | | | | |
| ABIT Computer (S.G.) Corp., Ltd.. | $— | $— | $7,826 | $232 |

| | 2000 | 2001 | 2002 | 2002 |
|---|---|---|---|---|
| | NTD | NTD | NTD | USD |
| **Commission expenses** | | | | |
| ABIT Computer (U.K.) Corp., Ltd. | $1,276 | $— | $— | $— |

| | 200 | 2001 | 2002 | |
|---|---|---|---|---|
| | NTD | NTD | NTD | USD |
| **Services expenses** | | | | |
| Welltop Business Development Inc. | $— | $20,743 | $18,834 | $558 |

| | 2000 | 2001 | 2002 | |
|---|---|---|---|---|
| | NTD | NTD | NTD | USD |
| **Other expenses** | | | | |
| Timerwell Technology (Taiwan) Co. Ltd | $— | $— | $19,571 | $579 |

**(5) *Lease agreements***

Information regarding commission income resulting from leasing to related parties is as follows:

**January 1, 2002 ~December 31, 2002**

| Leasee | Location of leased item | Period | Monthly rent (including tax) | Payment method | Rent income (not including VAT) |
|---|---|---|---|---|---|
| ROLLY | 2-4 Fl., No. 323, YANG GUANG ST., NEIHU, TAIPEI | 2002.03~2002.08 | 150 | Monthly | $ 714 |
| Akom Technology Corp. | 5 Fl., No. 323, YANG GUANG ST., NEIHU, TAIPEI Parking rent B2 – 27,102, 103 | 2002.02~2004.01 | 488 (includes parking rent 8) | Monthly | 5,117 |
| Welltop Business Development Inc. | 1–10 Fl., No. 323,YANG GUANG ST., NEIHU, TAIPEI | 2002.02 ~2004.02 | 96 | Monthly | 950 |
| Total | | | | | $6,781 |

**(6) *Guarantee Endorsements***

As of December 31, 2001 and 2002, guarantee and endorsements for related parties totaled NT$0 and NT$70,200 thousand respectively.

**(6) *Property Transactions***

(i) In 2002, machinery equipment sold to Rolly amounted to NT$152,139 thousand for a gain of NT$2,414 thousand.

(ii) In 2002, deferred assets purchased from Timerwell Technology (Taiwan) Co. Ltd. totaled NT$10,891 thousand.

(iii) In 2002, the Company sold 1,076,000 shares of Timerwell Technology (Taiwan) Co. Ltd. at NT$15 per share to Vincent Meng for a total of NT$16,144 thousand, resulting in a gain of NT$3,637 thousand, reflected as other current assets.

## 6. PLEDGED ASSETS

As of December 31, 2000, 2001 and 2002, the following assets were pledged as collateral for long- and short-term loans or their use is restricted:

| | 2000 | 2001 | 2002 | |
|---|---|---|---|---|
| | NTD | NTD | NTD | USD |
| **Assets** | | | | |
| Restricted deposits — current | $281,537 | $ 351,812 | $1,150,780 | $ 34,067 |
| Restricted deposits — non-current | 20,000 | 18,400 | 5,000 | 148 |
| Account receivable | — | — | 225,368 | 6,671 |
| Fixed assets | 595,528 | 2,587,892 | 1,596,519 | 47,262 |
| Leased assets | — | — | 393,933 | 11,662 |
| Idled assets | — | — | 190,172 | 5,630 |
| Total | $897,065 | $2,958,104 | $3,561,772 | $105,440 |

## 7. MAJOR COMMITMENTS AND CONTINGENCIES

(1) As of December 31, 2000, 2001 and 2002, unused letters of credit amounted to NT $319,861 thousand, US$386 thousand, NT$154,202 thousand, US$3,031 thousand, JPY48,000 thousand and NT$8,521 thousand, US$274, thousand, respectively.

(2) As of December 31, 2000, 2001 and 2002, promissory notes issued for loans from financial institutions amounted to NT$1,922,405 thousand, NT$2,069,933 thousand and NT$1,643,738 thousand, respectively.

(3) As of December 31, 2000, 2001 and 2000, promissory notes received from operations amounted to NT$176,000 thousand, NT$303,671 thousand and NT$185,580 thousand, respectively.

(4) The Tax Authority ruled that a portion of the Company's investment tax credits were inapplicable and additional taxes totaling NT$9,873 thousand, NT$5,085 thousand, and decrease in tax refund of NT$3,752 thousand were assessed. The Company has filed for reassessment on August 13, 2002, August 21, 2002, and November 21, 2002. As of December 31, 2002, there was no ruling.

(5) As of December 31, 2002, the Company provided accounts receivable due from Hewlett Packard as collateral for Rolly Technology Holdings Ltd.'s bank loan from Sino Pac Bank, totaling USD6,965 thousand.

(6) As of December 31, 2002, time deposits in foreign banks amounted to USD25,000 thousand which is used as collateral for credit limits for purchases from a manufacturer. The Company must approve any use of the credit limit and the manufacturer must have outstanding accounts receivable with the Company.

(7) As of December 31, 2001 and 2002, promissory notes acquired from customers due to sales amounted to $0and USD10,000 thousand, respectively.

## 8. SIGNIFICANT CATASTROPHIC LOSSES: None.

## 9. SIGNIFICANT SUBSEQUENT EVENTS:

### (1) Overseas convertible bond

On February 28, 2003, the Company issued overseas unsecured convertible bonds with a total issue size of USD17,000 thousand. Major terms and conditions of offering and issuance of unsecured convertible bond by the Company are the following:

(1) Interest rate at par: 0.75% per annum

(2) Period to maturity: 5 years, from February 28, 2003 to February 27, 2008.

(3) Repayment: unless previously redeemed, put option exercised, purchased and cancelled, or converted, bonds will be repaid on maturity at par plus interest payable with cash.

(4) Redemption: The Company may redeem the bonds if the following events occur:

A. Effective February 28, 2004, the Company may redeem the bonds at par, in entirety or in part, if the closing price of its common share on Taiwan Stock Exchange translated into U.S. dollars by the spot rate for is at least 130% of the conversion price for 30 consecutive trading days $(32.334 = US$1).

B. The Company may redeem the remaining bonds at any time if at least 90% of the bond principal has been previously redeemed, converted, or purchased and cancelled.

C. If due to changes in ROC tax laws, the Company is obligated to pay additional amounts, the bonds may be redeemed in whole at par.

(5) Repurchase at the option of the bondholders:

Two, three, and four years into bond issuance, unless previously redeemed, put option exercised, purchased and cancelled, bondholders may request the Company to redeem bonds in whole or in portion at 2%, 2.5%, and 3%, respectively.

(6) Conversion terms:

A. Bondholders may, at any time between March 27, 2003 and January 28, 2008, convert bonds into common shares or global depositary receipts.

B. Conversion price: $8.05.

C. Exchange rate used to determine conversion price: $34.75.

(7) As of April 10, 2003, total amount converted totaled USD14,000 thousand for 60,435,000 shares.

**(2)** Effective 2003, Rolly Technology (Suzhou) Co., Ltd , an investee accounted for under the equity method, is responsible for the Company's manufacturing.

**10. OTHER: None**

**11. BUSINESS SEGMENT FINANCIAL INFORMATION**

**(1) Information by industry:**

Primary segment of the Company engages in trade and maintenance of computer hardware and peripherals, manufacturing and processing of computers, and trade of parts and components, and related imports and exports, and dealership of bidding and quotation.

**(2) Information by geographical region and on exports:**

In 2000, 2001 and 2002, exports amounted to NT$7,870,159, NT$21,751,634 thousand and NT$20,914,102 thousand, respectively.

| Area | 2000 | 2001 | 2002 | |
|---|---|---|---|---|
| | NTD | NTD | NTD | USD |
| Europe | $2,535,756 | $ 3,950,374 | $ 2,886,800 | $ 85,459 |
| Asia | 3,518,194 | 14,582,540 | 16,034,494 | 474,674 |
| America | 1,816,209 | 3,218,720 | 1,869,146 | 55,333 |
| Oceania | — | — | 114,590 | 3,392 |
| Africa | — | — | 9,072 | 269 |
| Total | $7,870,159 | $21,751,634 | $20,914,102 | $619,127 |

**(3) Information on major clients:**

In 2000, clients with revenue over 10% of totals as reflected in the statement of Income are as follows:

| | 2000 | | 2001 | | 2002 | |
|---|---|---|---|---|---|---|
| | Total sales | % | Total sales | % | Total sales | % |
| Rolly Technology Holdings Ltd. | $1,044,413 | 13 | $— | — | $— | — |

# INDEPENDENT AUDITORS' REPORT

The Board of Directors
**ABIT Computer Corporation:**

We have audited the accompanying balance sheets of ABIT Computer Corporation as of December 31, 2000, 2001 and 2002 and the related statements of operations, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. As of December 31, 2000, 2001 and 2002, long-term stockholder's equity investments accounted for under the equity method were NT$348,020 thousand, NT$3,598,234 thousand, and NT$4,901,390 thousand, respectively. Equity in gain/(loss) related thereto were NT$23,855 thousand, (NT$35,709 thousand) and (NT$521,452 thousand), respectively, which were recognized based upon the financial statements audited by other auditors.

We conducted our audits in accordance with generally accepted auditing standards and "Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants" of the Republic of China. 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 audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of ABIT Computer Corporation as of December 31, 2000, 2001 and 2002, and the results of their operations and their cash flows for the years then ended in conformity with "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and generally accepted accounting principles of the Republic of China.

The accompanying financial statements as of and for the year ended December 31, 2002, except for the statements of changes in stockholders' equity, have been translated into United States dollars solely for the convenience of the readers. We have audited the translation and, in our opinion, the financial statements expressed in New Taiwan dollars have been translated into United States dollars on the basis set forth in note 2(11) of the notes to the financial statements.

Taipei, Taiwan, R. O. C.
March 31, 2003, except as to note 9. (1).[(7)], which is as of April 10, 2003, and note 2(11), which is as of October 14, 2003

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*The accompanying financial statements are intended only to present the financial position, results of operation and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures, and practices to audit such financial statements are those generally accepted and applied in the Republic of China.*

# ABIT COMPUTER CORPORATION

## BALANCE SHEETS
**December 31, 2000 , 2001 and 2002**
**(Expressed in thousands of New Taiwan dollars and US dollars expected for share data)**

| | 2000 | | 2001 | | 2002 | | |
|---|---|---|---|---|---|---|---|
| | NTD | % | NTD | % | NTD | % | USD |
| **ASSETS** | | | | | | | |
| Current Assets | | | | | | | |
| Cash and cash equivalents *(Notes 2 and 4.1)* | $ 690,176 | 9 | $ 1,203,556 | 11 | $ 450,766 | 4 | $ 13,344 |
| Notes receivable, net *(Notes 2 and 4.2)* | 2,665 | — | 1,104 | — | — | — | — |
| Accounts receivable, net *(Notes 2, 4.2 and 6)* | 1,822,106 | 24 | 1,501,461 | 14 | 975,318 | 9 | 28,872 |
| Accounts receivable — related-party *(Note 5)* | 729,864 | 10 | 818,021 | 7 | 499,873 | 5 | 14,798 |
| Other receivables-related-party *(Notes 5, 6 and 7)* | — | — | 1,920 | — | 206,448 | 2 | 6,112 |
| Inventories, net *(Notes 2 and 4.3)* | 624,307 | 9 | 835,939 | 8 | 148,287 | 1 | 4,390 |
| Other current assets *(Notes 2 and 4.15)* | 88,142 | 1 | 138,434 | 1 | 138,572 | 2 | 4,102 |
| Restricted assets *(Note 2, 6 and 7)* | 281,537 | 4 | 351,812 | 3 | 1,150,780 | 11 | 34,067 |
| | 4,238,797 | 57 | 4,852,247 | 44 | 3,570,044 | 34 | 105,685 |
| Long-term investments | | | | | | | |
| Long-term equity investments *(Notes 2 and 4.4)* | 1,741,585 | 23 | 3,676,235 | 34 | 4,937,552 | 45 | 146,168 |
| Property, plant, and equipment *(Notes 2, 4.5, and 6)* | | | | | | | |
| Land | 464,279 | 6 | 1,453,653 | 14 | 1,064,718 | 10 | 31,519 |
| Buildings | 93,588 | 2 | 795,639 | 7 | 651,701 | 6 | 19,293 |
| Machinery | 181,711 | 3 | 193,483 | 2 | 33,987 | — | 1,006 |
| Computer equipment | 13,832 | — | 26,849 | — | 39,305 | — | 1,164 |
| Transportation equipment | 9,800 | — | 13,368 | — | 11,081 | — | 328 |
| Furniture and office equipment | 7,390 | — | 5,557 | — | 23,938 | — | 708 |
| Prepayment for real estate | 778,439 | 10 | 34,199 | — | — | — | — |
| Prepayment for equipment | — | — | 3,118 | — | — | — | — |
| Other equipment | 6,445 | — | 5,106 | — | 1,458 | — | 43 |
| Less: Accumulated depreciation | (93,310) | (1) | (119,233) | (1) | (68,170) | (1) | (2,018) |
| | 1,462,174 | 20 | 2,411,739 | 22 | 1,758,018 | 15 | 52,043 |
| Other assets | | | | | | | |
| Idle assets *(Notes 2 and 6)* | — | — | — | — | 190,172 | 2 | 5,630 |
| Leased assets *(Notes 2 and 6)* | — | — | — | — | 393,933 | 4 | 11,662 |
| Other assets — other *(Notes 2 and 6)* | 50,426 | — | 53,972 | — | 41,250 | — | 1,221 |
| | 50,426 | — | 53,972 | — | 625,355 | 6 | 18,513 |
| TOTAL ASSETS | $7,492,982 | 100 | $10,994,193 | 100 | $10,890,969 | 100 | $322,409 |

**BALANCE SHEETS — (Continued)**
**December 31, 2000 , 2001 and 2002**
**(Expressed in thousands of New Taiwan dollars and US dollars expected for share data)**

| | 2000 | | 2001 | | 2002 | | |
|---|---|---|---|---|---|---|---|
| | NTD | % | NTD | % | NTD | % | USD |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | | | | |
| Current Liabilities | | | | | | | |
| Short-term borrowings *(Note 4.6)* | $1,197,072 | 16 | $ 1,756,425 | 16 | $ 1,772,650 | 16 | $ 52,476 |
| Short-term notes payable *(Note 4.7)* | 391,288 | 6 | 344,536 | 3 | 145,815 | 1 | 4,317 |
| Notes payable *(Note 5)* | 393,437 | 6 | 516,556 | 5 | 103,663 | 1 | 3,069 |
| Accounts payable | 562,450 | 7 | 262,769 | 3 | 61,084 | 1 | 1,808 |
| Income tax payable *(Notes 2 and 4.15)* | 38,664 | — | 33,554 | — | 8,511 | — | 252 |
| Accrued expenses | 107,107 | 1 | 133,785 | 1 | 80,022 | 1 | 2,369 |
| Current portion of long-term debt *(Note 4.9)* | 55,356 | 1 | 114,172 | 1 | 111,692 | 1 | 3,306 |
| Other current liabilities | 53,821 | 1 | 39,485 | — | 148,163 | 1 | 4,386 |
| | 2,799,195 | 38 | 3,201,282 | 29 | 2,431,600 | 22 | 71,983 |
| Long-Term Liabilities | | | | | | | |
| Corporate bonds payable *(Note 4.8)* | — | — | 183,402 | 2 | 153,603 | 2 | 4,547 |
| Long-term debt *(Note 4.9)* | 449,741 | 6 | 1,803,513 | 16 | 1,768,546 | 16 | 52,355 |
| | 449,741 | 6 | 1,986,915 | 18 | 1,922,149 | 18 | 56,902 |
| Other Liabilities | | | | | | | |
| Accrued pension liabilities *(Notes 2 and 4.14)* | 5,666 | — | 8,763 | — | 8,284 | — | 245 |
| Other liabilities — others *(Notes 4.4 and 4.15)* | 88,624 | 1 | 72,079 | 1 | 21,773 | — | 645 |
| | 94,290 | 1 | 80,842 | 1 | 30,057 | — | 890 |
| Total Liabilities | 3,343,226 | 45 | 5,269,039 | 48 | 4,383,806 | 40 | 129,775 |
| Stockholders' Equity | | | | | | | |
| Capital stock *(Note 4.10)* | 2,200,000 | 29 | 3,031,389 | 28 | 4,967,076 | 45 | 147,042 |
| Entitlement certificates | — | — | 5,801 | — | — | — | — |
| Capital surplus *(Note 2 and 4.13)* | 1,197,134 | 16 | 1,665,551 | 15 | 2,256,844 | 21 | 66,810 |
| Retained earnings | | | | | | | |
| Legal reserve *(Note 4.11)* | 76,096 | 1 | 136,270 | 1 | 200,878 | 2 | 5,947 |
| Undistributed earnings *(Note 4.11)* | 647,986 | 9 | 705,315 | 6 | (1,085,541) | (10) | (32,136) |
| Cumulative translation adjustments *(Notes 2 and 4.4)* | 28,540 | — | 180,828 | 2 | 167,906 | 2 | 4,971 |
| Total Stockholders' Equity | 4,149,756 | 55 | 5,725,154 | 52 | 6,507,163 | 60 | 192,634 |
| Major Commitments and Contingencies *(Notes 2 and 7)* | | | | | | | |
| Significant Subsequent Events *(Notes 9)* | | | | | | | |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $7,492,982 | 100 | $10,994,193 | 100 | $10,890,969 | 100 | $322,409 |

*The accompanying notes are an integral part to the financial statements.*

# ABIT COMPUTER CORPORATION

## STATEMENTS OF OPERATIONS
### For the years ended December 31, 2000 , 2001 and 2002
### (Expressed in thousands of New Taiwan dollars and US dollars expected for share data)

| | 2000 | | 2001 | | 2002 | | |
|---|---|---|---|---|---|---|---|
| | NTD | % | NTD | % | NTD | % | USD |
| Operating revenue | | | | | | | |
| Gross sales | $7,799,572 | 100 | $7,906,016 | 101 | $6,521,471 | 101 | $193,057 |
| Less: Sales returns | (3,635) | — | (16,845) | — | (45,767) | — | (1,355) |
| Sales allowance | (20,476) | — | (95,214) | (1) | (49,034) | (1) | (1,451) |
| Net sales | 7,775,461 | 100 | 7,793,957 | 100 | 6,426,670 | 100 | 190,251 |
| Operating costs | 6,601,014 | 85 | 6,525,998 | 84 | (6,071,398) | 97 | (179,734) |
| Gross profit | 1,174,447 | 15 | 1,267,959 | 16 | 355,272 | 3 | 10,517 |
| Unrealized intercompany gain *(Note 4.4)* | (48,524) | — | (54,918) | — | (20,437) | — | (605) |
| Realized intercompany gain *(Note 4.4)* | 13,418 | — | 48,524 | — | 54,918 | — | 1,626 |
| Realized gross profit | 1,139,341 | 15 | 1,261,565 | 16 | 389,753 | 3 | 11,538 |
| Operating expenses | | | | | | | |
| Selling expenses | 189,976 | 3 | 206,875 | 3 | 295,473 | 2 | 8,747 |
| Administrative expenses | 155,797 | 2 | 214,015 | 3 | 215,565 | 2 | 6,381 |
| Research and development expenses | 125,084 | 1 | 168,738 | 2 | 211,743 | 1 | 6,268 |
| | 470,857 | 6 | 589,628 | 8 | 722,781 | 5 | 21,396 |
| Operating income | 668,484 | 9 | 671,937 | 8 | (333,028) | (2) | (9,858) |
| Non-operating income | | | | | | | |
| Interest income | 21,387 | — | 21,840 | — | 16,102 | — | 477 |
| Gain on disposal of property, plant, and equipment *(Note 2)* | 257 | — | — | — | — | — | — |
| Gain on disposal of investments | 1,918 | — | 4,795 | — | 21,528 | — | 637 |
| Gain on physical stock-taking of inventories | 132 | — | 117 | — | — | — | — |
| Exchange gain | 182,791 | 2 | 140,641 | 2 | 544 | — | 16 |
| Commission income | 31,205 | — | 57,719 | 1 | 50,208 | — | 1,486 |
| Reversal of provision for doubtful accounts | — | — | 6,000 | — | — | — | — |
| Gain on inventory market recovery | — | — | 43,000 | — | — | — | — |
| Miscellaneous income | 4,088 | — | 5,964 | — | 32,131 | — | 951 |
| | 241,778 | 2 | 280,076 | 3 | 120,513 | — | 3,567 |
| Non-operating expenses | | | | | | | |
| Interest expense | 151,966 | 2 | 169,632 | 2 | 180,291 | 1 | 5,337 |
| Investments loss | 23,453 | — | 54,248 | — | 574,462 | 1 | 17,006 |
| Loss on disposal of property, plant, and equipment *(Note 2)* | 2,958 | — | 2,416 | — | — | — | — |
| Inventory market decline and obsolescence | 51,000 | — | — | — | 54,000 | — | 1,599 |
| Miscellaneous expenses | 7,718 | — | 1,159 | — | 64,540 | — | 1,911 |
| | 237,095 | 2 | 227,455 | 2 | 873,293 | 2 | 25,853 |
| Income (loss) before income tax | 673,167 | 9 | 724,558 | 9 | (1,085,808) | (4) | (32,144) |
| Income tax benefit (expense) *(Notes 2 and 4.15)* | (71,226) | (1) | (78,771) | (1) | (23,314) | — | (690) |
| Net income (loss) | $ 601,941 | 8 | $ 645,787 | 8 | $(1,109,122) | (4) | $ (32,834) |

| | 2000 | | 2001 | | 2002 | | 2002 | |
|---|---|---|---|---|---|---|---|---|
| | Before tax | After tax | Before tax | After tax | Before tax | After tax | Before tax | After tax |
| | NTD | NTD | NTD | NTD | NTD | NTD | USD | USD |
| Earnings per share *(Note 4.12)* | | | | | | | | |
| Primary earnings per share | $2.40 | $2.15 | $2.67 | $2.38 | $(2.67) | $(2.73) | $(0.08) | $(0.08) |
| Diluted earnings per share | $2.40 | $2.15 | $2.56 | $2.29 | $(2.67) | $(2.73) | $(0.08) | $(0.08) |

