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As filed with the Securities and Exchange Commission on June 9, 2005

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM F-1
REGISTRATION STATEMENT
Under
the Securities Act of 1933

Silicon Motion Technology Corporation
(Exact name of Registrant as specified in its charter)

Cayman Islands	3674	Not Applicable
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

Wallace C. Kou
Chief Executive Officer
No. 20-1, Taiyuan St.,
Jhubei City, Hsinchu County 302, Taiwan
+886 3 552-6888
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

PTSGE Corp.
925 Fourth Avenue, Suite 2900
Seattle, WA 98104
(206) 623-7580
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ☐

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If delivery of the prospectus is expected to be made pursuant to Rule 434 under the Securities Act of 1933, check the following box. ☐

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered[1]	Proposed Maximum Aggregate Offering Price[2] [3]	Amount of Registration Fee
Ordinary Shares, par value US$0.01 per share	US$115,000,000	US$13,535.50

(1) American depositary shares issuable upon deposit of the ordinary shares registered hereby will be registered pursuant to a separate registration statement on Form F-6 filed with the Commission. Each American depositary share represents ordinary shares.

(2) Includes (a) shares that may be purchased by the underwriters pursuant to the over-allotment option and (b) ordinary shares initially offered and sold outside the United States that may be resold from time to time in the United States either as part of their distribution or within 40 days after the later of the effective date of this registration statement and the date the shares are first bona fide offered to the public. These ordinary shares are not being registered for the purpose of sales outside the United States.

(3) Estimated solely for the purpose of determining the amount of the registration fee in accordance with Rule 457(o) under the Securities Act of 1933.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Commission, acting pursuant to such Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. Neither we nor the selling shareholders may sell these securities until the registration statement filed with the Securities and Exchange Commission is declared effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, Dated June 9, 2005

Silicon Motion Technology Corporation

American Depositary Shares
Representing Ordinary Shares

This is the initial public offering of Silicon Motion Technology Corporation. We are offering American Depositary Shares, or ADSs, and the selling shareholders are offering an aggregate of ADSs. We currently estimate that the initial public offering price per ADS will be between US$ and US$ per share. We have applied to have the ADSs quoted on the Nasdaq Stock Market's National Market under the symbol "SIMO."

Investing in our ADSs involves risks. See "Risk Factors" beginning on page 8.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

	Per ADS	Total
Public offering price	US$	US$
Underwriting discounts and commissions	US$	US$
Proceeds, before expenses, to us	US$	US$
Proceeds, before expenses, to the selling shareholders	US$	US$

We and the selling shareholders have granted the underwriters the right to purchase up to an aggregate of additional ADSs to cover over-allotments.

Deutsche Bank Securities

WR Hambrecht + Co **Needham & Company, LLC**

The date of this prospectus is , 2005

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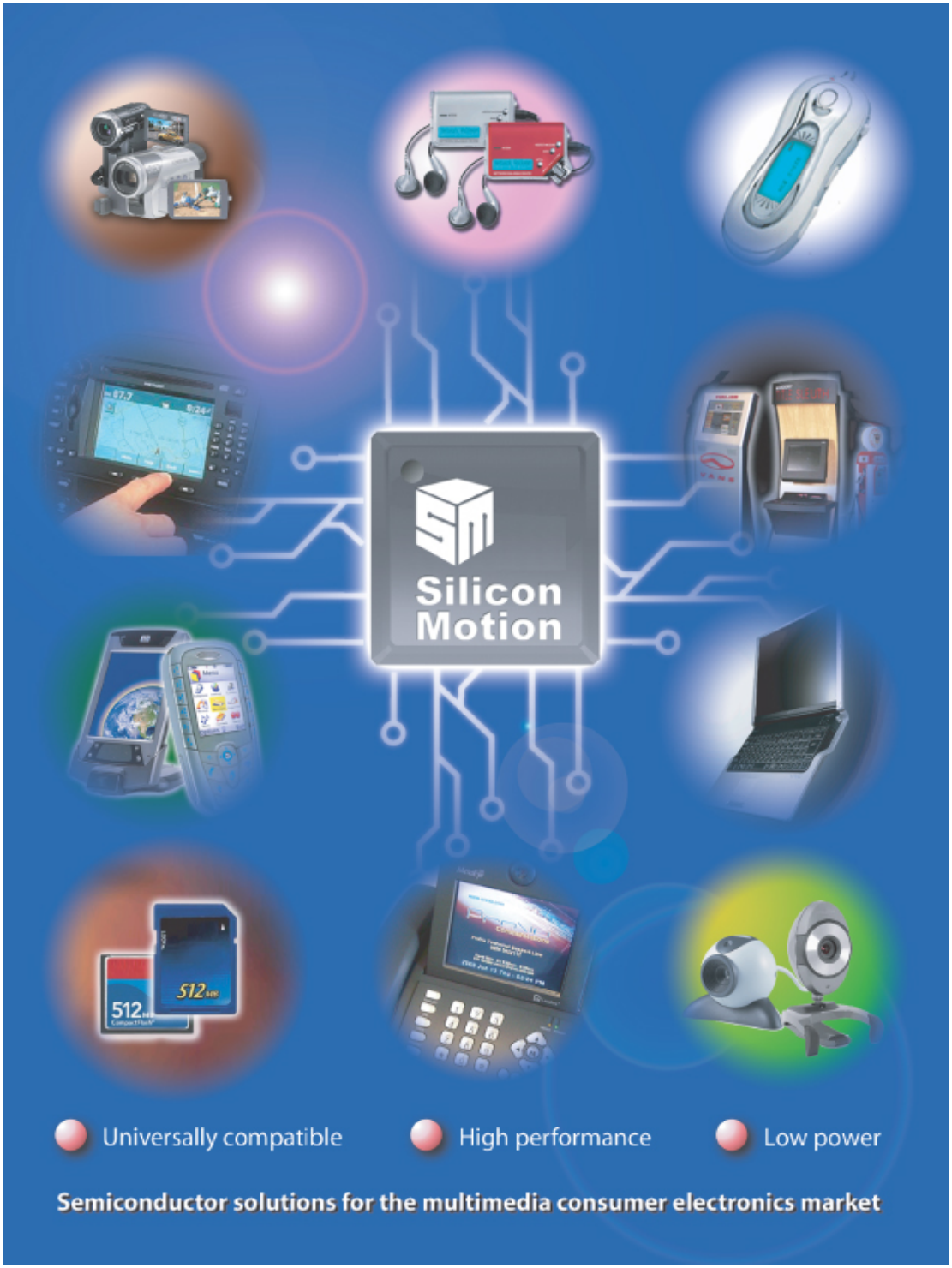


CONVENTIONS THAT APPLY TO THIS PROSPECTUS

Unless otherwise indicated, references in this prospectus to:

- "ADRs" are to the American depositary receipts that evidence our ADSs;
- "ADSs" are to our American depositary shares, each of which represents ordinary shares;
- "CAGR" are to compound annual growth rate;
- "China" or "PRC" are to the People's Republic of China excluding the special administrative regions of Hong Kong and Macau;
- "Nasdaq" are to the Nasdaq National Market;
- "NT dollar," "NT dollars" or "NT$" are to New Taiwan dollars, the legal currency of Taiwan;
- "ROC" or "Taiwan" are to Taiwan, the Republic of China, the official name of Taiwan;
- "shares" or "ordinary shares" are to our ordinary shares, with par value US$0.01 per share;
- "U.S. GAAP" are to generally accepted accounting principles in the United States;
- "U.S. dollar," "U.S. dollars" or "US$" are to United States dollars, the legal currency of the United States; and
- "we," "us," "our company," "our" and "Silicon Motion" are to Silicon Motion Technology Corporation, its predecessor entities and subsidiaries including (i) Silicon Motion, Inc., incorporated in Taiwan, or SMI Taiwan, and formerly known as Feiya Technology Corporation and (ii) Silicon Motion, Inc., a California, USA, corporation, or SMI USA.

Unless otherwise indicated, our financial information presented in this prospectus has been prepared in accordance with U.S. GAAP.

Solely for your convenience, this prospectus contains translations of certain NT dollar amounts into U.S. dollars at specified rates. All translations from NT dollar to U.S. dollar amounts are made at the noon buying rate in the City of New York for cable transfers of NT dollars as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise stated, the translation from NT dollars into U.S. dollars and from U.S. dollars into NT dollars has been made at the noon buying rate in effect on March 31, 2005, which was NT$31.46 to US$1.00. No representation is made that the NT dollar or U.S. dollar amounts referred to in this prospectus could have been or could be converted into U.S. dollar or NT dollar amounts, as the case may be, at any particular rate or at all. See "Risk Factors — If economic conditions in Taiwan deteriorate, our current business and future growth would be adversely affected" for discussions on how fluctuating exchange rates could affect our profitability and your investment in us. On June 8, 2005, the noon buying rate was NT$31.27 to US$1.00.

The "Glossary of Technical Terms" contained in Annex A of this prospectus sets forth the description of certain technical terms and definitions used in this prospectus.

This prospectus also contains statistical data that we obtained from industry publications and reports generated by Gartner Dataquest, or Gartner, (Gartner Forecast: Electronic Equipment Production and Semiconductor Consumption, Worldwide, 2000-2008, January 7, 2005) and International Data Corporation, or IDC. These industry publications generally indicate that they have obtained their information from sources believed to be reliable, but do not guarantee the accuracy and completeness of their information. Although we believe that the publications are reliable, we have not independently verified their data.

PROSPECTUS SUMMARY

The following summary should be read in conjunction with the more detailed information, including the "Risk Factors" section beginning on page 8 and the financial statements and related notes appearing elsewhere in this prospectus. You should read the entire prospectus carefully in evaluating an investment in our securities.

Overview

We are a fabless semiconductor company that designs, develops and markets universally compatible, high-performance, low-power semiconductor solutions for the multimedia consumer electronics market. Our semiconductor solutions include controllers used in mobile storage media, such as flash memory cards and USB flash drives, and multimedia systems on a chip, or SoCs, used in digital media devices such as MP3 players, PC cameras, PC notebooks and broadband multimedia phones.

We sell our semiconductor solutions to leading original equipment manufacturers, or OEMs, and original design manufacturers, or ODMs, worldwide. Our controllers serve as the critical enabling component of mobile storage products sold by companies such as Lexar Media, Samsung, Sony and STMicroelectronics. In addition, our multimedia SoCs are also important components of products that are sold by companies such as Casio, Foxconn, Hewlett-Packard, Hitachi, Intel, NEC, Panasonic, Sharp, Siemens and Sony.

We believe we have built our business into a leading supplier of controllers for mobile storage products. We believe that we have a significant advantage over our competitors due to our ability to provide high-performance semiconductor solutions that support the broadest portfolio of flash memory devices and comply with all major industry standards for flash-based storage products. For example, our SM264 secure digital, or SD, controller enables SD cards to be compatible with nearly all types of host devices with SD slots and also supports over 20 types of NAND flash memory.

We have experienced rapid growth in our sales. Our net sales grew from approximately NT$456.9 million in 2002 to approximately NT$915.1 million in 2003 to approximately NT$2,166.7 million (US$68.9 million) in 2004, representing a compound annual growth rate, or CAGR, of approximately 117.8%. For the first quarter of 2005, our net sales were approximately NT$515.3 million (US$16.4 million), an increase of approximately 35.8% from NT$379.3 million for the first quarter of 2004. In addition, our quarterly sales have experienced continued sequential growth for the past eight quarters, growing on average approximately 15.2% quarter-on-quarter. We believe that because of our ability to provide adaptable, universally compatible semiconductor solutions and architectures, we have been able to expand into additional portable digital media devices such as audio SoCs and image processors. We have derived significant additional sales from products such as low-power multimedia display processors used in embedded graphic applications. Our net sales from multimedia SoCs was NT$285.4 million (US$9.1 million) in 2004.

Our presence in Asia and our customer-driven engineering focus allow us to closely monitor our manufacturing sources for quality, as well as align our operations with the outsourcing trend of our customers. Our Asia-based operations provide us with access to a highly educated engineering work force and a competitive cost structure. For the first quarter of 2005, our cost of sales and our operating expenses represented approximately 56.4% and 24.7%, respectively, of our net sales. For the year ended December 31, 2004, our cost of sales

and our operating expenses represented approximately 58.8% and 23.7%, respectively, of our net sales. In addition, with the exception of the fourth quarter of 2004, our gross margins have remained above 40% for each quarter since the first quarter of 2003. Our net margin for the first quarter of 2005 was approximately 18.6%. We recorded net income of approximately NT$96.0 million (US$3.1 million) for the first quarter of 2005, an increase of approximately 79.1% from NT$53.6 million for the first quarter of 2004. Our net income increased by approximately 142.7% to approximately NT$268.0 million (US$8.5 million) in 2004 from approximately NT$110.4 million in 2003.

Our Opportunity

We expect the use of semiconductors in consumer electronics to continue to grow through 2008. We anticipate this growth will create a significant opportunity to enhance our semiconductor solutions and for us to become one of the leading providers of semiconductor solutions for the multimedia consumer electronics market. See “Our Business—Industry Overview” and “—Challenges Facing the Market.”

Our Strengths

We believe we have quickly become one of the leading providers of semiconductor solutions for the multimedia consumer electronics market by capitalizing on the following strengths:

Universal compatibility. We believe one of our key competitive advantages is our ability to provide one universally adaptable solution that is compatible with a wide range of protocol standards used by portable digital media devices on the one hand, and the storage architectures used for digital content on the other hand.

Complete hardware and software solution. We leverage our modular design architecture in both hardware and software to allow us to quickly penetrate markets and expand our customer base.

Proximity to the electronics supply chain. Our presence in Asia allows us to align our operations with the trend for customers and OEMs to outsource their manufacturing and design to lower cost areas in Asia.

Customer-driven solutions. Our close working relationships with our customers allow us to understand their needs and product roadmaps and enable us to develop solutions that address our customers’ exact needs and new product requirements and features.

Our Strategy

Our objective is to be the leading supplier of controller and software solutions for mobile storage products and multimedia SoCs for digital media devices. We intend to achieve our objective through the following strategies:

- Provide innovative, universally compatible solutions that connect the growing number of digital media devices;
- Maintain our leadership position in the flash controller market;
- Focus on the high growth consumer and digital media market;
- Continue to invest in research and development;
- Continue to leverage on our strategic and customer relationships;
- Expand our customer and geographic base; and
- Continue to provide differentiated, cost-competitive products to customers.

Risk of Investment

An investment in our ADSs involves a high degree of risk that includes risks related to our company, risks related to the high technology sector relating to the viewing, transfer and storage of digital media content, risks related to Taiwan and risks related to the ownership of our ADSs. Specifically, risks include but are not limited to those relating to the following areas:

We cannot guarantee profitability in the future. We have sustained losses in the past and cannot assure you that we will remain profitable in the future.

The loss of a significant customer could harm our business. We derive a large percentage of our sales from three customers. Loss, cancellation or a reduction of orders from any of these customers would materially affect our operating results.

Our growth rates may not be sustainable. We may not be able to sustain our current growth rates, and even if we do maintain them, we are susceptible to many operational and other challenges relating to our growth.

We face substantial political risks associated with doing business in Taiwan. Taiwan has a unique international political status. Our business and results of operations and the market price of our ADSs may be affected by changes in Taiwan governmental policies, taxation, inflation or interest rates and by social instability and diplomatic and social developments in or affecting Taiwan that are outside of our control.

Our operating results may fluctuate from period to period. We expect our operating results to fluctuate from quarter to quarter, which may make it difficult to predict our future performance and could cause the market price of our ADSs to fluctuate.

We operate in a highly cyclical industry. The highly cyclical nature of the semiconductor industry, which has produced significant and sometimes prolonged downturns, could have a material adverse effect on our operating results, financial condition and cash flows.

We operate in an industry where standards and technologies evolve rapidly. Industry standards and demands in the multimedia consumer electronics market are continuously and rapidly evolving, and our success depends on our ability to anticipate and respond to these changes and trends.

See “Risk Factors” beginning on page 8 for a more detailed description of these and other risks related to an investment in our ADSs. You should consider these risk factors carefully together with all the other information included in this prospectus.

Corporate Information

We are a holding company incorporated in the Cayman Islands on January 27, 2005. Substantially all of our operations are conducted through Silicon Motion, Inc., our wholly-owned operating subsidiary in Taiwan. Our principal executive office is located at:

No. 20-1, Taiyuan St.
Jhubei City, Hsinchu County 302
Taiwan
Telephone: +886 3 552-6888

Investor inquiries should be directed to us at the above address and telephone number. Our website is www.siliconmotion.com. **The information contained on our website does not constitute part of this prospectus.**

The Offering

American depositary shares offered	An aggregate of ADSs, representing ordinary shares.
By us	ADSs, representing ordinary shares.
By the selling shareholders	An aggregate of ADSs, representing ordinary shares.
Estimated price range per ADS	We currently estimate that the initial public offering price per ADS will be between US$ and US$.
The ADSs	Each ADS represents ordinary shares, par value US$0.01 per share. The ADSs will be evidenced by American Depositary Receipts, or ADRs. A nominee of the depositary will be the registered holder of the ordinary shares underlying your ADSs. You will have the rights of an ADR holder as provided in a deposit agreement among us, the depositary and holders and beneficial owners of ADSs from time to time, dated , 2005. Under the deposit agreement, you may instruct the depositary to vote the ordinary shares underlying your ADSs, but only if we ask the depositary to ask for your instructions. Otherwise you will not be able to exercise your right to vote unless you withdraw the ordinary shares deposited with the depositary. You will be required to pay up to US$ per ADS for each issuance or cancellation of an ADS, a fee for each distribution of securities by the depositary based on the number of ordinary shares deposited for issuance of ADSs, up to US$ per ADS per year for depositary services, fees for transfer and registration of your ordinary shares, and certain expenses incurred by the depositary. To better understand the terms of the ADSs, you should carefully read the section in this prospectus entitled “Description of American Depositary Shares.” We also encourage you to read the deposit agreement, which is an exhibit to the registration statement that includes this prospectus. We may amend or terminate the deposit agreement for any reason without your consent. If an amendment becomes effective, you will be considered, by continuing to hold your ADSs, to have agreed to be bound by the deposit agreement as amended.

Over-allotment option	We and the selling shareholders have granted a 30-day option to the underwriters to purchase up to an aggregate of additional ADSs to cover over-allotments.
Ordinary shares outstanding immediately after the offering	ordinary shares (or ordinary shares if the underwriters exercise the over-allotment in full) immediately after the offering.
ADSs outstanding immediately after the offering	
Use of proceeds	We estimate that we will receive net proceeds from this offering of approximately US$, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, and assuming an initial public offering price of US$ per ADS, the midpoint of the estimated range of the initial public offering price. We intend to use the net proceeds we will receive from this offering for research and development expenditures of at least NT$100 million in each of 2005, 2006 and 2007 and general corporate purposes. We will not receive any of the proceeds from the sale of the ADSs by the selling shareholders.
Risk factors	See “Risk Factors” and other information included in this prospectus for a discussion of the factors you should carefully consider before deciding to invest in our ADSs.
Listing	We have applied to have our ADSs included for quotation on the Nasdaq National Market. Our ordinary shares will not be listed on any exchange or quoted for trading on any over-the-counter trading system.
Proposed Nasdaq National Market Symbol	“SIMO”
Depositary	The Bank of New York
Lock-up	We have agreed with the underwriters to a lock-up of shares for a period of 180 days after the date of this prospectus. In addition, our executive officers, directors, the selling shareholders and certain other existing shareholders have also agreed with the underwriters to a lock-up of shares for a period of 180 days after the date of this prospectus, subject to an extension of up to 18 days under certain circumstances. See “Underwriting.”

SUMMARY CONSOLIDATED FINANCIAL DATA

You should read the following information with our consolidated financial statements and related notes, "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus.

The summary consolidated statements of operations and cash flow data for the years ended December 31, 2002, 2003 and 2004 and the summary consolidated balance sheet data as of December 31, 2003 and 2004 are derived from our consolidated financial statements included elsewhere in this prospectus and should be read in conjunction with, and are qualified in their entirety by reference to, these consolidated financial statements and related notes. These consolidated financial statements are prepared in accordance with U.S. GAAP.

The summary consolidated financial data as of March 31, 2005 and for the three months ended March 31, 2004 and 2005 are derived from our unaudited consolidated financial statements included elsewhere in this prospectus. In our opinion, all adjustments, including normal recurring adjustments, necessary for a fair presentation of results for the interim periods have been made. You should read these results in conjunction with our consolidated financial statements and related notes, included elsewhere in this prospectus.

Our historical results do not necessarily indicate results expected for any future periods.

	Year Ended December 31,				Three Months Ended March 31,		
	2002	2003	2004	2004	2004	2005	2005
	NT$	NT$	NT$	US$	NT$	NT$	US$
	(in thousands, except for per share data)					(unaudited)	
Consolidated Statement of Operations Data:							
Net sales	456,874	915,070	2,166,727	68,872	379,326	515,261	16,378
Cost of sales	366,236	424,668	1,274,410	40,509	212,443	290,729	9,241
Gross profit	90,638	490,402	892,317	28,363	166,883	224,532	7,137
Operating expenses:							
Research and development	107,504	203,646	238,485	7,581	42,417	69,036	2,195
Sales and marketing	52,593	125,680	141,136	4,486	32,677	32,008	1,018
General and administrative	38,230	69,262	103,303	3,284	17,011	25,298	804
Amortization of intangible assets	8,048	24,145	17,758	564	4,440	1,125	35
Impairment of intangible assets	—	54,143	11,718	372	—	—	—
In-process research and development	310,813	—	—	—	—	—	—
Restructuring charge	10,170	—	—	—	—	—	—
Total operating expenses	527,358	476,876	512,400	16,287	96,545	127,467	4,052
Operating income (loss)	(436,720)	13,526	379,917	12,076	70,338	97,065	3,085
Total nonoperating income (expenses)	10,477	2,512	21,187	674	(2,915)	1,908	61
Income (loss) before income taxes	(426,243)	16,038	401,104	12,750	67,423	98,973	3,146
Income tax (benefit) expense	9,573	(94,405)	133,101	4,231	13,797	2,928	93
Net income (loss)	(435,816)	110,443	268,003	8,519	53,626	96,045	3,053
Weighted average shares outstanding:							
Basic and diluted	66,752	96,901	103,878	103,878	103,050	105,412	105,412
Earning (loss) per share:							
Basic and diluted	(6.53)	1.14	2.58	0.08	0.52	0.91	0.03
Earning (loss) per ADS:							
Basic							
Diluted							

	As of December 31,			As of March 31,	
	2003	2004	2004	2005	2005
	NT$	NT$	US$ (in thousands)	NT$	US$
				(unaudited)	
Consolidated Balance Sheet Data:					
Cash and cash equivalents	763,545	727,165	23,114	159,567	5,072
Other current assets	459,634	1,324,343	42,096	1,546,703	49,164
Working capital	976,767	1,339,418	42,575	1,408,038	44,756
Long-term investments	7,195	3,142	100	3,142	100
Property and equipment, net	52,610	65,657	2,087	70,225	2,232
Intangible assets, net	38,080	6,843	217	5,718	182
Other assets	41,281	39,887	1,268	63,156	2,008
Total assets	1,362,345	2,167,037	68,882	1,848,511	58,758
Total liabilities	253,754	718,804	22,848	305,506	9,711
Total shareholders' equity	1,108,591	1,448,233	46,034	1,543,005	49,047

RISK FACTORS

An investment in our ADSs involves a high degree of risk of which you should be aware. You should carefully consider the risks described below, in conjunction with other information and our consolidated financial statements and related notes included elsewhere in this prospectus, before making an investment decision. You should pay particular attention to the fact that we conduct our operations in Taiwan and are governed by a legal and regulatory environment that in some respects differs significantly from the environment that may prevail in other countries with which you may be familiar. Our business, financial condition and operating results could be affected materially and adversely by any or all of the risks described below. The trading price of our ADSs could decline due to any or all of these risks, and you may lose part or all of your investment.

Risks Related to Our Business

We have sustained losses in the past and cannot guarantee profitability in the future.

Although we have been profitable since the second quarter of 2003, we cannot assure you that we will remain profitable in the future. A variety of factors may cause our operating results to decline and financial condition to worsen, including:

- competitors offering comparable products at cheaper prices;
- continuing downward pressure on the average selling prices of our products caused by intense competition in our industry and other reasons;
- decreases in demand for multimedia consumer electronics products into which our semiconductor solutions are incorporated;
- superior product innovations by our competitors;
- rising costs for raw materials;
- changes in our management team and other key personnel; and
- increased operating expenses relating to research and development, sales and marketing efforts and general and administrative expenses as we seek to grow our business.

As a result of these and other factors, we could fail to achieve our revenue targets or experience higher than expected operating expenses, or both. As a result, we cannot assure you that we will remain profitable in the future.

The loss of a significant customer or a reduction in orders from such a customer could adversely affect our operating results.

We are dependent on a small group of customers for a substantial portion of our sales. In 2002, 2003 and 2004, our three largest customers accounted for approximately 25%, 48% and 49%, respectively, of our net sales. Power Digital Card, or PDC, was our largest customer in 2003 and 2004, accounting for approximately 29% and 22% of our net sales in 2003 and 2004, respectively. Our third largest customer, Macrotron Systems, accounted for 3% and 13% of our net sales in 2003 and 2004, respectively. We started direct sales to Lexar Media in 2004, which became our second largest customer in 2004 and accounted for 14% of our net sales. We believe that a substantial portion of our sales to PDC and Macrotron Systems are included in Lexar Media's products and that such indirect sales and our direct sales to Lexar Media amounted to between 30% to 35% of our net sales in 2004. We expect that we will continue to

depend on a relatively limited number of customers for a substantial portion of our net sales and our ability to maintain good relationships with these customers will be important to the ongoing success of our business. We cannot assure you that the revenue generated from these customers, individually or in the aggregate, will reach or exceed historical levels in any future period. Our failure to meet the demands of these customers could lead to a cancellation or reduction of business from these customers. In addition, loss, cancellation or reduction of business from, significant changes in scheduled deliveries to, or decreases in the prices of products sold to, any of these customers could significantly reduce our revenues and adversely affect our financial condition and operating results. Moreover, any difficulty in collecting outstanding amounts due from our customers particularly customers who place large orders, would harm our financial performance. In addition, if our relationships with our three largest customers are disrupted for any reason, it could have a significant impact on our business.

Our limited operating history may not serve as an adequate basis to judge our future prospects and operating results.

We have a limited operating history with respect to our current business, which may not provide a meaningful basis on which to evaluate our business or future prospects. Although our sales have grown rapidly in recent years, we incurred net losses prior to the second quarter of 2003. We cannot assure you that we will maintain our profitability or that we will not incur net losses in the future. We expect that our operating expenses will increase as we expand. Any significant failure to realize anticipated sales growth could result in significant operating losses. We will continue to encounter risks and difficulties frequently experienced by companies at a similar stage of development, including our potential failure to:

- implement our business model and strategy and adapt and modify them as needed;
- maintain our current, and develop new, relationships with customers;
- manage our expanding operations and product offerings, including the integration of any future acquisitions;
- maintain adequate control of our expenses;
- attract, retain and motivate qualified personnel;
- protect our reputation and enhance customer royalty; and
- anticipate and adapt to changing conditions in the semiconductor industry and other markets in which we operate as well as the impact of any changes in government regulation, mergers and acquisitions involving our competitors, technological developments and other significant competitive and market dynamics.

If we are not successful in addressing any or all of these risks, our business may be materially and adversely affected.

We expect our operating results to fluctuate from quarter to quarter, which may make it difficult to predict our future performance and could cause the market price of our ADSs to fluctuate.

Our quarterly sales and operating results are difficult to predict and have in the past, and will likely in the future, fluctuate from quarter to quarter. For example, in 2004, our net income decreased from approximately NT$53.6 million (US$1.7 million) in the first quarter to a approximately NT$3.0 million (US$0.1 million) in the second quarter, increased to approximately NT$117.3 million (US$3.7 million) in the third quarter and decreased to approximately NT$94.1 million (US$3.0 million) in the fourth quarter.

Since our products are primarily used in multimedia consumer electronics products, our business is subject to seasonality, with a tendency toward increased sales in the third and fourth quarters of each year, when our customers place orders in anticipation of summer and year-end demand for consumer electronics products, and lower sales in the first and second quarters of each year. Moreover, we are also subject to the highly cyclical nature of the semiconductor industry.

Our quarterly operating results could be affected by a number of other factors, including:

- unpredictable volume and timing of customer orders, which are not fixed by contract but vary on a purchase order basis;
- the loss of one or more key customers or the significant reduction, postponement, rescheduling or cancellation of orders from these customers;
- decreases in the overall average selling prices of our products;
- changes in the relative sales mix of our products;
- changes in our cost of finished goods;
- the availability, pricing and timeliness of delivery of other components and raw materials used in our customers' products;
- our customers' sales outlook, purchasing patterns and inventory adjustments based on consumer demands and general economic conditions;
- our ability to successfully develop, introduce and sell new or enhanced products in a timely manner; and
- the timing of new product announcements or introductions by us or by our competitors.

These factors, as well as our recent rapid growth, make it difficult for us to assess our future performance. Any variations in our quarter-to-quarter performance may cause the market price of our ADSs to fluctuate. In addition, as a result of these fluctuations, our operating results in the future may be below the expectations of public market analysts or investors, which would likely cause the market price of our ADSs to decline. Accordingly, you should not rely on the results of any prior periods as a reliable indicator of our future operating performance.

We may not be able to sustain our current growth rates, and even if we do maintain them, we are susceptible to many challenges relating to our growth.

We have experienced significant growth in the scope and complexity of our business. Our net sales grew from approximately NT$456.9 million in 2002 to approximately NT$915.1 million in 2003 to approximately NT$2,166.7 million (US$68.9 million) in 2004. This growth has placed and will continue to place a strain on our management, personnel, systems and resources. If we are unable to manage our growth effectively, we may not be able to take advantage of market opportunities, develop new products, enhance our technological capabilities, satisfy customer requirements, execute on our business plan or respond to competitive pressures. In particular, the success of our goal to penetrate the MP3 market is highly contingent on the viability of our strategy and the success of our growth plans. To successfully manage our growth, we believe we must effectively:

- hire, train, integrate and manage additional qualified engineers, sales and marketing personnel and financial and information technology personnel;
- implement additional and improve existing administrative, financial and operations systems, procedures and controls;

- continue to enhance our manufacturing and customer resource management systems;
- continue to expand and upgrade our core semiconductor design and software development capabilities;
- manage multiple relationships with foundries, distributors, suppliers and certain other third parties; and
- manage our financial condition.

Our success also depends largely on our ability to anticipate and respond to expected changes in future demand for our products. In the event the timing of our expansion does not match market demand, our business strategy may need to be revised, and there could be delays in our roll-out of new products, which may adversely affect our growth and future prospects. If we over-expand and demand for our products does not increase as we may have projected, our financial results will be materially and adversely affected. However, if we do not expand, and demand for our products increases sharply, our business could be seriously harmed because we may not be as cost-effective as our competitors due to our inability to take advantage of increased economies of scale. In addition, we may not be able to satisfy the needs of our current customers or attract new customers, and we may lose credibility and our relationships with our customers may be negatively affected. Moreover, if we do not properly allocate our resources in line with future demand for particular products, we may miss changing market opportunities and our business and financial results could be materially and adversely affected. We cannot assure you that we will be able to successfully sustain our current growth rate or that we will be able to manage our growth in the future.

Industry standards and demands in the multimedia consumer electronics market are continuously and rapidly evolving, and our success depends on our ability to anticipate and meet these changes and trends.

In order to remain competitive in the future, we must ensure that our products meet continuously evolving industry standards and are compatible with rapidly changing customer requirements. If our products do not keep pace with evolving industry standards or if our products are not in compliance with prevailing industry standards for an extended period of time, we could be required to invest significant time, effort and funds to redesign our products to ensure compatibility with relevant standards. If we are slow to anticipate changing trends and respond to such charges in a timely manner, we could miss opportunities to capture potential customers and we could lose our existing market share or existing customers. Currently, our primary products are controllers used in flash memory devices. If new models for storing digital media are developed that compete with flash memory technology or render it obsolete and if we are not able to shift our product offerings accordingly, demand for our products would likely decline and our business would be materially and adversely affected.

In addition, we may not have sufficient financial resources to fund all of the required research to develop future innovations and meet changing industry standards. Moreover, even if we have adequate financial resources, our future innovations may be outpaced by competing innovations. As a result, we may lose customers and significant sales, and our business and operating results may be materially and adversely affected.

If demand for our products declines in the major end markets that we serve, our selling prices and our overall sales will decrease.

Demand for our products is affected by a number of factors, including the general demand for the products in the end markets that we serve and price attractiveness. A vast majority of our sales revenue is derived from customers who use our semiconductor solutions in portable digital media devices, such as MP3 players, smart phones, digital cameras and PDAs. Any significant decrease in the demand for portable digital media devices may decrease the demand for our semiconductor solutions and may result in a decrease in our revenues and earnings. A variety of factors, including economic, political and social instability, could contribute to a slowdown in the demand for non-essential consumer electronics products as consumers delay purchasing decisions or reduce their discretionary spending. In addition, the historical and continuing trend of declining average selling prices of portable digital media devices places pricing pressure on our semiconductor solutions. As a result, we expect that the average selling prices for many of our semiconductor solutions will continue to decline over the long term. If we are not able to introduce higher margin products, reduce our manufacturing costs to offset expected declines in average selling prices or maintain a high capacity utilization rate, our gross margin will continue to decline, which could have a material and adverse effect on our financial condition and operating results.

The highly cyclical nature of the semiconductor industry has produced significant and sometimes prolonged downturns; future downturns could materially affect our operating results.

The semiconductor industry is highly cyclical. The industry has experienced significant downturns, often in connection with, or in anticipation of, maturing product cycles of both semiconductor companies' and their customers' products and declines in general economic conditions. These downturns have been characterized by production overcapacity, high inventory levels and accelerated erosion of average selling prices. For example, the semiconductor industry experienced a downturn beginning in the fourth quarter of 2000 until late 2002. Although the semiconductor industry has been in the process of recovery from the downturn since late 2002, any future downturns could significantly reduce our sales or our profitability for a prolonged period. From time to time, the semiconductor industry also has experienced periods of increased demand and production capacity constraints. As a result, we may experience substantial changes in future operating results due to general semiconductor industry conditions, general economic conditions and other factors.

If the semiconductor industry suffers a shortage of flash memory, which is a key component in many of our customers' end products, our revenues could be adversely affected.

In 2004, some of our customers indicated that they were unable to acquire enough flash memory to meet all of the anticipated demand for their products. Several manufacturers of flash memory have increased manufacturing capacity for flash memory since then. However, we cannot assure you that there will continue to be enough additional capacity to satisfy worldwide demand for flash memory. According to IDC, the demand for flash memory cards is expected to rise rapidly through 2008. Because flash memory is a key component of most of the products manufactured by our customers, if any shortage in the supply of flash memory occurs and is not remedied, our customers may not be able to purchase enough flash memory to manufacture their products and may therefore purchase fewer semiconductor solutions from us than they would have otherwise purchased. Our ability to increase revenues and grow our profits could be materially and adversely affected as a result of any shortage or decrease in the supply of flash memory.

A failure to accurately forecast customer demand may result in excess or insufficient inventory, which may increase our operating costs and harm our business.

To ensure the availability of our products for our customers, in some cases we cause our manufacturers to begin manufacturing our products based on forecasts provided by these customers in advance of receiving purchase orders. However, these forecasts do not represent binding purchase commitments, and we do not recognize revenue from these products until they are shipped to the customer. As a result, we incur inventory and manufacturing costs in advance of anticipated revenue. Because demand for our products may not materialize, manufacturing based on forecasts subjects us to risks of high inventory carrying costs and increased obsolescence and may increase our costs. If we overestimate customer demand for our products or if purchase orders are cancelled or shipments delayed, we may end up with excess inventory that we cannot sell, which could have a material and adverse effect on our financial results. Conversely, if we underestimate demand, we may not have sufficient product inventory and may lose market share and damage customer relationships, which could also harm our business.

The average selling prices of our products could decrease rapidly.

We may experience period-to-period fluctuations in future operating results if our average selling prices decline. We may be forced to reduce the average unit price of our products in response to new product introductions by us or our competitors, competitive pricing pressures and other factors. The semiconductor market is extremely cost sensitive, which may result in declining average selling prices of the components comprising our products. We expect that these factors will create downward pressure on our average selling prices and operating results. To maintain acceptable operating results, we will need to develop and introduce new products and product enhancements on a timely basis and continue to reduce our costs. If we are unable to offset any reductions in our average selling prices by increasing our sales volumes or reducing corresponding production costs, or if we fail to develop and introduce new products and enhancements on a timely basis, our sales and operating results will be materially and adversely affected.

We rely primarily on a small number of distributors to market and distribute certain of our products, and if we fail to maintain or expand these sales channels, our revenues would likely decline.

Most of our display controllers are sold through independent distributors. Sales of these products to distributors generate a significant amount of our revenues. Our business will depend on our ability to maintain and expand our relationships with distributors, develop additional channels for the distribution and sale of our products and effectively manage these relationships. Because not all of our distributors are required to make a specified minimum level of purchases from us, we cannot be certain that they will sell our products on a priority basis. As we continue to expand our indirect sales capabilities, we will need to manage the potential conflicts that may arise within our indirect sales force. We also rely on our distributors to accurately and timely report to us their sales of our products and to provide certain engineering support services to customers. Our inability to obtain accurate and timely reports and to successfully manage these relationships would have a material and adverse effect on our financial results.

The loss of any of our key personnel or the failure to attract or retain specialized technical and management personnel could impair our ability to grow our business.

We rely heavily on the services of our key employees, including Wallace C. Kou, our President and Chief Executive Officer. In addition, our engineers and other key technical personnel are a significant asset and are the source of our technological and product innovations. We believe our future success will depend upon our ability to retain these key employees and our ability to attract and retain other skilled managerial, engineering, technical and sales and marketing personnel. The competition for such personnel, particularly technical personnel, is intense in our industry. We may not be successful in attracting and retaining sufficient numbers of technical personnel to support our anticipated growth. These technical personnel are required to refine the existing hardware system and application programming interface and to introduce enhancements in future applications. Despite the incentives we provide, our current employees may not continue to work for us, and if additional personnel were required for our operations, we may not be able to obtain the services of additional personnel necessary for our growth. In addition, we do not maintain “key man” life insurance for any of our senior management or other key employees. The loss of any of our key employees or our inability to attract or retain qualified personnel, including engineers, could delay the development and introduction of, and have an adverse effect on our ability to sell, our products as well as our overall growth.

In addition, if any other members of our senior management or any of our other key personnel joins a competitor or forms a competing company, we may not be able to replace them easily and we may lose customers, business partners, key professionals and staff members. Substantially all of our senior executives and key personnel have entered into confidentiality and non-disclosure agreements. In the event of a dispute between any of our senior executives or key personnel and SMI, we cannot assure you the extent, if any, to which these provisions may be enforceable in Taiwan due to uncertainties involving the Taiwan legal system.

We may be unsuccessful in developing and selling new products or in penetrating new markets required to maintain or expand our business.

Our revenue growth has been primarily from sales of our semiconductor solutions. Our future success depends, in part, on our ability to develop successful new semiconductor solutions in a cost-effective and timely manner. We continually evaluate expenditures for planned product developments and choose among alternatives based upon our expectations of future market trends. The development of our semiconductor solutions is highly complex, and successful product development and market acceptance of our products depends on a number of factors, including:

- our accurate prediction of the changing requirements of our customers;
- our timely completion and introduction of new designs;
- the availability of third-party manufacturing, assembly and test capacity;
- the ability of our foundries to achieve high manufacturing yields for our products;
- our ability to transition to smaller manufacturing process geometries;
- the quality, price, performance, power efficiency and size of our products and those of our competitors;
- our management of our indirect sales channels;
- our customer service capabilities and responsiveness;

- the success of our relationships with existing and potential customers; and
- changes in industry standards.

We cannot assure you that we will be able to develop and introduce new or improved products in a timely and cost-effective manner, that the products we introduce will generate significant revenues or that we will be able to accurately anticipate or respond to future market trends.

We may not be able to deliver our products on a timely basis if our relationships with our suppliers, our semiconductor foundries or our assembly and test subcontractors are disrupted or terminated.

We do not own or operate a semiconductor fabrication facility. Instead, we rely on third parties to manufacture our semiconductors. Two outside foundries, UMC, in Taiwan, and SMIC, in China, currently manufacture the majority of our semiconductors. As a result, we face several significant risks, including higher wafer prices, lack of manufacturing capacity, quality assurance, manufacturing yields and production costs, limited control over delivery schedules and product quality, increased exposure to potential misappropriation of our intellectual property, labor shortages or strikes and actions taken by third party contractors that breach our agreements.

The ability of each foundry to provide us with semiconductors is limited by its available capacity. We do not have long-term agreements with any of these foundries and we place orders on a purchase order basis. We place our orders based on our customers' purchase orders and sales forecasts. However, the foundries can allocate capacity to the production of the products of their other customers and reduce deliveries to our manufacturing logistics partners on short notice or increase the price they charge us. It is possible that other foundry customers that are larger and better financed than we are, or have long-term agreements with these foundries, may induce these foundries to reallocate capacity to them. Any reallocation could impair our ability to secure the supply of semiconductors that we need for our products. In addition, interruptions to the wafer manufacturing processes caused by a natural disaster or human error could result in partial or complete disruption in supply until we are able to shift manufacturing to another fabrication facility. It may not be possible to obtain sufficient capacity or comparable production costs at another foundry. Migrating our design methodology to a new third-party foundry could involve increased costs, resources and development time comparable to a new product development effort. Any reduction in the supply of semiconductors for our products could significantly delay our ability to ship our products and potentially have negative effects on our relationships with existing customers and our results of operations. In addition, if our subcontractors terminate their relationships with us, we would be required to qualify new subcontractors, which could take as long as six months, resulting in unforeseen operations problems, and our operating results may be materially and adversely affected.

If the foundries that provide us with the products for our operations do not achieve satisfactory yield or quality, or if the assembly and testing services fail us in the quality of their output, then our revenue, operating results and customer relationships will be affected.

The manufacture of semiconductors is a highly complex process. Minor deviations in the manufacturing process can cause substantial decreases in yield. In some situations, such deviations may cause production to be suspended. The foundries that manufacture our semiconductors have from time to time experienced lower than anticipated manufacturing

yields, including yields for our semiconductors, typically during the production of new products or architectures or during the installation and start-up and ramp-up of new process technologies or equipment. If the foundries that manufacture our semiconductors do not achieve planned yields, our product costs could increase, and product availability would decrease.

After the wafer fabrication processes, our wafers are shipped to our assembly and testing subcontractors. We have a system to maximize consistent product quality, reliability and yield which involve our quality assurance team working closely with pertinent subcontractors in the various phases of the assembly and testing processes. We also emphasize a strong supplier quality management practice through which our quality assurance team pre-qualifies our manufacturing suppliers and subcontractors. However, despite our efforts to strengthen supplier quality management, if our foundries fail to deliver fabricated silicon wafers of satisfactory quality in the volume and at the price we require, or if our assembly and test subcontractors fail to efficiently and accurately assemble and test our products, we will be unable to meet our customers' demand for our products or to sell those products at an acceptable profit margin, which would have a material and adverse effect on our sales and margins and damage our customer relationships.

Failure to protect our proprietary technologies or maintain the right to certain technologies may negatively affect our ability to compete.

We believe that the protection of our intellectual property rights will continue to be important to the success of our business. We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. We also enter into confidentiality or license agreements with our employees, business partners and other third parties, and have implemented procedures to control access to and distribution of our documentation and other proprietary information. Despite these efforts, we cannot assure you that these measures will provide meaningful protection of our intellectual property rights. Further, these agreements do not prevent others from independently developing technologies that are equivalent to or superior to our technology. In addition, unauthorized parties may attempt to copy or otherwise obtain and use our proprietary technology. Monitoring unauthorized use of our technology is difficult, and we cannot be certain that the steps we have taken will prevent unauthorized use of our technology, particularly in foreign countries, such as China, where the laws may not protect our proprietary rights as fully as do the laws of the United States. In addition, if the foundries that manufacture our semiconductors lose control of our intellectual property, it would be more difficult for us to take remedial measures because our foundries are located in countries that do not have the same protection for intellectual property that is provided in the United States. Also, some of our contracts, including license agreements, are subject to termination upon certain types of change-of-control transactions. The share exchange, under which the shares of SMI Taiwan were exchanged for our shares, may amount to such a change-of-control transaction.

We currently have more than 30 patents. We also have 24 patent applications pending in four countries. We cannot be certain that patents will be issued as a result of our pending applications nor can we be certain that any issued patents would protect or benefit us or give us adequate protection from competing products. For example, issued patents may be circumvented or challenged and declared invalid or unenforceable or provide only limited protection for our technologies. We also cannot be certain that others will not design around our patented technology, independently develop our unpatented proprietary technology or develop effective competing technologies on their own.

Failure to successfully defend against intellectual property lawsuits brought against us may adversely affect our business.

As technology is an integral part of our design and product, we have, in the past, received communications alleging that our products infringe or misappropriate certain intellectual property rights held by others, and may continue to receive such communications in the future. We are currently involved in an intellectual property dispute with O2Micro International Limited. See “Our Business — Legal Proceedings.” If any third party were to make valid intellectual property infringement or misappropriation claims against us, we may be required to:

- discontinue using disputed manufacturing process technologies;
- stop selling products that contain allegedly infringing technology;
- pay substantial monetary damages;
- seek to develop non-infringing technologies, which may not be feasible; or
- seek to acquire licenses to the infringed technology, which may not be available on commercially reasonable terms, if at all.

If our products are found to infringe or misappropriate third-party intellectual property rights, we may be subject to significant liabilities and be required to change our manufacturing processes or products. This could restrict us from making, using, selling or exporting some of our products, which could in turn materially and adversely affect our business and financial condition. Our failure to develop non-infringing technologies or license intellectual property rights in a timely and cost-effective manner could materially and adversely affect our business and financial condition. In addition, any litigation, whether to enforce our patents or other intellectual property rights or to defend ourselves against claims that we have infringed the intellectual property rights of others, could, regardless of the ultimate outcome, materially and adversely affect our operating results by requiring us to incur significant legal expenses and diverting the resources of the company and the attention of management.

Failure to achieve and maintain technological leadership in our various multimedia consumer electronics markets could erode our competitiveness and cause our profits to decrease.

The consumer electronics market and the semiconductor components used in such market are constantly changing with increased demand for improved features such as low power or smaller size. If we do not anticipate these changes in technologies and rapidly develop and introduce new and innovative technologies, we may not be able to provide advanced semiconductor solutions on competitive terms. If we are unable to maintain the ability to provide advanced semiconductor solutions on competitive terms, some of our customers may buy semiconductor solutions from our competitors instead of us. To be competitive, we must anticipate the needs of the market and successfully develop and introduce innovative new products in a timely fashion. We cannot assure you that we will be able to successfully complete the design of our new products, have these products manufactured at acceptable manufacturing yields, or obtain significant purchase orders for these products. Furthermore, if our future innovations are ahead of the then-current technological standards in our industry, customers may be unwilling to purchase our platforms until the multimedia consumer electronics market is ready to accept them. The introduction of new products may adversely affect sales of existing products and contribute to fluctuations in our operating results from quarter to quarter. Our introduction of new products also requires that we carefully manage our inventory to avoid inventory surplus and obsolescence. Our failure to do so could have a material and adverse effect on our operating results. Furthermore, failure to achieve advances in technology or processes or to obtain access to advanced technologies or processes developed by others could erode our competitive position.

Development of new platforms and products may require us to obtain rights to use intellectual property that we currently do not have. If we are unable to obtain or license the necessary intellectual property on reasonable terms or at all, our product development may be delayed, the gross margins on our planned products may be lower than anticipated and our business and operating results would be materially and adversely affected.

Because the markets in which we compete are highly competitive and many of our competitors have greater resources than we have, we cannot be certain that our products will compete favorably in the market place.

We face competition from a large number of competitors in each of our targeted areas. We currently compete with other companies that produce flash card controllers, primarily Cypress, Genesys, Hyperstone AG, Incomm, Panasonic, Phison, Renesas, Samsung, SanDisk, Toshiba and USBest. We may also face competition from some of our customers who may develop products or technologies internally that compete with our solution. For audio, graphics and imaging SoC products, we compete with ATI, NVIDIA, PortalPlayer, SigmaTel, Sunplus and Telechips. We expect to face increased competition in the future from our current and potential competitors. In addition, some of our customers have developed products and technologies that could replace their need for our products or otherwise reduce their demand for our products.

Many of our current and potential competitors have longer operating histories, greater name recognition, access to larger customer bases and significantly greater financial, sales and marketing, manufacturing, distribution, technical and other resources than we have. As a result, they may be able to respond more quickly to changing customer demands or to devote greater resources to the development, promotion and sales of their products than we can. Our current and potential competitors may develop and introduce new products that will be priced lower, provide superior performance or achieve greater market acceptance than our products. In addition, in the event of a manufacturing capacity shortage, these competitors may be able to obtain capacity when we are unable to do so.

The multimedia consumer electronics market, which is a principal end market for our products, has historically been subject to intense price competition. In many cases, low-cost, high-volume producers have entered the markets and driven down profit margins. If a low-cost, high-volume producer should develop products that compete with our products, our sales and profit margins would suffer.

Our principal subsidiary, Silicon Motion, Inc., is based and operates in Taiwan; we derive a substantial majority of our revenues from direct or indirect sales to non-U.S. customers and have significant foreign operations, which may expose us to foreign exchange risks.

A portion of our capital expenditures for our sales operations are denominated in currencies other than NT dollars, primarily U.S. dollars, but also, to a lesser extent, Japanese Yen, Renminbi and Euros. A significant portion of our sales are denominated in U.S. dollars, in addition to NT dollars. Therefore, we are affected by fluctuations in exchange rates among the U.S. dollar, the Japanese Yen, the NT dollar, the Renminbi and the Euro. In 2003 and 2004, the U.S. dollar devalued 0% and 3% respectively against the NT dollar, based on the average of daily exchange rates. The devaluation in 2004 hypothetically lowered our operating income by approximately 5%-6%. Any significant fluctuation in the future could potentially increase our operational costs and may have a material and adverse effect on our financial condition and operating results.

Our products must meet exacting specifications and undetected defects and failures may occur, which may cause customers to return or stop buying our products and may expose us to product liability risk and risks of indemnification against defects in our products.

Our products are complex and may contain undetected hardware or software defects or failures, especially when first introduced or when new versions are released. These errors could cause us to incur significant re-engineering costs, divert the attention of our engineering personnel from product development efforts and materially affect our customer relations and business reputation. If we deliver products with errors or defects, our credibility and the market acceptance and sales of our products could be harmed. Defects could also lead to liability for defective products as a result of lawsuits against us or against our customers. We have agreed to indemnify some of our customers in some circumstances against liability from defects in our products. A successful product liability claim could require us to make significant damage payments.

Our intellectual property indemnification practices may adversely impact our business.

We may be required to indemnify our customers and our third-party intellectual property providers for certain costs and damages of intellectual property infringement in circumstances where our products are a factor in creating the customer's or these third-party providers' infringement exposure. This practice may subject us to significant indemnification claims by our customers and our third-party providers. In some instances, our products are designed for use in devices manufactured by our customers that comply with international standards, such as the MP3 compression standard. These international standards are often covered by patent rights held by third parties, which may include our competitors. The combined costs of identifying and obtaining licenses from all holders of patent rights essential to such international standards could be high and could reduce our profitability or increase our losses. The cost of not obtaining these licenses could also be high if a holder of the patent rights brings a claim for patent infringement. In the contracts under which we distribute semiconductor products, we generally have agreed to indemnify our customers against losses arising out of claims of unauthorized use of intellectual property. In some of our licensing agreements, we have agreed to indemnify the licensor against losses arising out of or related to our conduct or services. We cannot assure you that additional claims for indemnification will not be made or that these claims would not have a material and adverse effect on our business, operating results or financial condition.

Major earthquakes, fires or other natural disasters and resulting systems outages may cause us significant losses.

Our principal executive offices and a significant part of our operations are based in Taiwan. Many of our suppliers, providers of semiconductor manufacturing services for us, including foundries and primary subcontractors for the assembly and testing of our products are located in Taiwan.

Taiwan is particularly susceptible to earthquakes. For example, in September 1999, Taiwan experienced a severe earthquake that caused significant property damage and loss of life, particularly in the central part of Taiwan. Although earthquakes and other natural disasters in Taiwan have not caused serious damages to us, if we, our suppliers, providers of semiconductor manufacturing services and primary subcontractors are affected by an earthquake or other natural disasters, such as typhoons, our production schedule could be interrupted or delayed. As a result, a major earthquake, natural disaster or other disruptive event in Taiwan could severely disrupt the normal operation of business and have a material and adverse effect on our financial condition and operating results.

The manufacturers of our semiconductors use highly flammable materials such as alcohol, acetone, photo resistance, AsHs and pH3, in the manufacturing processes and are therefore subject to the risk of loss arising from explosion and fire. The risk of explosion and fire associated with these materials cannot be completely eliminated. Semiconductor companies experience explosion and fire damage from time to time. If any of their fabs were to be damaged or cease operations as a result of an explosion or fire, it could reduce their manufacturing capacity. Such a reduction in the manufacturing capacity of our manufacturers could disrupt the production schedule of our products thereby causing us to miss orders from our customers, which will in turn have a material and adverse effect on our business and operating results.

The recurrence of a severe acute respiratory syndrome outbreak or an outbreak of avian influenza or other outbreaks could materially and adversely affect our operating results and financial conditions.

In early 2003, China and certain other areas in Asia experienced an outbreak of severe acute respiratory syndrome, or SARS. In addition, in the spring of 2004, China had several reported cases of deaths caused by SARS. A general downturn in most Asian economies accompanied the outbreak.

In 2003, an outbreak of avian influenza affected bird and poultry populations in countries throughout Southeast Asia and other parts of Asia, including China, Hong Kong and Japan. Avian influenza resulted in human deaths in Vietnam and Thailand. Any recurrence of SARS, avian influenza or other outbreak may have a negative effect on our operations. Our operations may be impacted by a number of health-related factors, including, among other things, quarantines or closure of our offices, the sickness or death of our key officers and employees and a general slowdown in the economies of China, Hong Kong and Taiwan, among other countries where we have operations.

We will incur increased costs as a result of being a public company.

As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act of 2002, as well as new rules subsequently implemented by the Securities and Exchange Commission and Nasdaq, have required changes in corporate governance practices of public companies. We expect these new rules and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly. For example, as a result of becoming a public company, we added independent directors, created additional board committees and intend to adopt additional policies regarding internal controls and disclosure controls and procedures. We will incur additional costs associated with our public company reporting requirements and compliance with the internal controls of Section 404 of the Sarbanes-Oxley Act of 2002. We also expect these new rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, our general and administrative expenses will likely increase and it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as executive officers. We are currently evaluating and monitoring developments with respect to these new rules, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

We may engage in future acquisitions and we may be unable to successfully integrate these companies into our operations, which would adversely affect our business.

As part of our growth strategy, from time to time, we may make acquisitions and investments in companies or businesses. The success of our acquisitions and investments depends on a number of factors, including:

- our ability to identify suitable opportunities for investment or acquisition;
- our ability to reach an acquisition or investment agreement on terms that are satisfactory to us or at all;
- the extent to which we are able to exercise control over the acquired company;
- the economic, business or other strategic objectives and goals of the acquired company compared to those of our company; and
- our ability to successfully integrate the acquired company or business with our company.

If we are unsuccessful in our acquisitions and investments, we may not be able to implement fully our business strategy to maintain or grow our business.

We will incur stock-based compensation charges going forward, which may have a material and adverse effect on our reported earnings.

Prior to November 2004, we did not have any stock option plans. We began granting stock options to our employees and directors with initial grants on December 31, 2004. As a result of our plan to continue to grant stock options to our employees, we will incur stock-based compensation charges beginning January 1, 2006 as a result of adopting Financial Accounting Standards Board No. 123R “Share-Based Payment.” We will account for the charges using a fair-value based method and recognize expenses in our consolidated statement of income in accordance with the relevant U.S. GAAP rule, which may have a material and adverse effect on our reported earnings.

Political, Regulatory and Economic Risks

We face substantial political risks associated with doing business in Taiwan because of the tense political relationship between Taiwan and the People’s Republic of China.

Our principal executive offices, a majority of our employees and a significant amount of our research and development and operations are based in Taiwan. In addition, two of our primary third party manufacturers, UMC and SMIC, are located in Taiwan and China, respectively. Accordingly, our business and results of operations and the market price of our ADSs may be affected by changes in Taiwan governmental policies, taxation, inflation or interest rates and by social instability and diplomatic and social developments in or affecting Taiwan that are outside of our control. Taiwan has a unique international political status. China does not recognize the sovereignty of Taiwan. Although there have been significant economic and cultural ties between the Taiwan and China in recent years, the political relations have often been strained. The government of China has indicated that it may use military force to gain control over Taiwan, particularly under what it considers as highly provocative circumstances, such as a declaration of independence by Taiwan or the refusal by Taiwan to accept China’s stated “one China” policy. On March 14, 2005, the National Peoples’ Congress of China passed what is widely referred to as the “anti-secession” law, a law authorizing the Chinese military to attack in order to block moves by Taiwan toward formal independence. Past developments in relations between Taiwan and China have on occasion depressed the market prices of the securities of Taiwanese companies. Relations between Taiwan and China and other factors affecting military, political or economic conditions in Taiwan could have a material adverse effect on our financial condition and results of operations, as well as the market price of our ADSs.

The relations between Taiwan and China and other factors affecting military, political or economic conditions in Taiwan could also have a material and adverse effect on the financial condition of the two primary foundries that manufacture most of our semiconductors. One of the foundries, UMC, is located in Taiwan, and the other, SMIC, is located in China. Such relations between Taiwan and China and other factors could also have a material and adverse effect on the financial condition of SPIL, ASE and King Yuan Electronics Co., Ltd., our primary subcontractors for the assembly and testing of our products, which are also located in Taiwan. In addition, any expansion or development of our research and development team in China could be restricted or jeopardized, and our sales and marketing performance may be affected.

If economic conditions in Taiwan deteriorate, our current business and future growth would be adversely affected.

The currencies of many East Asian countries, including Taiwan, have experienced considerable volatility and depreciation in recent years. The Central Bank of China, which is the central bank of Taiwan, has from time to time intervened in the foreign exchange market to minimize the fluctuation of the U.S. dollar/NT dollar exchange rate and to prevent significant decline in the value of the NT dollar. NT dollars have depreciated against U.S. dollars from US$1.00 = NT$27.52 on January 2, 1997 to US$1.00 = NT$31.27 on June 8, 2005, based on the noon buying rates published by the Federal Reserve Bank of New York. Any change in the value of NT dollars could have a material and adverse effect on the value in foreign currency terms of our ADSs and any dividends payable by us.

In addition, Taiwan's banking and financial sectors have been seriously affected by the general economic downturn in Asia and Taiwan in recent years, which has caused an increase in the number of companies filing for corporate reorganization and bankruptcy protection. As a result, financial institutions are more cautious in providing credit to businesses in Taiwan. We cannot assure you that we will continue to have access to credit at commercially reasonable rates of interest or at all, should we need additional capital to expand our business.

Our business depends on the support of the Taiwan government, and a decrease in this support may increase our tax liabilities and decrease our net income.

The Taiwan government has been very supportive of technology companies such as ours. In particular, we, like many Taiwanese technology companies, have benefited from tax incentives provided by the Taiwan government. For example, under the Statute for Upgrading Industries of Taiwan, we are granted tax credits by the Taiwan Ministry of Finance at rates set at certain percentages of the amounts utilized in qualifying research and development costs and in qualifying employee training expenses. If such tax credits cannot be utilized in the fiscal year in which the relevant costs or expenses were incurred, they may be carried forward for up to the next four years. We recognized an amount of approximately NT$2.2 million of such credits and incentives in our tax return for the tax year 2003 and an amount of approximately NT$39.6 million (US$1.26 million) of such credits and incentives in our tax return for the tax year 2004.

In addition, Taiwan law offers preferential tax treatments to industries that are encouraged by the Taiwan government. These preferential tax treatments include 5-year tax exemptions for income attributable to expanded production capacity or newly developed technologies funded in whole or in part by proceeds from initial capital investments made by our shareholders, or subsequent capital increases, or capitalization of our retained earnings. Such tax exemptions may be available either to the shareholders of a company, or, if the shareholders so determine, to the company itself. SMI Taiwan has filed three applications for such tax exemptions as SMI Taiwan had used the proceeds of the new share offerings received in 2002, 2003 and 2004 to fund eligible research and development projects. As of March 31, 2005, SMI Taiwan received

certain requisite consents or approvals for tax exemptions. See “Management’s Discussion and Analysis of Financial Conditions and Results of Operations – Principal Factors Affecting Our Results of Operations – Provision for income taxes” for a more detailed description of our ability to enjoy these preferential tax treatments. If any of our tax credits or our ability to take advantage of these preferential tax treatments are curtailed or eliminated, our net income may decrease materially.

If we are unable to satisfy the conditions set by the Investment Commission of the Taiwan Ministry of Economic Affairs, or the IC, the effectiveness of the share exchange leading to the establishment of our current corporate structure could be challenged by the ROC government authorities.

Our current corporate structure is established as a result of a share exchange between us and the shareholders of SMI Taiwan. Approval from the IC was sought and successfully granted for the share exchange. See “Corporate History and Related Party Transactions.” However the IC granted the approval on condition that SMI Taiwan must firstly, apply for at least five patents in each of 2005, 2006 and 2007, secondly, employ between 15 to 20 research and development engineers in each of 2005, 2006 and 2007, and finally, maintain research and development expenditures in the amount of at least NT$100 million (US$3.2 million) in each of 2005, 2006 and 2007. We are required to submit to the IC SMI Taiwan’s annual financial statements audited by a certified public accountant and other relevant supporting documents in connection with the implementation of those three conditions within four months after the end of each of 2005, 2006 and 2007. To the extent that we are unable to satisfy any of those three conditions, the IC may revoke our rights of repatriation of profits to be distributed by SMI Taiwan or rescind its approval of the share exchange. This would have an adverse effect on our corporate structure and consequently, materially and adversely affect our ability to conduct our business.

Risks Related To This Offering

There has been no prior public market for our ADSs prior to this offering, and there can be no assurance that an active public market will develop.

There has been no public market for our ADSs prior to this offering and we cannot predict the extent to which a trading market for our ADSs will develop or how liquid that market may become. From June 2003 to May 2005, prior to a capital re-organization under which all existing common shares of SMI Taiwan were acquired by Silicon Motion Technology Corporation in exchange for new ordinary shares in Silicon Motion Technology Corporation, the common shares of SMI Taiwan were quoted and traded on the Emerging Stock Board of the Taiwan GreTai Securities Market (formerly known as the Taiwan Over-the-Counter Securities Exchange). During that period, the common shares of SMI Taiwan were generally thinly traded and trading prices were volatile. The initial public offering price for our ADSs in this offering will be determined by negotiations between us and the underwriters and may bear no relationship to the market price for our ADSs after the offering. We cannot assure you that an active trading market will develop.

We expect our ADS price to be volatile.

The financial markets in the United States and other countries have experienced significant price and volume fluctuations and the market prices of the securities of technology companies in particular have been extremely volatile. Some of the factors that may cause wide fluctuations in the market price of our ADSs including the following:

- actual or anticipated fluctuations in our quarterly operating results;
- announcements of new products by us or our competitors;

- changes in the economic performance or market valuations of other comparable technology companies;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- introduction of technologies or product enhancements that reduce the need for our products;
- the loss of one or more key customers;
- additions or departures of key personnel;
- release of lock-up or other transfer restrictions on our outstanding ADSs or sales of additional ordinary shares or ADSs; and
- potential or actual litigation or regulatory investigations.

Any of these factors may materially and adversely affect the market price of our ADSs. We cannot assure you that the market price of our ADSs will not decline below the initial public offering price. You may not be able to resell your ADSs above the initial public offering price and you may suffer a loss on your investment.

Sales or perceived sales of substantial amounts of our ADSs could harm the market price of our ADSs.

If our shareholders sell, or are perceived to sell, substantial amounts of our ADSs in the public market following this offering, the market price of our ADSs could fall. Such sales also might make it more difficult for us to sell equity securities in the future at a time and price that we deem appropriate. The ordinary shares represented by the ADSs offered in this offering will be eligible for immediate resale in the public market without restrictions, and those held by our existing shareholders may also be sold in the public market in the future, subject to the restrictions contained in Rule 144 under the U.S. Securities Act of 1933, as amended, or the Securities Act, the deposit agreement and applicable lock-up agreements. If any significant existing shareholder sells, or is perceived to sell, a substantial amount of ordinary shares after the expiration of the lock-up period, the prevailing market price for our ADSs could be adversely affected. See “Shares Eligible for Future Sale” and “Underwriting” for additional information regarding resale restrictions.

You will incur immediate and substantial dilution in the net tangible book value of the ADSs you purchase.

The public offering price per ADS is substantially higher than the net tangible book value per share issued prior to this offering. Purchasers of our ADSs offered in this offering will therefore incur an immediate and substantial dilution in the net tangible book value per ADS from the initial public offering price. See “Dilution.”

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. Under the deposit agreement, the depositary of our ADSs will not offer you those rights unless the distribution to ADS holders of both the rights and any related securities are either registered under the Securities Act or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

You may not be able to exercise your right to vote your ordinary shares.

As a holder of ADSs, you may instruct the depositary of our ADSs to vote the ordinary shares underlying your ADSs but only if we ask the depositary to ask for your instructions. Otherwise, you will not be able to exercise your right to vote unless you withdraw the ordinary shares deposited with the depositary. However, you may not know about an upcoming shareholders' meeting sufficiently in advance to withdraw the ordinary shares. If we ask for your instructions, the depositary will notify you of the upcoming vote and will arrange to deliver our voting materials to you. We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your ordinary shares. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that you may not be able to exercise your right to vote and there may be nothing you can do if the ordinary shares underlying your ADSs are not voted as you requested.

You may not receive distributions on ordinary shares or any value for them if it is illegal or impractical to make them available to you.

The depositary of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of ordinary shares your ADSs represent. However, the depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any holders of ADSs. We have no obligation to register under U.S. securities laws any ADSs, ordinary shares, rights or other securities received through such distributions. We also have no obligation to take any other action to permit the distribution of ADSs, ordinary shares, rights or anything else to holders of ADSs. This means that you may not receive the distribution we make on our ordinary shares or any value for them if it is illegal or impractical for us to make them available to you. These restrictions may have a material and adverse effect on the value of your ADSs.

You may be subject to limitations on transfer of your ADSs.

Your ADSs represented by the ADRs are transferable on the books of the depositary. However, the depositary may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary think that it is advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

Our subsidiaries face limitations on paying dividends to us.

We are a holding company and do not have any assets or conduct any business operations other than holding the equity interest in SMI Taiwan. As a result, we rely on dividends paid to us by SMI Taiwan. If SMI Taiwan incurs debts on its own behalf in the future, the instruments governing the debts may restrict its ability to pay dividends or make other distributions to us, which in turn would limit our ability to pay dividends on our ordinary shares. In addition, SMI Taiwan is also required by its articles of incorporation to set aside, among others, 10% of the amount of annual net income after deducting taxes and prior years' deficits as reserve funds that are not distributable as dividends. See "Dividend Policy."

You may have fewer rights, and may not, as a result, have the same level of protection for your interests as an ADS holder as you would if you were a shareholder of a United States company.

We are a Cayman Islands company and substantially all of our assets are located outside the United States. In addition, a majority of our directors and officers are nationals or residents of jurisdictions other than the United States and all or a substantial portion of their assets are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon our directors or officers, or enforce judgments obtained in courts in the United States or the Cayman Islands against our directors or officers.

Our corporate affairs are governed by our amended and restated memorandum and articles of association, the Cayman Islands Companies Law and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws as compared to the United States, and some states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States.

The Cayman Islands courts are also unlikely to recognize or enforce against us judgments of courts of the United States based on certain civil liability provisions of U.S. securities laws or to impose liabilities against us, in original actions brought in the Cayman Islands, based on certain civil liability provisions of U.S. securities laws that are penal in nature.

There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the courts of the Cayman Islands will generally recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits.

As a result of all of the above, public shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the board of directors or controlling shareholders than they would as public shareholders of a U.S. company. For a discussion of significant differences between the provisions of the Companies Law of the Cayman Islands and the laws applicable to companies incorporated in the United States and their shareholders, see “Description of Share Capital — Differences in Corporate Law.”

We will have broad discretion over the use of proceeds to us from this offering.

We will have broad discretion to use the net proceeds to us from this offering. Although we expect to use the net proceeds we will receive for research and development and general corporate purposes, including working capital and capital expenditures, we have not identified any specific uses. We may also use a portion of the net proceeds we will receive to fund possible investments in, or acquisitions of, complementary businesses, products or technologies or establishing joint ventures. Accordingly, you will be relying on the judgment of our board of directors and management regarding the application of these proceeds.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus, including in particular the sections entitled “Prospectus Summary,” “Risk Factors,” “Use of Proceeds,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Our Business,” contains forward-looking statements. These statements relate to future events or our future financial performance, our ability to continue to control our costs and maintain the quality of our products, the expected growth of and change in the semiconductor and multimedia consumer electronics industries worldwide, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These risks and other factors include those listed under “Risk Factors” and elsewhere in this prospectus. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “expect,” “intend,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” “continue” or the negative of these terms or other comparable terminology. A variety of factors, some of which are outside of our control, may cause our operating results to fluctuate significantly. They include:

- unpredictable volume and timing of customer orders, which are not fixed by contract but vary on a purchase order basis;
- the loss of one or more key customers or the significant reduction, postponement, rescheduling or cancellation of orders from these customers;
- general economic conditions or conditions in the semiconductor or multimedia consumer electronics market;
- decreases in the overall average selling prices of our products;
- changes in the relative sales mix of our products;
- changes in our cost of finished goods;
- the availability, pricing and timeliness of delivery of other components and raw materials used in our customers’ products;
- our customers’ sales outlook, purchasing patterns and inventory adjustments based on consumer demands and general economic conditions;
- our ability to successfully develop, introduce and sell new or enhanced products in a timely manner; and
- the timing of new product announcements or introductions by us or by our competitors.

One or more of these factors could materially and adversely affect our operating results and financial condition in future periods. We cannot assure you that we will attain any estimates or maintain profitability or that the assumptions on which they are based are reliable.

Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this prospectus. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

USE OF PROCEEDS

We estimate that we will receive net proceeds from this offering of approximately US$, after deducting underwriting discounts and commissions and estimated offering expenses payable by us, and assuming an initial public offering price of US$ per ADS, the midpoint of the estimated range of the initial public offering price. If the underwriters exercise their over-allotment option in full, we estimate that our proceeds will be approximately US$.

We intend to use the net proceeds we will receive from this offering primarily for additional working capital and other general corporate purposes, including in management's estimation continued research and development expenditures in the amount of at least NT$100 million (US$3.2 million) in each of 2005, 2006, and 2007. The amounts and timing of these expenditures will vary depending on a number of factors, including the amount of cash generated by our operations, competitive and technological developments and the rate of growth, if any, of our business. While we have no specific plans for any remaining proceeds, we may also use a portion of the net proceeds to acquire businesses, products and technologies or to establish joint ventures that we believe will complement our current or future business. However, we have no specific plans, agreements or commitments to do so and are not currently engaged in any negotiations for any acquisition or joint venture.

Pending the uses described above, we intend to invest the net proceeds we will receive from this offering in short-term, interest bearing, investment-grade securities. We cannot predict whether the proceeds will be invested to yield a favorable return.

We will not receive any proceeds from the sale of the ADSs by the selling shareholders.

DIVIDEND POLICY

Our ability to pay cash or stock dividends will depend upon the amount of distributions, if any, received by us from our subsidiaries, which must comply with the laws and regulations of their respective countries and articles of association in declaring and paying dividends to us. In 2004, SMI Taiwan issued 13,050,000 shares as stock dividends on its common shares at NT$31.70 (US$1.00) per common share. We do not intend to pay any dividends in 2005. Under the applicable requirements of the Taiwan Company Law and the articles of incorporation of our Taiwan subsidiary, our Taiwan subsidiary may only distribute dividends after allowances have been made for:

- payment of taxes;
- recovery of prior years' deficits, if any;
- legal reserve, being 10% of annual net income after having deducted the above items;
- special reserve based on relevant laws or regulations, or retained earnings, being 10% of annual net income after having deducted the above items, if necessary;
- cash or stock bonus to employees, being 0.01% of annual net income after having deducted the above items, based on a resolution of the board of directors. If stock bonuses are paid to employees, the bonus may also be appropriated to employees of subsidiaries under the board of directors' approval.

Furthermore, if our Taiwan subsidiary does not record any net income for any year as determined in accordance with generally accepted accounting principles in Taiwan, it generally may not distribute dividends for that year.

Any future cash dividends on the outstanding shares would be declared by and subject to the discretion of our board of directors and must be approved at our annual general meeting of shareholders.

Holders of ADSs would be entitled to receive dividends, if any, subject to the terms of the deposit agreement, to the same extent as holders of ordinary shares, less the fees and expenses payable under the deposit agreement, and after deduction of any applicable taxes.

EXCHANGE RATE INFORMATION

We conduct our business primarily in Taiwan and our revenues and expenses are primarily denominated in NT dollars. This prospectus contains translations of NT dollar amounts into U.S. dollar amounts at specific rates solely for the convenience of the reader. The translations of NT dollar amounts into U.S. dollar amounts in this prospectus are based on the noon buying rate in the City of New York for cable transfers of the NT dollar as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise noted, all translations from NT dollar amounts to U.S. dollar amounts and from U.S. dollar amounts to NT dollar amounts in this prospectus were made at a rate of NT$31.46 to US$1.00, the noon buying rate in effect as of March 31, 2005. The noon buying rate as of June 8, 2005 was NT$31.27 to US$1.00. We make no representation that any NT dollar or U.S. dollar amounts could have been, or could be, converted into U.S. dollar or NT dollar amounts, as the case may be, at any particular rate, the rates stated below, or at all.

The following table sets forth information concerning exchange rates between NT dollars and U.S. dollars for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this prospectus or will use in the preparation of our periodic reports or any other information to be provided to you. The source of these rates is the Federal Reserve Bank of New York.

	Noon Buying Rate	
	NT$ per US$	
	High	Low
October 2004	33.94	33.44
November 2004	33.52	32.16
December 2004	32.49	31.74
January 2005	32.22	31.65
February 2005	31.79	31.06
March 2005	31.73	30.65
April 2005	31.70	31.23
May 2005	31.47	30.98
June 2005 (through June 8)	31.30	31.15

The following table sets forth the average noon buying rates between NT dollars and U.S. dollars for each of the periods indicated, calculated by averaging the noon buying rates on the last day of each month of the periods shown.

	Average Noon Buying Rate
	NT$ Per US$
2000	31.37
2001	33.91
2002	34.53
2003	34.40
2004	33.27
2005 (through June 8)	31.42

CAPITALIZATION

The following table sets forth our capitalization as of , 2005 presented:

- on an actual basis; and
- as adjusted to give effect to the sale of ADSs in this offering at the public offering price of US$ per ADS, the midpoint of the estimated range of the initial public offering price.

	As of , 2005			
	Actual		As Adjusted[2]	
	NT$	US$[1]	NT$	US$
	(in thousands)			
Long-term liabilities				
Shareholders' equity				
Ordinary shares, par value US$0.01 per share; shares authorized, shares issued and outstanding				
Additional paid-in capital				
Accumulated other comprehensive income				
Accumulated deficit				
Total shareholders' equity				
Total capitalization				

(1) Translations of NT$ into U.S. dollars were made at a rate of NT$31.46 to US$1.00, the noon buying rate in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York on March 31, 2005.
(2) Assumes that the underwriters do not exercise their option to purchase additional ADSs.

DILUTION

Our net tangible book value as of , 2005 was NT$, or US$, per ordinary share, and US$ per ADS. Net tangible book value per ordinary share represents the amount of total tangible assets, less the amount of total liabilities, divided by the total number of ordinary shares outstanding. Dilution is determined by subtracting net tangible book value per ordinary share from the assumed initial public offering price per ordinary share.

Without taking into account any other changes in such net tangible book value after 2005, other than to give effect to our sale of the ADSs offered in this offering at the assumed initial public offering price of US$ per ADS, the mid-point of the estimated public offering price range, the estimated net proceeds to us of US$ million after deduction of underwriting discounts and commissions and the estimated offering expenses, our adjusted net tangible book value at , 2005 would have been US$ per outstanding ordinary share, including ordinary shares underlying our outstanding ADSs, and US$ per ADS. This represents an immediate increase in net tangible book value of US$ per ordinary share, or US$ per ADS, to existing shareholders and an immediate dilution in net tangible book value of US$ per ordinary share, or US$ per ADS, to new investors in this offering.

The following table illustrates the dilution on a per ordinary share basis, assuming that the estimated initial public offering price per ordinary share is US$, (calculated by the mid-point of the estimated public offering price range for our ADSs), and that all ADSs are exchanged for ordinary shares.

Estimated initial public offering price per ordinary share	US$
Net tangible book value per ordinary share, as adjusted for this offering	US$
Amount of dilution in net tangible book value per ordinary share to investors in this offering	US$
Amount of dilution in net tangible book value per ADS to investors in this offering	US$

The following table summarizes on a pro forma basis the differences as of 2005 between our shareholders at , 2005 and the new investors with respect to the number of ordinary shares represented by the ADSs purchased from us in this offering, the total consideration paid and the average prices per ordinary share equivalent and per ADS paid.

	Ordinary Shares Purchased		Total Consideration		Average Price Per Ordinary Share	Average Price Per ADS
	Number	Percent	Amount	Percent		
			US$		US$	US$
Shareholders as of 2005						
New Investors						
Total		100%		100%		

The discussion and tables above are based on the number of ordinary shares outstanding as of , 2005, excluding underlying options outstanding as of , 2005. As of , 2005, we had options outstanding to purchase a total of ordinary shares at a weighted average exercise price of US$ per ordinary share. If all these options had been exercised on , 2005, after giving effect to this offering, our pro forma net tangible book value would have been approximately US$, or US$ per ordinary share, and US$ per ADS and the dilution in net tangible book value to new investors would have been US$ per ordinary share, or US$ per ADS. In addition, the dilution will be US$ per ordinary share, or US$ per ADS, if the underwriters exercise their option to purchase additional ADSs in full.

SELECTED CONSOLIDATED FINANCIAL DATA

You should read the following information with our consolidated financial statements and related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this prospectus.

The selected consolidated statements of operations and cash flow data for the years ended December 31, 2002, 2003 and 2004, and the selected consolidated balance sheet data as of December 31, 2003 and 2004 are derived from our consolidated financial statements included elsewhere in this prospectus and are qualified in their entirety by reference to, these consolidated financial statements and related notes. These consolidated financial statements are prepared in accordance with U.S. GAAP.

The selected consolidated financial data as of March 31, 2005 and for the three months ended March 31, 2004 and 2005 are derived from our unaudited consolidated financial statements included elsewhere in this prospectus. In our opinion, all adjustments, including normal recurring adjustments, necessary for a fair presentation of results for the interim periods have been made.

You should read these financial data in conjunction with our consolidated financial statements and related notes, included elsewhere in this prospectus. Our historical results do not necessarily indicate results expected for any future periods.

We have omitted the selected consolidated financial data as of and for the years ended December 31, 2000 and 2001. None of our current senior financial managers and accountants was a member of our financial staff in 2000 and 2001, and as a result, our current senior financial managers and accountants are unfamiliar with the transactions and activities of the company in these periods. In addition, we implemented a new system of internal control, financial management and accounting record keeping in the second quarter of 2001 and this system does not contain the necessary information, data and records for 2000 and part of 2001. Therefore, we are unable to prepare selected consolidated financial data as of and for the years ended December 31, 2000 and 2001 without significant additional effort and expense.

	Year Ended December 31,				Three Months Ended March 31,		
	2002	2003	2004	2004	2004	2005	2005
	NT$	NT$	NT$	US$	NT$	NT$	US$
	(in thousands, except for per share data)					(unaudited)	
Consolidated Statement of Operations Data:							
Net sales	456,874	915,070	2,166,727	68,872	379,326	515,261	16,378
Cost of sales	366,236	424,668	1,274,410	40,509	212,443	290,729	9,241
Gross profit	90,638	490,402	892,317	28,363	166,883	224,532	7,137
Operating expenses:							
Research and development	107,504	203,646	238,485	7,581	42,417	69,036	2,195
Sales and marketing	52,593	125,680	141,136	4,486	32,677	32,008	1,018
General and administrative	38,230	69,262	103,303	3,284	17,011	25,298	804
Amortization of intangible assets	8,048	24,145	17,758	564	4,440	1,125	35
Impairment of intangible assets	—	54,143	11,718	372	—	—	—
In-process research and development	310,813	—	—	—	—	—	—
Restructuring charge	10,170	—	—	—	—	—	—
Total operating expenses	527,358	476,876	512,400	16,287	96,545	127,467	4,052
Operating income (loss)	(436,720)	13,526	379,917	12,076	70,338	97,065	3,085
Nonoperating income (expenses):							
Interest expense	(209)	(97)	(169)	(5)	(62)	(12)	—
Interest income	1,882	1,335	646	21	95	541	17
Foreign currency gain (loss)—net	(3,504)	1,483	13,719	436	(3,667)	(1,550)	(50)
Gain on sales of investments—net	8,851	8,063	10,135	322	409	2,945	94
Impairment of long-term investments	(795)	(9,832)	(4,053)	(129)	—	—	—
Others, net	4,252	1,560	909	29	310	(16)	—
Total nonoperating income	10,477	2,512	21,187	674	(2,915)	1,908	61
Income (loss) before income taxes	(426,243)	16,038	401,104	12,750	67,423	98,973	3,146
Income tax (benefit) expense	9,573	(94,405)	133,101	4,231	13,797	2,928	93
Net income (loss)	(435,816)	110,443	268,003	8,519	53,626	96,045	3,053
Weighted average shares outstanding:							
Basic and diluted	66,752	96,901	103,878	103,878	103,050	105,412	105,412
Earnings (loss) per share:							
Basic and diluted	(6.53)	1.14	2.58	0.08	0.52	0.91	0.03
Earnings (loss) per ADS:							
Basic							
Diluted							

	As of December 31,			As of March 31,	
	2003	2004	2004	2005	2005
	NT$	NT$	US$ (in thousands)	NT$ (unaudited)	US$
Consolidated Balance Sheet Data:					
Current assets:					
Cash and cash equivalents	763,545	727,165	23,114	159,567	5,072
Short-term investments	—	154,428	4,909	725,309	23,055
Accounts receivable, net	172,524	449,572	14,290	243,841	7,751
Inventories	155,853	509,149	16,184	357,587	11,366
Refundable deposits—current	40,695	107,527	3,418	95,000	3,020
Deferred income tax assets, net	69,899	35,330	1,123	38,775	1,233
Prepaid expenses and other current assets	20,663	68,337	2,172	86,191	2,739
Total current assets	1,223,179	2,051,508	65,210	1,706,270	54,236
Long-term investments	7,195	3,142	100	3,142	100
Property and equipment, net	52,610	65,657	2,087	70,225	2,232
Intangible assets, net	38,080	6,843	217	5,718	182
Other assets	41,281	39,887	1,268	63,156	2,008
Total assets	1,362,345	2,167,037	68,882	1,848,511	58,758
Current liabilities:					
Accounts payable	140,839	545,818	17,350	106,919	3,399
Income tax payable	—	78,133	2,484	94,915	3,017
Accrued expenses and other current liabilities	105,573	88,139	2,801	96,398	3,064
Total current liabilities	246,412	712,090	22,635	298,232	9,480
Accrued pension cost	4,049	4,813	153	5,516	175
Other long-term liabilities	3,293	1,901	60	1,758	56
Total liabilities	253,754	718,804	22,848	305,506	9,711
Shareholders' equity:					
Common stock	900,000	1,054,120	33,507	1,054,120	33,507
Additional paid-in capital	719,160	1,053,601	33,490	1,053,601	33,490
Accumulated deficit	(513,887)	(659,569)	(20,965)	(563,524)	(17,912)
Accumulated other comprehensive income	3,318	81	2	(1,192)	(38)
Total shareholders' equity	1,108,591	1,448,233	46,034	1,543,005	49,047
Total liabilities and shareholders' equity	1,362,345	2,167,037	68,882	1,848,511	58,758

	Year Ended December 31,				Three Months Ended March 31,		
	2002	2003	2004	2004	2004	2005	2005
	NT$	NT$	NT$	US$ (in thousands)	NT$	NT$ (unaudited)	US$
Consolidated Cash Flow Data:							
Net cash provided by (used in) operating activities	(53,973)	128,322	234,703	7,460	(3,009)	12,401	394
Net cash provided by (used in) investing activities	(31,492)	9,706	(263,101)	(8,363)	(682,603)	(578,812)	(18,398)
Net cash provided by (used in) financing activities	12,353	268,562	(3,081)	(98)	(1,248)	(637)	(20)
Depreciation and amortization	19,541	28,210	21,734	691	3,904	5,309	169
Capital expenditures	(3,018)	(13,996)	(36,409)	(1,157)	(14,418)	(9,979)	(317)

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

The following discussion of our financial condition and results of operations is based upon and should be read in conjunction with our consolidated financial statements and their related notes included in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. We caution you that our business and financial performance are subject to substantial risks and uncertainties. Actual results could differ materially from those projected in the forward-looking statements. In evaluating our business, you should carefully consider the information provided under the caption "Risk Factors" beginning on page 8 in this prospectus.

Overview

We are a fabless semiconductor company that designs, develops and markets universally compatible, high-performance, low-power semiconductor solutions for the multimedia consumer electronics market. Our semiconductor solutions include controllers used in mobile storage media, such as flash memory cards and USB flash drives, and multimedia SoCs, used in digital media devices such as MP3 players, PC cameras, PC notebooks and broadband multimedia phones.

We sell our semiconductor solutions to leading OEMs and ODMs worldwide. Our controllers serve as the critical enabling component of mobile storage products sold by companies such as Lexar Media, Samsung, Sony and STMicroelectronics. In addition, our multimedia SoCs are also important components of products that are sold by companies such as Casio, Foxconn, Hewlett-Packard, Hitachi, Intel, NEC, Panasonic, Sharp, Siemens and Sony.

We believe that we have built our business into a leading supplier of controllers for mobile storage products. In addition, we believe that we hold a significant advantage over our competitors due to our ability to provide high-performance semiconductor solutions that support the broadest portfolio of flash memory devices and comply with all major industry standards for flash-based storage products. For example, our SM264 SD controller enables SD cards to be compatible with nearly all types of host devices with SD slots and also supports over 20 types of NAND flash memory.

We have experienced rapid growth in our net sales. Our net sales grew from approximately NT$456.9 million in 2002 to approximately NT$915.1 million in 2003 to approximately NT$2,166.7 million (US$68.9 million) in 2004, representing a compound annual growth rate, or CAGR of approximately 117.8%. For the first quarter of 2005, our net sales were approximately NT$515.3 million (US$16.4 million), an increase of approximately 35.8% from NT$379.3 million for the first quarter of 2004. In addition, our quarterly net sales have experienced continued sequential growth for the past eight quarters, growing on average approximately 15.2% quarter-on-quarter. We believe that because of our ability to provide adaptable, universally compatible semiconductor solutions and architectures, we have been able to expand into additional portable digital media devices such as audio SoCs and image processors. We have derived significant additional sales from products such as low-power multimedia display processors used in embedded graphics applications. Our net sales from multimedia SoCs was NT$285.4 million (US$9.1 million) in 2004.

Our presence in Asia and our customer-driven engineering focus allow us to closely monitor our manufacturing sources for quality, as well as align our operations with the outsourcing trend of our customers. Our Asia-based operations provide us with access to a highly educated engineering work force and a competitive cost structure. For the year ended December 31, 2004, our cost of sales and our operating expenses represented approximately

58.8% and 23.7%, respectively, of our net sales. In addition, with the exception of the fourth quarter of 2004, our gross margins have remained above 40% for each quarter since the first quarter of 2003. Our net margin for the first quarter of 2005 was approximately 18.6%. We recorded net income of approximately NT$96.0 million (US$3.1 million) for the first quarter of 2005, an increase of approximately 79.1% from NT$53.6 million for the first quarter of 2004. Our net income increased by approximately 142.7% to approximately NT$268.0 million (US$8.5 million) in 2004 from approximately NT$110.4 million in 2003.

Prior to our acquisition of SMI USA in August 2002, we were primarily a manufacturer of complete systems products and whole memory devices, such as CF Cards, card readers, USB 1.1 flash drives, memory disk modules and PCMCIA adaptors. These products were gradually phased out beginning in 2002.

Principal Factors Affecting Our Results of Operations

Net sales. Our net sales consist primarily of sales of our semiconductors, after deducting sales discounts and allowances for returns. We have achieved significant sales growth since our inception, primarily due to significant increases in the number of semiconductors we have sold, offset partially by the lower average selling prices of each type of semiconductor. We compete primarily in the markets for controllers for flash-based storage products and SoCs. Our products primarily consist of controllers for mobile storage products and multimedia SoCs. Net sales generated by these product groups for the periods indicated were as follows:

	Year Ended December 31,						Three Months Ended March 31,			
	2002		2003		2004		2004		2005	
	NT$	%	NT$	%	NT$	%	NT$	%	NT$	%
	(in thousands, except percentage data)									
Net Sales										
Mobile storage products[1]	—	—	394,644	43	1,865,699	86	302,029	80	444,583	86
Multimedia SoCs[2]	165,533	36	418,633	46	285,441	13	75,509	19	66,356	13
Systems product and other products[3]	291,341	64	101,763	11	15,587	1	1,788	1	4,322	1
Total	**456,874**	**100**	**915,070**	**100**	**2,166,727**	**100**	**379,326**	**100**	**515,261**	**100**

(1) Includes flash card controllers and USB 2.0 controllers.
(2) Includes multimedia display processors and portable audio SoCs. We began shipping our portable audio SoCs in the first quarter of 2005.
(3) Includes products that were discontinued in 2002.

We market and sell our products worldwide through a combination of direct sales personnel focusing on sales to ODMs and OEMs that tend to purchase in higher volumes, as well as through independent distributors focusing on customers that generally purchase in smaller volumes. We have direct sales personnel in Taiwan, China, Germany, Japan and the United States. Most of our controllers for mobile storage products are sold to large customers who tend to buy in higher volumes, and therefore we sell most of these products through our direct sales personnel (95% and 92% for the year ended December 31, 2004, and the three months ended March 31, 2005, respectively), with a smaller portion sold through independent distributors (5% and 8% for the year ended December 31, 2004, and the three months ended March 31, 2005, respectively). Most of our multimedia SoCs such as multimedia display processors are sold through independent distributors (87% and 88% for the year ended December 31, 2004, and the three months ended March 31, 2005, respectively), as our multimedia display processors are mainly sold to a broader group of customers who tend to buy in smaller volumes.

In determining whether to sell directly or through distributors, we consider, among other factors, our experience in those particular markets, creditworthiness of customers, our ability to identify customers, extent of volume demand in the market and our ability to provide technical support easily in the market.

A limited number of customers account for a substantial portion of our net sales. Sales to significant customers as a percentage of net sales were as follows for the periods indicated:

	Year Ended December 31,						Three Months Ended March 31,			
	2002		2003		2004		2004		2005	
	NT$	%	NT$	%	NT$	%	NT$	%	NT$	%
	(in thousands, except percentage data)						(unaudited)			
Customer										
PDC	—	—	268,214	29	473,711	22	97,100	26	52,001	10
Lexar Media	—	—	—	—	304,499	14	51,411	14	69,205	13
Macrotron Systems	—	—	23,994	3	291,370	13	39,012	10	31,483	6
Edom Technology	31,990	7	91,467	10	7,527	*	8,625	2	—	—
Taiwan I/O Data Device, Inc.[1]	52,994	12	6,485	1	—	—	—	—	—	—

(1) The sales to Taiwan I/O Data Device, Inc. in 2002 represented our systems products that were subsequently discontinued; as a result, we had significantly reduced sales to Taiwan I/O Data Device, Inc. in 2003 and 2004.

* Less than 1%.

For the years ended December 31, 2002, 2003 and 2004, we derived approximately 54%, 60% and 59%, respectively, of our net sales from customers in Taiwan and approximately 7%, 11% and 31%, respectively, of our net sales from customers in the United States. For the three months ended March 31, 2004 and 2005, we derived approximately 60% and 64%, respectively, of our net sales from customers in Taiwan and 29% and 22%, respectively, of our net sales from customers in the Untied States. We anticipate that a majority of our net sales will continue to come from customers located outside of the United States. The percentages of our net sales by geographic area for the periods indicated were as follows:

	Year Ended December 31,			Three Months Ended March 31,	
	2002	2003	2004	2004	2005
				(unaudited)	
Country					
Taiwan	54%	60%	59%	60%	64%
United States	7	11	31	29	22
Japan	10	14	5	5	5
Germany	8	1	1	1	1
Others	21	14	4	5	8

Our net sales are denominated in U.S. dollars and NT dollars. The percentages of our net sales by currency for periods indicated are set forth in the following table:

	Year Ended December 31,			Three Months Ended March 31, 2005
	2002	2003	2004	(unaudited)
Currency				
U.S. dollars	66%	76%	57%	55%
NT dollars	34%	24%	43%	45%

The length of our sales cycle, from the day purchase orders are received until products are shipped to customers, is dependent on the availability of our product inventories. If we do not have sufficient inventories on hand to meet customer demands, it generally requires approximately three months from the day purchase orders are received until finished goods are manufactured and shipped to customers. This cycle can take up to six months during times when capacity at independent foundries are being fully utilized. The potential delays inherent in the manufacturing process increase the risk that we may not be able to fulfill a customer's order on time. All of our sales are made by purchase orders. Because our practice, which is consistent with industry practice, allows customers to reschedule orders on relatively short notice, order backlog may not be a good indicator of our future sales.

Because many of our semiconductor solutions are designed for the multimedia consumer electronics market such as flash-based storage products, MP3 players, PC cameras, smart phones, embedded graphics applications and PC notebooks, we expect our business to be subject to seasonality, with increased net sales in the second half of each year, when customers place orders to meet increased demand for year-end holiday seasons, and decreased net sales in the first half of each year. However, our recent rapid sales growth makes it difficult for us to assess the impact of seasonal factors on our business.

Cost of sales. Our cost of sales consists primarily of the following costs:

- cost of wafer fabrication;
- assembly, testing and shipping costs of our semiconductors;
- personnel and equipment costs associated with manufacturing support;
- quality assurance and occupancy costs paid to third-party manufacturers; and
- cost of raw materials, for example, DRAM used in our multimedia display processors.

We engage independent foundries for the manufacturing and processing of our semiconductors. Our manufacturing cost is subject to the cyclical supply and demand conditions typical of the semiconductor industry. Our cost per wafer generally fluctuates with the availability of capacity at independent foundries. We expect the cost of assembling and testing of our semiconductors will continue to decline over the next several years as the technologies required for the assembly and testing of our semiconductors become more widely available, which we anticipate will foster greater price competition among a broader array of quality vendors. We believe that our cost of sales is substantially variable in nature, and will likely fluctuate as market conditions in the semiconductor industry change.

Research and development expenses. Our research and development expenses consist primarily of employee salaries and contractor costs, fees paid for the use of intellectual

properties and design tools developed by third parties, development cost of software, expenses for the design, development and testing of system architecture, new product or product alternatives, costs for the construction of prototypes, occupancy costs and depreciation on research and development related equipment. We expense research and development expenditures as they are incurred. We expect research and development expenses to increase in future periods in absolute terms as we continue to broaden and strengthen our product portfolio.

Sales and marketing expenses. Our sales and marketing expenses consist primarily of employee salaries and related costs, commissions paid to independent distributors and costs for our advertising and promotional activities. We expect that our sales and marketing expenses will increase in absolute terms over the next several years. However, we believe that as we continue to achieve scale and greater operating efficiencies, our sales and marketing expenses may over time decline as a percentage of our net sales.

General and administrative expenses. Our general and administrative expenses consist primarily of general employee salaries and related costs, insurance premiums, professional fees and allowance for doubtful accounts. We expect that general and administrative expenses will increase in absolute terms in future periods as we continue to expand our operations, and as a result of the increased costs necessary to comply with the legal and regulatory requirements applicable to publicly listed companies in the United States.

Non-operating income and expenses. Our non-operating income and expenses include our gains or losses on the sales of our investment, our interest from deposited cash or short-term investments, our gains or losses on foreign exchange rates, our impairment of any long-term investments, our interest paid for our liabilities, our costs of capital leases and other non-operating income and expenses not categorized above. We conduct an assessment on the value of our long-term investments annually, generally at the end of every fiscal year, and make corresponding adjustments as needed to the value of our long-term investments.

Provision for income taxes. We accrue income taxes at the applicable statutory rates in accordance with the jurisdictions where our subsidiaries are located and as adjusted for certain items including accumulated losses carried forward, non-deductible expenses, research and development tax credits, certain tax holidays, as well as changes in our deferred tax asset and liabilities allowance. Furthermore, Taiwan tax regulations require our Taiwan subsidiary to pay an additional 10% tax on unappropriated earnings. In addition, Taiwan law offers preferential tax treatments to industries that are encouraged by the Taiwan government. These preferential tax treatments include five-year tax exemptions for income attributable to expanded production capacity or newly developed technologies funded in whole or in part by proceeds from initial capital investments made by our shareholders, or subsequent capital increases, or capitalization of our retained earnings. Such tax exemptions may be available either to the shareholders of a company, or, if the shareholders so determine, to the company itself. SMI Taiwan has filed three applications for such tax exemptions as SMI Taiwan had used the proceeds of the share offerings it received in 2002, 2003 and 2004 to fund eligible research and development projects. As of March 31, 2005, SMI Taiwan has received (a) all approvals, including shareholders' consent for tax exemptions in connection with research and development projects using funds raised in 2002, which exemptions have become effective as of January 1, 2005; (b) the preliminary approval and shareholders' consent for tax exemptions in connection with research and development projects using funds raised in 2003, and (c) the preliminary approval for tax exemptions in connection with research and development projects using funds raised in 2004. We intend to let SMI Taiwan enjoy the tax exemptions in connection with research and development projects using funds raised in 2004. Once all the required governmental approvals

and shareholders' consents are received for particular research and development projects, SMI Taiwan will be entitled to tax exemptions for income derived from products using technologies from such projects for five years, starting from the fiscal year determined by SMI Taiwan in accordance with relevant regulations. With a combination of tax credits and exemptions, we expect our effective tax rate to be lower than the statutory tax rate, so long as we are able to continue to take advantage of the Taiwanese government's favorable tax policies. See "Risk Factors – Risks Related to Our Business – Our business depends on the support of the Taiwanese government, and a decrease in this support may increase our tax liabilities and decrease our net income" for the risks related to our ability to enjoy favorable tax policies of the Taiwanese government.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States.

The preparation of our financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities, net sales and expenses, and related disclosure of contingent assets and liabilities. We evaluate our estimates on an on-going basis, including those related to product returns and pricing allowances, allowances for doubtful accounts, inventories, long-lived assets, income taxes, litigation and contingencies. We base our estimates and judgments on our historical experience, knowledge of current conditions and our beliefs of what could occur in the future considering available information. Because our estimates may vary in each situation, our actual results may differ from our estimates under different assumptions and conditions.

Our management considers the following factors in reviewing our financial statements:

- the selection of critical accounting policies; and
- the judgments and other uncertainties affecting the application of those critical accounting policies.

The selection of critical accounting policies, the judgments and other uncertainties affecting the application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our financial statements. Our principal accounting policies are set forth in detail in Note 2 to our audited financial statements included elsewhere in this prospectus.

We believe the following critical accounting policies affect our more significant judgments used in the preparation of our financial statements.

Revenue recognition. Revenue from product sales are generally recognized upon shipment to the customer provided that we have received a signed purchase order, the price has been fixed or is determinable, transfer of title has occurred in accordance with the shipping terms specified in the arrangement with the customer, collectability from the customer is considered reasonably assured, product returns are reasonably estimatible and there are no remaining significant obligations or customer acceptance requirements.

We record reserves to cover the estimated returns from our customers. Certain of our distributors have limited rights of return and price protection rights on unsold inventory. The return rights are generally limited to five percent of the monetary value of products purchased within the preceding six months, provided the distributor places a corresponding restocking order of equal or greater value. The allowance for sales returns for distributors and all

customers is recorded at the time of sale based on historical returns information available, management's judgment and any known factors at the time the financial statements are prepared that would significantly affect the allowance. However, because of the inherent nature of estimates, actual returns and allowances could be significantly different from our estimates. To the extent rates of return change, our estimates for the reserves necessary to cover such returns would also change which could have a negative impact on our recorded revenue and gross margin. For the years ended December 31, 2002, 2003 and 2004, our allowance for sales returns was approximately NT$11.7 million, NT$18.4 million and NT$16.8 million (US$0.5 million), respectively, representing approximately 2.6%, 2.0% and 1.0% of our net sales for those respective periods.

Occasionally, we have reduced our product pricing due to market conditions, competitive considerations and other factors. Price protection rights are granted to certain distributors under our distribution agreements. When we reduce the price of our products, it allows the distributor to claim a credit against its outstanding accounts receivable balances based on the new price of the inventory it has on hand as of the date of the price reduction. A reserve for price adjustments is recorded at the time of sale based on our historical experience. During 2004, we incurred actual price adjustments to distributors of approximately NT$0.8 million (US$27,000).

Allowance for doubtful accounts. We record an allowance for doubtful accounts based on our evaluation of the collectability of our accounts receivable. Normal payment terms are provided to customers and apply upon transfer of title. On an ongoing basis, we analyze the payment history of customer accounts, including recent customer purchases. In circumstances where we are aware of a specific customer's inability to meet its financial obligations to us, we record a specific allowance against amounts due to reduce the net recognized receivable to the amount we reasonably believe will be collected. For all other accounts receivable due from customers, we categorize accounts receivables and make provisions based on a percentage of each category. We determine these percentages by examining our historical collection experience and current trends in the credit quality of our customers as well as our internal credit policies. If the financial condition of our customers, or economic conditions in general, were to deteriorate, additional allowances may be required in the future and such additional allowances would increase our operating expenses and therefore reduce our operating income and net income.

As of December 31, 2003 and 2004, our allowance for doubtful accounts was approximately NT$1.9 million and NT$4.8 million (US$0.2 million), respectively, both representing approximately 1.0% of our gross accounts receivables as of those respective dates.

Inventory valuation. We value inventories at the lower of cost or market value which represents the replacement cost for raw materials and net realizable value for finished goods and work in process. We write down our inventory for estimated obsolescence or unmarketable inventory in an amount equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those we projected, additional inventory write-downs may be required. Inventory impairment charges establish a new cost basis for inventory and charges are not subsequently reversed to income even if circumstances later suggest that increased carrying amounts are recoverable. In estimating our reserves for obsolescence, we primarily evaluate estimates based on the timing of the introduction of our new products and the quantities remaining of our old products and provide reserves for inventory on hand in excess of the estimated demand.

Valuation of long-lived assets. We evaluate the recoverability of long-lived assets whenever events or changes in circumstances indicate the carrying value may not be recoverable. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted

cash flows from such asset is separately identifiable and is less than the carrying value. If impairment occurs, a loss based on the excess of carrying value over the fair market value of the long-lived asset is recognized. Fair market value is determined by reference to quoted market prices, if available, or discounted cash flows, as appropriate. The impairment evaluations and the estimate of fair market value involve management estimates of assets' useful lives and future cash flows. Actual useful lives and cash flows could be different from those estimated by our management. This could have a material effect on our operating results and financial condition. During 2003 and 2004, we recognized impairment losses of approximately NT$54.1 million and NT$11.7 million (US$0.4 million), respectively, on the intangible assets identified for the acquisition of SMI USA. Factors we consider that could trigger additional impairment review relate to operating losses, significant negative industry trends, underutilization of the assets, or significant changes in how we use the assets or our plans for their use.

Accounting for income taxes. In preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income within the relevant jurisdiction and to the extent we believe that recovery is not likely, we must establish a valuation allowance. We have provided for a valuation allowance to the extent we believe that it is more likely than not that the deferred tax assets will not be recovered from future taxable income. Should we determine that we would not be able to realize all or part of our net deferred tax asset in the future, an additional allowance for the deferred tax asset would be charged to income in the period such determination was made. At December 31, 2004, our net deferred tax asset was approximately NT$40.1 million (US$1.3 million).

Litigation and contingencies. From time to time, we have been subject to legal proceedings and claims with respect to such matters as patents and other actions arising out of the normal course of business, as well as other matters identified in "Our Business-Legal Proceedings." Our success and future revenue growth will depend, in part, on our ability to protect our intellectual property. We rely on a combination of patent, copyright, trademark and trade secret laws, as well as nondisclosure agreements and other methods, to protect our proprietary technologies. We have been issued patents and may have additional patents in the future; however, we cannot provide assurance that any patent will be issued as a result of any applications or, if issued, that any claims allowed will be sufficiently broad to protect our technology. In addition, it is possible that existing or future patents may be challenged, invalidated or circumvented. It may be possible for a third party to copy or otherwise obtain and use our products or technology without authorization, develop corresponding technology independently or design around our patents. Effective copyright, trademark and trade secret protection may be unavailable or limited in foreign countries. These disputes may result in costly and time consuming litigation or the license of additional elements of our intellectual property for free.

It is possible that other companies might pursue litigation with respect to any claims such companies purport to have against us. The results of any litigation are inherently uncertain. In the event of an adverse result in any litigation with respect to intellectual property rights relevant to our products that could arise in the future, we could be required to obtain licenses to the infringed technology, pay substantial damages under applicable law, cease the use and sale of infringing products or to expend significant resources to develop non-infringing technology. Litigation frequently involves substantial expenditures and can require significant management attention, even if we ultimately prevail.

We are currently involved in various claims and legal proceedings and have incurred certain costs associated with defending litigation matters. Periodically, we review the status of each significant matter and assess the potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be estimated, we accrue a liability for the estimated loss. Because of uncertainties related to these matters, accruals are based only on the best information available at the time.

Given the uncertainties associated with litigation, if our assessments prove to be wrong, or if additional information becomes available such that we estimate that there is a possible loss or possible range of loss associated with these contingencies, then we would record the minimum estimated liability, which could have a material and adverse effect on our operations, financial condition and cash flows.

Results of Operations

The following table sets forth our statements of operations as a percentage of net sales for the periods indicated:

	Year Ended December 31,			Three Months Ended March 31,	
	2002	2003	2004	2004	2005
				(unaudited)	
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	80.2	46.4	58.8	56.0	56.4
Gross profit	19.8	53.6	41.2	44.0	43.6
Operating expenses:					
Research and development	23.5	22.3	11.0	11.2	13.4
Sales and marketing	11.5	13.7	6.5	8.6	6.2
General and administrative	8.4	7.6	4.8	4.5	4.9
Amortization of intangible assets	1.8	2.6	0.8	1.2	0.2
Impairment of intangible assets	—	5.9	0.6	—	—
In-process research and development	68.0	—	—	—	—
Restructuring charges	2.2	—	—	—	—
Total operating expenses	115.4	52.1	23.7	25.5	24.7
Operating income (loss)	(95.6)	1.5	17.5	18.5	18.9
Non-operating income (expenses):					
Gain on sales of investments—net	1.9	0.9	0.5	0.1	0.5
Interest income	0.4	0.1	0.0	0.0	0.1
Interest expense	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Foreign exchange gain (loss)—net	(0.8)	0.2	0.6	(1.0)	(0.3)
Impairment of long-term investments	(0.2)	(1.1)	(0.1)	—	—
Other income (expenses)	1.0	0.2	0.0	0.1	0.0
Total non-operating income (expenses)	2.3	0.3	1.0	(0.8)	0.3
Income (loss) before income taxes	(93.3)	1.8	18.5	17.7	19.2
Income tax (benefit) expense	2.1	(10.3)	6.1	3.6	0.6
Net income (loss)	(95.4%)	12.1%	12.4%	14.1%	18.6%

Quarterly Financial and Operating Data

The following table presents certain unaudited financial and operating data for the eight quarters ended March 31, 2005. You should read the following table in conjunction with our consolidated financial statements and related notes included elsewhere in this prospectus. We have prepared the unaudited quarterly financial information on the same basis as our audited consolidated financial statements. This information includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating results for the quarters presented. Because our business is relatively new, our operating results for any quarter are not necessarily indicative of our future results.

	Three months ended							
	June 30, 2003	Sept. 30, 2003	Dec. 31, 2003	March 31, 2004	June 30, 2004	Sept. 30, 2004	Dec. 31, 2004	March 31, 2005
	(in thousands NT$ or thousand units, except for percentage and per share data)							
Financial Data								
Net sales								
Mobile storage products[1]	58,558	130,776	201,228	302,029	320,587	538,903	704,180	444,583
Multimedia SoCs[2]	108,351	98,960	97,795	75,509	73,488	79,845	56,599	66,356
Systems product and others[3]	23,944	12,861	27,665	1,788	8,308	3,240	2,251	4,322
Total net sales	190,853	242,597	326,688	379,326	402,383	621,988	763,030	515,261
Cost of sales	87,526	116,265	146,613	212,443	222,634	347,172	492,161	290,729
Gross profit	103,327	126,332	180,075	166,883	179,749	274,816	270,869	224,532
Operating expenses:								
Research and development	53,410	46,152	47,242	42,417	71,761	53,112	71,195	69,036
Sales and marketing	28,891	34,179	35,715	32,677	38,579	30,651	39,229	32,008
General and administrative	15,414	18,645	20,158	17,011	45,856	20,851	19,585	25,298
Amortization of intangible assets	6,036	6,036	6,037	4,440	4,439	4,439	4,440	1,125
Impairment of intangible assets	—	—	54,143	—	—	—	11,718	—
Total operating expenses	103,751	105,012	163,295	96,545	160,635	109,053	146,167	127,467
Income (loss) from operations	(424)	21,320	16,780	70,338	19,114	165,763	124,702	97,065
Other income (expense), net	3,103	897	(4,714)	(2,915)	3,570	2,337	18,195	1,908
Income before income tax	2,679	22,217	12,066	67,423	22,684	168,100	142,897	98,973
Income tax expense (benefit)	484	(362)	(94,658)	13,797	19,655	50,802	48,847	2,928
Net income	2,195	22,579	106,724	53,626	3,029	117,298	94,050	96,045
Earnings per share								
Basic and diluted (NT$)	0.02	0.24	1.10	0.52	0.03	1.13	0.91	0.91
Gross margin	54.1%	52.1%	55.1%	44.0%	44.7%	44.2%	35.5%	43.6%
Operating margin	(0.2%)	8.8%	5.1%	18.5%	4.8%	26.7%	16.3%	18.9%
Operating Data								
Unit shipment of mobile storage products[1]	812	2,251	3,140	4,824	4,913	9,983	14,549	10,912
Unit shipment of multimedia SoCs[2]	167	87	134	112	114	128	111	163
Unit shipment of systems products and other[3]	2,190	3,295	293	2	34	3	*	17

(1) Includes flash card controllers and USB 2.0 controllers.
(2) Includes multimedia display processors and portable audio SoCs. We began shipping our portable audio SoCs in the first quarter of 2005.
(3) Includes products that were discontinued in 2002.
* Indicates less than 1,000 units shipped.

For the eight quarters ended March 31, 2005, our net sales have grown, on average, approximately 15.2% quarter-on-quarter. The growth of our net sales has been consistent with the continued growth in the shipment of our mobile storage products, offset by a decline of our system products and other products beginning in the fourth quarter of 2003.

Our gross margins have remained consistently above 40% since the second quarter of 2003, with the exception of the fourth quarter of 2004. Our gross margins decreased in the fourth

quarter of 2004 partly due to costs incurred in our migration from 0.35 micron manufacturing technology to 0.18 micron manufacturing technology. We incurred a one-time inventory write-off of approximately NT$49.3 million (US$1.6 million) due to production defects associated with the migration.

We have been profitable since the second quarter of 2003. Our net income since our profitability in the second quarter of 2003 has grown approximately at a 71.6% compounded quarterly growth rate. We had a lower net income in the second quarter of 2004 due in part to the seasonality of our business, payment of bonus shares and the increase in wafer costs in the first half of 2004.

Comparison of Three Months Ended March 31, 2005 to Three Months Ended March 31, 2004

Net sales. Our net sales for the three months ended March 31, 2005 were approximately NT$515.3 million (US$16.4 million) compared to approximately NT$379.3 million for the three months ended March 31, 2004, which represented an increase of approximately 35.8%. The increase in our net sales was primarily due to an increase in the sales volume of our mobile storage products and systems and other products, as well as due to our introduction of portable audio SoCs for MP3 applications in the first quarter of 2005, offset by a decrease in sales of other multimedia SoC products. Net sales from our mobile storage products and multimedia SoCs were approximately 86% and 12% of total net sales, respectively, for the three months ended March 31, 2005.

Our net sales increased during this period primarily as a result of continued demand for our controllers for mobile storage products. For the three months ended March 31, 2005, we shipped an aggregate of approximately 10.9 million units of semiconductors for mobile storage products which represented an increase of approximately 127.1% from an aggregate of approximately 4.8 million semiconductors for mobile storage products we shipped for the three months ended March 31, 2004. Our average selling price per unit for mobile storage products fell by 34.9% during this time period. For the three months ended March 31, 2005, we shipped approximately 163,000 units of semiconductors for multimedia SoCs (including 49,000 units of portable audio SoCs for MP3 applications), which represented an increase of approximately 44.6% from approximately 112,000 units of semiconductors for multimedia SoCs we shipped for the three months ended March 31, 2004. Our average selling price per unit for multimedia SoCs declined by 39.2% during the same period.

