



1st Silicon (Labuan) Inc.
(incorporated in Labuan with limited liability)
U.S.\$250,000,000
Floating Rate Secured Notes due 2008

Issue Price: 100 per cent.

The U.S.\$250,000,000 Floating Rate Secured Notes due 2008 (the "Notes") of 1st Silicon (Labuan) Inc. (the "Issuer") will be constituted pursuant to a security trust deed (the "Security Trust Deed") to be entered into on or about 19 June, 2001 (the "Closing Date") between, among others, the Issuer and Shearn Skinner Trust Company Sdn. Bhd. (the "Note Trustee"). The Note Trustee will delegate all of the duties, rights, powers and discretions exercisable by it under the Security Trust Deed, the Notes and the Agency Agreement (as defined herein) to DB Trustees (Hong Kong) Limited as sub-trustee (the "Sub-Trustee") pursuant to the provisions of the Security Trust Deed. See "Transaction Summary—Transaction Parties".

The proceeds of issue of the Notes will be applied by the Issuer in making a term loan facility (the "Facility") to 1st Silicon (Malaysia) Sdn. Bhd. (the "Borrower") (the terms of which will correspond to those of the Notes) pursuant to the terms of a loan agreement (the "Loan Agreement") dated 15 June, 2001 and made between, among others, the Issuer and the Borrower.

The obligations of the Borrower under the Loan Agreement are secured in favour of DB Trustees (Hong Kong) Limited as security trustee (the "Security Trustee") pursuant to the Loan Security Documents (as defined herein) for the benefit of, among others, the Issuer by fixed and floating charges over the assets and undertaking of the Borrower. The Issuer will charge and/or assign by way of first fixed security all of its rights, title, benefit and interest in, to and under, *inter alia*, the Loan Agreement and the security therefor in favour of the Note Trustee for the benefit of, among others, the holders of the Notes pursuant to the Security Trust Deed.

For certain considerations applicable in connection with an investment in the Notes, see "Investment Considerations" in this Offering Circular.

Interest on the Notes is payable by reference to successive interest periods (each, an "Interest Period"). Interest will be payable on the Notes quarterly in arrear on 19 March, 19 June, 19 September and 19 December in each year subject to adjustment for non-Business Days commencing on 19 September, 2001 (each, a "Note Interest Payment Date"). The first Interest Period will commence on (and include) the Closing Date and end on (but exclude) 19 September, 2001. Each successive Interest Period will commence on (and include) a Note Interest Payment Date and end on (but exclude) the next succeeding Note Interest Payment Date. Interest on the Notes for each Interest Period will accrue on their principal amount outstanding at a rate per annum equal to the sum of the London Interbank Offered Rate ("LIBOR") (determined in accordance with the terms and conditions of the Notes (the "Conditions")) for three month U.S. Dollar deposits plus a margin of 2.75 per cent.

The Notes will mature on the Note Interest Payment Date falling in June 2008 unless previously redeemed. The Notes will be subject to mandatory redemption in whole only before such date in certain circumstances and may also be redeemed at the option of the Issuer in whole only or at the option of individual Noteholders on the Business Day immediately preceding the Note Interest Payment Date falling in June 2006 (see "Terms and Conditions of the Notes—Condition 5"). All payments of interest and principal of the Notes will be made free and clear of any applicable withholding taxes and the Issuer will be obliged to pay any additional amounts as a consequence (see "Terms and Conditions of the Notes—Condition 7").

The Notes represent secured limited recourse obligations of the Issuer only and will not be guaranteed by, or be the responsibility of, any other person. In particular, the Notes will not be obligations of, and will not be guaranteed by, the Note Trustee, the Security Trustee, the Sub-Trustee, the Arranger, the Agents (each as defined herein) or the Borrower.

It is expected that the Notes will, when issued, be assigned a BBB rating by Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies, Inc. ("S&P") and a Baa3 rating by Moody's Investors Service Limited ("Moody's") and together with S&P, the "Rating Agencies"). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR UNDER ANY UNITED STATES STATE SECURITIES LAW. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("REGULATION S") EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND UNDER CIRCUMSTANCES WHICH WILL NOT REQUIRE THE ISSUER TO REGISTER UNDER THE INVESTMENT COMPANY ACT. THE NOTES ARE NOT TRANSFERABLE EXCEPT IN ACCORDANCE WITH THE RESTRICTIONS DESCRIBED HEREIN UNDER "TRANSFER RESTRICTIONS".

Application has been made to list the Notes on the Luxembourg Stock Exchange and the Labuan International Financial Exchange.

Arranger



NOMURA INTERNATIONAL

IMPORTANT NOTICE

Offers and sales of the Notes in the United States may only be made to Eligible Investors (as defined below) in private transactions exempt from the registration requirements of the Securities Act. Resales of Notes in registered form or of beneficial interests in any 144A Global Note (as defined below) in the United States may only be made to Eligible Investors in transactions pursuant to, and meeting the requirements of, Rule 144A under the Securities Act ("**Rule 144A**"). "**Eligible Investors**" are persons who are "qualified institutional buyers" (as defined in Rule 144A) ("**QIBs**"), but excluding therefrom (i) QIBs who are broker-dealers which own and invest on a discretionary basis less than U.S.\$25,000,000 in "securities", as such term is defined under Rule 144A, (ii) partnerships, common trust funds, special trusts, pension funds, retirement plans or other entities in which the partners, beneficiaries or participants, as the case may be, may designate the particular investments to be made or the allocation thereof, (iii) entities that were formed, reformed or recapitalised for the specific purpose of investing in the Notes or other securities of the Issuer, (iv) any investment company excepted from the Investment Company Act under Section 3(c)(1) or Section 3(c)(7) therefor and formed before 30 April, 1996, which has not received consent from its beneficial owners with respect to the treatment of such entity as a Qualified Purchaser in the manner required by Section 2(a)(51)(C) of the Investment Company Act and the rules thereunder and (v) any entity that will have invested more than 40 per cent. of its assets in securities of the Issuer subsequent to any purchase of Notes of the Issuer. Each purchaser of the Notes offered and sold in the United States under Rule 144A is hereby notified that the offer and sale of such Notes to it is being made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A and the Issuer has agreed to furnish to investors upon request such information as may be required by Rule 144A.

Notes evidenced by, or beneficial interests in, a 144A Global Note or a Regulation S Global Note may only be transferred in accordance with the restrictions set out in the 144A Global Notes or the Regulation S Global Notes, as applicable.

Each purchaser of Notes sold outside the United States in reliance on Regulation S will be deemed to have represented that it is not purchasing the Notes with a view to the resale, distribution or other disposition thereof to a U.S. person. Except as otherwise indicated, terms used in this paragraph have the meanings given to them in Regulation S. For a description of these and certain further restrictions on offers and sales of the Notes and the distribution of this Offering Circular, see "Subscription and Sale".

The Notes have not been and will not be registered under the Securities Act, the securities laws of any state of the United States or the securities laws of any other jurisdiction and may not be offered, sold or otherwise transferred in the United States unless an exemption from registration under the Securities Act and applicable United States state securities laws is available. The Issuer is relying on an exclusion from the definition of "investment company" under the Investment Company Act and no transfer of a Note may be made which would cause the Issuer to become subject to the registration requirements of the Investment Company Act. The Notes are also subject to certain other restrictions on transfer described in "Book Entry, Delivery and Form of Notes" and "Transfer Restrictions". Prospective purchasers of the Notes should proceed on the assumption that they must hold their investment for an indefinite period of time.

The Notes will be issued in fully registered form, without coupons, in minimum denominations of U.S.\$250,000. The Notes will be exchangeable and transfers thereof will be registrable, at the offices of the Registrar or the Transfer Agents (each as defined herein).

Notes initially sold to investors that are Eligible Investors will be evidenced by one or more permanent global notes (the "**144A Global Notes**"), which will be deposited with, or on behalf of The Depository Trust Company ("**DTC**") and registered in the name of Cede & Co. as DTC's nominee. Notes initially sold to non-U.S. persons in compliance with Regulation S will be evidenced by one or more permanent global notes (the "**Regulation S Global Notes**" and, together with the 144A Global Notes, the "**Global Notes**"), which will be deposited with, or on behalf of DTC and registered in the name of Cede & Co. as DTC's nominee, for the accounts of Euroclear Bank S.A./N.V. as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"). On or prior to the 40th day after the later of the commencement of the offering and the date of delivery of the Notes, beneficial interests in the Regulation S Global Notes may only be held through Euroclear or Clearstream, Luxembourg, and any resale or transfer of such interests to U.S. persons shall only be permitted as described under "Transfer Restrictions". Except as set forth below, the Global Notes may be transferred, in whole but not in part,

only to another nominee of DTC or to a successor of DTC or its nominee. See "Book Entry, Delivery and Form of Notes".

Any definitive Certificated Notes (as defined herein) will bear restrictive legends and will be subject to the restrictions on transfer as described herein, including the requirement that each subsequent transferee of such furnish a representation letter in the form prescribed by the Agency Agreement (as defined herein). Subsequent transferees of interests in a Global Note (as defined below) will be deemed to have made certain representations and agreements as described herein. Any resale or other transfer, or attempted resale or other attempted transfer, of Notes which is not made in compliance with the applicable transfer restrictions will be null and void *ab initio*. See "Book Entry, Delivery and Form of Notes".

The Notes are expected to settle in book-entry form through the facilities of DTC, Clearstream, Luxembourg and Euroclear on or about the Closing Date against payments therefor in immediately available funds.

The Issuer is responsible for the information contained in this Offering Circular and, to the best of the knowledge and belief of the Issuer (who has taken all reasonable care to ensure that such is the case), the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information. The Issuer accepts responsibility accordingly.

No person is authorised in connection with the issue and sale of the Notes to give any information or to make any representation not contained in this document and, if given or made, any such information or representation not contained herein must not be relied upon as having been authorised by or on behalf of the Issuer, the Arranger, the Security Trustee, the Sub-Trustee or the Note Trustee. Neither the delivery of this Offering Circular at any time, nor any sale made in connection herewith, shall, in any circumstance, create an implication that there has been no change in the affairs of the Issuer since the date hereof or that the information contained herein is correct as of any time subsequent to such date.

This document does not constitute an offer of, or an invitation by or on behalf of, the Issuer, the Arranger, the Security Trustee, the Sub-Trustee or the Note Trustee (or any of them) to subscribe for or purchase any of the Notes.

No action has been taken under any regulatory or other requirements of any jurisdiction or will be so taken to permit a public offering of the Notes or the distribution of this document in any jurisdiction where action for that purpose is required. The distribution of this Offering Circular and the offering or sale of any Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer and the Arranger to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers and sales of the Notes and the distribution of this Offering Circular, see "Subscription and Sale" and "Transfer Restrictions". This Offering Circular does not constitute and may not be used for the purposes of, an offer or solicitation by any person in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation and no action is being taken to permit an offering of the Notes or the distribution of this Offering Circular in any jurisdiction where such action is required.

Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this document nor any part of it nor any other offering circular, prospectus, form of application, advertisement, other offering material or other information may be issued, distributed or published in any country or jurisdiction except under circumstances that will result in compliance with all applicable laws, orders, rules and regulations.

This Offering Circular has not been registered with the Malaysian Securities Commission. The approval of the Malaysian Securities Commission has not been sought for either the distribution of this Offering Circular in Malaysia or for the Notes to be made available, or offered for subscription or purchase in Malaysia or for the issue of any invitation to subscribe for or purchase the Notes in Malaysia. Accordingly, the Notes may only be issued to a non-resident of Malaysia and the Notes may not be made available or offered for subscription or purchase in Malaysia nor may any invitation to subscribe for or purchase the Notes be issued in Malaysia save to the extent that it is by virtue of the Notes being listed on the Labuan International Financial Exchange.

None of the Arranger, the Security Trustee, the Sub-Trustee or the Note Trustee has separately verified the information contained in this Offering Circular. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arranger, the Security Trustee, the Sub-Trustee or the Note Trustee as to the accuracy or completeness of the information contained in this Offering Circular or any other information supplied in connection with the Notes. Each person receiving this Offering Circular acknowledges that such person has not relied on the Arranger, the Security Trustee, the Sub-Trustee or the Note

Trustee nor on any person affiliated with any of them in connection with its investigation of the accuracy of such information or its investment decision.

Each person contemplating making an investment in the Notes must make its own investigation and analysis of the Issuer and the terms of the offering including the merits and risks involved, and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience and any other factors which may be relevant to it in connection with such investment. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

EACH PERSON ACQUIRING THE NOTES SHALL BE DEEMED TO REPRESENT THAT NO PART OF THE ASSETS USED BY IT TO PURCHASE THE NOTES CONSTITUTES ASSETS OF ANY EMPLOYEE BENEFIT PLAN SUBJECT TO TITLE I OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**"), OR SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "**CODE**"), OR THAT ALL OR PART OF THE ASSETS USED BY IT TO PURCHASE THE NOTES CONSTITUTES ASSETS OF ONE OR MORE SUCH PLANS AND SUCH PURCHASE OF THE NOTES WILL NOT CONSTITUTE A NON-EXEMPT PROHIBITED TRANSACTION UNDER ERISA OR THE CODE BY REASON OF THE APPLICATION OF A STATUTORY OR ADMINISTRATIVE EXEMPTION, AS SET FORTH UNDER "NOTICE TO INVESTORS." SEE "UNITED STATES ERISA CONSIDERATIONS."

None of the Issuer, the Arranger, the Security Trustee, the Sub-Trustee or the Note Trustee makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws.

THE NOTES HAVE NOT BEEN RECOMMENDED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION OR ANY OTHER REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFERING CIRCULAR.

The contents of this Offering Circular should not be construed as providing legal, business, accounting or tax advice. Each prospective investor should consult its own legal, business, accounting and tax advisers prior to making a decision to invest in the Notes.

References in this Offering Circular to "**U.S.\$**" or "**U.S. Dollars**" are to the lawful currency for the time being of the United States of America (the "**U.S.**", "**U.S.A.**" or the "**United States**"). References in this Offering Circular to "**Malaysian Ringgit**" and "**RM**" are to the lawful currency for the time being of Malaysia. References in this Offering Circular to "**Labuan**" are to the Federal Territory of Labuan, Malaysia. Discrepancies pertaining to certain tables in this Offering Circular are due to rounding.

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("**RSA**") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENCED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

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Investors are advised to read and understand the contents of this document before investing. If in doubt, the investor should consult his or her adviser.

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In connection with this issue, the Arranger may over-allot or effect transactions which stabilise or maintain the market price of the Notes at a level which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time. Such stabilising shall be in compliance with all applicable laws, regulations and rules. For a description of these activities, see "Subscription and Sale".

FORWARD LOOKING STATEMENTS

This Offering Circular includes "forward-looking statements" within the meaning of the U.S. federal securities laws. The words 'believe', 'expect', 'anticipate', 'estimate', 'project' and similar words identify forward-looking statements. In addition, all statements other than statements of historical fact, such as statements regarding anticipated production volumes, sales volumes and capital expenditures are forward-looking statements. Such statements are not guarantees of future performance, and actual results may differ materially from those projected, anticipated or assumed in the forward-looking statements.

Except where otherwise specifically sourced, all market analysis (including forecasts and predictions), charts and tables contained in "The Semiconductor Industry" and "Description of the Borrower" have been taken from the following publications of Dataquest, Inc.: "Year-End 1999 Forecast: Semiconductor Foundry Services, Market Trends" and "Year-End 2000 Forecast: Semiconductor Foundry Services, Market Trends".

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with resales of the Notes, the Issuer has undertaken to furnish upon request of a holder of a Note to such holder and a prospective purchaser designated by such holder the information required to be delivered under Rule 144A(d)(4) if, at the time of such request, the Issuer is not a reporting company under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder. The Issuer will also furnish to the Note Trustee and the holder of interests in a Global Note as identified by DTC, Euroclear and Clearstream, Luxembourg certain information on a periodic basis. For so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of the exchange so require, such information will be available during normal business hours on any Business Day (as defined herein) at the registered office for the time being of each of the Principal Paying Agent (as defined herein) and the Transfer Agents.

TRANSACTION SUMMARY

The following description is an overview of the transaction in connection with which the Notes are to be issued. It is not an exhaustive description of the agreements or arrangements referred to and should be read in conjunction with the remainder of this Offering Circular and the Transaction Documents. See "Summary of Transaction Documents".

Transaction Parties

Issuer

1st Silicon (Labuan) Inc. (the "**Issuer**") is a limited liability company incorporated in Labuan for the purpose of issuing the U.S.\$250,000,000 Floating Rate Secured Notes due 2008 (the "**Notes**"), lending an amount equal to the proceeds of the issue to the Borrower and certain related activities. The Issuer is a wholly-owned subsidiary of the Borrower. See "Description of the Issuer".

Borrower

1st Silicon (Malaysia) Sdn. Bhd. (the "**Borrower**") is a limited liability company incorporated in the State of Sarawak which operates a silicon wafer processing foundry in the State of Sarawak. See "Description of the Borrower".

Pursuant to the terms of a loan agreement (the "**Loan Agreement**") dated 15 June, 2001 between the Issuer, the Borrower, SEDC (as defined below), the Security Trustee and the Calculation Agent (as defined below), the Issuer will lend an amount equal to the proceeds of the issue of the Notes to the Borrower under a term loan facility (the "**Facility**").

Note Trustee

Shearn Skinner Trust Company Sdn. Bhd., whose specified office is at Lots 2 & 3, Level 3, Wisma Lazenda, Jalan Kemajuan, 87000 Federal Territory of Labuan, Malaysia (the "**Note Trustee**") will be appointed pursuant to a security trust deed (the "**Security Trust Deed**") to be entered into on 19 June, 2001 (the "**Closing Date**") between the Issuer, the Note Trustee, the Sub-Trustee, the Security Trustee, the Principal Paying Agent, the Calculation Agent, the Registrar and the Transfer Agents to represent the interests of the holders of the Notes (the "**Noteholders**" or "**Holder**s") and the Note Secured Parties (as defined below). On the Closing Date, the Note Trustee will delegate all of the duties, rights, powers, authorities and discretions exercisable by it under the Security Trust Deed, the Notes and the Agency Agreement to the Sub-Trustee. All duties, rights, powers, authorities and discretions specified in this Offering Circular as exercisable by the Note Trustee will be exercisable by the Sub-Trustee as the attorney of the Note Trustee. Accordingly, all references to the Note Trustee in this Offering Circular shall be construed, where the context so permits, as references to the Sub-Trustee in its capacity as attorney of the Note Trustee. See "Summary of Transaction Documents—The Security Trust Deed".

Sub-Trustee

DB Trustees (Hong Kong) Limited, whose specified office is at 55th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (the "**Sub-Trustee**") will exercise all of the duties, rights, powers, authorities and discretions exercisable by the Note Trustee under the Security Trust Deed, the Notes and the Agency Agreement including, without limitation, the operation of the Trust Accounts (as defined below). See "Summary of Transaction Documents—The Security Trust Deed".

Security Trustee

DB Trustees (Hong Kong) Limited, whose specified office is at 55th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (the "**Security Trustee**") will hold the security granted by the Borrower under the Loan Security Documents (as defined below) on behalf of the Issuer and the Pari Passu Lenders (as defined below) and will be entitled to enforce the security granted in its favour under the Loan Security Documents.

Principal Paying Agent

The "**Principal Paying Agent**" will be Bankers Trust Company of 4 Albany Street, New York, NY 10006, U.S.A. The Principal Paying Agent will provide certain services in respect of the Notes pursuant to an agency agreement (the "**Agency Agreement**") to be entered into on the Closing Date between the Principal Paying Agent, the Calculation Agent, the Registrar, the Luxembourg Paying and Transfer Agent (as defined below), the Transfer Agent (as defined below), the Issuer, the Note Trustee, the Sub-Trustee and the Security Trustee.

Calculation Agent

The "**Calculation Agent**" will be Bankers Trust Company of 4 Albany Street, New York, NY 10006, U.S.A. The Calculation Agent will provide certain services pursuant to the Agency Agreement and the Loan Agreement.

Registrar

The "**Registrar**" will be Bankers Trust Company of 4 Albany Street, New York, NY 10006, U.S.A. The Registrar will provide certain services pursuant to the Agency Agreement.

Luxembourg Paying and Transfer Agent

The "**Luxembourg Paying and Transfer Agent**" (and, together with the Transfer Agent, the "**Transfer Agents**") will be Kredietbank S.A. Luxembourgeoise of 43, Boulevard Royal, L-2955 Luxembourg R.C., Luxembourg B6395. The Luxembourg Paying and Transfer Agent will provide certain services pursuant to the Agency Agreement.

Transfer Agent

The "**Transfer Agent**" will be Bankers Trust Company of 4 Albany Street, New York, NY 10006, U.S.A. The Transfer Agent will provide certain services pursuant to the Agency Agreement.

The Borrower and its Business

The Borrower is Malaysia's first state-of-the-art silicon wafer processing foundry. It has government support both at federal and state level and enjoys a number of incentives from the Malaysian government (the "**Federal Government**") including tax breaks, preferential pricing on industrial land and, as at the date of this Offering Circular, Federal Government guarantees for U.S.\$300,000,000 of debt.

The Borrower is a dedicated or pure-play foundry or fabrication plant ("**foundry**" or "**fab**") which means that it does not design or manufacture its own products but focuses on producing processed wafers for sale to manufacturers of electronics products (see "The Semiconductor Industry—Introduction"). The Borrower produces processed wafers for devices used in digital electronic systems, wireless equipment, fibre optic communication and automotive applications. The Borrower is currently producing processed wafers mainly for the communications and consumer electronics sectors. These sectors are in demand and have a high growth rate.

The Borrower became operational in September 2000 and intends to expand its facilities to increase production in order to meet anticipated market demand. It currently has the ability to produce 5,000 wafers per month and plans to produce 20,000 wafers per month by mid-2002. The maximum number of wafers per month that the Borrower's foundry can produce is 30,000. The Borrower contemplates reaching the 30,000 wafers per month target by end-2002. As at 31 March, 2001, the Borrower had spent more than U.S.\$750,000,000 on building the facilities and installing equipment.

The Borrower anticipates that at full capacity it will have an approximately 2.0 per cent. share of the global market. Over half of the Borrower's total expected capacity is currently reserved for its existing customers. Its main customer is Sharp Corporation of Japan ("**Sharp Corporation**") which has the right to take up to 50 per cent. of the

Borrower's production capacity in 2001. The Borrower also has strategic relationships with some of its customers in order to obtain new technologies from such customers.

For further information regarding the operations, business and management of the Borrower, see "Description of the Borrower".

Summary of Transaction

The Loan

An amount equal to the issue proceeds of the Notes will be applied by the Issuer in making a term loan facility (the "**Facility**") available to the Borrower in an aggregate principal amount of U.S.\$250,000,000 (the "**Loan**") to be advanced on 20 June, 2001 (the "**Drawdown Date**") pursuant to the terms of the Loan Agreement. An advance (the "**Advance**") will be made to the Borrower under the Facility for U.S.\$250,000,000.

The terms and conditions of the Loan in relation to the payment of interest and the prepayment of principal correspond to the Conditions of the Notes. However, while the Loan will be repayable in full on 9 November, 2007, the Notes will not mature until the Note Interest Payment Date falling in June, 2008. See "Summary of Transaction Documents—The Loan Agreement" and "Terms and Conditions of the Notes—Condition 5".

All payments under the Loan will be made free and clear of all present and future taxes and deductions save as required by law. The Borrower will gross up if withholding tax is imposed by law.

The obligations of the Borrower under the Loan Agreement are guaranteed by SEDC. The obligations of the Borrower and SEDC have the benefit of the Letter of Support (as defined below) from the State Government of Sarawak. See "—Other Enhancements and Agreements—SEDC Guarantee" and "—Letter of Support" below.

The Loan Agreement is governed by Malaysian law.

Application of the Proceeds of the Loan

The Advance will be used by the Borrower (i) to repay certain existing indebtedness of the Borrower and (ii) for general corporate purposes in the ordinary course of its business. See "Summary of Transaction Documents—The Loan Agreement".

Security to be Granted by the Borrower

As security for the performance of its obligations under the Loan Agreement, the Borrower has created:

- (a) a first fixed charge in favour of the Security Trustee over all land held under the Lease of State Land, Lot 1339, Block 12, Muara Tebas Land District, Kuching, Sarawak, together with fixtures and/or building(s) erected or to be erected thereon or affixed or to be affixed thereto, pursuant to a land charge dated 15 June, 2001 and made between the Borrower, the Issuer and the Security Trustee (the "**Land Charge**"); and
- (b) (i) a first fixed charge in favour of the Security Trustee over, *inter alia*:
 - (1) all land and buildings, together with all trade and other fixtures, fixed plant and machinery from time to time on such land and buildings including the Borrower's silicon wafer processing foundry at Kuching, Sarawak;
 - (2) all licences, copyrights, patents and any fees, royalties and other benefits deriving from such licences, copyrights and patents or such other rights now or hereafter belonging to the Borrower;

- (3) all receivables arising from the sale of the Borrower's products including the receivables arising under various contracts for the supply of processed wafers and payments arising therefrom;
- (4) all bank accounts in the name of the Borrower (other than the accounts of the Borrower with Bumiputra-Commerce Bank Berhad and RHB Bank Berhad);
- (5) its shareholding in the Issuer; and
- (6) any other assets of the Borrower over which it is possible to create a fixed charge; and

- (ii) a first priority floating charge over all of the other assets of the Borrower,

pursuant to a debenture dated 15 June, 2001 and made between the Borrower, the Issuer and the Security Trustee (the "**Debenture**", together with the Land Charge, the "**Loan Security Documents**").

All assets and property of the Borrower which are expressed to be subject to the security created under or pursuant to the Loan Security Documents, including all rights and interests which are, or which are to be, vested in the Security Trustee pursuant to the Loan Security Documents, are herein referred to as the "**Secured Assets**".

The Security Trustee will hold the benefit of the security created in its favour pursuant to the Loan Security Documents on trust for the benefit of itself and any receiver of the Borrower and the Issuer and the Pari Passu Lenders (together the "**Loan Secured Parties**") and subject to and in accordance with the terms of the Loan Security Documents and the Security Sharing Agreement (as defined herein).

The arrangements between the Security Trustee and the Issuer under which the Security Trustee will hold the benefit of the Loan Security Documents for the Issuer and the Pari Passu Lenders are set out in a security sharing agreement (the "**Security Sharing Agreement**"). For a more detailed description of the Loan Security Documents and the Security Sharing Agreement, see "Summary of Transaction Documents—The Land Charge", "—The Debenture" and "—The Security Sharing Agreement".

Security to be Granted by the Issuer

Under or pursuant to the Security Trust Deed, on the Closing Date the Issuer will grant in favour of the Note Trustee to hold on trust as trustee for the Noteholders and the other Note Secured Parties:

- (a) an absolute legal assignment by way of security over all its rights, title, interest and benefit present and future in, to and under the Loan Agreement, the SEDC Guarantee (as defined below), the Letter of Support, the Agency Agreement, the Subscription Agreement (as defined herein), the Security Sharing Agreement and the Debenture, including without limitation, all rights to receive payment of any amounts which may become payable to the Issuer thereunder and all payments received by the Issuer thereunder, all rights to serve notices and/or make demands thereunder and/or take such steps as are required to cause payments to become due and payable thereunder and all rights of action in respect of any breach thereof and all rights to receive damages or obtain other relief in respect thereof;
- (b) a sub-charge by way of first fixed sub-charge over all its rights, title, interest and benefit present and future in, to and under the Land Charge and any deeds or agreements supplemental thereto and all monies assured by or payable thereunder and the benefit of all covenants thereunder and all powers and remedies for enforcing the same;
- (c) a charge by way of first fixed charge over all its rights, title, interest and benefit present and future in and to all monies now or at any time hereafter standing to the credit of the Payment Account and the Reserve Fund (each as defined below) and any bank account of the Issuer wherever located, together with all interest accruing from time to time thereon and the debts represented thereby;

(d) a charge by way of first fixed charge over all its rights, title, interest and benefit present and future in and to any Eligible Investments (as defined below) to be made from time to time by or on behalf of the Issuer using monies standing to the credit of the Trust Accounts, and all monies, income and proceeds payable thereunder or accrued thereon and the benefit of all covenants relating thereto and all rights and remedies for enforcing the same;

(e) a charge by way of first fixed charge over the whole of its undertaking and assets to the extent that such undertaking and assets are not effectively encumbered by the assignments referred to in paragraph (a) above and the sub-charge and charges referred to in paragraphs (b) to (d) (inclusive) above; and

(f) a charge by way of first floating charge over the whole of its undertaking and assets to the extent that such undertaking and assets are not effectively encumbered by the assignments referred to in paragraph (a) above and the sub-charge and charges referred to in paragraphs (b) to (e) (inclusive) above.

All the assets and property of the Issuer which are expressed to be subject to the security created under or pursuant to the Security Trust Deed on the Closing Date are herein referred to as the "**Charged Property**".

The Note Trustee will hold the Charged Property on trust for the benefit of itself, any receiver, the Security Trustee, the Sub-Trustee, the Noteholders and the Agents (the "**Note Secured Parties**") subject to and in accordance with the terms of the Security Trust Deed. The Security Trust Deed will contain provisions regulating the priority of application of amounts forming part of the Charged Property among the Note Secured Parties. After service of a Note Enforcement Notice (as defined herein) in accordance with Condition 8 or the enforcement of the security constituted by the Security Trust Deed in accordance with Condition 9, all amounts will be applied to amounts payable to any receiver, the Note Trustee, the Security Trustee, the Sub-Trustee and certain fees, third party enforcement expenses and commissions prior to payment of principal and interest in respect of the Notes.

For a more detailed description of the Security Trust Deed, including the priority of payments by the Issuer both prior and subsequent to the enforcement of the security thereunder, see "Summary of Transaction Documents—The Security Trust Deed".

Other Indebtedness of the Borrower

The Loan Security Documents will secure up to U.S.\$620,000,000 of debt raised or to be raised by the Borrower (the "**Secured Indebtedness**"). The Secured Indebtedness will consist of the Loan, any other Indebtedness (as defined herein) owed by the Borrower to the Issuer and Indebtedness owed by the Borrower to certain *Pari Passu* Lenders which will rank *pari passu* with the Loan (the "**Pari Passu Debt**"). As of the date of this Offering Circular, the Borrower has raised U.S.\$59,500,000 of *Pari Passu* Debt.

All other debt of the Borrower will be unsecured (the "**Unsecured Debt**") and the Borrower will covenant in the Loan Agreement not to repay the principal of such Unsecured Debt otherwise than in accordance with the originally specified amortisation profiles of such Unsecured Debt.

The "**Pari Passu Lenders**" contemplated in the Loan Agreement are Japan Bank for International Cooperation ("**JBIC**") and Export-Import Bank of the United States ("**EXIM**") and any other financial institutions which are lenders to the Borrower under Indebtedness provided by JBIC or EXIM.

Summary Terms and Conditions of the Notes

The Notes

The U.S.\$250,000,000 Floating Rate Secured Notes due 2008 (the "**Notes**") will be issued on the Closing Date by the Issuer.

Status, Form and Denomination

The Notes will be constituted by the Security Trust Deed and may only be issued in registered form.

The obligations of the Issuer in respect of the Notes will rank *pari passu* among themselves in point of security and as to payment of interest and principal.

The Notes represent secured limited recourse obligations of the Issuer only. The Notes will not be obligations or responsibilities of, or guaranteed by, the Note Trustee, the Security Trustee, the Sub-Trustee, the Borrower, SEDC, the Arranger, the Agents or any company in the same group of companies as, or affiliated to such parties (other than the Issuer itself).

The Notes will be issued in fully registered form only in denominations of U.S.\$250,000. The Notes sold in reliance upon Rule 144A will be represented by one or more 144A Global Notes registered in the name of a nominee of DTC. The Notes sold in offshore transactions in reliance upon Regulation S will be represented by one or more Regulation S Global Notes registered in the name of a nominee of DTC for the accounts of Euroclear and Clearstream, Luxembourg. Certificated Notes may be issued in exchange for Notes represented by the Global Notes if a depository is unwilling or unable to continue as a depository for the Global Notes or if the Note Trustee requests an exchange following the occurrence and continuation of an Event of Default (as defined herein). See "Book Entry, Delivery and Form of Notes".

Sale and Transfer Restrictions

The Notes have not been and will not be registered under the Securities Act or any state securities law, and may not be offered or sold within the United States or to, or for the account or benefit of, any U.S. person (as defined in Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and under circumstances which will not require the Issuer to register under the Investment Company Act. The Notes will be offered and sold in offshore transactions outside the United States in reliance on Regulation S and the Notes will also be offered and sold in a concurrent offering in the United States to or for the account or benefit of U.S. persons in private transactions to QIBs qualifying as Eligible Investors.

The Issuer is not registered under the Investment Company Act and relies on the exemption under Section 3(c)(7) of the Investment Company Act to be exempt from registration thereunder.

For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in Malaysia, the U.S., the United Kingdom, Hong Kong, Japan, Singapore, Taiwan and Korea, see "Subscription and Sale" and "Transfer Restrictions".

Closing Date

The Notes are expected to be issued on or about 19 June, 2001 (the "**Closing Date**").

Interest

Interest on the Notes is payable by reference to successive interest periods (each, an "**Interest Period**"). Interest will be payable on the Notes quarterly in arrear on 19 March, 19 June, 19 September and 19 December in each year (each, a "**Note Interest Payment Date**") commencing on 19 September, 2001. If payment is due on a day that is

not a Business Day, then payment shall be made on the next succeeding Business Day, unless that day falls in the next calendar month, in which case it will be brought forward to the first preceding Business Day. The first Interest Period will commence on (and include) the Closing Date and end on (but exclude) 19 September, 2001. Each successive Interest Period will commence on (and include) a Note Interest Payment Date and end on (but exclude) the next succeeding Note Interest Payment Date. Interest on the Notes for each Interest Period will accrue on their Principal Amount Outstanding at a rate per annum equal to the sum of the London Interbank Offered Rate ("**LIBOR**") (determined in accordance with the Conditions) for three month U.S. Dollar deposits plus a margin of 2.75 per cent. See "Terms and Conditions of the Notes—Condition 4".

A "**Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for domestic and foreign exchange business in Kuching, Labuan, Luxembourg, London, Hong Kong and New York.

The Payment Account

The Payment Account will be a segregated account held by the Sub-Trustee (pursuant to the delegation of the Note Trustee's duties under the Security Trust Deed) with Deutsche Bank AG, Hong Kong in the name of the Sub-Trustee to be held on trust for the benefit of the Note Secured Parties (the "**Payment Account**"). See "Summary of Transaction Documents—The Security Trust Deed".

The Borrower will make payments in accordance with the provisions of the Loan Agreement into the Payment Account.

On each Note Interest Payment Date, the Sub-Trustee will withdraw amounts on deposit in the Payment Account for application in accordance with the provisions of the Security Trust Deed and the Conditions. See "Terms and Conditions of the Notes—Condition 2" and "Summary of Transaction Documents—The Security Trust Deed".

Amounts held in the Payment Account may be invested in Eligible Investments.

The Reserve Fund

Pursuant to the delegation of the Note Trustee's duties under the Security Trust Deed, the Sub-Trustee will establish a segregated account with Deutsche Bank AG, Hong Kong in the name of the Sub-Trustee to be held on trust for the benefit of the Note Secured Parties (the "**Reserve Fund**" and together with the Payment Account, the "**Trust Accounts**"). The amounts on deposit in the Reserve Fund will, on the Closing Date and on any date of determination thereafter, be equal to the aggregate amount payable by the Issuer to the Note Secured Parties on the next succeeding Note Interest Payment Date in accordance with the provisions of the Security Trust Deed and the Conditions and shall, in respect of each Note Interest Payment Date, not be less than the amount on deposit in the Reserve Fund on the Closing Date (the "**Required Amount**"). The Sub-Trustee shall determine the Required Amount for each Note Interest Payment Date on the immediately preceding Note Interest Payment Date and, in respect of the Closing Date, on 15 June, 2001, upon receipt of notification from the Calculation Agent of the amount payable in respect of interest on the Notes on such Note Interest Payment Date. See "Summary of Transaction Documents—The Security Trust Deed".

On any Note Interest Payment Date on which the Required Amount is not on deposit in the Reserve Fund, the Borrower shall be obliged, pursuant to the provisions of the Loan Agreement, to pay a fee on or before the third Business Day following such Note Interest Payment Date into the Payment Account which is equal to the amount by which the balance on deposit in the Reserve Fund is less than the Required Amount.

Amounts held in the Reserve Fund may be invested in Eligible Investments.

Eligible Investments

Amounts on deposit in the Payment Account and the Reserve Fund may be invested in U.S. Dollar-denominated deposits that mature or are otherwise available not later than the Business Day immediately preceding the next succeeding Note Interest Payment Date with Deutsche Bank AG, Hong Kong or any commercial bank outside Malaysia and Labuan whose short term deposits are rated at least P-1 by Moody's or A-1 by S&P and which is reasonably acceptable to the Sub-Trustee ("**Eligible Investments**").

Withholding Tax

Payments of interest, principal and premium (if any) in respect of the Notes will be made free and clear of any applicable withholding or deduction for or on account of any tax and the Issuer will be obliged to pay any additional amounts as a consequence of the imposition of such withholding taxes.

Final Redemption

Unless previously redeemed in full, the Notes will mature at their Principal Amount Outstanding on the Note Interest Payment Date falling in June 2008 (the "**Final Maturity Date**"), together with all accrued but unpaid interest thereon up to but excluding the Final Maturity Date.

Mandatory Redemption

The Issuer shall upon not more than 60 nor less than 30 days' prior written notice to the Noteholders, the Note Trustee, the Sub-Trustee and the Security Trustee, redeem the Notes (in whole but not in part) on any Note Interest Payment Date in an amount equal to the corresponding principal repayment amount received by the Issuer under the Loan Agreement, together with all accrued but unpaid interest thereon, up to but excluding such relevant Note Interest Payment Date.

Optional Redemption by Issuer

The Notes will, in accordance with Condition 5, also be subject to redemption at the option of the Issuer, in whole but not in part, on:

- (a) the Business Day immediately preceding the Note Interest Payment Date falling in June 2006; or
- (b) the Note Interest Payment Date falling in December 2007; or
- (c) the Note Interest Payment Date falling in March 2008,

(each, a "**Call Settlement Date**"), at a price equal to 100 per cent. of their Principal Amount Outstanding together with all accrued but unpaid interest thereon up to such Call Settlement Date, on giving not more than 60 nor less than 30 days' prior written notice to the Noteholders, the Note Trustee, the Sub-Trustee and the Security Trustee and provided that on the relevant date on which such notice expires, no notice has been served by the Note Trustee pursuant to Condition 8.

Optional Redemption by Noteholders

The Issuer shall, in accordance with Condition 5, at the option of the Holder of any Note, redeem such Note on the Business Day immediately preceding the Note Interest Payment Date falling in June 2006 (the "**Put Settlement Date**") at a price equal to 100 per cent. of its Principal Amount Outstanding together with all accrued but unpaid interest thereon up to such Put Settlement Date. In order to exercise such option, the Holder of a Note must, not more than 60 nor less than 30 days before the Put Settlement Date, deposit the Certificated Note relating to such Note and/or a duly completed put option notice with any Paying Agent.

Redemption for Taxation Reasons

In the event of certain tax changes affecting:

- (a) the Notes, which will have the result that the Issuer is or will be obliged to make any withholding or deduction from payments in respect of the Notes (although the Issuer is obliged to pay additional amounts in respect of such withholding or deduction); or

(b) the amounts paid or to be paid to the Issuer under the Loan Agreement, which will have the result that the Borrower is obliged or will be obliged to make any withholding or deduction from payments in respect of the Loan made available thereunder by the Issuer (although the Borrower is obliged to pay additional amounts in respect of such withholding or deduction),

the Issuer shall use its reasonable endeavours to arrange, with the approval of the Note Trustee and upon satisfaction of the Rating Agency Condition (as defined below), for the substitution of another company in the capacity of issuer in an alternative jurisdiction (subject to certain conditions) and, if it is unable to do so, may (but is not obliged to):

- (i) redeem all (but not some only) of the Notes at their Principal Amount Outstanding, together with all accrued but unpaid interest thereon up to the date of repayment; or
- (ii) in order to mitigate the effect of the relevant change, take such other appropriate action as it reasonably can following consultation with the Note Trustee.

The "**Rating Agency Condition**" means written confirmation from each Rating Agency that such action will not result in a qualification, downgrade or withdrawal of the initial Rating, or the then current rating, of the Notes.

Redemption for Investment Company Act Reasons

In the event that any offer, sale, transfer or other disposition of the Notes would, in the sole determination of the Issuer, require the Issuer to register as an "investment company" under the provisions of the Investment Company Act, such offer, sale, transfer or other disposition will be void and will not be honoured and the Issuer shall have the right at any time, at the expense and risk of the holder of the Notes held by or on behalf of a U.S. person who is not an Eligible Investor at the time it purchases such Notes, and on prior written notice to the Note Trustee, the Sub-Trustee and the Security Trustee, to redeem any such Notes, in whole or in part, at their respective Principal Amount Outstanding together with all accrued but unpaid interest thereon up to such date of redemption.

Rating

It is expected that the Notes, when issued, will be assigned a BBB rating by S&P and a Baa3 rating by Moody's. **A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation and, among other things, will depend on the underlying characteristics and the ongoing activities of the Issuer and the Borrower and their businesses from time to time.**

Governing Law

The Notes will be governed by English law.

Listing

Application has been made to list the Notes on or about the Closing Date on the Luxembourg Stock Exchange and the Labuan International Financial Exchange.

Limited Recourse

Recourse to the Issuer under the Notes shall be limited to the proceeds of realisation of the Charged Property under the Security Trust Deed, net of any sums which the Issuer is or may be obliged to pay in priority to any other party, in the order of priority set forth in Condition 2. See "Summary of Transaction Documents—The Security Trust Deed".

Further Issues

The Issuer will be entitled (but not obliged) at its option from time to time on any date, without the consent of the Noteholders, to raise further funds by the creation and issue of further Notes ("**Further Notes**") which will be in registered form and bear the same terms and conditions in all respects (other than the principal amount, issue date, rate of interest and the first Note Interest Payment Date) as, and so that the same will be consolidated and form a single series and rank *pari passu* with, the Notes.