*The accompanying notes are an integral part to the financial statements.*

# ABIT COMPUTER CORPORATION

## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
### For the years ended December 31, 2000 , 2001 and 2002
### (Expressed in thousands of New Taiwan dollars)

| | Capital Stock | Entitlement Certificates | Capital Surplus | Retained Earnings: Legal Reserve | Retained Earnings: Undistributed Earnings | Cumulative Translation Adjustments | Total |
|---|---|---|---|---|---|---|---|
| **2000** | | | | | | | |
| Balance — January 1, 2000 | $1,350,000 | $— | $ 577,421 | $28,994 | $488,249 | $(27,945) | $2,416,719 |
| Capital increase in cash | 278,800 | — | 808,520 | — | — | — | 1,087,320 |
| Gain on sale of fixed assets transferred to capital surplus | — | — | 193 | — | (193) | — | — |
| 1999 earnings appropriation: | | | | | | | |
| Legal reserve | — | — | — | 47,102 | (47,102) | — | — |
| Employee bonus | 31,200 | — | — | — | (31,200) | — | — |
| Compensation to directors and supervisors | — | — | — | — | (7,800) | — | (7,800) |
| Capitalization of retained earnings | 351,000 | — | — | — | (351,000) | — | — |
| Capitalization of capital surplus | 189,000 | — | (189,000) | — | — | — | — |
| Net income for 2000 | — | — | — | — | 601,941 | — | 601,941 |
| Translation adjustment to long-term investments | — | — | — | — | — | 56,485 | 56,485 |
| Decrease in retained earnings due to subscription to new shares of investee companies by subsidiaries not in proportion to ownership | — | — | — | — | (4,909) | — | (4,909) |
| Balance — December 31,2000 | $2,200,000 | $— | $1,197,134 | $76,096 | $647,986 | $28,540 | $4,149,756 |
| **2001** | | | | | | | |
| Balance — January 1, 2001 | $2,200,000 | $ — | $1,197,134 | $ 76,096 | $647,986 | $ 28,540 | $4,149,756 |
| 2000 earnings appropriation: | | | | | | | |
| Legal reserve | — | — | — | 60,174 | (60,174) | — | — |
| Employee bonus | 41,000 | — | — | — | (41,067) | — | (67) |
| Distribution of cash dividend | — | — | — | — | (44,000) | — | (44,000) |
| Compensation to directors and supervisors | — | — | — | — | (10,267) | — | (10,267) |
| Capitalization of retained earnings | 418,000 | — | — | — | (418,000) | — | — |
| Capitalization of capital surplus | 22,000 | — | (22,000) | — | — | — | — |
| Corporate bonds converted into common stock | 350,389 | 5,801 | 490,417 | — | — | — | 846,607 |
| Net income for 2001 | — | — | — | — | 645,787 | — | 645,787 |
| Translation adjustment to long-term investments | — | — | — | — | — | 152,288 | 152,288 |
| Decrease in retained earnings due to subscription to new shares of investee companies by subsidiaries not in proportion to ownership | — | — | — | — | (14,950) | — | (14,950) |
| Balance — December 31, 2001 | $3,031,389 | $5,801 | $1,665,551 | $136,270 | $705,315 | $180,828 | $5,725,154 |
| **2002** | | | | | | | |
| Balance — January 1, 2002 | $3,031,389 | $5,801 | $1,665,551 | $136,270 | $ 705,315 | $180,828 | $5,725,154 |
| Capital increase in cash | 1,222,220 | — | 733,332 | — | — | — | 1,955,552 |
| 2001 Earnings appropriation: | | | | | | | |
| Legal reserve | — | — | — | 64,608 | (64,608) | — | — |
| Distribution of Shareholder cash dividend | 49,383 | — | — | — | (49,394) | — | (11) |
| Compensation to directors and supervisors | — | — | — | — | (12,348) | — | (12,348) |
| Cash dividends | — | — | — | — | (85,500) | — | (85,500) |
| Capitalization of retained earnings | 470,178 | — | — | — | (470,178) | — | — |
| Capitalization of capital surplus | 170,974 | — | (170,974) | — | — | — | — |
| Corporate bonds converted into common stock | 22,932 | (5,801) | 23,159 | — | — | — | 40,290 |
| Gain from disposal of fixed assets transferred to retained earnings | — | — | (294) | — | 294 | — | — |
| Net income for 2002 | — | — | — | — | (1,109,122) | — | (1,109,122) |
| Translation adjustment to long-term investments | — | — | — | — | — | (12,922) | (12,922) |
| Adjustments to capital surplus due to subsidiary subscription of newly issued investee shares less than its pro-rata number of shares | — | — | 6,070 | — | — | — | 6,070 |
| Balance — December 31, 2002 | $4,967,076 | $ — | $2,256,844 | $200,878 | $(1,085,541) | $167,906 | $6,507,163 |

*The accompanying notes are an integral part to the financial statements.*

# ABIT COMPUTER CORPORATION

## STATEMENTS OF CASH FLOWS
### For the years ended December 31, 2000 , 2001 and 2002
### (Expressed in thousands of New Taiwan dollars and US dollars)

| | 2000 | 2001 | 2002 | |
|---|---|---|---|---|
| | NTD | NTD | NTD | USD |
| Cash flows from operating activities: | | | | |
| Net income (loss) | $ 601,941 | $ 645,787 | $(1,109,122) | $(32,834) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation | 32,773 | 37,882 | 60,302 | 1,785 |
| Unrealized (realized) gross profit from sales | 35,106 | 6,394 | (34,481) | (1,021) |
| Bad debt expense | 19,000 | (6,000) | (2,000) | (59) |
| Losses(gain) on inventory market recovery | 51,000 | (43,000) | 54,000 | 1,599 |
| Losses on idle asset devaluation | — | — | 22,000 | 651 |
| Investments loss | 23,453 | 54,248 | 574,462 | 17,006 |
| Loss on disposal of fixed assets | 2,701 | 2,416 | 3,908 | 116 |
| Gains on sale of investments | — | — | (21,528) | (637) |
| Amortization | 7,084 | 14,211 | 42,892 | 1,270 |
| Interest provision for redemption of convertible bonds | — | 30,009 | 10,491 | 311 |
| Changes in: | | | | |
| Notes receivable | (1,093) | 1,561 | 1,104 | 33 |
| Accounts receivable | (627,966) | 326,645 | 467,364 | 13,836 |
| Receivables — related-party | (288,116) | (88,157) | 318,148 | 9,418 |
| Other receivables — related-party | — | — | (206,448) | (6,112) |
| Inventories | 296,986 | (168,632) | 633,652 | 18,758 |
| Other current assets | (18,570) | (52,212) | 91,096 | 2,697 |
| Notes payable | (53,129) | 123,119 | (412,893) | (12,223) |
| Accounts payable | 344,060 | (299,681) | (201,685) | (5,971) |
| Accrued expenses | 12,986 | 26,678 | (53,763) | (1,592) |
| Income tax payable | 6,835 | (5,110) | (25,043) | (741) |
| Other current liabilities | 41,419 | (14,336) | 108,679 | 3,217 |
| Accrued pension liabilities | 2,739 | 3,097 | (479) | (14) |
| Other liabilities — other | 8,472 | 900 | (15,000) | (444) |
| Net cash provided by operating activities | 497,681 | 595,819 | 305,656 | 9,049 |
| Cash flows from investing activities: | | | | |
| Restricted assets | (30,909) | (68,675) | (785,568) | (23,256) |
| Other assets — other | (2,738) | (884) | — | — |
| Purchase of property, plant, and equipment | (627,931) | (990,052) | (170,761) | (5,055) |
| Proceeds from sale of property, plant, and equipment | 529 | 190 | 155,869 | 4,614 |
| Deferred charges | (23,351) | (18,474) | (48,212) | (1,427) |
| Increase in long-term equity investments | (1,078,550) | (1,851,149) | (1,851,456) | (54,809) |
| Guarantee deposits received | — | — | 2,939 | 87 |
| Sales of short-term investments | — | — | 1,406 | 42 |
| Net cash used in investing activities | (1,762,950) | (2,929,044) | (2,695,783) | (79,804) |

**STATEMENTS OF CASH FLOWS — (Continued)**
**For the years ended December 31, 2000 , 2001 and 2002**
**(Expressed in thousands of New Taiwan dollars and US dollars)**

| | 2000 | 2001 | 2002 | |
|---|---|---|---|---|
| | NTD | NTD | NTD | USD |
| Cash flows from financing activities: | | | | |
| Increase (decrease) in short-term borrowings | 268,184 | 559,353 | 16,225 | 480 |
| Increase in short-term notes payable | 302,517 | (46,752) | (198,721) | (5,883) |
| Increase in long-term debt | 100,000 | 1,679,964 | 95,000 | 2,812 |
| Repayment of long-term debt | (44,894) | (267,376) | (132,447) | (3,921) |
| Increase in corporate bonds | — | 1,000,000 | — | — |
| Other liabilities — other | (6,000) | (24,250) | (413) | (12) |
| Distribution of cash dividends | — | (44,000) | (85,500) | (2,531) |
| Employee bonuses | — | (67) | (11) | — |
| Compensation to directors and supervisor | (7,800) | (10,267) | (12,348) | (366) |
| Capital increase in cash | 1,087,320 | — | 1,955,552 | 57,891 |
| Net cash provided by financing activities | 1,699,327 | 2,846,605 | 1,637,337 | 48,470 |
| Net increase (decrease) in cash and cash equivalents | 434,058 | 513,380 | (752,790) | (22,285) |
| Cash and cash equivalents, beginning of the period | 256,118 | 690,176 | 1,203,556 | 35,629 |
| Cash and cash equivalents, end of the period | $690,176 | $1,203,556 | $ 450,766 | $13,344 |
| Supplemental disclosure of cash flow information: | | | | |
| Interest paid in the period | $ 152,325 | $ 165,327 | $ 168,236 | $ 4,980 |
| Income taxes paid in the period | $ 53,874 | $ 80,331 | $ 30,928 | $ 916 |
| Investing and financing activities with no effects on cash flows: | | | | |
| Current portion of long-term debt | $ 55,356 | $ 114,172 | $ 111,692 | $ 3,306 |
| Capitalization of employee bonus | $ 31,200 | $ 41,000 | $ 49,383 | $ 1,462 |
| Corporate bonds interest payable | | $ 30,009 | $ 10,491 | $ 311 |
| Property, plant, and equipment exchanged for housing and land | $ — | $ 144,179 | $ — | $ — |
| Convertible bonds converted into common stock | $ — | $ 846,607 | $ 40,290 | $ 1,193 |
| Property, plant, and equipment transferred to idle assets | $ — | $ — | $ 190,172 | $ 5,630 |
| Property, plant, and equipment transferred to leased assets | $ — | $ — | $ 393,933 | $11,662 |

*The accompanying notes are an integral part to the financial statements*

**NOTES TO FINANCIAL STATEMENTS**
**For the years ended December 31, 2000, 2001 and 2002**
**(Expressed in thousands of New Taiwan dollars and US dollars unless otherwise stated)**

## 1. ORGANIZATION AND BUSINESS

ABIT Computer Corporation (the "Company") was established on September 25, 1989 with primary business scope as follows:

(1) Design, production, processing, and trading of computers and peripherals.

(2) Design, production, processing, and trading of monitors, interface cards, motherboards, keyboards, printers, P.C. servers, and parts and components.

(3) Imports and exports of related businesses, except for futures.

(4) Bidding and quotation business of domestic and foreign products.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's financial statements were prepared in accordance with the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and generally accepted accounting principles of the Republic of China. The financial statements are based on historical cost. Summary of significant accounting policies is as follows:

### (1) Foreign Currency Translations

Foreign-denominated non-forward transactions are recorded at spot rates as transactions occur. Foreign exchange gains and losses on settlement of foreign-denominated assets and liabilities and those of balance sheet date adjustments to foreign-denominated assets and liabilities to the spot rates on the balance sheet date are included in current earnings.

### (2) Cash Equivalents

Cash equivalents refer to Treasury bills, certificates of convertible time deposits, commercial paper, and bank acceptances with maturity of less than 3 months from the investment date.

### (3) Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided for by reviewing receivables at year-end.

### (4) Inventories

Inventories are stated at cost by the weighted-average method on a perpetual inventory basis and are evaluated at lower of cost or market at year-end. Market value of raw materials and supplies is replacement cost; whereas that of goods in process, finished goods, obsolete and slow-moving inventories is the net realizable value. For market value based on replacement (reproduction) cost, it should not exceed net realizable value nor be less than the balance of net realizable value minus ordinary gross margin.

Consigned manufacturing refers to inventories sent for processing and then returned to the Company, and title of such inventory is retained by the Company prior to transfer. Accounting treatment of consigned manufacturing is in compliance with 1998 Securities and Futures Commission (SFC) Letter Ruling No. (6)00747 dated March 18, 1998.

**(5) Long-Term Equity Investments**

Long-term equity investments of common stock of companies not publicly traded in which the Company has no influence are accounted for under the cost method. Should sufficient evidence exist indicating that investment value indeed decreased and the likelihood of recovery is remote, loss on investment is recognized immediately, with book value after loss recognition as the new cost. Stock dividends received from capitalization of capital surplus or retained earnings are not recorded as investment income, and only memo entries are made regarding the increase in number of shares, with cost per share or book value is recalculated.

Long-term equity investments in common stock of companies not publicly traded in which the Company has significant influence are accounted for under the equity method, unless it may be verified that significant influence does not exist.

Upon sale of long-term equity investments, cost is computed by the moving-average method.

Difference between cost of long-term equity investments and net equity worth is amortized over five years by the straight-line method.

For foreign investments accounted for under the equity method, original investment is stated by actual remittance in New Taiwan dollars on the balance sheet date. Book value of such investment is adjusted by cumulative translation adjustments, including current operating income/loss of investee companies, investment income/loss recognized by average exchange rate of the year, and net worth of investee companies evaluated per shareholding ratio.

Long-term equity investments where the Company has controlling interests over the investee companies are accounted for under the equity method, and consolidated financial statements are required. However, consolidation is not required if any of the following conditions is met:

(1) Nature of business of a subsidiary is different from that of the Company such that consolidation is not appropriate;

(2) A subsidiary has declared bankruptcy or reorganization has been decreed by the court;

(3) A subsidiary is prohibited from remitting dividends to the Company due to foreign exchange controls exercised by the country where it is registered to operate;

(4) A subsidiary reports negative net worth, unless the Company has financial undertakings of the subsidiary or makes other financial commitment, or the loss is temporary in nature with sufficient evidence of loss recovery and becoming profitable in the near future;

(5) Total assets and operating revenue of a subsidiary do not reach 10% of the respective accounts of the Company.

Nevertheless, if combined assets or operating revenue of all such subsidiaries exceed 30% of the respective accounts of the Company, then 3% of total assets or operating revenue of these subsidiaries must be consolidated. Unless the percentage declines to 20% subsequently, consolidation should continue.

Should an investee company incur a net loss, and if the Company has financial undertaking or provides guarantee for the investee company's obligations, loss recognition should continue per ownership. If long-term investments are insufficient to offset investment losses, then accounts receivable (or related party receivables) are adjusted. Deferred credits are recognized if a deficiency still exists.

Should an investee company issue new shares and the Company does not purchase the new shares proportionately causing changes in ownership and net worth, then capital surplus is adjusted accordingly. If the adjustment to capital surplus is not enough to offset, then the difference shall be debited to retained earnings.

The unrealized gains and losses from intercompany transactions between the Company and investee company are deferred. If the gains and losses come from depreciated or amortized assets, then the recognition of such gains and losses shall be spread over the useful lives of such assets. Otherwise, the recognition shall be in the year when the gains or losses are realized.

Gain/loss on investments is recognized immediately if common or preferred shares with voting rights exceeds 50% of total voting shares of an investee company or regulations set forth in Clause 369 No. 2-2 are met such that the Company could control, directly or indirectly, financial, operation, or personnel issues of the investee company, or if all of the following criteria are met:

(1) Net equity worth of the long-term equity investment at the beginning of the year exceeds $50 million and amounts to over 5% of the Company's paid-in capital;

(2) Ownership of the investee company by the Company exceeds 30% or the Company and its directors, supervisors, managers, and other investee companies controlled directly and indirectly, jointly own over 50% voting shares of the investee company;

(3) The Company is one of the 3 largest shareholders, or the Company appoints the Chairman or the President of the investee company.

In preparing the first and third quarter financial statements, the equity method is not required to account for investments of ownership between 20% and 50%. For investee companies where ownership by the Company exceeds 50%, the equity method is adopted.

**(6) Property, Plant, and Equipment, Depreciation, and Gain/Loss on Disposal**

Property, plant, and equipment are stated at cost. Major additions, improvements, and replacements are capitalized. Repairs and maintenances are recorded as current expenses. Interest incurred in acquisition of property, plant, and equipment before such assets are ready for use are capitalized and included as cost.

Depreciation is provided by the straight-line method over the estimated useful lives prescribed by the government plus one year's salvage value. Assets still in use after full depreciation may be depreciated over the estimated salvage value and useful lives. Useful lives of major assets are listed below:

| | |
|---|---|
| Buildings | 8–55 years |
| Machinery | 3–8 years |
| Computer equipment | 3–10 years |
| Transportation equipment | 5 years |
| Furniture and office equipment | 3–8 years |

Gain or loss on disposal of property, plant, and equipment is recognized currently.

**(7) Deferred Charges**

Deferred charges are stated at cost and amortized equally over 2 to 5 years.

**(8) Income Taxes**

Income tax is provided in accordance with the Income Tax Law and related regulations. Adjustment of prior years' income tax is recorded as current income tax expense. Intra-period income tax allocation will be made with respect to temporary differences between accounting and taxable income. Income tax effects due to significant taxable temporary differences are recognized as deferred income tax liabilities, while income tax effects arising from deductible temporary differences, loss carry forwards from prior years, and investment tax credits are recorded as deferred income tax assets. Valuation allowance will be provided after assessing the likelihood of realization of deferred income tax assets.

The 10% surtax on undistributed earnings is reported as current expense on the date of the annual stockholder's meeting declaring the distribution of earnings.

**(9) Pension Plan**

The Company has a pension plan covering all regular employees. 2 units are granted for every year of service until the 15th year, and 1 unit per year thereafter up to a maximum of 45 units. A unit is equal to average monthly salary for the 6-month period prior to approved retirement.

The Company contributes 2% of gross salary paid to a pension fund reserve on a monthly basis and deposits the reserve into a designated account at the Central Trust of China.

Effective December 31, 1996 the Company adopted the FAS Statement No. 18, "Accounting for Pensions". Unrecognized net transitional assets or benefit obligations should be computed as the governing rules of pension shifted. In compliance with SFC Letter Ruling No. (6)00142 dated January 20, 1995, effective 1997, such unrecognized net transitional assets or net benefit obligation would be amortized by the straight-line method over the average remaining years of service of employees eligible for pension benefits. If years of service are estimated to be shorter than 15 years, then 15 years will be used and recorded as net pension costs, which comprise of the followings:

a. Service cost;

b. Interest cost;

c. Expected return on plan assets;

d. Amortization of unrecognized prior service cost;

e. Amortization of unrecognized pension gain or loss;

f. Amortization of unrecognized transitional net assets or net benefit obligation;

g. Gains and losses from liquidation.

Difference between actual pension contributions and net pension costs is reflected as "accrued pension liabilities" or "prepaid pensions." The minimum pension liability is the amount required to reflect on the balance sheet.

**(10) Commitments and Contingencies**

If loss on commitments and contingencies is highly likely and the amount thereof can be reasonably estimated, such loss recognized immediately. Otherwise only the nature will be disclosed in notes to financial statements.

**(11) Convenience translation into U.S. dollars**

The financial statements are stated in New Taiwan dollars. Translation of the 2002 New Taiwan dollars amounts into U.S. dollars amounts is included solely for the convenience of the readers, using the noon buying rate of the Federal Reserve Bank of New York on September 30, 2003, of NT$33.78 to US$1. The convenience translations should not be construed as representations that the New Taiwan dollars amounts have been, could have been, or could in the future be converted into U.S. dollars at this rate or any other rate of exchange.

## 3. REASONS FOR AND EFFECTS OF ACCOUNTING CHANGES: None

## 4. SUMMARY OF MAJOR ACCOUNTS

### (1) Cash and Cash Equivalents

| | December 31, | | | |
|---|---|---|---|---|
| | 2000 | 2001 | 2002 | |
| | NTD | NTD | NTD | USD |
| Cash and petty cash | $ 1,041 | $ 967 | $ 945 | $ 28 |
| Checking accounts | 134,212 | 466,998 | 37,806 | 1,119 |
| Savings accounts | 272,347 | 484,800 | 8,477 | 251 |
| Foreign currency demand deposits | 152,476 | 250,791 | 393,538 | 11,650 |
| Time deposits | 130,100 | — | 10,000 | 296 |
| Total | $690,176 | $1,203,556 | $450,766 | $13,344 |

### (2) Notes and Accounts Receivable, Net

| | December 31, | | | |
|---|---|---|---|---|
| | 2000 | 2001 | 2002 | |
| | NTD | NTD | NTD | USD |
| Notes receivable | $ 2,665 | $ 1,104 | $ — | $ — |
| Accounts receivable | 1,841,106 | 1,514,461 | 986,318 | 29,198 |
| Less: Allowance for doubtful accounts | (19,000) | (13,000) | (11,000) | (326) |
| Total | $1,824,771 | $1,502,565 | $975,318 | $28,872 |

### (3) Inventories

| | December 31, | | | |
|---|---|---|---|---|
| | 2000 | 2001 | 2002 | |
| | NTD | NTD | NTD | USD |
| Raw materials | $346,237 | $286,357 | $150,871 | $4,466 |
| Work-in-process | 278,326 | 432,393 | 1,115 | 33 |
| Finished goods | 50,041 | 97,259 | 51,891 | 1,536 |
| Merchandise | 5,703 | 32,930 | 11,410 | 338 |
| Total | 680,307 | 848,939 | 215,287 | 6,373 |
| Less: Allowance for market decline and obsolescence | (56,000) | (13,000) | (67,000) | (1,983) |
| Net | $624,307 | $835,939 | $148,287 | $4,390 |

As of December 31, 2000, 2001 and 2002 fire insurance coverage for inventories stated above was NTD915,000 thousand, NTD700,000 thousand and NTD700,000 thousand.

## (4) Long-Term Equity Investments

(1) As of December 31, 2000, 2001 and 2002 long-term equity investments of the Company were as follows:

| Name of investee company Accounted for under the equity method | December 31, 2000 % | 2000 NTD | 2001 % | 2001 NTD | 2002 % | 2002 NTD | 2002 USD |
|---|---|---|---|---|---|---|---|
| ABIT Computer (U.S.A.) Corporation (Original investment: NT$55,240 thousand in both 2000 and 2001 respectively and NT$152,313 thousand in 2002) | 100% | $ 107,579 | 100% | $ 106,878 | 100% | $ — | $ — |
| AMOR Computer B.V. (Original investment: NT$16,910 thousand in 2000, 2001 and 2002) | 100% | 30,626 | 100% | 33,471 | 100% | — | — |
| ABIT Computer (U.K.) Corporation Limited (Original investment: NT$48,114 thousand in 2000, 2001 and 2002) | 100% | 53,646 | 100% | 62,528 | 100% | 65,024 | 1,925 |
| ABIT Computer (H.K.) Company Limited (Original investment: NT$221,432 thousand in 2000 and NT$232,786 thousand in both 2001 and 2002) | 100% | 187,063 | 100% | 169,293 | 100% | 121,356 | 3,593 |
| Treasure World Holdings Inc. (Original investment: NT$1,165,971 thousand, NT$2,316,428 thousand and NT$3,961,685 thousand in 2000, 2001 and 2002 respectively) | 100% | 1,168,251 | 100% | 2,426,111 | 100% | 4,062,792 | 120,272 |
| ABIT Investment Holding Ltd. (Original investment: NT$195,806 thousand in 2000 and NT$828,708 thousand in both 2001 and 2002) | 100% | 186,796 | 100% | 833,424 | 100% | 614,742 | 18,198 |
| Welltop Business Development Inc. (Original investment: NT$6,566 thousand in 2000, 2001 and 2002) | — | — | 100% | 1,359 | 100% | 2,304 | 68 |
| ABIT Computer (Singapore) Private Ltd. (Original investment: NT$1,930 thousand and NT$39,604 thousand in 2001 and 2002 respectively) | — | — | 100% | — | 100% | 37,476 | 1,109 |
| ABITNET Technology Inc. (Original investment: NT$9,940 thousand in 2000 and NT$23,940 thousand in both 2001 and 2002) | 99.4% | 7.624 | 79.8% | 11,451 | 79.8% | 7,313 | 217 |
| Akom Technology Corp. (Original investment: NT$33,940 thousand in both 2001 and 2002) | — | — | 33.94% | 31,720 | 33.94% | 26,545 | 786 |
| Total | | $1,741,585 | | $3,676,235 | | $4,937,552 | $146,168 |