Our net sales from our three largest customers accounted for approximately 13%, 10%, and 6%, respectively, of our sales for the three months ended March 31, 2005.

Cost of sales. Our cost of sales grew to approximately NT$290.7 million (US$9.2 million) for the three months ended March 31, 2005 from approximately NT$212.4 million for the three months ended March 31, 2004. Our cost of sales was approximately 56.4% of our net sales for the three months ended March 31, 2005 compared to 56.0% of our net sales for the three months ended March 31, 2004. Our cost of sales grew in absolute dollar terms as a result of the increased number of semiconductors we sold.

Gross profit. Our gross profit as a percentage of sales, or gross margin, was approximately 43.6% for the three months ended March 31, 2005 compared with 44.0% for the three months ended March 31, 2004.

Research and development expenses. Our research and development expenses increased to approximately NT$69.0 million (US$2.2 million), or 13.4% of net sales, for the three months ended March 31, 2005 from approximately NT$42.4 million, or 11.2% of net sales, for the three months ended March 31, 2004. Our research and development expenses increased slightly, as a

percentage of our net sales, as a result of the larger number of development projects that we undertook. We expect our research and development expenses to increase in absolute dollar terms in future periods as we continue to increase our staffing and associated costs to pursue additional product development opportunities.

Sales and marketing expenses. Our sales and marketing expenses decreased to approximately NT$32.0 million (US$1.0 million), or 6.2% of net sales, for the three months ended March 31, 2005 from approximately NT$32.7 million, or 8.6% of net sales, for the three months ended March 31, 2004. Our sales and marketing expenses decreased, as a percentage of sales, as a result of our improved economies of scale. In future periods, we expect our sales and marketing expenses to increase in absolute dollar terms as we continue to increase the size of our operations.

General and administrative expenses. Our general and administrative expenses increased to approximately NT$25.3 million (US$0.8 million), or 4.9% of net sales, for the three months ended March 31, 2005 from approximately NT$17.0 million, or 4.5% of net sales, for the three months ended March 31, 2004. Our general and administrative expenses increased by approximately 48.7% in absolute dollar terms as a result of increased costs due to the expansion of our operations and the increase in the number of employees performing general and administrative functions from 23 at the end of the first quarter of 2004 to 33 at the end of the first quarter of 2005. We expect our general and administrative expenses to increase in absolute dollar terms in future periods as we continue to increase the size of our operations and as we incur additional costs associated with being a publicly listed company.

Amortization of intangible assets. Our expense relating to amortization of intangible assets decreased to approximately NT$1.1 million (US$35,000) for the three months ended March 31, 2005 from approximately NT$4.4 million for the three months ended March 31, 2004. The decrease in our amortization expense for the three months ended March 31, 2005 was due to the impairment charge recognized in December 2004 associated with the intangible assets relating to our acquisition of SMI USA in August 2002.

Gain on sale of investments. We recorded a gain on investments of NT$2.9 million (US$94,000) for the three months ended March 31, 2005, compared to a gain of NT$0.4 million for the three months ended March 31, 2004. Our investment gain was derived from the liquidation of the investment-grade bond funds in which we invest some of our excess cash from time to time. The gain was higher for the three months ended March 31, 2005 as a result of more funds under investment.

Foreign exchange loss. We recorded a loss of NT$1.6 million (US$50,000) for the three months ended March 31, 2005, compared to a loss of NT$3.7 million for the three months ended March 31, 2004. Our change in foreign exchange loss is attributable to a NT$2.1 million loss we incurred in the first quarter of 2004 when we converted US$3 million from our cash position into NT dollars as the US dollar devalued against the NT dollar during the quarter.

Interest income. Our interest income increased to approximately NT$0.5 million (US$17,000) for the three months ended March 31, 2005 from approximately NT$0.1 million for the three months ended March 31, 2004. Our interest income increased as a result of the higher amount of our cash and cash-equivalents deposits, offset by a slight decrease in interest rates.

Income tax expense. Our income tax expense decreased to approximately NT$2.9 million (US$93,000) for the three months ended March 31, 2005 from an income tax expense of

approximately NT$13.8 million for the three months ended March 31, 2004. Under Taiwan law, we will be entitled to a 5-year tax holiday following completion of the research and development project by us. We elected to begin our tax holiday beginning in 2005 since we expected to derive greater revenues from these products in 2005 than in 2004. See “Management’s Discussion and Analysis of Financial Conditions and Results of Operations — Principal Factors Affecting Our Results of Operations — Provision for income taxes” for a more detailed description of our ability to enjoy tax holiday.

Net income. As a result of the foregoing, our net income increased to approximately NT$96.0 million (US$3.1 million) for the three months ended March 31, 2005 from approximately NT$53.6 million for the three months ended March 31, 2004, representing an increase of approximately 79.1%. Our net margins for the three months ended March 31, 2005 were approximately 18.6%, compared to approximately 14.1% for the three months ended March 31, 2004.

Comparison of Year Ended December 31, 2004 to Year Ended December 31, 2003

Net sales. Our net sales for the year ended December 31, 2004 were approximately NT$2,166.7 million (US$68.9 million) compared to approximately NT$915.1 million for the year ended December 31, 2003, an increase of approximately 136.8%. The increase in our net sales was primarily due to an increase in sales volume from our key products, including semiconductors for mobile storage products. Net sales from our mobile storage products and multimedia SoCs were approximately 86% and 13%, respectively, of total net sales for the year ended December 31, 2004.

The increase in our sales volume was due to strong demand for our existing products as well as demand for our newly launched products, offset by a slight decrease in demand for our multimedia SoCs. In particular, our net sales increased during 2004 partially as a result of strong demand for several of our controllers for mobile storage products, including SM261, SM262, and SM320, for which we began mass production and shipment in the latter half of 2003. For the year ended December 31, 2004, we shipped approximately 34.3 million units of semiconductors for mobile storage products in total, an increase of approximately 446.9% from approximately 6.3 million semiconductors for mobile storage products we shipped for the year ended December 31, 2003. Total unit shipment of our multimedia SoCs decreased by approximately 13.4% from 537,000 units for the year ended December 31, 2003 to 465,000 units for the year ended December 31, 2004.

The increase in the sales volume of our products was also due in part to the growing demand for digital media devices with flash-based storage products, MP3 players and PC cameras, combined with what we believe to be our favorable competitive position within that market. We believe that our favorable competitive position in the market is primarily due to our ability to provide products that are universally compatible, highly efficient and require minimal power consumption at competitive cost. The decrease in our sales volume for multimedia display processors was mainly due to a change in the technology used by our notebook and industry PC customers as they moved from our SM7xx family of processors to integrated graphics solutions. With the introduction of SM501 in 2003, we transitioned our multimedia display processors from traditional x86 PC architecture to embedded architecture such as Xscale/MIPS.

In addition, we experienced a decrease in the net sales of our multimedia display processors as a result of lower average selling prices. As we competed against integrated graphics solutions, we introduced a lower cost version of the SM712 and reduced our average selling prices in order to stimulate demand for the product.

Net sales from our largest customer increased by approximately NT$205.5 million (US$6.5 million), or 76.6%, to approximately NT$473.7 million (US$15.1 million) during the year ended December 31, 2004 from approximately NT$268.2 million during the year ended December 31, 2003. In addition, two of our other customers significantly increased their purchase volume, as net sales from these two customers reached approximately NT$304.5 million (US$9.7 million) and approximately NT$291.4 million (US$9.3 million), respectively, during the year ended December 31, 2004 as compared to nil and NT$24.0 million, respectively, during the year ended December 31, 2003.

Cost of sales. Our cost of sales grew to approximately NT$1,274.4 million (US$40.5 million) for the year ended December 31, 2004 from approximately NT$424.7 million in 2003. Our cost of sales was approximately 58.8% of our net sales in 2004 compared to 46.4% of our net sales in 2003. Our cost of sales grew in absolute dollars as a result of the increased number of semiconductors we sold, as well as due to an increase in the manufacturing cost per unit.

The increase in our cost of sales was also attributed in part to a one-time inventory write-off of approximately NT$49.3 million (US$1.6 million) in the fourth quarter of 2004 due to production defects associated with the migration from 0.35 micron to 0.18 micron manufacturing technologies for one of our products, SM264. The defects stemmed from our use of manufacturing process technology offered free of charge and developed by other companies. We are currently in negotiations with these companies for possible compensation from our inventory write-off incurred as a result of our use of this manufacturing process technology.

Gross profit. Our gross margin was 41.2% for the year ended December 31, 2004 compared with 53.6% for the year ended December 31, 2003. The decrease in gross margin was primarily due to changes in our product mix and decreased blended average selling prices as a result of the declining pricing of older generation products, intensified competition, as well as increased wafer cost in the first half of 2004. However, we intend to offset this pricing erosion in the future by migrating our products to smaller silicon geometries that reduce unit costs.

Research and development expenses. Our research and development expenses increased to approximately NT$238.5 million (US$7.6 million), or 11.0% of net sales, for the year ended December 31, 2004 from approximately NT$203.6 million, or 22.3% of net sales, for the year ended December 31, 2003. Our research and development expenses increased by approximately 17.1% from 2003 to 2004. This increase was attributed to an increase from 44 to 69 employees in our research and development group, together with the NT$18.6 million expense related to bonus shares issued to our Taiwan employees as part of their compensation as required by law. In particular, we invested in the research and development of new products such as USB 2.0 card reader controller, portable audio SoCs for MP3 players and image controllers for PC cameras. We expect research and development expenses to increase in absolute terms in future periods as we continue to increase our staffing and associated costs to pursue additional product development opportunities.

Sales and marketing expenses. Our sales and marketing expenses increased to approximately NT$141.1 million (US$4.5 million), or 6.5% of net sales, for the year ended December 31, 2004 from approximately NT$125.7 million, or 13.7% of net sales, for the year ended December 31, 2003. Our sales and marketing expenses increased by approximately 12.3% from 2003 to 2004 as a result of increased costs of NT$6.6 million associated with the expansion of our operations and costs of NT$8.8 million related to bonus shares issued to our Taiwan employees as part of their compensation. During 2004, we established a sales office in Shanghai

and increased the number of sales and marketing personnel from 28 to 32 throughout the company. We expect sales and marketing expenses to increase in absolute dollars in future periods as we continue to increase the size of our operations. However, we expect our sales and marketing expenses may decrease as a percentage of our net sales over time due to our economies of scale and increased efficiency in our operations.

General and administrative expenses. Our general and administrative expenses increased to approximately NT$103.3 million (US$3.3 million), or 4.8% of net sales, for the year ended December 31, 2004 from approximately NT$69.3 million, or 7.6% of net sales, for the year ended December 31, 2003. Our general and administrative expenses increased by approximately 49.1% as a result of increased costs due to the expansion of our operations and the increase in the number of employees from 22 in 2003 to 29 in 2004. Our general and administrative expenses included approximately NT$20.0 million (US$0.6 million) and approximately NT$9.2 million for 2004 and 2003, respectively, relating to bonus shares issued to our Taiwan employees as part of their compensation.

We also incurred a one-time expense of approximately NT$4.9 million in 2004 as a result of the preparation for the quotation and trading of SMI Taiwan's shares on a stock exchange in Taiwan. We expect our general and administrative expenses to increase in absolute dollars in future periods as we continue to expand our operations.

Amortization of intangible assets. Our expense relating to amortization of intangible assets decreased to approximately NT$17.8 million (US$0.6 million) for the year ended December 31, 2004 from approximately NT$24.1 million for the year ended December 31, 2003. This expense was associated with the annual amortization of intangible assets relating to our acquisition of SMI USA in August 2002. Our amortization expense was lower in 2004 as a result of our recognition of impairment charges related to these acquired intangible assets in 2003.

Impairment of intangible assets. The charge for impairment of intangible assets amounted to NT$11.7 million (US$0.4 million) for the year ended December 31, 2004, compared to NT$54.1 million for the year ended December 31, 2003. During the fourth quarter of 2004, we determined that impairment of the intangible assets occurred as a result of a significant decline in expected net sales from the introduction of new consumer products such as broadband Internet video phones, car navigation systems, and Tablet PCs. As the development and market for these products did not materialize, the forecasted revenues and cash flows were significantly reduced.

The impairment of intangible assets that occurred during 2003 was due to the loss of two significant customers during the fourth quarter. SMI USA had estimated that these two customers accounted for approximately 55% of forecasted sales. Based on our estimated discounted cash flows, as adjusted for the loss of the revenues associated with these two customers, we determined that the intangible assets were impaired. We also reassessed the remaining useful life of the intangibles to be shorter given the maturity of the technology in the product life cycle.

Interest expense. Our interest expense increased to approximately NT$169,000 (US$5,000) for the year ended December 31, 2004 from approximately NT$97,000 for the year ended December 31, 2003. Our interest expense for 2004 increased as a result of accrued interest on sales tax and property tax payments of our U.S. subsidiary.

Foreign exchange gain. Our income due to change in exchange rates increased from NT$1.5 million in 2003 to NT$13.7 million (US$0.4 million) in 2004. This increase is attributable to the strengthening of the exchange rate of the NT dollar as compared to the U.S. dollar during the periods.

Interest income. Our interest income decreased to approximately NT$0.6 million (US$21,000) for the year ended December 31, 2004 from approximately NT$1.3 million for the year ended December 31, 2003. Our interest income decreased as a result of lower interest rates earned on our cash balances and short-term investments.

Income tax expense. Our income tax expense increased to approximately NT$133.1 million (US$4.2 million) for the year ended December 31, 2004 from an income tax benefit of approximately NT$94.4 million for the year ended December 31, 2003. Our income tax expense increased as a result of the significant increase of our income before income taxes in 2004. Our income tax credits earned in prior years have been mostly utilized in 2003.

Net income. As a result of the foregoing, our net income increased to approximately NT$268.0 million (US$8.5 million) for the year ended December 31, 2004 from approximately NT$110.4 million for the year ended December 31, 2003.

Comparison of Year Ended December 31, 2003 to Year Ended December 31, 2002

Net sales. Our net sales for the year ended December 31, 2003 were approximately NT$915.1 million compared to approximately NT$456.9 million for the year ended December 31, 2002, representing an increase of 100.3%. The increase in our net sales was due to increased sales of our semiconductors during 2003 resulting from our change of business strategy in 2002 from a storage systems provider and manufacturer to a mobile storage media company delivering solutions for the multimedia consumer electronics market. In connection with this business strategy, we completed our acquisition of SMI USA in August 2002. Net sales from our mobile storage products and multimedia SoCs accounted for approximately 43% and 46% of our net sales, respectively, for the year ended December 31, 2003.

The increase in sales of our semiconductors was due to a growing market demand, combined with the commercial launch of our new semiconductor solutions. In particular, we began mass production of our first MMC Card controller in March 2003 and our first SD Card controller in July 2003. For the year ended December 31, 2003, we shipped approximately 6.3 million units of controllers for mobile storage products in total. Total unit shipments of our multimedia display processors increased by approximately 159% from approximately 207,000 units for the year ended December 31, 2002 to approximately 537,000 units for the year ended December 31, 2003.

The increase in the number of our semiconductors sold was due in part to the growth in demand for digital media devices such as MP3 players, combined with what we believe to be our favorable competitive positioning within that market. At the time, controllers developed by large players such as Toshiba, Sony and SanDisk were used solely for their own products and were not available to manufacturers or card assemblers that assemble products by purchasing controllers and other components from third parties.

Net sales from one of our new customers reached approximately NT$268.2 million during the year ended December 31, 2003, representing 29.3% of our net sales during the year ended December 31, 2003.

Cost of sales. Our cost of sales grew to approximately NT$424.7 million in 2003 from approximately NT$366.2 million in 2002. Our cost of sales was approximately 46.4% of our net sales in 2003 compared to 80.2% of our net sales in 2002. Our cost of sales grew in absolute dollars as a result of the increased number of semiconductors sold for the year. Our cost of

sales decreased as a percentage of our net sales due to increased sales volume on the higher margin new products that we introduced to the market during the transition of our business.

Gross profit. Our gross margin was 53.6% for the year ended December 31, 2003 compared with 19.8% for the year ended December 31, 2002. The increase in gross margin was primarily due to increased sales volume on higher margin new products we introduced to the market during the transition of our business.

Research and development expenses. Our research and development expenses increased to approximately NT$203.6 million, or 22.3% of net sales, for the year ended December 31, 2003 from approximately NT$107.5 million, or 23.5% of net sales, for the year ended December 31, 2002. Our research and development expenses increased by 89.4% from 2002 to 2003 as a result of our acquisition of SMI USA in August 2002, as research and development expenses incurred at SMI USA in 2003 represented an entire year for 2003, while research and development expenses incurred at SMI USA represented only September to December for 2002. In addition, our research and development expense increased in part as a result of the costs related to the increase in research and development personnel by 10 to facilitate our continued development of new products such as flash card controllers that support various industrial standard interfaces such as CF, MMC and SD, USB 2.0 controllers, and multimedia display processors.

Sales and marketing expenses. Our sales and marketing expenses increased to approximately NT$125.7 million, or 13.7% of net sales, for the year ended December 31, 2003 from approximately NT$52.6 million, or 11.5% of net sales, for the year ended December 31, 2002. Our sales and marketing expenses increased 139.0% as a result of our acquisition of SMI USA in August 2002, as sales and marketing expenses incurred at SMI USA in 2003 represented an entire year for 2003, while sales and marketing expenses incurred at SMI USA represented only September to December for 2002. In addition, our sales and marketing expenses increased as a result of increased costs of NT$30.7 million related to the promotion and marketing costs incurred to support the launch of our new products and the expansion of our business. Our sales and marketing costs also increased due to the costs related to the increase in sales and marketing personnel.

General and administrative expenses. Our general and administrative expenses increased to approximately NT$69.3 million, or 7.6% of net sales, for the year ended December 31, 2003 from approximately NT$38.2 million, or 8.4% of net sales, for the year ended December 31, 2002. Our general and administrative expenses increased 81.4% as a result of our acquisition of SMI USA in August 2002 as general and administrative expenses incurred at SMI USA in 2003 represented an entire year for 2003, while general and administrative expenses incurred at SMI USA represented only September to December for 2002. In addition, our general and administrative expenses also increased as a result of the expansion of our business and the costs related to the increases to our general and administrative staff.

In-process research and development. We incurred an expense related to in-process research and development, or IPR&D, of approximately NT$310.8 million in 2002 as a result of our merger with SMI USA. At the time of the merger, we determined that the projects in development from SMI USA: a) had not reached technological feasibility, b) had no alternative future uses and c) were uncertain to be successfully developed. SMI USA had two primary projects in development at the time of the merger, namely, the development of a multimedia display processor and a DSP for MP3 and WMA with a digital audio and encode/decode function. We used an income approach based on projected discounted cash flows using a discount rate of 25% in order to determine the fair values of these projects. We determined the discount rate using a weighted-average cost of capital analysis, as adjusted to reflect additional

risks, such as the probability of achieving technological success and market acceptance. We analyzed each of the projects and considered factors such as: a) its stage of completion, b) its technological innovation, c) any existence and utilization of core technology and d) any resources needed to complete its remaining development efforts. We also determined that the material risks associated with the incomplete projects included our inability to timely complete the projects within allocated resources and our inability to market and sell the products from these projects.

The multimedia display processor represented approximately 60% of the estimated fair value of our IPR&D charge. The technology associated included a 2-dimensional graphics and video processor. We estimated that the multimedia display processor was approximately 35% completed at the time of our merger with SMI USA. Because of the complexity of developing a multimedia display processor with multiple functions and software support, we estimated that SMI USA had expended a significant portion of its research and development resources on the project. SMI USA anticipated that it would have integrated all multimedia functions and multiple operating systems into the multimedia display processor such that it was able to operate across many hardware platforms. Due to the complexity of the project, we determined that we needed to expend significant resources to integrate additional functions into the multimedia display processor, as well as to develop supported software and firmware. We were subsequently able to complete the project and began selling the multimedia display processors in the first quarter of 2004.

We estimated that the DSP project was approximately 65% complete at the date of the merger. We determined that the architecture and hardware of the DSP had been developed but that it was not saleable as a standalone product. We planned to incorporate flash memory technology and input/output functionality in order to develop a more complete consumer product. In addition, we determined that we would need to develop software and firmware support for the DSP project so that the product may play back digital audio recordings and record voice with noise cancellation function. We were subsequently able to complete the project and began selling the DSP product in the fourth quarter of 2004.

Restructuring charge. We incurred a restructuring charge of approximately NT$10.2 million in 2002 as a result of our change in business from a flash memory system provider and manufacturer to a fabless semiconductor company that designs, develops and markets universally compatible, high-performance and low-power semiconductor solutions for the multimedia consumer electronics market. Our restructuring charge consisted of a write-down and loss of certain manufacturing equipment and facilities, as well as certain severance payments and benefits from a reduction in work force from our previous manufacturing function.

Amortization of intangible assets. Our expenses relating to amortization of intangible assets increased to approximately NT$24.1 million for the year ended December 31, 2003 from approximately NT$8.0 million for the year ended December 31, 2002. This expense was associated with the annual amortization of intangible assets relating to our acquisition of SMI USA in August 2002 and was higher in 2003 as a result of a full year of amortization expense being recognized for 2003 while amortization expense was recognized only for four months, September to December, in 2002.

Impairment of intangible assets. The charge for impairment of intangible assets was approximately NT$54.1 million for the year ended December 31, 2003 as a result of our acquisition of SMI USA in August 2002. The impairment of intangible assets that occurred during 2003 was due to the loss of two significant customers during the fourth quarter. SMI

USA had estimated that these two customers accounted for approximately 55% of forecasted sales. Based on our estimated discounted cash flows, as adjusted for the loss of the revenues associated with these two customers, we determined that the intangible assets were impaired. We also reassessed the remaining useful life of the intangibles to be shorter given the maturity of the technology in the product life cycle.

Interest expense. Our interest expense decreased to approximately NT$97,000 for the year ended December 31, 2003 from approximately NT$209,000 for the year ended December 31, 2002. Our interest expense decreased as a result of lower capital leasing expense in 2003.

Interest income. Our interest income decreased to approximately NT$1.3 million for the year ended December 31, 2003 from approximately NT$1.9 million for the year ended December 31, 2002. Our interest income decreased as a result of lower interest rates earned on our cash balances and short-term investments.

Income tax expense. We recognized an income tax benefit of approximately NT$94.4 million for the year ended December 31, 2003 as compared to an expense of NT$9.6 million for the year ended December 31, 2002. Our income tax benefit increased as a result of our expected utilization of net operating loss carryforwards and accumulated tax credits through a reduction in our valuation allowance by our Taiwan subsidiary.

Net income. As a result of the foregoing, our net income increased to approximately NT$110.4 million for the year ended December 31, 2003, compared to a net loss of approximately NT$435.8 million for the year ended December 31, 2002.

Liquidity and Capital Resources

As of March 31, 2005, we had approximately NT$159.6 million (US$5.1 million) in cash and cash equivalents, approximately NT$725.3 million (US$23.1 million) in short-term investments and approximately NT$95.0 million (US$3.0 million) in refundable deposits for reserving foundry capacity with our manufacturing partners. We maintain our cash balances in deposits with local commercial banks in Taiwan. Our short-term investments consist primarily of bond funds that are denominated in NT dollars and invested primarily in time deposits and Taiwan government and corporate bonds. As of March 31, 2005, we had an unutilized credit facility of NT$70 million (US$2.2 million) which remains uncommitted, can be used for many purposes and is subject to annual renewal. We believe our existing cash balances and short-term investments, together with cash we expect to be generated from operating activities and from our net proceeds from this offering, will be sufficient to meet our anticipated cash needs for at least the next 12 months. Our future capital requirements will depend on many factors, including the level of our net sales, the timing and extent of spending to support product development efforts, the expansion of sales and marketing activities, the timing of introductions of new products, the costs to ensure access to adequate manufacturing capacity and the continuing market acceptance of our products. We could be required, or could elect, to seek additional funding through public or private equity or debt financing, and additional funds may not be available on terms acceptable to us or at all.

The following table sets forth a summary of our cash flows for the periods indicated:

	Year Ended December 31,				Three Months Ended March 31,		
	2002	2003	2004	2004	2004	2005	2005
	NT$	NT$	NT$	US$	NT$	NT$	US$
	(in thousands, except for per share data)					(unaudited)	
Consolidated Cash Flow Data:							
Net cash provided by (used in) operating activities	(53,973)	128,322	234,703	7,460	(3,009)	12,401	393
Net cash provided by (used in) investing activities	(31,492)	9,706	(263,101)	(8,363)	(682,603)	(578,812)	(18,398)
Net cash provided by (used in) financing activities	12,353	268,562	(3,081)	(98)	(1,248)	(637)	(20)
Depreciation and amortization	19,541	28,210	21,734	691	3,904	5,309	169
Capital expenditures	(3,018)	(13,996)	(36,409)	(1,157)	(14,418)	(9,979)	(317)

Operating activities. Our net cash provided by operating activities was approximately NT$12.4 million (US$0.4 million) for the three months ended March 31, 2005, an increase of NT$15.4 million over net cash used in operating activities of approximately NT$3.0 million for the three months ended March 31, 2004. Our net cash provided by operating activities increased in the three month period ended March 31, 2005 primarily as a result of our profitability improvement during the period as compared to our net income in the same period of 2004. We grew our net income during this period through increased sales without increasing, as a percentage of sales, our cost of sales and operating expenses.

Our net cash provided by operating activities was approximately NT$234.7 million (US$7.5 million) for the year ended December 31, 2004, an increase of approximately NT$106.4 million over net cash provided by operating activities of approximately NT$128.3 million for the year ended December 31, 2003. Our net cash provided by operating activities increased in 2004 primarily as a result of our higher income from operations, our increased accounts payable resulting from increased purchases of inventory, and increased income tax payable as our operations turned profitable, which was partially offset by increases in our accounts receivable.

Our net cash provided by operating activities was approximately NT$128.3 million for the year ended December 31, 2003, an increase of approximately NT$182.3 million over net cash used by operating activities of approximately NT$54.0 million for the year ended December 31, 2002. Our net cash provided by operating activities increased in 2003 primarily as a result of our profitability improvement in 2003 compared to our net loss in 2002 and our increased accounts payable and accrued expenses and other current liabilities due to increased accruals of research and development, salary and bonus expenses, partially offset by increases in our accounts receivable and inventories.

Investing activities. Net cash used in investment activities was approximately NT$578.8 million (US$18.4 million) for the three months ended March 31, 2005, compared to net cash used in investing activities of NT$682.6 million for the three months ended March 31, 2004. The decrease in cash used in investment activities was a result of a decrease in refundable deposits.

We generally maintain our excess cash in bond funds which are liquid. Our net cash used in investment activities includes the purchase of bond funds and was approximately NT$263.1

million (US$8.4 million) for the year ended December 31, 2004, compared to net cash provided by investing activities of approximately NT$9.7 million for the year ended December 31, 2003. Our net cash used in investing activities in 2004 was a result of our purchases of short-term investments in excess of sales and maturities of our short-term investments, increased refundable deposits as collateral for foundry capacities, increased purchases of equipment to support our increased scale of operations, as well as leasehold improvements in our offices in Taiwan and the United States.

Net cash provided by investing activities was approximately NT$9.7 million in 2003, compared to net cash used in investing activities of approximately NT$31.5 million in 2002. Our net cash provided by investing activities was a result of decreases to refundable deposits and the excess of our proceeds from the sales of investments over the purchases of investments which was partially offset by our purchases of development tools and equipment.

Financing activities. Net cash used in financing activities was approximately NT$0.6 million (US$20,000) for the three months ended March 31, 2005, compared to NT$1.3 million for the three months ended March 31, 2004. The decrease in cash used in financing activities was the result of a decrease in the amount of security deposit for our sublease.

Our net cash used in financing activities was approximately NT$3.1 million (US$98,000) for the year ended December 31, 2004, compared to net cash provided by financing activities of approximately NT$268.6 million for the year ended December 31, 2003. Our net cash used in 2004 primarily related to repayment of a subsidy loan. We signed an agreement with Industrial Development Bureau, or IDB, of the Taiwan government in December 2001, whereby we received a subsidy loan of NT$5.1 million from IDB in 2002 for the research and development of a semiconductor data storage system and controller plan. Under the terms of the agreement, the loan is non-interest bearing and is repayable in eight consecutive quarterly payments beginning April 2003 with the last payment in January 2005. As of December 31, 2004, the balance of the loan was approximately NT$0.6 million (US$20,000) which was paid in January 2005. In addition, we are required to pay IDB 2% of sales as royalty payments from any products resulting from the research and development project for a period of three years following the initial sale. Total royalties paid cannot exceed 30% of the total amount of the subsidy loan. We have completed the development project under this agreement, however, we have not sold any products using the technology and, therefore, have not paid or accrued any royalty payments related to the project.

Net cash provided by financing activities was approximately NT$268.6 million for the year ended December 31, 2003, compared to net cash provided by financing activities of approximately NT$12.4 million for the year ended December 31, 2002. Our net cash provided by financing activities increased as a result of our issuance of common stock in July 2003, partially offset by repayment of a subsidy loan. Proceeds of NT$270 million was received from the issuance of 10 million shares of our common stock at NT$27 per share. Such proceeds were used for working capital and funding research and development of new products. In August 2002, in connection with the issuance of shares to the shareholders of SMI USA, we were required to offer shares to our existing shareholders who purchased 535,075 shares of our common stock for cash at NT$15.8 per share. The proceeds from the share offer were used for working capital.

The fair value of our long-term investments at December 31, 2004 was approximately NT$3.1 million (US$0.1 million). These long-term investments represent our investments in

Cashido Corp. in July 2002 and ARCHIC Technology, Inc., or ARCHIC, in December 2000, both located in Taiwan. As of December 31, 2004 and 2003, due to the decline in the value of our investments in Cashido Corp. and ARCHIC, we recognized a loss on impairment of investments of approximately NT$4.1 million (US$0.13 million) and approximately NT$9.8 million, respectively.

Our investment policy is to manage our investment portfolio to preserve principal and liquidity, while maximizing the return on the investment portfolio through the full investment of available funds. Our investment portfolio is primarily invested in short-term securities to maximize the rate of return and minimize the credit risk, as well as to provide for an immediate source of funds. Although changes in interest rates may affect the fair value of the investment portfolio and cause unrealized gains or losses, such gains or losses would not affect our cash flows unless the investments are sold.

Contractual Obligations

The following table sets forth our commitments to settle contractual obligations in cash as of December 31, 2004:

	Amount of Commitment Maturing by Year				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	NT$	NT$	NT$ (in thousands)	NT$	NT$
Operating leases	32,721	16,986	15,735	—	—
Capital leases	978	246	732	—	—
Current portion of long-term debt	637	637	—	—	—
Total commitments	34,336	17,870	16,467	—	—

Off-balance Sheet Arrangements

We currently do not have any outstanding derivative financial instruments, off-balance sheet guarantees or arrangements, interest rate swap transactions, or foreign currency forward contracts. We do not engage in any trading activities involving non-exchange traded contracts.

Inflation and Monetary Risk

The principal markets for our products have been in Taiwan and the United States and we do not believe that inflation in Taiwan or the United States has had a material impact on our results of operations. The rate of inflation in Taiwan was approximately 0.8%, -0.1% and 1.6% for 2002, 2003 and 2004, respectively.

Quantitative and Qualitative Disclosures about Market Risk

Interest rate risk. Our exposure to interest risk for changes in interest rates is limited to the interest income generated by our cash deposited with banks and short-term investments maintained in bond funds. We do not believe that a 1% change in interest rates would have a significant impact on our operations.

Foreign currency risk. Substantial portions of our net sales and expenses are denominated in currencies other than the NT dollar. As of March 31, 2005, more than 99% of our accounts

payable and payables were denominated in currencies other than the NT dollar, primarily in U.S. dollars. More than 48% of our accounts receivable were denominated in currencies other than the NT dollar, mainly in U.S. dollars. In 2004, all of our sales were quoted in U.S. dollars and approximately 43% of our sales quotes were invoiced in NT dollars using the closing exchange rate on the day of the sales invoice. In 2004, approximately 83% of our cost of sales and operating expenses were denominated in U.S. dollars. Hypothetically, if the U.S. dollar value had increased or decreased by 10% against the NT dollar in 2004, our operating income would have increased or decreased, as the case may be, by approximately 18%, assuming all other factors remain constant. We anticipate that we will continue to quote substantially all of our sales in U.S. dollars. We do not believe that we have a material currency risk with regard to the Japanese Yen, Euros or Renminbi. We believe any potential adverse foreign exchange impacts on our operating assets may be offset by a potential favorable foreign exchange impact on our operating liabilities. We do not utilize foreign exchange derivatives contracts to protect against the volatility changes in foreign exchange rates. See “Risk Factors—Our principal subsidiary, Silicon Motion, Inc. is based and operated in Taiwan and we derive a substantive majority of our revenues from direct or indirect sales to non-U.S. customers and have significant foreign operations, which may expose us to foreign exchange risks.”

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123R “Share-Based Payment.” SFAS No. 123R requires that companies recognize compensation expense equal to the fair value of stock options or other share based payments for the annual reporting period beginning after June 15, 2005. SFAS No. 123R will apply to all awards granted after January 1, 2006, and any prior period’s awards that are modified, repurchased, or cancelled after January 1, 2006. We will adopt the provisions of this standard on January 1, 2006. The impact on our net income will include the remaining amortization of the fair value of existing options currently disclosed as in Note 17 to our consolidated financial statements included elsewhere in this prospectus and is contingent upon the number of future options granted, the selected transition method and the selection of either the Black-Scholes or the binominal lattice model for valuing options.

OUR BUSINESS

Overview

We are a fabless semiconductor company that designs, develops and markets universally compatible, high-performance, low-power semiconductor solutions for the multimedia consumer electronics market. Our semiconductor solutions include controllers used in mobile storage media, such as flash memory cards and USB flash drives, and multimedia SoCs, used in digital media devices such as MP3 players, PC cameras, PC notebooks and broadband multimedia phones.

We sell our semiconductor solutions to leading OEMs and ODMs worldwide. Our controllers serve as the critical enabling component of mobile storage products sold by companies such as Lexar Media, Samsung, Sony and STMicroelectronics. In addition, our multimedia SoCs are also important components of products that are sold by companies such as Casio, Foxconn, Hewlett-Packard, Hitachi, Intel, NEC, Panasonic, Sharp, Siemens and Sony.

We believe we have built our business into a leading supplier of controllers for mobile storage products. In addition, we believe that we hold a significant advantage over our competitors due to our ability to provide high-performance semiconductor solutions that support the broadest portfolio of flash memory devices and comply with all major industry standards for flash-based storage products. For example, our SM264 SD controller enables SD cards to be compatible with nearly all types of host devices with SD slots and also supports over 20 types of NAND flash memory.

We have experienced rapid growth in our net sales. Our net sales grew from approximately NT$456.9 million in 2002 to approximately NT$915.1 million in 2003 to approximately NT$2,166.7 million (US$68.9 million) in 2004, representing a compound annual growth rate, or CAGR of approximately 117.8%. For the first quarter of 2005, our net sales were approximately NT$515.3 million (US$16.4 million), an increase of approximately 35.8% from NT$379.3 million for the first quarter of 2004. In addition, our quarterly net sales have experienced continued sequential growth for the past eight quarters, growing on average approximately 15.2% quarter-on-quarter. We believe that because of our ability to provide adaptable, universally compatible semiconductor solutions and architectures, we have been able to expand into additional portable digital media devices such as audio SoCs and image processors. We have derived significant additional sales from products such as low-power multimedia display processors used in embedded graphics applications. Our net sales from multimedia SoCs was NT$285.4 million (US$9.1 million) in 2004.

Our presence in Asia and our customer-driven engineering focus allow us to closely monitor our manufacturing sources for quality, as well as align our operations with the outsourcing trend of our customers. Our Asia-based operations provide us with access to a highly educated engineering work force and a competitive cost structure. For the first quarter of 2005, our cost of sales and our operating expenses represented approximately 56.4% and 24.7%, respectively, of our net sales. For the year ended December 31, 2004, our cost of sales and our operating expenses represented approximately 58.8% and 23.7%, respectively, of our net sales. In addition, with the exception of the fourth quarter of 2004, our gross margins have remained above 40% for each quarter since the first quarter of 2003. Our net margin for the first quarter of 2005 was approximately 18.6%. We recorded net income of approximately NT$96.0 million (US$3.1 million) for the first quarter of 2005, an increase of approximately 79.1% from approximately NT$53.6 million for the first quarter of 2004. Our net income increased by approximately 142.7% to approximately NT$268.0 million (US$8.5 million) in 2004 from approximately NT$110.4 million in 2003.

Prior to our acquisition of SMI USA in August 2002, we were primarily a manufacturer of complete systems products and whole memory devices, such as CF Cards, card readers, USB 1.1 flash drives, memory disk modules and PCMCIA adaptors. These products were gradually phased out beginning in 2002.

Industry Overview

According to Gartner, the consumer electronics equipment market is expected to grow from approximately US$224 billion in 2003 to approximately US$340 billion in 2008, representing a CAGR of approximately 8.7%. Semiconductors perform a variety of critical functions within consumer electronics devices such as data processing, information storage and signal conversion and processing. According to Gartner, the use of semiconductors in consumer electronics equipment during 2003 to 2008 is expected to rise from approximately US$29 billion to approximately US$50 billion in 2008, representing a CAGR of approximately 11.4%, which is significantly higher than the overall growth rate of the consumer electronics market. The demand for higher performance consumer electronics, in particular, is expected to drive the need for a variety of semiconductors used in digital media devices, including flash controllers, graphics processors and other SoCs.

The expansion of digital media devices in recent years beyond traditional desktop computer systems has included the introduction of a variety of handheld devices such as mobile handsets, PDAs, portable digital music players, DSCs and DVCs. According to IDC, worldwide shipments for compressed audio players are expected to grow from approximately 33 million units in 2003 to approximately 116 million units in 2008, representing a CAGR of approximately 28.8% and smart handheld device shipments are expected to increase from approximately 29 million units in 2004 to approximately 139 million units by 2008, representing a CAGR of approximately 47.8%.

Each of these products requires a storage solution with a combination of functionalities including high storage capacity, small form factor, high reliability and low power consumption. These requirements can be fulfilled through flash memory based storage products to store and process digital media content. NAND flash memory is the leading form of flash used for storage in these consumer devices and requires a flash controller to access the stored digital media content such as video, audio, graphics and imaging that are essential to the function of the digital media device. According to IDC, worldwide shipments for NAND flash units are expected to grow from approximately 380 million units in 2003 to approximately 2.1 billion units in 2008, representing a CAGR of approximately 40.7%.

Currently, some of the key factors driving digital media semiconductor development include:

Proliferation of digital media content. Advances in digital technology have enabled audio, photo and video content to be digitized, transmitted, stored and catalogued. As the accessibility of digital media content continues to proliferate, demand has increased for a range of new digital consumer devices that incorporate semiconductor solutions, such as MP3 players, PC cameras, car navigation systems and broadband video phones. Due to the proliferation of these devices, consumers will demand the ability to create, store, exchange and play back more digital media content than ever before.

Greater storage capacity and advances in storage technologies. As technology advances, more and more memory-intensive applications have been developed to cater to consumer demands. For example, the resolution of consumer DSCs has increased from approximately one

megapixel to seven megapixels or greater. Correspondingly, greater capacity is required to store the increasingly larger size of digital photo collections, personal digital audio libraries and digital movies. Flash memory is the predominant memory medium to store such increasing digital media content.

Demand for greater content accessibility and mobility. Consumers are increasingly using portable devices to compute and exchange data, enjoy music, take pictures and video, and communicate with each other. In addition, consumers demand and expect convenient access to their digital media collection at any time. Developments in high-speed wired and wireless connectivity protocols, such as USB, FireWire, WiFi, WiMAX, Bluetooth® and wireless LAN, facilitate the ease in which digital media devices are able to connect to other systems to share and exchange content.

Demand for small-size, low-power solutions. Advances in technology have led to the design of mobile devices with increasingly smaller form factors. Furthermore, consumers demand portable devices that facilitate prolonged use. An important element of reliability and prolonged use is efficiency in power usage, thereby facilitating extended battery life.

Challenges Facing the Market

OEMs are under increasing pressure from consumers to produce portable digital media devices that are small, lightweight, power-efficient, reliable and cost-effective. Additionally, consumers are demanding additional storage and processing capabilities from each new generation of digital media devices. While OEMs can offer built-in, large-capacity memory devices for all portable digital media devices, consumers have various needs for memory technology and capacity due to cost and other considerations. Mobile storage media offer a convenient way for consumers to customize their memory needs without adding unnecessarily to the cost or size of digital media devices. Controllers are thus playing an increasingly important role as OEMs seek to improve performance and reduce the cost of their portable digital media devices or mobile storage media.

Growing variety of industry standards and storage technologies. Protocol standards for each type of digital media device vary greatly among different manufacturers and, in some cases, even by the same manufacturer. In addition, digital storage devices currently use a variety of storage architectures, including different types of flash memory and process technologies. With an increasing number of digital media devices, including MP3 players, smart phones, DSCs and DVCs, PC cameras, and PDAs, the controller has assumed the role of the critical link between the portable digital media device and consumers' access to stored content. The controller's function is to act as a gateway facilitating the information flow between the protocol standard used by a host device and the storage architecture used by each digital storage medium held within the host device.

Ability to efficiently access and utilize digital media content. The use of today's digital media devices, as well as the ability of such digital media devices to store increased amounts of content, has led to a consumer demand for products that allow for the efficient use of multiple functions and the ability to easily access, categorize and transfer digital media content. Flash controllers serve as the critical link between the flash memory components in the storage media and the host device, and as a result, the capability of the controller within the flash memory-based storage product determines the speed and efficiency with which consumers can access content on their portable digital media devices. As digital media content becomes increasingly larger and more complex in scope, the industry will continue to look for controllers that can process information on a faster and more efficient basis.

Mobile low-power solutions. As portable digital media devices continue to proliferate, manufacturers are increasingly focused on delivering products with increased power efficiency, as improved power efficiency can extend battery life significantly. In addition, environmental and energy-saving concerns have also increased the demand for low-power devices. The increased demand for lower power systems has led to portable digital media device OEMs and ODMs to look for semiconductor solutions that facilitate these features as well.

Desire for comprehensive system solutions. Due to rapidly changing consumer demands, shortened product cycles and intensive competition, digital media device OEMs and ODMs are under increasing pressure to timely introduce to market differentiated products that incorporate the latest technology. As a result, they increasingly prefer to work with semiconductor component vendors that can provide comprehensive semiconductor solutions consisting of hardware, firmware and software. The ability to provide comprehensive semiconductor solutions represents a significant competitive advantage.

Our Strengths

We believe we are a leading provider of controllers for flash memory-based storage products. Our controllers enable access and retrieval of stored digital content for use in consumer electronics devices. In addition, we provide multimedia SoCs that function as controlling or processing units within the digital media device as well as graphic and imaging solutions.

Key elements of our strengths include:

Universal compatibility. We believe one of our key competitive advantages is our ability to provide one universally adaptable solution that is compatible with the wide range of protocol standards used by portable digital media devices on the one hand, and the storage architectures used for digital content on the other hand. Our semiconductor solutions allow each mobile storage medium to be interoperable with what we believe to be the maximum number of protocol standards. For example, our SM264 SD controller enables SD cards to be compatible with nearly all types of host devices with SD slots and also supports over 20 types of NAND flash memory. As a result, we believe that, by using our semiconductor solutions, manufacturers who provide mobile storage media can provide their customers with the greatest compatibility with a wide range of devices.

Complete hardware and software solution. We leverage our modular design architecture in both hardware and software to allow us to quickly penetrate markets and expand our customer base. Our in-system-programming enables the use of software to control, specify and modify some functions of a chip instead of requiring a complete hardware redesign and remanufacture of the entire chip as product requirements change. The ability to incorporate a suite of customized software applications provides compatible, portable, reusable and scalable capabilities to our products.

Proximity to the electronics supply chain. In recent years, OEMs have migrated toward outsourcing the manufacture, and increasingly, the design, of their products to ODMs and fabless companies based in lower cost areas in Asia, in particular to countries such as Taiwan and China. As a result, the supply chain for portable digital media devices has also migrated to Asia. Our presence in Asia allows us to take advantage of this trend. In particular, we have offices in China, Japan and Taiwan that support one or more of the functions of sales, research and development, and operations, allowing us to respond quickly to our customers' demands and needs. Our manufacturing is outsourced to foundries in Taiwan and China, which aligns our

logistical operations with those of our customers. For these reasons, we believe that we hold a significant advantage over our competitors in the Americas and Europe.

Customer-driven solutions. We work closely with our customers to understand their needs and product road maps. This enables us to develop solutions that address customers' exact needs and new product requirements and features. We seek opportunities to differentiate ourselves from our competitors by providing innovative solutions that offer customers significant value compared to other available solutions. Our approach offers significant advantages to customers, including broad compatibility, high performance, small form factor and low power consumption.

Our Strategy

Our objective is to be the leading supplier of controller and software solutions for mobile storage products and multimedia SoCs for digital media devices. We intend to accomplish our objective by continuing to provide products that are universally compatible, highly efficient and require minimal power consumption. We intend to achieve our objective through the following strategies:

Provide innovative, universally compatible solutions that connect the growing number of digital media devices. The increasing variety of digital media devices being offered has resulted in a growing variety of industry standards linking the different protocol standards used by digital media devices and different storage architectures. We intend to take advantage of this trend by producing products that effectively control and process the flow of data to be used universally in various devices to unify the growing variety of industry standards. We plan to continue to design and produce products that are not only customized for specific customers but also are compatible and applicable to a broader base of customers within the consumer market. We believe the universal compatibility aspect of our products gives us a competitive advantage in terms of crucial time-to-market efficiency over the solutions provided by our competitors.

Maintain our leadership position in the flash controller market. We believe that we have built a leadership position in the market through our unified design and architecture that is able to interface with the different protocol standards and storage architectures used by a variety of products. We are an active participant in major industry associations such as MultiMediaCard Association, or MMCA, and SD Card Association, or SDCA. We intend to leverage our leadership position in the industry to continue to work with industry-leading customers in order to gain insight into market trends and facilitate the introduction of new products suited to our customers' needs, as well as continue to provide controllers that are accepted by a large number of protocol standards and storage architectures. In addition, our leadership position offers us the benefits of critical mass and economies of scale that we believe allow us to offer multimedia display processors with higher cost-efficiencies than those offered by our competitors.

Focus on the high growth consumer and digital media market. We intend to target the high growth consumer market by focusing on the growing digital and mobile markets. The digitization of data has created a need for increased storage and access to the transfer and usage of digital media devices. We aim to identify trends in the rapidly evolving consumer market, so that we may leverage our design expertise in order to determine the feasibility of entering new and emerging markets as well as to introduce new products and to leverage current design techniques.

Continue to invest in research and development. We have invested and will continue to invest in research and development in order to solidify our market leadership position. Through these investments, we have developed an intellectual property portfolio that we are able to apply to new products and markets. We are also migrating to smaller geometry process technologies as advanced as 0.18 micron in the design and manufacture of our products. In addition, the experience and expertise of our engineering team give us a competitive advantage in meeting the growing demand for power-efficient, high-performance products by our customers.

Continue to leverage on our strategic and customer relationships. We have strategic relationships with customers and leading industry participants including ASE, Hynix, Intel, Lexar Media, Microsoft, NEC, Renesas (a joint-venture between Hitachi and Mitsubishi), Samsung, SMIC, SPIL, STMicroelectronics and UMC. These strategic relationships allow us to obtain access to a diverse field of technologies with minimal internal development costs. Strategic and manufacturing partners ensure our products are designed and produced in accordance with an outsourcing model and produced with specifications required by us and our customers.

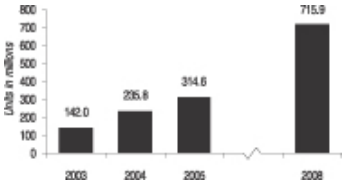
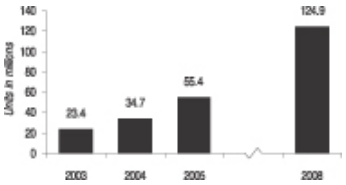
Expand our customer and geographic base. We plan to be the leading supplier of controllers and multimedia SoCs to our existing customers, and to secure new customers in emerging high growth markets. Our focus is to maintain customer relationships by providing superior service and support not only in Asia but also globally by serving our customers' global supply chains. In addition, we plan to expand the penetration of our products, which are compatible with and applicable to a broad base of customers in different markets, and within customers in different markets.

Continue to provide differentiated, cost-competitive products to customers. Our fabless business model and operations in low-cost regions allow us to maintain an efficient cost structure. We plan to continue to leverage this advantage to provide customers with cost-effective solutions and compete effectively with our competitors. Our operations in Asia allow us to stay in close proximity to many of our customers and partners, which enables us to gain deep visibility into customer needs and market trends as well as the ability to define product road maps with industry leading companies. We plan to continue to provide customers with differentiated, value-added products faster and cheaper than our competitors.

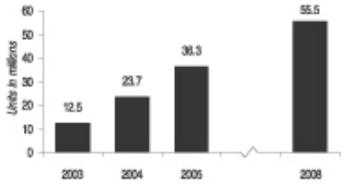
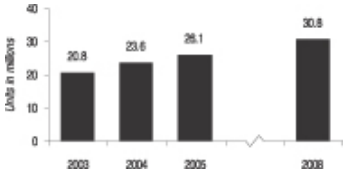
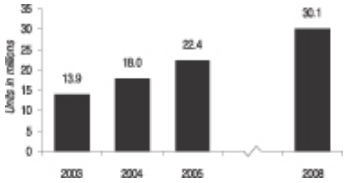
Our Products

Our key products are briefly described below:

Mobile Storage Products

Product	Application	Part Number	Past/ Anticipated Mass Production Date	Key features	End Market Application	Potential End-Market Unit Shipments
Flash memory controller	CF	221	2003/Q2	Flash memory card controller supports: • industrial standard interfaces, such as CF, SD, MMC Card, xD-Picture and Memory Stick for NAND flash memory • in-system-programming capability, therefore enabling firmware update for better compatibility without silicon change • FastMDC and QuickWrite technology • CPRM for SD Card • high-speed SD/MMC cards • flexible flash memory configuration • both 8 bit and 16 bit flash interfaces and 1.8V low voltage devices	Flash cards for DSCs, mobile phones, PDAs, PC notebooks, camcorders, DVD players, and other portable devices	**Flash Memory Cards**  Source: IDC
		222	2005/Q3			
	MMC	261	2003/Q3			
		263	2005/Q2			
		265	2005/Q4			
	SD	262	2003/Q3			
		264	2004/Q4			
		266	2005/Q3			
	xD-Picture	290	2005/Q3			
USB 2.0 controller	USB 2.0 UFD	320	2003/Q4	High speed USB 2.0 flash disk controller: • complies with USB specification v2.0 and USB mass storage class specification v1.0 • supports in-system-programming • supports flexible flash memory configuration and file management • integrates serial bus interfaces	UFD	**USB Flash Drives**  Source: IDC
		321	2005/Q1			
		322	2004/Q3			
		323	2004/Q4			
		324	2005/Q3			
	Card reader	330	2005/Q1	High speed USB 2.0 card reader controller: • supports wide range of industrial standard memory cards, such as SD version 1.1, MMC version 4.1, MS Duo/Pro and CF PIO5/6 mode cards • supports these operating systems: Windows XP/2000/Me/98/98SE, Mac OS9.X, Linux Kernel 2.4	Card reader	

Multimedia SoCs

Product	Application	Part Number	Past/ Anticipated Mass Production Date	Key Features	End Market Application	Potential End-Market Unit Shipments
Portable audio SoCs	MP3 controller	340	2005/Q2	Single-chip flash-based MP3 controller supports: • high quality digital audio decoder IC for MP3/WMA formats • USB 2.0 high speed data transfer for flash media • FM, card host interface and digital voice recording • external LCM/OLED and high-quality audio codec-in-system-programming and flexible UI and key pad setting	MP3 player - flash base	**Portable Audio Players**  Source: IDC
		350	2005/Q4	Single-chip micro HDD-based MP3 controller supports: • high quality digital audio decoder/encoder IC for MP3/WMA/AAC format with DRM version 10 • high-speed USB 2.0 data transfer to HDD and JPEG picture viewing capability to TFT and TV • FM, card host, and digital voice recording	MP3 player - micro HDD base	
Multimedia display processors	Graphics	501 712 721 722	2004/Q1 2000/Q4 2000/Q3 2001/Q3	Multimedia display processor: • with acceleration for 2D/3D graphics, dual display, video capture/playback, power management control with ReduceOn® technology and full range of driver support for Win9x/Win2K/WinXP/Linux/QNX/ VxWorks • integrates on-chip SDRAM memory with MCM technology • provides support for x86 and embedded CPU interface	Handheld computers, tablet PC, point of sales terminals, Internet appliances, car navigation systems, industrial PC	**GPS Navigation Systems and Handheld Computers**  Source: Gartner
Image processor	PC camera	370	2005/Q4	Single-chip image processor: • supports high-speed USB 2.0 • supports up to 2.0 megapixels CMOS image sensor • integrates with color process engine, JPEG compression, AC-Link/IIS audio interface. • provides auto-focus engine and control • is video class version 1.0 compliant • uses 3.3 V single power supply and requires no external memory	Notebook PC camera, PC camera, mobile phone camera	**PC Cameras**  Source: IDC

Mobile Storage Products

We offer a wide range of semiconductor solutions for the mobile storage products including:

Flash memory controllers. We believe we offer the broadest line of high-performance controllers for all major flash memory based storage products. These storage products are high-capacity, solid-state, non-volatile flash memory devices that comply with industry standards, including MMC, SD cards, miniSD cards, CF cards and Memory Stick standards.

Our proprietary IC design methodology, strong firmware capability, proprietary assembly techniques and comprehensive testing procedures enable us to offer controllers that have significant competitive advantages with respect to compatibility, speed, connectivity and cost. We believe that our controllers are compatible with the majority of flash memory currently being produced by different flash memory IC manufacturers, and support the majority of current flash memory card standards. Based on our proprietary QuickWrite technology, our controllers can achieve a maximum write speed of 10 megabytes per second, which significantly outperforms competing products. Our technology, FastMDC, enables ultra high performance flash memory access time and high reliability of data storage. Our flash memory controllers are also designed to allow flexible flash memory configuration through both hardware and firmware. Our flash memory controller ICs are manufactured using standard CMOS processes at 0.35 micron and 0.18 micron.

USB 2.0 flash disk drive controllers. We believe that our USB 2.0 flash disk drive controller has the best performance in two-channel flash memory configuration. This low-power consuming controller supports almost all kinds of existing NAND-type flash memory. Asynchronous or synchronous serial data interfaces are integrated into the controller to support the companion chip. The controller also integrates USB 2.0 PHY, SIEs, high-speed 80C511-compatible micro controllers with scratchpad and program SRAM.

Our USB 2.0 flash disk drive controllers significantly increase memory data transfer rates while reducing the overall system cost by offering a manufacturing-ready turnkey solution to our customers. Our ICs are manufactured using CMOS processes at 0.25 micron and 0.18 micron.

USB 2.0 card reader controllers. The SM330 is a highly integrated, flexible application USB 2.0 multi-interface flash card reader controller that supports USB 2.0 high-speed transmission to almost all kinds of memory cards. In particular, it supports new memory card standards such as SD version 1.1, MMC version 4.1, MS Duo/Pro and CF PIO5/6 mode cards.

Multimedia SoCs

We offer a wide range of semiconductor solutions for multimedia SoCs, including:

Portable audio SoCs. Our portable audio SoCs are highly-integrated, battery-optimized ICs designed to decode compressed audio files such as MP3 files and WMA files into audible sound. We offer portable audio SoCs for both flash memory-based and hard drive-based portable audio players.

Our flash memory-based product, the SM340, is a single chip, low-power solution for high-performance digital audio with flash media card interface. The product is based on a highly efficient and low-power DSP architecture and integrates an audio decoder with a high-performance DSP, ADPCM record capability and a high-speed USB 2.0 interface for

downloading music and uploading voice recordings. Its programmable architecture supports MP1, MP2, MP3 and WMA digital audio standards. Our high integration, low pin count design enables us to maintain competitive advantages in both performance and cost. Our portable audio SoC products are manufactured using CMOS processes at 0.18 micron.

SM350 product line. Our SM350 product is a single chip, low-power solution for hard drive-based portable audio players. It features high-performance digital audio and JPEG image decoding. It also supports Microsoft's Windows Media DRM version 10. A built-in, highly efficient DSP performs JPEG decode and MP3/WMA decode and encode functions, which enables the SM350 to play photo slide shows and background music simultaneously. The internal microprocessor controls input storage devices, such as NAND flash, CF, SM, SD, MMC, Memory Stick/Memory Stick Pro, xD picture, and IDE.

The SM350 integrates industry-standard serial interfaces, AC-Link and I2S to interface with an external audio codec. A USB 2.0 device interface allows high speed data transfer between a PC and attached storage devices. In addition, I^2C, SPI and GPIO's are available for user-friendly control interfaces. The products are manufactured using CMOS processes at 0.18 micron.

Multimedia display processors. Our Lynx and Cougar family of high-performance and low-power 2D/3D display controllers integrate a graphics engine and embedded memory. These products support a variety of microprocessors, operating systems and reference platforms for mobile multimedia, automotive and embedded applications. These mobile applications require low power and small form factors. Our display controllers' embedded technology specifically addresses these needs.

Based on our DualMon technology, our display controllers can drive two separate displays using one controller. This saves on costs as well as board estate. Our ReduceOn® technology enables intelligent power management which algorithmically varies the clock and power to functional units based on system needs to significantly reduce average operating power usage. End-users can thus use the mobile devices for longer periods without a reduction in performance.

The SM501 is designed to accelerate graphics and video and provide the I/O functions required in mobile multimedia consumer electronics devices such as multimedia phones. The key features of our multimedia SoCs include a high-performance 2D and video acceleration with low-power consumption, a direct CPU bus interface for embedded CPU and graphics bus interfaces, support for up to 64 megabytes of dedicated graphics memory for different price and performance points, integrated I/O for lower system cost and smaller form factors, a flexible memory configuration and displays to LCDs, CRTs or TVs with flexible configurations.

Image processors. SM370 is a single chip image controller for USB 2.0 PC camera solutions. It supports CMOS image sensors of up to 2.0 megapixels. SM370 integrates the color process engine, JPEG compression, AC-Link/IIS audio interface and high-speed USB 2.0 device controller. SM370 integrates USB transceivers, SIEs and command decoders which are fully compliant with USB 2.0/1.1. Therefore, SM370 also supports all legacy PC systems equipped with USB 1.1 host interfaces.

Our Customers

Our direct and indirect customers include manufacturers, OEMs and ODMs of major flash memory-based storage products as well as portable digital media devices. Many of our customers in turn sell brand name consumer electronics products that include our solutions. For

our flash card and UFD controller, our worldwide customers include companies such as Creative, Lexar Media and Samsung. For our multimedia products, our worldwide customers include Acer, Intel, Sharp, Siemens and Sony. For the year ended 2004, our three largest customers individually accounted for approximately 22%, 14% and 13% of our net sales, respectively. Our top 10 customers in 2004 in aggregate accounted for approximately 75% of our net sales.

The majority of our customers purchase our products through purchase orders, as opposed to entering into long-term contracts with us. The price for our products is typically agreed upon at the time a purchase order is placed.

Sales and Marketing

We market and sell our products worldwide through a combination of direct sales personnel and independent distributors. We have direct sales personnel in Taiwan, the United States, Japan, Germany and China. Our direct sales force is divided into two groups that focus on retail and OEM and ODM opportunities, respectively. Approximately 84% of our sales in 2004 was attributable to our direct sales force while the remainder was attributable to independent distributors. As of December 31, 2004, we had 32 persons on our sales and marketing team, including 20 in Taiwan, six in the United States and six in China, Japan and Germany. We intend to increase our sales efforts in order to expand our OEM and ODM customer base.

Our marketing group focuses on our product strategy, product road map, new product introduction process, demand assessment and competitive analysis. Our marketing group is responsible for promoting our products and solutions by actively participating in industry tradeshows and technical conferences, and maintaining close contact with our existing customers to assess demand and keep current with industry trends. We seek to work with potential and existing customers early in their design process in order to best match our products to their needs. We also provide field application support and assistance to existing and potential customers in designing, testing and qualifying systems that incorporate our products.

We are also actively involved in both the MMCA and the SDCA, which enable us to keep abreast of the latest developments in our sector and promote our brand name. Our marketing group works closely with our sales and research and development groups to align our product development road map with the interests of our customers, both existing and potential. Our marketing group also works with our sales team to identify new business opportunities.

Research and Development

We devote a significant amount of resources in research and development to broadening and strengthening our portfolio of product offerings. Our engineering team has expertise in system architecture, IC design, digital and mixed-signal design and software engineering. As of December 31, 2004, we had over 30 patents in China, Japan, Taiwan and the United States, with approximately 70 full-time engineers focused in our research and development efforts and technical services support. These included 13 engineers in application-specific integrated circuits, 13 in systems engineering, 11 in firmware, eight in software, six in laboratory and the rest in digital signal processing, computer-aided design, place and route, applications engineering and product engineering. Our research and development expenses were approximately NT$107.5 million, NT$203.6 million and NT$238.5 million (US$7.6 million) for the years ended December 31, 2002, 2003 and 2004, respectively, and NT$42.4 million and NT$69.0 million (US$2.2 million) for the three months ended March 31, 2004 and 2005, respectively. We anticipate that we will incur in excess of NT$100 million of research and development expense

in each of 2005, 2006 and 2007. Our products-focused engineering offices are located in Hsinchu and Taipei, Taiwan, and San Jose, California. Our research and development efforts in the United States are mostly focused on more complex and higher-end products, while our research and development efforts in Asia are focused on achieving a lower cost design model.

Manufacturing

We design and develop our products and electronically transfer our proprietary designs to independent foundries for the manufacturing and processing of silicon wafers. Once the wafers are manufactured, they are then shipped to third-party assembly and testing subcontractors. Individual dies on each wafer are assembled into finished ICs and undergo several stages of testing before delivery to our customers. We believe that our strategy of outsourcing wafer fabrication, packaging and testing enables us to benefit from the research and development efforts of leading manufacturers without the requirement to commit substantial capital investments. Our fabless business model also provides us with the flexibility to engage vendors who offer services that best complement our products and technologies.

Wafer fabrication. UMC in Taiwan and SMIC in China are currently our primary foundries that manufacture most of our semiconductors. These foundries currently fabricate our devices using mature and stable CMOS process technology with line-widths of 0.18-, 0.25- and 0.35-micron. We regularly evaluate the benefits and feasibility, on a product by product basis, of migrating to more cost efficient manufacturing process technologies.

Assembly and testing. Following wafer fabrication, our wafers are shipped to our assembly and test subcontractors where they are probed, singulated into individual die, assembled into finished IC packages, and undergo the process of electronic final testing. In order to minimize cost and maximize turn-around time, our products are designed to use low cost, industry standard packages and can be tested with widely available automatic test equipment. We currently engage companies such as SPIL, ASE, ASE Test, Inc. and King Yuan Electronics in Taiwan as our primary subcontractors for the assembly and testing of our products. We have dedicated teams of manufacturing engineers who maintain control over the process from the early stages of manufacturing. Our engineers work closely with our subcontractors to develop product test and packaging programs to ensure these programs meet our product specifications, thereby maintaining our ownership of the functional and parametric performance of our semiconductors.

Quality and Reliability Assurance. We have designed and implemented a quality assurance system that provides the framework for continual improvement of products, processes and customer service. To ensure consistent product quality, reliability and yield, our quality assurance teams perform reliability engineering, quality control, ISO system development, document control, subcontractor quality management and customer engineering services to closely monitor the overall process from IC design to after-sale customer support. In particular, we rely on in-depth simulation studies, testing and practical application testing to validate and verify our products. We emphasize a strong supplier quality management practice in which our manufacturing suppliers and subcontractors are pre-qualified by our quality assurance teams. Our suppliers are required to have a quality management system, certified to ISO 9000 standard. Our operations have been ISO 9001 certified since November 18, 1999.

Competition

The semiconductor industry is characterized by intense competition. Our customers face supply shortages or oversupply, rapid technological changes, evolving industry standards and declining average selling prices.

We currently compete with other companies that produce flash card controllers, primarily Cypress, Genesys, Hyperstone AG, Incomm, Panasonic, Phison, Renesas, Samsung, SanDisk, Toshiba and USBest. We may also face competition from some of our customers who may develop products or technologies internally that compete with our solution. For audio, graphics and imaging SoC products, we compete with ATI, NVIDIA, PortalPlayer, SigmaTel, Sunplus and Telechips.

Many of our current and potential competitors include many large domestic and international companies that have longer operating histories, greater name recognition, greater ability to influence industry standards, more extensive patent portfolios, access to larger customer bases and significantly greater financial, sales and marketing, manufacturing, distribution, technical and other resources than we have. As a result, they may be able to respond more quickly to changing customer demands by faster developing new, cheaper, better performing and patented products that influence and comply with industry standards, and also sell and market these products better than we do. They may also acquire significant market share through existing and new financial strategic relationships amongst themselves. Accordingly, the success of our competitors may adversely affect our future sales revenue. We also expect to face competition in the future from other manufacturers and designers of semiconductors, and innovative start-up semiconductor design companies. Certain of our customers could develop products or technologies internally which are competitive with our products. Other customers could enter into strategic relationships with other semiconductor solutions providers. Any of these actions could replace their need for our products.

We believe, however, that we compete favorably because we provide universally compatible solutions and are able to provide highly cost-effective products.

Intellectual Property

To protect our proprietary rights, we rely upon a combination of copyright, patent and trademark laws, laws relating to protection of other intellectual property rights, trade secrets, and confidentiality agreements with both employees and third parties. All of our employees have executed confidentiality and assignment agreements that assign and transfer any rights they may have over information developed in the course of their employment to us. In addition, prior to disclosing our confidential information and technologies to outside parties, we typically require that the parties enter into a non-disclosure agreement with us.

As of May 5, 2005, we held 13 patents in Taiwan, 14 patents in the United States, four patents in China and three patents in Japan, relating to various flash management and USB application technologies. These patents will expire at various dates from 2007 through 2023. As of May 5, 2005, we also had a total of five pending patent applications in Taiwan, 15 in the United States, three in China and one in Japan. In addition, we have registered “Silicon Motion” and its logo (a three-dimensional cube depiction of the letters “SM”) as trademarks in Taiwan and the United States and have made application in China and Japan to register the mark.

We typically enter into license agreements with relevant third parties under which we produce our products. Such third parties include intellectual property vendors such as computer aided design tool vendors and software vendors.

We expect to continue to file patent applications where appropriate to protect our proprietary technologies and intend to apply for at least five patents in each of 2005, 2006 and 2007. We may need to enforce our patents or other intellectual property rights, or to defend ourselves against claimed infringement of the rights of others through litigation, which could

result in substantial costs and a diversion of our resources and of our efforts to procure other intellectual property rights. See “Risk Factors — Risks Related to Our Business — Failure to protect our proprietary technologies or maintain the right to certain technologies may negatively affect our ability to compete.”

Employees

The following table sets forth the number of our employees categorized by function as of the dates indicated.

	As of December 31,			As of March 31,
	2002	2003	2004	2005
Management and administration	20	22	29	33
Operations	10	10	9	9
Research and development	34	44	69	86
Sales and marketing	25	28	32	37
Total	89	104	139	165

As of March 31, 2005, we had 165 employees, including 123 in Taiwan, 27 in the United States and 15 in China, Germany and Japan. We plan to recruit between 15 and 20 new research and development engineers in each of 2005, 2006 and 2007.

We do not have any collective bargaining arrangements with our employees. We consider our relations with our employees to be good.

In November 2004, SMI Taiwan established an employee share option plan under which SMI Taiwan could issue options in respect of a maximum of 8,000 units, each unit comprising 1,000 common shares in the capital of SMI Taiwan. After the establishment of the plan, options in respect of a total of 4,000 units, or 4,000,000 shares, were issued. Each option is valid for six years and exercisable under a vesting schedule commencing from the second year after issuance. In connection with the share exchange between us and the shareholders of SMI Taiwan that we completed on April 25, 2005, we have agreed to assume these options so that they became options to purchase the equivalent number of our ordinary shares based on the one-for-one ratio in the share exchange.

SMI Taiwan has a defined pension plan for all regular employees. This plan provides benefits based on the length of services and average monthly salary computed based on the final six months of employment. SMI Taiwan currently makes monthly contributions, equal to 2% of salaries, to a pension fund for its employees. Under the Labor Pension Act of Taiwan, which will be in effect beginning July 1, 2005, eligible employees may elect to be subject to the pension mechanism under this act, which would require SMI Taiwan to contribute at least 6% of each employee’s monthly salary.

Facilities

Our headquarters in Taiyuan Science Park, Jhubei City, Hsinchu County, Taiwan, consisting of our finance, human resource, MIS (IT), operations, research and development and management departments, is located in a leased space of approximately 28,000 square feet. We lease the premises under a two-year term lease, expiring February 28, 2006, and a three-year lease, expiring March 15, 2008. We also lease premises in Taipei, Taiwan, which occupies approximately 20,500 square feet under a two-year lease, expiring May 31, 2006, and a one-year lease, expiring May 31, 2006; in San Jose, California, under a three-year lease, expiring

March 31, 2007, which occupies approximately 19,900 square feet; in Shanghai, China, under a one-year lease, expiring August 31, 2005, which occupies approximately 3,800 square feet; in Shenzhen, China, under a one-year lease, expiring May 17, 2006, which occupies approximately 2,000 square feet; and in Shin-Yokohama, Japan, under a two-year lease, expiring March 25, 2005, and which occupies approximately 1,500 square feet. We intend to renew the lease in Japan for another two-year term commencing immediately after its expiration.

We conduct research and development pertaining to our products at our facilities on the premises at Hsinchu, Taipei and San Jose, California. We implement our sales and marketing initiatives through our sales offices located in Taipei, Taiwan, San Jose, California, Shin-Yokohama, Japan, Shanghai, China and Munich, Germany.

We own commercial property in Sizhi, Taipei, of approximately 6,000 square feet, which is currently not used and which we intend to lease out as office premises.

We believe that adequate facilities are available to accommodate our future expansion plans.

Legal Proceedings

On August 15, 2002, SMI Taiwan filed an action against two of its former employees and Phison Electronics Corporation, or Phison, with the Taiwan Hsinchu District Court. The complaint alleges that the two former SMI Taiwan employees who were subsequently hired by Phison, and Phison violated the Business Secret Law and Copyright Law of Taiwan for the infringement of certain intellectual property rights to CF controller chips owned by SMI Taiwan. The claimant seeks damages in the amount of NT$125 million (US$4.0 million). On May 15, 2003, SMI Taiwan named Winbond Electronics Corporation, or Winbond, as a defendant in the same action.

On April 8, 2004, the Taiwan Hsinchu District Court issued a ruling determining that the two former SMI Taiwan employees, Phison and Winbond did not violate the Business Secret Law and Copyright Law of Taiwan. The Hsinchu district court ruling stated that there was sufficient evidence to show that the defendants obtained SMI Taiwan's consent to respectively produce and purchase the CF controller chips that were the subject of the lawsuit. On May 4, 2004, SMI Taiwan appealed the Hsinchu district court's ruling to the Taiwan High Court. The case is presently pending before the Taiwan High Court.

On January 2, 2003, O2Micro International Limited, or O2Micro, a Cayman Islands company, filed an action for a preliminary injunction against SMI Taiwan with the Taiwan Hsinchu District Court. The request for such preliminary injunction alleges that SMI Taiwan produced and sold products with embedded digital sound effect control chips that infringed O2Micro's patent, patent registered number 130953, in Taiwan and asks for an order prohibiting SMI Taiwan from manufacturing and selling certain products that allegedly infringe O2Micro's patent in Taiwan. On February 6, 2003, SMI Taiwan filed an action for a preliminary injunction against O2Micro denying such allegations and requesting O2Micro not to interfere with SMI Taiwan's distribution, manufacturing and business operations in relation to the relevant products. A court-appointed appraiser completed a report on December 16, 2004 stating that SMI Taiwan's products raised in the case do not infringe O2Micro's patent. The appraiser's report has been submitted to the court.

On February 3, 2004, O2Micro filed an application for a provisional seizure of NT$15.0 million (US$0.5 million) against SMI Taiwan with the Taiwan Hsinchu District Court. The application alleges that SMI Taiwan infringed O2Micro's patent, patent registered number 130953, in Taiwan. The Taiwan Hsinchu District Court issued a provisional seizure order and

attached some of SMI Taiwan's assets. Upon placing a deposit of NT$15.0 million, the Taiwan Hsinchu District Court has released the enforcement of the provisional seizure order. The provisional seizure order will be decided as part of the lawsuit discussed in the next paragraph regarding the infringement of patent number 130953 filed by O2Micro against SMI Taiwan.

In addition, on September 24, 2004, O2Micro filed an action against SMI Taiwan with the Taiwan Hsinchu District Court. The complaint alleges that SMI Taiwan infringed O2Micro's patent, patent registered number 130953, in Taiwan and preliminarily claimed for damages of NT$3.0 million (US$95,000). The court's ruling in this case is pending.

On January 14, 2004, O2Micro filed for a preliminary injunction against SMI Taiwan and Microstar, a Taiwan customer of SMI Taiwan with the Taiwan Panchiao District Court. The request for injunctive relief asks for an order prohibiting SMI Taiwan and Microstar from designing, manufacturing, advertising and selling certain products that allegedly infringe O2Micro's patent, patent registered number 178290, in Taiwan. On May 20, 2004, the Panchiao District Court issued a preliminary injunctive order prohibiting SMI Taiwan and Microstar from designing, manufacturing, advertising and selling certain products that allegedly infringe O2Micro's patent in Taiwan. Both sides have appealed this case to the Taiwan High Court. The Taiwan High Court rejected the appeals on March 10, 2005, and both sides have appealed to the Taiwan Supreme Court. The enforcement of such preliminary injunctive order has been withdrawn upon our deposit with the court of NT$11.5 million.

Our management currently believes that the legal proceedings described above, individually or in the aggregate, will not have a material adverse effect on our financial position or operating results. The litigation and other claims noted above, however, are subject to inherent uncertainties and management's view of these matters may change in the future.

MANAGEMENT

Executive Officers and Directors

Members of our board of directors are elected by our shareholders. Our board of directors consists of seven directors.

Our executive officers are appointed by, and serve at the discretion of, our board of directors. The following table sets forth information regarding our directors and executive officers as of the date of this prospectus.

Name	Age	Position
James Chow	54	Chairman of the Board
Wallace C. Kou	46	President, Chief Executive Officer and Director
Henry Chen	40	Director
Tsung-Ming Chung	56	Director
C. S. Ho	56	Director
Lien-chun Liu	47	Director
Yung-Chien Wang	42	Director
Richard Wei	42	Chief Financial Officer
Jerry Shun	46	Vice President, Sales and Marketing
Ken Chen	44	Vice President, Operations
Jason Chiang	38	Vice President and Special Assistant to Chief Executive Officer
Frank Chang	39	Senior Director, Research and Development

Executive Officers and Directors

James Chow, Chairman of the Board of Directors

James Chow has served as the Chairman of our board of directors since April 22, 2005 and as the Chairman of the board of directors of SMI Taiwan since March 2002. Mr. Chow became the Chairman of Concord Financial Co., Ltd. in July 1993. Concord Financial Co., Ltd. is a venture capital firm and one of our significant shareholders. Since May 2003, Mr. Chow has also served as the Chairman of Waffer Technology Corporation, a manufacturer of magnesium alloy products in Taiwan. Mr. Chow received an MBA from Columbia University.

Wallace C. Kou, President, Chief Executive Officer, Director

Mr. Kou, our President and Chief Executive Officer, joined our board of directors on April 22 2005. He has served as the President and Chief Executive Officer of SMI Taiwan since August 2002. He is responsible for our overall strategy and management. Mr. Kou founded SMI USA in 1996. Prior to founding SMI USA, Mr. Kou was the Vice President and Chief Architect at the Multimedia Products Division of Western Digital Corporation, a company that designs, develops, manufactures and markets hard drives used in desktop computers, servers, digital video devices and satellite and cable set-top boxes. Mr. Kou received a BS in Electrical & Control Engineering from the National Chiao Tung University in Taiwan and an MS in Electrical & Computer Engineering from the University of California at Santa Barbara.

Henry Chen, Director

Mr. Chen joined our board of directors on June 6, 2005. Mr. Chen is the Chairman of Mercuries and Associates, Ltd., a company listed on the main board of the Taiwan Stock Exchange. He was previously the President of Worldsec Capital Management Inc. and had worked for Goldman Sachs offices in New York, Hong Kong and Taipei. Mr. Chen has a BA in International Trade from the National Chengchi University and an MBA from Georgetown University.

Tsung-Ming Chung, Director

Mr. Chung joined our board of directors on June 6, 2005. Mr. Chung currently serves as the Chairman and Chief Executive Officer of Dynapack International Technology Corp, a leading provider of battery packs for note book computer and other handheld devices. From 1985 to 2000, Mr. Chung was an audit partner at Arthur Andersen. He also serves as a supervisor of Far East International Bank and Taiwan Cellular Corp. Mr. Chung has a BA in Business Administration from the National Taiwan University and an MBA from the National Cheng-chi University.

C. S. Ho, Director

Mr. Ho joined the board of directors on June 6, 2005. He currently serves as the chairman and Chief Executive Officer of SiPix Group, an electronic paper company. He also serves as Chairman of the Computer Skills Foundation in Taiwan. From 1989 to 1995, Mr. Ho served as Chairman of the Taipei Computer Association and from 1991 to 1995 as Chairman of Southeast Asia Information Technology Organization. Mr. Ho is the founder and a general partner of PTI Ventures. Prior to founding PTI Ventures, from 1974 to 1997 he founded and served as Vice Chairman of MiTAC Group. During his tenure at MiTAC, Mr. Ho built the company to an NT$8 billion conglomerate by supplying a wide variety of products to the IT industry, including PCs and peripherals, servers and systems, telecom and data-com equipment, systems integration, software, distribution, computer education, and publications. Mr. Ho received his BS in Electrical Engineering from the National Taiwan University.

Lien-Chun Liu, Director

Ms. Liu joined our board of directors on June 6, 2005. Ms. Liu is a research fellow at the Taiwan Research Institute. She also currently serves on the board of supervisors of Concord VIII Venture Capital Co., Ltd and on the board of directors of New Tamsui Golf Course. From 2000 to 2004, she also served on the board of supervisors of China Television Corp. Ms. Liu has a BA from Wellesley College and a JD from Boston College Law School.

Yung-Chien Wang, Director

Mr. Wang joined our board of directors on June 6, 2005. Mr. Wang has more than 18 years of working experience in the human resource and legal services industry. Mr. Wang has been a consultant of Professional Trust Co., Ltd., a human resource consulting firm in Taiwan since August 1998 and is currently its Vice President. Mr. Wang has a law degree from Fu Jen Catholic University in Taiwan.

Richard Wei, Chief Financial Officer

Richard Wei was appointed as our Chief Financial Officer in April, 2005. Prior to joining us, Mr. Wei served as Chief Financial Officer of KongZhong Corporation from February 2004. Mr.

Wei served as the Chief Financial Officer of ASE Test Limited, a leading independent semiconductor testing services provider, from August 2002 to February 2004, and ISE Labs Inc., a subsidiary of ASE Test Limited, from September 2000 to July 2002. Mr. Wei was a research analyst at Lehman Brothers Asia from 1996 to 2000, a research analyst at Morgan Stanley from 1994 to 1996 and a research associate at the Harvard Business School from 1993 to 1994. He also served as a systems engineer at IBM from 1985 to 1991. Mr. Wei holds an MBA from Cornell University and a BS degree in Computer Science from the Massachusetts Institute of Technology.

Jerry Shun, Vice President, Sales and Marketing

Mr. Shun has served as our Vice President in charge of sales and marketing since February 2004. Mr Shun has more than 20 years' experience in the network and computing industries. He has previously been with Siemens Limited, Micro Advance Technology and Welkin Technologies, Inc. Prior to joining us in February 2004, he was with VIA Tech Inc. and played a key role in incubating its networking division and in spinning it off into VIA Networking Inc. Mr. Shun holds a BS in Electrical Engineering from the National Chen Kong University of Taiwan, and an MBA from the University of California at Riverside.

Ken Chen, Vice President, Operations

Mr. Chen has served as our Vice President in charge of operations since November 2003. Mr. Chen has over 18 years of manufacturing and operation experience in the semiconductor industry. He has been involved in the management of supply chain and virtual manufacturing systems including wafer fabrication, mask tooling, assembly and testing. Mr. Chen previously served in management positions at Faraday Technology and UMC. He joined us in 2003. Mr. Chen holds a BS degree in Industrial Engineering from Chung Yuan Christian University and an MS degree in Industrial Engineering and Engineering Management from the National Tsing Hua University, Taiwan.

Jason Chiang, Vice President and Special Assistant to Chief Executive Officer

Mr. Chiang has more than 11 years of experience in financial accounting and investment analysis. Prior to joining us in May 2002, he worked for Concord Financial for over six years. He holds a BS degree in Economics from the National Taiwan University and an MBA in Finance from the University of Rochester.

Frank Chang, Senior Director, Research & Development

Mr. Chang has served as our director of research and development since August 2002. Mr. Chang manages the research and development department in our Hsinchu headquarters. Mr. Chang has more than 14 years of experience in the chip design industry. He was previously a project manager of firmware development at Holtek, a well-known design house of consumer chips. Mr. Chang has a BS in Electrical Engineering from the National Changhua University of Education.

There is no arrangement or understanding with major shareholders, customers, suppliers or others, pursuant to which any person referred to above was selected as a director or member of senior management.

Board Practices

Board Committees

Our board of directors has established an audit committee, a compensation committee, and a nominating and corporate governance committee.

Audit Committee. The audit committee is responsible for reviewing the financial information that will be provided to shareholders and others, reviewing the systems of internal controls that management and the board of directors have established, appointing, retaining and overseeing the performance of the independent registered public accounting firm, overseeing our accounting and financial reporting processes and the audits of our financial statements, and pre-approving audit and permissible non-audit services provided by the independent registered public accounting firm. Messrs. Tsung-Ming Chung, Henry Chen and Lien-chun Liu are members of our audit committee. Our board of directors has determined that Mr. Tsung-Ming Chung, the Chairman of the audit committee, is the committee's "Financial Expert" as required by Nasdaq and SEC rules.

Compensation Committee. The compensation committee's basic responsibility is to review the performance and development of management in achieving corporate goals and objectives and to assure that our senior executives are compensated effectively in a manner consistent with our strategy, competitive practice and the requirements of the appropriate regulatory bodies. Toward that end, this committee oversees, reviews and administers all of our compensation, equity and employee benefit plans and programs. Messrs. Henry Chen and Lien-chun Liu are members of our compensation committee, with Mr. Chen serving as the Chairman of such committee.

Nominating and Corporate Governance Committee. The nominating and corporate governance committee is responsible for overseeing, reviewing and making periodic recommendations concerning our corporate governance policies, and for recommending to the full board of directors candidates for election to the board of directors. Messrs. C.S. Ho, Henry Chen, Lien-chun Liu and Yung-Chien Wang are members of our nominating and corporate governance committee, with Ms. Liu serving as the Chairman of such committee.

Our board of directors has adopted a code of ethics, which is applicable to all of our employees.

We also have established a disclosure committee, which is comprised of certain members of senior management. Pursuant to the disclosure committee's charter, which was ratified by our board of directors, the disclosure committee is responsible for adopting, evaluating and overseeing our disclosure controls and procedures and internal financial controls.

Duties of Directors

Under Cayman Islands law, our directors have a duty to act honestly, in good faith and with a view to the best interests of our company. Our directors also have a duty to exercise the care, diligence and skills that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to our company, our directors must ensure compliance with our memorandum and articles of association.

The functions and powers of our board of directors include, among others:

- convening shareholders' meetings and reporting its work to shareholders at such meetings;
- implementing shareholders' resolutions;

- determining our business plans and investment proposals;
- formulating our profit distribution plans and loss recovery plans;
- determining our debt and finance policies and proposals for the increase or decrease in our registered capital and the issuance of debentures;
- formulating our major acquisition and disposition plans, and plans for merger, division or dissolution;
- proposing amendments to our amended and restated memorandum and articles of association; and
- exercising any other powers conferred by the shareholders' meetings or under our amended and restated memorandum and articles of association.

Terms of Directors and Officers

Under Cayman Islands law and our articles of association, our directors hold office until a successor has been duly elected and qualified unless the director was appointed by the board of directors, in which case such director holds office until the next annual meeting of shareholders at which time such director is eligible for re-election. All of our executive officers are appointed by and serve at the discretion of our board of directors.

Limitation on Liability and Other Indemnification Matters

Cayman Islands law and our articles of association allow us to indemnify our directors, secretary and other officers acting in relation to any of our affairs against actions, costs, charges, losses, damages and expenses incurred by reason of any act done or omitted in the execution of their duties as our directors, secretary and other officers. Under our memorandum and articles of association, indemnification is not available to any matter in respect of any fraud, dishonesty, willful misconduct or bad faith which may attach to any of them.

Compensation of Directors and Executive Officers

For the year ended December 31, 2004, the aggregate compensation to our directors and senior executive officers was approximately NT$39.7 million (US$1.3 million). We granted options to our executive officers as a group to acquire an aggregate of 1,000,000 common shares of SMI Taiwan over the same period, but did not grant any options to our non-executive directors for the year ended December 31, 2004.

Service Contracts

We currently do not have service contracts with our directors.

Share-based Compensation Plans and Option Grants

In April 2005, our board of directors and shareholder adopted our 2005 Incentive Plan. The 2005 Incentive Plan provides for the grant of stock options, stock bonuses, restricted stock awards, restricted stock units and stock appreciation rights, which may be granted to our employees (including officers), directors and consultants.

Share Reserve. The aggregate number of ordinary shares that may be issued pursuant to awards granted under the 2005 Incentive Plan will not exceed 10,000,000 inclusive of ordinary

shares issuable upon exercise of awards previously granted under the Silicon Motion, Inc. Guidelines for Issuance and Subscription of Employee Stock Option, which options we have, subject to the consent of the respective option-holders, agreed to assume in the share exchange (described under “Corporate History and Related Party Transaction — Corporate History”).

The following types of shares issued under the 2005 Incentive Plan may again become available for the grant of new awards under the 2005 Incentive Plan: restricted stock issued under the 2005 Incentive Plan that is forfeited or repurchased by us prior to it becoming fully vested; shares withheld for taxes; shares tendered to us to pay the exercise price of an option; and shares subject to awards issued under the 2005 Incentive Plan that have expired or otherwise terminated without having been exercised in full.

Administration. The board of directors will administer the 2005 Incentive Plan and may delegate this authority to administer the plan to a committee. Subject to the terms of the 2005 Incentive Plan, the plan administrator, which is our board of directors or its authorized committee, determines recipients, grant dates, the numbers and types of stock awards to be granted and the terms and conditions of the stock awards, including the period of their exercisability and vesting. Subject to certain limitations, the plan administrator will also determine the exercise price of options granted, the purchase price for restricted stock and restricted stock units, and, if applicable, the strike price for stock appreciation rights.

Capitalization adjustments. In the event of a dividend or other distribution (whether in the form of cash, ordinary shares, other securities, or other property), recapitalization, stock split, reorganization, merger, consolidation, exchange of our ordinary shares or our other securities, or other change in our corporate structure, the board of directors may adjust the number and class of shares that may be delivered under the 2005 Incentive Plan and the number, class and price of the shares covered by each outstanding stock award.

Changes in control. In the event of a change in control of the company, all outstanding options and other awards under the 2005 Incentive Plan may be assumed, continued or substituted for by any surviving or acquiring entity. If the surviving or acquiring entity elects not to assume, continue or substitute for such awards, the vesting of such awards held by award holders whose service with us or any of our affiliates has not terminated will be accelerated and such awards will be fully vested and exercisable immediately prior to the consummation of such transaction, and the stock awards shall automatically terminate upon consummation of such transaction if not exercised prior to such event.

Amendment and termination. The board of directors may amend (subject to shareholder approval as required by applicable law), suspend or terminate the 2005 Incentive Plan at any time. Unless sooner terminated by the board of directors, the 2005 Incentive Plan will terminate pursuant to its terms on April 22, 2015.

CORPORATE HISTORY AND RELATED PARTY TRANSACTIONS

Corporate History

SMI Taiwan (formerly Feiya Technology Corporation) was incorporated on April 8, 1997 and its shares were approved for public issue in Taiwan in December 1999.

SMI USA was incorporated in California in November 1995.

In August 2002, Feiya Technology Corporation acquired SMI USA and changed its name from “Feiya Technology Corporation” to “Silicon Motion, Inc.” To facilitate the acquisition:

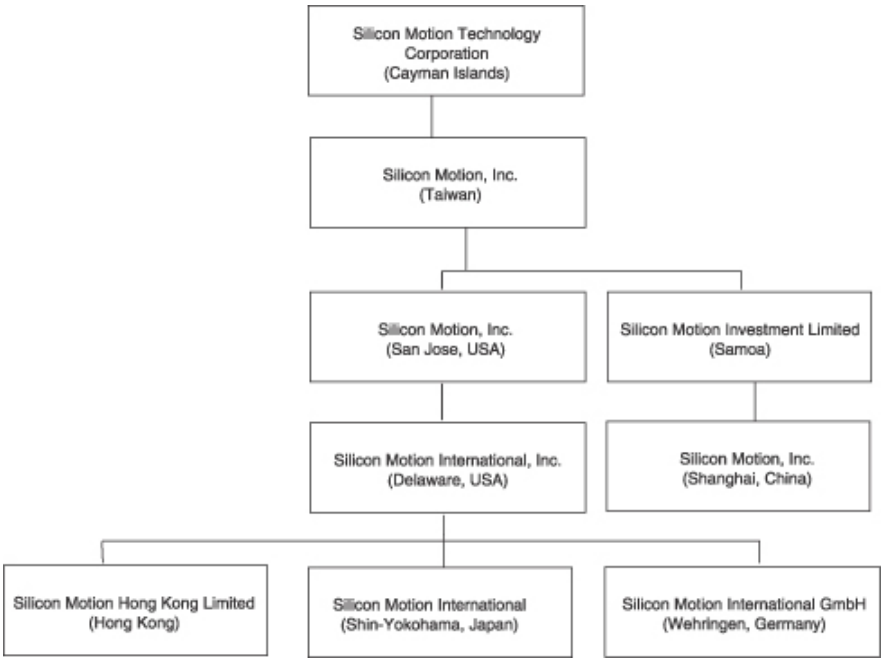
- Crane Technology, Inc., or CTI, a Delaware corporation, was formed to become a holding company for SMI USA;
- one of the then shareholders of Feiya Technology Corporation sold certain shares in Feiya to CTI;
- Crane Acquisition Corporation, or CAC, a California corporation and a wholly-owned subsidiary of CTI then merged with and into SMI USA and in the process the separate corporate existence of CAC ceased and SMI USA continued as the surviving corporation and became a wholly-owned subsidiary of CTI;
- in the merger, the shareholders of SMI USA received cash or shares of CTI and became holders of all outstanding shares of CTI;
- prior to the merger, CTI purchased shares of SMI Taiwan from SMI Taiwan and a then shareholder of SMI Taiwan; and
- subsequent to the merger, SMI Taiwan purchased from CTI all of the outstanding shares of SMI USA held by CTI after the merger.

The entire transaction was accounted for under the purchase method of accounting with Feiya as the acquirer such that Feiya issued 25.4 million shares of Feiya common stock in exchange for 100% of the outstanding shares of SMI USA preferred stock. As each share of outstanding common stock of SMI USA was repurchased by SMI USA and cancelled prior to the merger, Feiya also issued 18.5 million shares of its common stock to former employees or their designees, directors and former common shareholders of SMI USA. The purchase consideration was NT$610 million (US$19.4 million) and was determined using a per share price of NT$13.7 for Feiya common stock which was determined to be the fair value of the shares at the date of consummation of the merger.

SMI Taiwan’s common shares had been traded on the Emerging Stock Board of the Taiwan GreTai Securities Market (formerly known as the Taiwan Over-the-Counter Securities Exchange), or Taiwan OTC, since June 27, 2003. Trading of SMI Taiwan’s common shares on the Emerging Stock Board ceased on April 18, 2005. On January 27, 2005, Silicon Motion Technology Corporation was incorporated in the Cayman Islands. On April 25, 2005, SMI Taiwan became a wholly-owned subsidiary of Silicon Motion Technology Corporation through a share exchange, which was approved at a shareholders’ meeting of SMI Taiwan on March 7, 2005, with no dissenting shareholders. According to the resolutions adopted by such shareholders meeting of SMI Taiwan, one common share of SMI Taiwan would be exchanged for one ordinary share of Silicon Motion Technology Corporation. The share exchange was conducted under the Business Mergers and Acquisitions Law of Taiwan. Under such share exchange, the issued shares of SMI Taiwan were acquired by Silicon Motion Technology Corporation, which issued 105,412,000 ordinary shares to the shareholders of SMI Taiwan. The Investment Committee, or IC, of the Ministry of Economic Affairs of Taiwan on April 12, 2005, approved our

acquisition of 105,412,000 common shares of SMI Taiwan in the share exchange, and on April 14, 2005, approved the acquisition by Taiwan shareholders of SMI Taiwan of 81,145,807 ordinary shares of Silicon Motion Technology Corporation. Acquisition of ordinary shares of Silicon Motion Technology Corporation by non-Taiwan shareholders of SMI Taiwan is not subject to prior approval of the IC.

Our corporate group chart is set out below. We conduct our business primarily through our subsidiary in Taiwan.



Related Party Transactions

In June 2002, we entered into a research and development agreement with Winbond Electronics Corp., or Winbond, which was a legal entity director of the board of directors of SMI Taiwan through December 2002. We received royalty payments of NT$1.4 million during 2002 for products sold by Winbond as a result of the product developed under the agreement. We recorded the amount as revenue upon receipt of payment from Winbond. The agreement was mutually terminated in February 2003. In addition, we purchased raw materials amounting to NT$49.1 million during 2002 which was completely paid for as of December 31, 2002.

Other than these related party transactions, there were no other related party transactions in the three years ended December 31, 2004 and in the three months ended March 31, 2005.

Historical Stock Price Information Relating to the Common Shares of SMI Taiwan

Prior to the share exchange through which SMI Taiwan became a wholly owned subsidiary of Silicon Motion Technology Corporation on April 25, 2005, the common shares of SMI Taiwan had been traded on the Emerging Stock Board of the Taiwan OTC since June 27, 2003. Trading of the common shares of SMI Taiwan ceased on April 18, 2005. See “— Corporate History.”

The Emerging Stock Board was established in January 2002 to facilitate the trading of securities of companies which do not qualify for listing on the Taiwan Stock Exchange or the GreTai Securities Market. We believe that the qualifications for such companies with an emerging stock available for transactions in this trading system are substantially different from those of a public company in a formal, centralized exchange or quotation system such as Nasdaq. Typically, shareholders in this trading system place their shares with a securities firm which can then facilitate a transaction between persons that desire to sell shares and persons that desire to purchase shares. As a result, securities traded in this system are relatively illiquid and the volume available for trading is generally limited. In addition, we believe that the characteristics of trading activities in this system do not share those that are typically associated with formal stock exchanges or quotation systems such as Nasdaq. For instance, shares are traded in this system by negotiation, and not by computerized matching.

The table below sets out, for the periods indicated, the reported high and low closing market prices for the common shares of SMI Taiwan in this trading system. Given the different nature (in terms of the base of investors, non-centralized trading nature of the system, the difference in disclosure requirements, corporate governance standards, the relative lower trading volumes, and the sophistication of research coverage) of the trading system in which SMI Taiwan's common shares were historically traded, as compared to the Nasdaq National Market, we believe that the historical stock prices for the common shares of SMI Taiwan are not indicative of the initial public offering price or any subsequent trading prices of the ADSs underlying the ordinary shares of Silicon Motion Technology Corporation.

	High	Low
	(NT dollars)	
2003:		
Third quarter (from June 27)	37.00	25.70
Fourth quarter	42.00	31.00
Full year 2003	42.00	25.70
2004:		
First quarter	80.00	44.30
Second quarter	60.00	41.00
Third quarter	38.60	29.00
Fourth quarter	45.00	35.00
Full year 2004	80.00	29.00
Previous six months prior to cessation of trading:		
November 2004	42.00	36.50
December 2004	42.20	36.50
January 2005	42.50	40.00
February 2005	43.50	40.00
March 2005	63.50	42.50
April 2005 (through April 15, the trading day immediately prior to the day the shares ceased to be quoted)	50.00	40.00

The average daily volume of the common shares of SMI Taiwan for the period June 27, 2003, through December 31, 2003, the year 2004 and the period January 1, 2005 through April 15, 2005, was 21,106, 20,835 and 102,908 common shares, respectively, which represented approximately 0.02%, 0.02% and 0.10% of the outstanding common shares of SMI Taiwan as of December 31, 2003, December 31, 2004 and April 15, 2005, respectively.

PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth information with respect to the beneficial ownership, within the meaning of Rule 13d-3 of the General Rules and Regulations under the Securities Exchange Act of 1934, of our ordinary shares, on a fully diluted basis taking into account the aggregate number of ordinary shares underlying our outstanding options as of June 6, 2005, by:

- each of our directors and senior executive officers; and
- other selling shareholders.

As of June 6, 2005, no person is known by us to own beneficially more than 5% of our ordinary shares.

	Ordinary Shares Beneficially Owned Prior to This Offering		Shares Being Sold in This Offering	Shares Beneficially Owned After This Offering[12]	
	Number	%	Number	Number	%
Executive Officers and Directors					
James Chow[1], [2]	2,301,266	2.2	0		
Wallace C. Kou[1], [3]	1,844,194	1.7	0		
Henry Chen[1]	0	—	0		
Tsung-Ming Chung[1]	0	—	0		
Lien-chun Liu[1]	100,000	*	0		
C. S. Ho[1], [4]	173,050	*	0		
Yung-Chien Wang[1]	714,394	*	0		
Richard Wei[1]	0	—	0		
Jerry Shun[1]	45,000	*	0		
Ken Chen[1], [5]	55,725	*	0		
Jason Chiang[1], [6]	194,675	*	0		
Frank Chang[1]	100,000	*	0		
Selling Shareholders					
Ching-Chun Chen[7]	3,142,268	3.0			
Bewise Investments Limited[8]	2,824,050	2.7			
Future Master Associates Limited[9]	2,306,705	2.2			
Smartinvest Consultants Limited[9]	2,156,071	2.0			
Digital Ever Ltd[9]	2,001,765	1.9			
Capital Bright Investments Limited[8]	1,924,745	1.8			
Tiger Global Group Limited[8]	1,802,072	1.7			
Direct International Limited[10]	1,786,200	1.7			
Info Treasure Group Limited[9]	1,622,050	1.5			
Megastep Finance Limited[9]	953,030	*			
Concord Venture Capital Co., Ltd.[11]	2,034,894	1.9			
Concord II Venture Capital Co., Ltd.[11]	1,927,483	1.8			
Concord IV Venture Capital Co., Ltd.[11]	1,924,008	1.8			
Concord VII Venture Capital Co., Ltd.[11]	1,715,210	1.6			
Concord III Venture Capital Co., Ltd.[11]	1,554,690	1.5			
Concord V Venture Capital Co., Ltd.[11]	1,431,250	1.4			
Concord VI Venture Capital Co., Ltd.[11]	1,431,250	1.4			
Concord IX Venture Capital Co., Ltd.[11]	1,000,000	*			

* Less than one percent

(1) The address of Messrs Chow, Kou, Henry Chen, Chung, Ho, Wang, Wei, Shun, Ken Chen, Chiang, Chang and Ms. Liu is No. 20-1, Tai Yuan St., Jhubei City, Hsinchu County 302, Taiwan.

(2) Mr. Chow is the chairman of Concord Consulting Inc. and Concord Financial Co. Ltd. which own 2,497,249 and 1,812,535 shares, respectively. Mr. Chow disclaims any beneficial ownership of these shares except for his pecuniary interest therein.

(3) Represents 1,809,100 shares owned by Mr. Kou and 35,094 shares owned by his spouse.

(4) Represents 103,050 shares owned by Mr. Ho and 70,000 shares owned by his spouse. Mr. Ho is a director of Gapura Incorporated, Gallery Management Ltd., Direct International Limited and PTI Global Venture Limited, which own 196,482, 523,273, 1,786,200 and 572,500 shares, respectively.

(5) Represents 50,000 shares owned by Mr. Chen and 5,725 shares owned by his spouse.

(6) Represents 183,225 shares owned by Mr. Chiang and 11,450 shares owned by his spouse.

(7) The address for Mr. Ching-Chun Chen is 5F, No.18, Lane 211, Zhongzheng Rd., Zhonghe City, Taipei County 235, Taiwan.

(8) The address for Bewise Investments Limited, Capital Bright Investments Limited and Tiger Global Group Limited is Offshore Chambers, P.O. Box 217, Apia, Samoa.

(9) The address for Future Master Associates Limited, Smartinvest Consultants Limited, Digital Ever Ltd, Info Treasure Group Limited and Megastep Finance Limited is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

(10) The address for Direct International Limited is Charlotte House, Charlotte Street, P.O. Box N-341, Nassau, Bahamas.

(11) The address for Concord Venture Capital Co., Ltd., Concord II Venture Capital Co., Ltd., Concord IV Venture Capital Co., Ltd., Concord VII Venture Capital Co., Ltd., Concord III Venture Capital Co., Ltd., Concord V Venture Capital Co., Ltd., Concord VI Venture Capital Co., Ltd. and Concord IX Venture Capital Co., Ltd. is 11F, 132 Min Sheng East Road, Sec. 3, Taipei, Taiwan.

(12) Shares beneficially owned by our executive officers and directors and other selling shareholders after this offering assume exercise in full by the underwriters of their over-allotment option.

As of June 6, 2005, approximately 1.9% of our outstanding ordinary shares are held by 20 record holders in the United States.

No holder of our ordinary shares has preferential voting rights with regard to their ordinary shares with regard to any other holder of our ordinary shares.

DESCRIPTION OF SHARE CAPITAL

We are a Cayman Islands exempted company and our affairs are governed by our amended and restated memorandum and articles of association and the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, or the Companies Law. An exempted company under Cayman Islands law is a company that conducts its business outside the Cayman Islands, is exempted from certain requirements of the Companies Law, including a filing of an annual return of its shareholders with the Registrar of Companies, does not have to make its register of shareholders open to inspection and may obtain an undertaking against the imposition of certain future taxes.

The following are summaries of material provisions of our amended and restated articles of association, which were adopted by special resolution of our members passed on April 22, 2005, and the Companies Law insofar as they relate to the material terms of our ordinary shares. You should read the form of our amended and restated memorandum and articles of association, which is filed as an exhibit to this registration statement on Form F-1, of which this prospectus forms a part.

Under our amended and restated memorandum of association, the objects for which we are established are unrestricted including (a) acting as a holding company; and (b) investing in securities.

After completion of this offering, our authorized share capital will consist of 500,000,000 shares with a par value of US$0.01 per share, of which are presently designated and issued as ordinary shares.

The holders of ADSs will not be treated as our shareholders and will be required to surrender their ADSs for cancellation and withdrawal from the depositary facility in which the ordinary shares are held in order to exercise shareholders' rights in respect of the ordinary shares. The depositary will agree, so far as it is practical, to vote or cause to be voted the amount of ordinary shares represented by ADSs in accordance with the non-discretionary written instructions of the holder of such ADSs.

Meetings

Subject to regulatory requirements, an annual general meeting and any extraordinary general meeting will be called by not less than ten days' notice in writing. Notice of every general meeting will be given to all of our shareholders other than those that, under the provisions of our amended and restated memorandum and articles of association or the terms of issue of the ordinary shares they hold, are not entitled to receive such notices from us, as well as to our principal external auditors.

Notwithstanding that a meeting is called by shorter notice than that mentioned above, but subject to applicable regulatory requirements, it will be deemed to have been duly called, if it is so agreed (a) in the case of a meeting called as an annual general meeting by all of our shareholders entitled to attend and vote at the meeting; or (b) in the case of any other meeting, by a majority in number of our shareholders having a right to attend and vote at the meeting, being a majority together holding not less than 95 percent in nominal value of the issued shares giving that right.

No business other than the appointment of a chairman may be transacted at any general meeting unless a quorum is present at the commencement of business. The absence of a quorum will not preclude the appointment of a chairman. If present, the chairman of our board of directors will be the chairman presiding at any shareholders meetings.

Two of our members present in-person or by proxy representing not less than one third of our outstanding shares will constitute a quorum.

A corporation being a shareholder is deemed for the purpose of our amended and restated articles of association to be present in-person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting or at any relevant general meeting of any class of our shareholders. Such duly authorized representative is entitled to exercise the same powers on behalf of the corporation which he represents as that corporation could exercise if it were our individual shareholder.

The quorum for a separate general meeting of the holders of a separate class of shares is described in "— Modification of rights" below.

Voting Rights Attaching to the Shares

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a show of hands every shareholder who is present in-person or by proxy or, in the case of a shareholder being a corporation, by its duly authorized representative has one vote, and on a poll every shareholder present in-person or by proxy or, in the case of a shareholder being a corporation, by its duly appointed representative, has one vote for each fully-paid share which such shareholder is the holder.

No shareholder is entitled to vote or be reckoned in a quorum, in respect of any share, unless such shareholder is registered as our shareholder at the applicable record date for that meeting and all calls or installments due by such shareholder to us have been paid.

If a recognized clearing house, or its nominee(s), is our shareholder, it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting or at any meeting of any class of shareholders provided that, if more than one person is so authorized, the authorization will specify the number and class of shares in respect of which each such person is so authorized. A person properly authorized by such clearing house is entitled to exercise the same powers on behalf of the recognized clearing house, or its nominee(s), as if such person was the registered holder of our shares held by that clearing house, or its nominee(s), including the right to vote individually on a show of hands.

While there is nothing under the laws of the Cayman Islands which specifically prohibits or restricts the creation of cumulative voting rights for the election of directors of the company, unlike the requirement under Delaware law that cumulative voting for the election of directors is permitted only if expressly authorized in the certificate of incorporation, it is not a concept that is accepted as a common practice in the Cayman Islands, and there are no provisions in our amended and restated memorandum and articles of association that allow cumulative voting for such elections.

Protection of Minority Shareholders

The Grand Court of the Cayman Islands may, on the application of shareholders holding not less than one fifth of our shares in issue, appoint an inspector to examine our affairs and report thereon in a manner as the Grand Court directs.

Any shareholder may petition the Grand Court of the Cayman Islands which may make a winding up order, if the court is of the opinion that it is just and equitable that we should be wound up.

Claims against us by our shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by our amended and restated memorandum and articles of association.

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against, or derivative actions in our name to challenge (a) an act which exceeds the corporate power and authority of our company or is illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of us, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

Pre-emption Rights

There are no pre-emption rights applicable to the issue of new shares under either Cayman Islands law or our amended and restated memorandum and articles of association.

Liquidation Rights

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if we are wound up and the assets available for distribution among our shareholders are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess will be distributed among those shareholders in proportion to the amount paid up at the commencement of the winding up on the shares held by them, respectively, and (ii) if we are wound up and the assets available for distribution among the shareholders as such are insufficient to repay the whole of the paid-up capital, those assets will be distributed so that, as nearly as may be, the losses will be borne by the shareholders in proportion to the capital paid up at the commencement of the winding up on the shares held by them, respectively. If we are wound up, the liquidator may with the sanction of our special resolution and any other sanction required by the Companies Law, divide among our shareholders in specie or kind the whole or any part of our assets (whether they consist of property of the same kind or not) and may, for such purpose, set such value as the liquidator deems fair upon any property to be divided and may determine how such division will be carried out as between the shareholders or different classes of shareholders. The liquidator may also vest the whole or any part of these assets in trustees upon such trusts for the benefit of the shareholders as the liquidator thinks fit, but so that no shareholder will be compelled to accept any assets, shares or other securities upon which there is a liability.

Modification of Rights

Except with respect to share capital, as described below, alterations to our amended and restated memorandum and articles of association may only be made by special resolution of no less than two-thirds of votes cast at a meeting of the shareholders.

Subject to the Companies Law of the Cayman Islands, all or any of the special rights attached to shares of any class, unless otherwise provided for by the terms of issue of the shares of that class, may be varied, modified or abrogated with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of our amended and restated articles of association relating to general meetings will apply likewise to every such separate general meeting, but so that the quorum for the purposes of any such separate general meeting or at its adjourned meeting will be a person or persons together holding, or represented by proxy, on the date of the relevant meeting not less than

one-third in nominal value of the issued shares of that class, every holder of shares of the class will be entitled on a poll to one vote for every such share held by such holder and that any holder of shares of that class present in-person or by proxy may demand a poll.

The special rights conferred upon the holders of any class of shares will not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking equally therewith.

Alteration of Capital

We may from time to time by ordinary resolution:

- increase our capital by such sum, to be divided into shares of such amounts, as the resolution prescribes;
- consolidate and divide all or any of our share capital into shares of larger amount than our existing shares;
- cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of our share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law;
- sub-divide our shares or any of them into shares of smaller amount than is fixed by our amended and restated memorandum of association, subject nevertheless to the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the share resulting from such subdivision, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as we have power to attach to unissued or new shares; and
- divide shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares, attach to the shares respectively as preferential, deferred, qualified or special rights, privileges, conditions or such restrictions which in the absence of any such determination in general meeting may be determined by our directors.

We may, by special resolution, subject to any confirmation or consent required by the Companies Law, reduce our share capital or any capital redemption reserve in any manner authorized by law.

Transfer of Shares

Subject to any applicable restrictions set forth in our amended and restated articles of association, any of our shareholders may transfer all or any of his or her shares by an instrument of transfer in the usual or common form or in any other form which our directors may approve.

Our directors may decline to register any transfer of any share which is not paid up or on which we have a lien. Our directors may also decline to register any transfer of any share unless:

- we receive a fee for such transfer, which shall be determined by our board of directors, but may not exceed the maximum fee allowed by Nasdaq;
- the instrument of transfer is lodged with us accompanied by the certificate for the shares to which it relates and such other evidence as our directors may reasonably require to show the right of the transferor to make the transfer;

- the instrument of transfer is in respect of only one class of share;
- the instrument of transfer is properly stamped in circumstances where stamping is required; and
- in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four.

Our board of directors may refuse to register a transfer or other disposition of any share if it determines that such transfer or disposition cannot be made in the absence of an effective registration statement under the Securities Act of 1933, as amended, or unless an opinion of counsel satisfactory to the directors that such registration is not required has been received.

If our directors refuse to register a transfer, they will, within two months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on notice being given by advertisement in such one or more newspapers or by electronic means, be suspended and the register closed at such times and for such periods as our directors may from time to time determine; provided, however, that the registration of transfers will not be suspended nor the register closed for more than 30 days in any year as our directors may determine.

Share Repurchase

We are empowered by the Companies Law and our amended and restated memorandum and articles of association to purchase our own shares, subject to certain restrictions. Our directors may only exercise this power on our behalf, subject to the Companies Law, our amended and restated memorandum and articles of association and to any applicable requirements imposed from time to time by the SEC, the Nasdaq National Market, or by any recognized stock exchange on which our securities are listed.

Dividends

Subject to the Companies Law, our directors or our shareholders in a general meeting may declare dividends in any currency to be paid to our shareholders but no dividends will exceed the amount recommended by our directors. Dividends may be declared and paid out of our profits, realized or unrealized, or from any reserve set aside from profits which our directors determine is no longer necessary. Our board of directors may also declare and pay dividends out of the share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share otherwise provides (a) all dividends will be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, but no amount paid up on a share in advance of calls will be treated for this purpose as paid up on that share, and (b) all dividends will be apportioned and paid pro rata according to the amounts paid upon the shares during any portion or portions of the period in respect of which the dividend is paid.

Our directors may also pay any dividend that is payable on any shares semi-annually or on any other dates, whenever our financial position, in the opinion of our directors, justifies such payment.

Our directors may deduct from any dividend or bonus payable to any shareholder all sums of money (if any) presently payable by such shareholder to us on account of calls, installments or otherwise.

No dividend or other moneys payable by us on or in respect of any share will bear interest against us.

In respect of any dividend proposed to be paid or declared on our share capital, our directors may resolve and direct that (a) such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that our members entitled thereto will be entitled to elect to receive such dividend, or part thereof if our shareholders so determine, in cash in lieu of such allotment, or (b) the shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as our directors may think fit. We may also, upon the recommendation of the board of directors, resolve in respect of any particular dividend that, notwithstanding the foregoing, it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right of shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend interest or other sum payable in cash to the holder of shares may be paid by check or warrant sent by mail addressed to the holder at his registered address, or addressed to such person and at such addresses as the holder may direct. Every check or warrant will, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and will be sent at his or their risk and payment of the check or warrant by the bank on which it is drawn will constitute a good discharge to us.

All dividends unclaimed for one year after having been declared may be invested or otherwise made use of by our board of directors for the benefit of our company until claimed. Any dividend unclaimed after a period of six years from the date of declaration of such dividend may be forfeited by our board of directors and, if so forfeited, will revert to us.