The issuance of Further Notes is subject to certain conditions precedent including:

- (a) that the aggregate principal amount of the Further Notes is at least U.S.\$10,000,000;
- (b) satisfaction of the Rating Agency Condition;
- (c) that the ratings assigned to the Further Notes by the Rating Agencies are at least equivalent to the ratings then applicable to any outstanding Notes; and
- (d) that an amount equal to the aggregate principal amount of the Further Notes will be advanced to the Borrower by the Issuer pursuant to the provisions of a further loan agreement.

Other Enhancements and Agreements

SEDC Guarantee

The obligations of the Borrower under the Loan Agreement will be fully guaranteed by the Sarawak Economic Development Corporation ("**SEDC**" or the "**Guarantor**") pursuant to an irrevocable, unconditional guarantee issued in favour of the Issuer by SEDC and set out in the Loan Agreement (the "**SEDC Guarantee**"). SEDC is one of the investment arms of the State Government of Sarawak. See "Description of SEDC". The State Government of Sarawak acting through the State Financial Secretary will issue the Letter of Support (as defined below) to the Security Trustee. See "—Letter of Support" below. See "Summary of Transaction Documents—The Loan Agreement—*SEDC Guarantee*".

Letter of Support

The State Government of Sarawak acting through the State Financial Secretary will issue on or before the Closing Date a letter of support (the "**Letter of Support**") in favour of the Security Trustee. In the Letter of Support the State Government of Sarawak will confirm *inter alia*:

- (a) that it is aware and approves of the terms and conditions of the Loan Agreement;
- (b) that it shall at all times in the future ensure that the Borrower and SEDC are in the position to meet (and do meet on a full and timely basis) their respective liabilities towards the Security Trustee and the Issuer in respect of the Loan Agreement; and
- (c) that it will not take any action or cause the Borrower or SEDC to take any action which may result in the Borrower being unable to perform its obligations in respect of the Loan Agreement.

Transaction Documents

References in this Offering Circular to "**Transaction Documents**" are references to the Security Trust Deed, the Loan Agreement, the Subscription Agreement, the Debenture, the Land Charge, the Letter of Support, the Agency Agreement and the Security Sharing Agreement or any of them as the context may require, including all notices and acknowledgements and the like required thereunder or in relation thereto.

INVESTMENT CONSIDERATIONS

An investment in the Notes is only suitable for financially sophisticated investors who are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses which may result therefrom.

The following is a description of certain additional aspects of the Notes of which any prospective Noteholder should be aware. It is not intended to be exhaustive and any prospective Noteholder should also read the detailed information set out elsewhere in this document and take its own tax, legal and other relevant advice as to the structure and viability of making an investment in the Notes.

The Notes

Liability under the Notes

The Notes will be solely the obligation of the Issuer and the Issuer will grant security over all its assets in favour of the Note Trustee. The Notes will not be obligations or responsibilities of, or guaranteed by, any other person or entity. In particular, the Notes will not be obligations or responsibilities of, and will not be guaranteed by, the Borrower, the Security Trustee, the Note Trustee, the Sub-Trustee, the Agents, the Arranger, SEDC, any company in the same group of companies as, or affiliated to such parties (other than the Issuer) or any other party. Apart from the Issuer, none of these persons will accept any liability to the Noteholders whatsoever in respect of any failure by the Issuer to pay any amount due under the Notes.

The Issuer's ability to meet its obligations under the Notes

The ability of the Issuer to meet its obligations under the Notes will be dependent on, *inter alia*:

- (a) the receipt by it of funds from the Borrower under the Loan Agreement and from the Security Trustee under the Loan Security Documents;
- (b) the receipt by it of funds, if demand is made, from SEDC under the SEDC Guarantee; and
- (c) the availability of funds on deposit in the Reserve Fund.

Ratings of the Notes

The ratings assigned to the Notes by the Rating Agencies are based on their assessment of relevant structural features of the transaction and address the likelihood of the timely payment of interest and principal on the Notes when due.

The ratings are not a recommendation to purchase, hold or sell the Notes, as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that the ratings will not be lowered or withdrawn entirely by the Rating Agencies if in their judgment circumstances in the future so warrant. Any decline in the financial condition of the Issuer, the Borrower, the Guarantor or the State Government of Sarawak or the insolvency of the Borrower may impair the ability of the Issuer to make payments to the Noteholders under the Notes and/or result in a downgrading of the ratings of the Notes.

A rating does not address the risk of prepayment or the possibility that Noteholders might suffer a lower than anticipated yield; nor does a rating address the likelihood of receipt of default interest amounts, broken funding or other break costs or gross up payments. Rating agencies other than the Rating Agencies could elect to rate the Notes and, if such "shadow ratings" are lower than the comparable ratings assigned to the Notes by the Rating Agencies, such ratings could have an adverse effect on the value of the Notes.

There is no specific obligation on the part of the Borrower, the Issuer, the Arranger, the Security Trustee, the Note Trustee, the Sub-Trustee or any other person or entity to maintain or procure maintenance of any rating for the Notes.

Further Notes

In certain circumstances and subject to certain conditions being met, the Issuer will be entitled to issue Further Notes which will rank *pari passu* with the Notes. If Further Notes are issued ranking *pari passu* with the Notes, the Note Trustee will be required to have regard to the interest of both the holders of any outstanding Notes and the Further Notes as if they formed a single class when exercising its powers, trusts, authorities, duties and discretions.

If any Further Notes are issued, the Security Trust Deed and the Conditions will need to be modified in such manner as the Note Trustee considers necessary to reflect such issue of the relevant Further Notes.

Limited recourse

The Notes will constitute notes which, on enforcement, will be limited recourse solely to the assets of the Issuer secured pursuant to the Security Trust Deed, net of any sums which the Issuer is or may be obliged to pay in priority or *pari passu* to any other party in the order of priority of amounts due to the Note Secured Parties. If payments received by the Note Trustee or the Sub-Trustee for the benefit of the Noteholders under the Transaction Documents are insufficient to make payments on the Notes, no other assets will be available for payment of the deficiency (other than the funds on deposit in the Reserve Fund), and following liquidation of the available funds, the obligations of the Issuer to pay such deficiency shall be extinguished.

Insufficiency of security for the Notes

There can be no assurance that the Issuer will receive sufficient funds from the Borrower or the Guarantor under the terms of the Loan Agreement for the Issuer to meet its obligations under the Notes. The obligations of the Issuer to the Noteholders will be secured under the Security Trust Deed. In the event of enforcement of the security, amounts received in respect of the Charged Property could be insufficient to repay the Notes in full and other amounts, ranking in priority thereto, in which case the Noteholders may ultimately suffer a loss.

Performance of contractual obligations

The ability of the Issuer to make payments in respect of the Notes may depend upon the due performance by the other parties to the Transaction Documents of their obligations thereunder, including the performance by the Borrower, SEDC, the State Government of Sarawak, the Security Trustee, the Note Trustee, the Sub-Trustee and the Agents of their respective obligations.

Absence of secondary market: limited liquidity

There can be no assurance that a secondary market in the Notes will develop or, if one does develop, that it will provide Noteholders with liquidity of investment, or that it will continue for the life of the Notes. Application has been made to list the Notes on the Luxembourg Stock Exchange and the Labuan International Financial Exchange. In addition, the market value of the Notes may fluctuate with changes in prevailing rates of interest. Consequently, any sale of Notes by Noteholders in any secondary market which may develop may be at a discount to the original purchase price of such Notes.

Fees and expenses of the Issuer

The Transaction Documents will contain provisions intended to ensure that the Issuer will have sufficient funds to meet its anticipated ongoing fees and expenses in connection with the issue of the Notes (including certain amounts payable to the Security Trustee, the Note Trustee, the Sub-Trustee and the Agents).

The Loan Agreement will provide for certain additional amounts to be payable by the Borrower to the Issuer to meet ongoing fees and expenses of the Issuer. The obligations of the Borrower under the Loan Agreement are guaranteed by SEDC and have the benefit of the Letter of Support. However, no assurance can be given that the Borrower will have access to sufficient funds to make such payments to the Issuer. Accordingly, to the extent that there is such an insufficiency, the Issuer may have insufficient funds to meet all payments due in respect of the Notes.

Withholding tax under the Notes

In the event withholding taxes are imposed in respect of payments to Noteholders of amounts due pursuant to the Notes, the Issuer is obliged to gross up or otherwise compensate Noteholders for the lesser amounts the Noteholders will receive as a result of the imposition of such withholding taxes. Such gross up or compensation payment amounts will be made by the Issuer out of funds received from the Borrower under the Loan Agreement. However, no assurance can be given that the Borrower will have access to such funds or that such funds will be sufficient to enable the Issuer to make such gross up or compensation payments.

The imposition of withholding taxes would entitle (but not oblige) the Issuer to redeem the Notes at their outstanding principal amount (plus accrued interest) thereby shortening the average lives of the Notes.

Investment Company Act

The Issuer has not registered with the United States Securities and Exchange Commission (the "SEC") as an investment company pursuant to the Investment Company Act. If the SEC or a court of competent jurisdiction were to find the Issuer is required, but in violation of the Investment Company Act had failed, to register as an investment company, possible consequences include, but are not limited to, the following: (i) the SEC could apply to a district court to enjoin the violation; (ii) investors could sue the Issuer and recover damages caused by the violation; and (iii) any contract to which the Issuer is a party that is made in, or whose performance involves a, violation of the Investment Company Act would be unenforceable by any party to the contract unless a court were to find that under the circumstances enforcement would produce a more equitable result than non-enforcement and that enforcement would be inconsistent with the purposes of the Investment Company Act. Should the Issuer be subjected to any or all of the foregoing, the Issuer would be materially and adversely affected.

No investigation

No investigation and limited searches and enquiries have been made by or on behalf of the Issuer or the Arranger, and no investigations, searches and enquiries have been made by or on behalf of the Security Trustee, the Note Trustee, the Sub-Trustee or the Agents, in respect of the Borrower, the Secured Assets or the Charged Property. The Security Trustee, the Note Trustee, the Sub-Trustee and the Agents shall not be bound or concerned to make any investigation into the creditworthiness of any party in respect of the Charged Property, the validity of any of such party's obligations under or in respect of the Charged Property or any of the terms of the Charged Property. Prospective Noteholders should take their own tax, legal, accounting and other relevant advice as to the structure and viability of the Notes and the collateral therefor and their investment in them.

The Loan

Liability under the Loan

The Loan will be the obligation solely of the Borrower, will have the benefit of the SEDC Guarantee and the Letter of Support in favour of the Security Trustee and will be secured by the Secured Assets. The Loan will not be an obligation or responsibility of, or guaranteed by, or receive the benefit of security from any other person or entity. In particular, the Loan will not be an obligation or responsibility of, and will not be guaranteed by, or receive the benefit of security from, the Security Trustee, the Note Trustee, the Sub-Trustee, the Agents, the Arranger, any company in the same group of companies as, or affiliated to, such parties or any other party.

Limited resources

The ability of the Borrower to meet its obligations under the Loan will be dependent on the receipt by it of funds from the operation of its business. No assurance can be given that the Borrower's business will continue to provide the Borrower with sufficient funds to meet its obligations under the Loan.

SEDC Guarantee

SEDC's ability to meet its obligations under the SEDC Guarantee may be dependent on the Letter of Support issued in favour of the Security Trustee by the State Government of Sarawak. No assurance can be given that the State Government of Sarawak will be able to provide the support necessary or that SEDC will be able to obtain such support from any other source to enable it to meet its obligations under the SEDC Guarantee. See "Summary of Transaction Documents—The Loan Agreement—*SEDC Guarantee*".

Withholding tax under the Loan and the SEDC Guarantee

In the event withholding taxes are imposed in respect of payments to the Issuer of amounts due pursuant to the Loan or the SEDC Guarantee, each of the Borrower and SEDC is obliged to gross up and otherwise compensate the Issuer for the lesser amounts the Issuer will receive as a result of the imposition of such withholding taxes. However, no assurance can be given that the Borrower or SEDC will have access to such funds or that such funds will be sufficient to enable the Borrower or SEDC to make such gross up or compensation payments.

Insufficiency of security for the Loan

The obligations of the Borrower to the Issuer under the Loan Agreement will be secured under the Loan Security Documents and will have the benefit of the SEDC Guarantee and the Letter of Support in favour of the Security Trustee. In the event of enforcement of the security, amounts received in respect of the Secured Assets, including proceeds of any sale or other disposal of the Borrower's silicon wafer processing foundry, could be insufficient to repay the Loan in full and other amounts, ranking in priority thereto, in which case the Noteholders may ultimately suffer a loss. Additionally, there are certain restrictions on foreign parties owning assets, including land, in Malaysia (see "Malaysian Legal Considerations"). In such circumstances SEDC will be obliged to repay the balance of the Loan in full to the Issuer under the SEDC Guarantee. The Issuer will also have recourse to the Borrower on an unsecured basis.

Other obligations connected with the Borrower

The terms of the Loan Agreement impose minimal restrictions as to the manner in which the Borrower may apply any funds generated by the operation of its business in excess of those required to meet its obligations under the Loan Agreement. Subject to certain minimum restrictions imposed by the Loan Agreement, the Borrower may apply such sums to make payments under existing or future subordinated indebtedness. However the Borrower has covenanted not to repay such subordinated indebtedness more rapidly than originally specified. There can be no assurance that the making of such payments by the Borrower will not adversely affect its business or the residual value of its assets, particularly where such sums are employed to make such payments rather than capital investments in the wafer processing foundry.

Appointment of receiver

If the security created by the Loan Security Documents were to be enforced, a receiver and manager would be appointed by the Security Trustee *inter alia* to realise the assets of the Borrower. A privately appointed receiver and manager is deemed by Malaysian law to be the agent of the relevant company until the company's liquidation and, thus whilst acting within his powers, only incurs liability on behalf of the company. If, however, the Security Trustee unduly directed or interfered with or influenced the receiver and manager's actions, a court may decide that the receiver and manager was the Security Trustee's agent and that the Security Trustee should be responsible for the receiver and manager's acts and liabilities. Further, the receiver and manager is personally liable after the company has gone into liquidation for debts incurred by him in the course of the receivership or possession for services

rendered, goods purchased or property hired, leased, used or occupied. The receiver and manager will be entitled to an indemnity from the Borrower and the Security Trustee for his personal liabilities.

Payments to the Security Trustee (who is entitled to receive remuneration, reimbursement for its expenses and an indemnity for its potential liabilities) will rank ahead of payments due under the Loan in accordance with the provisions of the Debenture. Accordingly, should the Security Trustee become liable for acts of the receiver and manager, the amount of cash that would otherwise be available for payment to the Issuer, and ultimately to the Noteholders may be reduced.

In addition, in such circumstances the Issuer and other Note Secured Parties or the Security Trustee may be deemed to be a mortgagee in possession if there is physical entry into possession of any real property or an act of control or influence which may amount to possession. A mortgagee in possession may incur liabilities to third parties in nuisance and negligence and, under certain statutes (including environmental legislation), can incur the liabilities of a property owner. The Security Trustee has the absolute discretion, at any time, to refrain from taking any action under the Transaction Documents (as defined below), including becoming a mortgagee in possession in respect of any real property unless it is satisfied at that time that it is adequately indemnified. See "Malaysian Legal Considerations".

Business Considerations

Borrower's business in development stage

The Borrower's silicon wafer processing foundry was established in 1998 and became operational in September 2000. The foundry is currently in phase 1 of a ramp-up to a capacity of 10,000 wafers output per month ("WOPM") which is due to be completed by end-2001 ("Phase 1"). Phase 2 is due to be completed by mid-2002 and the ramp-up is intended to increase to a capacity of 20,000 WOPM ("Phase 2"). Phase 3 is intended to complete the ramp-up to a maximum output of 30,000 WOPM by end-2002 ("Phase 3"). There can be no assurance that each phase of the ramp-up will achieve the intended wafer production capacity within the time scale envisaged. The likelihood of success for the Borrower in this venture must be considered in light of the problems, expenses, complications and delays frequently encountered in connection with a new business and the competitive environment in which the processed wafers will be produced and marketed.

The semiconductor wafer industry is cyclical and for a start up foundry it is important that the timing is right within the cycle. Industry sources indicate the present down-cycle in the industry started in the fourth quarter of 2000. This makes project completion and time to market important for the Borrower at this stage. The Borrower will benefit from having a projected fully utilised capacity in Phase 1 during the present down-cycle, and a projected ramp-up capacity which will coincide with the expected start of the next up-cycle during 2002. The Borrower will also benefit from its plan in Phases 2 and 3 to produce leading-edge 0.18 micron wafers allowing product diversification and flexibility (see "The Semiconductor Industry—Introduction"). However, no assurance can be given that the Borrower will enter the market, or commence production of 0.18 micron wafers, in a timely manner, or at all.

Performance risks

For a foundry operation, margins are more dependent on application sector choice than the choice between integrated device manufacturers ("IDMs") and fabless semiconductor companies ("FCs"). See "The Semiconductor Industry". Application sector choice is in turn driven by the production technology adopted by the foundry for its wafer processing. An appropriate application/technology match-up will not only determine the operational and technological success of the foundry but also aim to ensure high efficiency in the process by minimising deviations from standard processes (i.e. despite a readily available market for automotive accessories related semiconductor devices, a foundry may decide against this particular application market due to the manufacturing process/technological deviations required to deliver on automotive semiconductor designs). The Borrower has achieved a good technology/application match-up through its adoption of Taiwan Semiconductor Manufacturing Company ("TSMC") compatible CMOS Logic (as defined herein) technology from Sharp Corporation and by positioning to venture into the high end consumer electronics and communication application sectors. No assurance can be given that the steps taken by the Borrower will result in a sustainable performance by the Borrower.

Operational risks

Through active engagement of Sharp Corporation in technology transfer, process testing, quality assurance and industry standard qualification/certification procedures, the Borrower benefits from the know-how and experience of Sharp Corporation to effectively minimise any technology and performance risks that a new start-up would otherwise invite. Additionally, the Borrower has engaged the services of IBM as its SAP (Systems, Application and Products in Data Processing) implementor for its enterprise resource planning system and manufacturing execution system.

To further secure against inadvertent loss, the Borrower has taken out, amongst other insurance policies, a construction all risks policy which covers all risks of loss (including machinery breakdown and advance loss of profits/business interruption) through an established Malaysian insurer, Jerneh Insurance Berhad, and through Factory Mutual Insurance Company ("FM"), an American international insurance firm specialising in the insurance of industrial concerns and engineering projects with a unit dedicated to silicon wafer processing foundry construction and operational loss insurance.

FM has been actively involved from the initial design stages of the foundry to its construction. FM engineers are currently involved with the Borrower's project team to execute key construction and operation processes that should culminate in the Borrower being awarded the Highly Protected Risk ("HPR") status that is an international symbol of reliability to customers. HPR status attracts significantly lower risk premiums and signifies a low level of operational risk. This is intended to minimise risks allocated with start-ups such as the Borrower although no assurance can be given that the Borrower will be awarded HPR status.

Borrower's business is subject to risks inherent in the semiconductor wafer industry

The semiconductor market is dependent on the demand for electronic products by consumers and the silicon wafer processing capacity available to meet that demand. In recent years the semiconductor market has been volatile with a major global downturn in late 1997-1998 exacerbated by the Asian financial crisis which reduced demand in Asia for semiconductor products. The semiconductor industry is subject to the risks of accelerating technology *e.g.* the migration from wafers with geometries of 0.25 microns to 0.18 microns and below and the transition in the foundry sector from processing 200 millimetre (mm) wafers to 300mm wafers. See "The Semiconductor Industry". No assurance can be given that further downturns in the demand for the processing of silicon wafers will not occur due to either technological developments or other factors.

The continued success of the wafer processing industry is dependent on a number of factors including the demand for semiconductors by system original equipment manufacturers ("OEMs"), IDMs and FCs, the rate of acceleration of technological developments, product sensitivity to price fluctuations and general global economic conditions. The exact effect of these factors cannot be accurately predicted, but any of these factors could have a material adverse effect on the business, financial condition and results of operations of the Borrower's business and may result in the Issuer not receiving adequate funds to make the payments due under the Notes.

Existing contracts for the supply of processed wafers

The Borrower has a number of agreements for the supply of processed wafers including an agreement with Sharp Corporation, under which it has the right to purchase up to 10,000 WOPM produced by the Borrower. Sharp Corporation is currently the Borrower's largest customer. Accordingly, any negative change in the financial status or business prospects of Sharp Corporation is likely to have a significant effect on the Borrower. The Borrower has further existing contracts with FCs and IDMs such as JMAR Semiconductor Inc. for the production of different levels of WOPM. No assurance can be given that Sharp Corporation or the other customers of the Borrower will purchase or continue to purchase wafers from the Borrower.

Pari Passu Debt

At the date of this Offering Circular, the Borrower has outstanding debt of U.S.\$59,500,000 with JBIC which will rank *pari passu* with the Borrower's obligations under the Loan. No assurance can be given that the Borrower's business will generate sufficient funds to enable it to meet these obligations concurrently.

Any future Pari Passu Debt will also rank *pari passu* with the Borrower's obligations under the Loan, although such future Pari Passu Debt will only be required during Phase 3 for the purchase of new foundry equipment. However, no assurance can be given that the Borrower will not obtain further Pari Passu Debt prior to Phase 3.

Although under the terms of the Security Sharing Agreement the Security Trustee holds the Secured Assets for the benefit of the Issuer and the Pari Passu Lenders, no restrictions are imposed on the ability of the Pari Passu Lenders to take action against the Borrower including a petition for winding-up. However, each of the Pari Passu Lenders has or may have the benefit of security for their respective Pari Passu Debts which is additional to the Secured Assets and which they may enforce independently of any action in respect of the Secured Assets.

Raw Material Supply

Raw polished wafer supplies

The primary material for the Borrower's wafer processing is 200mm raw polished silicon wafers. The Borrower has entered into contracts for the supply of raw polished wafers with some of the world's largest suppliers of polished wafers namely: Shin-Etsu Handotai ("SEH") which has a manufacturing plant in Malaysia, Mitsubishi Silicon America Corp. ("Mitsubishi") and Komatsu Electronic Metals Company Ltd. ("Komatsu"), with each supplier providing approximately 30 per cent. of the Borrower's total polished wafer requirements. To secure the quality and reliability of the raw polished wafers, each of the three vendors is Sharp Corporation qualified and sources raw polished wafer material from Japan. There is an adequate global supply of polished wafers hence ability to source is not considered a major risk by the Borrower.

Flexible long term raw polished wafer supply contracts

The majority of the Borrower's supply contracts for raw polished wafers are denominated in U.S. Dollars and are structured to mirror the contractual supply terms between the Borrower and its customers (6 months rolling demand forecasts). This arrangement with suppliers is intended to eliminate the costly risk of a mismatch between raw material availability and customer delivery schedules.

Chemicals and gases supply

To ensure dedicated gas supply, PRAXAIR, a U.S. gas supplier, has a plant within the Borrower's facility to provide ultra pure bulk gases such as nitrogen, oxygen, hydrogen, argon and helium. The gas plant is connected to the foundry where gas purifiers and instrumentation are located to ensure that the required gas purity level is achieved. All the chemical supplies are purchased from vendors approved by Sharp Corporation.

Power supply

The foundry has a dedicated power supply off the grid delivered by multiple feeders. High-speed static switching between redundant circuits is in place to ensure the closing time of electrical stoppages does not affect ongoing manufacturing. In addition, the Borrower currently owns three (with a fourth on order) diesel fired back-up dynamic flywheel generators which are intended to provide an uninterrupted power supply. Each is capable of generating 1.5 megawatts of electricity.

Logistics and inventory management

The Borrower currently maintains an approximately 2-month inventory of bottled gases and a sufficient inventory of raw polished wafers to serve its requirements up to the end of 2001. The ultimate goal is to achieve inventory turnover 16-17 times a year i.e. 3-week maximum inventory to reduce the carrying cost of input supplies. Delivery of the Borrower's raw materials, other than those locally sourced, is through Kuching Port and Kuching International Airport.

While the Borrower believes that these and other measures will ensure that the required materials will be supplied, no assurance can be given that such supplies as outlined in this section "—Raw Material Supply" will continue at affordable prices or uninterrupted or at all.

Market/Sales Risk

Choice of business model

Two different business models are pursued by some of the key players in the foundry business. The first builds on the need to develop in-house technology capability. TSMC is an example of this model. The second is characterised by forming strategic partnerships in order to build technological alliances with key players. United Microelectronics Corp. ("UMC") is an example of this model. The Borrower has decided to adopt the latter model. However, no assurance can be given that the Borrower's choice of this model will prove successful.

Competition

The main competition for the Borrower's product comes from other dedicated silicon wafer processing foundries in Taiwan and Singapore. There is no guarantee that further entrants to the market will not erode the Borrower's potential projected market share or that the Borrower will be able to maintain its potential projected market share in a contracting market.

Labour Union/Employee Unrest and Litigation

The Borrower follows federal labour law in its employment policies. No labour litigation disputes with employees currently exist with the Borrower. The Borrower considers that its industrial relations with its employees are good. However, there is no guarantee that this will continue.

Environmental Considerations

The Borrower uses as its environmental benchmarks the most stringent standards stipulated by either Malaysian law or the laws of other countries including Germany, Japan, the United Kingdom and the United States.

The Borrower has various equipment and processes to ensure effective management of generated toxic and non-toxic waste with monitoring instruments to continuously ensure all waste control systems are operating properly. The Borrower also maintains redundancy systems with alternate equipment/buffer systems to handle any excess capacity in generated toxic waste materials. The current waste disposal/handling capacity is designed to handle amounts of waste associated with 30,000 WOPM production capacity. This minimises the risk of the foundry generating unmanageable amounts of toxic waste. However no assurance can be given that the Borrower will continue to operate the foundry to such standards or that such standards will not be raised.

Risk Relating to Malaysia

The Borrower's business prospects, financial condition and results of operations may be affected by political, economic and social developments in Malaysia. No guarantee can be given that political, economic and social conditions in Malaysia will not change.

APPLICATION OF PROCEEDS

The proceeds from the issue of the Notes will be U.S.\$250,000,000. On the Closing Date, the Issuer will, subject to and in accordance with the Loan Agreement make an advance under the Loan Agreement to the Borrower of U.S.\$250,000,000.

Fees, expenses and commissions in connection with the issue and listing of the Notes and the funds which are required to be on deposit in the Reserve Fund on the Closing Date will be paid out of a fee in the required amount which will be payable by the Borrower to the Issuer under the Loan Agreement. The terms of the Loan Agreement will provide for the Issuer to retain an amount equal to such fee from the proceeds of the Loan by way of set-off against such fee.

SUMMARY OF TRANSACTION DOCUMENTS

The following is a summary of certain provisions of the principal documents relating to the Facility and the Notes.

The Loan Agreement

Under the terms of the Loan Agreement, the Issuer (as lender) has agreed to make available to the Borrower on the Closing Date the facility described below. The Loan is guaranteed by SEDC. The obligations of the Borrower and the Guarantor will have the benefit of the Letter of Support from the State Government of Sarawak in favour of the Security Trustee on behalf of the Issuer. Words and expressions used in this section and not specifically defined below have the meanings given to them in the Loan Agreement.

The Facility

The Loan Agreement provides that a term loan facility (the "**Facility**") will be made available by the Issuer to the Borrower. The Facility will be in an aggregate principal amount of U.S.\$250,000,000, which will match the aggregate Principal Amount Outstanding on the Closing Date of the Notes and which, subject to satisfying certain conditions precedent (as described below), will be advanced (the "**Advance**") to the Borrower on 20 June, 2001 (the "**Drawdown Date**") (the "**Loan**").

The Loan will be applied by the Borrower (i) to repay all amounts due under a bridge loan agreement dated 28 June, 2000 among, *inter alios*, the Borrower, the Guarantor and the lenders named therein and (ii) for general corporate purposes in the ordinary course of its business.

Conditions precedent to drawdown

The conditions precedent to the Issuer making the Loan are, *inter alia*:

- (a) the Notes have been issued and the subscription proceeds received by or on behalf of the Issuer;
- (b) the execution of the Loan Agreement, the Loan Security Documents and the Security Sharing Agreement and all necessary forms and fees for the registration of such documents; and
- (c) no Default (as defined below) or event which may become a Default (a "**Potential Default**") has occurred and is continuing or would occur on the making of the Advance.

SEDC Guarantee

The Guarantor irrevocably and unconditionally guarantees to the Issuer the due and punctual observance and performance of all the terms, conditions and covenants on the part of the Borrower contained in the Loan Agreement and agrees to pay to the Security Trustee on behalf of the Issuer from time to time on demand any and every sum or sums of money which the Borrower is at any time liable to pay to the Issuer under or pursuant to the Loan Agreement and which has become due and payable but has not been paid at the time such demand is made.

Interest and Fees

Interest will be payable on 19 March, 19 June, 19 September and 19 December in each year subject to adjustment for non-Business Days (each, a "**Loan Interest Payment Date**") commencing on the Loan Interest Payment Date falling in September 2001. Interest on the Loan is payable by reference to successive interest periods (each, a "**Loan Interest Period**"). The first Loan Interest Period will commence on (and include) the Drawdown Date and end on (but exclude) the Loan Interest Payment Date falling in September 2001. Each successive Loan Interest Period will commence on (and include) a Loan Interest Payment Date and end on (but exclude) the next succeeding Loan Interest Payment Date. The rate of interest payable on the Loan will be 3-month LIBOR plus 2.75 per cent. per annum. Pursuant to the provisions of the Agency Agreement, the Calculation Agent will calculate the rate of

interest and amount of interest accruing on the Loan for each Loan Interest Period and the Notes for each Interest Period.

The Borrower will pay a fee equal to any shortfall in interest payable on the Notes on the initial Note Interest Payment Date pursuant to the provisions of the Loan Agreement. In addition, under the Loan Agreement, the Borrower will agree to pay certain other fees in respect of the Facility made available under the Loan Agreement. The fees, *inter alia*, will enable the Issuer to pay or provide for all other amounts falling due to be paid to its creditors and which are specified in "—The Security Trust Deed—Application prior to Note Enforcement" and "—Application following Note Enforcement" below.

Repayment

Unless otherwise prepaid, the Loan will be repayable in whole on 9 November, 2007 (the "**Repayment Date**").

Prepayment for illegality

If it becomes illegal in any jurisdiction for the Issuer to maintain its commitment or to continue to make available or fund the Loan under the Loan Agreement, then the commitment of the Issuer shall be cancelled and the Borrower shall be obliged to prepay the Loan (together with all accrued but unpaid interest thereon and all other amounts owing to the Issuer) within 5 Business Days of demand by the Issuer.

Prepayment at the option of the Borrower

The Borrower will be entitled to prepay all, but not part, of the Loan on the Business Day immediately preceding the Loan Interest Payment Date falling in June 2006.

Prepayment for tax reasons

The Borrower shall prepay without a premium or penalty all of the Loan on a Loan Interest Payment Date if the Security Trustee receives prior written notice from the Issuer that an event in relation to tax as referred to in Condition 5(c) has occurred and the Issuer has been unable to take the mitigating action set out in such Condition.

Prepayment for other reasons

The Borrower shall prepay without a premium or penalty all or part of the Loan within 5 Business Days of demand by the Issuer if the Security Trustee receives prior written notice from the Issuer that it intends to redeem all or some of the Notes in accordance with the provisions of Condition 5(f).

Prepayment at the option of the Issuer

The Borrower shall prepay without a premium or penalty all or part of the Loan on the Business Day immediately preceding the Loan Interest Payment Date falling in June 2006 at the option of the Issuer if the Security Trustee receives prior written notice from the Issuer that it is obliged to redeem all or some of the Notes on such date in accordance with the provisions of Condition 5(e).

The Issuer agrees in the Loan Agreement to apply any amounts received by way of prepayment in respect of the Loan in making prepayment under the Notes.

Representations

No independent investigation with respect to the matters represented in the Loan Agreement will be made by the Loan Secured Parties (including the Issuer) or the Security Trustee other than (a) a search on or before the Closing Date against the Borrower in the relevant file held by the Malaysian Registrar of Companies and at the Official Receiver's Office in respect of winding-up petitions and (b) priority searches prior to the Closing Date at the Kuching Land Registry Office in respect of the Borrower's property. In relation to such matters, the Loan Secured

Parties (including the Issuer) and the Security Trustee will, save as previously disclosed, rely entirely on the representations to be given by the Borrower and the Guarantor to the Issuer and the Security Trustee on the Closing Date and the Drawdown Date and which are contained in the Loan Agreement. These will include representations (which will in certain cases be subject to a knowledge and/or a material adverse effect qualification), broadly, as to the following and other matters:

- (a) due incorporation;
- (b) neither the Borrower nor the Guarantor is required under Malaysian laws to make any deduction for or on account of tax from payments under the Loan Agreement and the Loan Security Documents (together, the "**Facility Documents**");
- (c) requisite corporate power and authority to enter into each of the Facility Documents (as applicable);
- (d) the obligations of each of the Borrower and the Guarantor under the Facility Documents (as applicable) constitute its legal, valid and binding obligations and are in full force and effect;
- (e) the execution, delivery and performance by each of the Borrower and the Guarantor of the Facility Documents (as applicable) does not:
 - (i) contravene any applicable law or regulation or any order of any governmental or other official authority, body or agency or any judgment, order or decree of any court having jurisdiction over it;
 - (ii) conflict with, or result in any breach of any of the terms of, or constitute a default under, any agreement or other instrument to which it is a party or any licence or other authorisation to which it is subject or by which it is or any of its property is bound; or
 - (iii) contravene or conflict with the provisions of its Memorandum and Articles of Association/By-Laws/Statutes or equivalent documents;
- (f) no steps have been taken or legal proceedings been started or threatened against the Guarantor or any company in the Borrower's group (the "**Group**") for winding-up, dissolution or re-organisation, the enforcement of any Encumbrance (as defined below) over its assets or for the appointment of a receiver and manager, trustee or similar officer of it or of any or all of its assets or revenues;
- (g) neither the Guarantor nor any member of the Group is (or would be with any of the giving of notice, lapse of time, determination of materiality or other condition) in breach of or in default under any deed, instrument or any agreement to which it is a party or which is binding on it or any of its assets which may have a Material Adverse Effect (as defined below);
- (h) save as disclosed to the Issuer and the Security Trustee prior to the date of the Loan Agreement, no action, litigation, arbitration, administrative proceeding or governmental or regulatory investigations, proceedings or disputes have been commenced, or are pending or threatened against the Borrower, the Guarantor or any other member of the Group and nor is there subsisting any unsatisfied judgment or award given against any of them by any court, arbitrator or other body which may have a Material Adverse Effect nor are there any circumstances reasonably likely to give rise to any such action, litigation, arbitration, administrative proceedings or governmental or regulatory investigations, proceedings or disputes;
- (i) the latest audited financial statements of the Borrower, the Guarantor and the Group were prepared in accordance with generally accepted accounting principles ("**GAAP**") and give a true and fair view of the financial condition of the Borrower, the Guarantor and the Group as of the date to which they were prepared;
- (j) neither the Borrower, the Guarantor nor any other member of the Group has any Encumbrance existing over all or any of its present or future revenues, undertakings or assets other than a Permitted Encumbrance;

- (k) all licences, consents and other approvals and authorisations necessary to enable the Borrower and the Guarantor to conduct their respective businesses have been obtained and are in full force and effect;
- (l) the execution of each of the Facility Documents by the Borrower and the Guarantor (as applicable) and the exercise of each of its rights and the performance of its obligations thereunder will not result in the creation of any Encumbrance (other than a Permitted Encumbrance) over or in respect of its present or future revenues, assets or undertakings;
- (m) each Loan Security Document creates the security interest which that security document purports to create or, if that security document purports to evidence a security interest, accurately evidences that security interest which has been validly created (subject to all necessary registrations of the same being completed within the relevant priority period) and, in each case, which are not liable to avoidance on liquidation or administration under Malaysian law;
- (n) (i) the Borrower is the absolute legal and beneficial owner (subject to any necessary registrations) of all of its assets subject to the Loan Security Documents and is entitled to use all of such assets necessary to carry on its business as presently conducted;
- (ii) without limitation to the generality of the foregoing and subject to any necessary registrations at the Kuching Land Registry Office, the Borrower is the sole legal and beneficial owner of, and has a good and legally marketable title in its own name to, its interest in all of the property of the Borrower; and
- (iii) no short term leases exist with respect to the land, buildings and other property of the Borrower which is subject to the fixed charge granted by the Borrower in favour of the Security Trustee;
- (o) (i) each of the insurances currently maintained by the Borrower is in full force and effect, all premiums due and payable thereon have been paid in full and there are no outstanding claims under any of the insurances which are not expected to be covered;
- (ii) in respect of the property, buildings insurance covering risks to properties and/or buildings is maintained either by it or another person with an interest in the property in an amount at least equal to its full replacement value as at the date of the latest valuation of the property (as determined in accordance with commercial property market practice generally) and covers those risks usually covered by and available to a reasonably prudent owner of property of the same nature as the property and/or buildings and in a comparable location;
- (iii) in respect of the property, there is in place at least a twelve-month period aggregate business interruption insurance;
- (iv) the Borrower is a named insured under a group and other insurance policies in respect of such risks as are usually covered by a reasonably prudent owner and the operator of properties or businesses similar to the property and business of the Borrower; and
- (v) the interest of the Security Trustee as first loss payee can be noted on the insurance policies set out in (ii) and (iii) above;
- (p) the Borrower has complied in all respects with all applicable environmental laws and it has obtained and complied in all respects with the terms of every consent, authorisation, licence or approval recognised under or pursuant to any applicable environmental laws;
- (q) there is no environmental claim pending or threatened against the Borrower and there are no past or present acts, omissions, events or circumstances that would be reasonably likely to form the basis of any environmental claim against it;

- (r) each of the Borrower, the Guarantor and each of the other members of the Group has complied in all material respects with all taxation laws in all jurisdictions in which it is subject to taxation and has paid all taxes due and payable by it and no claims are being asserted against it in respect of taxes save for assessments in relation to the ordinary course of its business or claims contested in good faith and in respect of which adequate provision has been made and disclosed in the latest Accounts (as defined below) or management accounts or information delivered to the Issuer thereunder;
- (s) the obligations of each of the Borrower and the Guarantor under each of the Facility Documents (as applicable) shall at all times rank at least *pari passu* with all its other present and future unsecured and unsubordinated Indebtedness (as defined below) with the exception of any obligations which are mandatorily preferred by law and not by contract;
- (t) no Default or Potential Default has occurred or is continuing;
- (u) the information, exhibits and reports furnished by the Borrower and the Guarantor to the Issuer in connection with the negotiation and preparation of each of the Facility Documents (as applicable) are true and accurate in all material respects and not misleading, do not omit material facts and all reasonable enquiries have been made to verify the facts and statements contained therein; there are no other material facts the omission of which would make any fact or statement therein misleading;
- (v) the Borrower has fully disclosed in writing to the Issuer all facts relating to the Borrower which the Borrower knows or should reasonably know and which are material for disclosure to the Issuer in the context of each of the Facility Documents;
- (w) it is not necessary to ensure the legality, enforceability or admissibility in evidence of any of the Facility Documents that it or any of them be filed or registered with any authority in Malaysia with the exception that the Land Charge must be registered with the Kuching Land Registry Office and each of the Land Charge and the Debenture must be filed with the Registrar of Companies in Malaysia;
- (x) there are no registration or documentary taxes, duties or similar charges now due, or which under the present laws of Malaysia could become due, in connection with the execution, delivery, performance and enforceability of any of the Facility Documents or in connection with any payment to be made pursuant thereto, or in connection with the admissibility in evidence thereof other than stamp duty of five hundred (500) Malaysian Ringgit payable on the Loan Agreement, one hundred (100) Malaysian Ringgit payable on each of the Loan Security Documents and ten (10) Malaysian Ringgit payable on the Security Sharing Agreement if they are brought into Malaysia;
- (y) the choice by the Borrower and the Guarantor of Malaysian law to govern the Loan Agreement and the submission by the Borrower and the Guarantor to the non-exclusive jurisdiction of the Malaysian courts is valid and binding;
- (z) neither the Borrower, the Guarantor nor any of their respective assets is entitled to immunity (on the grounds of sovereignty or otherwise) from suit, execution, attachment or other legal process, the entry by the Borrower and the Guarantor into each of the Facility Documents (as applicable) constitutes, and the exercise of its rights and performance of and compliance with its respective obligations under each of the Facility Documents (as applicable) will constitute, private and commercial acts done and performed for private and commercial purposes;
- (aa) there has been no change since 31 December, 2000 having a Material Adverse Effect;
- (bb) the Issuer's agreement to make and continue to make available the Facility to the Borrower will not cause the Issuer to contravene any law by which the Issuer is bound;
- (cc) the Guarantor and/or such other State Controlled Entities (or the State Government of Sarawak through one or more State Controlled Entities) is the legal and beneficial owner of at least 51 per cent. of the issued paid up share capital of the Borrower;

(dd) no step has been taken by the Borrower, its creditors or any of its shareholders or any other person on its behalf nor have any legal proceedings or applications been started or threatened under Section 176 of the Companies Act of Malaysia against the Borrower;

(ee) the execution, delivery and performance of each of the Facility Documents are within the corporate powers of the Borrower and do not contravene or violate any law or regulation, in particular, Section 133A of the Companies Act of Malaysia;

(ff) no step has been taken by the Borrower, its creditors or any of its shareholders or any other person on its behalf to apply to the Corporate Debt Restructuring Committee of Bank Negara Malaysia for the restructuring of the debts of the Borrower;

(gg) (i) all Intellectual Property Rights (as defined below) which have not been acquired by or created by the Borrower but which are used by the Borrower are used pursuant only to licences from the owners of such property; and

(ii) all Intellectual Property Rights which have been acquired by or created by the Borrower have been registered in the name of the Borrower in all relevant registers in all jurisdictions where necessary or desirable for the conduct of the business of the Borrower and all necessary certificates, permits and registrations from time to time required for the protection of such Intellectual Property Rights have been obtained;

(hh) all intellectual property licences are in full force and effect, the Borrower has not infringed the terms of any such licence and no notice of termination has been received by the Borrower with respect to any such licence; and

(ii) the contracts between the Borrower, Sharp Corporation and any other person, for the supply of processed wafers are each in full force and effect, the Borrower has not breached any terms of any such contracts and no notice of termination has been received by the Borrower with respect to any such contracts.

The representations to be given on the Closing Date will be repeated on each Loan Interest Payment Date by reference to the facts and circumstances then existing.

For these purposes:

"Accounts" means (a) in relation to the Borrower and the Guarantor, the audited consolidated accounts (including all additional information and notes thereto) of the Borrower and its subsidiaries and the Guarantor and its subsidiaries together with the relative directors' report and auditors' report; and (b) in relation to each of the Borrower's subsidiaries from time to time, its audited accounts (including all additional information and notes thereto) together with the relative directors' report and auditors' report.