(2) The Company's investment in investee companies for the years ended 2000, 2001 and 2002 are accounted for under the equity method and based upon audited financial statements for the same period except for the 2001 financial report of ABIT Computer (Singapore) Private Ltd. Investment income (loss) and amortization of the difference between investment cost and equity net worth, translation adjustment and unrealized profit (loss) on inter-company transactions are detailed as follows:

| | Investment Income (Loss) | Translation Adjustment (Credit Balance) | Unrealized Income (Loss) from intercompany transactions |
|---|---|---|---|
| **2000 NTD** | | | |
| ABIT Computer (U.S.A.) Corporation | $23,463 | $ (4,660) | $29,970 |
| AMOR Computer B.V.. | 12,054 | 345 | 10,832 |
| ABIT Computer (U.K.) Corporation Limited | 8,676 | 1,496 | 2,307 |
| ABIT Computer (H.K.) Company Limited | (46,778) | (9,977) | — |
| Treasure World Holdings Inc. | (10,268) | (44,414) | — |
| ABIT Investment Holding Limited. | (8,285) | 725 | — |
| Rolly Technology Holdings Limited | — | — | 2,727 |
| Timerwell Technology Holdings Ltd. | — | — | 2,688 |
| ABITNET Technology Inc.. | (2,315) | — | — |
| | $(23,453) | $(56,485) | $48,524 |
| **2001 NTD** | | | |
| ABIT Computer (U.S.A.) Corporation | $ (7,016) | $ (6,315) | $21,328 |
| AMOR Computer B.V.. | 2,955 | 110 | 22,604 |
| ABIT Computer (U.K.) Corporation Limited | 7,299 | (1,583) | 8,707 |
| ABIT Computer (H.K.) Company Limited | (39,737) | (10,613) | (23) |
| Treasure World Holdings Inc. | 6,872 | (107,927) | 2,281 |
| ABIT Investment Holding Limited. | (3,127) | (25,905) | 21 |
| Welltop Business Development Inc. | (5,281) | (74) | — |
| ABIT Computer (Singapore) Private Ltd. | (2,323) | 19 | — |
| Akom Technology Corp. | (2,934) | — | — |
| ABITNET Technology Inc.. | (10,956) | — | — |
| | $(54,248) | $(152,288) | $54,918 |
| **2002 NTD** | | | |
| ABIT Computer (U.S.A.) Corporation | $(255,890) | $ (147) | $ 5,506 |
| AMOR Computer B.V.. | (44,653) | (2,193) | 6,926 |
| ABIT Computer (U.K.) Corporation Limited | (3,524) | (6,021) | 2,447 |
| ABIT Computer (H.K.) Company Limited | (46,923) | 1,014 | 3,647 |
| Treasure World Holdings Inc. | (1,745) | 15,160 | 1,911 |
| ABIT Investment Holding Limited. | (213,069) | 5,613 | — |
| Welltop Business Development Inc. | 956 | 11 | — |
| ABIT Computer (Singapore) Private Ltd. | (301) | (515) | — |
| Akom Technology Corp. | (5,175) | — | — |
| ABITNET Technology Inc.. | (4,138) | — | — |
| | $(574,462) | $12,922 | $20,437 |
| **2002 USD** | | | |
| ABIT Computer (U.S.A.) Corporation | $ (7,575) | $ (4) | $163 |
| AMOR Computer B.V.. | (1,322) | (65) | 205 |
| ABIT Computer (U.K.) Corporation Limited | (104) | (178) | 72 |
| ABIT Computer (H.K.) Company Limited | (1,389) | 30 | 108 |
| Treasure World Holdings Inc. | (52) | 449 | 57 |
| ABIT Investment Holding Limited. | (6,308) | 166 | — |
| Welltop Business Development Inc. | 28 | — | — |
| ABIT Computer (Singapore) Private Ltd. | (9) | (15) | — |
| Akom Technology Corp. | (153) | — | — |
| ABITNET Technology Inc.. | (122) | — | — |
| | $(17,006) | $383 | $605 |

(3) In 2000, 2001 and 2002 amortization of the difference between investment cost and net equity worth was as follows:

| | December 31, | | | |
|---|---|---|---|---|
| | 2000 | 2001 | 2002 | |
| | NTD | NTD | NTD | USD |
| AMOR Computer B.V.. | $1,507 | $1,507 | $377 | $11 |

(4) Adjustments to the amount of capital surplus and accumulation of gain/loss due to increased investment in subsidiaries which the Company did not follow ownership ratio and increased investment in investee companies which the subsidiaries did not follow ownership ratio are shown below:

| Name of investee company | Not recognizing and stating by ownership ratio; instead increasing (decreasing) capital surplus | Not recognizing and stating by ownership ratio; instead increasing (decreasing) accumulation of gain/loss |
|---|---|---|
| **December 31, 2000 NTD** | | |
| Treasure World Holding Inc.. | $ — | $ 4,910 |
| **December 31, 2001 NTD** | | |
| ABITNET Technology Inc.. | $ 783 | $ — |
| Akom Technology Corporation | 714 | — |
| ABIT Investment Holding Ltd. | — | (9,052) |
| Treasure World Holding Inc.. | (1,497) | (5,898) |
| | $ — | $(14,950) |
| **December 31, 2002 NTD** | | |
| Timerwell Technology (Taiwan) Co., Ltd. | $(4,560) | $— |
| Treasure World Holding Inc.. | 10,630 | — |
| | $ 6,070 | $— |
| **December 31, 2002 USD** | | |
| Timerwell Technology (Taiwan) Co., Ltd. | $(135) | $— |
| Treasure World Holding Inc.. | 315 | — |
| | $ 180 | $— |

(5) As of December 31, 2002, the Company invested in Timerwell Technology Holdings Ltd for a total of USD117,516 thousand through its investment in Treasure World Holdings Inc. Indirect ownership of Timerwell Technology Holdings Ltd. was 97.44%.

(6) Investment income/loss of Timerwell Technology Holdings Ltd., Rolly Technology Holdings Ltd. and ABIT Computer Trading (Shanghai) Co., Ltd was accounted for under the equity method by Treasure World Holding Inc., ABIT Investment Holding Ltd., ABIT computer (H.K.) company Ltd. and detailed in Note 4.(4)(1). Unrealized gain/loss of downstream transactions between the Company and investee companies and transactions between various investee companies were disclosed therein as well.

(7) Amor Computer B.V.'s, ABIT Computer (U.S.A.) Corporation's, and Treasure World Holdings Inc.'s operating revenue as of 2002 has already reached 10% of the parent company, and therefore are included in the consolidated financial statements. Although the Company holds over 50% ownership and has controlling interests in ABIT Computer (U.K.) Corporation Ltd., ABITNET Technology Inc., ABIT Computer (Singapore) Private Ltd., Welltop Business Development Inc., and ABIT Investment Holding Ltd., their total

assets or operating revenues do not reach 10% of the Company's respective accounts and therefore in accordance with generally accepted accounting principles, were not consolidated.

ABIT Computer (H.K.) Company Ltd. fulfilled consolidation requirements for 2001 but in 2002 its total assets and operating revenues did not exceed 10% of the Company's respective accounts and therefore was not included in the consolidation statements.

AMOR Computer B.V.'s operating revenue as of 2001 and 2002 has already reached 10% of the parent company but in 2000 its total assets and operating revenue did not exceed 10% of the Company's respective accounts and therefore the consolidated financial statements for 2000 were restated to facilitate comparison and analysis.

(8) As of December 31, 2001 and 2002 and accounts receivable due from investee companies written off because investment losses greater than investment book value are as follows:

| December 31 | Account receivable | Long-term investment debit balance | Other liabilities |
|---|---|---|---|
| **2001 NTD** | | | |
| ABIT Computer (Singapore) Private Ltd. | $ — | $ 412 | $412 |
| **2002 NTD** | | | |
| AMOR Computer B.V.. | $ 8,988 | $ 8,988 | $ — |
| ABIT Computer (U.S.A.) Corporation | 51,791 | 51,791 | — |
| | $60,779 | $60,779 | $ — |
| **2002 USD** | | | |
| AMOR Computer B.V.. | $ 266 | $ 266 | $ — |
| ABIT Computer (U.S.A.) Corporation | 1,533 | 1,533 | — |
| | $ 1,799 | $ 1,799 | $ — |

(9) In September 2002, the Company participated in the cash capitalization of Timerwell Technology (Taiwan) Co., Ltd. for NT$71,451 thousand. The purchased shares amounted to NT$12 per share for a total of 5,954,000 shares. To meet requirements for listed companies, the Company sold all of its holdings of Timerwell Technology (Taiwan) Co., Ltd., resulting in a gain of NT$20,122 thousand.

## (5) Property, Plant, and Equipment

(1) As of December 31, 2000, 2001 and 2002, the total amount of insurance for property, plant, and equipment was NT$277,994 thousand, NT$873,500 thousand and NT$920,667 thousand respectively.

(2) In 1999, 2000, 2001 and 2002, interest expense was NT$151,995 thousand, NT$169,637 thousand and, NT$180,291 thousand respectively. The amount of interest capitalization was NT$29 thousand, NT$5 thousand and NT$0, respectively.

(3) Please refer to Note 6 for details on property, plant, and equipment provided as collateral.

### (6) Short-Term Borrowings

| December 31, 2000 | | NTD |
|---|---|---|
| Loans to purchase raw materials — domestic | Within one year | $ 549,078 |
| Loans to purchase raw materials — foreign | Within one year | 297,994 |
| Credit loans | Within one year | 225,000 |
| Collateralized loans | Within one year | 125,000 |
| Total | | $1,197,072 |

| December 31, 2001 | | NTD |
|---|---|---|
| Loans to purchase raw materials — domestic | Within one year | $ 505,805 |
| Loans to purchase raw materials — foreign | Within one year | 396,620 |
| Credit loans | Within one year | 485,000 |
| Collateralized loans | Within one year | 369,000 |
| Total | | $1,756,425 |

| December 31, 2002 | Period | NTD | USD |
|---|---|---|---|
| Loans to purchase raw materials — domestic | Within one year | $1,000,070 | $29,605 |
| Loans to purchase raw materials — foreign | Within one year | 228,580 | 6,767 |
| Credit loans | Within one year | 264,000 | 7,815 |
| Collateralized loans | Within one year | 280,000 | 8,289 |
| Total | | $1,772,650 | $52,476 |

In 2000, 2001 and 2002, interest rates of short-term borrowings were floating and ranged from 1.59% to 8.75%, 1.10% to 8.24% and from 1.35% to 7.80% respectively.

### (7) Short-Term Notes Payable

| December 31, 2000 | Period | NTD |
|---|---|---|
| Commercial paper | August 3, 2000 to May 8, 2001 | $394,000 |
| Less: Unamortized discount | | (2,712) |
| Net book value | | $391,288 |

| December 31, 2001 | Period | NTD |
|---|---|---|
| Commercial paper | August 14, 2001 to March 21, 2002 | $345,000 |
| Less: Unamortized discount | | (464) |
| Net book value | | $344,536 |

| December 31, 2002 | Period | NTD | USD |
|---|---|---|---|
| Commercial paper | August 14, 2002 to February 10, 2003 | $146,000 | $4,322 |
| Less: Unamortized discount | | (185) | (5) |
| Net book value | | $145,815 | $4,317 |

In 2000, 2001 and 2002, outstanding period of short-term notes payable was within 180 days with annual interest rates ranging from 5.47% to 7.57%, 3.15% to 7.10% and from 3.07% to 3.23%, respectively.

### (8) Corporate Bonds Payable

| | December 31, | | | |
|---|---|---|---|---|
| | 2000 | 2001 | 2002 | |
| | NTD | NTD | NTD | USD |
| Unsecured convertible corporate bonds issued | $— | $1,000,000 | $1,000,000 | $29,604 |
| Less: Converted amount | — | (822,800) | (861,300) | (25,497) |
| Add: interest payable | — | 6,202 | 14,903 | 440 |
| Total | $— | $ 183,402 | $ 153,603 | $ 4,547 |

As of December 31, 2000, 2001 and 2002, the amount of interest payable offset due to converting corporate bonds into common stock was NT$0, NT$23,807 thousand and NT$25,597 thousand, respectively.

The Company's issue of corporate bonds follows the requirements stated below:

(1) *Period of issue*

Period of issue is five years starting from June 28, 2001 to the maturity date of June 27, 2006.

(2) *Corporate bond interest rate at par, right to sell back yield*

The interest rate at par is 0%. Starting from two years after the issue date to the day right before three years after the issue date, the bond holder can execute the right to sell back for a yield of 5.25%. Starting from three years after the issue date to the day right before four years after the issue date, the bond holder can execute the right to sell back for a yield of 6.5%. Starting from four years after the issue date to the day right before date of maturity, the bondholder can sell back for a yield of 7%. (compound interest, face value plus interest compensation is 110.78%, 120.79%, 131.08% of the face value respectively.)

## (9) Long-Term Debt

| Item | Repayment Term | NTD |
|---|---|---|
| **December 31, 2000** | | |
| Loan with land and building as collateral . . . . . . . . . | Repayable in fixed installments on the 23rd of each month form October 1997. | $ 24,593 |
| Loan with land and building as collateral . . . . . . . . . | Repayable in fixed monthly installments from July 1997. | 110,439 |
| Loan with land and building as collateral . . . . . . . . . | Lump-sum repayment. Three years from the first date of loan withdrawal. | 212,000 |
| Loan with machinery as collateral . . . . . . . . . . . | Repayable in fixed installments in January, April, July, and October each year from October 1997. | 2,670 |
| Loan with machinery as collateral . . . . . . . . . . . | Repayable in fixed installments in January, April, July, and October each year from October 1997. | 26,775 |
| Loan with machinery as collateral . . . . . . . . . . . | Quarterly repayment of principal from June 1997. | 28,620 |
| Loan with certificate of time deposits as collateral . . . | Repayable in fixed quarterly installments from June 2001. | 100,000 |
| | | 505,097 |
| Less: Current portion . . . . . | | (55,356) |
| Net . . . . . . . . . . . . . . . . . | | $449,741 |

| Item | Repayment Term | NTD |
|---|---|---|
| **December 31, 2001** | | |
| Loan with land and building as collateral . . . . . . . . . | Starting from October 1999 23rd day of each month | $ 22,618 |
| Loan with land and building as collateral . . . . . . . . . | Starting from July 1997 monthly fixed payments | 104,583 |
| Loan with machinery as collateral . . . . . . . . . . . | Starting from October 1997, January, April, July, and October of each year monthly fixed payments | 1,958 |
| Loan with machinery as collateral . . . . . . . . . . . | Starting from October 1997, January, April, July, and October of each year monthly fixed payments | 19,635 |
| Loan with machinery as collateral . . . . . . . . . . . | Starting from June 2000 quarterly fixed payments | 22,260 |
| Loan with certificate of time deposits as collateral . . . | Starting from June 2001 quarterly installments repayment of principal | 66,667 |
| Loan with certificate of time deposits as collateral . . . | From June 2001, 25th day of each month fixed payments | 41,126 |
| Loan with machinery as collateral . . . . . . . . . . . | Starting from December 2003, 96 equal monthly repayments of principal | 420,000 |
| Loan with machinery as collateral . . . . . . . . . . . | From December 2001, 120 monthly equal repayments of principal and interest by the annuity method | 148,838 |
| Loan with machinery as collateral . . . . . . . . . . . | From January 2004, 156 monthly equal repayments of principal and interest by the annuity method | 320,000 |
| Loan with machinery as collateral . . . . . . . . . . . | From January 2003, 48 monthly equal repayments of principal and interest by the annuity method | 140,000 |
| Loan with machinery as collateral . . . . . . . . . . . | From January 2002, 180 monthly equal repayments of principal and interest by the annuity method | 132,000 |
| Loan with machinery as collateral . . . . . . . . . . . | From March 2002, 180 monthly equal repayments of principal and interest by the annuity method | 128,000 |
| Loan with machinery as collateral . . . . . . . . . . . | From January 2002, 180 monthly equal repayments of principal and interest by the annuity method | 150,000 |
| Credit loans . . . . . . . . . . . | From April 2004, repayments every six months, for a total of 6 installments. First four repayments total $30,000, thousand. The last two repayments total $40,000, thousand. | 200,000 |
| | | 1,917,685 |
| Less: Current portion . . . . . | | (114,172) |
| Net . . . . . . . . . . . . . . . . . | | $1,803,513 |

| Item | Repayment Term | NTD | USD |
|---|---|---|---|
| **December 31, 2002** | | | |
| Loan with land and building as collateral . . . . . . . . . | Starting from October 1997 23rd day of each month | $ 20,344 | $ 602 |
| Loan with land and building as collateral . . . . . . . . . | Starting from July 1999 day of each month | 97,619 | 2,889 |
| Loan with certificate of time deposits as collateral . . . | From June 2001, 25th day of each month fixed payments | 24,892 | 737 |
| Loan with machinery as collateral . . . . . . . . . . . | Starting from December 2003, 96 equal monthly repayments of principal | 420,000 | 12,433 |
| Loan with machinery as collateral . . . . . . . . . . . | From December 2001, 120 monthly equal repayments of principal and interest by the annuity method | 134,791 | 3,990 |
| Loan with machinery as collateral . . . . . . . . . . . | From January 2004, 156 monthly equal repayments of principal and interest by the annuity method | 320,000 | 9,473 |
| Loan with machinery as collateral . . . . . . . . . . . | From January 2003, 48 monthly equal repayments of principal and interest by the annuity method | 140,000 | 4,144 |
| Loan with machinery as collateral . . . . . . . . . . . | From January 2002, 180 monthly equal repayments of principal and interest by the annuity method | 143,580 | 4,250 |
| Loan with machinery as collateral . . . . . . . . . . . | From March 2002, 180 monthly equal repayments of principal and interest by the annuity method | 123,206 | 3,647 |
| Loan with machinery as collateral . . . . . . . . . . . | From January 2002, 180 monthly equal repayments of principal and interest by the annuity method | 126,318 | 3,739 |
| Loan with machinery as collateral . . . . . . . . . . . | From April 2002, 120 monthly equal repayments of principal and interest by the annuity method | 64,744 | 1,918 |
| Loan with machinery as collateral . . . . . . . . . . . | From April 2002, 120 monthly equal repayments of principal and interest by the annuity method | 64,744 | 1,918 |
| Credit loans . . . . . . . . . . . | From April 2004, repayments every six months, for a total of 6 installments. First four repayments total $30,000, thousand. The last two repayments total $40,000, thousand. | 200,000 | 5,921 |
| | | 1,880,238 | 55,661 |
| Less: Current portion . . . . . | | (111,692) | (3,306) |
| Net . . . . . . . . . . . . . . . . . | | $1,768,546 | $52,355 |

In 2000, 2001 and 2002, interest rate of long-term debt were floating and ranged from 6.63% to 8.725%, 1.45% to 8.68% and from 1.20% to 6.28%, respectively.

### (10) Capital Stock

The Company was founded in 1989. Paid-in capital was NT$5,000 thousand. After past years of increased cash investment of NT$2,536,460 thousand, capitalization from earnings of NT$1,471,738, capitalization from capital surplus of NT$457,974 thousand, capitalization from employee bonuses of NT$121,583 thousand, creditor's right to switch to equity of NT$1,000 thousand, negotiable corporate debt converted to common stock of NT$373,321 thousand, for a total amount of capital of NT$4,967,076 thousand as of December 31, 2002.

### (11) Distribution of earnings

The Company policy towards distribution of earnings is to first pay taxes, offset past years losses, set 10% as legal reserve and if there is a realistic need then set aside a special surplus. The remainder should be appropriated as follows:

Shareholder's bonuses: 90%

Remuneration to directors and supervisors: 2%

Employee bonuses: 8%

Dividend policy as approved in the temporary Stockholders' Meeting on September 20, 2000 was incorporated into Articles of Incorporation per SFC Letter Ruling No. (1) 100116 dated January 3, 2000 and detailed as follows:

The Company is in hi-tech industry and currently is in the growth phase of business life cycle. To expand business and pursue permanent operation by sound financial planning, dividends shall be distributed per rules set forth in the preceding paragraph, in light of operation needs and future capital expenditures of the Company. At least 80% of distributable earnings of the current year shall be appropriated as dividends, of which between 5% and 20% shall be set aside as cash dividends with the rest as stock dividends.

Information regarding employee bonuses and compensation to directors and supervisors distributed in 2001 is as follows:

| | Proposed Distribution | Actual Distributed | Difference |
|---|---|---|---|
| Legal reserve | $ 64,608 | $ 64,608 | $ — |
| Stockholders' bonuses — stock | 445,734 | 470,178 | (24,444) |
| Stockholders' bonuses — cash | 81,043 | 85,500 | (4,457) |
| Employee bonuses | 46,825 | 49,394 | (2,569) |
| Compensation to directors and supervisors | 11,706 | 12,348 | (642) |
| Total | $649,916 | $682,028 | $(32,112) |

Proposed and actual distributed employee bonuses was 4,682,000 and 4,938,000 shares, respectively, or 0.943% and 0.994% of the number of shares outstanding as of December 31, 2002. In 2002, the proposed cash capitalization was NT$1,000 million, for a price of $22 per share for a total of NT$2,200 million. Due to price decline, the amount of capital increased was NT$1,222,220 thousand. Since the investors of this cash capitalization are able to receive distributed earnings of 2001, the stockholders resolved to change the earnings distribution to distribute 110 shares of stock dividends and $200 of cash dividends per thousand shares issued.

If the above employee bonus was included in current expenses, then calculated basic earnings per share would be NT$2.16.

The proposal for the appropriation of employee bonus and remuneration to directors and supervisors for 2002 has yet to be presented in the shareholders' meeting. Information regarding employee bonus and remuneration to directors and supervisors distributed shall be posted on the Market Observation Post System after the related meetings are held.

**(12) Earnings per share**

**nit: shares in thousands, dollar amounts in thousands, EPS data in dollars**

| | Years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2001 | | 2002 | | 2002 | |
| | NTD | | NTD | | USD | |
| | Before tax | After tax | Before tax | After tax | Before tax | After tax |
| Primary earnings per share | | | | | | |
| Net income available to common shareholders | $724,558 | $645,787 | $(1,085,808) | $(1,109,122) | $(32,144) | $(32,834) |
| Weighted-average common shares outstanding | 270,999 | 290,999 | 406,291 | 406,291 | 12,027 | 12,027 |
| | $ 2.67 | $ 2.38 | $ (2.67) | $ (2.73) | $ (0.08) | $ (0.08) |

nit: shares in thousands, dollar amounts in thousands, EPS data in dollars

| | Years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2001 | | 2002 | | 2002 | |
| | NTD | | NTD | | USD | |
| | Before tax | After tax | Before tax | After tax | Before tax | After tax |
| Diluted earnings per share | | | | | | |
| Net income | $724,558 | $645,787 | $(1,085,808) | $(1,109,122) | $(32,144) | $(32,144) |
| Influence on potentially dilutive shares 7% convertible bonds | 24,663 | 23,238 | — | — | — | — |
| Net income used to calculate diluted EPS | $749,221 | $669,025 | $(1,085,808) | $(1,109,122) | $(32,144) | $(32,144) |
| Weighted-average common shares outstanding | 270,999 | 270,999 | 406,291 | 406,291 | 12,027 | 12,027 |
| Influence on potentially dilutive shares 7% convertible bonds | 21,437 | 21,437 | — | — | — | — |
| Weighted-average common shares outstanding used to calculate diluted EPS | 292,436 | 292,436 | 406,291 | 406,291 | 12,027 | 12,027 |
| | $ 2.56 | $ 2.29 | $ (2.67) | $ (2.73) | $ (0.08) | $ (0.08) |

## (13) Capital surplus

| | December 31, | | | |
|---|---|---|---|---|
| | 2000 | 2001 | 2002 | |
| | NTD | NTD | NTD | USD |
| Cash capitalization of common shares premium | $1,196,840 | $1,174,840 | $1,737,198 | $51,427 |
| Convertible bonds interest payable | — | 23,807 | 25,597 | 758 |
| Gains on disposal of assets | 294 | 294 | — | — |
| Convertible corporate debt conversion premium | — | 466,610 | 487,979 | 14,446 |
| Increase in retained earnings due to subscription to new shares of investee companies by subsidiaries not in | — | — | 6,070 | 180 |
| Total | $1,197,134 | $1,665,551 | $2,256,844 | $66,810 |

## (14) Pension Plan

The Company deposited the pension fund into a designated account at the Central Trust of China. In 2000, 2001 and 2002, changes in pension fund account were as follows:

| | Years ended December 31, | | | |
|---|---|---|---|---|
| | 2000 | 2001 | 2002 | |
| | NTD | NTD | NTD | USD |
| Beginning balance | $14,526 | $20,422 | $26,771 | $793 |
| Current contribution | 4,697 | 5,421 | 5,907 | 175 |
| Current interest yield | 1,199 | 928 | 675 | 20 |
| Ending balance | $20,422 | $26,771 | $33,353 | $988 |

Effective December 31, 1996, the Company adopted the FAS Statement No. 18 "Accounting for Pensions", and actuarial reports on pensions dated February 15, 2001 January 11, 2002 and January 29, 2003 were secured with December 31, 2000, 2001 and 2002 as the measurement dates. Components of net pension cost were as follows:

| | December 31, | | | |
|---|---|---|---|---|
| | 2000 | 2001 | 2002 | |
| | NTD | NTD | NTD | USD |
| Service cost | $6,259 | $7,686 | $8,593 | $254 |
| Interest cost | 1,684 | 1,815 | 1,141 | 33 |
| Projected return on pension plan assets | (1,199) | (1,363) | (1,229) | (36) |
| Amortization and deferred amount | 692 | 380 | (42) | (1) |
| Net periodic pension cost | $7,436 | $8,518 | $8,463 | $250 |

Actuarial assumptions adopted to calculate net periodic pension cost and reconciliation of funding status and accrued pension liabilities per books at year-end are as follows:

| | 2000 | 2001 | 2002 |
|---|---|---|---|
| Discount rate | 6.00% | 6.00% | 3.50% |
| Future salary increase rate | 4.00% | 4.00% | 3.00% |
| Projected long-term rate of return on pension plan assets | 6.00% | 6.00% | 3.50% |

| | 2000 | 2001 | 2002 | |
|---|---|---|---|---|
| | NTD | NTD | NTD | USD |
| Benefit obligation: | | | | |
| Vested benefit obligation | $ — | $ (423) | $ (655) | $ (19) |
| Non-vested benefit obligation | (14,978) | (23,448) | (18,712) | (553) |
| Accumulated benefit obligation | (14,978) | (23,871) | (19,367) | (572) |
| Effect of future salary increase | (15,486) | (14,896) | (13,229) | (392) |
| Projected benefit obligation | (30,464) | (38,767) | (32,596) | (964) |
| Fair value of pension plan assets | 20,423 | 26,771 | 33,353 | 987 |
| Funded status | (10,041) | (11,996) | 757 | 23 |
| Unrecognized net transitional benefit obligation | 4,052 | 3,684 | 3,316 | 98 |
| Unrecognized gain (loss) on pension plan assets | 323 | (451) | (12,357) | (366) |
| Retroactive accrual of pension liabilities | — | — | — | — |
| Accrued pension liabilities | $ (5,666) | $ (8,763) | $ (8,284) | $(245) |

As of December 31, 2000, 2001 and 2002, vested benefit obligation for three years amounted to NT$0, NT$423 thousand and NT$655 thousand respectively.