Whenever our directors or our shareholders in general meeting have resolved that a dividend be paid or declared, our directors may further resolve that such dividend be satisfied by direct payment or satisfaction wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe for our securities or securities of any other company. Where any difficulty arises with regard to such distribution, our directors may settle it as they think expedient. In particular, our directors may issue fractional certificates, ignore fractions altogether or round the same up or down or fix the value for distribution purposes of any such specific assets and may determine that cash payments will be made to any of our shareholders upon the footing of the value so fixed in order to adjust the rights of the parties and may vest any such specific assets in trustees as may seem expedient to our directors and appoint any person to sign any requisite instruments of transfer and other documents on behalf of the persons entitled to the dividend, and such appointments are effective and binding on our shareholders.

Untraceable Shareholders

We are entitled to sell all ordinary shares of a shareholder who is untraceable, provided that:

- all checks or warrants, not being less than three in number, for any sums payable in cash to the holder of such ordinary shares have remained uncashed for a period of 12 years prior to the publication of the advertisement and during the three-month period referred to below;
- we have not during that time received any indication of the whereabouts or existence of the shareholder or person entitled to such ordinary shares by death, bankruptcy or operation of law; and
- we have caused an advertisement to be published in newspapers in the manner stipulated by our amended and restated memorandum and articles of association, giving notice of our intention to sell ordinary shares, and a period of three months has elapsed since such advertisement and the Nasdaq National Market has been notified of such intention.

The net proceeds of any such sale will belong to us, and when we receive these net proceeds we will become indebted to the former shareholder for an amount equal to such net proceeds.

Differences in Corporate Law

The Companies Law is modeled after similar laws in the United Kingdom but does not follow recent changes in United Kingdom laws. In addition, the Companies Law differs from laws applicable to U.S. corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Law applicable to us and the laws applicable to companies incorporated in the United States, such as in the State of Delaware.

Duties of Directors

Under Cayman Islands law, at common law, members of a board of directors owe a fiduciary duty to the company to act in good faith in their dealings with or on behalf of the company and exercise their powers and fulfill the duties of their office honestly. This duty has four essential elements:

- a duty to act in good faith in the best interests of the company;
- a duty not to personally profit from opportunities that arise from the office of director;
- a duty to avoid conflicts of interest; and
- a duty to exercise powers for the purpose for which such powers were intended.

In general, the Companies Law imposes various duties on officers of a company with respect to certain matters of management and administration of the company. The Companies Law contains provisions, which impose default fines on persons who fail to satisfy those requirements. However, in many circumstances, an individual is only liable if he knowingly is guilty of the default or knowingly and wilfully authorizes or permits the default.

In comparison, under Delaware law, the business and affairs of a corporation are managed by or under the direction of its board of directors. In exercising their powers, directors are

charged with a fiduciary duty of care to protect the interests of the corporation and a fiduciary duty of loyalty to act in the best interests of its stockholders. The duty of care requires that directors act in an informed and deliberative manner and inform themselves, prior to making a business decision, of all material information reasonably available to them. The duty of care also requires that directors exercise care in overseeing and investigating the conduct of the corporation's employees. The duty of loyalty may be summarized as the duty to act in good faith, not out of self-interest, and in a manner which the director reasonably believes to be in the best interests of the stockholders.

Under Delaware law, a party challenging the propriety of a decision of a board of directors bears the burden of rebutting the applicability of the presumptions afforded to directors by the "business judgment rule." If the presumption is not rebutted, the business judgment rule protects the directors and their decisions, and their business judgments will not be second guessed. Where, however, the presumption is rebutted, the directors bear the burden of demonstrating the entire fairness of the relevant transaction. Notwithstanding the foregoing, Delaware courts subject directors' conduct to enhanced scrutiny in respect of defensive actions taken in response to a threat to corporate control and approval of a transaction resulting in a sale of control of the corporation.

Interested Directors

There are no provisions under Cayman Islands law that requires a director who is interested in a transaction entered into by a Cayman company to disclose his interest nor will render such director liable to such company for any profit realized pursuant to such transaction.

In comparison, under Delaware law, such a transaction would not be voidable if (a) the material facts as to such interested director's relationship or interests are disclosed or are known to the board of directors and the board in good faith authorizes the transaction by the affirmative vote of a majority of the disinterested directors, even though the disinterested directors are less than a quorum, (b) such material facts are disclosed or are known to the stockholders entitled to vote on such transaction and the transaction is specifically approved in good faith by vote of the stockholders, or (c) the transaction is fair as to the corporation as of the time it is authorized, approved or ratified. Under Delaware law, a director could be held liable for any transaction in which such director derived an improper personal benefit.

Voting Rights and Quorum Requirements

Under Cayman Islands law, the voting rights of shareholders are regulated by the company's articles of association and, in certain circumstances, the Companies Law. The articles of association will govern matters such as quorum for the transaction of business, rights of shares, and majority votes required to approve any action or resolution at a meeting of the shareholders or board of directors. Under Cayman Islands law, certain matters must be approved by a special resolution which is defined as two-thirds of the votes cast by shareholders present at a meeting and entitled to vote; otherwise, unless the articles of association otherwise provide, the majority is usually a simple majority of votes cast.

In comparison, under Delaware law, unless otherwise provided in the corporation's certificate of incorporation, each stockholder is entitled to one vote for each share of stock held by the stockholder. Unless otherwise provided in the corporation's certificate of incorporation or bylaws, a majority of the shares entitled to vote, present in person or represented by proxy, constitutes a quorum at a meeting of stockholders. In matters other than the election of directors, with the exception of special voting requirements related to extraordinary transactions, the affirmative vote of a majority of shares present in person or represented by

proxy at the meeting and entitled to vote is required for stockholder action, and the affirmative vote of a plurality of shares is required for the election of directors.

Mergers and Similar Arrangements

Cayman Islands law does not provide for mergers as that expression is understood under United States corporate law. However, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement in question is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must in addition represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in-person or by proxy at a meeting, or meetings convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder would have the right to express to the court the view that the transaction should not be approved, the court can be expected to approve the arrangement if it satisfies itself that:

- the company is not proposing to act illegally or ultra vires and the statutory provisions as to majority vote have been complied with;
- the shareholders have been fairly represented at the meeting in question;
- the arrangement is one that a businessman would reasonably approve; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law or that would amount to a “fraud on the minority.”

When a takeover offer is made and accepted by holders of 90% of the shares within four months, the offerer may, within a two-month period, require the holders of the remaining shares to transfer such shares on the terms of the offer. An objection may be made to the Grand Court of the Cayman Islands but is unlikely to succeed unless there is evidence of fraud, bad faith or collusion.

Cayman Islands law does not require that shareholders approve sales of all or substantially all of a company’s assets as is commonly adopted by U.S. corporations.

If the arrangement and reconstruction are thus approved, any dissenting shareholders would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of U.S. corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

Shareholder Suits

We are not aware of any reported class action or derivative action having been brought in a Cayman Islands court. In principle, we will normally be the proper plaintiff and a derivative action may not be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, exceptions to the foregoing principle apply in circumstances in which:

- a company is acting or proposing to act illegally or beyond the scope of its authority;
- the act complained of, although not beyond the scope of its authority, could be effected duly if authorized by more than a simple majority vote which has not been obtained; and
- those who control the company are perpetrating a “fraud on the minority.”

Class actions and derivative actions generally are available to stockholders under Delaware law for, among other things, breach of fiduciary duty, corporate waste and actions not taken in accordance with applicable law. In such actions, the court generally has discretion to permit the winning party to recover attorneys' fees incurred in connection with such action.

Corporate Governance

Cayman Islands laws do not restrict transactions with directors, requiring only that directors exercise a duty of care and owe a fiduciary duty to the companies for which they serve. Under our amended and restated memorandum and articles of association, subject to any separate requirement for audit committee approval under the applicable rules of The Nasdaq Stock Market, Inc. or unless disqualified by the chairman of the relevant board meeting, so long as a director discloses the nature of his interest in any contract or arrangement which he is interested in, such a director may vote in respect of any contract or proposed contract or arrangement in which such director is interested and may be counted in the quorum at such meeting.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling us pursuant to the foregoing provisions, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and therefore is unenforceable.

Inspection of Corporate Records

Shareholders of a Cayman Islands company have no general right under Cayman Islands law to inspect or obtain copies of a list of shareholders or other corporate records of the company. However, these rights may be provided in the articles of association.

In comparison, under Delaware law, stockholders of a Delaware corporation have the right during normal business hours to inspect for any proper purpose, and to obtain copies of list(s) of stockholders and other books and records of the corporation and its subsidiaries, if any, to the extent the books and records of such subsidiaries are available to the corporation.

Shareholder Proposals

The Companies Law does not provide shareholders any right to bring business before a meeting or requisition a general meeting. However, these rights may be provided in the articles of association.

Unless provided in the corporation's certificate of incorporation or bylaws, Delaware law does not include a provision restricting the manner in which stockholders may bring business before a meeting.

Approval of Corporate Matters by Written Consent

The Companies Law allows a special resolution to be passed in writing if signed by all the shareholders and authorized by the articles of association.

In comparison, Delaware law permits stockholders to take action by written consent signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting of stockholders.

Calling of Special Shareholders Meetings

The Companies Law does not have provisions governing the proceedings of shareholders meetings which are usually provided in the articles of association.

In comparison, Delaware law permits the board of directors or any person who is authorized under a corporation's certificate of incorporation or bylaws to call a special meeting of stockholders.

Staggered Board of Directors

The Companies Law does not contain statutory provisions that require staggered board arrangements for a Cayman Islands company. Such provisions, however, may validly be provided for in the articles of association.

In comparison, Delaware law permits corporations to have a staggered board of directors.

Issuance of Preferred Shares

Both the Companies Law and Delaware law allow shares to be issued with preferred, deferred or other special rights, whether in regard to dividend, voting, return of share capital or otherwise. The constitutional documents of a Cayman Islands company or a Delaware corporation may contain provisions in respect of the authorization required for the creation and issue of different classes of preferred shares.

Anti-takeover Provisions

Neither Cayman Islands nor Delaware law prevents companies from adopting a wide range of defensive measures, such as staggered boards, blank check preferred, removal of directors only for cause and provisions that restrict the rights of shareholders to call meetings, act by written consent and submit shareholder proposals.

Board of Directors

We are managed by our board of directors. Our amended and restated memorandum and articles of association provide that the number of our directors will be fixed from time to time exclusively pursuant to a resolution adopted by our shareholders at a general meeting, but must consist of not less than two directors. Our board of directors currently consists of seven directors. Our directors may be removed by way of an ordinary resolution of our shareholders. Any vacancy on our board of directors or additions to the existing board of directors can be filled by ordinary resolutions of our shareholders or by the affirmative vote of a majority of the remaining directors.

Our directors are not required to hold any of our shares to be qualified to serve on our board of directors.

Meetings of our board of directors may be convened at any time by the secretary on request of a director or by any director.

A meeting of our board of directors is competent to make lawful and binding decisions if a simple majority of our board of directors are present or represented. At any meeting of our directors, each director, be it by his presence or by his alternate, is entitled to one vote.

Questions arising at a meeting of our board of directors are required to be decided by simple majority votes of the members of our board of directors present or represented at the meeting. In the case of a tie vote, the chairman of the meeting has a second or deciding vote. Our board of directors may also pass resolutions without a meeting by unanimous written consent.

Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Our amended and restated memorandum and articles of association provide for the indemnification of our directors, secretary and other officers against all losses or liabilities incurred or sustained by him or her as a director, secretary or other officer of our company in defending any proceedings, whether civil or criminal, in which judgment is given in his or her favor, or in which he or she is acquitted provided that this indemnity shall not extend to any matter in respect of any fraud, dishonesty, willful misconduct or bad faith which may attach to any of said persons.

Inspection of Books and Records

Holders of our ordinary shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records. However, our amended and restated memorandum and articles of association allow our shareholders and the public to inspect our register of shareholders, which will be available for inspection at our principal executive office at No. 20-1, Taiyuan St., Jhubei City, Hsinchu County 302, Taiwan. In addition, we will provide our shareholders with annual audited consolidated financial statements.

See "Where You Can Find More Information."

History of Share Issuances

We were formed on January 27, 2005 and we issued one ordinary share for consideration of US$1.00 in connection with our formation. On April 25, 2005, we completed a share exchange with the shareholders of SMI Taiwan pursuant to which we issued 105,412,000 ordinary shares to the shareholders of SMI Taiwan in exchange for all of the issued and outstanding shares of SMI Taiwan. Except for these issuances, we have not issued any other share capital prior to the commencement of this offering.

Share Option Activity

As part of the share exchange between Silicon Motion Technology Corporation and SMI Taiwan, our wholly-owned subsidiary, we have, subject to the consent of the respective option-holders, agreed to assume the share options previously issued by SMI Taiwan. All of the options so agreed to be assumed were granted by SMI Taiwan on December 31, 2004. Stock option activity during the periods indicated is as follows:

	Number of Shares	Weighted Average Exercise Price
Balance as of December 31, 2004	4,000,000	NT$ 40
Granted		
Exercised		
Forfeited		
Expired		
Balance as of June 6 , 2005	4,000,000	NT$ 40

Transfer Agent and Registrar

We have appointed Butterfield Bank (Cayman) Limited to serve as our principal registrar and transfer agent in the Cayman Islands. Its address is Butterfield House, 68 Fort Street, P.O. Box 705, Georgetown, Grand Cayman, British West Indies. In addition, we have appointed Dexia Corporate Services Hong Kong Limited as the transfer agent for our ordinary shares. Its address is 51/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

Listing

We have applied to have the ADSs quoted on The Nasdaq National Market under the symbol “SIMO.”

DESCRIPTION OF AMERICAN DEPOSITARY SHARES

American Depositary Receipts

The Bank of New York, as depositary, will execute and deliver the ADRs. ADRs are American Depositary Receipts. Each ADR is a certificate evidencing a specific number of American Depositary Shares, also referred to as ADSs. Each ADS will represent shares (or a right to receive shares) deposited with the Hong Kong office of The Hongkong and Shanghai Banking Corporation Limited, as custodian for the depositary. Each ADS will also represent any other securities, cash or other property which may be held by the depositary. The depositary's office at which the ADRs will be administered is located at 101 Barclay Street, New York, New York 10286.

You may hold ADSs either directly (by having an ADR registered in your name) or indirectly through your broker or other financial institution. If you hold ADSs directly, you are an ADR holder. This description assumes you hold your ADSs directly. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADR holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

As an ADR holder, we will not treat you as one of our shareholders and you will not have shareholder rights. Cayman Islands law governs shareholder rights. The depositary will be the holder of the shares underlying your ADSs. As a holder of ADRs, you will have ADR holder rights. A deposit agreement among us, the depositary and you, as an ADR holder, and the beneficial owners of ADRs set out ADR holder rights as well as the rights and obligations of the depositary. New York law governs the deposit agreement and the ADRs.

The following is a summary of the material provisions of the deposit agreement. For more complete information, you should read the entire deposit agreement and the form of ADR. You can read a copy of the deposit agreement which is filed as an exhibit to the registration statement of which this prospectus forms a part. You may also obtain a copy of the deposit agreement at the SEC's public Reference Room located at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-732-0330.

Dividends and Other Distributions

How will you receive dividends and other distributions on the shares?

The depositary has agreed to pay to you the cash dividends or other distributions it or the custodian receives on shares or other deposited securities, after deducting its fees and expenses. You will receive these distributions in proportion to the number of shares your ADSs represent.

- ***Cash***. The depositary will convert any cash dividend or other cash distribution we pay on the shares into U.S. dollars, if it can do so on a reasonable basis and can transfer the U.S. dollars to the United States. If that is not possible or if any government approval is needed and cannot be obtained, the deposit agreement allows the depositary to distribute the foreign currency only to those ADR holders to whom it is possible to do so. It will hold the foreign currency it cannot convert for the account of the ADR holders who have not been paid. It will not invest the foreign currency and it will not be liable for any interest.

  Before making a distribution, the depositary will deduct any withholding taxes that must be paid. See "Taxation". It will distribute only whole U.S. dollars and cents and will

round fractional cents to the nearest whole cent. *If the exchange rates fluctuate during a time when the depositary cannot convert the foreign currency, you may lose some or all of the value of the distribution.*

- ***Shares***. The depositary may distribute additional ADSs representing any shares we distribute as a dividend or free distribution. The depositary will only distribute whole ADSs. It will try to sell shares which would require it to deliver a fractional ADS and distribute the net proceeds in the same way as it does with cash. If the depositary does not distribute additional ADRs, the outstanding ADSs will also represent the new shares.
- ***Rights to purchase additional shares***. If we offer holders of our securities any rights to subscribe for additional shares or any other rights, the depositary may make these rights available to you. If the depositary decides it is not legal and practical to make the rights available but that it is practical to sell the rights, the depositary may sell the rights and distribute the proceeds in the same way as it does with cash. The depositary will allow rights that are not distributed or sold to lapse. *In that case, you will receive no value for them.*

  If the depositary makes rights available to you, it will exercise the rights and purchase the shares on your behalf. The depositary will then deposit the shares and deliver ADSs to you. It will only exercise rights if you pay it the exercise price and any other charges the rights require you to pay.

  U.S. securities laws may restrict transfers and cancellation of the ADSs represented by shares purchased upon exercise of rights. For example, you may not be able to trade these ADSs freely in the United States. In this case, the depositary may deliver restricted depositary shares that have the same terms as the ADRs described in this section except for changes needed to put the necessary restrictions in place.
- ***Other Distributions***. The depositary will send to you anything else we distribute on deposited securities by any means it thinks is legal, fair and practical. If it cannot make the distribution in that way, the depositary has a choice. It may decide to sell what we distributed and distribute the net proceeds, in the same way as it does with cash. Or, it may decide to hold what we distributed, in which case ADSs will also represent the newly distributed property. However, the depositary is not required to distribute any securities (other than ADSs) to you unless it receives satisfactory evidence from us that it is legal to make that distribution.

The depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADR holders. We have no obligation to register ADSs, shares, rights or other securities *under* the Securities Act. We also have no obligation to take any other action to permit the distribution of ADRs, shares, rights or anything else to ADR holders. *This means that you may not receive the distributions we make on our shares or any value for them if it is illegal or impractical for us to make them available to you*.

Deposit and Withdrawal

How are ADSs issued?

The depositary will deliver ADSs if you or your broker deposits shares or evidence of rights to receive shares with the custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will register the appropriate number of ADSs in the names you request and will deliver the ADRs at its office to the persons you request.

However, except for shares deposited by us or by the selling shareholders named in this prospectus, no shares will be accepted for deposit, without our prior consent, during a period of 180 days after the date of this prospectus.

How do ADS holders cancel an ADR and obtain shares?

You may surrender your ADRs at the depositary's office. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will deliver the shares and any other deposited securities underlying the ADR to you or a person you designate at the office of the custodian. Or, at your request, risk and expense, the depositary will deliver the deposited securities at its office, if feasible.

Voting Rights

How do you vote?

You may instruct the depositary to vote the number of shares your ADSs represent. The depositary will notify you of shareholders' meetings and arrange to deliver our voting materials to you if we *ask* it to. Those materials will describe the matters to be voted on and explain how you may instruct the depositary how to vote. For instructions to be valid, they must reach the depositary by a date set by the depositary.

The depositary will try, as far as practical, subject to Cayman Islands law and the provisions of our constitutive documents, to vote the number of shares or other deposited securities represented by your ADSs as you instruct. The depositary will only vote or attempt to vote as you instruct.

We cannot ensure that you will receive voting materials or otherwise learn of an upcoming shareholders' meeting in time to ensure that you can instruct the depositary to vote your shares. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that you may not be able to vote and there may be nothing you can do if your shares are not voted as you requested.

If we ask the depositary to solicit your instructions and the depositary does not receive voting instructions from you by the specified date, it will consider you to have authorized and directed it to give a discretionary proxy to a person designated by us to vote the number of deposited securities represented by your ADSs. The depositary will give a discretionary proxy in those circumstances to vote on all questions to be voted upon unless we notify the depositary that:

- we do not wish to receive a discretionary proxy;
- we think there is substantial shareholder opposition to the particular question; or
- we think the particular question would have a adverse impact on our shareholders.

Fees and Expenses

Persons depositing shares or ADR holders must pay:	***For:***
US$0.05 (or less) per ADS	• Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property • Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
US$ (or less) per ADS	• Any cash distribution to you
A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs	• Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADR holders
US$ (or less) per ADSs per calendar year (if the depositary has not collected any cash distribution fee during that year)	• Depositary services
Persons depositing shares or ADR holders must pay:	***For:***
Registration or transfer fees	• Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares [disclose if any such fees are currently charged for registration or transfer of the company's shares and, if so, state the amount]
Expenses of the depositary in converting foreign currency to U.S. dollars	• Conversion of foreign currency to U.S. dollars
Expenses of the depositary	• Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)
Taxes and other governmental charges the depositary or the custodian have to pay on any ADR or share underlying an ADR, for example, stock transfer taxes, stamp duty or withholding taxes	• As necessary
Any charges incurred by the depositary or its agents for servicing the deposited securities	• As necessary

Payment of Taxes

The depositary may deduct the amount of any taxes owed from any payments to you. It may also sell deposited securities, by public or private sale, to pay any taxes owed. You will remain liable if the proceeds of the sale are not enough to pay the taxes. If the depositary sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to you any proceeds, or send to you any property, remaining after it has paid the taxes.

Reclassifications, Recapitalizations and Mergers

If we:	***Then:***
• Change the nominal or par value of our shares • Reclassify, split up or consolidate any of the deposited securities	The cash, shares or other securities received by the depositary or a custodian will become deposited securities. Each ADS will automatically represent its equal share of the new deposited securities
• Distribute securities on the shares that are not distributed to you • Recapitalize, reorganize, merge, liquidate, sell all or substantially all of our assets, or take any similar action	The depositary may distribute some or all of the cash, shares or other securities it received. It may also deliver new ADRs or ask you to surrender your outstanding ADRs in exchange for new ADRs identifying the new deposited securities

Amendment and Termination

How may the deposit agreement be amended?

We may agree with the depositary to amend the deposit agreement and the ADRs without your consent for any reason. If an amendment adds or increases fees or charges, except for taxes and other governmental charges or expenses of the depositary for registration fees, facsimile costs, delivery charges or similar items, or prejudices a substantial right of ADR holders, it will not become effective for outstanding ADRs until 30 days after the depositary notifies ADR holders of the amendment. *At the time an amendment becomes effective, you are considered, by continuing to hold your ADR, to agree to the amendment and to be bound by the ADRs and the deposit agreement as amended*.

How may the deposit agreement be terminated?

The depositary will terminate the deposit agreement if we ask it to do so. The depositary may also terminate the deposit agreement if the depositary has told us that it would like to resign and we have not appointed a new depositary bank within 90 days. In either case, the depositary must notify you at least 30 days before termination.

After termination, the depositary and its agents will do the following under the deposit agreement but nothing else: (a) advise you that the deposit agreement is terminated, (b) collect distributions on the deposited securities (c) sell rights and other property, and (d) deliver shares and other deposited securities upon cancellation of ADRs. One year or more after termination, the depositary may sell any remaining deposited securities by public or private sale. After that, the depositary will hold the money it receives on the sale, as well as any other cash it is holding under the deposit agreement for the *pro rata* benefit of the ADR holders that have not surrendered their ADRs. It will not invest the money and has no liability for interest. The

depositary's only obligations will be to account for the money and other cash. After termination our only obligations will be to indemnify the depositary and to pay fees and expenses of the depositary that we have agreed to pay.

Limitations on Obligations and Liability

Limits on our Obligations and the Obligations of the Depositary; Limits on Liability to Holders of ADRs

The deposit agreement expressly limits our obligations and the obligations of the depositary. It also limits our liability and the liability of the depositary. We and the depositary:

- are only obligated to take the actions specifically set forth in the deposit agreement without negligence or bad faith;
- are not liable if either of us is prevented or delayed by law or circumstances beyond our control from performing our obligations under the deposit agreement;
- are not liable if either of us exercises discretion permitted under the deposit agreement;
- have no obligation to become involved in a lawsuit or other proceeding related to the ADRs or the deposit agreement on your behalf or on behalf of any other person; and
- may rely upon any documents we believe in good faith to be genuine and to have been signed or presented by the proper party.

In the deposit agreement, we agree to indemnify the depositary for acting as depositary, except for losses caused by the depositary's own negligence or bad faith, and the depositary agrees to indemnify us for losses resulting from its negligence or bad faith.

Requirements for Depositary Actions

Before the depositary will deliver or register a transfer of an ADR, make a distribution on an ADR, or permit withdrawal of shares or other property, the depositary may require:

- payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any shares or other deposited securities;
- satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and
- compliance with regulations it may establish, from time to time, consistent with the deposit agreement, including presentation of transfer documents.

The depositary may refuse to deliver ADRs or register transfers of ADRs generally when the transfer books of the depositary or our transfer books are closed or at any time if the depositary or we think it advisable to do so.

Your Right to Receive the Shares Underlying your ADRs

You have the right to cancel your ADRs and withdraw the underlying shares at any time except:

- When temporary delays arise because: (a) the depositary has closed its transfer books or we have closed our transfer books; (b) the transfer of shares is blocked to permit voting at a shareholders' meeting; or (c) we are paying a dividend on our shares.

- When you or other ADR holders seeking to withdraw shares owe money to pay fees, taxes and similar charges.
- When it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADRs or to the withdrawal of shares or other deposited securities.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

Pre-release of ADRs

The deposit agreement permits the depositary to deliver ADRs before deposit of the underlying shares. This is called a pre-release of the ADR. The depositary may also deliver shares upon surrender of pre-released ADRs (even if the ADRs are surrendered before the pre-release transaction has been closed out). A pre-release is closed out as soon as the underlying shares are delivered to the depositary. The depositary may receive ADRs instead of shares to close out a pre-release. The depositary may pre-release ADRs only under the following conditions: (a) before or at the time of the pre-release, the person to whom the pre-release is being made represents to the depositary in writing that it or its customer owns the shares or ADRs to be deposited; (b) the pre-release is fully collateralized with cash or other collateral that the depositary considers appropriate; (c) the depositary must be able to close out the pre-release on not more than five business days' notice and (d) the pre-release is subject to such further indemnities and credit regulations as the depositary deems appropriate. In addition, the depositary will limit the number of ADSs that may be outstanding at any time as a result of pre-release, although the depositary may disregard the limit from time to time, if it thinks it is appropriate to do so.

SHARES ELIGIBLE FOR FUTURE SALE

Before the offering, there has not been a public market for our ordinary shares. Future sales of substantial amounts of our ordinary shares in the public markets after this offering could adversely affect market prices prevailing from time to time. As described below, only a limited number of the shares currently outstanding will be available for sale immediately after the offering due to contractual and legal restrictions on resale. Nevertheless, after these restrictions lapse, future sales of substantial amounts of our ordinary shares, including shares issued upon exercise of outstanding options, in the public market in the United States, or the possibility of such sales, could negatively impact the market price in the United States of our ADSs and our ability to raise equity capital in the future.

Upon closing of this offering, we will have ordinary shares outstanding, including ordinary shares represented by ADSs, assuming no exercise of the underwriters' overallotment option. Of that amount, ordinary shares, represented by ADSs, will be publicly held by investors participating in the offering, and ordinary shares will be held by our existing shareholders, who may be our affiliates within the meaning of the Securities Act. All of the ADSs offered in the offering will be freely tradable in the United States without restriction or further registration under the Securities Act, unless the shares are held by "affiliates," as that term is defined in Rule 144 under the Securities Act. For purposes of Rule 144, an "affiliate" of an issuer is a person that, directly or indirectly through one or more intermediaries, controls, or is controlled by or is under common control with, the issuer. Shares or ADSs purchased by an affiliate may not be resold, except pursuant to an effective registration statement or an exemption from registration, including an exemption under Rule 144 of the Securities Act described below.

The ordinary shares held by existing shareholders upon the completion of the offering are, and those ordinary shares issuable upon exercise of options and warrants outstanding upon completion of the offering and those ordinary shares issuable upon conversion of the convertible note will be, "restricted securities," as the term is defined in Rule 144 under the Securities Act. These restricted securities may be sold in the United States only if they are registered or if they qualify for an exemption from registration under Rule 144 or Rule 701 under the Securities Act. These rules are described below.

Lock-up Agreements

We have agreed that we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the SEC a registration statement under the Securities Act relating to any of our ADSs or our ordinary shares or securities convertibles into or exchangeable or exercisable for any of our ADSs or our ordinary shares, or publicly disclose the intention to make any offer, sale, pledge, dispositions or filing, without the prior written consent of the representative for the underwriters for a period of 180 days after the date of this prospectus.

Our executive officers and directors and selling shareholders have agreed that they will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any of our ADSs or our ordinary shares or securities convertible into or exchangeable or exercisable for any of our ADSs or our ordinary shares, enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of any of our ADSs or ordinary shares, whether any of these transactions are to be settled by delivery of our ADSs or ordinary shares or other securities, in cash or otherwise, or publicly disclose the intention to make any offer, sale, pledge

or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of the representative for the underwriters for a period of 180 days after the date of this prospectus.

The foregoing restrictions do not apply to (1) transfers of our ordinary shares or ADSs to the underwriters in this offering, (2) transfers of our ADSs or other securities acquired in open market transactions after the completion of this offering, or (3) transfers of any of our ordinary shares, ADSs or other securities by (a) gift, will or intestacy, (b) distributions to an immediate family member or a trust of which the applicable officer, director or shareholder, or such family member is the beneficiary or (c) distribution to (A) a partner or an affiliated partnership of the applicable shareholder (if the applicable shareholder is a partnership), (B) a member of affiliated limited liability company of the applicable shareholder (if the applicable shareholder is a limited liability company) or (C) a wholly-owned subsidiary of the applicable shareholder (if the applicable shareholder is a corporation), in each case under (a), (b) or (c) above, so long as the transferee agrees to be bound by the same lock-up provisions and the transfer does not involve a disposition for value.

The 180-day lock-up period applicable to us, our executive officers, directors and certain of our shareholders, as described above, is subject to adjustment under certain circumstances. If (1) during the last 17 days of the 180-day lock-up period, (a) we release earnings results or (b) material news or a material event relating to us occurs, or (2) prior to the expiration of the 180-day lock-up period, we announce that we will release earnings results during the 16-day period following the last day of the 180-day lock-up period, then, in each case, the 180-day lock-up period will be extended until the expiration of the 18-day period beginning on the date of our release of the earnings results or the occurrence of material news or a material event relating to us, unless Deutsche Bank Securities Inc., acting as representative, waives this extension in writing.

In addition to the foregoing, the deposit agreement provides that except for shares deposited by us or by the selling shareholders named in this prospectus, no shares will be accepted for deposit, without our prior consent during a period of 180 days after the date of this prospectus.

Rule 144

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this prospectus, a person who has beneficially owned either our “restricted securities” or “restricted securities” acquired from our affiliate SMI Taiwan for at least one year would be entitled to sell in the United States, within any three-month period, a number of shares that is not more than the greater of:

- 1% of the number of our ordinary shares then outstanding; or
- the average weekly trading volume of the ordinary shares on all exchanges during the four calendar weeks before a notice of the sale on Form 144 is filed with the SEC by such person.

Sales under Rule 144 are also subject to manner of sale provisions, notice requirements and the availability of current public information about us. However, these shares would remain subject to lock-up arrangements and would only become eligible for sale when the lock-up period expires.

Under Rule 144(k), a person who is not deemed to have been our affiliate at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be

sold for at least two years from the later of the date these shares were acquired from us or from our affiliate SMI Taiwan, including the holding period of any prior owner other than an affiliate, is entitled to sell those shares in the United States without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144. However, these shares would remain subject to lock-up arrangements and would only become eligible for sale when the lock-up period expires.

Rule 701

Beginning 90 days after the date of this prospectus and subject to any lock-up arrangements, any of our employees, officers, directors or consultants who purchased shares under a written compensatory plan or contract may be entitled to sell such shares in the United States in reliance on Rule 701. Rule 701 permits affiliates to sell such shares under Rule 144 without complying with the holding period requirements of Rule 144. Rule 701 further provides that non-affiliates may sell these shares in reliance on Rule 144 subject only to its manner of sale requirements. However, the Rule 701 shares would remain subject to lock-up arrangements and would only become eligible for sale when the lock-up period expires.

Share Options

As of June 6, 2005, options to purchase an aggregate of 4,000,000 ordinary shares were outstanding or have been allocated for grant under our 2005 Equity Incentive Plan. While we have no current plans to file a registration statement under the Securities Act to register shares reserved for issuance under the plan, we may elect to file such registration statement in the future. Any vested shares registered under the registration statement would be available for sale in the public market immediately upon effectiveness of the registration statement, subject to the lock-up period and the Rule 144 volume limitations applicable to our affiliates.

TAXATION

United States Federal Income Taxation

The following discussion constitutes the opinion of Preston Gates & Ellis LLP regarding the material U.S. federal income tax consequences to a U.S. Holder, as defined below, who purchases ADSs and ordinary shares pursuant to this offering. This discussion assumes that investors will hold their ADSs or ordinary shares as capital assets (generally, property held for investment). This discussion does not discuss all aspects of U.S. federal income taxation which may be important to particular investors in light of their individual circumstances, including investors subject to special taxation, such as:

- banks;
- dealers in securities or currencies; financial institutions; insurance companies; tax-exempt organizations;
- persons holding ADSs or ordinary shares as part of hedging, conversion, constructive sale, straddle or other integrated transactions;
- traders in securities that have elected the mark-to-market method of accounting;
- persons who own 10% or more of our shares;
- U.S. persons whose “functional currency” is not the U.S. dollar; or
- Non-U.S. Holders (as defined below).

This discussion is based in part on representations by the depositary and assumes that each obligation under the deposit agreement and any related agreement will be performed in accordance with its terms. Furthermore, the discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended, or the Code, and U.S. Treasury regulations, rulings and judicial decisions thereunder as of the date hereof. Such authorities are subject to change, possibly on a retroactive basis, which may result in U.S. federal income tax consequences different from those discussed below.

A U.S. Holder considering an investment in our ADSs or ordinary shares is urged to consult its tax advisor concerning the U.S. federal, state, local and non-U.S. income and other tax consequences.

A U.S. Holder is a beneficial owner of ADSs or ordinary shares that is a U.S. person. A U.S. person is:

- a citizen or resident of the United States;
- a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States, any state thereof, or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation, regardless of its source; or
- a trust if it is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

A beneficial owner of ADSs or ordinary shares that is not a U.S. Holder is referred to herein as a “Non-U.S. Holder.”

If a partnership or limited liability company treated as a partnership for U.S. federal income tax purposes holds ADSs or ordinary shares, the tax treatment of a partner or member will generally depend on the status of the partner or member and the activities of the partnership or limited liability company. A partner of a partnership or a member of a limited liability company holding ADSs or ordinary shares is urged to consult its tax advisors regarding an investment in our ADSs or ordinary shares.

ADSs. In general, for U.S. federal income tax purposes, a U.S. Holder of ADSs will be treated as the owner of the underlying ordinary shares that are represented by such ADSs. Deposits and withdrawals of ordinary shares in exchange for ADSs will not be subject to U.S. federal income taxation.

Distributions on ADSs or ordinary shares. Unless the passive foreign investment company rules, as discussed below, apply, the gross amount of the distributions in respect of the ADSs or ordinary shares will be subject to tax as dividend income to the extent of our current and accumulated earnings and profits, as determined under U.S. federal income tax principles. Subject to certain limitations, dividends paid to non-corporate U.S. Holders, including individuals, may be eligible for a reduced rate of taxation if we are deemed to be a "qualified foreign corporation" for U.S. federal income tax purposes and provided that such holder satisfies certain holding period requirements with respect to the ownership of our ADSs, or ordinary shares. Subject to the exceptions discussed below, a qualified foreign corporation includes:

- a foreign corporation that is eligible for the benefits of a comprehensive income tax treaty with the United States that includes an exchange of information program; and
- a foreign corporation if its stock with respect to which a dividend is paid or its ADSs backed by such stock are readily tradable on an established securities market within the United States.

A foreign corporation (even if it is described above) does not constitute a qualified foreign corporation if, for the taxable year in which the dividend is paid or the preceding taxable year, the foreign corporation is or was a passive foreign investment company. Although we believe that we will be a qualified foreign corporation because the ADSs will be traded on an established U.S. securities market, no assurance can be given in this regard. In addition, our status as a qualified foreign corporation may change. A U.S. Holder that exchanges its ADSs for ordinary shares may not be eligible for the reduced rate of taxation on dividends if the ordinary shares are not deemed to be readily tradable on an established securities market within the United States.

Dividends will be includable in a U.S. Holder's gross income on the date actually or constructively received by the depositary, in the case of ADSs or, in the case of ordinary shares, by such U.S. Holder. These dividends will not be eligible for the dividends-received deduction generally allowed to U.S. corporations in respect of dividends received from other U.S. corporations.

To the extent we pay dividends on the ADSs or ordinary shares in a currency other than the U.S. dollar, the U.S. dollar value of such dividends should be calculated by reference to the exchange rate prevailing on the date of actual or constructive receipt of the dividend, regardless of whether the foreign currency is converted into U.S. dollars at that time. If the foreign currency is converted into U.S. dollars on the date of actual or constructive receipt of such dividends, the tax basis of the U.S. Holder in such foreign currency will be equal to its U.S. dollar value on that date and, as a result, the U.S. Holder generally should not be required to

recognize any foreign currency exchange gain or loss. Any gain or loss recognized on a subsequent conversion or other disposition of the foreign currency generally will be treated as ordinary income or loss from sources within the United States for U.S. foreign tax credit limitation purposes.

Dividends paid in respect of the ADSs or ordinary shares generally will be treated as income from sources outside the United States, and, for taxable years beginning on or before December 31, 2006, generally will be treated as "passive income," or, in the case of certain U.S. Holders, "financial services income," for U.S. foreign tax credit limitation purposes. For taxable years beginning after December 31, 2006, such dividends generally will be treated as "passive category income" or, in the case of certain U.S. Holders, "general category income," for U.S. foreign tax credit limitation purposes.

To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits, the distribution will first be treated as a tax-free return of capital, causing a reduction in the adjusted basis of the ADSs or ordinary shares, and the balance in excess of adjusted basis will be taxed as capital gain.

Sale, exchange or other disposition of ADSs or ordinary shares. Unless the passive foreign investment company rules, as discussed below, apply, upon the sale, exchange or other disposition of ADSs or ordinary shares a U.S. Holder generally will recognize capital gain or loss equal to the difference between the amount realized upon the sale, exchange or other disposition and the adjusted tax basis of the U.S. Holder in the ADSs or ordinary shares. The capital gain or loss generally will be long-term capital gain or loss if, at the time of sale, exchange or other disposition, the U.S. Holder has held the ADS or ordinary share for more than one year. Net long-term capital gains of non-corporate U.S. Holders, including individuals, are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss that a U.S. Holder recognizes generally will be treated as gain or loss from sources within the United States for U.S. foreign tax credit limitation purposes.

Passive foreign investment company rules. In general, we will be classified as a passive foreign investment company for any taxable year in which either (a) at least 75% of our gross income is passive income or (b) at least 50% of the value (determined on the basis of a quarterly average) of our assets is attributable to assets that produce or are held for the production of passive income. For this purpose, passive income generally includes dividends, interest, royalties, rents (other than rents and royalties derived in the active conduct of a trade or business and not derived from a related person), annuities and gains from assets that produce passive income. If we own directly or indirectly at least 25% by value of the equity shares of another corporation, we will be treated for purposes of the passive foreign investment company tests as owning a proportionate share of the assets of the other corporation, and as receiving directly a proportionate share of the other corporation's income.

We believe, based on the projected composition of our income and valuation of our assets, that we should not be classified as a passive foreign investment company for U.S. federal income tax purposes, although no assurance can be given in this regard. Whether we are a passive foreign investment company for any particular taxable year is determined on an annual basis and will depend on the composition of our income and assets, including goodwill. The calculation of goodwill will be based, in part, on the then market value of our capital stock, which is subject to fluctuation. In addition, the composition of our income and assets will be affected by how we spend the cash we raise in this offering. Accordingly, there can be no assurance that we will not be classified as a passive foreign investment company in the current or any future taxable year.

If we are a passive foreign investment company for any taxable year during which a U.S. Holder has an equity interest in our company, unless the U.S. Holder makes a mark-to-market election as discussed below, such U.S. Holder will be subject to special tax rules in any future taxable year regardless of whether we are classified as a passive foreign investment company in such future years with respect to (a) "excess distributions" and (b) gain from the disposition of stock. Excess distributions are defined generally as the excess of the amount received with respect to the equity interests in the taxable year over 125% of the average annual distributions received in the shorter of either the three previous years or a U.S. Holder's holding period before the taxable year and must be allocated ratably to each day of the U.S. Holder's holding period. The amount allocated to the current taxable year or any year before we became a passive foreign investment company will be included as ordinary income in a U.S. Holder's gross income for that year. The amount allocated to other prior taxable years will be taxed as ordinary income at the highest rate in effect for a U.S. Holder in that prior year and the tax is subject to an interest charge at the rate applicable to deficiencies in income taxes. The entire amount of any gain realized upon the sale or other disposition of the equity interests will be treated as an excess distribution made in the year of sale or other disposition and as a consequence will be treated as ordinary income and, to the extent allocated to years prior to the year of sale or disposition with respect to which we were a passive foreign investment company, will be subject to the interest charge described above.

In certain circumstances, instead of being subject to the excess distribution rules discussed above, a U.S. Holder may make an election to include gain on the ADSs or ordinary shares of a passive foreign investment company as ordinary income under a mark-to-market method, provided that the ADSs or ordinary shares are regularly traded on a qualified exchange. Under current law, the mark-to-market election is only available for ADSs or ordinary shares that are regularly traded within the meaning of U.S. Treasury regulations on certain designated U.S. exchanges and foreign exchanges that meet trading, listing, financial disclosure and other requirements to be treated as a qualified exchange under applicable U.S. Treasury regulations. The Nasdaq National Market is a qualified exchange. The ordinary shares may not be eligible for mark-to-market treatment under the foregoing rule even if the ADSs otherwise satisfy the applicable requirement.

If a U.S. Holder makes a mark-to-market election, the U.S. Holder will include each year as ordinary income, rather than capital gain, the excess, if any, of the fair market value of the U.S. Holder's ADSs or ordinary shares at the end of the taxable year over such U.S. Holder's adjusted basis in the ADSs (or ordinary shares, if applicable) and will be permitted an ordinary loss in respect of the excess, if any, of the adjusted basis of these ADSs or ordinary shares over their fair market value at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. A U.S. Holder's basis in the ADSs or ordinary shares will be adjusted to reflect any such income or loss amounts. Any gain or loss on the sale of the ADSs or ordinary shares will be ordinary income or loss, except that this loss will be ordinary loss only to the extent of the previously included net mark-to-market gain.

If a U.S. Holder owns ADSs or ordinary shares during any year that we are a passive foreign investment company, the U.S. Holder must file Internal Revenue Service Form 8621.

A U.S. Holder is urged to consult its tax advisor concerning the U.S. federal income tax consequences of an investment in our ADSs or ordinary shares if we are or become a passive foreign investment company, including the possibility of making a market-to-market election.

Cayman Islands Taxation

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our company levied by the Government of the Cayman Islands except for stamp duties that may be applicable on instruments executed in, or after execution brought within the jurisdiction of, the Cayman Islands. The Cayman Islands are not party to any double taxation treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

We have, pursuant to Section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, obtained an undertaking from the Governor-in-Council that:

- no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation applies to us or our operations; and
- The aforesaid tax or any tax in the nature of estate duty or inheritance tax are not payable on our ordinary shares, debentures or other obligations.

The undertaking that we have obtained is for a period of 20 years from March 1, 2005.

ENFORCEABILITY OF CIVIL LIABILITIES

We are incorporated in the Cayman Islands because of the following benefits associated with being a Cayman Islands corporation:

- political and economic stability;
- an effective judicial system;
- a favorable tax system;
- the absence of exchange control or currency restrictions; and
- the availability of professional and support services.

However, the Cayman Islands has a less developed body of securities laws as compared to the United States and provides significantly less protection for investors. In addition, Cayman Islands companies may not have standing to sue before the federal courts of the United States.

Substantially all of our assets are located in Taiwan. In addition, most of our directors and officers are nationals and/or residents of countries other than the United States, and all or a substantial portion of our or such persons' assets are located in Taiwan. As a result, it may be difficult for you to effect service of process within the United States upon us or such persons or to enforce against them or against us in United States courts, judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof.

We intend to appoint PTSGE Corp. as our agent for service of process in the United States with respect to any action brought against us in the United States District Court for the Southern District of New York under the securities laws of the United States or any State of the United States or under the deposit agreement or the ADRs referred to under "Description of American Depositary Shares," or any action brought against us in the Supreme Court of the State of New York in the County of New York under the securities laws of the State of New York.

Conyers Dill & Pearman, our counsel as to Cayman Islands law, and Preston Gates & Ellis Taiwan Commercial Law Offices, our counsel as to Taiwanese law, have advised us that there is uncertainty as to whether the courts of the Cayman Islands and Taiwan, respectively, would:

- recognize or enforce judgments of United States courts obtained against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state thereof; or
- be competent to hear original actions brought in each respective jurisdiction, against us or such persons predicated upon the securities laws of the United States or any state thereof.

Conyers Dill & Pearman, has further advised us that the courts of the Cayman Islands would recognize as a valid judgment, a final and conclusive judgment in personam obtained in the federal or state courts in the United States under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) and would give a judgment based thereon provided that (i) such courts had proper jurisdiction over the parties subject to such judgment, (ii) such courts did not contravene the rules of natural justice of the Cayman Islands, (iii) such judgment was not obtained by fraud, (iv) the enforcement of the judgment would not be contrary to the public policy of the Cayman Islands, (v) no new admissible evidence relevant to the action is submitted

prior to the rendering of the judgment by the courts of the Cayman Islands and (vi) there is due compliance with the correct procedures under the laws of the Cayman Islands.

We have been advised by Preston Gates & Ellis Taiwan Commercial Law Offices that any final judgment obtained against us or such persons in any court other than the courts of Taiwan in respect of any legal suit or proceeding arising out of or relating to the ADSs will be enforced by the Taiwanese courts without further review of the merits only if the court of Taiwan in which enforcement is sought is satisfied as follows: (i) the foreign court rendering the judgment had jurisdiction over the subject matter according to the laws of Taiwan; (ii) if the judgment was rendered by default by the court rendering the judgment, the summons or order necessary for the commencement of the action had been legally served on the defeated party within the jurisdiction of such court within a certain period of time, or service was made through judicial assistance of Taiwan; (iii) the judgment rendered or the procedures conducted by the foreign court is not contrary to the public order or good morals of Taiwan; and (iv) judgments of the Taiwan courts are recognized and enforceable in the foreign court rendering the judgment on a reciprocal basis.

Preston Gates & Ellis Taiwan Commercial Law Offices has further advised that a party seeking to enforce a foreign judgment in Taiwan would, except under limited circumstance, be required to obtain foreign exchange approval from the Central Bank of China for the remittance out of Taiwan of any amounts recovered in respect of such judgment denominated in a currency other than NT dollars.

UNDERWRITING

Under the terms and subject to the conditions contained in an underwriting agreement dated , 2005, we and the selling shareholders have agreed to sell to the underwriters named below, for whom Deutsche Bank Securities Inc. is acting as representative, the following respective numbers of our ADSs:

Underwriters	Number of ADSs
Deutsche Bank Securities Inc.	
WR Hambrecht + Co	
Needham & Company, LLC	
Total	

The underwriting agreement provides that the underwriters are obligated to purchase all of the ADSs from us and the selling shareholders in this offering if any are purchased, other than those ADSs covered by the over-allotment option described below. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may be increased or this offering may be terminated.

All sales of our ADSs in the United States will be made by U.S. registered broker/dealers.

If the underwriters sell more ADSs than the total number of ADSs set forth in the table above, they have an option to buy up to an additional ADSs from us and an additional ADS in the aggregate from the selling shareholders to cover such sales at the initial public offering price per ADS less the underwriting discounts and commissions, which option is exercisable in whole or in part at the discretion of the underwriters at any time or from time to time, within 30 days after the date of the underwriting agreement. To the extent that the underwriters exercise the option, each of them will be obligated, subject to certain conditions, to purchase a number of additional ADSs approximately proportionate to their initial purchase commitment. The underwriters may exercise the option solely for the purpose of covering over-allotments, if any, in connection with this offering. To the extent the option is exercised by the underwriters, such option will not exceed 15% of the total number of ADSs sold.

The underwriters propose to offer the ADSs initially at the public offering price on the cover page of this prospectus and to selling group members at that price less a selling concession of US$ per ADS. The underwriters and selling group members may allow a discount of US$ per ADS on sales to other broker/dealers. After the initial public offering, the underwriters may change the public offering price and concession and discount to broker/dealers.

The following table summarizes the compensation and estimated expenses to be paid by us:

	Per ADS		Total	
	Without Over-allotment	With Over-allotment	Without Over-allotment	With Over-allotment
Underwriting discounts and commissions paid by us				
Expenses payable by us				
Underwriting discounts and commissions paid by the selling shareholders				
Expenses by selling shareholders				

The underwriters have informed us that they do not expect sales to accounts over which the underwriters have discretionary authority to exceed % of our ADSs being offered.

None of our major shareholders, directors and executive officers intends to subscribe in this offering and, as far as we are aware, none of any other persons intend to subscribe for more than 5% of our ADSs being offered.

The underwriters may in the future seek to provide financial advisory services to us.

We have agreed that we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the SEC a registration statement under the Securities Act relating to, any of our ADSs or our ordinary shares or securities convertible into or exchangeable or exercisable for any of our ADSs or our ordinary shares or publicly disclose the intention to make any offer, sale, pledge, disposition or filing, without the prior written consent of the representative for the underwriters for a period of 180 days after the date of this prospectus.

Our executive officers and directors and selling shareholders have agreed that they will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any of our ADSs or our ordinary shares or securities convertible into or exchangeable or exercisable for any of our ADSs or our ordinary shares, enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of any of our ADSs or ordinary shares, whether any of these transactions are to be settled by delivery of our ADSs or ordinary shares or other securities, in cash or otherwise, or publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of the representative for the underwriters for a period of 180 days after the date of this prospectus.

The foregoing restrictions do not apply to: (1) transfers of our ordinary shares or ADSs to the underwriters in this offering, (2) transfers of our ordinary shares in connection with the repurchase of such shares by us, (3) transfers of our ADSs or other securities acquired in open market transactions after the completion of this offering, or (4) transfers of any of our ordinary shares, ADSs or other securities by (a) gift, will or intestacy, (b) distributions to an immediate family member or a trust of which the applicable officer, director or shareholder, or such family member is the beneficiary or (c) distribution to (A) a partner or an affiliated partnership of the applicable shareholder (if the applicable shareholder is a partnership), (B) a member or affiliated limited liability company of the applicable shareholder (if the applicable shareholder is a limited liability company) or (C) a wholly-owned subsidiary of the applicable shareholder (if the applicable shareholder is a corporation), in each case under (a), (b) or (c) above, so long as the transferee agrees to be bound by the same lock-up provisions and the transfer does not involve a disposition for value.

The 180-day lock-up period applicable to us, our executive officers, directors and certain of our shareholders, as described above, is subject to adjustment only under the following circumstances. If (1) during the last 17 days of the 180-day lock-up period, (a) we release earnings results or (b) material news or a material event relating to us occurs, or (2) prior to the expiration of the 180-day lock-up period, we announce that we will release earnings results during the 16-day period following the last day of the 180-day lock-up period, then, in each case, the 180-day lock-up period will be extended until the expiration of the 18-day period beginning on the date of our release of the earnings results or the occurrence of material news or a material event relating to us, unless Deutsche Bank Securities Inc., acting as representative, waives this extension in writing.

We and the selling shareholders have agreed to indemnify the underwriters against certain liabilities under the Securities Act, or contribute to payments that the underwriters may be required to make in that respect.

We have applied to have our ADSs quoted on the Nasdaq National Market. Before this offering, there has been no public market for our ADSs or ordinary shares. The public offering price will be determined through negotiations among us and the representative for the underwriters. In addition to prevailing market conditions, the factors to be considered in determining the initial public offering price are:

- the valuation multiples of publicly traded companies that the representative believes to be comparable to us;
- our financial information;
- the history of, and the prospects for, our company and the industry in which we compete;
- an assessment of our management, our past and present operations, and the prospects for, and timing of, our future revenues; the present state of our development; and
- the above factors in relation to market values and various valuation measures of other companies engaged in activities similar to ours.

In connection with this offering, the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions, penalty bids and passive market making in accordance with Regulation M under the Securities Exchange Act of 1934, as amended, or the Exchange Act.

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.
- Over-allotment involves sales by the underwriters of our ADSs in excess of the number of our ADSs the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of our ADSs over-allotted by the underwriters is not greater than the number of our ADSs that they may purchase in the over-allotment option. In a naked short position, the number of our ADSs over-allotted is greater than the number of our ADSs in the over-allotment option. The underwriters may close out any covered short position by either exercising their over-allotment option and/or purchasing in the open market.
- Syndicate covering transactions involve purchases of our ADSs in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of our ADSs to close out the covered short position, the underwriters will consider, among other things, the price of our ADSs available for purchase in the open market as compared to the price at which they may purchase our ADSs through the over-allotment option. If the underwriters sell more of our ADSs than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying the additional ADSs over-allotted not covered by the over-allotment option in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of our ADSs in the open market after pricing that could adversely affect investors who purchase in this offering.

- Penalty bids permit the representative to reclaim a selling concession from a syndicate member when our ADSs originally sold by the syndicate member are purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.
- In passive market making, market makers in our ADSs who are underwriters or prospective underwriters may, subject to limitations, make bids for or purchases of our ADSs until the time, if any, at which a stabilizing bid is made.

These stabilizing transactions, syndicate covering transactions, penalty bids and passive market making may have the effect of raising or maintaining the market price of our ADSs or preventing or retarding a decline in the market price of our ADSs. As a result, the price of our ADSs may be higher than the price that might otherwise exist in the open market. These transactions may be effected on The Nasdaq National Market or otherwise and, if commenced, may be discontinued at any time.

At our request, the underwriters have reserved for sale at the initial public offering price up to ADSs representing ordinary shares being sold in this offering for our vendors, employees, family members of employees, customers and other third parties. The number of ADSs available for sale to the general public will be reduced to the extent these reserved ADSs are purchased. Any reserved ADSs not purchased by these persons will be offered by the underwriters to the general public on the same basis as the other shares in this offering.

A prospectus in electronic format may be made available on the Web sites maintained by one or more of the underwriters, or selling group members, if any, participating in this offering and one or more of the underwriters participating in this offering may distribute the prospectus electronically. The representative may agree to allocate a number of our ADSs to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters and selling group members that will make Internet distributions on the same basis as other allocations.

United Kingdom. Each underwriter has represented, warranted, and agreed that (a) it has not offered or sold and, prior to the expiry of a period of six months from the completion of the global offering, will not offer or sell any ADSs or ordinary shares to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses, or otherwise in circumstances which do not constitute an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; (b) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000, or the FSMA, with respect to anything done by it in relation to any ADSs or ordinary shares in, from or otherwise involving the United Kingdom; and (c) it only has communicated or caused to be communicated and only will communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any ADSs or ordinary shares in circumstances in which section 21(1) of the FSMA does not apply to us.

France. This prospectus is not being distributed in the context of a public offer in France within the meaning of Article L. 411-1 of the French Monetary and Financial Code (*Code monétaire et financier*), and thus this prospectus has not been and will not be submitted to the *Commission des Opérations de Bourse* for approval in France. We and each of the underwriters have represented and agreed that it has not offered or sold, and will not offer or sell, directly or

indirectly, any ADSs or ordinary shares to the public in France and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France this prospectus or any other offering material relating to the offer of the GDSs and that such offers, sales and distributions have been and will be made in France (a) to qualified investors (*investisseurs qualifiés*) and/or (b) to a restricted group of investors (*cercle restreint d'investisseurs*), in each case, acting for their own account, all as defined in, and in accordance with, Articles L. 411-1 and L. 411-2 of the French Monetary and Financial Code and Decree No. 98-880 dated 1st October, 1998. This prospectus is not to be further distributed or reproduced (in whole or in part) in France by the recipients of this prospectus and this prospectus has been distributed on the understanding that such recipients will only participate in the issue or sale of the ADSs for their own account and undertake not to transfer, directly or indirectly, the ADSs to the public in France, other than in compliance with all applicable laws and regulations and in particular with Articles L. 411-1 and L. 411-2 of the French Monetary and Financial Code.

Germany. Each underwriter has represented and agreed that (a) this prospectus is not a Securities Selling Prospectus (*Verkaufsprospekt*) within the meaning of the German Securities Prospectus Act (*Verkaufsprospektgesetz*) of September 9, 1998, as amended, and has not been filed with and approved by the German Federal Supervisory Authority (*Bundesanstalt Für Finanzdienstleistungsaufsicht*) or any other German governmental authority; and (b) it has not offered or sold and will not offer or sell any ADSs or ordinary shares or distribute copies of this prospectus or any document relating to the ADSs, directly or indirectly, in Germany except to persons falling within the scope of paragraph 2 numbers 1, 2 and 3 of the German Securities Prospectus Act and by doing so has not taken, and will not take, any steps which would constitute a public offering of the ADSs or ordinary shares in Germany.

Italy. The offering of the ADSs or ordinary shares has not been registered with the *Commissione Nazionale per le Societ`a e la Borsa* or "CONSOB," in accordance with Italian securities legislation. Accordingly, each underwriter has represented and agreed that the ADSs or ordinary shares may not be offered, sold or delivered, and copies of this prospectus or any other document relating to the ADSs or ordinary shares may not be distributed in Italy except to Professional Investors, as defined in Art. 31.2 of CONSOB Regulation No. 11522 of 1st July, 1998, as amended, pursuant to Art. 30.2 and Art. 100 of Legislative Decree No. 58 of 24th February, 1998 (or the Finance Law) or in any other circumstance where an express exemption to comply with the solicitation restrictions provided by the Finance Law or CONSOB Regulation No. 11971 of 14th May, 1999, as amended (or the Issuers Regulation) applies, including those provided for under Art. 100 of the Finance Law and Art. 33 of the Issuers Regulation, and provided, however, that any such offer, sale, or delivery of the ADSs or ordinary shares or distribution of copies of this prospectus or any other document relating to the ADSs or ordinary shares in Italy must (a) be made in accordance with all applicable Italian laws and regulations, (b) be made in compliance with Article 129 of Legislative Decree No. 385 of 1st September 1993, as amended, or the Banking Law Consolidated Act, and the implementing guidelines of the Bank of Italy (*Istruzioni di Vigilanza per le banche*) pursuant to which the issue, trading or placement of securities in the Republic of Italy is subject to prior notification to the Bank of Italy, unless an exemption applies depending, inter alia, on the amount of the issue and the characteristics of the securities, (c) be conducted in accordance with any relevant limitations or procedural requirements the Bank of Italy or CONSOB may impose upon the offer or sale of the securities, and (d) be made only by (1) banks, investment firms or financial companies enrolled in the special register provided for in Article 107 of the Banking Law Consolidated Act, to the extent duly authorized to engage in the placement and/or underwriting of financial instruments in Italy in accordance with the Financial Laws Consolidated Act and the relevant implementing regulations; or by (2) foreign banks or financial institutions (the controlling shareholding of which is owned by one or more banks located in the same EU Member State) authorized to

place and distribute securities in the Republic of Italy pursuant to Articles 15, 16 and 18 of the Banking Law Consolidated Act, in each case acting in compliance with every applicable law and regulation.

The Netherlands. Each underwriter has represented and agreed that it has not offered, distributed, sold, transferred or delivered, and will not offer, distribute, sell, transfer or deliver, any ADSs or ordinary shares, directly or indirectly, in the Netherlands, as part of their initial distribution or at any time thereafter, to any person other than our employees or employees of our subsidiaries, individuals who or legal entities which trade or invest in securities in the conduct of their profession or business within the meaning of article 2 of the Exemption Regulation issued under the Securities Transactions Supervision Act 1995, or "*Vrijstellingsregeling Wet toezicht effectenverkeer 1995*," which includes banks, brokers, pension funds, insurance companies, securities institutions, investment institutions and other institutional investors, including, among others, treasuries of large enterprises, who or which regularly trade or invest in securities in a professional capacity.

Norway. This prospectus has not been approved by or registered with the Oslo Stock Exchange under Chapter 5 of the Norwegian Securities Trading Act 1997. Accordingly, each underwriter has represented and agreed that it has not offered or sold, and will not offer or sell, any ADSs or ordinary shares to any persons in Norway in any way that would constitute an offer to the public other than to persons who invest in securities as part of their professional activity and who are registered with the Oslo Stock Exchange in this capacity, or otherwise only in circumstances where an exemption from the duty to publish a prospectus under the Norwegian Securities Trading Act 1997 shall be applicable.

Sweden. This prospectus has not been approved by or registered with the Swedish Financial Supervisory Authority (*Finansinspekitonen*). Accordingly, each underwriter has represented and agreed that it has not offered or sold, and will not offer or sell, any ADSs or ordinary shares to persons in Sweden, except to a "closed circle" of not more than 200 pre-selected, non-substitutable investors, under the Swedish Financial Instruments Trading Act ("*Lag (1991:980) om handel med finansiella instrument*").

Ireland. Each underwriter has represented and agreed that (a) otherwise than in circumstances which are not deemed to be an offer to the public by virtue of the provisions of the Irish Companies Acts, 1963 to 2003, it has not offered or sold, and will not offer or sell, in Ireland, by means of any document, any ADSs or ordinary shares, unless such offer or sale has been or is made to persons whose ordinary business it is to buy or sell shares or debentures, whether as principal or agent, and it has not issued, and will not issue, in Ireland any form of application for ADSs or ordinary shares; and (b) it has not made and will not make any offer of ADSs or ordinary shares to the public in Ireland to which the European Communities (Transferable Securities and Stock Exchange) Regulations, 1992 of Ireland would apply, except in accordance with the provisions of those regulations; and (c) it has complied, and will comply, with all applicable provisions of the Investment Intermediaries Act 1995 of Ireland, as amended, with respect to anything done by it in relation to the offer, sale or delivery of the ADSs or ordinary shares in or involving Ireland.

Switzerland. Each underwriter has acknowledged that (a) it has not offered or sold, and will not offer or sell, the ADSs and ordinary shares to any investors in Switzerland other than on a non-public basis; (b) this prospectus does not constitute a prospectus within the meaning of Article 652a and Art. 1156 of the Swiss Code of Obligations (*Schweizerisches Obligationenrecht*); and (c) none of this offering, the ADSs and ordinary shares has been or will be approved by any Swiss regulatory authority.

Luxembourg. Each underwriter represents, warrants and agrees that the ADS or ordinary shares are not being offered to the public in the Grand Duchy of Luxembourg and each of the underwriters represents, warrants and agrees that it will not offer the ADSs or ordinary shares or cause the offering of the ADSs or ordinary shares or contribute to the offering of the ADSs or ordinary shares to the public in Luxembourg, unless all the relevant legal and regulatory requirements have been complied with. In particular, this offer has not been and may not be announced to the public and offering material may not be made available to the public.

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

Japan. Each underwriter has acknowledged and agreed that the ordinary shares and ADSs have not been and will not be registered under the Securities and Exchange Law of Japan and are not being offered or sold and any may not be offered or sold, directly and indirectly, in Japan or to or for the account of any resident of Japan, except that the initial purchasers may offer and sell such shares (a) under an exception from the registration requirements of the Securities and Exchange Law of Japan and (b) in compliance with any other applicable requirements of Japanese law. As used in this paragraph, “resident of Japan” means any person residing in Japan including any corporation or other entity organized under the laws of Japan.

Singapore. This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each underwriter has represented and agreed that it will not offer or sell ADSs or ordinary shares, nor will it make ADSs or ordinary shares the subject of an invitation for subscription or purchase, nor will it circulate or distribute this prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of ADSs or ordinary shares, whether directly or indirectly, to the public or any member of the public in Singapore other than:

- to an institutional investor or other person specified in Section 274 of the Securities and Futures Act 2001, Chapter 289, of Singapore (the Securities and Futures Act);
- to a sophisticated investor, and in accordance with the conditions, specified in Section 275 of the Securities and Futures Act; or
- otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Republic of China. The ADSs or ordinary shares may not be offered or sold, directly or indirectly, in the Republic of China.

Korea. The ADSs offered in this offering have not been registered under the Korean Securities and Exchange Law. No ADSs or ordinary shares represented by the ADSs acquired in connection with the distribution have been offered or sold, nor will be offered or sold, directly or indirectly, in Korea or to or for the account of any resident of Korea, except otherwise

permitted by applicable provision of Korean laws and regulations, including, without limitation, the Korean Securities and Exchange Law and the Foreign Exchange Transaction Law.

Cayman Islands. This prospectus does not constitute a public offer of the ADSs or ordinary shares, whether by way of sale or subscription, in the Cayman Islands. Each underwriter has represented and agreed that it has not offered or sold, and will not offer or sell, directly or indirectly, any ADSs or ordinary shares in the Cayman Islands.

LEGAL MATTERS

The validity of the ADSs and certain legal matters as to United States federal and New York law will be passed upon for us by Preston Gates & Ellis LLP. Certain legal matters as to United States federal and New York law will be passed upon for the underwriters by Shearman & Sterling LLP. The validity of the ordinary shares and certain other legal matters as to Cayman Islands law will be passed upon for us by Conyers Dill & Pearman. Certain legal matters as to Taiwan law will be passed upon for us by Preston Gates & Ellis Taiwan Commercial Law Offices and for the underwriters by Russin & Vecchi.

EXPERTS

The consolidated financial statements of Silicon Motion Technology Corporation as of December 31, 2003 and 2004 and for the years ended December 31, 2002, 2003 and 2004 included herein and in the prospectus have been audited by Deloitte & Touche, an independent registered public accounting firm, as stated in their reports appearing elsewhere herein and elsewhere in the prospectus, and are included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing. The offices of Deloitte & Touche are located at 12th Floor, Hung-Tai Plaza, 156 Min Sheng East Road, Sec. 3, Taipei 105, Taiwan.

EXPENSES RELATED TO THIS OFFERING

The following table sets forth the estimated costs and expenses, other than the underwriting discounts and commissions, payable by us in connection with the offering described in the Registration Statement (all amounts are estimated except the SEC registration fee and National Association of Securities Dealers, Inc. filing fee).

Securities and Exchange Commission registration fee	US$
National Association of Securities Dealers, Inc. filing fee	
Nasdaq National Market listing fee	
Legal fees and expenses	
Accounting fees and expenses	
Printing costs	
Transfer agent fees	
Miscellaneous	
Total	US$

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC, a registration statement on Form F-1 under the Securities Act in connection with this offering of our ADSs. A related registration statement on Form F-6 has also been filed with the SEC to register the ADSs as represented by the ADRs. This prospectus, which forms a part of the registration statement on Form F-1, does not contain all of the information set forth in these registration statements, and the exhibits and schedules thereto. We have omitted certain portions of these registration statements from the prospectus in accordance with the rules and regulations of the SEC. You should refer to these registration statements for further information. Statements contained in this prospectus as to the contents of any contract or other document that is filed as an exhibit to the registration statements are

not necessarily complete, and each such statement is qualified in all respects by reference to the full text of such contract or document. Upon declaration by the SEC of the effectiveness of the registration statements, we will become subject to the periodic reporting and other informational requirements of the Exchange Act, applicable to a foreign private issuer. Under the Exchange Act, we will file annual reports on Form 20-F within six months of our fiscal year end and we will furnish other reports and information under cover of Form 6-K with the SEC. Copies of the registration statements, their accompanying exhibits, as well as such reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the SEC's Public Reference Room located at 100 F Street NE, Room 1580, Washington, D.C. 20549. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the SEC at 1-800-551-8090 or by contacting the SEC at its website at *www.sec.gov*.

As a foreign private issuer, we are exempt under the Exchange Act from, among other things, the rules prescribing the furnishing and content of proxy statements, and our executive officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we will not be required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we intend to furnish the depositary with our annual reports, which will include a review of operations and annual audited financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders' meetings and other reports and communications that are made generally available to our shareholders. The depositary will make such notices, reports and communications available to holders of ADSs and, upon our request, will mail to all record holders of ADSs the information contained in any notice of a shareholders' meeting received by the depositary from us. Please see "Description of American Depositary Shares" for more information regarding responsibilities of the depositary. We also intend to furnish the SEC under Form 6-K with quarterly reports containing certain unaudited financial information.

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CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Silicon Motion Technology Corporation

We have audited the accompanying consolidated balance sheets of Silicon Motion Technology Corporation and its subsidiaries (the "Company") as of December 31, 2003 and 2004 and the related consolidated statements of income, changes in shareholders' equity and comprehensive income (loss) and cash flows for the years ended December 31, 2002, 2003 and 2004, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Silicon Motion Technology Corporation and its subsidiaries as of December 31, 2003 and 2004, and the results of their operations and their cash flows for the years ended December 31, 2002, 2003 and 2004, in conformity with accounting principles generally accepted in the United States of America.

Our audits also comprehended the translation of New Taiwan Dollar amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 3 to the financial statements. Such U.S. dollar amounts are presented for the convenience of the readers.

Deloitte & Touche
Hsinchu, Taiwan
Republic of China

March 18, 2005 (April 26, 2005 as to Note 1, May 1, 2005 as to Note 21 and May 13, 2005 as to Note 16)

SILICON MOTION TECHNOLOGY CORPORATION

CONSOLIDATED BALANCE SHEETS
(in thousands, except share and par value)

	December 31			March 31	
	2003	2004	2004	2005	2005
	NT$	NT$	US$ (Note 3)	NT$ (Unaudited)	US$ (Note 3)
ASSETS					
Current Assets					
Cash and cash equivalents	763,545	727,165	23,114	159,567	5,072
Short-term investments	—	154,428	4,909	725,309	23,055
Accounts receivable, net	172,524	449,572	14,290	243,841	7,751
Inventories	155,853	509,149	16,184	357,587	11,366
Refundable deposits — current	40,695	107,527	3,418	95,000	3,020
Deferred income tax assets, net	69,899	35,330	1,123	38,775	1,233
Prepaid expenses and other current assets	20,663	68,337	2,172	86,191	2,739
Total current assets	1,223,179	2,051,508	65,210	1,706,270	54,236
Long-term investments	7,195	3,142	100	3,142	100
Property and equipment, net	52,610	65,657	2,087	70,225	2,232
Intangible assets, net	38,080	6,843	217	5,718	182
Other assets	41,281	39,887	1,268	63,156	2,008
Total assets	1,362,345	2,167,037	68,882	1,848,511	58,758
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities					
Accounts payable	140,839	545,818	17,350	106,919	3,399
Income tax payable	—	78,133	2,484	94,915	3,017
Accrued expenses and other current liabilities	105,573	88,139	2,801	96,398	3,064
Total current liabilities	246,412	712,090	22,635	298,232	9,480
Accrued pension cost	4,049	4,813	153	5,516	175
Other long-term liabilities	3,293	1,901	60	1,758	56
Total liabilities	253,754	718,804	22,848	305,506	9,711
Commitments and Contingencies (see Note 18)					
Shareholders' Equity					
Common stock — NT$10 par value					
Authorized: 90,000,000 at December 31, 2003 and 195,000,000 shares at December 31, 2004 and March 31, 2005					
Issued and outstanding: 90,000,000 at December 31, 2003 and 105,412,000 shares at December 31, 2004 and March 31, 2005	900,000	1,054,120	33,507	1,054,120	33,507
Additional paid-in capital	719,160	1,053,601	33,490	1,053,601	33,490
Accumulated other comprehensive income (loss)	3,318	81	2	(1,192)	(38)
Accumulated deficit	(513,887)	(659,569)	(20,965)	(563,524)	(17,912)
Total shareholders' equity	1,108,591	1,448,233	46,034	1,543,005	49,047
Total liabilities and shareholders' equity	1,362,345	2,167,037	68,882	1,848,511	58,758

(Concluded)

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

SILICON MOTION TECHNOLOGY CORPORATION

CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)

	Year Ended December 31				Three months Ended March 31		
	2002	2003	2004	2004	2004	2005	2005
	NT$	NT$	NT$	US$ (Note 3)	NT$	NT$ (Unaudited)	US$ (Note 3)
Net sales	456,874	915,070	2,166,727	68,872	379,326	515,261	16,378
Cost of sales	366,236	424,668	1,274,410	40,509	212,443	290,729	9,241
Gross profit	90,638	490,402	892,317	28,363	166,883	224,532	7,137
Operating expenses							
Research and development	107,504	203,646	238,485	7,581	42,417	69,036	2,195
Sales and marketing	52,593	125,680	141,136	4,486	32,677	32,008	1,018
General and administrative	38,230	69,262	103,303	3,284	17,011	25,298	804
Amortization of intangible assets	8,048	24,145	17,758	564	4,440	1,125	35
Impairment of intangible assets	—	54,143	11,718	372	—	—	—
In-process research and development	310,813	—	—	—	—	—	—
Restructuring charges	10,170	—	—	—	—	—	—
Total operating expenses	527,358	476,876	512,400	16,287	96,545	127,467	4,052
Operating income (loss)	(436,720)	13,526	379,917	12,076	70,338	97,065	3,085
Nonoperating income (expenses)							
Gain on sales of investments — net	8,851	8,063	10,135	322	409	2,945	94
Interest income	1,882	1,335	646	21	95	541	17
Foreign exchange gain (loss) — net	(3,504)	1,483	13,719	436	(3,667)	(1,550)	(50)
Impairment of long-term investments	(795)	(9,832)	(4,053)	(129)	—	—	—
Interest expense	(209)	(97)	(169)	(5)	(62)	(12)	—
Other, net	4,252	1,560	909	29	310	(16)	—
Total nonoperating income (expenses)	10,477	2,512	21,187	674	(2,915)	1,908	61
Income (loss) before income taxes	(426,243)	16,038	401,104	12,750	67,423	98,973	3,146
Income tax (benefit) expense	9,573	(94,405)	133,101	4,231	13,797	2,928	93
Net income (loss)	(435,816)	110,443	268,003	8,519	53,626	96,045	3,053
Earnings (loss) per share:							
Basic and diluted	(6.53)	1.14	2.58	0.08	0.52	0.91	0.03
Weighted average shares outstanding							
Basic and diluted	66,752	96,901	103,878	103,878	103,050	105,412	105,412

(Concluded)

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

SILICON MOTION TECHNOLOGY CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

(in thousands, except per share data)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount				
		NT$	NT$	NT$	NT$	NT$
BALANCE, JANUARY 1, 2002	35,500	355,000	383,387	—	(188,514)	549,873
Net loss	—	—	—	—	(435,816)	(435,816)
Foreign exchange translation adjustments	—	—	—	4,813	—	4,813
Comprehensive loss						(431,003)
Issuance of common stock to SMI USA preferred shareholders	25,421	254,206	94,056	—	—	348,262
Issuance of common stock to former employees, directors and others of SMI USA	18,544	185,444	68,614	—	—	254,058
Issuance of common stock for cash at NT$15.8 per share	535	5,350	3,103	—	—	8,453
BALANCE, DECEMBER 31, 2002	80,000	800,000	549,160	4,813	(624,330)	729,643
Net income	—	—	—	—	110,443	110,443
Foreign exchange translation adjustments	—	—	—	(1,495)	—	(1,495)
Comprehensive income						108,948
Issuance of common stock for cash at NT$27 per share	10,000	100,000	170,000	—	—	270,000
BALANCE, DECEMBER 31, 2003	90,000	900,000	719,160	3,318	(513,887)	1,108,591
Net income	—	—	—	—	268,003	268,003
Net unrealized gains on available-for-sale securities	—	—	—	697	—	697
Foreign exchange translation adjustments	—	—	—	(3,934)	—	(3,934)
Comprehensive income						264,766
Stock dividends — 14.5%	13,050	130,500	283,185	—	(413,685)	—
Stock bonus to employees	2,362	23,620	51,256	—	—	74,876
BALANCE, DECEMBER 31, 2004	105,412	1,054,120	1,053,601	81	(659,569)	1,448,233
Net income for the three months ended March 31, 2005	—	—	—	—	96,045	96,045
Net unrealized gains on available-for-sale securities	—	—	—	(697)	—	(697)
Foreign exchange translation adjustments	—	—	—	(576)	—	(576)
Comprehensive income						94,772
BALANCE, MARCH 31, 2005 (UNAUDITED)	105,412	1,054,120	1,053,601	(1,192)	(563,524)	1,543,005

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

SILICON MOTION TECHNOLOGY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31				Three Months Ended March 31		
	2002	2003	2004	2004	2004	2005	2005
	NT$	NT$	NT$	US$ (Note 3)	NT$	NT$ (Unaudited)	US$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES							
Net income (loss)	(435,816)	110,443	268,003	8,519	53,626	96,045	3,053
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:							
Depreciation and amortization	19,541	28,210	21,734	691	3,904	5,309	169
Amortization of intangible assets	8,048	24,145	17,758	564	4,440	1,125	35
In-process research and development	310,813	—	—	—	—	—	—
Impairment of intangible assets	—	54,143	11,718	372	—	—	—
Gain on sales of investments	(8,851)	(8,063)	(10,135)	(322)	(409)	(2,945)	(94)
Impairment of long-term investments	795	9,832	4,053	129	—	—	—
Stock bonus to employees	—	23,620	51,256	1,629	—	—	—
Loss on disposal of properties	9,917	1,032	2,124	67	7	11	—
Deferred income taxes	9,573	(95,255)	54,464	1,731	5,089	(13,987)	(445)
Accrued pension cost	135	664	764	24	250	703	22
Deferred rent	(807)	(4,237)	96	3	(27)	(76)	(2)
Changes in operating assets and liabilities:							
Accounts receivable	25,860	(103,097)	(277,048)	(8,806)	(26,599)	205,731	6,539
Inventories	88,006	(24,175)	(353,621)	(11,240)	(81,957)	151,562	4,818
Prepaid expenses and other current assets	(3,935)	4,159	(47,674)	(1,515)	(23,223)	913	30
Accounts payable	(17,810)	83,218	404,979	12,873	71,534	(438,899)	(13,951)
Accrued expenses and other current liabilities	(59,442)	23,683	8,099	257	(18,173)	(9,873)	(314)
Income tax payable	—	—	78,133	2,484	8,529	16,782	533
Net cash provided by (used in) operating activities	(53,973)	128,322	234,703	7,460	(3,009)	12,401	393
CASH FLOWS FROM INVESTING ACTIVITIES							
Purchases of short-term investments	(4,342,593)	(3,130,391)	(2,646,924)	(84,136)	(758,886)	(1,405,229)	(44,667)
Sales and maturities of short-term investments	4,351,444	3,138,454	2,502,631	79,549	180,946	837,293	26,615
Purchase of long-term investments	(11,880)	—	—	—	—	—	—
Purchase of properties	(3,018)	(13,996)	(36,409)	(1,157)	(14,418)	(9,979)	(317)
Business acquisition — net of cash acquired	(3,113)	—	—	—	—	—	—
Proceeds from disposal of properties	14,993	1,385	476	15	—	—	—
Decrease (increase) in refundable deposits	(37,325)	14,254	(82,875)	(2,634)	(90,245)	(897)	(29)
Net cash provided by (used in) investing activities	(31,492)	9,706	(263,101)	(8,363)	(682,603)	(578,812)	(18,398)
CASH FLOWS FROM FINANCING ACTIVITIES							
Proceeds from issuance of common stock	8,453	270,000	—	—	—	—	—
Increase (decrease) in other long-term liabilities	3,900	(1,438)	(3,081)	(98)	(1,248)	(637)	(20)
Net cash provided by (used in) financing activities	12,353	268,562	(3,081)	(98)	(1,248)	(637)	(20)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(73,112)	406,590	(31,479)	(1,001)	(686,860)	(567,048)	(18,025)
EFFECT OF EXCHANGE RATE CHANGES	7,720	(1,485)	(4,901)	(155)	(1,677)	(550)	(17)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	423,832	358,440	763,545	24,270	763,545	727,165	23,114
CASH AND CASH EQUIVALENTS, END OF PERIOD	358,440	763,545	727,165	23,114	75,008	159,567	5,072
SUPPLEMENTAL INFORMATION							
Interest paid	156	97	169	5	62	12	—
Income taxes paid	—	740	450	14	178	80	3
Business acquired							
Fair value of assets acquired, net of cash acquired	721,147						
Fair value of liabilities assumed	(115,714)						
Purchase price funded with non-cash capital contributions	(602,320)						
Cash paid for business acquisition	3,113						

(Concluded)

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

SILICON MOTION TECHNOLOGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

1. Organization and operations

Silicon Motion Technology Corporation ("SMTC" or "the Company") is a holding company incorporated in the Cayman Islands on January 27, 2005. Substantially all of the Company's operations are conducted through Silicon Motion, Inc., a wholly-owned subsidiary of SMTC, located in Taiwan ("SMI"). The Company is a fabless semiconductor company that designs, develops and markets universally compatible, high-performance, low-power semiconductor solutions for the multimedia consumer electronics market. The Company's semiconductor solutions include controllers used in mobile storage media, such as flash memory cards and USB flash drives and multimedia systems-on-a-chip, or SoCs, used in digital media devices such as MP3 players, PC cameras, PC notebooks and broadband multimedia phones.

SMI was incorporated in Taiwan on April 8, 1997 and its shares were approved for public issue in Taiwan in December 1999. SMI's common stock was traded on the Emerging Stock Board of the Taiwan GreTai Securities Market from June 27, 2003 to April 18, 2005 when SMI, following shareholder approval, terminated the quotation of its common shares. On April 25, 2005, shareholders of SMI exchanged an aggregate of 105,412 thousand shares of common stock of SMI for an aggregate of 105,412 thousand ordinary shares of SMTC. Therefore, all the shareholders of SMI became the holders of an aggregate of 100% of the outstanding shares of SMTC which in turn became the holder of 100% of the outstanding shares of SMI. SMI shareholders also approved to revoke SMI's public company status in Taiwan. Such revocation has been approved by the Securities and Futures Bureau of Taiwan on April 26, 2005.

As a result of the share exchange, 100% of the outstanding shares of SMTC are owned by former shareholders of SMI. Consequently, the exchange was accounted for as a reverse merger and the financial statements of SMTC present the historical results, assets and liabilities of SMI on the consummation of the reverse merger as if SMI was the acquiror.

2. Summary of significant accounting policies

Basis of presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts of the SMTC and its wholly-owned subsidiaries. The Company owns 100% of the outstanding stock in all of its subsidiaries, except for Silicon Motion Hong Kong Limited which the Company owns 99.99%. All intercompany amounts and transactions have been eliminated on consolidation.

The consolidated financial statements as of March 31, 2005 and for the three months ended March 31, 2004 and 2005 included herein are unaudited and have been prepared by the Company pursuant to the rules and regulations of the United States Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with US GAAP have been condensed or omitted as permitted by such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments, including normal recurring adjustments, necessary for a fair presentation of results for the interim periods have been made. The results for the three months ended March 31, 2005 are not necessarily indicative of results of the Company to be expected for the full fiscal year.

SILICON MOTION TECHNOLOGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Concentration of credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash, cash equivalents, investments in debt securities and accounts receivable. Cash and investments are deposited with high credit-quality financial institutions. For accounts receivable, the Company performs ongoing credit evaluations of its customers' financial condition and the Company maintains an allowance for doubtful accounts receivable based upon a review of the expected collectibility of individual accounts.

Fair value of financial instruments

The carrying amount of the Company's financial instruments, including cash and cash equivalents, accounts receivable and accounts payable approximates fair value due to the short-term maturity of the instruments. Fair values of short-term investments and long-term investments represent quoted market prices, if available. If no quoted market prices are available, fair values are estimated based on other factors.

Cash and cash equivalents

The Company considers all highly liquid investments with maturities of not more than three months when purchased to be cash equivalents.

Short-term investments

The Company maintains its excess cash in bond funds. The weighted-average method is used to determine the cost of securities sold, with realized gains and losses reflected in nonoperating income and expenses. The Company classifies its investments as available-for-sale which are recorded at fair value with unrealized holding gains and losses reported in a separate component of shareholders' equity in accumulated other comprehensive income (loss).

Inventories

Inventories are stated at the lower of cost or market value. Market value represents the replacement cost for raw materials and net realizable value for finished goods and work in process. The Company writes down its inventory for estimated obsolescence or unmarketable inventory in an amount equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. In estimating reserves for obsolescence, the Company primarily evaluates estimates based on the timing of the introduction of new products and the quantities remaining of our old products and provides reserves for inventory on hand in excess of the estimated demand.

SILICON MOTION TECHNOLOGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

Long-term investments

Long-term investments over which the Company does not exercise significant influence are accounted for under the cost method of accounting. Management evaluates related information in addition to quoted market prices, if any, in determining the fair value of these investments and whether an other than temporary decline in value exists. Factors indicative of an other than temporary decline include recurring operating losses, credit defaults and subsequent rounds of financings at an amount below the cost basis of the investment. The list is not all inclusive and management periodically weighs all quantitative and qualitative factors in determining if any impairment loss exists.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Significant additions, renewals and betterments are capitalized, while maintenance and repairs are expensed as incurred.

Depreciation is computed using the straight-line method over service lives that range as follows: buildings — 25 years; machinery and equipment — 3 to 6 years; furniture and fixtures — 3 to 8 years; software—1 to 5 years; leasehold improvement — the shorter of the estimated useful life or the applicable lease term which is generally 2 to 6 years. Depreciation expense recognized during the years ended December 31, 2002, 2003 and 2004 was approximately NT$19,541 thousand, NT$28,210 thousand and NT$21,734 thousand (US$691 thousand), respectively, and during the three months ended March 31, 2004 and 2005 was approximately NT$3,904 thousand (unaudited) and NT$5,309 thousand (US$169 thousand) (unaudited), respectively.

Upon the sale or other disposal of property and equipment, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is credited or charged to current income.

Property and equipment covered by agreements qualifying as capital leases are carried at the lower of the present value of future minimum rent payments or the market value of the property on the starting date of the lease. The Company’s periodic rental payment includes the purchase price of the leased property and the interest expense.

Impairment of long-lived assets

The Company evaluates the recoverability of long-lived assets whenever events or changes in circumstances indicate the carrying value may not be recoverable. The determination of recoverability is based on an estimate of undiscounted cash flows expected to result from the use of an asset and its eventual disposition. The estimate of cash flows is based upon, among other things, certain assumptions about expected future operating performance, growth rates and other factors. Estimates of undiscounted cash flows may differ from actual cash flows due to, among other things, technological changes, economic conditions, changes to the business model or changes in operating performance. If the sum of the undiscounted cash flows is less than the carrying value, an impairment loss is recognized, measured as the amount by which the carrying value exceeds the fair value of the asset.

SILICON MOTION TECHNOLOGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

Other assets

Other assets consist of deferred income tax assets-noncurrent and refundable deposits for subsidy loans, obtaining foundry capacity, office leases and deposits required for litigation in Taiwan courts.

Pension costs

The Company has a defined benefit pension plan for all regular employees, which provides benefits based on the length of service and average monthly salary computed based on the final six months of employment. The Company makes monthly contributions, equal to 2% of salaries, to a pension fund that is administered by a pension fund monitoring committee and deposited in the committee's name in the Central Trust of China which is in Taiwan. Net periodic pension costs are recorded on the basis of actuarial reports, and the unrecognized net transition obligation is amortized over 24 years.

Revenue recognition

Revenue from product sales is generally recognized upon shipment to the customer provided that the Company has received a signed purchase order, the price is fixed or determinable, transfer of title has occurred in accordance with the shipping terms specified in the arrangement with the customer, collectibility from the customer is considered reasonably assured, product returns are reasonably estimable and there are no remaining significant obligations or customer acceptance requirements.

The Company grants certain distributors limited rights of return and price protection rights on unsold products. The return rights are generally limited to five percent of the monetary value of products purchased within the preceding six months, provided the distributor places a corresponding restocking order of equal or greater value. An allowance for sales returns for distributors and all customers is recorded at the time of sale based on historical returns information available, management's judgment and any known factors at the time the financial statements are prepared that would significantly affect the allowance. Price protection rights are based on the inventory products the distributors have on hand at the date the price protection is offered. A reserve for price adjustments is recorded based on the estimated products on hand at the distributors and historical experience. The Company incurred actual price adjustments to distributors of NT$838 thousand (US$27 thousand) during 2004.

The Company provides a warranty period of one year for manufacturing defects of its products. Warranty returns have been infrequent and relate to defective or off-specification parts. The Company estimates a reserve for warranty based on historical experience and records this amount to cost of sales. To date, the Company has not experienced significant costs associated with warranty returns.

Research and development

Research and development costs consist of expenditures incurred during the course of planned research and investigation aimed at the discovery of new knowledge that will be useful in developing new products, or at significantly enhancing existing products as well as expenditures incurred for the design and testing of product alternatives. All expenditures related

SILICON MOTION TECHNOLOGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

to research and development activities of the Company are charged to operating expenses when incurred. Third-party research and development costs are expensed when the contracted work has been performed or as milestone results have been achieved.

Advertising expenses

The Company expenses all advertising and promotional costs as incurred. Advertising costs charged to expense amounted to NT$1,939 thousand, NT$1,637 thousand, and NT$2,552 thousand (US$81 thousand) for the years ended December 31, 2002, 2003, and 2004, respectively, and amounted to NT$810 thousand (unaudited) and NT$311 thousand (US$10 thousand) (unaudited) for the three months ended March 31, 2004 and 2005.

Income taxes

Under current ROC tax regulations, the current year's earnings, on an after tax basis, that are not distributed in the following year are subject to a 10% additional income tax. This 10% additional income tax is recognized in the period during which the related earnings are generated.

Income taxes are accounted for in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109 "Accounting for Income Taxes". The provision for income tax represents income tax paid and payable for the current year plus the changes in the deferred income tax assets and liabilities during the years. Deferred income tax assets are recognized for net operating loss carryforwards, research and development credits, and temporary differences. The Company believes that uncertainty exists regarding the realizability of certain deferred income tax assets and, accordingly, has established a valuation allowance for those net deferred income tax assets to the extent the realizability is not deemed more likely than not.

Foreign currency transactions

The functional currency is the local currency of the respective entities. Foreign currency transactions are recorded at the rates of exchange in effect when the transaction occurs. Gains or losses, resulting from the application of different foreign exchange rates when cash in foreign currency is converted into the entities' functional currency, or when foreign currency receivables and payables are settled, are credited or charged to income in the period of conversion or settlement. At the balance sheet date, the balances of foreign currency monetary assets and liabilities are restated based on prevailing exchange rates and any resulting gains or losses are credited or charged to income.

Translation of foreign currency financial statements

The reporting currency of the Company is the New Taiwan dollar. Accordingly, the financial statements of the foreign subsidiaries are translated into New Taiwan dollars at the following exchange rates: assets and liabilities — current rate on the balance sheet date; shareholders' equity — historical rates; income and expenses — average rate during the period. The resulting translation adjustment is recorded as a separate component of shareholders' equity in accumulated other comprehensive income.

SILICON MOTION TECHNOLOGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

Comprehensive income (loss)

Comprehensive income and loss represents net income plus the results of certain changes in shareholders' equity during a period from non-owner sources that are not reflected in the consolidated statement of income.

Legal contingencies

The Company is currently involved in various claims and legal proceedings. Periodically, the Company reviews the status of each significant matter and assesses the potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be estimated, the Company accrues a liability for the estimated loss. Because of uncertainties related to these matters, accruals are based only on the best information available at the time. As additional information becomes available, the Company reassesses the potential liability related to the pending claims and litigation and revises these estimates as appropriate. Such revisions in the estimates of the potential liabilities could have a material impact on the results of operations and financial position.

Earnings per share

Basic earnings per share is computed by dividing net earnings attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted net earnings per share reflects the potential dilution that could occur if potential common stock was exercised. Common stock equivalents are excluded from the computation of the diluted net income per share in periods when their effect is anti-dilutive. The Company's common stock equivalent consists only of common stocks issuable upon the exercise of employee stock options (using the treasury stock method).

The numerators and denominators used in computing earnings (loss) per share were as follows (in thousands except earnings (loss) per share):

	Year Ended December 31				Three Months Ended March 31		
	2002	2003	2004	2004	2004	2005	2005
	NT$	NT$	NT$	US$ (Note 3)	NT$	NT$ (Unaudited)	US$ (Note 3)
Net income (loss) in thousands	(435,816)	110,443	268,003	8,519	53,626	96,045	3,053
Weighted average thousand share outstanding — basic and diluted	66,752	96,901	103,878	103,878	103,050	105,412	105,412
Earnings (loss) per share —basic and diluted	(6.53)	1.14	2.58	0.08	0.52	0.91	0.03

Stock-based compensation

The Company accounts for stock-based awards to employees and directors using the intrinsic value method of accounting in accordance with Accounting principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related interpretations. Under

SILICON MOTION TECHNOLOGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

the intrinsic value method, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized in income. Had the Company applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based compensation," (SFAS No. 123) to options granted under the stock option plan, compensation cost would have been recognized for the year ended December 31, 2004. As the Company granted initial options on December 31, 2004, the proforma compensation cost is deemed insignificant for the year ended December 31, 2004. The estimated weighted average fair value for the options granted on December 31, 2004 was approximately NT$19.34 per share. Because the estimated value is determined as of the date of grant, the actual value ultimately realized by the employee may be significantly different.

Had compensation cost for the options granted to employees on December 31, 2004 been determined based on the fair value at the grant date, as described in SFAS No. 123, the Company's proforma net income for the three months ended March 31, 2005 would have been as follows:

	Three Months Ended March 31, 2005	
	NT$	US$ (Note 3)
	(Unaudited) (In Thousands)	
Net income as reported	96,045	3,053
Add: Stock compensation as reported	—	—
Less: Stock compensation determined using the fair value method	(7,654)	(243)
Pro forma net income	88,391	2,810
Earnings per share, basic and diluted (NT$):		
As reported	0.91	0.03
Proforma	0.84	0.03

The Company calculated the fair value at the date of grant using the Black-Scholes option valuation model with the following assumptions:

Method:	Black-Scholes Model
Assumptions:	
Expected dividend yield	0%
Expected volatility	71.24%
Risk free interest rate	3.50%
Expected life	3.2 years

Recent accounting pronouncements

In December 2004, the FASB issued SFAS No. 123R "Share-Based Payment." SFAS No. 123R requires that companies recognize compensation expense equal to the fair value of stock options or other share based payments for the annual reporting period beginning after June 15, 2005. SFAS No. 123R will apply to all awards granted after January 1, 2006, and prior period's awards that are modified, repurchased, or cancelled after January 1, 2006. The impact on the

SILICON MOTION TECHNOLOGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

Company's net income will include the remaining amortization of the fair value of existing options currently granted and is contingent upon the number of future options granted, the selected transition method and the selection of either the Black-Scholes or the binomial lattice model for valuing options.

3. US dollar amounts

The Company maintains its accounts and expresses its financial statements in New Taiwan dollars. For convenience only, U.S. dollar amounts presented in the accompanying financial statements have been translated from New Taiwan dollars, using the U.S. Federal Reserve Bank of New York noon-buying rate of NT$31.46 to US$1 on March 31, 2005. The convenience translations should not be construed as representations that the New Taiwan dollar amounts have been, could have been or could in the future be, converted into U.S. dollars at this or any other exchange rate.

4. Restructuring charges

In May 2002, the Board of Directors of SMI resolved a plan to change its business strategy from a flash memory system provider and manufacturer to a designer of integrated circuits for the multimedia consumer electronics market. SMI recorded restructuring and other special charges of NT$10,170 thousand. The charges consisted of the write-down and loss on disposal of certain manufacturing equipment and facilities of approximately NT$8,568 thousand. The charges also include approximately NT$1,602 thousand for severance and fringe benefits related to a reduction in workforce of approximately 33 employees who were primarily in the manufacturing function. These charges were classified as operating expenses in 2002 in the consolidated statements of income. Cash expenditures relating to workforce reductions were substantially paid by December 31, 2002.

5. Acquisition of SMI USA

In August 2002, SMI, formerly Feiya Technology Corporation ("Feiya"), acquired Silicon Motion Incorporated located in San Jose, California ("SMI USA") and subsequently changed its name from "Feiya Technology Corporation" to "Silicon Motion, Inc". SMI USA was incorporated in California in November 1995. SMI USA researches, develops, produces and sells low-power silicon solutions for mobile information access devices, including laptops, point-of-sale systems and handheld devices.

As a result of the Merger, SMI USA became a wholly-owned subsidiary of SMI. For accounting purposes, the transaction was accounted for under the purchase method of accounting with SMI as the acquiror. In exchange for 100% of the outstanding shares of stock of SMI USA (approximately 25.4 million preferred shares), SMI issued one share of Feiya common stock (or 25.4 million shares of Feiya common stock). Each share of outstanding common stock of SMI USA was repurchased by SMI USA and cancelled prior to the Merger. Each outstanding option and warrant to purchase SMI USA common stock was cancelled prior to the Merger. In conjunction with the Merger, Feiya also issued 18.5 million shares of its common stock to former employees, directors and former common shareholders of SMI USA.

SMI USA at the time of the Merger designed and marketed embedded graphic chips and multimedia companion chips for accelerating graphics video and audio to enable applications

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such as high-resolution handhelds, wireless broadband terminals, LCD presentation devices and consumer devices.

The purchase consideration is summarized as follows (in thousands NT$):

Fair market value of Feiya common stock issued to SMI USA preferred shareholders	348,262
Fair market value of Feiya common stock issued to former employees, directors and former common shareholders of SMI USA	254,058
Transaction costs	7,638
Total purchase consideration	609,958

At the time of the acquisition, Feiya was a privately-held company and thus a quoted market price was not available. Accordingly, in order to prepare its financial statements under U.S. GAAP, SMI determined the fair market value of Feiya's common stock utilizing generally accepted valuation methodologies by making complex and subjective judgements. Management assessed the reasonable valuation methodologies such as the income approach, market and net asset approach to value the Feiya enterprise. As Feiya had changed its core business model as of the valuation date and it was not reasonable to use the historical financial statements to justify the cash flow projections for the new business in order to use the income approach. In addition, there were no direct comparable companies to Feiya's new business in which to use the market approach. Accordingly, management determined that the net asset methodology was the most applicable as approximately 75% of Feiya's net asset value was held in cash and short term deposits. The remaining net assets which comprised primarily long-term investments were written down to their estimated fair values. Based on these primary factors, the fair market value of the 43.9 million shares of Feiya common stock issued was determined to be NT$13.7 per share, or a total of NT$602,320 thousand (US$17.6 million) at the date of consummation of the Merger. The fair market value of Feiya common stock has been allocated to common stock and additional paid-in capital with the full amount of the fair market value of the shares issued to former employees and directors allocated to the purchase price as there was no vesting or future service requirements associated with the issuance.

The following sets forth SMI's estimates of the fair values of the assets acquired and liabilities assumed in the Merger as of August 30, 2002 (in thousands NT$):

Cash	4,525
Inventories	161,548
Other current assets	71,965
Property and equipment	36,566
Other assets	5,825
Identifiable intangible assets	134,430
In-process research and development (IPR&D)	310,813
Accounts payable	(25,445)
Accrued expenses and other current liabilities	(82,786)
Long-term liabilities	(7,483)
Net assets acquired	609,958

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The excess of the purchase price over the fair value of the net tangible assets acquired has been reflected as identifiable intangible assets. The identifiable intangible assets and respective useful lives are as follows (in thousands NT$):

Developed technology (5 years)	110,496
Trademarks (6 years)	23,934
Total identifiable intangible assets	134,430

The identifiable intangible assets were valued using the income approach and a discount rate of 23%. The purchased developed technology consisted of a patented embedded, low-power display controller with 2D/3D graphics capability, dual display and Quickrotate functions, embedded DRAM, Multi-Chip BGA, and a Windows related display driver. Under the income approach, the fair value reflected the present value of the projected cash flows that at the time were expected to be generated by the products incorporating the developed technology. The market for the developed technology was primarily to a few customers as the controller was based on an older generation graphics and display technology. However, SMI USA expected newly introduced consumer and computing devices, such as the broadband internet video phone, car navigation system, and Tablet PC as next generation of notebook computers, would be able to utilize this technology and had factored a 20% growth rate in revenues from the controller as a result of expected consumer acceptance of the new consumer devices. The estimated useful life of five years was based on the estimated revenues and cash flows expected to be generated from the sale of the controller.

The income approach utilized for the trademark was the relief from royalty methodology, under which an estimate was made as to the appropriate royalty income that would be negotiated in an arm’s length transaction if the subject intangible asset were licensed from an independent third-party owner. SMI believes that customers usually place a heavy emphasis on supplier reliability and product performance and as such, believed that SMI USA had a valuable name with which to be associated and subsequently changed its name to Silicon Motion Inc. Revenue streams from the developed technology as well as the future estimated revenues associated with the IPR&D products were included in determining the fair value of the trademark. The estimated useful life of six years was based on the estimated life of the products to which the trademark applied. These assets are amortized on a straight-line basis over their estimated useful lives.

The amount allocated to IPR&D of NT$310,813 thousand was expensed upon completion of the Merger as it was determined that the projects in development from SMI USA: a) had not reached technological feasibility, b) had no alternative future uses and c) were uncertain to be successfully developed. SMI USA had two primary projects in development at the time of the Merger, namely the development of a multimedia display processor and a DSP for MP3 and WMA with a digital audio and encode/decode function. SMI used an income approach based on projected discounted cash flows using a discount rate of 25% in order to determine the fair values of these projects. The discount rate was determined using a weighted-average cost of capital analysis, as adjusted to reflect additional risks, such as the probability of achieving technological success and market acceptance. Each of the projects was analyzed considering factors such as: a) its stage of completion, b) its technological innovation, c) any existence and utilization of core technology and d) any resources needed to complete the remaining

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development efforts. The material risks associated with the incomplete projects included SMI's inability to timely complete the projects within allocated resources and the inability to market and sell the products from these projects.

The multimedia display processor represented approximately 60% of the estimated fair value of our IPR&D charge. The technology associated included a 2-dimensional graphics and video processor. SMI estimated that the multimedia display processor was approximately 35% completed at the time of the Merger. Because of the complexity of developing a multimedia display processor with multiple functions and software support, it was estimated that SMI USA had expended a significant portion of its research and development resources on the project. SMI USA anticipated that it would have integrated all multimedia functions and multiple operating systems into the multimedia display processor such that it was able to operate across many hardware platforms. Due to the complexity of the project, it was determined that SMI would need to expend significant resources to integrate additional functions into the multimedia display processor, as well as to develop supported software and firmware. SMI was subsequently able to complete the project and began selling the multimedia display processor in the first quarter of 2004.

SMI estimated that the DSP project was approximately 65% complete at the date of the Merger as it was determined that the architecture and hardware of the DSP had been developed but that it was not saleable as a standalone product. SMI planned to incorporate flash memory technology and input/output functionality in order to develop a more complete consumer product. In addition, it was determined that SMI would need to develop software and firmware support for the DSP project so that the product may play back digital audio recordings and record voice with noise cancellation function. The project was subsequently completed in the second quarter of 2004 and SMI began selling the DSP product in the fourth quarter of 2004.

The Merger was accounted for as a purchase and the operating results of SMI USA have been included in SMI's operations from August 30, 2002. The following unaudited pro forma information represents a summary of the results of operations as if the Merger occurred on January 1, 2002 and includes amortization of identifiable intangibles and unearned compensation from that date (in thousands NT$ except loss per share that is in NT$):

Net sales	786,205
Net loss	(585,881)
Net loss per share	(8.78)

Net loss per share is based on 66,752 thousand weighted average shares outstanding.

The pro forma results are based on various assumptions and are not necessarily indicative of what would have occurred had the Merger closed on January 1, 2002.

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6. Cash and cash equivalents

	December 31			March 31	
	2003	2004	2004	2005	2005
	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
	(In Thousands)			(Unaudited)	
Petty cash	3,316	100	3	116	4
Demand deposits and checking deposits	747,229	685,600	21,793	132,857	4,223
Time deposits	13,000	41,465	1,318	26,594	845
	763,545	727,165	23,114	159,567	5,072

7. Short-term investments

Realized gains on sales of short-term investments were NT$8,851 thousand, NT$8,063 thousand and NT$10,135 thousand (US$322 thousand) for the years ended December 31, 2002, 2003 and 2004, respectively, and were NT$409 thousand and NT$2,945 thousand (US$94 thousand) for the three months ended March 31, 2004 and 2005, respectively. Net unrealized gains were NT$697 thousand (US$22 thousand) as of December 31, 2004 and nil as of March 31, 2005.

8. Accounts receivable

	December 31			March 31	
	2003	2004	2004	2005	2005
	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
	(In Thousands)			(Unaudited)	
Trade accounts receivable	192,827	471,160	14,976	265,796	8,449
Allowance for doubtful accounts	(1,918)	(4,833)	(154)	(5,076)	(162)
Allowance for sales returns and discounts	(18,385)	(16,755)	(532)	(16,879)	(536)
	172,524	449,572	14,290	243,841	7,751

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The changes in the allowances are summarized as follows:

	Year Ended December 31				Three Months Ended March 31		
	2002	2003	2004	2004	2004	2005	2005
	NT$	NT$	NT$	US$ (Note 3)	NT$	NT$	US$ (Note 3)
	(In Thousands)				(Unaudited)		
Allowance for doubtful accounts							
Balance, beginning of period	6,936	4,193	1,918	61	1,918	4,833	154
Additions	2,568	—	3,423	109	1,265	243	8
Reversal	—	(2,227)	—	—	—	—	—
Write-off	(5,311)	(48)	(508)	(16)	—	—	—
Balance, end of period	4,193	1,918	4,833	154	3,183	5,076	162

	Year Ended December 31				Three Months Ended March 31		
	2002	2003	2004	2004	2004	2005	2005
	NT$	NT$	NT$	US$ (Note 3)	NT$	NT$	US$ (Note 3)
	(In Thousands)				(Unaudited)		
Allowance for sales returns and discounts							
Balance, beginning of period	6,281	11,726	18,385	584	18,385	16,755	532
Additions	6,978	16,523	33,599	1,068	6,030	474	15
Write-off	(1,533)	(9,864)	(35,229)	(1,120)	(311)	(350)	(11)
Balance, end of period	11,726	18,385	16,755	532	24,104	16,879	536

9. Inventories

The components of inventories are as follows:

	December 31			March 31	
	2003	2004	2004	2005	2005
	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
	(In thousands)			(Unaudited)	
Finished goods	35,552	253,448	8,056	214,761	6,826
Work in process	50,774	157,566	5,009	97,212	3,090
Raw materials	69,527	98,135	3,119	45,614	1,450
	155,853	509,149	16,184	357,587	11,366

In December 2004, the Company recorded a write-off of approximately NT$49,362 thousand of inventory to cost of sales which was due to production defects associated with the migration from 0.35 micron to 0.18 micron manufacturing technologies for one of the Company's products, SM264. The defects stemmed from the Company's use of manufacturing process

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technology offered free of charge and developed by other companies. The Company are currently in negotiations with these companies for possible compensation from the inventory write-off incurred as a result of the Company's use of this manufacturing process technology.

10. Long-term investments

	December 31			March 31	
	2003	2004	2004	2005	2005
	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
	(In thousands)			(Unaudited)	
Cost method:					
Cashido Corp. (Cashido) (2%)	3,142	3,142	100	3,142	100
ARCHIC Technology, Inc. (ARCHIC) (5%)	4,053	—	—	—	—
	7,195	3,142	100	3,142	100

As of December 31, 2003 and 2004, due to the decline in value of investment in ARCHIC and Cashido which the Company determined to be other than temporary, the Company recorded a loss on impairment of investments of NT$9,832 thousand and NT$4,053 thousand (US$129 thousand), respectively.

11. Property and equipment

	December 31			March 31	
	2003	2004	2004	2005	2005
	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
	(In thousands)			(Unaudited)	
Cost:					
Land	18,259	18,259	580	18,259	580
Buildings	13,907	13,907	442	13,907	442
Machinery and equipment	32,425	23,426	745	29,242	930
Furniture and fixtures	10,036	14,011	445	14,346	456
Leasehold improvement	6,081	13,064	415	13,064	415
Software	107,448	27,667	880	28,983	921
	188,156	110,334	3,507	117,801	3,744
Accumulated depreciation:					
Buildings	2,897	3,453	110	3,592	114
Machinery and equipment	21,723	11,006	350	12,558	399
Furniture and fixtures	6,206	6,589	209	7,259	231
Leasehold improvement	5,558	2,419	77	3,507	112
Software	99,162	21,210	674	22,972	730
	135,546	44,677	1,420	49,888	1,586
Prepayments	—	—	—	2,312	74
	52,610	65,657	2,087	70,225	2,232

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The Company entered into capital leases on certain office equipment with future remaining lease payments as of December 31, 2004 of NT$246 thousand in 2005, NT$260 thousand in 2006, and NT$472 thousand in 2007 and thereafter.

In 2004, the Company identified land and buildings located in Taipei, Taiwan, with a net carrying value as of December 31, 2004 of NT$18,259 thousand (US$580 thousand) and NT$10,454 thousand (US$332 thousand), respectively, to be leased to a non-related party. As of March 18, 2005, the Company had not yet leased the property.

12. Intangible assets

	December 31			March 31	
	2003	2004	2004	2005	2005
	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
			(In thousands)	(Unaudited)	
Trademarks	23,934	23,934	761	23,934	761
Developed technology	110,496	110,496	3,512	110,496	3,512
	134,430	134,430	4,273	134,430	4,273
Accumulated amortization	(32,193)	(49,951)	(1,588)	(51,076)	(1,623)
Accumulated impairment — trademarks	(12,100)	(12,100)	(385)	(12,100)	(385)
Accumulated impairment — developed technology	(42,043)	(53,761)	(1,709)	(53,761)	(1,709)
Accumulated tax provision adjustments	(10,014)	(11,775)	(374)	(11,775)	(374)
	38,080	6,843	217	5,718	182

The Company determined that impairment of intangible assets occurred during 2003 due to the loss of sales to two significant customers during the fourth quarter who purchased the controller using the developed technology. SMI USA had estimated that these two customers comprised approximately 55% of the forecasted revenues. Based on the estimated undiscounted cash flows, as adjusted for the loss of the revenues associated with these two customers, the Company determined that the trademarks and the developed technology were impaired and reduced their carrying values to the respective fair values based on the estimated discounted cash flows. The Company also reassessed the remaining useful life of the trademark and developed technology to be four years and two years, respectively, as of December 31, 2003 given the maturity of the technology in the product life cycle.

During the fourth quarter of 2004, the Company determined that impairment of the intangible assets occurred as a result of a significant decline in revenue associated with the sales expected to be generated from the introduction of new consumer products such as the broadband internet video phone, car navigation system, and Tablet PC as next generation of notebook computers. As the market and the development for these products did not occur as anticipated, the forecasted revenues and cash flows were significantly impacted. The Company estimated the undiscounted cash flows taking into account the new information and determined that the carrying value of the developed technology was higher than the estimated cash flows. Accordingly, the Company reduced the carrying value of the developed technology to the fair value as determined by the estimated discounted cash flows.

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At December 31, 2002, SMI USA was able to recognize a tax benefit associated with a valuation allowance that had been recorded at the purchase date for the related deferred tax assets. In accordance with SFAS No. 109 “Accounting for Income Taxes”, the Company reduced the value of the intangible assets by NT$10,014 thousand to reflect the amount of the tax benefit. At December 31, 2004, SMI USA was able to recognize an additional tax benefit of NT$1,761 thousand (US$56 thousand) associated with a valuation allowance that had been recorded at the purchase date. The Company reduced the value of the intangible assets by the related amount.

As of December 31, 2004, annual amortization expense of the identifiable intangible assets was expected to be as follows:

Year	Amount	
	NT$	US$ (Note 3)
	(In thousands)	
2005	4,501	143
2006	1,171	37
2007	1,171	37
	6,843	217

13. Accrued expenses and other current liabilities

	December 31			March 31	
	2003	2004	2004	2005	2005
	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
			(In thousands)	(Unaudited)	
Wages and bonus	49,408	33,557	1,067	20,096	639
Professional fees	6,346	2,938	93	21,251	676
Research and development payable	16,422	6,415	204	11,409	363
Commission payable	5,941	8,000	254	6,135	195
License fee payable	7,171	—	—	—	—
Others	20,284	37,229	1,183	37,507	1,191
	105,572	88,139	2,801	96,398	3,064

14. Pension plan

The Company is required under the Labor Standards Law of Taiwan to have a defined benefit pension plan that covers substantially all of its employees located in Taiwan. The law requires companies incorporated in Taiwan to contribute between 2% to 15% of employee salaries to a government specified plan. The plan provides defined benefits based on years of service and average salary computed based on the final six months of employment. SMI’s plan makes monthly contributions equal to 2% of employee salaries to a government specified plan. Contributions are required to be deposited in SMI’s pension name of the committee with the Central Trust of China in Taiwan. Future contributions will be based on 2% of the employee salaries at that time. SMI estimates its contribution for the year ending December 31, 2005 to be NT$1,283 thousand which was determined based on 2% of estimated salaries in 2005. The measurement date of the plan is December 31.

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The Labor Pension Act of Taiwan will be effective beginning July 1, 2005 and this pension mechanism is considered a defined contribution plan. The employees who were subject to the Labor Standards Law prior to the enforcement of this Act may choose to be subject to the pension mechanism under this Act of or continue to remain subject to the pension mechanism under the Labor Standards Law. For those employees who were subject to the Labor Standards Law prior to July 1, 2005 and still work for the same company after July 1, 2005 and choose to be subject to the pension mechanism under this Act, their seniority as of July 1, 2005 shall be maintained. The rate of contribution by an employer to the Labor Pension Fund per month shall not be less than 6% of each employee's monthly salary or wage.