"Encumbrance" means any mortgage, charge, assignment by way of security, pledge, lien, right of set-off, arrangement for retention of title or hypothecation or trust arrangement for the purpose of, or which has the effect of, granting security or other security interests of any kind whatsoever or any agreement whether expressed to be conditional or otherwise, to create any of the same or any agreement to sell or otherwise dispose of any asset on terms whereby such asset is or may be leased to or re-acquired or acquired by the Borrower or the Guarantor.

"Facility Period" means the period starting on the date of the Loan Agreement and ending on the date on which all of the obligations and liabilities of each of the Borrower and the Guarantor under the Loan Agreement and the Loan Security Documents are discharged in full and the Issuer has no continuing obligation in relation to the Facility.

"Indebtedness" means, in relation to each of the Borrower or the Guarantor or any other member of the Group, its obligation (whether present or future, actual or contingent, several or joint, secured or unsecured

and whether incurred as principal or surety) for the payment or repayment of money (whether in respect of interest, principal or otherwise) incurred in respect of any of:

- (a) moneys borrowed or raised;
- (b) any bond, note, loan stock, debenture, commercial paper or similar instrument;
- (c) any acceptance credit, bill discounting, note purchase, factoring facilities or documentary credit facilities;
- (d) the supply of any goods or services which is more than 45 days past the due date; except in the event of a bona fide dispute between that supplier and the Borrower or the Guarantor or any member of the Group;
- (e) any hire purchase agreement, conditional sale agreement or lease, where that agreement has been entered into primarily as a method of raising finance or financing the acquisition of any asset;
- (f) any guarantee, bond, indemnity, stand-by letter of credit or other similar instruments issued in connection with the performance of contracts;
- (g) any interest rate or currency swap agreement or any other hedging or derivatives instrument or agreement;
- (h) any arrangement pursuant to which any asset sold or otherwise disposed of by the Borrower or the Guarantor or any other member of the Group is to be or may be re-acquired or acquired by the Borrower or the Guarantor or any member of the Group (whether following the exercise of an option or otherwise); and
- (i) any underwriting, counter-indemnity, guarantee or similar assurances against financial loss in respect of the liability or obligation of any person given in respect of any of the above.

"Intellectual Property Rights" means any and all rights of copyright, design right, know-how, patent, registered design right, service mark, trade mark and any other intellectual property rights of any description whatsoever which are now used by or assigned to or which have been acquired by or created by the Borrower prior to the Closing Date or which are acquired by or created by or assigned to the Borrower at any time during the Facility Period.

"Material Adverse Effect" means a material adverse effect on:

- (a) the ability of the Borrower, the Guarantor or any other member of the Group to perform their obligations under the Facility Documents; or
- (b) the business, assets or financial condition or prospects of the Borrower, the Guarantor or the Group taken as a whole; or
- (c) the interests of the Issuer under the Loan Agreement; or
- (d) the Secured Assets.

"Permitted Encumbrance" means any Encumbrance:

- (a) subsisting under or in connection with the Loan Agreement or created or arising pursuant to any of the Loan Security Documents;
- (b) granted with the prior written consent of the Security Trustee;

- (c) arising by operation of law in the ordinary course of business in respect of Indebtedness which is less than 30 days overdue;
- (d) arising out of retention provisions in a supplier's conditions of supply in respect of goods acquired by any member of the Group in the ordinary course of its business; or
- (e) disclosed in writing to the Issuer and the Security Trustee prior to the date of the Loan Agreement.

Financial conditions

Under the terms of the Loan Agreement, the Borrower has agreed to conduct its future operations and business subject to the debt service coverage ratio covenant that the ratio of EBITDA to Debt Service calculated on a Rolling Basis (each as defined below) shall be not less than 1.5:1 (the "**Debt Service Coverage Ratio**").

For these purposes:

"Debt Service" means, in respect of the relevant period, the aggregate of all Interest Charges (as defined below) and principal repayments in respect of the Loan and the Pari Passu Debt which fell due, or which have fallen due, to be paid by the Borrower, whether or not paid, during such period.

"EBITDA" means, for the relevant period, the earnings of the Borrower before or, if already taken into account in calculating the net income of the Borrower, after adding back any of those items listed at (a) to (d) (inclusive) below and after making the required adjustments to exclude (without double counting) items referred to at (e), (f) and (g) below:

- (a) any provision on account of taxation;
- (b) any interest, commissions, discounts and other fees incurred by the Borrower in respect of financial indebtedness;
- (c) any amount attributable to amortisation of goodwill, or other intangible assets or the writing off of acquisition or refinancing costs and any deduction for depreciation;
- (d) fair value adjustments and other non-cash provisions;
- (e) save for any such items appearing in (d), items treated as extraordinary or non-operating exceptional charges under GAAP;
- (f) any amount attributable to the writing up or writing down of any assets of the Borrower; and
- (g) any amount of interest earned or accrued by the Borrower on any account whatsoever.

"Interest Charges" means, in respect of the relevant period, the aggregate amount of interest paid or which was payable or accrued on the Loan and the Pari Passu Debt by the Borrower (including any guarantee and any other commitment, fronting and similar fees in respect thereof, amounts in the nature of interest, discount charges and the interest element of rental under any finance leases) less any interest earned by the Borrower during such period (excluding, for the avoidance of doubt, any interest accrued but not paid on any loan or other credit extended by the Borrower).

"Rolling Basis" refers to the calculation of the Debt Service Coverage Ratio made on:

- (a) 19 December, 2001 in respect of the previous 6 months;
- (b) 19 June, 2002 in respect of the previous 12 months; and

- (c) thereafter on each Loan Interest Payment Date with respect to the immediately preceding (i) 6 months and (ii) 12 months.

Other covenants

The Borrower and the Guarantor have undertaken with the Issuer and the Security Trustee that neither of them will, where applicable, without the consent of the Issuer and the Security Trustee:

- (a) create or permit to subsist any Encumbrance (other than Permitted Encumbrances) over any of its revenues or assets;
- (b) make a Disposal (as defined below) other than:
 - (i) for fair market consideration on arm's length terms in the ordinary course of its business; or
 - (ii) where the proceeds of the Disposal are used immediately to purchase an asset to replace directly the asset the subject of that Disposal;
- (c) make or threaten to make any change in its business as at present conducted, which would result in a substantial change in the nature of the business carried on by the Borrower, and the Guarantor or the Group as a whole or carry on any other business which is substantial in relation to the business of the Borrower, and the Guarantor or the Group as at present conducted or make any material change in the terms and conditions upon which the Borrower, and the Guarantor or any other of the companies in the Group does business;
- (d) with respect to the Borrower or any other member of the Group:
 - (i) merge or consolidate with any other person or enter into any joint venture or partnership agreement; or
 - (ii) acquire any assets or business or make any investments if the assets, business or investment is substantial in relation to the Borrower or the Group and such acquisition or investment might, in the reasonable opinion of the Security Trustee, have a Material Adverse Effect;
- (e) with respect to the Borrower or any other member of the Group, make any loans or grant any credit (save for normal trade credit in the ordinary course of business) or give any guarantee to or for the benefit of any person;
- (f) with respect to the Borrower or any other member of the Group, permit the aggregate of all Secured Indebtedness to exceed U.S.\$620,000,000;
- (g) with respect to the Guarantor, the Borrower or any other member of the Group, redeem, repay, purchase, cancel or otherwise return, acquire or reduce all or any class or part of its issued share or loan capital or make any other capital distribution to its shareholders the effect of which would in the case of the Borrower reduce the issued and fully paid up share capital of the Borrower to less than Malaysian Ringgit 841,850,000;
- (h) with respect to the Borrower, declare or pay any dividend or declare or pay any other income or profit distribution to its shareholders or redeem any share capital or repay or prepay any loan to the Borrower from any shareholder of the Borrower if the financial condition described above has been breached;
- (i) with respect to the Borrower:
 - (i) use any Intellectual Property Rights which have not be acquired by or created by the Borrower except under licences from the owners of such intellectual property; and
 - (ii) fail to register any Intellectual Property Rights which have been acquired or created by the Borrower in the name of the Borrower in all jurisdictions and in all relevant registers where necessary or

desirable for the conduct of the business of the Borrower or fail to obtain all necessary certificates, permits and registrations from time to time required for the protection of such Intellectual Property Rights;

(j) with respect to the Borrower, infringe the terms of any intellectual property licence or in any way cause any such licence to cease to be in full force and effect or cause such licence to be terminated;

(k) with respect to the Borrower, breach any terms of its contracts for the supply of processed wafers and ensure that any such contracts remain in full force and effect and not cause any such contracts to be terminated; and

(l) with respect to any Note held or beneficially owned by the Borrower or the Guarantor, exercise any voting rights in respect of such Note and procure that the State Government of Sarawak does not exercise any voting rights in respect of any Notes held by it or any other State Controlled Entity.

The Borrower and the Guarantor have provided the Issuer and the Security Trustee with the benefit of certain other positive and negative covenants including, without limitation, covenants in relation to maintenance of insurances, notification of events of default and notification of litigation or administrative proceedings. In relation to compliance with such covenants, the Security Trustee will not be responsible for monitoring the Borrower (including the financial information produced by the Borrower from time to time) and instead shall be entitled to rely on a certification from the Borrower in respect of compliance therewith.

In addition, the Borrower will be required to pay additional amounts to the Issuer in the event that withholding tax is imposed on any payments to the Issuer under the Loan Agreement.

For these purposes:

"Disposal" means a sale, transfer or other disposal (including by way of lease or loan) by a person of all or part of its assets, whether by one transaction or a series of transactions (whether related or not) and whether at the same time or over a period of time.

"State Controlled Entity" means any person:

- (a) (i) which is controlled by the State Government of Sarawak; and
- (ii) in which the State Government of Sarawak is the legal and beneficial owner of not less than 51 per cent. of the issued share capital; or
- (b) which is a statutory corporation which is controlled by the State Government of Sarawak.

Information covenants

Each of the Borrower and the Guarantor have jointly and severally undertaken and agreed with the Security Trustee and the Issuer that throughout the Facility Period it shall:

(a) within 180 days after the end of each of its financial years, deliver to the Issuer and the Security Trustee copies in sufficient numbers for each of them, the Note Trustee, the Sub-Trustee and the Rating Agencies of their Accounts for the relevant financial year;

(b) within 28 days after the end of each period of three months during any financial year, deliver to the Issuer and the Security Trustee copies in sufficient numbers for each of them, the Note Trustee, the Sub-Trustee and the Rating Agencies of quarterly management accounts of the Borrower and each other member of the Group for such period; and

(c) within 21 days after the end of each calendar month during any financial year, deliver to the Issuer and the Security Trustee copies in sufficient numbers for each of them, the Note Trustee, the Sub-Trustee and the Rating Agencies of the monthly management accounting information of the Borrower and each other member of the Group.

Defaults

The Loan Agreement contains standard events (each such event a "**Default**") that may lead to an acceleration of amounts outstanding for a full recourse facility of this nature (a "**Loan Acceleration**"). These include events for non-payment, breach of covenant, misrepresentation, insolvency, illegality and a cross-acceleration provision. The delivery of a Note Enforcement Notice to the Security Trustee under Condition 8 of the Notes will automatically trigger a Loan Acceleration under the Loan Agreement.

Governing law

The Loan Agreement is governed by Malaysian law.

The Debenture

The Debenture is dated 15 June, 2001 and is made between the Borrower, the Issuer and the Security Trustee.

Secured Assets

Under the terms of the Debenture, the Borrower has created:

- (a) a first fixed charge in favour of the Security Trustee over, *inter alia*:
 - (i) all land and buildings, together with all trade and other fixtures, fixed plant and machinery from time to time on such land and buildings including the Borrower's silicon wafer processing foundry at Kuching, Sarawak;
 - (ii) all licences, copyrights, patents and any fees, royalties and other benefits deriving from such licences, copyrights and patents or such other rights now or hereafter belonging to the Borrower;
 - (iii) all receivables arising from the sale of the Borrower's products including the receivables arising under various contracts for the supply of processed wafers and payments arising therefrom;
 - (iv) all bank accounts in the name of the Borrower (other than the accounts of the Borrower with Bumiputra-Commerce Bank Berhad and RHB Bank Berhad opened in connection with certain facilities provided by the Pari Passu Lenders and/or any account opened by the Borrower with any other bank as required by the provisions of any guarantee, letter of credit or other facility provided in connection with any Pari Passu Debt);
 - (v) all stocks, shares, bonds and securities of any kind whatsoever whether marketable or otherwise and all other interests including but not limited to the interest which the Borrower has in any loan capital of the Issuer; and
 - (vi) any other assets of the Borrower over which it is possible to create a fixed charge; and
- (b) a first priority floating charge in favour of the Security Trustee over all of the other assets of the Borrower.

The Security Trustee will hold the benefit of the security created in its favour under the Debenture and the Land Charge on trust for the benefit of itself and the Loan Secured Parties upon and subject to the terms thereof.

The Borrower has covenanted in favour of the Security Trustee, broadly, that while any amounts remain due and outstanding under the Loan Agreement it will not take any steps or pursue any action for the purpose of recovering any debts due or owing to it by the Issuer or as applicable, to petition or procure the petitioning for the winding up of the Issuer.

At any time after the amounts outstanding under the Loan Agreement have become due and repayable and the security created by the Loan Security Documents has become enforceable, none of the Loan Secured Parties (other than the *Pari Passu* Lenders) will be entitled to proceed directly against the Borrower or prove in the liquidation or winding up of the Borrower unless the Security Trustee, having become bound so to proceed, fails to do so within a reasonable period of being so bound and such failure is continuing. For a discussion of the rights of the *Pari Passu* Lenders to take such action, see "Investment Considerations—Business Considerations—*Pari Passu Debt*".

Upon a Loan Acceleration in accordance with the provisions of the Loan Agreement all payments under or arising from the Debenture (subject as provided below) will be required to be made to the Security Trustee or to its order.

Enforcement

If the security constituted by the Security Trust Deed and the Loan Security Documents is enforced or the Security Trustee reasonably believes that the security created by the Loan Security Documents is threatened or in jeopardy or prejudiced, then the Security Trustee will be entitled to serve a notice which will result in the floating charges contained in the Debenture over the assets, property and undertaking of the Borrower crystallising so as to become fixed charges. In addition, the floating charges of the Borrower contained in the Debenture will automatically crystallise so as to become a fixed charge on the occurrence of, *inter alia*, an insolvency event in relation to the Borrower. All monies standing to the credit of all bank accounts of the Borrower may, in either of these circumstances, only be withdrawn with the prior consent of the Security Trustee.

All monies received or recovered by the Security Trustee under the Loan Security Documents following a Loan Acceleration or enforcement of the security constituted by the Security Trust Deed or the Loan Security Documents will be applied in accordance with the provisions of the Security Sharing Agreement. See "—The Security Sharing Agreement".

Governing law

The Debenture is governed by Malaysian law.

The Land Charge

The Land Charge is dated 15 June, 2001 and is made between the Borrower, the Issuer and the Security Trustee and creates a first fixed charge in favour of the Security Trustee as agent and trustee for and on behalf of the Loan Secured Parties.

Security

Under the Land Charge, the Borrower has created a first fixed charge in favour of the Security Trustee over all land held under the Lease of State Land, Lot 1339, Block 12, Muara Tebas Land District, Kuching, Sarawak, together with fixtures and/or building(s) erected or to be erected thereon or affixed or to be affixed thereto (the "**Land**").

Covenant to pay

The Borrower has covenanted to pay on demand to the Security Trustee for the account of itself and the Issuer all moneys and liabilities (whether principal, interest, fees or expenses, present, future or contingent, joint or several, certain or uncertain, and whether as principal or surety), which are or at any time may become due or owing by the Borrower to the Issuer under the Loan Agreement (the "**Secured Amounts**") and the Land Charge and, *inter alia*, all costs, charges and other expenses which the Security Trustee may pay or incur in registering the Land Charge or in perfecting the present securities or in enforcing or obtaining payment of all such monies.

Restriction against other charges

The Borrower is restricted during the subsistence of the Land Charge from, without the consent in writing of the Security Trustee and other than in respect of the Debenture, executing or permitting to exist any form of assignment,

charge, mortgage, debenture (whether fixed or floating), pledge or lien in respect of the property secured by the Land Charge.

Covenants

The Borrower has covenanted with the Security Trustee as agent and trustee for and on behalf of the Loan Secured Parties that, *inter alia*, it shall during the continuance of the Land Charge:

- (a) let the Security Trustee as agent and trustee for and on behalf of the Loan Secured Parties have the custody or possession of the original documents of title to the Land so long as the Secured Amounts remain undischarged;
- (b) punctually pay all rents, rates, taxes and all outgoings payable in connection with or arising out of the Land or of the Borrower's business and obtain or cause to be obtained all necessary licences and comply with all regulations relating to the carrying on of such business;
- (c) maintain all buildings on the Land or any part thereof and all fittings and fixtures in tenantable repair and condition;
- (d) observe and comply with any conditions, covenants, restrictions and category of land use binding on the Land or buildings;
- (e) give to the Security Trustee within 7 days of receipt, full particulars of any notice or proposal by or on behalf of any planning, local government, public health, sanitary, housing or other authority;
- (f) on receipt of a notice in writing from the Security Trustee that in the opinion of the Security Trustee any use by the Borrower of the Land or any part thereof or any buildings thereon for any reason whatsoever is calculated to affect adversely the security of the Security Trustee, discontinue such use forthwith;
- (g) not sell, transfer, charge or dispose of or otherwise deal with the Land or any part thereof or any interest therein or make any application for the alteration of the category of land use or for the imposition of any new category of land use in respect of the Land or any part thereof;
- (h) not lease or let out or grant any licence or otherwise part with the possession of the Land or any part thereof or any building or fixture thereon or any part thereof without the consent in writing of the Security Trustee;
- (i) at all reasonable times permit the Security Trustee, the Issuer or their nominees to have access to the Land or any part thereof and to have access to the books of account and records relating to the Land; and
- (j) upon request by the Security Trustee procure or cause to be procured for the Security Trustee a valuation of the Land or any part thereof, such valuation to be carried out at the Borrower's cost and expense by independent professional valuers/surveyors acceptable to the Security Trustee.

The Security Trustee will hold the benefit of the security created in its favour under the Land Charge and the Debenture on trust for the benefit of itself and the Loan Secured Parties upon and subject to the terms thereof.

Insurance

The Borrower shall keep the Land in good order and condition and insured at its expense with the Security Trustee's interest as first loss payee endorsed on the insurance policy to their full insurable value. The Borrower shall punctually pay all premiums necessary for maintaining such insurance. Monies received or receivable under any such insurance shall at the option of the Security Trustee acting on the instructions of the Note Trustee or the Sub-Trustee be applied in replacing or restoring or reinstating the properties and assets, plant, equipment and machinery destroyed or damaged.

Governing law

The Land Charge is governed by Malaysian law.

The Security Trust Deed

The Security Trust Deed will be entered into on the Closing Date by the Issuer, the Note Trustee, the Sub-Trustee, the Security Trustee, the Registrar, the Principal Paying Agent, the Calculation Agent and the Transfer Agents.

Delegation to Sub-Trustee

The Note Trustee will delegate all of the duties, rights, powers, authorities and discretions exercisable by it under the Security Trust Deed, the Notes and the Agency Agreement to the Sub-Trustee. All references to the Note Trustee in the Security Trust Deed, the other Transaction Documents and this Offering Circular will be construed as, where the context so permits, references to the Sub-Trustee.

Charged Property

Under the Security Trust Deed, the Issuer will grant the following security in favour of the Note Trustee who will hold such security on trust for the benefit of itself and the other Note Secured Parties:

- (a) an absolute legal assignment by way of security over all its rights, title, interest and benefit present and future in, to and under the Loan Agreement, the SEDC Guarantee, the Letter of Support, the Agency Agreement, the Subscription Agreement, the Security Sharing Agreement and the Debenture including, without limitation, all rights to receive payment of any amounts which may become payable to the Issuer thereunder and all payments received by the Issuer thereunder, all rights to serve notices and/or make demands thereunder and/or take such steps as are required to cause payments to become due and payable thereunder and all rights of action in respect of any breach thereof and all rights to receive damages or obtain other relief in respect thereof;
- (b) a sub-charge by way of first fixed sub-charge over all its rights, title, interest and benefit present and future in, to and under the Land Charge and any deeds or agreements supplemental thereto and all monies assured by or payable thereunder and the benefit of all covenants relating thereto and all powers and remedies for enforcing the same;
- (c) a charge by way of first fixed charge over all its rights, title, interest and benefit present and future in and to all monies now or at any time hereafter standing to the credit of the Payment Account, the Reserve Fund and any bank account of the Issuer wherever located, together with all interest accruing from time to time thereon and the debts represented thereby;
- (d) a charge by way of first fixed charge over all its rights, title, interest and benefit present and future in and to any Eligible Investments to be made from time to time by or on behalf of the Issuer using monies standing to the credit of the Trust Accounts, and all monies, income and proceeds payable thereunder or accrued thereon and the benefit of all covenants relating thereto and all rights and remedies for enforcing the same;
- (e) a charge by way of first fixed charge over the whole of its undertaking and assets to the extent that such undertaking and assets are not effectively encumbered by the assignments referred to in paragraph (a) above and the sub-charge and charges referred to in paragraphs (b) to (d) (inclusive) above; and
- (f) a charge by way of first floating charge over the whole of its undertaking and assets to the extent that such undertaking and assets are not effectively encumbered by the assignments referred to in paragraph (a) above and the sub-charge and charges referred to in paragraphs (b) to (e) (inclusive) above,

all as more particularly set out in the Security Trust Deed.

Trust Accounts

(a) *Establishment of the Payment Account:* The Sub-Trustee shall establish in Hong Kong a segregated U.S. Dollar denominated account (the "**Payment Account**") at Deutsche Bank AG, Hong Kong in the name of, and to be held on trust by, the Sub-Trustee, which account shall clearly identify the Sub-Trustee as the accountholder in its title in the records of Deutsche Bank AG, Hong Kong. The Payment Account shall at all times be held with an Eligible Institution (as defined below).

The Sub-Trustee shall possess (for the benefit of the Note Secured Parties) all right, title and interest in and to the Payment Account and all funds on deposit from time to time in the Payment Account and in all proceeds thereof. The Payment Account shall be under the sole dominion and control of the Sub-Trustee for the benefit of the Note Secured Parties. The Issuer will agree that it shall have no right of set-off against, and no right otherwise to deduct from, any funds held in the Payment Account for any amount owed to it by the Sub-Trustee or any party.

(b) *Establishment of the Reserve Fund:* The Sub-Trustee shall establish in Hong Kong a segregated U.S. Dollar denominated account (the "**Reserve Fund**" and together with the Payment Account, the "**Trust Accounts**") at Deutsche Bank AG, Hong Kong in the name of, and to be held on trust by, the Sub-Trustee, which account shall clearly identify the Sub-Trustee as the accountholder in its title and in the records of Deutsche Bank AG, Hong Kong. The Reserve Fund shall at all times be held with an Eligible Institution.

The Sub-Trustee shall possess (for the benefit of the Note Secured Parties) all right, title and interest in and to the Reserve Fund and all funds on deposit from time to time in the Reserve Fund and in all proceeds thereof. The Reserve Fund shall be under the sole dominion and control of the Sub-Trustee for the benefit of the Note Secured Parties. The Issuer will agree that it shall have no right of set-off against, and no right otherwise to deduct from, any funds held in the Reserve Fund for any amount owed to it by the Sub-Trustee or any party.

For these purposes:

"Eligible Institution" means Deutsche Bank AG and any commercial bank outside Malaysia and Labuan whose short term deposits are rated at least P-1 by Moody's and A-1 by S&P and which is reasonably acceptable to the Sub-Trustee.

(c) *Required Amount:* Subject to availability of funds in the Payment Account, the Sub-Trustee shall ensure that the amounts on deposit in the Reserve Fund on the Closing Date and on each Note Interest Payment Date shall be equal to the aggregate amount payable by the Issuer to the Note Secured Parties on the next succeeding Note Interest Payment Date under the provisions of the Security Trust Deed and the Notes and, in respect of each Note Interest Payment Date, shall not be less than the amount on deposit in the Reserve Fund on the Closing Date (the "**Required Amount**"). The Sub-Trustee shall determine the Required Amount for each Note Interest Payment Date on the immediately preceding Note Interest Payment Date and, in respect of the Closing Date, on 15 June, 2001, upon receipt of notification from the Calculation Agent of the amount payable in respect of interest on the Notes on such Note Interest Payment Date.

On any Note Interest Payment Date on which the amount on deposit in the Reserve Fund is less than the Required Amount, the Sub-Trustee shall immediately notify the Borrower and the Security Trustee of such shortfall and shall request the Borrower to remit an amount equal to the amount by which the balance on deposit in the Reserve Fund is less than the Required Amount into the Payment Account on or before the third Business Day following such Note Interest Payment Date in accordance with the provisions of the Loan Agreement. Upon receipt of such funds into the Payment Account, the Sub-Trustee shall transfer from the Payment Account to the Reserve Fund such amounts until the Required Amount is on deposit therein. On any Note Interest Payment Date on which the amount on deposit in the Reserve Fund exceeds the Required Amount, the Sub-Trustee shall transfer such excess amount from the Reserve Fund to the Payment Account for application in accordance with the provisions of the Security Trust Deed and the Conditions.

Application prior to Note Enforcement

All monies received by or on behalf of the Issuer, the Note Trustee or the Sub-Trustee prior to service of a Note Enforcement Notice or enforcement by the Note Trustee of the security constituted by the Security Trust Deed shall be applied in the following order of priority on each Note Interest Payment Date and on any other relevant date:

- (a) *first*, in or towards satisfaction, *pro rata* according to the respective amounts thereof, of:
 - (i) the fees or other remuneration and indemnity payments (if any) payable to the Note Trustee and any costs, charges, liabilities and expenses incurred by the Note Trustee under the provisions of the Security Trust Deed, and any other amounts payable to it thereunder;
 - (ii) the fees or other remuneration and indemnity payments (if any) payable to the Security Trustee and any costs, charges, liabilities and expenses incurred by it under the provisions of the Loan Agreement, the Loan Security Documents and the Security Sharing Agreement, and any other amounts payable to it thereunder;
 - (iii) the fees or other remuneration and indemnity payments (if any) payable to the Sub-Trustee and any costs, charges, liabilities and expenses incurred by it under the provisions of the Security Trust Deed, and any other amounts payable to it thereunder; and
 - (iv) the fees or other remuneration and indemnity payments (if any) payable to the Agents and any costs, charges, liabilities and expenses incurred under the provisions of the Agency Agreement, and any other amounts payable to them thereunder;
- (b) *second*, in or towards satisfaction of all the amounts of interest due or accrued due but unpaid on the Notes;
- (c) *third*, in or towards satisfaction of all the amounts of principal payable in respect of the Notes pursuant to the Conditions;
- (d) *fourth*, to deposit into the Reserve Fund any amounts then required to be deposited therein up to the Required Amount; and
- (e) *fifth*, in making or providing for any payment of dividends to the shareholders of the Issuer.

To the extent that the Issuer's funds on the relevant Note Interest Payment Date are sufficient to pay the amounts set out above, such amounts will be paid to the persons entitled thereto or so applied on such Note Interest Payment Date.

If, on the second Business Day immediately preceding each Note Interest Payment Date, the Sub-Trustee, after making the calculations necessary to give effect to the transfers contemplated in (a) to (c) (inclusive) above, determines that a Payment Shortfall (as defined below) exists, the Sub-Trustee will withdraw from the Reserve Fund, no later than the Business Day immediately preceding such Note Interest Payment Date, an amount equal to the lesser of (i) such Payment Shortfall and (ii) the amount standing to the credit of the Reserve Fund on such date.

For these purposes:

"Payment Shortfall" means, with respect to any Note Interest Payment Date, the amount if positive, of:

- (i) the amounts due under (a) to (c) (inclusive) above on such Note Interest Payment Date; *less*
- (ii) the amount on deposit in the Payment Account on the second Business Day immediately preceding such Note Interest Payment Date.

Application following Note Enforcement

All moneys received by or on behalf of the Issuer, the Note Trustee, the Sub-Trustee or any receiver following service of a Note Enforcement Notice or enforcement by the Note Trustee of the security constituted by the Security Trust Deed shall be applied in or towards payment in the following order of priority:

- (a) *first*, in or towards satisfaction, *pro rata* according to the respective amounts thereof, of:
 - (i) the fees or other remuneration and indemnity payments (if any) payable to the Note Trustee and any receiver appointed by the Note Trustee or the Sub-Trustee and any costs, charges, liabilities and expenses incurred by the Note Trustee and any receiver under the provisions of the Security Trust Deed, and any other amounts payable to either of them thereunder;
 - (ii) the fees or other remuneration and indemnity payments (if any) payable to the Security Trustee and any costs, charges, liabilities and expenses incurred under the provisions of the Loan Agreement, the Loan Security Documents and the Security Sharing Agreement, and any other amounts payable to it thereunder;
 - (iii) the fees or other remuneration and indemnity payments (if any) payable to the Sub-Trustee and any costs, charges, liabilities and expenses incurred by it under the provisions of the Security Trust Deed, and any other amounts payable to it thereunder; and
 - (iv) the fees or other remuneration and indemnity payments (if any) payable to the Agents and any costs, charges, liabilities and expenses incurred under the provisions of the Agency Agreement, and any other amounts payable to them thereunder;
- (b) *second*, in or towards satisfaction of all the amounts of interest and principal due or accrued due but unpaid under the Notes; and
- (c) *third*, the surplus, if any, to the Issuer but only after all amounts due and payable to the Note Secured Parties pursuant to paragraphs (a) and (b) above have been fully paid and are no longer outstanding.

If, on the second Business Day immediately preceding each Note Interest Payment Date, the Sub-Trustee, after making the calculations necessary to give effect to the transfers contemplated in (a) to (b) (inclusive) above, determines that a Payment Shortfall (as defined below) exists, the Sub-Trustee will withdraw from the Reserve Fund, no later than the Business Day immediately preceding such Note Interest Payment Date, an amount equal to the lesser of (i) such Payment Shortfall and (ii) the amount standing to the credit of the Reserve Fund on such date.

None of the Note Secured Parties (other than the Note Trustee and the Sub-Trustee) will be entitled to proceed directly against the Issuer for the purpose of recovering any debts due or owing to it by the Issuer or to petition or procure the petitioning for the winding up unless the Note Trustee or the Sub-Trustee, having become bound to do so, fails to do so within 30 days and such failure is continuing.

The security created under the Security Trust Deed will become enforceable upon the occurrence of an Event of Default (as defined in Condition 8), provided that, if such security has become enforceable otherwise than by reason of a default in payment of any amount due on the Notes, the Note Trustee will not be entitled to dispose of the assets comprising the security or any part thereof unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Noteholders, or the Note Trustee is of the opinion, which is binding on the Note Secured Parties, reached after considering at any time and from time to time the advice of any professional advisors as are at the time selected by the Note Trustee, that the cash flow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Noteholders. See "Terms and Conditions of the Notes—Condition 9".

Governing law

The Security Trust Deed will be governed by English law.

The Security Sharing Agreement

The Security Sharing Agreement is dated 15 June, 2001 and is made between the Issuer and the Security Trustee.

The Security Sharing Agreement sets out the priority of the rights of the Issuer and the Pari Passu Lenders under the Security Sharing Agreement and the Loan Security Documents, together with any proceeds of realisation thereof as held on trust on their behalf by the Security Trustee, such rights ranking *pari passu* in all respects.

Application of security proceeds

After the security created by the Loan Security Documents becomes enforceable, all monies and other property and any amounts held, received, realised or recovered by the Security Trustee or any Loan Secured Party under any of the Loan Security Documents shall be applied as follows:

- (a) *first*, in or towards satisfaction of the fees or other remuneration and indemnity payments (if any) payable to the Security Trustee and any receiver appointed by the Security Trustee and any costs, charges, liabilities and expenses incurred by the Security Trustee and any receiver under the provisions of the Loan Agreement, the Loan Security Documents and the Security Sharing Agreement, and any other amounts payable to either of them thereunder;
- (b) *second*, in or towards satisfaction, *pro rata* according to the respective amounts thereof, of:
 - (i) the Borrower's obligations to pay all amounts then due but unpaid under the Loan Agreement to the Issuer; and
 - (ii) the Borrower's obligations to pay all amounts then due but unpaid in respect of the Pari Passu Debt to the Pari Passu Lenders; and
- (c) *third*, the surplus (if any) to the Borrower.

Limitation of liability of the Security Trustee

The Security Trustee and its respective directors, officers, employees or agents shall not be liable:

- (a) for the execution, validity, enforceability or effectiveness of the Security Sharing Agreement and the Loan Security Documents or other related documents or any document delivered pursuant thereto or connected therewith; or
- (b) for any failure of the Borrower to duly and punctually observe and perform any of their respective obligations under the Security Sharing Agreement, the Loan Security Documents and/or the other documents relating thereto; or
- (c) for any statements, representations or warranties made or referred to in the Security Sharing Agreement, the Loan Security Documents and/or the other related documents or any information given in connection with the Security Sharing Agreement, the Loan Security Documents and/or the other documents relating thereto; or
- (d) for any action taken or omitted to be taken by any of them in good faith and in the absence of gross negligence, fraud and wilful default under or in connection with the Security Sharing Agreement, the Loan Security Documents and/or the other documents relating thereto; or
- (e) for the consequences of relying on any communication or document believed by any of them to be genuine and correct and to have been communicated or signed by the person by whom it purports to be communicated or signed; or

(f) for the consequences of relying on the advice of any professional advisers selected by any of them in connection with the Security Sharing Agreement, the Loan Security Documents and/or the documents relating thereto; or

(g) in any circumstances or for any other reason whatsoever to account to the Loan Secured Parties or any other person for any loss or damage or diminution in price arising from any realisation by the Security Trustee of all the rights, interest, title and benefit assigned under the Loan Security Documents or the Security Sharing Agreement or any part thereof unless such loss or damage shall be caused by the Security Trustee's own fraud, wilful default or gross negligence.

Governing law

The Security Sharing Agreement is governed by Malaysian law.

THE SEMICONDUCTOR INDUSTRY

Introduction

Wafers of silicon semiconductor are used as the base material in the manufacture, or "fabrication", of semiconductor devices. The wafers are thin, polished discs of silicon dioxide produced in a variety of sizes and are similar in appearance to compact discs. The industry standard size is 200mm in diameter (or approximately 8 inches).

In order to produce semiconductors for use in a particular application, each wafer is imprinted with hundreds of integrated circuits ("ICs") which have been developed specifically for such application. Once the wafer has been processed in this way, each IC is cut out of the wafer and packaged. Each IC, which can incorporate several electronic features designed and fabricated as a single unit, is etched together with its interconnections onto the surface of the silicon wafer. The circuit consists of microscopic elements forming a unitary structure with no connecting wires. The thickness or resolution of the lines of circuitry which make up each individual IC is known as the "geometry" of the IC. The predominant industry geometry is an IC of 0.25 microns (a micron being 1/1,000,000 of a metre) although certain leading-edge applications require ICs with a geometry of 0.18 microns or smaller.

Semiconductors are the vital components in an increasingly wide range of applications from the computer, automotive, biotechnology, aeronautical, space engineering, telecommunications and defence systems industries, to the development of state-of-the-art consumer products. As their performance has increased and geometries and costs have decreased, the use of semiconductors has grown considerably and there is increasing demand for new products that provide higher performance at a lower base cost.

Prior to 1990, the majority of silicon wafer processing was undertaken by the world's large electronics companies. These companies designed their own ICs, processed wafers with these designs and manufactured the silicon chips from the wafers for their own electronic products. Such companies are referred to by the generic term "integrated device manufacturers" (or "**IDMs**").

In the early 1990's, a new business model, the dedicated or "pure-play" wafer processing foundry, appeared in the form of TSMC, UMC in Taiwan and Chartered Semiconductor Manufacturing ("**CSM**") in Singapore. These companies differed from IDMs in that they did not design their own ICs or produce their own end-products. The purpose of the companies was to provide wafer processing capacity to the world's electronics companies. With leading-edge technology, high capacity utilisation, competitive labour costs and concentration solely on the wafer processing stage of the semiconductor manufacturing process, the efficiency of the wafer foundry model has transformed the way the semiconductor market operates.

Following the development of dedicated wafer foundries, IDMs began to outsource their wafer production to these foundries and two other types of semiconductor companies emerged: system original equipment manufacturers ("**OEMs**") and fabless semiconductor companies ("**FCs**").

OEMs are electronic device manufacturers which design their own ICs, but unlike IDMs, sell them for use in other companies' products. OEMs outsource some of their IC production to wafer foundries. FCs subcontract all of their IC manufacturing to wafer foundries and focus their resources on the design and marketing of the ICs.

The majority of OEMs and FCs depend on the existence of dedicated wafer foundries. It is due to the emergence of OEMs and FCs, coupled with the cost benefits to IDMs of outsourcing an increasing amount of their wafer processing, that there has been a rapid growth in outsourcing to dedicated wafer foundries and an increase in the number of wafer fabs world-wide to absorb this increasing demand for capacity.

Wafer Processing

The equipment which performs the function of printing the IC design onto a wafer of silicon (a "**stepper**" or "**scanner**") uses state-of-the-art optical and chemical processes. The layers of silicon are etched, leaving the outline of the IC which can then be coated in metal layers to provide the electrical conductivity. The basic procedure for imprinting the wafer with ICs is as follows:

- (a) The starting point for the processing stage is a polished wafer of silicon dioxide.
- (b) In order to make the silicon conducting, it is "doped" with positively and negatively charged ions (using an ion implantation device) creating a "pn-junction" across which an electric current can flow. Ion implantation occurs many times throughout the processing stage as layers of circuitry are etched into the silicon substrate.
- (c) The wafer is then coated with an insulating oxide layer in a piece of equipment called a "furnace". A piece of glass on which the IC circuiting design is laid out (a "**mask**") is placed over the wafer and a photolithography machine (which has a UV laser and produces a highly focussed beam of light) prints the circuit design from the mask onto the wafer.
- (d) The oxide layer is then coated with either a layer of polysilicon (a "**poly layer**") or a layer of metal (a "**metal layer**"). The wafer is then washed in various chemical baths which etch away the areas not imprinted with the circuit. The process is repeated and the more complicated the circuit design, the more poly and metal layers are required. As a typical IC is anywhere between a few millimetres square to a few centimetres square, a typical 200mm diameter wafer may therefore contain between 100 and 1,000 ICs, all of the same design.

Supply and Demand

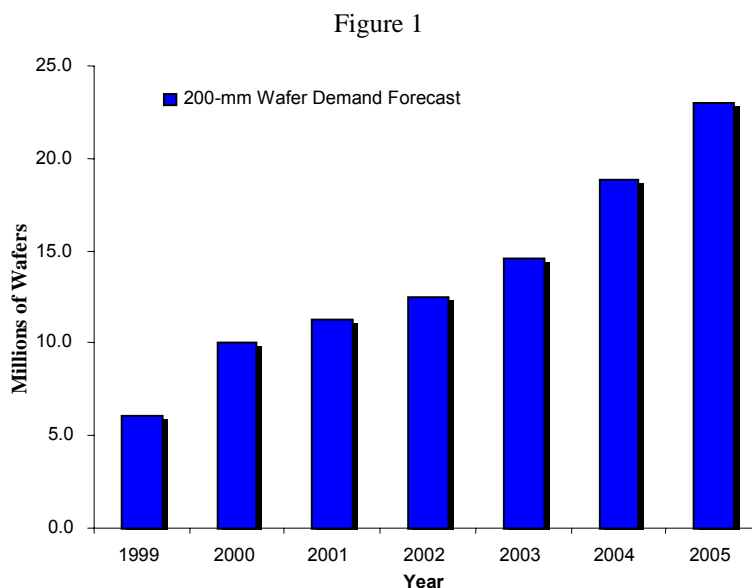
Taiwan's two wafer foundries, TSMC and UMC, between them provide approximately 59 per cent. of world-wide capacity. CSM is the next largest with around 10 per cent. of world-wide capacity, with the remaining 30 per cent. being split among smaller fabs operating in North America, Japan, Korea, Israel, Europe and Malaysia. At full production of 30,000 WOPM, the Borrower will represent approximately 2 per cent. of world-wide capacity. Approximately 65 per cent. of the total global market for this capacity is situated in North America. Demand for processed wafers from FCs, IDMs and OEMs is split approximately 53 per cent., 40 per cent. and 7 per cent., respectively. The communications, consumer electronics and personal computer, data processing and internet related ("**PC**") industries are the three major application areas for semiconductor wafers, comprising over 95 per cent. of sales in the wafer foundry market. These three application areas will continue to drive demand in the semiconductor wafer industry, with communications representing the largest and fastest growing demand sector at 54 per cent. for the year 2000.

The semiconductor market tends to follow cycles which are driven mainly by available processing capacity versus demand for electronics products. The boom period of the early to mid-nineties was fuelled by the PC revolution and in particular, high demand for memory devices. Late 1997 and 1998 then saw what is regarded as one of the worst downturns in the history of the semiconductor industry. This was partly due to over-supply in memory devices caused by accelerating technology (or "shrinkage") producing more memory per unit area in a sluggish PC market, and was exacerbated by the Asian crisis which reduced demand from Asian consumers and electronics companies for semiconductor products.

The semiconductor industry entered a new phase of growth in 1999. Driven by high demand for semiconductors in wireless telephony, internet infrastructure and digital consumer products, the world-wide semiconductor market grew 18 per cent. in 1999 and 31 per cent. in 2000. However, by the fourth quarter of 2000 there was a slowdown in the semiconductor market, and as at the date of this Offering Circular, the industry is experiencing a market downturn caused primarily by low growth forecasts in the PC and communications markets coupled with surplus stocks of semiconductors. The current downturn is expected to bottom-out in the third quarter of 2001.

Along with OEMs and FCs, IDMs are increasingly outsourcing their wafer processing to pure-play foundries as they can access their state-of-the-art process technology whilst at the same time reducing the potential for conflicts of interest with, and protecting their intellectual property from, other IDMs. IDMs account for approximately 66 per cent. of the semiconductor manufacturing market. As the fabrication of ICs requires increasingly sophisticated manufacturing techniques, it can generally prove to be more cost effective for an IDM to outsource wafer processing to a pure-play foundry rather than invest in the technology itself. Because of the cost of upgrading the processing systems, a high level of capacity utilisation is required to ensure full absorption of the fixed costs related to the upgrade. Pure-play foundries can achieve a higher level of utilisation than IDMs as they are less susceptible to swings in market demand for particular products due to greater product diversification.