## (15) Income Taxes

(1) In 2000, 2001 and 2002, components of income tax expense of the Company were as follows:

| | Years ended December 31, | | | |
|---|---|---|---|---|
| | 2000 | 2001 | 2002 | |
| | NTD | NTD | NTD | USD |
| Current income tax expense | $68,619 | $62,832 | $16,046 | $475 |
| Deferred income tax expense | 1,323 | 3,550 | (2,000) | (59) |
| 10% surtax on undistributed earnings | 1,284 | 12,389 | 9,268 | 274 |
| Total | $71,226 | $78,771 | $23,314 | $690 |

(2) Reconciliation between income tax calculated at statutory rate on income before tax per Company's income statements and actual income tax expense:

| | Years ended December 31, | | | |
|---|---|---|---|---|
| | 2000 | 2001 | 2002 | |
| | NTD | NTD | NTD | USD |
| Income tax calculated at statutory tax rate | $168,282 | $181,130 | $(272,597) | $(8,070) |
| Income tax effect of reconciling items: | | | | |
| Additional tax expense due to sale of investment tax credits | — | — | 4,230 | 125 |
| Under- (over) accrual of prior year's income tax | (659) | (2,526) | 4,852 | 144 |
| 10% surtax on undistributed earnings | 1,284 | 12,389 | 9,268 | 274 |
| Deferred interest expense | 5,478 | 10,751 | — | — |
| Investment tax credits | (33,612) | (38,619) | (55,037) | (1,629) |
| Investment loss (gain) | 15,108 | 15,040 | 131,020 | 3,879 |
| Qualified for the 5-year tax exemption | (85,466) | (105,764) | — | — |
| Corporate bonds interest expense | — | 7,502 | — | — |
| Allowance for valuation deferred income tax assets | — | — | 193,875 | 5,739 |
| Other | 811 | (1,132) | 7,703 | 228 |
| Income tax expense (benefit) | $ 71,226 | $ 78,771 | $ 23,314 | $ 690 |

(3) Deferred income tax expense (benefit) as of June 30, 2002 and 2003 are as follows:

| | Years ended December 31, | | | |
|---|---|---|---|---|
| | 2000 | 2001 | 2002 | |
| | NTD | NTD | NTD | USD |
| Allowance for inventory devaluation | $(11,500) | $9,500 | $ (13,500) | $ (400) |
| Loss carryforwards | — | — | (105,000) | (3,108) |
| Unrealized net exchange loss (gain) | 12,947 | (5,100) | (9,000) | (266) |
| Pension expense over limit | (683) | (600) | (1,375) | (41) |
| Unrealized gross profit from sales | (8,646) | (1,750) | 8,750 | 259 |
| Investment income | 9,155 | 1,500 | (13,750) | (407) |
| Investment tax credit | — | — | (62,000) | (1,835) |
| Allow for deferred income tax assets | — | — | 193,875 | 5,739 |
| Other | 50 | — | — | — |
| Total | $ 1,323 | $3,550 | $ (2,000) | $ (59) |

(4) As of December 31, 2000, 2001 and 2002, deferred income tax assets (liabilities) of the Company were as follows:

| | December 31, | | | |
|---|---|---|---|---|
| | 2000 | 2001 | 2002 | |
| | NTD | NTD | NTD | USD |
| Current: | | | | |
| Deferred income tax assets | $24,750 | $17,000 | $ 26,750 | $ 792 |
| Valuation allowance — deferred income tax assets | — | — | (26,750) | (792) |
| Deferred income tax assets, net | 24,750 | 17,000 | — | — |
| Deferred income tax liabilities | (9,100) | (4,000) | (—) | (—) |
| Current deferred income tax assets, net | $15,650 | $13,000 | $ — | $ — |
| Non-current: | | | | |
| Deferred income tax assets | $ 1,400 | $ 2,000 | $170,375 | $5,044 |
| Valuation allowance — deferred income tax assets | — | — | (167,125) | (4,949) |
| Deferred income tax assets, net | 1,400 | 2,000 | 3,250 | 97 |
| Deferred income tax liabilities | (15,500) | (17,000) | (3,250) | (97) |
| Non-current deferred income tax liabilities, net | $(14,100) | $(15,000) | $ — | $ — |

(5) As of December 31, 2000, 2001 and 2002, deferred income tax assets/liabilities of the Company due to temporary differences and effects on income taxes were as follows:

| | December 31, | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2000 | | | 2001 | | | 2002 | | | 2002 | | |
| | NTD | | | NTD | | | NTD | | | USD | | |
| | | Income Tax Effect | | | Income Tax Effect | | | Income Tax Effect | | | Income Tax Effect | |
| | Amount | Current | Non-current | Amount | Current | Non-current | Amount | Current | Non-current | Amount | Current | Non-current |
| Deductible temporary difference due to inventory market decline | $ 5,100 | $12,750 | $ — | $13,000 | $ 3,250 | $ — | $67,000 | $16,750 | $ — | 1,983 | $496 | $ — |
| Deductible temporary difference due to employee pension expense | 5,604 | — | 1,400 | 8,296 | — | 2,000 | 13,549 | — | 3,375 | 401 | — | 100 |
| Deductible temporary difference due to unrealized exchange loss | — | — | — | — | — | — | 20,958 | 5,000 | — | 620 | 148 | — |
| Deductible temporary difference resulting from unrealized sales profit | 48,524 | 12,000 | — | 54,918 | 13,750 | — | 20,437 | 5,000 | — | 605 | 148 | — |
| Investment tax credits | — | — | — | — | — | — | 61,934 | — | 62,000 | 1,833 | — | 1,835 |
| Loss carryforwards | — | — | — | — | — | — | 424,919 | — | 105,000 | 12,579 | — | 3,108 |
| Subtotal | | 24,750 | 1,400 | | 17,000 | 2,000 | | 26,750 | 170,375 | | 792 | 5,043 |
| Less: Valuation allowance | | — | — | | — | — | | (26,750) | (167,125) | | (792) | (4,947) |
| Allowance for Valuation deferred income tax assets | — | — | | | | | | | | | | |
| Taxable temporary difference due to recognition of investment income | (62,356) | — | (15,500) | (68,267) | — | (17,000) | 13,308 | — | (3,250) | 394 | — | (96) |
| Taxable temporary difference due to unrealized exchange gain | (36,406) | (9,100) | — | (15,537) | (4,000) | — | — | — | — | | — | — |
| | | $15,650 | $(14,100) | | $13,000 | $(15,000) | | $ — | $ — | | $ — | $ — |

(6) As of December 31, 2000, 2001 and 2002, information on undistributed earnings was as follows:

| | December 31, | | | |
|---|---|---|---|---|
| | 2000 | 2001 | 2002 | |
| | NTD | NTD | NTD | USD |
| Accumulated prior to 1997 (included) | $ 839 | $ 839 | $ — | $ — |
| Accumulated after 1998 | 647,147 | 704,476 | (1,085,541) | (32,136) |
| Total | $647,986 | $705,315 | $(1,085,541) | $(32,136) |

In 2000, 2001and 2002, investment tax credits due to purchase of automatic machinery, human resource training, establishing brand image, and research and development was NT$33,613 thousand, NT$38,619 thousand, and NT$61,934 thousand, which were offset against current income tax payable then of NT33,613 thousand, NT$38,619 thousand and NT$0, respectively. Further, income before tax of NT$341,862 thousand NT$423,054 thousand and NT$0 of 2000, 2001 and 2002, respectively, qualified for the 5-year tax exemption.

The Company's corporate income tax returns through 2000 were assessed by the Tax Authority.

As of December 31, 2002, information regarding loss carryforwards is as follows:

| Year loss incurred | Expiration date | NT Dollars |
|---|---|---|
| 2002 | 2007 | $424,919 |

As of December 31, 2000, 2001 and 2002, balance of stockholders' imputation credit account was $38,022 thousand, $59,882 thousand and $33,091 thousand, respectively. It was estimated that after filing of corporate income tax for 2002, deductible ratio of earnings distributed for R.O.C. residents was approximately 0%. Actual deductible ratio of earnings distributed for 2001 was 12.76%.

## (16) Financial Instruments

### (1) *Financial derivative instruments*

(i) *Contract amount and credit risk*

| | December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2000 | | 2001 | | 2002 | |
| Financial instruments | Contract amount | Credit risk | Contract amount | Credit risk | Contract amount | Credit risk |
| Forward remittance contract | | | | | | |
| USD | $— | $— | $13,000 | $— | $ — | $— |
| Options held | | | | | | |
| Call options sold | | | | | | |
| — USD | $— | $— | $ — | $— | $2,500 | $— |
| — Euro | $— | $— | $ — | $— | $8,400 | $— |
| Put options sold | | | | | | |
| — USD | $— | $— | $ — | $— | $7,500 | $— |
| Call options purchased | | | | | | |
| — USD | $— | $— | $ — | $— | $2,500 | $— |

Credit risk arises when the transaction party can not follow the terms stated in the contract. Therefore the Company deals with banks with good credit and uses past experience to determine the maximum remittance amount that the transaction party will not likely to default on. Therefore the chance of credit risk occurring is very low.

(ii) *Market price risk*

Since the non-derivative financial instruments the Company uses have hedging quality, therefore losses due to interest rate and exchange rate fluctuations will be offset by the hedging items so market price risk will not be significant.

(iii) *Current risk, cash flow risk and amount, period, and uncertainty of future cash demands*

Future cash outflow and inflow estimated for 2003 resulting from options and forward exchange contracts amounted to EUR8,400 thousand, JPY945,000 thousand and USD15,510 thousand, respectively. In 2002, cash outflow and inflow amounted to USD13,000 thousand and NT$448,257 thousand, respectively. The Company has an ample amount of operating capital and therefore no risk of not raising enough capital. The exchange rates for the forward remittance contracts have been already set so there will be a minimal amount of cash flow risk.

(iv) *Types, goal, and strategy of holding financial derivative instruments*

The Company holds financial derivative instruments not for the purpose of transacting. They are held mainly for the purpose of engaging in forward remittance contracts is to avoid the risk that arises from foreign currency rights, debt, and guarantee when exchange rate changes occur. The Company's policy of dealing with risk is to avoid the majority of market price risk. The Company uses financial derivatives that are highly inversely related to the fair price of risky items as hedging tools. The derivatives' effectiveness are periodically reviewed.

(v) *Stating financial derivative instruments in the financial statements*

Account receivables and account payables balances that arise from forward remittance contract are subtracted from each other and the difference is stated as forward remittance receivable or forward remittance payable. As of December 31, 2000, 2001 and 2002, the amount of forward remittance contract balance was NT$0, NT$7,783 thousand and NT$0, respectively. As of December 31, 2000, 2001 and 2002, the exchange loss was NT$0, NT$8,967 thousand and NT$0, respectively, and is stated as non-operating expense.

In 2002, gains from derivative instruments transactions totaled NT$3,421 thousand reflected under non-operating income.

(2) *Fair Value of Financial Instruments*

| | 2000 | | 2001 | | 2002 | | | |
|---|---|---|---|---|---|---|---|---|
| | Book Value | Fair Value | Book Value | Fair Value | Book Value | Fair Value | Book Value | Fair Value |
| | NTD | | NTD | | NTD | | USD | |
| **Financial Assets:** | | | | | | | | |
| Book value equal to fair value | $3,608,489 | $3,608,489 | $3,983,274 | $3,983,274 | $3,384,795 | $3,384,795 | $100,201 | $100,201 |
| Long-term investment | 1,741,585 | 1,741,585 | 3,676,235 | 3,676,235 | 4,937,552 | 4,937,552 | 146,168 | 146,168 |
| **Financial Liabilities:** | | | | | | | | |
| Book value equal to fair value | $2,767,202 | $2,767,202 | $3,082,167 | $3,082,167 | $2,203,473 | $2,203,473 | $65,230 | $65,230 |
| Long-term liabilities | 505,097 | 505,097 | 2,101,087 | 2,101,087 | 2,033,841 | 2,033,841 | 60,208 | 60,208 |
| **Off-balance-sheet financial instruments** | | | | | | | | |
| Letters of credit | — | NTD319,861 | — | NTD154,202 | — | NTD 8,521 | — | USD 246 |
| Letters of credit | — | USD 386 | — | USD 3,031 | — | USD 274 | — | USD 274 |
| Letters of credit | — | — | — | JPY 48,000 | — | — | — | — |
| Endorsement guarantees | — | — | — | — | — | NTD328,500 | — | USD9,491 |

Methods and assumptions adopted by the Company in estimating the fair value of financial instruments are as follows:

(i) Financial assets and liabilities with fair value equal to book value refer to short-term financial instruments of which fair value is the book value reflected on the balance sheets. Since such financial instruments will mature with short notice, book value is a reasonable basis in estimating the fair value. This comprises of cash and cash equivalents, notes and accounts receivable and payable, other receivables and payables, restricted deposits, short-term bank loans, other short-term borrowings, short-term bills payable, income tax payable, accrued expenses, collection on behalf of others, long-term loans, guarantee deposits-in and refundable deposits, and accrued pension liabilities.

(ii) Long-term equity investments held by the Company refer to domestic and overseas subsidiaries. Since these companies are not publicly traded, fair value thereof cannot be estimated in practice. As of December 31, 2000, 2001 and 2002, original investment was NT$1,713,413, thousand, NT$3,530,622 thousand and NT$5,310,626 thousand, respectively, and their book value amounted to NT$1,741,585, thousand, NT$3,644,515 thousand and NT$4,911,007 thousand, respectively. In 2000, 2001and 2002, there were 7, 9 and 10 investee companies, respectively. As of December 31, 2000, 2001 and 2002, total assets of these companies amounted to NT$2,604,945, thousand, NT$4,808,194 thousand and NT$5,798,969 thousand with stockholders' equity equal to NT$1,739,747, thousand, NT$3,553,167 thousand and NT$4,852,080 thousand, respectively. In 2000, 2001 and 2002, total operating revenue amounted to NTD$2,939,895, thousand NT$3,885,256 thousand and NT$2,431,853 thousand, and net loss amounted to NT $21,960, thousand, NT$52,099 thousand and NT$571,587 thousand, respectively.

(iii) Letters of credit/guarantees: Fair value thereof is the amount of contracts.

**(3)** ***Financial Instruments with Off-Balance-Sheet Credit Risks***

As of December 31,2000, 2001 and 2002, unused letters of credit was NT$319,861, thousand, US$386, thousand, NT$154,202 thousand US$3,031 thousand, JPY48,000 thousand and NT$8,521 thousand, US$273 thousand, respectively. Terms of these letters of credit vary between 5 to 7 months, and they are primarily used for purchases from others. Fair value of these letters of credit is equal to the amount of contracts.

**(4)** ***Information on Concentration of Credit Risks***

Primary implicit credit risk of the Company arises from cash and receivables. Cash held by the Company is deposited at various financial institutions. The Company further controls exposure to credit risks with each financial institution, and deems that cash of the Company is not subject to significant concentration of credit risk.

Clients of the Company concentrate in the retail business. To minimize credit risk, the Company evaluate financial positions of their clients on a periodical basis and will request for collateral or guarantee if deemed necessary. The Company also regularly assess the collectibility of accounts receivable and provide for allowance for doubtful accounts accordingly, and loss on bad debts is generally within management's expectation. As of December 31, 2000, 2001 and 2002, a total of 7, 5 and 4 clients accounted for 86%, 83% and 90%, respectively, of accounts receivable of the Company, resulting in concentration of credit risk. Nevertheless, the Company will reinforce credit control and account management to reduce credit risk.

## 5. RELATED-PARTY TRANSACTIONS

### (1) Name of Related-Party and Relationship of the Company

| Name of related party | Relationship with the Company |
|---|---|
| ABIT Computer (U.S.A.) Corp. Ltd. | The Company's subsidiary |
| ABIT Computer (H.K.) Corp. Ltd. | The Company's subsidiary |
| ABIT Computer (U.K.) Corp. Ltd. | The Company's subsidiary |
| AMOR Computer B.V. | The Company's subsidiary |
| ABIT Computer (S.G.) Corp. Ltd. | The Company's subsidiary |
| ABIT Investment Holding Ltd. | The Company's subsidiary |
| Timerwell Technology Holdings Ltd. | A company affiliated with the Company |
| Timerwell Technology (Taiwan) Co., Ltd. | An investee company accounted for under the equity method by a subsidiary of the Company |
| Akom Technology Corp. | Investee company accounted for under the equity method |
| Rolly Technology Holdings Ltd. | An investee company accounted for under the equity method by a subsidiary of the Company |
| Welltop Business Development Inc. | The Company's affiliate |
| ABITNET Technology Inc. | The Company's subsidiary |
| Vincent Meng | Responsible party for the Company's affiliate |

**(2) Significant Transactions with Related-Parties**

**(1) *Sales***

In 2000, 2001 and 2002, sales to related-parties were as follows:

| | Years ended December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2000 | | 2001 | | 2002 | | |
| | NTD | % | NTD | % | NTD | % | USD |
| AMOR. . . . . . . . . . . . . . . . . . . | $ 334,645 | 4 | $ 861,343 | 11 | $ 660,332 | 10 | $19,548 |
| ABIT Computer (U.K.) Corp. Ltd. | 207,268 | 3 | 309,980 | 4 | 174,201 | 3 | 5,157 |
| ABIT Computer (H.K.) Corp. Ltd. | 203,496 | 3 | 323,720 | 4 | 517,820 | 8 | 15,329 |
| ABIT Computer (U.S.A.) Corp. Ltd.. . . . . . . . . . . . . . . . . . . | 1,257,204 | 16 | 1,475,051 | 19 | 817,123 | 13 | 24,190 |
| Rolly Technology Holdings Ltd. . | 1,042,478 | 13 | 179,586 | 2 | 193,507 | 3 | 5,728 |
| Timerwell Technology Holdings Ltd.. . . . . . . . . . . . . . . . . . . | 771,537 | 10 | 231,268 | 3 | 148,097 | 2 | 4,384 |
| ABIT Computer (S.G.) Corp Ltd. | — | — | — | — | 28,731 | — | 851 |
| Timerwell Technology (Taiwan) Co., Ltd. . . . . . . . . . . . . . . | — | — | — | — | 47,264 | 1 | 1,399 |
| | $3,816,628 | 49 | $3,380,948 | 43 | $2,587,075 | 40 | $76,586 |

In 2000, 2001 and 2002, collection period for sales to related-parties was 90 days, 45–90 days and 45–90 days, respectively, and that for other customers in general was T/T to 90 days.

In 2000, 2001 and 2002, prices of sales to related-parties were 4.55%–12.65%, 0%–15% and 1.72–15.99%, respectively, lower than those to other customers in general, and there was no significant difference in other terms of transactions.

For information on the elimination of unrealized gain on downstream transactions and transactions between investee companies, please refer to Note 4.(4).

**(2) *Purchases***

| | Years ended December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2000 | | 2001 | | 2002 | | |
| | NTD | % | NTD | % | NTD | % | USD |
| Rolly Technology Holdings Ltd. . | $— | — | $1,153,005 | 18 | $1,925,853 | 36 | $57,012 |
| Timerwell Technology Holdings Ltd. (H.K.). . . . . . . . . . . . . . | — | — | 15,988 | — | — | — | — |
| Akom Technology Corp. . . . . . . | — | — | 51,766 | 1 | 37,382 | 1 | 1,106 |
| | $— | — | $1,220,759 | 19 | $1,963,235 | 37 | $58,118 |

For 2001 and 2002, purchases from related parties had a paying deadline of 7–45 to days and 45–60 days. For regular customers L/C 0 to 105 days and 7–120 days.

In 2001 and 2002, purchases from related parties of the Company comprised of products not purchased from others, there was no basis for price comparison as a result.

For information on the elimination of unrealized gain on downstream transactions and transactions between investee companies, please refer to Note 4.(4).

**(3)** ***Receivables and Payables***

Receivables and payables, all exempt from interests, with related-parties were as follows:

| | December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2000 | | 2001 | | 2002 | | |
| | NTD | % | NTD | % | NTD | % | USD |
| **Accounts Receivable:** | | | | | | | |
| ABIT Computer (U.S.A) Corp. . . | $425,596 | 58 | $451,891 | 55 | $293,670 | 59 | $ 8,694 |
| ABIT Computer (H.K.) Corp. Ltd. | 92,520 | 13 | 25,337 | 3 | — | — | — |
| ABIT Computer (U.K.) Corp., Ltd. | 9,412 | 1 | 35,212 | 4 | 8,892 | 2 | 263 |
| AMOR Computer B.V.. . . . . . . . | 140,329 | 19 | 244,242 | 30 | 160,079 | 32 | 4,739 |
| Timerwell Technology Holdings Ltd. (H.K.) . . . . . . . . . . . . . . | 57,385 | 8 | 42,192 | 5 | 20,562 | 4 | 609 |
| Rolly Technology Holdings Ltd. . | 4,622 | 1 | 19,147 | 3 | — | — | — |
| ABIT Computer (S.G.) Corp, Ltd. | — | — | — | — | 16,670 | 3 | 493 |
| | $729,864 | 100 | $818,021 | 100 | $499,873 | 100 | $14,798 |
| **Other receivables** | | | | | | | |
| ABIT Computer (S.G.) Corp, Ltd. | $ — | — | $ — | — | $ 7,806 | 4 | $ 231 |
| Rolly Technology Holdings Ltd. . | — | — | — | — | 198,642 | 96 | 5,881 |
| | $ — | — | $ — | — | $206,448 | 100 | $6,112 |

*(Note)* For purchases of raw materials, disposal of machinery equipment, commission and information service income.

| | 2000 NTD | % | 2001 NTD | % | 2002 NTD | % | USD |
|---|---|---|---|---|---|---|---|
| **Accounts Payable:** | | | | | | | |
| Akom Technology Corp. . . . . . . | $— | — | $3,591 | 100 | $1 | 3 | $ — |
| Timerwell Technology Holdings Ltd.. . . . . . . . . . . . . . . . . . . | — | — | 6 | — | 16 | 42 | — |
| Rolly Technology Holdings Ltd. . | — | — | — | — | 21 | 55 | 1 |
| | $— | — | $3,597 | 100 | $ 38 | 100 | $ 1 |
| **Notes Payables:** | | | | | | | |
| Welltop Business Development Inc.. . . . . . . . . . . . . . . . . . . | $— | — | $ 3,615 | 22 | $ — | — | $ — |
| Timerwell Technology (Taiwan) Co., Ltd. . . . . . . . . . . . . . . . | — | — | — | — | 2,362 | 58 | 70 |
| Akom Technology Corp. . . . . . . | — | — | 12,516 | 78 | 1,733 | 42 | 51 |
| | $— | — | $16,131 | 100 | $ 4,095 | 100 | $ 121 |
| **Advance Sales Receipts** | | | | | | | |
| ABIT Computer (H.K.) Corp. Ltd. | $— | — | $ — | — | $102,925 | 100 | $3,047 |

**(4) *Others***

(i) *Services*

In 2000, 2001 and 2002, payment to subsidiaries for repair and maintenance services rendered by the Company to customers along with commissions and expenses in connection with business referral between the Company were as follows:

| | Years ended December 31, | | | |
|---|---|---|---|---|
| | 2000 | 2001 | 2002 | |
| | NTD | NTD | NTD | USD |
| **Repairs and maintenance expenses** | | | | |
| ABIT Computer (H.K.) Corp., Ltd. | $ — | $ — | $ 9,971 | $295 |
| ABIT Computer (S.G.) Corp. Ltd. | — | — | 69 | 2 |
| Rolly Technology Holdings Ltd. | — | — | 26 | — |
| ABIT Computer (U.K.) Corp., Ltd. | 676 | — | — | — |
| ABIT Computer (U.S.A) Corp. | — | — | 124 | 4 |
| AMOR Computer B.V. | 3,445 | 1,564 | 17,530 | 519 |
| | $4,121 | $ 1,564 | $27,720 | $820 |
| **Commission revenues** | | | | |
| ABIT Computer (S.G.) Corp., Ltd. | $ — | $ — | $ 7,826 | 232 |
| **Commission expenses** | | | | |
| ABIT Computer (U.K.) Corp., Ltd. | $1,276 | $ — | $ — | $ — |
| AMOR Computer B.V. | 2,770 | — | — | — |
| | $4,046 | $ — | $ — | $ — |
| **Services expenses** | | | | |
| Welltop Business Development Inc. | $ — | $20,743 | $18,834 | $558 |
| **Other expenses** | | | | |
| Timerwell Technology (Taiwan) Co. Ltd | $ — | $ — | $19,571 | $579 |

The Company has reached an agreement with ABIT Computer (U.K.) Corp., Ltd.. The Company will pay ABIT Computer (U.K.) Corp., Ltd. 5% sales commission for any purchases introduced by them.