The changes in benefits obligation and plan assets and the reconciliation of funded status are as follows:

	December 31		
	2003	2004	2004
	NT$	NT$	US$ (Note 3)
Change in benefit obligation			
Projected benefit obligation at beginning of year	3,808	4,174	132
Service cost	2,210	2,496	79
Interest cost	133	146	5
Actuarial (gain) loss	(1,977)	2,601	83
Projected benefit obligation at end of year	4,174	9,417	299
Change in plan assets			
Fair value of plan assets at beginning of year	6,501	7,775	247
Actual return on plan assets	101	98	3
Employer contributions	1,173	1,222	39
Fair value of plan assets at end of year	7,775	9,095	289
Reconciliation of funded status			
Funded status	3,601	(322)	(10)
Unrecognized net transition obligation	407	386	12
Unrecognized net actuarial gain	(8,057)	(4,877)	(155)
Net amount recognized	(4,049)	(4,813)	(153)

The net amount recognized is recorded in the balance sheets as a long-term liability.

The accumulated benefit obligation for all the defined benefit pension plans was NT$1,616 thousand and NT$3,793 thousands (US$121 thousand) at December 31, 2003 and 2004, respectively.

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The components of net periodic benefit cost are as follows:

	Year Ended December 31				Three Months Ended March 31		
	2002	2003	2004	2004	2004	2005	2005
	NT$	NT$	NT$	US$ (Note 3)	NT$	NT$ (Unaudited)	US$ (Note 3)
				(In thousands)			
Service cost	3,059	2,210	2,496	79	624	1,156	37
Interest cost	228	133	146	5	37	83	3
Projected return on plan assets	(250)	(248)	(294)	(9)	(74)	(86)	(3)
Amortization	(86)	(258)	(362)	(11)	(90)	(47)	(2)
Net periodic benefit cost	2,951	1,837	1,986	64	497	1,106	35

	2003	2004
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	3.5%	3.5%
Rate of compensation increase	5.0%	5.0%
Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	3.5%	3.5%
Expected long-term return on plan assets	3.5%	3.5%
Rate of compensation increase	5.0%	5.0%

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15. Income taxes

The components of income tax benefit (expense) are as follows:

	Year Ended December 31				Three Months Ended March 31		
	2002	2003	2004	2004	2004	2005	2005
	NT$	NT$	NT$	US$ (Note 3)	NT$	NT$ (Unaudited)	US$ (Note 3)
	(In thousands)						
Current							
Domestic	—	—	—	—	—	—	—
Foreign:							
SMI Taiwan	—	110	78,186	2,485	9,792	16,835	535
SMI USA and others	—	741	450	15	178	80	3
	—	851	78,636	2,500	9,970	16,915	538
Deferred							
Domestic	—	—	—	—	—	—	—
Foreign:							
SMI Taiwan	(441)	(95,256)	52,703	1,675	3,827	(13,987)	(445)
SMI USA and others	10,014	—	1,762	56	—	—	—
	9,573	(95,256)	54,465	1,731	3,827	(13,987)	(445)
Income tax (benefit) expense	9,573	(94,405)	133,101	4,231	13,797	2,928	93

The income (loss) before income taxes for domestic and foreign entities is as follows:

	Year Ended December 31				Three Months Ended March 31		
	2002	2003	2004	2004	2004	2005	2005
	NT$	NT$	NT$	US$ (Note 3)	NT$	NT$ (Unaudited)	US$ (Note 3)
	(In thousands)						
Domestic	—	—	—	—	—	—	—
Foreign entities							
SMI Taiwan	(451,267)	21,111	396,163	12,593	64,623	112,828	3,586
SMI USA	24,747	(3,687)	6,219	198	2,439	(11,543)	(367)
Others	277	(1,386)	(1,278)	(41)	361	(2,312)	(73)
	(426,243)	16,038	401,104	12,750	67,423	98,973	3,146

Since the Company is based in the Cayman Islands, a tax-free country, domestic tax on pretax income is calculated at the Cayman Islands statutory rate of nil for each period.

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The Company and its subsidiaries file separate income tax returns. A reconciliation of income tax expense on pretax income at statutory rate and income tax expense (benefit) is shown below:

	Year Ended December 31				Three Months Ended March 31		
	2002	2003	2004	2004	2004	2005	2005
	NT$	NT$	NT$	US$ (Note 3)	NT$	NT$ (Unaudited)	US$ (Note 3)
	(In thousands)						
Tax on pretax income at statutory rate	10,950	4,555	100,163	3,184	16,980	24,793	788
Tax effects of adjustments:							
Tax-exempt income	—	—	—	—	—	(26,373)	(838)
Net operating loss carryforwards	(3,155)	(40,362)	(71,145)	(2,261)	(19,092)	—	—
Permanent differences	—	5,407	6,740	214	133	(736)	(23)
Temporary differences	(7,795)	33,551	28,164	895	8,140	10,312	327
Current income tax expense before income tax credits	—	3,151	63,922	2,032	6,161	7,996	254
Income tax (10%) on undistributed earnings	—	15,972	51,170	1,627	8,529	12,877	409
Income tax credit utilized	—	(18,382)	(36,456)	(1,159)	(4,720)	(3,958)	(125)
Net change in deferred income taxes assets or liabilities							
Net operating loss carryforwards	(45,304)	4,299	82,309	2,616	9,839	1,608	51
Investment tax credits	(5,464)	3,707	(1,052)	(33)	(3,018)	(6,256)	(199)
Temporary differences and others	6,933	74,429	513	16	3,893	(7,415)	(236)
Net change in valuation allowance of deferred income tax assets	43,394	(177,691)	(29,067)	(924)	(6,887)	(1,924)	(61)
Adjustment of prior years' taxes and others	10,014	110	1,762	56	—	—	—
Income tax expense (benefit)	9,573	(94,405)	133,101	4,231	13,797	2,928	93

SILICON MOTION TECHNOLOGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

Deferred income tax assets were as follows:

	December 31			March 31	
	2003	2004	2004	2005	2005
	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
			(In thousands)	(Unaudited)	
Current:					
Temporary differences	12,355	8,251	262	15,623	497
Investment tax credits	6,551	33,197	1,055	29,240	929
Net operating loss carryforwards	56,103	—	—	—	—
Others	(351)	(423)	(13)	(421)	(13)
Valuation allowance	(4,759)	(5,695)	(181)	(5,667)	(180)
	69,899	35,330	1,123	38,775	1,233
Noncurrent:					
Temporary differences	2,718	4,737	151	4,680	149
Investment tax credits	101,925	76,331	2,426	86,544	2,751
Net operating loss carryforwards	344,995	318,789	10,133	317,181	10,082
Others	(21,093)	(19,449)	(618)	(19,351)	(615)
Valuation allowance	(405,674)	(375,671)	(11,941)	(373,775)	(11,881)
	22,871	4,737	151	15,279	486

The valuation allowance shown in the table above relates to net operating loss carryforwards and tax credits for which the Company believes that realization is uncertain. The Company had unused research and development tax credits of NT$39,837 thousand (US$1,266 thousand) which will expire in 2009. In addition, profits generated from certain products will be exempt from income tax for five years beginning January 1, 2005.

As of March 31, 2005, the Company's United States federal and state net operating loss carryforwards for income tax purposes were approximately NT$816,167 thousand (US$25,943 thousand) and NT$346,375 thousand (US$11,010 thousand), respectively. If not utilized, the federal net operating loss carryforwards will expire in 2023 and the state net operating loss carryforwards will expire in 2012.

As of March 31, 2005, the Company's United States federal and state research and development tax credit carryforwards for income tax purposes were approximately US$1,628 thousand and US$779 thousand, respectively. If not utilized, the federal tax credit carryforwards will expire in 2020 while the state tax credit carryforward has no expiration date.

Current United States federal and California state laws include substantial restrictions on the utilization of net operating losses and credits in the event of an "ownership change" of a corporation. Accordingly, the Company's ability to utilize net operating loss and tax credit carryforwards may be limited as a result of such "ownership change". Such a limitation could result in the expiration of carryforwards before they are utilized.

SMI Taiwan income tax returns through 2002 had been examined and cleared by the Taiwan tax authorities.

SILICON MOTION TECHNOLOGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

16. Shareholders' equity

In August 2002, SMI's predecessor, Feiya, acquired SMI USA and changed its name from "Feiya Technology Corporation" to "Silicon Motion, Inc." In connection with the transaction, Feiya (which became SMI Taiwan) issued 25,400 thousand shares of Feiya common stock in exchange for 100% of the outstanding shares of SMI USA preferred stock. Feiya also issued 18,500 thousand shares of its common stock to former employees, directors and former common shareholders of SMI USA.

In July 2003, SMI issued 10,000 thousand shares of its common stock to existing shareholders, employees and unrelated third-party investors for cash at NT$27 per share. The proceeds of NT$270,000 thousand were used for research and development activities and general corporate purposes.

Appropriations from annual net income

Pursuant to the laws and regulations of the ROC and the respective Articles of Incorporation, SMI must make appropriations from annual earnings to certain non-distributable reserves which could affect the Company's ability to pay cash or stock dividends, if any. SMI may only distribute dividends after it has made allowances as determined under ROC GAAP at each year-end for:

a. payment of taxes;

b. recovery of prior years' deficits, if any;

c. legal reserve, being 10% of annual net income after having deducted the above items;

d. special reserve based on relevant laws or regulations, or retained earnings, being 10% of annual net income after having deducted the above items;

e. remuneration to directors and supervisors up to 3% of annual net income after having deducted the above items;

f. cash or stock bonus to employees at between 10% and 15% of annual net income after having deducted the above items. If bonus to employees is in the form of stock, the bonus may also be appropriated to employees of subsidiaries under the board of directors' approval;

In accordance with the above, SMI paid 15% of the remaining unappropriated earnings for 2004, in the form of 2,362 thousand shares of common stock, to employees as bonuses in the form of stock. The stock bonuses were recorded as compensation expense based on NT$31.70 per share which was determined to be the fair value on the date of shareholder approval. In addition, SMI paid a stock dividend to its shareholders as part of their respective interests in the accumulated earnings of the Taiwan subsidiary. SMI recorded the dividend based on the fair value of the stock on the date of shareholder approval which was NT$31.70 per share. On May 13, 2005, the Board of directors of SMI amended its Articles of Incorporation 1) to remove the remuneration to directors and supervisors and 2) to change the percentage distribution of cash or stock to employees from 10% to 15% to 0.01% of annual net income after having deducted the above items. If bonus to employees is in the form of stock, the bonus may also be appropriated to employees of subsidiaries under the board of directors' approval.

SILICON MOTION TECHNOLOGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

17. Stock option plan

In 2004, SMI adopted a 2004 Employee Stock Option Plan ("the Plan"). The Plan reserved 8,000 units with each unit entitled to subscribe for 1,000 shares of common stock after the requisite service is rendered. The options may be granted to qualified employees of SMI or any of its domestic or foreign subsidiaries and expire no later than six years from the date of grant. Generally, the options are granted at an exercise price not lower than the market value of SMI's common stock at the date of the grant and vest over four years at certain percentages after two years from the date of grant. On December 31, 2004, 4,000 units were granted to employees at an exercise price of NT$40 per share. As of March 31, 2005, 4,000 units were available for grant under the Plan.

On April 22, 2005, the Company adopted its 2005 Incentive Plan. The 2005 Incentive Plan provides for the grant of stock options, stock bonuses, restricted stock awards, restricted stock units and stock appreciation rights, which may be granted to the Company's employees (including officers), directors and consultants.

18. Commitments and contingencies

In 2001, SMI received a subsidy from the ROC Industrial Development Bureau (IDB) for research and development of controller products and a semiconductor data storage system. The government subsidy was in the form of two cash payments of NT$1,000 thousand and NT$4,093 thousand which were received in 2001 and 2002, respectively, and a non-interest bearing loan of NT$5,093 thousand. The Company recorded the cash payments received in 2001 and 2002 in non-operating income at the time of receipt. Under the terms of the arrangement, the non-interest bearing loan is repayable in eight consecutive quarterly payments beginning April 2003 with the last payment in January 2005. The Company imputed the interest on the loan at a rate of 6.79% and deemed the imputed amount of interest to be insignificant and thus did not record any interest expense associated with the loan. As of December 31, 2003 the Company owed NT$3,183 thousand of which NT$2,546 thousand and NT$637 thousand were recorded as other current liabilities and other long-term liabilities, respectively. As of December 31, 2004, the remaining NT$637 thousand (US$20 thousand) was recorded in other current liabilities. The Company repaid the remaining NT$637 thousand in January 2005 in accordance with the terms of the agreement. In addition, SMI is required to pay the IDB 2% of sales as royalty payments from any products resulting from the research and development project for a period of three years following the initial sale. Total royalties paid cannot exceed 30% of the total amount of the subsidy loan amount, or approximately NT$1,530 thousand. As of March 31, 2005, the Company completed the research and development project under this agreement, however, the Company has not sold any products using this technology and therefore has not paid or accrued any royalty payments related to the projects.

As of March 31, 2005, the Company had a credit facility available up to NT$70 million with China Trust Bank. This credit facility can be used for multi-purposes and is subject to annual renewal.

Operating leases

The Company entered into various operating lease agreements for office space that will terminate at various dates through March 2008. The Company recognized rent expense during

SILICON MOTION TECHNOLOGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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the years ended December 31, 2002, 2003 and 2004 of NT$13,260 thousand, NT$22,270 thousand, and NT$18,702 thousand (US$594 thousand), respectively, and NT$5,762 thousand and NT$4,266 thousand (US$136 thousand) for the three months ended March 31, 2004 and 2005, respectively. The amounts of remaining future operating lease payments under these leases as of December 31, 2004 were NT$16,986 thousand, NT$11,076 thousand and NT$4,659 thousand for the years ending December 31, 2005, 2006, and 2007 and thereafter, respectively.

Litigation

On August 15, 2002, SMI filed an action against two of its former employees and Phison Electronics Corporation, or Phison, with the Taiwan Hsinchu District Court. The complainant alleged that the two former SMI employees who were subsequently hired by Phison, and Phison violated the Business Secret Law and Copyright Law of the ROC for the infringement of certain intellectual property rights to compact flash controller chips owned by SMI. The claimant seeks damages in the amount of NT$125 million (US$4.0 million). On May 15, 2003, SMI named Winbond Electronics Corporation, or Winbond, as a defendant in the same action. On April 8, 2004, the Taiwan Hsinchu District Court issued a ruling determining that the two former SMI employees, Phison and Winbond did not violate the Business Secret Law and Copyright Law of the ROC. The Taiwan Hsinchu District Court ruling stated that there was sufficient evidence to show that the defendants obtained SMI's consent to respectively produce and purchase the compact flash controller chips that were the subject of the lawsuit. On May 4, 2004, SMI appealed the Taiwan Hsinchu District Court's ruling to the Taiwan High Court. The case is presently pending before the Taiwan High Court.

On January 2, 2003, O2Micro International Limited, or O2Micro, a Cayman Islands company, filed an action for a preliminary injunction against SMI with the Taiwan Hsinchu District Court. The request for such preliminary injunction alleged that SMI produced and sold products with embedded digital sound effect control chips that infringed O2Micro's patent, patent registered number 130953, in Taiwan and asks for an order prohibiting SMI from manufacturing and selling certain products that allegedly infringe O2Micro's patent in Taiwan. On February 6, 2003, SMI filed an action for a preliminary injunction against O2Micro denying such allegations and requesting O2Micro not to interfere with SMI's distribution, manufacturing and business operations in relation to the relevant products. A court-appointed appraiser completed a report on December 16, 2004 stating that SMI's products raised in the case do not infringe O2Micro's patent. The appraiser's report has been submitted to the court.

On February 3, 2004, O2Micro filed an application for a provisional seizure of NT$15,000 thousand (US$477 thousand) against SMI with the Taiwan Hsinchu District Court. The application alleged that SMI infringed O2Micro's patent, patent registered number 130953, in Taiwan. The Taiwan Hsinchu District Court issued a provisional seizure order and attached some of SMI's assets. Upon placing a deposit of NT$15,000 thousand, the Taiwan Hsinchu District Court has released the enforcement of the provisional seizure order. The provisional seizure order will be decided as part of the lawsuit discussed in the next paragraph regarding the infringement of patent number 130953 filed by O2Micro against SMI.

In addition, on September 24, 2004, O2Micro filed an action against SMI with the Taiwan Hsinchu District Court. The complainant alleged that SMI infringed O2Micro's patent, patent registered number 130953, in Taiwan and preliminarily claimed for damages of NT$3,000 thousand (US$95 thousand). The court's ruling in this case is pending.

SILICON MOTION TECHNOLOGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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On January 14, 2004, O2Micro filed for a preliminary injunction against SMI and Microstar, a Taiwan customer of SMI with the Taiwan Panchiao District Court. The request for injunctive relief asks for an order prohibiting SMI and Microstar from designing, manufacturing, advertising and selling certain products that allegedly infringe O2Micro's patent, patent registered number 178290, in Taiwan. On May 20, 2004, the Taiwan Panchiao District Court issued a preliminary injunctive order prohibiting SMI and Microstar from designing, manufacturing, advertising and selling certain products that allegedly infringe O2Micro's patent in Taiwan. Both sides have appealed this case to the Taiwan High Court. The Taiwan High Court rejected the appeals on March 10, 2005, and both sides have appealed to the Taiwan Supreme Court. The enforcement of such preliminary injunctive order has been withdrawn upon the deposit with the court by SMI of NT$11,506 thousand.

The Company currently believes that the legal proceedings described above, individually or in the aggregate, will not have a material adverse impact on its financial position or results of operations. The litigation and other claims noted above, however, are subject to inherent uncertainties and management's view of these matters may change in the future.

19. Related party transactions

In June 2002, the Company entered into a research and development agreement with Winbond Electronics Corp. (Winbond), which was a legal entity director of the board of SMI through December 2002. The Company received royalty payments of NT$1,423 thousand during 2002 for product sold by Winbond as a result of the product developed under the agreement. The Company recorded the amount as revenue upon receipt of payment from Winbond. The agreement was mutually terminated in February 2003. In addition, the Company purchased raw materials amounting to NT$49,063 thousand during 2002 which had been completely paid for as of December 31, 2002.

20. Segment information

The Company designs, develops and markets semiconductor products. The Company operates in one segment. The chief operating decision maker, the Chief Executive Officer, reviews financial information presented on a consolidated basis for purposes of making operating decisions and assessing financial performance.

Net sales by product consist of the following (in thousands):

	Year Ended December 31				Three Months Ended March 31		
	2002	2003	2004	2004	2004	2005	2005
	NT$	NT$	NT$	US$ (Note 3)	NT$	NT$ (Unaudited)	US$ (Note 3)
Product							
Mobile storage products	—	394,644	1,865,699	59,304	302,029	444,583	14,132
Multimedia SoCs	165,533	418,663	285,441	9,073	75,509	66,356	2,109
Systems product and others	291,341	101,763	15,587	495	1,788	4,322	137
	456,874	915,070	2,166,727	68,872	379,326	515,261	16,378

SILICON MOTION TECHNOLOGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

Net sales by geographic area are presented based upon the customer's bill to location (in thousands):

	Year Ended December 31				Three Months Ended March 31		
	2002	2003	2004	2004	2004	2005	2005
	NT$	NT$	NT$	US$ (Note 3)	NT$	NT$ (Unaudited)	US$ (Note 3)
Country							
Taiwan	246,145	543,160	1,278,044	40,624	227,284	332,238	10,561
United States	32,688	104,254	675,943	21,486	109,238	112,547	3,577
Japan	47,531	129,840	97,431	3,097	17,316	25,286	804
Germany	35,507	12,628	23,001	731	3,558	4,106	130
Others	95,003	125,188	92,308	2,934	21,930	41,084	1,306
	456,874	915,070	2,166,727	68,872	379,326	515,261	16,378

Long-lived assets consist of property and equipment, and intangible assets. Long-lived assets by geographic area were as follows (in thousands):

	December 31			March 31	
	2003	2004	2004	2005	2005
	NT$	NT$	US$ (Note 3)	NT$ (Unaudited)	US$ (Note 3)
Country					
Taiwan	82,113	67,584	2,148	71,568	2,275
United States	8,086	4,565	145	3,744	119
Others	491	351	11	631	20
	90,690	72,500	2,304	75,943	2,414

Sales to significant customers as a percentage of revenues were as follows (in thousands):

	Years Ended December 31							Three Months Ended March 31				
	2002		2003		2004	2004		2004		2004	2005	
	Amount	%	Amount	%	Amount	Amount	%	Amount	%	Amount	Amount	%
	NT$		NT$		NT$	US$ (Note 3)		NT$		NT$ (Unaudited)	US$ (Note 3)	
Customers												
Power Digital Card	—	—	268,214	29	473,711	15,058	22	97,100	26	52,001	1,653	10
Lexar Media	—	—	—	—	304,499	9,679	14	51,411	14	69,205	2,200	13
Macrotron Systems	—	—	23,994	3	291,370	9,262	13	39,012	10	31,483	1,001	6
Edom Technology	31,990	7	91,467	10	7,527	239	—	8,625	2	—	—	—
Taiwan I/O Data Device, Inc.	52,994	12	6,485	1	—	—	—	—	—	—	—	—

SILICON MOTION TECHNOLOGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

Significant customer account receivables as a percentage of net accounts receivable were as follows (in thousands):

	December 31					March 31		
	2003		2004			2004	2005	
	Amount	%	Amount	Amount	%	Amount	Amount	%
	NT$		NT$	US$ (Note 3)		NT$	US$ (Note 3)	
						(Unaudited)		
Customers								
Power Digital Card	85,943	50	204,183	6,490	45	54,197	1,723	18
Lexar Media	—	—	113,510	3,608	25	53,778	1,709	18
Macrotron Systems	20,503	12	65,798	2,091	15	25,023	795	9

21. Subsequent events

On May 1, 2005, one of the Company's subcontractor's testing and packaging plant suffered a loss caused by fire and approximately NT$42,345 thousand (US$1,346 thousand) of inventories were damaged by the fire. The Company will receive compensation for losses from the subcontractor resulting from the fire.

Annex A

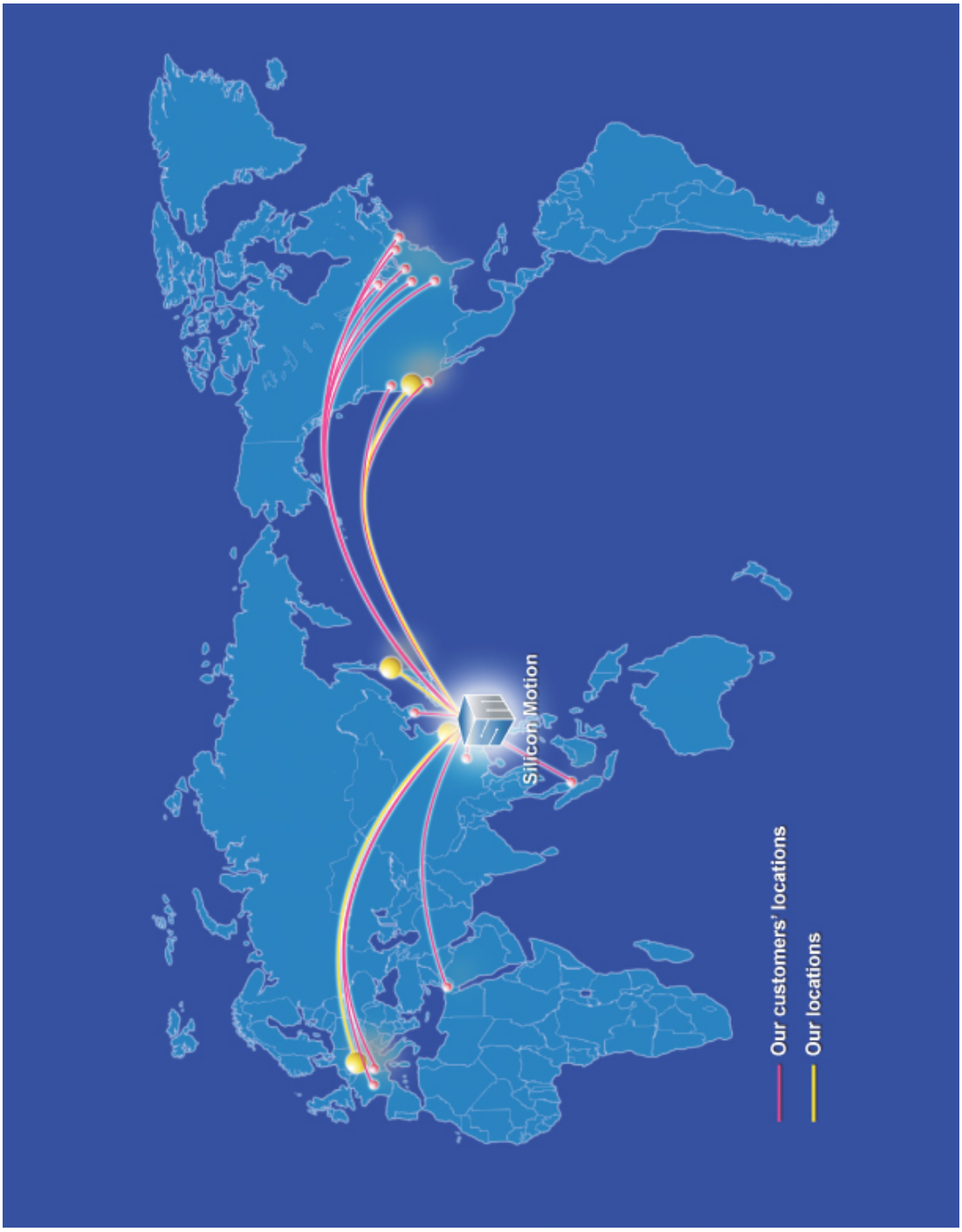
GLOSSARY OF TECHNICAL TERMS

AAC	Advanced Audio Coding. An audio compression format.
AC-Link/IIS	An audio interface. Has significant advantages over the most prevalent power conversion technologies, which are based on Pulse Width Modulation (PWM). These advantages stem from the simplicity and versatility of its circuit topology (hardware), combined with the sophistication of its control methodology (software).
ADPCM	Adaptive Differential Pulse Code Modulation. An audio compression routine for digital audio.
AsH_3	Arsine. A colorless, flammable, highly toxic gas used as a doping agent for the preparation of semiconductor materials.
Bluetooth	Chip technology enabling seamless voice and data connections between a wide range of devices through short-range digital two-way radio. It is an open specification for short-range communications of data and voice between both mobile and stationary devices.
Board estate	The space a device occupies on a motherboard.
CF	Compact Flash. A type of non-volatile memory storage media commonly used in portable devices such as personal computers, digital cameras, video camcorders, and audio players.
CMOS	Complementary Metal Oxide Silicon. A fabrication process that incorporates n-channel and p-channel complementary metal oxide semiconductor transistors within the same silicon substrate. This is the most commonly used integrated circuit fabrication process technology and is one of the latest fabrication techniques to use metal oxide semiconductor transistors.
CPRM	Content Protection for Recordable Media. A hardware-based technology designed to enforce copy protection restrictions through built-in mechanisms in storage media that would prevent unauthorized file copying.
CPU	Central Processing Unit.
CRT	Cathode Ray Tube. An evacuated tube containing an anode and a cathode that generates cathode rays (electrons) and produces an image on a screen. They are commonly used in displays, monitors, and televisions.
DRAM	Dynamic Random Access Memory. A memory cell in which digital information (data) is stored in a volatile state. It is a key component of digital circuits.

DRM	Digital Rights Management. A protocol developed to prevent unauthorized use of digital information, commonly used to thwart illegal copying of digital media such as music and movies.
DSC	Digital Still Camera
DSP	Digital Signal Processor. A specialized digital microprocessor used to efficiently perform calculations on digitized signals that were originally analog in form in real time. The main advantage of DSP lies in its specialization to execute instruction sequences used in math-intensive signal processing applications.
DVC	Digital Video Camera
FastMDC	Fast Management Data-link & Calculation. A cost-effective solution for ultra high performance of flash access time and high reliability of data storage.
FireWire	Also known as IEEE 1394. A non-proprietary, high-speed, serial bus input/output standard used to transfer data to and from digital devices through a cable.
Flash memory	A type of solid-state, non-volatile memory. The name “flash” is derived from the rapid block erase operation. Flash memory is the most popular form of non-volatile semiconductor memory currently available.
GPIO	General Purpose Input/Output. A flexible parallel interface that allows a variety of custom connections.
HDD	Hard Disk Drive.
I^2C	Inter-Integrated Circuit. A type of bus interface used to connect integrated circuits.
IDE	Integrated Drive Electronics. A common hard disk drive interface used in PCs.
LCD	Liquid Crystal Display.
LCM	Liquid Crystal Module.
MCM	Multi-Chip Module. An integrated circuit package that contains two or more interconnected chips.
Memory	A device that can store information for later retrieval.
Micron	A term for micrometer, which is a unit of linear measure that equals one one-millionth (1/1,000,000) of a meter. There are 25.4 microns in one one-thousandth of an inch.
MIPS	Microprocessor without Interlocked Pipeline Stages. An RISC microprocessor architecture developed by MIPS Computer Systems Inc.

Mixed-signal	The combination of analog and digital circuitry in a single semiconductor.
MMC	MultiMediaCards. A type of non-volatile memory storage media commonly used in portable devices such as cell phones, digital cameras, and audio players.
NAND flash	A type of flash memory.
ODM	Original Design Manufacturer.
OEM	Original Equipment Manufacturer.
OLED	Organic Light-Emitting Diode. A diode made from carbon-based molecules (as opposed to silicon) that emits light when a voltage is applied.
PC Architecture	The design of a personal computer (i.e. configuration of the motherboard, CPU and memory).
PCMCIA	Personal Computer Memory Card International Association. An organization consisting of some 500 companies that has developed a standard for PC Cards used in notebook computers.
PDA	Personal Digital Assistant.
PH_3	Phosphine. Gaseous compound commonly used in silicon manufacturing as a source of phosphorus.
PIO	Programmed Input/Output.
Protocol standards	Industry standards for flash cards.
SD	Secure Digital. A type of non-volatile memory storage media commonly used in portable devices such as personal computers, digital cameras, video camcorders, and audio players.
SDRAM	Synchronous DRAM. A type of DRAM (*see* DRAM) that can run at much higher clock speeds than conventional memory. SDRAM synchronizes itself with the CPU's bus.
Semiconductor	An element with an electrical resistivity within the range of an insulator and a conductor. A semiconductor can conduct or block the flow of electric current depending on the direction and magnitude of applied electrical biases. Refers to the controller, multimedia SoC, etc.
Semiconductor solution	Includes the controller as well as the software.
SIE	Serial Interface Engine.

SoC	System-on-a-Chip. A chip that incorporates functions usually performed by several different devices into a single chip and therefore generally offers better performance and lower cost.
SPI	Serial Peripheral Interface. A board-level serial peripheral bus.
SRAM	Static Random Access Memory. A type of volatile memory product that is used in electronic systems to store data and program instructions. Unlike the more common DRAM, it does not need to be refreshed.
Storage architecture	The flash memory device standard in a flash-based storage product such as flash cards and USB disk drives.
TFT	Thin Film Transistor.
UI	User Interface.
UFD	USB Flash Drive.
USB	Universal Serial Bus.
WiFi	Wireless Fidelity. The popular name for IEEE 802.11 wireless networking standard.
WiMAX	Also known as IEEE 802.16. A standards-based wireless technology that provides high-throughput broadband connections through the use of three antennas.
Wireless LAN	Wireless Local Area Network. A type of local area network that uses high-frequency radio waves rather than wires to communicate between nodes.
WMA	Windows Media Audio. Microsoft's proprietary audio codec designed to compete with MP3.
Xscale	Intel Corporation's line of StrongARM-based RISC microprocessors and microcontrollers, which was acquired from DEC's Digital Semiconductor division. The Xscale currently incorporates a fifth generation of the StrongARM micro-architecture.


Silicon Motion
Our customers' locations
Our locations

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide information different from that contained in this prospectus. We and the selling shareholders are offering to sell, and seeking offers to buy, ADSs only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our ADSs.

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Until , 2005 (25 days after the date of this prospectus), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.

American
Depositary Shares

Representing
Ordinary Shares

Deutsche Bank Securities

WR Hambrecht + Co

Needham & Company, LLC

Preliminary Prospectus

, 2005

PART II

INFORMATION NOT REQUIRED IN THE PROSPECTUS

Item 6. *Indemnification of Directors and Officers*

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of directors and officers, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. The registrant's articles of association provide for indemnification of directors and officers for actions, costs, charges, losses, damages and expenses incurred in their capacities as such, except that such indemnification does not extend to any matter in respect of any fraud or dishonesty that may attach to any of them.

Item 7. *Recent Sales of Unregistered Securities*

On February 3, 2005, the Registrant issued one ordinary share for consideration of US$1.00 in connection with its formation. These securities were issued without registration under the Securities Act of 1933, as amended, in reliance upon Rule 901 and Rule 903 of Regulation S for sales made in an offshore transaction.

During the past three years, the Registrant or its predecessor in interest, SMI Taiwan, has issued and sold the securities listed below without registering the securities under the Securities Act. None of these transactions involved a public offering. The Registrant believes that each of the following issuances was exempt from registration under the Securities Act in reliance on Regulation S, Regulation D or Rule 701 under the Securities Act or pursuant to Section 4(2) of the Securities Act regarding transactions not involving a public offering.

- In August 2002, Feiya Technology Corporation acquired SMI USA and changed its name from "Feiya Technology Corporation" to "Silicon Motion, Inc." In connection with the transaction, Feiya (which became SMI Taiwan) issued 25.4 million shares of Feiya common stock to the 167 holders of preferred stock of SMI USA in exchange for 100% of the outstanding shares of SMI USA preferred stock. Feiya also issued 18.5 million shares of its common stock to 3 holding companies on behalf of certain former employees, directors and former common shareholders of SMI USA.
- In July, 2003, SMI Taiwan issued 10,000,000 common shares to 27 of its employees, 55 of its shareholders and 14 others in exchange for cash contributions of NT$270,000,000. SMI Taiwan's existing shareholders subscribed to 5,921,850 shares, approximately 59% of the shares issued. SMI Taiwan's employees subscribed to 1,611,669 shares, approximately 16% of the shares issued, including 1,156,669 shares, approximately 12% of the shares issued, that were purchased by 9 employees who were also existing shareholders. 2,466,481 shares, approximately 25% of the shares issued, were purchased by non-shareholders.
- In October, 2004, SMI Taiwan increased its paid-in capital from NT$900,000,000 to NT$1,054,120,000 by capitalizing dividends of NT$130,500,000 issued to 860 of its shareholders out of retained earnings and employee bonuses of NT$23,620,000 issued to 64 of its employees.
- In December 2004, SMI Taiwan granted 4,000 units of employee share options for 4,000,000 common shares of SMI Taiwan to 100 of its employees at an exercise price of NT$40 per share. Each option has a six-year term and vests over a four-year period commencing from the second year after issuance.

Item 8. ***Exhibits and Financial Statement Schedules***

(a) *Exhibits*

Exhibit Number	Description
1.1	Form of Underwriting Agreement*
3.1	Memorandum of Association of the Registrant
3.2	Articles of Association of the Registrant
4.1	Specimen of American Depositary Receipt
4.2	Form of Deposit Agreement
4.3	Silicon Motion Technology Corporation 2005 Equity Incentive Plan
5.1	Opinion of Conyers Dill & Pearman, Cayman Islands Counsel to the Registrant, regarding the validity of the ordinary shares being registered
8.1	Opinion of Preston Gates & Ellis LLP, United States counsel to the Registrant, regarding tax matters
8.2	Opinion of Conyers Dill & Pearman, Cayman Islands Counsel to the Registrant, regarding tax matters
10.1	Lease Agreement between Silicon Motion, Inc. (Taiwan) and Fang Shinn Industrial Co., Ltd. dated May 4, 2004
10.2	Lease Agreement between Silicon Motion, Inc. (Taiwan) and TaiHsing Printing and Binding Co., Ltd dated February 23, 2005
10.3	Lease Agreement between Silicon Motion, Inc. (Taiwan) and Winsome Development Inc. dated November 27, 2003
10.4	Lease Agreement between Silicon Motion, Inc. (Taiwan) and Richtek Technology Corp. dated February 4, 2005
10.5	Lease Agreement between Silicon Motion, Inc. (California) and Orchard Investment Company Number 205 dated January 21, 2004.
10.6	Bank Line of Credit Agreement between Silicon Motion, Inc. (Taiwan) and Chinatrust Commercial Bank Co., Ltd. dated November 25, 2004
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10.8	Specific Clause Agreement between Silicon Motion, Inc. (Taiwan) and Chinatrust Commercial Bank Co., Ltd. dated November 25, 2004
10.9	Acquisition Agreement between, amongst others, Feiya Technology Corporation and Silicon Motion, Inc. (California), dated June 10, 2002
10.10	Share Exchange Agreement between Silicon Motion, Inc. (Taiwan) and Silicon Motion Technology Corporation, dated February 4, 2005
21.1	List of Subsidiaries
23.1	Consent of Deloitte & Touche
23.2	Consent of Conyers Dill & Pearman (included in Exhibit 5.1)
23.3	Consent of Preston Gates & Ellis LLP
24.1	Power of Attorney (included within Signature Page)

* To be filed by amendment

(b) *Financial Statement Schedules*

All schedules are omitted because they are not required, are not applicable or the information is included in the financial statements or notes thereto.

Item 9. *Undertakings*

The undersigned Registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions described in Item 14 or otherwise, the Registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned Registrant undertakes that:

(1) for purposes of determining liability under the Securities Act, the information omitted from the form prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in the form prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective, and

(2) for the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-1 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Taipei, Taiwan on June 9, 2005.

Silicon Motion Technology Corporation

By: /s/ Wallace C. Kou

Wallace C. Kou,
President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints James Chow and Wallace C. Kou, and each of them, his or her true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any or all amendments (including post-effective amendments) to this Registration Statement and any and all related registration statements pursuant to Rule 462(b) of the Securities Act, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons on June 9, 2005, in the capacities indicated.

Signature	Title
/s/ James Chow	Chairman of the Board of Directors
James Chow	
/s/ Wallace C. Kou	President and Chief Executive Officer and Director (principal executive officer)
Wallace C. Kou	
/s/ Richard Wei	Chief Financial Officer (principal financial and accounting officer)
Richard Wei	
/s/ Henry Chen	Director
Henry Chen	
/s/ Tsung-Ming Chung	Director
Tsung-Ming Chung	
/s/ C.S. Ho	Director
C.S. Ho	
/s/ Lien-chun Liu	Director
Lien-chun Liu	
/s/ Yung-Chien Wang	Director
Yung-Chien Wang	

SIGNATURE OF AUTHORIZED REPRESENTATIVE OF THE REGISTRANT

Pursuant to the Securities Act of 1933, as amended, the undersigned, the duly authorized representative in the United States of Silicon Motion Technology Corporation has signed this Registration Statement or amendment thereto in Taipei, Taiwan, on June 9 2005.

By: /s/ WALLACE C. KOU

Name: WALLACE C. KOU
Title: President and Chief Executive Officer

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Exhibit Index

Exhibit Number	Description
1.1	Form of Underwriting Agreement*
3.1	Memorandum of Association of the Registrant
3.2	Articles of Association of the Registrant
4.1	Specimen of American Depositary Receipt
4.2	Form of Deposit Agreement
4.3	Silicon Motion Technology Corporation 2005 Equity Incentive Plan
5.1	Opinion of Conyers Dill & Pearman, Cayman Islands Counsel to the Registrant, regarding the validity of the ordinary shares being registered
8.1	Opinion of Preston Gates & Ellis LLP, United States counsel to the Registrant, regarding tax matters
8.2	Opinion of Conyers Dill & Pearman, Cayman Islands Counsel to the Registrant, regarding tax matters
10.1	Lease Agreement between Silicon Motion, Inc. (Taiwan) and Fang Shinn Industrial Co., Ltd. dated May 4, 2004
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* To be filed by amendment

Exhibit 3.1

THE COMPANIES LAW
EXEMPTED COMPANY LIMITED BY SHARES

AMENDED AND RESTATED
MEMORANDUM OF ASSOCIATION
OF
Silicon Motion Technology Corporation

(Adopted by way of a special resolution passed on April 22, 2005)

1. The name of the Company is Silicon Motion Technology Corporation.
2. The Registered Office of the Company shall be at the offices of Codan Trust Company (Cayman) Limited, Century Yard, Cricket Square, Hutchins Drive, P. O. Box 2681 GT, George Town, Grand Cayman, British West Indies.
3. Subject to the following provisions of this Memorandum, the objects for which the Company is established are unrestricted.
4. Subject to the following provisions of this Memorandum, the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided by Section 27(2) of The Companies Law.
5. Nothing in this Memorandum shall permit the Company to carry on a business for which a licence is required under the laws of the Cayman Islands unless duly licensed.
6. The Company shall not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands; provided that nothing in this clause shall be construed as to prevent the Company effecting and concluding contracts in the Cayman Islands, and exercising in the Cayman Islands all of its powers necessary for the carrying on of its business outside the Cayman Islands.
7. The liability of each member is limited to the amount from time to time unpaid on such member's shares.
8. The share capital of the Company is US$5,000,000 divided into 500,000,000 shares of a nominal or par value of US$0.01 each.
9. The Company may exercise the power contained in the Companies Law to deregister in the Cayman Islands and be registered by way of continuation in another jurisdiction.

Exhibit 3.2

The Companies Law (Revised)
Company Limited by Shares

AMENDED AND RESTATED

ARTICLES OF ASSOCIATION

OF

Silicon Motion Technology Corporation

(Adopted by way of a special resolution passed on April 22, 2005)

INDEX

INTERPRETATION

TABLE A

1. The regulations in Table A in the Schedule to the Companies Law (Revised) do not apply to the Company.

INTERPRETATION

2. (1) In these Articles, unless the context otherwise requires, the words standing in the first column of the following table shall bear the meaning set opposite them respectively in the second column.

WORD	MEANING
"Audit Committee"	the audit committee of the Company formed by the Board pursuant to Article 120(1) hereof, or any successor audit committee.
"Auditor"	the auditor of the Company for the time being and may include any individual or partnership.
"Articles"	these Articles in their present form or as supplemented or amended or substituted from time to time.
"Board" or "Directors"	the board of directors of the Company or the directors present at a meeting of directors of the Company at which a quorum is present.
"capital"	the share capital from time to time of the Company.
"clear days"	in relation to the period of a notice, that period excluding the day when the notice is given or deemed to be given and the day for which it is given or on which it is to take effect.
"clearing house"	a clearing house recognised by the laws of the jurisdiction in which the shares of the Company (or depositary receipts therefor) are listed or quoted on a stock exchange or interdealer quotation system in such jurisdiction.
"Company"	Silicon Motion Technology Corporation.
"competent regulatory authority"	a competent regulatory authority in the territory where the shares of the Company (or depositary receipts therefor) are listed or quoted on a stock exchange or interdealer quotation system in such territory.

“debenture” and “debenture holder”	include debenture stock and debenture stockholder respectively.
“Designated Stock Exchange”	the National Market of The Nasdaq Stock Market, Inc.
“dollars” and “$”	dollars, the legal currency of the United States of America.
“Exchange Act”	the Securities Exchange Act of 1934, as amended.
“head office”	such office of the Company as the Directors may from time to time determine to be the principal office of the Company.
“Law”	The Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.
“Member”	a duly registered holder from time to time of the shares in the capital of the Company.
“month”	a calendar month.
“Notice”	written notice unless otherwise specifically stated and as further defined in these Articles.
“Office”	the registered office of the Company for the time being.
“ordinary resolution”	a resolution shall be an ordinary resolution when it has been passed by a simple majority of votes cast by such Members as, being entitled so to do, vote in person or, in the case of any Member being a corporation, by its duly authorised representative or, where proxies are allowed, by proxy at a general meeting of which not less than ten (10) clear days’ Notice has been duly given;
“paid up”	paid up or credited as paid up.
“Register”	the principal register and where applicable, any branch register of Members of the Company to be maintained at such place within or outside the Cayman Islands as the Board shall determine from time to time.
“Registration Office”	in respect of any class of share capital such place as the Board may from time to time determine to keep a branch register of Members in respect of that class of share capital and where (except in cases where the Board otherwise directs) the transfers or other documents of

	title for such class of share capital are to be lodged for registration and are to be registered.
“Seal”	common seal or any one or more duplicate seals of the Company (including a securities seal) for use in the Cayman Islands or in any place outside the Cayman Islands.
“Secretary”	any person, firm or corporation appointed by the Board to perform any of the duties of secretary of the Company and includes any assistant, deputy, temporary or acting secretary.
“special resolution”	a resolution shall be a special resolution when it has been passed by a majority of not less than two-thirds of votes cast by such Members as, being entitled so to do, vote in person or, in the case of such Members as are corporations, by their respective duly authorised representative or, where proxies are allowed, by proxy at a general meeting of which not less than ten (10) clear days’ Notice, specifying (without prejudice to the power contained in these Articles to amend the same) the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the Members having the right to attend and vote at any such meeting, being a majority together holding not less than ninety-five (95) per cent. in nominal value of the shares giving that right and in the case of an annual general meeting, if it is so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than ten (10) clear days’ Notice has been given; a special resolution shall be effective for any purpose for which an ordinary resolution is expressed to be required under any provision of these Articles or the Statutes.
“Statutes”	the Law and every other law of the Legislature of the Cayman Islands for the time being in force applying to or affecting the Company, its Memorandum of Association and/or these Articles.
“year”	a calendar year.

(2) In these Articles, unless there be something within the subject or context inconsistent with such construction:

(a) words importing the singular include the plural and vice versa;

(b) words importing a gender include both gender and the neuter;

(c) words importing persons include companies, associations and bodies of persons whether corporate or not;

(d) the words:

(i) "may" shall be construed as permissive;

(ii) "shall" or "will" shall be construed as imperative;

(e) expressions referring to writing shall, unless the contrary intention appears, be construed as including printing, lithography, photography and other modes of representing words or figures in a visible form, and including where the representation takes the form of electronic display, provided that both the mode of service of the relevant document or notice and the Member's election comply with all applicable Statutes, rules and regulations;

(f) references to any law, ordinance, statute or statutory provision shall be interpreted as relating to any statutory modification or re-enactment thereof for the time being in force;

(g) save as aforesaid words and expressions defined in the Statutes shall bear the same meanings in these Articles if not inconsistent with the subject in the context;

(h) references to a document being executed include references to it being executed under hand or under seal or by electronic signature or by any other method and references to a notice or document include a notice or document recorded or stored in any digital, electronic, electrical, magnetic or other retrievable form or medium and information in visible form whether having physical substance or not.

SHARE CAPITAL

3. (1) The share capital of the Company at the date on which these Articles come into effect shall be divided into shares of a par value of $0.01 each.

(2) Subject to the Law, the Company's Memorandum and Articles of Association and, where applicable, the rules of the Designated Stock Exchange and/or any competent regulatory authority, any power of the Company to purchase or otherwise acquire its own shares shall be exercisable by the Board in such manner, upon such terms and subject to such conditions as it thinks fit.

(3) No share shall be issued to bearer.

ALTERATION OF CAPITAL

4. The Company may from time to time by ordinary resolution in accordance with the Law alter the conditions of its Memorandum of Association to:

(a) increase its capital by such sum, to be divided into shares of such amounts, as the resolution shall prescribe;

(b) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(c) without prejudice to the powers of the Board under Article 12, divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or such restrictions which in the absence of any such determination by the Company in general meeting, as the Directors may determine provided always that, for the avoidance of doubt, where a class of shares has been authorized by the Company no resolution of the Company in general meeting is required for the issuance of shares of that class and the Directors may issue shares of that class and determine such rights, privileges, conditions or restrictions attaching thereto as aforesaid, and further provided that where the Company issues shares which do not carry voting rights, the words “non-voting” shall appear in the designation of such shares and where the equity capital includes shares with different voting rights, the designation of each class of shares, other than those with the most favourable voting rights, must include the words “restricted voting” or “limited voting”;

(d) sub-divide its shares, or any of them, into shares of smaller amount than is fixed by the Memorandum of Association (subject, nevertheless, to the Law), and may by such resolution determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred, deferred or other rights or be subject to any such restrictions as compared with the other or others as the Company has power to attach to unissued or new shares;

(e) cancel any shares which, at the date of the passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled or, in the case of shares, without par value, diminish the number of shares into which its capital is divided.

5. The Board may settle as it considers expedient any difficulty which arises in relation to any consolidation and division under the last preceding Article and in particular but without prejudice to the generality of the foregoing may issue certificates in respect of fractions of shares or arrange for the sale of the shares representing fractions and the distribution of the net proceeds of sale (after deduction of the expenses of such sale) in due proportion amongst the Members who would have been entitled to the fractions, and for this purpose the Board may authorise some person to transfer the shares representing fractions to their purchaser or resolve that such net proceeds be paid to the Company for the Company’s benefit. Such purchaser will

not be bound to see to the application of the purchase money nor will his title to the shares be affected by any irregularity or invalidity in the proceedings relating to the sale.

6. The Company may from time to time by special resolution, subject to any confirmation or consent required by the Law, reduce its share capital or any capital redemption reserve or other undistributable reserve in any manner permitted by law.

7. Except so far as otherwise provided by the conditions of issue, or by these Articles, any capital raised by the creation of new shares shall be treated as if it formed part of the original capital of the Company, and such shares shall be subject to the provisions contained in these Articles with reference to the payment of calls and instalments, transfer and transmission, forfeiture, lien, cancellation, surrender, voting and otherwise.

SHARE RIGHTS

8. Subject to the provisions of the Law, the rules of the Designated Stock Exchange and the Memorandum and Articles of Association and to any special rights conferred on the holders of any shares or class of shares, and without prejudice to Article 12 hereof, any share in the Company (whether forming part of the present capital or not) may be issued with or have attached thereto such rights or restrictions whether in regard to dividend, voting, return of capital or otherwise as the Board may determine, including without limitation on terms that they may be, or at the option of the Company or the holder are, liable to be redeemed on such terms and in such manner, including out of capital, as the Board may deem fit.

9. Subject to the Law, any preferred shares may be issued or converted into shares that, at a determinable date or at the option of the Company or the holder if so authorised by its Memorandum of Association, are liable to be redeemed on such terms and in such manner as the Company before the issue or conversion may by ordinary resolution of the Members determine. Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender shall be limited to a maximum price as may from time to time be determined by the Board, either generally or with regard to specific purchases. If purchases are by tender, tenders shall comply with applicable laws.

VARIATION OF RIGHTS

10. Subject to the Law and without prejudice to Article 8, all or any of the special rights for the time being attached to the shares or any class of shares may, unless otherwise provided by the terms of issue of the shares of that class, from time to time (whether or not the Company is being wound up) be varied, modified or abrogated with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting all the provisions of these Articles relating to general meetings of the Company shall, mutatis mutandis, apply, but so that:

(a) the necessary quorum (whether at a separate general meeting or at its adjourned meeting) shall be a person or persons (or in the case of a Member being a corporation, its duly authorized representative) together holding or representing

by proxy not less than one-third in nominal value of the issued shares of that class;

(b) every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him; and

(c) any holder of shares of the class present in person or by proxy or authorised representative may demand a poll.

11. The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied, modified or abrogated by the creation or issue of further shares ranking pari passu therewith.

SHARES

12. (1) Subject to the Law, these Articles and, where applicable, the rules of the Designated Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, the unissued shares of the Company (whether forming part of the original or any increased capital) shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration and upon such terms and conditions as the Board may in its absolute discretion determine but so that no shares shall be issued at a discount. In particular and without prejudice to the generality of the foregoing, the Board is hereby empowered to authorize by resolution or resolutions from time to time the issuance of one or more classes or series of preferred shares and to fix the designations, powers, preferences and relative, participating, optional and other rights, if any, and the qualifications, limitations and restrictions thereof, if any, including, without limitation, the number of shares constituting each such class or series, dividend rights, conversion rights, redemption privileges, voting powers, full or limited or no voting powers, and liquidation preferences, and to increase or decrease the size of any such class or series (but not below the number of shares of any class or series of preferred shares then outstanding) to the extent permitted by Law. Without limiting the generality of the foregoing, the resolution or resolutions providing for the establishment of any class or series of preferred shares may, to the extent permitted by law, provide that such class or series shall be superior to, rank equally with or be junior to the preferred shares of any other class or series.

(2) Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to Members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the Board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever. Except as otherwise expressly provided in the resolution or resolutions providing for the establishment of any class or series of preferred shares, no vote of the holders of preferred shares of or ordinary shares shall be a prerequisite to the issuance of any shares of any class or

series of the preferred shares authorized by and complying with the conditions of the Memorandum and Articles of Association.

(3) The Board may issue options, warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for, purchase or receive any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

13. The Company may in connection with the issue of any shares exercise all powers of paying commission and brokerage conferred or permitted by the Law. Subject to the Law, the commission may be satisfied by the payment of cash or by the allotment of fully or partly paid shares or partly in one and partly in the other.

14. Except as required by law, no person shall be recognised by the Company as holding any share upon any trust and the Company shall not be bound by or required in any way to recognise (even when having notice thereof) any equitable, contingent, future or partial interest in any share or any fractional part of a share or (except only as otherwise provided by these Articles or by law) any other rights in respect of any share except an absolute right to the entirety thereof in the registered holder.

15. Subject to the Law and these Articles, the Board may at any time after the allotment of shares but before any person has been entered in the Register as the holder, recognise a renunciation thereof by the allottee in favour of some other person and may accord to any allottee of a share a right to effect such renunciation upon and subject to such terms and conditions as the Board considers fit to impose.

SHARE CERTIFICATES

16. Every share certificate shall be issued under the Seal or a facsimile thereof and shall specify the number and class and distinguishing numbers (if any) of the shares to which it relates, and the amount paid up thereon and may otherwise be in such form as the Directors may from time to time determine. No certificate shall be issued representing shares of more than one class. The Board may by resolution determine, either generally or in any particular case or cases, that any signatures on any such certificates (or certificates in respect of other securities) need not be autographic but may be affixed to such certificates by some mechanical means or may be printed thereon.

17. (1) In the case of a share held jointly by several persons, the Company shall not be bound to issue more than one certificate therefor and delivery of a certificate to one of several joint holders shall be sufficient delivery to all such holders.

(2) Where a share stands in the names of two or more persons, the person first named in the Register shall as regards service of notices and, subject to the provisions of these Articles, all or any other matters connected with the Company, except the transfer of the shares, be deemed the sole holder thereof.

18. Every person whose name is entered, upon an allotment of shares, as a Member in the Register shall be entitled, without payment, to receive one certificate for all such shares

of any one class or several certificates each for one or more of such shares of such class upon payment for every certificate after the first of such reasonable out-of-pocket expenses as the Board from time to time determines.

19. Share certificates shall be issued within the relevant time limit as prescribed by the Law or as the Designated Stock Exchange may from time to time determine, whichever is the shorter, after allotment or, except in the case of a transfer which the Company is for the time being entitled to refuse to register and does not register, after lodgment of a transfer with the Company.

20. (1) Upon every transfer of shares the certificate held by the transferor shall be given up to be cancelled, and shall forthwith be cancelled accordingly, and a new certificate shall be issued to the transferee in respect of the shares transferred to him at such fee as is provided in paragraph (2) of this Article. If any of the shares included in the certificate so given up shall be retained by the transferor a new certificate for the balance shall be issued to him at the aforesaid fee payable by the transferor to the Company in respect thereof.

(2) The fee referred to in paragraph (1) above shall be an amount not exceeding the relevant maximum amount as the Designated Stock Exchange may from time to time determine provided that the Board may at any time determine a lower amount for such fee.

21. If a share certificate shall be damaged or defaced or alleged to have been lost, stolen or destroyed a new certificate representing the same shares may be issued to the relevant Member upon request and on payment of such fee as the Company may determine and, subject to compliance with such terms (if any) as to evidence and indemnity and to payment of the costs and reasonable out-of-pocket expenses of the Company in investigating such evidence and preparing such indemnity as the Board may think fit and, in case of damage or defacement, on delivery of the old certificate to the Company provided always that where share warrants have been issued, no new share warrant shall be issued to replace one that has been lost unless the Board has determined that the original has been destroyed.

LIEN

22. The Company shall have a first and paramount lien on every share (not being a fully paid share) for all moneys (whether presently payable or not) called or payable at a fixed time in respect of that share. The Company shall also have a first and paramount lien on every share (not being a fully paid share) registered in the name of a Member (whether or not jointly with other Members) for all amounts of money presently payable by such Member or his estate to the Company whether the same shall have been incurred before or after notice to the Company of any equitable or other interest of any person other than such member, and whether the period for the payment or discharge of the same shall have actually arrived or not, and notwithstanding that the same are joint debts or liabilities of such Member or his estate and any other person, whether a Member of the Company or not. The Company's lien on a share shall extend to all dividends or other moneys payable thereon or in respect thereof. The Board may at any time, generally or in any particular case, waive any lien that has arisen or declare any share exempt in whole or in part, from the provisions of this Article.

23. Subject to these Articles, the Company may sell in such manner as the Board determines any share on which the Company has a lien, but no sale shall be made unless some sum in respect of which the lien exists is presently payable, or the liability or engagement in respect of which such lien exists is liable to be presently fulfilled or discharged nor until the expiration of fourteen (14) clear days after a notice in writing, stating and demanding payment of the sum presently payable, or specifying the liability or engagement and demanding fulfilment or discharge thereof and giving notice of the intention to sell in default, has been served on the registered holder for the time being of the share or the person entitled thereto by reason of his death or bankruptcy.

24. The net proceeds of the sale shall be received by the Company and applied in or towards payment or discharge of the debt or liability in respect of which the lien exists, so far as the same is presently payable, and any residue shall (subject to a like lien for debts or liabilities not presently payable as existed upon the share prior to the sale) be paid to the person entitled to the share at the time of the sale. To give effect to any such sale the Board may authorise some person to transfer the shares sold to the purchaser thereof. The purchaser shall be registered as the holder of the shares so transferred and he shall not be bound to see to the application of the purchase money, nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings relating to the sale.

CALLS ON SHARES

25. Subject to these Articles and to the terms of allotment, the Board may from time to time make calls upon the Members in respect of any moneys unpaid on their shares (whether on account of the nominal value of the shares or by way of premium), and each Member shall (subject to being given at least fourteen (14) clear days' Notice specifying the time and place of payment) pay to the Company as required by such notice the amount called on his shares. A call may be extended, postponed or revoked in whole or in part as the Board determines but no member shall be entitled to any such extension, postponement or revocation except as a matter of grace and favour.

26. A call shall be deemed to have been made at the time when the resolution of the Board authorising the call was passed and may be made payable either in one lump sum or by instalments.

27. A person upon whom a call is made shall remain liable for calls made upon him notwithstanding the subsequent transfer of the shares in respect of which the call was made. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect thereof or other moneys due in respect thereof.

28. If a sum called in respect of a share is not paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the amount unpaid from the day appointed for payment thereof to the time of actual payment at such rate (not exceeding twenty per cent. (20%) per annum) as the Board may determine, but the Board may in its absolute discretion waive payment of such interest wholly or in part.

29. No Member shall be entitled to receive any dividend or bonus or to be present and vote (save as proxy for another Member) at any general meeting either personally or by

proxy, or be reckoned in a quorum, or exercise any other privilege as a Member until all calls or instalments due by him to the Company, whether alone or jointly with any other person, together with interest and expenses (if any) shall have been paid.

30. On the trial or hearing of any action or other proceedings for the recovery of any money due for any call, it shall be sufficient to prove that the name of the Member sued is entered in the Register as the holder, or one of the holders, of the shares in respect of which such debt accrued, that the resolution making the call is duly recorded in the minute book, and that notice of such call was duly given to the Member sued, in pursuance of these Articles; and it shall not be necessary to prove the appointment of the Directors who made such call, nor any other matters whatsoever, but the proof of the matters aforesaid shall be conclusive evidence of the debt.

31. Any amount payable in respect of a share upon allotment or at any fixed date, whether in respect of nominal value or premium or as an instalment of a call, shall be deemed to be a call duly made and payable on the date fixed for payment and if it is not paid the provisions of these Articles shall apply as if that amount had become due and payable by virtue of a call duly made and notified.

32. On the issue of shares the Board may differentiate between the allottees or holders as to the amount of calls to be paid and the times of payment.

33. The Board may, if it thinks fit, receive from any Member willing to advance the same, and either in money or money's worth, all or any part of the moneys uncalled and unpaid or instalments payable upon any shares held by him and upon all or any of the moneys so advanced (until the same would, but for such advance, become presently payable) pay interest at such rate (if any) as the Board may decide. The Board may at any time repay the amount so advanced upon giving to such Member not less than one month's Notice of its intention in that behalf, unless before the expiration of such notice the amount so advanced shall have been called up on the shares in respect of which it was advanced. Such payment in advance shall not entitle the holder of such share or shares to participate in respect thereof in a dividend subsequently declared.

FORFEITURE OF SHARES

34. (1) If a call remains unpaid after it has become due and payable the Board may give to the person from whom it is due not less than fourteen (14) clear days' Notice:

(a) requiring payment of the amount unpaid together with any interest which may have accrued and which may still accrue up to the date of actual payment; and

(b) stating that if the Notice is not complied with the shares on which the call was made will be liable to be forfeited.

(2) If the requirements of any such Notice are not complied with, any share in respect of which such Notice has been given may at any time thereafter, before payment of all calls and interest due in respect thereof has been made, be forfeited by a resolution of the Board

to that effect, and such forfeiture shall include all dividends and bonuses declared in respect of the forfeited share but not actually paid before the forfeiture.

35. When any share has been forfeited, notice of the forfeiture shall be served upon the person who was before forfeiture the holder of the share. No forfeiture shall be invalidated by any omission or neglect to give such Notice.

36. The Board may accept the surrender of any share liable to be forfeited hereunder and, in such case, references in these Articles to forfeiture will include surrender.

37. Any share so forfeited shall be deemed the property of the Company and may be sold, re-allotted or otherwise disposed of to such person, upon such terms and in such manner as the Board determines, and at any time before a sale, re-allotment or disposition the forfeiture may be annulled by the Board on such terms as the Board determines.

38. A person whose shares have been forfeited shall cease to be a Member in respect of the forfeited shares but nevertheless shall remain liable to pay the Company all moneys which at the date of forfeiture were presently payable by him to the Company in respect of the shares, with (if the Directors shall in their discretion so require) interest thereon from the date of forfeiture until payment at such rate (not exceeding twenty per cent. (20%) per annum) as the Board determines. The Board may enforce payment thereof if it thinks fit, and without any deduction or allowance for the value of the forfeited shares, at the date of forfeiture, but his liability shall cease if and when the Company shall have received payment in full of all such moneys in respect of the shares. For the purposes of this Article any sum which, by the terms of issue of a share, is payable thereon at a fixed time which is subsequent to the date of forfeiture, whether on account of the nominal value of the share or by way of premium, shall notwithstanding that time has not yet arrived be deemed to be payable at the date of forfeiture, and the same shall become due and payable immediately upon the forfeiture, but interest thereon shall only be payable in respect of any period between the said fixed time and the date of actual payment.

39. A declaration by a Director or the Secretary that a share has been forfeited on a specified date shall be conclusive evidence of the facts therein stated as against all persons claiming to be entitled to the share, and such declaration shall (subject to the execution of an instrument of transfer by the Company if necessary) constitute a good title to the share, and the person to whom the share is disposed of shall be registered as the holder of the share and shall not be bound to see to the application of the consideration (if any), nor shall his title to the share be affected by any irregularity in or invalidity of the proceedings in reference to the forfeiture, sale or disposal of the share. When any share shall have been forfeited, notice of the declaration shall be given to the Member in whose name it stood immediately prior to the forfeiture, and an entry of the forfeiture, with the date thereof, shall forthwith be made in the register, but no forfeiture shall be in any manner invalidated by any omission or neglect to give such notice or make any such entry.

40. Notwithstanding any such forfeiture as aforesaid the Board may at any time, before any shares so forfeited shall have been sold, re-allotted or otherwise disposed of, permit the shares forfeited to be bought back upon the terms of payment of all calls and interest due upon and expenses incurred in respect of the share, and upon such further terms (if any) as it thinks fit.

41. The forfeiture of a share shall not prejudice the right of the Company to any call already made or instalment payable thereon.

42. The provisions of these Articles as to forfeiture shall apply in the case of non-payment of any sum which, by the terms of issue of a share, becomes payable at a fixed time, whether on account of the nominal value of the share or by way of premium, as if the same had been payable by virtue of a call duly made and notified.

REGISTER OF MEMBERS

43. (1) The Company shall keep in one or more books a Register of its Members and shall enter therein the following particulars, that is to say:

(a) the name and address of each Member, the number and class of shares held by him and the amount paid or agreed to be considered as paid on such shares;

(b) the date on which each person was entered in the Register; and

(c) the date on which any person ceased to be a Member.

(2) The Company may keep an overseas or local or other branch register of Members resident in any place, and the Board may make and vary such regulations as it determines in respect of the keeping of any such register and maintaining a Registration Office in connection therewith.

44. The Register and branch register of Members, as the case may be, shall be open to inspection for such times and on such days as the Board shall determine by Members without charge or by any other person, upon a maximum payment of $2.50 or such other sum specified by the Board, at the Office or such other place at which the Register is kept in accordance with the Law or, if appropriate, upon a maximum payment of $1.00 or such other sum specified by the Board at the Registration Office. The Register including any overseas or local or other branch register of Members may, after notice has been given by advertisement in an appointed newspaper or any other newspapers in accordance with the requirements of the Designated Stock Exchange or by any electronic means in such manner as may be accepted by the Designated Stock Exchange to that effect, be closed at such times or for such periods not exceeding in the whole thirty (30) days in each year as the Board may determine and either generally or in respect of any class of shares.

RECORD DATES

45. For the purpose of determining the Members entitled to notice of or to vote at any general meeting, or any adjournment thereof, or entitled to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of shares or for the purpose of any other lawful action, the Board may fix, in advance, a date as the record date for any such determination of Members,

which date shall not be more than sixty (60) days nor less than ten (10) days before the date of such meeting, nor more than sixty (60) days prior to any other such action.

If the Board does not fix a record date for any general meeting, the record date for determining the Members entitled to a notice of or to vote at such meeting shall be at the close of business on the day next preceding the day on which notice is given, or, if in accordance with these Articles notice is waived, at the close of business on the day next preceding the day on which the meeting is held. If corporate action without a general meeting is to be taken, the record date for determining the Members entitled to express consent to such corporate action in writing, when no prior action by the Board is necessary, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the Company by delivery to its head office. The record date for determining the Members for any other purpose shall be at the close of business on the day on which the Board adopts the resolution relating thereto.

A determination of the Members of record entitled to notice of or to vote at a meeting of the Members shall apply to any adjournment of the meeting; provided, however, that the Board may fix a new record date for the adjourned meeting.

TRANSFER OF SHARES

46. Subject to these Articles, any Member may transfer all or any of his shares by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange or in any other form approved by the Board and may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time.

47. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferee in any case which it thinks fit in its discretion to do so. Without prejudice to the last preceding Article, the Board may also resolve, either generally or in any particular case, upon request by either the transferor or transferee, to accept mechanically executed transfers. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the Register in respect thereof. Nothing in these Articles shall preclude the Board from recognising a renunciation of the allotment or provisional allotment of any share by the allottee in favour of some other person.

48. (1) The Board may, in its absolute discretion, and without giving any reason therefor, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve, or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also, without prejudice to the foregoing generality, refuse to register a transfer of any share to more than four joint holders or a transfer of any share (not being a fully paid up share) on which the Company has a lien. Further, the Board may, in its absolute discretion, and without giving any reason therefor, refuse to register a transfer or other disposition of any share (whether or not fully paid up) if it determines that such transfer or disposition cannot be made in the absence of an effective registration statement under the Securities Act of 1933, as amended, or unless the

Board receives an opinion of counsel satisfactory to the Board that such registration is not required.

(2) The Board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the Register to any branch register or any share on any branch register to the Register or any other branch register. In the event of any such transfer, the shareholder requesting such transfer shall bear the cost of effecting the transfer unless the Board otherwise determines.

(3) Unless the Board otherwise agrees (which agreement may be on such terms and subject to such conditions as the Board in its absolute discretion may from time to time determine, and which agreement the Board shall, without giving any reason therefor, be entitled in its absolute discretion to give or withhold), no shares upon the Register shall be transferred to any branch register nor shall shares on any branch register be transferred to the Register or any other branch register and all transfers and other documents of title shall be lodged for registration, and registered, in the case of any shares on a branch register, at the relevant Registration Office, and, in the case of any shares on the Register, at the Office or such other place at which the Register is kept in accordance with the Law.

49. Without limiting the generality of the last preceding Article, the Board may decline to recognise any instrument of transfer unless:-

(a) a fee of such maximum sum as the Designated Stock Exchange may determine to be payable or such lesser sum as the Board may from time to time require is paid to the Company in respect thereof;

(b) the instrument of transfer is in respect of only one class of share;

(c) the instrument of transfer is lodged at the Office or such other place at which the Register is kept in accordance with the Law or the Registration Office (as the case may be) accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do); and

(d) if applicable, the instrument of transfer is duly and properly stamped.

50. If the Board refuses to register a transfer of any share, it shall, within two months after the date on which the transfer was lodged with the Company, send to each of the transferor and transferee notice of the refusal.

51. The registration of transfers of shares or of any class of shares may, after notice has been given by advertisement in an appointed newspaper or any other newspapers or by any other means in accordance with the requirements of the Designated Stock Exchange to that effect be suspended at such times and for such periods (not exceeding in the whole thirty (30) days in any year) as the Board may determine.

TRANSMISSION OF SHARES

52. If a Member dies, the survivor or survivors where the deceased was a joint holder, and his legal personal representatives where he was a sole or only surviving holder, will be the only persons recognised by the Company as having any title to his interest in the shares; but nothing in this Article will release the estate of a deceased Member (whether sole or joint) from any liability in respect of any share which had been solely or jointly held by him.

53. Any person becoming entitled to a share in consequence of the death or bankruptcy or winding-up of a Member may, upon such evidence as to his title being produced as may be required by the Board, elect either to become the holder of the share or to have some person nominated by him registered as the transferee thereof. If he elects to become the holder he shall notify the Company in writing either at the Registration Office or Office, as the case may be, to that effect. If he elects to have another person registered he shall execute a transfer of the share in favour of that person. The provisions of these Articles relating to the transfer and registration of transfers of shares shall apply to such notice or transfer as aforesaid as if the death or bankruptcy of the Member had not occurred and the notice or transfer were a transfer signed by such Member.

54. A person becoming entitled to a share by reason of the death or bankruptcy or winding-up of a Member shall be entitled to the same dividends and other advantages to which he would be entitled if he were the registered holder of the share. However, the Board may, if it thinks fit, withhold the payment of any dividend payable or other advantages in respect of such share until such person shall become the registered holder of the share or shall have effectually transferred such share, but, subject to the requirements of Article 75(2) being met, such a person may vote at meetings.

UNTRACEABLE MEMBERS

55. (1) Without prejudice to the rights of the Company under paragraph (2) of this Article, the Company may cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered.

(2) The Company shall have the power to sell, in such manner as the Board thinks fit, any shares of a Member who is untraceable, but no such sale shall be made unless:

(a) all cheques or warrants in respect of dividends of the shares in question, being not less than three in total number, for any sum payable in cash to the holder of such shares in respect of them sent during the relevant period in the manner authorised by the Articles of the Company have remained uncashed;

(b) so far as it is aware at the end of the relevant period, the Company has not at any time during the relevant period received any indication of the existence of the Member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operation of law; and

(c) the Company, if so required by the rules governing the listing of shares on the Designated Stock Exchange, has given notice to, and caused advertisement in newspapers to be made in accordance with the requirements of, the Designated Stock Exchange of its intention to sell such shares in the manner required by the Designated Stock Exchange, and a period of three months or such shorter period as may be allowed by the Designated Stock Exchange has elapsed since the date of such advertisement.

For the purpose of the foregoing, the "relevant period" means the period commencing twelve (12) years before the date of publication of the advertisement referred to in paragraph (c) of this Article and ending at the expiry of the period referred to in that paragraph.

(3) To give effect to any such sale the Board may authorise some person to transfer the said shares and an instrument of transfer signed or otherwise executed by or on behalf of such person shall be as effective as if it had been executed by the registered holder or the person entitled by transmission to such shares, and the purchaser shall not be bound to see to the application of the purchase money nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings relating to the sale. The net proceeds of the sale will belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former Member for an amount equal to such net proceeds. No trust shall be created in respect of such debt and no interest shall be payable in respect of it and the Company shall not be required to account for any money earned from the net proceeds which may be employed in the business of the Company or as it thinks fit. Any sale under this Article shall be valid and effective notwithstanding that the Member holding the shares sold is dead, bankrupt or otherwise under any legal disability or incapacity.

GENERAL MEETINGS

56. An annual general meeting of the Company shall be held in each year other than the year of the Company's incorporation at such time and place as may be determined by the Board.

57. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting. General meetings may be held at such times and in any location in the world as may be determined by the Board.

58. Only a majority of the Board or the Chairman of the Board may call extraordinary general meetings, which extraordinary general meetings shall be held at such times and locations (as permitted hereby) as such person or persons shall determine.

NOTICE OF GENERAL MEETINGS

59. (1) An annual general meeting and any extraordinary general meeting may be called by not less than ten (10) clear days' Notice but a general meeting may be called by shorter notice, subject to the Law, if it is so agreed:

(a) in the case of a meeting called as an annual general meeting, by all the Members entitled to attend and vote thereat; and

(b) in the case of any other meeting, by a majority in number of the Members having the right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the issued shares giving that right.

(2) The notice shall specify the time and place of the meeting and, in case of special business, the general nature of the business. The notice convening an annual general meeting shall specify the meeting as such. Notice of every general meeting shall be given to all Members other than to such Members as, under the provisions of these Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, to all persons entitled to a share in consequence of the death or bankruptcy or winding-up of a Member and to each of the Directors and the Auditors.

60. The accidental omission to give Notice of a meeting or (in cases where instruments of proxy are sent out with the Notice) to send such instrument of proxy to, or the non-receipt of such Notice or such instrument of proxy by, any person entitled to receive such Notice shall not invalidate any resolution passed or the proceedings at that meeting.

PROCEEDINGS AT GENERAL MEETINGS

61. (1) All business shall be deemed special that is transacted at an extraordinary general meeting, and also all business that is transacted at an annual general meeting, with the exception of the election of directors.

(2) No business other than the appointment of a chairman of a meeting shall be transacted at any general meeting unless a quorum is present at the commencement of the business. At any general meeting of the Company, two (2) Members entitled to vote and present in person or by proxy or (in the case of a Member being a corporation) by its duly authorised representative representing not less than one-third in nominal value of the total issued voting shares in the Company throughout the meeting shall form a quorum for all purposes.

62. If within thirty (30) minutes (or such longer time not exceeding one hour as the chairman of the meeting may determine to wait) after the time appointed for the meeting a quorum is not present, the meeting shall stand adjourned to the same day in the next week at the same time and place or to such time and place as the Board may determine. If at such adjourned meeting a quorum is not present within half an hour from the time appointed for holding the meeting, the meeting shall be dissolved.

63. The chairman of the Company shall preside as chairman at every general meeting. If at any meeting the chairman is not present within fifteen (15) minutes after the time appointed for holding the meeting, or is not willing to act as chairman, the Directors present shall choose one of their number to act, or if one Director only is present he shall preside as chairman if willing to act. If no Director is present, or if each of the Directors present declines

to take the chair, or if the chairman chosen shall retire from the chair, the Members present in person or by proxy and entitled to vote shall elect one of their number to be chairman.

64. The chairman may adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business which might lawfully have been transacted at the meeting had the adjournment not taken place. When a meeting is adjourned for fourteen (14) days or more, at least seven (7) clear days' notice of the adjourned meeting shall be given specifying the time and place of the adjourned meeting but it shall not be necessary to specify in such notice the nature of the business to be transacted at the adjourned meeting and the general nature of the business to be transacted. Save as aforesaid, it shall be unnecessary to give notice of an adjournment.

65. If an amendment is proposed to any resolution under consideration but is in good faith ruled out of order by the chairman of the meeting, the proceedings on the substantive resolution shall not be invalidated by any error in such ruling. In the case of a resolution duly proposed as a special resolution, no amendment thereto (other than a mere clerical amendment to correct a patent error) may in any event be considered or voted upon.

VOTING

66. Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with these Articles, at any general meeting on a show of hands every Member present in person (or being a corporation, is present by a duly authorised representative), or by proxy shall have one vote and on a poll every Member present in person or by proxy or, in the case of a Member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in these Articles, where more than one proxy is appointed by a Member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. A resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

(a) by the chairman of such meeting; or

(b) by at least three Members present in person or in the case of a Member being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or

(c) by a Member or Members present in person or in the case of a Member being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Members having the right to vote at the meeting; or

(d) by a Member or Members present in person or in the case of a Member being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which

an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

A demand by a person as proxy for a Member or in the case of a Member being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a Member.

67. Unless a poll is duly demanded and the demand is not withdrawn, a declaration by the chairman that a resolution has been carried, or carried unanimously, or by a particular majority, or not carried by a particular majority, or lost, and an entry to that effect made in the minute book of the Company, shall be conclusive evidence of the facts without proof of the number or proportion of the votes recorded for or against the resolution.

68. If a poll is duly demanded the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded. There shall be no requirement for the chairman to disclose the voting figures on a poll.

69. A poll demanded on the election of a chairman, or on a question of adjournment, shall be taken forthwith. A poll demanded on any other question shall be taken in such manner (including the use of ballot or voting papers or tickets) and either forthwith or at such time (being not later than thirty (30) days after the date of the demand) and place as the chairman directs. It shall not be necessary (unless the chairman otherwise directs) for notice to be given of a poll not taken immediately.

70. The demand for a poll shall not prevent the continuance of a meeting or the transaction of any business other than the question on which the poll has been demanded, and, with the consent of the chairman, it may be withdrawn at any time before the close of the meeting or the taking of the poll, whichever is the earlier.

71. On a poll votes may be given either personally or by proxy.

72. A person entitled to more than one vote on a poll need not use all his votes or cast all the votes he uses in the same way.

73. All questions submitted to a meeting shall be decided by a simple majority of votes except where a greater majority is required by these Articles or by the Law. In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of such meeting shall be entitled to a second or casting vote in addition to any other vote he may have.

74. Where there are joint holders of any share any one of such joint holder may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the Register in respect of the joint holding. Several executors or administrators of a deceased Member in whose name any share stands shall for the purposes of this Article be deemed joint holders thereof.

75. (1) A Member who is a patient for any purpose relating to mental health or in respect of whom an order has been made by any court having jurisdiction for the protection or management of the affairs of persons incapable of managing their own affairs may vote, whether on a show of hands or on a poll, by his receiver, committee, curator bonis or other person in the nature of a receiver, committee or curator bonis appointed by such court, and such receiver, committee, curator bonis or other person may vote on a poll by proxy, and may otherwise act and be treated as if he were the registered holder of such shares for the purposes of general meetings, provided that such evidence as the Board may require of the authority of the person claiming to vote shall have been deposited at the Office, head office or Registration Office, as appropriate, not less than forty-eight (48) hours before the time appointed for holding the meeting, or adjourned meeting or poll, as the case may be.

(2) Any person entitled under Article 53 to be registered as the holder of any shares may vote at any general meeting in respect thereof in the same manner as if he were the registered holder of such shares, provided that forty-eight (48) hours at least before the time of the holding of the meeting or adjourned meeting, as the case may be, at which he proposes to vote, he shall satisfy the Board of his entitlement to such shares, or the Board shall have previously admitted his right to vote at such meeting in respect thereof.

76. No Member shall, unless the Board otherwise determines, be entitled to attend and vote and to be reckoned in a quorum at any general meeting unless he is duly registered and all calls or other sums presently payable by him in respect of shares in the Company have been paid.

77. If:

(a) any objection shall be raised to the qualification of any voter; or

(b) any votes have been counted which ought not to have been counted or which might have been rejected; or

(c) any votes are not counted which ought to have been counted;

the objection or error shall not vitiate the decision of the meeting or adjourned meeting on any resolution unless the same is raised or pointed out at the meeting or, as the case may be, the adjourned meeting at which the vote objected to is given or tendered or at which the error occurs. Any objection or error shall be referred to the chairman of the meeting and shall only vitiate the decision of the meeting on any resolution if the chairman decides that the same may have affected the decision of the meeting. The decision of the chairman on such matters shall be final and conclusive.

PROXIES

78. Any Member entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A Member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a Member. In addition, a proxy or proxies representing either a Member who is an

individual or a Member which is a corporation shall be entitled to exercise the same powers on behalf of the Member which he or they represent as such Member could exercise.

79. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same. In the case of an instrument of proxy purporting to be signed on behalf of a corporation by an officer thereof it shall be assumed, unless the contrary appears, that such officer was duly authorised to sign such instrument of proxy on behalf of the corporation without further evidence of the facts.

80. The instrument appointing a proxy and (if required by the Board) the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to such place or one of such places (if any) as may be specified for that purpose in or by way of note to or in any document accompanying the notice convening the meeting (or, if no place is so specified at the Registration Office or the Office, as may be appropriate) not less than forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than twenty-four (24) hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of twelve (12) months from the date named in it as the date of its execution, except at an adjourned meeting or on a poll demanded at a meeting or an adjourned meeting in cases where the meeting was originally held within twelve (12) months from such date. Delivery of an instrument appointing a proxy shall not preclude a Member from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.

81. Instruments of proxy shall be in any common form or in such other form as the Board may approve (provided that this shall not preclude the use of the two-way form) and the Board may, if it thinks fit, send out with the notice of any meeting forms of instrument of proxy for use at the meeting. The instrument of proxy shall be deemed to confer authority to demand or join in demanding a poll and to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates.

82. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal, or revocation of the instrument of proxy or of the authority under which it was executed, provided that no intimation in writing of such death, insanity or revocation shall have been received by the Company at the Office or the Registration Office (or such other place as may be specified for the delivery of instruments of proxy in the notice convening the meeting or other document sent therewith) two hours at least before the commencement of the meeting or adjourned meeting, or the taking of the poll, at which the instrument of proxy is used.

83. Anything which under these Articles a Member may do by proxy he may likewise do by his duly appointed attorney and the provisions of these Articles relating to

proxies and instruments appointing proxies shall apply mutatis mutandis in relation to any such attorney and the instrument under which such attorney is appointed.

CORPORATIONS ACTING BY REPRESENTATIVES

84. (1) Any corporation which is a Member may by resolution of its directors or other governing body authorise such person as it thinks fit to act as its representative at any meeting of the Company or at any meeting of any class of Members. The person so authorised shall be entitled to exercise the same powers on behalf of such corporation as the corporation could exercise if it were an individual Member and such corporation shall for the purposes of these Articles be deemed to be present in person at any such meeting if a person so authorised is present thereat.

(2) If a clearing house (or its nominee(s)), being a corporation, is a Member, it may authorise such persons as it thinks fit to act as its representatives at any meeting of the Company or at any meeting of any class of Members provided that the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised. Each person so authorised under the provisions of this Article shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by the clearing house (or its nominee(s)) including the right to vote individually on a show of hands.

(3) Any reference in these Articles to a duly authorised representative of a Member being a corporation shall mean a representative authorised under the provisions of this Article.

NO ACTION BY WRITTEN RESOLUTIONS OF MEMBERS

85. Any action required or permitted to be taken at any annual or extraordinary general meetings of the Company may be taken only upon the vote of the Members at an annual or extraordinary general meeting duly noticed and convened in accordance with these Articles and the Law and may not be taken by written resolution of Members without a meeting.

BOARD OF DIRECTORS

86. (1) Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two (2). There shall be no maximum number of Directors unless otherwise determined from time to time by the Members in general meeting. The Directors shall be elected or appointed in the first place by the subscribers to the Memorandum of Association or by a majority of them and thereafter in accordance with Article 87 and shall hold office until their successors are elected or appointed.

(2) Subject to the Articles and the Law, the Company may by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an addition to the existing Board.

(3) The Directors shall have the power from time to time and at any time to appoint any person as a Director to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director so appointed by the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

(4) No Director shall be required to hold any shares of the Company by way of qualification and a Director who is not a Member shall be entitled to receive notice of and to attend and speak at any general meeting of the Company and of all classes of shares of the Company.

(5) Subject to any provision to the contrary in these Articles, a Director may be removed by way of an ordinary resolution of the Members at any time before the expiration of his period of office notwithstanding anything in these Articles or in any agreement between the Company and such Director (but without prejudice to any claim for damages under any such agreement).

(6) A vacancy on the Board created by the removal of a Director under the provisions of subparagraph (5) above may be filled by the election or appointment by ordinary resolution of the Members at the meeting at which such Director is removed or by the affirmative vote of a simple majority of the remaining Directors present and voting at a Board meeting.

(7) The Company may from time to time in general meeting by ordinary resolution increase or reduce the number of Directors but so that the number of Directors shall never be less than two (2).

RETIREMENT OF DIRECTORS

87. (1) Notwithstanding any other provisions in the Articles, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not greater than one-third) shall retire from office by rotation provided that notwithstanding anything herein, the chairman of the Board and/or the managing director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year.

(2) A retiring Director shall be eligible for re-election. The Directors to retire by rotation shall include (so far as necessary to ascertain the number of directors to retire by rotation) any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those of the other Directors subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. Any Director appointed pursuant to Article 86(2) or Article 86(3) shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation.

88. No person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a Notice signed by a Member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that the period for lodgment of such Notice(s) shall commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

DISQUALIFICATION OF DIRECTORS

89. The office of a Director shall be vacated if the Director:

(1) resigns his office by notice in writing delivered to the Company at the Office or tendered at a meeting of the Board;

(2) becomes of unsound mind or dies;

(3) without special leave of absence from the Board, is absent from meetings of the Board for six consecutive months and the Board resolves that his office be vacated; or

(4) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(5) is prohibited by law from being a Director; or

(6) ceases to be a Director by virtue of any provision of the Statutes or is removed from office pursuant to these Articles.

EXECUTIVE DIRECTORS

90. The Board may from time to time appoint any one or more of its body to be a managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period (subject to their continuance as Directors) and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. Any such revocation or termination as aforesaid shall be without prejudice to any claim for damages that such Director may have against the Company or the Company may have against such Director. A Director appointed to an office under this Article shall be subject to the same provisions as to removal as the other Directors of the Company, and he shall (subject to the provisions of any contract between him and the Company) ipso facto and immediately cease to hold such office if he shall cease to hold the office of Director for any cause.

91. Notwithstanding Articles 96, 97, 98 and 99, an executive director appointed to an office under Article 90 hereof shall receive such remuneration (whether by way of salary, commission, participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time determine, and either in addition to or in lieu of his remuneration as a Director.

ALTERNATE DIRECTORS

92. Any Director may at any time by Notice delivered to the Office or head office or at a meeting of the Directors appoint any person (including another Director) to be his alternate Director. Any person so appointed shall have all the rights and powers of the Director or Directors for whom such person is appointed in the alternative provided that such person shall not be counted more than once in determining whether or not a quorum is present. An alternate Director may be removed at any time by the body which appointed him and, subject thereto, the office of alternate Director shall continue until the happening of any event which, if he were a Director, would cause him to vacate such office or if his appointer ceases for any reason to be a Director. Any appointment or removal of an alternate Director shall be effected by Notice signed by the appointor and delivered to the Office or head office or tendered at a meeting of the Board. An alternate Director may also be a Director in his own right and may act as alternate to more than one Director. An alternate Director shall, if his appointor so requests, be entitled to receive notices of meetings of the Board or of committees of the Board to the same extent as, but in lieu of, the Director appointing him and shall be entitled to such extent to attend and vote as a Director at any such meeting at which the Director appointing him is not personally present and generally at such meeting to exercise and discharge all the functions, powers and duties of his appointor as a Director and for the purposes of the proceedings at such meeting the provisions of these Articles shall apply as if he were a Director save that as an alternate for more than one Director his voting rights shall be cumulative.

93. An alternate Director shall only be a Director for the purposes of the Law and shall only be subject to the provisions of the Law insofar as they relate to the duties and obligations of a Director when performing the functions of the Director for whom he is appointed in the alternative and shall alone be responsible to the Company for his acts and defaults and shall not be deemed to be the agent of or for the Director appointing him. An alternate Director shall be entitled to contract and be interested in and benefit from contracts or arrangements or transactions and to be repaid expenses and to be indemnified by the Company to the same extent mutatis mutandis as if he were a Director but he shall not be entitled to receive from the Company any fee in his capacity as an alternate Director except only such part, if any, of the remuneration otherwise payable to his appointor as such appointor may by Notice to the Company from time to time direct.

94. Every person acting as an alternate Director shall have one vote for each Director for whom he acts as alternate (in addition to his own vote if he is also a Director). If his appointor is for the time being absent from the Republic of China or otherwise not available or unable to act, the signature of an alternate Director to any resolution in writing of the Board or a committee of the Board of which his appointor is a member shall, unless the notice of his appointment provides to the contrary, be as effective as the signature of his appointor.

95. An alternate Director shall ipso facto cease to be an alternate Director if his appointor ceases for any reason to be a Director, however, such alternate Director or any other person may be re-appointed by the Directors to serve as an alternate Director PROVIDED always that, if at any meeting any Director retires but is re-elected at the same meeting, any appointment of such alternate Director pursuant to these Articles which was in force immediately before his retirement shall remain in force as though he had not retired.

DIRECTORS' FEES AND EXPENSES

96. The ordinary remuneration of the Directors shall from time to time be determined by the Board.

97. Each Director shall be entitled to be repaid or prepaid all travelling, hotel and incidental expenses reasonably incurred or expected to be incurred by him in attending meetings of the Board or committees of the Board or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of his duties as a Director.

98. Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Article.

99. The Board is authorized to make any payment to any Director or past Director of the Company by way of compensation for loss of office, or as consideration for or in connection with his retirement from office.

DIRECTORS' INTERESTS

100. A Director may:

(a) hold any other office or place of profit with the Company (except that of Auditor) in conjunction with his office of Director for such period and upon such terms as the Board may determine. Any remuneration (whether by way of salary, commission, participation in profits or otherwise) paid to any Director in respect of any such other office or place of profit shall be in addition to any remuneration provided for by or pursuant to any other Article;

(b) act by himself or his firm in a professional capacity for the Company (otherwise than as Auditor) and he or his firm may be remunerated for professional services as if he were not a Director;

(c) continue to be or become a director, managing director, joint managing director, deputy managing director, executive director, manager or other officer or member of any other company promoted by the Company or in which the Company may be interested as a vendor, shareholder or otherwise and (unless

otherwise agreed) no such Director shall be accountable for any remuneration, profits or other benefits received by him as a director, managing director, joint managing director, deputy managing director, executive director, manager or other officer or member of or from his interests in any such other company. Subject as otherwise provided by these Articles the Directors may exercise or cause to be exercised the voting powers conferred by the shares in any other company held or owned by the Company, or exercisable by them as Directors of such other company in such manner in all respects as they think fit (including the exercise thereof in favour of any resolution appointing themselves or any of them directors, managing directors, joint managing directors, deputy managing directors, executive directors, managers or other officers of such company) or voting or providing for the payment of remuneration to the director, managing director, joint managing director, deputy managing director, executive director, manager or other officers of such other company and any Director may vote in favour of the exercise of such voting rights in manner aforesaid notwithstanding that he may be, or about to be, appointed a director, managing director, joint managing director, deputy managing director, executive director, manager or other officer of such a company, and that as such he is or may become interested in the exercise of such voting rights in manner aforesaid.

Notwithstanding the foregoing, no "Independent Director" as defined in Rule 4200(a)(15) of the Nasdaq Stock Market Inc. Marketplace Rules (the "Nasdaq Listing Rules") or in Rule 10A-3 under the Exchange Act, and with respect of whom the Board has determined constitutes an "Independent Director" for purposes of compliance with applicable law or the Company's listing requirements, shall without the consent of the Audit Committee take any of the foregoing actions or any other action that would reasonably be likely to affect such Director's status as an "Independent Director" of the Company.

101. Subject to the Law and to these Articles, no Director or proposed or intending Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the Members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or of the fiduciary relationship thereby established provided that such Director shall disclose the nature of his interest in any contract or arrangement in which he is interested in accordance with Article 102 herein. Any such transaction that would reasonably be likely to affect a Director's status as an "Independent Director", or that would constitute a "related party transaction" as defined in the Nasdaq Listing Rules, shall require the approval of the Audit Committee.

102. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the Board at which the question of entering into the contract or arrangement is first considered, if he knows his interest then exists, or in any other case at the first meeting of the Board after he knows that he is or has become so interested. For the purposes of this Article, a general Notice to the Board by a Director to the effect that:

(a) he is a member or officer of a specified company or firm and is to be regarded as interested in any contract or arrangement which may after the date of the Notice be made with that company or firm; or

(b) he is to be regarded as interested in any contract or arrangement which may after the date of the Notice be made with a specified person who is connected with him;

shall be deemed to be a sufficient declaration of interest under this Article in relation to any such contract or arrangement, provided that no such Notice shall be effective unless either it is given at a meeting of the Board or the Director takes reasonable steps to secure that it is brought up and read at the next Board meeting after it is given.

103. Following a declaration being made pursuant to the last preceding two Articles, subject to any separate requirement for Audit Committee approval under applicable law or the listing rules of the Company's Designated Stock Exchange, and unless disqualified by the chairman of the relevant Board meeting, a Director may vote in respect of any contract or proposed contract or arrangement in which such Director is interested and may be counted in the quorum at such meeting.

GENERAL POWERS OF THE DIRECTORS

104. (1) The business of the Company shall be managed and conducted by the Board, which may pay all expenses incurred in forming and registering the Company and may exercise all powers of the Company (whether relating to the management of the business of the Company or otherwise) which are not by the Statutes or by these Articles required to be exercised by the Company in general meeting, subject nevertheless to the provisions of the Statutes and of these Articles and to such regulations being not inconsistent with such provisions, as may be prescribed by the Company in general meeting, but no regulations made by the Company in general meeting shall invalidate any prior act of the Board which would have been valid if such regulations had not been made. The general powers given by this Article shall not be limited or restricted by any special authority or power given to the Board by any other Article.

(2) Any person contracting or dealing with the Company in the ordinary course of business shall be entitled to rely on any written or oral contract or agreement or deed, document or instrument entered into or executed as the case may be by any two of the Directors acting jointly on behalf of the Company and the same shall be deemed to be validly entered into or executed by the Company as the case may be and shall, subject to any rule of law, be binding on the Company.

(3) Without prejudice to the general powers conferred by these Articles it is hereby expressly declared that the Board shall have the following powers:

(a) To give to any person the right or option of requiring at a future date that an allotment shall be made to him of any share at par or at such premium as may be agreed.

(b) To give to any Directors, officers or employees of the Company an interest in any particular business or transaction or participation in the profits thereof or in the general profits of the Company either in addition to or in substitution for a salary or other remuneration.

(c) To resolve that the Company be deregistered in the Cayman Islands and continued in a named jurisdiction outside the Cayman Islands subject to the provisions of the Law.

(d) To resolve to repurchase securities of the Company.

(e) To declare dividends.

(f) To consider and adopt the accounts and balance sheet and the reports of the Directors and Auditors and other documents required to be annexed to the balance sheet.

(g) To appoint Auditors and other officers.

(h) To fix the remuneration of the Auditors.

(i) To offer, allot, grant options over or otherwise dispose of the unissued shares in the capital of the Company.

105. The Board may establish any regional or local boards or agencies for managing any of the affairs of the Company in any place, and may appoint any persons to be members of such local boards, or any managers or agents, and may fix their remuneration (either by way of salary or by commission or by conferring the right to participation in the profits of the Company or by a combination of two or more of these modes) and pay the working expenses of any staff employed by them upon the business of the Company. The Board may delegate to any regional or local board, manager or agent any of the powers, authorities and discretions vested in or exercisable by the Board (other than its powers to make calls and forfeit shares), with power to sub-delegate, and may authorise the members of any of them to fill any vacancies therein and to act notwithstanding vacancies. Any such appointment or delegation may be made upon such terms and subject to such conditions as the Board may think fit, and the Board may remove any person appointed as aforesaid, and may revoke or vary such delegation, but no person dealing in good faith and without notice of any such revocation or variation shall be affected thereby.

106. The Board may by power of attorney appoint any company, firm or person or any fluctuating body of persons, whether nominated directly or indirectly by the Board, to be the attorney or attorneys of the Company for such purposes and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Board under these Articles) and for such period and subject to such conditions as it may think fit, and any such power of attorney may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Board may think fit, and may also authorise any such attorney to sub-delegate all or any of the powers, authorities and discretions vested in him. Such attorney or attorneys may, if so authorised under the Seal of the Company, execute any deed or

instrument under their personal seal with the same effect as the affixation of the Company's Seal.

107. The Board may entrust to and confer upon a managing director, joint managing director, deputy managing director, an executive director or any Director any of the powers exercisable by it upon such terms and conditions and with such restrictions as it thinks fit, and either collaterally with, or to the exclusion of, its own powers, and may from time to time revoke or vary all or any of such powers but no person dealing in good faith and without notice of such revocation or variation shall be affected thereby.

108. All cheques, promissory notes, drafts, bills of exchange and other instruments, whether negotiable or transferable or not, and all receipts for moneys paid to the Company shall be signed, drawn, accepted, endorsed or otherwise executed, as the case may be, in such manner as the Board shall from time to time by resolution determine. The Company's banking accounts shall be kept with such banker or bankers as the Board shall from time to time determine.

109. (1) The Board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's moneys to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit under the Company or any of its subsidiary companies) and ex-employees of the Company and their dependants or any class or classes of such person.

(2) The Board may pay, enter into agreements to pay or make grants of revocable or irrevocable pensions or other benefits to employees and ex-employees and their dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependants are or may become entitled under any such scheme or fund as mentioned in the last preceding paragraph. Any such pension or benefit may, as the Board considers desirable, be granted to an employee either before and in anticipation of or upon or at any time after his actual retirement, and may be subject or not subject to any terms or conditions as the Board may determine.

BORROWING POWERS

110. The Board may exercise all the powers of the Company to raise or borrow money and to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Law, to issue debentures, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

111. Debentures, bonds and other securities may be made assignable free from any equities between the Company and the person to whom the same may be issued.

112. Any debentures, bonds or other securities may be issued at a discount (other than shares), premium or otherwise and with any special privileges as to redemption, surrender,

drawings, allotment of shares, attending and voting at general meetings of the Company, appointment of Directors and otherwise.

113. (1) Where any uncalled capital of the Company is charged, all persons taking any subsequent charge thereon shall take the same subject to such prior charge, and shall not be entitled, by notice to the Members or otherwise, to obtain priority over such prior charge.

(2) The Board shall cause a proper register to be kept, in accordance with the provisions of the Law, of all charges specifically affecting the property of the Company and of any series of debentures issued by the Company and shall duly comply with the requirements of the Law in regard to the registration of charges and debentures therein specified and otherwise.

PROCEEDINGS OF THE DIRECTORS

114. The Board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of any equality of votes the chairman of the meeting shall have an additional or casting vote.

115. A meeting of the Board may be convened by the Secretary on request of a Director or by any Director. The Secretary shall convene a meeting of the Board of which notice may be given in writing or by telephone or in such other manner as the Board may from time to time determine whenever he shall be required so to do by the president or chairman, as the case may be, or any Director.

116. (1) The quorum necessary for the transaction of the business of the Board may be fixed by the Board and, unless so fixed at any other number, shall be two (2). An alternate Director shall be counted in a quorum in the case of the absence of a Director for whom he is the alternate provided that he shall not be counted more than once for the purpose of determining whether or not a quorum is present.

(2) Directors may participate in any meeting of the Board by means of a conference telephone or other communications equipment through which all persons participating in the meeting can communicate with each other simultaneously and instantaneously and, for the purpose of counting a quorum, such participation shall constitute presence at a meeting as if those participating were present in person.

(3) Any Director who ceases to be a Director at a Board meeting may continue to be present and to act as a Director and be counted in the quorum until the termination of such Board meeting if no other Director objects and if otherwise a quorum of Directors would not be present.

117. The continuing Directors or a sole continuing Director may act notwithstanding any vacancy in the Board but, if and so long as the number of Directors is reduced below the minimum number fixed by or in accordance with these Articles, the continuing Directors or Director, notwithstanding that the number of Directors is below the number fixed by or in accordance with these Articles as the quorum or that there is only one continuing Director, may

act for the purpose of filling vacancies in the Board or of summoning general meetings of the Company but not for any other purpose.

118. The Chairman of the Board shall be the chairman of all meetings of the Board. If the Chairman of the Board is not present at any meeting within five (5) minutes after the time appointed for holding the same, the Directors present may choose one of their number to be chairman of the meeting.

119. A meeting of the Board at which a quorum is present shall be competent to exercise all the powers, authorities and discretions for the time being vested in or exercisable by the Board.

120. (1) The Board may delegate any of its powers, authorities and discretions to committees (including, without limitation, an audit committee), consisting of such Director or Directors and other persons as it thinks fit, and they may, from time to time, revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes. Any committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations which may be imposed on it by the Board.

(2) All acts done by any such committee in conformity with such regulations, and in fulfilment of the purposes for which it was appointed, but not otherwise, shall have like force and effect as if done by the Board, and the Board (or if the Board delegates such power, the committee) shall have power to remunerate the members of any such committee, and charge such remuneration to the current expenses of the Company.

121. The meetings and proceedings of any committee consisting of two or more members shall be governed by the provisions contained in these Articles for regulating the meetings and proceedings of the Board so far as the same are applicable and are not superseded by any regulations imposed by the Board under the last preceding Article, indicating, without limitation, any committee charter adopted by the Board for purposes or in respect of any such committee.

122. A resolution in writing signed by all the Directors except such as are temporarily unable to act through ill-health or disability shall (provided that such number is sufficient to constitute a quorum and further provided that a copy of such resolution has been given or the contents thereof communicated to all the Directors for the time being entitled to receive notices of Board meetings in the same manner as notices of meetings are required to be given by these Articles) be as valid and effectual as if a resolution had been passed at a meeting of the Board duly convened and held. Such resolution may be contained in one document or in several documents in like form each signed by one or more of the Directors and for this purpose a facsimile signature of a Director shall be treated as valid.

123. All acts bona fide done by the Board or by any committee or by any person acting as a Director or members of a committee, shall, notwithstanding that it is afterwards discovered that there was some defect in the appointment of any member of the Board or such committee or person acting as aforesaid or that they or any of them were disqualified or had vacated office, be as valid as if every such person had been duly appointed and was qualified and had continued to be a Director or member of such committee.

MANAGERS

124. The Board may from time to time appoint a general manager, a manager or managers of the Company and may fix his or their remuneration either by way of salary or commission or by conferring the right to participation in the profits of the Company or by a combination of two or more of these modes and pay the working expenses of any of the staff of the general manager, manager or managers who may be employed by him or them upon the business of the Company.

125. The appointment of such general manager, manager or managers may be for such period as the Board may decide, and the Board may confer upon him or them all or any of the powers of the Board as they may think fit.

126. The Board may enter into such agreement or agreements with any such general manager, manager or managers upon such terms and conditions in all respects as the Board may in their absolute discretion think fit, including a power for such general manager, manager or managers to appoint an assistant manager or managers or other employees whatsoever under them for the purpose of carrying on the business of the Company.

OFFICERS

127. (1) The officers of the Company shall consist of the Chairman of the Board, the Directors and Secretary and such additional officers (who may or may not be Directors) as the Board may from time to time determine, all of whom shall be deemed to be officers for the purposes of the Law and these Articles.

(2) The Directors shall, as soon as may be after each appointment or election of Directors, elect amongst the Directors a chairman and if more than one Director is proposed for this office, the election to such office shall take place in such manner as the Directors may determine.

(3) The officers shall receive such remuneration as the Directors may from time to time determine.

128. (1) The Secretary and additional officers, if any, shall be appointed by the Board and shall hold office on such terms and for such period as the Board may determine. If thought fit, two or more persons may be appointed as joint Secretaries. The Board may also appoint from time to time on such terms as it thinks fit one or more assistant or deputy Secretaries.

(2) The Secretary shall attend all meetings of the Members and shall keep correct minutes of such meetings and enter the same in the proper books provided for the purpose. He shall perform such other duties as are prescribed by the Law or these Articles or as may be prescribed by the Board.

129. The officers of the Company shall have such powers and perform such duties in the management, business and affairs of the Company as may be delegated to them by the Directors from time to time.

130. A provision of the Law or of these Articles requiring or authorising a thing to be done by or to a Director and the Secretary shall not be satisfied by its being done by or to the same person acting both as Director and as or in place of the Secretary.

REGISTER OF DIRECTORS AND OFFICERS

131. The Company shall cause to be kept in one or more books at its Office a Register of Directors and Officers in which there shall be entered the full names and addresses of the Directors and Officers and such other particulars as required by the Law or as the Directors may determine. The Company shall send to the Registrar of Companies in the Cayman Islands a copy of such register, and shall from time to time notify to the said Registrar of any change that takes place in relation to such Directors and Officers as required by the Law.

MINUTES

132. (1) The Board shall cause minutes to be duly entered in books provided for the purpose:

(a) of all elections and appointments of officers;

(b) of the names of the Directors present at each meeting of the Directors and of any committee of the Directors;

(c) of all resolutions and proceedings of each general meeting of the Members, meetings of the Board and meetings of committees of the Board and where there are managers, of all proceedings of meetings of the managers.

(2) Minutes shall be kept by the Secretary at the Office.

SEAL

133. (1) The Company shall have one or more Seals, as the Board may determine. For the purpose of sealing documents creating or evidencing securities issued by the Company, the Company may have a securities seal which is a facsimile of the Seal of the Company with the addition of the word “Securities” on its face or in such other form as the Board may approve. The Board shall provide for the custody of each Seal and no Seal shall be used without the authority of the Board or of a committee of the Board authorised by the Board in that behalf. Subject as otherwise provided in these Articles, any instrument to which a Seal is affixed shall be signed autographically by one Director and the Secretary or by two Directors or by such other person (including a Director) or persons as the Board may appoint, either generally or in any particular case, save that as regards any certificates for shares or debentures or other securities of the Company the Board may by resolution determine that such signatures or either

of them shall be dispensed with or affixed by some method or system of mechanical signature. Every instrument executed in manner provided by this Article shall be deemed to be sealed and executed with the authority of the Board previously given.

(2) Where the Company has a Seal for use abroad, the Board may by writing under the Seal appoint any agent or committee abroad to be the duly authorised agent of the Company for the purpose of affixing and using such Seal and the Board may impose restrictions on the use thereof as may be thought fit. Wherever in these Articles reference is made to the Seal, the reference shall, when and so far as may be applicable, be deemed to include any such other Seal as aforesaid.

AUTHENTICATION OF DOCUMENTS

134. Any Director or the Secretary or any person appointed by the Board for the purpose may authenticate any documents affecting the constitution of the Company and any resolution passed by the Company or the Board or any committee, and any books, records, documents and accounts relating to the business of the Company, and to certify copies thereof or extracts therefrom as true copies or extracts, and if any books, records, documents or accounts are elsewhere than at the Office or the head office the local manager or other officer of the Company having the custody thereof shall be deemed to be a person so appointed by the Board. A document purporting to be a copy of a resolution, or an extract from the minutes of a meeting, of the Company or of the Board or any committee which is so certified shall be conclusive evidence in favour of all persons dealing with the Company upon the faith thereof that such resolution has been duly passed or, as the case may be, that such minutes or extract is a true and accurate record of proceedings at a duly constituted meeting.

DESTRUCTION OF DOCUMENTS

135. (1) The Company shall be entitled to destroy the following documents at the following times:

(a) any share certificate which has been cancelled at any time after the expiry of one (1) year from the date of such cancellation;

(b) any dividend mandate or any variation or cancellation thereof or any notification of change of name or address at any time after the expiry of two (2) years from the date such mandate variation cancellation or notification was recorded by the Company;

(c) any instrument of transfer of shares which has been registered at any time after the expiry of seven (7) years from the date of registration;

(d) any allotment letters after the expiry of seven (7) years from the date of issue thereof; and

(e) copies of powers of attorney, grants of probate and letters of administration at any time after the expiry of seven (7) years after the account to which the

relevant power of attorney, grant of probate or letters of administration related has been closed;

and it shall conclusively be presumed in favour of the Company that every entry in the Register purporting to be made on the basis of any such documents so destroyed was duly and properly made and every share certificate so destroyed was a valid certificate duly and properly cancelled and that every instrument of transfer so destroyed was a valid and effective instrument duly and properly registered and that every other document destroyed hereunder was a valid and effective document in accordance with the recorded particulars thereof in the books or records of the Company. Provided always that: (1) the foregoing provisions of this Article shall apply only to the destruction of a document in good faith and without express notice to the Company that the preservation of such document was relevant to a claim; (2) nothing contained in this Article shall be construed as imposing upon the Company any liability in respect of the destruction of any such document earlier than as aforesaid or in any case where the conditions of proviso (1) above are not fulfilled; and (3) references in this Article to the destruction of any document include references to its disposal in any manner.

(2) Notwithstanding any provision contained in these Articles, the Directors may, if permitted by applicable law, authorise the destruction of documents set out in sub-paragraphs (a) to (e) of paragraph (1) of this Article and any other documents in relation to share registration which have been microfilmed or electronically stored by the Company or by the share registrar on its behalf provided always that this Article shall apply only to the destruction of a document in good faith and without express notice to the Company and its share registrar that the preservation of such document was relevant to a claim.

DIVIDENDS AND OTHER PAYMENTS

136. Subject to the Law, the Company in general meeting or the Board may from time to time declare dividends in any currency to be paid to the Members but no dividend shall be declared in excess of the amount recommended by the Board.

137. Dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the Directors determine is no longer needed. The Board may also declare and pay dividends out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Law.

138. Except in so far as the rights attaching to, or the terms of issue of, any share otherwise provide:

(a) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, but no amount paid up on a share in advance of calls shall be treated for the purposes of this Article as paid up on the share; and

(b) all dividends shall be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid.

139. The Board may from time to time pay to the Members such interim dividends as appear to the Board to be justified by the profits of the Company and in particular (but without prejudice to the generality of the foregoing) if at any time the share capital of the Company is divided into different classes, the Board may pay such interim dividends in respect of those shares in the capital of the Company which confer on the holders thereof deferred or non-preferential rights as well as in respect of those shares which confer on the holders thereof preferential rights with regard to dividend and provided that the Board acts bona fide the Board shall not incur any responsibility to the holders of shares conferring any preference for any damage that they may suffer by reason of the payment of an interim dividend on any shares having deferred or non-preferential rights and may also pay any fixed dividend which is payable on any shares of the Company half-yearly or on any other dates, whenever such profits, in the opinion of the Board, justifies such payment.

140. The Board may deduct from any dividend or other moneys payable to a Member by the Company on or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

141. No dividend or other moneys payable by the Company on or in respect of any share shall bear interest against the Company.

142. Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address or, in the case of joint holders, addressed to the holder whose name stands first in the Register in respect of the shares at his address as appearing in the Register or addressed to such person and at such address as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the Register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

143. All dividends or bonuses unclaimed for one (1) year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed. Any dividend or bonuses unclaimed after a period of six (6) years from the date of declaration shall be forfeited and shall revert to the Company. The payment by the Board of any unclaimed dividend or other sums payable on or in respect of a share into a separate account shall not constitute the Company a trustee in respect thereof.

144. Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind and in particular of paid up shares, debentures or warrants to subscribe securities of the Company or any other company, or in any one or more of such ways, and where any difficulty arises in regard to the distribution the Board may settle the same as it thinks expedient, and in particular may issue certificates in respect of fractions of shares, disregard fractional entitlements or round the same up or down, and may fix the value for distribution of such specific assets, or any part thereof, and may

determine that cash payments shall be made to any Members upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Board and may appoint any person to sign any requisite instruments of transfer and other documents on behalf of the persons entitled to the dividend, and such appointment shall be effective and binding on the Members. The Board may resolve that no such assets shall be made available to Members with registered addresses in any particular territory or territories where, in the absence of a registration statement or other special formalities, such distribution of assets would or might, in the opinion of the Board, be unlawful or impracticable and in such event the only entitlement of the Members aforesaid shall be to receive cash payments as aforesaid. Members affected as a result of the foregoing sentence shall not be or be deemed to be a separate class of Members for any purpose whatsoever.