Figure 1 below illustrates the actual (1999-2000) and forecast (2001-2005) world-wide demand for pure-play foundry wafers expressed as units of 200 mm.



Source: Dataquest (March 2001)

The pure-play foundry market is currently a U.S.\$12.9 billion industry. Due to the current downturn this market is predicted to grow in revenue terms by 11 per cent. in 2001 and 7 per cent. in 2002. Growth is then predicted to recover in 2003 to 19 per cent. as a new period of high growth is entered and the pure-play foundry market is predicted to reach U.S.\$30 billion, over twice its present size, and will account for approximately 25 per cent. of world-wide semiconductor revenue by 2005. Tables 1 and 2 below show forecast revenue from pure-play foundries by region and customer type, respectively, and Table 3 below shows an equivalent forecast for wafer shipments by customer type.

Table 1: Forecasted Foundry Revenue by Region
(U.S.\$ billions)

	1999	2000	2001	2002	2003	2004	2005
North America	5.278	9.021	10.034	11.147	13.265	18.172	22.534
Japan	0.939	1.618	1.648	1.285	1.529	2.095	2.598
Europe	0.671	1.205	1.262	1.314	1.563	2.142	2.656
Asia/Pacific	0.618	1.056	1.311	1.478	1.759	2.410	2.989
Total	7.506	12.900	14.255	15.224	18.116	24.819	30.776

Table 2: Forecasted Foundry Revenue by Customer Type
(U.S.\$ billions)

	1999	2000	2001	2002	2003	2004	2005
FC	4.624	7.869	8.553	9.256	11.142	14.817	17.850
IDM	2.322	4.128	4.704	4.872	5.616	8.066	10.464
System OEM	0.560	0.903	0.998	1.096	1.359	1.936	2.462
Total	7.506	12.900	14.255	15.224	18.117	24.819	30.776

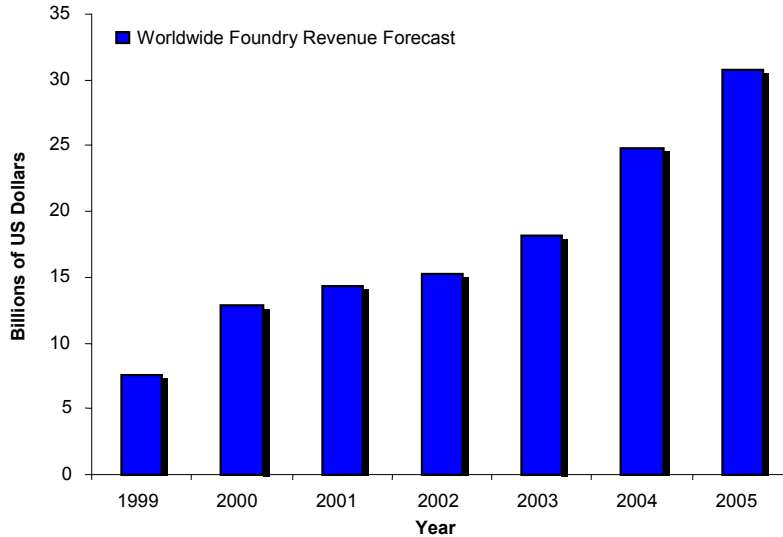
Table 3: Forecasted Foundry Wafer Shipments by Customer Type
(in millions of 200mm equivalents)

	1999	2000	2001	2002	2003	2004	2005
FC	3.2	5.3	5.9	6.6	7.8	9.7	11.5
IDM	2.4	4.0	4.6	5.0	5.7	7.7	9.7
System OEM	0.5	0.7	0.8	0.9	1.1	1.4	1.8
Total	6.0	10.0	11.3	12.5	14.6	18.9	23.0

Source for Tables 1, 2 and 3: Dataquest, Inc.: "Year-End 2000 Forecast: Semiconductor Foundry Services, Market Trends".

For the forecasts of wafer demand from pure-play foundries to be fulfilled, more capacity than is currently available will be required. Figure 2 below shows the actual (1999-2000) and forecasted (2001-2005) revenues for pure-play foundries between 1999 and 2005.

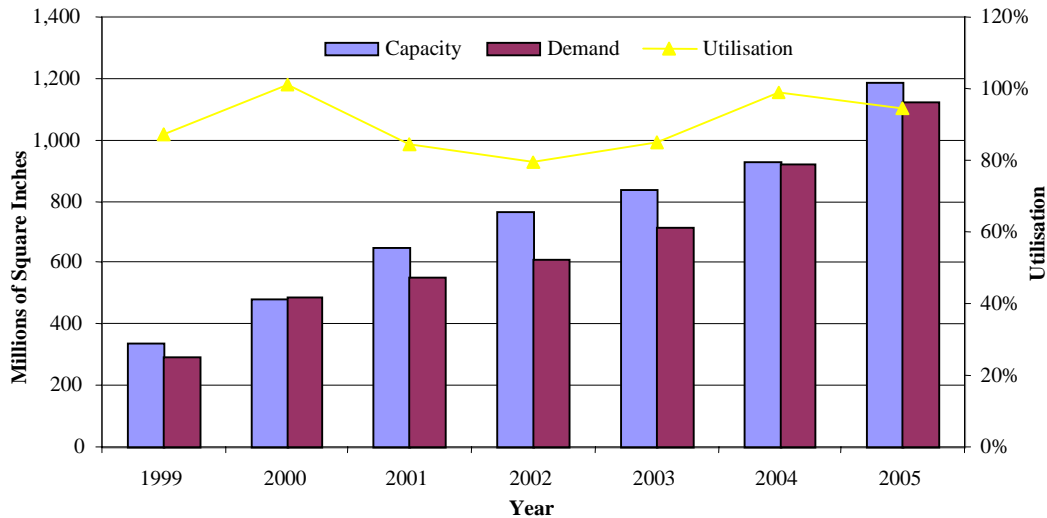
Figure 2



Source: Dataquest (March 2001)

Due to the current downturn, an under utilisation of capacity during the next two years is predicted. Figure 3 below shows world-wide foundry capacity versus demand between 1999 and 2005. However, this is across all geometries and utilisation of capacity at geometries of 0.25 microns and below will continue to be higher than for lagging-edge geometries.

Figure 3



Source: Dataquest (March 2001)

Tables 4 and 5 below show a detailed analysis and forecast of wafer demand and wafer supply at differing wafer geometries to 2002, incorporating predictions for the number of new fabs coming on-line. Table 6 below then compares this forecast supply and demand to forecast capacity utilisation. The supply/demand predictions in Figure 4 below (up to the end of 2004 for geometries less than or equal to 0.25 microns) have been compiled from the data

in Table 6. The foundry industry regards an over-capacity of between 5 per cent. and 10 per cent. to be desirable because it gives the foundries flexibility to adjust to changing customer demand.

Table 4 Foundry Demand Breakdown by Geometries

200 mm equivalent wafer demand	1999	2000	2001	2002
>= 0.80 m	370,956	584,345	488,879	383,762
0.50 m	986,845	904,772	831,269	732,510
0.35 m	1,960,431	2,617,562	2,356,756	2,061,850
<= 0.25 m	2,550,600	4,925,354	8,219,915	9,991,936
Total demand	5,868,832	9,032,033	11,896,819	13,170,058
Estimated no. of pure-play fabs	65	75	82	89

Table 5 Foundry Supply Breakdown by Geometries

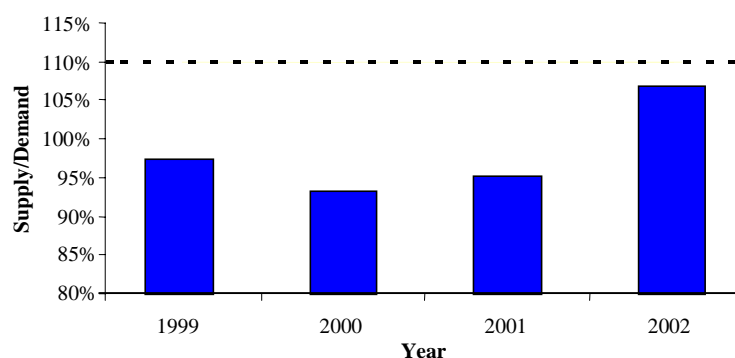
200 mm equivalent wafer demand	1999	2000	2001	2002
>= 0.80 m	1,388,832	1,308,431	1,134,241	1,014,181
0.50 m	1,517,665	1,537,107	1,528,267	1,523,745
0.35 m	1,581,528	2,428,526	2,270,918	2,180,195
<= 0.25 m	2,482,360	4,593,427	7,832,417	10,676,051
Total	6,970,385	9,867,491	12,765,843	15,394,172

Table 6 Comparison of Foundry Supply/Demand

Foundry supply/demand	1999	2000	2001	2002F
		(per cent.)		
>= 0.80 m	374	224	232	264
0.50 m	154	170	184	208
0.35 m	81	93	96	106
<= 0.25 m	97	93	95	107
Total supply/Total demand	119%	109%	107%	117%

Source for Tables 4, 5 and 6: Nomura Securities Taipei (August 2000)

Figure 4



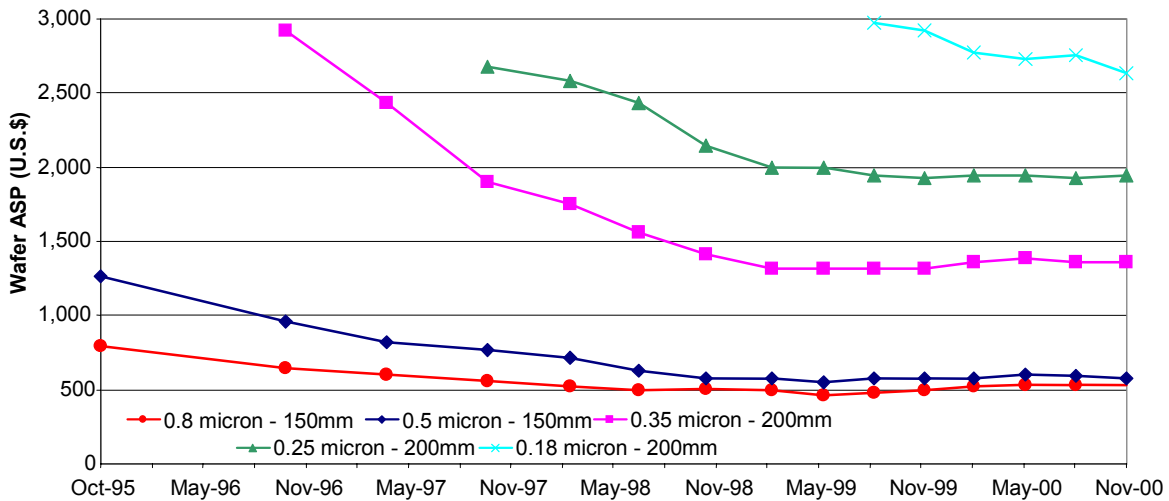
Source: Nomura Securities Taipei (August 2000)

Sales and Pricing

The foundry market shares some of the characteristics of a commodity market, and, during the downturn in 1997/1998, foundry wafer prices experienced declines. It is important to note that downturns have in the past and continue to affect capacity utilisation more than wafer price and therefore wafer prices have not in the past and do not currently exhibit the volatility of true semiconductor commodities such as Dynamic Random Access Memory ("DRAM") ICs. Instead, wafer prices have tended to decline in a predictable manner as a particular geometry moves from being leading-edge technology to industry standard and then to lagging-edge technology. During a downturn, this expected decline in wafer price is accelerated by the pressures of over-supply.

Figure 5 below shows the decline in actual average wafer selling prices ("ASP") between 1995 and 2000. The graph shows that the ASP decline was most acutely felt in the 0.35 micron and 0.25 micron geometries reflecting the fact that this ASP decline was the result of over-supply in the market. The recent growth in the semiconductor industry is reflected in the stable prices during 1999 and 2000 at not only the leading-edge geometry of 0.18 microns, but also the market standard geometry of 0.25 microns and the lagging-edge geometries below this, especially 0.35 microns. This reflects the fact that the 0.35 micron price fell much faster in the previous two years than would have been expected simply due to advances in technology and 0.25 and 0.18 micron geometries were exhibiting strong growth during these two years. It should be noted that ASPs of all geometries exhibit this form of decline, approaching a limit determined by their variable cost of production, as the fabs producing them are fully depreciated (usually over a five year period).

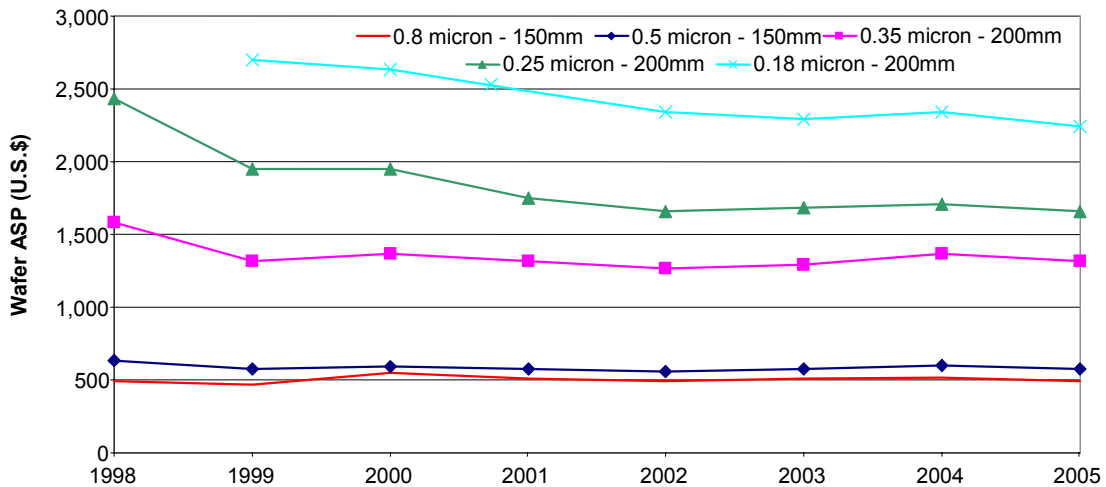
Figure 5



Source: Dataquest (March 2001)

Figure 6 below illustrates actual and forecast declines in ASPs at various geometries to 2005. In these price forecasts an industry standard 0.25 micron wafer is expected to reach an ASP of approximately U.S.\$1,650 by 2005 and a wafer at the leading-edge geometry of 0.18 microns will experience a slightly faster decline to approximately U.S.\$2,250 by 2005, approaching the 0.25 micron price in the latter half of the decade.

Figure 6



Source: Dataquest (March 2001)

Although a particular geometry is lagging-edge it does not mean that there is no market demand for it. Tables 4, 5 and 6 above and Figure 6 above show geometries of 0.5 microns and 0.8 microns which are now between five and ten years old. There may not be demand for these ICs in leading-edge products, for example in mobile telephony, but there are many domestic and industrial machines which require complex yet cheap electronics which will always provide a market for older technology.

Further Developments

The latest significant development in silicon wafer processing is the movement from 200mm diameter wafers to 300mm wafers. Although this is not an advance in terms of geometry, the fact that the 300mm wafers have more than twice the surface area of the 200mm wafers will lead to appreciable cost savings in the production process. The current downturn in the market has placed the development of many of the planned 300mm fabs on hold, but the next growth period predicted for 2002 should see these fabs coming online.

The pressure to produce smaller electronic devices consuming smaller amounts of power has meant that IDMs and foundries are continually trying to produce semiconductor devices with more components per unit area continually shrinking the geometry for their ICs. In order to do this, they must invest in leading-edge steppers and refit their entire wafer production facilities, which is an expensive undertaking. This is why IDMs are starting to outsource more of their production to the more advanced pure-play foundries and why these foundries are continually building new fab facilities. In recognition of this the Borrower plans to develop "fab 2" which will operate at 0.13 microns and below, and could incorporate 300mm wafer technology.

DESCRIPTION OF THE BORROWER

Overview

1st Silicon (Malaysia) Sdn. Bhd. (the "**Borrower**") is a limited liability company incorporated on 13 January, 1998 and established as the first state-of-the-art 200mm wafer foundry in Malaysia. The Borrower is based in the State of Sarawak and has its headquarters at 1st Silicon Drive, Sama Jaya Free Industrial Zone, 93350 Kuching, Sarawak, Malaysia. In addition to the Issuer, the Borrower has one subsidiary in the U.S., 1st Silicon (America) Inc., which was set up to serve as a marketing arm for the Borrower.

The Borrower's mission statement is: "To be the foundry of preference providing leading-edge solutions in supporting customers by delivering excellent quality products with efficient customer-oriented services, while respecting the environment and contributing to the development of the community". The Borrower's objective is to build and operate a commercially managed and world class pure-play foundry which can provide a viable supply alternative for the global semiconductor market by taking advantage of Malaysia's relative geographical and political stability.

The Borrower's wafer foundry was constructed as part of the Federal Government's technology initiative incorporated in its five-year business infrastructure investment plan. Malaysia's technology industries currently include polished wafer manufacturers and back-end wafer test and assembly operations. A wafer processing foundry is thus a natural addition, enabling Malaysia to offer clients a "one-stop-shop" for semiconductor production.

The foundry commenced operations in September 2000, is currently in Phase 1 of its ramp-up stage and has begun producing processed wafers for its first client, Sharp Corporation. The Borrower's current wafer production capacity is 5,000 WOPM and it contemplates reaching its full capacity of 30,000 WOPM by the end of 2002. The Borrower also has contracts for the supply of processed wafers with FCs and IDMs in the United States.

As a major part of a Federal Government initiative to improve Malaysia's economy based on leading-edge semiconductor manufacturing self-sufficiency, the Borrower enjoys the following Federal Government and State Government of Sarawak support:

- over 80 per cent. of the issued share capital of the Borrower is owned by State Controlled Entities;
- approximately 50 per cent. of the Borrower's existing debt is guaranteed by the Federal Government; and
- the board of directors of the Borrower includes the State Attorney General (as chairman).

Additionally, the Borrower has been categorised by Malaysia's Ministry of Finance and Ministry of International Trade and Industry as a company engaged in an activity of national and strategic importance and enjoys particular incentives including preferential land pricing, "Pioneer" status tax breaks (5 year exemption extendable by a further 5 years), exemption from most duties and import tariffs on machinery, equipment and raw materials and grants for training.

Processing Facilities

The Borrower's wafer processing facilities are located on a 97 acre site (which is estimated by the Borrower to be large enough to accommodate two additional fabs) in the Sama Jaya Free Industrial Zone of Kuching. The foundry features a state-of-the-art 200mm wafer processing operation with 126,000 square feet of manufacturing cleanroom, including 92,000 square feet of production space, and the capability to produce 30,000 WOPM at full production with geometries of 0.25 microns to 0.18 microns and below. The production processes are capable of manufacturing ICs using the most common integrated circuit fabrication process technology for 0.25 micron geometries on a 200mm wafer, "complementary metal oxide semiconductor" ("**CMOS**") technology.

The cleanroom was constructed by M&W Zander, a German wafer fab plant construction company, as a "Class 100" cleanroom. The term "Class 100" means that there should be less than 100 particles with a size greater than 0.5 microns in each cubic metre of air. This is further enhanced by the implementation of "Standard Mechanical Interface" ("**SMIF**") technology throughout the processing environment. SMIF is a technology that keeps the wafers hermetically sealed within an ultra clean "Class 1" environment during manufacturing. To date, approximately U.S.\$750,000,000 has been spent on building and fitting-out the fab which is now complete. The Borrower intends to install additional equipment worth approximately U.S.\$300,000,000 in 2001.

Products and Services

The Borrower will focus on producing communications and consumer electronics related semiconductors which provide a high growth rate.

The Borrower's wafer processing foundry is capable of manufacturing the following types of semiconductors:

(a) *Standard CMOS Logic*

These semiconductors are used mainly for consumer electronics, communications and PC markets. All digital electronic systems are controlled by logic ("**Logic**") semiconductors which process, rather than store, information. The Borrower has purchased from Sharp Corporation the requisite technology to produce TSMC benchmark compatible Logic products.

(b) *Mixed Signal Logic*

These semiconductors combine analogue and digital services on one IC to process both analogue signals and digital data. The Borrower has purchased from Sharp Corporation and installed the equipment and process technology needed to manufacture mixed signal CMOS Logic semiconductors which are used in wireless equipment, fibre optic communication and automotive applications.

(c) *Memory*

Memory devices store data and program instructions and can be manufactured as stand-alone devices or embedded in system semiconductors. Non-volatile memory products retain their data content without the need for constant power supply whereas volatile memory products lose their data content when the power supply is disconnected. Strong demand for non-volatile memory is forecast over the next few years, as devices which require non-volatile memory, such as mobile telephones, digital devices such as digital cameras and MP3 players and internet devices such as packet-switchers (information transfer devices fundamental to the infrastructure of the internet), have themselves experienced increased demand. The Borrower will produce non-volatile memory ICs and this technology will be provided by the customer. The Borrower will also produce Static Random Access Memory ("**SRAM**") volatile memory devices exclusively for the owner of the relevant technology. SRAM is a type of volatile memory product used for storing data and program instructions. Unlike the simpler DRAM, SRAM does not need to be constantly refreshed. This is a very important difference because it means that, for example, in handheld devices, battery power does not need to be consumed to retain data especially when the device is turned off. Due to the growth in portable electronic products, this type of memory is currently in demand.

The Borrower warrants that its products meet its customer's specifications and are free from any defects in material and workmanship for a period of twelve months following shipment. The Borrower's warranty is limited to the cost of its products.

Competition

The three main competitors in the foundry market are TSMC with 35 per cent. of the market share, UMC with 24 per cent. of the market share and CSM with a 10 per cent. market share. It is expected that at full capacity the Borrower will have a 2 per cent. share of the then forecast foundry market.

One important advantage that the Borrower has over the foundries in Taiwan and Japan, is that Malaysia is much less prone to natural disasters. Last year Taiwanese foundries suffered heavy losses due to power outages and equipment re-alignment delays caused by the earthquake on 21 September, 2000. Further, during the typhoon season in Taiwan and Japan, power outages can occur.

Malaysia, however, is in a geographic area with very low earthquake risk and does not have a typhoon season. The Borrower has available to it resources at a cost lower than that of its competitors including power, water, land, labour and utilities. It also has significant redundancy measures in place in case of disruption to power or water supplies, for example, it has three UPS generators (with a fourth on order) each capable of providing 1.5 megawatts of continuous power to the fab. The Borrower's proximity to assembly, packaging and testing facilities within Malaysia, the choice of a TSMC compatible commodity technology and tax and tariff incentives are further competitive advantages for the Borrower.

There are also certain barriers to entry in the wafer processing industry. Due to the high cost of constructing both the plant and the cleanrooms and buying the equipment, building a wafer fab is a very significant investment. The Borrower's all-in-cost for its ramp-up to 20,000 WOPM over a four year period to 2002 will total around U.S.\$1.3 billion. This is very typical for a state-of-the-art wafer foundry. This means that the number of pure-play foundries projected over the next few years is low. Fourteen new foundries are predicted to be built world-wide with similar capacity to the Borrower's foundry during 2001 and 2002 (see "The Semiconductor Wafer Industry—Table 4").

Although there is currently a downturn in the semiconductor industry, the anticipated high demand from the electronics industry in 2002 should provide a stable environment for a new entrant such as the Borrower to consolidate its position as its final stage of ramp-up from 20,000 WOPM to 30,000 WOPM will occur during the next growth phase of the industry in 2002. Wafer fabs depreciate the cost of the equipment over the first five years of its use. This period should see demand for the Borrower's capacity to offset these high depreciation costs.

Marketing

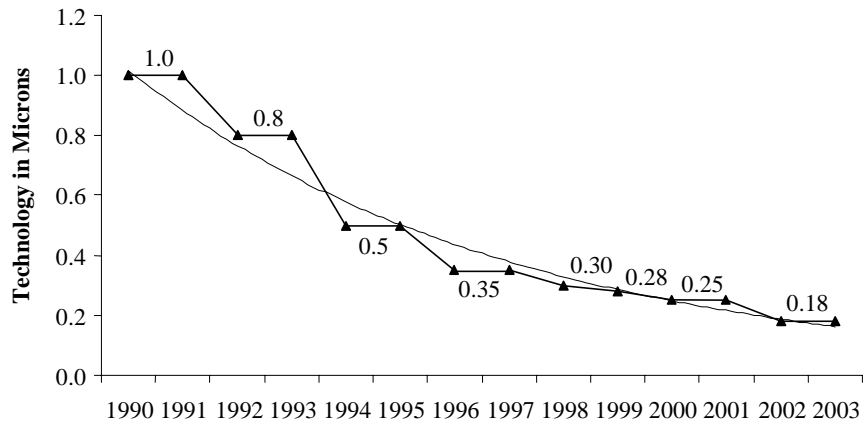
As the Borrower's primary objective is to build long-term relationships and to become their customers' preferred foundry, it targets customers who are committed to invest in a long-term relationship as a partner and customer. The aim of the Borrower is to ensure that the foundry is fully utilised during down-cycles. As the Borrower does not intend to design or manufacture its own products, it will instead focus on producing processed wafers for IDMs, FCs and OEMs.

The existing customer commitments of the Borrower are expected to take up to 60 per cent. of the total capacity of the Borrower's foundry at full production. The Borrower currently has contracts for the supply of processed wafers with Sharp Corporation and with other FCs and IDMs in the United States.

Sharp Corporation is a technology provider to the Borrower and its first, and largest, customer for 0.25 micron wafers. This strategic relationship, through a manufacturing licence agreement, provides the Borrower and its customers access to advanced CMOS Logic process technologies.

Figure 1 below shows the gradual slowing down of technology "advance" which means that the Borrower's geometry level should have an extended longevity in terms of market demand when compared with previous geometries.

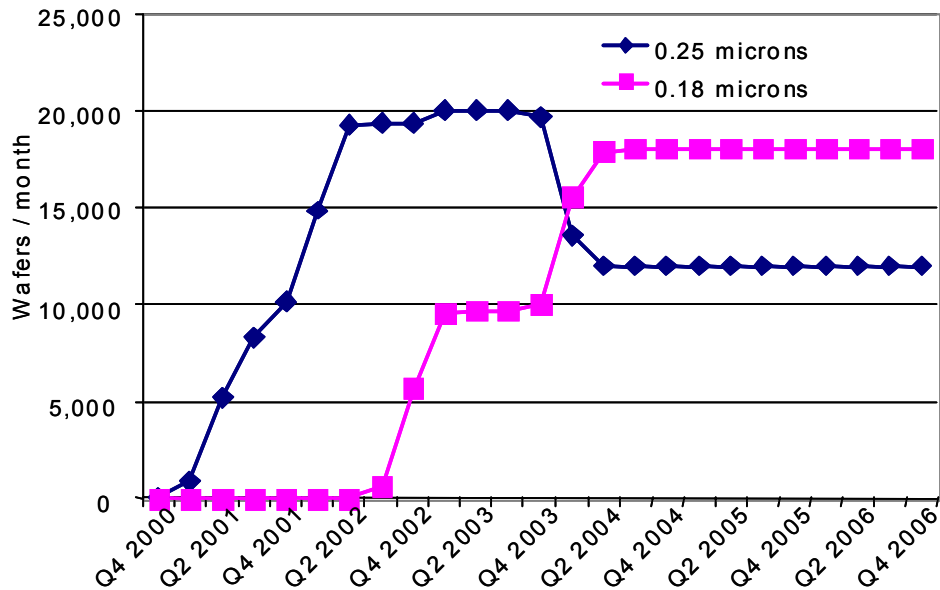
Figure 1



Source: Nomura International plc

Figure 2 below shows the Borrower's expected ramp-up plan and peak volumes for both 0.25 micron and 0.18 micron geometries.

Figure 2



Source: 1st Silicon (Malaysia) Sdn. Bhd.

The ramping process is supported by Sharp Corporation as demonstrated by Sharp Corporation engineers and technicians being deployed to Kuching to assist and follow through with the ramp-up and ongoing wafer processing, as well as further technology transfer.

Table 1 below shows the Logic technology that the Borrower has purchased and is able to provide to third parties.

Table 1: The Borrower's Logic Technology

Process	Technology (micron)	Voltage (V)	No. of Poly Layers	No. of Metal Layers
Standard (Digital) Logic	0.25	2.5/3.3/5.0	1	3/4/5
	0.18	1.8/3.3	1	4/5/6
Mixed Signal Logic	0.25	2.5/3.3	2	3/4/5
	0.18	1.8/3.3	1	4/5/6/7

Source: 1st Silicon (Malaysia) Sdn. Bhd.

The Borrower prices its wafers based on the average market price as calculated and published (on a quarterly basis) by Dataquest, Inc. with preferential discounts given to strategic partners depending primarily on the size and manufacturing complexity of the order.

Customer Support

Through strategic partnerships, the Borrower offers a full range of support services, such as mask tooling, wafer testing, assembly and final testing. Part of the Borrower's test floor, amounting to approximately 6,500 square feet, is leased to ASE, an IC packaging and testing company, in order to enhance the Borrower's wafer testing requirements. This relationship provides the Borrower's customers with the convenience and flexibility of on-site testing resources and the advantage of a proven and experienced test team.

Established mask-making companies such as DuPont and Photronics have production facilities in Singapore. The Borrower has established relationships with major "tapeout" service providers to facilitate the transfer of tapeouts (IC designs) from the Borrower's customers into masks for use by the Borrower. The systems of these tapeout service providers integrate into a world-wide network of service centres, enabling the Borrower's customers to submit work orders and check on their progress from almost anywhere in the world.

The Borrower's principal suppliers of semiconductor manufacturing equipment have committed special resources to the site in Kuching. These suppliers not only provide dedicated teams to work in tandem with the Borrower's engineering and professional staff, but have also set up local service and engineering support centres in Kuching. The Borrower promotes direct communication between the end customers and the wafer fab especially where technical issues such as design and product specifications are concerned. This reduces delays in response times and helps the sales force to develop customer relationships.

Environmental Issues

The Borrower has a permanent environmental health and safety committee. The chief executive officer and vice president in charge of operations sit on the committee together with an environmental health and safety officer who is responsible for the occupational health and safety issues in the workplace. The committee meets monthly but safety inquiries are initiated immediately in response to any safety or environmental concerns. The Borrower also requires that equipment suppliers meet industry standard safety requirements for all equipment.

The Borrower has been granted various local environmental licenses and is subject to monthly inspections by the Malaysian Department of Environment to collect waste samples for analysis in order to establish that the Borrower is operating within the terms of those licenses.

The Borrower expects to be awarded ISO 9001 certification in the fourth quarter of 2001. It also plans to seek ISO 14001 certification, a more comprehensive certification covering environmental aspects, during 2002. Other forms of certification include semiconductor industry specific standards for quality of water, gas and chemical supplies. Sharp Corporation is assisting the Borrower to meet these standards.

Despite the higher initial capital outlay for specialised equipment and processes, the Borrower is making an effort to ensure only environmentally safe effluent is released into the environment. Waste that cannot be disposed of locally is shipped to peninsula Malaysia where approved toxic waste treatment companies are located. It is estimated that 6 per cent. of the Borrower's foundry costs to date have been spent on environmental, occupational health and safety and waste management related activities. Monitoring instruments continuously measure the waste water discharges to ensure that all of the Borrower's systems are operating properly.

Board of Directors

Datuk Fong Joo Chung

Datuk Fong Joo Chung was born on 24 June, 1949. He is the State Attorney General of the State of Sarawak. He trained as a barrister in the United Kingdom and practised as an advocate in the State of Sarawak from 1972 until his appointment as the State Attorney General in 1992. He is also a director of a number of statutory bodies and public listed companies.

*Datuk Wan Abdul Kadir @ Wan Ali bin Wan Yubi @ Tuanku Yubi**

Datuk Wan Abdul Kadir was born on 24 September, 1949. He is the Chief Executive Officer of Sarawak Enterprise Corporation Berhad. He has a Bachelor of Economics degree (1973) and a Diploma in Education (1974) from the University of Malaya and a Diploma in Commonwealth and Overseas Education (1980) and a Masters of Education (1984) from the University of Birmingham, United Kingdom. He held the position of State Financial Secretary of the State of Sarawak from 1995 to 2000 before leaving the service of the State Government to take up his current appointment as Chief Executive Officer of Sarawak Enterprise Corporation Berhad. He is also a director of a number of statutory bodies and public listed companies.

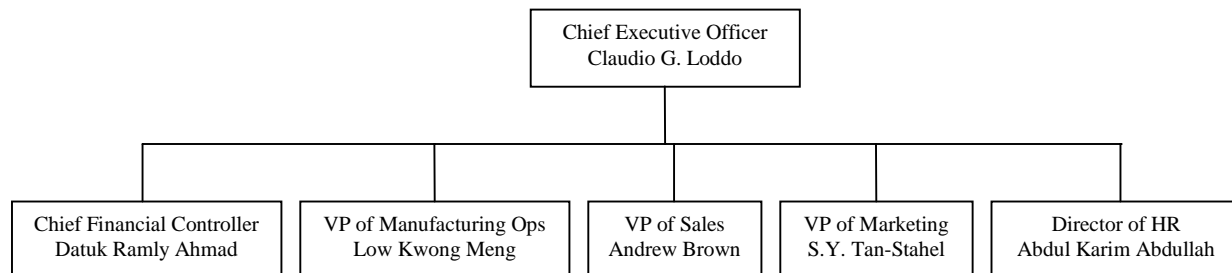
* When used herein, "@" means "also known as".

YB Haji Talib bin Zulpilip

YB Haji Talib bin Zulpilip was born 12 June, 1951. He is the Chairman of the SEDC. He holds the degree of Master of Commerce and Administration from Victoria University, Wellington, New Zealand and has served the State Government of Sarawak in various capacities including that of Permanent Secretary at the Ministry of Industrial Development and Ministry of Infrastructure Development. He has held his position as Chairman of the SEDC since his appointment in 1995 and is also a director of a number of statutory bodies and public listed companies.

The Management Team

The Borrower's management team is composed of industry specialists with experience in the semiconductor industry. The management team is outlined below:



Principal Shareholders

Table 2 below sets forth the name and shareholdings of the principal shareholders of the Borrower as at the date of this Offering Circular.

Name	Number of Shares	% of Voting Rights
Sarawak Economic Development Corporation	682,000,000	81.01
Dunlop Agro Management Sdn. Bhd.	100,000,000	11.88
Meissner and Wurst Zander Holdings GmbH	57,000,000	6.77
FSI International Inc.	2,850,000	0.34
Total	841,850,000	100.00

Capitalisation and Indebtedness Statement of the Borrower

The capitalisation and indebtedness of the Borrower as at 31 December, 2000 is as follows:

Capital	Malaysian Ringgit
Issued and Fully Paid Share Capital	
841,850,000 ordinary shares of RM1 each	841,850,000
Loan Capital	
Long term loans	1,059,329,632
Total	1,901,179,632

Employees

As at 31 March, 2001 the Borrower had approximately 682 employees. At full operational strength, the Borrower is expected to have approximately 1,200 employees at the headquarters of its initial wafer foundry complex.

The employees are divided into two categories: administration/support staff and manufacturing staff (consisting of engineers and technicians). Currently, approximately 90 per cent. of employees are Malaysian with the remainder recruited from abroad, for example, Singapore, Korea, India, China, Japan and the United States.

DESCRIPTION OF SEDC

General

The Sarawak Economic Development Corporation ("**SEDC**"), otherwise known as "*Perbadanan Pembangunan Ekonomi Sarawak*" in the Malay language, was set up on 1 March, 1972 as a state-owned statutory body with the general aim of promoting the commercial, industrial and socio-economic development of the State of Sarawak. The SEDC was established under the Perbadanan Pembangunan Ekonomi Sarawak Ordinance (Cap. 35), a law duly passed by the Sarawak State Assembly in accordance with the powers conferred on and delegated to the State Government of Sarawak under the constitution of Malaysia. It is one of the investment arms of the State Government of Sarawak. SEDC is primarily engaged in research, planning and implementing industrial, commercial and socio-economic projects through its investments in subsidiaries and associated companies and through the provision of management, technical, financial and other advice and information to potential investors and businesses.

SEDC promotes investments in Sarawak by providing advice on business opportunities and, where necessary, serving as a joint-venture partner in a range of industries including agriculture, tourism and leisure, real estate development, roads and works, human resource development, social welfare projects and new ventures such as the silicon wafer processing business of the Borrower. At the same time, SEDC plays the role of a trust agency in commerce and industry. Currently, SEDC has over 70 active subsidiaries and group assets worth over Malaysian Ringgit 1.2 billion.

Selected Financial Information

The following tables set forth the summary financial information for SEDC and for SEDC together with its subsidiaries (the "**Group**") for the years indicated. The summary historical financial information for the years ended 31 December, 1998 and 1999 is derived from SEDC's and the Group's audited financial statements. The financial statements of SEDC and the Group for the years ended 31 December, 1998 and 1999 have been audited by the Auditor General of Malaysia of Jabatan Audit Negara Sarawak, Tingkat 4 Bangunan Sultan Iskandar, Jalan Simpang Tiga, 93518 Kuching, Sarawak. The summary financial information for the year ended 31 December, 2000 is unaudited and is expected to be audited commencing November 2001 and available by 31 December, 2001. There is currently no financial information for the Group for the year ended 31 December, 2000. SEDC does not prepare interim financial statements.

Profit and Loss Accounts for SEDC and the Group

	Group		SEDC		
	1998	1999	1998	1999	2000*
	(RM '000)		(RM '000)		
Turnover.....	237,321	185,734	58,573	49,215	24,646
Cost of Sales	<u>51,416</u>	<u>127,034</u>	<u>31,911</u>	<u>26,367</u>	<u>11,960</u>
(Loss)/Profit from operation	(7,617)	(1,338)	17,305	15,380	4,805
Share of results of associated companies.....	2,905	14,218	-	-	-
	(4,712)	12,880	17,305	15,380	4,805
Exceptional items.....	5,998	-	-	-	-
	1,286	12,880	17,305	15,380	4,805
Taxation	(10,004)	532	(6,392)	(9)	-
Profit/(loss) after taxation	(8,718)	13,412	10,913	15,371	4,805
Minority interests	1,615	696	-	-	-
Profit/(loss) after taxation and minority interests.....	(7,103)	14,108	10,913	15,371	4,805
Retained profits brought forward					
As previously reported.....	183,297	174,866	229,339	240,252	255,623
Prior year adjustment.....	(1,328)	-	-	-	-
As restated.....	181,969	174,866	229,339	240,252	-
Retained profits carried forward.....	<u>174,866</u>	<u>188,974</u>	<u>240,252</u>	<u>255,623</u>	<u>260,428</u>

* The financial information for the year ended 31 December, 2000 is unaudited.

Balance Sheets for SEDC and the Group

	Group		SEDC		
	1998	1999	1998	1999	2000*
	(RM '000)		(RM '000)		
CURRENT ASSETS					
Stocks	7,834	10,377	39	38	37
Development properties	11,945	12,689	11,945	12,689	18,931
Debtors	95,488	244,252	61,101	29,525	36,461
Dividend receivable	3,808	2,687	3,933	2,687	625
Operating grant receivable	2,000	1,500	2,000	1,500	-
Rental receivable	298	323	298	323	305
Deposits with financial institutions	148,562	513,633	84,031	65,857	53,872
Cash and bank balances	12,057	14,923	3,704	1,768	2,419
	<u>281,992</u>	<u>800,384</u>	<u>167,051</u>	<u>114,387</u>	<u>112,650</u>
LESS: CURRENT LIABILITIES					
Creditors	93,278	231,727	51,796	54,019	64,939
Hire purchase and lease creditors	813	538	-	-	-
Government term loans	121,891	132,958	121,891	132,958	139,705
Other term loans	101,816	2,044	-	-	-
Short term borrowings	2,164	684,309	-	341,840	-
Provision for taxation	597	191	-	-	-
Bank loan	-	-	-	-	350,000
	<u>320,559</u>	<u>1,051,767</u>	<u>173,687</u>	<u>528,817</u>	<u>554,644</u>
NET CURRENT LIABILITIES	(38,567)	(251,383)	(6,636)	(414,430)	(441,994)
Subsidiary companies					
Subsidiary companies	6,462	9,499	689,006	1,202,183	1,220,895
Associated companies	122,264	126,618	69,741	66,306	66,208
Investments in other corporations	104,799	109,398	104,341	108,308	112,700
Fixed assets	344,038	875,258	20,964	23,427	28,595
Hotel and investment properties	307,373	307,485	-	-	-
Plantation development expenditure	5,578	5,202	-	-	-
Intangible assets	98,349	-	-	-	-
Deferred expenditure	-	138,361	-	-	-
	<u>950,296</u>	<u>1,320,438</u>	<u>877,416</u>	<u>985,794</u>	<u>986,404</u>
Financed by:					
State government equity fund	122,939	122,939	122,939	122,939	122,939
State government contribution for equity participation	89,739	93,239	89,739	93,239	93,239
Development funds	86,283	188,558	59,808	162,083	373,890
Reserves	234,892	247,718	240,252	255,623	260,428
	533,853	652,424	512,738	633,884	850,496
Minority interests	9,698	165,303	-	-	-
	<u>543,551</u>	<u>817,757</u>	<u>512,738</u>	<u>633,884</u>	<u>850,496</u>
DEFERRED AND LONG TERM LIABILITIES					
Government term loans	363,095	351,910	363,095	351,910	135,908
Other term loans	4,671	113,824	-	-	-
Government grants	31,024	30,106	-	-	-
Deferred taxation	6,376	5,331	1,583	-	-
Hire purchase and lease creditors	187	516	-	-	-
Other long term liabilities	1,392	994	-	-	-
	<u>950,296</u>	<u>1,320,438</u>	<u>877,416</u>	<u>985,794</u>	<u>986,404</u>

* The financial information for the year ended 31 December, 2000 is unaudited.

DESCRIPTION OF THE ISSUER

General

1st Silicon (Labuan) Inc. (the "**Issuer**") was incorporated in the State of Labuan, Malaysia on 15 May, 2001 as a company with limited liability (Company no. LL02841). The registered office of the Issuer is Unit Level 13(E), Main Office Tower, Financial Park Labuan, Jalan Merdeka, 87000 Federal Territory of Labuan, Malaysia.