In 2001, the Company paid Welltop Business Development Inc. a total of USD600 thousand for computer software maintenance and related service.

**(5) *Lease agreements***

Information regarding rent income resulting from leasing to related parties is as follows:

**January 1, 2002–December 31, 2002**

| Leasee | Location of leased item | Period | Monthly rent (including tax) | Payment method | Rent income (not including VAT) |
|---|---|---|---|---|---|
| Rolly Technology Holdings Ltd. | 2–4Fl., No. 323, YANG GUANG ST., NEIHU, TAIPEI | 2002.03–2002.08 | 150 | Monthly | $ 714 |
| Akom Technology Corp. | 5 Fl., No323, YANG GUANG ST., NEIHU, TAIPEI Parking rent B2–27, 102, 103 | 2002.02–2004.01 | 488 (includes parking rent 8) | Monthly | 5,117 |
| Welltop Business Development Inc. | 10 Fl., No. 323, YANG GUANG ST., NEIHU,TAIPEI | 2002.02–2004.02 | 96 | Monthly | 950 |
| Total | | | | | $6,781 |

**(6) *Guarantee Endorsements***

As of December 31, 2001 and 2002, guarantee and endorsements for related parties totaled NT$0 and NT$275,500 thousand respectively.

**(7) *Property Transactions***

(i) In 2002, machinery equipment sold to Rolly amounted to NT$152,139 thousand for a gain of NT$2,740 thousand.

(ii) In 2002, deferred assets purchased from Timerwell Technology (Taiwan) Co. Ltd. totaled NT$10,891 thousand.

(iii) In 2002, the Company sold 1,076,000 shares of Timerwell Technology (Taiwan) Co. Ltd. at NT$15 per share to Vincent Meng for a total of NT$16,144 thousand, resulting in a gain of NT$3,637 thousand, reflected as other current assets.

## 6. PLEDGED ASSETS

As of December 31, 2000, 2001 and 2002, the following assets were pledged as collateral for long-term and short-term loans or their use is restricted:

| | December 31, | | | |
|---|---|---|---|---|
| | 2000 | 2001 | 2002 | |
| | NTD | NTD | NTD | USD |
| **Assets** | | | | |
| Restricted deposits — current | $281,537 | $ 351,812 | $1,150,780 | $ 34,067 |
| Restricted deposits — non-current | 20,000 | 18,400 | 5,000 | 148 |
| Account receivable | — | — | 225,368 | 6,672 |
| Property, plant, and equipment | 594,422 | 2,587,892 | 1,596,519 | 47,262 |
| Leased assets | — | — | 393,933 | 11,662 |
| Idled assets | — | — | 190,172 | 5,630 |
| Total | $895,959 | $2,958,104 | $3,561,772 | $105,441 |

## 7. MAJOR COMMITMENTS AND CONTINGENCIES

(1) As of December 31, 2000, 2001 and 2002, unused letters of credit amounted to NT$319,861 thousand, US$386 thousand, NT$154,202 thousand, US$3,031 thousand, JPY48,000 thousand and NT$8,521 thousand, US$273, thousand, respectively.

(2) As of December 31, 2000, 2001 and 2002, promissory notes issued for loans from financial institutions amounted to NT$1,922,405 thousand, NT$2,069,933 thousand and NT$1,643,738 thousand, respectively.

(3) As of December 31, 2000, 2001 and 2000, promissory notes received from operations amounted to NT$176,000 thousand, NT$303,671 thousand and NT$185,580 thousand, respectively.

(4) The Tax Authority ruled that a portion of the Company's investment tax credits were inapplicable and additional taxes totaling NT$9,873 thousand, NT$5,085 thousand, and decrease in tax refund of NT$3,752 thousand were assessed. The Company has filed for reassessment on August 13, 2002, August 21, 2002, and November 21, 2002. As of December 31, 2002, there was no ruling.

(5) As of December 31, 2002, the Company provided accounts receivable due from Hewlett Packard as collateral for Rolly Technology Holdings Ltd.'s bank loan from Sino Pac Bank, totaling USD6,965 thousand.

(6) As of December 31, 2002, time deposits in foreign banks amounted to USD25,000, thousand which is used as collateral for credit limits for purchases from a manufacturer. The Company must approve any use of the credit limit and the manufacturer must have outstanding accounts receivable with the Company.

(7) As of December 31, 2001 and 2002, promissory notes acquired from customers due to sales amounted to $0 and USD10,000, thousand, respectively.

## 8. SIGNIFICANT CATASTROPHIC LOSSES: None.

## 9. SIGNIFICANT SUBSEQUENT EVENTS

### (1) Overseas convertible bond

On February 28, 2003, the Company issued overseas unsecured convertible bonds with a total issue size of USD17,000 thousand. Major terms and conditions of offering and issuance of unsecured convertible bond by the Company are the following:

(1) Interest rate at par: 0.75% per annum.

(2) Period to maturity: 5 years, from February 28, 2003 to February 27, 2008.

(3) Repayment: unless previously redeemed, put option exercised, purchased and cancelled, or converted, bonds will be repaid on maturity at par plus interest payable with cash.

(4) Redemption: The Company may redeem the bonds if the following events occur:

A. Effective February 28, 2004, the Company may redeem the bonds at par, in entirety or in part, if the closing price of its common share on Taiwan Stock Exchange translated into U.S. dollars by the spot rate for is at least 130% of the conversion price for 30 consecutive trading days ($32.334 = US$1).

B. The Company may redeem the remaining bonds at any time if at least 90% of the bond principal has been previously redeemed, converted, or purchased and cancelled.

C. If due to changes in ROC tax laws, the Company is obligated to pay additional amounts, the bonds may be redeemed in whole at par.

(5) Repurchase at the option of the bondholders:

Two, three, and four years into bond issuance, unless previously redeemed, put option exercised, purchased and cancelled, bondholders may request the Company to redeem bonds in whole or in portion at 2%, 2.5%, and 3%, respectively.

(6) Conversion terms:

A. Bondholders may, at any time between March 27, 2003 and January 28, 2008, convert bonds into common shares or global depositary receipts.

B. Conversion price: $8.05.

C. Exchange rate used to determine conversion price: $34.75.

(7) As of April 10, 2003, total amount converted totaled USD14,000 thousand for 60,435,000 shares.

(2) Effective 2003, Rolly Technology (Suzhou) Co., Ltd , an investee accounted for under the equity method, is responsible for the Company's manufacturing.

**10. OTHER**: None

**11. BUSINESS SEGMENT FINANCIAL INFORMATION**

**(1) Information by industry**

Primary segment of the Company engages in trade and maintenance of computer hardware and peripherals, manufacturing and processing of computers, and trade of parts and components, and related imports and exports, and dealership of bidding and quotation.

**(2) Information by geographical region and on exports**

In 2000, 2001 and 2002, exports amounted to NT$7,409,474 thousand, NT$7,330,178 thousand and NT$6,225,872 thousand, respectively.

| | Years ended December 31, | | | |
|---|---|---|---|---|
| | 2000 | 2001 | 2002 | |
| | NTD | NTD | NTD | USD |
| **Area** | | | | |
| Europe | $2,535,756 | $3,052,553 | $2,095,360 | $ 62,030 |
| Asia | 3,518,194 | 2,752,892 | 3,120,672 | 92,382 |
| America | 1,355,524 | 1,524,733 | 886,178 | 26,234 |
| Oceania | — | — | 114,590 | 3,392 |
| Africa | — | — | 9,072 | 269 |
| Total | $7,409,474 | $7,330,178 | $6,225,872 | $184,307 |

### (3) Information on major clients

In 2000, 2001 and 2002 clients with revenue over 10% of totals as reflected in the statement of income are as follows:

| | Years ended December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2000 Total sales | | 2001 Total sales | | 2002 Total sales | | |
| | NTD | % | NTD | % | NTD | % | USD |
| ABIT Computer (U.S.A) Corp. | $1,257,204 | 16 | $1,475,051 | 19 | $ 817,123 | 13 | $24,190 |
| AMOR Computer B.V.. | 334,645 | 4 | 861,343 | 11 | 660,332 | 10 | 19,548 |
| Rolly Technology Holding Ltd. | 1,042,478 | 13 | 179,586 | 2 | 193,507 | 3 | 5,728 |
| | $2,634,327 | 33 | $2,515,980 | 32 | $1,670,962 | 26 | $49,466 |

# ABIT COMPUTER CORPORATION

## BALANCE SHEETS
## September 30, 2002 and 2003
## (Expressed in thousands of New Taiwan Dollars and US dollars expected for share data)

| | 2002.09.30 | | 2003.09.30 | | |
|---|---|---|---|---|---|
| | NTD | % | NTD | % | USD |
| **ASSETS** | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents *(Notes 2 and 4.1)* | $ 1,272,382 | 11 | $ 526,610 | 4 | $ 15,589 |
| Short-term investments *(Notes 2 and 4.2)* | 400,000 | 4 | 50,000 | — | 1,480 |
| Notes receivable, net *(Notes 2 and 4.3)* | 3,941 | — | 19 | — | 1 |
| Accounts receivable, net *(Notes 2 and 4.3)* | 1,405,402 | 12 | 1,822,249 | 14 | 53,945 |
| Accounts receivable — related-party *(Note 5)* | 609,535 | 5 | 666,451 | 5 | 19,729 |
| Other receivable — related party *(Note 5)* | — | — | 241,621 | 2 | 7,153 |
| Inventories, net *(Notes 2 and 4.4)* | 407,694 | 4 | 16,427 | — | 486 |
| Other current assets *(Notes 2 and 4.16)* | 364,964 | 3 | 103,529 | 1 | 3,065 |
| Restricted assets *(Note 6)* | 898,112 | 8 | 268,100 | 2 | 7,937 |
| | 5,362,030 | 47 | 3,695,006 | 28 | 109,385 |
| LONG-TERM INVESTMENTS | | | | | |
| Long-term equity investments *(Notes 2 and 4.5)* | 3,636,257 | 32 | 7,076,405 | 54 | 209,485 |
| PROPERTY, PLANT, AND EQUIPMENT *(Notes 2, 4.6, and 6)* | | | | | |
| Land | 1,041,357 | 9 | 1,070,857 | 8 | 31,701 |
| Buildings | 634,770 | 7 | 658,695 | 5 | 19,500 |
| Machinery | 125,489 | 1 | 19,870 | — | 588 |
| Computer equipment | 38,554 | — | 34,791 | — | 1,030 |
| Transportation equipment | 12,441 | — | 8,078 | — | 239 |
| Furniture and office equipment | 24,579 | — | 20,236 | — | 599 |
| Other equipment | 1,458 | — | 367 | — | 11 |
| Less: Accumulated depreciation | (103,168) | (1) | (80,061) | — | (2,370) |
| | 1,775,480 | 16 | 1,732,833 | 13 | 51,298 |
| OTHER ASSETS | | | | | |
| Leased assets *(Notes 2 and 6)* | 259,419 | 3 | 417,483 | 4 | 12,359 |
| Idle assets *(Notes 2 and 6)* | 383,143 | 2 | 150,240 | 1 | 4,447 |
| Other assets — other *(Notes 2, 4.16, and 6)* | 51,798 | — | 27,529 | — | 815 |
| | 694,360 | 5 | 595,252 | 5 | 17,621 |
| TOTAL ASSETS | $11,468,127 | 100 | $13,099,496 | 100 | $387,789 |

# ABIT COMPUTER CORPORATION

## BALANCE SHEETS — (Continued)
## September 30, 2002 AND 2003
## (Expressed in thousands of New Taiwan Dollars and US dollars expected for share data)

| | 2002.09.30 | | 2003.09.30 | | |
|---|---|---|---|---|---|
| | NTD | % | NTD | % | USD |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | | |
| Current Liabilities | | | | | |
| Short-term borrowings *(Note 4.7)* | $ 1,337,252 | 12 | $ 2,243,656 | 17 | $ 66,420 |
| Short-term notes payable *(Note 4.8)* | 185,367 | 2 | 45,949 | — | 1,360 |
| Notes payable | 173,998 | 2 | 4,635 | — | 137 |
| Accounts payable | 248,718 | 2 | 892,622 | 8 | 26,425 |
| Accounts payable — related-party *(Note 5)* | 33,232 | — | 150 | — | 5 |
| Income tax payable | 8,511 | — | — | — | — |
| Accrued expenses | 88,427 | 1 | 62,875 | 1 | 1,861 |
| Current portion of long-term debt *(Note 4.10)* | 98,271 | 1 | 175,095 | 1 | 5,183 |
| Other current liabilities *(Note 5)* | 147,577 | 1 | 174,960 | 1 | 5,179 |
| | 2,321,353 | 21 | 3,599,942 | 28 | 106,570 |
| Long-Term Liabilities | | | | | |
| Corporate bonds payable *(Note 4.9)* | 151,006 | 1 | 29,939 | — | 886 |
| Long-term debt *(Note 4.10)* | 1,800,242 | 16 | 1,624,471 | 13 | 48,090 |
| | 1,951,248 | 17 | 1,654,410 | 13 | 48,976 |
| Other Liabilities | | | | | |
| Accrued pension liabilities *(Notes 2 and 4.15)* | 12,059 | — | 11,534 | — | 342 |
| Other liabilities — others | 23,824 | — | 55,876 | — | 1,654 |
| | 35,883 | — | 67,410 | — | 1,996 |
| Total Liabilities | 4,308,484 | 38 | 5,321,762 | 41 | 157,542 |
| Stockholders' Equity | | | | | |
| Capital stock *(Note 4.11)* | 4,274,345 | 37 | 5,727,296 | 44 | 169,547 |
| Entitlement certificates | 1,894 | — | — | — | — |
| Capital surplus *(Note 4.14)* | 2,427,454 | 21 | 1,269,198 | 9 | 37,573 |
| Retained earnings | | | | | |
| Legal reserve *(Note 4.12)* | 136,270 | 1 | — | — | — |
| Unappropriated earnings *(Note 4.12)* | 171,660 | 2 | 803,945 | 6 | 23,799 |
| Cumulative translation adjustments *(Notes 2 and 4.5)* | 148,020 | 1 | (22,705) | — | (672) |
| Total Stockholders' Equity | 7,159,643 | 62 | 7,777,734 | 59 | 230,247 |
| Significant commitments and contingencies *(Notes 2 and 7)* | | | | | |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $11,468,127 | 100 | $13,099,496 | 100 | $387,789 |

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

## ABIT COMPUTER CORPORATION

### STATEMENTS OF OPERATIONS
### For the nine months ended September 30, 2002 AND 2003
### (Expressed in thousands of New Taiwan Dollars and US dollars expected for share data)

| | 2002.01.01~2002.09.30 | | 2003.01.01~2003.09.30 | | |
|---|---|---|---|---|---|
| | NTD | % | NTD | % | USD |
| Operating revenue | | | | | |
| Gross sales | $5,213,883 | 102 | $7,846,276 | 100 | $232,276 |
| Less: Sales returns | (43,690) | (1) | (8,430) | — | (249) |
| Sales allowances | (38,305) | (1) | (12,755) | — | (378) |
| Net sales | 5,131,888 | 100 | 7,825,091 | 100 | 231,649 |
| Operating costs | 4,811,464 | 94 | 7,070,512 | 90 | 209,311 |
| Gross profit | 320,424 | 6 | 754,579 | 10 | 22,338 |
| Unrealized intercompany gain *(Note 4.5)* | (20,437) | — | (52,983) | (1) | (1,569) |
| Realized intercompany gain *(Note 4.5)* | 54,918 | 1 | 20,437 | — | 605 |
| Realized gross profit | 354,905 | 7 | 722,033 | 9 | 21,374 |
| Operating expenses | | | | | |
| Selling expenses | 210,246 | 4 | 148,461 | 2 | 4,395 |
| Administrative expenses | 171,986 | 3 | 171,256 | 2 | 5,070 |
| Research and development expenses | 163,594 | 3 | 104,429 | 1 | 3,091 |
| | 545,826 | 10 | 424,146 | 5 | 12,556 |
| Operating income (loss) | (190,921) | (3) | 297,887 | 4 | 8,818 |
| Non-operating income | | | | | |
| Interest income | 10,697 | — | 13,646 | — | 404 |
| Gain on disposal of property, plant, and equipment | 2,414 | — | — | — | — |
| Investment income *(Note 4.5)* | — | — | 647,605 | 8 | 19,171 |
| Exchange gain | 9,026 | — | — | — | — |
| Rent income | 11,075 | — | 16,717 | — | 495 |
| Commissions income | 36,381 | 1 | 35,466 | — | 1,050 |
| Gain on inventory market recovery | — | — | 10,000 | 1 | 296 |
| Miscellaneous income | 13,160 | — | 20,216 | — | 599 |
| | 82,753 | 1 | 743,650 | 9 | 22,015 |
| Non-operating expenses | | | | | |
| Interest expense | 140,249 | 3 | 116,624 | 2 | 3,453 |
| Investments loss *(Note 4.5)* | 341,939 | 7 | — | — | — |
| Loss on disposal of property, plant, and equipment | 6,162 | — | 5,816 | — | 172 |
| Exchange loss | — | — | 113,993 | 1 | 3,375 |
| Loss on physical inventory | — | — | 145 | — | 4 |
| Inventory market decline and obsolescence | 19,000 | — | — | — | — |
| Miscellaneous expenses | 18,204 | — | 4,673 | — | 138 |
| | 525,554 | 10 | 241,251 | 3 | 7,142 |
| Income (Loss) before income tax | (633,722) | (12) | 800,286 | 10 | 23,691 |
| Income tax benefit *(Notes 2 and 4.16)* | 99,773 | 2 | 3,659 | — | 108 |
| Net income (loss) | ($ 533,949) | (10) | $ 803,945 | 10 | $ 23,799 |

| | Before tax | After tax | Before tax | After tax | Before tax | After tax |
|---|---|---|---|---|---|---|
| Earnings per share *(Note 4.13)* | | | | | | |
| Primary earnings (loss) per share | ($1.96) | ($1.65) | $1.54 | $1.55 | $0.05 | $0.05 |
| Diluted earnings (loss) per share | ($1.96) | ($1.65) | $1.44 | $1.45 | $0.04 | $0.04 |

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

# ABIT COMPUTER CORPORATION

## STATEMENTS OF CASH FLOWS
## For the nine months ended September 30, 2002 and 2003
## (Expressed in thousands of New Taiwan dollars and US dollars)

| | 2002.01.01~ 2002.09.30 | 2003.01.01~ 2003.09.30 | |
|---|---|---|---|
| | NTD | NTD | USD |
| Cash flows from operating activities: | | | |
| Net income (loss) | $ (533,949) | $ 803,945 | $23,799 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Depreciation | 50,111 | 32,496 | 962 |
| Unrealized (realized) gross profit from sales | (34,481) | 32,546 | 963 |
| Gain in doubtful accounts recovery | (2,000) | — | — |
| Loss (Gain) on inventory market recovery | 19,000 | (10,000) | (296) |
| Investment loss (income) | 341,939 | (647,605) | (19,171) |
| Loss on disposal of fixed assets | 3,748 | 5,816 | 172 |
| Amortization | 16,570 | 14,919 | 442 |
| Amortization on issuance cost of corporate bonds | — | 10,427 | 309 |
| Interest provision for redemption of convertible bonds | — | (2,311) | (68) |
| Changes in | | | |
| Notes receivable | (2,837) | (19) | — |
| Accounts receivable | 98,059 | (846,931) | (25,072) |
| Receivables — related-party | 208,486 | (275,555) | (8,157) |
| Other receivables — related-party | — | (35,173) | (1,041) |
| Inventories | 409,245 | 141,860 | 4,200 |
| Other current assets | (224,612) | 35,043 | 1,037 |
| Notes payable | (342,558) | (99,028) | (2,931) |
| Accounts payable | (14,051) | 831,538 | 24,616 |
| Accounts payable — related-party | 33,232 | 150 | 4 |
| Accrued expenses | (45,358) | (17,147) | (508) |
| Income tax payable | (25,043) | (8,511) | (252) |
| Other current liabilities | 108,091 | 26,797 | 793 |
| Accrued pension liabilities | 3,296 | 3,250 | 96 |
| Other liabilities — other | (13,875) | — | — |
| Net cash provided by (used in) operating activities | 53,013 | (3,493) | (103) |
| Cash flows from investing activities: | | | |
| Restricted assets | (532,900) | 832,680 | 24,650 |
| Refundable deposits | 2,895 | (264) | (8) |
| Purchase of property, plant, and equipment | (103,757) | (1,156) | (34) |
| Proceeds from sale of property, plant, and equipment | 45,300 | 4,421 | 131 |
| Deferred charges and issuance cost of corporation bonds | (32,393) | (11,568) | (343) |
| Proceeds from sale of deferred charges | — | 197 | 6 |
| Increase in long-term equity investments | (328,833) | (1,553,247) | (45,981) |
| Increase in short-term equity investments | (400,000) | — | — |
| Net cash used in investing activities | (1,349,688) | (728,937) | (21,579) |
| Cash flows from financing activities: | | | |
| Increase (decrease) in short-term borrowings | (419,173) | 471,006 | 13,943 |
| Increase in short-term notes payables | (159,169) | (99,866) | (2,956) |
| Increase in long-term debt | 95,000 | — | — |
| Increase in corporate bonds | 7,894 | 590,750 | 17,488 |
| Repayment of long-term debt | (114,172) | (80,672) | (2,388) |
| Purchase of corporate bonds | — | (74,500) | (2,206) |
| Increase (decrease) in guarantee deposits | (431) | 1,556 | 46 |
| Capital increase in cash | 1,955,552 | — | — |
| Net cash provided by financing activities | 1,365,501 | 808,274 | 23,927 |
| Net increase (decrease) in cash | 68,826 | 75,844 | 2,245 |
| Cash, beginning of the period | 1,203,556 | 450,766 | 13,344 |
| Cash, end of the period | $1,272,382 | $ 526,610 | $15,589 |
| Supplemental disclosure of cash flow information: | | | |
| Interest paid in the period | $ 143,780 | $ 122,520 | $ 3,627 |
| Income taxes paid in the period | $ 31,887 | $ 4,877 | $ 144 |
| Investing and financing activities with no effects on cash flows: | | | |
| Current portion of long-term debt | $ 98,271 | $ 175,095 | $ 5,183 |
| Convertible bonds converted to common stock | $ 40,290 | $ 629,250 | $18,628 |
| Corporate bonds interest payable | $ — | $ 8,353 | $ 247 |
| Leased assets transferred to fixed assets | $ — | $ 13,313 | $ 394 |
| Idle assets transferred to leased assets | $ — | $ 39,256 | $ 1,162 |

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

## NOTES TO FINANCIAL STATEMENTS
**For the nine months ended September 30, 2002 and 2003**
**(Expressed in thousands of New Taiwan Dollars and US dollars unless otherwise stated)**

### 1. ORGANIZATION AND BUSINESS

ABIT Computer Corporation (the "Company") was established on September 25, 1989 and its primary business scope include the following:

(1) Design, production, processing and trading of computers and peripherals.