145. (1) Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared on any class of the share capital of the Company, the Board may further resolve either:

(a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the Members entitled thereto will be entitled to elect to receive such dividend (or part thereof if the Board so determines) in cash in lieu of such allotment. In such case, the following provisions shall apply:

(i) the basis of any such allotment shall be determined by the Board;

(ii) the Board, after determining the basis of allotment, shall give not less than ten (10) days' Notice to the holders of the relevant shares of the right of election accorded to them and shall send with such notice forms of election and specify the procedure to be followed and the place at which and the latest date and time by which duly completed forms of election must be lodged in order to be effective;

(iii) the right of election may be exercised in respect of the whole or part of that portion of the dividend in respect of which the right of election has been accorded; and

(iv) the dividend (or that part of the dividend to be satisfied by the allotment of shares as aforesaid) shall not be payable in cash on shares in respect whereof the cash election has not been duly exercised ("the non-elected shares") and in satisfaction thereof shares of the relevant class shall be allotted credited as fully paid up to the holders of the non-elected shares on the basis of allotment determined as aforesaid and for such purpose the Board shall capitalise and apply out of any part of the undivided profits of the Company (including profits carried and standing to the credit of any reserves or other special account, share premium account, capital redemption reserve other than the Subscription Rights Reserve) as the Board may determine, such sum as may be required to pay up in full the appropriate number of shares of the relevant class for allotment

and distribution to and amongst the holders of the non-elected shares on such basis; or

(b) that the Members entitled to such dividend shall be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit. In such case, the following provisions shall apply:

(i) the basis of any such allotment shall be determined by the Board;

(ii) the Board, after determining the basis of allotment, shall give not less than ten (10) days' Notice to the holders of the relevant shares of the right of election accorded to them and shall send with such notice forms of election and specify the procedure to be followed and the place at which and the latest date and time by which duly completed forms of election must be lodged in order to be effective;

(iii) the right of election may be exercised in respect of the whole or part of that portion of the dividend in respect of which the right of election has been accorded; and

(iv) the dividend (or that part of the dividend in respect of which a right of election has been accorded) shall not be payable in cash on shares in respect whereof the share election has been duly exercised ("the elected shares") and in lieu thereof shares of the relevant class shall be allotted credited as fully paid up to the holders of the elected shares on the basis of allotment determined as aforesaid and for such purpose the Board shall capitalise and apply out of any part of the undivided profits of the Company (including profits carried and standing to the credit of any reserves or other special account, share premium account, capital redemption reserve other than the Subscription Rights Reserve) as the Board may determine, such sum as may be required to pay up in full the appropriate number of shares of the relevant class for allotment and distribution to and amongst the holders of the elected shares on such basis.

(2) (a) The shares allotted pursuant to the provisions of paragraph (1) of this Article shall rank pari passu in all respects with shares of the same class (if any) then in issue save only as regards participation in the relevant dividend or in any other distributions, bonuses or rights paid, made, declared or announced prior to or contemporaneously with the payment or declaration of the relevant dividend unless, contemporaneously with the announcement by the Board of their proposal to apply the provisions of sub-paragraph (a) or (b) of paragraph (2) of this Article in relation to the relevant dividend or contemporaneously with their announcement of the distribution, bonus or rights in question, the Board shall specify that the shares to be allotted pursuant to the provisions of paragraph (1) of this Article shall rank for participation in such distribution, bonus or rights.

(b) The Board may do all acts and things considered necessary or expedient to give effect to any capitalisation pursuant to the provisions of paragraph (1) of this Article, with full power to the Board to make such provisions as it thinks fit in the case of shares becoming distributable in fractions (including provisions whereby, in whole or in part, fractional entitlements are aggregated and sold and the net proceeds distributed to those entitled, or are disregarded or rounded up or down or whereby the benefit of fractional entitlements accrues to the Company rather than to the Members concerned). The Board may authorise any person to enter into on behalf of all Members interested, an agreement with the Company providing for such capitalisation and matters incidental thereto and any agreement made pursuant to such authority shall be effective and binding on all concerned.

(3) The Company may upon the recommendation of the Board by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the provisions of paragraph (1) of this Article a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

(4) The Board may on any occasion determine that rights of election and the allotment of shares under paragraph (1) of this Article shall not be made available or made to any shareholders with registered addresses in any territory where, in the absence of a registration statement or other special formalities, the circulation of an offer of such rights of election or the allotment of shares would or might, in the opinion of the Board, be unlawful or impracticable, and in such event the provisions aforesaid shall be read and construed subject to such determination. Members affected as a result of the foregoing sentence shall not be or be deemed to be a separate class of Members for any purpose whatsoever.

(5) Any resolution declaring a dividend on shares of any class, whether a resolution of the Company in general meeting or a resolution of the Board, may specify that the same shall be payable or distributable to the persons registered as the holders of such shares at the close of business on a particular date, notwithstanding that it may be a date prior to that on which the resolution is passed, and thereupon the dividend shall be payable or distributable to them in accordance with their respective holdings so registered, but without prejudice to the rights inter se in respect of such dividend of transferors and transferees of any such shares. The provisions of this Article shall mutatis mutandis apply to bonuses, capitalisation issues, distributions of realised capital profits or offers or grants made by the Company to the Members.

RESERVES

146. (1) The Board shall establish an account to be called the share premium account and shall carry to the credit of such account from time to time a sum equal to the amount or value of the premium paid on the issue of any share in the Company. Unless otherwise provided by the provisions of these Articles, the Board may apply the share premium account in any manner permitted by the Law. The Company shall at all times comply with the provisions of the Law in relation to the share premium account.

(2) Before recommending any dividend, the Board may set aside out of the profits of the Company such sums as it determines as reserves which shall, at the discretion of the Board, be applicable for any purpose to which the profits of the Company may be properly applied and pending such application may, also at such discretion, either be employed in the business of the Company or be invested in such investments as the Board may from time to time think fit and so that it shall not be necessary to keep any investments constituting the reserve or reserves separate or distinct from any other investments of the Company. The Board may also without placing the same to reserve carry forward any profits which it may think prudent not to distribute.

CAPITALISATION

147. The Company may, upon the recommendation of the Board, at any time and from time to time pass an ordinary resolution to the effect that it is desirable to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and capital redemption reserve and the profit and loss account) whether or not the same is available for distribution and accordingly that such amount be set free for distribution among the Members or any class of Members who would be entitled thereto if it were distributed by way of dividend and in the same proportions, on the footing that the same is not paid in cash but is applied either in or towards paying up the amounts for the time being unpaid on any shares in the Company held by such Members respectively or in paying up in full unissued shares, debentures or other obligations of the Company, to be allotted and distributed credited as fully paid up among such Members, or partly in one way and partly in the other, and the Board shall give effect to such resolution provided that, for the purposes of this Article, a share premium account and any capital redemption reserve or fund representing unrealised profits, may be applied only in paying up in full unissued shares of the Company to be allotted to such Members credited as fully paid.

148. The Board may settle, as it considers appropriate, any difficulty arising in regard to any distribution under the last preceding Article and in particular may issue certificates in respect of fractions of shares or authorise any person to sell and transfer any fractions or may resolve that the distribution should be as nearly as may be practicable in the correct proportion but not exactly so or may ignore fractions altogether, and may determine that cash payments shall be made to any Members in order to adjust the rights of all parties, as may seem expedient to the Board. The Board may appoint any person to sign on behalf of the persons entitled to participate in the distribution any contract necessary or desirable for giving effect thereto and such appointment shall be effective and binding upon the Members.

SUBSCRIPTION RIGHTS RESERVE

149. The following provisions shall have effect to the extent that they are not prohibited by and are in compliance with the Law:

(1) If, so long as any of the rights attached to any warrants issued by the Company to subscribe for shares of the Company shall remain exercisable, the Company does any act or engages in any transaction which, as a result of any adjustments to the subscription price in accordance with the provisions of the conditions of

the warrants, would reduce the subscription price to below the par value of a share, then the following provisions shall apply:

(a) as from the date of such act or transaction the Company shall establish and thereafter (subject as provided in this Article) maintain in accordance with the provisions of this Article a reserve (the "Subscription Rights Reserve") the amount of which shall at no time be less than the sum which for the time being would be required to be capitalised and applied in paying up in full the nominal amount of the additional shares required to be issued and allotted credited as fully paid pursuant to sub-paragraph (c) below on the exercise in full of all the subscription rights outstanding and shall apply the Subscription Rights Reserve in paying up such additional shares in full as and when the same are allotted;

(b) the Subscription Rights Reserve shall not be used for any purpose other than that specified above unless all other reserves of the Company (other than share premium account) have been extinguished and will then only be used to make good losses of the Company if and so far as is required by law;

(c) upon the exercise of all or any of the subscription rights represented by any warrant, the relevant subscription rights shall be exercisable in respect of a nominal amount of shares equal to the amount in cash which the holder of such warrant is required to pay on exercise of the subscription rights represented thereby (or, as the case may be the relevant portion thereof in the event of a partial exercise of the subscription rights) and, in addition, there shall be allotted in respect of such subscription rights to the exercising warrantholder, credited as fully paid, such additional nominal amount of shares as is equal to the difference between:

(i) the said amount in cash which the holder of such warrant is required to pay on exercise of the subscription rights represented thereby (or, as the case may be, the relevant portion thereof in the event of a partial exercise of the subscription rights); and

(ii) the nominal amount of shares in respect of which such subscription rights would have been exercisable having regard to the provisions of the conditions of the warrants, had it been possible for such subscription rights to represent the right to subscribe for shares at less than par and immediately upon such exercise so much of the sum standing to the credit of the Subscription Rights Reserve as is required to pay up in full such additional nominal amount of shares shall be capitalised and applied in paying up in full such additional nominal amount of shares which shall forthwith be allotted credited as fully paid to the exercising warrantholders; and

(d) if, upon the exercise of the subscription rights represented by any warrant, the amount standing to the credit of the Subscription Rights Reserve is not sufficient to pay up in full such additional nominal amount of shares equal to such difference as aforesaid to which the exercising warrantholder is entitled, the Board shall apply any profits or reserves then or thereafter becoming

available (including, to the extent permitted by law, share premium account) for such purpose until such additional nominal amount of shares is paid up and allotted as aforesaid and until then no dividend or other distribution shall be paid or made on the fully paid shares of the Company then in issue. Pending such payment and allotment, the exercising warrantholder shall be issued by the Company with a certificate evidencing his right to the allotment of such additional nominal amount of shares. The rights represented by any such certificate shall be in registered form and shall be transferable in whole or in part in units of one share in the like manner as the shares for the time being are transferable, and the Company shall make such arrangements in relation to the maintenance of a register therefor and other matters in relation thereto as the Board may think fit and adequate particulars thereof shall be made known to each relevant exercising warrantholder upon the issue of such certificate.

(2) Shares allotted pursuant to the provisions of this Article shall rank pari passu in all respects with the other shares allotted on the relevant exercise of the subscription rights represented by the warrant concerned. Notwithstanding anything contained in paragraph (1) of this Article, no fraction of any share shall be allotted on exercise of the subscription rights.

(3) The provision of this Article as to the establishment and maintenance of the Subscription Rights Reserve shall not be altered or added to in any way which would vary or abrogate, or which would have the effect of varying or abrogating the provisions for the benefit of any warrantholder or class of warrantholders under this Article without the sanction of a special resolution of such warrantholders or class of warrantholders.

(4) A certificate or report by the auditors for the time being of the Company as to whether or not the Subscription Rights Reserve is required to be established and maintained and if so the amount thereof so required to be established and maintained, as to the purposes for which the Subscription Rights Reserve has been used, as to the extent to which it has been used to make good losses of the Company, as to the additional nominal amount of shares required to be allotted to exercising warrantholders credited as fully paid, and as to any other matter concerning the Subscription Rights Reserve shall (in the absence of manifest error) be conclusive and binding upon the Company and all warrantholders and shareholders.

ACCOUNTING RECORDS

150. The Board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Law or necessary to give a true and fair view of the Company’s affairs and to explain its transactions.

151. The accounting records shall be kept at the Office or, at such other place or places as the Board decides and shall always be open to inspection by the Directors. No Member (other than a Director) shall have any right of inspecting any accounting record or book or document of the Company except as conferred by law or authorised by the Board or the Company in general meeting.

152. Subject to Article 153, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the Auditors' report, shall be sent to each person entitled thereto provided that this Article shall not require a copy of those documents to be sent to any person whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

153. Subject to due compliance with all applicable Statutes, rules and regulations, including, without limitation, the rules of the Designated Stock Exchange, and to obtaining all necessary consents, if any, required thereunder, the requirements of Article 152 shall be deemed satisfied in relation to any person by sending to the person in any manner not prohibited by the Statutes, a summary financial statement derived from the Company's annual accounts and the directors' report which shall be in the form and containing the information required by applicable laws and regulations, provided that any person who is otherwise entitled to the annual financial statements of the Company and the directors' report thereon may, if he so requires by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

154. The requirement to send to a person referred to in Article 152 the documents referred to in that article or a summary financial report in accordance with Article 153 shall be deemed satisfied where, in accordance with all applicable Statutes, rules and regulations, including, without limitation, the rules of the Designated Stock Exchange, the Company publishes copies of the documents referred to in Article 152 and, if applicable, a summary financial report complying with Article 153, on the Company's computer network or in any other permitted manner (including by sending any form of electronic communication), and that person has agreed or is deemed to have agreed to treat the publication or receipt of such documents in such manner as discharging the Company's obligation to send to him a copy of such documents.

AUDIT

155. Subject to applicable law and rules of the Designated Stock Exchange:

(1) The Auditor may be a Member but no Director or officer or employee of the Company shall, during his continuance in office, be eligible to act as an auditor of the Company.

(2) The Board may remove the Auditor at any time before the expiration of his term of office and appoint another Auditor in his stead for the remainder of his term.

156. Subject to the Law the accounts of the Company shall be audited at least once in every year.

157. The remuneration of the Auditor shall be fixed by the Directors.

158. If the office of auditor becomes vacant by the resignation or death of the Auditor, or by his becoming incapable of acting by reason of illness or other disability at a time when his services are required, the Directors shall as soon as practicable appoint another to fill the vacancy.

159. The Auditor shall at all reasonable times have access to all books kept by the Company and to all accounts and vouchers relating thereto; and he may call on the Directors or officers of the Company for any information in their possession relating to the books or affairs of the Company.

160. The statement of income and expenditure and the balance sheet provided for by these Articles shall be examined by the Auditor and compared by him with the books, accounts and vouchers relating thereto; and he shall make a written report thereon stating whether such statement and balance sheet are drawn up so as to present fairly the financial position of the Company and the results of its operations for the period under review and, in case information shall have been called for from Directors or officers of the Company, whether the same has been furnished and has been satisfactory. The financial statements of the Company shall be audited by the Auditor in accordance with generally accepted auditing standards. The Auditor shall make a written report thereon in accordance with generally accepted auditing standards. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the Auditor should disclose this fact and name such country or jurisdiction.

NOTICES

161. Any Notice or document, whether or not, to be given or issued under these Articles from the Company to a Member shall be in writing or by cable, telex or facsimile transmission message or other form of electronic transmission or communication and any such Notice and document may be served or delivered by the Company on or to any Member either personally or by sending it through the post in a prepaid envelope addressed to such Member at his registered address as appearing in the Register or at any other address supplied by him to the Company for the purpose or, as the case may be, by transmitting it to any such address or transmitting it to any telex or facsimile transmission number or electronic number or address or website supplied by him to the Company for the giving of Notice to him or which the person transmitting the notice reasonably and bona fide believes at the relevant time will result in the Notice being duly received by the Member or may also be served by advertisement in appropriate newspapers in accordance with the requirements of the Designated Stock Exchange or, to the extent permitted by the applicable laws, by placing it on the Company's website and giving to the member a notice stating that the notice or other document is available there (a "notice of availability"). The notice of availability may be given to the Member by any of the means set out above. In the case of joint holders of a share all notices shall be given to that one of the joint holders whose name stands first in the Register and notice so given shall be deemed a sufficient service on or delivery to all the joint holders.

162. Any Notice or other document:

(a) if served or delivered by post, shall where appropriate be sent by airmail and shall be deemed to have been served or delivered on the day following that on which the envelope containing the same, properly prepaid and addressed, is put into the post; in proving such service or delivery it shall be sufficient to prove that the envelope or wrapper containing the notice or document was properly addressed and put into the post and a certificate in writing signed by the Secretary or other officer of the Company or other person appointed by the Board that the envelope or wrapper containing the notice or other document was so addressed and put into the post shall be conclusive evidence thereof;

(b) if sent by electronic communication, shall be deemed to be given on the day on which it is transmitted from the server of the Company or its agent. A notice placed on the Company's website is deemed given by the Company to a Member on the day following that on which a notice of availability is deemed served on the Member;

(c) if served or delivered in any other manner contemplated by these Articles, shall be deemed to have been served or delivered at the time of personal service or delivery or, as the case may be, at the time of the relevant despatch or transmission; and in proving such service or delivery a certificate in writing signed by the Secretary or other officer of the Company or other person appointed by the Board as to the act and time of such service, delivery, despatch or transmission shall be conclusive evidence thereof; and

(d) may be given to a Member either in the English language or the Chinese language, subject to due compliance with all applicable Statutes, rules and regulations.

163. (1) Any Notice or other document delivered or sent by post to or left at the registered address of any Member in pursuance of these Articles shall, notwithstanding that such Member is then dead or bankrupt or that any other event has occurred, and whether or not the Company has notice of the death or bankruptcy or other event, be deemed to have been duly served or delivered in respect of any share registered in the name of such Member as sole or joint holder unless his name shall, at the time of the service or delivery of the notice or document, have been removed from the Register as the holder of the share, and such service or delivery shall for all purposes be deemed a sufficient service or delivery of such Notice or document on all persons interested (whether jointly with or as claiming through or under him) in the share.

(2) A notice may be given by the Company to the person entitled to a share in consequence of the death, mental disorder or bankruptcy of a Member by sending it through the post in a prepaid letter, envelope or wrapper addressed to him by name, or by the title of representative of the deceased, or trustee of the bankrupt, or by any like description, at the address, if any, supplied for the purpose by the person claiming to be so entitled, or (until such an address has been so supplied) by giving the notice in any manner in which the same might have been given if the death, mental disorder or bankruptcy had not occurred.

(3) Any person who by operation of law, transfer or other means whatsoever shall become entitled to any share shall be bound by every notice in respect of such share which prior to his name and address being entered on the Register shall have been duly given to the person from whom he derives his title to such share.

SIGNATURES

164. For the purposes of these Articles, a cable or telex or facsimile or electronic transmission message purporting to come from a holder of shares or, as the case may be, a Director, or, in the case of a corporation which is a holder of shares from a director or the secretary thereof or a duly appointed attorney or duly authorised representative thereof for it and on its behalf, shall in the absence of express evidence to the contrary available to the person relying thereon at the relevant time be deemed to be a document or instrument in writing signed by such holder or Director in the terms in which it is received.

WINDING UP

165. (1) The Board shall have power in the name and on behalf of the Company to present a petition to the court for the Company to be wound up.

(2) A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

166. (1) Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the Members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed pari passu amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the Members as such shall be insufficient to repay the whole of the paid-up capital such assets shall be distributed so that, a nearly as may be, the losses shall be borne by the Members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

(2) If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Law, divide among the Members in specie or kind the whole or any part of the assets of the Company and whether or not the assets shall consist of properties of one kind or shall consist of properties to be divided as aforesaid of different kinds, and may for such purpose set such value as he deems fair upon any one or more class or classes of property and may determine how such division shall be carried out as between the Members or different classes of Members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of the Members as the liquidator with the like authority shall think fit, and the liquidation of the Company may be closed and the Company dissolved,

but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(3) In the event of winding-up of the Company in the Republic of China, every Member of the Company who is not for the time being in the Republic of China shall be bound, within 14 days after the passing of an effective resolution to wind up the Company voluntarily, or the making of an order for the winding-up of the Company, to serve notice in writing on the Company appointing some person resident in the Republic of China and stating that person's full name, address and occupation upon whom all summonses, notices, process, orders and judgements in relation to or under the winding-up of the Company may be served, and in default of such nomination the liquidator of the Company shall be at liberty on behalf of such Member to appoint some such person, and service upon any such appointee, whether appointed by the Member or the liquidator, shall be deemed to be good personal service on such Member for all purposes, and, where the liquidator makes any such appointment, he shall with all convenient speed give notice thereof to such Member by advertisement as he shall deem appropriate or by a registered letter sent through the post and addressed to such Member at his address as appearing in the register, and such notice shall be deemed to be service on the day following that on which the advertisement first appears or the letter is posted.

INDEMNITY

167. (1) The Company is authorized to indemnify its Directors, Secretary and other officers for the time being and the liquidator or trustees (if any) for the time being acting in relation to any of the affairs of the Company and everyone of them, and everyone of their heirs, executors and administrators, from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their or any of their heirs, executors or administrators, shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices or trusts PROVIDED THAT any such indemnity shall not extend to any matter in respect of any fraud, dishonesty, willful misconduct or bad faith which may attach to any of said persons.

(2) Each Member agrees to waive any claim or right of action he might have, whether individually or by or in the right of the Company, against any Director on account of any action taken by such Director, or the failure of such Director to take any action in the performance of his duties with or for the Company; PROVIDED THAT such waiver shall not extend to any matter in respect of any fraud or dishonesty which may attach to such Director.

AMENDMENT TO MEMORANDUM AND ARTICLES OF ASSOCIATION AND NAME OF COMPANY

168. No Article shall be rescinded, altered or amended and no new Article shall be made until the same has been approved by a special resolution of the Members. A special resolution shall be required to alter the provisions of the Memorandum of Association or to change the name of the Company.

169. No Member shall be entitled to require discovery of or any information respecting any detail of the Company's trading or any matter which is or may be in the nature of a trade secret or secret process which may relate to the conduct of the business of the Company and which in the opinion of the Directors it will be inexpedient in the interests of the members of the Company to communicate to the public.

EXHIBIT 4.1

SPECIMEN FORM OF AMERICAN DEPOSITARY RECEIPT

No.

AMERICAN DEPOSITARY SHARES
(Each American Depositary Share
represents _____ deposited Shares)

THE BANK OF NEW YORK
AMERICAN DEPOSITARY RECEIPT
FOR ORDINARY SHARES
PAR VALUE _____ EACH OF
SILICON MOTION TECHNOLOGY CORPORATION
(INCORPORATED UNDER THE LAWS OF THE CAYMAN ISLANDS)

The Bank of New York, as depositary (herein called the Depositary), hereby certifies that_____ _____, or registered assigns IS THE OWNER OF _____

AMERICAN DEPOSITARY SHARES

representing deposited ordinary shares (herein called Shares) of Silicon Motion Technology Corporation, incorporated under the laws of the Cayman Islands (herein called the Company). At the date hereof, each American Depositary Share represents _____ Share[s] deposited or subject to deposit under the Deposit Agreement (as such term is hereinafter defined) at the principal [Hong Kong office of Hongkong and Shanghai Banking Corporation] (herein called the Custodian). The Depositary's Corporate Trust Office is located at a different address than its principal executive office. Its Corporate Trust Office is located at 101 Barclay Street, New York, N.Y. 10286, and its principal executive office is located at One Wall Street, New York, N.Y. 10286.

THE DEPOSITARY'S CORPORATE TRUST OFFICE ADDRESS IS
101 BARCLAY STREET, NEW YORK, N.Y. 10286

1. THE DEPOSIT AGREEMENT.

This American Depositary Receipt is one of an issue (herein called Receipts), all issued and to be issued upon the terms and conditions set forth in the deposit agreement, dated as of _____, 2005, as the same may be amended from time to time in accordance with its terms (the "Deposit Agreement"), by and among the Company, the Depositary, and all Owners and Beneficial Owners from time to time of Receipts issued thereunder, each of whom by accepting a Receipt or any interest therein agrees to become a party thereto and become bound by all the terms and conditions thereof. The Deposit Agreement sets forth the rights of Owners and Beneficial Owners of the Receipts and the rights and duties of the Depositary in respect of the Shares deposited thereunder and any and all other securities, property and cash from time to time received in respect of such Shares and held thereunder (such Shares, securities, property, and cash are herein called Deposited Securities). Copies of the Deposit Agreement are on file at the Depositary's Corporate Trust Office in New York City and at the office of the Custodian.

The statements made on the face and reverse of this Receipt are summaries of certain provisions of the Deposit Agreement and are qualified by and subject to the detailed provisions of the Deposit Agreement, to which reference is hereby made. Capitalized terms defined in the Deposit Agreement and not defined herein shall have the meanings set forth in the Deposit Agreement.

2. SURRENDER OF RECEIPTS AND WITHDRAWAL OF SHARES.

Upon surrender at the Corporate Trust Office of the Depositary of this Receipt, and upon payment of the fee of the Depositary provided in this Receipt, and subject to the terms and conditions of the Deposit Agreement, the Owner hereof is entitled to delivery, to him or upon his order, of the Deposited Securities at the time represented by the American Depositary Shares for which this Receipt is issued. Delivery of such Deposited Securities may be made by the delivery of (a) certificates in the name of the Owner hereof or as ordered by him or certificates properly endorsed or accompanied by proper instruments of transfer and (b) any other securities, property and cash to which such Owner is then entitled in respect of this Receipt. Such delivery will be made at the option of the Owner hereof, either at the office of the Custodian or at the Corporate Trust Office of the Depositary, provided that the forwarding of certificates for Shares or other Deposited Securities for such delivery at the Corporate Trust Office of the Depositary shall be at the risk and expense of the Owner hereof.

3. TRANSFERS, SPLIT-UPS, AND COMBINATIONS OF RECEIPTS.

The transfer of this Receipt is registrable on the books of the Depositary at its Corporate Trust Office by the Owner hereof in person or by a duly authorized attorney, upon surrender of this Receipt properly endorsed for transfer or accompanied by proper instruments of transfer and funds sufficient to pay any applicable transfer taxes and the expenses of the Depositary and upon compliance with such regulations, if any, as the Depositary may establish for such purpose. This Receipt may be split into other such Receipts, or may be combined with other such Receipts into one Receipt, evidencing the same aggregate number of American Depositary Shares as the Receipt or Receipts surrendered. As a condition precedent to the execution and delivery, registration of transfer, split-up, combination, or surrender of any Receipt or withdrawal of any Deposited Securities, the Depositary, the Custodian, or Registrar may require payment from the depositor of the Shares or the presenter of the Receipt of a sum sufficient to reimburse it for any tax or other governmental charge and any stock transfer or registration fee with respect thereto (including any such tax or charge and fee with respect to Shares being deposited or withdrawn) and payment of any applicable fees as provided in this Receipt, may require the production of proof satisfactory to it as to the identity and genuineness of any signature and may also require compliance with any regulations the Depositary may establish consistent with the provisions of the Deposit Agreement or this Receipt, including, without limitation, this Article 3.

The delivery of Receipts against deposit of Shares generally or against deposit of particular Shares may be suspended, or the transfer of Receipts in particular instances may be refused, or the registration of transfer of outstanding Receipts generally may be suspended, during any period when the transfer books of the Depositary are closed, or if any such action is deemed necessary or advisable by the Depositary or the Company at any time or from time to time because of any requirement of law or of any government or governmental body or commission, or under any provision of the Deposit Agreement or this Receipt, or for any other reason, subject to the provisions of the following sentence. Notwithstanding anything to the contrary in the Deposit Agreement or this Receipt, the surrender of outstanding Receipts and withdrawal of Deposited Securities may not be suspended subject only to (i) temporary delays caused by closing the transfer books of the Depositary or the Company or the deposit of Shares in connection with voting at a shareholders' meeting, or the payment of dividends, (ii) the payment of fees, taxes and similar charges, and (iii) compliance with any U.S. or foreign laws or governmental regulations relating to the Receipts or to the withdrawal of the Deposited Securities. Without limitation of the foregoing, the Depositary shall not knowingly accept for deposit under the Deposit Agreement any Shares which would be required to be registered under the provisions of the Securities Act of 1933 for the public offer and sale thereof in the United States unless a registration statement is in effect as to such Shares for such offer and sale.

Except for Shares deposited by the Company or by persons named as selling shareholders in the final prospectus relating to the Company's initial public offering of American Depositary Shares, no Shares shall be accepted for deposit under the Deposit Agreement without the prior written consent of the Company during a period of 180 days following the date of that final prospectus.

4. LIABILITY OF OWNER OR BENEFICIAL OWNER FOR TAXES.

If any tax or other governmental charge shall become payable with respect to any Receipt or any Deposited Securities represented hereby, such tax or other governmental charge shall be payable by the Owner or Beneficial Owner hereof to the Depositary. The Depositary may refuse to effect any transfer of this Receipt or any withdrawal of Deposited Securities represented by American Depositary Shares evidenced by such Receipt until such payment is made, and may withhold any dividends or other distributions, or may sell for the account of the Owner or Beneficial Owner hereof any part or all of the Deposited Securities represented by the American Depositary Shares evidenced by this Receipt, and may apply such dividends or other distributions or the proceeds of any such sale in payment of such tax or other governmental charge and the Owner or Beneficial Owner hereof shall remain liable for any deficiency.

5. WARRANTIES ON DEPOSIT OF SHARES.

Every person depositing Shares under the Deposit Agreement shall be deemed thereby to represent and warrant that such Shares and each certificate therefore, if applicable, are validly issued, fully paid, non-assessable, and were not issued in violation of any preemptive rights of the holders of outstanding Shares and that the person making such deposit is duly authorized so to do. Every such person shall also be deemed to represent that such Shares are not, and American Depositary Shares representing such Shares would not be, Restricted Securities. Such representations and warranties shall survive the deposit of Shares and delivery of Receipts.

6. FILING PROOFS, CERTIFICATES, AND OTHER INFORMATION.

Any person presenting Shares for deposit or any Owner or Beneficial Owner of a Receipt may be required from time to time to file with the Depositary or the Custodian such proof of citizenship or residence, exchange control approval, or such information relating to the registration on the books of the Company or the Foreign Registrar, if applicable, to execute such certificates and to make such representations and warranties, as the Depositary may deem necessary or proper. The Depositary may withhold the delivery or registration of transfer of any Receipt or the distribution of any dividend or sale or distribution of rights or of the proceeds thereof or the delivery of any Deposited Securities until such proof or other information is filed or such certificates are executed or such representations and warranties made. No Share shall be accepted for deposit unless accompanied by evidence satisfactory to the Depositary that any necessary approval has been granted by any governmental body in the Republic of China that is then performing the function of the regulation of currency exchange.

7. CHARGES OF DEPOSITARY.

The Company agrees to pay the fees, reasonable expenses and out-of-pocket charges of the Depositary and those of any Registrar only in accordance with agreements in writing entered into between the Depositary and the Company from time to time. The Depositary shall present its statement for such charges and expenses to the Company once every three months. The charges and expenses of the Custodian are for the sole account of the Depositary.

The following charges shall be incurred by any party depositing or withdrawing Shares or by any party surrendering Receipts or to whom Receipts are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by the Company or an exchange of stock regarding the Receipts or Deposited Securities or a distribution of Receipts pursuant to Section 4.03 of the Deposit Agreement), or by Owners, as applicable: (1) taxes and other governmental charges, (2) such registration fees as may from time to time be in effect for the registration of transfers of Shares generally on the Share register of the Company or Foreign Registrar and applicable to transfers of Shares to the name of the Depositary or its nominee or the Custodian or its nominee on the making of deposits or withdrawals under the terms of the Deposit Agreement, (3) such cable, telex and facsimile transmission expenses as are expressly provided in the Deposit Agreement, (4) such expenses as are incurred by the Depositary in the conversion of foreign currency pursuant to Section 4.05 of the Deposit Agreement, (5) a fee of $5.00 or less per 100 American Depositary Shares (or portion thereof) for the execution and delivery of Receipts pursuant to Section 2.03, 4.03 or 4.04 of the Deposit Agreement and the surrender of Receipts pursuant to Section 2.05 or 6.02 of the Deposit Agreement, (6) a fee of $.02 or less per American Depositary Share (or portion thereof) for any cash distribution made pursuant to Sections 4.01 through 4.04 of the Deposit Agreement, (7) a fee for the distribution of securities pursuant to Section 4.02 of the Deposit Agreement, such fee being in an amount equal to the fee for the execution and delivery of American Depositary Shares referred to above which would have been charged as a result of the deposit of such securities (for purposes of this clause 7 treating all such securities as if they were Shares), but which securities are instead distributed by the Depositary to Owners, (8)) a fee of $.02 or less per American Depositary Share (or portion thereof) for depositary services, which will accrue on the last day of each calendar year and will be payable as provided in clause 9 below; provided, however, that no fee will be assessed under this clause 8 to the extent that a fee of $.02 was charged pursuant to clause 6 above during that calendar year and (9) any other charges payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents in connection with the servicing of Shares or other Deposited Securities (which charge shall be assessed against Owners as of the date or dates set by the Depositary in accordance with Section 4.06 of the Deposit Agreement and shall be collected at the sole discretion of the Depositary by billing such Owners for such charge or by deducting such charge from one or more cash dividends or other cash distributions).

The Depositary, subject to Article 8 hereof, may own and deal in any class of securities of the Company and its affiliates and in Receipts.

8. PRE-RELEASE OF RECEIPTS.

Notwithstanding Section 2.03 of the Deposit Agreement, the Depositary may execute and deliver Receipts prior to the receipt of Shares pursuant to Section 2.02 of the Deposit Agreement (a "Pre-Release"). The Depositary may, pursuant to Section 2.05 of the Deposit Agreement, deliver Shares upon the receipt and cancellation of Receipts which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such Receipt has been Pre-Released. The Depositary may receive Receipts in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation from the person to whom Receipts or Shares are to be delivered that such person, or its customer, owns the Shares or Receipts to be remitted, as the case may be, (b) at all times fully collateralized with cash or such other collateral as the Depositary deems appropriate, (c) terminable by the Depositary on not more than five (5) business days notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of Shares represented by American Depositary Shares which are outstanding at any time as a result of Pre-Releases will not normally exceed thirty percent (30%) of the Shares deposited under the Deposit Agreement; provided, however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate.

The Depositary may retain for its own account any compensation received by it in connection with the foregoing.

9. TITLE TO RECEIPTS.

It is a condition of this Receipt and every successive Owner and Beneficial Owner of this Receipt by accepting or holding the same consents and agrees, that title to this Receipt when properly endorsed or accompanied by proper instruments of transfer, is transferable by delivery with the same effect as in the case of a negotiable instrument under the laws of New York; provided, however, that the Depositary, notwithstanding any notice to the contrary, may treat the person in whose name this Receipt is registered on the books of the Depositary as the absolute owner hereof for the purpose of determining the person entitled to distribution of dividends or other distributions or to any notice provided for in the Deposit Agreement or for all other purposes.

10. VALIDITY OF RECEIPT.

This Receipt shall not be entitled to any benefits under the Deposit Agreement or be valid or obligatory for any purpose, unless this Receipt shall have been executed by the Depositary by the manual or facsimile signature of a duly authorized signatory of the Depositary and, if a Registrar for the Receipts shall have been appointed, countersigned by the manual signature of a duly authorized officer of the Registrar.

11. REPORTS; INSPECTION OF TRANSFER BOOKS.

The Company is subject to the periodic reporting requirements of the Securities Exchange Act of 1934 and, accordingly, files certain reports with the Commission. Such reports will be available for inspection and copying by Owners and Beneficial Owners at the public reference facilities maintained by the Commission located at 450 Fifth Street, N.W., Washington, D.C. 20549.

The Depositary will make available for inspection by Owners of Receipts at its Corporate Trust Office any reports and communications, including any proxy soliciting material, received from the Company which are both (a) received by the Depositary as the holder of the Deposited Securities and (b) made generally available to the holders of such Deposited Securities by the Company. The Depositary will also send to Owners of Receipts copies of such reports when furnished by the Company pursuant to the Deposit Agreement. Any such reports and communications, including any such proxy soliciting material, furnished to the Depositary by the Company shall be furnished in English to the extent such materials are required to be translated into English pursuant to any regulations of the Commission.

The Depositary will keep books, at its Corporate Trust Office, for the registration of Receipts and transfers of Receipts which at all reasonable times shall be open for inspection by the Owners of Receipts and the Company provided that such inspection shall not be for the purpose of communicating with Owners of Receipts in the interest of a business or object other than the business of the Company or a matter related to the Deposit Agreement or the Receipts.

12. DIVIDENDS AND DISTRIBUTIONS.

Whenever the Depositary receives any cash dividend or other cash distribution on any Deposited Securities, the Depositary will, if at the time of receipt thereof any amounts received in a foreign currency can in the judgment of the Depositary be converted on a reasonable basis into United States dollars transferable to the United States, and subject to the Deposit Agreement, convert, as promptly as practicable, such dividend or distribution into dollars and will distribute, as promptly as practicable, the amount thus received (net of the fees and expenses of the Depositary as provided in Section 5.09 of the Deposit Agreement, if applicable) to the Owners of Receipts entitled thereto; provided, however, that in the event that the Company or the Depositary is required to withhold and does withhold from any cash dividend or other cash distribution in respect of any Deposited Securities an amount on account of taxes, the amount distributed to the Owners of the Receipts evidencing American Depositary Shares representing such Deposited Securities shall be reduced accordingly.

Subject to the provisions of Sections 4.11 and 5.09 of the Deposit Agreement, whenever the Depositary receives any distribution other than a distribution described in Section 4.01, 4.03 or 4.04 of the Deposit Agreement, the Depositary will cause the securities or property received by it to be distributed to the Owners entitled thereto, in any manner that the Depositary may deem equitable and practicable for accomplishing such distribution; provided, however, that if in the opinion of the Depositary such distribution cannot be made proportionately among the Owners of Receipts entitled thereto, or if for any other reason the Depositary deems such distribution not to be feasible, the Depositary may, after Consultation with the Company to the extent practicable, adopt such method as it may deem equitable and practicable for the purpose of effecting such distribution, including, but not limited to, the public or private sale of the securities or property thus received, or any part thereof, and the net proceeds of any such sale (net of the fees and expenses of the Depositary as provided in Section 5.09 of the Deposit Agreement) will be distributed by the Depositary to the Owners of Receipts entitled thereto all in the manner and subject to the conditions described in Section 4.01 of the Deposit Agreement.

If any distribution consists of a dividend in, or free distribution of, Shares, the Depositary may, and shall if the Company requests in writing, distribute to the Owners of outstanding Receipts entitled thereto, additional Receipts evidencing an aggregate number of American Depositary Shares representing the amount of Shares received as such dividend or free distribution subject to the terms and conditions of the Deposit Agreement with respect to the deposit of Shares and the issuance of American Depositary Shares evidenced by Receipts, including the withholding of any tax or other governmental charge as provided in Section 4.11 of the Deposit Agreement and the payment of the fees and expenses of the Depositary as provided in Section 5.09 of the Deposit Agreement. In lieu of delivering Receipts for fractional American Depositary Shares in any such case, the Depositary will sell the amount of Shares represented by the aggregate of such fractions and distribute the net proceeds, all in the manner and subject to the conditions described in Section 4.01 of the Deposit Agreement. If additional Receipts are not so distributed, each American Depositary Share shall thenceforth also represent the additional Shares distributed upon the Deposited Securities represented thereby.

In the event that the Depositary determines that any distribution in property (including Shares and rights to subscribe therefor) is subject to any tax or other governmental charge which the Depositary is obligated to withhold, the Depositary may by public or private sale dispose of all or a portion of such property (including Shares and rights to subscribe therefor) in such amounts and in such manner as the Depositary deems necessary and practicable to pay any such taxes or charges, and the Depositary shall distribute the net proceeds of any such sale after deduction of such taxes or charges to the Owners of Receipts entitled thereto.

13. RIGHTS.

In the event that the Company shall offer or cause to be offered to the holders of any Deposited Securities any rights to subscribe for additional Shares or any rights of any other nature, the Depositary shall, after Consultation with the Company, have discretion as to the procedure to be followed in making such rights available to any Owners entitled to them or in disposing of such rights on behalf of any Owners otherwise entitled to them and making the net proceeds available to such Owners or, if by the terms of such rights offering or for any other reason, the Depositary may not either make such rights available to any Owners or dispose of such rights and make the net proceeds available to such Owners, then the Depositary shall allow the rights to lapse. If at the time of the offering of any rights the Depositary determines in its discretion that it is lawful and feasible to make such rights available to all or certain Owners but not to other Owners, the Depositary may, after Consultation with the Company, distribute to any Owner to whom it determines the distribution to be lawful and feasible, in proportion to the number of American Depositary Shares held by such Owner, warrants or other instruments therefor in such form as it deems appropriate.

In circumstances in which rights would otherwise not be distributed, if an Owner of Receipts requests the distribution of warrants or other instruments in order to exercise the rights allocable to the American Depositary Shares of such Owner hereunder, the Depositary will make such rights available to such Owner upon written notice from the Company to the Depositary that (a) the Company has elected in its sole discretion to permit such rights to be exercised and (b) such Owner has executed such documents as the Company has determined in its sole discretion are reasonably required under applicable law.

If the Depositary has distributed warrants or other instruments for rights to all or certain Owners, then upon instruction from such an Owner pursuant to such warrants or other instruments to the Depositary from such Owner to exercise such rights, upon payment by such Owner to the Depositary for the account of such Owner of an amount equal to the purchase price of the Shares to be received upon the exercise of the rights, and upon payment of the fees and expenses of the Depositary and any other charges as set forth in such warrants or other instruments, the Depositary shall, on behalf of such Owner, exercise the rights and purchase the Shares, and the Company shall cause the Shares so purchased to be delivered to the Depositary on behalf of such Owner. As agent for such Owner, the Depositary will cause the Shares so purchased to be deposited pursuant to Section 2.02 of the Deposit Agreement, and shall, pursuant to Section 2.03 of the Deposit Agreement, execute and deliver Receipts to such Owner; provided, however, that in the case of a distribution pursuant to the preceding paragraph, such deposit shall be made, and depositary shares shall be delivered, under depositary arrangements which provide for issuance of depositary receipts subject to the appropriate restrictions on sale, deposit, cancellation, and transfer under applicable United States laws.

If the Depositary determines in its discretion that it is not lawful and feasible to make such rights available to all or certain Owners, it may sell the rights, warrants or other instruments in proportion to the number of American Depositary Shares held by the Owners to whom it has determined it may not lawfully or feasiblely make such rights available, and allocate the net proceeds of such sales (net of the fees and expenses of the Depositary as provided in Section 5.09 of the Deposit Agreement and all taxes and governmental charges payable in connection with such rights and subject to the terms and conditions of the Deposit Agreement) for the account of such Owners otherwise entitled to such rights, warrants or other instruments, upon an averaged or other practical basis without regard to any distinctions among such Owners because of exchange restrictions or the date of delivery of any Receipt or otherwise.

Except as otherwise provided in the third preceding paragraph, the Depositary will not offer rights to Owners unless both the rights and the securities to which such rights relate are either exempt from registration under the Securities Act of 1933 with respect to a distribution to all Owners or are registered under the provisions of such Act. Nothing in the Deposit Agreement shall create any obligation on the part of the Company to file a registration statement with respect to such rights or underlying securities or to endeavor to have such a registration statement declared effective. If an Owner of Receipts requests the distribution of warrants or other instruments, notwithstanding that there has been no such registration under such Act, the Depositary shall not effect such distribution unless it has received an opinion from recognized counsel in the United States for the Company upon which the Depositary may rely that such distribution to such Owner is exempt from such registration.

The Depositary shall not be responsible for any reasonable failure by it, or any failure by the Company, to determine that it may be lawful or feasible to make such rights available to Owners in general or any Owner in particular.

14. CONVERSION OF FOREIGN CURRENCY.

Whenever the Depositary or the Custodian shall receive foreign currency, by way of dividends or other distributions or the net proceeds from the sale of securities, property or rights, and if at the time of the receipt thereof the foreign currency so received can in the judgment of the Depositary be converted on a reasonable basis into Dollars and the resulting Dollars transferred to the United States, the Depositary shall, as promptly as practicable, convert or cause to be converted, by sale or in any other manner that it may determine, such foreign currency into Dollars, and such Dollars shall be distributed, as promptly as practicable, to the Owners entitled thereto or, if the Depositary shall have distributed any warrants or other instruments which entitle the holders thereof to such Dollars, then to the holders of such warrants or instruments upon surrender thereof for cancellation. Such distribution may be made upon an averaged or other practicable basis without regard to any distinctions among Owners on account of exchange restrictions, the date of delivery of any Receipt or otherwise and shall be net of any expenses of conversion into Dollars incurred by the Depositary as provided in Section 5.09 of the Deposit Agreement.

If such conversion or distribution can be effected only with the approval or license of any government or agency thereof, the Depositary shall file such application for approval or license, if any, as it may deem desirable.

If at any time the Depositary shall determine that in its judgment any foreign currency received by the Depositary or the Custodian is not convertible on a reasonable basis into Dollars transferable to the United States, or if any approval or license of any government or agency thereof which is required for such conversion is denied or in the opinion of the Depositary is not obtainable, or if any such approval or license is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute the foreign currency (or an appropriate document evidencing the right to receive such foreign currency) received by the Depositary to, or in its discretion may hold such foreign currency uninvested and without liability for interest thereon for the respective accounts of, the Owners entitled to receive the same.

If any such conversion of foreign currency, in whole or in part, cannot be effected for distribution to some of the Owners entitled thereto, the Depositary may in its discretion make such conversion and distribution in Dollars to the extent permissible to the Owners entitled thereto and may distribute the balance of the foreign currency received by the Depositary to, or hold such balance uninvested and without liability for interest thereon for the respective accounts of, the Owners entitled thereto.

15. RECORD DATES.

Whenever any cash dividend or other cash distribution shall become payable or any distribution other than cash shall be made, or whenever rights shall be issued with respect to the Deposited Securities, or whenever the Depositary shall receive notice of any meeting of holders of Shares or other Deposited Securities, or whenever for any reason the Depositary causes a change in the number of Shares that are represented by each American Depositary Share, or whenever the Depositary shall find it necessary or convenient, the Depositary shall fix a record date (a) for the determination of the Owners of Receipts who shall be (i) entitled to receive such dividend, distribution or rights or the net proceeds of the sale thereof, (ii) entitled to give instructions for the exercise of voting rights at any such meeting or (iii) responsible for any fees or charges assessed by the Depositary pursuant to the Deposit Agreement, or (b) on or after which each American Depositary Share will represent the changed number of Shares, subject to the provisions of the Deposit Agreement.

16. VOTING OF DEPOSITED SECURITIES.

Upon receipt from the Company of notice of any meeting or solicitation of proxies or consents of holders of Shares or other Deposited Securities, the Depositary shall, if requested in writing by the Company, as soon as practicable thereafter, mail to the Owners of Receipts a notice, the form of which notice shall be in the sole discretion of the Depositary, which shall contain (a) such information as is contained in such notice of meeting received by the Depositary from the Company, (b) a statement that the Owners of Receipts as of the close of business on a specified record date will be entitled, subject to any applicable provision of Cayman Islands law and of the articles of association or similar document of the Company, to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the amount of Shares or other Deposited Securities represented by their respective American Depositary Shares and (c) a statement as to the manner in which such instructions may be given (including an express indication that, if no instruction is received, instructions may be deemed given in accordance with the last sentence of this paragraph to give a discretionary proxy to a person designated by the Company). Upon the written request of an Owner of a Receipt on such record date, received on or before the date established by the Depositary for such purpose (the "Instruction Date"), the Depositary shall endeavor, in so far as practicable, to vote or cause to be voted the amount of Shares or other Deposited Securities represented by the American Depositary Shares evidenced by such Receipt in accordance with the instructions set forth in such request. The Depositary shall not vote or attempt to exercise the right to vote that attaches to such Shares or other Deposited Securities other than in accordance with such instructions or deemed instructions. If (i) the Company made a request to the Depositary as contemplated by the first sentence of this paragraph and complied with the following paragraph and (ii) no instructions are received by the Depositary from an Owner with respect to an amount of Deposited Securities represented by the American Depositary Shares evidenced by such Owner's Receipts on or before the Instruction Date, the Depositary shall deem such Owner to have instructed the Depositary to give, and the Depositary shall give, a discretionary proxy to a person designated by the Company with respect to that amount of Deposited Securities; provided, however, that no such instruction shall be deemed given and no such discretionary proxy shall be given with respect to any matter as to which the Company informs the Depositary (and the Company agrees to provide such information as promptly as practicable in writing, if applicable) that (x) the Company does not wish such proxy given, (y) the Company is aware that substantial opposition exists or (z) such matter materially and adversely affects the rights of holders of Shares.

In order to give Owners a reasonable opportunity to instruct the Depositary as to the exercise of voting rights relating to Deposited Securities, if the Company request the Depositary to act under the preceding paragraph, the Company shall give the Depositary notice of any such meeting or solicitation not less than 45 days prior to the meeting date or date for giving such proxies or consents.

17. CHANGES AFFECTING DEPOSITED SECURITIES.

In circumstances where the provisions of Section 4.03 of the Deposit Agreement do not apply, upon any change in nominal value, change in par value, split-up, consolidation, or any other reclassification of Deposited Securities, or upon any recapitalization, reorganization, merger or consolidation, or sale of assets affecting the Company or to which it is a party, any securities which shall be received by the Depositary or a Custodian in exchange for or in conversion of or in respect of Deposited Securities shall be treated as new Deposited Securities under the Deposit Agreement, and American Depositary Shares shall thenceforth represent, in addition to the existing Deposited Securities, the right to receive the new Deposited Securities so received in exchange or conversion, unless additional Receipts are delivered pursuant to the following sentence. In any such case the Depositary may, and shall at the Company's written request, execute and deliver additional Receipts as in the case of a dividend in Shares, or call for the surrender of outstanding Receipts to be exchanged for new Receipts specifically describing such new Deposited Securities.

18. LIABILITY OF THE COMPANY AND DEPOSITARY.

Neither the Depositary nor the Company nor any of their respective directors, officers, employees, agents or affiliates shall incur any liability to any Owner or Beneficial Owner if, by reason of any provision of any present or future law or regulation of the United States or any other country, or of any other governmental or regulatory authority, or by reason of any provision, present or future, of the articles of association or similar document of the Company, or by reason of any provision of any securities issued or distributed by the Company, or any offering or distribution thereof, or by reason of any act of God or war or terrorism or other circumstances beyond its control, the Depositary or the Company shall be prevented, delayed or forbidden from or be subject to any civil or criminal penalty on account of doing or performing any act or thing which by the terms of the Deposit Agreement or Deposited Securities it is provided shall be done or performed; nor shall the Depositary or the Company or any of their respective directors, officers, employees, agents or affiliates incur any liability to any Owner or Beneficial Owner of a Receipt by reason of any non-performance or delay, caused as aforesaid, in the performance of any act or thing which by the terms of the Deposit Agreement it is provided shall or may be done or performed, or by reason of any exercise of, or failure to exercise, any discretion provided for in the Deposit Agreement. Where, by the terms of a distribution pursuant to Section 4.01, 4.02 or 4.03 of the Deposit Agreement, or an offering or distribution pursuant to Section 4.04 of the Deposit Agreement, such distribution or offering may not be made available to Owners of Receipts, and the Depositary may not dispose of such distribution or offering on behalf of such Owners and make the net proceeds available to such Owners, then the Depositary shall not make such distribution or offering, and shall allow any rights, if applicable, to lapse. Neither the Company nor the Depositary assumes any obligation or shall be subject to any liability under the Deposit Agreement to Owners or Beneficial Owners of Receipts, except that they agree to perform their obligations specifically set forth in the Deposit Agreement without negligence or bad faith. The Depositary shall not be subject to any liability with respect to the validity or worth of the Deposited Securities. Neither the Depositary nor the Company shall be under any obligation to appear in, prosecute or defend any action, suit, or other proceeding in respect of any Deposited Securities or in respect of the Receipts on behalf of any Owner, Beneficial Owner or other person, and the Custodian shall not be under any obligation whatsoever with respect to such proceedings, the responsibility of the Custodian being solely to the Depositary. Neither the Depositary nor the Company shall be liable for any action or nonaction by it in reliance upon the advice of or information from legal counsel, accountants, any person presenting Shares for deposit, any Owner or Beneficial Owner of a Receipt, or any other person believed by it in good faith to be competent to give such advice or information. The Depositary shall not be responsible for any failure to carry out any instructions to vote any of the Deposited Securities, or for the manner in which any such vote is cast or the effect of any such vote, provided that any such action or nonaction is in good faith. The Depositary shall not be liable for any acts or omissions made by a successor depositary whether in connection with a previous act or omission of the Depositary or in connection with a matter arising wholly after the removal or resignation of the Depositary, provided that in connection with the issue out of which such potential liability arises, the Depositary performed its obligations without negligence or bad faith while it acted as Depositary. No disclaimer of liability under the Securities Act of 1933 is intended by any provision of the Deposit Agreement.

19. RESIGNATION AND REMOVAL OF THE DEPOSITARY; APPOINTMENT OF SUCCESSOR CUSTODIAN.

The Depositary may at any time resign as Depositary by written notice of its election so to do delivered to the Company, such resignation to take effect upon the appointment of a successor depositary and its acceptance of such appointment as provided in the Deposit Agreement. The Depositary may at any time be removed by the Company by 90 days' prior written notice of such removal, to become effective upon the later of (i) the 90th day after delivery of the notice to the Depositary or (ii) the appointment of a successor depositary and its acceptance of such appointment as provided in the Deposit Agreement. Whenever the Depositary in its discretion determines that it is in the best interest of the Owners of Receipts to do so, it may appoint a substitute or additional custodian or custodians.

20. AMENDMENT.

The form of the Receipts and any provisions of the Deposit Agreement may at any time and from time to time be amended by agreement between the Company and the Depositary without the consent of Owners or Beneficial Owners in any respect which they may deem necessary or desirable. Any amendment which shall impose or increase any fees or charges (other than taxes and other governmental charges, registration fees and cable, telex or facsimile transmission costs, delivery costs or other such expenses), or which shall otherwise prejudice any substantial existing right of Owners of Receipts, shall, however, not become effective as to outstanding Receipts until the expiration of thirty days after notice of such amendment shall have been given to the Owners of outstanding Receipts. Every Owner and Beneficial Owner of a Receipt at the time any amendment so becomes effective shall be deemed, by continuing to hold such Receipt or any interest therein, to consent and agree to such amendment and to be bound by the Deposit Agreement as amended thereby. In no event shall any amendment impair the right of the Owner of any Receipt to surrender such Receipt and receive therefor the Deposited Securities represented thereby except in order to comply with mandatory provisions of applicable law.

21. TERMINATION OF DEPOSIT AGREEMENT.

The Depositary at any time at the direction of the Company, shall terminate the Deposit Agreement by mailing notice of termination to the Owners of all Receipts then outstanding at least 30 days prior to the date fixed in such notice for such termination. The Depositary may likewise terminate the Deposit Agreement by mailing notice of termination to the Company and the Owners of all Receipts then outstanding if at least 90 days have passed since the Depositary delivered to the Company a written notice of its election to resign and a successor depositary has not been appointed and accepted its appointment as provided in the Deposit Agreement. On and after the date of termination, the Owner of a Receipt will, upon (a) surrender of such Receipt at the Corporate Trust Office of the Depositary, (b) payment of the fee of the Depositary for the surrender of Receipts referred to in Section 2.05 of the Deposit Agreement, and (c) payment of any applicable taxes or governmental charges, be entitled to delivery, to him or upon his order, of the amount of Deposited Securities represented by the American Depositary Shares evidenced by such Receipt. If any Receipts shall remain outstanding after the date of termination, the Depositary thereafter shall discontinue the registration of transfers of Receipts, shall suspend the distribution of dividends to the Owners thereof, and shall not give any further notices or perform any further acts under the Deposit Agreement, except that the Depositary shall continue to collect dividends and other distributions pertaining to Deposited Securities, shall sell rights and other property as provided in the Deposit Agreement, and shall continue to deliver Deposited Securities, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights or other property, in exchange for Receipts surrendered to the Depositary (after deducting, in each case, the fee of the Depositary for the surrender of a Receipt, any expenses for the account of the Owner of such Receipt in accordance with the terms and conditions of the Deposit Agreement, and any applicable taxes or governmental charges). At any time after the expiration of one year from the date of termination, the Depositary may sell the Deposited Securities then held under the Deposit Agreement and may thereafter hold uninvested the net proceeds of any such sale, together with any other cash then held by it thereunder, unsegregated and without liability for interest, for the pro rata benefit of the Owners of Receipts which have not theretofore been surrendered, such Owners thereupon becoming general creditors of the Depositary with respect to such net proceeds. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement, except for its obligations to the Company under Section 5.08 of the Deposit Agreement and to account for such net proceeds and other cash (after deducting, in each case, the fee of the Depositary for the surrender of a Receipt, any expenses for the account of the Owner of such Receipt in accordance with the terms and conditions of the Deposit Agreement, and any applicable taxes or governmental charges). Upon the termination of the Deposit Agreement, the Company shall be discharged from all obligations under the Deposit Agreement except for its obligations to the Depositary with respect to indemnification, charges, and expenses.

22. SUBMISSION TO JURISDICTION.

In the Deposit Agreement, the Company has (i) appointed PTSGE Corp., 925 Fourth Avenue, Suite 2900, Seattle, Washington 98104 as the Company's authorized agent upon which process may be served in any suit or proceeding arising out of or relating to the Shares or Deposited Securities, the American Depositary Shares, the Receipts or this Agreement, (ii) consented and submitted to the jurisdiction of any state or federal court in the State of New York in which any such suit or proceeding may be instituted, and (iii) agreed that service of process upon said authorized agent shall be deemed in every respect effective service of process upon the Company in any such suit or proceeding.

23. DISCLOSURE OF INTERESTS.

Notwithstanding any other provision of the Deposit Agreement, each Owner and Beneficial Owner agrees to comply with requests from the Company pursuant to applicable law or the Memorandum and Articles of Association of the Company to provide information, inter alia, as to the capacity in which such Owner or Beneficial Owner owns American Depositary Shares (and Shares, as the case may be) and regarding the identity of any other person or persons interested in such American Depositary Shares (and Shares, as the case may be) and the nature of such interest and various other matters, whether or not they are Owners or Beneficial Owners at the time of such request.

EXHIBIT 4.2

FORM OF DEPOSIT AGREEMENT

SILICON MOTION TECHNOLOGY CORPORATION

and

THE BANK OF NEW YORK
As Depositary

and

OWNERS AND BENEFICIAL OWNERS OF
AMERICAN DEPOSITARY RECEIPTS

Deposit Agreement

Dated as of _____, 2005

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DEPOSIT AGREEMENT

DEPOSIT AGREEMENT dated as of _____, 2005 among SILICON MOTION TECHNOLOGY CORPORATION, incorporated under the laws of the Cayman Islands (herein called the Company), THE BANK OF NEW YORK, a New York banking corporation (herein called the Depositary), and all Owners and Beneficial Owners from time to time of American Depositary Receipts issued hereunder.

W I T N E S S E T H :

WHEREAS, the Company desires to provide, as hereinafter set forth in this Deposit Agreement, for the deposit of Shares (as hereinafter defined) of the Company from time to time with the Depositary or with the Custodian (as hereinafter defined) as agent of the Depositary for the purposes set forth in this Deposit Agreement, for the creation of American Depositary Shares representing the Shares so deposited and for the execution and delivery of American Depositary Receipts evidencing the American Depositary Shares; and

WHEREAS, the American Depositary Receipts are to be substantially in the form of Exhibit A annexed hereto, with appropriate insertions, modifications and omissions, as hereinafter provided in this Deposit Agreement;

NOW, THEREFORE, in consideration of the premises, it is agreed by and between the parties hereto as follows:

ARTICLE 1. DEFINITIONS

The following definitions shall for all purposes, unless otherwise clearly indicated, apply to the respective terms used in this Deposit Agreement:

SECTION 1.01. American Depositary Shares.

The term “American Depositary Shares” shall mean the securities representing the interests in the Deposited Securities and evidenced by the Receipts issued hereunder. Each American Depositary Share shall represent the number of Shares specified in Exhibit A to this Deposit Agreement, until there shall occur a distribution upon Deposited Securities covered by Section 4.03 or a change in Deposited Securities covered by Section 4.08 with respect to which additional Receipts are not executed and delivered, and thereafter American Depositary Shares shall represent the amount of Shares or Deposited Securities specified in such Sections.

SECTION 1.02. Beneficial Owner.

The term “Beneficial Owner” shall mean each person owning from time to time any beneficial interest in the American Depositary Shares evidenced by any Receipt.

SECTION 1.03. Commission.

The term “Commission” shall mean the Securities and Exchange Commission of the United States or any successor governmental agency in the United States.

SECTION 1.04. Company.

The term “Company” shall mean Silicon Motion Technology Corporation, incorporated under the laws of the Cayman Islands, and its successors.

SECTION 1.05. Consultation.

The term “Consultation” shall mean the good faith attempt by the Depositary to discuss, if practicable, the relevant issue in a timely manner with a person reasonably believed by the Depositary to be empowered by the Company to engage in such discussion on behalf of the Company.

SECTION 1.06. Custodian.

The term “Custodian” shall mean the principal [Hong Kong office of Hongkong and Shanghai Banking Corporation], as agent of the Depositary for the purposes of this Deposit Agreement, and any other firm or corporation which may hereafter be appointed by the Depositary pursuant to the terms of Section 5.05, as substitute or additional custodian or custodians hereunder, as the context shall require and shall also mean all of them collectively.

SECTION 1.07. Deliver; Surrender.

(a) The term “deliver”, or its noun form, when used with respect to Shares shall mean (i) one or more book-entry transfers to an account or accounts maintained with a depository institution authorized under applicable law to effect book-entry transfers of such securities or (ii) the physical transfer of certificates representing Shares.

(b) The term “deliver”, or its noun form, when used with respect to Receipts, shall mean (i) one or more book-entry transfers of American Depositary Shares to an account or accounts at The Depository Trust Company (“DTC”) designated by the person entitled to such delivery or (ii) if requested by the person entitled to such delivery, delivery at the Corporate Trust Office of the Depositary of one or more Receipts.

(c) The term “surrender”, when used with respect to Receipts, shall mean (i) one or more book-entry transfers of American Depositary Shares to the DTC account of the Depositary or (ii) surrender to the Depositary at its Corporate Trust Office of one or more Receipts.

SECTION 1.08. Deposit Agreement.

The term “Deposit Agreement” shall mean this Deposit Agreement, as the same may be amended from time to time in accordance with the provisions of this Deposit Agreement.

SECTION 1.09. Depositary; Corporate Trust Office.

The term “Depositary” shall mean The Bank of New York, a New York banking corporation, and any successor as depositary hereunder. The term “Corporate Trust Office”, when used with respect to the Depositary, shall mean the office of the Depositary which at the date of this Agreement is 101 Barclay Street, New York, New York 10286.

SECTION 1.10. Deposited Securities.

The term “Deposited Securities” as of any time shall mean Shares at such time deposited or deemed to be deposited under this Deposit Agreement and any and all other securities, property and cash received by the Depositary or the Custodian in respect thereof and at such time held hereunder, subject as to cash to the provisions of Section 4.05.

SECTION 1.11. Dollars.

The term “Dollars” shall mean United States dollars.

SECTION 1.12. Foreign Registrar.

The term “Foreign Registrar” shall mean the entity that carries out the duties of registrar for the Shares and any other appointed agent of the Company for the transfer and registration of Shares.

SECTION 1.13. Owner.

The term “Owner” shall mean the person in whose name a Receipt is registered on the books of the Depositary maintained for such purpose.

SECTION 1.14. Receipts.

The term “Receipts” shall mean the American Depositary Receipts issued hereunder evidencing American Depositary Shares.

SECTION 1.15. Registrar.

The term "Registrar" shall mean any bank or trust company having an office in the Borough of Manhattan, The City of New York, which shall be appointed to register Receipts and transfers of Receipts as herein provided.

SECTION 1.16. Restricted Securities.

The term "Restricted Securities" shall mean Shares, or Receipts representing such Shares, which are acquired directly or indirectly from the Company, or any affiliate (as defined in Rule 144 to the Securities Act of 1933) of the Company, in a transaction or chain of transactions not involving any public offering, or which are held by an officer, director (or persons performing similar functions) or other affiliate of the Company, or which would require registration under the Securities Act of 1933 in connection with the public offer and sale thereof in the United States, or which are subject to other restrictions on sale or deposit under the laws of the United States or the Cayman Islands, or under a shareholder agreement or the articles of association or similar document of the Company.

SECTION 1.17. Securities Act of 1933.

The term "Securities Act of 1933" shall mean the United States Securities Act of 1933, as from time to time amended.

SECTION 1.18. Shares.

The term "Shares" shall mean ordinary shares in registered form of the Company, heretofore validly issued and outstanding and fully paid, nonassessable and that were not issued in violation of any pre-emptive or similar rights of the holders of outstanding Shares or hereafter validly issued and outstanding and fully paid, nonassessable and that are not issued in violation of any pre-emptive or similar rights of the holders of outstanding Shares or interim certificates representing such Shares; provided, however, that, if there shall occur any change in nominal value, a split-up or consolidation or any other reclassification or, upon the occurrence of an event described in Section 4.08, an exchange or conversion in respect of the Shares of the Company, the term "Shares" shall thereafter also mean the successor securities resulting from such change in nominal value, split-up or consolidation or such other reclassification or such exchange or conversion.

ARTICLE 2. FORM OF RECEIPTS, DEPOSIT OF SHARES, EXECUTION AND DELIVERY, TRANSFER AND SURRENDER OF RECEIPTS

SECTION 2.01. Form and Transferability of Receipts.

Definitive Receipts shall be substantially in the form set forth in Exhibit A annexed to this Deposit Agreement, with appropriate insertions, modifications and omissions, as hereinafter provided. No Receipt shall be entitled to any benefits under this Deposit Agreement or be valid or obligatory for any purpose, unless such Receipt shall have been executed by the Depositary by the manual or facsimile signature of a duly authorized signatory of the Depositary and, if a Registrar for the Receipts shall have been appointed, countersigned by the manual signature of a duly authorized officer of the Registrar. The Depositary shall maintain books on which each Receipt so executed and delivered as hereinafter provided and the transfer of each such Receipt shall be registered. Receipts bearing the manual or facsimile signature of a duly authorized signatory of the Depositary who was at any time a proper signatory of the Depositary shall bind the Depositary, notwithstanding that such signatory has ceased to hold such office prior to the execution and delivery of such Receipts by the Registrar or did not hold such office on the date of issuance of such Receipts.

The Receipts may be endorsed with or have incorporated in the text thereof such legends or recitals or modifications not inconsistent with the provisions of this Deposit Agreement as may be required by the Depositary or required to comply with any applicable law or regulations thereunder or with the rules and regulations of any securities exchange upon which American Depositary Shares may be listed or to conform with any usage with respect thereto, or to indicate any special limitations or restrictions to which any particular Receipts are subject by reason of the date of issuance of the underlying Deposited Securities or otherwise.

Title to a Receipt (and to the American Depositary Shares evidenced thereby), when properly endorsed or accompanied by proper instruments of transfer, shall be transferable by delivery with the same effect as in the case of a negotiable instrument under the laws of New York; provided, however, that the Depositary, notwithstanding any notice to the contrary, may treat the Owner thereof as the absolute owner thereof for the purpose of determining the person entitled to distribution of dividends or other distributions or to any notice provided for in this Deposit Agreement and for all other purposes.

SECTION 2.02. Deposit of Shares.

Subject to the terms and conditions of this Deposit Agreement, Shares or evidence of rights to receive Shares may be deposited by delivery thereof to any Custodian hereunder, accompanied by any appropriate instrument or instruments of transfer, or endorsement, in form satisfactory to the Custodian, together with all such certifications as may reasonably be required by the Depositary or the Custodian in accordance with the provisions of this Deposit Agreement, and, if the Depositary requires, together with a written order directing the Depositary to execute and deliver to, or upon the written order of, the person or persons stated in such order, a Receipt or Receipts for the number of American Depositary Shares representing such deposit. No Share shall be accepted for deposit unless accompanied by evidence, if any is required by the Depositary, that is reasonably satisfactory to the Depositary that any necessary approval has been granted by any governmental body in the Republic of China that is then performing the function of the regulation of currency exchange. If required by the Depositary, Shares presented for deposit at any time, whether or not the transfer books of the Company or the Foreign Registrar, if applicable, are closed, shall also be accompanied by an agreement or assignment, or other instrument satisfactory to the Depositary, which will provide for the prompt transfer to the Custodian of any dividend, or right to subscribe for additional Shares or to receive other property which any person in whose name the Shares are or have been recorded may thereafter receive upon or in respect of such deposited Shares, or in lieu thereof, such agreement of indemnity or other agreement as shall be satisfactory to the Depositary.

At the request and risk and expense of any person proposing to deposit Shares, and for the account of such person, the Depositary may receive certificates for Shares to be deposited, together with the other instruments herein specified, for the purpose of forwarding such Share certificates to the Custodian for deposit hereunder.

Upon each delivery to a Custodian of a certificate or certificates for Shares to be deposited hereunder, together with the other documents above specified, such Custodian shall, as soon as transfer and recordation can be accomplished, present such certificate or certificates to the Company or the Foreign Registrar, if applicable, for transfer and recordation of the Shares being deposited in the name of the Depositary or its nominee or such Custodian or its nominee.

Deposited Securities shall be held by the Depositary or by a Custodian for the account and to the order of the Depositary or at such other place or places as the Depositary shall determine.

Except for Shares deposited by the Company or by persons named as selling shareholders in the final prospectus relating to the Company’s initial public offering of American Depositary Shares, no Shares shall be accepted for deposit under this Deposit Agreement without the prior written consent of the Company during a period of 180 days following the date of that final prospectus.

SECTION 2.03. Execution and Delivery of Receipts.

Upon receipt by any Custodian of any deposit pursuant to Section 2.02 hereunder (and in addition, if the transfer books of the Company or the Foreign Registrar, if applicable, are open, the Depositary may in its sole discretion require a proper acknowledgment or other evidence from the Company that any Deposited Securities have been recorded upon the books of the Company or the Foreign Registrar, if applicable, in the name of the Depositary or its nominee or such Custodian or its nominee), together with the other documents required as above specified, such Custodian shall notify the Depositary of such deposit and the person or persons to whom or upon whose written order a Receipt or Receipts are deliverable in respect thereof and the number of American Depositary Shares to be evidenced thereby. Such notification shall be made by letter or, at the request, risk and expense of the person making the deposit, by cable, telex or facsimile transmission. Upon receiving such notice from such Custodian, or upon the receipt of Shares by the Depositary, the Depositary, subject to the terms and conditions of this Deposit Agreement, shall execute and deliver at its Corporate Trust Office, to or upon the order of the person or persons entitled thereto, a Receipt or Receipts, registered in the name or names and evidencing any authorized number of American Depositary Shares requested by such person or persons, but only upon payment to the Depositary of the fees and expenses of the Depositary for the execution and delivery of such Receipt or Receipts as provided in Section 5.09, and of all taxes and governmental charges and fees payable in connection with such deposit and the transfer of the Deposited Securities.

SECTION 2.04. Registration of Transfer of Receipts; Combination and Split-up of Receipts.

The Depositary, subject to the terms and conditions of this Deposit Agreement, shall register transfers of Receipts on its transfer books from time to time, upon any surrender of a Receipt, by the Owner in person or by a duly authorized attorney, properly endorsed or accompanied by proper instruments of transfer, and duly stamped as may be required by the laws of the State of New York and of the United States of America. Thereupon the Depositary shall execute a new Receipt or Receipts and deliver the same to or upon the order of the person entitled thereto.

The Depositary, subject to the terms and conditions of this Deposit Agreement, shall upon surrender of a Receipt or Receipts for the purpose of effecting a split-up or combination of such Receipt or Receipts, execute and deliver a new Receipt or Receipts for any authorized number of American Depositary Shares requested, evidencing the same aggregate number of American Depositary Shares as the Receipt or Receipts surrendered.

The Depositary may appoint one or more co-transfer agents for the purpose of effecting transfers, combinations and split-ups of Receipts at designated transfer offices on behalf of the Depositary. In carrying out its functions, a co-transfer agent may require evidence of authority and compliance with applicable laws and other requirements by Owners or persons entitled to Receipts and will be entitled to protection and indemnity to the same extent as the Depositary.

SECTION 2.05. Surrender of Receipts and Withdrawal of Shares.

Upon surrender at the Corporate Trust Office of the Depositary of a Receipt for the purpose of withdrawal of the Deposited Securities represented by the American Depositary Shares evidenced by such Receipt, and upon payment of the fee of the Depositary for the surrender of Receipts as provided in Section 5.09 and payment of all taxes and governmental charges payable in connection with such surrender and withdrawal of the Deposited Securities, and subject to the terms and conditions of this Deposit Agreement, the Owner of such Receipt shall be entitled to delivery, to him or upon his order, of the amount of Deposited Securities at the time represented by the American Depositary Shares evidenced by such Receipt. Delivery of such Deposited Securities may be made by the delivery of (a) certificates in the name of such Owner or as ordered by him or certificates properly endorsed or accompanied by proper instruments of transfer to such Owner or as ordered by him and (b) any other securities, property and cash to which such Owner is then entitled in respect of such Receipts to such Owner or as ordered by him. Such delivery shall be made, as hereinafter provided, without unreasonable delay.

A Receipt surrendered for such purposes may be required by the Depositary to be properly endorsed in blank or accompanied by proper instruments of transfer in blank, and if the Depositary so requires, the Owner thereof shall execute and deliver to the Depositary a written order directing the Depositary to cause the Deposited Securities being withdrawn to be delivered to or upon the written order of a person or persons designated in such order. Thereupon the Depositary shall direct the Custodian to deliver at the office of such Custodian, subject to Sections 2.06, 3.01 and 3.02 and to the other terms and conditions of this Deposit Agreement, to or upon the written order of the person or persons designated in the order delivered to the Depositary as above provided, the amount of Deposited Securities represented by the American Depositary Shares evidenced by such Receipt, except that the Depositary may make delivery to such person or persons at the Corporate Trust Office of the Depositary of any dividends or distributions with respect to the Deposited Securities represented by the American Depositary Shares evidenced by such Receipt, or of any proceeds of sale of any dividends, distributions or rights, which may at the time be held by the Depositary.

At the request, risk and expense of any Owner so surrendering a Receipt, and for the account of such Owner, the Depositary shall direct the Custodian to forward any cash or other property (other than rights) comprising, and forward a certificate or certificates, if applicable, and other proper documents of title for, the Deposited Securities represented by the American Depositary Shares evidenced by such Receipt to the Depositary for delivery at the Corporate Trust Office of the Depositary. Such direction shall be given by letter or, at the request, risk and expense of such Owner, by cable, telex or facsimile transmission.

SECTION 2.06. Limitations on Execution and Delivery, Transfer and Surrender of Receipts.

As a condition precedent to the execution and delivery, registration of transfer, split-up, combination or surrender of any Receipt or withdrawal of any Deposited Securities, the Depositary, Custodian or Registrar may require payment from the depositor of Shares or the presenter of the Receipt of a sum sufficient to reimburse it for any tax or other governmental charge and any stock transfer or registration fee with respect thereto (including any such tax or charge and fee with respect to Shares being deposited or withdrawn) and payment of any applicable fees as herein provided, may require the production of proof satisfactory to it as to the identity and genuineness of any signature and may also require compliance with any regulations the Depositary may establish consistent with the provisions of this Deposit Agreement, including, without limitation, this Section 2.06.

The delivery of Receipts against deposit of Shares generally or against deposit of particular Shares may be suspended, or the transfer of Receipts in particular instances may be refused, or the registration of transfer of outstanding Receipts generally may be suspended, during any period when the transfer books of the Depositary are closed, or if any such action is deemed necessary or advisable by the Depositary or the Company at any time or from time to time because of any requirement of law or of any government or governmental body or commission, or under any provision of this Deposit Agreement, or for any other reason, subject to the provisions of the following sentence. Notwithstanding anything to the contrary in this Deposit Agreement, the surrender of outstanding Receipts and withdrawal of Deposited Securities may not be suspended subject only to (i) temporary delays caused by closing the transfer books of the Depositary or the Company or the deposit of Shares in connection with voting at a shareholders' meeting, or the payment of dividends, (ii) the payment of fees, taxes and similar charges, and (iii) compliance with any U.S. or foreign laws or governmental regulations relating to the Receipts or to the withdrawal of the Deposited Securities. Without limitation of the foregoing, the Depositary shall not knowingly accept for deposit under this Deposit Agreement any Shares which would be required to be registered under the provisions of the Securities Act of 1933 for the public offer and sale thereof in the United States unless a registration statement is in effect as to such Shares for such offer and sale.

SECTION 2.07. Lost Receipts, etc.

In case any Receipt shall be mutilated, destroyed, lost or stolen, the Depositary shall execute and deliver a new Receipt of like tenor in exchange and substitution for such mutilated Receipt upon cancellation thereof, or in lieu of and in substitution for such destroyed, lost or stolen Receipt. Before the Depositary shall execute and deliver a new Receipt in substitution for a destroyed, lost or stolen Receipt, the Owner thereof shall have (a) filed with the Depositary (i) a request for such execution and delivery before the Depositary has notice that the Receipt has been acquired by a bona fide purchaser and (ii) a sufficient indemnity bond and (b) satisfied any other reasonable requirements imposed by the Depositary.

SECTION 2.08. Cancellation and Destruction of Surrendered Receipts.

All Receipts surrendered to the Depositary shall be canceled by the Depositary. The Depositary is authorized to destroy Receipts so canceled.

SECTION 2.09. Pre-Release of Receipts.

Notwithstanding Section 2.03 hereof, the Depositary may execute and deliver Receipts prior to the receipt of Shares pursuant to Section 2.02 (a "Pre-Release"). The Depositary may, pursuant to Section 2.05, deliver Shares upon the receipt and cancellation of Receipts which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such Receipt has been Pre-Released. The Depositary may receive Receipts in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation from the person to whom Receipts or Shares are to be delivered, that such person, or its customer, owns the Shares or Receipts to be remitted, as the case may be, (b) at all times fully collateralized with cash or such other collateral as the Depositary deems appropriate, (c) terminable by the Depositary on not more than five (5) business days notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of Shares represented by American Depositary Shares which are outstanding at any time as a result of Pre-Release will not normally exceed thirty percent (30%) of the Shares deposited hereunder; provided, however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate.

The Depositary may retain for its own account any compensation received by it in connection with the foregoing.

ARTICLE 3. CERTAIN OBLIGATIONS OF OWNERS AND BENEFICIAL OWNERS OF RECEIPTS

SECTION 3.01. Filing Proofs, Certificates and Other Information.

Any person presenting Shares for deposit or any Owner or Beneficial Owner of a Receipt may be required from time to time to file with the Depositary or the Custodian such proof of citizenship or residence, exchange control approval, or such information relating to the registration on the books of the Company or the Foreign Registrar, if applicable, to execute such certificates and to make such representations and warranties, as the Depositary may deem necessary or proper. The Depositary may withhold the delivery or registration of transfer of any Receipt or the distribution of any dividend or sale or distribution of rights or of the proceeds thereof or the delivery of any Deposited Securities until such proof or other information is filed or such certificates are executed or such representations and warranties made. If requested in writing by the Company, the Depositary shall, as promptly as practicable, provide the Company, at the expense of the Company, with copies of any proofs, certificates or other information it receives pursuant to this Section 3.01, to the extent that disclosure is permitted by applicable law.

SECTION 3.02. Liability of Owner or Beneficial Owner for Taxes.

If any tax or other governmental charge shall become payable by the Custodian or the Depositary with respect to any Receipt or any Deposited Securities represented by any Receipt, such tax or other governmental charge shall be payable by the Owner or Beneficial Owner of such Receipt to the Depositary. The Depositary may refuse to effect any transfer of such Receipt or any withdrawal of Deposited Securities represented by American Depositary Shares evidenced by such Receipt until such payment is made, and may withhold any dividends or other distributions, or may sell for the account of the Owner or Beneficial Owner thereof any part or all of the Deposited Securities represented by the American Depositary Shares evidenced by such Receipt, and may apply such dividends or other distributions or the proceeds of any such sale in payment of such tax or other governmental charge and the Owner or Beneficial Owner of such Receipt shall remain liable for any deficiency.

SECTION 3.03. Warranties on Deposit of Shares.

Every person depositing Shares under this Deposit Agreement shall be deemed thereby to represent and warrant that such Shares and each certificate therefor, if applicable, are validly issued, fully paid, nonassessable and were not issued in violation of any preemptive rights of the holders of outstanding Shares and that the person making such deposit is duly authorized so to do. Every such person shall also be deemed to represent that such Shares are not, and American Depositary Shares representing such Shares would not be, Restricted Securities. Such representations and warranties shall survive the deposit of Shares and delivery of Receipts.

SECTION 3.04. Disclosure of Interests.

Notwithstanding any other provision of this Deposit Agreement, each Owner and Beneficial Owner agrees to comply with requests from the Company pursuant to applicable law or the Memorandum and Articles of Association of the Company to provide information, inter alia, as to the capacity in which such Owner or Beneficial Owner owns American Depositary Shares (and Shares, as the case may be) and regarding the identity of any other person or persons interested in such American Depositary Shares (and Shares, as the case may be) and the nature of such interest and various other matters, whether or not they are Owners or Beneficial Owners at the time of such request. The Depositary agrees to use its reasonable efforts to forward, upon the reasonable written request of the Company and at the expense of the Company, any such written request from the Company to the Owners and to forward, as promptly as practicable, to the Company any responses to such requests received by the Depositary. If the Company requests information from the Depositary, the Custodian or the nominee of either, as the registered owner of the Shares, the obligations of the Depositary, Custodian or such nominee, as the case may be, shall be limited to disclosing to the Company the information contained in the register.

ARTICLE 4. THE DEPOSITED SECURITIES

SECTION 4.01. Cash Distributions.

Whenever the Depositary shall receive any cash dividend or other cash distribution on any Deposited Securities, the Depositary shall, subject to the provisions of Section 4.05, convert, as promptly as practicable, such dividend or distribution into Dollars and shall distribute, as promptly as practicable, the amount thus received (net of the fees and expenses of the Depositary as provided in Section 5.09, if applicable) to the Owners entitled thereto, in proportion to the number of American Depositary Shares representing such Deposited Securities held by them respectively; provided, however, that in the event that the Company or the Depositary shall be required to withhold and does withhold from such cash dividend or such other cash distribution an amount on account of taxes, the amount distributed to the Owner of the Receipts evidencing American Depositary Shares representing such Deposited Securities shall be reduced accordingly. The Depositary shall distribute only such amount, however, as can be distributed without attributing to any Owner a fraction of one cent. Any such fractional amounts shall be rounded to the nearest whole cent and so distributed to Owners entitled thereto. The Company or its agent will remit to the appropriate governmental agency in the Republic of China all amounts withheld and owing to such agency. The Depositary will forward to the Company or its agent such information from its records as the Company may reasonably request to enable the Company or its agent to file necessary reports with governmental agencies, and the Depositary or the Company or its agent may file any such reports necessary to obtain benefits under the applicable tax treaties for the Owners of Receipts.

SECTION 4.02. Distributions Other Than Cash, Shares or Rights.

Subject to the provisions of Sections 4.11 and 5.09, whenever the Depositary shall receive any distribution other than a distribution described in Section 4.01, 4.03 or 4.04, the Depositary shall cause the securities or property received by it to be distributed to the Owners entitled thereto, after deduction or upon payment of any fees and expenses of the Depositary or any taxes or other governmental charges, in proportion to the number of American Depositary Shares representing such Deposited Securities held by them respectively, in any manner that the Depositary may deem equitable and practicable for accomplishing such distribution; provided, however, that if in the opinion of the Depositary such distribution cannot be made proportionately among the Owners entitled thereto, or if for any other reason (including, but not limited to, any requirement that the Company or the Depositary withhold an amount on account of taxes or other governmental charges or that such securities must be registered under the Securities Act of 1933 in order to be distributed to Owners or Beneficial Owners) the Depositary deems such distribution not to be feasible, the Depositary may, after Consultation with the Company to the extent practicable, adopt such method as it may deem equitable and practicable for the purpose of effecting such distribution, including, but not limited to, the public or private sale of the securities or property thus received, or any part thereof, and the net proceeds of any such sale (net of the fees and expenses of the Depositary as provided in Section 5.09) shall be distributed by the Depositary to the Owners entitled thereto, all in the manner and subject to the conditions described in Section 4.01. The Depositary may withhold any distribution of securities under this Section 4.02 if it has not received satisfactory assurances from the Company that the distribution does not require registration under the Securities Act of 1933.

SECTION 4.03. Distributions in Shares.

If any distribution upon any Deposited Securities consists of a dividend in, or free distribution of, Shares, the Depositary may, and shall if the Company requests in writing, distribute to the Owners of outstanding Receipts entitled thereto, in proportion to the number of American Depositary Shares representing such Deposited Securities held by them respectively, additional Receipts evidencing an aggregate number of American Depositary Shares representing the amount of Shares received as such dividend or free distribution, subject to the terms and conditions of the Deposit Agreement with respect to the deposit of Shares and the issuance of American Depositary Shares evidenced by Receipts, including the withholding of any tax or other governmental charge as provided in Section 4.11 and the payment of the fees and expenses of the Depositary as provided in Section 5.09. The Depositary may withhold any such distribution of Receipts if it has not received satisfactory assurances from the Company that such distribution does not require registration under the Securities Act of 1933. In lieu of delivering Receipts for fractional American Depositary Shares in any such case, the Depositary shall sell the amount of Shares represented by the aggregate of such fractions and distribute the net proceeds to the Owners entitled to them, all in the manner and subject to the conditions described in Section 4.01. If additional Receipts are not so distributed, each American Depositary Share shall thenceforth also represent the additional Shares distributed upon the Deposited Securities represented thereby.

SECTION 4.04. Rights.

In the event that the Company shall offer or cause to be offered to the holders of any Deposited Securities any rights to subscribe for additional Shares or any rights of any other nature, the Depositary shall, after Consultation with the Company, have discretion as to the procedure to be followed in making such rights available to any Owners entitled to them or in disposing of such rights on behalf of any Owners otherwise entitled to them and making the net proceeds available to such Owners or, if by the terms of such rights offering or for any other reason, the Depositary may not either make such rights available to any Owners or dispose of such rights and make the net proceeds available to such Owners, then the Depositary shall allow the rights to lapse. If at the time of the offering of any rights the Depositary determines in its discretion that it is lawful and feasible to make such rights available to all or certain Owners but not to other Owners, the Depositary may, after Consultation with the Company, distribute to any Owner to whom it determines the distribution to be lawful and feasible, in proportion to the number of American Depositary Shares held by such Owner, warrants or other instruments therefor in such form as it deems appropriate.

In circumstances in which rights would otherwise not be distributed, if an Owner of Receipts requests the distribution of warrants or other instruments in order to exercise the rights allocable to the American Depositary Shares of such Owner hereunder, the Depositary will make such rights available to such Owner upon written notice from the Company to the Depositary that (a) the Company has elected in its sole discretion to permit such rights to be exercised and (b) such Owner has executed such documents as the Company has determined in its sole discretion are reasonably required under applicable law.

If the Depositary has distributed warrants or other instruments for rights to all or certain Owners, then upon instruction from such an Owner pursuant to such warrants or other instruments to the Depositary from such Owner to exercise such rights, upon payment by such Owner to the Depositary for the account of such Owner of an amount equal to the purchase price of the Shares to be received upon the exercise of the rights, and upon payment of the fees and expenses of the Depositary and any other charges as set forth in such warrants or other instruments, the Depositary shall, on behalf of such Owner, exercise the rights and purchase the Shares, and the Company shall cause the Shares so purchased to be delivered to the Depositary on behalf of such Owner. As agent for such Owner, the Depositary will cause the Shares so purchased to be deposited pursuant to Section 2.02 of this Deposit Agreement, and shall, pursuant to Section 2.03 of this Deposit Agreement, execute and deliver Receipts to such Owner; provided, however, that in the case of a distribution pursuant to the second paragraph of this Section, such deposit shall be made, and depositary shares shall be delivered, under depositary arrangements which provide for issuance of depositary receipts subject to the appropriate restrictions on sale, deposit, cancellation, and transfer under applicable United States laws.

If the Depositary determines in its discretion that it is not lawful and feasible to make such rights available to all or certain Owners, it may sell the rights, warrants or other instruments in proportion to the number of American Depositary Shares held by the Owners to whom it has determined it may not lawfully or feasibly make such rights available, and allocate the net proceeds of such sales (net of the fees and expenses of the Depositary as provided in Section 5.09 and all taxes and governmental charges payable in connection with such rights and subject to the terms and conditions of this Deposit Agreement) for the account of such Owners otherwise entitled to such rights, warrants or other instruments, upon an averaged or other practical basis without regard to any distinctions among such Owners because of exchange restrictions or the date of delivery of any Receipt or otherwise.

Except as otherwise provided in the third preceding paragraph, the Depositary will not offer rights to Owners unless both the rights and the securities to which such rights relate are either exempt from registration under the Securities Act of 1933 with respect to a distribution to all Owners or are registered under the provisions of such Act. Nothing in this Deposit Agreement shall create any obligation on the part of the Company to file a registration statement with respect to such rights or underlying securities or to endeavor to have such a registration statement declared effective. If an Owner of Receipts requests the distribution of warrants or other instruments, notwithstanding that there has been no such registration under such Act, the Depositary shall not effect such distribution unless it has received an opinion from recognized counsel in the United States for the Company upon which the Depositary may rely that such distribution to such Owner is exempt from such registration; provided, however, that the Company will have no obligation to cause its counsel to issue such opinion at the request of such Owner.

The Depositary shall not be responsible for any reasonable failure by it, or any failure by the Company, to determine that it may be lawful or feasible to make such rights available to Owners in general or any Owner in particular.

SECTION 4.05. Conversion of Foreign Currency.

Whenever the Depositary or the Custodian shall receive foreign currency, by way of dividends or other distributions or the net proceeds from the sale of securities, property or rights, and if at the time of the receipt thereof the foreign currency so received can in the judgment of the Depositary be converted on a reasonable basis into Dollars and the resulting Dollars transferred to the United States, the Depositary shall, as promptly as practicable, convert or cause to be converted, by sale or in any other manner that it may determine, such foreign currency into Dollars, and such Dollars shall be distributed, as promptly as practicable, to the Owners entitled thereto or, if the Depositary shall have distributed any warrants or other instruments which entitle the holders thereof to such Dollars, then to the holders of such warrants or instruments upon surrender thereof for cancellation. Such distribution may be made upon an averaged or other practicable basis without regard to any distinctions among Owners on account of exchange restrictions, the date of delivery of any Receipt or otherwise and shall be net of any expenses of conversion into Dollars incurred by the Depositary as provided in Section 5.09.

If such conversion or distribution can be effected only with the approval or license of any government or agency thereof, the Depositary shall file such application for approval or license, if any, as it may deem desirable.

If at any time the Depositary shall determine that in its judgment any foreign currency received by the Depositary or the Custodian is not convertible on a reasonable basis into Dollars transferable to the United States, or if any approval or license of any government or agency thereof which is required for such conversion is denied or in the opinion of the Depositary is not obtainable, or if any such approval or license is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute the foreign currency (or an appropriate document evidencing the right to receive such foreign currency) received by the Depositary to, or in its discretion may hold such foreign currency uninvested and without liability for interest thereon for the respective accounts of, the Owners entitled to receive the same.

If any such conversion of foreign currency, in whole or in part, cannot be effected for distribution to some of the Owners entitled thereto, the Depositary may in its discretion make such conversion and distribution in Dollars to the extent permissible to the Owners entitled thereto and may distribute the balance of the foreign currency received by the Depositary to, or hold such balance uninvested and without liability for interest thereon for the respective accounts of, the Owners entitled thereto.

SECTION 4.06. Fixing of Record Date.

Whenever any cash dividend or other cash distribution shall become payable or any distribution other than cash shall be made, or whenever rights shall be issued with respect to the Deposited Securities, or whenever the Depositary shall receive notice of any meeting of holders of Shares or other Deposited Securities, or whenever for any reason the Depositary causes a change in the number of Shares that are represented by each American Depositary Share, or whenever the Depositary shall find it necessary or convenient, the Depositary shall fix a record date (a) for the determination of the Owners who shall be (i) entitled to receive such dividend, distribution or rights or the net proceeds of the sale thereof or (ii) entitled to give instructions for the exercise of voting rights at any such meeting or (iii) responsible for any fee or charges assessed by the Depositary pursuant to this Deposit Agreement, or (b) on or after which each American Depositary Share will represent the changed number of Shares. Subject to the provisions of Sections 4.01 through 4.05 and to the other terms and conditions of this Deposit Agreement, the Owners on such record date shall be entitled, as the case may be, to receive the amount distributable by the Depositary with respect to such dividend or other distribution or such rights or the net proceeds of sale thereof in proportion to the number of American Depositary Shares held by them respectively, to give voting instructions or to act in respect of any other such matter.

SECTION 4.07. Voting of Deposited Securities.

Upon receipt from the Company of notice of any meeting or solicitation of proxies or consents of holders of Shares or other Deposited Securities, the Depositary shall, if requested in writing by the Company, as soon as practicable thereafter, mail to the Owners a notice, the form of which notice shall be in the sole discretion of the Depositary, which shall contain (a) such information as is contained in such notice of meeting received by the Depositary from the Company, (b) a statement that the Owners as of the close of business on a specified record date will be entitled, subject to any applicable provision of Cayman Islands law and of the articles of association or similar document of the Company, to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the amount of Shares or other Deposited Securities represented by their respective American Depositary Shares and (c) a statement as to the manner in which such instructions may be given (including an express indication that, if no instruction is received, instructions may be deemed given in accordance with the last sentence of this paragraph to give a discretionary proxy to a person designated by the Company). Upon the written request of an Owner of a Receipt on such record date, received on or before the date established by the Depositary for such purpose (the "Instruction Date"), the Depositary shall endeavor, in so far as practicable, to vote or cause to be voted the amount of Shares or other Deposited Securities represented by the American Depositary Shares evidenced by such Receipt in accordance with the instructions set forth in such request. The Depositary shall not vote or attempt to exercise the right to vote that attaches to such Shares or other Deposited Securities other than in accordance with such instructions or deemed instructions. If (i) the Company made a request to the Depositary as contemplated by the first sentence of this Section 4.07 and complied with the following paragraph of this Section 4.07 and (ii) no instructions are received by the Depositary from an Owner with respect to an amount of Deposited Securities represented by the American Depositary Shares evidenced by such Owner's Receipts on or before the Instruction Date, the Depositary shall deem such Owner to have instructed the Depositary to give, and the Depositary shall give, a discretionary proxy to a person designated by the Company with respect to that amount of Deposited Securities; provided, however, that no such instruction shall be deemed given and no such discretionary proxy shall be given with respect to any matter as to which the Company informs the Depositary (and the Company agrees to provide such information as promptly as practicable in writing, if applicable) that (x) the Company does not wish such proxy given, (y) the Company is aware that substantial opposition exists or (z) such matter materially and adversely affects the rights of holders of Shares.

In order to give Owners a reasonable opportunity to instruct the Depositary as to the exercise of voting rights relating to Deposited Securities, if the Company request the Depositary to act under the preceding paragraph, the Company shall give the Depositary notice of any such meeting or solicitation not less than 45 days prior to the meeting date or date for giving such proxies or consents.

SECTION 4.08. Changes Affecting Deposited Securities.

In circumstances where the provisions of Section 4.03 do not apply, upon any change in nominal value, change in par value, split-up, consolidation or any other reclassification of Deposited Securities, or upon any recapitalization, reorganization, merger or consolidation or sale of assets affecting the Company or to which it is a party, any securities which shall be received by the Depositary or a Custodian in exchange for or in conversion of or in respect of Deposited Securities, shall be treated as new Deposited Securities under this Deposit Agreement, and American Depositary Shares shall thenceforth represent, in addition to the existing Deposited Securities, the right to receive the new Deposited Securities so received in exchange or conversion, unless additional Receipts are delivered pursuant to the following sentence. In any such case the Depositary may, and shall at the Company's written request, execute and deliver additional Receipts as in the case of a dividend in Shares, or call for the surrender of outstanding Receipts to be exchanged for new Receipts specifically describing such new Deposited Securities.

SECTION 4.09. Reports.

The Depositary shall make available for inspection by Owners at its Corporate Trust Office any reports and communications, including any proxy soliciting material, received from the Company which are both (a) received by the Depositary as the holder of the Deposited Securities and (b) made generally available to the holders of such Deposited Securities by the Company. The Depositary shall also send to the Owners copies of such reports when furnished by the Company pursuant to Section 5.06. Any such reports and communications, including any such proxy soliciting material, furnished to the Depositary by the Company shall be furnished in English, to the extent such materials are required to be translated into English pursuant to any regulations of the Commission.

SECTION 4.10. Lists of Owners.

Promptly upon request by the Company, the Depositary shall, at the expense of the Company, furnish to it a list, as of a recent date, of the names, addresses and holdings of American Depositary Shares by all persons in whose names Receipts are registered on the books of the Depositary.

SECTION 4.11. Withholding.

In the event that the Depositary determines that any distribution in property (including Shares and rights to subscribe therefor) is subject to any tax or other governmental charge which the Depositary is obligated to withhold, the Depositary may by public or private sale dispose of all or a portion of such property (including Shares and rights to subscribe therefor) in such amounts and in such manner as the Depositary deems necessary and practicable to pay such taxes or charges and the Depositary shall distribute the net proceeds of any such sale after deduction of such taxes or charges to the Owners entitled thereto in proportion to the number of American Depositary Shares held by them respectively.

ARTICLE 5. THE DEPOSITARY, THE CUSTODIANS AND THE COMPANY

SECTION 5.01. Maintenance of Office and Transfer Books by the Depositary.

Until termination of this Deposit Agreement in accordance with its terms, the Depositary shall maintain in the Borough of Manhattan, The City of New York, facilities for the execution and delivery, registration, registration of transfers and surrender of Receipts in accordance with the provisions of this Deposit Agreement.

The Depositary shall keep books, at its Corporate Trust Office, for the registration of Receipts and transfers of Receipts which at all reasonable times shall be open for inspection by the Owners and the Company, provided that such inspection shall not be for the purpose of communicating with Owners in the interest of a business or object other than the business of the Company or a matter related to this Deposit Agreement or the Receipts.

The Depositary may close the transfer books, at any time or from time to time, when deemed expedient by it in connection with the performance of its duties hereunder or at the reasonable request of the Company.

If any Receipts or the American Depositary Shares evidenced thereby are listed on one or more stock exchanges in the United States, the Depositary shall act as Registrar or appoint a Registrar or one or more co-registrars for registry of such Receipts in accordance with any requirements of such exchange or exchanges.

SECTION 5.02. Prevention or Delay in Performance by the Depositary or the Company.

Neither the Depositary nor the Company nor any of their respective directors, officers, employees, agents or affiliates shall incur any liability to any Owner or Beneficial Owner if, by reason of any provision of any present or future law or regulation of the United States or any other country, or of any governmental or regulatory authority or stock exchange, or by reason of any provision, present or future, of the articles of association or similar document of the Company, or by reason of any provision of any securities issued or distributed by the Company, or any offering or distribution thereof, or by reason of any act of God or war or terrorism or other circumstances beyond its control, the Depositary or the Company shall be prevented, delayed or forbidden from, or be subject to any civil or criminal penalty on account of, doing or performing any act or thing which by the terms of this Deposit Agreement or Deposited Securities it is provided shall be done or performed; nor shall the Depositary or the Company or any of their respective directors, officers, employees, agents or affiliates incur any liability to any Owner or Beneficial Owner of any Receipt by reason of any nonperformance or delay, caused as aforesaid, in the performance of any act or thing which by the terms of this Deposit Agreement it is provided shall or may be done or performed, or by reason of any exercise of, or failure to exercise, any discretion provided for in this Deposit Agreement. Where, by the terms of a distribution pursuant to Section 4.01, 4.02, or 4.03, or an offering or distribution pursuant to Section 4.04, or for any other reason, such distribution or offering may not be made available to Owners, and the Depositary may not dispose of such distribution or offering on behalf of such Owners and make the net proceeds available to such Owners, then the Depositary shall not make such distribution or offering, and shall allow any rights, if applicable, to lapse.

SECTION 5.03. Obligations of the Depositary, the Custodian and the Company.

The Company assumes no obligation nor shall it be subject to any liability under this Deposit Agreement to Owners or Beneficial Owners, except that it agrees to perform its obligations specifically set forth in this Deposit Agreement without negligence or bad faith.

The Depositary assumes no obligation nor shall it be subject to any liability under this Deposit Agreement to any Owner or Beneficial Owner (including, without limitation, liability with respect to the validity or worth of the Deposited Securities), except that it agrees to perform its obligations specifically set forth in this Deposit Agreement without negligence or bad faith.

Neither the Depositary nor the Company shall be under any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Deposited Securities or in respect of the Receipts on behalf of any Owner, Beneficial Owner or other person, and the Custodian shall not be under any obligation whatsoever with respect to such proceedings, the responsibility of the Custodian being solely to the Depositary.

Neither the Depositary nor the Company shall be liable for any action or nonaction by it in reliance upon the advice of or information from legal counsel, accountants, any person presenting Shares for deposit, any Owner or any other person believed by it in good faith to be competent to give such advice or information.

The Depositary shall not be liable for any acts or omissions made by a successor depositary whether in connection with a previous act or omission of the Depositary or in connection with any matter arising wholly after the removal or resignation of the Depositary, provided that in connection with the issue out of which such potential liability arises the Depositary performed its obligations without negligence or bad faith while it acted as Depositary.

The Depositary shall not be responsible for any failure to carry out any instructions to vote any of the Deposited Securities, or for the manner in which any such vote is cast or the effect of any such vote, provided that any such action or nonaction is in good faith.

No disclaimer of liability under the Securities Act of 1933 is intended by any provision of this Deposit Agreement.

SECTION 5.04. Resignation and Removal of the Depositary.

The Depositary may at any time resign as Depositary by written notice of its election so to do delivered to the Company, such resignation to take effect upon the appointment of a successor depositary and its acceptance of such appointment as hereinafter provided.

The Depositary may at any time be removed by the Company by 90 days' prior written notice of such removal, to become effective upon the later of (i) the 90th day after delivery of the notice to the Depositary or (ii) the appointment of a successor depositary and its acceptance of such appointment as hereinafter provided.

In case at any time the Depositary acting hereunder shall resign or be removed, the Company shall use its reasonable efforts to appoint a successor depositary, which shall be a bank or trust company having an office in the Borough of Manhattan, The City of New York. Every successor depositary shall execute and deliver to its predecessor and to the Company an instrument in writing accepting its appointment hereunder, and thereupon such successor depositary, without any further act or deed, shall become fully vested with all the rights, powers, duties and obligations of its predecessor; but such predecessor, nevertheless, upon payment of all sums due it and on the written request of the Company shall execute and deliver an instrument transferring to such successor all rights and powers of such predecessor hereunder, shall duly assign, transfer and deliver all right, title and interest in the Deposited Securities to such successor, and shall deliver to such successor a list of the Owners of all outstanding Receipts. Any such successor depositary shall promptly mail notice of its appointment to the Owners.

Any corporation into or with which the Depositary may be merged or consolidated shall be the successor of the Depositary without the execution or filing of any document or any further act.

SECTION 5.05. The Custodians.

The Custodian shall be subject at all times and in all respects to the directions of the Depositary and shall be responsible solely to it. Any Custodian may resign and be discharged from its duties hereunder by notice of such resignation delivered to the Depositary at least 30 days prior to the date on which such resignation is to become effective. If upon the effectiveness of such resignation there would be no Custodian acting hereunder, the Depositary shall, as promptly as practicable after receiving such notice, appoint a substitute custodian or custodians, each of which shall thereafter be a Custodian hereunder. Whenever the Depositary in its discretion determines that it is in the best interest of the Owners to do so, it may appoint a substitute or additional custodian or custodians, each of which shall thereafter be one of the Custodians hereunder. Upon demand of the Depositary any Custodian shall deliver such of the Deposited Securities held by it as are requested of it to any other Custodian or such substitute or additional custodian or custodians. Each such substitute or additional custodian shall deliver to the Depositary, forthwith upon its appointment, an acceptance of such appointment satisfactory in form and substance to the Depositary. The Depositary shall notify the Company as promptly as practicable of any change in Custodians.

Upon the appointment of any successor depositary hereunder, each Custodian then acting hereunder shall forthwith become, without any further act or writing, the agent hereunder of such successor depositary and the appointment of such successor depositary shall in no way impair the authority of each Custodian hereunder; but the successor depositary so appointed shall, nevertheless, on the written request of any Custodian, execute and deliver to such Custodian all such instruments as may be proper to give to such Custodian full and complete power and authority as agent hereunder of such successor depositary.

SECTION 5.06. Notices and Reports.

On or before the first date on which the Company gives notice, by publication or otherwise, of any meeting of holders of Shares or other Deposited Securities, or of any adjourned meeting of such holders, or of the taking of any action in respect of any cash or other distributions or the offering of any rights, the Company agrees to transmit to the Depositary and the Custodian a copy of the notice thereof in English but otherwise in the form given or to be given to holders of Shares or other Deposited Securities.

The Company will arrange for the translation into English, if not already in English, to the extent required pursuant to any regulations of the Commission, and the prompt transmittal by the Company to the Depositary and the Custodian of such notices and any other reports and communications which are made generally available by the Company to holders of its Shares. If requested in writing by the Company, the Depositary will arrange for the mailing, at the Company's expense, of copies of such notices, reports and communications to all Owners. The Company will timely provide the Depositary with the quantity of such notices, reports, and communications, as requested by the Depositary from time to time, in order for the Depositary to effect such mailings.

The Company has delivered to the Depositary and the Custodian a copy (in English or with an English translation) of all provisions of or governing the Shares and any other Deposited Securities. Promptly upon any change in such provisions, the Company shall deliver promptly to the Depositary and the Custodian a copy (in English or with an English translation) of such provisions as so changed. The Depositary and its agents may rely on the copy of such provisions as so delivered for all purposes of this Deposit Agreement.

SECTION 5.07. Distribution of Additional Shares, Rights, etc.

If the Company or any affiliate of the Company determines to make any issuance or distribution of (1) additional Shares, (2) rights to subscribe for Shares, (3) securities convertible into Shares, or (4) rights to subscribe for such securities (each a "Distribution"), the Company shall notify the Depositary in writing in English as promptly as practicable and in any event before the Distribution starts and, if requested in writing by the Depositary, the Company shall promptly furnish to the Depositary a written opinion from U.S. counsel for the Company that is reasonably satisfactory to the Depositary, stating whether or not the Distribution requires, or, if made in the United States, would require, registration under the Securities Act of 1933. If, in the opinion of that counsel, the Distribution requires, or, if made in the United States, would require, registration under the Securities Act of 1933, that counsel shall furnish to the Depositary a written opinion as to whether or not there is a registration statement under the Securities Act of 1933 in effect that will cover that Distribution.

The Company agrees with the Depositary that neither the Company nor any company controlled by, controlling or under common control with the Company will at any time deposit any Shares, either originally issued or previously issued and reacquired by the Company or any such affiliate, unless a Registration Statement is in effect as to such Shares under the Securities Act of 1933.

To the extent the Company in its discretion deems it necessary or advisable in order to avoid any requirement to register any securities under the Securities Act of 1933, the Company may prevent Owners in the United States from receiving any distribution and from purchasing any additional securities (whether pursuant to preemptive rights or otherwise) pursuant to that distribution, and the Company may direct the Depositary to refuse deposits of Shares for such period of time following that distribution and to adopt such other specific measures as the Company and the Depositary may agree.

SECTION 5.08. Indemnification.

The Company agrees to indemnify the Depositary, its directors, employees, agents and affiliates and any Custodian against, and hold each of them harmless from, any liability or expense (including, but not limited to, the fees and expenses of counsel) which may arise out of (a) any registration with the Commission of American Depositary Shares or Deposited Securities or the offer or sale thereof in the United States or (b) acts performed or omitted, pursuant to the provisions of this Deposit Agreement and of the Receipts, as the same may be amended, modified or supplemented from time to time, (i) by either the Depositary or a Custodian or their respective directors, employees, agents and affiliates, except for any liability or expense arising out of the negligence or bad faith of either of them, or (ii) by the Company or any of its directors, employees, agents and affiliates.

The Depositary agrees to indemnify the Company, its directors, employees, agents and affiliates and hold them harmless from any liability or expense which may arise out of acts performed or omitted by the Depositary or its Custodian or their respective directors, employees, agents and affiliates due to their negligence or bad faith.

If an action, proceeding (including, but not limited to, any governmental investigation), claim or dispute (collectively, a "Proceeding") in respect of which indemnity may be sought by either party is brought or asserted against the other party, the party seeking indemnification (the "Indemnitee") shall promptly (and in no event more than ten (10) days after receipt of notice of such Proceeding) notify the party obligated to provide such indemnification (the "Indemnitor") of such Proceeding. The failure of the Indemnitee to so notify the Indemnitor shall not impair the Indemnitee's ability to seek indemnification from the Indemnitor (but only for costs, expenses and liabilities incurred after such notice) unless such failure adversely affects the Indemnitor's ability to adequately oppose or defend such Proceeding. Upon receipt of such notice from the Indemnitee, the Indemnitor shall be entitled to participate in such Proceeding and, to the extent that it shall so desire and provided no conflict of interest exists as specified in subparagraph (b) below or there are no other defenses available to Indemnitee as specified in subparagraph (d) below, to assume the defense thereof with counsel reasonably satisfactory to the Indemnitee (in which case all attorney's fees and expenses shall be borne by the Indemnitor and the Indemnitor shall in good faith defend the Indemnitee). The Indemnitee shall have the right to employ separate counsel in any such Proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be borne by the Indemnitee unless (a) the Indemnitor agrees in writing to pay such fees and expenses, (b) the Indemnitee shall have reasonably and in good faith concluded that there is a conflict of interest between the Indemnitor and the Indemnitee in the conduct of the defense of such action, (c) the Indemnitor fails, within ten (10) days prior to the date the first response or appearance is required to be made in such Proceeding, to assume the defense of such Proceeding with counsel reasonably satisfactory to the Indemnitee or (d) there are legal defenses available to Indemnitee that are different from or are in addition to those available to the Indemnitor. No compromise or settlement of such Proceeding may be effected by either party without the other party's consent unless (i) there is no finding or admission of any violation of law and no effect on any other claims that may be made against such other party and (ii) the sole relief provided is monetary damages that are paid in full by the party seeking the settlement. Neither party shall have any liability with respect to any compromise or settlement effected without its consent, which shall not be unreasonably withheld. The Indemnitor shall have no obligation to indemnify and hold harmless the Indemnitee from any loss, expense or liability incurred by the Indemnitee as a result of a default judgment entered against the Indemnitee unless such judgment was entered after the Indemnitor agreed, in writing, to assume the defense of such Proceeding.

SECTION 5.09. Charges of Depositary.

The Company agrees to pay the fees, reasonable expenses and out-of-pocket charges of the Depositary and those of any Registrar only in accordance with agreements in writing entered into between the Depositary and the Company from time to time. The Depositary shall present its statement for such charges and expenses to the Company once every three months. The charges and expenses of the Custodian are for the sole account of the Depositary.

The following charges shall be incurred by any party depositing or withdrawing Shares or by any party surrendering Receipts or to whom Receipts are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by the Company or an exchange of stock regarding the Receipts or Deposited Securities or a distribution of Receipts pursuant to Section 4.03) or by Owners, as applicable: (1) taxes and other governmental charges, (2) such registration fees as may from time to time be in effect for the registration of transfers of Shares generally on the Share register of the Company or Foreign Registrar and applicable to transfers of Shares to the name of the Depositary or its nominee or the Custodian or its nominee on the making of deposits or withdrawals hereunder, (3) such cable, telex and facsimile transmission expenses as are expressly provided in this Deposit Agreement, (4) such expenses as are incurred by the Depositary in the conversion of foreign currency pursuant to Section 4.05, (5) a fee of $5.00 or less per 100 American Depositary Shares (or portion thereof) for the execution and delivery of Receipts pursuant to Section 2.03, 4.03 or 4.04 and the surrender of Receipts pursuant to Section 2.05 or 6.02, (6) a fee of $.02 or less per American Depositary Share (or portion thereof) for any cash distribution made pursuant to this Deposit Agreement, including, but not limited to Sections 4.01 through 4.04, (7) a fee for the distribution of securities pursuant to Section 4.02, such fee being in an amount equal to the fee for the execution and delivery of American Depositary Shares referred to above which would have been charged as a result of the deposit of such securities (for purposes of this clause 7 treating all such securities as if they were Shares) but which securities are instead distributed by the Depositary to Owners, (8) a fee of $.02 or less per American Depositary Share (or portion thereof) for depositary services, which will accrue on the last day of each calendar year and will be payable as provided in clause 9 below; provided, however, that no fee will be assessed under this clause 8 to the extent that a fee of $.02 was charged pursuant to clause 6 above during that calendar year and (9) any other charges payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents in connection with the servicing of Shares or other Deposited Securities (which charge shall be assessed against Owners as of the date or dates set by the Depositary in accordance with Section 4.06 and shall be collected at the sole discretion of the Depositary by billing such Owners for such charge or by deducting such charge from one or more cash dividends or other cash distributions).

The Depositary, subject to Section 2.09, may own and deal in any class of securities of the Company and its affiliates and in Receipts.

SECTION 5.10. Retention of Depositary Documents.

The Depositary is authorized to destroy those documents, records, bills and other data compiled during the term of this Deposit Agreement at the times permitted by the laws or regulations governing the Depositary unless the Company reasonably requests that such papers be retained for a longer period.

SECTION 5.11. Exclusivity.

The Company agrees not to appoint any other depositary for issuance of American or global depositary receipts so long as The Bank of New York is acting as Depositary hereunder.

SECTION 5.12. List of Restricted Securities Owners.

The Company shall provide to the Depositary a list setting forth, to the actual knowledge of the Company, those persons or entities who beneficially own Restricted Securities as of the date hereof and the Company shall update that list as changes occur. The Company agrees to advise in writing each of the persons or entities so listed that such Restricted Securities, so long as they remain such, are ineligible for deposit hereunder. The Depositary may rely on the list provided under this Section 5.12, as most recently updated, but shall not be liable for any action or omission made in reliance thereon.

ARTICLE 6. AMENDMENT AND TERMINATION

SECTION 6.01. Amendment.