The Issuer was incorporated, among other things, to facilitate the raising of finance for the Borrower and is wholly-owned by the Borrower. The Issuer has no subsidiaries.

Principal Activities

The principal objects of the Issuer are set out in Clause C of its Memorandum of Association and are, *inter alia*, to carry on the business of an investment holding company.

The Issuer has not engaged, since its incorporation, in any activities other than those incidental to its incorporation, the authorisation, execution and issue of the Notes, and the documents and matters referred to or contemplated in this Offering Circular to which it is or will be a party and matters which are incidental or ancillary to the foregoing.

The Issuer will covenant to observe certain restrictions on its activities which are detailed in Condition 3 of the Notes.

Directors and Secretary

The directors of the Issuer (together, the "**Board of Directors**") and their other principal activities and business addresses are:

<u>Name</u>	<u>Nationality</u>	<u>Other Principal Activities</u>	<u>Business Address</u>
Datuk Fong Joo Chung	Malaysian	Director of Sarawak Enterprise Corporation Berhad Group, Great Wall Plastic Industries and Bakun Hydro-electric Corporation Berhad	c/o 1 st Silicon (Malaysia) Sdn. Bhd.
Pandi@Affandi bin Keli	Malaysian	General Manager of SEDC and Director of Sarapine Sdn. Bhd. and Comerich Sdn. Bhd. (subsidiaries of SEDC)	c/o SEDC, 6 th -11 th Floor Menara SEDC, Sarawak Plaza, Jalan Tunku Abdul Rahman, 93100 Kuching Sarawak

The secretary of the Issuer is Zaid Ibrahim Secretarial Services Sdn. Bhd. The Issuer has no employees.

Share Capital

The authorised share capital of the Issuer consists of U.S.\$100 divided into 100 ordinary shares of U.S.\$1 par value each. 100 shares have been issued at par, are fully-paid and held by the Borrower.

Capitalisation and Indebtedness

The capitalisation of the Issuer as at the date of this Offering Circular, adjusted for the Notes to be issued on the Closing Date, is as follows:

Capital	U.S.\$
Issued Share Capital	
100 ordinary shares of U.S.\$1.00 each	100
Loan Capital	
U.S.\$250,000,000 Floating Rate Secured Notes due 2008	250,000,000
Total	250,000,100

Save as disclosed elsewhere in this document, at the date of this Offering Circular the Issuer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued, or created but unused), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

There are no other outstanding loans or subscriptions, allotments or options in respect of the Issuer.

There has been no material adverse change in the financial position of the Issuer since the date of its incorporation.

Financial Year

The financial year of the Issuer runs from 1 January to 31 December. The first financial statements of the Issuer will be published for the financial year ending 31 December, 2001. There has been no material change in the activities of the Issuer since its incorporation.

The Issuer has appointed Ernst & Young, of Level 9, Main Office Tower, Financial Park Labuan, Jalan Merdeka, 87000 Federal Territory of Labuan, Malaysia, as its auditors.

MALAYSIA

Malaysia

Sovereign rating

In October 2000, Moody's upgraded its outlook on Malaysia from Baa3 to Baa2. In its March 2001 report on Malaysia, Moody's said that a strong external financial position supports a stable outlook for Malaysia's Baa2 rating for the foreign currency debt ceiling. It cited Malaysia's relatively strong liquidity position which makes the country less vulnerable to external influences than in the past. Factors inhibiting a rapid rise in ratings include the relative slowness of corporate sector reform and its implication for competitiveness over the medium term.

In April 2001, S&P revised its outlook on Malaysia's long-term foreign currency issuer credit rating from positive to stable. At the same time it affirmed all its long and short-term ratings on the sovereign. S&P said that the Government had made only moderate progress in reducing its unusually high deficit of 5.7 per cent. of GDP in 2000. It also cited concerns over the recent fall in international reserves which will restrain improvements in creditworthiness. Malaysia's ratings are supported by robust international liquidity, substantial fiscal flexibility and a resilient and open economy.

Summary description of Malaysia

Malaysia is divided into two separate regions: Peninsular Malaysia and East Malaysia. Peninsular Malaysia accounts for 50 per cent. of the total land mass of Malaysia. East Malaysia is comprised of the states of Sabah and Sarawak in North Borneo. More than 60 per cent. of Malaysia is rainforest with Sabah and Sarawak covered by dense jungles and large river systems.

Malaysia is bordered by Thailand, Singapore, Indonesia and Brunei. The capital city is Kuala Lumpur. The country has a tropical climate with the annual monsoon season in the south-west between April and October and in the north-east between October and February. Malaysia's major natural resources and industries include tin, petroleum, timber, copper, iron ore, natural gas, bauxite, rubber, palm oil, textiles and electronics.

Population and society

Malaysia is a multicultural society and had a population of approximately 23.2 million in 2000. Approximately 47 per cent. of the population are indigenous Malays, 24 per cent. are Chinese and 7 per cent. are Indian. Malaysia is religiously diverse with Malaysians practising Islam, Buddhism, Christianity and Hinduism.

Government and political system

Malaysia is a federation (the "**Federation**") which was formed on 16 September, 1963 and operates as a constitutional monarchy. Hereditary rulers govern in all but 4 of the 13 states that make up Malaysia. The powers of the state governments are limited by the federal constitution (the "**Constitution**"). Sabah and Sarawak are both self-governing states holding 20 and 28 seats respectively in the House of Representatives.

The Federation is headed by a "Supreme Head" known as the *Yang di-Pertuan Agong*. The Supreme Head is elected every 5 years by and from amongst the 9 hereditary rulers who constitute the "Conference of Rulers". The present *Yang di-Pertuan Agong* is Tuanku Salehuddin Abdul Aziz Shah ibni al-Marhum Hisamudin Alam Shah. The *Yang di-Pertuan Agong* appoints a cabinet of ministers (the "**Cabinet**") to advise him in the exercise of his functions. The prime minister (currently Dato' Seri Dr Mahathir bin Mohamad), who is appointed by the *Yang di-Pertuan Agong* from the House of Representatives, presides over the Cabinet. Upon the advice of the prime minister, the *Yang di-Pertuan Agong* appoints the other ministers from the members of the Senate and the House of Representatives.

The legislative branch of the Government, the bicameral parliament (or "**Houses of Parliament**"), is composed of the Senate (*Dewan Negara*), consisting of 69 members of which 43 are appointed by the *Yang di-Pertuan Agong* and

26 are elected by the state legislature for three-year terms and the House of Representatives (*Dewan Rakyat*), consisting of 194 members elected by a general election.

The National Front is the main political party in Malaysia comprising a confederation of 13 political parties dominated by the United Malays National Organisation Baru (UMNO), the Malaysia Chinese Association (MCA), the Malaysian People's Movement Party (*Gerakan Rakyat Malaysia*) and the Malaysian Indian Congress (MIC).

Legal system

Federal legislative powers are specified in the Constitution and extend to all matters of national importance. These powers are set out in the main body of the Constitution or are listed in List I of the Ninth Schedule (the "**Federal List**"). These powers include the power to admit new states, alter the Constitution, control external affairs, defence and security, police, finance, education, other social services and the administration of justice.

The concurrent list or List III of the Ninth Schedule (the "**Concurrent List**") enumerates matters upon which either parliament or a state legislative assembly may legislate, but in the event of a conflict between state and federal legislation, the act of parliament prevails.

There is also a list of legislative matters exclusively reserved to the states (List II of the Ninth Schedule the "**State List**"). These include land, the religion of Islam, agriculture and forestry and local government. The states have no independent power to borrow without the approval of the Federal Government. Each state in Malaysia has the power to pass legislation in respect of land. For peninsular Malaysia, parliament has the power to pass laws on certain land matters to ensure uniformity. However, parliament's powers in this respect do not extend to Sabah and Sarawak. See "*—State of Sarawak—Legal system*".

A bill becomes law when it is passed by the Houses of Parliament and assented to by the *Yang di-Pertuan Agong*. The Constitution provides for circumstances whereby bills which have been passed by the House of Representatives may be presented for royal assent even if they have not been passed by the Senate. Bills which have been passed by the Houses of Parliament can also become law if the *Yang di-Pertuan Agong* does not assent within one month of presentation.

The powers of the state and federal executives are distributed by Constitution in the same manner as the legislative powers are distributed between the federal and state legislatures.

The federal judiciary administers the federal and state laws in all parts of the Federation. State courts in the form of Syariah and Native Courts administer, respectively, Islamic personal and family laws in all states and native law and custom in Sabah and Sarawak.

The federal court structure in Malaysia is divided into two parts: the subordinate, which consists of the Magistrates Court and the Sessions Court and the superior courts, which consist of the High Court, the Court of Appeal and the Federal Court.

The High Court is constituted by Article 121 of the Constitution. There are 2 High Courts of co-ordinate jurisdiction and status: the High Court of Malaya and the High Court of Sabah and Sarawak. All proceedings in the High Court and all business arising therefrom are, except as provided for by any written law, heard and disposed of before a single judge. The High Court can pass any penalty provided by law.

The Court of Appeal is also constituted by Article 121 of the Constitution. The Court of Appeal hears appeals from the High Court. Cases before the Court of Appeal are heard and disposed of by 3 judges or by any greater uneven number of judges as the President, who is the chairman of the Court of Appeal, may in any particular case determine.

Appeals from the Court of Appeal are brought to the Federal Court. The Federal Court also has exclusive jurisdiction to determine the validity of laws made by parliament and by the legislature of a State, where it is alleged that the respective legislature has no power to make it. Further the Federal Court has exclusive jurisdiction to

determine disputes on any other question between the states or between the Federation and a state, in such a case it shall pronounce a declaratory judgement only.

The judges take precedence in the following order of priority:

- (a) the Chief Justice;
- (b) the President and Chief Judges in such order as may be assigned to them by the *Yang di-Pertuan Agong*;
- (c) the Judges of the Federal Court according to the priority of their respective appointments as Judges of the Federal Court;
- (d) the Judges of the Court of Appeal according to the priority of their respective appointments as Judges of the Court of Appeal; and
- (e) the other Judges according to the priority of their respective appointments as Judges.

The Chief Justice of the Federal Court is appointed by the *Yang di-Pertuan Agong*, acting on the advice of the prime minister after consulting the Conference of Rulers. For the appointments of all other lower ranking judges, the prime minister must consult the Chief Justice and, depending on the ranking of the post, a Chief Judge or the President of the Court of Appeal. The Chief Justice along with the other judges enjoy privileges and protections guaranteed by the law. The present Chief Justice of Malaysia is Tan Sri Dzaiddin Abdullah.

For commercial matters, the Federal Government has passed laws which apply throughout the Federation e.g. the Contracts Act 1950, the Companies Act 1965, the Banking and Financial Institutions Act 1989, the Partnership Act 1961 and the Bankruptcy Act 1967. A significant body of Malaysian case law has also developed on the interpretation of these acts and of other laws.

English common-law is also a source of law. If no provision has been made under Malaysian law, English common law and rules of equity are applied "so far only as the circumstances of the States of Malaysia and their respective inhabitants permit and subject to such qualification as local circumstances render necessary". The common law and rules of equity applied are those as administered in England on 7 April, 1956 (for Peninsular Malaysia) on 1 December, 1951 (for Sabah) and on 12 December, 1949 (for Sarawak). For Sabah and Sarawak, statutes of general application in England at those dates are also applied.

For matters such as partnerships, corporations, banks and banking, principals and agents, carriers and insurance, and for mercantile law generally, English law applies as at 7 April, 1956 for Peninsular Malaysia and as at the date the issue arises for Malacca, Penang, Sabah and Sarawak. However, with the advent of federal legislation on these matters, the applicability of English law is limited.

Enforceability of foreign judgments

The enforcement of foreign judgments in Malaysia is dealt with partly in the Reciprocal Enforcement of Judgments Act 1958 ("**REJA**") and partly under common law. The REJA provides that the High Court in Malaysia has the power to register and enforce foreign judgments with respect to the countries provided for under the first schedule of the REJA, which includes England, Singapore, New Zealand, Sri Lanka and Hong Kong. Section 7 of the REJA provides that only judgments registered under the Act are enforceable by the Malaysian courts.

However, the High Court has a discretion to refuse the enforcement of a judgment in circumstances where it is not just or convenient to do so or where there are sufficient reasons for setting aside the registration, in which case the High Court may then order the registration of the judgment to be set aside on such terms as it thinks fit by virtue of Order 67 of the Rules of the High Court 1980.

Economy

The Malaysian economy has been increasing in strength over the last decade despite the Asian financial crisis which began in 1997. As at 31 December, 2000, GDP was U.S.\$82 billion with per capita GDP at U.S.\$3,516, annual growth was at 8.5 per cent. and inflation at 1.6 per cent.

Malaysia's major industries include, electronics and electrical products manufacturing and assembly, rubber and palm oil processing and manufacturing, timber logging and processing and petroleum production. Malaysia's major exports are electronic equipment, petroleum and petroleum products, palm oil, wood and wood products, rubber and textiles. Malaysia's major trading partners are Singapore, Japan and the U.S.

State of Sarawak

Summary description of the State of Sarawak

The State of Sarawak is the largest Malaysian state and is situated along the north-west coast of Borneo. It is separated from Peninsular Malaysia by the South China Sea and borders the Sultanate of Brunei, the Malaysian state of Sabah and Kalimantan, Indonesia. The capital city is Kuching with a population of approximately 400,000.

Population and society

The population of Sarawak is approximately 2 million and is made up of 27 ethnic groups. The official religion is Sunni Islam but Sarawak's population includes Christians, Buddhists, Confucianists and followers of Sarawak's various tribal religions.

Government and political system

Sarawak practises the parliamentary democratic system of government. The state's "Barisan Nasional" or the National Front is the main political party in Sarawak. It is comprised of a number of political parties dominated by the Parti Pesaka Bumiputra Bersatu (PPB), Sarawak United People's Party (SUPP), Parti Bangsa Dayak Sarawak (PBDS) and Sarawak National Alliance Party (SNAP).

The chief minister, Tan Sri Datuk Patinggi Hj Abdul Taib Mahmud, was appointed the chief minister of the state on 26 March, 1981 and has held the office since that date.

Legal system

Sarawak has its own state constitution. Article 13 of the state constitution provides that the legislature of the state shall consist of the *Yang di-Pertua Negeri* (the Head of State) and one House, to be known as the *Dewan Undangan Negeri*.

Pursuant to the Constitution, Sarawak state legislature may make laws for the whole or any part of the state. The state legislature may make laws with respect to matters which are enumerated in the State List or the Concurrent List.

Matters in the State List include, *inter alia*, the following:

(a) matters relating to land including land tenure, landlord and tenant relations, registration of titles and deeds relating to land, land improvement and soil conservation, transfer of land, mortgages, leases and charges in respect of land easements, native reservations and compulsory land acquisition; and

(b) incorporation of authorities and other bodies set up by state law, if incorporated directly by state law, and regulations and winding up of corporations so created.

In this respect, for example, the state has its own Land Code (Cap. 81), has established the SEDC by virtue of *Perbadanan Pembangunan Ekonomi Sarawak Ordinance* (Cap. 35) and has in force the Statutory Bodies (Financial and Accounting Procedure) Ordinance 1995 to regulate statutory bodies established in the State.

Other matters relating to, *inter alia*, companies, finance, tax, foreign exchange and loans to public and private enterprise are legislated by parliament and constitute federal laws.

In addition, save so far as other provisions have been made by any written law in Malaysia, the courts in Sarawak apply the common law of England and the rules of equity, together with statutes of general application, as administered or in force in England on 12 December, 1949.

For all issues or questions concerning partnerships, corporations, banks and banking, principals and agents, carriers by air, land and sea, marine insurance, average, life and fire insurance and with respect to mercantile law generally, the law to be administered in Sarawak would be the same as would be administered in England in the like case at the corresponding period, if such question or issue had arisen or had to be decided in England unless in any case other provision is or shall be made by any written law of Sarawak.

The sources of laws for Sarawak are federal laws, its own state laws, the common law of England and English law to the extent as mentioned above and common law as developed in Sarawak and Peninsular Malaysia.

Judiciary

Pursuant to Article 121 of the Constitution, there are two High Courts of co-ordinate jurisdiction and status, namely (a) the High Court of Malaya (for the states in Peninsular Malaysia) and (b) the High Court of Sabah and Sarawak (in the states of Sabah and Sarawak). Each High Court shall consist of a chief judge and not less than four other judges and, in the case of Sarawak, not more than ten.

In Sarawak, the inferior courts consist of the native courts, the Small Claims Court, the Magistrates Courts and the Sessions Court.

Above the High Courts, the State of Sarawak has the Court of Appeal and then the Federal Court, which is the highest court.

Economy

Sarawak's economy has been increasing in strength over the past decade showing an average annual growth rate of 6.5 per cent. during the period 1990-1998, despite the 1997 Asian financial crisis.

The economy is predominantly export-orientated with a strong primary industry sector (including mining, agriculture and forestry) which makes up approximately 40 per cent. of Sarawak's GDP. Sarawak is one of the world's largest exporters of tropical hardwood timber. The secondary industries of construction and manufacturing account for approximately 30 per cent. of GDP.

The Borrower's silicon wafer processing foundry is one of a number of large projects that the State Government of Sarawak is supporting as part of a state-run modernisation and commercialisation initiative.

Labuan

Summary description of Labuan

The Federal Territory of Labuan is composed of seven islands, the largest of which is Labuan Island (*Pulau Labuan*). Labuan Island's capital is Labuan Town (*Bandar Labuan*), the commercial centre of Labuan. Labuan covers an area of 92 square kilometres and is located in the South China Sea.

Population and society

The population of Labuan is approximately 65,500 and is comprised predominately of Brunei Malays and Kadayans. Labuan also has large Chinese and Indian communities as well as many Filipino and Indonesian immigrant workers.

Government and political system

Labuan was once part of the Sultanate of Brunei and was ceded to the British in 1846. In 1946 Labuan became part of the British North Borneo Colony (Sabah). In 1963 Labuan joined Malaysia as part of Sabah and in 1984 Labuan was made a federal territory directly under the administration of the Federal Government of Malaysia where it remains one of three federal territories.

Legal system

The Federal Territory of Labuan was declared an International Offshore Financial Centre ("**IOFC**") in October 1990. Legislation governing entities carrying on offshore business activities in Labuan was promulgated to segregate Labuan, as an offshore financial centre, from Malaysian domestic legislation. Government policy is not to permit an overlap of the offshore and domestic regimes. However, there are provisions in the legislation to permit this overlap with the approval of the Minister of Finance and the LOFSA (as defined below).

The laws which relate to the offshore activities in Labuan, are the Offshore Companies Act 1990 ("**OCA**"), the Labuan Offshore Financial Services Authority Act 1996 ("**LOFSA**"), the Labuan Offshore Business Activity Tax Act 1990 ("**LOBATA**"), the Offshore Banking Act 1990 ("**OBA**"), the Offshore Trust Companies Act 1990, the Offshore Insurance Act 1990, the Labuan Offshore Trust Act 1996, the Labuan Offshore Limited Partnership Act 1997 and the Labuan Offshore Securities Industry Act 1998.

The OCA allows for the incorporation of an offshore company and registration of an existing foreign company incorporated outside Malaysia, without prior government approval. As a measure to streamline and rationalise the administrative machinery of offshore financial services in Labuan, LOFSA was established on 15 February, 1996 to administer and enforce the OCA, the OBA, the Offshore Insurance Act and any other laws in respect of Labuan's financial services. It also acts as a one-stop approving and regulatory agency for offshore financial businesses operating in Labuan.

The LOBATA provides for special tax incentives for offshore companies carrying on offshore business activity in or from Labuan. Malaysia allows its offshore financial centre to qualify for all income tax treaties existing and in effect.

The Labuan International Financial Exchange is an offshore financial exchange based in Labuan. It was established to complement the various financial services offered by Labuan and is the offshore financial centre of Malaysia. It is operated by the Labuan International Financial Exchange Inc. ("**LFX Inc.**"), a company wholly owned by the Kuala Lumpur Stock Exchange. LFX Inc. is primarily governed by the OCA, the Labuan Offshore Securities Industry Act and its rules and regulations. The Labuan International Financial Exchange is a self-regulatory organisation which will operate, manage, monitor and supervise its own market participants by way of its licenses, rules and regulations.

Economy

Labuan's economic growth is mostly centred on mining, oil and gas, manufacturing and tourism. The finance sector is increasing in strength due to the number of offshore companies setting up in Labuan which, as stated above, is an IOFC. In 1995 Labuan had a projected GDP growth of 10.1 per cent. per annum for the period 1995 to 2015, following Federal Government initiatives to strengthen the economy.

MALAYSIAN LEGAL CONSIDERATIONS

General

The Malaysian legal system is a common law system based upon English law and includes both federal and state law. Corporate insolvency is regulated at the federal level, while laws relating to land are promulgated at the state level. See "Malaysia—State of Sarawak—*Legal system*".

Taking Security

A fixed charge may be created over a company's assets such as land, plant and equipment and must be registered both with the Registry of Companies ("**ROC**") and the appropriate Land Registry Office. Once registered, a fixed charge created over a chargor's land will attach to that land as of the date it was presented for registration, giving the chargee security in the land in priority to subsequently presented charges. By contrast, once registered, a fixed charge created over a chargor's property (such as plant and equipment) will attach to that property as of the date of the charge instrument, giving the chargee immediate security in the property in priority to subsequently presented charges. On the Closing Date, the Debenture and the Land Charge will be registered with the ROC and the Land Charge will be registered with the Kuching Land Registry Office.

(a) *Fixed charge over land*

The Borrower's interest in the land on which its silicon wafer processing foundry has been constructed is held under a lease (the "**Lease**") granted pursuant to Section 28 of the Land Code of Sarawak (the "**Land Code**"). Under Sarawak law, buildings and anything affixed to land will form part of the land and when a charge is created over that land it will include such buildings and fixtures. Under Section 13C of the Land Code, restrictions on dealings in land by foreign parties apply to ownership, transfers, subleases, transmissions and any other dealings, but not to charges. Sarawak law permits foreign parties, such as the Security Trustee, to take a charge over land in the State of Sarawak.

Security over the Lease will be created by way of the Land Charge registered with the Kuching Land Registry Office. A statement of that charge must be lodged with the ROC within 30 days after the creation of the charge. Priority as between competing security interests in the Borrower's land will be decided by the date each charge was presented for registration.

Once the Land Charge is registered as a first legal charge, the chargee will have an indefeasible title, subject only to valid fraud claims and certain exceptions identified in Section 132 of the Land Code, including:

- (i) *Existing interests having priority.* Searches in the Land Register have been made to ascertain what, if any, existing interests there are.
- (ii) *Existing short term subleases which do not require registration.* Short term subleases are those with a term of less than one year; such subleases are not required to be registered. The Borrower has made a representation and warranty in the Loan Agreement that no such short term subleases exist.
- (iii) *Implied conditions, obligations and restrictions in Section 32 of the Land Code.* These and other provisions give the State Government of Sarawak and the City Council of Kuching a first charge over the land with respect to unpaid rates, taxes and other dues payable to the State Government of Sarawak or the City Council of Kuching (and the various penalties for late payment of these sums). The Transaction Documents include the Borrower's undertaking to pay such amounts on time. The Borrower's exemption from income tax under its "pioneer status" will last a minimum of 5 years, and up to 10 years.
- (iv) *Government rights to enter into and reacquire the land to extract minerals and similar commodities.* The land on which the silicon wafer processing foundry has been constructed is part of the Sama Jaya Free Trade Zone Area declared by the State Government of Sarawak. Upon any exercise of

such rights, compensation would be paid to the Borrower based upon a statutory formula for determining fair market value.

(v) *Government right to re-entry and forfeiture.* As is normal with title to real estate in some other jurisdictions, it is possible for the Lease to be forfeited (whereupon the Government would re-enter the property) if the Borrower breaches or defaults in the observance of the conditions, restrictions or other obligations contained in the title. The Transaction Documents include the Borrower's undertaking to comply with all conditions, restrictions and obligations contained in the title. Sarawak counsel, having reviewed the text of the Lease, will opine that such conditions, restrictions and obligations are not unusually onerous and the Borrower should be capable of compliance therewith.

(vi) *Any land may also be reacquired by the State Government of Sarawak for public purposes.* As stated in (iv) above, the land on which the silicon wafer processing foundry is constructed is within a Free Trade Zone. The Borrower is also majority-owned by the SEDC. It is therefore unlikely that the State Government of Sarawak would exercise these rights. However, as stated in (iv) above, upon any exercise of such rights, compensation would be paid to the Borrower based upon a statutory formula for determining fair market value.

(b) *Enforcement of a fixed charge over the Lease*

Upon a default in the payment of principal, interest or any other indebtedness secured by the charge, or any other obligation expressed or implied, and the requisite notice having been given, a chargee will be entitled to exercise all available remedies unless such default is cured. These remedies include entitling the chargee to:

- (i) enter into possession and be regarded as proprietor;
- (ii) receive the rents and profits; or
- (iii) sell the land.

(c) *Fixed charge over plant and equipment*

All property such as plant and equipment can be the subject of a fixed charge unless it is affixed to the land and forms part of the land (in which case, it is covered by the fixed charge over land). The document creating the charge should specifically identify the equipment subject to the charge.

Registration of the charge with the ROC will be completed within the prescribed 30-day time limit. In contrast to the fixed charge over land, priority as between competing security interests in the Borrower's plant and equipment is decided by the date of the charge instrument, not the date on which the charge is presented for registration.

(d) *Floating charge over a bank account*

When a charge over a bank account is described as a fixed charge, Malaysian courts have held the charge to be a floating charge, unless (i) there are restrictions placed on the chargor's ability to deal with the monies in the account, or (ii) there is a requirement for the chargor to pay monies received into a designated account from which all withdrawals can be made only with the chargee's consent. As it is not practical for such restrictions to be included in the Transaction Documents, the charge over the Borrower's bank accounts will take effect as a floating charge.

Malaysian banks have the power to set off amounts in a depositor's account. This power is made available both by law and by customer contract. Absent agreement to the contrary, Malaysian banks generally have the right to combine a depositor's accounts and consider that depositor's combined balance when exercising its power to set off.

(e) *Floating charges*

Assets of the Borrower which are not subject to a fixed charge, will be subject to a floating charge.

Unlike a fixed charge, a floating charge under Malaysian law (as under English law) will not attach to a chargor's property until the charge crystallises. Pending crystallisation the holder of a floating charge does not have any priority over subsequent claimants.

Prior to crystallisation, the chargor can carry on business as though the floating charge did not exist. A floating charge crystallises when:

- (i) an event occurs which by the terms of the instrument causes the floating charge to crystallise;
- (ii) a receiver is appointed over the chargor's assets; or
- (iii) a winding up of the chargor is commenced (and possibly if it ceases to carry on its business).

A floating charge must be registered with the ROC.

As a floating charge is equitable, it will be postponed to a later legal charge. However, provided that the chargor remains a going concern, it is permitted to continue to deal with its assets, notwithstanding the floating charge. In any event, the chargor will be allowed to continue to buy and sell in the usual way and to pay its creditors.

Setting Aside of Security

(a) *The six month rule*

Under Section 293(1) of the Companies Act "any transfer, mortgage, delivery of goods, payment, execution or other act relating to property made or done by or against a company which, had it been made or done by or against an individual, would in his bankruptcy under the law of bankruptcy be void or voidable shall in the event of the company being wound up would be void or voidable in the like manner".

Malaysian courts have held that a transaction will be void under Section 293(1) of the Companies Act if five conditions are fulfilled:

- (i) the transaction in question took place within six months prior to the commencement of the winding up;
- (ii) the transaction in question satisfied the description of the types of transaction mentioned in Section 53(1) of the Bankruptcy Act 1965 (the "**Bankruptcy Act**");
- (iii) the transaction in question took place at a time when the company was insolvent;
- (iv) the person in whose favour the transaction in question was effected stood in relation of creditor to the company; and
- (v) the effect of the transaction in question was to confer on that person a preference, priority or advantage over the other creditors in the company's winding up.

Accordingly, the company would need to be insolvent when the transaction was entered into for Section 293(1) to have effect. Malaysian counsel will opine on the Closing Date that the five conditions set out in (i) to (v) above must be satisfied before the security will be set aside. This means that were the Borrower to be wound up within six months of the Loan being made, this would not void the security unless the Borrower was in fact insolvent at the time the security was given.

(b) *The two year rule*

Section 293 of the Companies Act 1965 must also be read together with Section 52(1) of the Bankruptcy Act, 1967, which states that:

"any settlement of property, not being a settlement made in favour of a purchaser or encumbrancer in good faith and for valuable consideration, shall, if the settlor becomes bankrupt within two years after the date of the settlement, be absolutely void against the Official Assignee, and shall, if the settlor becomes bankrupt at any subsequent time within 5 years after the date of settlement, be void against the Official Assignee, unless the parties claiming under the settlement can prove that the settlor was at the time of making the settlement able to pay all his debts without the aid of the property comprised in the settlement, and that the interest of the settlor in such property had passed to the trustee of such settlement on the execution thereof".

For purposes of this section "settlement" includes any conveyance or transfer of property, security for money or covenant for the payment of money.

In connection with the Loan, the two year rule does not apply as each of the Loan Security Documents is given in good faith and for valuable consideration. Such valuable consideration is the security given under the Loan Security Documents in return for the Loan advanced to the Borrower by the Issuer.

Purchase of Non-performing Loans

The Pengurusan Danaharta Nasional Act 1988, as amended by the Pengurusan Danaharta Nasional (Amendment) Act 2000 (the "**Danaharta Act**") provides laws for acquiring, managing, financing and disposing of assets and liabilities by a corporate vehicle, Pengurusan Danaharta Nasional Berhad ("**Danaharta**"). If the Borrower fails to make payments on the Loan, it is highly unlikely that Danaharta will be involved as (i) Danaharta was created to acquire assets such as non-performing loans from selling lenders and (ii) Danaharta has announced that it completed its acquisition phase as at 31 March, 2000 and will now be concentrating on its management and disposal phases. Therefore Danaharta will no longer be acquiring further non-performing loans but will instead be concentrating on resolving the loans which it has purchased.

In theory, if the Borrower were to default on one of its other loans, Danaharta could acquire the loan if the lender agreed to sell it. In the unlikely event of Danaharta acquiring the loan and appointing a special administrator ("**SA**") it should be noted that the approval of 50 per cent. of the secured creditors would be needed to implement a proposal submitted by the SA.

The Deputy Minister of Finance, in the parliamentary debate on the Pengurusan Danaharta Nasional (Amendment) Act 2000, confirmed that Danaharta would be ceasing its operations within the next five years.

Regulatory Approvals

Malaysia requires that a number of regulatory and other approvals be obtained to complete transactions such as the Loan. The Loan requires federal level approvals, such as Minister of Finance and Controller of Foreign Exchange approval, Labuan Offshore Financial Services Authority approval and state level approvals, such as State Financial Authority approvals. Malaysian and Sarawak counsel will opine on the Closing Date that all relevant approvals have been obtained at the Federal, state and Labuan levels in connection with the Loan Agreement and the Loan Security Documents.

BOOK ENTRY, DELIVERY AND FORM OF NOTES

Form, Denomination and Registration

The Notes will be issued in definitive, fully registered form, without coupons, in minimum denominations of U.S.\$250,000 principal amount. The Notes will be exchangeable and transfers thereof will be registrable, at the offices of the Registrar and/or the Luxembourg Paying and Transfer Agent. The costs and expenses of effecting any exchange or registration or transfer, except for the expenses of delivery by other than regular mail (if any) and except for the payment of a sum sufficient to cover any tax or other governmental charge or insurance charges that may be imposed in relation thereto, will be borne by the Issuer.

Global Notes; Book-entry Form

Notes initially sold to investors that are Eligible Investors will be evidenced by one or more permanent global notes (the "**144A Global Notes**"), which will be deposited with, or on behalf of DTC and registered in the name of Cede & Co. as DTC's nominee. Beneficial interests in 144A Global Notes will be offered and sold in the United States to or for the account or benefit of U.S. persons in private transactions to QIBs qualifying as Eligible Investors. Notes initially sold to non-U.S. persons in compliance with Regulation S will be evidenced by one or more permanent global notes (the "**Regulation S Global Notes**" and, together with the 144A Global Notes, the "**Global Notes**"), which will be deposited with, or on behalf of DTC and registered in the name of Cede & Co. as DTC's nominee, for the accounts of Euroclear and Clearstream, Luxembourg. Beneficial interests in the Regulation S Global Notes may only be held through Euroclear or Clearstream, Luxembourg and any resale or transfer of such interests to U.S. persons shall only be permitted as described under "Transfer Restrictions" below. Except as set forth below, the Global Notes may be transferred, in whole but not in part, only to another nominee of DTC or to a successor of DTC or its nominee.

On or prior to the 40th day after the later of the commencement of the offering and the date of delivery of the Notes represented by the Regulation S Global Notes, a beneficial interest therein may be transferred to a person who takes delivery in the form of a beneficial interest in the 144A Global Notes, but only upon receipt by the Registrar of (i) a written certification from the transferor (contained in the form of transfer certificate provided in the Agency Agreement) to the effect that such transfer is being made to a person who the transferor reasonably believes is purchasing for its own account or accounts as to which it exercises sole investment discretion and that such person and such account or accounts is an Eligible Investor, in each case in accordance with any applicable securities laws of any state of the United States or any other jurisdiction and (ii) an investment letter (in the form provided in the Agency Agreement) from the transferee to a similar effect. After such 40th day, the certification requirement in (i) above will no longer apply to any such transfers.

Beneficial interests in the 144A Global Notes may be transferred to a person who takes delivery in the form of a beneficial interest in the Regulation S Global Notes, whether before, on or after such 40th day, but only upon receipt by the Registrar of (i) a written certification from the transferor (contained in the form of transfer certificate provided in the Agency Agreement) to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S or Rule 144 and in reliance upon Section 3(c)(7) of the Investment Company Act and (ii) an investment letter (in the form provided in the Agency Agreement) from the transferee to a similar effect. If such transfer occurs on or prior to such 40th day, the interest transferred will be held immediately thereafter through Euroclear or Clearstream, Luxembourg but cannot be held through DTC.

Any beneficial interest in a Global Note will, upon transfer, cease to be an interest in the former Global Note, will become an interest in the latter Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the latter Global Note as long as it remains such an interest. Upon any such transfer of a beneficial interest in a Global Note, the Issuer will procure that (i) the Registrar decreases the aggregate principal amount of such Global Note by the principal amount of the beneficial interest so transferred and, accordingly, increases the aggregate principal amount of the Global Note into which such beneficial interest has been transferred by such principal amount and (ii) appropriate entries are made in the records of DTC so as to reflect such increase and decrease.

Eligible Investors may hold their interests in the 144A Global Notes directly through DTC, or indirectly through organisations which are participants in DTC ("**Participants**"). Transfers between Participants will be effected in the ordinary way in accordance with DTC rules and will be settled in clearing house funds.

Non-U.S. persons may hold their interest in the Regulation S Global Notes directly through Clearstream, Luxembourg or Euroclear, or indirectly through organisations that are participants in Clearstream, Luxembourg or Euroclear. Clearstream, Luxembourg and Euroclear will hold interests in the Regulation S Global Notes on behalf of their participants through DTC. Transfers between participants in Euroclear and Clearstream, Luxembourg will be effected in the ordinary way in accordance with their respective rules and operating procedures.

A person who is not a Participant may beneficially own interests in the Global Notes held by DTC only through Participants, including Euroclear and Clearstream, Luxembourg, or certain banks, brokers, dealers, trust companies and other parties that clear through or maintain a custodial relationship with a Participant, either directly or indirectly ("**Indirect Participants**"). So long as Cede & Co., as the nominee of DTC, is the registered owner of the Global Notes, Cede & Co. for all purposes will be considered the sole Holder of the Global Notes. Except as provided below, owners of beneficial interests in the Global Notes will not be entitled to have certificates registered in their names, will not receive or be entitled to receive physical delivery of certificates in definitive form, and will not be considered the holders thereof.

Payment of interest on and the redemption price (upon redemption at the option of the Issuer) of the Global Notes will be made by the Issuer to Cede & Co., the nominee for DTC, as the registered owner of the Global Notes by wire transfer of immediately available funds. None of the Issuer, the Note Trustee, the Sub-Trustee or the Principal Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial interests in the Global Notes or for maintaining, supervising or reviewing any records relating, to such beneficial interests.

With respect to any payment of interest or the redemption price (upon redemption at the option of the Issuer) of the Global Notes, DTC's current practice is to credit Participants' accounts on the payment date therefor with payments in amounts proportionate to their respective beneficial interests in the Notes represented by the Global Notes as shown on the records of DTC (adjusted as necessary so that such payments are made with respect to whole Notes only), unless DTC has reason to believe that it will not receive payment on such payment date. Payments by Participants to owners of beneficial interests in Notes represented by the Global Notes held through such Participants will be the responsibility of such Participants, as is now the case with securities held for the accounts of customers registered in "streetname".

Because DTC can only act on behalf of Participants, who in turn act on behalf of Indirect Participants, the ability of a person having a beneficial interest in the Notes represented by the Global Notes to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate evidencing such interest.

None of the Issuer, the Note Trustee, the Sub-Trustee, the Principal Paying Agent or the Transfer Agents will have any responsibility for the performance by DTC, Euroclear or Clearstream, Luxembourg or their Participants or Indirect Participants of their respective obligations under the rules and procedures governing their operations. DTC has advised the Issuer that it will take any action permitted to be taken by a Holder of a beneficial interest in the Notes only at the direction of one or more Participants to whose account with DTC interests in the Global Notes are credited and only in respect of the principal amount of the Notes represented by the Global Notes as to which such Participant or Participants has or have given such direction.

DTC has advised the Issuer as follows:

DTC is a limited purpose trust company organised under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC was created to hold Notes for its Participants and to facilitate the clearance and settlement of securities transactions between Participants through electronic book-entry changes to accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and

dealers, banks, trust companies and clearing corporations and may include certain other organisations such as the placement agents. Certain of such Participants (or their representatives), together with other entities, own DTC. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through, or maintain a custodial relationship with, a Participant, either directly or indirectly.

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

Certificated Notes

Notes in definitive registered form ("**Certificated Notes**") will be issued in exchange for Notes represented by the Global Notes if a depository is unwilling or unable to continue as a depository for the Global Notes and a successor depository is not appointed by the Issuer within 90 days or if the Note Trustee requests an exchange following the occurrence and during the continuation of an Event of Default.

A Certificated Note may be transferred in whole or in part in an authorised denomination upon surrender of the relevant Note, with the duly completed forms of transfer certificate and investment letter (in the forms provided in the Agency Agreement), at the specified office of the Registrar or either of the Transfer Agents, together with such evidence as the Registrar and the Transfer Agents may require to prove that such transfer is being made in compliance with the transfer restrictions applicable thereto; *provided however*, that a Certificated Note may not be transferred unless the principal amount of such Note transferred, and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred, are of an authorised denomination. Where not all the Notes represented by the surrendered Certificated Notes are the subject of the transfer, a new Certificated Note in respect of the balance of the Certificated Notes will be issued to the transferor. The Registrar will register the transfer in question and deliver a new Certificated Note of a like principal amount to the Notes transferred to each relevant Holder or (as the case may be) the specified office of either of the Transfer Agents.

Transfers made through the Principal Paying Agent may be made on any Business Day. Transfers made through the Transfer Agents may be made on any day other than a Saturday, Sunday or other day on which banking institutions are authorised or obligated by law to close in Luxembourg.

Restrictions on Transfer; Legends

The Notes will be subject to certain transfer restrictions as described below under "Transfer Restrictions" and certificates evidencing the Notes will bear a legend to such effect.

TERMS AND CONDITIONS OF THE NOTES

The U.S.\$250,000,000 Floating Rate Secured Notes due 2008 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 14 (*Further Issues*) and forming a single series therewith) of 1st Silicon (Labuan) Inc. (the "**Issuer**") (i) are constituted by, are subject to, and have the benefit of, a security trust deed dated 19 June, 2001 (as amended or supplemented from time to time, the "**Security Trust Deed**") between the Issuer, Shearn Skinner Trust Company Sdn. Bhd. as note trustee (the "**Note Trustee**", which expression includes all persons for the time being note trustee or note trustees or sub-trustee or sub-trustees appointed under the Security Trust Deed), DB Trustees (Hong Kong) Limited as security trustee (the "**Security Trustee**", which expression includes all persons for the time being security trustee or security trustees under the Security Trust Deed), DB Trustees (Hong Kong) Limited as Sub-Trustee (the "**Sub-Trustee**") which expression includes all persons for the time being sub-trustee or sub-trustees under the Security Trust Deed), the Principal Paying Agent, the Calculation Agent, the Registrar, the Transfer Agent and the Luxembourg Paying and Transfer Agent (each as defined below) and (ii) are the subject of an agency agreement dated 19 June, 2001 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, Bankers Trust Company as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), Bankers Trust Company as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), Bankers Trust Company as calculation agent (the "**Calculation Agent**", which expression includes any successor calculation agent appointed from time to time in connection with the Notes) Bankers Trust Company as transfer agent (the "**Transfer Agent**", which expression includes any successor transfer agent appointed from time to time in connection with the Notes), Kredietbank S.A. Luxembourgaise as paying agent and transfer agent in Luxembourg (the "**Luxembourg Paying and Transfer Agent**", which expression includes any successor paying agent and transfer agent in Luxembourg), the Note Trustee, the Security Trustee and the Sub-Trustee.

References herein to the "**Agents**" are to the Registrar, the Principal Paying Agent, the Calculation Agent, the Transfer Agent and the Luxembourg Paying and Transfer Agent and any reference to an "**Agent**" is to any one of them. References herein to the "**Paying Agents**" are to the Principal Paying Agent and the Luxembourg Paying and Transfer Agent in its capacity as paying agent and any reference to a "**Paying Agent**" is to any one of them. References herein to the "**Transfer Agents**" are to the Transfer Agent and the Luxembourg Paying and Transfer Agent in its capacity as transfer agent and any reference to a "**Transfer Agent**" is to any one of them.

The Note Trustee has delegated all of the duties, rights, powers, authorities and discretions exercisable by it under the Notes, the Security Trust Deed and the Agency Agreement to the Sub-Trustee. See "Condition 12".

Certain provisions of these Conditions are summaries of the Security Trust Deed and the Agency Agreement and are subject to their detailed provisions. The Noteholders (as defined below) are bound by and are deemed to have notice of all the provisions of the Security Trust Deed and the Agency Agreement applicable to them. Copies of the Security Trust Deed, the Loan Agreement, the Debenture, the Land Charge, the Security Sharing Agreement and the Agency Agreement are available for inspection by Noteholders during normal business hours at the registered office for the time being of the Sub-Trustee, being at the date hereof 55th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong and at the Specified Offices (as defined in the Agency Agreement) of each of the Agents.