(2) Design, production, processing and trading of computer display boards, interface cards, motherboards, keyboards, printers, servers and components.

(3) Imports and exports of related businesses, excluding futures.

(4) Bidding and quotation business of domestic and foreign products.

As of September 30, 2003, the average number of employees was 291.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's financial statements were prepared in accordance with the "Standards Governing the Compilation of Financial Statements of Security Issuers" and generally accepted accounting principles of the Republic of China. The financial statements are based on historical cost. Summary of significant accounting policies is as follows:

#### (1) Foreign Currency Translations

Foreign-denominated non-forward transactions are recorded at spot rates as transactions occur. Foreign exchange gains and losses on settlement of foreign-denominated assets and liabilities and those of balance sheet date adjustments to foreign-denominated assets and liabilities to the spot rates on the balance sheet date are included in current earnings

#### (2) Cash equivalents

Cash equivalents consist of Treasury bills, negotiable time deposits, commercial papers and bank acceptances with maturities of less than 3 months from the date of investment.

#### (3) Short-term investments

Short-term investments in listed stock and beneficiary certificates are carried at cost. The moving average method is used when short-term investments are sold. Short-term investments are valued by the lower of cost or market method on the balance sheet date. Stock dividends received from capitalization of capital surplus or retained earnings are not recorded as investment income, and only memo entries are made regarding the increase in number of shares, with cost per share or book value recalculated. Market prices are determined by their average closing prices in the last month of an accounting period, except for those of unlisted stock and open-end mutual funds, which are determined by their net worth at the balance sheet date.

#### (4) Allowance for doubtful accounts

Allowance for doubtful accounts is provided for by reviewing receivables at year-end and estimating possible losses.

**(5) Inventories**

Inventories are stated at cost on a perpetual inventory basis by the weighted-average method and valued at the lower of cost or market on the balance sheet date. Raw materials and supplies are valued at replacement cost; goods in process, finished goods and obsolete and slow-moving inventories are valued at net realizable value. If the market value is used as replacement (production) cost, then such replacement (production) cost should not exceed net realizable value nor be less than the balance of net realizable value less normal gross profit.

The Company's contract manufacturing refers to inventory sent for processing and then returned to the Company, and the title of such inventory is retained by the Company, and the contract manufacturing accounting treatment is adopted in compliance with 1998 Securities and Futures Commission ("SFC") (6), Letter Ruling No. 00747 dated March 18, 1998.

**(6) Long-term equity investments**

Long-term equity investments in investee companies not publicly traded in which the Company has no influence are accounted for under the cost method. Should sufficient evidence exist indicating that investment value indeed decreased and the likelihood of recovery is remote, loss on investment is recognized immediately, with the book value after loss recognition as the new cost. Stock dividends received from capitalization of capital surplus or retained earnings are not recorded as investment income, and only memo entries are made regarding the increase in number of shares, with cost per share or book value recalculated.

Long-term equity investments in the common stock of companies not publicly traded but in which the Company has significant influence are accounted for under the equity method, unless it may be verified that significant influence does not exist.

Upon sale of long-term equity investments, the weighted-average method is used to compute cost.

Difference between cost and net equity worth is amortized over five years by the straight-line method.

For foreign investments accounted for under the equity method, original investment is stated by actual remittance in New Taiwan dollars on the balance sheet date. Book value of such investments is adjusted by cumulative translation adjustments, including current operating income/loss of investee companies, investment income/loss recognized by average exchange rate of the year, and net worth of investee companies evaluated per shareholding ratio.

Long-term equity investments in which the Company has controlling interest are accounted for under the equity method, and consolidated financial statements are prepared. However, preparation of consolidated financial statements is not required if any of the following conditions are met:

(1) Nature of business of a subsidiary is different from that of the Company such that consolidation is not appropriate;

(2) A subsidiary has declared bankruptcy or reorganization has been decreed by the court;

(3) A subsidiary is prohibited from remitting dividends to the Company due to foreign exchange controls exercised by the country where it is registered to operate;

(4) A subsidiary reports negative net worth, unless the Company has financial undertakings of the subsidiary or makes other financial commitment, or the loss is temporary in nature with sufficient evidence of loss recovery and becoming profitable in the near future;

(5) Total assets and operating revenue of a subsidiary do not reach 10% of the respective accounts of the Company.

Nevertheless, if combined assets or operating revenue of all such subsidiaries exceed 30% of the respective accounts of the Company, then 3% of total assets or operating revenue of these subsidiaries must be consolidated. Consolidation is not required if subsequent percentage declines to 20% subsequently, consolidation should continue.

Should an investee company incur a net loss, and if the Company has financial undertaking or provides guarantee for the investee company's obligations, loss recognition should continue per ownership. If long-term investments are insufficient to offset investment losses, then accounts receivable (or related party receivables) are adjusted. Deferred credits are recognized if a deficiency still exists.

Should an investee company issue new shares and the Company does not purchase the new shares proportionately causing changes in ownership and net worth, then capital surplus is adjusted accordingly. If the adjustment to capital surplus is not enough to offset, then the difference shall be debited to retained earnings.

The unrealized gains and losses from intercompany transactions between the Company and investee company are deferred. If the gains and losses come from depreciated or amortized assets, then the recognition of such gains and losses shall be spread over the useful lives of such assets. Otherwise, the recognition shall be in the year when the gains or losses are realized.

Gain/loss on investments is recognized immediately if common or preferred shares with voting rights exceeds 50% of total voting shares of an investee company or regulations set forth in Clause 369 No.2-2 are met such that the Company could control, directly or indirectly, financial, operation, or personnel issues of the investee company, or if all of the following criteria are met:

(1) Net equity worth of the long-term equity investment at the beginning of the year exceeds $50 million and amounts to over 5% of the Company's paid-in capital;

(2) Ownership of the investee company by the Company exceeds 30% or the Company and its directors, supervisors, managers, and other investee companies controlled directly and indirectly, jointly own over 50% voting shares of the investee company;

(3) The Company is one of the 3 largest shareholders, or the Company appoints the Chairman or the President of the investee company.

When compiling interim financial statements, the equity method is not used to account for investments of ownership between 20% and 50%. For investee companies where ownership by the Company exceeds 50%, the equity method is adopted.

**(7) Property, plant, and equipment, depreciation and gain or loss on disposal**

Property, plant, and equipment are stated at cost. Major additions, improvements, and renewals are capitalized. Repairs and maintenance costs are expensed currently. Interest incurred due to asset acquisition is capitalized as part of the acquisition cost.

Depreciation is applied on the straight-line method with economic lives stipulated by the government plus 1 year's salvage value. Assets still in use after full depreciation may continue to be depreciated by estimated economic lives and salvage values. Economic lives of major property and equipment are as follows:

| | |
|---|---|
| Building | 5–55 years |
| Machinery equipment | 2–8 years |
| Computer equipment | 3–10 years |
| Transportation equipment | 5 years |
| Furniture and office equipment | 3–8 years |
| Other equipment | 5–8 years |

Gains on disposal of property, plant, and equipment are recognized currently. Idle assets or fixed assets waiting to be disposed of are transferred to other assets, and valued at net realizable value or book value, whichever is lower.

**(8) Deferred Charges**

Deferred charges are stated at cost and amortized equally over 3 years.

**(9) Income Tax**

Income tax is provided in accordance with Income Tax Law and related regulations. Adjustment of prior year's income tax is recorded as current income tax expense. Intra-period income tax allocation will be made with respect to temporary differences between accounting and taxable income. Income tax effects due to significant taxable temporary differences are recognized as deferred income tax liabilities, while income tax effects arising from deductible temporary differences, loss carry forwards from prior years, and investment tax credits are recorded as deferred income tax assets. Valuation allowance will be provided after assessing the likelihood of realization of deferred income tax assets.

The 10% surtax on undistributed earnings is reported as current expense on the date of the annual stockholder's meeting declaring the distribution of earnings.

**(10) Pension Plan**

The Company has established a pension plan covering all of its regular employees. 2 units are granted for each of the first 15 years of service, and 1 unit for each of the years thereafter, up to a maximum of 45 units. The average monthly salary is used to calculate each unit.

Pension reserve is provided at 2% of the employee salaries and is deposited into a designated account with the Central Trust of China. Pension payments are drawn from the fund; with any deficiency reflected as a current expense.

Effective December 31, 1996 the Company adopted the FAS Statement No. 18, "Accounting for Pensions." Upon adoption of this new pension accounting, unrecognized transitional net assets or net benefit obligation should be computed. According to Ministry of Finance SEC letter ruling No. 00142 dated January 20, 1995, effective in 1997, such unrecognized transitional net assets or net benefit obligation are amortized over the average remaining service lives of the employees eligible for pension benefits using the straight-line method. If such service lives are shorter than 15 years, then 15 years are used and are recorded as pension cost. Periodic net pension cost recognized includes the following:

a. Service cost

b. Interest cost

c. Expected return on plan assets

d. Amortization of unrecognized prior service cost

e. Amortization of unrecognized pension gain or loss

f. Amortization of unrecognized transitional net assets or net benefit obligation.

g. Gain and losses from liquidation.

The difference between actual pension plan contributions and the net pension fund cost is reflected as "accrued pension liabilities" or "prepaid pension cost." The minimum pension liability is recognized under the "accrued pension liabilities " on the balance sheet.

**(11) Commitments and contingencies**

If loss on commitments and contingencies is highly likely and the amount thereof can be reasonably estimated, such loss recognized immediately. Otherwise only the nature will be disclosed in notes to financial statements.

**(12) Convenience translation into U.S. dollars**

The financial statements are stated in New Taiwan dollars. Translation of the September 30, 2003 New Taiwan dollars amounts into U.S. dollars amounts is included solely for the convenience of the readers, using the noon buying rate of the Federal Reserve Bank of New York on September 30, 2003, of NT$33.78 to US$1. The convenience translations should not be construed as representations that the New Taiwan dollars amounts have been, could have been, or could in the future be converted into U.S. dollars at this rate or any other rate of exchange.

## 3. REASONS FOR AND EFFECT OF ACCOUNTING CHANGES: NONE.

## 4. SUMMARY OF MAJOR ACCOUNTS

### 4.1 Cash

| | September 30, | | |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | NTD | NTD | USD |
| Cash and petty cash | $ 387 | $ 448 | $ 13 |
| Checking accounts | 133,272 | 33,818 | 1,001 |
| Savings accounts | 58,690 | 6,389 | 189 |
| Foreign currency demand deposits | 369,938 | 410,130 | 12,141 |
| Time deposits | 710,095 | 75,825 | 2,245 |
| Total | $1,272,382 | $526,610 | $15,589 |

### 4.2 Short-term Investments

| | September 30, | | |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | NTD | NTD | USD |
| Funds | $400,000 | $50,000 | $1,480 |
| Less: Allowance for Valuation Loss of Short-Term Investments | (—) | (—) | (—) |
| Total | $400,000 | $50,000 | $1,480 |

### 4.3 Notes and Accounts Receivable, Net

| | September 30, | | |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | NTD | NTD | USD |
| Notes receivable | $ 3,941 | $ 19 | $ 1 |
| Accounts receivable | 1,416,402 | 1,833,249 | 54,270 |
| Less: Allowance for doubtful accounts | (11,000) | (11,000) | (325) |
| Total | $1,409,343 | $1,822,268 | $53,946 |

### 4.4 Inventories, Net

| | September 30, | | |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | NTD | NTD | USD |
| Raw materials | $296,644 | $ 34,371 | $ 1,018 |
| Work-in-process | 102,972 | 435 | 13 |
| Finished goods | 24,256 | 2,853 | 84 |
| Merchandise inventories | 15,822 | 35,768 | 1,059 |
| Total | 439,694 | 73,427 | 2,174 |
| Less: Allowance for market decline and obsolescence | (32,000) | (57,000) | (1,688) |
| Net | $407,694 | $ 16,427 | $ 486 |

As of September 30, 2002 and 2003, insurance coverage for the above inventories amounted to $700,000 thousand and $100,000 thousand, respectively.

### 4.5 Long-term equity investments

| Name of investee company<br>Accounted for under the equity method | September 30, 2002 Ownership | 2002 NTD | 2003 Ownership | 2003 NTD | 2003 USD |
|---|---|---|---|---|---|
| ABIT Computer (U.S.A.) Corporation (Original investment: 152,313 thousand in both September 30, 2002 and 2003) | 100% | $ 46,437 | 100% | $ — | $ — |
| AMOR Computer B.V. (Original investment: $16,910 thousand in both September 30, 2002 and 2003) | 100% | — | 100% | — | — |
| ABIT Computer (U.K.) Corporation Limited (Original investment: $48,114 thousand in both September 30, 2002 and 2003) | 100% | 65,940 | 100% | 57,703 | 1,708 |
| ABIT Computer (H.K.) Company Limited (Original investment: $232,786 thousand in both September 30, 2002 and 2003) | 100% | 144,174 | 100% | 100,452 | 2,974 |
| Treasure World Holdings Inc. (Original investment $2,473,892 thousand and $5,514,932 thousand in September 30, 2002 and 2003 respectively) | 100% | 2,559,616 | 100% | 6,414,199 | 189,882 |
| ABIT Investment Holding Ltd. (Original investment:, $828,708 thousand in both September 30, 2002 and 2003) | 100% | 722,896 | 100% | 441,570 | 13,072 |
| Welltop Business Development Inc. (Original investment: $6,566 thousand in both September 30, 2002 and 2003) | 100% | 642 | 100% | 3,546 | 105 |
| ABIT Computer (Singapore) Private Ltd. (Original investment: $4,775 thousand and $39,604 thousand in September 30, 2002 and 2003 respectively) | 100% | 5,796 | 100% | 29,674 | 878 |
| ABITNET Technology Inc. (Original investment: $23,940 in both September 30, 2002 and 2003) | 79.80% | 9,314 | 79.80% | 7,313 | 216 |
| Akom Technology Corp. (Original investment:$33,940 in both September 30, 2002 and 2003) | 33.94% | 28,442 | 33.94% | 21,948 | 650 |
| Timerwell Technology (Taiwan) Co., Ltd. (Original investment: $71,451 thousand and $0 in September 30, 2002 and 2003 respectively) | 30.28% | 53,000 | — | — | — |
| Total | | $3,636,257 | | $7,076,405 | $209,485 |

(1) The Company's investment in investee companies for the nine months ended September 30, 2002 and 2003 are accounted for under the equity method and based upon unreviewed financial statements for the same period. Investment income (loss) and amortization of the difference between investment cost and equity net worth, translation adjustment and unrealized profit (loss) on inter-company transactions are detailed as follows:

| Nine months ended September 30, 2002 | Investment income (loss) | Translation adjustment (debit balance) | Unrealized Income (loss) from intercompany transactions |
|---|---|---|---|
| | NTD | NTD | NTD |
| ABIT Computer (U.S.A.) Corporation | $(158,049) | $ 535 | $ 5,506 |
| AMOR Computer B.V.. | (36,143) | 1,728 | 6,926 |
| ABIT Computer (U.K.) Corporation Limited | (1,410) | 4,823 | 2,447 |
| ABIT Computer (H.K.) Company Limited | (24,750) | (369) | 3,647 |
| Treasure World Holdings Inc. | (39,999) | (7,036) | 1,420 |
| ABIT Investment Holding Limited. | (77,944) | (32,583) | — |
| Welltop Business Development Inc. | (676) | (42) | — |
| ABIT Computer (Singapore) Private Ltd. | 3,227 | 136 | — |
| ABITNET Technology Inc.. | (2,136) | — | — |
| Akom Technology Corp. | (3,278) | — | — |
| Timerwell Technology (Taiwan) Co., Ltd. | (781) | — | 491 |
| | $(341,939) | $(32,808) | $20,437 |

| Nine months ended September 30, 2003 | Investment income (loss) | | Translation adjustment (debit balance) | | Unrealized Income (loss) from intercompany transactions | |
|---|---|---|---|---|---|---|
| | NTD | USD | NTD | USD | NTD | USD |
| ABIT Computer (U.S.A.) Corporation | $ (76,788) | $ (2,273) | $ 2,538 | $ 75 | $14,150 | $ 420 |
| AMOR Computer B.V.. | (32,681) | (968) | (2,046) | (61) | 30,989 | 917 |
| ABIT Computer (U.K.) Corporation Limited | (8,232) | (244) | 911 | 27 | 3,910 | 116 |
| ABIT Computer (H.K.) Company Limited | (18,449) | (546) | (2,455) | (73) | 520 | 15 |
| Treasure World Holdings Inc. | 952,217 | 28,189 | (164,067) | (4,857) | 3,414 | 101 |
| ABIT Investment Holding Limited. | (158,217) | (4,684) | (14,955) | (443) | — | — |
| Welltop Business Development Inc. | 1,287 | 38 | (45) | (1) | — | — |
| ABIT Computer (Singapore) Private Ltd.. | (6,934) | (205) | (868) | (26) | — | — |
| ABITNET Technology Inc.. | (4,598) | (136) | — | — | — | — |
| | $ 647,605 | $ 19,171 | $(180,987) | $(5,359) | $52,983 | $1,569 |

(2) The Company's amortization of the difference between investment cost and net equity value for the nine months ended September 30,2002 and 2003 are as follows:

| | Nine months ended September 30, | | |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | NTD | NTD | USD |
| AMOR Computer B.V.. | $368 | $— | $— |

(3) Adjustments to capital surplus and accumulated losses due to the Company not subscribing to shares issued by investee companies according to ownership ratio were as follows:

| | Not recognizing and stating by ownership ratio; instead increasing (decreasing) capital surplus | | Not recognizing and stating by ownership ratio; instead increasing (decreasing) accumulated losses | |
|---|---|---|---|---|
| **Nine months ended September 30, 2002** | **NTD** | | **NTD** | |
| Timerwell Technology (Taiwan) Co., Ltd | $5,405 | | $— | |
| **Nine months ended September 30, 2003** | NTD | USD | NTD | USD |
| Treasure World Holding Inc. | $19,634 | $581 | $— | $— |

(4) As of December 31, 2002, the Company invested in Timerwell Technology Holdings Ltd for a total of USD117,516 thousand through its investment in Treasure World Holdings Inc. Indirect ownership of Timerwell Technology Holdings Ltd. was 97.44%. For the nine months ended September 30, 2003, the Company invested USD45,000 thousand, for an indirect ownership of 98.36%.

(5) Investment income/loss of Timerwell Technology Holdings Ltd., Rolly Technology Holdings Ltd., and ABIT (Shanghai) was accounted for under the equity method by Treasure World Holdings Inc, ABIT Investment Holding Ltd., and ABIT Computer (H.K.) Company Ltd., respectively, and detailed in Note 4.5(1). Unrealized gain/loss of downstream transactions between the Company and investee companies and transactions between investee companies have been adjusted.

(6) The total amount the Company invested in ABIT Investment Holding Ltd. amounted to USD24,483 thousand (NT$828,708 thousand) as of December 31, 2001. Ownership was 100% and the equity method was used. ABIT Investment Holding Ltd. invested USD9,537 thousand and USD14,946 thousand in Rolly technology Holdings Ltd and Welltop Holdings Ltd, respectively, resulting in the Company having a direct and indirect ownership of Rolly Technology Holdings Ltd. of 25.13% and 14.13%, respectively. In the first half of 2002, ABIT Investment Holding Ltd. exchanged its investment in Welltop Holdings Ltd. for shares of Rolly Technology Holdings Ltd, originally held by Welltop Holdings Ltd. As of September 30, 2002, the Company indirectly owns 39.26% ownership of Rolly Technology Holdings Ltd. Currently, the Ministry of Economic Affair's Investment Commission was currently reviewed this investment.

(7) Although the Company has controlling interest in AMOR Computer B.V., ABIT Computer (U.S.A.) Corporation, ABIT Computer (U.K.) Corporation Limited, ABIT Computer (H.K.) Company Limited, Treasure World Holdings Inc, ABIT Computer (Singapore) Private Ltd., Welltop Business Development Inc., ABIT Investment Holding Limited and ABITNET Technology Inc., consolidated financial statements are not required for interim financial statements in accordance to "the Governing the Preparation of Financial Statements of Security Issuers."

(8) As of September 30, 2002 and 2003, accounts receivable due from investee companies written off because investment losses greater than investment book value are as follows:

| | 2002.09.30 | | |
|---|---|---|---|
| | Account receivable | Long-term investment debit balance | Other liabilities |
| | NTD | NTD | NTD |
| AMOR Computer B.V.. | $— | $943 | $943 |

| | 2003.09.30 | | | | | |
|---|---|---|---|---|---|---|
| | Account receivable | | Long-term investment debit balance | | Other liabilities | |
| | NTD | USD | NTD | USD | NTD | USD |
| AMOR Computer B.V.. | $ 43,715 | $1,294 | $ 43,715 | $1,294 | $— | $— |
| ABIT Computer (U.S.A.) Corporation | 126,041 | 3,731 | 126,041 | 3,731 | — | — |
| | $169,756 | $5,025 | $169,756 | $5,025 | $— | $— |

## 4.6 Property, plant, and equipment

(1) As of September 30, 2002 and 2003, insurance coverage for property, plant, and equipment amounted to approximately $920,667 thousand and $768,004 thousand, respectively.

(2) As of September 30, 2002 and 2003, interest expense amounted to $140,249 thousand and $116,624 thousand and interest capitalization amounted both to $0.

(3) Please refer to Note 6 for details on property, plant, and equipment provided as collateral.

## 4.7 Short-term borrowings

| September 30, 2002 | Period | NTD |
|---|---|---|
| Collateralized loans | Within one year | $ 794,667 |
| Credit loans | " | 542,585 |
| Total | | $1,337,252 |

| June 30, 2003 | Period | NTD | USD |
|---|---|---|---|
| Material procurement loans — local | Within one year | $ 406,170 | $12,024 |
| Material procurement loans — foreign | Within one year | 1,066,369 | 31,568 |
| Collateralized loans | Within one year | 525,000 | 15,542 |
| Credit loans | Within one year | 246,117 | 7,286 |
| Total | | $2,243,656 | $66,420 |

The short-term borrowings bear interest at floating rates, ranging from 1.35% to 7.80% and 1.60% to 6.35% for the nine months ended September 30, 2002 and 2003, respectively.

## 4.8 Short-term notes payables

| September 30, 2002 | Period | NTD |
|---|---|---|
| Commercial papers payable | July 24, 2002 – Feb. 10, 2003 | $186,000 |
| Less: Unamortized discount | | (633) |
| Net book value | | $185,367 |

| September 30, 2003 | Period | NTD | USD |
|---|---|---|---|
| Commercial papers payable | May 13, 2003 – August 29, 2003 | $46,000 | $1,362 |
| Less: Unamortized discount | | (51) | (2) |
| Net book value | | $45,949 | $1,360 |

All of the short-term commercial papers payable have maturity periods within 180 days with interest rates ranging from 3.12% to 3.23% and 2.01% to 2.57% for the nine months ended September 30, 2002 and 2003, respectively.

### 4.9 Corporate bonds payable

| | September 30, | | |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | NTD | NTD | USD |
| Unsecured convertible corporate bonds issued — domestic | $1,000,000 | $1,000,000 | $29,603 |
| Less: Converted amount | (861,300) | (899,800) | (26,637) |
| Less: Put amount | — | (74,500) | (2,205) |
| Add: Interest payable | 12,306 | 4,239 | 125 |
| Total | $ 151,006 | $ 29,939 | $ 886 |

As of September 30, 2002 and 2003 the amount of interest payable offset due to converting corporate bonds into common stock was $25,597 thousand, and $33,950 thousand respectively.

A. Major terms and conditions of offering and issuance of domestic unsecured convertible bonds by the Company are the following:

(1) *Period of issue*

Period of issue is five years starting from June 28, 2001 to the maturity date of June 27, 2006.