The form of the Receipts and any provisions of this Deposit Agreement may at any time and from time to time be amended by agreement between the Company and the Depositary without the consent of Owners or Beneficial Owners in any respect which they may deem necessary or desirable. Any amendment which shall impose or increase any fees or charges (other than taxes and other governmental charges, registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses), or which shall otherwise prejudice any substantial existing right of Owners, shall, however, not become effective as to outstanding Receipts until the expiration of 30 days after notice of such amendment shall have been given to the Owners of outstanding Receipts. Every Owner and Beneficial Owner, at the time any amendment so becomes effective, shall be deemed, by continuing to hold such Receipt or any interest therein, to consent and agree to such amendment and to be bound by the Deposit Agreement as amended thereby. In no event shall any amendment impair the right of the Owner of any Receipt to surrender such Receipt and receive therefor the Deposited Securities represented thereby, except in order to comply with mandatory provisions of applicable law.

SECTION 6.02. Termination.

The Depositary shall, at any time at the direction of the Company, terminate this Deposit Agreement by mailing notice of termination to the Owners of all Receipts then outstanding at least 30 days prior to the date fixed in such notice for such termination. The Depositary may likewise terminate this Deposit Agreement by mailing notice of termination to the Company and the Owners of all Receipts then outstanding if at least 90 days have passed since the Depositary delivered to the Company a written notice of its election to resign and a successor depositary has not been appointed and accepted its appointment as provided in Section 5.04. On and after the date of termination, the Owner of a Receipt will, upon (a) surrender of such Receipt at the Corporate Trust Office of the Depositary, (b) payment of the fee of the Depositary for the surrender of Receipts referred to in Section 2.05, and (c) payment of any applicable taxes or governmental charges, be entitled to delivery, to him or upon his order, of the amount of Deposited Securities represented by the American Depositary Shares evidenced by such Receipt. If any Receipts shall remain outstanding after the date of termination, the Depositary thereafter shall discontinue the registration of transfers of Receipts, shall suspend the distribution of dividends to the Owners thereof, and shall not give any further notices or perform any further acts under this Deposit Agreement, except that the Depositary shall continue to collect dividends and other distributions pertaining to Deposited Securities, shall sell rights and other property as provided in this Deposit Agreement, and shall continue to deliver Deposited Securities, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights or other property, in exchange for Receipts surrendered to the Depositary (after deducting, in each case, the fee of the Depositary for the surrender of a Receipt, any expenses for the account of the Owner of such Receipt in accordance with the terms and conditions of this Deposit Agreement, and any applicable taxes or governmental charges). At any time after the expiration of one year from the date of termination, the Depositary may sell the Deposited Securities then held hereunder and may thereafter hold uninvested the net proceeds of any such sale, together with any other cash then held by it hereunder, unsegregated and without liability for interest, for the pro rata benefit of the Owners of Receipts which have not theretofore been surrendered, such Owners thereupon becoming general creditors of the Depositary with respect to such net proceeds. After making such sale, the Depositary shall be discharged from all obligations under this Deposit Agreement, except for its obligations to the Company under Section 5.08 and to account for such net proceeds and other cash (after deducting, in each case, the fee of the Depositary for the surrender of a Receipt, any expenses for the account of the Owner of such Receipt in accordance with the terms and conditions of this Deposit Agreement, and any applicable taxes or governmental charges). Upon the termination of this Deposit Agreement, the Company shall be discharged from all obligations under this Deposit Agreement except for its obligations to the Depositary under Sections 5.08 and 5.09.

ARTICLE 7. MISCELLANEOUS

SECTION 7.01. Counterparts.

This Deposit Agreement may be executed in any number of counterparts, each of which shall be deemed an original and all of such counterparts shall constitute one and the same instrument. Copies of this Deposit Agreement shall be filed with the Depositary and the Custodians and shall be open to inspection by any Owner or Beneficial Owner during business hours.

SECTION 7.02. No Third Party Beneficiaries.

This Deposit Agreement is for the exclusive benefit of the parties hereto and shall not be deemed to give any legal or equitable right, remedy or claim whatsoever to any other person.

SECTION 7.03. Severability.

In case any one or more of the provisions contained in this Deposit Agreement or in the Receipts should be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein or therein shall in no way be affected, prejudiced or disturbed thereby.

SECTION 7.04. Owners and Beneficial Owners as Parties; Binding Effect.

The Owners and Beneficial Owners of Receipts from time to time shall be parties to this Deposit Agreement and shall be bound by all of the terms and conditions hereof and of the Receipts by acceptance thereof or any interest therein.

SECTION 7.05. Notices.

Any and all notices to be given to the Company shall be deemed to have been duly given if personally delivered or sent by mail or cable, telex or facsimile transmission confirmed by letter, addressed to Silicon Motion Technology Corporation, No. 20-1, Taiyan Street, Jhubei City, Hsinchu County 302, Taiwan, Attention: Wallace C. Kou, Facsimile No.: +886 3 552 6988, or any other place to which the Company may have transferred its principal office with notice to the Depositary.

Any and all notices to be given to the Depositary shall be deemed to have been duly given if in English and personally delivered or sent by mail or cable, telex or facsimile transmission confirmed by letter, addressed to The Bank of New York, 101 Barclay Street, New York, New York 10286, Attention: American Depositary Receipt Administration, or any other place to which the Depositary may have transferred its Corporate Trust Office with notice to the Company.

Any and all notices to be given to any Owner shall be deemed to have been duly given if personally delivered or sent by mail or cable, telex or facsimile transmission confirmed by letter, addressed to such Owner at the address of such Owner as it appears on the transfer books for Receipts of the Depositary, or, if such Owner shall have filed with the Depositary a written request that notices intended for such Owner be mailed to some other address, at the address designated in such request.

Delivery of a notice sent by mail or cable, telex or facsimile transmission shall be deemed to be effective at the time when a duly addressed letter containing the same (or a confirmation thereof in the case of a cable, telex or facsimile transmission) is deposited, postage prepaid, in a post-office letter box. The Depositary or the Company may, however, act upon any cable, telex or facsimile transmission received by it, notwithstanding that such cable, telex or facsimile transmission shall not subsequently be confirmed by letter as aforesaid.

SECTION 7.06. Submission to Jurisdiction; Appointment of Agent for Service of Process.

The Company hereby (i) irrevocably designates and appoints PTSGE Corp., 925 Fourth Avenue, Suite 2900, Seattle, Washington 98104 as the Company's authorized agent upon which process may be served in any suit or proceeding arising out of or relating to the Shares or Deposited Securities, the American Depositary Shares, the Receipts or this Deposit Agreement, (ii) consents and submits to the jurisdiction of any state or federal court in the State of New York in which any such suit or proceeding may be instituted, and (iii) agrees that service of process upon said authorized agent shall be deemed in every respect effective service of process upon the Company in any such suit or proceeding. The Company agrees to deliver, upon the execution and delivery of this Deposit Agreement, a written acceptance by such agent of its appointment as such agent. The Company further agrees to take any and all action, including the filing of any and all such documents and instruments, as may be necessary to continue such designation and appointment in full force and effect for so long as any American Depositary Shares or Receipts remain outstanding or this Agreement remains in force. In the event the Company fails to continue such designation and appointment in full force and effect, the Company hereby waives personal service of process upon it and consents that any such service of process may be made by certified or registered mail, return receipt requested, directed to the Company at its address last specified for notices hereunder, and service so made shall be deemed completed five (5) days after the same shall have been so mailed.

SECTION 7.07. Governing Law.

This Deposit Agreement and the Receipts shall be interpreted and all rights hereunder and thereunder and provisions hereof and thereof shall be governed by the laws of the State of New York, except with respect to its authorization and execution by the Company, which shall be governed by the laws of the Cayman Islands.

IN WITNESS WHEREOF, SILICON MOTION TECHNOLOGY CORPORATION and THE BANK OF NEW YORK have duly executed this Deposit Agreement as of the day and year first set forth above and all Owners and Beneficial Owners shall become parties hereto upon acceptance by them of Receipts issued in accordance with the terms hereof or any interest therein.

SILICON MOTION TECHNOLOGY CORPORATION

By: _____

Name:
Title:

THE BANK OF NEW YORK,
as Depositary

By: _____

Name:
Title:

EXHIBIT A

No.

AMERICAN DEPOSITARY SHARES
(Each American Depositary Share
represents _____ deposited Shares)

THE BANK OF NEW YORK
AMERICAN DEPOSITARY RECEIPT
FOR ORDINARY SHARES
PAR VALUE _____ EACH OF
SILICON MOTION TECHNOLOGY CORPORATION
(INCORPORATED UNDER THE LAWS OF THE CAYMAN ISLANDS)

The Bank of New York, as depositary (herein called the Depositary), hereby certifies that_____ _____, or registered assigns IS THE OWNER OF _____

AMERICAN DEPOSITARY SHARES

representing deposited ordinary shares (herein called Shares) of Silicon Motion Technology Corporation, incorporated under the laws of the Cayman Islands (herein called the Company). At the date hereof, each American Depositary Share represents _____ Share[s] deposited or subject to deposit under the Deposit Agreement (as such term is hereinafter defined) at the principal [Hong Kong office of Hongkong and Shanghai Banking Corporation] (herein called the Custodian). The Depositary's Corporate Trust Office is located at a different address than its principal executive office. Its Corporate Trust Office is located at 101 Barclay Street, New York, N.Y. 10286, and its principal executive office is located at One Wall Street, New York, N.Y. 10286.

THE DEPOSITARY'S CORPORATE TRUST OFFICE ADDRESS IS
101 BARCLAY STREET, NEW YORK, N.Y. 10286

1. THE DEPOSIT AGREEMENT.

This American Depositary Receipt is one of an issue (herein called Receipts), all issued and to be issued upon the terms and conditions set forth in the deposit agreement, dated as of _____, 2005, as the same may be amended from time to time in accordance with its terms (the "Deposit Agreement"), by and among the Company, the Depositary, and all Owners and Beneficial Owners from time to time of Receipts issued thereunder, each of whom by accepting a Receipt or any interest therein agrees to become a party thereto and become bound by all the terms and conditions thereof. The Deposit Agreement sets forth the rights of Owners and Beneficial Owners of the Receipts and the rights and duties of the Depositary in respect of the Shares deposited thereunder and any and all other securities, property and cash from time to time received in respect of such Shares and held thereunder (such Shares, securities, property, and cash are herein called Deposited Securities). Copies of the Deposit Agreement are on file at the Depositary's Corporate Trust Office in New York City and at the office of the Custodian.

The statements made on the face and reverse of this Receipt are summaries of certain provisions of the Deposit Agreement and are qualified by and subject to the detailed provisions of the Deposit Agreement, to which reference is hereby made. Capitalized terms defined in the Deposit Agreement and not defined herein shall have the meanings set forth in the Deposit Agreement.

2. SURRENDER OF RECEIPTS AND WITHDRAWAL OF SHARES.

Upon surrender at the Corporate Trust Office of the Depositary of this Receipt, and upon payment of the fee of the Depositary provided in this Receipt, and subject to the terms and conditions of the Deposit Agreement, the Owner hereof is entitled to delivery, to him or upon his order, of the Deposited Securities at the time represented by the American Depositary Shares for which this Receipt is issued. Delivery of such Deposited Securities may be made by the delivery of (a) certificates in the name of the Owner hereof or as ordered by him or certificates properly endorsed or accompanied by proper instruments of transfer and (b) any other securities, property and cash to which such Owner is then entitled in respect of this Receipt. Such delivery will be made at the option of the Owner hereof, either at the office of the Custodian or at the Corporate Trust Office of the Depositary, provided that the forwarding of certificates for Shares or other Deposited Securities for such delivery at the Corporate Trust Office of the Depositary shall be at the risk and expense of the Owner hereof.

3. TRANSFERS, SPLIT-UPS, AND COMBINATIONS OF RECEIPTS.

The transfer of this Receipt is registrable on the books of the Depositary at its Corporate Trust Office by the Owner hereof in person or by a duly authorized attorney, upon surrender of this Receipt properly endorsed for transfer or accompanied by proper instruments of transfer and funds sufficient to pay any applicable transfer taxes and the expenses of the Depositary and upon compliance with such regulations, if any, as the Depositary may establish for such purpose. This Receipt may be split into other such Receipts, or may be combined with other such Receipts into one Receipt, evidencing the same aggregate number of American Depositary Shares as the Receipt or Receipts surrendered. As a condition precedent to the execution and delivery, registration of transfer, split-up, combination, or surrender of any Receipt or withdrawal of any Deposited Securities, the Depositary, the Custodian, or Registrar may require payment from the depositor of the Shares or the presenter of the Receipt of a sum sufficient to reimburse it for any tax or other governmental charge and any stock transfer or registration fee with respect thereto (including any such tax or charge and fee with respect to Shares being deposited or withdrawn) and payment of any applicable fees as provided in this Receipt, may require the production of proof satisfactory to it as to the identity and genuineness of any signature and may also require compliance with any regulations the Depositary may establish consistent with the provisions of the Deposit Agreement or this Receipt, including, without limitation, this Article 3.

The delivery of Receipts against deposit of Shares generally or against deposit of particular Shares may be suspended, or the transfer of Receipts in particular instances may be refused, or the registration of transfer of outstanding Receipts generally may be suspended, during any period when the transfer books of the Depositary are closed, or if any such action is deemed necessary or advisable by the Depositary or the Company at any time or from time to time because of any requirement of law or of any government or governmental body or commission, or under any provision of the Deposit Agreement or this Receipt, or for any other reason, subject to the provisions of the following sentence. Notwithstanding anything to the contrary in the Deposit Agreement or this Receipt, the surrender of outstanding Receipts and withdrawal of Deposited Securities may not be suspended subject only to (i) temporary delays caused by closing the transfer books of the Depositary or the Company or the deposit of Shares in connection with voting at a shareholders' meeting, or the payment of dividends, (ii) the payment of fees, taxes and similar charges, and (iii) compliance with any U.S. or foreign laws or governmental regulations relating to the Receipts or to the withdrawal of the Deposited Securities. Without limitation of the foregoing, the Depositary shall not knowingly accept for deposit under the Deposit Agreement any Shares which would be required to be registered under the provisions of the Securities Act of 1933 for the public offer and sale thereof in the United States unless a registration statement is in effect as to such Shares for such offer and sale.

Except for Shares deposited by the Company or by persons named as selling shareholders in the final prospectus relating to the Company's initial public offering of American Depositary Shares, no Shares shall be accepted for deposit under the Deposit Agreement without the prior written consent of the Company during a period of 180 days following the date of that final prospectus.

4. LIABILITY OF OWNER OR BENEFICIAL OWNER FOR TAXES.

If any tax or other governmental charge shall become payable with respect to any Receipt or any Deposited Securities represented hereby, such tax or other governmental charge shall be payable by the Owner or Beneficial Owner hereof to the Depositary. The Depositary may refuse to effect any transfer of this Receipt or any withdrawal of Deposited Securities represented by American Depositary Shares evidenced by such Receipt until such payment is made, and may withhold any dividends or other distributions, or may sell for the account of the Owner or Beneficial Owner hereof any part or all of the Deposited Securities represented by the American Depositary Shares evidenced by this Receipt, and may apply such dividends or other distributions or the proceeds of any such sale in payment of such tax or other governmental charge and the Owner or Beneficial Owner hereof shall remain liable for any deficiency.

5. WARRANTIES ON DEPOSIT OF SHARES.

Every person depositing Shares under the Deposit Agreement shall be deemed thereby to represent and warrant that such Shares and each certificate therefore, if applicable, are validly issued, fully paid, non-assessable, and were not issued in violation of any preemptive rights of the holders of outstanding Shares and that the person making such deposit is duly authorized so to do. Every such person shall also be deemed to represent that such Shares are not, and American Depositary Shares representing such Shares would not be, Restricted Securities. Such representations and warranties shall survive the deposit of Shares and delivery of Receipts.

6. FILING PROOFS, CERTIFICATES, AND OTHER INFORMATION.

Any person presenting Shares for deposit or any Owner or Beneficial Owner of a Receipt may be required from time to time to file with the Depositary or the Custodian such proof of citizenship or residence, exchange control approval, or such information relating to the registration on the books of the Company or the Foreign Registrar, if applicable, to execute such certificates and to make such representations and warranties, as the Depositary may deem necessary or proper. The Depositary may withhold the delivery or registration of transfer of any Receipt or the distribution of any dividend or sale or distribution of rights or of the proceeds thereof or the delivery of any Deposited Securities until such proof or other information is filed or such certificates are executed or such representations and warranties made. No Share shall be accepted for deposit unless accompanied by evidence satisfactory to the Depositary that any necessary approval has been granted by any governmental body in the Republic of China that is then performing the function of the regulation of currency exchange.

7. CHARGES OF DEPOSITARY.

The Company agrees to pay the fees, reasonable expenses and out-of-pocket charges of the Depositary and those of any Registrar only in accordance with agreements in writing entered into between the Depositary and the Company from time to time. The Depositary shall present its statement for such charges and expenses to the Company once every three months. The charges and expenses of the Custodian are for the sole account of the Depositary.

The following charges shall be incurred by any party depositing or withdrawing Shares or by any party surrendering Receipts or to whom Receipts are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by the Company or an exchange of stock regarding the Receipts or Deposited Securities or a distribution of Receipts pursuant to Section 4.03 of the Deposit Agreement), or by Owners, as applicable: (1) taxes and other governmental charges, (2) such registration fees as may from time to time be in effect for the registration of transfers of Shares generally on the Share register of the Company or Foreign Registrar and applicable to transfers of Shares to the name of the Depositary or its nominee or the Custodian or its nominee on the making of deposits or withdrawals under the terms of the Deposit Agreement, (3) such cable, telex and facsimile transmission expenses as are expressly provided in the Deposit Agreement, (4) such expenses as are incurred by the Depositary in the conversion of foreign currency pursuant to Section 4.05 of the Deposit Agreement, (5) a fee of $5.00 or less per 100 American Depositary Shares (or portion thereof) for the execution and delivery of Receipts pursuant to Section 2.03, 4.03 or 4.04 of the Deposit Agreement and the surrender of Receipts pursuant to Section 2.05 or 6.02 of the Deposit Agreement, (6) a fee of $.02 or less per American Depositary Share (or portion thereof) for any cash distribution made pursuant to Sections 4.01 through 4.04 of the Deposit Agreement, (7) a fee for the distribution of securities pursuant to Section 4.02 of the Deposit Agreement, such fee being in an amount equal to the fee for the execution and delivery of American Depositary Shares referred to above which would have been charged as a result of the deposit of such securities (for purposes of this clause 7 treating all such securities as if they were Shares), but which securities are instead distributed by the Depositary to Owners, (8)) a fee of $.02 or less per American Depositary Share (or portion thereof) for depositary services, which will accrue on the last day of each calendar year and will be payable as provided in clause 9 below; provided, however, that no fee will be assessed under this clause 8 to the extent that a fee of $.02 was charged pursuant to clause 6 above during that calendar year and (9) any other charges payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents in connection with the servicing of Shares or other Deposited Securities (which charge shall be assessed against Owners as of the date or dates set by the Depositary in accordance with Section 4.06 of the Deposit Agreement and shall be collected at the sole discretion of the Depositary by billing such Owners for such charge or by deducting such charge from one or more cash dividends or other cash distributions).

The Depositary, subject to Article 8 hereof, may own and deal in any class of securities of the Company and its affiliates and in Receipts.

8. PRE-RELEASE OF RECEIPTS.

Notwithstanding Section 2.03 of the Deposit Agreement, the Depositary may execute and deliver Receipts prior to the receipt of Shares pursuant to Section 2.02 of the Deposit Agreement (a "Pre-Release"). The Depositary may, pursuant to Section 2.05 of the Deposit Agreement, deliver Shares upon the receipt and cancellation of Receipts which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such Receipt has been Pre-Released. The Depositary may receive Receipts in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation from the person to whom Receipts or Shares are to be delivered that such person, or its customer, owns the Shares or Receipts to be remitted, as the case may be, (b) at all times fully collateralized with cash or such other collateral as the Depositary deems appropriate, (c) terminable by the Depositary on not more than five (5) business days notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of Shares represented by American Depositary Shares which are outstanding at any time as a result of Pre-Releases will not normally exceed thirty percent (30%) of the Shares deposited under the Deposit Agreement; provided, however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate.

The Depositary may retain for its own account any compensation received by it in connection with the foregoing.

9. TITLE TO RECEIPTS.

It is a condition of this Receipt and every successive Owner and Beneficial Owner of this Receipt by accepting or holding the same consents and agrees, that title to this Receipt when properly endorsed or accompanied by proper instruments of transfer, is transferable by delivery with the same effect as in the case of a negotiable instrument under the laws of New York; provided, however, that the Depositary, notwithstanding any notice to the contrary, may treat the person in whose name this Receipt is registered on the books of the Depositary as the absolute owner hereof for the purpose of determining the person entitled to distribution of dividends or other distributions or to any notice provided for in the Deposit Agreement or for all other purposes.

10. VALIDITY OF RECEIPT.

This Receipt shall not be entitled to any benefits under the Deposit Agreement or be valid or obligatory for any purpose, unless this Receipt shall have been executed by the Depositary by the manual or facsimile signature of a duly authorized signatory of the Depositary and, if a Registrar for the Receipts shall have been appointed, countersigned by the manual signature of a duly authorized officer of the Registrar.

11. REPORTS; INSPECTION OF TRANSFER BOOKS.

The Company is subject to the periodic reporting requirements of the Securities Exchange Act of 1934 and, accordingly, files certain reports with the Commission. Such reports will be available for inspection and copying by Owners and Beneficial Owners at the public reference facilities maintained by the Commission located at 450 Fifth Street, N.W., Washington, D.C. 20549.

The Depositary will make available for inspection by Owners of Receipts at its Corporate Trust Office any reports and communications, including any proxy soliciting material, received from the Company which are both (a) received by the Depositary as the holder of the Deposited Securities and (b) made generally available to the holders of such Deposited Securities by the Company. The Depositary will also send to Owners of Receipts copies of such reports when furnished by the Company pursuant to the Deposit Agreement. Any such reports and communications, including any such proxy soliciting material, furnished to the Depositary by the Company shall be furnished in English to the extent such materials are required to be translated into English pursuant to any regulations of the Commission.

The Depositary will keep books, at its Corporate Trust Office, for the registration of Receipts and transfers of Receipts which at all reasonable times shall be open for inspection by the Owners of Receipts and the Company provided that such inspection shall not be for the purpose of communicating with Owners of Receipts in the interest of a business or object other than the business of the Company or a matter related to the Deposit Agreement or the Receipts.

12. DIVIDENDS AND DISTRIBUTIONS.

Whenever the Depositary receives any cash dividend or other cash distribution on any Deposited Securities, the Depositary will, if at the time of receipt thereof any amounts received in a foreign currency can in the judgment of the Depositary be converted on a reasonable basis into United States dollars transferable to the United States, and subject to the Deposit Agreement, convert, as promptly as practicable, such dividend or distribution into dollars and will distribute, as promptly as practicable, the amount thus received (net of the fees and expenses of the Depositary as provided in Section 5.09 of the Deposit Agreement, if applicable) to the Owners of Receipts entitled thereto; provided, however, that in the event that the Company or the Depositary is required to withhold and does withhold from any cash dividend or other cash distribution in respect of any Deposited Securities an amount on account of taxes, the amount distributed to the Owners of the Receipts evidencing American Depositary Shares representing such Deposited Securities shall be reduced accordingly.

Subject to the provisions of Sections 4.11 and 5.09 of the Deposit Agreement, whenever the Depositary receives any distribution other than a distribution described in Section 4.01, 4.03 or 4.04 of the Deposit Agreement, the Depositary will cause the securities or property received by it to be distributed to the Owners entitled thereto, in any manner that the Depositary may deem equitable and practicable for accomplishing such distribution; provided, however, that if in the opinion of the Depositary such distribution cannot be made proportionately among the Owners of Receipts entitled thereto, or if for any other reason the Depositary deems such distribution not to be feasible, the Depositary may, after Consultation with the Company to the extent practicable, adopt such method as it may deem equitable and practicable for the purpose of effecting such distribution, including, but not limited to, the public or private sale of the securities or property thus received, or any part thereof, and the net proceeds of any such sale (net of the fees and expenses of the Depositary as provided in Section 5.09 of the Deposit Agreement) will be distributed by the Depositary to the Owners of Receipts entitled thereto all in the manner and subject to the conditions described in Section 4.01 of the Deposit Agreement.

If any distribution consists of a dividend in, or free distribution of, Shares, the Depositary may, and shall if the Company requests in writing, distribute to the Owners of outstanding Receipts entitled thereto, additional Receipts evidencing an aggregate number of American Depositary Shares representing the amount of Shares received as such dividend or free distribution subject to the terms and conditions of the Deposit Agreement with respect to the deposit of Shares and the issuance of American Depositary Shares evidenced by Receipts, including the withholding of any tax or other governmental charge as provided in Section 4.11 of the Deposit Agreement and the payment of the fees and expenses of the Depositary as provided in Section 5.09 of the Deposit Agreement. In lieu of delivering Receipts for fractional American Depositary Shares in any such case, the Depositary will sell the amount of Shares represented by the aggregate of such fractions and distribute the net proceeds, all in the manner and subject to the conditions described in Section 4.01 of the Deposit Agreement. If additional Receipts are not so distributed, each American Depositary Share shall thenceforth also represent the additional Shares distributed upon the Deposited Securities represented thereby.

In the event that the Depositary determines that any distribution in property (including Shares and rights to subscribe therefor) is subject to any tax or other governmental charge which the Depositary is obligated to withhold, the Depositary may by public or private sale dispose of all or a portion of such property (including Shares and rights to subscribe therefor) in such amounts and in such manner as the Depositary deems necessary and practicable to pay any such taxes or charges, and the Depositary shall distribute the net proceeds of any such sale after deduction of such taxes or charges to the Owners of Receipts entitled thereto.

13. RIGHTS.

In the event that the Company shall offer or cause to be offered to the holders of any Deposited Securities any rights to subscribe for additional Shares or any rights of any other nature, the Depositary shall, after Consultation with the Company, have discretion as to the procedure to be followed in making such rights available to any Owners entitled to them or in disposing of such rights on behalf of any Owners otherwise entitled to them and making the net proceeds available to such Owners or, if by the terms of such rights offering or for any other reason, the Depositary may not either make such rights available to any Owners or dispose of such rights and make the net proceeds available to such Owners, then the Depositary shall allow the rights to lapse. If at the time of the offering of any rights the Depositary determines in its discretion that it is lawful and feasible to make such rights available to all or certain Owners but not to other Owners, the Depositary may, after Consultation with the Company, distribute to any Owner to whom it determines the distribution to be lawful and feasible, in proportion to the number of American Depositary Shares held by such Owner, warrants or other instruments therefor in such form as it deems appropriate.

In circumstances in which rights would otherwise not be distributed, if an Owner of Receipts requests the distribution of warrants or other instruments in order to exercise the rights allocable to the American Depositary Shares of such Owner hereunder, the Depositary will make such rights available to such Owner upon written notice from the Company to the Depositary that (a) the Company has elected in its sole discretion to permit such rights to be exercised and (b) such Owner has executed such documents as the Company has determined in its sole discretion are reasonably required under applicable law.

If the Depositary has distributed warrants or other instruments for rights to all or certain Owners, then upon instruction from such an Owner pursuant to such warrants or other instruments to the Depositary from such Owner to exercise such rights, upon payment by such Owner to the Depositary for the account of such Owner of an amount equal to the purchase price of the Shares to be received upon the exercise of the rights, and upon payment of the fees and expenses of the Depositary and any other charges as set forth in such warrants or other instruments, the Depositary shall, on behalf of such Owner, exercise the rights and purchase the Shares, and the Company shall cause the Shares so purchased to be delivered to the Depositary on behalf of such Owner. As agent for such Owner, the Depositary will cause the Shares so purchased to be deposited pursuant to Section 2.02 of the Deposit Agreement, and shall, pursuant to Section 2.03 of the Deposit Agreement, execute and deliver Receipts to such Owner; provided, however, that in the case of a distribution pursuant to the preceding paragraph, such deposit shall be made, and depositary shares shall be delivered, under depositary arrangements which provide for issuance of depositary receipts subject to the appropriate restrictions on sale, deposit, cancellation, and transfer under applicable United States laws.

If the Depositary determines in its discretion that it is not lawful and feasible to make such rights available to all or certain Owners, it may sell the rights, warrants or other instruments in proportion to the number of American Depositary Shares held by the Owners to whom it has determined it may not lawfully or feasiblely make such rights available, and allocate the net proceeds of such sales (net of the fees and expenses of the Depositary as provided in Section 5.09 of the Deposit Agreement and all taxes and governmental charges payable in connection with such rights and subject to the terms and conditions of the Deposit Agreement) for the account of such Owners otherwise entitled to such rights, warrants or other instruments, upon an averaged or other practical basis without regard to any distinctions among such Owners because of exchange restrictions or the date of delivery of any Receipt or otherwise.

Except as otherwise provided in the third preceding paragraph, the Depositary will not offer rights to Owners unless both the rights and the securities to which such rights relate are either exempt from registration under the Securities Act of 1933 with respect to a distribution to all Owners or are registered under the provisions of such Act. Nothing in the Deposit Agreement shall create any obligation on the part of the Company to file a registration statement with respect to such rights or underlying securities or to endeavor to have such a registration statement declared effective. If an Owner of Receipts requests the distribution of warrants or other instruments, notwithstanding that there has been no such registration under such Act, the Depositary shall not effect such distribution unless it has received an opinion from recognized counsel in the United States for the Company upon which the Depositary may rely that such distribution to such Owner is exempt from such registration.

The Depositary shall not be responsible for any reasonable failure by it, or any failure by the Company, to determine that it may be lawful or feasible to make such rights available to Owners in general or any Owner in particular.

14. CONVERSION OF FOREIGN CURRENCY.

Whenever the Depositary or the Custodian shall receive foreign currency, by way of dividends or other distributions or the net proceeds from the sale of securities, property or rights, and if at the time of the receipt thereof the foreign currency so received can in the judgment of the Depositary be converted on a reasonable basis into Dollars and the resulting Dollars transferred to the United States, the Depositary shall, as promptly as practicable, convert or cause to be converted, by sale or in any other manner that it may determine, such foreign currency into Dollars, and such Dollars shall be distributed, as promptly as practicable, to the Owners entitled thereto or, if the Depositary shall have distributed any warrants or other instruments which entitle the holders thereof to such Dollars, then to the holders of such warrants or instruments upon surrender thereof for cancellation. Such distribution may be made upon an averaged or other practicable basis without regard to any distinctions among Owners on account of exchange restrictions, the date of delivery of any Receipt or otherwise and shall be net of any expenses of conversion into Dollars incurred by the Depositary as provided in Section 5.09 of the Deposit Agreement.

If such conversion or distribution can be effected only with the approval or license of any government or agency thereof, the Depositary shall file such application for approval or license, if any, as it may deem desirable.

If at any time the Depositary shall determine that in its judgment any foreign currency received by the Depositary or the Custodian is not convertible on a reasonable basis into Dollars transferable to the United States, or if any approval or license of any government or agency thereof which is required for such conversion is denied or in the opinion of the Depositary is not obtainable, or if any such approval or license is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute the foreign currency (or an appropriate document evidencing the right to receive such foreign currency) received by the Depositary to, or in its discretion may hold such foreign currency uninvested and without liability for interest thereon for the respective accounts of, the Owners entitled to receive the same.

If any such conversion of foreign currency, in whole or in part, cannot be effected for distribution to some of the Owners entitled thereto, the Depositary may in its discretion make such conversion and distribution in Dollars to the extent permissible to the Owners entitled thereto and may distribute the balance of the foreign currency received by the Depositary to, or hold such balance uninvested and without liability for interest thereon for the respective accounts of, the Owners entitled thereto.

15. RECORD DATES.

Whenever any cash dividend or other cash distribution shall become payable or any distribution other than cash shall be made, or whenever rights shall be issued with respect to the Deposited Securities, or whenever the Depositary shall receive notice of any meeting of holders of Shares or other Deposited Securities, or whenever for any reason the Depositary causes a change in the number of Shares that are represented by each American Depositary Share, or whenever the Depositary shall find it necessary or convenient, the Depositary shall fix a record date (a) for the determination of the Owners of Receipts who shall be (i) entitled to receive such dividend, distribution or rights or the net proceeds of the sale thereof, (ii) entitled to give instructions for the exercise of voting rights at any such meeting or (iii) responsible for any fees or charges assessed by the Depositary pursuant to the Deposit Agreement, or (b) on or after which each American Depositary Share will represent the changed number of Shares, subject to the provisions of the Deposit Agreement.

16. VOTING OF DEPOSITED SECURITIES.

Upon receipt from the Company of notice of any meeting or solicitation of proxies or consents of holders of Shares or other Deposited Securities, the Depositary shall, if requested in writing by the Company, as soon as practicable thereafter, mail to the Owners of Receipts a notice, the form of which notice shall be in the sole discretion of the Depositary, which shall contain (a) such information as is contained in such notice of meeting received by the Depositary from the Company, (b) a statement that the Owners of Receipts as of the close of business on a specified record date will be entitled, subject to any applicable provision of Cayman Islands law and of the articles of association or similar document of the Company, to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the amount of Shares or other Deposited Securities represented by their respective American Depositary Shares and (c) a statement as to the manner in which such instructions may be given (including an express indication that, if no instruction is received, instructions may be deemed given in accordance with the last sentence of this paragraph to give a discretionary proxy to a person designated by the Company). Upon the written request of an Owner of a Receipt on such record date, received on or before the date established by the Depositary for such purpose (the "Instruction Date"), the Depositary shall endeavor, in so far as practicable, to vote or cause to be voted the amount of Shares or other Deposited Securities represented by the American Depositary Shares evidenced by such Receipt in accordance with the instructions set forth in such request. The Depositary shall not vote or attempt to exercise the right to vote that attaches to such Shares or other Deposited Securities other than in accordance with such instructions or deemed instructions. If (i) the Company made a request to the Depositary as contemplated by the first sentence of this paragraph and complied with the following paragraph and (ii) no instructions are received by the Depositary from an Owner with respect to an amount of Deposited Securities represented by the American Depositary Shares evidenced by such Owner's Receipts on or before the Instruction Date, the Depositary shall deem such Owner to have instructed the Depositary to give, and the Depositary shall give, a discretionary proxy to a person designated by the Company with respect to that amount of Deposited Securities; provided, however, that no such instruction shall be deemed given and no such discretionary proxy shall be given with respect to any matter as to which the Company informs the Depositary (and the Company agrees to provide such information as promptly as practicable in writing, if applicable) that (x) the Company does not wish such proxy given, (y) the Company is aware that substantial opposition exists or (z) such matter materially and adversely affects the rights of holders of Shares.

In order to give Owners a reasonable opportunity to instruct the Depositary as to the exercise of voting rights relating to Deposited Securities, if the Company request the Depositary to act under the preceding paragraph, the Company shall give the Depositary notice of any such meeting or solicitation not less than 45 days prior to the meeting date or date for giving such proxies or consents.

17. CHANGES AFFECTING DEPOSITED SECURITIES.

In circumstances where the provisions of Section 4.03 of the Deposit Agreement do not apply, upon any change in nominal value, change in par value, split-up, consolidation, or any other reclassification of Deposited Securities, or upon any recapitalization, reorganization, merger or consolidation, or sale of assets affecting the Company or to which it is a party, any securities which shall be received by the Depositary or a Custodian in exchange for or in conversion of or in respect of Deposited Securities shall be treated as new Deposited Securities under the Deposit Agreement, and American Depositary Shares shall thenceforth represent, in addition to the existing Deposited Securities, the right to receive the new Deposited Securities so received in exchange or conversion, unless additional Receipts are delivered pursuant to the following sentence. In any such case the Depositary may, and shall at the Company's written request, execute and deliver additional Receipts as in the case of a dividend in Shares, or call for the surrender of outstanding Receipts to be exchanged for new Receipts specifically describing such new Deposited Securities.

18. LIABILITY OF THE COMPANY AND DEPOSITARY.

Neither the Depositary nor the Company nor any of their respective directors, officers, employees, agents or affiliates shall incur any liability to any Owner or Beneficial Owner if, by reason of any provision of any present or future law or regulation of the United States or any other country, or of any other governmental or regulatory authority, or by reason of any provision, present or future, of the articles of association or similar document of the Company, or by reason of any provision of any securities issued or distributed by the Company, or any offering or distribution thereof, or by reason of any act of God or war or terrorism or other circumstances beyond its control, the Depositary or the Company shall be prevented, delayed or forbidden from or be subject to any civil or criminal penalty on account of doing or performing any act or thing which by the terms of the Deposit Agreement or Deposited Securities it is provided shall be done or performed; nor shall the Depositary or the Company or any of their respective directors, officers, employees, agents or affiliates incur any liability to any Owner or Beneficial Owner of a Receipt by reason of any non-performance or delay, caused as aforesaid, in the performance of any act or thing which by the terms of the Deposit Agreement it is provided shall or may be done or performed, or by reason of any exercise of, or failure to exercise, any discretion provided for in the Deposit Agreement. Where, by the terms of a distribution pursuant to Section 4.01, 4.02 or 4.03 of the Deposit Agreement, or an offering or distribution pursuant to Section 4.04 of the Deposit Agreement, such distribution or offering may not be made available to Owners of Receipts, and the Depositary may not dispose of such distribution or offering on behalf of such Owners and make the net proceeds available to such Owners, then the Depositary shall not make such distribution or offering, and shall allow any rights, if applicable, to lapse. Neither the Company nor the Depositary assumes any obligation or shall be subject to any liability under the Deposit Agreement to Owners or Beneficial Owners of Receipts, except that they agree to perform their obligations specifically set forth in the Deposit Agreement without negligence or bad faith. The Depositary shall not be subject to any liability with respect to the validity or worth of the Deposited Securities. Neither the Depositary nor the Company shall be under any obligation to appear in, prosecute or defend any action, suit, or other proceeding in respect of any Deposited Securities or in respect of the Receipts on behalf of any Owner, Beneficial Owner or other person, and the Custodian shall not be under any obligation whatsoever with respect to such proceedings, the responsibility of the Custodian being solely to the Depositary. Neither the Depositary nor the Company shall be liable for any action or nonaction by it in reliance upon the advice of or information from legal counsel, accountants, any person presenting Shares for deposit, any Owner or Beneficial Owner of a Receipt, or any other person believed by it in good faith to be competent to give such advice or information. The Depositary shall not be responsible for any failure to carry out any instructions to vote any of the Deposited Securities, or for the manner in which any such vote is cast or the effect of any such vote, provided that any such action or nonaction is in good faith. The Depositary shall not be liable for any acts or omissions made by a successor depositary whether in connection with a previous act or omission of the Depositary or in connection with a matter arising wholly after the removal or resignation of the Depositary, provided that in connection with the issue out of which such potential liability arises, the Depositary performed its obligations without negligence or bad faith while it acted as Depositary. No disclaimer of liability under the Securities Act of 1933 is intended by any provision of the Deposit Agreement.

19. RESIGNATION AND REMOVAL OF THE DEPOSITARY; APPOINTMENT OF SUCCESSOR CUSTODIAN.

The Depositary may at any time resign as Depositary by written notice of its election so to do delivered to the Company, such resignation to take effect upon the appointment of a successor depositary and its acceptance of such appointment as provided in the Deposit Agreement. The Depositary may at any time be removed by the Company by 90 days' prior written notice of such removal, to become effective upon the later of (i) the 90th day after delivery of the notice to the Depositary or (ii) the appointment of a successor depositary and its acceptance of such appointment as provided in the Deposit Agreement. Whenever the Depositary in its discretion determines that it is in the best interest of the Owners of Receipts to do so, it may appoint a substitute or additional custodian or custodians.

20. AMENDMENT.

The form of the Receipts and any provisions of the Deposit Agreement may at any time and from time to time be amended by agreement between the Company and the Depositary without the consent of Owners or Beneficial Owners in any respect which they may deem necessary or desirable. Any amendment which shall impose or increase any fees or charges (other than taxes and other governmental charges, registration fees and cable, telex or facsimile transmission costs, delivery costs or other such expenses), or which shall otherwise prejudice any substantial existing right of Owners of Receipts, shall, however, not become effective as to outstanding Receipts until the expiration of thirty days after notice of such amendment shall have been given to the Owners of outstanding Receipts. Every Owner and Beneficial Owner of a Receipt at the time any amendment so becomes effective shall be deemed, by continuing to hold such Receipt or any interest therein, to consent and agree to such amendment and to be bound by the Deposit Agreement as amended thereby. In no event shall any amendment impair the right of the Owner of any Receipt to surrender such Receipt and receive therefor the Deposited Securities represented thereby except in order to comply with mandatory provisions of applicable law.

21. TERMINATION OF DEPOSIT AGREEMENT.

The Depositary at any time at the direction of the Company, shall terminate the Deposit Agreement by mailing notice of termination to the Owners of all Receipts then outstanding at least 30 days prior to the date fixed in such notice for such termination. The Depositary may likewise terminate the Deposit Agreement by mailing notice of termination to the Company and the Owners of all Receipts then outstanding if at least 90 days have passed since the Depositary delivered to the Company a written notice of its election to resign and a successor depositary has not been appointed and accepted its appointment as provided in the Deposit Agreement. On and after the date of termination, the Owner of a Receipt will, upon (a) surrender of such Receipt at the Corporate Trust Office of the Depositary, (b) payment of the fee of the Depositary for the surrender of Receipts referred to in Section 2.05 of the Deposit Agreement, and (c) payment of any applicable taxes or governmental charges, be entitled to delivery, to him or upon his order, of the amount of Deposited Securities represented by the American Depositary Shares evidenced by such Receipt. If any Receipts shall remain outstanding after the date of termination, the Depositary thereafter shall discontinue the registration of transfers of Receipts, shall suspend the distribution of dividends to the Owners thereof, and shall not give any further notices or perform any further acts under the Deposit Agreement, except that the Depositary shall continue to collect dividends and other distributions pertaining to Deposited Securities, shall sell rights and other property as provided in the Deposit Agreement, and shall continue to deliver Deposited Securities, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights or other property, in exchange for Receipts surrendered to the Depositary (after deducting, in each case, the fee of the Depositary for the surrender of a Receipt, any expenses for the account of the Owner of such Receipt in accordance with the terms and conditions of the Deposit Agreement, and any applicable taxes or governmental charges). At any time after the expiration of one year from the date of termination, the Depositary may sell the Deposited Securities then held under the Deposit Agreement and may thereafter hold uninvested the net proceeds of any such sale, together with any other cash then held by it thereunder, unsegregated and without liability for interest, for the pro rata benefit of the Owners of Receipts which have not theretofore been surrendered, such Owners thereupon becoming general creditors of the Depositary with respect to such net proceeds. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement, except for its obligations to the Company under Section 5.08 of the Deposit Agreement and to account for such net proceeds and other cash (after deducting, in each case, the fee of the Depositary for the surrender of a Receipt, any expenses for the account of the Owner of such Receipt in accordance with the terms and conditions of the Deposit Agreement, and any applicable taxes or governmental charges). Upon the termination of the Deposit Agreement, the Company shall be discharged from all obligations under the Deposit Agreement except for its obligations to the Depositary with respect to indemnification, charges, and expenses.

22. SUBMISSION TO JURISDICTION.

In the Deposit Agreement, the Company has (i) appointed PTSGE Corp., 925 Fourth Avenue, Suite 2900, Seattle, Washington 98104 as the Company's authorized agent upon which process may be served in any suit or proceeding arising out of or relating to the Shares or Deposited Securities, the American Depositary Shares, the Receipts or this Agreement, (ii) consented and submitted to the jurisdiction of any state or federal court in the State of New York in which any such suit or proceeding may be instituted, and (iii) agreed that service of process upon said authorized agent shall be deemed in every respect effective service of process upon the Company in any such suit or proceeding.

23. DISCLOSURE OF INTERESTS.

Notwithstanding any other provision of the Deposit Agreement, each Owner and Beneficial Owner agrees to comply with requests from the Company pursuant to applicable law or the Memorandum and Articles of Association of the Company to provide information, inter alia, as to the capacity in which such Owner or Beneficial Owner owns American Depositary Shares (and Shares, as the case may be) and regarding the identity of any other person or persons interested in such American Depositary Shares (and Shares, as the case may be) and the nature of such interest and various other matters, whether or not they are Owners or Beneficial Owners at the time of such request.

FORM OF
SILICON MOTION TECHNOLOGY CORPORATION
2005 EQUITY INCENTIVE PLAN

1. PURPOSES.

(a) General Purpose. The Company, by means of the Plan, seeks to retain the services of Eligible Recipients, to secure and retain the services of new members of this group and to provide incentives for such persons to exert maximum efforts for the success of the Company and, if applicable, any of the Company's parents and subsidiaries.

(b) Available Stock Awards. The purpose of the Plan is to provide a means by which Eligible Recipients may be given an opportunity to benefit from increases in value of the Ordinary Shares through the granting of the following Stock Awards: (i) Incentive Stock Options, (ii) Nonstatutory Stock Options, (iii) stock bonuses, (iv) Restricted Stock grants, (v) Restricted Stock Unit grants and (vi) Stock Appreciation Rights.

2. DEFINITIONS.

"Affiliate" means any Parent or Subsidiary of the Company, whether now or hereafter existing.

"Board" means the Board of Directors of the Company.

"Change in Control" means (i) the consummation of a merger or consolidation of the Company with or into another entity or any other corporate reorganization, if more than 50% of the combined voting power of the continuing or surviving entity's securities outstanding immediately after such merger, consolidation or other reorganization is owned by persons who were not shareholders of the Company immediately prior to such merger, consolidation or other reorganization; or (ii) the sale, transfer or other disposition of all or substantially all of the Company's assets. A transaction shall not constitute a Change in Control if its sole purpose is to change the jurisdiction of the Company's incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

"Code" means the Internal Revenue Code of 1986, as amended.

"Committee" means a committee of one or more members of the Board appointed by the Board in accordance with Section 3(c) of the Plan.

"Company" means Silicon Motion Technology Corporation, a company organized under the laws of the Cayman Islands.

"Consultant" means any person, including an advisor, (i) engaged by the Company or an Affiliate to render consulting or advisory services and who is compensated for such services, including members of any advisory board constituted by the Company, or (ii) who is a member of the Board of Directors of an Affiliate. However, the term "Consultant" shall not include either Directors who are not compensated by the Company for their services as Directors or Directors who are merely paid a director's fee by the Company for their services as Directors.

"Continuous Service" means, with respect to Employees, service with the Company or an Affiliate that is not interrupted or terminated. With respect to Directors or Consultants, Continuous Service means service with the Company, or a Parent or Subsidiary of the Company, whether as a Director or Consultant, that is not interrupted or terminated. The Board or the chief executive officer of the Company, in that party's sole discretion, may determine whether Continuous Service shall be considered interrupted in the case of any leave of absence approved by that party, including sick leave, military leave or any other personal leave.

"Director" means a member of the Board of Directors of the Company.

"Disability" means the permanent and total disability of a person within the meaning of Section 22(e)(3) of the Code.

"Eligible Recipient" means any Employee, Director or Consultant of the Company or any Employee, Director or Consultant of a Parent or Subsidiary of the Company.

"Employee" means any person employed by the Company or an Affiliate. Mere service as a Director or payment of a director's fee by the Company or an Affiliate shall not be sufficient to constitute "employment" by the Company or an Affiliate.

"Exchange Act" means the Securities Exchange Act of 1934, as amended

"Executive Officer" means an executive officer within the meaning of NASD Rule 4350(c), or any successor rule, as in effect from time to time.

"Fair Market Value" means, as of any date, the value of the Ordinary Shares determined as follows:

(i) If the Ordinary Shares are listed on any established stock exchange or traded on the Nasdaq National Market or the Nasdaq SmallCap Market, the Fair Market Value of an Ordinary Share shall be the closing sale price for such stock (or the closing bid, if no sale was reported) as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the Ordinary Shares) on the day of determination, as reported in *The Wall Street Journal* or such other source as the Board deems reliable.

(ii) In the absence of such markets for the Ordinary Shares, the Fair Market Value shall be determined in good faith by the Board using a reasonable valuation method.

"FAS 123" shall mean Statement of Financial Accounting Standard 123, "Accounting for Stock-based Compensation," as promulgated by the Financial Accounting Standards Board.

"Former Plan" shall mean the Silicon Motion, Inc. Guidelines for Issuance and Subscription of Employee Stock Options approved by Silicon Motion Inc.'s board of directors on June 30, 2004, as amended on December 20, 2004.

"Former Plan Shares" has the meaning set forth in Section 4(b) of the Plan.

"Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

"Independent Director" means an independent director as defined in NASD Rule 4200(a)(15), or any successor rule, as in effect from time to time.

"Non-Employee Director" means a Director who either (i) is not a current Employee or Officer of the Company or its parent or a subsidiary, does not receive compensation (directly or indirectly) from the Company or its parent or a subsidiary for services rendered as a consultant or in any capacity other than as a Director or member of a Board committee, or (ii) is otherwise considered a "non-employee director" for purposes of Rule 16b-3 under the Exchange Act.

"Nonstatutory Stock Option" means an Option not intended to qualify as an Incentive Stock Option.

"Officer" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

"Option" means a stock option granted pursuant to Section 6 of the Plan.

"Option Agreement" means a written agreement between the Company and an Optionholder evidencing the terms and conditions of an individual Option grant. Each Option Agreement shall be subject to the terms and conditions of the Plan.

"Optionholder" means a person to whom an Option is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Option.

"Ordinary Shares" means the ordinary shares of the Company.

"Outside Director" means a Director who either (i) is not a current employee of the Company or an "affiliated corporation" (within the meaning of Treasury Regulations promulgated under Section 162(m) of the Code), is not a former employee of the Company or an "affiliated corporation" receiving compensation for prior services (other than benefits under a tax qualified pension plan), was not an officer of the Company or an "affiliated corporation" at any time and is not currently receiving direct or indirect remuneration from the Company or an "affiliated corporation" for services in any capacity other than as a Director, or (ii) is otherwise considered an "outside director" for purposes of Section 162(m) of the Code.

"Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

"Participant" means a person to whom a Stock Award is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Stock Award.

"Performance Criteria" shall have the meaning set forth in Section 7(b)(iii) of the Plan.

"Plan" means this 2005 Equity Incentive Plan, as amended from time to time.

"Re-Load Option" has the meaning set forth in Section 6(m) of the Plan.

"Repurchase Blackout Period" means six (6) months from the date the Ordinary Shares relating to a Stock Award is issued to the Participant or, in the case of a Stock Award with vesting restrictions, six (6) months from the vesting date or, in any case, such longer or shorter period of time as required to avoid a variable charge to earnings for financial accounting purposes.

"Restricted Stock" shall mean a grant of Ordinary Shares pursuant to Section 7(b) of the Plan.

"Restricted Stock Units" shall mean a grant of the right to receive Ordinary Shares in the future or their cash equivalent (or both) pursuant to Section 7(b) of the Plan.

"Securities Act" means the Securities Act of 1933, as amended.

"Stand-Alone Stock Appreciation Right" has the meaning set forth in Section 7(c) of the Plan.

"Stock Appreciation Right" means the right to receive appreciation in the Ordinary Shares pursuant to the provisions of Section 7(c) of the Plan.

"Stock Award" means any right granted under the Plan, including an Option, a stock bonus, a Stock Appreciation Right, a Restricted Stock grant and a Restricted Stock Unit grant.

"Stock Award Agreement" means a written agreement between the Company and a holder of a Stock Award evidencing the terms and conditions of an individual Stock Award grant. Each Stock Award Agreement shall be subject to the terms and conditions of the Plan.

"Subsidiary" means (1) in the case of an Incentive Stock Option, a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code, and (2) in the case of any other Stock Award, in addition to a subsidiary corporation as defined in clause (1), (A) a limited liability company, partnership or other entity in which the Company controls fifty percent (50%) or more of the voting power or equity interests, or (B) an entity with respect to which the Company possesses the power, directly or indirectly, to direct or cause the direction of the management and policies, whether through the Company's ownership of voting securities, by contract or otherwise.

"Tandem Stock Appreciation Right" has the meaning set forth in Section 7(c) of the Plan.

"Ten Percent Shareholder" means a person who owns (or is deemed to own pursuant to Section 424(d) of the Code) stock comprising more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of any of its Affiliates.

3. ADMINISTRATION.

(a) Administration by Board. The Board shall administer the Plan unless and until the Board delegates administration to a Committee, as provided in Section 3(c). Whether or not the Board has delegated administration, the Board shall have the final power to determine all questions of policy and expediency that may arise in the administration of the Plan.

(b) Powers of Board. The Board (or the Committee) shall have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To determine from time to time which of the persons eligible under the Plan shall be granted Stock Awards; when and how each Stock Award shall be granted; what type or combination of types of Stock Award shall be granted; the provisions of each Stock Award granted (which need not be identical), including the time or times when a person shall be permitted to receive Ordinary Shares pursuant to a Stock Award; and the number of Ordinary Shares with respect to which a Stock Award shall be granted to each such person.

(ii) To construe and interpret the Plan and Stock Awards granted under it, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan or in any Stock Award Agreement, in a manner and to the extent it shall deem necessary or expedient to make the Plan fully effective.

(iii) To amend the Plan or a Stock Award as provided in Section 13.

(iv) Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company that are not in conflict with the provisions of the Plan.

(c) Delegation to Committee. The Board may delegate administration of the Plan to a Committee of two (2) or more members of the Board, each of whom must qualify as a Non-Employee Director, Outside Director, and Independent Director. If administration is delegated to such a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board, including the power to delegate to a subcommittee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board shall thereafter be deemed to be to the Committee or subcommittee, as appropriate), subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Board may abolish the Committee, or any subcommittee, at any time and revest in the Board the administration of the Plan.

(d) Effect of Board's Decision. All determinations, interpretations and constructions made by the Board in good faith shall not be subject to review by any person and shall be final, binding and conclusive on all persons.

4. SHARES SUBJECT TO THE PLAN.

(a) Share Reserve. Subject to the provisions of Section 12 relating to adjustments upon changes in Ordinary Shares, the Ordinary Shares that may be issued pursuant to Stock Awards shall not exceed in the aggregate 10,000,000 Ordinary Shares, inclusive of the number of Former Plan Shares (as defined below).

(b) Reversion of Shares and Availability of Shares to the Share Reserve. If any Stock Award granted under the Plan or under the Former Plan shall for any reason expire or otherwise terminate, in whole or in part, without having been exercised in full, or if any Ordinary Shares issued to a Participant pursuant to a Stock Award granted under the Plan or under the Former Plan are forfeited back to or repurchased by the Company, including, but not limited to, any repurchase or forfeiture caused by the failure to meet a contingency or condition required for the vesting or exercise of such shares, then the Ordinary Shares not acquired under such Stock Award (the "*Former Plan Shares*"), shall become available for issuance under the Plan. Former Plan Shares shall include reserved Ordinary Shares that are not subject to a grant under the Former Plan. The number of Ordinary Shares underlying a Stock Award not issued as a result of any of the following actions shall again be available for issuance under the Plan: (i) a payout of a Stand-Alone Stock Appreciation Right, or a performance-based award of Restricted Stock or Restricted Stock Units in the form of cash; (ii) a cancellation, termination, expiration, forfeiture, or lapse for any reason (with the exception of the termination of a Tandem Stock Appreciation Right upon exercise of the related Options, or the termination of a related Option upon exercise of the corresponding Tandem Stock Appreciation Right) of any Stock Award; or (iii) payment of the Option exercise price and/or payment of any taxes arising upon exercise of the Option by withholding Ordinary Shares which otherwise would be acquired on exercise or issued upon such payout.

(c) Source of Shares. The Ordinary Shares subject to the Plan may be unissued shares or reacquired shares, bought on the market or otherwise.

5. ELIGIBILITY.

(a) Eligibility for Specific Stock Awards. Incentive Stock Options may be granted only to Employees. Stock Awards other than Incentive Stock Options may be granted to Eligible Recipients.

(b) Ten Percent Shareholders. A Ten Percent Shareholder shall not be granted an Incentive Stock Option unless the exercise price of such Option is at least one hundred ten percent (110%) of the Fair Market Value of the Ordinary Shares at the date of grant and the Option is not exercisable after the expiration of five (5) years from the date of grant.

(c) Consultants. A Consultant shall not be eligible for the grant of a Stock Award if, at the time of grant, a Form S-8 Registration Statement under the Securities Act ("*Form S-8*") is not available to register either the offer or the sale of the Company's securities to such Consultant because of the nature of the services that the Consultant is providing to the Company, or because the Consultant is not a natural person, or as otherwise provided by the rules governing the use of Form S-8, unless the Company determines both (i) that such grant (A) shall be registered in another manner under the Securities Act (e.g., on a Form F-3 Registration Statement) or (B) does not require registration under the Securities Act in order to comply with the requirements of the Securities Act, if applicable, and (ii) that such grant complies with the securities laws of all other relevant jurisdictions. Form S-8 generally is available to consultants and advisors only if (i) they are natural persons, (ii) they provide bona fide services to the issuer, its parents, its majority-owned subsidiaries or majority-owned subsidiaries of the issuer's parent, and (iii) the services are not in connection with the offer or sale of securities in a capital-raising transaction, and do not directly or indirectly promote or maintain a market for the issuer's securities.

(d) Foreign Participants. Notwithstanding any provision of the Plan to the contrary, in order to comply with the laws in other countries in which the Company and its subsidiaries operate or have Employees, Directors or Consultants, the Board, in its sole discretion, shall have the power and authority to: (i) determine which subsidiaries shall be covered by the Plan; (ii) determine which Employees, Directors or Consultants outside the United States are eligible to participate in the Plan; (iii) modify the terms and conditions of any Stock Award granted to Employees, Directors or Consultants outside the United States to comply with applicable foreign laws; (iv) establish subplans and modify exercise procedures and other terms and procedures, to the extent such actions may be necessary or advisable (any such subplans and/or modifications shall be attached to this subplan as appendices); provided, however, that no such subplans and/or modifications shall increase the number of shares reserved for the Plan as set forth in Section 4 of the Plan; and (v) take any action, before or after a Stock Award is made, that it deems advisable to obtain approval or comply with any applicable foreign laws.

6. OPTION PROVISIONS.

Each Option shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. All Options shall be separately designated Incentive Stock Options or Nonstatutory Stock Options at the time of grant, and, if certificates are issued, a separate certificate or certificates will be issued for Ordinary Shares purchased on exercise of each type of Option. The provisions of separate Options need not be identical, but each Option shall include (through incorporation of provisions hereof by reference in the Option Agreement or otherwise) the substance of each of the following provisions:

(a) Term. Subject to the provisions of Section 5(b) regarding Ten Percent Shareholders, no Option shall be exercisable after the expiration of ten (10) years from the date it was granted.

(b) Exercise Price of an Incentive Stock Option. Subject to the provisions of Section 5(b) regarding Ten Percent Shareholders, the exercise price of each Incentive Stock Option shall be not less than one hundred percent (100%) of the Fair Market Value of the Ordinary Shares subject to the Option on the date the Option is granted. Notwithstanding the foregoing, an Incentive Stock Option may be granted with an exercise price lower than that set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 424(a) of the Code.

(c) Exercise Price of a Nonstatutory Stock Option. The exercise price of Nonstatutory Stock Options shall be determined by the Board. However, the exercise price of each Nonstatutory Stock Option that is intended to qualify as performance-based compensation within the meaning of the Treasury Regulations promulgated under Section 162(m) of the Code shall be not less than one hundred percent (100%) of the Fair Market Value of the Ordinary Shares subject to the Option on the date the Option is granted.

(d) Consideration. The purchase price of Ordinary Shares acquired pursuant to an Option shall be paid, to the extent permitted by applicable statutes and regulations, either (i) in cash at the time the Option is exercised, or (ii) at the discretion of the Board at the time of the grant of the Option (or subsequently in the case of a Nonstatutory Stock Option) (A) by delivery to the Company of other Ordinary Shares, (B) according to a deferred payment or other similar arrangement with the Optionholder, (C) pursuant to a cashless exercise program implemented by the Company in connection with the Plan, or (D) in any other form of legal consideration that may be acceptable to the Board. Unless otherwise specifically provided in the Option Agreement, the purchase price of Ordinary Shares acquired pursuant to an Option that is paid by delivery to the Company of other Ordinary Shares acquired, directly or indirectly from the Company, shall be paid only by shares of the Ordinary Shares of the Company that have been held for more than six (6) months (or such longer or shorter period of time required to avoid a charge to earnings for financial accounting purposes).

In the case of any deferred payment arrangement, interest shall be compounded at least annually and shall be charged at the minimum rate of interest necessary to avoid the treatment as interest, under any applicable provisions of the Code, of any amounts other than amounts stated to be interest under the deferred payment arrangement.

(e) Transferability of an Incentive Stock Option. An Incentive Stock Option shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Optionholder only by the Optionholder. Notwithstanding the foregoing, the Optionholder may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Optionholder, shall thereafter be entitled to exercise the Option.

(f) Transferability of a Nonstatutory Stock Option. A Nonstatutory Stock Option shall be transferable only to the extent provided in the Option Agreement (subject to applicable securities laws). Notwithstanding the foregoing, the Optionholder may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Optionholder, shall thereafter be entitled to exercise the Option.

(g) Vesting Generally. The total number of Ordinary Shares subject to an Option may, but need not, vest and therefore become exercisable in periodic installments that may, but need not, be equal. The Option may be subject to such other terms and conditions on the time or times when it may be exercised (which may be based on performance or other criteria) as the Board may deem appropriate. The vesting provisions of individual Options may vary. The provisions of this Section 6(g) are subject to any Option provisions governing the minimum number of Ordinary Shares as to which an Option may be exercised.

(h) Termination of Continuous Service. In the event an Optionholder's Continuous Service terminates (other than upon the Optionholder's death or Disability), the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise such Option as of the date of termination) but only within such period of time ending on the earlier of (i) the date three (3) months following the termination of the Optionholder's Continuous Service (or, except with respect to Incentive Stock Options, such longer or shorter period specified in the Option Agreement), or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, after termination, the Optionholder does not exercise his or her Option within the time specified in the Option Agreement, the Option shall terminate.

(i) Extension of Termination Date. Except with respect to Incentive Stock Options, an Optionholder's Option Agreement may also provide that if the exercise of the Option following the termination of the Optionholder's Continuous Service (other than upon the Optionholder's death or Disability) would be prohibited at any time solely because the issuance of Ordinary Shares would violate the registration requirements under the Securities Act, then the Option shall terminate on the earlier of (i) the expiration of the term of the Option set forth in Section 6(a), or (ii) the expiration of a period of three (3) months after the termination of the Optionholder's Continuous Service during which the exercise of the Option would not be in violation of such registration requirements.

(j) Disability of Optionholder. In the event that an Optionholder's Continuous Service terminates as a result of the Optionholder's Disability, the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise such Option as of the date of termination), but only within such period of time ending on the earlier of (i) the date twelve (12) months following such termination (or, except with respect to Incentive Stock Options, such longer or shorter period specified in the Option Agreement) or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, after termination, the Optionholder does not exercise his or her Option within the time specified herein, the Option shall terminate.

(k) Death of Optionholder. In the event (i) an Optionholder's Continuous Service terminates as a result of the Optionholder's death or (ii) the Optionholder dies within the period (if any) specified in the Option Agreement after the termination of the Optionholder's Continuous Service for a reason other than death, then the Option may be exercised (to the extent the Optionholder was entitled to exercise such Option as of the date of death) by the Optionholder's estate, by a person who acquired the right to exercise the Option by bequest or inheritance or by a person designated to exercise the option upon the Optionholder's death pursuant to Section 6(e) or 6(f), but only within the period ending on the earlier of (A) the date eighteen (18) months following the date of death (or, except with respect to Incentive Stock Options, such longer or shorter period specified in the Option Agreement) or (B) the expiration of the term of such Option as set forth in the Option Agreement. If, after death, the Option is not exercised within the time specified herein, the Option shall terminate.

(l) Early Exercise. The Option may, but need not, include a provision whereby the Optionholder may elect at any time before the Optionholder's Continuous Service terminates to exercise the Option as to any part or all of the Ordinary Shares subject to the Option prior to the full vesting of the Option. The early purchase of any unvested Ordinary Shares will be pursuant to an early exercise provision in the Option Agreement which may provide for a repurchase option in favor of the Company and other restrictions the Board determines to be appropriate. Any repurchase option so provided for will be subject to the repurchase provisions set forth in Section 11(h) herein.

(m) Substitution of Stock Appreciation Rights for Options. If the Company is required to or elects to expense the cost of Options pursuant to FAS 123 (or a successor or other standard), the Board shall have the sole discretion to substitute without receiving Participants' permission, Stock Appreciation Rights paid only in stock for outstanding Options; provided, the terms of the substituted Stock Appreciation Rights are substantially the same as the terms of the Options, the number of shares underlying the number of Stock Appreciation Rights equals the number of shares underlying the Options and the difference between the Fair Market Value of the underlying Ordinary Shares and the grant price of the Stock Appreciation Rights is equivalent to the difference between the Fair Market Value of the underlying Ordinary Shares and the exercise price of the Options.

(n) Re-Load Options.

(i) Without in any way limiting the authority of the Board to make or not to make grants of Options hereunder, the Board shall have the authority (but not an obligation) to include as part of any Option Agreement a provision entitling the Optionholder to a further Option (a "*Re-Load Option*") in the event the Optionholder exercises the Option evidenced by the Option Agreement, in whole or in part, by surrendering other Ordinary Shares in accordance with this Plan and the terms and conditions of the Option Agreement. Unless otherwise specifically provided in the Option Agreement, the Optionholder shall not surrender Ordinary Shares acquired, directly or indirectly from the Company, unless such shares have been held for more than six (6) months (or such longer or shorter period of time required to avoid a charge to earnings for financial accounting purposes).

(ii) Any such Re-Load Option shall (i) provide for a number of Ordinary Shares equal to the number of Ordinary Shares surrendered as part or all of the exercise price of such Option, (ii) have an expiration date which is the same as the expiration date of the Option the exercise of which gave rise to such Re-Load Option, and (iii) have an exercise price which is equal to one hundred percent (100%) of the Fair Market Value of the Ordinary Shares subject to the Re-Load Option on the date of exercise of the original Option. Notwithstanding the foregoing, a Re-Load Option shall be subject to the same exercise price and term provisions heretofore described for Options under the Plan.

Any such Re-Load Option may be an Incentive Stock Option or a Nonstatutory Stock Option, as the Board may designate at the time of the grant of the original Option; provided, however, that the designation of any Re-Load Option as an Incentive Stock Option shall be subject to the one hundred thousand dollar ($100,000) annual limitation on the exercisability of Incentive Stock Options described in Section 11(d) of the Plan and in Section 422(d) of the Code. There shall be no Re-Load Options on a Re-Load Option. Any such Re-Load Option shall be subject to the availability of sufficient Ordinary Shares under Section 4(a) and shall be subject to such other terms and conditions as the Board may determine that are not inconsistent with the express provisions of the Plan regarding the terms of Options.

7. PROVISIONS OF STOCK AWARDS OTHER THAN OPTIONS.

(a) Stock Bonus Awards. Grants of stock bonus awards shall be pursuant to a Stock Award Agreement, which shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The terms and conditions of each grant of a stock bonus award shall include (through incorporation of provisions hereof by reference in the Stock Award Agreement or otherwise) the substance of each of the following provisions:

(i) Consideration. A stock bonus may be awarded in consideration for past services rendered to the Company or an Affiliate for its benefit.

(ii) Vesting; Right of Repurchase. Ordinary Shares awarded under the Stock Award Agreement may, but need not, be subject to a share repurchase option in favor of the Company in accordance with a vesting schedule to be determined by the Board. Such repurchase option is subject to the repurchase provisions set forth in Section 11(h).

(iii) Termination of Participant's Continuous Service. In the event a Participant's Continuous Service terminates, the Company may reacquire any or all of the Ordinary Shares held by the Participant which have not vested as of the date of termination under the terms of the Stock Award Agreement. In such event, the Company shall not reaquire the Ordinary Shares until after the Repurchase Blackout Period.

(iv) Transferability. Rights to acquire Ordinary Shares under the Stock Award Agreement shall be transferable by the Participant only upon such terms and conditions as are set forth in the Stock Award Agreement, as the Board shall determine in its discretion, so long as Ordinary Shares awarded under the Stock Award Agreement remains subject to the terms of the Stock Award Agreement.

(b) Restricted Stock and Restricted Stock Units.

(i) Designation. Restricted Stock or Restricted Stock Units may be granted under the Plan. Restricted Stock or Restricted Stock Units may include a dividend equivalent right, as permitted by Section 12(a). After the Board determines that it will offer Restricted Stock or Restricted Stock Units, it will advise the Participant in writing or electronically, by means of a Stock Award Agreement, of the terms, conditions and restrictions, including vesting, if any, related to the offer, including the number of Ordinary Shares that the Participant shall be entitled to receive or purchase, the price to be paid, if any, and, if applicable, the time within which the Participant must accept the offer. The offer shall be accepted by execution of a Stock Award Agreement or as otherwise directed by the Board. The term of each award of Restricted Stock or Restricted Stock Units shall be at the discretion of the Board.

(ii) Restrictions. Subject to Section 8(b)(iii), the Board may impose such conditions or restrictions on the Restricted Stock or Restricted Stock Units granted pursuant to the Plan as it may determine advisable, including the achievement of specific performance goals, time based restrictions on vesting, or others. If the Board established performance goals, the Board shall determine whether a Participant has satisfied the performance goals.

(iii) Performance Criteria. Restricted Stock and Restricted Stock Units granted pursuant to the Plan that are intended to qualify as "performance based compensation" under Section 162(m) of the Code shall be subject to the attainment of performance goals relating to the Performance Criteria selected by the Board and specified at the time such Restricted Stock and Restricted Stock Units are granted. For purposes of this Plan, "*Performance Criteria*" means any one criterion or multiple criteria for measuring performance selected by the Board in its sole discretion, the measurement of which may be based upon Company, Subsidiary or business unit performance, or the individual performance of the Participant, either absolute or by relative comparison to other companies, other Participants or any other external measure of the selected criteria. Performance Criteria may include, without limitation, one or more of the following (as selected by the Board): (1) cash flow; (2) earnings per share; (3) earnings before interest, taxes, and amortization; (4) return on equity; (5) total shareholder return; (6) share price performance; (7) return on capital; (8) return on assets or net assets; (9) revenue; (10) revenue growth; (11) earnings growth; (12) operating income; (13) operating profit; (14) profit margin; (15) return on operating revenue; (16) return on invested capital; (17) operating efficiency; or (18) productivity.

(iv) Transferability. Restricted Stock and Restricted Stock Units shall be transferable by the Participant only upon such terms and conditions as are set forth in the Stock Award Agreement, as the Board shall determine in its discretion.

(v) Vesting. Unless the Board determines otherwise, the Stock Award Agreement shall provide for the forfeiture of the non-vested Ordinary Shares underlying Restricted Stock or the termination of unvested Restricted Stock Units upon termination of a Participant's Continuous Service. To the extent that the Participant purchased the Ordinary Shares granted under any such Restricted Stock award and any such Ordinary Shares remain non-vested at the time of termination of a Participant's Continuous Service, the termination of Participant's Continuous Service shall cause an immediate sale of such non-vested Ordinary Shares to the Company at the original price per share of Ordinary Shares paid by the Participant.

(c) Stock Appreciation Rights. Grants of Stock Appreciation Rights shall be pursuant to a Stock Award Agreement, which shall be in such form and shall contain such terms and conditions, as the Board shall deem appropriate. The Board may grant Stock Appreciation Rights in connection with all or any part of an Option ("*Tandem Stock Appreciation Rights*") to a Participant or in a stand-alone grant ("*Stand-Alone Stock Appreciation Rights*"). The terms and conditions of a Stock Appreciation Right shall include (through incorporation of the provisions hereof by reference in the Stock Award Agreement or otherwise) the substance of each of the following provisions:

(i) Calculation of Appreciation. Each Stock Appreciation Right will be denominated in Ordinary Shares equivalents. The appreciation distribution payable on the exercise of a Stock Appreciation Right will be not greater than an amount equal to the excess of (A) the aggregate Fair Market Value (on the date of the exercise of the Stock Appreciation Right) of a number of Ordinary Shares equal to the number of share of Ordinary Shares equivalents in which the Participant is vested under such Stock Appreciation Right and with respect to which the Participant is exercising the Stock Appreciation Right on such date, over (B) an amount that will be determined by the Board at the time of grant of the Stock Appreciation Right (which amount, in the case of Stock Appreciation Rights intended to qualify as performance-based compensation within the meaning of the Treasury Regulations under Section 162(m) of the Code, shall be not less than the Fair Market Value of such Ordinary Shares at the time of grant of the Ordinary Shares equivalents).

(ii) Vesting. At the time of the grant of a Stock Appreciation Right, the Board may impose such restrictions or conditions to the vesting of such Stock Appreciation Right as it deems appropriate.

(iii) Exercise. To exercise any outstanding Stock Appreciation Right, the Participant must provide written notice of exercise to the Company in compliance with the provisions of the Stock Award Agreement evidencing such Stock Appreciation Right.

(iv) Payment. The appreciation distribution in respect of a Stock Appreciation Right may be paid in Ordinary Shares, in cash, or any combination of the two, as the Board deems appropriate.

(v) Termination of Continuous Service. If a Participant's Continuous Service terminates for any reason, any unvested Stock Appreciation Rights shall be forfeited and any vested Stock Appreciation Rights shall be automatically redeemed.

(vi) Transferability. Stock Appreciation Rights shall be transferable by the Participant only upon such terms and conditions as are set forth in the Stock Award Agreement, as the Board shall determine in its discretion.

(vii) Tandem Stock Appreciation Rights. A Tandem Stock Appreciation Right shall be exercisable only to the extent that the related Option is exercisable and a Tandem Stock Appreciation Right shall expire no later than the date on which the related Option expires.

8. COVENANTS OF THE COMPANY.

(a) Availability of Shares. During the terms of the Stock Awards, the Company shall keep available at all times the number of Ordinary Shares required to satisfy such Stock Awards.

(b) Securities Law Compliance. The Company shall seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such authority as may be required to grant Stock Awards and to issue and sell Ordinary Shares upon exercise of the Stock Awards; provided, however, that this undertaking shall not require the Company to register under the Securities Act the Plan, any Stock Award or any Ordinary Shares issued or issuable pursuant to any such Stock Award. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority which counsel for the Company deems necessary for the lawful issuance and sale of Ordinary Shares under the Plan, the Company shall be relieved from any liability for failure to issue and sell Ordinary Shares upon exercise of such Stock Awards unless and until such authority is obtained.

9. USE OF PROCEEDS FROM STOCK.

Proceeds from the sale of Ordinary Shares pursuant to Stock Awards shall constitute general funds of the Company.

10. EFFECTIVE DATE OF PLAN.

The Plan shall become effective as determined by the Board, but no Stock Award shall be exercised (or, in the case of a stock bonus, shall be granted) unless and until the Plan has been approved by the shareholders of the Company, which approval shall be within twelve (12) months before or after the date the Plan is adopted by the Board.

11. MISCELLANEOUS.

(a) Acceleration of Exercisability and Vesting. The Board shall have the power to accelerate the time at which a Stock Award may first be exercised or the time during which a Stock Award or any part thereof will vest in accordance with the Plan, notwithstanding the provisions in the Stock Award stating the time at which it may first be exercised or the time during which it will vest.

(b) Shareholder Rights. No Participant shall be deemed to be the holder of, or to have any of the rights of a holder with respect to, any Ordinary Shares subject to such Stock Award unless and until such Participant has satisfied all requirements for exercise of the Stock Award pursuant to its terms.

(c) No Employment or other Service Rights. Nothing in the Plan or any instrument executed or Stock Award granted pursuant thereto shall confer upon any Participant any right to continue to serve the Company or an Affiliate in the capacity in effect at the time the Stock Award was granted or shall affect the right of the Company or an Affiliate to terminate (i) the employment of an Employee with or without notice and with or without cause, (ii) the service of a Consultant pursuant to the terms of such Consultant's agreement with the Company or an Affiliate, or (iii) the service of a Director pursuant to the Bylaws of the Company or an Affiliate, and any applicable provisions of the corporate law of the state in which the Company or the Affiliate is incorporated, as the case may be.

(d) Incentive Stock Option $100,000 Limitation. To the extent that the aggregate Fair Market Value (determined at the time of grant) of Ordinary Shares with respect to which Incentive Stock Options are exercisable for the first time by any Optionholder during any calendar year (under all plans of the Company and its Affiliates) exceeds one hundred thousand dollars ($100,000), the Options or portions thereof which exceed such limit (according to the order in which they were granted) shall be treated as Nonstatutory Stock Options.

(e) Maximum Award Amounts. In no event shall a Participant receive a Stock Award or Stock Awards during any one (1) calendar year covering in the aggregate more than 2,000,000 Ordinary Shares.

(f) Investment Assurances. The Company may require a Participant, as a condition of exercising or acquiring Ordinary Shares under any Stock Award (i) to give written assurances satisfactory to the Company as to the Participant's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the Stock Award, and (ii) to give written assurances satisfactory to the Company stating that the Participant is acquiring Ordinary Shares subject to the Stock Award for the Participant's own account and not with any present intention of selling or otherwise distributing the Ordinary Shares. The foregoing requirements, and any assurances given pursuant to such requirements, shall be inoperative if (1) the issuance of the Ordinary Shares upon the exercise or acquisition of Ordinary Shares under the Stock Award has been registered under a then currently effective registration statement under the Securities Act, or (2) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the Ordinary Shares.

(g) Withholding Obligations. To the extent provided by the terms of a Stock Award Agreement, the Participant may satisfy any federal, state or local tax withholding obligation relating to the exercise or acquisition of Ordinary Shares under a Stock Award by any of the following means (in addition to the Company's right to withhold from any compensation paid to the Participant by the Company) or by a combination of such means: (i) tendering a cash payment, (ii) authorizing the Company to withhold Ordinary Shares from the Ordinary Shares otherwise issuable to the Participant as a result of the exercise or acquisition of Ordinary Shares under the Stock Award, provided, however, that no Ordinary Shares are withheld with a value exceeding the minimum amount of tax required to be withheld by law, or (iii) delivering to the Company owned and unencumbered Ordinary Shares.

(h) Repurchase Provisions. The Company shall exercise any repurchase option specified in the Stock Award by giving the holder of the Stock Award written notice of intent to exercise the repurchase option. Payment may be cash or cancellation of purchase money indebtedness for the Ordinary Shares. The terms of any repurchase option shall be specified in the Stock Award and may be either at Fair Market Value at the time of repurchase or at not less than the original purchase price.

(i) Golden Parachute Taxes. In the event that any amounts paid or deemed paid to a Participant under the Plan are deemed to constitute "excess parachute payments" as defined in Section 280G of the Code (taking into account any other payments made under the Plan and any other compensation paid or deemed paid to a Participant), or if any Participant is deemed to receive an "excess parachute payment" by reason of his or her vesting of Options pursuant to Section 12(c) herein, the amount of such payments or deemed payments shall be reduced (or, alternatively the provisions of Section 12(c) shall not act to vest options to such Participant), so that no such payments or deemed payments shall constitute excess parachute payments. provided, however, that if a Participant is subject to a separate agreement with the Company or an Affiliate which specifically provides that payments attributable to one or more forms of employee stock incentives or to payments made in lieu of employee stock incentives will not reduce any other payments under such agreement, even if it would constitute an excess parachute payment, or provides that the Participant will have the discretion to determine which payments will be reduced in order to avoid an excess parachute payment, then the limitations of this Section 11(l) will, to that extent, not apply. The determination of whether a payment or deemed payment constitutes an excess parachute payment shall be in the sole discretion of the Board.

(j) Right to American Depository Shares ("ADSs"). The Company may arrange, in its sole discretion, for any one or more Participants to receive ADSs rather than Ordinary Shares upon the exercise of Stock Awards, in which case, all references to "Ordinary Shares" in this Plan or any other document related to the Plan shall be deemed to reference the appropriate number of ADSs per Ordinary Share, as the context may require with respect to such Stock Awards.

(k) Plan Unfunded. The Plan shall be unfunded. Except for the Board's reservation of a sufficient number of authorized shares to the extent required by law to meet the requirements of the Plan, the Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure payment of any Stock Award under the Plan.

12. ADJUSTMENTS UPON CHANGES IN STOCK.

(a) Capitalization Adjustments. In the event that any dividend or other distribution (whether in the form of cash, shares of the Ordinary Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, exchange of Ordinary Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Ordinary Shares occurs, the Board, in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the Plan, may, in its sole discretion, adjust the number and class of Ordinary Shares that may be delivered under the Plan and/or the number, class, and price of Ordinary Shares covered by each outstanding Stock Award. In lieu of the payment of a dividend the Board in its discretion may provide holders of Restricted Stock or Restricted Stock Units a dividend equivalent right, in the form of additional Ordinary Shares or units, with respect to the unvested Ordinary Shares or unvested units the Participant shall be entitled to receive or purchase.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Board will notify each Participant as soon as practicable prior to the effective date of such proposed transaction. To the extent it has not been previously exercised, a Stock Award will terminate immediately prior to the consummation of such proposed action.

(c) Change in Control. In the event of Change in Control, then, to the extent permitted by applicable law: (1) any surviving corporation may assume any Stock Awards outstanding under the Plan or may substitute similar stock awards (including an award to acquire the same consideration paid to the shareholders in the transaction described in this Section 12(c)) for those outstanding under the Plan, or (2) in the event any surviving corporation does not assume or continue such Stock Awards, or substitute similar stock awards for those outstanding under the Plan in accordance with the preceding clause, then the time during which such Stock Awards may be exercised automatically will be accelerated and become fully vested and exercisable immediately prior to the consummation of such transaction, and the Stock Awards shall automatically terminate upon consummation of such transaction if not exercised prior to such event.

(d) No Limitations. The grant of Stock Awards will in no way affect the Company's right to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

13. AMENDMENT OF THE PLAN AND STOCK AWARDS.

(a) Amendment of Plan. The Board at any time, and from time to time, may amend the Plan. However, except as provided in Section 12 relating to adjustments upon changes in Ordinary Shares, no amendment shall be effective unless approved by the shareholders of the Company to the extent shareholder approval is necessary to satisfy the applicable requirements of Section 422 or 162(m) of the Code and the Treasury Regulations thereunder, Rule 16b-3 under the Exchange Act or any Nasdaq or securities exchange listing requirements. For purposes of clarity, any increase in the number of shares reserved for issuance hereunder in accordance with the provisions of Section 4(a) hereof shall not be deemed to be an amendment to the Plan.

(b) Contemplated Amendments. It is expressly contemplated that the Board may amend the Plan in any respect the Board deems necessary or advisable to provide eligible Employees with the maximum benefits provided or to be provided under the provisions of the Code and the regulations promulgated thereunder relating to Incentive Stock Options and/or to bring the Plan and/or Incentive Stock Options granted under it into compliance therewith.

(c) No Impairment of Rights. Rights under any Stock Award granted before amendment of the Plan shall not be impaired by any amendment of the Plan unless (i) the Company requests the consent of the Participant and (ii) the Participant consents in writing.

(d) Amendment of Stock Awards. The Board at any time, and from time to time, may amend the terms of any one or more Stock Awards; provided, however, that the rights under any Stock Award shall not be impaired by any such amendment unless (i) the Company requests the consent of the Participant and (ii) the Participant consents in writing.

14. TERMINATION OR SUSPENSION OF THE PLAN.

(a) Plan Term. The Board may suspend or terminate the Plan at any time. Unless sooner terminated, the Plan shall terminate on the day before the tenth (10th) anniversary of the date the Plan is adopted by the Board or approved by the shareholders of the Company, whichever is later. No Stock Awards may be granted under the Plan while the Plan is suspended or after it is terminated.

(b) No Impairment of Rights. Suspension or termination of the Plan shall not impair rights and obligations under any Stock Award granted while the Plan is in effect except with the written consent of the Participant.

15. CHOICE OF LAW.

The law of California shall govern all questions concerning the construction, validity and interpretation of this Plan, without regard to such state’s conflict of laws rules

Exhibit 5.1

9 June, 2005

Silicon Motion Technology Corporation
No. 20-1, Taiyuan St.,
Jhubei City, Hsinchu County 302,
Taiwan

DIRECT LINE: 2842 9522
E-MAIL: bywlee@cdp.bm
OUR REF: BL/M#870147/D#193039(HK)
YOUR REF:

Dear Sirs

Silicon Motion Technology Corporation (the "Company")

We have acted as special Cayman legal counsel to the Company in connection with an initial public offering of certain ordinary shares in the Company (the "Shares") as described in the prospectus contained in the Company's registration statement on Form F-1 filed with the United States and Exchange Commission (the "Registration Statement" which term does not include any exhibits thereto).

We have acted as special Cayman legal counsel to the Company in connection with an initial public offering of certain ordinary shares in the Company (the "Shares") as described in the prospectus contained in the Company's registration statement on Form F-1 filed with the United States Securities and Exchange Commission (the "Registration Statement" which term does not include any exhibits thereto).

For the purposes of giving this opinion, we have examined and relied upon copies of the following documents:

(i) the Registration Statement to be filed by the Company under the United States Securities Act of 1933 (the "Securities Act") with the United States Securities and Exchange Commission (the "Commission") on 9 June, 2005; and

(ii) a draft of the prospectus (the "Prospectus") contained in the Registration Statement.

We have also reviewed and relied upon (1) the memorandum of association and the articles of association of the Company, (2) copies of the minutes of meetings of and written resolutions passed by directors and shareholders of the Company dated 9 June 2005 and 22 April 2005 respectively (collectively the "Minutes"), (3) the register of members of the Company, and (4) such other documents and made such enquiries as to questions of law as we have deemed necessary in order to render the opinion set forth below.

We have assumed (i) the genuineness and authenticity of all signatures, stamps and seals and the conformity to the originals of all copies of documents (whether or not certified) examined by us and the authenticity and completeness of the originals from which such copies were taken; (ii) the accuracy and completeness of all factual representations made in the Prospectus and Registration Statement and other documents reviewed by us, (iii) that the resolutions contained in the Minutes are full and accurate records of resolutions passed at meetings duly convened and held by the directors and shareholders of the Company in accordance with the articles of association of the Company and that such resolutions have not been amended or rescinded and remain in full force and effect; (iv) that there is no provision of the law of any jurisdiction, other than the Cayman Islands, which would have any implication in relation to the opinions expressed herein; (v) the validity and binding effect under the laws of the United States of America of the Registration Statement and the Prospectus and that the Registration Statement will be duly filed with or declared effective by the Commission; and (vi) that the Prospectus, when published, will be in substantially the same form as that examined by us for purposes of this opinion.

We have made no investigation of and express no opinion in relation to the laws of any jurisdiction other than the Cayman Islands. This opinion is to be governed by and construed in accordance with the laws of the Cayman Islands and is limited to and is given on the basis of the current law and practice in the Cayman Islands. Subject as mentioned below, this opinion is issued solely for your benefit and is not to be relied upon by any other person, firm or entity or in respect of any other matter nor is it to be quoted or referred to in any document registered or filed with any governmental authority or public body without our prior express consent in writing save that this opinion may be filed as an exhibit to the Registration Statement.

On the basis of and subject to the foregoing, we are of the opinion that:

(1) The Company is duly incorporated and existing under the laws of the Cayman Islands.

(2) The issue of the Shares has been duly authorised, and when the Shares have been issued, delivered and paid for in the manner described in and pursuant to the terms of the Prospectus and Registration Statement will be validly issued, fully paid and non-assessable (meaning that no further sums are payable to the Company with respect to the holding of such Shares).

We hereby consent to the filing of this opinion with the Commission as an exhibit to the Registration Statement and to the references to us under the headings “Taxation”, “Enforcement of Civil Liabilities” and “Legal Matters” in the Prospectus contained in the Registration Statement. In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act, or the Rules and Regulations of the Commission thereunder.

Yours faithfully,

CONYERS DILL & PEARMAN

\s\ CONYERS DILL & PEARMAN

EXHIBIT 8.1

OPINION OF PRESTON GATES & ELLIS REGARDING TAX MATTERS

June 9, 2005

Silicon Motion Technology Corporation
No. 20-1, Taiyuan Street
Jhubei City, Hsinchu County 302
Taiwan

Re: _____ American Depository Shares (the "ADSs"), representing _____ Ordinary Shares of Silicon Motion Technology Corporation (the "Company")

Ladies and Gentleman:

We have acted as counsel in connection with the initial public offering on the date hereof of _____ American Depository Shares ("ADSs"), each representing _____ ordinary shares, par value US $0.01 per shares ("ordinary Shares"), of Silicon Motion Technology Corporation, a Cayman Islands company (the "Company") pursuant to a the registration statement on Form F-1 under the Securities Act of 1933, as amended (the "Act"), filed by the Company with the Securities and Exchange Commission (the "Commission") on June 9, 2005 (the "Registration Statement").

The facts, as we understand them, and upon which with your permission we rely in rendering the opinion herein, are set forth in the Registration Statement. In our capacity as counsel to the Company, we have made such legal and factual examinations and inquiries, including an examination of originals or copies certified or otherwise identified as conforming to such documents, corporate records and other instruments as we have deemed necessary or appropriate for purposes of this opinion. In our examination, we have assumed the authenticity of all documents submitted to us as originals, the genuineness of all signatures thereon, the legal capacity of natural persons executing such documents and the conformity to authentic original documents of all documents submitted to us as copies. For purposes of our opinion, we have not made independent investigation, or audit of all facts set forth in the above-referenced documents.

In addition, we have relied upon statements and representations of the officers and other representatives of the Company and others, and we have assumed that such statements and representations are and will continue to be correct without regard to any qualification as to knowledge and belief.

Our opinion is based upon the provisions of the Internal Revenue Code of 1986, as amended, the U.S. Treasury Regulations, rulings and judicial decisions thereunder as of the date hereof. Such authorities are subject to change, possibly on a retroactive basis, which may affect the conclusions expressed herein. Also, any variation or difference in the facts from those set forth in the Registration Statement may affect the conclusions stated herein. There can be no assurance that our opinion expressed herein will be accepted by the Internal Revenue Service or, if challenged, by a court.

We are opining herein as to the effect on the subject transaction only of the federal income tax laws of the United States and we express no opinion with respect to the applicability thereto, or the effect thereon, of other federal laws, the laws of any state or any other jurisdiction or as to any matters of municipal law or the laws of any local agencies within any state.

Based upon and subject to the foregoing,.

Based upon and subject to the foregoing, we are of the opinion that under current United States federal income tax law, although the discussion set forth under the caption "United States Federal Income Taxation" does not purport to discuss all possible United States federal income tax consequences of the purchase, ownership, and disposition of the ADSs, such discussion constitutes our opinion as to the material United States federal income tax consequences to U.S. Holders (as defined in the Prospectus) who purchase the ADSs pursuant to the Prospectus.

No opinion is expressed as to any matter not discussed herein.

This opinion is furnished to you, and is for your use in connection with the transactions set forth in the Registration Statement. This opinion may not be relied upon by you for any other purpose or relied upon by any other person, firm or corporation, for any purpose, without our prior written consent, which may be granted or withheld in our sole discretion, except that this opinion may be relied upon by persons entitled to rely on it pursuant to applicable provisions of United States federal securities law.

We hereby consent to the use of this opinion in, and the filing hereof as an Exhibit to, the Registration Statement and to the reference to our name under the heading "Taxation – United States Federal Income Taxation" in the prospectus included in the Registration Statement. In giving this consent, we do not thereby admit that we are within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, as amended, or the rules and regulations of the Commission promulgated thereunder.

Very truly yours,

PRESTON GATES & ELLIS LLP

\s\ PRESTON GATES & ELLIS

Exhibit 8.2

9 June, 2005

Silicon Motion Technology Corporation
No.20-1, Taiyuan St.
Jhubei City, Hsinchu County 302
Taiwan

DIRECT LINE: 2842 9522
E-MAIL: bywlee@cdp.bm
OUR REF: BL/M#870147/D#193755(HK)
YOUR REF:

Dear Sirs,

Silicon Motion Technology Corporation (the "Company")

We have acted as special Cayman Islands legal counsel to the Company in connection with an initial public offering of certain ordinary shares in the Company in the form of American Depositary Shares (the "Shares") as described in the prospectus (the "Prospectus") contained in the Company's registration statement on Form F-1 filed with the United States Securities and Exchange Commission (the "Registration Statement" which term does not include any exhibits thereto).

For the purposes of giving this opinion, we have examined and relied upon copies of the following documents:

(i) the Registration Statement to be filed by the Company under the United States Securities Act of 1933 (the "Securities Act") with the United States Securities and Exchange Commission (the "Commission") on 9 June, 2005, as amended; and

(ii) a draft of the prospectus (the "Prospectus") contained in the Registration Statement.

We have also reviewed and relied upon (1) the memorandum of association and the articles of association of the Company, (2) a copy of an undertaking from the Governor-in-Council of the Cayman Islands under the Tax Concessions Law (1999 Revision) dated 1 March, 2005, and (3) such other documents and made such enquiries as to questions of law as we have deemed necessary in order to render the opinion set forth below.

We have assumed (i) the genuineness and authenticity of all signatures, stamps and seals and the conformity to the originals of all copies of documents (whether or not certified) examined by us and the authenticity and completeness of the originals from which such copies were taken; (ii) the accuracy and completeness of all factual representations made in the Prospectus and Registration Statement and other documents reviewed by us, (iii) that there is no provision of the law of any

jurisdiction, other than the Cayman Islands, which would have any implication in relation to the opinions expressed herein; (iv) the validity and binding effect under the laws of the United States of America of the Registration Statement and the Prospectus and that the Registration Statement will be duly filed with or declared effective by the Commission; and (v) that the Prospectus, when published, will be in substantially the same form as that examined by us for purposes of this opinion.

We have made no investigation of and express no opinion in relation to the laws of any jurisdiction other than the Cayman Islands. This opinion is to be governed by and construed in accordance with the laws of the Cayman Islands and is limited to and is given on the basis of the current law and practice in the Cayman Islands.

On the basis of and subject to the foregoing, we are of the opinion that the statements relating to certain Cayman Islands tax matters set forth under the caption “Taxation - Cayman Islands taxation” in the Prospectus are true and accurate based on current law and practice at the date of this letter and that such statements constitute our opinion.

We hereby consent to the filing with the Securities and Exchange Commission of this letter as an exhibit to the Registration Statement of which the Prospectus is a part, and the reference to us under the captions “Legal matters” and “Enforceability of civil liabilities” in the Prospectus contained in the Registration Statement. In giving the foregoing consent, we do not admit that we are within the category of persons whose consent is required under section 7 of the United States Securities Act of 1933.

Yours faithfully,

CONYERS DILL & PEARMAN

\s\ CONYERS DILL & PEARMAN

LESSOR: Fang Shinn Industrial Co., Ltd.

LESSEE: Silicon Motion, Inc.

LEASE AGREEMENT

From June 1, 2004 to May 31, 2006

This Lease Agreement is made on the 4th day of May 2004 by and between:

Fang Shinn Industrial Co., Ltd (LESSOR, hereinafter "Party A")

Silicon Motion, Inc. (LESSEE, hereafter "Party B")

In consideration of the mutual covenants herein contained and upon mutual assent, the parties hereto enter into this lease agreement with the following terms and conditions:

Article 1 Location and use area of the premises under the Lease:

1. Premises Address: 4th Floor, No. 96, Mincyuan Road, Sindian City, Taipei County.
2. Use Area: all the ownership area of (292.54 Ping).
3. Lease Area: based on the certificate of title (including 2 car parking spaces, No. 42 and 24, on the fourth basement).
4. Lease Purpose: office and factory.

Article 2 Lease Period

The lease period shall commence from June 1, 2004 to May 31, 2006.

Article 3 Rental and Security Deposit

1. The monthly rental for the premises is Two Hundred and Sixty Thousand Six Hundred and Ten NT Dollars (taxes included). Party B shall issue checks for the total rental due monthly (each check for the monthly rental due on the commencing date of the month) for a year to party A.
2. Party B shall pay the security deposit of Four Hundred and Ninety-Six Thousand and Four Hundred NT Dollars to Party A upon the execution of this Agreement. Party A shall refund the security deposit to Party B (by cash or sight check) without interest upon expiry of this Agreement provided that Party B does not intend to renew the Agreement.

Article 4 Use and Limitation of Premises

1. The premises is leased for Party B's business use, and shall not be used for any unlawful purposes or for storing hazardous articles that may jeopardize public safety.
2. Party B shall under no circumstances sublease, lend, assign, or in any manners transfer to others the right to use all of or part of the premises without consent of Party A.
3. Upon expiry or termination of the Lease, Party B shall return the leased premises to Party A without claiming to Part A any moving fees.
4. Party B shall not perform improvement or construction of the premises unless otherwise under consent of Party A. In such a case, Party B shall not impair the safety of the original structure and shall return the premises to Party A in the condition which the Premises was as expiration of the Lease.

Article 5 Obligation for Damage

While making use of the premises, Party B shall exercise the due care in good faith. With the exception of force majeure such as acts of God and earth movement, Party B shall be liable for indemnity in case that any damage occurs to the premises due to an act of negligence on the part of Party B. If a natural cause results in damages to the premises or to any pertinent equipment and facilities that need repaired, such repairs shall be undertaken by Party A.

Article 6 Breach and Penalty

1. Upon Party B's use of the premises that violates the agreement hereof or failure to pay the rental for consecutive two months upon Party A's request within a specific term, Party A may terminate the Agreement and confiscate the security deposit.
2. If Party B intends to terminate the Lease before expiry of the Agreement, Party B shall give Party A a prior two-month written notice and indemnify Party A for an amount of two times of the rental as penalties.
3. If Party B doesn't return the premises upon expiry of the lease term, Party A may confiscate the security deposit and Party B shall pay penalties calculated by an amount of two times of the rental from the next day of the expiration of the Lease.
4. If proceeding arises because of Party B's breach of the agreement, Party B shall be liable for all the litigation cost, attorney fee and other related fees in full amount.

Article 7 Other Agreements

1. All taxes related to the premises and the income tax related to this Agreement shall be borne by Party A while Party A shall issue to Party B every month a uniform invoice for Party B's filing to the tax authority. The utility bills, telephone bills, building administration fees, business tax shall be borne by Party B.
2. Any furniture and article that are left at the premises after Party B has moved out shall be deemed to be waste and may be disposed of by Party A at its sole discretion, and the disposing fee shall be deducted from the security deposit.
3. Party A shall do its best to provide pertaining documents or seals to assist Party B in applying for business operation without delay.
4. Party A shall not by itself or allow others to set up any stalls, or install, build over, or post any advertisement, fascia or other objects around the premises.
5. If the premise is so damaged partly or wholly due to the force majure or matters which are not attributed to Party B that it can no longer be used, Party B may terminate the Agreement or request for deduction of the rental. In such a case, Party A shall refund to Party B the overpaid rental as well as the security deposit.
6. Party A covenants that no third party will claim any right to Party B during the lease term.
7. Upon expiry of this Agreement, if Party A intends to lease out the promises and Party B has nothing like damaging the premise or delaying the rental or other disputes during the term of the Lease, Party B shall have the priority to renew the Agreement with the same terms and conditions as specified herein or another agreement made between Party A and the third party. In such a case, Party B shall express the intent of extending the agreement three months before expiry of the lease, or otherwise, the lease agreement will expire by the end of the lease term without any further notice by Party A.

8. The parties shall share the notary fees if notarization is necessary.
9. Party B shall comply and accept the management rules such as residency agreement or building regulations.
10. Party A shall return the security deposit to Party B (only by cash or sight check) after Party B has changed the business address, vacate and return the premises with submission of related certificates.
11. Upon expiry of this agreement when Party B has moved out, Party A may collect One Hundred Thousand NT Dollars in advance from the security deposit to pay utility, gas, and waste deposing fees, and refund the balance or demand the difference next month.

Article 8 Compulsory Execution Case

Party B's non-performance of returning the premises or Party A's non-performance of refunding the security deposit upon expiry of the lease period shall be directly subject to compulsory execution.

Article 9 Jurisdiction Court

Taipei District Court shall have exclusive jurisdiction in respect of any disputes arising in relation hereto.

Article 10 Agreement

This Agreement is made in triplicate, each party shall hold one.

Signed by

Lessor: Fang Shinn Industrial Co., Ltd
Responsible Person: /s/ Chi-Chuan Lin
Address: No. 53, Bao Hsin Rd., Xindian City, Taipei County, Taiwan.
Tax Number: 02278229
Telephone No: (02)2913-8623#30 Miss Liao

Leessee: Silicon Motion, Inc.
Responsible Person: /s/ James Chou
Tax Number: 97440546
Address: No. 20-1 TaiYuan St., Hsinchu City, Hsinchu County, Taiwan.
Telephone No: (03) 5526888

Real Property Agent: /s/ Yi-Chan Lin
Telephone No: (02) 22199566
Address: 11F, No. 108 Ming Chuan Rd., Xindian City, Taipei County, Taiwan.
Real Estate Agent Certificate No:(90) Taipei County No. 000196

Lease Agreement

This Lease Agreement is made on this 23th day of February 2005 by and between TaiHsing Printing and Binding Co., Ltd (the "Lessor", hereinafter referred to as "Party A"); and Silicon Motion Inc. (the "Lessee", hereinafter referred to as "Party B").

In consideration that any matter in connection with the Lease shall be binding the parties, the parties hereto agree to the terms and conditions contained hereunder:

1. Premises and Scope of Use
   - 1.1 Address: Floors 1 and 2, No. 96, Min-Quan Road, Xin-Dian City, Taipei County
   - 1.2 Scope of Use: No.96, Min-Quan Road, Xin-Dian City, Taipei County, the 1st Floor (covering Area A shown in the attached figure) and all of the 2nd Floor.
   - 1.3 Lease Area: Pursuant to the certificate of ownership (including 2 parking spaces, No. 93 and 94 on B3)
   - 1.4 Lease Purpose: Office use
2. Lease Period

   The lease term of the Agreement is a year and two months, commencing on the 1st of April 2005 and expiring on the 31st of May 2006.

   No rentals shall be charged during the improvement period commencing on the 1st of March 2005 and expiring on the 31st of March 2005.
3. Rentals and Deposit
   - 3.1 The monthly rental for the premises is two hundred thousand NT Dollars (NT$200,000) (including 5% of tax); Party B shall pay a monthly rental to Party A prior to the 1st day of each calendar month (however, Party B shall issue advance checks due monthly for a year at a time) without delay or objection for whatever reason.
   - 3.2 The deposit is six hundred thousand NT Dollars (NT$600,000).
     - (1) Payment: Party B shall pay Party A the deposit (the "Deposit") upon execution of the Agreement.
     - (2) Refund: Party A shall refund to Party B the deposit without interest upon termination or expiry, and Party B's vacation of the premises.
4. Restrictions on Use of Premises
   - 4.1 Part B shall under no circumstances sublease, lend, assign, or in any manners transfer the premises, in part or in whole, to or allow any other third party to use the premises in any manner without consent of Party A.
   - 4.2 Upon termination or expiry of the Agreement, Party B shall vacate the premises, re-convey the premises to Party A unconditionally without delay or claims to any right, and shall not claim against Party A for moving expense or any other expenses.
   - 4.3 The premises shall be exclusively for use in compliance with applicable laws. No illegal use or storage of hazardous substances that may affect public safety will be allowed.
   - 4.4 No improvement or construction of the premises shall be made unless otherwise Party B notices Party A beforehand. In such a case, Party B shall neither impair the safety of the original structure nor breach any related laws.
   - 4.5 Party B shall observe the regulations for tenants relating to the premises.
5. Risk Liability
   - 5.1 Party B shall be liable for rectification or indemnity in case that any damage occurring to the premises can be attributed to Party B.
   - 5.2 In case of any damage to the premises for reasons not attributable to Party B, Party A shall be liable to rectify the damage within 10 days. Party B may terminate this Agreement if the premises can not be used or do not meet the purpose of use specified herein after such rectification.
   - 5.3 In the event that Party B fails to pay rentals or makes improper use of the premises, the rentals due and payable as well the amount of compensation shall be withheld from the deposit by Party A.

6. Other Terms and Conditions

6.1 All taxes payable in respect of the premises, including, without limitation, the house tax and land tax, shall be born by Party A unconditionally. Charges for utilities, gas, administration, telecommunications, and other additional supplies provided for use of the premises shall be born by Party B.

6.2 Upon termination or expiry of the Agreement, Party B shall pay off all charges payable to Party A or Party A may withhold these amounts of the charges from the deposit in priority.

6.3 Upon vacation of the premises or termination of this Agreement, Party B agrees that any furniture or other articles left inside shall be regarded as being abandoned or be disposed by Party A at its sole discretion without any objection. Any expense arising thereof shall be born by Party B in accordance with the previous paragraph.

6.4 Either party shall not terminate the Agreement prior to expiry without consent of the other party. In the event Party B intends to terminate the Agreement and moves out of the premises prior to the expiry date, Party B shall pay Party A an amount equal to 2 months' rentals for compensation. If Party A intends to take back the premises ahead of the time, Party A shall likewise pay Party B an amount equal to 2 months' rentals for compensation.

6.5 In the event either party no longer desires to renew the Agreement, a written notice shall be given to the other Party 60 days prior to expiry of the Agreement.

6.6 Air-conditioner equipment, including condenser, air-conditioner machine, electric control panel, and telecommunications cabinet comes with a one-year warranty unconditionally. In the event of damages due to man-made factors, Party B shall be liable for repairing or indemnity. In case of malfunctions of the aforesaid equipment, Party A shall unconditionally accomplish the repairing within a period of time given by Party B. Party B shall be responsible for maintenance of all of the equipment mentioned above during the lease period.

6.7 In case that the Lessor is willing to continually lease out the premises upon expiry of the Agreement, the Lessee has the priority to lease the premises from the Lessor.

7. Penalties

7.1 Party A may terminate the Agreement in case Party B breaches the use of the premises and fails to rectify the breach or rectifies the breach incompletely upon Party A's request within a given amendment period.

7.2 Party B shall vacate the premises and reconvey the premises to Party A from the next day of expiry or termination of the Agreement without delay or claims to any right for whatever reason. Failure to vacate and reconvey the premises may subject Party B to a penalty twice as much as the rental requested by Party A until the reconveyance date.

7.3 In the event of any breach of any provision of the Agreement by a party causing damages to the rights and interests of the other party, such party shall indemnify the other party for the damages litigation fee, attorney fee (as per minimum charging standard approved by the tax authority) or other costs incurred.

7.4 Party B's failure to pay the rental for a month as scheduled by shall be deemed to be in breach of the Agreement.

7.5 In case of either party in breach of the Agreement, the other party may terminate the Agreement and may claim for compensation in case of any damage.

8. Matters Subject to Compulsory Execution

Upon expiry of the Agreement, the Lessee shall pay rentals, penalties and reconvey the premises, and the Lessor shall refund the deposit. Failure to perform the foregoing obligations shall be subject to compulsory execution. The aforesaid terms and conditions are agreed to by the parties hereto. In witness whereof, the parties sign the Agreement in triplicate, each party shall retain one copy, and cause this Agreement to be executed on the date and year first above written.

Lessor (Party A): Tai-Hsing Printing and Binding Co., Ltd
Responsible Person: /s/ Chih-Li, Lin
Tax No.: 04491400
Address: No. 33 Bao-Xing Road, Xin-Dian City, Taipei County
Tel: 2913-8623

Lessee (Party B): Silicon Motion Inc.
Responsible Person: /s/ James Chow
Tax No: 97440546
Address: No 20-1, Tai-Yuan Street, Jhu-Bei City, Hsin-Chu County
Tel: (03) 552-6888

Real Estate Broker: /s/ Li-Jung, Shen
Tel: (02) 2219-9566
Address: 7F, No. 119, Min-Quan Road, Xin-Dian City, Taipei County
Broker Certificate Number: (90) Pei-Hsian-Tze No. 000196

February 23, 2005

Lease Agreement for TAI YUEN HI-TECH INDUSTRIAL PARK Building

The Lease Agreement is made on the 27th day of November 2003 by and between Silicon Motion, Inc. (hereinafter referred to as "the Lessee"); and Winsome Development Inc. (hereinafter referred to as "the Lessor").

In consideration that any step taken in good faith under or in connection with the Lease for TAI YUEN HI-TECH INDUSTRIAL PARK Building shall be binding the parties, the parties hereto agree the following terms and conditions:

1. Premises

   The Lessor intends to lease the premises mentioned below to the Lessee:

   (1) Location: No 20-1 Tai-Yuan Street, Jhu-Bei Li, Jhu-Bei City, Hsin-Chu County. The total area of the premises: four hundred and eighty-two point sixty five (482.65) Pins (Parking Lots: three parking lots, No. 15, 16 and 17, on the second floor of basement in Area BCD is to be used by the Lessee.)

   (2) The Lessor shall ensure that the Lessor has clear titles to the property.

2. Rental

   (1) The monthly rental for the premises is four hundred and twenty thousand NT Dollars (NT$420,000), taxes included.

   (2) The rental shall be paid monthly. The Lessee shall issue checks due monthly for a year to the Lessor. The issuance date shall be the first date of each month under the lease agreement. The Lessor shall issue invoices to Lessee after cashing these checks. The checks for the rental of the second lease year shall be issued in the manner as mentioned above, and shall be delivered to the Lessor before the due date of the check for the last payment of the first year. In case of dishonor of any of these checks, the Lessee shall be penalized 1% of the monthly rental as the overdue payment for each day.

3. Deposit

   Upon signing of this lease agreement, the Lessee shall make a payment of one million two hundred and sixty thousand NT dollars (NT$1,260,000) (equivalent to rentals for three months, tax-included) as the deposit. Should the Lessee be liable for any failure of payment of rental upon the request of the Lessor or any damage resulting from any material improper use of the premises determined by the parties, such amount may be directly deducted from the deposit. Upon termination or expiry of the agreement, the deposit, after deduction of unpaid fees, shall be refunded to the Lessee without interest after the Lessee has vacated and returned the premises and where there is no damage confirmed.

4. Lease Period:

   The lease term of the agreement is two years, starting from the 1st of March 2004 to the 28th of February 2006. In case that the the Lessor intends to continually lease out the premises upon expiry of the agreement, the Lessee shall have the priority to lease the premises from the Lessor. In such a case, the Lessee shall notice the Lessor three months prior to the expiration of the agreement, and the terms and conditions in respect to the lease shall be negotiated separately.

5. Use of Premises

   (1) The Lessee shall under no circumstances sublease, lend, assign, or in any manners transfer to others the right to use all of or part of the premises without the written consent of the Lessor.

   (2) The Lessee shall observe the "Regulations for TAI YUEN HI-TECH INDUSTRIAL PARK", and no illegal use or storage of hazardous substances that may affect public safety will be allowed.

   (3) a) No improvement or construction of the premises shall be made unless otherwise the Lessee notices the Lessor beforehand. In such a case, the Lessee shall neither impair the safety of the original structure nor breach any related laws. In the event of any breach, the Lessee shall be liable to rectify the fault, or otherwise, the Lessor may terminate the agreement; and, the Lessee is obliged to remove any improvement and equipment and return the premises described under Article 9 (2) of the agreement. The Lessee shall be liable for any damage resulting from infringement to the third parties and which can be attributed to the Lessee. The Lessee shall be also liable for any indemnity or expense arising from the infringement.

   b) Upon any required improvement for equipment (such as ceiling or air conditioners), the Lessor shall neither impair the safety of the original structure nor breach any related laws. The Lessor shall indemnify or be liable for any expense incurred thereof, where such a breach causes damages to the third parties or the Lessee.

6. Damage

(1) The Lessee shall be liable for rectification or indemnity in case that any damage occurring to the premises can be attributed to the Lessee.

(2) The Lessor shall be liable to rectify the damage that cannot be attributed to the Lessee. In case of the Lessor's failure to rectify the damage upon the request of the Lessee, the Lessee may rectify or have someone rectify the damage at the expense of the Lessor.

7. Expense and Tax

(1) The Lessor shall pay the house tax and land tax of the premises while the Lessee shall pay the expenses of utilities, telecommunication, cleaning, waste disposal, equipment maintenance, and administration and other expenses resulting from the use of the premises.

(2) The Lessee shall pay off the aforementioned expenses during the lease term no matter whether the Lessee uses the premises.

8. Penalties

(1) The Leasor may terminate the agreement in case the Lessee's use of the premises breaches the agreement hereof and the Lessee fails to rectify the breach or rectifies the breach incompletely upon the Lessor's request within a seven-day amendment period.

(2) Either of the parties covenants to indemnify the other party for any loss or related expense resulted from the party's breach of the agreement.

(3) Unless the Lessor agrees to renew the agreement in written, the Lessee shall restore, vacate and return the premises to the Lessor from the next day of expiry or termination of the agreement, without delay or claims to any right. Failure to vacate and return the premises may lead to a breach penalty to the Lessee of twice as much as the rental until the date the premises are vacated and re-conveyed.

(4) Upon the Lessee's failure to pay the rental for two months, the Lessor may terminate the agreement in written form, unless the Lessor fails to fulfill any previous payment or obligation to Lessee.

(5) In case either of the parties breaches the agreement and fails to rectify the breach or rectifies the breach incompletely upon the request of the other party within a seven-day amendment period, the other party may terminate the agreement in written form and claim for indemnity of, if any, loss.

9. Termination of Agreement

(1) Either of the parties shall not terminate the agreement before expiry of the agreement without the other party's written consent. If the Lessee intends to terminate the agreement and moves out before expiry of the agreement, the Lessee shall give the Lessor a prior written notice three month ago and indemnify the Lessor for rentals of three months as compensation. If the Lessor intends terminate the lease before expiry of the agreement, the Lessor shall also give the Lessee a prior written notice three month ago and indemnify the Lessor for rentals of three months as compensation.

(2) Upon termination or expiry of the lease agreement, the Lessee shall restore, vacate the premises, and return the premises to the Lessor. Any remaining furniture, equipment or stuff will be regarded as waste and shall be at the Lessor's disposal while any expense incurred thereof shall be at the Lessee's expense and deducted from the deposit. The Lessee shall neither claim any right with excuses nor claim for any expense to the Lessor.