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

1. **Form, Denomination and Title**

(a) *Form and denomination:* The Notes are issued in definitive fully registered form, without coupons, in minimum denominations of U.S.\$250,000 principal amount (each, an "**Authorised Holding**"). The Notes initially offered and sold outside the United States to non-U.S. persons in reliance on Regulation S will initially be represented by one or more permanent global notes (the "**Regulation S Global Notes**") and Notes initially offered to and sold in the United States in reliance on Rule 144A will initially be represented by one or more permanent global notes (the "**144A Global Notes**"). Interests in the 144A Global Notes will be offered, sold or delivered only to Eligible Investors (as defined below) in private transactions exempt from the registration requirements of the Securities Act and under circumstances which will not require the Issuer to register under the Investment Company

Act and resales thereof may only be made to Eligible Investors in transactions pursuant to, and meeting the requirements of, Rule 144A and the exemption specified in Section 3(c)(7) of the Investment Company Act. The Issuer is relying on the exemption provided by Section 3(c)(7) of the Investment Company Act and offers, sales or transfers of beneficial interests in the 144A Global Notes (to or for the account or benefit of a U.S. person) may only be made in accordance with the provisions above. At no time may any such beneficial interests be owned beneficially by a U.S. person who is not an Eligible Investor. In order to ensure compliance with this limitation, the offer, sale or transfer of such beneficial interests may be refused if as a result of such offer, sale or transfer, such beneficial interest will be owned by a U.S. person that is not an Eligible Investor. Any offer, sale, transfer or other disposition of the Notes that would, in the sole determination of the Issuer, require the Issuer to register as an "investment company" under the provisions of the Investment Company Act will be void and such offer, sale, transfer or other disposition will not be honoured and the Issuer shall have the right at any time, at the expense and risk of the holder of the Notes held by or on behalf of a U.S. person who is not an Eligible Investor at the time it purchases such Notes, (A) to redeem any such Notes, in whole or in part at their respective Principal Amount Outstanding (as defined below), to permit the Issuer to avoid registration under the Investment Company Act or (B) to require any such holder to sell such Notes to an Eligible Investor. Accordingly, any transferee or other holder in such a transaction will not be entitled to any rights as a beneficial owner of such 144A Global Notes.

"**Eligible Investors**" are persons who are "qualified institutional buyers" (as defined in Rule 144A) ("**QIBs**"), but excluding therefrom (i) QIBs who are broker-dealers which own and invest on a discretionary basis less than U.S.\$25,000,000 in "securities", as such term is defined under Rule 144A, (ii) partnerships, common trust funds, special trusts, pension funds, retirement plans or other entities in which the partners, beneficiaries or participants, as the case may be, may designate the particular investments to be made or the allocation thereof, (iii) entities that were formed, reformed or recapitalised for the specific purpose of investing in the Notes or other securities of the Issuer, (iv) any investment company excepted from the Investment Company Act under Section 3(c)(1) or Section 3(c)(7) therefor and formed before 30 April, 1996, which has not received consent from its beneficial owners with respect to the treatment of such entity as a Qualified Purchaser in the manner required by Section 2(a)(51)(C) of the Investment Company Act and the rules thereunder and (v) any entity that will have invested more than 40 per cent. of its assets in securities of the Issuer subsequent to any purchase of Notes of the Issuer.

(b) *Register:* The Registrar will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A definitive certificated note (each, a "**Certificated Note**") will be issued to each Noteholder in respect of its registered holding if their beneficial interests are no longer represented by a Global Note. Each Certificated Note will be numbered serially with an identifying number which will be recorded in the Register.

(c) *Title:* The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Certificated Notes relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Certificated Note) and no person shall be liable for so treating such Holder.

(d) *Transfers:* Subject to paragraphs (e), (h) and (i) below, a Note may be transferred upon surrender of the relevant Certificated Note, together with (i) an appropriately completed transfer certificate (in the form provided in the Agency Agreement) and (ii) an appropriately completed investment letter (in the form provided in the Agency Agreement), at the Specified Office of the Registrar or either of the Transfer Agents, together with such evidence as the Registrar or (as the case may be) the Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided, however, that* a Note may not be transferred unless the Principal Amount Outstanding of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the Principal Amount Outstanding of the balance of Notes not transferred are Authorised Holdings or a multiple thereof. Where not all the Notes represented by the surrendered Certificated Notes are the subject of the transfer, a new Certificated Note in respect of the balance of the Notes will be issued to the transferor. A transfer agent with a Specified Office in Luxembourg shall be maintained by the Issuer so long as the Notes are listed on the Luxembourg Stock Exchange.

(e) *Distribution Compliance Period:* Until the first day following the expiry of 40 days after the later of the commencement of the offering and the date of delivery of the Notes represented by the Regulation S Global Notes (the "**Distribution Compliance Period**"), beneficial interests therein may not be offered or sold in the United States or to U.S. persons unless the transferor delivers to the Registrar an appropriately completed transfer certificate (obtained from the Registrar or the Transfer Agents) and the transferee delivers an appropriately completed investment letter (obtained from the Registrar or the Transfer Agents). In addition, in the event a person holding beneficial interests in the 144A Global Notes makes a transfer to a non-U.S. person in accordance with either Rule 903 or Rule 904 of Regulation S, the transferor will be required to deliver an appropriately completed transfer certificate and the transferee will be required to deliver an appropriately completed investment letter certifying, among other things, its status as a non-U.S. person.

(f) *Registration and delivery of Certificated Notes:* Within five business days of the surrender of a Certificated Note in accordance with paragraph (d) above, the Registrar will register the transfer in question and deliver a new Certificated Note of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of either Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(g) *No charge:* The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents but against such indemnity as the Registrar or (as the case may be) the Transfer Agents may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(h) *Closed periods:* Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

(i) *Regulations concerning transfers and registration:* All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Note Trustee, the Sub-Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations. A copy of such regulations is available (free of charge) from the principal office in Luxembourg of the Luxembourg Paying and Transfer Agent.

2. **Status, Security and Priority**

(a) *Status:* The Notes constitute direct, general, unconditional, limited recourse, secured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(b) *Note Secured Parties:* The Security Trust Deed contains provisions requiring the Note Trustee to have regard to the interests of the secured creditors of the Issuer pursuant to the Security Trust Deed (together, the "**Note Secured Parties**") as regards all powers, trusts, authorities, duties and discretions of the Note Trustee (except where expressly provided otherwise), but requiring the Note Trustee in any such case to have regard only (except where specifically provided otherwise) to the interests of the Noteholders if, in the Note Trustee's opinion, there is a conflict between the interests of (i) the Noteholders and (ii) the other Note Secured Parties (or any combination or one of them).

(c) *Modification on issuance of Further Notes:* In the event of an issue of Further Notes (as defined in Condition 14 (*Further Issues*)), the provisions of the Security Trust Deed and these Conditions, including those concerning:

- (i) the basis on which the Note Trustee will be required to exercise its rights, powers, authorities and discretions (including in circumstances where, in the Note Trustee's opinion, there is a conflict between the interests of any of the Note Secured Parties), as referred to in paragraph (b) above;
- (ii) the circumstances in which the Note Trustee will become bound to take action, as referred to in Condition 9 (*Enforcement*);
- (iii) meetings of Noteholders and the passing of effective Extraordinary Resolutions; and
- (iv) the order of priority of payments both prior to, and upon, enforcement of the Charged Property,

will be modified in such manner as the Note Trustee considers necessary to reflect the issue of such Further Notes and the ranking thereof in relation to the Notes.

(d) *Assumption:* The Note Trustee shall be entitled to assume, for the purpose of exercising any power, trust, authority, duty or discretion under or in relation to these Conditions or any of the Transaction Documents, that such exercise will not be materially prejudicial to the interests of the Noteholders if each of the Rating Agencies (as defined in Condition 15 (*Notices*)) has confirmed that its respective then current ratings of the Notes would not be adversely affected by such exercise.

(e) *Security:* As security for the payment of monies payable in respect of the Notes and otherwise under the Security Trust Deed (including the remuneration, expenses and other claims of the Note Trustee), and for payment of other amounts owing to the Note Secured Parties, the Issuer has entered into the Security Trust Deed on the Closing Date creating the following first priority security interests in favour of the Note Trustee:

- (i) an absolute legal assignment by way of security over all its rights, title, interest and benefit present and future in, to and under the Loan Agreement, the SEDC Guarantee, the Letter of Support, the Agency Agreement, the Subscription Agreement, the Security Sharing Agreement and the Debenture including, without limitation, all rights to receive payment of any amounts which may become payable to the Issuer thereunder and all payments received by the Issuer thereunder, all rights to serve notices and/or make demands thereunder and/or take such steps as are required to cause payments to become due and payable thereunder and all rights of action in respect of any breach thereof and all rights to receive damages or obtain other relief in respect thereof;
- (ii) a sub-charge by way of first fixed sub-charge over all its rights, title, interest and benefit present and future in, to and under the Land Charge and any deeds or agreements supplemental thereto and all monies assured by or payable thereunder and the benefits of all covenants relating thereto and all powers and remedies for enforcing the same;
- (iii) a charge by way of first fixed charge over all its rights, title, interest and benefit present and future in and to all monies now or at any time hereafter standing to the credit of the Payment Account, the Reserve Fund and any bank account of the Issuer wherever located, together with all interest accruing from time to time thereon and the debts represented thereby;
- (iv) a charge by way of first fixed charge over all its rights, title, interest and benefit present and future in and to any Eligible Investments to be made from time to time by or on behalf of the Issuer using monies standing to the credit of the Trust Accounts, and all monies, income and proceeds payable thereunder or accrued thereon and the benefit of all covenants relating thereto and all rights and remedies for enforcing the same;
- (v) a charge by way of first fixed charge over the whole of its undertaking and assets to the extent that such undertaking and assets are not effectively encumbered by the assignments referred to in paragraph (i) above and the sub-charge and charges, referred to in paragraphs (ii) to (iv) (inclusive) above; and

- (vi) a charge by way of first floating charge over the whole of its undertaking and assets to the extent that such undertaking and assets are not effectively encumbered by the assignment referred to in paragraph (i) above and the sub-charge and charges referred to in paragraphs (ii) to (v) (inclusive) above,

(together, the "**Charged Property**"), all as more particularly set out in the Security Trust Deed.

The Note Trustee will hold the Charged Property on trust for the benefit of itself, the Noteholders, any receiver, the Security Trustee, the Sub-Trustee and the Agents (the "**Note Secured Parties**") subject to and in accordance with the terms of the Security Trust Deed.

The Security Trust Deed provides that the Note Trustee and the Sub-Trustee shall accept without investigation, requisition or objection such right, benefit, title and interest, if any, as the Issuer and/or the Security Trustee may have in and to any of the Charged Property and is not bound to make investigation into the same or into the Charged Property in any respect.

The Note Trustee and the Sub-Trustee shall not be bound or concerned to make any investigation into the creditworthiness of any party in respect of the Charged Property, the validity of any of such party's obligations under or in respect of the Charged Property or any of the terms of the Charged Property.

(f) *Pre-enforcement application of proceeds:* All monies received by or on behalf of the Issuer, the Note Trustee or the Sub-Trustee prior to service of a Note Enforcement Notice or enforcement by the Note Trustee of the security constituted by the Security Trust Deed shall be applied in the following order of priority on each Note Interest Payment Date and on any other relevant date:

- (i) *first*, in or towards satisfaction, *pro rata* according to the respective amounts thereof, of:
- (1) the fees or other remuneration and indemnity payments (if any) payable to the Note Trustee and any costs, charges, liabilities and expenses incurred under the provisions of the Security Trust Deed, and any other amounts payable to it thereunder;
 - (2) the fees or other remuneration and indemnity payments (if any) payable to the Security Trustee and any costs, charges, liabilities and expenses incurred by it under the provisions of the Loan Agreement, the Loan Security Documents and the Security Sharing Agreement, and any other amounts payable to it thereunder;
 - (3) the fees or other remuneration and indemnity payments (if any) payable to the Sub-Trustee and any costs, charges, liabilities and expenses incurred by it under the provisions of the Security Trust Deed, and any other amounts payable to it thereunder; and
 - (4) the fees or other remuneration and indemnity payments (if any) payable to the Agents and any costs, charges, liabilities and expenses incurred under the provisions of the Agency Agreement, and any other amounts payable to them thereunder;
- (ii) *second*, in or towards satisfaction of all the amounts of interest due or accrued due but unpaid on the Notes;
- (iii) *third*, in or towards satisfaction of all the amounts of principal payable in respect of the Notes pursuant to the Conditions;
- (iv) *fourth*, to deposit into the Reserve Fund any amounts then required to be deposited therein up to the Required Amount; and
- (v) *fifth*, in making or providing for any payment of dividends to the shareholders of the Issuer,

all as more particularly described in the Security Trust Deed.

(g) *Post-enforcement application of proceeds:* All moneys received by or on behalf of the Issuer, the Note Trustee, the Sub-Trustee or any receiver following service of a Note Enforcement Notice or enforcement by the Note Trustee of the security constituted by the Security Trust Deed shall be applied in or towards payment in the following order of priority:

- (i) *first*, in or towards satisfaction, *pro rata* according to the respective amounts thereof, of:
 - (1) the fees or other remuneration and indemnity payments (if any) payable to the Note Trustee and any receiver appointed by the Note Trustee or the Sub-Trustee and any costs, charges, liabilities and expenses incurred by the Note Trustee and any receiver under the provisions of the Security Trust Deed, and any other amounts payable to either of them thereunder;
 - (2) the fees or other remuneration and indemnity payments (if any) payable to the Security Trustee and any costs, charges, liabilities and expenses incurred by it under the provisions of the Loan Security Documents, and any other amounts payable to it thereunder;
 - (3) the fees or other remuneration and indemnity payments (if any) payable to the Sub-Trustee and any costs, charges, liabilities and expenses incurred by it under the provisions of the Security Trust Deed, and any other amounts payable to it thereunder; and
 - (4) the fees or other remuneration and indemnity payments (if any) payable to the Agents and any costs, charges, liabilities and expenses incurred under the provisions of the Agency Agreement and any other amounts payable to them thereunder;
- (ii) *second*, in or towards satisfaction of all the amounts of interest and principal due or accrued due but unpaid under the Notes; and
- (iii) *third*, the surplus, if any, to the Issuer, but only after all amounts due and payable to the Note Secured Parties pursuant to paragraphs (i) and (ii) above have been fully paid and are no longer outstanding,

all as more particularly described in the Security Trust Deed and subject to the provisions of Condition 9 (*Enforcement*) below.

3. **Negative Covenants of the Issuer**

Save with the prior written consent of the Note Trustee, the Issuer shall not, so long as any Note remains outstanding:

- (a) create or permit to subsist any mortgage, pledge, lien (unless arising by operation of law) or charge upon, or sell, transfer, assign, exchange or otherwise dispose of, the whole or any part of, its assets, present or future (including any uncalled capital) or its undertaking other than pursuant to the Transaction Documents;
- (b) incur or permit to subsist any indebtedness in respect of borrowed money whatsoever or give any indemnity or assume any liability whatsoever of any obligation of any Person except as permitted pursuant to the Transaction Documents;
- (c) engage in business (other than issuing the Notes, entering into transactions, activities or agreements arising from or relating to, or contemplated in, the Notes, the Loan Agreement and the other Transaction Documents, performing its obligations and exercising its rights thereunder and any other reasonably incidental activities);
- (d) have any employees or premises;
- (e) declare or pay any dividend or make any other distribution in respect of its share capital to its shareholders except in accordance with the provisions of the Transaction Documents;

- (f) issue any further shares or alter any rights to the shares in existence on the date hereof;
- (g) have an interest in any bank account other than the Payment Account, the Reserve Fund or any account established in connection with any issue of Further Notes, unless such account or interest is charged to the Note Trustee on the terms acceptable to it;
- (h) consolidate or merge with any other Person or convey or transfer its properties or assets substantially as an entirety to any other Person;
- (i) purchase, subscribe for or otherwise acquire any shares (or other securities or any interest therein) in, or incorporate, any other company or agree to do any of the foregoing;
- (j) establish its place of residence for tax purposes outside Malaysia except as permitted pursuant to Condition 7 and/or the provisions of the Security Trust Deed;
- (k) amend or alter its Memorandum or Articles of Association;
- (l) save as provided in the Transaction Documents, dispose of any of its assets;
- (m) permit the validity or effectiveness of the Security Trust Deed or any Security created thereunder to be impaired or permit the lien of the Security Trust Deed to be amended, hypothecated, subordinated, terminated or discharged, or permit any person to be released from any covenants or obligations with respect to the Security Trust Deed except as may be expressly permitted thereby or by the other Transaction Documents;
- (n) permit any Transaction Document to be amended, terminated, postponed or discharged or agree to any such amendment, termination, postponement or discharge or permit any person whose obligations form part of the Charged Property to be released from such obligations in each case without the prior written consent of the Note Trustee;
- (o) have any subsidiaries;
- (p) take any action that would permit the security created pursuant to the Security Trust Deed not to constitute a valid first priority security interest in the Charged Property; and
- (q) except with the prior written consent of the Note Trustee, transfer, sell, lend, part with or otherwise dispose of, or deal with, or grant any option or present or future right to acquire, any of the Charged Property or any interest, estate, right, title or benefit therein or thereto or agree or attempt or purport to do so.

In giving any consent to the foregoing, the Note Trustee may require the Issuer to make such modifications or additions to the provisions of the Transaction Documents or may impose such other conditions or requirements as the Note Trustee may deem expedient in the interests of the Note Secured Parties, provided that such modifications or additions do not cause any downgrade in the then current ratings of the Notes (or, if the then current ratings of the Notes are higher than the original ratings of the Notes, the original ratings of the Notes) by the Rating Agencies.

4. Interest

- (a) *Accrual of interest:* The Notes bear interest on their outstanding principal amount (the "**Principal Amount Outstanding**") from 19 June, 2001 (the "**Issue Date**"), payable on 19 March, 19 June, 19 September and 19 December in each year (each, a "**Note Interest Payment Date**"), commencing on 19 September, 2001 subject as provided in Condition 6 (*Payments*); *provided, however, that*, if any Note Interest Payment Date would otherwise fall on a date which is not a Business Day (as defined below), it will be postponed to the next Business Day unless it would thereby fall into the next calendar month, in which case it will be brought forward to the preceding Business Day. Each period beginning on (and including) the Issue Date or any Note Interest Payment Date and ending on (but excluding) the next succeeding Note Interest Payment Date is herein called an "**Interest Period**".

Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 4 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Principal Paying Agent or the Note Trustee or the Sub-Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

A "**Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for domestic and foreign exchange business in Kuching, Labuan, Luxembourg, London, Hong Kong and New York.

(b) *Rate of interest:* The rate of interest applicable to the Notes (the "**Rate of Interest**") for each Interest Period will be determined by the Calculation Agent on the following basis:

(i) On the second London Banking Day (as defined below) immediately preceding the first day of each Interest Period and on 15 June, 2001 in respect of the first Interest Period (each such day, an "**Interest Determination Date**"), the Calculation Agent will determine the London Interbank Offered Rate ("**LIBOR**") based on the offered quotation for deposits in U.S. Dollars, for a period comparable to the relevant Interest Period, which appears on page 3750 of the Telerate Service (or any successor thereof) (such display page being the "**Telerate Page**") at or about 11:00 a.m. (London time) on such Interest Determination Date. Notwithstanding the foregoing, if no offered quotation for deposits in U.S. Dollars for such Interest Period appears, LIBOR will be determined as described in (ii) below.

(ii) With respect to an Interest Determination Date on which no offered quotation appears on the Telerate Page, the Calculation Agent shall determine LIBOR as the arithmetic mean (rounded upwards, if necessary, to four decimal places) of the per annum rates, as supplied to the Calculation Agent at its request, quoted by each Reference Bank (as defined below) to leading banks in the London Interbank Market at or about 11:00 a.m. (London time) on the Interest Determination Date for the offering of deposits in U.S. Dollars, and for a period equal to the relevant Interest Period. If on any occasion a Reference Bank fails to supply the Calculation Agent with a quotation required of it, the rate for which such quotation was required shall be determined from those quotations which are supplied to the Calculation Agent.

The Rate of Interest for such Interest Period shall be the sum of 2.75 per cent. per annum and the rate or (as the case may be) the arithmetic mean so determined; *provided, however, that* if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of 2.75 per cent. per annum and the rate or arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

"**London Banking Day**" means a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in London.

"**Reference Banks**" means the principal London offices of The Bank of Tokyo-Mitsubishi, Barclays Bank PLC, The Chase Manhattan Bank and Deutsche Bank AG, or such other bank or banks as may be selected by the Calculation Agent.

(c) *Calculation of interest amount:* The Calculation Agent will, as soon as practicable after the Interest Determination Date in relation to each Interest Period, calculate the amount of interest (the "**Interest Amount**") payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Principal Amount Outstanding of such Note during such Interest Period, multiplying the product by the actual number of days in such Interest Period divided by 360 and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

(d) *Publication:* The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Note Interest Payment Date, to be notified to the other Agents, the Note Trustee, the Sub-

Trustee, the Security Trustee and each stock exchange (if any) on which the Notes are then listed as soon as practicable after such determination but in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period.

(e) *Notifications etc:* All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 4 by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Agents, the Note Trustee, the Security Trustee, the Sub-Trustee and the Noteholders and (subject as aforesaid) no liability to any such person will attach to the Calculation Agent or (in the circumstances referred to in paragraph (f) below) the Note Trustee or the Sub-Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(f) *Failure of Calculation Agent:* If the Calculation Agent fails at any time to determine a Rate of Interest or to calculate an Interest Amount as aforesaid, the Note Trustee will determine such Rate of Interest as it in its discretion considers fair and reasonable in the circumstances (having such regard as it thinks fit to paragraph (b) above) or (as the case may be) calculate such Interest Amount in accordance with paragraph (c) above.

5. **Redemption, Purchase and Cancellation**

(a) *Final redemption:* Unless previously redeemed in full, or purchased and cancelled (which such redemption, purchase or cancellation will be notified to the Luxembourg Stock Exchange and the Labuan International Financial Exchange), the Notes will mature at their Principal Amount Outstanding on the Note Interest Payment Date falling in June, 2008 (the "**Final Maturity Date**"), together with all accrued but unpaid interest thereon up to but excluding the Final Maturity Date.

(b) *Mandatory redemption:* The Issuer shall upon not more than 60 nor less than 30 days' prior written notice to the Noteholders, the Note Trustee, the Sub-Trustee and the Security Trustee redeem the Notes (in whole but not in part) on any Note Interest Payment Date in an amount equal to the corresponding principal repayment amount received by the Issuer under the Loan Agreement, together with all accrued but unpaid interest thereon up to but excluding such relevant Note Interest Payment Date.

(c) *Redemption for tax reasons:* In the event of certain tax changes affecting:

(i) the Notes, which will have the result that the Issuer is or will be obliged to make any withholding or deduction from payments in respect of the Notes (although the Issuer is obliged to pay additional amounts in respect of such withholding or deduction); or

(ii) the amounts paid or to be paid to the Issuer under the Loan Agreement, which will have the result that the Borrower is obliged or will be obliged to make any withholding or deduction from payments due thereunder to the Issuer (although the Borrower is obliged to pay additional amounts in respect of such withholding or deduction),

the Issuer shall use its reasonable endeavours to arrange with the approval of the Note Trustee for the substitution of another company in the capacity of issuer in an alternative jurisdiction (subject to certain conditions) and, if it is unable to do so, may (but is not obliged to) on prior written notice to the Security Trustee:

(1) redeem all (but not some only) of the Notes at their Principal Amount Outstanding, together with all accrued but unpaid interest thereon up to the date of repayment; or

(2) in order to mitigate the effect of the relevant change, take such other appropriate action as it reasonably can following consultation with the Note Trustee.

(d) *Redemption at the option of the Issuer:* The Notes may be redeemed at the option of the Issuer in whole, but not in part on:

- (i) the Business Day immediately preceding the Note Interest Payment Date falling in June 2006; or
- (ii) the Note Interest Payment Date falling in December 2007; or
- (iii) the Note Interest Payment Date falling in March, 2008,

(each, a "**Call Settlement Date**"), at a price equal to 100 per cent. of their Principal Amount Outstanding together with all accrued but unpaid interest thereon up to the Call Settlement Date, on the Issuer giving not more than 60 nor less than 30 days' prior written notice to the Noteholders, the Note Trustee, the Sub-Trustee and the Security Trustee (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes on a Call Settlement Date at such price plus all accrued but unpaid interest to such date); *provided that*, on the Call Settlement Date, no notice has been served by the Note Trustee pursuant to Condition 8.

(e) *Redemption at the option of Noteholders:* The Issuer shall, at the option of the Holder of any Note and on prior written notice to the Note Trustee, the Sub-Trustee and the Security Trustee, redeem such Note on the Business Day immediately preceding the Note Interest Payment Date falling in June 2006 (the "**Put Settlement Date**") at a price equal to 100 per cent. of its Principal Amount Outstanding together with all accrued but unpaid interest therein up to the Put Settlement Date. In order to exercise the option contained in this Condition 5(e), the Holder of a Note must, not more than 60 nor less more than 30 days before the Put Settlement Date, deposit the Certificated Note relating to such Note with any Paying Agent and a duly completed put option notice (a "**Put Option Notice**") in the form obtainable from any Paying Agent. No Certificated Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 5(e), may be withdrawn; *provided, however, that* if, prior to the Put Settlement Date, the Notes evidenced by any Certificated Note so deposited become immediately due and payable or, upon due presentation of any Certificated Note on the Put Settlement Date, payment of the redemption moneys is improperly withheld or refused, such Certificated Note shall, without prejudice to the exercise of the Put Option, be returned to the Holder by uninsured first class mail (airmail if overseas) at the address specified by such Holder in the relevant Put Option Notice.

(f) *Redemption for Investment Company Act reasons:* In the event that any offer, sale, transfer or other disposition of the Notes would, in the sole determination of the Issuer, require the Issuer to register as an "investment company" under the provisions of the Investment Company Act, such offer, sale, transfer or other disposition will be void and will not be honoured and the Issuer shall have the right at any time, at the expense and risk of the holder of the Notes held by or on behalf of a U.S. person who is not an Eligible Investor at the time it purchases such Notes, and on prior written notice to the Note Trustee, the Sub-Trustee and the Security Trustee, to redeem any such Notes, in whole or in part, at their respective Principal Amount Outstanding together with all accrued but unpaid interest thereon up to such date of redemption.

(g) *No other redemption:* The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) to (f) above.

(h) *Purchase:* The Issuer may at any time purchase Notes in the open market or otherwise and at any price.

(i) *Cancellation:* All Notes so redeemed by the Issuer shall be cancelled and may not be reissued or resold.

6. **Payments**

(a) *Principal:* Payments of principal shall be made by U.S. Dollar cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. Dollar account maintained by the payee with, a bank in New York City and (in the case of final redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Certificated Notes at the Specified Office of any Paying Agent.

(b) *Interest:* Payments of interest shall be made by U.S. Dollar cheque drawn on, or upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. Dollar account maintained by the payee with a bank in New York

City and (in the case of interest payable on final redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Certificated Notes at the Specified Office of any Paying Agent.

(c) *Payments subject to fiscal laws:* All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) *Payments on business days:* Where payment is to be made by transfer to a U.S. Dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by U.S. Dollar cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on final redemption) on the later of the due date for payment and the day on which the relevant Certificated Note is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on final redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 6 arriving after the due date for payment or being lost in the mail. In this paragraph, "**business day**" means any day on which commercial banks are open for business (including dealings in foreign currencies) in New York City and, in the case of surrender (or, in the case of part payment only, endorsement) of a Certificated Note, in the place in which the Certificated Note is surrendered (or, as the case may be, endorsed).

(e) *Partial payments:* If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Certificated Note, that a statement indicating the amount and the date of such payment is endorsed on the relevant Certificated Note.

(f) *Record date:* Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register.

(g) *Limited recourse:* Recourse to the Issuer under the Notes shall be limited to the proceeds of realisation of the Charged Property under the Security Trust Deed, net of any sums which the Issuer is or may be obliged to pay in priority to any other party, in the order of priority set forth in Condition 2 (*Status, Security and Priority*). The Noteholders shall have no further claim against the Issuer in respect of any unpaid amounts of principal, interest and other amounts whatsoever due in respect of the Notes.

7. **Taxation**

All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by Malaysia, any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, Issuer shall be obliged to pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note:

(a) held by a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of its having some connection with Malaysia other than the mere holding of such Note; or

(b) where (in the case of a payment of principal or interest on redemption) the relevant Certificated Note is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts if it had surrendered the relevant Certificated Note on the last day of such period of 30 days; or

(c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN council meeting of 26-27 November, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) presented for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a state which is a member of the European Union.

In these Conditions, "**Relevant Date**" means whichever is the later of (i) the date on which the payment in question first becomes due and (ii) if the full amount payable has not been received in New York by the Principal Paying Agent or the Note Trustee or the Sub-Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 or any undertaking given in addition to or in substitution of this Condition 7 pursuant to the Security Trust Deed.

If the Issuer becomes subject at any time to any taxing jurisdiction other than Malaysia, references in these Conditions to Malaysia shall be construed as references to Malaysia and/or such other jurisdiction.

8. **Events of Default**

The Note Trustee at its discretion may, and if so requested in writing by the Holders of not less than 25 per cent. in aggregate of the Principal Amount Outstanding of the Notes then outstanding or if directed by or pursuant to an Extraordinary Resolution (as defined in the Security Trust Deed) of the Noteholders shall, (subject, in each case, to being indemnified to its satisfaction) give notice (a "**Note Enforcement Notice**") to the Issuer and the Security Trustee at any time on or after the happening of any of the following events (each, an "**Event of Default**") declaring the Notes due and repayable and the Notes shall accordingly immediately become due and repayable if (i) the Facility has been declared immediately due and repayable under Clause 13.2 of the Loan Agreement or (ii) any of the events in (a) to (n) below occur:

(a) *Non-payment*: the Issuer fails to pay any amount of principal in respect of the Notes on the due date for payment thereof or fails to pay any amount of interest in respect of the Notes within four days of the due date for payment thereof; or

(b) *Breach of other obligations*: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes or the Security Trust Deed and such default (i) is, in the opinion of the Note Trustee, incapable of remedy or (ii) being a default which is, in the opinion of the Note Trustee, capable of remedy, remains unremedied for 14 days or such longer period as the Note Trustee may agree after the Note Trustee has given written notice thereof to the Issuer; or

(c) *Cross-default of Issuer*:

(i) any indebtedness (as defined in the Security Trust Deed) of the Issuer is not paid when due or (as the case may be) within any originally applicable grace period; or

(ii) any such indebtedness becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer or (provided that no event of default, howsoever described, has occurred) any person entitled to such indebtedness; or

(d) *Unsatisfied judgment*: one or more judgment(s) or order(s) from which no further appeal or judicial review is permissible under applicable law for the payment of any amount is rendered against the Issuer and continue(s) unsatisfied and unstayed for a period of 30 days after the date(s) thereof or, if later, the date therein specified for payment; or

- (e) *Security enforced:* a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any part of the undertaking, assets and revenues of the Issuer; or
- (f) *Insolvency etc:* (i) the Issuer becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Issuer or the whole or any part of the undertaking, assets and revenues of the Issuer is appointed (or application for any such appointment is made), (iii) the Issuer takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its indebtedness or (iv) the Issuer ceases or threatens to cease to carry on all or any substantial part of its business; or
- (g) *Winding up etc:* an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer; or
- (h) *Analogous event:* any event occurs which under the laws of Malaysia has an analogous effect to any of the events referred to in paragraphs (d) to (g) above; or
- (i) *Failure to take action etc:* any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under and in respect of the Notes or the Security Trust Deed, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Notes and the Security Trust Deed admissible in evidence in the courts of England is not taken, fulfilled or done; or
- (j) *Unlawfulness:* it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or the Security Trust Deed; or
- (k) *Government intervention:* (i) all or any substantial (in the opinion of the Note Trustee) part of the undertaking, assets and revenues of the Issuer is condemned, seized or otherwise appropriated by any person acting under the authority of any national, regional or local government or (ii) the Issuer is prevented by any such person from exercising normal control over all or any substantial (in the opinion of the Note Trustee) part of its undertaking, assets and revenue; or
- (l) *Investment Company Act:* the Issuer is required to register as an "investment company" under the Investment Company Act; or
- (m) *Loan Default:* a default has occurred with respect to the Loan (other than a default under Clause 13.1(a) of the Loan Agreement); or
- (n) *Non-Payment by Borrower or Guarantor:* any amount payable by the Borrower or the Guarantor under the Loan Agreement or any Loan Security Document is not paid by the Borrower or the Guarantor on the date and at the place at which it is expressed to be payable unless (i) such failure to pay is due to administrative delays in the banking system generally and is remedied within two (2) Business Days of such due date or, (ii) on the first date on which either the Borrower or the Guarantor fails to make any such payment (other than a failure due to administrative delays in the banking system as specified in (i) above), such failure to pay is remedied within four (4) Business Days of such due date.

Upon any declaration being made by the Note Trustee in accordance with this Condition 8 that the Notes are due and repayable, the Notes shall be immediately due and repayable at their Principal Amount Outstanding together with accrued interest as provided in the Security Trust Deed.

9. Enforcement

The Note Trustee, may at any time at its discretion and without notice, take such proceedings against the Issuer or any other person as it may think fit to enforce the provisions of the Notes or the Transaction Documents and, at any time after the service of a Note Enforcement Notice pursuant to Condition 8 (*Events of Default*), the Note Trustee

may, at its discretion and without further notice, take such steps as it may think fit to enforce the security constituted by the Security Trust Deed, but shall not be bound to take any such proceedings or steps unless:

(a) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least 25 per cent. in aggregate of the Principal Amount Outstanding of the Notes then outstanding; and

(b) in all cases, it shall have been indemnified or provided with security to its satisfaction.

None of the Note Trustee, the Sub-Trustee or the Security Trustee will be liable for any decline in the value, or any loss realised upon any sale or other disposition of the security or any part thereof, made pursuant to the Security Trust Deed. No Noteholder may proceed directly against the Issuer unless the Note Trustee or Sub-Trustee having become bound to do so, fails to do so within a reasonable time and such failure is continuing. The rights of recourse of the Noteholders, the Note Trustee, the Sub-Trustee, the Security Trustee and the Agents in respect of amounts due to them are limited to those assets and rights expressed to be the Charged Property and/or the actual amount received or recovered from time to time in respect of Charged Property. Any obligations which remain unsatisfied after the application of the funds comprising the Charged Property and/or representing the proceeds of realisation thereof in accordance with the Security Trust Deed shall be extinguished.

If the Charged Property has become enforceable otherwise than by reason of a default in payment of any amount due on the Notes, the Note Trustee will not be entitled to dispose of any of the Charged Property unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Noteholders or the Note Trustee is of the opinion, which shall be binding on the Note Secured Parties, reached after considering at any time and from time to time the advice of any professional adviser selected by the Note Trustee for the purpose of giving such advice, that the cash flow prospectively receivable by the Issuer will not (or there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Noteholders. The fees and expenses of any professional adviser selected by the Note Trustee shall be paid by the Issuer.

10. **Prescription**

Claims for principal and interest on final redemption shall become void unless the relevant Certificated Notes are surrendered for payment within ten years of the appropriate Relevant Date.

11. **Replacement of Certificated Notes**

If any Certificated Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar and the Transfer Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Certificated Notes must be surrendered before replacements will be issued.

12. **Note Trustee, Sub-Trustee and Agents**

The Note Trustee has delegated all of the duties, rights, powers, authorities and discretions exercisable by it under the Notes, the Security Trust Deed and the Agency Agreement to the Sub-Trustee. Accordingly, all references to the Note Trustee in these Conditions and in the Transaction Documents shall be construed, where the context so permits, as references to the Sub-Trustee in its capacity as attorney of the Note Trustee.

The Security Trust Deed and certain other Transaction Documents provide that the Note Trustee and the Sub-Trustee will each be entitled (i) to be indemnified and relieved from responsibility, including without limitation provisions relieving them from taking proceedings to enforce the security for the Notes and repayment of the Notes unless indemnified to their respective satisfaction against any liabilities and expenses incurred by them in the execution of their duties, trusts, powers, authorities, rights or discretions vested in them under any of the Transaction Documents and (ii) to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the

Note Trustee and the Sub-Trustee will each be entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Security Trust Deed, each of the Note Trustee and the Sub-Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual Holders of Notes as a result of such Holders being connected in any way with a particular territory or taxing jurisdiction.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Note Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The Issuer reserves the right (with the prior approval of the Note Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar or principal paying agent or additional or successor paying agents and transfer agents; *provided, however, that* the Issuer shall at all times maintain a paying agent and a transfer agent in Luxembourg, a registrar, a principal paying agent and a calculation agent. Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

13. **Meetings of Noteholders; Modification and Waiver; Substitution; Voting Interests**

(a) *Meetings of Noteholders:* The Security Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Security Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Note Trustee or the Issuer or by the Note Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate Principal Amount Outstanding of the Notes then outstanding. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing three-quarters of the aggregate Principal Amount Outstanding of the Notes then outstanding or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however, that* certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**") may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one-quarter of the aggregate Principal Amount Outstanding of the Notes then outstanding form a quorum. Any resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Security Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification and waiver:* The Note Trustee may, without the consent of the Noteholders, agree to any modification of these Conditions or any Transaction Document (other than in respect of a Reserved Matter) which is, in the opinion of the Note Trustee proper to make if, in the opinion of the Note Trustee such modification will not be materially prejudicial to the interests of Noteholders and to any modification of the Notes or the Security Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Note Trustee may, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes or any Transaction Document (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Note Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Unless the Note Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders as soon as practicable thereafter.

(c) *Substitution:* The Security Trust Deed contains provisions under which any successor in business of the Issuer may, without the consent of the Noteholders, assume the obligations of the Issuer as principal debtor under the Security Trust Deed and the Notes provided that certain conditions specified in the Security Trust Deed are fulfilled.

No Noteholders shall, in connection with any substitution, be entitled to claim any indemnification or payment in respect of any tax consequence thereof for such Noteholder, except to the extent provided for in Condition 7 (*Taxation*) (or any undertaking given in addition to or substitution for it pursuant to the provisions of the Security Trust Deed).

(d) *Voting interests:* Notwithstanding the foregoing, none of the Issuer, the Borrower, SEDC, the State Government of Sarawak or any person or statutory corporation which the State Government of Sarawak controls or in which it holds not less than 51 per cent. of the issued share capital shall have any rights to attend and vote at any meeting of Noteholders in respect of any Notes held or beneficially owned by any of them and, for the purposes of establishing the number of Notes then outstanding, any such Notes shall be deemed not to remain outstanding.

14. Further Issues

The Issuer will be entitled (but not obliged) at its option from time to time on any date, without the consent of the Noteholders, to raise further funds by the creation and issue of further Notes ("**Further Notes**") which will be in registered form and bear the same terms and conditions in all respects (other than the issue date, the interest rate, the first Note Interest Payment Date or the first Interest Period) as, and so that the same will be consolidated and form a single series and rank *pari passu* with, the Notes. The Issuer will notify the Noteholders of any issues of Further Notes in accordance with Condition 15.

The issuance of Further Notes is subject to certain conditions precedent including that:

- (a) the aggregate principal amount of such Further Notes is at least U.S.\$10,000,000;
- (b) the Rating Agency Condition is satisfied with respect to the Further Notes;
- (c) the ratings assigned to the Further Notes by the Rating Agencies are at least equivalent to the ratings then applicable to the outstanding Notes; and
- (d) an amount equal to the aggregate principal amount of the Further Notes will be advanced to the Borrower by the Issuer pursuant to the provisions of a further loan agreement.

15. Notices

Any Notice to Noteholders shall be deemed to have been duly given (in respect of Notes represented by a Global Note) if sent to Euroclear, Clearstream, DTC and shall be deemed to be given on the date on which it was so sent. In addition, notices to Holders of the Certificated Notes will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, so long as Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, notices to Noteholders will be published on the date of such mailing in a daily newspaper of general circulation in Luxembourg (which is expected to be the *Luxembourg Wort*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe.

A copy of each notice given in accordance with this Condition 15 shall be provided to each of Moody's Investors Service Limited ("**Moody's**") and Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies, Inc. ("**S&P**", together with Moody's, the "**Rating Agencies**") (which reference in these Conditions shall include any

additional or replacement rating organisation appointed by the Issuer, with the prior written approval of the Note Trustee, to provide a rating in respect of the Notes).

16. **Provision of Information**

The Issuer shall, during any period in which it is not subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934 (the "**Exchange Act**") nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, duly provide to any Holder of a Note which is a "**restricted security**" within the meaning of Rule 144(a)(3) under the United States Securities Act of 1933 (the "**Securities Act**") or to any prospective purchaser of such securities designated by such Holder, upon the written request of such Holder or (as the case may be) prospective Holder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Registrar, the information specified in Rule 144A(d)(4) under the Securities Act.

17. **The Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties Act) 1999 but this shall not affect any right or remedy of a third party which exists or is available apart from that Act.

18. **Governing Law and Jurisdiction**

(a) *Governing law:* The Security Trust Deed and the Notes are governed by, and shall be construed in accordance with, English law.

(b) *Jurisdiction:* The Issuer has in the Security Trust Deed (i) submitted irrevocably to the jurisdiction of the courts of England for the purposes of hearing and determining any suit, action or proceedings or settling any disputes arising out of or in connection with the Security Trust Deed or the Notes (respectively, "**Proceedings**" and "**Disputes**"); (ii) waived any objection which it might have to any such courts being nominated as the forum to hear and determine any such suit, action or proceedings or to settle any such disputes and agreed not to claim that any such court is not a convenient or appropriate forum; (iii) designated a person in England to accept service of any process on its behalf; (iv) consented to the enforcement of any judgment; and (v) to the extent that it may in any jurisdiction claim for itself or its assets immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process, and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), agreed not to claim and irrevocably waived such immunity to the full extent permitted by the laws of such jurisdiction.

(c) *Non-exclusivity:* The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of the Note Trustee to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

Specified Office of the Principal Paying Agent

4 Albany Street
New York
NY 10006
U.S.A.

UNITED STATES ERISA CONSIDERATIONS

Subject to the considerations discussed below, the Notes are eligible for purchase by employee benefit plans.