(2) *Corporate bond interest rate at par, tight to sell back yield*

The interest rate at par is 0%. Starting from two years after the issue date to the day right before three years after the issue date, the bondholder can execute the right to sell back for a yield of 5.25%. Starting from three years after the issue date to the day right before four years after the issue date, the bond holder can execute the right to sell back for a yield of 6.5%, Starting from four years after the issue date to the day right before date of maturity, the bondholder can sell back for a yield of 7%, (compound interest, face value plus interest compensation is 110.78%, 120.79%, 131.08% of the face value, respectively).

B. Regarding the second issuance of overseas secured convertible bonds originally proposed in 2003, on August 26, 2003, the Board of Directors resolved to issue overseas unsecured convertible bonds instead. The total issue size will not exceed US$85,000 thousand and the amount raised will be used for overseas investments and purchase of supplies.

### 4.10 Long-term debt

| Item | Repayment Term | NTD |
|---|---|---|
| **September 30, 2002** | | |
| Loan with land and building as collateral | Payable in fixed installments on the 23rd of each month, commencing in October 1997 | $ 20,943 |
| Loan with land and building as collateral | Principal payable monthly in fixed installments, commencing in July 1997 | 99,477 |
| Loan with certificate of time deposit as collateral | Principal payable monthly in fixed installments, commencing in June 2001 | 29,075 |
| Loan with land and building as collateral | Starting from December 2003, 96 equal monthly repayments of principal | 420,000 |
| Loan with land and building as collateral | From December 2001, 120 monthly equal repayments of principal and interest by the annuity method | 138,343 |
| Loan with land and building as collateral | From January 2004, 156 monthly equal repayments of principal and interest by the annuity method | 320,000 |
| Loan with land and building as collateral | From January 2003, 48 monthly equal repayments of principal and interest by the annuity method | 140,000 |
| Loan with land and building as collateral | From January 2002, 180 monthly equal repayments of principal and interest by the annuity method | 127,773 |
| Loan with land and building as collateral | From March 2002, 180 monthly equal repayments of principal and interest by the annuity method | 124,677 |
| Loan with land and building as collateral | From January 2002, 180 monthly equal repayments of principal and interest by the annuity method | 145,233 |
| Loan with land and building as collateral | From April 2002, 120 monthly equal repayments of principal and interest by the annuity method | 132,992 |
| Credit loan | From April 2004, repayments every six months, for a total of 6 installments, First four repayments total $30,000 thousand. The last two repayments total $40,000 thousand. | 200,000 |
| | | 1,898,513 |
| Less: Current portion | | (98,271) |
| Net | | $1,800,242 |

| Item | Repayment Term | NTD | USD |
|---|---|---|---|
| **September 30, 2003** | | | |
| Loan with land and building as collateral . . . . . . . . . . . . . | Payable in fixed installments on the 23rd of each month, commencing in October 1997. | $ 18,460 | $ 546 |
| Loan with land and building as collateral . . . . . . . . . . . . . | Principal payable monthly in fixed installments, commencing in July 1997. | 91,729 | 2,716 |
| Loan with certificate of time deposit as collateral . . . . . . | Principal payable monthly in fixed installments, commencing in June 2001 | 11,966 | 354 |
| Loan with land and building as collateral . . . . . . . . . . . . . | Starting from December 2003, 96 equal monthly repayments of principal | 420,000 | 12,433 |
| Loan with land and building as collateral . . . . . . . . . . . . . | From December 2001, 120 monthly equal repayments of principal and interest by the annuity method | 123,820 | 3,666 |
| Loan with land and building as collateral . . . . . . . . . . . . . | From January 2004, 156 monthly equal repayments of principal and interest by the annuity method | 320,000 | 9,473 |
| Loan with land and building as collateral . . . . . . . . . . . . . | From January 2003, 48 monthly equal repayments of principal and interest by the annuity method | 115,892 | 3,431 |
| Loan with land and building as collateral . . . . . . . . . . . . . | From January 2002, 180 monthly equal repayments of principal and interest by the annuity method | 138,302 | 4,094 |
| Loan with land and building as collateral . . . . . . . . . . . . . | From March 2002, 180 monthly equal repayments of principal and interest by the annuity method | 118,672 | 3,513 |
| Loan with land and building as collateral . . . . . . . . . . . . . | From January 2002, 180 monthly equal repayments of principal and interest by the annuity method | 121,749 | 3,604 |
| Loan with land and building as collateral . . . . . . . . . . . . . | From April 2002, 120 monthly equal repayments of principal and interest by the annuity method | 59,488 | 1,761 |
| Loan with land and building as collateral . . . . . . . . . . . . . | From April 2002, 120 monthly equal repayments of principal and interest by the annuity method | 59,488 | 1,761 |
| Credit loan . . . . . . . . . . . . . . | From April 2004, repayments every six months, for a total of 6 installments, First four repayments total $30,000 thousand. The last two repayments total $40,000 thousand. | 200,000 | 5,921 |
| | | 1,799,566 | 53,273 |
| Less: Current portion . . . . . . | | (175,095) | (5,183) |
| Net . . . . . . . . . . . . . . . . . . . | | $1,624,471 | $48,090 |

The interest rates are based on a floating rate, and ranged from 1.30% to 8.41% and 0.75% to 5.70%, respectively, for nine months ended September 30, 2002 and 2003.

## 4.11 Capital stock

The Company was founded in 1989. Paid-in capital totaled $5,000 thousand. After past years of increased cash investment of $2,536,460 thousand, capitalization from earnings of $1,471,738 thousand, capitalization from capital surplus of $457,974 thousand, capitalization from employee bonuses of $121,583 thousand, creditor’s right to switch to equity of $1,000 thousand, and convertible bonds converted to common stock of $1,133,541 thousand, total amount of capital totaled $5,727,296 thousand, as of September 30, 2003.

### 4.12 Distribution of earnings

The Company policy towards distribution of earnings is first pay taxes, offset prior year losses, set 10% as legal reserve and appropriate a special reserve if needed. The remainder should be appropriated as follows:

Stockholders‘ bonuses: 90%

Remuneration to directors and supervisors: 2%

Employee bonuses: 8%

Dividend policy as approved in the temporary Stockholders' Meeting held on September 20, 2000 was incorporated into Articles of Incorporation per SFC Letter Ruling No. (1) 100116 dated January 3, 2000 and detailed as follows:

The Company is in the hi-tech industry and currently in the growth phase of the business cycle. In consideration of the Company's business expansion and financial planning, dividends shall be distributed per rules set forth in the above paragraph, in light of operation needs and future capital expenditures of the Company. At least 80% of distributable earnings of the current year shall be appropriated as dividends, of which between 5% and 20% shall be set aside as cash dividends with the rest as stock dividends.

As of December 31, 2002, the Company incurred accumulated losses and therefore there was no earnings distribution.

On September 18, 2003, the Company received SFC approval to issue 50,000 thousand warrants. 50,000 thousand shares of common stock will be issued due to the possible exercise of stock warrants. Starting from the second anniversary of the issue date, stock warrants holders can exercise their stock warrants and receive common stock based on a fixed ratio. The stock warrants expire in six years. As of September 30, 2003, no stock warrants have been issued. Refer to Note 9 for additional information regarding stock warrants issued after September 30, 2003.

### 4.13 Earnings per share

| | nit: shares in thousands, dollar amounts in thousands, EPS data in dollars Nine months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2002 | | 2003 | | 2003 | |
| | Before tax | After tax | Before tax | After tax | Before tax | After tax |
| | NTD | | NTD | | USD | |
| Primary earnings per share Net income (loss) available to common shareholders | $(633,722) | $(533,949) | $800,286 | $803,945 | $ 23,691 | $ 23,799 |
| Weighted-average common shares outstanding | 323,391 | 323,391 | 519,444 | 519,444 | 519,444 | 519,444 |
| | $ (1.96) | $ (1.65) | $ 1.54 | $ 1.55 | $0.05 | $0.05 |
| Diluted earnings per share | | | | | | |
| Net income (loss) | $(633,722) | $(533,949) | $800,286 | $803,945 | $ 23,691 | $ 23,799 |
| Influence on potentially dilutive shares | | | | | | |
| 3% convertible bonds | — | — | 2,773 | 2,080 | 82 | 62 |
| 7% convertible bonds | — | — | 2,697 | 2,022 | 80 | 60 |
| Net income (loss) used to calculate diluted EPS | $(633,722) | $(533,949) | $805,756 | $808,047 | $ 23,853 | $ 23,921 |
| Weighted-average common shares outstanding | 323,391 | 323,391 | 519,444 | 519,444 | 519,444 | 519,444 |
| Influence on potentially dilutive shares | | | | | | |
| 3% convertible bonds | — | — | 35,744 | 35,744 | 35,744 | 35,744 |
| 7% convertible bonds | — | — | 3,721 | 3,721 | 3,721 | 3,721 |
| Weighted-average common shares outstanding used to calculate diluted EPS | 323,391 | 323,391 | 558,909 | 558,909 | 558,909 | 558,909 |
| | $ (1.96) | $ (1.65) | $ 1.44 | $ 1.45 | $ 0.04 | $ 0.04 |

### 4.14 Capital Surplus

| | September 30, | | |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | NTD | NTD | USD |
| Cash capitalization of common shares premium | $1,908,172 | $ 852,535 | $25,238 |
| Convertible bond interest payable | 25,597 | 33,950 | 1,005 |
| Convertible corporate bond conversion premium | 488,280 | 357,009 | 10,569 |
| Subsidiary not subscribing to newly issued investee shares according to ownership ratio | 5,405 | 25,704 | 761 |
| Total | $2,427,454 | $1,269,198 | $37,573 |

### 4.15 Pension plan

| | Nine months ended September 30, | | |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | NTD | NTD | USD |
| Beginning balance | $26,770 | $33,353 | $ 988 |
| Current contribution | 5,075 | 2,813 | 83 |
| Ending balance | $31,845 | $36,166 | $1,071 |

The Company used actuary reports dated January 11, 2002 and January 29, 2003 to calculate the unrecognized net transition obligation liabilities amounting to $3,684 thousand and $3,316 thousand with measurement dates of December 31, 2002 and 2003. For the nine months ended September 30, 2002 and 2003, amortization expense amounted to $276 thousand. As of September 30, 2002 and 2003, accrued pension liabilities amounted to $12,059 thousand and 11,534 thousand, respectively.

### 4.16 Income tax

(1) For the nine months ended September 30, 2002 and 2003, components of income tax expense of the Company were as follows:

| | Nine months ended September 30, | | |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | NTD | NTD | USD |
| Current income tax expense (benefit) | $ (1,666) | $(3,659) | $(108) |
| Deferred income tax expense (benefit) | (107,375) | — | — |
| 10% surtax on unappropriated earnings | 9,268 | — | — |
| Income tax expense (benefit) for continuing operations | $ (99,773) | $(3,659) | $(108) |

(2) Reconciliation between income tax calculated at statutory rate on income before tax per Company's income statements and actual income tax expense:

| | Nine months ended June 30, | | |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | NTD | NTD | USD |
| Income tax calculated at statutory tax rate | $(158,431) | $ 200,072 | $ 5,923 |
| Income tax effect of reconciling items: | | | |
| Additional tax expense due to sale of investment tax credits | — | 115 | 3 |
| Under-(over) accrual of prior year's income tax | (3,547) | (3,774) | (112) |
| 10% surtax on unappropriated earnings | 9,268 | — | — |
| Loss carryfowards | — | (41,181) | (1,219) |
| Investment tax credits | (24,000) | — | — |
| Investment loss (gain) | 72,500 | (161,901) | (4,792) |
| Other | 4,437 | 3,010 | 89 |
| Income tax expense (benefit) | $ (99,773) | $ (3,659) | $ (108) |

(3) Deferred income tax expense (benefit) as of September 30, 2001, 2002 and 2003 are as follows:

| | September 30, | | |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | NTD | NTD | USD |
| Allowance for inventory devaluation | $ (4,750) | $— | $— |
| Loss carryforwards | (76,000) | — | — |
| Unrealized net exchange loss (gain) | 2,500 | — | — |
| Pension expense over limit | (875) | — | — |
| Unrealized gross profit from sales | 8,750 | — | — |
| Investment income | (13,000) | — | — |
| Investment tax credit | (24,000) | — | — |
| Total | $(107,375) | $— | $— |

(4) Deferred income tax assets and liabilities as of September 30, 2002 and 2003:

| | September 30, 2002 NTD | September 30, 2003 NTD | September 30, 2003 USD |
|---|---|---|---|
| Current: | | | |
| Deferred income tax assets | $113,000 | $ 32,000 | $ 947 |
| Valuation allowance — deferred income tax assets | — | (32,000) | (947) |
| Deferred income tax assets, net | 113,000 | — | — |
| Deferred income tax liabilities | (6,500) | — | — |
| Current deferred income tax assets, net | $106,500 | $ — | $ — |
| Non-current: | | | |
| Deferred income tax assets | $ 2,875 | $ 111,385 | $ 3,297 |
| Valuation allowance — deferred income tax assets | — | (111,385) | (3,297) |
| Deferred income tax assets, net | 2,875 | — | — |
| Deferred income tax liabilities | (4,000) | — | — |
| Non-current deferred income tax liabilities, net | $ (1,125) | $ — | $ — |

(5) As of September 30, 2002 and 2003, deferred income tax assets/liabilities due to temporary differences and effects on income taxes were as follows:

| | 2002 Amount NTD | 2002 Tax effect Current NTD | 2002 Tax effect Non-current NTD | 2003 Amount NTD | 2003 Tax effect Current NTD | 2003 Tax effect Non-current NTD | 2003 Amount USD | 2003 Tax effect Current USD | 2003 Tax effect Non-current USD |
|---|---|---|---|---|---|---|---|---|---|
| Deductible temporary difference due to inventory market decline | $ 32,000 | $ 8,000 | $— | $ 57,000 | $ 14,000 | $ — | $1,678 | $ 414 | $ — |
| Deductible temporary difference due to pension expense | 11,592 | — | 2,875 | 11,534 | — | 2,885 | 341 | — | 85 |
| Deductible temporary difference due to unrealized sales profit | 20,437 | 5,000 | — | 52,983 | 13,000 | — | 1,568 | 385 | — |
| Deductible temporary difference due to unrealized exchange loss | — | — | — | 21,175 | 5,000 | — | 627 | 148 | — |
| Investment tax credits | 23,608 | 24,000 | — | 47,978 | — | 48,000 | 1,420 | — | 1,421 |
| Deductible temporary difference due to loss carryforwards | 303,618 | 76,000 | — | 242,274 | — | 60,500 | 7,172 | — | 1,791 |
| Subtotal | | 113,000 | 2,875 | | 32,000 | 111,385 | | 947 | 3,297 |
| Valuation allowance — deferred income tax assets | — | — | — | — | (32,000) | (111,385) | — | (947) | (3,297) |
| Taxable temporary difference due to recognition of investment income | (16,327) | — | (4,000) | — | — | — | — | — | — |
| Taxable temporary difference due to difference in unrealized exchange gain | (26,130) | (6,500) | — | — | — | — | — | — | — |
| | | $106,500 | $(1,125) | | $ — | $ — | | $ — | $ — |

(6) As of September 30, 2002 and 2003, information regarding the Company's undistributed earnings is as follows:

| | September 30, | | |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | NTD | NTD | USD |
| Accumulated prior to 1997 (included) | $ 839 | $ — | $ — |
| Accumulated after 1998 | 170,821 | 803,945 | 23,799 |
| Total | $171,660 | $803,945 | $23,799 |

The Company's corporate income tax returns through 2000 were assessed by the Tax Authority.

As of September 30, 2003, information regarding unused loss carryforwards is as follows:

| Year loss incurred | Expiration date | NTD | USD |
|---|---|---|---|
| 2002 | 2007 | $242,274 | $7,172 |

As of September 30, 2003, investment tax credits due to purchase of automatic machinery, pollution prevention equipment, human resource training, and research and development were the following:

| Year of occurrence | Expiration date | NTD | USD |
|---|---|---|---|
| 2002 | 2006 | $33,310 | $ 986 |
| 2003 | 2007 | 14,690 | 435 |
| | | $48,000 | $1,421 |

As of September 30, 2002 and 2003, balance of stockholders' imputation credit account was $91,769 thousand and $24,210 thousand, respectively. Actual deductible ratio of earnings distributed for 2001 and 2002 was 0%.

## 4.17 Financial Instruments

### (1) *Financial derivative instruments*

(a) *Contract amount and credit risk*

| | September30, 2002 | | September 30, 2003 | |
|---|---|---|---|---|
| Financial instruments | Contract amount | Credit risk | Contract amount | Credit risk |
| Options held | | | | |
| Call options sold | | | | |
| — US Dollars | $1,000 | $— | $— | $— |
| — Euro | $2,400 | $— | $— | $— |

Credit risk arises when transacting party is unable to follow the terms stated in the contract. The Company deals with banks with good credit and uses past experience to determine the maximum remittance amount that the transaction party will not likely to default on. Therefore the chance of credit risk occurring is very low.

(b) *Market price risk*

Since the non-derivative financial instruments the Company transact are of hedging nature, losses resulting from interest rate and exchange rate fluctuations will be offset by the hedging items. Therefore, market risk will not be significant.

(c) *Liquidity risk, cash flow risk and amount, period, and uncertainty of future cash demand*

As of September 30, 2003, options and forward exchange contracts amounted to $0. Therefore, there is no financing risk or significant cash flow risk.

(d) *Type, purpose, and strategy for holding financial derivative instruments*

The Company holds financial derivative instruments for non-transacting purposes. Forward remittance contracts are held for hedging risk resulting from exchange rate fluctuations of foreign-denominated liabilities. The Company's hedging strategy is to avoid a majority of market risk. The Company uses financial derivatives that are highly inversely related to the fair value of hedged items as hedging tools. Their effectiveness is periodically reviewed.

(e) *Presentation of financial derivative instruments in the financial statements*

Account receivables and account payables balances that arise from forward remittance contracts offset each other and any differences are stated as forward remittance receivable or forward remittance payable. As of September 30,2002 and 2003, the balance of forward remittance contract was $0. For the nine months ended September 30, 2002 and 2003, exchange gain (loss) was $3,907 thousand and $3,153 thousand, respectively, stated under non-operating revenue. For the nine months ended September 30, 2002 and 2003, losses due to option transactions totaled $0 and $62,099 thousand, reflected under non-operating expense.

**(2)** ***Fair value of financial instruments***

| | September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2002 | | 2003 | | 2003 | |
| | Book value | Fair value | Book value | Fair value | Book value | Fair value |
| | NTD | NTD | NTD | NTD | USD | USD |
| **Financial assets:** | | | | | | |
| Book value equal to fair value . | $4,367,985 | $4,367,985 | $3,610,007 | $3,610,007 | $106,868 | $106,868 |
| Short-term investments. . . . . . . | 400,000 | 400,674 | 50,000 | 50,995 | 1,480 | 1,510 |
| Long-term equity investments . . | 3,636,257 | — | 7,076,405 | — | 209,485 | — |
| **Financial liabilities:** | | | | | | |
| Book value equal to fair value . | 2,260,559 | 2,260,559 | 3,266,469 | 3,266,469 | 96,698 | 96,698 |
| Long-term liabilities . . . . . . . . | 1,951,248 | 1,951,248 | 1,829,505 | 1,829,505 | 54,159 | 54,159 |
| **Off-balance-sheet financial instruments** | | | | | | |
| Letters of credit . . . . . . . . . . . | | 63,337 | — | 34,479 | — | 1,021 |
| | | USD1,171 | — | USD1,438 | — | 1,438 |

Method and assumptions used to establish the fair values of financial instruments are the following:

(i) The fair value of short-term financial instruments is determined by their face value on the balance sheet. Since such instruments will mature within the short term, the face value is a reasonable basis in establishing the fair value. This method is applicable to cash and cash equivalents, short-term investments, notes and accounts receivable, restricted deposits, short-term borrowings, notes and accounts payable, short-term bills payable, accrued expenses, income tax payable, current portion of long-term debt, refundable and guarantee deposits, and accrued pension liabilities.

(ii) Long-term investments consist of foreign subsidiaries wholly owned by the Company, whose fair values cannot be estimated because they are not publicly exchanged. As of September 30,2002 and 2003, the original investment amounted to $3,788,004 thousand and $6,897,813 thousand, respectively, and their book value amounted to $3,636,257 thousand and $7,076,405 thousand, respectively.

(iii) Letters of credit/guarantees: Fair value is based upon the contract amount.

**(3)** ***Financial instruments with off-balance-sheet credit risk:***

As of September 30, 2002 and 2003, the Company's unused standby letters of credit amounted to $63,337 thousand, USD1,171 thousand and 34,479 thousand, USD1,438 thousand, respectively. The terms vary three months and between 5 months to 7 months, and are primarily used for merchandise purchases from others .The fair value of these letters of credit equals the contract price.

**(4)** ***Information on concentration of credit risk***

The Company's primary inherent credit risk arises from financial instruments related to cash and receivables. The Company's cash is deposited with various financial institutions. The Company administers its credit risk exposure to each financial institution and considers that cash are not subject to significant concentration of credit risk.

The Company's customers are concentrated in purchase and sales business. In order to minimize credit risk, the Company evaluates the financial conditions of its customers and when necessary, requests for collateral or guarantee. The Company also evaluates the collectibility of its receivables on a regular basis and provides allowance for doubtful accounts. Loss from doubtful accounts has been within management's estimate. As of September 30, 2002 and 2003, a total of 6 and 5 customers account for 93% and 88% of the Company's receivables, respectively, resulting in concentration of credit risk. However, the Company will strengthen credit control and account management to reduce credit risk.

## 5. RELATED PARTY TRANSACTIONS

### 5.1 Name of Related-Party and Relationship of the Company

| Name of related party | Relationship with the Company |
|---|---|
| ABIT Computer (U.S.A.) Corp. Ltd. | The Company's subsidiary |
| ABIT Computer (H.K.) Corp. Ltd. | " |
| ABIT Computer (U.K.) Corp. Ltd. | " |
| AMOR Computer B.V. | " |
| ABIT Computer (S.G.) Corp. Ltd. | " |
| Akom Technology Corp. | Investee company accounted for under the equity method |
| Rolly Technology Holdings Ltd. (H.K.) | An investee company accounted for under the equity method by a subsidiary of the Company |
| Welltop Business Development Inc. | The Company's affiliate |
| Asguard Company Ges. m.b.H. | A Company affiliated with the Company |
| Timerwell Technology (Taiwan) Co., Ltd. | " |
| Timerwell Computer Ltd.(S.G.) | " |
| Timerwell Technology Holdings Ltd. (H.K.) | An investee company accounted for under the equity method by a subsidiary of the Company |

### 5.2 Significant Transactions with Related Parties:

(1) *Sales*

For the nine months ended September 30, 2002, and 2003 sales to related parties were the following:

| | Nine months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2002 | | 2003 | | 2003 | |
| | NTD | % | NTD | % | USD | % |
| AMOR Computer B.V. | $446,838 | 9 | $721,171 | 9 | $21,349 | 9 |
| ABIT Computer (U.K.) Corp. Ltd. | 129,637 | 3 | 95,767 | 1 | 2,835 | 1 |
| ABIT Computer (H.K.) Corp. Ltd. | 498,968 | 10 | 82,731 | 1 | 2,449 | 1 |
| ABIT Computer (U.S.A.) Corp. Ltd. | 640,612 | 12 | 566,773 | 8 | 16,778 | 8 |
| Rolly Technology (H.K.) Holdings Ltd. | 180,875 | 4 | — | — | — | — |
| Timerwell Technology Holdings Ltd. (H.K.) | 112,971 | 2 | — | — | — | — |
| Timerwell Computer Ltd. (S.G.) | — | — | 240 | — | 7 | — |
| ABIT Computer (S.G.) Corp. Ltd. | 16,116 | — | — | — | — | — |
| Asguard Company Ges. m.b.H. | — | — | 93,549 | 1 | 2,770 | 1 |
| Timerwell Technology (Taiwan) Co., Ltd. | 33,082 | 1 | 16 | — | — | — |
| | $2,059,099 | 41 | $1,560,247 | 20 | $46,188 | 20 |

For the nine months ended September 30, 2002 and 2003, collection period for sales to related parties was 45 to 90 days, and T/T to 90 days, respectively, and that for other customers in general was T/T to 90 days.

For nine months ended September 30, 2002 and 2003, prices of sales to related parties were 1.72% to 15.99% and 0.90% to 7.69% lower than those to other customers, respectively, and there was no significant difference in other terms of transactions.

For information on the elimination of unrealized gain on downstream transactions and transactions between investee companies, please refer to Note 4.5.(1).