10. Notarization of Lease Agreement

(1) Both the Lessor and Lessee shall jointly have the lease agreement notarized at the Taiwan HsinChu District Court. The parties shall share the notarization fee equally.

(2) Compulsory execution procedure will be taken upon the Lessee in case of the Lessee's failure to pay the rentals, breach penalties, or vacation of the premises upon expiry of the agreement. Compulsory execution procedure will also be taken upon the Lessor for the leasor's failure to return the deposit or pay the breach penalties.

11. Jurisdiction Court

The parties agree that the Taiwan HsinChu District Court as the court of first instance governing any proceeding arising in relation hereto.

12. Miscellaneous

(1) During the term in respect of the Lessee's improvement of the premises, rentals are waived while the Lessee shall be liable for the expenses provided in Article 7 under the agreement.

(2) The lease agreement is made in triplicate; each party and the court shall hold one copy.

Contractors:

Lessee: Silicon Motion, Inc.
Statutory Agent: /s/ James Chow
Tax Number: 97440546
Address: 3F-8, No. 81 ShuiLi Road, HsinChu City
Telephone: 03-5720699

Lessor: Winsome Development Inc.
Statutory Agent: /s/ ChenHua Lee
Tax Number: 86321500
Address: 12F, No. 2, Sec. 2, TunHua S. Road, Taipei City
Telephone: 02-23252000

Date:

Lease Agreement for TAI YUEN HI-TECH INDUSTRIAL PARK Building

The Lease Agreement is made on this 4th day of February 2005 by and between Silicon Motion, Inc. (hereinafter referred to as "the Lessee"); and Richtek Technology Corp. (hereinafter referred to as "the Lessor").

In consideration that any step taken in good faith under or in connection with the Lease for TAI YUEN HI-TECH INDUSTRIAL PARK Building shall be binding the parties, the parties hereto agree to the following terms and conditions:

1. Premises

   The Lessor intends to lease the premises mentioned below to the Lessee:

   (1) Location: 4F-1, No 20, Tai-Yuan Street, Jhu-Bei Li, Jhu-Bei City, Hsin-Chu County. The premises refer to part of the building at the said location (see the attached figure) and public utility with a total area of: three hundred and five (305) Pings.

   (2) It is mutually agreed between the parties hereto that the premises shall be delivered "as is".

2. Rental

   (1) The monthly rental for the premises is two hundred and thirty thousand NT Dollars (NT$230,000), taxes included.

   (2) The rental shall be paid monthly. The Lessee shall issue checks due monthly for a year to the Lessor. The issuance date shall be the tenth day of each month under the lease agreement. The Lessor shall issue invoices to Lessee after cashing these checks. The checks for the rental of the second lease year shall be delivered issued in the manner as mentioned above, and shall be delivered to the Lessor before the due date of the check for the last payment of the first year. In case of dishonor of any of these checks, the Lessee shall be penalized 1% of the monthly rental as the overdue payment for each day.

3. Deposit

   Upon signing of this lease agreement, the Lessee shall make a payment of six hundred and ninety thousand NT dollars (NT$690,000) (equivalent to rentals for three months, tax-included) as the deposit. The Lessee shall be liable for the damage in the event of any failure of payment upon the request of the Lessor or any damage resulting from any improper use of the premises determined by the parties. The delayed payment and the damage may be directly deducted from the deposit. Upon termination or expiry of the agreement and return of the premises, the deposit, after deduction of unpaid fees, shall be refunded to the Lessee without interest where there is no damage confirmed.

4. Lease Period:

   The lease term of the agreement is three years, starting from the 16th of March 2005 to the 15th of March 2008. In case that the Lessor intends to continually lease out the premises upon expiry of the agreement, the Lessee shall have the priority to lease the premises from the Lessor. In such a case, the Lessee shall notice the Lessor three months prior to the expiration of the agreement, and the terms and conditions in respect to the lease shall be negotiated separately.

5. Use of Premises

   (1) The Lessee shall under no circumstances sublease lend, assign, or in any manners transfer to others the right to use all of or part of the premises without the written consent of the Lessor.

   (2) The Lessee shall observe laws and the "Regulations for TAI YUEN HI-TECH INDUSTRIAL PARK", and no illegal use or storage of hazardous substances that may affect public safety will be allowed.

   (3) No improvement or construction of the premises shall be made unless otherwise the Lessee obtain a prior consent of the Lessor. In such a case, the Lessee shall neither impair the safety of the original structure nor breach any related laws. In the event of any breach, the Lessee shall be liable to rectify the fault the restoration, or otherwise, the Lessor may terminate the agreement; and, the Lessee is obliged to remove any improvement and equipment and return the premises described under Article 9 of the agreement. The Lessee shall be liable for any damage that can be attributed to the Lessee upon infringement of rights of any third parties . The Lessee shall be also liable for any indemnity or expense arising from the infringement to the Lessor.

   (4) The Lessee shall take out a public accidental insurance policy (the injured persons shall be covered at the minimum liability of ten million NT Dollars per occurrence of a casualty; and property losses shall be cover at the minimum liability of two million NT Dollars per occurrence of a casualty) and liability insurance for fire during the lease period. Failure to do so may subject the Lessee to be held liable for any loss caused to a third party or the Lessor thereof.

6. Damage

(1) The Lessee shall be liable for rectification or indemnity in case that any damage occurring to the premises can be attributed to the Lessee.

(2) The Lessor shall be liable to rectify the damage that cannot be attributed to the Lessee. In case of the Lessor's failure to rectify the damage upon the request of the Lessee within the fixed period, the Lessee may rectify or have someone rectify the damage at the expense of the Lessor.

7. Expense and Tax

(1) The Lessor shall pay the house tax and land tax while the Lessee shall pay the expenses of utilities, telecommunication, cleaning, waste disposal, equipment maintenance, service, and administration and other expenses resulting from the use of the premises.

(2) The Lessee shall pay off the aforementioned expenses during the lease term no matter whether the Lessee uses the premises.

8. Penalties

(1) The Leasor may terminate the agreement in case the Lessee breaches the use of the premises and fails to rectify the breach or rectifies the breach incompletely upon the Lessor's request within a seven-day amendment period.

(2) Either of the parties covenants to indemnify the other party for any loss or related expense resulted from the party's breach of the agreement.

(3) Unless under the written consent of the Lessor that agrees to renew the agreement, the Lessee shall restore, vacate the premises, and return the premises to the Lessor from the next day of expiry or termination of the agreement, without delay or claims to any right. Failure to vacate the premises and return the premises may lead to a breach penalty to the Lessee twice as much as the rental until the date the premises are vacated and re-conveyed.

(4) Upon the Lessee's failure to pay the rental for two months, the Lessor may terminate the agreement.

(5) In case either of the parties breaches the agreement and fails to rectify the breach or rectifies the breach incompletely upon the request of the other party within a seven-day amendment period, the other party may terminate the agreement and claim for indemnity of, if any, loss.

9. Termination of Agreement

(1) Either of the parties shall not terminate the agreement before expiry of the agreement without the other party's written consent. If the Lessee intends to terminate the agreement and moves out before expiry of the agreement, the Lessee shall give the Lessor a prior three-month written notice and indemnify the Lessor for rentals of three months as compensation. If the Lessor intends terminate the lease before expiry of the agreement, the Lessor shall also give the Lessee a prior three-month written notice and indemnify the Lessor for rentals of three months as compensation.

(2) Upon termination or expiry of the lease agreement, the Lessee shall restore, vacate the premises, and return the premises to the Lessor. Any remaining furniture, equipment or stuff will be regarded as waste and shall be at the Lessor's disposal while any expense incurred thereof shall be attributed to the Lessee and deducted from the deposit. Neither the Lessee shall claim any right with excuses nor shall claim to the Lessor for any expense.

10. Notarization of Lease Agreement

Compulsory execution will be taken upon the Lessee in case of the Lessee's failure to pay the rentals, breach penalties, or return the premises upon expiry of the agreement. Compulsory execution will also be taken upon the Lessor for the Lessor's failure to return the deposit.

11. Jurisdiction Court

The parties agree that the Taiwan HsinChu District Court as the court of first instance governing any proceeding arising in relation hereto.

12. Other Agreement

(1) After delivery of the premises, the Lessee shall be liable for the expenses provided in Article 7 under the agreement.

(2) The lease agreement is made in duplicate; each party shall hold one copy.

Contractors:

Lessee: Silicon Motion, Inc.
Statutory Agent: /s/ James Chow
Tax Number: 97440546
Address: No. 20-1, Tai-Yuan Street, Jhu-Bei Li, Jhu-Bei City, HsinChu County
Telephone: 03-5720699

Lessor: Richtek Technology Corp.
Statutory Agent: /s/ Chung-Ho Tai
Tax Number: 16657967
Address: 5F-1, No. 20, Tai-Yuan Street, Jhu-Bei Li, Jhu-Bei City, Hsin-Chu County
Telephone: 03-5526789

Date: February 4, 2005

LEASE

DATED JANUARY 21, 2004

BY AND BETWEEN

ORCHARD INVESTMENT COMPANY NUMBER 205

as Landlord

and

SILICON MOTION, INC.

as Tenant

AFFECTING PREMISES COMMONLY KNOWN AS

2125 ZANKER ROAD
SAN JOSE, CA 95131

12/15/95 MULTI TENANT NET INDUSTRIAL LEASE

SUMMARY OF BASIC LEASE TERMS

SECTION (LEASE REFERENCE)		TERMS
A. (Introduction)	**Lease Reference Date:**	January 21, 2004
B. (Introduction)	**Landlord:**	Orchard Investment Company Number 205 a California general partnership
C. (Introduction)	**Tenant:**	Silicon Motion, Inc. a California corporation
D. (§1.21)	**Premises:**	That area consisting of 19,900 square feet of gross leasable area, the address of which is 2125 Zanker Road, San Jose, CA within the Building as shown on Exhibit A.
E. (§ 1.22)	**Project:**	The land and improvements shown on Exhibit A consisting of 2 buildings, the aggregate gross leasable area of which is 53,900 square feet.
F. (§ 1.7)	**Building:**	The building in which the Premises are located is known as 2125 Zanker Road, San Jose, CA containing 19,900 square feet of gross leasable area.
G. (§ 1.29)	**Tenant's Share:**	36.92%
H. (§ 4.5)	**Tenant's Allocated Parking Stalls:**	80 stalls.
I.	**Scheduled Commencement Date:**	April 1, 2004, subject to Paragraph 2.2.
J. (§ 1.18)	**Lease Term:**	36 calendar months (plus the partial month following the Commencement Date if such date is not the first day of a month).
K. (§ 3.1)	**Base Monthly Rent:**	April 1, 2004 through and including June 30, 2004: Free Base Monthly Rent, Tenant paying Common Operating Expenses only. July 1, 2004 through and including March 31, 2005: $13,731.00 April 1, 2005 through and including March 31, 2006: $14,129.00 April 1, 2006 through and including March 31, 2007: $14,527.00
L. (§ 3.3)	**Prepaid Rent:**	$13,731.00
M. (§ 3.5)	**Security Deposit:**	$14,527.00
N. (§ 4.1)	**Permitted Use:**	General office, research and development, testing, assembly, manufacturing and distribution of electronic products and related uses, including cafeteria and dining uses for Tenant's staff and I invitees.

O. **(§ 5.2)**	**Permitted Tenant's Alterations Limit:**	$10,000.00
P. **(§ 9.1)**	**Tenant's Liability Insurance Minimum:**	$2,000,000.00
Q. **(§ 1.3)**	**Landlord's Address:**	Orchard Investment Company Number 205 c/o Orchard Commercial, Inc. 2262 North First Street San Jose, CA 95131
R. **(§ 1.3)**	**Tenant's Address:**	Silicon Motion, Inc. 2125 Zanker Road San Jose, CA 95131
S. **(§ 15.13)**	**Retained Real Estate Brokers:**	BT Commercial Orchard Commercial, Inc.
T. **(§ 1.17)**	**Lease:**	This Lease includes the summary of the Basic Lease Terms, the Lease, and the following exhibits and addenda: First Addendum to Lease; Exhibit A (Site Plan of the Project), Exhibit B (Improvement Agreement), Exhibit C (Approved Specifications), Exhibit D (Acceptance Agreement), Exhibit E (Description of Private Restrictions), Exhibit F (Sign Criteria), Exhibit G (Form of Subordination Agreement), Exhibit H (Hazardous Materials Questionnaire), Exhibit I (Furniture Inventory).

The foregoing Summary is hereby incorporated into and made part of this Lease. Each reference in this Lease to any term of the Summary shall mean the respective information set forth above shall be construed to incorporate all of the terms provided under the particular paragraph pertaining to such information. In the event of any conflict between the Summary and the Lease, the Summary shall control.

LANDLORD:

ORCHARD INVESTMENT COMPANY NUMBER 205
a California general partnership

By: _____
David J. Brown, General Partner

OR

By: /s/ Michael J. Biggar
Michael J. Biggar, General Partner

Date: January 23, 2004

TENANT:

SILICON MOTION, INC.
a California corporation

By: /s/ Michael Lin
Michael Lin, General Manager

By: _____
[Print Name and Title]

Date: _____

LEASE

This Lease is dated as of the lease reference date specified in Section A of the Summary and is made by and between the party identified as Landlord in Section B of the Summary and the party identified as Tenant in Section C of the Summary.

ARTICLE 1

DEFINITIONS

1.1 General: Any initially capitalized term that is given a special meaning by this Article 1, the Summary, or by any other provision of this Lease (including the exhibits attached hereto) shall have such meaning when used in this Lease or any addendum or amendment hereto unless otherwise clearly indicated by the context.

1.2 Additional Rent: The term "Additional Rent" is defined in §3.2.

1.3 Address for Notices: The term "Address for Notices" shall mean the addresses set forth in Sections Q and R of the Summary; provided, however, that after the Commencement Date, Tenant's Address for Notices shall be the address of the Premises.

1.4 Agents: The term "Agents" shall mean the following: (i) with respect to Landlord or Tenant, the agents, employees, contractors, and invitees of such party; and (ii) in addition with respect to Tenant, Tenant's subtenants and their respective agents, employees, contractors, and invitees.

1.5 Agreed Interest Rate: The term "Agreed Interest Rate" shall mean that interest rate determined as of the time it is to be applied that is equal to the lesser of (i) 5% in excess of the discount rate established by the Federal Reserve Bank of San Francisco as it may be adjusted from time to time, or (ii) the maximum interest rate permitted by Law.

1.6 Base Monthly Rent: The term "Base Monthly Rent" shall mean the fixed monthly rent payable by Tenant pursuant to §3.1 which is specified in Section K of the Summary.

1.7 Building: The term "Building" shall mean the building in which the Premises are located which Building is identified in Section F of the Summary, the gross leasable area of which is referred to herein as the "Building Gross Leasable Area."

1.8 Commencement Date: The term "Commencement Date" is the date the Lease Term commences, which term is defined in §2.2.

1.9 Common Area: The term "Common Area" shall mean all areas and facilities within the Project that are not designated by Landlord for the exclusive use of Tenant or any other lessee or other occupant of the Project, including the parking areas, access and perimeter roads, pedestrian sidewalks, landscaped areas, trash enclosures, recreation areas and the like.

1.10 Common Operating Expenses: The term "Common Operating Expenses" is defined in §8.2.

1.11 Consumer Price Index: The term "Consumer Price Index" shall refer to the Consumer Price Index, All Urban Consumers, subgroup "All Items", for the San Francisco-Oakland-San Jose metropolitan area (base year 1982-84 equals 100), which is presently being published monthly by the United States Department of Labor, Bureau of Labor Statistics. However, if this Consumer Price Index is changed so that the base year is altered from that used as of the commencement of the initial term of this Lease, the Consumer Price Index shall be converted in accordance with the conversion factor published by the United States Department of Labor, Bureau of Labor Statistics to obtain the same results that would have been obtained had the base year not been changed. If no conversion factor is available, or if the Consumer Price Index is otherwise changed, revised or discontinued for any reason, there shall be substituted in lieu thereof and the term "Consumer Price Index" shall thereafter refer to the most nearly comparable official price index of the United States government in order to obtain substantially the same result as would have been obtained had the original Consumer Price Index not been discontinued, revised or changed, which alternative index shall be selected by Landlord and shall be subject to Tenant's written approval.

1.12 Effective Date: The term "Effective Date" shall mean the date the last signatory to this Lease whose execution is required to make it binding on the parties hereto shall have executed this Lease.

1.13 Event of Tenant's Default: The term "Event of Tenant's Default" is defined in §13.1.

1.14 Hazardous Materials: The terms "Hazardous Materials" and "Hazardous Materials Laws" are defined in §7.2E.

1.15 Insured and Uninsured Peril: The terms "Insured Peril" and "Uninsured Peril" are defined in §11.2E.

1.16 Law: The term "Law" shall mean any judicial decision, statute, constitution, ordinance, resolution, regulation, rule, administrative order, or other requirement of any municipal, county, state, federal or other government agency or authority having jurisdiction over the parties to this Lease or the Premises, or both, in effect either at the Effective Date or any time during the Lease Term.

1.17 Lease: The term "Lease" shall mean the Summary and all elements of this Lease identified in Section T of the Summary, all of which are attached hereto and incorporated herein by this reference.

1.18 Lease Term: The term "Lease Term" shall mean the term of this Lease which shall commence on the Commencement Date and continue for the period specified in Section J of the Summary.

1.19 Lender: The term "Lender" shall mean any beneficiary, mortgagee, secured party, lessor, or other holder of any Security Instrument.

1.20 Permitted Use: The term "Permitted Use" shall mean the use specified in Section N of the Summary.

1.21 Premises: The term "Premises" shall mean that building area described in Section D of the Summary that is within the Building.

1.22 Project: The term "Project" shall mean that real property and the improvements thereon which are specified in Section E of the Summary, the aggregate gross leasable area of which is referred to herein as the "Project Gross Leasable Area."

1.23 Private Restrictions: The term "Private Restrictions" shall mean all recorded covenants, conditions and restrictions, private agreements, reciprocal easement agreements, and any other recorded instruments affecting the use of the Premises which (i) exist as of the Effective Date, or (ii) are recorded after the Effective Date and are approved by Tenant.

1.24 Real Property Taxes: The term "Real Property Taxes" is defined in §8.3.

1.25 Scheduled Commencement Date: The term "Scheduled Commencement Date" shall mean the date specified in Section I of the Summary.

1.26 Security Instrument: The term “Security Instrument” shall mean any underlying lease, mortgage or deed of trust which now or hereafter affects the Project, and any renewal, modification, consolidation, replacement or extension thereof.

1.27 Summary: The term “Summary” shall mean the Summary of Basic Lease Terms executed by Landlord and Tenant that is part of this Lease.

1.28 Tenant’s Alterations: The term “Tenant’s Alterations” shall mean all improvements, additions, alterations, and fixtures installed in the Premises by Tenant at its expense which are not Trade Fixtures.

1.29 Tenant’s Share: The term “Tenant’s Share” shall mean the percentage obtained by dividing Tenant’s Gross Leasable Area by the Building Gross Leasable Area, which as of the Effective Date is the percentage identified in Section G of the Summary.

1.30 Trade Fixtures: The term “Trade Fixtures” shall mean (i) Tenant’s inventory, furniture, signs, and business equipment, and (ii) anything affixed to the Premises by Tenant at its expense for purposes of trade, manufacture, ornament or domestic use (except replacement of similar work or material originally installed by Landlord) which can be removed without material injury to the Premises unless such thing has, by the manner in which it is affixed, become an integral part of the Premises.

ARTICLE 2

DEMISE, CONSTRUCTION, AND ACCEPTANCE

2.1 Demise of Premises: Landlord hereby leases to Tenant, and Tenant leases from Landlord, for the Lease Term upon the terms and conditions of this Lease, the Premises for Tenant's own use in the conduct of Tenant's business together with (i) the non-exclusive right to use the number of Tenant's Allocated Parking Stalls within the Common Area (subject to the limitations set forth in §4.5), and (ii) the non-exclusive right to use the Common Area for ingress to and egress from the Premises. Landlord reserves the use of the exterior walls, the roof and the area beneath and above the Premises, together with the right to install, maintain, use, and replace ducts, wires, conduits and pipes leading through the Premises in locations which will not materially interfere with Tenant's use of the Premises.

2.2 Commencement Date: If Landlord is not obligated to construct improvements prior to the Commencement Date pursuant to §2.3, then on the Scheduled Commencement Date Landlord shall deliver possession of the Premises to Tenant and the Lease Term shall commence, and such date shall be referred to herein as the "Commencement Date". If Landlord is required to construct improvements to the Premises prior to the Commencement Date, then the Scheduled Commencement Date shall be only an estimate of the actual Commencement Date, and the term of this Lease shall begin on the following date, which shall be the "Commencement Date": the date Landlord offers to deliver possession of the Premises to Tenant following substantial completion of all improvements to be constructed by Landlord pursuant to §2.3 except for punchlist items which do not prevent Tenant from using the Premises for the Permitted Use and such work as Landlord is required to perform but cannot complete until Tenant performs necessary portions of construction work it has elected or is required to do. Notwithstanding the foregoing, however, the Commencement Date shall not be before April 1, 2004.

2.3 Construction of Improvements: Prior to the Commencement Date, Landlord shall construct certain improvements that shall constitute or become part of the Premises if required by, and then in accordance with, the terms of Exhibit C- Approved Specifications.

2.4 Delivery and Acceptance of Possession: If this Lease provides that Landlord must deliver possession of the Premises to Tenant on a certain date, then if Landlord is unable to deliver possession of the Premises to Tenant on or before such date for any reason whatsoever, this Lease shall not be void or voidable for a period of 60 days thereafter, and Landlord shall not be liable to Tenant for any loss or damage resulting therefrom. Tenant shall accept possession and enter into good faith occupancy of the entire Premises and commence the operation of its business therein within 30 days after the Commencement Date. Tenant acknowledges that it has had an opportunity to conduct, and has conducted, such inspections of the Premises as it deems necessary to evaluate its condition. Except as otherwise specifically provided herein, Tenant agrees to accept possession of the Premises in its then existing condition, "as-is", including all patent and latent defects. Tenant's taking possession of any part of the Premises shall be deemed to be an acceptance by Tenant of any work of improvement done by Landlord in such part as complete and in accordance with the terms of this Lease except for defects of which Tenant has given Landlord written notice prior to the time Tenant takes possession or within ten (10) days therafter. At the time Landlord delivers possession of the Premises to Tenant, Landlord and Tenant shall together execute an acceptance agreement in the form attached as Exhibit D, appropriately completed. Landlord shall have no obligation to deliver possession, nor shall Tenant be entitled to take occupancy, of the Premises until such acceptance agreement has been executed, and Tenant's obligation to pay Base Monthly Rent and Additional Rent shall not be excused or delayed because of Tenant's failure to execute such acceptance agreement (provided that this clause does not excuse Landlord from its responsibility to meet its other obligations hereunder prior to the commencement of rent obligations.).

2.5 Early Occupancy: If Tenant enters or permits its contractors to enter the Premises prior to the Commencement Date with the written permission of Landlord, it shall do so upon all of the terms of this Lease (including its obligations regarding indemnity and insurance) except those regarding the obligation to pay rent, which shall commence on the Commencement Date.

ARTICLE 3

RENT

3.1 Base Monthly Rent: Commencing on the Commencement Date and continuing throughout the Lease Term, Tenant shall pay to Landlord the Base Monthly Rent set forth in Section K of the Summary.

3.2 Additional Rent: Commencing on the Commencement Date and continuing throughout the Lease Term, Tenant shall pay the following as additional rent (the "Additional Rent"): (i) any late charges or interest due Landlord pursuant to §3.4; (ii) Tenant's Share of Common Operating Expenses as provided in §8.1; (iii) Landlord's share of any Subrent received by Tenant upon certain assignments and sublettings as required by §14.1; (iv) any legal fees and costs due Landlord pursuant to §15.9; and (v) any other charges due Landlord pursuant to this Lease.

3.3 Payment of Rent: Concurrently with the execution of this Lease by both parties, Tenant shall pay to Landlord the amount set forth in Section L of the Summary as prepayment of rent for credit against the first installment(s) of Base Monthly Rent. All rent required to be paid in monthly installments shall be paid in advance on the first day of each calendar month during the Lease Term. If Section K of the Summary provides that the Base Monthly Rent is to be increased during the Lease Term and if the date of such increase does not fall on the first day of a calendar month, such increase shall become effective on the first day of the next calendar month. All rent shall be paid in lawful money of the United States, without any abatement, deduction or offset whatsoever (except as specifically provided in §11.4 and §12.3), and without any prior demand therefore. Rent shall be paid to Landlord at its address set forth in Section Q of the Summary, or at such other place as Landlord may designate from time to time. Tenant's obligation to pay Base Monthly Rent and Tenant's Share of Common Operating Expenses shall be prorated at the commencement and expiration of the Lease Term.

3.4 Late Charge and Interest on Rent in Default: If any Base Monthly Rent or Additional Rent is not received by Landlord from Tenant within ten (10) calendar days after Landlord has notified Tenant in writing that payment of such rent has not been received by Landlord, then Tenant shall immediately pay to Landlord a late charge equal to 5% of such delinquent rent as liquidated damages for Tenant's failure to make timely payment. In no event shall this provision for a late charge be deemed to grant to Tenant a grace period or extension of time within which to pay any rent or prevent Landlord from exercising any right or remedy available to Landlord upon Tenant's failure to pay any rent due under this Lease in a timely fashion, including any right to terminate this Lease pursuant to §13.2C. If any rent remains delinquent for a period in excess of 30 days then, in addition to such late charge, Tenant shall pay to Landlord interest on any rent that is not paid when due at the Agreed Interest Rate following the date such amount became due until paid.

3.5 Security Deposit: On the Effective Date, Tenant shall deposit with Landlord the amount set forth in Section M of the Summary as security for the performance by Tenant of its obligations under this Lease, and not as prepayment of rent (the "Security Deposit"). Landlord may from time to time apply such portion of the Security Deposit as is reasonably necessary for the following purposes: (i) to remedy any default by Tenant in the payment of rent; (ii) to repair damage to the Premises caused by Tenant; (iii) to clean the Premises upon termination of the Lease to the extent required by this Lease; and (iv) to remedy any other default of Tenant to the extent permitted by Law and, in this regard, Tenant hereby waives any restriction on the uses to which the Security Deposit may be put contained in California Civil Code Section 1950.7. In the event the Security Deposit or any portion thereof is so used, Tenant agrees to pay to Landlord promptly upon demand an amount in cash sufficient to restore the Security Deposit to the full original amount. Landlord shall not be deemed a trustee of the Security Deposit, may use the Security Deposit in business, and shall not be required to segregate it from its general accounts. Tenant shall not be entitled to any interest on the Security Deposit. If Landlord transfers the Premises during the Lease Term, Landlord shall pay the Security Deposit to any transferee of Landlord's interest in conformity with the provisions of California Civil Code Section 1950.7 and/or any successor statute, in which event the transferring Landlord will be released from all liability for the return of the Security Deposit.

ARTICLE 4

USE OF PREMISES

4.1 Limitation on Use: Tenant shall use the Premises solely for the Permitted Use specified in Section N of the Summary. Tenant shall not do anything in or about the Premises which will (i) cause structural injury to the Building, or (ii) cause damage to any part of the Building except to the extent reasonably necessary for the installation of Tenant's Trade Fixtures and Tenant's Alterations, and then only in a manner which has been first approved by Landlord in writing. Tenant shall not operate any equipment within the Premises which will (i) materially damage the Building or the Common Area, (ii) overload existing electrical systems or other mechanical equipment servicing the Building, (iii) impair the efficient operation of the sprinkler system or the heating, ventilating or air conditioning ("HVAC") equipment within or servicing the Building, or (iv) damage, overload or corrode the sanitary sewer system. Tenant shall not attach, hang or suspend anything from the ceiling, roof, walls or columns of the Building or set any load on the floor in excess of the load limits for which such items are designed nor operate hard wheel forklifts within the Premises. Any dust, fumes, or waste products generated by Tenant's use of the Premises shall be contained and disposed so that they do not (i) create an unreasonable fire or health hazard, (ii) damage the Premises, or (iii) result in the violation of any Law. Except as approved by Landlord, Tenant shall not change the exterior of the Building or install any equipment or antennas on or make any penetrations of the exterior or roof of the Building. Tenant shall not commit any waste in or about the Premises, and Tenant shall keep the Premises in an neat, clean, attractive and orderly condition, free of any nuisances. If Landlord designates a standard window covering for use throughout the Building, Tenant shall use this standard window covering to cover all windows in the Premises. Tenant shall not conduct on any portion of the Premises or the Project any sale of any kind, including any public or private auction, fire sale, going-out-of-business sale, distress sale or other liquidation sale.

4.2 Compliance with Regulations: Tenant shall not use the Premises in any manner which violates any Laws or Private Restrictions which affect the Premises. Tenant shall abide by and promptly observe and comply with all Laws and Private Restrictions. Tenant shall not use the Premises in any manner which will cause a cancellation of any insurance policy covering Tenant's Alternations or any improvements installed by Landlord at its expense or which poses an unreasonable risk of damage or injury to the Premises. Tenant shall not sell, or permit to be kept, used, or sold in or about the Premises any article which may be prohibited by the standard form of fire insurance policy. Tenant shall comply with all reasonable requirements of any insurance company, insurance underwriter, or Board of Fire Underwriters which are necessary to maintain the insurance coverage carried by either Landlord or Tenant pursuant to this Lease.

4.3 Outside Areas: No materials, supplies, tanks or containers, equipment, finished products or semi-finished products, raw materials, inoperable vehicles or articles of any nature shall be stored upon or permitted to remain outside of the Premises except in fully fenced and screened areas outside the Building which have been designed for such purpose and have been approved in writing by Landlord for such use by Tenant.

4.4 Signs: Tenant shall not place on any portion of the Premises any sign, placard, lettering in or on windows, banner, displays or other advertising or communicative material which is visible from the exterior of the Building without the prior written approval of Landlord. All such approved signs shall strictly conform to all Laws, Private Restrictions, and Landlord's sign criteria attached as Exhibit F, and shall be installed at the expense of Tenant. Tenant shall maintain such signs in good condition and repair.

4.5 Parking: Tenant is allocated and shall have the non-exclusive right to use not more than the number of Tenant's Allocated Parking Stalls contained within the Project described in Section H of the Summary for its use and the use of Tenant's Agents, the location of which may be reasonably designated from time to time by Landlord. Tenant shall not at any time use more parking spaces than the number so allocated to Tenant or park its vehicles or the vehicles of others in any portion of the Project not designated by Landlord as a non-exclusive parking area. Tenant shall not have the exclusive right to use any specific parking space. If Landlord grants to any other tenant the exclusive right to use any particular parking space(s), Tenant shall not use such spaces. Landlord reserves the right, after having given Tenant reasonable notice, to have any vehicles owned by Tenant or Tenant's Agents utilizing parking spaces in excess of the parking spaces allowed for Tenant's use to be towed away at Tenant's cost. All trucks and delivery vehicles shall be (i) parked at the rear of the Building, (ii) loaded and unloaded in a manner which does not interfere with the businesses of other occupants of the Project, and (iii) permitted to remain on the Project only so long as is reasonably necessary to complete loading and unloading. In the event Landlord elects or is required by any Law to limit or control parking in the Project, whether by validation of parking tickets or any other method of assessment, Tenant agrees to participate in such validation or assessment program under such reasonable rules and regulations as are from time to time established by Landlord.

4.6 Rules and Regulations: Landlord may from time to time promulgate reasonable and nondiscriminatory rules and regulations applicable to all occupants of the Project for the care and orderly management of the Project and the safety of its tenants and invitees. Such rules and regulations shall be binding upon Tenant upon delivery of a copy thereof to Tenant, and Tenant agrees to abide by such rules and regulations. If there is a conflict between the rules and regulations and any of the provisions of this Lease, the provisions of this Lease shall prevail. Landlord shall not be responsible for the violation by any other tenant of the Project of any such rules and regulations.

ARTICLE 5

TRADE FIXTURES AND ALTERATIONS

5.1 Trade Fixtures: Throughout the Lease Term, Tenant may provide and install, and shall maintain in good condition, any Trade Fixtures required in the conduct of its business in the Premises. All Trade Fixtures shall remain Tenant's property.

5.2 Tenant's Alterations: Construction by Tenant of Tenant's Alterations shall be governed by the following:

A. Tenant shall not construct any Tenant's Alterations or otherwise alter the Premises without Landlord's prior written approval. Tenant shall be entitled, without Landlord's prior approval, to make Tenant's Alterations (i) which do not affect the structural or exterior parts or water tight character of the Building, and (ii) the reasonably estimated cost of which, plus the original cost of any part of the Premises removed or materially altered in connection with such Tenant's Alterations, together do not exceed the Permitted Tenant Alterations Limit specified in Section O of the Summary per work of improvement. In the event Landlord's approval for any Tenant's Alterations is required, Tenant shall not construct the Leasehold Improvement until Landlord has approved in writing the plans and specifications therefore, and such Tenant's Alterations shall be constructed substantially in compliance with such approved plans and specifications by a licensed contractor first approved by Landlord. All Tenant's Alterations constructed by Tenant shall be constructed by a licensed contractor in accordance with all Laws using new materials of good quality.

B. Tenant shall not commence construction of any Tenant's Alterations until (i) all required governmental approvals and permits have been obtained, (ii) all requirements regarding insurance imposed by this Lease have been satisfied, (iii) Tenant has given Landlord at least five days' prior written notice of its intention to commence such construction, and (iv) if reasonably requested by Landlord, Tenant has obtained contingent liability and broad form builders' risk insurance in an amount reasonably satisfactory to Landlord if there are any perils relating to the proposed construction not covered by insurance carried pursuant to Article 9.

C. All Tenant's Alterations shall remain the property of Tenant during the Lease Term but shall not be altered or removed from the Premises. At the expiration or sooner termination of the Lease Term, all Tenant's Alterations shall be surrendered to Landlord as part of the realty and shall then become Landlord's property, and Landlord shall have no obligation to reimburse Tenant for all or any portion of the value or cost thereof; provided, however, that if Landlord requires Tenant to remove any Tenant's Alterations, Tenant shall so remove such Tenant's Alterations prior to the expiration or sooner termination of the Lease Term. Notwithstanding the foregoing, Tenant shall not be obligated to remove any Tenant's Alterations with respect to which the following is true: (i) Tenant was required, or elected, to obtain the approval of Landlord to the installation of the Leasehold Improvement in question; (ii) at the time Tenant requested Landlord's approval, Tenant requested of Landlord in writing that Landlord inform Tenant of whether or not Landlord would require Tenant to remove such Leasehold Improvement at the expiration of the Lease Term; and (iii) at the time Landlord granted its approval, it did not inform Tenant that it would require Tenant to remove such Leasehold Improvement at the expiration of the Lease Term.

5.3 Alterations Required by Law: Tenant shall make any alteration, addition or change of any sort to the Premises that is required by any Law because of (i) Tenant's particular use or change of use of the Premises; (ii) Tenant's application for any permit or governmental approval; or (iii) Tenant's construction or installation of any Tenant's Alterations or Trade Fixtures. Any other alteration, addition, or change required by Law which is not the responsibility of Tenant pursuant to the foregoing shall be made by Landlord (subject to Landlord's right to reimbursement from Tenant specified in §5.4).

5.4 Amortization of Certain Capital Improvements: Tenant shall pay Additional Rent in the event Landlord reasonably elects or is required to make any of the following kinds of capital improvements to the Project and the cost thereof is not reimbursable as a Common Operating Expense: (i) capital improvements required to be constructed in order to comply with any Law (excluding any Hazardous Materials Law) not in effect or applicable to the Project as of the Effective Date; (ii) modification of existing or construction of additional capital improvements or building service equipment for the purpose of reducing the consumption of utility services or Common Operating Expenses of the Project (but only to the extent of any costs saved); (iii) replacement of capital improvements or building service equipment existing as of the Effective Date when required because of normal wear and tear; and (iv) restoration of any part of the Project that has been damaged by any peril to the extent the cost thereof is not covered by insurance proceeds actually recovered by Landlord up to a maximum amount per occurrence of 10% of the then replacement cost of the Project. The amount of Additional Rent Tenant is to pay with respect to each such capital improvement shall be determined as follows:

A. All costs paid by Landlord to construct such improvements (including financing costs) shall be amortized over the useful life of such improvement (as reasonably determined by Landlord in accordance with generally accepted accounting principles) with interest on the unamortized balance at the then prevailing market rate Landlord would pay if it borrowed funds to construct such improvements from an institutional lender, and Landlord shall inform Tenant of the monthly amortization payment required to so amortize such costs, and shall also provide Tenant with the information upon which such determination is made.

B. As Additional Rent, Tenant shall pay at the same time the Base Monthly Rent is due an amount equal to Tenant's Share of that portion of such monthly amortization payment fairly allocable to the Building (as reasonably determined by Landlord) for each month after such improvements are completed until the first to occur of (i) the expiration of the Lease Term (as it may be extended), or (ii) the end of the term over which such costs were amortized.

5.5 Mechanic's Liens: Tenant shall keep the Project free from any liens and shall pay when due all bills arising out of any work performed, materials furnished, or obligations incurred by Tenant or Tenant's Agents relating to the Project. If any claim of lien is recorded (except those caused by Landlord or Landlord's Agents), Tenant shall bond against or discharge the same within 10 days after the same has been recorded against the Project. Should any lien be filed against the Project or any action be commenced affecting title to the Project, the party receiving notice of such lien or action shall immediately give the other party written notice thereof.

5.6 Taxes on Tenant's Property: Tenant shall pay before delinquency any and all taxes, assessments, license fees and public charges levied, assessed or imposed against Tenant or Tenant's estate in this Lease or the property of Tenant situated within the Premises which become due during the Lease Term. If any tax or other charge is assessed by any governmental agency because of the execution of this Lease, such tax shall be paid by Tenant. On demand by Landlord, Tenant shall furnish Landlord with satisfactory evidence of these payments.

ARTICLE 6

REPAIR AND MAINTENANCE

6.1 Tenant's Obligation to Maintain: Except as otherwise provided in §6.2, §11.1, and §12.3, Tenant shall be responsible for the following during the Lease Term:

A. Tenant shall clean and maintain in good order, condition, and repair and replace when necessary the Premises and every part thereof, through regular inspections and servicing, including, but not limited to: (i) all plumbing and sewage facilities (including all sinks, toilets, faucets and drains), and all ducts, pipes, vents or other parts of the HVAC or plumbing system; (ii) all fixtures, interior walls, floors, carpets and ceilings; (iii) all windows, doors, entrances, plate glass, showcases and skylights (including cleaning both interior and exterior surfaces); (iv) all electrical facilities and all equipment (including all lighting fixtures, lamps, bulbs, tubes, fans, vents, exhaust equipment and systems); and (v) any automatic fire extinguisher equipment in the Premises.

B. With respect to utility facilities serving the Premises (including electrical wiring and conduits, gas lines, water pipes, and plumbing and sewage fixtures and pipes), Tenant shall be responsible for the maintenance and repair of any such facilities which serve only the Premises, including all such facilities that are within the walls or floor, or on the roof of the Premises, and any part of such facility that is not within the Premises, but only up to the point where such facilities join a main or other junction (e.g., sewer main or electrical transformer) from which such utility services are distributed to other parts of the Project as well as to the Premises. Tenant shall replace any damaged or broken glass in the Premises (including all interior and exterior doors and windows) with glass of the same kind, size and quality. Tenant shall repair any damage to the Premises (including exterior doors and windows) caused by vandalism or any unauthorized entry.

C. Tenant shall (i) maintain, repair and replace when necessary all HVAC equipment which services only the Premises, and shall keep the same in good condition through regular inspection and servicing, and (ii) maintain continuously throughout the Lease Term a service contract for the maintenance of all such HVAC equipment with a licensed HVAC repair and maintenance contractor approved by Landlord, which contract provides for the periodic inspection and servicing of the HVAC equipment at least once every 60 days during the Lease Term. Notwithstanding the foregoing, Landlord may elect at any time to assume responsibility for the maintenance, repair and replacement of such HVAC equipment which serves only the Premises. Tenant shall maintain continuously throughout the Lease Term a service contract for the washing of all windows (both interior and exterior surfaces) in the Premises with a contractor approved by Landlord, which contract provides for the periodic washing of all such windows at least once every 60 days during the Lease Term. Tenant shall furnish Landlord with copies of all such service contracts, which shall provide that they may not be cancelled or changed without at least 30 days' prior written notice to Landlord.

D. All repairs and replacements required of Tenant shall be promptly made with new materials of like kind and quality. If the work affects the structural parts of the Building or if the estimated cost of any item of repair or replacement is in excess of the Permitted Tenant's Alterations Limit, then Tenant shall first obtain Landlord's written approval of the scope of the work, plans therefore, materials to be used, and the contractor.

6.2 Landlord's Obligation to Maintain: Landlord shall repair, maintain and operate the Common Area and repair and maintain the roof, exterior and structural parts of the building(s) located on the Project so that the same are kept in good order and repair. If there is central HVAC or other building service equipment and/or utility facilities serving portions of the Common Area and/or both the Premises and other parts of the Building, Landlord shall maintain and operate (and replace when necessary) such equipment. Landlord shall not be responsible for repairs required by an accident, fire or other peril or for damage caused to any part of the Project by any act or omission of Tenant or Tenant's Agents except as otherwise required by Article 11. Landlord may engage contractors of its choice to perform the obligations required of it by this Article, and the necessity of any expenditure to perform such obligations shall be at the sole discretion of Landlord.

6.3 Control of Common Area: Landlord shall at all times have exclusive control of the Common Area. Landlord shall have the right, without the same constituting an actual or constructive eviction and without entitling Tenant to any abatement of rent, to: (i) close any part of the Common Area to whatever extent required in the opinion of Landlord's counsel to prevent a dedication thereof or the accrual of any prescriptive rights therein; (ii) temporarily close the Common Area to perform maintenance or for any other reason deemed sufficient by Landlord; (iii) change the shape, size, location and extent of the Common Area; (iv) eliminate from or add to the Project any land or improvement, including multi-deck parking structures; (v) make changes to the Common Area including, without limitation, changes in the location of driveways, entrances, passageways, doors and doorways, elevators, stairs, restrooms, exits, parking spaces, parking areas, sidewalks or the direction of the flow of traffic and the site of the Common Area; (vi) remove unauthorized persons from the Project; and/or (vii) change the name or address of the Building or Project. Tenant shall keep the Common Area clear of all obstructions created or permitted by Tenant. If in the opinion of Landlord unauthorized persons are using any of the Common Area by reason of the presence of Tenant in the Building, Tenant, upon demand of Landlord, shall restrain such unauthorized use by appropriate proceedings. In exercising any such rights regarding the Common Area, (i) Landlord shall make a reasonable effort to minimize any disruption to Tenant's business, and (ii) Landlord shall not exercise its rights to control the Common Area in a manner that would materially interfere with Tenant's use of the Premises without first obtaining Tenant's consent. Landlord shall have no obligation to provide guard services or other security measures for the benefit of the Project. Tenant assumes all responsibility for the protection of Tenant and Tenant's Agents from acts of third parties; provided, however, that nothing contained herein shall prevent Landlord, at its sole option, from providing security measures for the Project.

ARTICLE 7

WASTE DISPOSAL AND UTILITIES

7.1 Waste Disposal: Tenant shall store its waste either inside the Premises or within outside trash enclosures that are fully fenced and screened in compliance with all Private Restrictions, and designed for such purpose. All entrances to such outside trash enclosures shall be kept closed, and waste shall be stored in such manner as not to be visible from the exterior of such outside enclosures. Tenant shall cause all of its waste to be regularly removed from the Premises at Tenant's sole cost. Tenant shall keep all fire corridors and mechanical equipment rooms in the Premises free and clear of all obstructions at all times.

7.2 Hazardous Materials: Landlord and Tenant agree as follows with respect to the existence or use of Hazardous Materials on the Project:

A. Any handling, transportation, storage, treatment, disposal or use of Hazardous Materials by Tenant and Tenant's Agents after the Effective Date in or about the Project shall strictly comply with all applicable Hazardous Materials Laws. Tenant shall indemnify, defend upon demand with counsel reasonably acceptable to Landlord, and hold harmless Landlord from and against any liabilities, losses, claims, damages, lost profits, consequential damages, interest, penalties, fines, monetary sanctions, attorneys' fees, experts' fees, court costs, remediation costs, investigation costs, and other expenses which result from or arise in any manner whatsoever out of the use, storage, treatment, transportation, release, or disposal of Hazardous Materials on or about the Project by Tenant or Tenant's Agents after the Effective Date.

B. If the presence of Hazardous Materials on the Project caused or permitted by Tenant or Tenant's Agents after the Effective Date results in contamination or deterioration of water or soil resulting in a level of contamination greater than the levels established as acceptable by any governmental agency having jurisdiction over such contamination, then Tenant shall promptly take any and all action necessary to investigate and remediate such contamination if required by Law or as a condition to the issuance or continuing effectiveness of any governmental approval which relates to the use of the Project or any part thereof. Tenant shall further be solely responsible for, and shall defend, indemnify and hold Landlord and its agents harmless from and against, all claims, costs and liabilities, including attorneys' fees and costs, arising out of or in connection with any investigation and remediation required hereunder to return the Project to its condition existing prior to the appearance of such Hazardous Materials.

C. Landlord and Tenant shall each give written notice to the other as soon as reasonably practicable of (i) any communication received from any governmental authority concerning Hazardous Materials which relates to the Project, and (ii) any contamination of the Project by Hazardous Materials which constitutes a violation of any Hazardous Materials Law. Tenant may use small quantities of household chemicals such as adhesives, lubricants, and cleaning fluids in order to conduct its business at the Premises and such other Hazardous Materials as are necessary for the operation of Tenant's business of which Landlord receives notice prior to such Hazardous Materials being brought onto the Premises and which Landlord consents in writing may be brought onto the Premises. At any time during the Lease Term, Tenant shall, within five days after written request therefore received from Landlord, disclose in writing all Hazardous Materials that are being used by Tenant on the Project, the nature of such use, and the manner of storage and disposal.

D Landlord may cause testing wells to be installed on the Project, and may cause the ground water to be tested to detect the presence of Hazardous Material by the use of such tests as are then customarily used for such purposes. If Tenant so requests, Landlord shall supply Tenant with copies of such test results. The cost of such tests and of the installation, maintenance, repair and replacement of such wells shall be paid by Tenant if such tests disclose the existence of facts which give rise to liability of Tenant pursuant to its indemnity given in **§**7.2A and/or **§**7.2B.

E. As used herein, the term "Hazardous Material," means any hazardous or toxic substance, material or waste which is or becomes regulated by any local governmental authority, the State of California or the United States Government. The term "Hazardous Material," includes, without limitation, petroleum products, asbestos, PCB's, and any material or substance which is (i) listed under Article 9 or defined as hazardous or extremely hazardous pursuant to Article 11 of Title 22 of the California Administrative Code, Division 4, Chapter 20, (ii) defined as a "hazardous waste" pursuant to Section 1004 of the Federal Resource Conservation and Recovery Act, 42 U.S.C. 6901 et seq. (42 U.S.C. 6903), or (iii) defined as a "hazardous substance" pursuant to Section 101 of the Comprehensive Environmental Response; Compensation and Liability Act, 42 U.S.C. 9601 et seq. (42 U.S.C. 9601). As used herein, the term "Hazardous Material Law" shall mean any statute, law, ordinance, or regulation of any governmental body or agency (including the U.S. Environmental Protection Agency, the California Regional Water Quality Control Board, and the California Department of Health Services) which regulates the use, storage, release or disposal of any Hazardous Material.

F. The obligations of Landlord and Tenant under this **§**7.2 shall survive the expiration or earlier termination of the Lease Term. The rights and obligations of Landlord and Tenant with respect to issues relating to Hazardous Materials are exclusively established by this §7.2. In the event of any inconsistency between any other part of this Lease and this §7.2, the terms of this §7.2 shall control.

7.3 Utilities: Tenant shall promptly pay, as the same become due, all charges for water, gas, electricity, telephone, sewer service, waste pick-up and any other utilities, materials or services furnished directly to or used by Tenant on or about the Premises during the Lease Term, including, without limitation, (i) meter, use and/or connection fees, hook-up fees, or standby fee (excluding any connection fees or hook-up fees which relate to making the existing electrical, gas, and water service available to the Premises as of the Commencement Date), and (ii) penalties for discontinued or interrupted service. If any utility service is not separately metered to the Premises, then Tenant shall pay its pro rata share of the cost of such utility service with all others served by the service not separately metered. However, if Landlord determines that Tenant is using a disproportionate amount of any utility service not separately metered, then Landlord at its election may (i) periodically charge Tenant, as Additional Rent, a sum equal to Landlord's reasonable estimate of the cost of Tenant's excess use of such utility service, or (ii) install a separate meter (at Tenant's expense) to measure the utility service supplied to the Premises.

7.4 Compliance with Governmental Regulations: Landlord and Tenant shall comply with all rules, regulations and requirements promulgated by national, state or local governmental agencies or utility suppliers concerning the use of utility services, including any rationing, limitation or other control. Tenant shall not be entitled to terminate this Lease nor to any abatement in rent by reason of such compliance.

ARTICLE 8

COMMON OPERATING EXPENSES

8.1 Tenant's Obligation to Reimburse: As Additional Rent, Tenant shall pay Tenant's Share (specified in Section G of the Summary) of all Common Operating Expenses; provided, however, if the Project contains more than one building, then Tenant shall pay Tenant's Share of all Common Operating Expenses fairly allocable to the Building, including (i) all Common Operating Expenses paid with respect to the maintenance, repair, replacement and use of the Building, and (ii) a proportionate share (based on the Building Gross Leasable Area as a percentage of the Project Gross Leasable Area) of all Common Operating Expenses which relate to the Project in general are not fairly allocable to any one building that is part of the Project. Tenant shall pay such share of the actual Common Operating Expenses incurred or paid by Landlord but not theretofore billed to Tenant within 20 days after receipt of a written bill therefore from Landlord, on such periodic basis as Landlord shall designate, but in no event more frequently than once a month. Alternatively, Landlord may from time to time require that Tenant pay Tenant's Share of Common Operating Expenses in advance in estimated monthly installments, in accordance with the following: (i) Landlord shall deliver to Tenant Landlord's reasonable estimate of the Common Operating expenses it anticipates will be paid or incurred for the Landlord's fiscal year in question; (ii) during such Landlord's fiscal year Tenant shall pay such share of the estimated Common Operating Expenses in advance in monthly installments as required by Landlord due with the installments of Base Monthly Rent; and (iii) within 90 days after the end of each Landlord's fiscal year, Landlord shall furnish to Tenant a statement in reasonable detail of the actual Common Operating Expenses paid or incurred by Landlord during the just ended Landlord's fiscal year and thereupon there shall be an adjustment between Landlord and Tenant, with payment to Landlord or credit by Landlord against the next installment of Base Monthly Rent, as the case may require, within 10 days after delivery by Landlord to Tenant of said statement, so that Landlord shall receive the entire amount of Tenant's Share of all Common Operating Expenses for such Landlord's fiscal year and no more. Tenant shall have the right at its expense, exercisable upon reasonable prior written notice to Landlord, to inspect at Landlord's office during normal business hours Landlord's books and records as they relate to Common Operating Expenses. Such inspection must be within 30 days of Tenant's receipt of Landlord's annual statement for the same, and shall be limited to verification of the charges contained in such statement. Tenant may not withhold payment of such bill pending completion of such inspection.

8.2 Common Operating Expenses Defined: The term "Common Operating Expenses" shall mean the following:

A. All costs and expenses paid or incurred by Landlord in doing the following (including payments to independent contractors providing services related to the performance of the following): (i) maintaining, cleaning, repairing and resurfacing the roof (including repair of leaks) and the exterior surfaces (including painting) of all buildings located on the Project; (ii) maintenance of the liability, fire and property damage insurance covering the Project carried by Landlord pursuant to .9.2 (including the prepayment of premiums for coverage of up to one year); (iii) maintaining, repairing, operating and replacing when necessary HVAC equipment, utility facilities and other building service equipment; (iv) providing utilities to the Common Area (including lighting, trash removal and water for landscaping irrigation); (v) complying with all applicable Laws and Private Restrictions; (vi) operating, maintaining, repairing, cleaning, painting, restriping and resurfacing the Common Area; (vii) replacement or installation of lighting fixtures, directional or other signs and signals, irrigation systems, trees, shrubs, ground cover and other plant materials, and all landscaping in the Common Area; and (viii) providing security;

B. The following costs: (i) Real Property Taxes as defined in §8.3; (ii) the amount of any "deductible" paid by Landlord with respect to damage caused by any Insured Peril; (iii) the cost to repair damage caused by an Uninsured Peril up to a maximum amount in any 12 month period equal to 2% of the replacement cost of the buildings or other improvements damaged; and (iv) that portion of all compensation (including benefits and premiums for workers' compensation and other insurance) paid to or on behalf of employees of Landlord but only to the extent they are involved in the performance of the work described by §8.2A that is fairly allocable to the Project;

C. Fees for management services rendered by either Landlord or a third party manager engaged by Landlord (which may be a party affiliated with Landlord), except that the total amount charged for management services and included in Tenant's Share of Common Operating Expenses shall not exceed the monthly rate of 3% of the Base Monthly Rent.

D. All additional costs and expenses incurred by Landlord with respect to the operation, protection, maintenance, repair and replacement of the Project which would be considered a current expense (and not a capital expenditure) pursuant to generally accepted accounting principles; provided, however, that Common Operating Expenses shall not include any of the following: (i) payments on any loans or ground leases affecting the Project; (ii) depreciation of any buildings or any major systems of building service equipment within the Project; (iii) leasing commissions; (iv) the cost of tenant improvements installed for the exclusive use of other tenants of the Project; and (v) any cost incurred in complying with Hazardous Materials Laws, which subject is governed exclusively by §7.2.

E. Common Operating Expenses (not including Tenant's utilities) shall not increase more than 10% per annum above the actual year-end Common Operating Expenses for the calendar year 2004.

8.3 Real Property Taxes Defined: The term "Real Property Taxes" shall mean all taxes, assessments, levies, and other charges of any kind or nature whatsoever, general and special, foreseen and unforeseen (including all installments of principal and interest required to pay any existing or future general or special assessments for public improvements, services or benefits, and any increases resulting from reassessments resulting from a change in ownership, new construction, or any other cause), now or hereafter imposed by any governmental or quasi-governmental authority or special district having the direct or indirect power to tax or levy assessments, which are levied or assessed against, or with respect to the value, occupancy or use of all or any portion of the Project (as now constructed or as may at any time hereafter be constructed, altered, or otherwise changed) or Landlord's interest therein, the fixtures, equipment and other property of Landlord, real or personal, that are an integral part of and located on the Project, the gross receipts, income, or rentals from the Project, or the use of parking areas, public utilities, or energy within the Project, or Landlord's business of leasing the Project. If at any time during the Lease Term the method of taxation or assessment of the Project prevailing as of the Effective Date shall be altered so that in lieu of or in addition to any Real Property Tax described above there shall be levied, assessed or imposed (whether by reason of a change in the method of taxation or assessment, creation of a new tax or charge, or any other cause) an alternate or additional tax or charge (i) on the value, use or occupancy of the Project or Landlord's interest therein, or (ii) on or measured by the gross receipts, income or rentals from the Project, on Landlord's business of leasing the Project, or computed in any manner with respect to the operation of the Project, then any such tax or charge, however designated, shall be included within the meaning of the term "Real Property Taxes" for purposes of this Lease. If any Real Property Tax is based upon property or rents unrelated to the Project, then only that part of such Real Property Tax that is fairly allocable to the Project shall be included within the meaning of the term "Real Property Taxes". Notwithstanding the foregoing, the term "Real Property Taxes" shall not include estate, inheritance, transfer, gift or franchise taxes of Landlord or the federal or state net income tax imposed on Landlord's income from all sources.

ARTICLE 9

INSURANCE

9.1 Tenant's Insurance: Tenant shall maintain insurance complying with all of the following:

A. Tenant shall procure, pay for and keep in full force and effect the following:

(1). Commercial general liability insurance, including property damage, against liability for personal injury, bodily injury, death and damage to property occurring in or about, or resulting from an occurrence in or about, the Premises with combined single limit coverage of not less than the amount of Tenant's Liability Insurance Minimum specified in Section P of the Summary, which insurance shall contain a "contractual liability" endorsement insuring Tenant's performance of Tenant's obligation to indemnify Landlord contained in §10.3;

(2). Fire and property damage insurance in so-called "all risk" form insuring Tenant's Trade Fixtures and Tenant's Alterations for the full actual replacement cost thereof;

(3). Such other insurance that is either (i) required by any Lender, or (ii) reasonably required by Landlord and customarily carried by tenants of similar property in similar businesses.

B. Where applicable and required by Landlord, each policy of insurance required to be carried by Tenant pursuant to this §9.1: (i) shall name Landlord and such other parties in interest as Landlord reasonably designates as additional insured; (ii) shall be primary insurance which provides that the insurer shall be liable for the full amount of the loss up to and including the total amount of liability set forth in the declarations without the right of contribution from any other insurance coverage of Landlord; (iii) shall be in a form satisfactory to Landlord; (iv) shall be carried with companies reasonably acceptable to Landlord; (v) shall provide that such policy shall not be subject to cancellation, lapse or change except after at least 30 days prior written notice to Landlord so long as such provision of 30 days notice is reasonably obtainable, but in any event not less than 10 days prior written notice; (vi) shall not have a "deductible" in excess of such amount as is approved by Landlord; (vii) shall contain a cross liability endorsement; and (viii) shall contain a "severability" clause. If Tenant has in full force and effect a blanket policy of liability insurance with the same coverage for the Premises as described above, as well as other coverage of other premises and properties of Tenant, or in which Tenant has some interest, such blanket insurance shall satisfy the requirements of this §9.1.

C. A copy of each paid-up policy evidencing the insurance required to be carried by Tenant pursuant to this §9.1 (appropriately authenticated by the insurer) or a certificate of the insurer, certifying that such policy has been issued, providing the coverage required by this §9.1, and containing the provisions specified herein, shall be delivered to Landlord prior to the time Tenant or any of its Agents enters the Premises and upon renewal of such policies, but not less than 5 days prior to the expiration of the term of such coverage. Landlord may, at any time, and from time to time, inspect and/or copy any and all insurance policies required to be procured by Tenant pursuant to this §9.1. If any Lender reasonably determines at any time that the amount of coverage required for any policy of insurance Tenant is to obtain pursuant to this §9.1 is not adequate, then Tenant shall increase such coverage for such insurance to such amount as such Lender reasonably deems adequate, not to exceed the level of coverage for such insurance commonly carried by comparable businesses similarly situated.

9.2 Landlord's Insurance: Landlord shall have the following obligations and options regarding insurance:

A. Landlord shall maintain a policy or policies of fire and property damage insurance in so-called "all risk" form insuring Landlord (and such others as Landlord may designate) against loss of rents for a period of not less than 12 months and from physical damage to the Project with coverage of not less than the full replacement cost thereof. Landlord may so insure the Project separately, or may insure the Project with other property owned by Landlord which Landlord elects to insure together under the same policy or policies. Such fire and property damage insurance (i) may be endorsed to cover loss caused by such additional perils against which Landlord may elect to insure, including earthquake and/or flood, and to provide such additional coverage as Landlord reasonably requires, and (ii) shall contain reasonable "deductibles" which, in the case of earthquake and flood insurance, may be up to 15% of the replacement value of the property insured or such higher amount as is then commercially reasonable. Landlord shall not be required to cause such insurance to cover any Trade Fixtures or Tenant's Alterations of Tenant.

B. Landlord may maintain a policy or policies of commercial general liability insurance insuring Landlord (and such others as are designated by Landlord) against liability for personal injury, bodily injury, death and damage to property occurring or resulting from an occurrence in, on or about the Project, with combined single limit coverage in such amount as Landlord from time to time determines is reasonably necessary for its protection.

9.3 Tenant's Obligation to Reimburse: If Landlord's insurance rates for the Building are increased at any time during the Lease Term as a result of the nature of Tenant's use of the Premises, Tenant shall reimburse Landlord for the full amount of such increase immediately upon receipt of a bill from Landlord therefore.

9.4 Release and Waiver of Subrogation: The parties hereto release each other, and their respective agents and employees, from any liability for injury to any person or damage to property that is caused by or results from any risk insured against under any valid and collectible insurance policy carried by either of the parties which contains a waiver of subrogation by the insurer and is in force at the time of such injury or damage; subject to the following limitations: (i) the foregoing provision shall not apply to the commercial general liability insurance described by subparagraphs §9.1A and §9.2B; (ii) such release shall apply to liability resulting from any risk insured against or covered by self-insurance maintained or provided by Tenant to satisfy the requirements of §9.1 to the extent permitted by this Lease; and (iii) neither Landlord nor Tenant shall be released from any such liability to the extent any damages resulting from such injury or damage are not covered by the recovery obtained by the injured party from such insurance, but only if the insurance in question permits such partial release in connection with obtaining a waiver of subrogation from the insurer. This release shall be in effect only so long as the applicable insurance policy contains a clause to the effect that this release shall not affect the right of the insured to recover under such policy. Each party shall use reasonable efforts to cause each insurance policy obtained by it to provide that the insurer waives all right of recovery by way of subrogation against the other party and its agents and employees in connection with any injury or damage covered by such policy. However, if any insurance policy cannot be obtained with such a waiver of subrogation, or if such waiver of subrogation is only available at additional cost and the party for whose benefit the waiver is to be obtained does not pay such additional cost, then the party obtaining such insurance shall notify the other party of that fact and thereupon shall be relieved of the obligation to obtain such waiver of subrogation rights from the insurer with respect to the particular insurance involved.

ARTICLE 10

LIMITATION ON LANDLORD'S LIABILITY AND INDEMNITY

10.1 Limitation on Landlord's Liability: Landlord shall not be liable to Tenant, nor shall Tenant be entitled to terminate this Lease or to any abatement of rent (except as expressly provided otherwise herein), for any injury to Tenant or Tenant's Agents, damage to the property of Tenant or Tenant's Agents, or loss to Tenant's business resulting from any cause, including without limitation any: (i) failure, interruption or installation of any HVAC or other utility system or service; (ii) failure to furnish or delay in furnishing any utilities or services when such failure or delay is caused by fire or other peril, the elements, labor disturbances of any character, or any other accidents or other conditions beyond the reasonable control of Landlord; (iii) limitation, curtailment, rationing or restriction on the use of water or electricity, gas or any other form of energy or any services or utility serving the Project; (iv) vandalism or forcible entry by unauthorized persons or the criminal act of any person; or (v) penetration of water into or onto any portion of the Premises or the Building through roof leaks or otherwise. Notwithstanding the foregoing but subject to §9.4, Landlord shall be liable for any such injury, damage or loss which is proximately caused by Landlord's willful misconduct or gross negligence of which Landlord has actual notice and a reasonable opportunity to cure but which it fails to so cure.

10.2 Limitation on Tenant's Recourse: If Landlord is a corporation, trust, partnership, joint venture, unincorporated association or other form of business entity: (i) the obligations of Landlord shall not constitute personal obligations of the officers, directors, trustees, partners, joint venturers, members, owners, stockholders, or other principals or representatives of such business entity; and (ii) Tenant shall not have recourse to the assets of such officers, directors, trustees, partners, joint venturers, members, owners, stockholders, principals or representatives except to the extent of their interest in the Project. Tenant shall have recourse only to the interest of Landlord in the Project for the satisfaction of the obligations of Landlord and shall not have recourse to any other assets of Landlord for the satisfaction of such obligations.

10.3 Indemnification of Landlord: Tenant shall hold harmless, indemnify and defend Landlord, and its employees, agents and contractors, with competent counsel reasonably satisfactory to Landlord (and Landlord agrees to accept counsel that any insurer requires be used), from all liability, penalties, losses, damages, costs, expenses, causes of action, claims and/or judgments arising by reason of any death, bodily injury, personal injury or property damage resulting from (i) any cause or causes whatsoever (other than the willful misconduct or gross negligence of Landlord of which Landlord has had notice and a reasonable time to cure, but which Landlord has failed to cure) occurring in or about or resulting from an occurrence in or about the Premises during the Lease Term; (ii) the negligence or willful misconduct of Tenant or its agents, employees and contractors, wherever the same may occur; or (iii) an Event of Tenant's Default. The provisions of this §10.3 shall survive the expiration or sooner termination of this Lease.

ARTICLE 11

DAMAGE TO PREMISES

11.1 Landlord's Duty to Restore: If the Premises are damaged by any peril after the Effective Date, Landlord shall restore the Premises unless the Lease is terminated by Landlord pursuant to §11.2 or by Tenant pursuant to §11.3. All insurance proceeds available from the fire and property damage insurance carried by Landlord pursuant to §9.2 shall be paid to and become the property of Landlord. If this Lease is terminated pursuant to either §11.2 or §11.3, then all insurance proceeds available from insurance carried by Tenant which covers loss to property that is Landlord's property or would become Landlord's property on termination of this Lease shall be paid to and become the property of Landlord. If this Lease is not so terminated, then upon receipt of the insurance proceeds (if the loss is covered by insurance) and the issuance of all necessary governmental permits, Landlord shall commence and diligently prosecute to completion the restoration of the Premises, to the extent then allowed by Law, to substantially the same condition in which the Premises were immediately prior to such damage. Landlord's obligation to restore shall be limited to the Premises and interior improvements constructed by Landlord as they existed as of the Commencement Date, excluding any Tenant's Alterations, Trade Fixtures and/or personal property constructed or installed by Tenant in the Premises. Tenant shall forthwith replace or fully repair all Tenant's Alterations and Trade Fixtures installed by Tenant and existing at the time of such damage or destruction, and all insurance proceeds received by Tenant from the insurance carried by it pursuant to §9.1A(2) shall be used for such purpose.

11.2 Landlord's Right to Terminate: Landlord shall have the right to terminate this Lease in the event any of the following occurs, which right may be exercised only by delivery to Tenant of a written notice of election to terminate within 30 days after the date of such damage:

A. Either the Project or the Building is damaged by an Insured Peril to such an extent that the estimated cost to restore exceeds 33% of the then actual replacement cost thereof;

B. Either the Project or the Building is damaged by an Uninsured Peril to such an extent that the estimated cost to restore exceeds 2% of the then actual replacement cost thereof; provided, however, that Landlord may not terminate this Lease pursuant to this §11.2B if one or more tenants of the Project agree in writing to pay the amount by which the cost to restore the damage exceeds such amount and subsequently deposit such amount with Landlord within 30 days after Landlord has notified Tenant of its election to terminate this Lease;

C. The Premises are damaged by any peril within 12 months of the last day of the Lease Term to such an extent that the estimated cost to restore equals or exceeds an amount equal to six times the Base Monthly Rent then due; provided, however, that Landlord may not terminate this Lease pursuant to this §11.2C if Tenant, at the time of such damage, has a then valid express written option to extend the Lease Term and Tenant exercises such option to extend the Lease Term within 15 days following the date of such damage; or

D. Either the Project or the Building is damaged by any peril and, because of the Laws then in force, (i) cannot be restored at reasonable cost to substantially the same condition in which it was prior to such damage, or (ii) cannot be used for the same use being made thereof before such damage if restored as required by this Article.

E. As used herein, the following terms shall have the following meanings: (i) the term “Insured Peril” shall mean a peril actually insured against for which the insurance proceeds actually received by Landlord are sufficient (except for any “deductible” amount specified by such insurance) to restore the Project under then existing building codes to the condition existing immediately prior to the damage; and (ii) the term “Uninsured Peril” shall mean any peril which is not an Insured Peril. Notwithstanding the foregoing, if the “deductible” for earthquake or flood insurance exceeds 2% of the replacement cost of the improvements insured, such peril shall be deemed an “Uninsured Peril”.

11.3 Tenant’s Right to Terminate: If the Premises are damaged by any peril and Landlord does not elect to terminate this Lease or is not entitled to terminate this Lease pursuant to §11.2, then as soon as reasonably practicable, Landlord shall furnish Tenant with the written opinion of Landlord’s architect or construction consultant as to when the restoration work required of Landlord may be completed. Tenant shall have the right to terminate this Lease in the event any of the following occurs, which right may be exercised only by delivery to Landlord of a written notice of election to terminate within 7 days after Tenant receives from Landlord the estimate of the time needed to complete such restoration.

A. The Premises are damaged by any peril and, in the reasonable opinion of Landlord’s architect or construction consultant, the restoration of the Premises cannot be substantially completed within 180 days after the date of such damage; or

B. The Premises are damaged by any peril within 12 months of the last day of the Lease Term and, in the reasonable opinion of Landlord’s architect or construction consultant, the restoration of the Premises cannot be substantially completed within 90 days after the date of such damage and such damage renders unusable more than 30% of the Premises.

11.4 Abatement of Rent: In the event of damage to the Premises which does not result in the termination of this Lease, the Base Monthly Rent and the Additional Rent shall be temporarily abated during the period of restoration in proportion to the degree to which Tenant’s use of the Premises is impaired by such damage. Tenant shall not be entitled to any compensation or damages from Landlord for loss of Tenant’s business or property or for any inconvenience or annoyance caused by such damage or restoration. Tenant hereby waives the provisions of California Civil Code Sections 1932(2) and 1933(4) and the provisions of any similar law hereinafter enacted.

ARTICLE 12

CONDEMNATION

12.1 Landlord’s Termination Right: Landlord shall have the right to terminate this Lease if, as a result of a taking by means of the exercise of the power of eminent domain (including a voluntary sale or transfer by Landlord to a condemnor under threat of condemnation), (i) all or any part of the Premises is so taken, (ii) more than 10% of the Building Leasable Area is so taken, or (iii) more than 50% of the Common Area is so taken. Any such right to terminate by Landlord must be exercised within a reasonable period of time, to be effective as of the date possession is taken by the condemnor.

12.2 Tenant’s Termination Right: Tenant shall have the right to terminate this Lease if, as a result of any taking by means of the exercise of the power of eminent domain (including any voluntary sale or transfer by Landlord to any condemnor under threat of condemnation), (i) 10% or more of the Premises is so taken and that part of the Premises that remains cannot be restored within a reasonable period of time and thereby made reasonably suitable for the continued operation of the Tenant’s business, or (ii) there is a taking affecting the Common Area and, as a result of such taking, Landlord cannot provide parking spaces within reasonable walking distance of the Premises equal in number to at least 80% of the number of spaces allocated to Tenant by §2.1, whether by rearrangement of the remaining parking areas in the Common Area (including construction of multi-deck parking structures or restriping for compact cars where permitted by Law) or by alternative parking facilities on other land. Tenant must exercise such right within a reasonable period of time, to be effective on the date that possession of that portion of the Premises or Common Area that is condemned is taken by the condemnor.

12.3 Restoration and Abatement of Rent: If any part of the Premises or the Common Area is taken by condemnation and this Lease is not terminated, then Landlord shall restore the remaining portion of the Premises and Common Area and interior improvements constructed by Landlord as they existed as of the Commencement Date, excluding any Tenant’s Alterations, Trade Fixtures and/or personal property constructed or installed by Tenant. Thereafter, except in the case of a temporary taking, as of the date possession is taken the Base Monthly Rent shall be reduced in the same proportion that the floor area of that part of the Premises so taken (less any addition thereto by reason of any reconstruction) bears to the original floor area of the Premises.

12.4 Temporary Taking: If any portion of the Premises is temporarily taken for one year or less, this Lease shall remain in effect. If any portion of the Premises is temporarily taken by condemnation for a period which exceeds one year or which extends beyond the natural expiration of the Lease Term, and such taking materially and adversely affects Tenant’s ability to use the Premises for the Permitted Use, then Tenant shall have the right to terminate this Lease, effective on the date possession is taken by the condemnor.

12.5 Division of Condemnation Award: Any award made as a result of any condemnation of the Premises or the Common Area shall belong to and be paid to Landlord, and Tenant hereby assigns to Landlord all of its right, title and interest in any such award; provided, however, that Tenant shall be entitled to receive any condemnation award that is made directly to Tenant for the following so long as the award made to Landlord is not thereby reduced: (i) for the taking of personal property or Trade Fixtures belonging to Tenant; (ii) for the interruption of Tenant's business or its moving costs; (iii) for loss of Tenant's goodwill; or (iv) for any temporary taking where this Lease is not terminated as a result of such taking. The rights of Landlord and Tenant regarding any condemnation shall be determined as provided in this Article, and each party hereby waives the provisions of California Code of Civil Procedure Section 1265.130 and the provisions of any similar law hereinafter enacted allowing either party to petition the Superior Court to terminate this Lease in the event of a partial taking of the Premises.

ARTICLE 13

DEFAULT AND REMEDIES

13.1 Events of Tenant's Default: Tenant shall be in default of its obligations under this Lease if any of the following events occurs (an "Event of Tenant's Default"):

A. Tenant shall have failed to pay Base Monthly Rent or Additional Rent when due, and such failure is not cured within 3 days after delivery of written notice from Landlord specifying such failure to pay; or

B. Tenant shall have failed to perform any term, covenant, or condition of this Lease except those requiring the payment of Base Monthly Rent or Additional Rent, and Tenant shall have failed to cure such breach within 30 days after written notice from Landlord specifying the nature of such breach where such breach could reasonably be cured within said 30 day period, or if such breach could not be reasonably cured within said 30 day period, Tenant shall have failed to commence such cure within said 30 day period and thereafter continue with due diligence to prosecute such cure to completion within such time period as is reasonably needed but not to exceed 90 days from the date of Landlord's notice; or

C. Tenant shall have sublet the Premises or assigned its interest in the Lease in violation of the provisions contained in Article 14; or

D. Tenant shall have abandoned the Premises or left the Premises substantially vacant; or

E. The occurrence of the following: (i) the making by Tenant of any general arrangements or assignments for the benefit of creditors; (ii) Tenant becomes a "debtor" as defined in 11 USC .101 or any successor statute thereto (unless, in the case of a petition filed against Tenant, the same is dismissed within 60 days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where possession is not restored to Tenant within 30 days; or (iv) the attachment, execution or other judicial seizure of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where such seizure is not discharged within 30 days; provided, however, in the event that any provision of this Section 13.1E is contrary to any applicable Law, such provision shall be of no force or effect; or

F. Tenant shall have failed to deliver documents required of it pursuant to §15.4 or §15.6 within the time periods specified therein.

13.2 Landlord's Remedies: If an Event of Tenant's Default occurs, Landlord shall have the following remedies, in addition to all other rights and remedies provided by any Law or otherwise provided in this Lease, to which Landlord may resort cumulatively or in the alternative:

A. Landlord may keep this Lease in effect and enforce by an action at law or in equity all of its rights and remedies under this Lease, including (i) the right to recover the rent and other sums as they become due by appropriate legal action,;(ii) the right to make payments required of Tenant or perform Tenant's obligations and be reimbursed by Tenant for the cost thereof with interest at the Agreed Interest Rate from the date the sum is paid by Landlord until Landlord is reimbursed by Tenant; and (iii) the remedies of injunctive relief and specific performance to compel Tenant to perform its obligations under this Lease. Notwithstanding anything contained in this Lease, in the event of a breach of an obligation by Tenant which results in a condition which poses an imminent danger to safety of persons or damage to property, an unsightly condition visible from the exterior of the Building, or a threat to insurance coverage, then if Tenant does not cure such breach within 3 days after delivery to it of written notice from Landlord identifying the breach, Landlord may cure the breach of Tenant and be reimbursed by Tenant for the cost thereof with interest at the Agreed Interest Rate from the date the sum is paid by Landlord until Landlord is reimbursed by Tenant.

B. Landlord may enter the Premises and release them to third parties for Tenant's account for any period, whether shorter or longer than the remaining Lease Term. Tenant shall be liable immediately to Landlord for all costs Landlord incurs in releasing the Premises, including brokers' commissions, expenses of altering and preparing the Premises required by the releasing. Tenant shall pay to Landlord the rent and other sums due under this Lease on the date the rent is due, less the rent and other sums Landlord received from any releasing. No act by Landlord allowed by this subparagraph shall terminate this Lease unless Landlord notifies Tenant in writing that Landlord elects to terminate this Lease. Notwithstanding any releasing without termination, Landlord may later elect to terminate this Lease because of the default by Tenant.

C. Landlord may terminate this Lease by giving Tenant written notice of termination, in which event this Lease shall terminate on the date set forth for termination in such notice. Any termination under this §13.2C shall not relieve Tenant from its obligation to pay sums then due Landlord or from any claim against Tenant for damages or rent previously accrued or then accruing. In no event shall any one or more of the following actions by Landlord, in the absence of a written election by Landlord to terminate this Lease, constitute a termination of this Lease: (i) appointment of a receiver or keeper in order to protect Landlord's interest hereunder; (ii) consent to any subletting of the Premises or assignment of this Lease by Tenant, whether pursuant to the provisions hereof or otherwise; or (iii) any other action by Landlord or Landlord's Agents intended to mitigate the adverse effects of any breach of this Lease by Tenant, including without limitation any action taken to maintain and preserve the Premises or any action taken to relet the Premises or any portions thereof to the extent such actions do not affect a termination of Tenant's right to possession of the Premises.

D. In the event Tenant breaches this Lease and abandons the Premises, this Lease shall not terminate unless Landlord gives Tenant written notice of its election to so terminate this Lease. No act by or on behalf of Landlord intended to mitigate the adverse effect of such breach, including those described by §13.C, shall constitute a termination of Tenant's right to possession unless Landlord gives Tenant written notice of termination. Should Landlord not terminate this Lease by giving Tenant written notice, Landlord may enforce all its rights and remedies under this Lease, including the right to recover the rent as it becomes due under the Lease as provided in California Civil Code Section 1951.4.

E. In the event Landlord terminates this Lease, Landlord shall be entitled, at Landlord's election, to damages in an amount as set forth in California Civil Code Section 1951.2 as in effect on the Effective Date. For purposes of computing damages pursuant to California Civil Code Section 1951.2, (i) an interest rate equal to the Agreed Interest Rate shall be used where permitted, and (ii) the term "rent" includes Base Monthly Rent and Additional Rent. Such damages shall include:

(1). The worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided, computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%); and

(2). Any other amount necessary to compensate Landlord for all detriment proximately caused by Tenant's failure to perform Tenant's obligations under this Lease, or which in the ordinary course of things would be likely to result therefrom, including the following: (i) expenses for cleaning, repairing or restoring the Premises; (ii) expenses for altering, remodeling or otherwise improving the Premises for the purpose of reletting, including installation of leasehold improvements (whether such installation be funded by a reduction of rent, direct payment or allowance to a new tenant, or otherwise); (iii) broker's fees, advertising costs and other expenses of reletting the Premises; (iv) costs of carrying the Premises, such as taxes, insurance premiums, utilities and security precautions; (v) expenses in retaking possession of the Premises; and (vi) attorneys' fees and court costs incurred by Landlord in retaking possession of the Premises and in releasing the Premises or otherwise incurred as a result of Tenant's default.

F. Nothing in this §13.2 shall limit Landlord's right to indemnification from Tenant as provided in §7.2 and §10.3. Any notice given by Landlord in order to satisfy the requirements of §13.1A or §13.1B above shall also satisfy the notice requirements of California Code of Civil Procedure Section 1161 regarding unlawful detainer proceedings.

13.3 Waiver: One party's consent to or approval of any act by the other party requiring the first party's consent or approval shall not be deemed to waive or render unnecessary the first party's consent to or approval of any subsequent similar act by the other party. The receipt by Landlord of any rent or payment with or without knowledge of the breach of any other provision hereof shall not be deemed a waiver of any such breach unless such waiver is in writing and signed by Landlord. No delay or omission in the exercise of any right or remedy accruing to either party upon any breach by the other party under this Lease shall impair such right or remedy or be construed as a waiver of any such breach theretofore or thereafter occurring. The waiver by either party of any breach of any provision of this Lease shall not be deemed to be a waiver of any subsequent breach of the same or of any other provisions herein contained.

13.4 Limitation On Exercise of Rights: At any time that an Event of Tenant's Default has occurred and remains uncured, (i) it shall not be unreasonable for Landlord to deny or withhold any consent or approval requested of it by Tenant which Landlord would otherwise be obligated to give, and (ii) Tenant may not exercise any option to extend, right to terminate this Lease, or other right granted to it by this Lease which would otherwise be available to it.

13.5 Waiver by Tenant of Certain Remedies: Tenant waives the provisions of Sections 1932(1), 1941 and 1942 of the California Civil Code and any similar or successor law regarding Tenant's right to terminate this Lease or to make repairs and deduct the expenses of such repairs from the rent due under this Lease. Tenant hereby waives any right of redemption or relief from forfeiture under the laws of the State of California, or under any other present or future law, including the provisions of Sections 1174 and 1179 of the California Code of Civil Procedure.

ARTICLE 14

ASSIGNMENT AND SUBLETTING

14.1 Transfer By Tenant: The following provisions shall apply to any assignment, subletting or other transfer by Tenant or any subtenant or assignee or other successor in interest of the original Tenant (collectively referred to in this §14.1 as "Tenant"):

A. Tenant shall not do any of the following (collectively referred to herein as a "Transfer"), whether voluntarily, involuntarily or by operation of law, without the prior written consent of Landlord, which consent shall not be unreasonably withheld or delayed: (i) sublet all or any part of the Premises or allow it to be sublet, occupied or used by any person or entity other than Tenant; (ii) assign its interest in this Lease; (iii) mortgage or encumber the Lease (or otherwise use the Lease as a security device) in any manner; or (iv) materially amend or modify an assignment, sublease or other transfer that has been previously approved by Landlord. Tenant shall reimburse Landlord for all reasonable costs and attorneys' fees incurred by Landlord in connection with the evaluation, processing, and/or documentation of any requested Transfer, whether or not Landlord's consent is granted. Landlord's reasonable costs shall include the cost of any review or investigation performed by Landlord or consultant acting on Landlord's behalf of (i) Hazardous Materials (as defined in Section 7.2E of this Lease) used, stored, released, or disposed of by the potential Subtenant or Assignee, and/or (ii) violations of Hazardous Materials Law (as defined in Section 7.2E of this lease) by the Tenant or the proposed Subtenant or Assignee. Any Transfer so approved by Landlord shall not be effective until Tenant has delivered to Landlord an executed counterpart of the document evidencing the Transfer which (i) is in a form reasonably approved by Landlord; (ii) contains the same terms and conditions as stated in Tenant's notice given to Landlord pursuant to §14.1B; and (iii) in the case of an assignment of the Lease, contains the agreement of the proposed transferee to assume all obligations of Tenant under this Lease arising after the effective date of such Transfer and to remain jointly and severally liable therefore with Tenant. Any attempted Transfer without Landlord's consent shall constitute an Event of Tenant's Default and shall be voidable at Landlord's option. Landlord's consent to any one Transfer shall not constitute a waiver of the provisions of this §14.1 as to any subsequent Transfer or a consent to any subsequent Transfer. No Transfer, even with the consent of Landlord, shall relieve Tenant of its personal and primary obligation to pay the rent and to perform all of the other obligations to be performed by Tenant hereunder. The acceptance of rent by Landlord from any person shall not be deemed to be a waiver by Landlord of any provision of this Lease nor to be a consent to any Transfer.

B. At least 30 days before a proposed Transfer is to become effective, Tenant shall give Landlord written notice of the proposed terms of such Transfer and request Landlord's approval, which notice shall include the following: (i) the name and legal composition of the proposed transferee; (ii) a current financial statement of the transferee, financial statements of the transferee covering the preceding three years if the same exist, and (if available) an audited financial statement of the transferee for a period ending not more than one year prior to the proposed effective date of the Transfer, all of which statements are prepared in accordance with generally accepted accounting principles; (iii) the nature of the proposed transferee's business to be carried on in the Premises; (iv) all consideration to be given on account of the Transfer; (v) a current financial statement of Tenant; and (vi) an accurately filled out response to Landlord's standard Hazardous Materials Questionnaire. Tenant shall provide to Landlord such other information as may be reasonably requested by Landlord within seven days after Landlord's receipt of such notice from Tenant. Landlord shall respond in writing to Tenant's request for Landlord's consent to a Transfer within the later of (i) 15 days of receipt of such request together with the required accompanying documentation, or (ii) seven days after Landlord's receipt of all information which Landlord reasonably requests within seven days after it receives Tenant's first notice regarding the Transfer in question. If Landlord fails to respond in writing within said period, Landlord will be deemed to have withheld consent to such Transfer. Tenant shall immediately notify Landlord of any material modification to the proposed terms of such Transfer.

C. In the event that Tenant seeks to make any Transfer, Landlord shall have the right to terminate this Lease or, in the case of a sublease of less than all of the Premises, terminate this Lease as to that part of the Premises proposed to be so sublet, either (i) on the condition that the proposed transferee immediately enter into a direct lease of the Premises with Landlord (or, in the case of a partial sublease, a lease for the portion proposed to be so sublet) on the same terms and conditions contained in Tenant's notice, or (ii) so that Landlord is thereafter free to lease the Premises (or, in the case of a partial sublease, the portion proposed to be so sublet) to whomever it pleases on whatever terms are acceptable to Landlord. In the event Landlord elects to so terminate this Lease, then (i) if such termination is conditioned upon the execution of a lease between Landlord and the proposed transferee, Tenant's obligations under this Lease shall not be terminated until such transferee executes a new lease with Landlord, enters into possession and commences the payment of rent, and (ii) if Landlord elects simply to terminate this Lease (or, in the case of a partial sublease, terminate this Lease as to the portion to be so sublet), the Lease shall so terminate in its entirety (or as to the space to be so sublet) fifteen (15) days after Landlord has notified Tenant in writing of such election. Upon such termination, Tenant shall be released from any further obligation under this Lease if it is terminated in its entirety, or shall be released from any further obligation under the Lease with respect to the space proposed to be sublet in the case of a proposed partial sublease. In the case of a partial termination of the Lease, the Base Monthly Rent and Tenant's Share shall be reduced to an amount which bears the same relationship to the original amount thereof as the area of that part of the Premises which remains subject to the Lease bears to the original area of the Premises. Landlord and Tenant shall execute a cancellation and release with respect to the Lease to effect such termination.

D. If Landlord consents to a Transfer proposed by Tenant, Tenant may enter into such Transfer, and if Tenant does so, the following shall apply:

(1). Tenant shall not be released of its liability for the performance of all of its obligations under the Lease.

(2). If Tenant assigns its interest in this Lease, then Tenant shall pay to Landlord 50% of all Subrent (as defined in §14.1D(5)) received by Tenant over and above (i) the assignee's agreement to assume the obligations of Tenant under this Lease, and (ii) all Permitted Transfer Costs related to such assignment. In the case of assignment, the amount of Subrent owed to Landlord shall be paid to Landlord on the same basis, whether periodic or in lump sum, that such Subrent is paid to Tenant by the assignee.

(3). If Tenant sublets any part of the Premises, then with respect to the space so subleased, Tenant shall pay to Landlord 50% of the positive difference, if any, between (i) all Subrent paid by the subtenant to Tenant, less (ii) the sum of all Base Monthly Rent and Additional Rent allocable to the space sublet and all Permitted Transfer Costs related to such sublease. Such amount shall be paid to Landlord on the same basis, whether periodic or in lump sum, that such Subrent is paid to Tenant by its subtenant. In calculating Landlord's share of any periodic payments, all Permitted Transfer Costs shall be first recovered by Tenant.

(4). Tenant's obligations under this §14.1D shall survive any Transfer, and Tenant's failure to perform its obligations hereunder shall be an Event of Tenant's Default. At the time Tenant makes any payment to Landlord required by this §14.1D, Tenant shall deliver an itemized statement of the method by which the amount to which Landlord is entitled was calculated, certified by Tenant as true and correct. Landlord shall have the right at reasonable intervals to inspect Tenant's books and records relating to the payments due hereunder. Upon request therefore, Tenant shall deliver to Landlord copies of all bills, invoices or other documents upon which its calculations are based. Landlord may condition its approval of any Transfer upon obtaining a certification from both Tenant and the proposed transferee of all Subrent and other amounts that are to be paid to Tenant in connection with such Transfer.

(5). As used in this §14.1D, the term "Subrent" shall mean any consideration of any kind received, or to be received, by Tenant as a result of the Transfer, if such sums are related to Tenant's interest in this Lease or in the Premises, including payments from or on behalf of the transferee (in excess of the book value thereof) for Tenant's assets, fixtures, leasehold improvements, inventory, accounts, goodwill, equipment, furniture, and general intangibles. As used in this §14.1D, the term "Permitted Transfer Costs" shall mean (i) all reasonable leasing commissions paid to third parties not affiliated with Tenant in order to obtain the Transfer in question; and (ii) all reasonable attorneys' fees incurred by Tenant with respect to the Transfer in question.

E. If Tenant is a corporation, the following shall be deemed a voluntary assignment of Tenant's interest in this Lease: (i) any dissolution, merger, consolidation, or other reorganization of or affecting Tenant, whether or not Tenant is the surviving corporation; and (ii) if the capital stock of Tenant is not publicly traded, the sale or transfer to one person or entity (or to any group of related persons or entities) stock possessing more than 50% of the total combined voting power of all classes of Tenant's capital stock issued, outstanding and entitled to vote for the election of directors. If Tenant is a partnership, any withdrawal or substitution (whether voluntary, involuntary or by operation of law, and whether occurring at one time or over a period of time) of any partner owning 25% or more (cumulatively) of any interest in the capital or profits of the partnership, or the dissolution of the partnership, shall be deemed a voluntary assignment of Tenant's interest in this Lease.

F. Notwithstanding anything contained in §14.1, so long as Tenant otherwise complies with the provisions of §14.1 Tenant may enter into any of the following transfers (a "Permitted Transfer") without Landlord's prior written consent, and Landlord shall not be entitled to terminate the Lease pursuant to §14.1C or to receive any part of any Subrent resulting therefrom that would otherwise be due it pursuant to §14.1D:

(1). Tenant may sublease all or part of the Premises or assign its interest in this Lease to any corporation which controls, is controlled by, or is under common control with the original Tenant to this Lease by means of an ownership interest of more than 50%;

(2). Tenant may assign its interest in the Lease to a corporation which results from a merger, consolidation or other reorganization in which Tenant is not the surviving corporation, so long as the surviving corporation has a net worth at the time of such assignment that is equal to or greater than the net worth of Tenant immediately prior to such transaction; and

(3). Tenant may assign this Lease to a corporation which purchases or otherwise acquires all or substantially all of the assets of Tenant, so long as such acquiring corporation has a net worth at the time of such assignment that is equal to or greater than the net worth of Tenant immediately prior to such transaction.

14.2 Transfer By Landlord: Landlord and its successors in interest shall have the right to transfer their interest in this Lease and the Project at any time and to any person or entity. In the event of any such transfer, the Landlord originally named herein (and, in the case of any subsequent transfer, the transferror) from the date of such transfer, shall be automatically relieved, without any further act by any person or entity, of all liability for the performance of the obligations of the Landlord hereunder which may accrue after the date of such transfer. After the date of any such transfer, the term "Landlord" as used herein shall mean the transferee of such interest in the Premises.

ARTICLE 15

GENERAL PROVISIONS

15.1 Landlord's Right to Enter: Landlord and its agents may enter the Premises at any reasonable time after giving at least 24 hours' prior notice to Tenant (and immediately in the case of emergency) for the purpose of: (i) inspecting the same; (ii) posting notices of non-responsibility; (iii) supplying any service to be provided by Landlord to Tenant; (iv) showing the Premises to prospective purchasers, mortgagees or tenants; (v) making necessary alterations, additions or repairs; (vi) performing Tenant's obligations when Tenant has failed to do so after written notice from Landlord; (vii) placing upon the Premises ordinary "for lease" signs or "for sale" signs; and (viii) responding to an emergency. Landlord shall have the right to use any and all means Landlord may deem necessary and proper to enter the Premises in an emergency. Any entry into the Premises obtained by Landlord in accordance with this §15.1 shall not be a forcible or unlawful entry into, or a detainer of, the Premises, or an eviction, actual or constructive, of Tenant from the Premises.

15.2 Surrender of the Premises: Upon the expiration or sooner termination of this Lease, Tenant shall vacate and surrender the Premises to Landlord in the same condition as existed at the Commencement Date, except for (i) reasonable wear and tear, (ii) damage caused by any peril or condemnation, and (iii) contamination by Hazardous Materials for which Tenant is not responsible pursuant to §7.2A or §7.2B. In this regard, normal wear and tear shall be construed to mean wear and tear caused to the Premises by the natural aging process which occurs in spite of prudent application of the best standards for maintenance, repair and janitorial practices, and does not include items of neglected or deferred maintenance. In any event, Tenant shall cause the following to be done prior to the expiration or the sooner termination of this Lease: (i) all interior walls shall be touched up with panet and/or cleaned so that they appear freshly painted; (ii) all tiled floors shall be cleaned and waxed; (iii) all carpets shall be cleaned and shampooed; (iv) all broken, marred, stained or nonconforming acoustical ceiling tiles shall be replaced; (v) all windows shall be washed; (vi) the HVAC system shall be serviced by a reputable and licensed service firm and left in good operating condition and repair as so certified by such firm; and (vii) the plumbing and electrical systems and lighting shall be placed in good order and repair (including replacement of any burned out, discolored or broken light bulbs, ballasts, or lenses). If Landlord so requests, Tenant shall, prior to the expiration or sooner termination of this Lease, (i) remove any Tenant's Alterations which Tenant is required to remove pursuant to §5.2 and repair all damage caused by such removal, and (ii) return the Premises or any part thereof to its original configuration existing as of the time the Premises were delivered to Tenant. If the Premises are not so surrendered at the termination of this Lease, Tenant shall be liable to Landlord for all costs incurred by Landlord in returning the Premises to the required condition, plus interest on all costs incurred at the Agreed Interest Rate. Tenant shall indemnify Landlord against loss or liability resulting from delay by Tenant in so surrendering the Premises, including, without limitation, any claims made by any succeeding tenant or losses to Landlord due to lost opportunities to lease to succeeding tenants.

15.3 Holding Over: This Lease shall terminate without further notice at the expiration of the Lease Term. Any holding over by Tenant after expiration of the Lease Term shall not constitute a renewal or extension of the Lease or give Tenant any rights in or to the Premises except as expressly provided in this Lease. Any holding over after such expiration with the written consent of Landlord shall be construed to be a tenancy from month to month on the same terms and conditions herein specified insofar as applicable except that Base Monthly Rent shall be increased to an amount equal to 150% of the Base Monthly Rent payable during the last full calendar month of the Lease Term.

15.4 Subordination: The following provisions shall govern the relationship of this Lease to any Security Instrument:

A. The Lease is subject and subordinate to all Security Instruments existing as of the Effective Date. However, if any Lender so requires, this Lease shall become prior and superior to any such Security Instrument.

B. At Landlord's election, this Lease shall become subject and subordinate to any Security Instrument created after the Effective Date. Notwithstanding such subordination, Tenant's right to quiet possession of the Premises shall not be disturbed so long as Tenant is not in default and performs all of its obligations under this Lease, unless this Lease is otherwise terminated pursuant to its terms.

C. Tenant shall upon request execute any document or instrument reasonably required by any Lender to make this Lease either prior or subordinate to a Security Instrument, which may include such other matters as the Lender customarily and reasonably requires in connection with such agreements, including provisions that the Lender not be liable for (i) the return of any security deposit unless the Lender receives it from Landlord, and (ii) any defaults on the part of Landlord occurring prior to the time the Lender takes possession of the Project in connection with the enforcement of its Security Instrument. Tenant's failure to execute any such document or instrument within 10 days after written demand therefore shall constitute an Event of Tenant's Default. Tenant approves as reasonable the form of subordination agreement attached to this Lease as Exhibit G.

15.5 Mortgagee Protection and Attornment: In the event of any default on the part of the Landlord, Tenant will use reasonable efforts to give notice by registered mail to any Lender whose name has been provided to Tenant and shall offer such Lender a reasonable opportunity to cure the default, including time to obtain possession of the Premises by power of sale or judicial foreclosure or other appropriate legal proceedings, if such should prove necessary to effect a cure. Tenant shall attorn to any purchaser of the Premises at any foreclosure sale or private sale conducted pursuant to any Security Instrument encumbering the Premises, or to any grantee or transferee designated in any deed given in lieu of foreclosure.

15.6 Estoppel Certificates and Financial Statements: At all times during the Lease Term, each party agrees, following any request by the other party, promptly to execute and deliver to the requesting party within 15 days following delivery of such request an estoppel certificate: (i) certifying that this Lease is unmodified and in full force and effect or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect, (ii) stating the date to which the rent and other charges are paid in advance, if any, (iii) acknowledging that there are not, to the certifying party's knowledge, any uncured defaults on the part of any party hereunder or, if there are uncured defaults, specifying the nature of such defaults, and (iv) certifying such other information about the Lease as may be reasonably required by the requesting party. A failure to deliver an estoppel certificate within 15 days after delivery of a request therefore shall be a conclusive admission that, as of the date of the request for such statement: (i) this Lease is unmodified except as may be represented by the requesting party in said request and is in full force and effect, (ii) there are no uncured defaults in the requesting party's performance, and (iii) no rent has been paid more than 30 days in advance. At any time during the Lease Term Tenant shall, upon 15 days' prior written notice from Landlord, provide Tenant's most recent financial statement and financial statements covering the 24 month period prior to the date of such most recent financial statement to any existing Lender or to any potential Lender or buyer of the Premises. Such statements shall be prepared in accordance with generally accepted accounting principles and, if such is the normal practice of Tenant, shall be audited by an independent certified public accountant.

15.7 Reasonable Consent: Whenever any party's approval or consent is required by this Lease before an action may be taken by the other party, such approval or consent shall not be unreasonably withheld or delayed.

15.8 Notices: Any notice required or desired to be given regarding this Lease shall be in writing and may be given by personal delivery, by facsimile telecopy, by courier service, or by mail. A notice shall be deemed to have been given (i) on the third business day after mailing if such notice was deposited in the United States mail, certified or registered, postage prepaid, addressed to the party to be served at its Address for Notices specified in Section Q or Section R of the Summary (as applicable), (ii) when delivered if given by personal delivery, and (iii) in all other cases when actually received at the party's Address for Notices. Either party may change its address by giving notice of the same in accordance with this §15.8, provided, however, that any address to which notices may be sent must be a California address.

15.9 Attorneys' Fees: In the event either Landlord or Tenant shall bring any action or legal proceeding for an alleged breach of any provision of this Lease, to recover rent, to terminate this Lease or otherwise to enforce, protect or establish any term or covenant of this Lease, the prevailing party shall be entitled to recover as a part of such action or proceeding, or in a separate action brought for that purpose, reasonable attorneys' fees, court costs, and experts' fees as may be fixed by the court.

15.10 Corporate Authority: If Tenant is a corporation (or partnership), each individual executing this Lease on behalf of Tenant represents and warrants that he is duly authorized to execute and deliver this Lease on behalf of such corporation in accordance with the by-laws of such corporation (or partnership in accordance with the partnership agreement of such partnership) and that this Lease is binding upon such corporation (or partnership) in accordance with its terms. Each of the persons executing this Lease on behalf of a corporation does hereby covenant and warrant that the party for whom it is executing this Lease is a duly authorized and existing corporation, that it is qualified to do business in California, and that the corporation has full right and authority to enter into this Lease.

15.11 Miscellaneous: Should any provision of this Lease prove to be invalid or illegal, such invalidity or illegality shall in no way affect, impair or invalidate any other provision hereof, and such remaining provisions shall remain in full force and effect. Time is of the essence with respect to the performance of every provision of this Lease in which time of performance is a factor. The captions used in this Lease are for convenience only and shall not be considered in the construction or interpretation of any provision hereof. Any executed copy of this Lease shall be deemed an original for all purposes. This Lease shall, subject to the provisions regarding assignment, apply to and bind the respective heirs, successors, executors, administrators and assigns of Landlord and Tenant. "Party" shall mean Landlord or Tenant, as the context implies. If Tenant consists of more than one person or entity, then all members of Tenant shall be jointly and severally liable hereunder. This Lease shall be construed and enforced in accordance with the laws of the State of California. The language in all parts of this Lease shall in all cases be construed as a whole according to its fair meaning, and not strictly for or against either Landlord or Tenant. When the context of this Lease requires, the neuter gender includes the masculine, the feminine, a partnership or corporation or joint venture, and the singular includes the plural. The terms "shall", "will" and "agree" are mandatory. The term "may" is permissive. When a party is required to do something by this Lease, it shall do so at its sole cost and expense without right of reimbursement from the other party unless a provision of this Lease expressly requires reimbursement. Landlord and Tenant agree that (i) the gross leasable area of the Premises includes any atriums, depressed loading docks, covered entrances or egresses, and covered loading areas, (ii) each has had an opportunity to determine to its satisfaction the actual area of the Project and the Premises, (iii) all measurements of area contained in this Lease are conclusively agreed to be correct and binding upon the parties, even if a subsequent measurement of any one of these areas determines that it is more or less than the amount of area reflected in this Lease, and (iv) any such subsequent determination that the area is more or less than shown in this Lease shall not result in a change in any of the computations of rent, improvement allowances, or other matters described in this Lease where area is a factor. Where a party hereto is obligated not to perform any act, such party is also obligated to restrain any others within its control from performing said act, including the Agents of such party. Landlord shall not become or be deemed a partner or a joint venturer with Tenant by reason of the provisions of this Lease.

15.12 Termination by Exercise of Right: If this Lease is terminated pursuant to its terms by the proper exercise of a right to terminate specifically granted to Landlord or Tenant by this Lease, then this Lease shall terminate 30 days after the date the right to terminate is properly exercised (unless another date is specified in that part of the Lease creating the right, in which event the date so specified for termination shall prevail), the rent and all other charges due hereunder shall be prorated as of the date of termination, and neither Landlord nor Tenant shall have any further rights or obligations under this Lease except for those that have accrued prior to the date of termination or those obligations which this Lease specifically provides are to survive termination. This §15.12 does not apply to a termination of this Lease by Landlord as a result of an Event of Tenant's Default.

15.13 Brokerage Commissions: Each party hereto (i) represents and warrants to the other that it has not had any dealings with any real estate brokers, leasing agents or salesmen, or incurred any obligations for the payment of real estate brokerage commissions or finder's fees which would be earned or due and payable by reason of the execution of this Lease, other than to the Retained Real Estate Brokers described in Section S of the Summary, and (ii) agrees to indemnify, defend, and hold harmless the other party from any claim for any such commission or fees which result from the actions of the indemnifying party. Landlord shall be responsible for the payment of any commission owed to the Retained Real Estate Brokers if there is a separate written commission agreement between Landlord and the Retained Real Estate Brokers for the payment of a commission as a result of the execution of this Lease.

15.14 Force Majeure: Any prevention, delay or stoppage due to strikes, lock-outs, inclement weather, labor disputes, inability to obtain labor, materials, fuels or reasonable substitutes therefore, governmental restrictions, regulations, controls, action or inaction, civil commotion, fire or other acts of God, and other causes beyond the reasonable control of the party obligated to perform (except financial inability) shall excuse the performance, for a period equal to the period of any said prevention, delay or stoppage, of any obligation hereunder except the obligation of Tenant to pay rent or any other sums due hereunder.

15.15 Entire Agreement: This Lease constitutes the entire agreement between the parties, and there are no binding agreements or representations between the parties except as expressed herein. Tenant acknowledges that neither Landlord nor Landlord's Agents has made any legally binding representation or warranty as to any matter except those expressly set forth herein, including any warranty as to (i) whether the Premises may be used for Tenant's intended use under existing Law, (ii) the suitability of the Premises or the Project for the conduct of Tenant's business, or (iii) the condition of any improvements. There are no oral agreements between Landlord and Tenant affecting this Lease, and this Lease supercedes and cancels any and all previous negotiations, arrangements, brochures, agreements and understandings, if any, between Landlord and Tenant or displayed by Landlord to Tenant with respect to the subject matter of this Lease. This instrument shall not be legally binding until it is executed by both Landlord and Tenant. No subsequent change or addition to this Lease shall be binding unless in writing and signed by Landlord and Tenant.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease with the intent to be legally bound thereby, to be effective as of the Effective Date.

LANDLORD:

ORCHARD INVESTMENT COMPANY NUMBER 205
a California general partnership

By: _____
David J. Brown, General Partner

OR

By: /s/ Michael J. Biggar
Michael J. Biggar, General Partner

Dated: January 23, 2004

TENANT:

SILICON MOTION, INC.
a California corporation

By: /s/ Michael Lin
Michael Lin, General Manager

By: _____

_____

[Print Name and Title]

Dated: January 23, 2004

FIRST ADDENDUM TO LEASE

THIS FIRST ADDENDUM is dated for reference purposes as January 21, 2004, and is made a part of that Lease Agreement (the "Lease") dated January 21, 2004, by and between **Orchard Investment Company Number 205,** a California general partnership ("Landlord") and **Silicon Motion, Inc.**, a California corporation ("Tenant") affecting certain real property commonly known as 2125 Zanker Road, San Jose, California 95131, with reference to the following facts:

1. Early Occupancy:

A. As consideration for Tenant's performance of all obligations to be performed by Tenant under the Lease, and upon receipt of (i) the first month's Base Monthly Rent and Security Deposit totaling $28,258.00, and (ii) a certificate of insurance as provided by Article 9.1C of the Lease, Landlord shall permit Tenant to enter and use the "Premises" commencing March 1, 2004 until March 31, 2004 (the "Early Occupancy Period"). Such occupancy during the Early Occupancy Period shall be subject to all of the terms, covenants and conditions of the Lease provided, however, that the rent and Common Operating Expenses payable during the Early Occupancy Period shall be waived.

B. In the event either party shall bring any action or legal proceeding for damages for alleged breach of any provision of this agreement, to recover rent, to terminate tenancy of the Premises, or to enforce, protect or establish any term or covenant of this agreement or the Lease or right of remedy of either party, the prevailing party shall be entitled to recover as a part of such action or proceeding, reasonable attorney's fees and court costs as may be fixed by the court or jury.

C. In consideration of executing this Early Occupancy Agreement, Tenant agrees to indemnify and save Landlord harmless of and from any and all liability, damage, expense, cause of action, suits or claims or judgments resulting from injury to person or property arising from the use of the Premises by Tenant during the Early Occupancy Period, including loss or damage to Tenant, its equipment, materials or supplies.

D. Tenant agrees to cooperate with construction personnel completing the Interior Improvements in the Premises and not cause any delay in the completion of these improvements. It is the intent of Landlord and Tenant that Tenant's obligation to pay the Base Monthly Rent and all Additional Rent not be delayed by any cause or other act of Tenant and, if it is so delayed, and provided that Landlord promptly notifies Tenant in writing of each separate delay and the estimated period of delay, then Tenant's obligation to pay the Base Monthly Rent and all Additional Rent shall commence as of the date it would have commenced absent said delay caused by Tenant.

E. During the Early Occupancy Period, Tenant shall arrange to have all utility services, including but not limited to gas, electric, water and trash, billed directly to Tenant for payment.

2. Tenant Improvement: Landlord, at Landlord's sole cost and expense, shall install a ventilation hood of sufficient size and exhaust capability to vent one soldering iron, location to be mutually agreed upon between Landlord and Tenant and noted in Exhibit C. The shipping and receiving area shall be converted into an office area with one (1) private office and carpeted floor per attached Exhibit C.

3. Condition Of Premises: Landlord shall provide the Premises with all existing electrical, HVAC and plumbing in good and workable condition, and to the extent that there are any warranties available, Landlord agrees to provide Tenant with access to those warranties.

4. Furniture: With respect to the office cubicle systems, chairs and office furniture described in Exhibit I (the "Furniture") which is owned by Landlord, Tenant shall have the right to continue to use such items during the term of the Lease, and shall, on the conclusion thereof, return them to Landlord in the same condition as received, reasonable wear and tear excepted. During the term of the Lease, Tenant shall keep, maintain, and repair such items in good order, repair, and condition, and insure them under a policy of "all-risk" casualty coverage and remit to Landlord any proceeds from insurance carriers related to any damage to or theft of destruction of, such items.

5. In the event of any conflict between this Addendum and the Lease, the provisions of this Addendum will control.

LANDLORD:

ORCHARD INVESTMENT COMPANY NUMBER 205
a California general partnership

By: _____
David J. Brown, General Partner

OR

By: /s/ Michael J. Biggar
Michael J. Biggar, General Partner

Date: January 23, 2004

TENANT:

SILICON MOTION, INC.
a California corporation

By: /s/ Michael Lin
Michael Lin, General Manager

By: _____

_____
[Print Name and Title]

Date: January 23, 2004

Bank Line-of-Credit Agreement & General Agreement

Unit/Organization:	Hsinchu Department/Regional Center
Customer:	Silicon Motion Inc.
Contract Date:	November 25, 2004
	(Exclusively for general credit line)

Bank General Credit Line and Facility Agreement

The undersigned (hereinafter referred to as “the Contractor”) applies for credit line with Chinatrust Commercial Bank Co., Ltd. (including the head office and its affiliates; hereinafter referred to as ‘the Bank”) and enters into the Bank Line-of-Credit General Agreement (hereinafter referred to as “the Agreement”) for a total credit line (excluding syndication loans) of

☑ SEVENTY MILLION NT Dollars or equivalent foreign currency; or

☐_____ Dollars.

(Hereinafter refer to as “the Credit”, including all individual general credit lines) for the Contractor to apply the credit line with the Bank. All transactions between the Contractor and the Bank are subject to the terms and conditions of the Agreement, in addition to other agreements entered into by and between the parties and all documents and certificates issued to the Bank for application for the credit:

A: General Terms and Conditions

Article 1 The General Credit Line is the ceiling of all kinds of credits that the Bank grants to the Contractor for the agreed purposes. Within the General Credit Line, the Bank may specify individual credit lines with respect to each credit purpose in related provisions of the Agreement as the maximum credit facilities. The total of each credit line may exceed the general credit line; however, in the event the total of the amounts to be drawn and actually drawn has already exceeded the general credit line at the time when it is to be actually used by the Contractor, irrespective of the amount to be drawn still under the limits of individual credit lines, the credit line shall be subject to the restriction of the general credit line and shall not be used, with the exception that the Contractor may use the revolving amount within the general credit line and individual credit lines. In case of any foreign currency involved in the amount of drawdown, individual credit lines and the general credit line shall be calculated based on the exchange rate determined by the Bank at the time of drawdown. If the amount appropriated or advanced by the Bank provided or exceeds the general credit line or each individual credit line due to fluctuation of the exchange rate, the Contractor shall still be liable for repayment of the excess amount.

Article 2 The bank may suspend the Contractor’s drawdown of the credit facility or decrease the credit line at its sole and absolute discretion if the Bank considers that the Contractor improperly uses the credit facility, has a poor payment record, fails to provide a guarantee upon request, or if required by other business of the Bank. The Contractor shall be liable for any dispute or cost where a third party is involved, and shall indemnify the Bank fully against any damages arising thereof.

Article 3 Unless otherwise provided by law, all debts under certificates, documents such as debit notes, negotiable notes, letters of credit, orders, or endorsed checks issued by the Contractor to the Bank for each specific credit purposes shall be exempted only after all liabilities under the Credit are fulfilled.

In case the Contractor has any doubt over the amount of debts mentioned in the previous paragraph, it agrees that the data set forth on the Bank’s debit card, account book, accounting slips, computer files, other certificates, transaction document or their photocopies or microfiles shall prevail.

Article 4 Unless provided in the Agreement, the contents, registration, release, guaranty scope and the method to exercise the right with respect to the guaranty of the Credit shall be handled under applicable laws and regulations.

Article 5 The Agreement shall come into effect on the day of execution. In case the Bank has already appropriated the funds, issued guaranty letters or granted any other credit, the effective date may be retroactive to the date on which the conditions are fulfilled. The Agreement shall remain in force before a new agreement is stricken when the Bank approves the Contractor’s application for renewal of the Agreement.

Article 6 Any other agreements, documents and certificates between the Contractor and the Bank shall constitute a part of the Agreement and carry equal legal effects as the Agreement, unless otherwise provided in the Agreement that the Agreement shall supersede. The Contractor covenants to observe all existing and future laws and regulations promulgated by the government, the Bank, the bank association, finance competent authorities.

Article 7 In the event the Contractor is a foreign individual or a foreign legal person, the debts incurred from the Agreement, the related legal requirements and validity of each behavior shall be governed by the laws of Republic of China, unless otherwise required by the law of _____.

The place of performance of the Agreement shall be of the place where the Bank is located. It is agreed that any law suit in which the Contractor is involved with respect to the Agreement shall be file jurisdiction of the local court of the place where the Bank's head office or _____ branch is located, or of Taipei District Court for the first instance, unless any special provision is made on exclusive jurisdiction by law.

Article 8 The Agreement, credit application form, documents and papers related to guaranty may be made in Chinese or in English. If there is any inconsistency between the Chinese and the English version, the Chinese version shall supersede.