Section 406 of the Employee Retirement Income Security Act ("**ERISA**"), and/or Section 4975 of the U.S. Internal Revenue Code (the "**Code**"), prohibits a pension, profit-sharing or other employee benefit plan, as well as individual retirement accounts and certain types of Keogh Plans (each, a "**Benefit Plan**") from engaging in certain transactions with persons that are "parties in interest" under ERISA or "disqualified persons" under the Code with respect to such Benefit Plan. A violation of these "prohibited transaction" rules may result in an excise tax or other penalties and liabilities under ERISA and the Code for such persons. Title I of ERISA also requires that fiduciaries of a Benefit Plan subject to ERISA make investments that are prudent, diversified (except if prudent not do so) and in accordance with governing plan documents.

Certain transactions involving the purchase, holding or transfer of the Notes might be deemed to constitute prohibited transactions under ERISA and the Code if assets of the Issuer were deemed to be assets of a Benefit Plan. Under a regulation issued by the United States Department of Labor (the "**Plan Assets Regulation**"), the assets of the Issuer would be treated as plan assets of a Benefit Plan for the purposes of ERISA and the Code only if the Benefit Plan acquires an "equity interest" in the Issuer and none of the exceptions contained in the Plan Assets Regulation is applicable. An equity interest is defined under the Plan Assets Regulation as an interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features. Although there can be no assurances in this regard, it appears that the Notes should be treated as debt without substantial equity features for purposes of the Plan Assets Regulation and that the Notes should not constitute equity interests in the Issuer for purposes of the Plan Assets Regulation. Nevertheless, the debt treatment of the Notes could change under certain circumstances, such as if the ratings of the Notes decline or the Issuer incurs losses.

Without regard to whether the Notes are treated as an equity interest for such purposes, the acquisition or holding of the Notes by or on behalf of a Benefit Plan could be considered to give rise to a prohibited transaction if the Issuer, or any of its affiliates, is or becomes a party in interest or a disqualified person with respect to such Benefit Plan. In such case, certain exemptions from the prohibited transaction rules could be applicable depending on the type and circumstances of the plan fiduciary making the decision to acquire a Note. Included among these exemptions are: Prohibited Transaction Class Exemption ("**PTCE**") 96-23, regarding transactions effected by "in-house asset managers"; PTCE 90-1, regarding investments by insurance company pooled separate accounts; PTCE 95-60, regarding investments using the assets of insurance company general accounts; PTCE 91-38, regarding investments by bank collective investment funds; and PTCE 84-14, regarding transactions effected by "qualified professional asset managers". By its acquisition of a Note, each purchaser shall be deemed to represent and warrant that its purchase and holding of the Note will not result in a non-exempt prohibited transaction under ERISA or the Code.

Employee benefit plans that are governmental plans (as defined in Section 3(32) of ERISA) and certain church plans (as defined in Section 3(33) of ERISA) are not subject to ERISA requirements.

A PLAN FIDUCIARY CONSIDERING THE PURCHASE OF ANY OF THE NOTES SHOULD CONSULT ITS TAX AND/OR LEGAL ADVISORS REGARDING WHETHER THE ASSETS OF THE ISSUER WOULD BE CONSIDERED PLAN ASSETS, THE POSSIBILITY OF EXEMPTIVE RELIEF FROM THE PROHIBITED TRANSACTION RULES AND OTHER ISSUES AND THEIR POTENTIAL CONSEQUENCES.

TAXATION

Malaysia

The following is a general description of certain Malaysian tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of the Notes should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Malaysia of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

Interest Payments

By the Income Tax (Exemption) (No. 16) Order 1991 issued under Section 127(3)(b) of the Income Tax Act 1967 of Malaysia, the Minister of Finance exempts from tax:

- (a) interest received from a Labuan offshore company by a non-resident person (other than interest accruing to a business carried on by a non-resident person in Malaysia where that non-resident person is licensed to carry on a business under the Banking and Financial Institutions Act 1989, the Islamic Banking Act 1983, the Insurance Act 1963 or the Takaful Act 1983) or, another Labuan offshore company; and
- (b) interest received from a Labuan offshore company by a resident person (other than a person licensed to carry on a business under the Banking and Financial Institutions Act 1989, the Islamic Banking Act 1983, the Insurance Act 1963 or the Takaful Act 1983).

Therefore, under the present law interest paid on the Notes by the Issuer received by a non-resident of Malaysia (subject to the exception stated in paragraph (a) above), a Labuan offshore company or a resident of Malaysia (subject to the exception stated in paragraph (b) above) will be exempted from any Malaysian taxes.

Capital Gains

Presently, there is no capital gains tax in Malaysia other than gains on real property transactions.

United States

The following is a general discussion of the material United States federal income tax consequences of the acquisition, ownership and disposition of the Notes by an initial beneficial owner of the Notes. This discussion is based upon the United States federal tax law now in effect as set forth in the U.S. Internal Revenue Code of 1986, as amended (the "Code") and regulations thereunder, and judicial and administrative determinations, all of which are subject to change, possibly retroactively. Changes in the U.S. federal tax laws could affect the continued validity of this summary. The discussion does not purport to deal with all aspects of federal taxation that may be relevant to particular investors in light of their personal investment circumstances, nor does it discuss federal tax laws applicable to special classes of taxpayers (for example, insurance companies, tax-exempt organisations, financial institutions, subsequent purchasers of Notes and broker-dealers). In addition, the description does not consider the effect of any foreign, state, local or other tax laws that may be applicable to a particular investor. In general, the summary assumes that a holder acquires a Note at original issuance and holds such Note as a capital asset within the meaning of Section 1221 of the Code and not as part of an integrated investment (for example, a hedge, straddle or conversion transaction). Prospective investors are strongly urged to consult their own tax advisors regarding the tax consequences of purchasing, holding and disposing of the Notes.

For purposes of the following discussion, a "United States Holder" means a Holder of a Note who is a citizen or resident of the United States, a corporation, partnership or any other entity created or organised under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to United States federal income taxation, a trust subject to the control of a United States person and the primary supervision of a United States court, or a person otherwise subject to United States federal income taxation on its

world-wide income. A "Non-United States Holder" means a Holder of a Note other than a United States Holder. If a partnership holds Notes, the tax treatment of a partner may depend upon the status of the partner and upon the activities of the partnership. Partners of partnerships holding Notes should consult their tax advisors.

Tax Consequences to United States Holders

(a) *Interest*

Interest on a Note will generally be taxable to a United States Holder as ordinary interest income at the time it is accrued or is received in accordance with the United States Holder's method of accounting for tax purposes. A cash method United States Holder will be required to include in income the U.S. Dollar value of the payment (determined on the date such payment is received). A United States Holder that uses the accrual method of accounting will be required to include in income the amount of interest income that has accrued with respect to a Note during an accrual period. When such a United States Holder actually receives a payment of interest that has accrued with respect to the Note, no additional income will be recognised.

(b) *Gain on disposition*

Upon the sale, exchange or retirement of a Note, a United States Holder will recognise taxable gain or loss equal to the difference between the amount realised on the sale, exchange or retirement and the United States Holder's adjusted tax basis in the Note. For these purposes, the amount realised does not include any amount attributable to interest on the Note that has not previously been included in income, which will be includable as interest as described under (a) above. A United States Holder's adjusted tax basis in a Note generally will equal the cost of the Note to the United States Holder, which will generally be the amount paid for such Note, determined on the date of purchase. In general, gain or loss realised on the sale, exchange or redemption of a Note will be capital gain or loss except to the extent that a United States Holder does not hold the Note as a capital asset or such gain is attributable to "market discount" within the meaning of the Code. The market discount rules require that a secondary market purchaser of a Note who purchases such Note at a *non-de minimus* discount recognise ordinary income and sale to the extent of any such discount accrued on a constant yield to maturity basis. Prospective investors should consult their tax advisors regarding the treatment of capital gains (which may be taxed at lower rates than ordinary income for taxpayers who are individuals, trusts or estates), losses (the deductibility of which is subject to limitations) and market discount.

(c) *Information reporting and backup withholding*

Information reporting and backup withholding requirements may apply to certain payments of principal, premium and interest on a Note, and to payments of proceeds of the sale or redemption of a Note, to certain non-corporate United States Holders. The Issuer, its agent, a broker, or any paying agent, as the case may be, will be required to withhold from any payment a tax equal to 31 per cent. of such payment if the United States Holder fails to furnish or certify his correct taxpayer identification number to the payor in the manner required, fails to certify that such United States Holder is not subject to backup withholding, or otherwise fails to comply with the applicable requirements of the backup withholding rules. Any amounts withheld under the backup withholding rules from a payment to a United States Holder may be credited against that United States Holder's U.S. federal income tax and may entitle that United States Holder to a refund, provided that the required information is furnished to the U.S. Internal Revenue Service.

Tax Consequences to Non-United States Holders

(a) *Interest*

Subject to the discussion of information reporting and backup withholding below, payments of interest to or on behalf of any Non-United States Holder will not be subject to United States federal income or withholding tax if such interest is not effectively connected with the conduct of a trade or business within the United States by such Non-United States Holder, provided that (i) such Non-United States Holder is not a bank for United States federal income tax purposes, (ii) such Non-United States Holder is not a "10-percent shareholder" within the meaning of

Section 871(h)(3)(B) of the Code, (iii) such Non-United States Holder is not a controlled foreign corporation for United States federal income tax purposes that is related to the Issuer through stock ownership pursuant to Section 864(d)(4) of the Code and (iv) certain certification requirements are met. A Non-United States Holder that is not exempt from tax under these rules generally will be subject to United States federal income tax withholding at a rate of 30 per cent. (or lower applicable treaty rate) on interest payments.

If the interest is effectively connected with the conduct of a trade or business within the United States of such Non-United States Holder, such interest will be subject to the United States federal income tax on net income that applies to United States persons generally (and with respect to corporate holders under certain circumstances, the branch profits tax).

(b) *Gain on disposition*

Any capital gain realised upon a sale, exchange or retirement of a Note by or on behalf of a Non-United States Holder generally will not be subject to United States federal withholding or income tax, unless (i) such gain is effectively connected with a United States trade or business of such Non-United States Holder, (ii) the Non-United States Holder is an individual that is present in the United States for 183 days or more during the taxable year of the sale, exchange or retirement and certain other requirements are met, or (iii) the Non-United States Holder is subject to tax pursuant to provisions of the United States federal tax law applicable to certain United States expatriates.

(c) *Information reporting and backup withholding*

Under temporary Treasury Regulations now in effect, information reporting and backup withholding will not apply to payments by the Issuer or any middleman to a Non-United States Holder, provided that the holder (and, in certain cases the custodian, nominee or other agent of such holder) meets certain certification requirements as to the status of the holder as a Non-United States Holder (provided that the payor does not have actual knowledge that the holder is a United States person or that the conditions of any other exemption are not in fact satisfied).

Revised Treasury Regulations effective for payments made after 31 December, 2000 (the "**New Withholding Regulations**") have modified the procedures for income tax withholding and certification of eligibility for the portfolio interest exemption or for a reduced rate of income tax withholding based on an applicable income tax treaty. In general, the New Withholding Regulations have unified certification procedures and clarified reliance standards.

Non-United States Holders claiming under an income tax treaty (and not relying on the portfolio interest exemption) should be aware that they may be required to obtain taxpayer identification numbers and to certify their eligibility under the applicable treaty's limitations on benefits article in order to comply with the New Withholding Regulations' certification requirements. **THE NEW WITHHOLDING REGULATIONS ARE QUITE COMPLEX. NON-UNITED STATES HOLDERS ARE STRONGLY URGED TO CONSULT THEIR OWN TAX ADVISORS REGARDING POTENTIAL APPLICATION OF THE NEW WITHHOLDING REGULATIONS TO PAYMENTS ON THE NOTES IN LIGHT OF THEIR PARTICULAR CIRCUMSTANCES.**

Backup withholding is not an additional tax; any amounts so withheld may be refunded or credited against a Non-United States Holder's United States Federal income tax liability, provided the required information is furnished to the Internal Revenue Service.

THE UNITED STATES FEDERAL INCOME TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY OR MAY NOT BE APPLICABLE DEPENDING UPON A HOLDER'S PARTICULAR SITUATION. INVESTORS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES TO THEM OF OWNERSHIP AND DISPOSITION OF THE NOTES, INCLUDING THE TAX CONSEQUENCES UNDER STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN FEDERAL OR OTHER TAX LAWS.

SUBSCRIPTION AND SALE

Purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Notes.

General

Subject to the terms and conditions contained in a subscription agreement between the Issuer, the Borrower, Nomura International plc (the "**Arranger**") and Nomura Securities International, Inc. ("**Nomura Securities**") dated 15 June, 2001 (the "**Subscription Agreement**"), the Arranger has agreed to purchase from the Issuer, at an issue price of 100 per cent., the Notes. The Subscription Agreement provides that the obligations of the Arranger to purchase and accept delivery of the Notes is subject to approval of certain legal matters by counsel and to certain other conditions.

The Issuer has agreed to pay to the Arranger a selling commission of 0.75 per cent. of the principal amount of the Notes and a combined management and underwriting commission of 0.75 per cent. of the principal amount of the Notes.

Other than with respect to the application to list the Notes on the Luxembourg Stock Exchange and the Labuan International Financial Exchange, no action has been or will be taken in any country or jurisdiction by the Issuer or the Arranger that would permit a public offering of Notes, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular comes are required by the Issuer and the Arranger to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or have in their possession or distribute such offering material, in all cases at their own expense.

There is currently no market for the Notes. The Issuer has been advised by the Arranger that it presently intends to make a market in the Notes after the consummation of the offering contemplated hereby, although the Arranger is under no obligation to do so and may discontinue any market making activities at any time. There can be no assurance that a secondary market in the Notes will develop, or that if a secondary market does develop, it will provide an investor with liquidity or that such market will continue. Application has been made to list the Notes on the Luxembourg Stock Exchange and the Labuan International Financial Exchange.

In connection with the offering, the Arranger and/or Nomura Securities, acting directly or through a subsidiary, may engage in transactions that stabilise, maintain or otherwise affect the market price of the Notes. These transactions may include stabilising transactions effected in accordance with Rule 104 of Regulation M under the Exchange Act pursuant to which the Arranger and/or Nomura Securities, acting directly or through a subsidiary, may also create a short position for its account by selling more Notes in connection with the offering than the Arranger is committed to purchase from the Issuer, and in such case may purchase Notes in the open market following completion of the offering to cover all or a portion of such short position. Such open market purchases are known as syndicate covering transactions. Any of the transactions described in this paragraph may result in the maintenance of the price of the Notes at a level above that which might otherwise prevail in the open market. None of the transactions described in this paragraph is required, and if any are undertaken, they may be discontinued at any time. Such transactions may be effected on the Luxembourg Stock Exchange, the Labuan International Financial Exchange or otherwise.

Each purchaser of Notes must comply with all applicable laws and regulations in force in any jurisdiction in which it offers or sells Notes or possesses or distributes this Offering Circular or any part of it and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales and neither the Issuer, the Arranger nor Nomura Securities shall have any responsibility therefor.

Each of the Arranger and Nomura Securities has agreed to comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes such offering material, in all cases at its own expense.

Without prejudice to the foregoing, the Issuer shall have no responsibility for, and each of the Arranger and Nomura Securities will obtain any consent, approval or permission required by it for the subscription, offer or sale by it of the Notes or possession or distribution by it of this Offering Circular or any other offering material under the laws and regulations in force in any jurisdiction to which it is subject to or in or from which it makes any subscription, offer or sale.

Malaysia

The Notes have not been and will not be registered with the Malaysian Securities Commission. The approval of the Malaysian Securities Commission has not been sought for either the distribution of this Offering Circular in Malaysia or for the Notes to be made available, or offered for subscription or purchase in Malaysia or for the issue of any invitation to subscribe for or purchase the Notes in Malaysia. Accordingly, each of the Arranger and Nomura Securities has agreed that, save as set out below, the Notes may only be issued to a non-resident of Malaysia and the Notes may not be made available or offered for subscription or purchase in Malaysia nor may any invitation to subscribe for or purchase the Notes be issued in Malaysia. Notes which are listed on the Labuan International Financial Exchange may be made available or offered for purchase in Malaysia if the transaction is in accordance with the rules for trading made by the Labuan International Financial Exchange Inc. under Section 32 of the Labuan Offshore Securities Industry Act 1998.

Hong Kong

Each of the Arranger and Nomura Securities has agreed that unless it is a person permitted to do so under the securities laws of Hong Kong it has not issued or had in its possession for the purpose of issue, and will not issue or have in its possession for the purposes of issue, any advertisement, invitation or document relating to any Notes, other than with respect to Notes intended to be disposed of to persons outside Hong Kong or to be disposed of in Hong Kong only to persons whose business involves the acquisition, disposal or holding of securities, whether as principal or agent.

Japan

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan. Each of Arranger and Nomura Securities has represented and agreed that it has not offered or sold, and it will not offer or sell, directly or indirectly, any of the Notes in or to or for the benefit of residents of Japan or to any persons for reoffering or resale, directly or indirectly, in Japan or to or for the benefit of any resident of Japan except pursuant to an exemption from the registration requirements of the Securities and Exchange Law available thereunder and in compliance with the other relevant laws and regulations of Japan.

Singapore

Each of the Arranger and Nomura Securities has acknowledged that this Offering Circular has not been registered as a prospectus with the Registrar of Companies in Singapore. Accordingly, each of the Arranger and Nomura Securities has represented and agreed that it has not offered or sold, and will not offer or sell, any Notes, nor will it circulate or distribute this Offering Circular or any other offering document or material relating to the Notes, directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor or other person specified in Section 106C of the Companies Act of Singapore (the "**Singapore Companies Act**"), (ii) to a sophisticated investor, and in accordance with the conditions, specified in Section 106D of the Singapore Companies Act, or (iii) otherwise pursuant to, and in accordance with the conditions of, any applicable provision of the Singapore Companies Act.

Taiwan

The Notes have not been and will not be registered under the Securities and Exchange Law of Taiwan. Each of the Arranger and Nomura Securities has represented and agreed that it has not offered or sold, and it will not offer or sell, directly or indirectly, any of the Notes in or to or for the benefit of residents of Taiwan or to any persons for reoffering or resale, directly or indirectly, in Taiwan or to or for the benefit of any resident of Taiwan except

pursuant to an exemption from the registration requirements of the Securities and Exchange Law available thereunder and in compliance with the other relevant laws and regulations of Taiwan.

Korea

The Notes have not been and will not be registered under the Securities and Exchange Act of Korea. Each of the Arranger and Nomura Securities has represented and agreed that it has not offered or sold, and it will not offer or sell, directly or indirectly, any of the Notes in or to or for the benefit of residents of Korea or to any persons for reoffering or resale, directly or indirectly, in Korea or to be or for the benefit of any resident of Korea except pursuant to an exemption from the registration requirements of the Securities and Exchange Act available thereunder and in compliance with the other relevant laws and regulations of Korea.

United Kingdom

Each of the Arranger and Nomura Securities has agreed with the Issuer that (i) it has not offered or sold and will not offer or sell any Notes to persons in the United Kingdom prior to the expiry of the period of six months from the Closing Date except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; (ii) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; (iii) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue of the Notes to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996, as amended, or is a person to whom such document may otherwise lawfully be issued or passed on.

United States

Each of the Arranger and Nomura Securities has acknowledged and agreed to comply with the selling and transfer restrictions set forth hereto and in the Agency Agreement, including those set forth in the legend appearing on the forms of the Notes and the investment letter scheduled to the Agency Agreement.

The Issuer has not been and will not be registered under the Investment Company Act. The Issuer is not required to register as an investment company by virtue of Section 3(c)(7) of the Investment Company Act which, in general, excludes from the definition of an investment company any issuer whose outstanding securities are owned exclusively by persons who are "Qualified Purchasers" (as defined in Section 2(a)(51) of the Investment Company Act and the rules and regulations thereunder) and which has not made and does not propose to make a public offering of its securities. In addition, the Notes have not been and will not be registered under the Securities Act. Consequently, the Notes may not be offered, sold, resold, delivered or transferred within the United States or to, or for the account or benefit of, U.S. persons (as such term is defined in Regulation S) except in accordance with the Securities Act or an exemption therefrom and under circumstances which will not require any Issuer to register under the Investment Company Act. Accordingly, the Arranger and/or Nomura Securities may arrange for the offer and sale of Notes in the United States only to Eligible Investors (as defined below) in private transactions exempt from the registration requirements of the Securities Act. Resales in the United States may only be made to Eligible Investors in transactions pursuant to, and meeting the requirements of, Rule 144A.

"Eligible Investors" are defined for the purposes hereof as persons whom the seller reasonably believes to be QIBs, but excluding therefrom: (i) QIBs which are broker-dealers which own and invest on a discretionary basis less than U.S.\$25,000,000 in "securities" as such term is defined under Rule 144A, (ii) a partnership, common trust fund, special trust, pension fund, retirement plan or other entity in which the partners, beneficiaries or participants, as the case may be, may designate the particular investments to be made or the allocation thereof, (iii) an entity that was formed, reformed, or recapitalised for the specific purpose of investing in the Notes or other securities of the Issuer, (iv) any investment company exempted from the Investment Company Act pursuant to Section 3(c)(1) or Section 3(c)(7) thereof and formed prior to April 30, 1996, which has not received consent from its beneficial owners with respect to the treatment of such entity as a Qualified Purchaser in the manner required by Section 2(a)(51)(C) of the

Investment Company Act and rules thereunder and (v) any entity that will have invested more than 40 per cent. of its assets in securities of the Issuer subsequent to any purchases of Notes of the Issuer.

Any sales or transfers of Notes in violation of the foregoing shall be prohibited and treated by the Issuer or, as the case may be, the Registrar as void and will not be honoured by the Issuer and the Issuer shall have the right at any time, at the expense and risk of the holder of the Notes held by or on behalf of a U.S. person who is not an Eligible Investor at the time it purchases such Notes, (a) to redeem such Notes, in whole or in part, to permit the Issuer to avoid registration under the Investment Company Act or (b) to require such holder to sell such Notes to an Eligible Investor.

Each of the Arranger and Nomura Securities has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes, (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the date of delivery of the Notes within the United States or to, or for the account or benefit of U.S. persons except in accordance with Rule 903 of Regulation S or Rule 144A and in reliance upon Section 3(c)(7) of the Investment Company Act and that, at or prior to confirmation of sale of the Notes (other than a sale to Eligible Investors pursuant to Rule 144A), it will have sent to each distributor, dealer or person receiving a selling commission, fee or other remuneration that purchases the Notes from them during the restricted period a confirmation or notice to substantially the foregoing effect.

In addition, until 40 days after the later of commencement of the offering and the date of delivery of the Notes, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A and in reliance upon Section 3(c)(7) of the Investment Company Act or another exemption from the registration requirements thereof. The Issuer has agreed to furnish to holders and prospective purchasers such information as may be required to Rule 144A. See "Available Information".

In addition, each of the Arranger and Nomura Securities has agreed that it has not and will not, nor has or will any person acting on its behalf, (i) made or make offers or sales of any security, or solicited offers to buy, or otherwise negotiate in respect of, any security, under circumstances that would require the registration of the Notes under the Securities Act; or (ii) engaged or engage in any form of general solicitation or general advertising (within the meaning of Rule 502(c) under the Securities Act) in connection with any offer or sale of the Notes in the United States.

Each of the Arranger and Nomura Securities, acting on behalf of the Issuer, has represented that, based upon the provisions of the Subscription Agreement, the Agency Agreement and the other Transaction Documents, including but not limited to (i) the form of the Notes, (ii) the legend appearing on the face of the Notes and (iii) the form of investment letter to be executed by each purchaser and the form of transfer certificates each as scheduled to the Agency Agreement, it reasonably believes that initial sales and subsequent transfers of all beneficial interests in the 144A Global Notes, including any Certificated Notes issued in exchange therefor, will be limited to persons who qualify as "Eligible Investors". For the purpose of the foregoing representations, and for the avoidance of doubt, each of the Arranger and Nomura Securities has further represented that it is acting as a "Relying Person" as defined in Rule 2(a)51-1(a)(9) under the Investment Company Act.

Each of the Arranger and Nomura Securities has represented and agreed that (i) it is both a Qualified Purchaser and a QIB, (ii) it has only sold and will only sell the Notes in the United States to persons (including any other distributors and other dealers) that are or that it reasonably believes are Eligible Investors and who deliver to it a duly completed investment letter substantially in the form scheduled to the Agency Agreement, (iii) it will only sell Notes in minimum denominations of U.S.\$250,000 principal amount and (iv) it will contact Bloomberg in order to ensure that any Bloomberg page describing the Notes contains the information required by Clause 3.10 of the Agency Agreement.

Each of the Arranger and Nomura Securities has represented and agreed that any sales of the Notes in the United States will be made through Nomura Securities, its U.S. affiliate, which is registered as a broker-dealer under the U.S. Securities Exchange Act of 1934, as amended, and that any such sales will only be made in accordance with the representations and agreements set forth above.

The Issuer has agreed to indemnify each of the Arranger and Nomura Securities against certain liabilities, including liabilities under the Securities Act.

TRANSFER RESTRICTIONS

Because of the following restrictions, prospective purchasers of the Notes are advised to consult legal counsel prior to making any offer, sale, resale, pledge or other transfer of the Notes.

The Issuer has not been and will not be registered under the Investment Company Act. The Issuer is not required to register as an investment company by virtue of Section 3(c)(7) of the Investment Company Act which, in general, excludes from the definition of an investment company any issuer whose outstanding securities are owned exclusively by persons who are "Qualified Purchasers" (as defined in Section 2(a)(51) of the Investment Company Act and the rules and regulations thereunder) and which has not made and does not propose to make a public offering of its securities. In addition, the Notes have not been and will not be registered under the Securities Act. Consequently, the Notes may not be offered, sold, resold, delivered or transferred within the United States or to, or for the account or benefit of, U.S. persons (as such term is defined in Regulation S) except in accordance with the Securities Act or an exemption therefrom and under circumstances which will not require the Issuer to register under the Investment Company Act.

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority in any jurisdiction and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) except that Notes may be offered or sold to (A) persons who are Eligible Investors in private transactions exempt from the registration requirements of the Securities Act and (B) to non-U.S. persons in offshore transactions in reliance upon Regulation S. Resales in the United States may only be made to Eligible Investors in transactions pursuant to, and meeting the requirements of, Rule 144A and under circumstances which will not require the Issuer to register under the Investment Company Act.

Any sales or transfers of Notes in violation of the foregoing shall be prohibited and treated by the Issuer or, as the case may be, the Registrar as void and will not be honoured by the Issuer and the Issuer shall have the right at any time, at the expense and risk of the Holder of the Notes held by or on behalf of a U.S. person who is not an Eligible Investor at the time it purchases such Notes, (a) to redeem such Notes, in whole or in part, to permit the Issuer to avoid registration under the Investment Company Act or (b) to require such holder to sell such Notes to an Eligible Investor.

Each subsequent purchaser will be deemed to have represented and agreed, as follows (undefined terms used in this section that are defined in Rule 144A or in Regulation S are used herein as defined therein):

(a) The purchaser (I)(A) is an Eligible Investor; (B) will provide notice of applicable transfer restrictions to any subsequent transferee; and (C) is purchasing for its own account or for the accounts of one or more other persons each of whom meets all of the requirements of clauses (A) through (C); or (II) is not a U.S. person and is acquiring the Notes pursuant to Rule 903 or 904 of Regulation S.

(b) It understands that none of the Notes have been or will be registered under the Securities Act and the Issuer has not been registered as an investment company under the Investment Company Act, and that neither the Notes nor any respective interest therein may be re-offered, resold, pledged or otherwise transferred except in accordance with the provisions of the Security Trust Deed and any applicable securities laws or other applicable laws of the states of the United States (including either (i) Regulation S or (ii) Rule 144A and Section 3(c)(7) of the Investment Company Act) and to persons that meet all of the requirements of paragraph (a) above and who agree not to subsequently transfer the Notes, or any interest therein except in accordance with this paragraph (b).

(c) If it has acquired the Notes in a sale being made in reliance upon Rule 144A, the purchaser agrees that (A) if in the future it decides to offer, resell, pledge or otherwise transfer the Notes, such Notes may be offered, resold, pledged or otherwise transferred only inside the United States in a transaction pursuant to, and which meets the requirements of Rule 144A under the Securities Act to a person who is an Eligible Investor or (ii) outside the United States in a transaction complying with Rule 903 or Rule 904 of Regulation S under the Securities Act, and (B) the purchaser will, and each subsequent Holder is required to, notify any subsequent purchaser of such Notes from it of the resale restrictions referred to in (A) above.

(d) If it has acquired the Notes in a sale being made in reliance upon Regulation S, the purchaser agrees that it will not offer, resell, pledge or otherwise transfer such Notes to any U.S. person who is not an Eligible Investor.

(e) If it is a non-U.S. person, it agrees that if it should resell or otherwise transfer the Notes prior to the expiration of 40 days after the later of the commencement of the offering and the date of delivery of the Notes (the "**Distribution Compliance Period**"), it will do so only (a)(i) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act or (ii) to a person who is in a transaction pursuant to, and which meets the requirements of, Rule 144A under the Securities Act and (b) in accordance with all applicable securities laws of the United States or any other applicable jurisdiction.

(f) It understands that at any time the Issuer, Registrar, Note Trustee or Sub-Trustee determines that such purchaser was in breach, at any time given, of any of the representations or agreements set forth in paragraph (a) above, the Registrar may consider the acquisition of the related Note void and require that the related Note be transferred to a person designated by the Note Trustee.

(g) It acknowledges that the Issuer, the Agents, the Arranger and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If the purchaser is acquiring any Notes for the account of one or more Eligible Investors, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

(h) It acknowledges that the Issuer and the Note Trustee reserve the right prior to any sale or other transfer pursuant to paragraph (b) above to require the delivery of such certifications, legal opinions and other information as the Issuer and Note Trustee may reasonably require to confirm that the proposed sale or other transfer complies with the foregoing restrictions.

The purchaser understands that the Notes will, unless otherwise agreed by the Issuer and the Holder thereof, bear a legend substantially to the following effect:

On Global Notes only:

"UNLESS THIS NOTE IS PRESENTED BY AN AUTHORISED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY NOTE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORISED REPRESENTATIVE OF DTC (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORISED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN."

On Global Notes and Certificated Notes:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS AND THE ISSUER (AS DEFINED IN THE SECURITY TRUST DEED) HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"), AND NEITHER THIS NOTE NOR ANY INTEREST HEREIN MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND THE INVESTMENT COMPANY ACT AND (1) THE PROVISIONS OF REGULATION S UNDER THE SECURITIES ACT ("REGULATION S") WITH RESPECT TO THE NOTES SOLD PURSUANT TO REGULATION S TO A PERSON THAT IS NOT A U.S. PERSON AND IS ACQUIRING AN INTEREST IN THIS NOTE IN AN "OFFSHORE TRANSACTION" PURSUANT TO RULE 902 OF REGULATION S OR (2) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") EXCLUSIVELY TO A PERSON (A) THAT IS AN ELIGIBLE INVESTOR (AS DEFINED

BELOW); (B) THAT WILL PROVIDE NOTICE OF APPLICABLE TRANSFER RESTRICTIONS TO ANY SUBSEQUENT TRANSFEREE; (C) THAT IS PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNTS OF ONE OR MORE OTHER PERSONS EACH OF WHOM MEETS ALL OF THE REQUIREMENTS OF CLAUSES (A) THROUGH (C); AND (D) THAT AGREES THAT IT WILL NOT REOFFER, RESELL, PLEDGE OR OTHERWISE TRANSFER THIS NOTE OR ANY INTEREST HEREIN TO ANY PERSON EXCEPT TO A PERSON THAT MEETS ALL OF THE REQUIREMENTS OF CLAUSES (A) THROUGH (C) AND THAT AGREES NOT TO SUBSEQUENTLY TRANSFER THIS NOTE OR ANY INTEREST HEREIN EXCEPT IN ACCORDANCE WITH THIS CLAUSE (D). EACH HOLDER OF THIS NOTE OR ANY INTEREST HEREIN SHALL BE DEEMED TO HAVE REPRESENTED WITH RESPECT TO ITSELF AND EACH ACCOUNT FOR WHICH IT IS PURCHASING THAT IT AND EACH SUCH ACCOUNT SATISFIES THE REQUIREMENTS SET FORTH IN THE PRECEDING SENTENCE AND ANY RESALE OR OTHER TRANSFER OF THIS NOTE OR ANY INTEREST HEREIN MAY ONLY BE MADE TO A PERSON SATISFYING THE REQUIREMENTS IN THE PRECEDING SENTENCE AND MAY REQUIRE THE SUBMISSION TO BANKERS TRUST COMPANY (THE "REGISTRAR") OF A DULY COMPLETED TRANSFER CERTIFICATE, IN THE FORM AVAILABLE FROM THE REGISTRAR. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THIS NOTE.

"ELIGIBLE INVESTORS" ARE DEFINED FOR THE PURPOSES HEREOF AS PERSONS WHOM THE SELLER REASONABLY BELIEVES TO BE "QUALIFIED INSTITUTIONAL BUYERS" AS DEFINED IN RULE 144A ("QIBS"), BUT EXCLUDING THEREFROM: (I) QIBS WHICH ARE BROKER-DEALERS WHICH OWN AND INVEST ON A DISCRETIONARY BASIS LESS THAN U.S.\$25,000,000 IN "SECURITIES" AS SUCH TERM IS DEFINED UNDER RULE 144A, (II) A PARTNERSHIP, COMMON TRUST FUND, SPECIAL TRUST, PENSION FUND, RETIREMENT PLAN OR OTHER ENTITY IN WHICH THE PARTNERS, BENEFICIARIES OR PARTICIPANTS, AS THE CASE MAY BE, MAY DESIGNATE THE PARTICULAR INVESTMENTS TO BE MADE OR THE ALLOCATION THEREOF, (III) AN ENTITY THAT WAS FORMED, REFORMED, OR RECAPITALISED FOR THE SPECIFIC PURPOSE OF INVESTING IN THE NOTES OR OTHER SECURITIES OF THE ISSUER, (IV) ANY INVESTMENT COMPANY EXEMPTED FROM THE INVESTMENT COMPANY ACT PURSUANT TO SECTION 3(C)(1) OR SECTION 3(C)(7) THEREOF AND FORMED PRIOR TO APRIL 30, 1996, WHICH HAS NOT RECEIVED CONSENT FROM ITS BENEFICIAL OWNERS WITH RESPECT TO THE TREATMENT OF SUCH ENTITY AS A QUALIFIED PURCHASER IN THE MANNER REQUIRED BY SECTION 2(A)(51)(C) OF THE INVESTMENT COMPANY ACT AND RULES THEREUNDER AND (V) ANY ENTITY THAT WILL HAVE INVESTED MORE THAN 40 PER CENT. OF ITS ASSETS IN SECURITIES OF THE ISSUER SUBSEQUENT TO ANY PURCHASES OF NOTES OF THE ISSUER.

THE NOTES MAY NOT BE OFFERED, SOLD OR TRANSFERRED TO ANY U.S. PERSON UNLESS (A) THE PROPOSED HOLDER OR TRANSFEREE IS NOT A BENEFIT PLAN INVESTOR, IS NOT USING THE ASSETS OF A BENEFIT PLAN INVESTOR TO ACQUIRE SUCH NOTES AND SHALL NOT AT ANY TIME HOLD SUCH NOTES FOR OR ON BEHALF OF A BENEFIT PLAN INVESTOR, FOR PURPOSES HEREOF, "BENEFIT PLAN INVESTOR" MEANING (i) AN EMPLOYEE BENEFIT PLAN (AS DEFINED IN SECTION 3(3) OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA")), SUBJECT TO ERISA, (ii) A PLAN DESCRIBED IN SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), (iii) A GOVERNMENTAL PLAN WHICH IS SUBJECT TO ANY U.S. FEDERAL, STATE OR LOCAL LAW SUBSTANTIALLY SIMILAR TO ERISA OR SECTION 4975 OF THE CODE, OR (iv) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE PLAN ASSETS BY REASON OF A PLAN'S INVESTMENT IN THE ENTITY UNDER U.S. DEPARTMENT OF LABOR REGULATIONS § 2510.3 (29 C.F.R. § 2510.3) OR (B) THE PURCHASE, HOLDING AND DISPOSITION OF SUCH NOTES BY THE PROPOSED HOLDER WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF A GOVERNMENTAL PLAN, ANY SUBSTANTIALLY SIMILAR FEDERAL, STATE OR LOCAL LAW).

ANY INTEREST IN THIS NOTE HELD BY OR ON BEHALF OF A U.S. PERSON WHO IS NOT AN ELIGIBLE INVESTOR AT THE TIME IT PURCHASES SUCH INTEREST MAY BE REDEEMED AT THE OPTION OF THE ISSUER AND AT THE EXPENSE AND RISK OF THE HOLDER OF SUCH INTEREST, IN WHOLE OR IN PART, OR THE ISSUER MAY REQUIRE THE HOLDER OF ANY INTEREST IN THIS NOTE

HELD BY OR ON BEHALF OF A U.S. PERSON WHO IS NOT AN ELIGIBLE INVESTOR AT THE TIME IT PURCHASES SUCH INTEREST, AT THE EXPENSE AND RISK OF THE HOLDER OF SUCH INTEREST, TO SELL ITS HOLDING TO AN ELIGIBLE INVESTOR TO PERMIT THE ISSUER TO AVOID REGISTRATION UNDER THE INVESTMENT COMPANY ACT, AS FURTHER PROVIDED FOR IN THE TERMS AND CONDITIONS REFERRED TO BELOW. ANY TRANSFER OF ANY INTEREST IN THIS NOTE TO A U.S. PERSON WHO IS NOT AN ELIGIBLE INVESTOR AT THE TIME OF SUCH TRANSFER SHALL BE DEEMED TO BE VOID AND OF NO LEGAL EFFECT WHATSOEVER, ANY SUCH TRANSFEREE SHALL BE DEEMED NOT TO BE THE HOLDER OF THE RELEVANT NOTES FOR ANY PURPOSE, INCLUDING BUT NOT LIMITED TO THE RECEIPT OF INTEREST ON SUCH NOTES, AND SUCH TRANSFEREE SHALL BE DEEMED TO HAVE NO INTEREST WHATSOEVER IN SUCH NOTES.

ANY TRANSFER OF ANY INTEREST IN THIS NOTE TO A BENEFIT PLAN INVESTOR IN VIOLATION OF THIS LEGEND SHALL BE DEEMED TO BE VOID AND OF NO LEGAL EFFECT WHATSOEVER, ANY SUCH TRANSFEREE SHALL BE DEEMED NOT TO BE THE HOLDER OF THE RELEVANT NOTES FOR ANY PURPOSE, INCLUDING BUT NOT LIMITED TO THE RECEIPT OF INTEREST ON SUCH NOTES, AND SUCH TRANSFEREE SHALL BE DEEMED TO HAVE NO INTEREST WHATSOEVER IN SUCH NOTES."

NOTICE TO INVESTORS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Notes.

The Notes have not been and will not be registered under the Securities Act and the Issuer has not been and will not be registered as an investment company under the Investment Company Act. In order to qualify for the exception provided by Section 3(c)(7) under the Investment Company Act and the exemption provided by Rule 144A under the Securities Act, offers, sales and resales of the Notes may not be made within the United States or to, or for the account of U.S. persons (as defined in Regulation S under the Securities Act). The Notes are also being offered and sold outside the United States to persons other than U.S. persons in reliance upon Regulation S.

Each purchaser of the Notes hereunder will be deemed to have acknowledged, represented to and agreed with the Issuer, among other things, that:

- (a)
 - (i) It is, and each account for which it is purchasing is, an Eligible Investor and it will provide notice of this Notice to Investors to any subsequent transferees; or
 - (ii) it is an institution that is outside the United States and is not a U.S. person (and is not purchasing for the account of a U.S. person) within the meaning of Regulation S.
- (b) The Issuer has not been registered under the Investment Company Act and the Notes have not been registered under the Securities Act or any other applicable securities law, are being offered for resale in transactions not requiring registration under the Securities Act or any other securities laws, including sales pursuant to Rule 144A, and may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the Securities Act or any other applicable securities law, pursuant to an exemption therefrom or in a transaction not subject thereto and in each case in compliance with the conditions for transfer set forth in paragraph (d) below and it agrees not to offer, sell or otherwise transfer the Notes in the United States or to a U.S. person except to an Eligible Investor in a transaction meeting the requirements of Rule 144A.
- (c) Unless otherwise specified in this Offering Circular or consented to in writing by the Issuer, the Notes may not be offered, sold or transferred to any U.S. person unless (A) the proposed holder or transferee is not a benefit plan investor, is not using the assets of a benefit plan investor to acquire such Notes and shall not at any time hold such Notes for or on behalf of a benefit plan investor, for purposes hereof, "benefit plan investor" meaning (a) an employee benefit plan (as defined in Section 3(3) of ERISA), subject to ERISA, (b) a plan described in Section 4975 of the Code, (c) a governmental plan which is subject to any U.S. federal, state or local law substantially similar to ERISA or Section 4975 of the Code, or (d) an entity whose underlying assets include plan assets by reason of a plan's investment in the entity under U.S. Department of Labor Regulations § 2510.3 (29 C.F.R. § 2510.3) or (B) the purchase, holding and disposition of such Notes by the proposed holder will not result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental plan, any substantially similar federal, state or local law).
- (d) It is purchasing the Notes for its own account or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the Securities Act, subject to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and subject to its or their ability to resell such Notes pursuant to Rule 144A, Regulation S or any exemption from registration available under the Securities Act. It agrees on its own behalf and on behalf of any investor account for which it is purchasing the Notes and each subsequent holder of such Notes by its acceptance thereof will agree, to offer, sell or otherwise transfer such Notes deliverable upon exchange thereof only pursuant to the representations, restrictions and agreement described in the legends appearing on the relevant Global Note or Certificated Note.
- (e) It and any future purchaser acknowledge that the 144A Global Notes and Regulation S Global Notes will contain a legend substantially in the form set out in the section "Transfer Restrictions" above.

GENERAL INFORMATION

(a) The issue of the Notes has been authorised by a resolution of the Board of Directors of the Issuer passed on 15 June, 2001.

(b) Application has been made to list the Notes on the Luxembourg Stock Exchange and the Labuan International Financial Exchange. Prior to the listing of any Notes, the constitutional documents of the Issuer and the legal notice relating to the issue will be registered with the Registrar of the District Court in Luxembourg (*Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg*), where copies of these documents may be obtained upon request.