(2) *Purchases*

| | Nine months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2002 | | 2003 | | 2003 | |
| | NTD | % | NTD | % | USD | % |
| Rolly Technology Holdings Ltd. (H.K.) | $1,202,378 | 28 | $1,859,537 | 27 | $55,048 | 27 |
| Akom Technology Corp | 34,081 | 1 | — | — | — | — |
| ABIT Computer (H.K.) Corp. Ltd. | — | — | 542 | — | 16 | — |
| ABIT Computer (S.G.) Corp. Ltd. | — | — | 12,512 | — | 370 | — |
| Timewell S.G. | | | 217 | — | 6 | — |
| | $1,236,459 | 29 | $1,872,808 | 27 | $55,440 | 27 |

For the nine months ended September 30, 2002 and 2003, purchases from related parties had a paying deadline of, 45 to 60 days and 45 days, respectively. For regular customers, the deadline was 7 to 120 days and T/T to 45 days, L/C 0 to 45 days, respectively.

For the nine months ended September 30, 2002 and 2003, purchases from related parties of the Company comprised of products not purchased from others, and there was no basis for price comparison as a result.

(3) *Receivables and payables*

Receivables and payables (excluding interest) with related parties were as follows:

| | September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2002 | | 2003 | | 2003 | |
| | NTD | % | NTD | % | USD | % |
| **Accounts receivable:** | | | | | | |
| ABIT Computer (U.S.A.) Corp. Ltd. | $418,259 | 69 | $317,587 | 48 | $ 9,402 | 48 |
| ABIT Computer (S.G.) Corp. Ltd. | 12,877 | 2 | — | — | — | — |
| ABIT Computer (U.K.) Corp. Ltd. | 4,372 | 1 | 18,968 | 3 | 561 | 3 |
| AMOR Computer B.V. | 115,966 | 19 | 283,314 | 42 | 8,387 | 42 |
| Timerwell Technology Holdings Ltd. (H.K.) | 58,061 | 9 | — | — | — | — |
| Asguard Company Ges. m.b.H. | — | — | 46,582 | 7 | 1,379 | 7 |
| | $609,535 | 100 | $666,451 | 100 | $19,729 | 100 |
| **Other notes receivable:** | | | | | | |
| Welltop Business Development Inc. | $ — | — | $39 | — | $1 | — |
| Akom Technology Corp. | — | — | 1,465 | — | 43 | — |
| Timerwell Technology (Taiwan) Co., Ltd. | — | — | 1,872 | 1 | 56 | 1 |
| | — | — | 3,376 | 1 | 100 | 1 |
| **Other accounts receivable:** | | | | | | |
| AMOR Computer B.V. | — | — | 291 | — | 9 | — |
| Asguard Company Ges. m.b.H. | — | — | 30 | — | — | — |
| Rolly Technology Holdings Ltd.(H.K.) | — | — | 237,541 | 99 | 7,032 | 99 |
| Timerwell Technology (Taiwan) Co., Ltd. | — | — | 292 | — | 9 | — |
| Akom Technology Corp | — | — | 91 | — | 3 | — |
| | — | — | 238,245 | 99 | 7,053 | 99 |
| | $— | — | $241,621 | 100 | $ 7,153 | 100 |
| **Accounts payable:** | | | | | | |
| Akom Technology Corp. | $ 3,465 | 10 | $ — | — | $ — | — |
| Rolly Technology Holdings Ltd.(H.K.) | 29,767 | 90 | 150 | 100 | 5 | 100 |
| | $ 33,232 | 100 | $ 150 | 100 | $ 5 | 100 |
| **Other accounts payable (other current liability)** | | | | | | |
| Asguard Company Ges.m.b.H | $ — | — | $ 15 | — | $ — | — |
| Welltop Business Development Inc. | — | — | 700 | 1 | 21 | 1 |
| ABIT H.K | — | — | 284 | — | 9 | — |
| | $ — | — | $ 999 | 1 | $ 30 | 1 |
| **Advance sales receipts: (Other current liabilities)** | | | | | | |
| ABIT Computer (H.K.) Corp. Ltd. | $ — | — | $140,100 | 80 | $ 4,148 | 80 |
| Rolly Technology Holdings Ltd. (H.K.) | — | — | 35 | — | 1 | — |
| Timerwell Technology (Taiwan) Co., Ltd. | — | — | 2 | — | — | — |
| | — | — | 140,137 | 80 | 4,149 | 80 |
| **Advance rent receipts: (Other current liabilities)** | | | | | | |
| Welltop Business Development Inc | — | — | 37 | — | $1 | — |
| Akom Technology Corp | — | — | 1,395 | 1 | 41 | 1 |
| Timerwell Technology (Taiwan) Co., Ltd. | — | — | 1,783 | 1 | 53 | 1 |
| | — | — | 3,215 | 2 | 95 | 2 |
| | $ — | — | $143,352 | 82 | $ 4,244 | 82 |

(4) *Other*

a. For the nine months ended September 30, 2002 and 2003, payment to subsidiaries for repair and maintenance services and consulting service and advertising expense were as follows:

| | Nine months ended September 30, | | |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | NTD | NTD | USD |
| **Repairs and maintenance expense:** | | | |
| AMOR Computer B.V.. | $ 523 | $ — | $ — |
| ABIT Computer (H.K.) Corp. Ltd.. | 9,645 | — | — |
| ABIT Computer (S.G.) Corp. Ltd. | 69 | 281 | 8 |
| Rolly Technology Holding Ltd. (H.K.) | 25 | — | — |
| | $10,262 | $ 281 | $ 8 |
| **Services expense:** | | | |
| Asguard Company Ges. m.b.H. | $ — | $ 45 | $ 1 |
| Welltop Business Development Inc.. | 22,322 | 6,000 | 178 |
| | $22,322 | $6,045 | $179 |
| **Advertising expense:** | | | |
| Asguard Company Ges. m.b.H. | $ — | $ 253 | $ 7 |

b. For the nine months ended September 30, 2002 and 2003, received from subsidiaries for commissions income and other revenue were as follows:

| | Nine months ended September 30, | | |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | NTD | NTD | USD |
| **Commissions income:** | | | |
| ABIT Computer (S.G.) Corp. Ltd. | $— | $2,181 | $65 |
| **Other Revenue** | | | |
| Rolly Technology Holding Ltd. (H.K) | $— | $1,201 | $36 |

(5) *Lease agreements*

Information regarding commission income resulting form leases to related parties is as follows:

| | Nine months ended September 30, 2002 | | | | |
|---|---|---|---|---|---|
| **Leasee** | **Location of leased item** | **Period** | **Monthly rent (including tax)** | **Payment method** | **Commission income (not taxed)** |
| Rolly H.K. Technology Holdings Ltd. (H.K.) | 2-4F1., No.323,YANG GUANG ST., NEIHU, TAIPEI | 2002.03–2002.08 | $150 | Monthly | NT$929 |
| Akom Technology Corp. | 5F1., No.323,YANG GUANGST., NEIHU, TAIPEI Parking rent B2-27, 102, 103 | 2002.02–2004.02 | 488 (includes parking rent 8) | " | 3,721 |
| Timerwell Technology Holdings Ltd. (H.K.) | 1-4F1., No.323, YANG GUANG ST., NEIHU, TAIPEI | 2002.02~2004.02 | 624 | " | 4,393 |
| Welltop Business Development Inc. | 10F1., No.323,YANG GUANG ST., NEIHU, TAIPEI | 2002.02–2004.02 | 96 | " | 676 |
| Total | | | | | $9,719 |

| | Nine months ended September 30, 2003 | | | | | |
|---|---|---|---|---|---|---|
| **Leasee** | **Location of leased item** | **Period** | **Monthly rent (including tax)** | **Payment method** | **Commission income (not taxed)** | **Commission income (not taxed)** |
| Akom Technology Corp. | 5F1., No.323,YANG GUANG ST., NEIHU, TAIPEI Parking rent B2-27, 102, 103 | 2002.02–2004.01 | 488 (includes parking rent 8) | Monthly | NT$4,186 | US$124 |
| Timerwell Technology (Taiwan) Co., Ltd. | 1-4F1., No.323, YANG GUANG ST., NEIHU, TAIPEI | 2002.02–2004.02 | 624 | " | 5,349 | 158 |
| Welltop Business Development Inc. | 10F1., No.323,YANG GUANG ST., NEIHU, TAIPEI | 2002.02–2003.01<br>2003.02–2004.02 | 96<br>13 | "<br>" | 190 | 6 |
| Total | | | | | $9,725 | $288 |

(6) *Guarantee Endorsements*

As of September 30, 2002 and 2003, guarantee and endorsements for related parties were as follows:

| | September 30, | | |
|---|---|---|---|
| | **2002** | **2003** | **2003** |
| | **NTD** | **NTD** | **USD** |
| Rolly Technology Holdings Ltd. (H.K.) | $ 70,200 | $ 70,200 | $2,078 |
| Timerwell Technology Holdings Ltd. (H.K.) | 258,300 | 192,500 | 5,699 |
| | $328,500 | $262,700 | $7,777 |

(7) *Property Transactions*

For the nine months ended September 30, 2002 and 2003, machinery equipment with a book value of $42,207 thousand and $6,176 thousand sold to Rolly Technology Holdings Ltd. (H.K.), respectively, for gain of $2,414 thousand and loss $2,986 thousand, respectively.

(8) *Financing to others*

For the nine months ended September 30, 2003, financing provided to related parties for operating needs were as follows:

| | Maximum Amount | | Balance | | Interest Rate | Total Interest | |
|---|---|---|---|---|---|---|---|
| | NTD | USD | NTD | USD | | NTD | USD |
| Rolly Technology Holdings Ltd. (H.K.) | $862,497 | $25,533 | $— | $— | 2.18%–2.23% | $2,783 | $82 |

The loans were reflected as advance payment for sales.

## 6. PLEDGED ASSETS

The following is a summary of mortgaged or restricted assets pledged as guarantee for long-term debt or short-term borrowings as of September 30, 2002 and 2003:

| | September 30, | | |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| | NTD | NTD | USD |
| Restricted deposits — current | $ 898,112 | $ 268,100 | $ 7,937 |
| Restricted deposits — non-current | 5,000 | 5,000 | 148 |
| Property, plant, and equipment | 1,592,010 | 1,601,478 | 47,409 |
| Idle assets | 383,143 | 150,240 | 4,447 |
| Leased assets | 259,419 | 417,483 | 12,359 |
| Total | $3,137,684 | $2,442,301 | $72,300 |

## 7. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

(1) As of September 30, 2002 and 2003, outstanding letters of credit amounting to $63,337 thousand, USD1,171 thousand and $34,479 thousand, USD1,438 thousand, respectively.

(2) As of September 30, 2002 and 2003, promissory notes issued for loans from financial institutions amounted to $1,892,903 thousand, USD25,480 thousand and $1,622,075 thousand, respectively.

(3) As of September 30, 2002 and 2003, promissory notes received for operations amounted to $189,307 thousand and $132,139 thousand, respectively.

(4) The Tax Authority ruled that a portion of the Company's investment tax credits were inapplicable and decrease in tax refund of $3,752 thousand, and additional taxes totaling $5,084 thousand, $9,873 thousand were assessed for the tax returns for 1998, 1999, and 2000, respectively, and as of December 2002, stated as income tax expense. The Company filed for reassessment on November 21, 2002, August 21, 2002, and August 13, 2002. On May 16, 2003, the Company received the Tax Authority decision on the reassessment of the Company's tax return for 2000 to maintain the original ruling. On July 24, 2003, the Company filed an appeal. On October 20, 2003, the Company received the Tax Authority's decision on the reassessment of

the Company's tax return for 1999. The Tax Authority assessed a tax refund of $328 thousand. As of October 29, 2003, no ruling has been made regarding the reassessment of the tax returns for 1998.

## 8. SIGNIFICANT CATASTROPHIC LOSSES: NONE.

## 9. SIGNIFICANT SUBSEQUENT EVENTS

As of October 2, 2003, the Company issued 44,105 thousand stock warrants.

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# APPENDIX A — 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 Manager or any of their respective affiliates or advisers in connection with the offering of the Bonds.*

**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 make it possible for non-ROC persons (other than PRC persons) to invest in the ROC securities market.

On September 30, 2003, the Executive Yuan approved the amendment to Regulations Governing Investment in Securities by Overseas Chinese and Foreign National ("Regulations") which took effect on October 2, 2003. According to the Regulations, the ROC Securities and Futures Commission abolished the mechanism of the so-called "qualified foreign institutional investors" and "general foreign investors" as stipulated in the Regulations before the amendment.

Under the Regulations, foreign investors are classified as either "onshore foreign investors" or "offshore foreign investors" according to their respective geographical location. Both onshore and offshore foreign investors are allowed to invest in ROC securities after they register with the Taiwan Stock Exchange. The Regulations further classify foreign investors into foreign institutional investors and foreign individual investors. "Foreign institutional investors" refer to those incorporated and registered in accordance with foreign laws outside of the ROC (i.e., offshore foreign institutional investors) or their branches set up and recognized within the ROC (i.e., onshore foreign institutional investors). Offshore foreign institutional investors are required to apply for a prior approval from the Central Bank of China before they can register with the Taiwan Stock Exchange. Offshore overseas Chinese and foreign individual investors are not required to apply for Central Bank of China approval, but a maximum investment ceiling will be separately determined by the ROC Securities and Futures Commission after consultation with the Central Bank of China. On the other hand, foreign institutional investors are not subject to any ceiling for investment in the ROC securities market.

*Depositary Receipts*

In April 1992, the ROC SFC promulgated regulations permitting ROC companies listed on the TSE to sponsor the issuance and sale to foreign investors of depositary receipts ("DRs") evidencing depositary shares representing shares of capital stock of ROC companies. In December 1994, new regulations (the "Regulations") were promulgated by the ROC Ministry of Finance allowing companies whose shares are traded on the ROC GreTai Securities Market ("GTSM", formerly known as ROC Over-the-Counter Securities Exchange), in addition to companies listed on the TSE, to sponsor, upon approval by the ROC SFC, the issuance and sale of DRs evidencing depositary shares representing shares of its capital stock.

In the past, for depositary shares that represented new shares, three months after the issuance of a DR, a holder could request the depositary to cause the underlying shares to be sold in the ROC or to withdraw the shares and deliver the shares to the holder. For depositary shares that represented previously existing shares, a holder could, immediately after the issuance of DRs, request the depositary to cause the underlying shares to be sold in the ROC or to withdraw the shares and deliver the shares to the holder. The Executive Yuan and the ROC SFC recently amended the relevant regulations such that the three-month withdrawal restriction has been removed. Accordingly, a holder of DRs may now withdraw shares immediately after issuance of a DR representing new shares practically four business days thereafter.

The Regulations, as amended, provided that any DR holder may immediately request the depositary bank either to cause the underlying shares to be sold in the ROC and distribute the proceeds of such sale to the DR holder or after registration with TSE and if applicable, obtaining the approval from the CBC (if such holder is an offshore foreign institutional investors, that is, a company incorporated outside of the ROC under the laws of such foreign jurisdiction) by the DR holder to withdraw the underlying shares form the depositary receipt facility and transfer such shares to such holder.

Under existing ROC laws and regulations relating to foreign exchange control, a depositary or a DR holder may, without obtaining further approvals from the CBC or any other governmental authority or agency of the ROC, convert NT dollars to other currencies, including US dollars, in respect of the proceeds of the sale of shares represented by DRs or received as stock dividends in respect of such shares and deposited into the depositary receipt facility and any cash dividends or cash distributions received in respect of such shares. In addition, a depositary, also without any such approvals, may convert inward remittances of payments into NT dollars for purchases of underlying shares for deposit in the depositary receipt facility against the creation of additional DRs. 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 US$100,000 per remittance may be remitted overseas after CBC approval is obtained. It is expected that the CBC will grant such foreign exchange approval as a routine matter.

*Direct Share Offerings*

The ROC government has promulgated regulations to permit ROC companies listed on the TSE or the GTSM to issue shares directly (not through depositary receipt facilities) overseas.

*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 at non-ROC persons. Since December 1994, the ROC SFC has also permitted ROC companies whose shares are traded on the GTSM to issue and offer OCBs. Under the current ROC laws and policies, OCBs can be converted by bondholders (other than those who are persons of the PRC) into shares of the 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 under the sponsorship of the issuing company of the exchanged shares, in the case of exchangeable bonds.

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 register with TSE and if applicable, to obtain the approval from the CBC (if such bondholder is an offshore foreign institutional investors, that is, a company incorporated outside of the ROC under the laws of such foreign jurisdiction). In addition, such converting bondholder 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, act as custodian for securities, open a central depositary account, pay ROC withholding taxes, make confirmation and settlement, remit funds, exercise stockholders' 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, such converting bondholder is required to appoint a tax guarantor for filing tax returns and making tax payments.

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 US dollars, in respect of the proceeds of the redemption of the bonds or the repayment of principal upon maturity of, the bonds.

In addition, a 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. 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 are in excess of US$100,000 per remittance.

*Foreign Investors*

Foreign investors 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 at any time without ROC SFC approval. Capital gains and income on investments may be remitted out of the ROC at any time. Except for certain specified industries, such as telecommunications, investments in ROC-listed companies by foreign investors are not subject to individual or aggregate foreign ownership limits.

**Foreign Investment Approval**

With the exception of foreign investors registered with the TSE and investors in OCBs and DRs, 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 ROC securities may submit a Foreign Investment Approval ("FIA") application to the Investment Commission of the Ministry of Economic Affairs of the ROC 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 a FIA may remit capital for the approved investment and is entitled to repatriate annual net profits, interest and dividends attributable to such investment.

**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 a "negative list", as amended by the Executive Yuan. The prohibition on foreign investment in the prohibited industries specified in the negative list is absolute in the absence of specific exemption from the application of the negative list. Pursuant to the negative list, certain other industries are restricted so that non-ROC persons (except in limited cases) may invest in such industries only up to a specified level and with the specific approval of the relevant competent authority which is responsible for enforcing the relevant legislation which the negative list is intended to implement.

**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 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 foreign exchange banks.

For non-trade related foreign exchange transactions, ROC companies and resident individuals may also, without foreign exchange approval, remit out of the ROC foreign currency of up to US$50,000,000 (or its equivalent) and US$5,000,000 (or its equivalent), respectively, in each calendar year. In addition, ROC companies and resident individuals may, without foreign exchange approval, remit into the ROC foreign currency of up to US$50,000,000 (or its equivalent) and US$5,000,000 (or its equivalent), respectively, in each calendar year. Furthermore, any remittance of foreign currency into the ROC by an ROC company or resident individual in a year will be offset by the amount remitted out of the ROC by the company or individual (as applicable) within its annual quota and will not use up its annual inward remittance quota to the extent of such offset. The above limits apply to remittances involving a conversion between NT dollars and US 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 US$100,000 (or its equivalent) for each remittance. The above limit applies only to remittances involving a conversion between NT dollars and US dollars or other foreign currencies.

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# APPENDIX B — 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 Manager or any of their respective affiliates or advisers in connection with the Offering.*

In September 1960, the ROC government established the ROC SFC to supervise and control all aspects of the securities market. The ROC government also took an active role in the creation of the TSE in 1961 and since that time has taken a number of steps designed to broaden the scope of the ROC securities market and to encourage ROC companies to list their shares on the TSE.

**The Taiwan Stock Exchange and the ROC GreTai Securities Market**

In 1961, the ROC SFC, working together with private interests, established the TSE to provide a marketplace for securities trading. The TSE is a corporation owned by government-controlled and private banks and enterprises. The TSE is independent of entities transacting business through it, each of which pays a user's fee. Subject to limited exceptions, all transactions in listed securities by brokers, traders and integrated securities firms (firms which are permitted to combine the activities of brokerage, trading and underwriting) must be made through the TSE.

The instruments traded on the TSE have primarily been limited to common shares and bonds. However, recent legislative revisions and present attitude of the ROC SFC regarding liberalization of the securities regulations have encouraged some innovation. In 1988, MOF permitted the issue of the ROC's first exchangeable bonds (such bonds being convertible at the option of the bondholders into shares of companies owned by the issuer). 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 debt instruments issued by international financial institutions, such as Asia Development Bank, warrants and Taiwanese depositary receipts are also listed on the TSE.

To complement the TSE, the GTSM was established in September 1982 on the initiative of the ROC SFC. In early 1988, the ROC SFC promulgated regulations designed to encourage trading of unlisted securities of companies whose securities do not qualify for listing on the TSE.

As of June 30, 2003, there were 638 companies whose shares were listed on the TSE and the total market capitalization was approximately NT$9.9 trillion, and there were 422 companies whose shares were traded on the GTSM and the total market capitalization was approximately NT$0.9 trillion.

**Listing on the TSE**

In the absence of special regulatory approval, only ROC companies are permitted to list their securities on the TSE. The ROC SFC has promulgated regulations that would permit foreign issuers to list their equity securities on the TSE through the use of depositary receipts. To date, five foreign issuers have listed their equity securities on the TSE through the use of depositary receipts pursuant to such regulations.

The TSE has established specific requirements for listing based on the history of a company, the number and distribution of a company's shareholders, amount of capital, profitability and capital structure. For a company to be listed on the TSE, it must have been in existence for at least five years, have a minimum paid-in capital of NT$600 million upon the application for listing and at least 1,000 registered shareholders, including not less than 500 shareholders each holding between 1,000 to 50,000 shares. Such shareholders must together hold in excess of either 20% of the outstanding shares or 10 million shares. The company may not have accumulated deficit for the previous fiscal year and its pre-tax net income and operating income must have: (i) been not less than 6% of paid-in capital for each of the previous two fiscal years, or (ii) averaged not less than 6% of paid-in capital for the previous two fiscal years with the profitability of the last fiscal year exceeding that of the preceding fiscal year, or (iii) been not less than 3% of the paid-in capital for the previous five fiscal years. However, other special listing criteria are applicable to high-technology companies and businesses engaged in activities relating to national economic development.

### Mechanics of Trading on the TSE

In order to reduce market volatility, 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 equities traded on the TSE are subject to a limit of 7% above and below the previous day's closing price. However, these restrictions have been modified from time to time by the MOF based on market conditions. The ROC SFC has indicated that the limits on share price movements may be further relaxed or abolished entirely.

All shares have a par value of NT$10 and trade in round lots of 1,000 shares. Although odd-lot trading may be conducted on the TSE, delays are occasionally experienced in respect of such trading.

The brokerage commissions can be in any rates not exceeding 0.1425% of the transaction price provided that the rates are required to be reported to the TSE. A securities transaction tax, currently levied at the rate of 0.3% of the transaction price for shares is payable by the seller of securities and is withheld at the time of the transaction giving rise to such taxes.

### Price Limits

Fluctuations in the price of securities traded on the TSE are currently subject to a restriction of 7% above and below the previous day's closing price (or reference price set by the TSE if the previous day's closing price is not available because of lack of trading activity) in the case of equity securities and 5% in the case of debt securities.

### The ROC SFC

The ROC SFC, which is under the jurisdiction of the MOF, is responsible for implementing and administering the Securities and Exchange Law, the principal legislation governing Taiwan's securities market and its participants. It has extensive regulatory authority over the offering, issue and trading of securities. In addition, the Securities and Exchange Law specifically empowers the ROC SFC to promulgate rules under certain circumstances. The ROC SFC has regulatory authority over companies listed on the TSE, companies whose shares are traded on the GTSM and unlisted public companies. ROC public companies are generally required to obtain approval from, or an effective registration with, the ROC SFC for all securities offerings. The ROC SFC has promulgated regulations requiring, unless otherwise exempted, periodic reporting of financial and operating information by all public companies. In addition, the ROC SFC is responsible for the establishment of standards for financial reporting and carries out licensing and supervision with respect to the other participants in the ROC's securities market.

The Securities and Exchange Law, among other things, prohibits market manipulation and abuses of inside information and imposes criminal liability on certified public accountants and lawyers who make false certifications in their examination and audit of an issuer's contracts, reports and other related documents.

The ROC SFC does not have criminal or civil enforcement powers under the Securities and Exchange Law. Criminal actions may be pursued only by the prosecutor upon the recommendation of the ROC SFC. Under ROC law, civil actions may only be brought by plaintiffs who assert that they have suffered damage. The ROC SFC is directly empowered to curb abuses and violations of applicable laws and regulations only through administrative measures such as the issuance of warnings, temporary suspension of operation, imposition of administrative fines and revocation of licenses.

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