(c) The Notes have been accepted for clearance through Clearstream, Luxembourg, Euroclear and DTC with the following Common Codes and ISIN and CUSIP numbers:

	Regulation S Global Note	144A Global Note
CUSIP:	Y25673AA5	336430AA1
Common Code:	013086486	013086524
ISIN:	USY25673AA55	US336430AA14

(d) Save as disclosed in this Offering Circular, there are no litigation or arbitration proceedings against or affecting the Issuer or the Borrower or any of its assets or revenues, nor is the Issuer aware of any pending or threatened proceedings of such kind, which are or might be material in the context of the issue of the Notes.

(e) Save as disclosed in this Offering Circular and since, in respect of the Issuer, its date of incorporation and, in respect of the Borrower, 31 December, 2000, there has been no material adverse change, or any development reasonably likely to involve any material adverse change, in the condition (financial or otherwise) or general affairs of the Issuer or the Borrower that is material in the context of the issue of the Notes.

(f) The annual financial statements for the financial year ended 31 December, 2000 set out in this Offering Circular have been audited by Ernst & Young, Kuching and were approved by the board of directors of the Borrower on 31 May, 2001. The Borrower will continue to produce and publish annual audited financial statements. See "Independent Accountants".

(g) For so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require:

(i) Executed copies of the following documents will, when published, be available for inspection during usual business hours at the specified offices of the Luxembourg Paying and Transfer Agent and at the registered office of the Issuer:

- (1) the Loan Agreement;
- (2) the Security Trust Deed;
- (3) the Debenture;
- (4) the Land Charge;
- (5) the Security Sharing Agreement;
- (6) the Agency Agreement;
- (7) the Subscription Agreement; and

(8) the Letter of Support.

(ii) Copies of the following documents will, when published, be available free of charge during usual business hours, at the specified offices of the Luxembourg Paying and Transfer Agent and at the registered office of the Issuer:

- (1) the Memorandum and Articles of Association of the Issuer;
- (2) the future published audited financial statements of the Issuer;
- (3) the future published semi-annual interim financial statements and annual audited financial statements of the Borrower; and
- (4) the future published audited financial statements of SEDC.

The Issuer has not published any audited financial statements to date. It is anticipated that the first published audited annual financial statements of the Issuer will be in respect of the year ending 31 December, 2001. The Issuer will not publish any interim financial statements. When published, such financial statements will be available free of charge in accordance with (g)(ii) above.

(h) The European Union is currently considering proposals for a new directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that Member States will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member States subject to the right of certain Member States to opt instead for a withholding system for a transitional period in relation to such payments.

LEGAL MATTERS

Sidley Austin Brown & Wood, Hong Kong will serve as counsel to the Arranger and will pass upon certain matters relating to English law. Certain matters relating to Malaysian and Labuan law will be passed upon for the Arranger by Zaid Ibrahim & Co. Certain matters relating to Sarawak law will be passed upon for the Arranger by Reddi & Co. The Issuer's auditors in Labuan will be Ernst & Young, of Level 9, Main Office Tower, Financial Park Labuan, Jalan Merdeka, 87000 Federal Territory of Labuan, Malaysia.

INDEPENDENT ACCOUNTANTS

The financial statements of the Borrower as of and for the year ended 31 December, 2000 included in this Offering Circular have been audited by Ernst & Young of Room 300-303, 3rd Floor, Wisma Bukit Mata Kuching, Jalan Tunku Abdul Rahman, 93100 Kuching, Sarawak independent accountants, as stated in their report appearing herein.

FINANCIAL STATEMENTS OF THE BORROWER

Company no: 456668-U

*Directors' Report &
Audited Financial Statements*

**1st Silicon (Malaysia)
Sdn. Bhd.**

31st December 2000

Company No: 456668-U

1st Silicon (Malaysia) Sdn. Bhd.
(Incorporated in Malaysia)

Registered office: No. 1, Silicon Drive
Sama Jaya Industrial Zone
93250 Kuching

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Company No: 456668-U

1st Silicon (Malaysia) Sdn. Bhd.
(Incorporated in Malaysia)

Directors' Report

The directors present their report together with the audited accounts of the Company and of the Group for the year ended 31st December, 2000.

Principal activity

The intended principal activity of the Company is the fabrication and sale of silicon wafer chips to the electronics industry. During the year, the Company has yet to commence its trading activity.

The principal activity of the subsidiary company is set out in Note 6 to the accounts.

Accounts

	Group RM	Company RM
Loss after taxation	79,023,828 =====	74,436,707 =====

In the opinion of the directors, the results of the operations of the Company and of the Group during the current financial year have not been substantially affected by any item, transaction or event of a material and unusual nature.

Reserves and provisions

There were no material transfers to or from reserves or provisions during the current financial year.

Share capital

On 18th October, 2000, the Company increased its authorised share capital from 1,000,000,000 ordinary shares of RM1.00 each to 4,000,000,000 ordinary shares of RM1.00 each by the creation of 3,000,000,000 ordinary shares of RM1.00 each.

On 25th October, 2000, the Company increased its issued and paid up share capital from 839,000,000 ordinary shares of RM1.00 each to 841,850,000 ordinary shares of RM1.00 each, by an allotment of 2,850,000 ordinary shares of RM1.00 each at par for cash.

Loan stocks

The Company, by an ordinary resolution passed on 15th November, 2000, approved the issuance and allotment of the RM589,000,000 3.5% Irredeemable Convertible Unsecured Loan Stock 2001/2011 (the "ICULS") at a nominal value of RM1.00 each to a public listed company in Malaysia. The approval from the Securities Commission was obtained on 22nd December, 2000. The Subscription Agreement with the public listed company was entered into on 23rd December, 2000.

The ICULS bear interest at a rate of 3.5% per annum and are payable annually in arrears to the registered holders on the date falling on every anniversary date of the issue date until maturity date with the last payment being made on the maturity date. Pursuant to Clause 6 (C) of the Subscription Agreement, the payment of interest can be deferred at the option of the Company as provided in the Agreement to a date not later than the maturity date of the ICULS.

Company No: 456668-U

1st Silicon (Malaysia) Sdn. Bhd.
(Incorporated in Malaysia)

Directors' Report

The ICULS are convertible at any time on or after 19th January, 2001, within the period of ten years, into new ordinary shares of the Company at the conversion price in accordance with the Subscription Agreement subject to adjustment under certain circumstances as stipulated in the Third Schedule of the Subscription Agreement which is to be satisfied by the tender/surrender of ICULS of such nominal value.

The ICULS are not transferable.

The new ordinary shares allotted and issued upon conversion of the ICULS will be credited as fully paid and shall rank pari passu in all respects with existing ordinary shares of the Company and shall be entitled to any dividends, rights, allotments or other distributions declared made or paid after the relevant conversion date.

Directors

The names of the directors of the Company in office since the date of the last report and at the date of this report are:

Datuk Fong Joo Chung	(Chairman)
YB Haji Talib Bin Zulpilip	
Datuk Wan Abdul Kadir @ Wan Ali Bin Wan Yubi @ Tuanku Yubi	
Prof. Dato' Dr. Mohamad Zawawi Bin Ismail	(Resigned on 30.12.2000)

In accordance with the Company's Article of Association, YB Haji Talib Bin Zulpilip retires by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

Directors' benefits

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company is a party, whereby directors might acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive any benefits (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the directors as shown in the accounts) by reason of a contract made by the Company or a related corporation with any director or with a firm of which the director is a member or with a company in which the director has a substantial financial interest required to be disclosed by Section 169(8) of the Companies Act, 1965.

Directors' interests in shares

None of the directors who held office at the end of the financial year had according to the register required to be kept under Section 134 of the Companies Act, 1965, an interest in shares in the Company.

Other statutory information

- (a) Before the income statements and balance sheets of the Company and of the Group were made out, the directors took reasonable steps:
 - (i) to ascertain that proper action has been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there were no known bad debts and no provision for doubtful debts was necessary; and

1st Silicon (Malaysia) Sdn. Bhd.
(Incorporated in Malaysia)

Directors' Report

- (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business have been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would render:
 - (i) it necessary to write off any debts or to make a provision for doubtful debts in respect of these accounts in the Company and in the Group; and
 - (ii) the values attributed to current assets in the accounts of the Company and of the Group misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Company and of the Group misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or accounts of the Company and of the Group which would render any amount stated in the accounts and consolidated accounts misleading.
- (e) As at the date of this report there does not exist:
 - (i) any charge on the assets of the Company or of the Group which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability in respect of the Company and of the Group which has arisen since the end of the financial year.
- (f) In the opinion of the directors:
 - (i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the company to meet its obligations when they fall due; and
 - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the company or of the Group for the financial year in which this report is made.

Holding company

The holding company is Perbadanan Pembangunan Ekonomi Sarawak (Sarawak Economic Development Corporation), a corporation established under the Perbadanan Pembangunan Ekonomi Sarawak Ordinance (Sarawak Cap. 35), with its registered address at Level 6-11, Menara SEDC, Jalan Tunku Abdul Rahman, 93100 Kuching.

Company No: 456668-U

1st Silicon (Malaysia) Sdn. Bhd.
(Incorporated in Malaysia)

Directors' Report

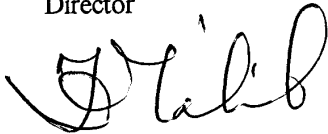
Auditors

The auditors, Ernst & Young, have expressed their willingness to continue in office.

On behalf of the Board,



Datuk Fong Joo Chung
Director



YB Haji Talib Bin Zulpilip
Director

Kuching

Date: 31 May 2001

Company No: 456668-U

Statement by directors

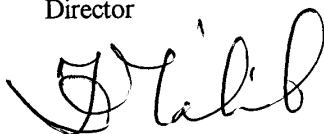
We, **Datuk Fong Joo Chung** and **YB Haji Talib Bin Zulpilip**, being two of the directors of **1st Silicon (Malaysia) Sdn. Bhd.**, state that in the opinion of the directors, the accounts set out on pages 8 to 29 (F-9 to F-27 in this Offering Circular) are drawn up in accordance with approved accounting standards in Malaysia so as to give a true and fair view of:

- (i) the state of affairs of the Company and of the Group as at 31st December, 2000 and of the results of the Company and of the Group for the year ended on that date; and
- (ii) the cash flows of the Company and of the Group for the year ended 31st December, 2000.

On behalf of the Board,



Datuk Fong Joo Chung
Director




YB Haji Talib Bin Zulpilip
Director

31 May 2001

Declaration pursuant to Section 169(16) of the Companies Act, 1965

I, **Claudio G. Loddo**, being the person primarily responsible for the financial management of **1st Silicon (Malaysia) Sdn. Bhd.**, do solemnly and sincerely declare that the accounts set out on pages 8 to 29 (F-9 to F-27 in this Offering Circular) are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

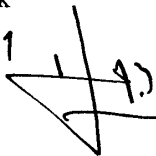


Claudio G. Loddo
Chief Executive Officer

Subscribed and solemnly declared by
the abovenamed **Claudio G. Loddo**
at Kuching in the State of Sarawak
on

31 MAY 2001

Before me,



Business Address:
Lane Building, No. 29, Kai Joo Lane
93000 Kuching, Sarawak, Malaysia

Company No: 456668-U

**Report of the auditors to the members of
1st Silicon (Malaysia) Sdn. Bhd.**

Mailing Address:
P.O. Box 64,
93700 Kuching
Sarawak, Malaysia.

We have audited the accounts set out on pages 8 to 29 (F-9 to F-27 in this Offering Circular). These accounts are the responsibility of the Company's directors. Our responsibility is to express an opinion on these accounts based on our audit.

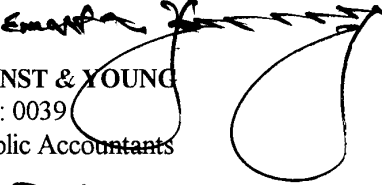
We have conducted our audit in accordance with approved standards on auditing in Malaysia. These standards require that we plan and perform the audit to obtain reasonable assurance that the accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and significant estimates made by directors, as well as evaluating the overall accounts presentation. We believe that our audit provides a reasonable basis for our opinion.


In our opinion:

- (a) the accounts are properly drawn up in accordance with the provisions of the Companies Act, 1965 and approved accounting standards in Malaysia so as to give a true and fair view of:
 - (i) the state of affairs of the Company and of the Group as at 31st December, 2000 and of the results and the cash flows of the Company and of the Group for the year then ended; and
 - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the accounts and consolidated accounts.
- (b) the accounting and other records and the registers required by the Act to be kept by the Company and by the subsidiary for which we are the auditors have been properly kept in accordance with the provisions of the Act.

We are satisfied that the accounts of the subsidiaries that have been consolidated with the Company's accounts are in the form and content appropriate and proper for the purpose of the preparation of the consolidated accounts and we have received satisfactory information and explanations required by us for those purposes.

The Auditors' Reports on the accounts of the subsidiary were not subject to any qualification and did not include any comment required to be made under Section 174(30) of the Companies Act, 1965.


ERNST & YOUNG
AF: 0039
Public Accountants


YONG VOON KAR
1769/04/02 (J/PH)
Partner

Kuching, Malaysia
Date: 31 May 2001

Company No: 456668-U

1st Silicon (Malaysia) Sdn. Bhd.

**Income statements
for the years ended 31st December, 2000**

	Note	Group 2000 RM	Company 2000 RM
Revenue		-	-
Cost of sales		-	-
Gross profit		-	-
Other operating income		7,198,051	7,193,051
Administrative expenses		(30,280,961)	(26,100,835)
Other operating expenses		(50,797,336)	(50,313,148)
Loss from operations		(73,880,246)	(69,220,932)
Finance costs		(3,151,222)	(3,147,415)
Loss before taxation	4	(77,031,468)	(72,368,347)
Taxation	5	(2,068,360)	(2,068,360)
Loss after taxation		(79,099,828)	(74,436,707)

The notes on pages F-14 to F-27 form an integral part of the accounts.

1st Silicon (Malaysia) Sdn. Bhd.**Balance sheets as at 31st December, 2000**

	Note	Group 2000 RM	2000 RM	Company 1999 RM
Non-current assets				
Property, plant and equipment	6	1,118,191,158	1,118,148,529	47,972,792
Capital work-in-progress	7	1,281,876,030	1,281,876,030	640,325,329
Intangible assets	8	140,887,070	140,887,070	112,380,820
Investment in subsidiary company	9	-	38,000	38,000
Expenditure carried forward	10	-	-	19,489,240
Current assets				
Stocks	11	8,530,842	8,530,842	-
Other debtors, deposits and prepayments		404,630,537	404,266,762	188,237,742
Amount due from subsidiary company	9	-	4,814,319	362,158
Fixed deposits with licensed banks		95,758,180	95,758,180	431,500,000
Cash and bank balances		425,870,850	425,851,850	3,778,240
		934,790,409	939,221,953	623,878,140
Current liabilities				
Short term borrowings		159,818	-	340,000,000
Trade creditors		10,615,663	10,615,663	-
Other creditors and accruals	12	226,754,211	226,677,823	154,031,824
Lease creditors	13	6,771,944	6,771,944	56,668
Term loans, secured	14	795,253,020	795,253,020	-
Provision for taxation		2,068,360	2,068,360	-
		1,041,623,016	1,041,386,810	494,088,492
Net current (liabilities)/assets		(106,832,607)	(102,164,857)	129,789,648
Total Assets		2,434,121,651	2,438,784,772	949,995,829
Financed by:				
Share capital	15	841,850,000	841,850,000	839,000,000
Loan stock	16	404,841,702	404,841,702	-
Accumulated losses		(79,099,828)	(74,436,707)	-
Shareholder's equity		1,167,591,874	1,172,254,995	839,000,000
Deferred liabilities				
Lease creditors	13	23,041,847	23,041,847	239,947
Term loans, secured	14	1,059,329,632	1,059,329,632	110,755,882
Loan stock	16	184,158,298	184,158,298	-
		1,266,529,777	1,266,529,777	110,995,829
		2,434,121,651	2,438,784,772	949,995,829

The notes on pages F-14 to F-27 form an integral part of the accounts.

Company No: 456668-U

1st Silicon (Malaysia) Sdn. Bhd.

**Statements of changes in equity
for the year ended 31st December, 2000**

Group	Share capital RM	Loan stock RM	Accumulated losses RM	Total RM
At 1st January, 1999	165,000,000	-	-	165,000,000
Issue of shares	674,000,000	-	-	674,000,000
At 31st December, 1999	839,000,000	-	-	839,000,000
Issue of shares	2,850,000	-	-	2,850,000
Issue of loan stock (equity component)	-	404,841,702	-	404,841,702
Loss for the year	-	-	(79,099,828)	(79,099,828)
At 31st December, 2000	841,850,000	404,841,702	(79,099,828)	1,167,591,874
Company				
At 1st January, 1999	165,000,000	-	-	165,000,000
Issue of shares	674,000,000	-	-	674,000,000
At 31st December, 1999	839,000,000	-	-	839,000,000
Issue of shares	2,850,000	-	-	2,850,000
Issue of loan stocks (equity component)	-	404,841,702	-	404,841,702
Loss for the year	-	-	(74,436,707)	(74,436,707)
At 31st December, 2000	841,850,000	404,841,702	(74,436,707)	1,172,254,995

The notes on pages F-14 to F-27 form an integral part of the accounts.

Company No: 456668-U

1st Silicon (Malaysia) Sdn. Bhd.

**Cash flow statements
for the year ended 31st December, 2000**

	Group 2000 RM	Company 2000 RM	1999 RM
Cash flows from operating activities			
Loss before taxation for the year	(77,031,468)	(72,368,347)	-
Adjustments for:			
Depreciation	5,133,816	5,076,435	727,047
Interest expense	54,968,258	54,968,258	9,499,938
Interest income	(7,189,893)	(7,189,893)	(2,944,579)
Preliminary and pre-operating expenses written off	12,683,339	12,683,339	-
Operating (loss)/profit before working capital changes	(11,435,948)	(6,830,208)	7,282,406
Increase in stocks	(8,530,842)	(8,530,842)	-
Increase in debtors	(215,992,637)	(216,029,020)	(188,048,952)
Increase in creditors	83,338,050	83,261,662	153,312,587
Decrease in amount due from a related company	-	-	124,980,385
Decrease in amount due to holding company	-	-	(9,717,329)
Cash (used in)/from operating activities	(152,621,377)	(148,128,408)	87,809,097
Preliminary and pre-operating expenses paid	-	-	(17,764,470)
Interest paid	(54,968,258)	(54,968,258)	(9,499,938)
Interest income received	7,189,893	7,189,893	2,944,579
Net cash (used in)/from operating activities	(200,399,742)	(195,906,773)	63,489,268
Cash flows from investing activities			
Purchase of property, plant and equipment	(1,043,602,873)	(1,043,502,863)	(48,169,433)
Purchase of intangible assets	(28,506,250)	(28,506,250)	(112,380,820)
Investment in a subsidiary company	-	-	(38,000)
Advances to a subsidiary company	-	(4,452,161)	(362,158)
Capital work-in-progress paid	(634,744,800)	(634,744,800)	(634,248,375)
Net cash used in investing activities	(1,706,853,923)	(1,711,206,074)	(795,198,786)
Cash flows from financing activities			
Increase in fixed deposits pledged	(95,758,180)	(95,758,180)	-
Proceeds from issuance of share capital	2,850,000	2,850,000	674,000,000
Proceeds from issuance of loan stock	589,000,000	589,000,000	-
Repayment of lease creditor	(2,232,133)	(2,232,133)	(30,059)
Term loan obtained	1,743,826,770	1,743,826,770	110,755,882
Net cash from financing activities	2,237,686,457	2,237,686,457	784,725,823

The notes on pages F-14 to F-27 form an integral part of the accounts.

Company No: 456668-U

1st Silicon (Malaysia) Sdn. Bhd.

**Cash flow statements
for the year ended 31st December, 2000 (cont'd)**

Net increase in cash and cash equivalents	330,432,792	330,573,610	53,016,305
Cash and cash equivalents at the beginning of the year	95,278,240	95,278,240	42,261,935
Cash and cash equivalents at the end of the year	<u>425,711,032</u>	<u>425,851,850</u>	<u>95,278,240</u>
Analysis of cash and cash equivalents:			
Cash and bank balances	425,870,850	425,851,850	3,778,240
Fixed deposits with licensed banks, not pledged	-	-	431,500,000
Short term borrowings	(159,818)	-	(340,000,000)
	<u>425,711,032</u>	<u>425,851,850</u>	<u>95,278,240</u>
Analysis of acquisition of property, plant and equipment:			
During the year, the company acquired property, plant and equipment by the following means:			
Cash	1,043,602,873	1,043,502,863	48,169,433
Leases	31,749,309	31,749,309	239,150
	<u>1,075,352,182</u>	<u>1,075,252,172</u>	<u>48,408,583</u>

The notes on pages F-14 to F-27 form an integral part of the accounts.

1. Fundamental accounting concept

The accounts of the Company have been prepared using accounting principles applicable to a going concern entity which contemplate the realisation of assets and liquidation of liabilities in the normal course of business. The activities of the Company are at a start-up stage and therefore require continuing financial support from the shareholders. As the holding company is the Sarawak Economic Development Corporation and with the continuing support of the State Government of Sarawak, the directors of the Company are hence of the view that the Company will be able to meet its cash flow requirements for the ensuing twelve months and that the basis of preparing the accounts for the year ended 31st December 2000 is, therefore, appropriate.

2. Significant accounting policies

2.1 Basis of accounting

The accounts of the Company and of the Group are prepared under the historical cost convention and comply with approved accounting standards issued by the Malaysian Accounting Standards Board (MASB). For the financial year ended 31st December 2000, the company has adopted MASB 24, Financial Instruments: Disclosure and Presentation, in the accounts of the Company and of the Group before its effective date.

2.2 Basis of consolidation

The consolidated accounts comprise the accounts of the Company and its subsidiary company made up to 31st December, 2000. The results of the subsidiary company are included in the consolidated accounts from the date of acquisition or up to the date of disposal, as applicable.

Where the acquisition method is adopted the difference between the aggregate cost of investments in the subsidiary company and the fair values of net assets at the date of acquisition is retained in the consolidated balance sheet as goodwill or reserve arising on consolidation, as appropriate.

2.3 Subsidiary company

Investments in the subsidiary company are stated at cost unless, in the opinion of the directors, there has been permanent diminution in value, where they are written down to recognise the variations in value of the underlying net tangible assets.

2.4 Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation.

Leasehold land is amortised over the period of the lease term. All other property, plant and equipment are depreciated on a straight line basis to write off the cost of the assets over their estimated useful lives. The principal annual rates used are as follows:

Office renovations	20%
Equipment and assets under installation	20%
Office and computer equipment	10% - 20%
Motor vehicles	20%

Assets under installation are not depreciated until the property, plant and equipment are fully completed and brought into use.

Fully depreciated property, plant and equipment are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect of these assets.

2.5 Capital work-in-progress

Capital work-in-progress is not depreciated until the property, plant and equipment are fully completed and brought into use. It includes all direct expenses and interest incurred on external borrowings relating to capital work-in-progress until the assets are ready for their intended use.

2.6 Intangible assets

These represent payments made to a technology corporation for transfer of technical know-how and use of intellectual property rights. Intangible assets are stated at cost and upon commencement of operation, will be amortised.

2.7 Stocks

Stocks are stated at the lower of cost and net realisable value and are valued on the first-in-first-out or weighted average cost basis, as appropriate. In arriving at net realisable values, due allowance is made for all damaged, obsolete and slow-moving items.

Cost includes the cost of materials and incidentals in bringing the stocks to their present condition and location, and in the case of work-in-progress and finished goods, it also includes direct labour and an appropriate proportion of production overheads.

2.8 Debtors

Known bad debts are written off and specific provisions are made for any debts considered to be doubtful of collection.

2.9 Leases

Assets under finance leases that give rights approximating to ownership are capitalised in the accounts and the corresponding obligation treated as a liability. The assets so capitalised are depreciated in accordance with the accounting policy on property, plant and equipment. The total interest, being the difference between the total instalments payable and the capitalised amount, is charged to the income statement over the period of the lease.

Leases which do not meet such criteria, are classified as operating leases and the related rentals are charged to the income statement as incurred.

2.10 Loan stock

The equity component of the compound financial instruments is recognised and presented separately from the liability component of the compound financial instruments. The carrying amount of the financial liability is determined by discounting the stream of future payments of interest at the

prevailing market rate. The carrying amount of the equity component is determined by deducting the carrying amount of the financial liability from the amount of the compound instrument as a whole.

2.11 Foreign currency

Assets, liabilities, revenues and costs denominated in foreign currencies are recorded in Ringgit Malaysia at the rates of exchange ruling at the dates of transactions; monetary assets and liabilities at the balance sheet date are reported at year end rates of exchange. All exchange differences thus arising are dealt with in the income statement.

2.12 Income recognition

Interest income earned is recognised on an accrual basis.

2.13 Cash and cash equivalents

For the purpose of the Cash Flow Statement, cash and cash equivalents include only cash and bank balances, and fixed deposits with licensed banks not pledged.

3. General

The intended principal activity of the company which is incorporated in Malaysia, is the fabrication and sale of wafer chips to the electronics industry. The company has not commenced trading operations during the year.

The company has been granted Pioneer Status incentive for approved strategic project under the Promotion of Investment Act, 1986 for the production of semiconductor fabricated wafers on 15th June 1999. This incentive provides for 100% tax exemption on the company's statutory income. The commencement date for the pioneer period has yet to be determined.

The holding company is Perbadanan Pembangunan Ekonomi Sarawak (Sarawak Economic Development Corporation), a corporation established under the Perbadanan Pembangunan Ekonomi Sarawak Ordinance (Sarawak Cap. 35), with its registered address at Level 6-11, Menara SEDC, Jalan Tunku Abdul Rahman, 93100 Kuching.

The accounts of the Company and of the Group are expressed in Ringgit Malaysia.

1st Silicon (Malaysia) Sdn. Bhd.**Notes to the accounts – 31st December, 2000****4. Loss before taxation**

	Group 2000 RM	Company 2000 RM
(a) This is stated after charging/(crediting):		
Auditors' remuneration		
- current year	176,000	100,000
- under provision in prior year	13,000	13,000
Depreciation of property, plant and equipment	5,133,816	5,076,435
Directors' fees	78,000	78,000
Hire of equipment	1,100	1,100
Interest expense	2,404,013	2,404,013
Interest income	(7,189,893)	(7,189,893)
Lease rental	477,096	477,096
Office and housing rental	722,669	352,746
Preliminary and pre-operating expenses written off	12,683,339	12,683,339
	=====	=====
(b) Employee information		
	Group 2000 RM	Company 2000 RM
		1999 RM
Staff costs	28,689,439	15,204,592
	=====	=====
Number of employees at end of year	564	135
	=====	=====

5. Taxation

	Group 2000 RM	Company 2000 RM
Based on results for the year	1,950,000	1,950,000
Under provision in prior year	118,360	118,360
	-----	-----
	2,068,360	2,068,360
	=====	=====

The tax charge of the Company for the current year is in respect of interest income received.

There was no provision for taxation on Malaysia operating income for the year ended 31st December, 1999 in view of the waiver of income tax under the Income Tax (Amendment) Act, 1999.

The effective tax rate of the Company is higher than the statutory rate due to the tax treatment adopted.

Company No: 456668-U

1st Silicon (Malaysia) Sdn. Bhd.

Notes to the accounts – 31st December, 2000

6. Property, plant and equipment						
Group	Long term leasehold land RM	Office renovations RM	Equipment and assets under installation RM	Office and computer equipment RM	Motor vehicles RM	Total RM
Cost						
At 1.1.2000	47,244,000	327,604	-	580,342	589,916	48,741,862
Additions	-	32,800	1,005,518,095	69,700,258	101,029	1,075,352,182
At 31.12.2000	<u>47,244,000</u>	<u>360,404</u>	<u>1,005,518,095</u>	<u>70,280,600</u>	<u>690,945</u>	<u>1,124,094,044</u>
Accumulated depreciation						
Charge for 1999	590,550	18,921	-	66,678	50,898	727,047
At 1.1.2000	590,550	20,705	-	86,379	71,436	769,070
Charge for 2000	787,400	229,061	847,951	3,005,790	263,614	5,133,816
At 31.12.2000	<u>1,377,950</u>	<u>249,766</u>	<u>847,951</u>	<u>3,092,169</u>	<u>335,050</u>	<u>5,902,886</u>
Net book value						
At 31.12.2000	<u>45,866,050</u>	<u>110,638</u>	<u>1,004,670,144</u>	<u>67,188,431</u>	<u>355,895</u>	<u>1,118,191,158</u>
At 31.12.1999	<u>46,653,450</u>	<u>306,899</u>	<u>-</u>	<u>493,963</u>	<u>518,480</u>	<u>47,972,792</u>

Company No: 456668-U

1st Silicon (Malaysia) Sdn. Bhd.

Notes to the accounts – 31st December, 2000

Company	Long term leasehold land RM	Office renovations RM	Equipment and assets under installation RM	Office and computer equipment RM	Motor vehicles RM	Total RM
Cost						
At 1.1.2000	47,244,000	327,604	-	580,342	589,916	48,741,862
Additions	-	32,800	1,005,518,095	69,600,248	101,029	1,075,252,172
At 31.12.2000	47,244,000	360,404	1,005,518,095	70,180,590	690,945	1,123,994,034
Accumulated depreciation						
Charge for 1999	590,550	18,921	-	66,678	50,898	727,047
At 1.1.2000	590,550	20,705	-	86,379	71,436	769,070
Charge for 2000	787,400	229,061	847,951	2,948,409	263,614	5,076,435
At 31.12.2000	1,377,950	249,766	847,951	3,034,788	335,050	5,845,505
Net book value						
At 31.12.2000	45,866,050	110,638	1,004,670,144	67,145,802	355,895	1,118,148,529
At 31.12.1999	46,653,450	306,899	-	493,963	518,480	47,972,792

1st Silicon (Malaysia) Sdn. Bhd.**Notes to the accounts – 31st December, 2000**

Included in the property, plant and equipment of the Company and of the Group are the net book values of the following assets acquired instalment payment arrangements:

	Group/Company	
	2000	1999
	RM	RM
Net book value		
Motor vehicles	355,895	346,964
Information system	33,263,960	-
	<u> </u>	<u> </u>
Total	33,619,855	346,964
	<u> </u>	<u> </u>

7. Capital work-in-progress

This represents all directly attributable costs paid in respect of the wafer chips fabrication project. Included in the capital work-in-progress are the following expenses incurred/(income credited) during the year:

	Group/Company	
	2000	1999
	RM	RM
Depreciation	-	363,523
Interest expense	52,564,245	9,499,938
Rental	-	229,465
Interest income	-	(1,472,290)
	<u> </u>	<u> </u>

8. Intangible assets

	Group/Company	
	2000	1999
	RM	RM
Balance at 1st January	112,380,820	-
Incurred during the year	28,506,250	112,380,820
	<u> </u>	<u> </u>
Balance at 31st December	140,887,070	112,380,070
	<u> </u>	<u> </u>

These represent payments for technological rights.

9. Subsidiary company

	Company	
	2000	1999
	RM	RM
Unquoted shares, at cost	38,000	38,000
Amounts due from subsidiary company	4,814,319	362,158
	<u> </u>	<u> </u>
	4,852,319	400,158
	<u> </u>	<u> </u>

The amount due from the subsidiary company is unsecured, interest free and under no fixed term of repayment.

Company No: 456668-U

1st Silicon (Malaysia) Sdn. Bhd.

Notes to the accounts – 31st December, 2000

The details of the subsidiary company as at 31st December, 2000 and its principal activity are shown below:

Name	Principal activity	Country of incorporation	Percentage of equity interest	
			2000	1999
1 st Silicon America, Inc.	US Representative Office	United States of America	100%	100%

10. Expenditure carried forward

	Group/Company	
	2000 RM	1999 RM
Preliminary expenses	88,274	88,274
Pre-operating expenses	19,400,966	19,400,966
	<hr/>	<hr/>
	19,489,240	19,489,240
Capitalised to capital work in progress	(6,805,901)	-
Written off to income statements	(12,683,339)	-
	<hr/>	<hr/>
	-	19,489,240
	<hr/>	<hr/>

During the current financial year, expenditure carried forward amounting to RM12,683,339 has been written off to the Income Statement in order to comply with the MASB Interpretation Bulletin IB-I in relation to preliminary and pre-operating expenses.

Included in the pre-operating expenses are the following expenses incurred/(income credited) during the year:

	Group/Company	
	2000 RM	1999 RM
Audit fee	-	19,000
Depreciation	-	363,524
Directors' fee	-	45,500
Rental	-	521,499
Interest income	-	(1,472,289)
	<hr/>	<hr/>

1st Silicon (Malaysia) Sdn. Bhd.**Notes to the accounts – 31st December, 2000****11. Stocks**

The carrying amount of stock is stated as follows:

	Group/Company	
	2000	1999
	RM	RM
Raw materials - at cost	3,608,018	-
Consumables - at cost	4,922,824	-
	<u>8,530,842</u>	<u>-</u>
	<u>=====</u>	<u>=====</u>

12. Other creditors and accruals

Other creditors and accruals include letter of credit facilities obtained from a bank amounting to RM24,168,988, which are supported by a letter of set-off over certain fixed deposits in the name of the company. However, such fixed deposits may be utilised by the company for other purposes upon negotiation with the bank.

13. Lease creditors

	Group/Company	
	2000	1999
	RM	RM
Repayable within twelve months	6,771,944	56,668
Repayable after twelve months	23,041,847	239,947
	<u>29,813,791</u>	<u>296,615</u>
	<u>=====</u>	<u>=====</u>
Minimum lease payment:		
Not later than one year	8,574,053	92,172
Later than one year and not later than five years	29,180,441	286,738
Later than five years	-	2,368
	<u>37,754,494</u>	<u>381,278</u>
Future finance charges on finance leases	(7,940,703)	(84,663)
	<u>29,813,791</u>	<u>296,615</u>
	<u>=====</u>	<u>=====</u>

14. Term loans, secured

	Group/Company	
	2000	1999
	RM	RM
Due within 12 months	795,253,020	-
Due after 12 months	1,059,329,632	110,755,882
	<u>1,854,582,652</u>	<u>110,755,882</u>
	<u>=====</u>	<u>=====</u>

1st Silicon (Malaysia) Sdn. Bhd.**Notes to the accounts – 31st December, 2000**

The term loans are repayable over the following periods:

	Group/Company	
	2000	1999
	RM	RM
Within one year	795,253,020	-
Between one and two years	111,253,020	104,500,000
Between two and five years	577,509,061	6,255,882
After five years	370,567,551	-
	1,854,582,652	110,755,882
	1,854,582,652	110,755,882

The rates of interest charged are predominantly based upon the USD-LIBOR rate quoted by Telerate.

The term loans are predominantly secured by guarantee from the Federal Government through the Ministry of Finance and supported by the Sarawak State Government.

15. Share capital**Authorised:**

4,000,000,000 (1999: 1,000,000,000) ordinary shares of RM1.00 each

	Group/Company	
	2000	1999
	RM	RM
At 1st January	1,000,000,000	350,000,000
Increased during the year	3,000,000,000	650,000,000
	4,000,000,000	1,000,000,000
	4,000,000,000	1,000,000,000

Issued and fully paid:

841,850,000 (1999: 839,000,000) ordinary shares of RM1.00 each

	Group/Company	
	2000	1999
	RM	RM
At 1st January	839,000,000	165,000,000
Issued during the year	2,850,000	674,000,000
	841,850,000	839,000,000
	841,850,000	839,000,000

On 18th October, 2000, the Company increased its authorised share capital from 1,000,000,000 ordinary shares of RM1.00 each to 4,000,000,000 ordinary shares of RM1.00 each by the creation of 3,000,000,000 ordinary shares of RM1.00 each.

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Notes to the accounts – 31st December, 2000

On 25th October, 2000, the Company increased its issued and paid up share capital from 839,000,000 ordinary shares of RM1.00 each to 841,850,000 ordinary shares of RM1.00 each, by an allotment of 2,850,000 ordinary shares of RM1.00 each at par for cash.

16. Loan stock

The Company, by an ordinary resolution passed on 15th November, 2000, approved the issuance and allotment of the RM589,000,000 3.5% Irredeemable Convertible Unsecured Loan Stock 2001/2011 (the "ICULS") at a nominal value of RM1.00 each to a public listed company in Malaysia. The approval from the Securities Commission was obtained on 22nd December, 2000. The Subscription Agreement with the public listed company was entered into on 23rd December, 2000.

The ICULS bear interest at a rate of 3.5% per annum and are payable annually in arrears to the registered holders on the date falling on every anniversary date of the issue date until maturity date with the last payment being made on the maturity date. Pursuant to Clause 6 (C) of the Subscription Agreement, the payment of interest can be deferred at the option of the Company as provided in the Agreement to a date not later than the maturity date of the ICULS.

The ICULS are convertible at any time on or after 19th January, 2001, within the period of ten years, into new ordinary shares of the Company at the conversion price in accordance with the Subscription Agreement subject to adjustment under certain circumstances as stipulated in the Third Schedule of the Subscription Agreement which is to be satisfied by the tender/surrender of ICULS of such nominal value.

The ICULS are not transferable.

The new ordinary shares allotted and issued upon conversion of the ICULS will be credited as fully paid and shall rank pari passu in all respects with existing ordinary shares of the Company and shall be entitled to any dividends, rights, allotments or other distributions declared made or paid after the relevant conversion date.

As at 31st December, 2000, the equity and liability components of the ICULS have been recognised and separately presented in the balance sheet in accordance with the accounting policy as disclosed in Note 2.10 to the Accounts in the early adoption of the MASB 24.

17. Future capital commitments

Capital commitments not provided for in the accounts:

	Group/Company	
	2000	1999
	RM	RM
Authorised and contracted for	379,543,480	601,204,174
Authorised but not contracted for	162,322,689	402,942,826
	<u>541,866,169</u>	<u>1,004,147,000</u>
	=====	=====

The company anticipates further capital commitments of approximately RM1,034,000,000 may be incurred for the fabrication capacity expansion purposes.

18. Financial instruments

Financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

Financial asset is any asset that is:

- (a) cash;
- (b) a contractual right to receive cash or another financial asset from another enterprise;
- (c) a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable; or
- (d) an equity instrument of another enterprise.

Financial liability is any liability that is a contractual obligation:

- (a) to deliver cash or another financial asset to another enterprise; or
- (b) to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

Equity instrument is any contract that evidences a residual interest in the assets of an enterprise after deducting all of its liabilities.

Financial risk management objectives and policies

The Company is exposed to market risk, including primarily changes in interest rates and currency exchange rates in connection with its risk management activities. The Company intends to adopt risk management policies and guidelines which set out its overall business strategies, its tolerance for risk and its general risk management philosophy for review by the Board of Directors from time to time to ensure that the Company's policies are adhered to.

Interest rate risk

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's investment portfolio and long-term debt obligations. The Company does not use derivative financial instruments to hedge its investment portfolio. The portfolio includes only fixed deposits with licensed banks to ensure portfolio liquidity.

The Company's policy is to manage its interest cost using a mix of fixed and variable rate debt.

Foreign currency risk

The Company's exposure to foreign currency risk is minimal due to the pegging of the Ringgit Malaysia to the US Dollar at a rate of RM3.80 to USD1.

Credit risk

Credit risk arising from the inability of a counterparty to meet the terms of the company's financial instrument contracts is generally limited to the amounts, if any, by which the counterparty's obligations exceed the obligations of the Company. It is the Company's policy to enter into financial instruments with a diversity of

1st Silicon (Malaysia) Sdn. Bhd.**Notes to the accounts – 31st December, 2000**

creditworthy counterparties. Therefore, the Company does not expect to incur significant credit risk on its risk management or other financial instruments.

Credit risk exposure

The Company's maximum exposure to credit risk (not taking into account the value of any collateral or other security held) in the event the counterparties fail to perform their obligation as of 31st December 2000 in relation to each class of recognised financial assets is the carrying amount of those assets as disclosed in the balance sheet.

Significant concentrations of credit risk

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarity affect groups of counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. The Directors are of the opinion that the Company's portfolio of financial instruments are entered into with diverse creditworthy counterparties, thereby mitigating any significant concentration of credit risk.

Fair value of financial instruments

The fair values of the financial instruments are the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced sale. The carrying amounts and fair values of the Company's financial instruments as at 31st December 2000 and 1999 respectively are tabulated hereunder.

Group Note 2000		Carrying amount		Fair value 2000	
RM				RM	
<i>Assets</i>					
Current assets, excluding stocks	(i)			926,259,567	926,259,567
<i>Liabilities</i>					
Current liabilities	(ii)			1,041,623,016	1,041,623,016
Deferred liabilities	(iii)			1,266,529,777	-
Company Note 2000		Carrying amount		Fair value 2000	
RM		1999	2000	1999	2000
		RM	RM	RM	RM
<i>Assets</i>					
Current assets, excluding stocks	(i)	930,691,111	623,878,140	930,691,111	623,878,140
<i>Liabilities</i>					
Current liabilities	(ii)	1,041,386,810	494,088,492	1,041,386,810	494,088,492
Deferred liabilities	(iii)	1,266,529,777	110,995,829	-	-

(i) The carrying amount of current assets, excluding stocks, approximated to their fair value due to the short maturity of instruments held.

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Notes to the accounts – 31st December, 2000

- (ii) The carrying amount of current liabilities approximated to their fair value due to the short maturity of instruments held.
- (iii) The fair value information pertaining to deferred liabilities is not disclosed as it is not practicable to determine the fair value with sufficient reliability because of the non availability of compatible information of such an enterprise in a similar industry. Alternatively, the terms and conditions of the instruments have been disclosed in Notes 13, 14 and 16 to the accounts to provide information about the characteristics about those instruments.

19. Significant inter company transactions

2000	Group/Company	
RM	1999	
Holding company:	RM	
Consideration for land acquired	-	47,244,000
=====	=====	=====

The directors are of the opinion that the above transaction was entered into at commercially negotiated terms. The consideration for land acquired was based on open market value as appraised by an independent valuer.

20. Comparative figures

The presentation of the accounts for the current year has been changed to adopt the format as prescribed in MASB Standard 1 – Presentation of financial Statements. Comparative figures have been reclassified to conform with this presentation, where necessary.

There were no comparative figures for the Group as this is the first set of consolidated financial statements presented by the Group.

There were no comparative figures for the income statement as this is the first set of income statement prepared in compliance with MASB Standard 1 – Presentation of financial statement.

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