Article 9 (Clauses of Use of Information by Financial Holding Company and its Subsidiaries)

1. The Contractor agrees that for the common promotion purpose the Bank may provide the Contractor's information (including, but not limited to, basic, account, credit, investment, insurance information,) to the financial holding company of the Bank and the subsidiaries controlled by the financial holding company in accordance with the Financial Holding Company Law for disclosure, transfer, or cross use.
2. The contents and scope of the information provided in the preceding paragraph are as follows:
   (1) Basic Information: including the name, birth date, ID number, telephone and address, etc.
   (2) Account Information: including the account number or number with similar functions, credit card number, deposit account number, transaction account number, deposits/loans, and other transactions details and financial status, etc.
   (3) Credit Information: including records of dishonored notes, cancellation record, transaction refusals and business operation status, etc.
   (4) Investment Information: including the target of investment or disposal, the amount, time, etc.
   (5) Insurance Information: Including information related to insurance type, time limit, amount, premium, payment method, settlement status, insurance rejection records, etc.
3. The Contractor acknowledges and agrees that, within the operation scope or to the extent permitted by the applicable laws, the Bank, the financial holding company of the Bank and the subsidiaries controlled by the financial holding company in accordance with the Financial Holding Company Law may collect, process by computer, transmit internationally, or use (including administrative research, promotion, sending consumption information, etc.) the Contractor's personal information.
4. The Contractor further agrees that the Bank, the financial holding company of the Bank and the subsidiaries controlled by the financial holding company in accordance with the Financial Holding Company Law may authorize a third party to handle transactions and operations under the Agreement; the Contractor also agrees to disclose all information of the Contractor as specified in Paragraph 1 herein to the Bank, the financial holding company of the Bank and the subsidiaries controlled by the financial holding company in accordance with the Financial Holding Company Law, or any third party authorized thereby.

B: General Terms and Conditions

Article 1 (The Scope of Indebtedness)

Indebtedness or all indebtednesses mentioned in the Agreement refer to liabilities incurred from notes, loans, guaranty, advance payment, overdrawn, discount, acceptance, entrust guaranty, opening letters of Credit, import collection, negotiation draft, import/export foreign exchange business, financial transaction business, funds receivable fund-raising business, handling charges, credit card consumption and any other liabilities on the basis of basic legal relations of business with the Bank, including interests, delay interests, penalties, damages and related expenses.

Article 2 (Joint Liability)

In the event that the Contractor joins with other obligators to borrow funds from the Bank by signing written agreements or issuing invoices, the funds shall be deemed to have been appropriated to the Contractor even if the Bank appropriates the funds only to other obligator who joins with the Contractor in signing written agreements or issuing invoices, under which circumstance, the Contractor still recognizes its debt obligations and is willing to be held jointly responsible for repayments.

Article 3 (Notification of Changes and Delivery)

In case of changes of name, organization, articles of incorporation, stamp specimen, representative person, the authority of representative or others, the Contractor shall immediately notify the Bank the reason of change in writing and file an application with the Bank for change or withdraw al of the original stamp specimen. The original stamp specimen provided by the Contractor in the Bank remains valid till approval of the Bank and completion of procedure of change or withdrawal. The Contractor agrees to be held fully responsible for transactions with the Bank.

All payment requests or notices under the Credit shall be deemed to have been duly given when sent by courier or delivered personally to the last notified addresses of the addressee (or its representatives) of the request or notices. The above-mentioned requests or notices shall also be deemed to have been delivered to the addressee after normal mailing period has elapsed upon failure to be delivered to the last notified address because the addressee (or its representatives) has moved away from the last notified address or for any other reason that can be attributed to the addressee (or its representatives) without prior notice to the Bank. The Contractors agrees to release the Bank from its obligation to give notice when the Bank, for the purpose of financial asset securitization, entrusts its creditor’s rights (or assets) against the Contractor to a trustee or assign them to a special purpose company.

Article 4 (Interest)

The interest rate shall follow the rate ruling at the time the individual credit agreement is made or follow the agreement of the confirmation letter concerning drawdown of the credit line and other related documents. If no such agreement is made, the interest rate shall be calculated by adding an annual interest rate of 4% to the base rate of the Bank ruling at the time the indebtedness is incurred.

The interest rate mentioned above may be adjusted in accordance with adjustment to the base interest rate or the agreed interest rate; notwithstanding the forgoing, the interest rate announced by the Bank supersedes. Unless otherwise indicated, the interest shall be paid on a monthly basis.

The Bank may incorporate the deferred interest into the original principal in case where the interest is delayed for one year and not paid upon the notice of payment request by the Bank.

Article 5 (Acceleration Clause)

In the event of any of the following circumstances occurs to all debts borne by the Contractor to the Bank, the Bank may cease or reduce the payment of the credit line, shorten the credit period or regard all principals and interests as due from time to time.

1. The Contractor fails to repay any debt as agreed or repay the principals.
2. The Contractor (1) files the petition for settlement, bankruptcy, reorganization in accordance with Bankruptcy law; (2) is declared by the clearinghouse to be suspended as a dishonored account; (3) ceases business operations; or (4) commences liquidation.

3. The Contractor fails to provide guaranties under the Agreement.
4. The Contractor's heir of the Contractor declares limited succession or gives up succession due to death of the Contractor.
5. Main properties of the Contractor are declared confiscated due to criminal charges.
6. The Contractor fails to make pay interest in relation to any debt;
7. Collateral is attached, lost, devaluated or is insufficient to warrant the credit.
8. The actual use of loans that the Contractor owes to the Bank is not in consistency with the purpose approved by the Bank.
9. The Contractor is subject to compulsory execution, provisional detention, provisional disposition, or other injunctions, which leads to the danger that the debts of the Bank may not be paid.
10. In addition to the forgoing, to secure rights of the Bank, circumstances that are specifically stipulated in the agreement and circumstances where acceleration of maturity is made clear (whether notice is given or not).

Any substantial agreed term contained in Paragraphs 1-5 and Paragraph 10 shall be exempted from notification or request by the Bank.

Article 6 (Exercising of Right to Offset against Immature Debts.)

In the event of breach by the Contractor, the Bank is entitled to offset all deposits of the Contractor in the Bank and all immature credits that the Contractor have against the Bank (except any checking account not terminated yet) to pay off the Contractor's indebtedness to the Bank, irrespective of whether the indebtedness is due or not.

The Contractor understands and consents any breach of any agreement between the Contractor and the Bank and the bank's claim of right to regard all debts as due and payable in accordance with the agreement shall constitute a condition to terminate the agreement concerning checking accounts between the Contractor and the Bank. Once the condition of termination is satisfied, the aforesaid agreement of checking accounts shall be void. The Bank shall immediately reimburse all funds remaining in the checking account and offset all debts that the Contractor owes to the Bank with funds that shall be reimbursed.

The advance-offset intent specified in the previous two paragraphs shall be effective when the offset is recorded in the accounts. Meanwhile, the deposit slips, account books, checks or other certificates issued by the Bank to the Contractor shall become void within the scope of offset. The Bank shall not exercise its right to offset under any of the following three circumstances:

1. Prohibited by laws;
2. Otherwise agreed to by the parties hereto; or
3. The Bank makes payment to the Contractor due to management without obligation or trust by a third party because of transactions.

Article 7 (Change of Guarantor)

In the event that the Bank, based on concrete facts (or provision of acceleration clause relating to loss of deadline interest under article 5 of general terms and conditions contained herein) considers it necessary to change guarantor due to poor credit records of the guarantor, the Contractor shall change the guarantor immediately after receiving notice from the Bank. The guaranty liabilities of the original guarantor, whether an individual or several persons, shall be released upon the Bank's notice after the new guarantor(s) sign(s) the guaranty agreement and consents of other original guarantors that have not been changed are obtained. However, in the event it is agreed that the new guarantor shall not be responsible to guarantee debts occurring prior to change of guarantor, the guaranty liabilities of the guarantor changed can be released only after main debts occurring prior to change of guarantor are fully paid and the procedure of change is completed.

Article 8 (Supervision, Audit, Review and Provision of Information)

The Contractor is willing to accept inspection for use of the credit, auditing of the Contractor's operating and financial status and inspection and detention of collaterals by the Bank from time to time, and review of relevant account books and reports (including consolidated financial statement of affiliates), bills, documents by the Bank or the Joint Credit Information Center (JCIC); nevertheless, it is not the Bank's obligation to conduct such supervision and auditing. The Bank or JCIC may request the Contractor to complete and submit credit information within the time limit or provide accounting & financial statements audited by Certified Public Accountant recognized by the Bank and contact the CPA to provide working sheets.

The Bank and the JCIC are not obliged to supervise, audit and review the forgoing documents. If the Bank considers the Contractor's financial structure to be improved, the Bank may restrict the Contractor to distribute earnings by cash and request the Contractor to undertake capital increase or other improvements in the financial structure.

Article 9 (Acknowledge of Defects, Damages, Loss of Instruments or Debt Notes)

In the event that instruments, debts signed, endorsed, accepted and guaranteed by the Contractor and documents of obligation relating to all other debts owned to the Bank are damaged or lost due to incidents, force majeure or reasons that are not attributed to the Bank, or documents of obligation such as debit notes are altered without gross diligence of the Bank, the Contractor is willing to acknowledge and accept all records in account books, vouchers, documents produced via computer, photocopies and reduced edition of correspondence of the Bank unless the Contractor can actually prove there is any mistake in the aforesaid books and documents which the Bank shall correct. The Contractor shall pay off all expenses, penalties, principals and interests surrounding debts that are due or furnish instruments, debit notes or other documents of obligations prior to maturity of the debts as required by the Bank.

Article 10 (Provision of Credit Information)

For the purpose of enabling the Bank to understand the credit standing of the Contractor, credit evaluating and other specific purposes consistent with needs of business items covered in business registration of the Bank, the Contractor agrees that the Bank may provide the basic information, financial information, deposit information, exchange information, various custom declaration information furnished to the custom, credit card personal data, credit transactions, credit investigation report, personal data relating to credit granting, instrument credit information and any other personal data related to the Agreement, to the Bank, financial institutes of same business, related parties, the Securities Central Depository Co., Ltd., the Financial Information Service Co., Ltd., the National Credit Card Center, the Joint Credit Information Center, the Small and Medium Business Credit Guarantee Fund, the Overseas Chinese Credit Guarantee Fund and any person who would like to undertake the Bank's credit and indebtedness and participate the syndicate loans (intent to undertake and join the syndication), or the person who is authorized by the Bank to handle matters. The Bank may collect, process via computer, transmit internationally and use personal data of the Contractor for special purposes stipulated in the registered business items or articles of incorporation. Furthermore, the Bank may inquiry the personal data of the Contractor and custom declaration information from the above-mentioned organizations.

In the event the financial supervising authority in the location or registered office of the Contractor prohibits providing the foregoing documents to the related institutes in accordance with local laws (e.g. Hong Kong or any area outside Taiwan), the Contractor agrees that the head office or affiliates of the Bank may control and disclose the total credit line, total balance and related information within the scope of the Bank's registered business items.

Article 11 (Exchange Rate of Foreign Currency Repayment)

If the Contractor does not repay the debts with agreed foreign currency, the Contractor shall, on the payment date, make payments by translating the principals and interests of the debt into NTD in accordance with sight foreign exchange selling exchange rate published by the Bank at the time of payment or using the original currency. Any delay will result in delay interest and penalty in accordance with related rules of credit business.

Article 12 (Authorization)

The Contractor hereby authorizes the Bank, depending on the actual situation, to fill in the maturity date in all promissory notes, debit notes issued by the Contractor to the Bank. All transactions between the Contractor and the Bank shall be effective based on the signature or the registered stamp (stamp registered with MOEA), or the agreed method that either the stamp specimen or signature is acceptable.

Article 13 (Penalty)

If the Contractor fails to pay interest timely, repay the principals and interests, repay debts as agreed, penalty will be imposed starting from the default date to the repayment date. The penalty is calculated in the manner hereunder:

Delay Penalty:

Delay for no more than 180 (including) days, the agreed amount payable during each period(including the returned principal during each period+interest payable) × agreed interest rate × number of delay days delay ÷ 365 × 1.1

Delay for over 180 days, the amount payable during each period (including the allocated principal during each period+interest payable) × agreed rate × number of delay days÷ 365 × 1.2

Overdue Penalty:

no more than 180 (including) days overdue, unpaid balance of principal × agreed interest rate × number of delay days ÷ 365 × 0.1

more than 180 days overdue, unpaid balance of principal × agreed interest rate × number of delay days ÷ 365 × 0.2

Article 14 (Offset Clause)

In the event that the repayment proposed by the creditor or the amount the Bank obtains through agreed automatically transfer is insufficient to repay all indebtedness of the Contractor, the indebtedness shall be offset in the order of various expenses (collateral insurance premium prepaid by the Bank), penalty, interest, delay interest and principal. The Contractor agrees to offset the insurance premium prepaid by the Bank for the collateral within six months of prepayment by the Bank provided it is premium for fire and earthquake insurance, except for the indebtedness of the Contractor is mature, suffers any intended delay, or other material credit devaluation.

Article 15 (Other Costs and Expenses)

In case of call for payment or litigation resulting from the Contractor’s failure to honor its debt obligations as agreed, the Contractor shall be held jointly liable for the investigation fee, warehouse charge, transportation fee, attorney fee (the fee actual paid to the engaged lawyer) and other necessary costs incurred from exercising or securing the Bank’s credit right, unless a final court rule is made against the Bank.

C: Guaranty Clause

Article 1 (Defects warranty)

The Contractor or the collateral provider represents and warrants that the collateral, to which nobody is entitled in any manner, is legally owned by the Contractor or the provider. In case of any dispute, the Contractor or the provider shall be held sole liable without involving the Bank. The Contractor warrants that the secured movable property and its storage location are consistent with the statements in the collateral list. In the event that documents of title such as a bill of lading or receipt of warehouse are provided as collaterals, the Contractor warrants that goods, types, quality, quantity, specification and other conditions of actual collaterals shall be consistent with the statements in such documents of title. If the Contractor provides bill of lading or receipt of warehouse as collaterals, and if any quality discrepancy, shortage in quantity or any other material misrepresentation is found, no matter whether such goods are stored in the Bank’s warehouses or other warehouses, unless it could be attributed to the Bank’s intent or gross-negligence, the Contractor or the provider shall immediately replace or make up the collateral in conformity with or equivalent to the statements of those documents or repay all debts.

Article 2 (Storage and Maintenance of Movable Property)

In case of collateral of movable properties, the Bank has the right to make decisions on their storage location and maintenance measures and may inspect them from time to time. In the event of inappropriate storage location or maintenance measures, the Bank may notify the Contractor or collateral provider to relocate or make improvements within a state time and the Contractor or the collateral provider shall follow the Bank's instruction immediately. When the Bank detains the collaterals legally, the Bank shall not be responsible for mistake of decision to relocate or damages arising from non-relocation, unless the reasons can be attributed to the Bank.

Article 3 (Custody Obligation of Pledge)

Except for intent or gross negligence, the Bank shall take no responsibility for the collateral under its possession. For those attributable to the Bank under the Agreement, the Bank's obligation is limited to its intent or gross negligent behaviors.

Article 4 (Restrictions on Disposal of Collateral of Movable Property and Due Diligence Requirement For Use and Management)

Before fully repayment of indebtedness, the Contractor or the collateral provider shall never assign, mortgage, pledge, lease, lien, move or dispose movable collaterals in any other manner without the Bank's written consent.

In the event that the collaterals need to be changed, improved, added, or abandoned, the Bank's written consent shall be obtained in advance. If registration of change is therefore required, the Contractor or the collateral provider shall complete all necessary procedures for such change and bear all costs.

The Contractor or the collateral provider shall use and maintain the collateral cautiously with the due diligence of a good custodian; furthermore, the Contractor or the collateral provider shall not slacken in repair or other necessary activities for conservation. Any tax or repair cost in related to collaterals shall be bore by the Contractor.

Article 5 (Replacement or Supplement of Collaterals)

In the event that the collateral is damaged, lost, corrupted, devalued, or in danger of any of the foregoing, the Contractor shall replace, add or increase with collateral approved by the Bank or repay all indebtedness.

Article 6 (Going Through Various Procedures and Obtaining Insurance Coverage.)

In case it is necessary to go through such procedures as storage in warehouse, paying taxes, obtaining insurance coverage (including renewal and addition), delivery, management, removal or other procedures as agreed or required by laws, the Contractor or the collateral provider shall implement all necessary procedures and pay all expenses and taxes arising thereof.

For insurable collaterals, the Contractor or the collateral provider agrees to have the Bank as the preferred beneficiary and get full amount fire insurance or any other insurances requested by the Bank. All costs shall be bore by the Contractor or the collateral provider. If the Contractor or the collateral provider fails to obtain or renew insurances and when the Bank considers it necessary, the Bank may obtain the fire insurance or other insurance in the Contractor or the collateral provider's stead, the Contractor or the collateral provider shall pay principals and interests of the above-mentioned premium to the Bank immediately, otherwise the Bank may include the principals and interests of the premium into the guarantee for prior payment. However, it is not the Bank's obligation to obtain or renew insurances for the Contractor.

If the collateral is lost, the Contractor or the collateral provider shall repay all indebtedness immediately or provide another collaterals approved by the Bank. The Contractor shall not refuse to repay indebtedness because of the rejection of indemnification, delayed compensation, or insufficient compensation from the insurance company, or any other reason.

Article 7 (Restriction on Disposal of Movable Collaterals and Common Use)

For immovable collaterals, the Contractor or the collateral provider shall not build, reconstruct, dismantle, or taker any action that will devaluate the collaterals without written consent of the Bank. In the event of registration of mortgage right, charge-over land, lease or damage, loss or devaluation arising when or after immovable property is provided as collateral, the Contractor or the provider shall inform the Bank of such occurrence accurately in writing. In case of any breach of, or any false statement contained in the above agreement that causes any damage to the Bank, the Contractor or collateral provider is willing to be held civilly and criminally liable. The collaterals provided in the previous paragraph, regardless of the sequences of provision, the

Bank may apply jointly to guarantee the Contractor’s indebtedness (including debts occurred in the past but not repaid currently) in the future, the Bank may add 20% of total credit against the Contractor as the highest guarantee amount.

Article 8 (Return and Replacement of Collaterals and Certificates)

For those who hold the receipt or custody certificate of collaterals that is issued by the Bank to the Contractor or the collateral provider, or who hold the bankbook, registered stamp of the Contractor, collection document signed by the Contractor, will be treated as the agent of the Contractor or the collateral provider, the Bank may approve the return or the replacement of collaterals.

Article 9 (Note Receivable)

If the Contractor provides note receivables transferred by endorsement to the Bank to guarantee the repayment or as the repayment method, the Contractor hereby agrees to comply with the following provisions:

1. For the convenience of credit management, the Bank may offset the indebtedness of the Contractor after cashed notes in the account accumulates to a certain amount. The Contractor is still liable for in case of any insufficiency.
2. After the note receivable are cashed and recorded into the account when due, if the Bank agrees that the Contractor may otherwise provide note receivable of an amount higher than or equal to the cashed amount, the Bank may transfer the cashed amount to the Contractor’s account in the Bank or wire to the Contractor’s accounts in other financial institutes. The Contractor shall be fully liable to pay all debts owned to the Bank in accordance with notes and debit notes it has signed.
3. If the note receivable fails to be cashed, the Contractor fails to resolve it within the specified period after the Bank’s notification or the Contractor can not be contacted, the Bank may at any amount lower than its face value with the note debtor depending on the financial conditions of the note debtor.

Article 10 (Notice of Collateral Change and Collection of Proceeds and Compensation)

In the event of changes such as damage, loss, devaluation, accrued interest, levy or necessity for a third party to make compensation for whatever reason occurring to the collaterals, the Contractor or the collateral provider shall notify the Bank immediately. It is at the Bank’s discretion to collect them to offset the Contractor’s indebtedness. But the Contractor shall not collect them without consent of the Bank. The Contractor shall indemnify the Bank in the event that the Contractor’s neglect to give such notice causes damages to the Bank.

Article 11 (Partial Repayment)

Should the joint borrower or the collateral provider request to return collaterals pro rata due to partial repayment, such return shall be proceeded after obtaining the Bank’s consent. The Contractor or the collateral provider shall bear all expenses for registration change, if required.

Article 12 (Registration Fee)

In the event title of the collaterals provided by the Contractor or the collateral provider hall be registered or transferred, the Contractor or the collateral provider shall immediately go trough the registration or title transfer procedures and submit the certificates to the Bank for filing. The expenses for registration or title transfer shall be borne by the Contractor or the collateral provider.

D: Individual Negotiation Clause

Exclusively for Contractor (or joint note issuer or collateral provider or minor promissory note issuer)

The Contractor declares that all clauses have been reviewed within reasonable period, particularly Section A, Article 1,5,9, Section B, Article 1,2,5,6,7,10,12,14,15, Section C, Article 6,12 are negotiated separately by both parties. The Contractor fully understands the content and agrees to affix the stamp specimen.

(Stamp) Silicon Motion, Inc.
/s/ James Chow

E: Base Rate and Others

I. The Contractor agrees to adopt the below methods to calculate NTD rate for all credit lines with the Bank:

☐ (I) Adopt the method of the base rate plus % (Base Rate: 90 days interest rate of secondary market for promissory notes +Bank operation cost %)

☒ (II) Others

II. In addition to the explanations concerning the base rate stated below, the Contractor further agrees that in the event that the Bank adjusts the Base Rate, the interest payable shall be calculated in accordance with the adjusted Base Rate after the adjusted date.

The explanation of the product structure such as “Base Rate”

A. The composition of Base Rate

“Base Rate” consists of the monthly average rate of “90 days interests of secondary market for promissory note” plus “the Bank’s operation cost”.

(1) The source of sampling information takes the Reuters daily-announced “TWCPBA FIXING RATE” as the standard for sampling.

(2) The interest rate shall be adjusted regularly once every three months:

I Effective date	1/13-4/12	4/13-7/12	7/13-10/12	10/13-1/12
II Sampling Date	12/1-12/31	3/1-3/31	6/1-6/30	9/1-9/30

I. “Base Rate” will be adjusted on every 1/13, 4/13, 7/13, 10/13 each year; the Bank shall replace the billboard announcement and reset the price.

II. The monthly average rate of the “90 days of secondary market for the promissory note” will be the monthly average of every March, June, September, and December. (By simple average to the second decimal place, numbers after the third decimal place will be rounded).

(3) “The Bank’s operation cost” shall be adjusted every April 13th and announced in the website of the bank.

(4) In the event the adjusted date of “Base Rate” is a holiday, it will be adjusted on the following business day.

(5) In the event that the Bank's Basic Lending Rate is deviated from normal market interest rate level due to material force majeuer, the Bank may change the rate 10 days after reporting to the Central Bank and announcing the change of the composition of "Base Rate" in the Bank's business places, the Bank's websites or any press or journalism.

b. The Composition of "Enterprise Interest Swap Index"

"Enterprise Interest Swap Index" constitutes of the monthly average of "NTD one year IRS interest rate".

(1) The source of sampling information takes Reuter's daily-announced "TWDIRS1 AVG RATE as the standard of sampling".

(2) The Index will be adjusted every once three months:

I Effective date	1/13-4/12	4/13-7/12	7/13-10/12	10/13-1/12
II Sampling Date	12/1-12/31	3/1-3/31	6/1-6/30	9/1-9/30

I. "Enterprise Interest Swap Index" will be adjusted on 1/13, 4/13, 7/13, 10/13 each year; the Bank will replace the billboard announcement and reset the price.

II. The monthly average rate of the "NTD one year IRS interest rate" will be the monthly average of every March, June, September, and December. (By simple average to the second decimal place, numbers after the third decimal place will be rounded).

(3) In the event the adjustment date of "Enterprise Interest SWAP index" is on holiday, it will be adjusted on the following business day.

(4) In the event that the Bank's "Enterprise Interest SWAP index" is deviated from normal market interest rate level due to material force majeure, the Bank may after 10 days of announcement in the Bank's business places, the Bank's websites or any press or journalism, change the Index to Base Rate and continue the transactions based on the signed interest rate.

F: Individual Credit Special Clauses

General Credit Contract:

Article 1 (Borrowing amount)

It shall be limited to the amount agreed between the Contractor and the Bank.

Article 2 (Loan Period)

It shall start from the execution date of the agreement till the fulfillment of the Contractor's liability under the Agreement or the date agreed by the parties.

Article 3 (Interest, repayment and handling charge)

It shall follow the agreement with the Bank to pay and repay it.

Overdrawn Contract:

Article 1 (Overdrawn Account)

The Contractor may issue checks or/and other checks approved by the Bank from the designated check deposits account in the Bank since the execution of the Agreement. All overdrawn amounts in the designated account before execution will be repaid in accordance with this Overdrawn Contract.

Article 2 (Overdrawn Interest)

The interest for an overdrawn amount shall be calculated based on agreed annual interest rate and settled on a monthly basis. The interest will be incorporated into the principal and recorded in the overdrawn account. If the principal and interest exceeds the limit of the agreed overdrawn amount, the Contractor shall repay the exceeded the amount without delay.

Article 3 (Overdrawn Period and Penalty)

The overdrawn period is from the execution to the agreed day. The Contractor shall repay the principal and interest immediately when due. Failure to repay in time will incur the delayed interest at the agreed rate and penalty. If the Bank considers that the Contractor's use of an overdrawn amount inappropriate or for other reasons, the Bank may reduce the overdrawn amount or cease the payments based on notes or instruments issued by the Contractor; in such case, the Bank may require repayment of the overdrawn principal and interest within one month upon the notice from time to time without binding by the agreed repayment date hereof. The Contractor shall agree without any objection. In case of any liabilities or expenses where a third party is involved, the Contractor shall be held liable for the third party and to indemnify the Bank fully against all damages or losses.

Entrust Guaranty Contract

Article 1 (The Object, Scope, Limit, Responsibility and Period of Entrust Guaranty)

The Contractor entrusts the Bank as the guarantor to issue guaranty documents to a third parties (a third party creditor) in accordance with the following provisions:

1. The Scope of the Entrust Guaranty: it shall be subject to the guaranty documents issued by the Bank.
2. The Limit of Entrust Guaranty: it shall be subject to the amount agreed upon between the Contractor and the Bank.
3. The Liability of Entrust Guaranty: If the Contractor breaches any of the agreed matters to the Third Party Creditor, the Bank shall execute its guaranty liability unconditionally upon receipt of written request of Third Party Creditor. The Bank agrees to waive its defense that a guarantor may refuse performance to the creditor.
4. Entrust Guaranty Period: shall be subject to period stipulated in the guaranty documents issued by the Bank.
5. Other entrust matters: shall be subject to the agreement between the Contractor and third party creditors or the request of third party creditor.

Article 2 (Term and Validity Period)

The term of this contract shall be valid from the execution date of the agreement till the fulfillment of the Contractor's liability under the Agreement or fully repayment of indebtedness. During the term, the Contractor may entrust the Bank to handle the guaranty matters in the preceding subparagraph at one time, installments or revolving use, within the entrust limit. All guaranty documents issued by the Bank pursuant to the Contractor's application shall be valid during the term. Even the Bank actual payment date is later than the expiry date, the Contractor is still liable for it.

Article 3 (The Handling Charge of Guarantor)

The handling charge of guarantor shall be paid in accordance with the interest rate and the rules approved by the Bank; the minimum handling charge for each guaranty is NTD1000. For a guaranty that is made by installments or revolving use, the Contractor shall pay handling charges in accordance with the Bank's rules related to thereof. Handling charge shall be paid before the issuance of guaranty documents, otherwise the Bank may refuse to issue guaranty documents. The Contractor shall be liable for any taxes payable or to be withheld under the Agreement, handling charge for currency exchange, loan, postage and other related expenses, if any.

Article 4 (The Handling Charge before Discharge of the Guarantor' Liability)

In the event that the Contractor fails to fulfill the liabilities against a third party creditor prior to expiry of the guaranty period, or the Contractor does not apply to extend the guaranty period upon expiry, or the renewal application is rejected by the Bank, the Contractor shall pay guaranty handling charges subject to the preceding article based on the outstanding guaranty amount (calculated on the outstanding guaranty amount in the Bank's account or the outstanding amount after the third party creditor discharges the Bank's guaranty liability in writing) in addition to fulfilling the agreement with the third party creditor. If the default has occurred for less than or equal to six months, the handling fee will be charged as a half-year period, or a year period if it is overdue for over six months but less than a year, and so forth for a default overdue over one year. Such charges shall be repaid within seven days after due. If the guaranty period is shortened, the Contractor shall not claim for reimbursement of handling charges already paid.

Article 5 (Interest and Penalty for Advance Payment)

In the event that the Bank makes advance payment and related deferred charge, interest, penalty, delayed interest and other expenses for the Contractor, the Contractor shall repay to the Bank all advance payment of the Bank immediately. The interest shall be calculated based on the Bank's Base Rate plus 4% from the Bank payment date till the Contractor makes full payment. In the event the interest rate is adjusted after the Bank makes advance payment, the Contractor agrees to adopt the new Base Rate after the adjustment by adding 4% as the interest rate and it shall be calculated from the day the Bank made such payment.

Article 6 (Risk on the Fluctuation of Exchange Rate)

If the guaranty amount is calculated in foreign currency, the Contractor shall undertake all risks on the exchange rate. The Contractor shall be fully liable for the Bank's losses due to the changes of exchange rate. Unless agreed to by both parties, the exchange rate for converting the guaranty amount from foreign currency into New Taiwan Dollars shall be done at the highest rate during the guaranty period or a rate decided by the Bank.

Article 7 (The Liquidation of Accounting Tax)

For the taxes of export material, semi-products, products that is guaranteed by the Bank for the Contractor, if at the expiration of offset period the Contractor has not exported bonded materials in part or in all, the Contractor shall immediately obtain extension from the Ministry of Finance, the Contractor shall also pay all applicable taxes and 0.05% deferred charge from the date of tax accounting in the book till the repayment to customs. Otherwise, the Bank may make the payment on behalf of the Contractor and dispose the collaterals, or claim repayment form the Contractor or the joint guarantor.

Article 8 (Performance of Guaranty Obligation without Conditions)

When the Contractor fails to perform the agreed matters with the Third Party Creditor, and the Bank receives a written notice from a third party creditor claiming the performance of guaranty liability, the Bank shall perform its guaranty liability based on the guaranty documents issued by the Bank unconditionally. The Contractor shall not claim disclaimer by reason of defenses between the Contractor and the third party creditor or any third party, or force majeure, such as acts of god, war, or any other reasons.

Entrust Acceptance of Instruments and Guaranty Contract

Article 1 (Validity)

The term of this contract shall be valid from the execution date till the fulfillment of the Contractor's liability under the Agreement or fully repayment of indebtedness.

Article 2 (Limit)

The limit under this contract shall be based on guaranty (revolving or non-revolving) documents that the Contractor applies with the Bank to accept bills of exchange or guaranty promissory notes under this contract.

Article 3 (The Term Limitation on Each Accepted Instrument or Guaranty)

The term of bills of exchange that the Contractor asks the Bank to accept or the promissory notes that the Contractor asks the Bank to guaranty under this contract, from the date of acceptance or guaranty till maturity date, shall not exceed the agreed number of days. The payer or the payer that undertakes to pay shall be the Bank and the payment place shall be the place where the Bank is located.

Article 4 (Interest and Penalty for Advance Payment)

For those instruments that the Contractor asks the Bank to accept or guaranty, the Contractor shall provide sufficient funds in the Bank before the maturity date. In the event of any delay or the Bank shall make advance payment to the Contractor, no matter under what circumstance, the Contractor upon receipt of the notice by the Bank, shall immediately repay such amount and bear the interests which will be calculated based on the Bank's Base Rate plus 4% from the Bank payment date till the Contractor's full repayment. In the event the interest rate is adjusted after the Bank's advance payment is made, the Contractor agrees to adopt the new Base Rate after the adjustment by adding 4% as the interest rate from the date of the adjustment. In addition to interests, the Contractor shall pay penalty according the Bank's rules.

Article 5 (Handling Charges)

The Contractor shall pay handling charge according to the agreed terms or the Bank's rules at one time upon acceptance of bills of exchanges or guaranty. The minimum charge for each transaction is NTD 1000.

Article 6 (Liability to Clear after Prepayment)

The Contractor shall be liable for all debts incurred for authorizing the Bank to accept or guarantee instruments in accordance with this agreement even the Bank makes advance payment on a date after the agreed acceptance or guarantee period according to provisions of this agreement.

If the Bank suffers any damage or loss due to the Contractor entrusting the Bank to accept or guaranty instrument, regardless of whether the Contractor is negligent or not, the Contractor shall immediately repay the amount of instruments, delayed interest, penalty, expenses and indemnify the Bank's damage without any excuse or defense.

Entrust Open Domestic Letter of Credit Contract

Article 1 The term of this contract shall be valid from the execution date till the fulfillment of the Contractor's liability under the Agreement or fully repayment of indebtedness.

Even if the maturity date of Bills of exchange issued under the letter of credit of this contract is later than the above period; the Contractor is still liable for it.

While the Contractor applies to an open letter of credit with the Bank, the Contractor shall submit the application form and all documents requested by the Bank, and request the Bank to make advance payment. The Contractor shall be liable for the indebtedness incurred under the open letter of credit.

Article 2 "Domestic Letter of Credit" referred in this agreement means an open domestic sight letter of credit and (or) a domestic usance letter of credit, the terms of bills of exchange issued under the domestic usance letter of credit shall not exceed the agreed number of days maximally.

Article 3 The Contractor acknowledges that the amount stated in the application for each open letter of credit and related interest and expenses arising thereof is the amount the Bank guarantees payment or advance payment for the Contractor and agrees that relevant documents such as bills of exchange under the open letter of credit application form and the letter of credit may serve as evidence. The Contractor authorizes the Bank to pay bill of exchange amount under every letter of credit.

Article 4 Each time when applying to an open letter of credit, within the amount of instruments with interest, the Contractor shall issue a promissory note which releases the obligation of obtaining "Certificate of payment refusal" and the Bank is payer who undertakes to make payments. Such promissory note shall be submitted to the Bank as the repayment of Contractor indebtedness under this contract.

Article 5 The Contractor acknowledges that the promissory note submitted to the Bank in accordance with Article 4 as a repayment measure, which is the "indirect payment" stipulated in the Civil Code. Such liability co-exists with the indebtedness of the Contractor under this contract.

Article 6 For all bills of exchange and ancillary documents presented under the letter of credit of this contract, the Bank will review and make or accept advance payment, if the Bank considers that they are consistent with the conditions stipulated in the letter of credit. After the Bank's payment, no matter whether the notification is given in writing or orally, the Contractor shall repay every advance payment with interest within 10 days after advance payment of the Bank, the interest shall be calculated based on the Bank's Base Rate by adding 4% and be paid one time. In case of acceptance, the Contractor shall provide the amount of such instrument to the Bank prior to the maturity date. If the Contractor fails to repay or provide funds for it before the above deadline, the interest will be calculated based on the Bank's NTD Base Rate by adding 4% under instrument amount from the Bank's payment date or maturity date. In addition to interest, the default penalty shall be imposed as well in accordance with the Bank's rules.

If the bills of exchange and instruments are proved to be counterfeit or altered, or any dispute results thereof (including quality or quantity is inconsistent with the documents), the Bank bears no responsibility for it. The Contractor shall not refuse to make payments by defending with whatever reason.

Article 7 The Contractor shall pay all handling charges incurred by the application of the open letter of credit upon receipt of the Bank's notification.

Article 8 In the event of any mistake, delay incurred during the transmission of letter of credit; misinterpretation of terminology; or the documentation, or when goods stated in the documents, or the quality, quantity, or value of the goods were partially or wholy lost, delayed or not arrived to the destination; or goods were lost or damaged, during the delivery or after its arrival, due to either (1) no insurance; or (2) insufficient insurance; or (3) detained by third party; or (4) any other reason, the Bank shall not be held liable and the Contractor shall repay all amount of the letter of credit under any of the above mentioned circumstances.

Article 9 The Contractor shall be liable for any indemnity in case that any goods purchased in accordance with each letter of credit is damaged because the beneficiary defaults, late delivery, or any other force majeure.

Article 10 The Contractor agrees that any matters relating to operation, responsibility, obligation under the letter of credit not stipulated in this contract shall be governed by "Uniform Customs and Practice for Documentary Credits" issued by the International Chamber of Commerce and agrees to regard all terms and conditions in internal relating to the interpretation of trade conditions as a part of this contract, which shall be legally binding.

Article 11 The Contractor shall obtain the Bank's consent in advance on the types of insurance and insurance terms for goods of every letter of credit or collaterals provided by the Contractor, the Contractor shall obtain sufficient amount insurance and have the Bank as the beneficiary (or add special clause regarding mortgage), with all expenses relating to insurance bore by the Contractor. If the Contractor fails to obtain insurances or renew the insurance upon expiry, the Bank has the right to proceed for the Contractor, which is not the Bank's obligation. For any expense of insurance paid by the Bank, the Contractor shall repay immediately, otherwise the Contractor shall pay interests in accordance with Article 7 of this contract.

Article 12 The Contractor shall provide bills of lading stated in every letter of credit under this contract, purchased goods or additional collateral to guaranty the indebtedness of bills of exchange under every letter of credit. This contract shall be the proof of collateral submission. The foregoing purchased goods shall include sales revenues of its processing products (including cash or forward notes), if export, the Contractor shall repay the indebtedness under this contract at the time the Bank process outward bills purchased.

Article 13 The Contractor shall immediately replace or provide additional collaterals if there is any danger that the collateral will be corrupted or devaluated. If the Bank considers it necessary the Bank may dispose the collateral to pay principal and interest of the advance payment , interest and all expenses incurred by the disposition of collaterals.

Article 14 If the Contractor defaults, or the Bank considers that there is a risk that the Contractor may not be able to repay, the Bank may at any time request the Contractor to repay all indebtedness. The Bank may dispose collaterals without notification to liquidate the advance payment made by the Bank and other expenses incurred thereof. The Bank may exercise lien or offset right on any properties of the Contractor deposited in the Bank.

Entrust Open Sight Letter of Credit

Article 1 The Contractor shall submit the application form of an open letter of credit and request the Bank for advance payment in foreign currency to apply to an open letter of credit with the Bank. The Contractor shall liquidate the indebtedness in accordance with this contract; the Contractor shall not raise any objection by submission of new application of the letter of credit or any other reason.

Article 2 The amount in this contract may be appropriated in other foreign currency. The interest shall be calculated based on the rate of the Bank's foreign currency advance payment and Articles 7 and 8 are applied. If the Bank's advance payment exceeds the quota under this contract due to the change of exchange rate or other reason, the Contractor and the guarantor shall repaid the excess amount without delay.

Article 3 The Contractor authorizes the Bank to pay bills of exchange amount under every letter of credit.

Article 4 The Contractor shall deliver to the Bank every import license (including the second copy of the open letter of credit for goods exempted from the license). The Contractor acknowledges that the difference between the L/C amount stated in every certificate of settlement of foreign exchange or transactions and the settlement amount (i.e., unsettled foreign exchange), interest, penalty and related expenses are advance payment made by the Bank. The Contractor agrees to adopt certificates of settlement of foreign exchange or transactions or any other documents of the Bank as proof without objections.

Article 5 The Contractor shall provide bills of lading stated in every letter of credit under this contract or imported goods to guaranty the indebtedness under every letter of credit. This contract shall be the proof of collateral submission. If the Contractor fails to make repayment or the Bank considers that the Contractor's financial capability becomes poor and may not be able to make repayment, in order to secure the credit, the Bank may collect imported goods from customs on behalf of the Contractor and put such goods on auction or dispose the imported goods or other collaterals (including the method of disposal, time and price) to setoff the advance payment, interest, and all expenses and loss incurred by the disposition (including taxes paid on the collection from customs, warehouse fee, transportation fee, etc.) . If the above amount is insufficient to repay all indebtedness, the Contractor shall be liable for the remaining amount.

Article 6 Upon arrival of shipping documents under every letter of credit and after the receipt of written or oral notice from the Bank, the Contractor shall repay every advance payment and interest within 10 days. The repayment shall be settled on the Bank's sight foreign sold exchange rate at the repayment date or by the Contractor's self-owned foreign currency. In the event that any of the following happens, the repayment method shall be as follows:

1. If the bill of lading arrives but the goods has not arrived yet, the Contractor agrees to provide proofs from the shipping company and repay within 3 days after the arrival of goods. But if the bills of lading had arrived and over 30 days after the notice of the Bank the goods has still not yet arrived; the Contractor shall make repayments immediately.
2. If the goods arrives but the bill of lading has not yet arrived and the guaranty collection of goods shall be applied, the Contractor shall make repayment immediately. It applies to the application of endorsement on sub-bills of lading.
3. Even the validity of the letter of credit expires and the bill of lading arrives after expiration, if the settlement is in conformity with all conditions, the Contractor shall make repayment immediately.
4. If the goods are delivered by installments, the Contractor shall repay the Bank's advance payment by the amount in each shipment receipt. However, in case of air shipments, unless agreed to by the Bank, the Contractor shall repay the total amount of the letter of credit at one time.

Article 7 If the Bank makes any advance payment, the interest of the advance payment shall be calculated from the actual payment date of the Bank (for a letter of credit with authorization of withholding, it shall be the withholding date; for a letter of credit without authorization of withholding, it shall be the date on which the Bank records the withholding and delivers the payment notice) till the date fully repayment in accordance with the preceding article. The interest rate is based on the agreed flexibility rate and shall be paid with the settled advance payment.

Article 8 If the Contractor delayed to repay the advance payment and interest, the delayed interest rate will be the “NTD Based Rate adding 4%” or “Foreign exchange credit rate” (whichever is higher). In addition to the delayed interest, penalty shall be imposed as well.

Article 9 The Bank shall execute the guaranty collection of goods or endorse sub-bills of lading pursuant to the Contractor’s request, if the goods, specification, unit prices, total amounts, and terms are inconsistent with the arrived bills of lading, the Contractor shall obey all terms stipulated in the arrived bills of lading to provide additional funds and go through any other procedures. If the Bank suffers any damages due to the inconsistency between the executed documents and the arrived receipts, the Contractor shall be held liable. The contents in such application of guaranty collection of goods or sub-bills of lading constitute part of the contract and legally binding upon the Contractor.

Article 10 In case of any goods (including goods on the way) under every letter of credit cause damages of the Bank due to seller’s (beneficiary’s) default, the delayed delivery or other force majeure, such damages shall be bore by the Contractor. If the beneficiary fails to draw the amount of the letter of credit partly or fully or the letter of credit expires, the Bank may draw directly to offset every advance payment under every letter of credit.

Article 11 The Contractor shall obtain the Bank’s consent in advance on the types of insurance and insurance terms for goods of every letter of credit by the Contractor. If the imported goods delivered on the FOB, C&F basis or similar terms, the Contractor shall obtain appropriate insurance and have the Bank as the beneficiary. The original insurance policy and the premium receipt shall be provided to the Bank for records. All expenses relating to insurance shall be bore by the Contractor.

If the Contractor fails to obtain insurances or renewals, the Bank has the right to proceed for the Contractor, which is not the Bank’s obligation. Any expense of insurance paid by the Bank shall be incorporated in the indebtedness of the Contractor and shall be liquidated immediately; otherwise the Contractor shall pay interests and penalty in accordance with Articles 7 and 8 of this contract.

Article 12 In the event that a person who holds the written documents stating the receipt of import documents by the Contractor or the documents of providing collateral requests the Bank to return or replace collaterals, the Bank shall treat such person as the agent of the Contractor and return or exchange collateral. If there is any dispute thereof, it shall be the Contractor’s sole liability to resolve it.

Article 13 For any mistake, delay incurred during the transmission of letter of credit; misinterpretation of terminology; or the documentation, goods stated in the documents, or the quality, quantity, or devaluation of goods, partially or wholy, delay failure to arrive at the destination; or goods lost or damaged, during the delivery or after its arrival, due to either (1) no insurance; or (2) insufficient insurance; or (3) detained by third party; or (4) any other reason, the Bank takes no liability whatever. The Contractor shall repay all amount of the letter of credit.

Article 14 After the Bank has made acceptance or payment after reviewing and considering the compliance of those bills of exchange and documents presented under the letter of credit of this contract on their face, the Contractor shall make payments by the liquidation date provided in Article 2. In the event such bills of exchange or documents are proved to be false, counterfeited, or defective (including the quality of goods or quantity is inconsistent with documents), the Bank assumes no liability for it, the Contractor shall not refuse the repayment by any reason.

Article 15 The Contractor agrees matters relating to operation, responsibility, obligation of the letter of credit not stipulated in this contract shall be governed by “Uniform Customs and Practice for Documentary Credits” issued by the International Chamber of Commerce and all clauses in the international rules regarding interpretation of trade conditions, and the said regulations shall be regarded as a part of this contract ,which is legally binding.

Entrust Open USANCE Letter of Credit

Article 1 The Contractor shall submit the application form of an open letter of credit to request the Bank issuing an open usance letter of credit. The Contractor acknowledges that within the agreed amount the difference between every usance L/C amount stated in every certificate of settlement of foreign exchange or transactions and the settlement amount (i.e. unsettled foreign exchange), interest, penalty and related expenses are foreign payment guaranty or advance payment made by the Bank. The Contractor agrees to adopt the application form of an open letter of credit, certificates of settlement of foreign exchange under a usance letter of credit, certificates of transactions, bills of exchange or any other related documents as proof to liquidate the indebtedness without objections.

Article 2 If the region that the Contractor purchased material is not a USD region, the Contractor may apply to an open usance letter of credit in foreign currency. Total amount of every open usance letter of credit converted into US dollar on the Bank's exchange rate shall be used within the agreed amount. If the Bank's payment exceeds the agreed amount due to change of exchange rate or for other reasons, the Contractor shall still repay the exceeded amount.

Article 3 In addition to the collaterals provided by the Contractor, the Contractor shall provide bills of lading stated in every letter of credit under this contract or imported goods to guarantee the indebtedness under every letter of credit. This contract shall be the proof of collateral submission. If after the arrival of goods the Bank considers that the Contractor's financial capability becomes poor and may not be able to make repayment, the Bank may collect imported goods and put such goods on auction or dispose the imported goods or other collaterals at its own discretion (including the method of disposal, time and price). If it is still insufficient to repay all indebtedness, the Contractor is liable for the difference. All expenses incurred by the collection, including customs tax, warehouse fee, transportation fee, etc., shall be paid by the Contractor immediately.

Article 4 The longest term of the usance L/C opened revolvingly in accordance with the agreement shall not exceed the agreed period; the usance L/C shall recorded the deadline of the bill of exchange or the payment based on the application form of the open letter of credit in order to determine the repayment date of each debt. If the Bank makes any advance payment, the interest shall be calculated from the actual payment date of the bank (for a letter of credit with authorization of withholding, it shall be the withholding date; for a letter of credit without authorization of withholding, it shall be the date on which the Bank records the withholding and delivers the payment notice) till the date of fully repayment in accordance with the preceding article. The interest rate is based on the agreed flexibility rate and shall be paid with the settled advance payment.

Article 5 The Contractor shall go through custom clearing and collection procedures once bills of lading for every letter of credit under this contract arrives. If the Bank suffers any damage or loss or is in danger of suffering damages due to the Contractor's inaction or delay, the Contractor shall immediately indemnify the Bank and be subject to the Bank's management without any objection.

Article 6 The Contractor shall repay all principals and interests under every usance letter of credit on the maturity day using NT dollars at the sight foreign exchange selling rate announced by the Bank or by the foreign currency. Any delay will incur the interest calculated by either "NTD Based Rate adding 4%" or "Foreign exchange credit rate (whichever is higher)". In addition to the delayed interest, penalty shall be imposed as well.

Article 7 The Bank shall execute the guaranty collection of goods or endorse sub-bills of lading pursuant to the Contractor's request, if the goods, specification, unit prices, total amounts, and terms are inconsistent with the arriving bills of lading, the Contractor shall observe all terms stipulated in the arriving bills of lading to provide additional funds and any other procedures. If the Bank suffers any damage due to inconsistency between the executed documents and the arriving receipts, the Contractor shall be liable for it. The contents in such application of guaranty collection of goods or sub-bills of lading constitute part of the contract and is legally binding upon the Contractor.

Article 8 Each time when applying an open usance letter of credit, within the agreed amount or the principal amount under every letter of credit converted into NTD based the Bank's exchange rate, the Contractor shall issue certificates to release the obligation of obtaining "Certificate of payment refusal". The Contractor shall submit to the Bank the promissory notes that the financial institute is the payer that undertakes to pay as the repayment of Contractor's indebtedness under this contract. If the Contractor fails to fulfill the foregoing clauses, the Bank may exercise its right over the promissory notes under the Code of Bills. If the amount stated in the promissory note is insufficient to repay the Contractor's indebtedness, or the interest requested by foreign bank is higher than the interest calculated by Article 4, due to the changes of foreign exchange, the Contractor shall immediately make up the difference.

Article 9 The Contractor shall obtain the Bank's consent in advance on the types of insurance and insurance terms for goods of every letter of credit by the Contractor. If the imported goods are delivered by FOB, C&F, or similar terms, the Contractor shall obtain appropriate insurance coverage and have the Bank, as the beneficiary, the original insurance policy and the premium receipt shall be provided to the Bank for records. All expenses relating to insurance shall be bore by the Contractor. If the Contractor fails to obtain insurances or renew the insurance, the Bank has the right to proceed for the Contractor, which is not the Bank's obligation. Any expense of insurance paid by the Bank will be incorporated in the indebtedness of the Contractor and shall be liquidated immediately; otherwise the Contractor shall pay interests and penalty in accordance with Articles 4 and 6 of this contract.

Article 10 As with goods (including goods on the way) under every letter of credit, damages to the bank due to seller's (beneficiary's) default, delayed delivery or other force majeure shall be bore by the Contractor. If the beneficiary fails to draw the amount of the letter of credit partly or fully or the letter of credit expires, the Bank may draw directly to offset every advance payment under every letter of credit.

Entrust Import Collection Loan of Material Purchase Contract

Article 1 The Contractor shall submit related documents to apply for advance payment in foreign currency with the Bank at the time the Contractor repays the foreign import A/R collection. The Contractor shall repay the indebtedness under this contract.

Article 2 The amount of this contract may be used in other foreign currency, the interest will be calculated by the Bank's foreign currency advance payment rate, to which Articles 5 and 8 shall apply. If the Bank's payment exceeds the agreed amount due to change of exchange rate or for other reasons, the Contractor shall still repay the exceeded amount immediately.

Article 3 The Contractor authorizes the Bank to pay the amount of bills of exchange under every D/A or P/A.

Article 4 The Contractor shall deliver to the Bank every import license (including second page of open letter of credit for goods exempted from the license). The Contractor acknowledges that the difference between the L/C amount stated in every certificate of settlement of foreign exchange or transactions and the settlement amount (i.e., unsettled foreign exchange), interest, penalty and related expenses are advance amount made by the Bank. The Contractor agrees to adopt certificates of settlement of foreign exchange or transactions or any other documents of the Bank as proof without objection.

Article 5 The period of used advance payment in foreign currency under this contract shall not exceed the agreed number of days; the interest will be calculated from the Bank's actual payment date and based on the agreed fluctuation rate.

Article 6 The Contractor shall go through custom clearing and collection procedures upon arrival of bills of lading for every letter of credit under this contract. If the Bank suffers any damages or losses or in danger of suffering damages due to the Contractor's inaction or delay, the Contractor shall immediately indemnify the Bank and be subject to the Bank's management without any objection.

Article 7 The Contractor shall provide bills of lading stated in every letter of credit under this contract and imported goods to guarantee the indebtedness under every import transaction. This contract shall be the proof of collateral submission. If the Contractor fails to make repayment or the Bank considers that the Contractor's financial ability becomes poor and may not be able to make repayment, in order to secure the credit, the Bank may collect imported goods from customs on behalf of the Contractor and put such goods on auction or dispose the imported goods or other collaterals at its sole discretion (including the method of disposal, time and price) to offset the advance amount, interest, all expenses and loss incurred by the disposition (including taxes paid on the collection from customs, warehouse fee, transportation fee, etc.) . If the above amount is insufficient to repay all indebtedness, the Contractor is liable for the difference.

Article 8 If the Contractor delays to repay the advance payment and interest, the delayed interest rate shall be either "NTD Based Rate adding 4%" or "Foreign exchange credit rate (whichever is higher)". In addition to the delayed interest, penalty shall be imposed as well.

Article 9 The Bank shall execute the guaranty collection of goods or endorse sub-bills of lading pursuant to the Contractor's request, if the goods, specification, unit prices, total amounts, and terms are inconsistent with the arriving bills of lading, the Contractor shall observe all terms stipulated in the arriving bills of lading to provide additional funds and complete any other procedures. The Contractor shall be liable for any damages due to the inconsistency between the executed documents and the arriving receipts that the Bank suffers. The contents in such application of guaranty collection of goods or sub-bills of lading constitute parts of the contract and is legally binding upon the Contractor.

Article 10 As with goods (including goods on the way) under every letter of credit, damages to the Bank due to seller's (foreign exporter's) default, delayed delivery or other force majeure shall be bore by the Contractor.

Article 11 The Contractor shall obtain the Bank's consent in advance on the types of insurance and insurance terms for goods of every import transaction of the Contractor. If the imported goods are delivered by FOB, C&F, or similar terms, the Contractor shall obtain appropriate insurance coverage and have the Bank as the beneficiary in priority, the original insurance policy and the premium receipt shall be provided to the Bank for records. All expenses relating to insurance shall be bore by the Contractor. If the Contractor fails to obtain insurances or renew the insurances, the Bank has the right to proceed for the Contractor. Any expense of insurance paid by the Bank shall be incorporated into the indebtedness of the Contractor and shall be liquidated immediately; otherwise the Contractor shall pay interests and penalty in accordance with Articles 5 and 8 of this contract.

Article 12 In the event that a person who holds the written documents stating the receipt of import documents by the Contractor or the documents of providing collateral requests the Bank to return or replace collaterals, the Bank shall treat such a person as the agent of the Contractor and return or replace the collateral. In case of any dispute thereof, it shall be the Contractor's sole liability to resolve it.

Contract of currency conversion for financing debt in foreign currency

The Contractor has executed the agreements with the Bank regarding "Entrust Open USANCE Letter of Credit", "Entrust Open Sight Letter of Credit" and related documents (separately or collectively "the Original Contract") to entrust the Bank to issue letter of credits or to lend foreign currency funds, the Bank agrees to have all financing debts in foreign currency converted, both parties hereby consent as follows:

Article 1 The balance of financing debts in foreign currency under the Original Contract may be converted into the agreed currency at the agreed exchange rate and in accordance with "The application for currency conversion for financing debts in foreign currency" issued by the Contractor.

Article 2 Collaterals provided for the original financing debts shall be the collateral of the financing debts after the currency conversion; the maturity date and repayment shall follow the Original Contract.

Article 3 The interest of financing debts before or after the conversion shall be calculated based on the Bank's rate for applicable currency financing by adding certain percentage. It shall be paid in NT dollars converted by the Bank's sight selling exchange rate on the liquidating date stipulated in the Original Contract. The Bank may charge penalty in accordance with the Original Contract for delayed repayment.

Outward Bills Purchase Contract

Article 1 The Contractor may conduct negotiation or discount within the agreed amount, both parties agree that all clauses stipulated in the domestic or outward bills and/or export documents signed or endorsed by the Contractor shall be valid and applicable permanently. Bills and/or documents issued or endorsed by the Contractor, no matter whether such request of negotiation or discount to the Bank is directly from the Contractor or from a third party shall be applied. Unless requested by the Bank, no new contract shall be executed for every negotiation or discount.

Article 2 The Contractor agrees to provide bills of lading for the applied negotiation or discount and related goods as collaterals, to guaranty the amount of bills and/or documents issued or endorsed by the Contractor for negotiation or discount, interest and all expenses.

Article 3 The Contractor acknowledges that the payment made by the Bank for the Contractor's negotiation or discount are not outright transaction, the Bank has the right to request the Contractor's repayment at any time. For bills and/or documents negotiated or discounted by the Bank, if the Bank's discounting bank, negotiating bank, or banks related to letter of credit refuse to handle due to inconsistency between such bills and/or documents and the letter of credit, or the issuing bank refused to make payments, or at the time of delivery or other circumstance the goods are found to be in discrepancy in quality or quantity, the Contractor shall be liable for it. The Contractor shall repay all amount for the Bank's negotiation / discount, interest (based on the Bank's foreign loan interest rate on the date of bills purchase) and other ancillary expenses after the Bank's notice. The Contractor authorizes the Bank, if the Bank or the negotiation banks consider it necessary, to provide guaranty letter to the issuing bank or accepting bank without notice, the Contractor shall be held fully responsible.

Article 4 In the event the paying bank of bills, the issuing bank of letter of credit, the accepting bank of letter of credit, or the guaranty acceptance bank and any other banks related to letter of credit is insolvent, or declared bankrupt, confiscated, provisional attached, injunction, auction, or voluntary bankruptcy or settlement, after the Bank's notice the Contractor shall immediately repay the amount for Bank's negotiation and/discount, interest and all ancillary expenses.

Article 5 If the documentary bills and/or documents are damaged or lost, or are deemed to have been damaged or lost, or delayed to arrive the payment location due to mistakes, after the Bank's notification and without any legal processes, the Contractor agrees to issue new documentary bills and/ or documents to the Bank in accordance with the Bank's booking records, or pursuant to the Bank's instruction to repayment all amount of the Bank's negotiation/discount and all ancillary expenses.

Article 6 The Contractor authorizes the Bank and its negotiating bank to deliver documentary bills and/or documents in the way that the Bank and the negotiating bank consider appropriate

Article 7 If the right under documentary bills does not establish due to lack of legal requirements, or the credit of the documentary bills expires due to statutory limitation or procedure incompletion, the Contractor shall be liable for all face amounts of the Bank's documentary bills, interests and ancillary expenses.

Article 8 The Contractor shall indemnify the Bank's damage caused by defects in documentation for whatever reasons.

Article 9 In the event that the Contractor’s signature or stamp or writing affixed to the documentary bills or other documents are considered by the Bank to be consistent with the records in the Bank or other documentary bills documents originally used by the Contractor, even they are counterfeited or stolen, the Contractor is still held liable and shall indemnify the Bank against damages incurred thereof.

Article 10 The Contractor authorizes that any manager or agents of the Bank, or the holder of the documentary bills and/or documents, may (but not a requirement) obtain insurance coverage for the collaterals of documentary bills and/or documents, including rubbery and ashore fire insurance, all insurance and related expenses shall be bore by the Contractor. The Bank has the prior right of compensation against such documentary bills and /or documents, its collaterals and the above expenses, and the Bank may dispose them to get compensations or compensate to the third party who pay the insurance and other expenses. All of it shall not affect the Bank’s right to other debtors of documentary bills. The Bank may sell parts of collaterals to pay necessary transportation fee, insurance fee and other expenses. Meanwhile, the Bank may act on behalf of the Contractor to proceed all requirements and charge for its handling. The Contractor shall follow the instruction of the payer or acceptor to move goods to the docks or warehouse owned by the government or individuals, provided the Bank has no objection on the designated dock or warehouse.

Article 11 The Contractor authorizes any manager or agent of the Bank, or the holder of the above documentary bills and/or documents, to accept conditional acceptance made by payer. After the maturity date and full payment, the Bank shall forward the guaranty documents with the documentary bills to the payer or acceptor. This authorization is applicable to the joint acceptance. However, if the payer ceases transactions before the payment or acceptance, or declares bankrupt or is in liquidation, the following provisions shall apply.

Article 12 The Contractor authorizes the Bank, in a manner considered as appropriate by the Bank, or the acceptor or its agent, before the maturity date or anytime, the Bank may deliver goods to anyone separately (but not a requirement). But the reasonable amount shall be collected for the delivery of goods in part or in all, such amount shall be with reasonable ratio, comparable to the prices stated in the invoice or the amount in the guaranty instruments.

Article 13 The Contractor authorizes any manager or agent of the Bank or the current holder of the documentary bills and/or documents, if the presence of documentary bills of acceptance or of payment is rejected, the Contractor shall waive the requirement of obtaining the “Certificate of rejection”. For the foregoing refusal of acceptance or payment, or the payer or acceptor ceasing to pay, declaration of bankruptcy, or insolvent before the maturity date, regardless of whether such documentary bills is accepted with conditions, the Bank may sell the collaterals of such documentary bills and /or documents, in part or fully, in a manner considered as appropriate by the Bank or the holder of documents. The Bank may use the amount received from such sale, after deduction of handling charges and commission, to repay the amount of the documentary bills and its remittance fee. If there is any remaining amount, the Bank or the holder of the documents may use it to repay other instruments of the Contractor (regardless with collaterals or not), or to repay any liability against the Bank. If the insured goods are destroyed or lost, the Contractor authorizes the Bank to be compensated by the insurance policy, and the Bank shall deduct handling charges, all remaining amount shall be handled the same as the disposition of goods.

Article 14 If the net sale amount of goods is insufficient to repay the above amount of negotiation/discount (including the loss incurred by the conversion of exchange market), the Contractor authorizes any manager, agent of the Bank, or the current holder of documentary bills and/or documents, to issue documentary bills to the Contractor for repayment of insufficiency. However, it shall not affect the Bank’s recourse right against other endorsers. The Contractor agrees that all bills from the Bank or the holder of documentary bills and/or documents are evidences of the damage and loss suffered of the sale of goods, the Contractor shall repay all in the presence of such documentary bills.

Article 15 No matter whether the sale of goods will take place, prior to the maturity date the Contractor authorizes the Bank, any manager or agent of the Bank or holder of the documentary instruments to accept the requests of payer or accepter and provide bills of lading and other documents to payer or accepter after the payment. If the Bank or the holder of the documentary bills approves the advance payments, the rebate shall be calculated based on the normal rate in the location of payment.

Article 16 For the bill of lading that the bill of lading is furnished after the acceptance, the Contractor authorizes the Bank to forward the shipping document, which is ancillary to the documentary bills as collaterals to the accepter after the acceptance. Under such circumstance, if the accepter fails to make payment when due, the Contractor shall be liable for it. The Contractor shall repay all or part of amount owed under such documentary bills, and any additional expenses and handling charges to the Bank. The Contractor shall further warrant that the Bank would not suffer any damages incurred thereof.

Article 17 The Contractor agrees that anything relating to operation, responsibility, obligation of letter of credit not stipulated in this contract shall be governed by “Uniform Customs and Practice for Documentary Credits” issued by the International Chamber of Commerce and all clauses in the international rules relating to interpretation of trade conditions, which shall be deemed as part of this Agreement, which is legally binding.

Purchase of Bills in Foreign Currency Contract

Article 1 The quota of purchase of bills in foreign currency will be subject to the amount agreed by the Contractor and the Bank.

Article 2 The bills in foreign currency that the Contractor requests the Bank to purchase are not altered, counterfeited and shall be free from other defects. If such a matter is proved later and causes the Bank’s damage, the Contractor shall be liable for indemnification.

Article 3 If the instruments in foreign currency that the Contractor requests the Bank to purchase are lost or destroyed after delivery by the Bank, and if it is not attributed to the Bank (including the foreign agent banks), the Contractor shall immediately repay the amount under such instruments or provide equivalent instruments in foreign currency, the Contractor shall hold the Bank harmless and prevent it from any damage.

Article 4 In the event the bills in foreign currency that the Bank purchased are rejected, unless the Contractor has entrusted the Bank in writing and obtained the Bank’s consent, the Bank shall have no obligation on behalf of the Contractor to issue “certificate of rejection” and conduct any legal procedures to secure the right of the bills.

Article 5 The Bank may appoint any negotiation bank as the collection bank. Even if the Contractor has appointed the collection bank, the Bank is free to change.

Article 6 To prevent loss, secure credit or by the banks’ customary, the Bank may indicate any letter or mark on such bills or on the reverse side of bills, the Bank has no obligation to eliminate those marks upon rejection of those bills. The Bank has no recovery liability and may return those bills with marks to the Contractor.

Article 7 The interest for the bills in foreign currency that the Bank purchased will be calculated by the agreed rate at the time of appropriation. The interest from the appropriation date to the bills collection incoming date shall be calculated and deducted in advance. All handling charges, postage, inquiry fee and related expenses shall be paid based on the Bank’s tariff and the Contractor shall pay the descriptions between the Bank’s tariff and actual payment, if any.

Article 8 If there is any dishonored note or dispute involving bills in foreign currency that the Bank purchased, which, whatever the reasons, causes the Bank unable to collect the amount of bills or the amount to be withheld after collection, the Contractor shall immediately repay all amount of bills after the Bank’s notification. The Contractor shall also pay interests based on the Bank’s foreign exchange credit rate at the repayment day as well as any expense. Any delay shall result in delayed interest calculated by the foregoing rate and the penalty shall be imposed from the due date based on the amount of bills.

Article 9 The Contractor agrees to follow all clauses of “Uniform Rules for Collection – ICC Publication” issued by the International Chamber of Commerce and all related rules of the competent authority.

Export Loan Contract

Article 1 The loan amount shall be the amount agreed to between the Contractor and the Bank. The purpose of such loan is limited to paying working capitals for for export need. The Contractor shall not use the fund for other purposes and reject the Bank's inspection from time to time.

Article 2 The period of this loan is from the execution date to the agreed date, the Contractor shall issue Release Confirmation Letter and export letter of credit or export collection and other export documents to apply for revolving use. The period of each use shall not exceed the agreed number of days. Unless requested by the Bank, no new contract shall be executed.

Article 3 The interest shall be calculated at the interest rate stipulated in the Release Confirmation Letter or related documents or agreed interest rate.

Article 4 If the Contractor fails to repay on an agreed date, the delayed interest will be calculated from the due date based on the Bank's Base Rate plus 4%. If the Bank adjusts its rate, after the adjustment date the interest shall be based on the Bank's new Base Rate plus 4%. In addition, the penalty shall be imposed as well.

Article 5 The Contractor agrees that all foreign currency obtained from foreign sale of export negotiation or export collection that entrusted to the Bank shall be irrevocably authorized to be used directly by the Bank to repay the principal and interest on negotiation date or the notification date of collection, remittance and clean collection. In order to secure the source of repayment, the Contractor shall have the Bank undertake the foregoing export negotiation, export collection, or remittance transactions.

Article 6 As with all instruments, purchase orders, letter of credits provided by the Contractor under this contract, if the payment is duly received priot to expiry date of the loan, the Contractor and the guarantor agree that the Bank may directly offset the loan in advance.

Article 7 In the event that foreign banks reject to make payment to export negotiation handled by the Bank pursuant to the Contractor's application, or no payment is received for export collection due, or buyers from other nations fail to make payments as agreed, the debtor and the guarantor are willing to make repayment immediately unconditionally.

Other contracts:

TO: Chinatrust Commercial Bank Co., Ltd.

Contractor:	Silicon Motion Inc. (Personal signature with original seal agreed upon)
Legal Representative or Agent:	/s/ James Chow
Tax No:	97440546
Address (waived with the signature card presented):	
Guarantee Date:	November 25, 2004.

Contractor: (Personal signature with original seal agreed upon)
Legal Representative or Agent:
Tax No:
Address (waived with the signature card presented):
Guarantee Date:

Contractor: (Personal signature with original seal agreed upon)
Legal Representative or Agent:
Tax No:
Address (waived with the signature card presented):
Guarantee Date:

Contractor and Joint Issuer: (Personal signature with original seal agreed upon)
Legal Representative or Agent:
Tax No:
Address (waived with the signature card presented):
Guarantee Date:

Contractor and Joint Issuer: (Personal signature with original seal agreed upon)
Legal Representative or Agent:
Tax No:
Address (waived with the signature card presented):
Guarantee Date:

Contractor and Joint Issuer: (Personal signature with original seal agreed upon)
Legal Representative or Agent:
Tax No:
Address (waived with the signature card presented):
Guarantee Date:

Confirmation Letter of Promissory Note for Credit Line

The confirmation issuer (“the Issuer”) has executed promissory notes which are in compliance with the below statement to Chinatrust Commercial Bank Co., Ltd. (“the Bank”). Such promissory notes are issued to guaranty the repayment of the credit line under the opening domestic letters of credit or fund use; or any repayment of the credit line or guaranty for any of the followings: opening foreign letters of credit; import finance; guaranty of goods for import collection/endorsement of sub-bills of lading; export negotiation; purchase blank bills; A/R factoring; advance payment. For any letter of credit, finance, negotiation, assignment, advance payment within the same total credit line, the Issuer is not required to provide promissory notes independently. The Bank may request repayment for the above or other liability of the Issuer, collectively or separately, partly or fully, based on the promissory note, this confirmation letter, applications and related contracts. The Issuer shall immediately make repayment without objections. The Issuer hereby makes this letter as the evidence.

I. Amount of the promissory note: Fifty Million NT Dollars

II. Issuance date of the promissory note: November 25, 2004

III. Maturity date of the promissory note:

IV. Payee: Chinatrust Commercial Bank Co., Ltd.

To Chinatrust Commercial Bank Co., Ltd.

Issuer (Note Issuer): Silicon Motion Inc.
/s/ James Chow (signed)

Issuer (Note Issuer): (signed)

Issuer (Note Issuer): (signed)

Issuer (Note Issuer): (signed)

Date: November 25, 2004.

Financial Transaction Agreement

Unit/Organization:	Hsinchu Department/ Regional Center
Customer:	Silicon Motion Inc.
Contract Date:	November 25, 2004
	(Exclusively for general credit line)

Financial Transaction Agreement

I: Financial Transaction Master Agreement

The Contractor hereto agrees to observe the following terms and conditions with respect to transactions with the Bank. Unless expressly indicated otherwise, any request, instruction, confirmation, transaction agreements and other documents submitted and signed by the Contractor shall be governed by provisions of this Agreement. For any person authorized by the Contractor to undertake the transaction, see “Authorization Letter to Authorized Person”.

Article 1 Definition:

1. Business day: refers to any day on which banks in Taipei, Taiwan, R.O.C are open for business. International market practices shall apply in case of any foreign currency involved.
2. Currency: refers to NTD and legal currencies of all other countries.
3. Foreign Exchange: refers to all legal currencies other than NTD.
4. Spot: transactions with physical delivery or cash settlement on the business date, the following business day or two business days after the transaction date.
5. Forward: refers to a transaction in which a business is designated as the expiration date for a certain amount of physical delivery or settlement for difference at a specific price.
6. Call: refers to the holder’s right (not obligation) to buy a certain amount of target currency at the exercise price from an option seller.
7. Put: refers to the holder’s right (not obligation) to sell a certain amount of target currency at the exercise price from an option buyer.
8. American option: refers to an option that can be exercised at any time between the purchase date and the expiration date.
9. European option: refers to an option that can only be exercised on the date of expiration.
10. Premium: refers to an amount of money acquired upon sale of the options.
11. Knock-in: refers to a valid option when a spot price reaches an agreed price level.
12. Knock-out: refers to a invalid option when a spot price reaches an agreed price level.
13. Forward rate agreement: refers to a transaction with respect to receipt or collection of a certain amount of interests at a specific interest rate during a specific interest period designated on the transaction date.
14. Cap: refers to the holder’s right (not obligation) to pay the interest at the exercise interest rate where the market interest rate is above the exercise interest rate on the agreed fixing date.
15. Floor: refers to the holder’s right to receive the interests at the exercise interest rate where the market interest rate is below the exercise interest rate on the agreed fixing date.
16. Fixing Date or Expiry Date: the business day when the market price is compared with the agreed price.
17. Settlement Date: the business day of physical delivery or settlement for difference, usually the second business day following the fixing date.
18. Swap: a contract with respect to buying/selling foreign exchange in the spot or forward market and selling/buying the same amount of foreign exchange in the forward market at the same time.

19. Interest Rate Swap: a contract where interests are periodically exchanged with different exchange rates of a single currency as the object of exchange.
20. Cross Currency Swap: a contract where principals and interests are exchanged between different currencies.
21. Structure Investment Contract: a contract with respect to a deposit interest rate linked to one or more objects; the interest rate may rise properly under some circumstances or fall otherwise. The principal of structure deposit may be impaired depending on the regulated conditions.

Unless otherwise specified in this Agreement, the terms and definitions used herein and the transaction agreement shall be governed by and construed in accordance with applicable national laws, the latest version of ISDA, or current market conventions.

Terms and definitions not covered in this Agreement shall be construed in accordance with the individual transaction confirmation, the memorandum on conditions, or market convention.

Article 2 Transaction Agreement

1. Quotation: The Contractor may require the Bank to provide reference prices at any time but the Bank is not obliged to make transactions with the Contractor according to the reference prices. No transaction agreement is made unless the Contractor issues requests for transactions and completes the necessary transaction processes.
2. Memorandum on conditions: The written memorandum on conditions provided by the Bank in terms of the transaction nature, conditions and/or risks shall be regarded as the reference quotation.
3. Suggestions: The Contractor may require the Bank to provide transaction suggestions for reference only. All transactions shall be carried out at the Contractor’s own discretion. The Bank is not responsible for gains and losses from the transactions. The bank may refuse to provide any suggestions depending on the situations.
4. Request: The Contractor may make transaction requests in oral or written form (referred to as “the Request” hereinafter). The Contractor shall be subject to the Request once such a request is fulfilled during the agreed period or before withdrawal of the Request. The Bank may reject the request depending on the situations.
5. Instructions: For the purpose of this Agreement or as required by the transactions, the Contractor may send instructions in oral or written form (referred to as “the Instruction” hereinafter). The Bank shall process the Instruction accordingly without any objection of the Contractor.
6. Oral and Written Form: For the purpose of this Agreement, the Contractor authorizes the Bank, at its sole and absolute discretion, to identify and process Contractor’s oral/ written requests, instructions, confirmation and other relevant behaviors. “Oral form” refers to a behavior conducted by a Contractor’s authorized person personally or by telephone. The Contractor agrees that the Bank may record the conversation between the parties and file them as evidence. “Written form” refers to a behavior conducted through hard copy, telegraph or facsimile. Without objection, the Contractor authorizes the Bank to deal with a telegraph or fax copy as the original copy. The Bank shall confirm with the Contractor unclear words or numbers on the facsimile copy or questions.
7. Close-out: Upon confirmation of the transaction, the Contractor has the right to make reverse transaction to close out all or part of the original transaction.

Article 3 Confirmation, Clearance, and Delivery:

1. Confirmation: Except spot transactions, the Bank will send a written confirmation letter to the Contractor within three business days after the following day of the transaction date. Upon confirmation, the Contractor shall affix the corporate stamp and the responsible person's stamp, or the confirmation stamp authorized with the forgoing two stamps, and shall reply such a confirmation letter. Should the Contractor have any question about the transaction details described in the confirmation letter, the Contractor shall immediately contact the Bank by telephone for objection. The Bank shall investigate the transaction terms in question. If there is any inconstancy between oral transaction and the transaction details described in the confirmation letter, the oral transaction shall supersede. No matter whether the Bank has received the Contractor's confirmation letter, the Contractor shall be deemed to have accepted and agreed on the confirmation latter if it doesn't raise objections within one business day after receipt of the confirmation letter, seven days after the sending such a confirmation letter or fourteen days after the transaction date (which is earlier). The Bank shall re-send the confirmation letter in case of any inconsistency found through investigation. The Contractor obliged to reply the confirmation letter to the Bank even if delivery or settlement has been completed prior to the said reply.
2. Clearance: Gains or losses of a close-out shall be paid by the party of loss to the other party. The Contractor agrees that the Bank calculates gains or losses of the close-out. The two parties are subject to the unclosed-out position that is still valid.
3. Delivery: The Contractor is entitled to acquire the proceeds from the transactions only after delivering to the Bank the payable immediately available funds.
4. Automatic Close-out: The Bank may automatically close out a transaction which matures on a business day at the then market price without instruction at 3 p.m. Taipei Time where necessary.
5. Offset: The Bank and the Contractor shall pay to each other the net balance after mutual offsetting with respects to gains and losses of transactions which expire on the same business day.

Article 4 Premium

1. Payment: Unless otherwise stated by the parties in written, premiums shall be paid to the other party on respective payment dates according to international and domestic market conventions.
2. Delay: If the seller of the objective right doesn't receive the premium on the payment date, it may choose to:
   (1) accept the delayed payment of the premium:
   (2) notify the buyer in written. The buyer will be deemed to have breached the contract upon failure to pay the premium within two business days after the notification, and the seller may exercise the right to the dispose the objective right.
3. Compensation for Delay: The buyer shall indemnify the seller fully against all expenses, interests and losses arising from the seller's handling of delayed payment of premium.
4. Currency and Amount: The currency and an amount of premium under this Agreement are determined by the Bank.

Article 5 Losses and Collateral

1. Margin: The Contractor shall at all times maintain Collateral with the Bank of not less _____ percent (_____%) of the then outstanding Transactions (as calculated and determined by the Bank). (* If no margin is required, insert "zero" in the blank.)

2. Mark-to-market Losses:

At any time on each day, the Bank may mark to market all Transactions and if at any time the mark-to-market losses of the Contractor exceed the Loss Limit, the Bank shall be entitled to request from the Contractor Collateral, in addition to any Collateral provided for in Section 2.1, in an amount equal to the amount by which mark-to-market losses exceed the Loss Limit. The calculation of mark-to-market losses shall be as determined by the Bank.

3. Close-out:

If any Collateral is not received by the Bank when due, the Bank shall be entitled, but not obliged to, and shall not be liable to the Customer in any respect for any loss arising from any failure to close-out any and all Transactions immediately. Should the Bank be entitled to effect such closing out, the timing thereof shall be determined by the Bank at its sole discretion. All expenses or losses incurred to the Bank in relation to close-out of the position shall be determined by the Bank and borne by the Contractor

Article 6 Breach of Agreement

1. Breach of the Agreement: Each of the events stated below is regarded as breach of the Agreement (referred to as “the breach” hereinafter):

(1) The Contractor fails to make payments or provide margin as agreed in this Agreement or make payments with respect to other agreements with the Bank when due.

(2) The performance of this Agreement becomes illegal, incapable or difficult to the Contractor or the Bank.

(3) The Bank finds that the financial statements and transaction-related agreement and documents provided by the Contractor to be untrue or misleading.

(4) The Contractor declares or is declared bankrupt, dissolved, reorganized, or collateral lien or detained.

(5) The Contractor fails to make timely payments under agreements with others. Or, the Bank releases a written statement that the Contractor’s (as principal debtor or guarantor) financial liability has accelerated due or has been allowed to accelerate due.

(6) Any situation, which the Bank views that the Contractor is to default or fails to fulfill the obligations contained herein or any obligations pertaining to a transaction based on its reasonable judgment; however, the situation shall be only deemed as a breach when the Bank submits a declaration in written.

2. Consequence of Breach: Upon occurrence of any of the breaches, the Contractor has no right to conduct any transaction with the Bank. The Bank shall be entitled, but not obliged to, take any of the actions below at any time:

(1) Declares that all payments relating to this Agreement, the transaction contract, and transaction amounts payables to the Bank to be immediately due.

(2) Cancels transaction requests and/or close out all Transactions immediately in accordance with fair market prices. The Contractor shall not claim rights to positions favorable to the Contractor only.

(3) Disposes the Margin or the Collateral and use the proceeds to offset the due payments. The Bank is not obliged to exercise the above-mentioned rights at a time or in such a manner as in favor of the Contractor.

3. Deferred Interest Rate: Upon the Contractor’s failure to make timely payments under this Agreement or Transaction Contract, the Contractor shall pay the Bank extra amount of fund cost plus 2% during the deferred period, from the due date to the payment date. The manner in which the Bank obtains the funds and its source shall be determined by the Bank at its sole discretion.

4. Temporary Credits of the Bank: The Contractor hereby authorizes the Bank to decide at its sole discretion, whether the Collateral or other offset funds shall be allocated as the Bank's temporary credits to maintain its rights against the Contractor before the Contractor's indebtedness to the Bank under this Agreement is due.

Article 7 Indemnifications

In addition to provision in the previous article, the Contractor shall be responsible for the Bank's expenses, losses, expenditures and liabilities resulting from the Contractor's failure to honor its obligations under this Agreement, and/or any transaction contract or other transactions. Furthermore, the damages shall include the Bank's costs, expenses and other payables arising from the Customer's failure to receive/ pay money in accordance with terms and conditions of transactions. The damages shall also include the Bank's losses (including lost gains), fines and other expenses because of the Bank's fund cost to implement this Agreement, and/or any transaction contract, or transaction due or almost due.

Article 8 Miscellaneous

1. Expenses and Expenditures: At the Bank's request, the Customer agrees to pay for the Bank's expenditures and costs arising from exercising and maintaining its rights under this Agreement, Transaction Contract or other transaction-related rights (including but not limited to interest, attorney fee and other expenses).
2. Currency and Amount: The Customer shall pay for the currency and amount of the agreement in accordance with the Transaction Contract and shall not deduct any amount in the name of expenses, taxes or any others. Upon payments with other currencies, the exchange rate shall be determined by the Bank based on the fair market price basis. The Bank is entitled to decline Customer's payment with other currencies depending on the situations.
3. Legitimacy: In case where the Bank is required to suspend this Agreement or any Transactions pursuant to provisions or order of competent authorities, the Bank may close-out or settle any and all Transactions herein immediately. The Customer shall be responsible for the losses caused and shall not claim any rights or make any requests against the Bank as a result of this.
4. Right of set-off: Upon the Customer's failure to make payments according to this Agreement or other agreements between the parties in time, the Bank is entitled to, but not obliged to, off-set the above-mentioned amount payables with the Customer's deposit at the Bank or the Bank's amounts or debts payable to the Customer (no matter they are incurred due to this Agreement or others, and irrespective of the currency and amount) within the maximum scope of the related laws (not limited to the existing rights under this Agreement and others.)
5. Calculation Agency: The Bank is the calculation agency of all amounts related to the Agreement.
6. Taxes: Taxes resulting from the Transaction shall be borne by the parties hereto in accordance with relevant laws. Unless agreed by the Bank in written, the Customer shall not demand the Bank to pay taxes that shall be borne by the Customer.
7. Other Agreements (if applicable): Agreements that have been signed or to be signed between the Customer and the Bank shall also apply to Transactions in this Agreement.

II: Secured Transaction Contract

The Contractor agrees the time deposit at the Bank to be the Collateral of the transaction performance of spot foreign exchange, forward foreign exchange, FX swap or FX option at the money market for 6 months. The Contractor agrees that the terms and conditions set forth in the "Financial Transaction Contract" of the Bank shall apply.

Article 1 Before the Transaction, the value of the Collateral provided by the Contractor shall not be less than 5% of the transaction amount; while after the Transaction, the balance of Collateral value minus the market-evaluated loss (referred to as Balance hereinafter) shall not be less than 3% of the transaction amount. In case of Balance ratio lower than 3%, the Contractor shall provide additional Collateral to restore the Balance ratio to be 5% as soon as possible. Upon the Contractor's failure to provide additional Collateral within two business days after the Bank's notification, the Bank is entitled to close out the Contractor's Transactions and the Contractor shall be without objection. In case of balance ratio lower than 1%, no matter whether the additional Collateral is provided, the Bank is entitled to close out the Contractor's Transactions and the Contractor shall be without objection. Even if the value of Contractor's position reverses thereafter or the additional Collateral is provided after the agreed period, the Bank is still entitled to close out the Contractor's Transactions. The Bank shall have the right to manage the calculation and determination of market-evaluated loss and Balance ratio. Upon dramatic fluctuation of the Transaction market, the Contractor shall agree to adjust the amount of Collateral in accordance with the Bank's new balance ratio.

Article 2 The Bank's notification of additional Collateral shall be deemed to have been received upon the Bank's telephone record, the first registered mail arriving the address below, or the first registered mail delivered to the address below after a reasonable period. Upon failure to provide additional Collateral timely, the Contractor shall have no objection to the close-out of its transactions by the Bank and shall not claim any damages against the Bank hereafter.

III: Agreement on Spot Foreign Exchange, Non-spot Delivery

In consideration of spot foreign exchange Transactions between the Contractor and the Band, the parties hereto agree as follows.

Article 1 The Transaction is valid after the confirmation of the parties on the trade date. The Contractor shall have the money and necessary documents ready on the delivery date to complete the delivery with the Bank at the agreed price.

Article 2 Unless otherwise stated in this Agreement expressly, terms and conditions of this Agreement shall apply to any requests, instructions, confirmation letter, transaction contract, and other documents issued and signed by the Contractor. Matters that have not been covered in this Agreement shall be governed in accordance with individual transaction's confirmation letter, memorandum on conditions or market conventions.

Article 3 The Contractor may require the Bank to provide reference prices at any time but the Bank is not obliged to make transactions with Contractor according to the above-mentioned reference prices. No transaction agreement is made due to provision of reference prices by the Bank unless the Contractor requests so and completes the necessary Transaction processes.

Article 4 The Contractor may send Transaction requests or instructions orally or written. The Contractor is subject to of the request or instructions during the agreed period or before the withdrawal. The Bank may refuse to accept the request or instructions depending on the situation. "Oral" refers to the activities by Contractor's authorized person personally or by telephone. The Contractor agrees that the Bank may record the conversations between the parties. "Written" refers to the activities through hard copy, telegraph or fax copy. Without any objection, the Contractor hereby authorizes the Bank to deals with telegraph or fax copy as the original copy.

Article 5 In the event that the Contractor fails to complete the delivery on the delivery date as agreed in the warranty letter, or under any of the following circumstances:

1. The performance of this Agreement becomes illegal, incapable or difficult to the Contractor or the Bank.

2. The Bank finds that the agreements, documents relating to the transaction provided by the Contractor or its representative to be untrue or misleading.
3. The Contractor fails to make timely payments payable under agreements with others. Or, the Bank releases a written statement that the Contractor's (as principal debtor or guarantor) financial liability has accelerated due or has been allowed to accelerated due .
4. Upon other events, the Bank reasons that the Contractor will not, or will be unable to honor its obligations under this Agreement, any of the Transactions or any transaction-related obligations and the Bank releases a written statement; The Bank is entitled to, but not obliged to take the following actions at any time:
    a. declares that all payments payables to the Bank with respect to transactions between the Contractor and the Bank to be immediately due.
    b. cancels transaction requests and/or close out all Transactions immediately in accordance with fair market prices. The Contractor shall not claim any rights to any positions favorable to the contractor.
    c. To the extent allowed under applicable laws (not limited to existing rights of the Bank under this warranty letter and other agreement)
        (a) the Contractor's deposit at the Bank, and
        (b) the Bank's payments payable or debt liabilities payable to the Contractor (no matter whether they are incurred due to this guarantee letter or other agreement and irrespective of the amount and types of currency) may be offset by expenses, losses, expenditures and liabilities arising settlement payable by the Contractor or the Contractor's failure to honor its obligations under this warranty letter.

Article 6 This Agreement shall be governed by laws and statues of R.O.C; the parties hereby agree to submit to exclusive jurisdiction of the district court for the first instance where the head office of the Bank and its branch are located with respect to any proceedings relating to this Agreement.

IV: Contract for Forward Bond Transactions:

The contract is made by and between the Bank (referred to as "Party A" hereinafter) and the Contractor (referred to as "Party B" hereinafter) with respect to the operation guidelines for Party A in handling forward bond transactions. The parties agree to obey the following terms and conditions:

Article 1 Scope of Application

This Agreement is subject to the operation for OTC forward bond transactions between Party A and Party B. The forward transaction in this Agreement refers to transactions longer than 10 days, from the trade date to the delivery date, and no longer than 6 months (referred to as Transaction hereinafter). Unless otherwise agreed to by the parties in written, each transaction is subject to terms and conditions of this Agreement, supplementary provisions and relevant regulations of other appendixes.

Article 2 Definition

1. Business Date: the day of which the OTC bond market is open.
2. Trade Date: the day of the transaction done between the parties.
3. Settlement Date: the agreed day of exchange of money and bond between the parties.
4. Buyer: the bond buyer

5. Seller: the bond seller
6. Confirmation: refers to the provisions under Article 3.2 herein.
7. Entire Contract: refers to the provisions under Article 9.1 herein.
8. Major Events: Each party's reorganization, liquidation, dissolution, bankruptcy, merger, temporary closing-down, being enforced under compulsory execution, being turned down by the note exchange house or other events affecting the parties' operations.
9. Breach of the Contract: Non-performance of the settlement obligation by either party, or major events, untrue declaration, failure, inability or unwillingness of either party to honor payment obligations under the contract.

Article 3 Commencement and Confirmation

1. The commencement time of the Transaction can be fixed by the parties hereto either in oral or written. The transaction shall be valid as soon as it is concluded.
2. After the transaction is concluded, either party or the parties shall immediately confirm the transaction with the other party in written or in any other manner as recognized by the parties hereto or in conformity with market conventions. The confirmation letters shall include relevant terms and conditions of each Transaction and confirm that terms and conditions in conflicts with this Agreement shall be invalid.

Article 4 Confirmation Documents

The Transaction shall be established in written, signed by Party A and Party B, and contain the terms stated below:

1. Confirmation of the identification of Party A and Party B to be the buyer or seller respectively.
2. Transaction bond and its terms.
3. Transaction date.
4. Payment and settlement date.
5. Transaction face value.
6. Transaction price or yield.

Article 5 The content, amount calculation and payment method of the Collateral

1. To insure the payment and settlement obligations are honored in a timely manner, it is agreed that due to the fluctuations of the market price of the transaction bond, during the contract period, the supplementary articles concerning the Collateral's content, amount calculation and payment method may be negotiated.
2. The content of Collateral shall be cash ("secured cash") or bond ("secured bond") and be delivered in such a manner as agreed by the parties. The calculation of Collateral shall adhere to the principle of maintaining the total replacement cost losses of a single contract.
3. The parties may take "replacement cost loss", "the ratio of replacement cost loss accounting for the transaction amount" or "a certain period of time" as the payment condition of Collateral.

Article 6 Payment and Market Conventions

1. Each transaction shall be paid by means of cashing income and expense unless otherwise agreed to by the parties.
2. Price paid by the buyer shall be immediately available funds to the seller.
3. The bond delivered by the seller shall be flawless and assignable. The buyer may demand the seller to sign on necessary documents, endorsement and other warranty to ensure the Buyer obtains the ownership.
4. The transaction bond shall be delivered through the Central Government Bond Entry System or in other manners as agreed to by the parties.
5. It is agreed that the market conventions shall be obeyed and that the terms and conditions of the contract shall not be in conflicts with market practices related to transaction and settlement.

Article 7 Declaration

The parties hereto make the declaration hereunder to each other and the declaration is deemed to be repeated by the contractor upon each transaction on the business day:

1. The contractor has the right to execute and deliver the General Agreement and to conduct the transactions, payment and settlement.
2. Each party is entering into the contract as principal or has signed on separate written documents of commissioned agents as agreed to by the parties hereto to conduct transactions by proxy.
3. The representative signing the Agreement has been duly authorized.
4. All the governmental permissions in connection with this contract have been obtained and remain valid.
5. The performance, payments and settlement of this contract and transactions shall be governed by applicable laws, transaction conventions, articles of incorporations, guidelines, and regulations of the Gretai Securities Market of ROC.

Article 8 Breach of the Agreement

1. Upon the breach of the contract, the innocent party may declare the other party of breach and is entitled to take the following actions without notice:
   (1) Terminate part or all of the transactions. The damages, losses, costs and expenses shall be borne by the breaching party.
   (2) Offset the innocent party’s responsibilities including bonds, payables and properties against the breaching party.
   (3) The innocent party may dispose of all the secured bonds held at the market price or reasonably recognized price and use the proceeds from the disposal and the secured cash to offset relevant liabilities under the contract. Or, the innocent party, at its own discretion, may provide the breaching party with credit line equivalent to the market value of the secured bonds. The latest bid price of security brokers in general markets can be used as the basis for determining the market price of the secured bonds.
   (4) Other necessary actions related to the transactions to retain and strengthen the rights and negotiation interests. The innocent party shall advise the breaching party on the actions to be taken within 3 business days after the day following the pronouncement of the breach.

2. The innocent party may immediately take the Collateral and revenues back, pronounce the other party's breach of the contract, and have the right to take the actions stated below without notice:
   (1) Upon the breaching party's failure to deliver the secured bonds, the innocent party may immediately back buy bonds of equivalent volume and value at the market price or reasonably recognized price (replacement bond); or
   (2) The innocent party may back buy bonds at the latest offer price in the market of the security brokers. And the breaching party is responsible for returning the market price of the replacement bond along with other secured cash.
3. The breaching party shall assume the below-mentioned responsibilities for the innocent party:
   (1) The attorney fees and other expenses related to the breach of the contract.
   (2) The replacement costs, damages of hedge and hedge-termination and all the commissions, expenses and processing fees related to the transactions due to the breach.
   (3) Other losses, damages, costs and expenses directly in connection with the beach.
4. Subject to the laws, the default interest of liabilities of the breaching party shall be calculated based on the prime loan rate of Bank of Taiwan from the date of liabilities to
   (1) the date of breaching party's complete pay-back; or
   (2) the date of full realization of the innocent party's rights

Article 9 Entire Agreement

It is mutually agreed that each transaction, the General Agreement and all the transactions shall constitute the entire Agreement. Both parties agree to observe the following terms and conditions:

(1) Each party shall fulfill its obligation under any transaction. Upon any party's breach of any transaction, it is regarded as breach of the contract of all the transactions.

(2) Upon any breach of the transaction, the innocent party may ask for compensation for other transactions between the parties and apply for property provisional detention.

(3) Pursuant to this entire Agreement, accounts receivable or payable of transactions and other transactions may reciprocally set-off, paid or settled by the net amount or settled and bonds. The netting settlement is regarded as the completion of settlement of each transaction.

Article 10 Risk Disclosure

Forward transactions involve significant risks. Each party shall evaluate its financial status, investment objects, limit by laws and regulations, the resources to identify the the risks and the obligations of the terms and conditions of the transaction to determine whether to conduct such transactions or not.

The main risk of forward transactions is the price risk, namely the possible losses from fluctuations of market price or interest rate from the trade date to the settlement date. The second is the default risk referring to the real losses from the other party's failure to implement the settlement obligations on the settlement date including the possible loss of the collateral given to the breaching party. The third one is the price manipulation risk. The other party may buy bonds frequently to make market or hedge becoming the monopoly of a certain bond, which cause our possible losses due to no bonds to buy in the spot market or becoming the price-taker of the other party when settlement. The last one is the risk of close-out position resulting from the other party's close-out of the positions upon the Contractor's failure to assume the responsibilities for the obligations under this Agreement of collateral submission and additional supplement collateral article.

The above-mentioned risk disclosure is so brief that it cannot include all the transaction risks in detail. Before entering into the transaction, each party shall consult with its advisors of business, legitimacy, taxation and accounting, read carefully the content of the General Agreement to evaluate its suitability of such transactions. It is agreed that the General Agreement and all the transactions are independently decided by the Contractor without any relationship of investment entrust or consulting with the Bank.

Article 11 Notice and Other Communication

The notice, declaration, requests and other communication shall be made by a party's mail, fax, telegraph or note to the other party or its mailing address or changed address. The notice may be made orally first and confirmed in written or the above-mentioned method.

Article 12 Non-Transferable Clauses and Termination of Contract

1. Except as expressly agreed in written, the rights and obligations of the contractors shall be non-transferable and unchangeable. The transaction interests under this contract shall belong to the contractor and the agreed heir only. Each party may terminate the contract by giving a written notice to the other party, but the previously established but unsettled transactions shall still be valid.
2. The above article excludes the conditions described in Article 8. The innocent party may transfer or change all of or part of the interests and the breaching party shall have no objections.

Article 13 Jurisdictions

The General Agreement is subject to laws and regulations of R.O.C. The terms and conditions in conflict thereto are invalid.

Article 14 Non-waiver of Rights

The deferred exercise of rights or privileges under the contract shall not be deemed as a waiver. The partial exercise of the rights or privileges shall not be deemed as exemption of future exercise.

Article 15 Recording

It is mutually agreed to record price negotiation on the telephone by electronic media.

Risk Disclosure Statement for Financial Derivatives Transactions (Chinatrust Commercial Bank Co., Ltd. invites you to read this Notice in detail.)

The Customer shall pay attention to and evaluate the risks stated below in conducting financial derivative transactions:

1. The unfavorable market condition may cause damage to your position.
2. Upon fluctuation of the market, the loss of your close-out position may be larger than expected.
3. The Bank will trade contingent slip like stop & reverse when the market price exceeds the agreed price. Due to the fluctuation of the market, the contingent slip may not be traded at the agreed price exactly, resulting in a larger loss or smaller gain than expected.
4. At an extreme, national or international market may cease trading, causing the Customer's failure to close out the positions, resulting in a larger loss or smaller gain.

5. The risk notice is so brief that it cannot detail all the transaction risks and factors affecting the market. Before entering into the transaction, the Customer shall evaluate it thoroughly and develop financial plans as well as risk assessment to prevent from unbearable losses.

6. The Bank recommends the Customer to consult with independent law and transaction advisors.

The Contractor has reviewed the “risk disclosure statement” and gained an understanding of the content and transaction risks after the explanation of the Bank. The Contractor agrees to request for transactions either in oral or written after completely understanding the transaction risks. Upon the establishment of the transaction, the Contractor shall be responsible for the gains and losses and shall not request the Bank to assume the responsibilities for insufficient understanding of risk or any other reason.

Authorization of the authorized person

To: Chinatrust Commercial Bank Co., Ltd. (referred to as “the Bank” hereinafter):

In connection with the “Financial Transaction Master Agreement” and ISDA-related transactions, the Contractor hereby authorizes the following persons to be representatives. Each of the person is authorized to request for, instruct or complete transactions either in oral or written on behalf of the Contractor. This authorization is valid prior to the Bank’s confirmation of receipt of the Contractor’s revision in written.

Authorization company: Silicon Motion Inc. Date: 2004/11/25

Name	Jiang Chi-Chien	Lin Yue-Hwa	Wang Chen-Yu
Title	Vice president	Senior Director	Administrator

Authorization of Confirmation Stamp

To: Chinatrust Commercial Bank Co., Ltd. (referred to as the Bank hereinafter):

The Contractor authorizes the persons of the following signature to be the Contractor’s representatives and acknowledges that the confirmation stamps or the representatives’ signature below is authorized to enter into and confirm the “Financial Transaction Master Agreement” and ISDA-related transactions. Upon change of the confirmation stamp and authorized signature, the original authorization stamp and signature are still valid to confirm transactions prior to the Contractor’s written notice to the Bank about the termination and change of the authorization. The Contractor shall not deny the validity of the authorization stamp and signature as well as the transaction records.

Authorization company: Silicon Motion Inc. Date: 2004/11/25

/s/ James Chow

Authorization Stamp or Signature of Transaction Confirmation	Confirmation Person (Confirmed by Phone)	Telephone No	Confirmation Person (Confirmed by Phone)	Telephone No
	Jiang Chi-Chien	03-5526888#2880		
	Lin Yue-Hwa	03-5526888#2300		
	Wang Chen-Yu	03-5526888#2301		

* Delivery of transaction confirmation:
  ☑ Fax first and mail out the transaction confirmation later, or
  ☐No fax needed; directly mail out the transaction confirmation.
  Mailing address/ Department: No. 20-1 Taiyuan St., Jhubei City, Hsinchu County 302/ Department of Finance
  Recipient: Wang Chen-Yu
  Fax number: 03-5526988

* The transaction confirmation and the phone confirmation are exclusively for the Customer's review and confirmation. The actual transaction records will be subject to the Bank's preserved data.

Authorization of Account Withholding

To: Chinatrust Commercial Bank Co., Ltd. (referred to as "the Bank" hereinafter):

In connection with the "Financial Transaction Master Agreement" and ISDA-related transactions, the Contractor hereby authorizes that the on each payment date, settlement fees, expenses and losses may be directly withheld from the Contractor's deposits account, NTD or foreign exchange by the Bank. Upon the conversion of different currencies, the exchange rates shall be determined by the Bank on the fair market value basis. This authorization is valid till the Bank's confirmation of receipt of the Contractor's revision in written.

Authorization company: Silicon Motion Inc. Date: 2004/11/25

NTD Demand Deposits Account No.	**FX Demand Deposits Account No.**	**OBU Demand Deposits Account No.**
299-11-8084703	299-13-8084709	

To: Chinatrust Commercial Bank Co., Ltd.:

Contractor: Silicon Motion Inc. (Personal signature with original seal agreed upon)
Representative: /s/ James Chow
ID Number: 97440546
Address (can be waived with the stamp card):
Date: November 25, 2004.

Contractor: (Personal signature with original seal agreed upon)
Representative:
ID Number:
Address (can be waived with the stamp card):
Date:

Contractor: (Personal signature with original seal agreed upon)
Representative:
ID Number:
Address (can be waived with the stamp card):
Date:

Contractor: (Personal signature with original seal agreed upon)
Representative:
ID Number:
Address (can be waived with the stamp card):
Date:

Supervised by	Undertaken by /s/ Yu-yen Chang	Guaranteed by /s/

Date: November 25, 2004.

Specific Clause Agreement

Unit/Organization: Hsinchu Department/ Regional Center

Contract Date: November 25, 2004

Specific Clause Agreement

This Specific Clause Agreement is made by and between Chinatrust Commercial Bank Corporation (including the head office and its affiliates; hereinafter referred to as “the Bank”) and an individual contractor who agrees to the specific clauses contained herein (hereinafter referred to as “the Contractor”).

Whereas,

The Contractor agrees to enter into transactions with the Bank and the Contractor subject to the Bank’s related regulations as well as the following clauses and assume all liabilities herein.

Chapter 1: Automatic Withholding Authorization Clauses

Article 1 In consideration that the Contractor has business transactions with the Bank and in order to repay the payable principal and interests of loans in NT Dollars or foreign currencies, foreign currency exchange settlement, international or domestic transaction fees, or delay interests, penalties and all other fees, the Contractor authorizes the Bank to withdraw or transfer the sum referred above directly from the Contractor’s deposit account at the Bank to settle the above payments automatically. The Contractor shall submit the certificates to the Bank as soon as possible for supplementary recording without any objection. Tick where appropriate:

☐ Credit Business ☐ Demand Deposits Account No
☐ Foreign Exchange ☐ Demand Deposits Foreign Exchange Account No

The Contractor also authorizes the Bank to directly:

withhold the settlement, fees or losses arising from the various transactions with respect to the “Financial Transaction General Agreement” or ISDA on the respective payment dates from the Contractor’s deposit account at the Bank. If such withholding involves the exchange of different currencies, the Bank shall determine the foreign exchange rate based on the fair market value. The Contractor shall submit the certificates to the Bank as soon as possible for supplementary recording without any objection. Tick where appropriate:

☐ Foreign Exchange Demand Deposits Account No

☐ New Taiwan Dollars Demand Deposits Account No

☐ OBU Demand Deposits Account No

Article 2 In the event that the Bank is authorized to withdraw and transfer payments directly in accordance with Article 1, the demand deposit book and withdrawal slips are not required. The remaining balance in the aforementioned account shall be determined by the balance account recorded at the Bank or in the computer master file.

Article 3 The Contractor has no objection to the Bank’s direct withdrawal or transfer. In cases of any dispute arising hereafter, the Contractor shall be held liable for such a dispute and hold the Bank harmless as well as waive all claims or defense against the Bank arising from the dispute.

Chapter 2: Clauses of Special Allowance Account

Article 1 The Contractor agrees that the payment made by the third party or made by cashing the note, or transferring (depositing) payments in relation to the Receivable Purchasing Agreement, note receivables transferred by endorsement, and other credit business entered into between the Contractor and the Bank shall be deposited into the special allowance account at the Bank. (Demand Deposits Account No_____, Account Name_____)

Article 2 For the convenience of account processing, the Bank may offset and pay off the debts owed by the Contractor at the Bank’s own discretion when payments made by a third party, cashed instruments and funds transferred(deposited) in the account accumulate to a certain amount to a certain amount; the Contractor shall still be liable for full payment in case of any insufficiency.

Article 3 The Contractor states that all note receivables are obtained from actual transactions; in case of any fraud (including borrowing, swap, deposit, or guaranteed instrument or any other note that are not obtained from transactions) that causes the Bank unable to receive the payments, the Contractor shall make the payments without delay. In the event that a third party makes the payment by note (not limited to check), the Bank may directly endorse the note and deposit it into the Special Allowance Account mentioned above in the name of the Contractor.

Article 4 After the due note receivable described in the previous article is cashed and recorded by the Bank, the Bank may credit the above-mentioned cashed amount into the Contractor's checking deposits (or ____ deposits) Account No. _____ if the Bank agrees that the Contractor can deliver a note receivable(s) equal to or higher than the cashed amount to the Bank in the manner set forth; however the Contractor shall still be liable to make full payments for all debts owned by the Bank in accordance with the Contractor's endorsed notes and bills it issued to the Bank.

Article 5 In the event that the Bank cannot cash the above-mentioned note receivable and the Contractor is informed of the returned check, the Contractor shall exchange the returned check with an equal amount of cash immediately. If the Bank does not receive any cash for exchange or fails to reach the Contractor, the bank may request the Contractor to pay off all the debts and may settle with the check debtor at any amount lower than the face value depending on the economic situation of the debtor.

Chapter 3: Clauses of Consent to Amount Adjustment

To apply credit business with the Bank, the Contractor agrees that the Bank is entitled to adjust the Contractor's credit amount, items of credit and credit conditions during the credit-granting period according to Bank's credit approval standards. After adjustment, the Contractor agrees to repay the difference amount incurred from the tightening of the credit limit within 30 days upon receipt of the Bank's notice or provide cash equal to the difference amount as security, and agrees to take the credit approval standards and undertakings as part of the credit agreement with the Bank. If the Contractor breaches the said undertakings and fails to return the difference upon receipt of the Bank's notice, the Bank may terminate or decrease the credit line or shorten the credit period, or all the principals and interest may be regarded as due and payable as to all the debts with the Contractor. In case of any dispute or cost where a third party is involved, the Contractor shall be held fully liable and indemnify the Bank for any damage arising from hereto.

Chapter 4: Financial or Operation Clauses

In order to keep normal operations and ensure the source of repayment for the Bank, the Contractor agrees to maintain certain financial and operation conditions during the period when it has businesses with the Bank, and agrees that the conditions shall be part of the basis of the credit agreements entered into between the parties. If the Contractor is in violation of the above conditions and fails to make any improvements within the curing period upon receipt of the Bank's notice, the Bank may terminate, decrease the amount of the credit line, shorten the credit period or regard the principles and interest as due and payable as to all the debts with the Contractor.

The Contractor guarantees that the said financial and operation conditions are as follows: _____.

Chapter 5: Real Property Clauses

To undertake repayment of the Bank's loan, the Contractor has completed the mortgage registration procedure for registering the real property (building address:) (see details described in the Mortgage Agreement) as mortgage of the Bank with _____ (Land Administration Office) on ____ (month) ____ (day), ____ (year). To protect the Bank's rights, the Contractor hereby makes the following warranties concerning the real property (including buildings without first registration of ownership) on mortgage.

Article 1 No Lease Guarantee

The Contractor guarantees that the secured real property is free from any lease, lending or other rights, nor is used by any third party when the Contractor provides the secured real property and goes through the mortgage registration procedure. The Contractor agrees not to register any other rights or, rent or lend the secured real property to any third party or take any actions that will devaluate the real property without consent of the Bank. In case of any fraud that causes any damage to the Bank, the Contractor shall be held fully liable for indemnities.

Article 2 Lease Guarantee (Security Provider)

The Contractor promises that the renewal, extension of the lease agreement and changes of other lease conditions shall be agreed to by the Bank in advance and shall not be governed by Article 451, Civil Law. When the Bank disposes (attaches) the security, the Contractor shall dissolve or terminate the lease unconditionally with delay. The Contractor agrees not to register any other rights on the secured real property with a third party or take any actions that will devaluate of the real property without consents of the Bank. If the Contractor breaches the above warranty and causes any damages to the Bank, it shall be held fully liable for such damages.

Article 3 Lease Warranty (Tenant)

The Contractor guarantees that the renewal or extension of the lease agreement and any amendment to other lease conditions shall be ineffective without prior consent of the Bank and shall be exempted from the provision of Article 451, Civil Law. In the event that the Bank exercises its mortgage right to dispose (attach) the security because the debtor fails to honor the debts or breaches the Agreement, the lease shall be dissolved or terminated unconditionally; the tenant shall vacate immediately and waive any claim unconditionally to all objects or properties left, and the Bank may dispose or throw away the objects left at its own discretion, to which the tenant has no objection. The tenant further agrees to waive all its right against the Bank. The tenant uses the above-mentioned real property for the purpose of _____, and no sublease exists.

Article 4 Vacant Land Guarantee

Prior to the Bank's waiver of the land mortgage right, the Contractor shall never set up any building or other constructions on the secured land or change the current conditions of the land without written consent of the Bank. With the Bank's consent, the Contractor warrants that it shall provide the constructed building, if any, for the Bank to register as the first-lien holder, and shall never change the constructor during the construction. In case of any breach of the warranty, the Contractor shall follow the Bank's request for demolition of such a building or construction that has been set up on the land without first registration of ownership, or request for compensation for damages or repayment of the debts.

Article 5 Consolidated Mortgage of Buildings without First Registration of Ownership

Any building without first registration of ownership (including any appurtenance such as an attached structure of the ground/top level of the secured real property) first constructed or entitled by the Contractor, upon provision of the secured real property, shall be provided for the Bank as a security and may be disposed by the Bank in case the Bank exercises the mortgage and right.

Article 6 Waiver of Legal Mortgage Right

Whereas the Contractor has guaranteed to provide all of the above-mentioned land or building or renovated the building as the securities for the loan, the undertakers agrees unconditionally to waive the legal mortgage right arising from the above debts or make any claims for any rights including the legal mortgage right against the Bank or its successors.

Article 7 Registration of First Registration of Ownership within a Stated Period

Whereas the secured real property with any attached structure below has not been applied for first registration of ownership, the Contractor guarantees that the attached structure is first constructed or entitled by the Contractor, and promises to complete the application for first registration of ownership of such a structure of the building within ___ months and provide it as a security for the Bank to register as the first-lien holder. Prior to completion of such registration, such a structure of the building may be disposed by the Bank in case the Bank exercises the mortgage and right.

Building(s) without first registration of ownership is indicated as follows: _____.

Article 8 Guarantee Concerning Use of Loans

The Contractor guarantees that there is not any type of lease relationship between the Contractor and the owner. The Contractor shall immediately return the aforesaid real property borrowed or occupied unconditionally in case that the owner or the Bank requests return of the security, or the Bank applies for compulsory execution to attach the security by law.

Article 9 Relatives Declaration

Whereas _____ is a minor (born on ___ (month) ___ (day), ___ (year)), and his/her parents intend to borrow loans from the Bank for the need of the children's long term business, the relatives (three relatives other than the parents) hereby solemnly declare that the said loans and the registration of mortgage right are indeed made for the benefit of the minor.

Article 10 No Legal Mortgage Right

The Contractor warrants that all debts arising from contracting agreements between the Contractor and all undertakers (including the persons who construct or make material renovation to the mortgaged building) who may be entitled to the legal mortgage right with respect to the secured real property have been cleared off, and no legal mortgage right exists. The Contractor shall be criminally liable for fraud and indemnify the Bank fully against all damages if there is any fraud found later.

Article 11 No 37.5% Rent Reduction Act

The secured land indeed for private use upon the time when it is offered for security; and there is no agreements under the 37.5% Rent Reduction Act or any other lease agreements.

Article 12 House-for-private use Guarantee

The secured real property is the only house owned by the Contractor (including spouse and children) for private use, who has no other residence. If there is any fraud, the Contractor would like to be held criminally liable for fraud, and shall pay off all the exceeding loans in accordance with the Bank's rules.

Chapter 6: Construction Fund-raising Clauses

Article 1 Waiver of Legal Mortgage Right

The Contractor (hereinafter referred to as "the Contractor") rebuild/ renovate the buildings own by _____ (hereinafter referred to as" the Proprietor") on the land address at _____ County (City) _____ Village (Town, Region, City) _____ Section _____ Subsection _____ (Number). Because the Proprietor has provided or promised to provide the above land plus building or the repaired building for the security of the credit with the Bank, the contractor consents to waive the legal mortgage right on the obligation of the Proprietor unconditionally and not to claim right against the Bank.

Article 2 No Second-lien Registration

The Contractor provides that land located at County _____ (City) _____ Village (Town, Region, City) _____ Section _____ Subsection _____ (Number) to the Bank for security, and the first builder (herein referred to as "the builder") build the house on the secured land. In order to protect the Bank's right and benefits, the Contractor guarantees that during the period that the builder constructs it will not provide the land to any third party for the second-lien mortgage. If the contractor breaches the warranty, it agrees that the Bank may collect the debts.

Article 3 Vacant Land Guarantee

The Contractor applies for loans to the Bank, and the purpose of the loans will be for purchasing the land located at County _____ (City) _____ Village (Town, Region, City) _____ Section _____ Subsection _____ (Number). The Contractor hereby guarantees. Should it not obtain the ownership of the land before ___ (month) ___ (day), ___ (year) and set up the first-lien mortgage to the Bank, the Contractor agrees to pay off the principal and interests of the original loans before ___ (month) ___ (day), ___ (year); and in case of any breach, the Contractor shall waive the benefit of time. This Agreement will be part of the acceleration clauses which the Bank may shorten the credit period or regard all debts as due from time to time.

The Cadastre is listed as follows: _____.

Article 4 First Builder Guarantee

The Contractor provides the land located at Land No. _____ of _____ ping as the security and borrows _____ NT Dollars from the Bank. Whereas the Contractor builds the house on the secured land, the Contractor guarantees that shall never change the name of the first builder without consent of the Bank during the construction period to protect the Bank's rights and benefits.

Article 5 Provision of Mortgage After Construction

In order to secure itself and the third party's debts to the Bank, the Contractor provides its real property (see details contained in the mortgage agreement) to register for the Bank as the first-lien holder of the maximum amount of _____ NT Dollars which is registered with (Land Administration Office on ___ (month) ___ (day), ___ (year) for Land No. _____. The Contractor guarantees to register the Bank as the first-lien holder when the building is completed and registered for first registration of ownership. Prior to completing the registration procedure, the Bank may exercise the mortgage right on part of the building while the Contractor has no objection.

Chapter 7: Securities Clauses

Article 1 Stocks that have applied for listing but have not been listed

The Contractor provides the security/ Stock (see the security lists) to secure the debts for the Bank. The Contractor agrees that if the listing project of the security is cancelled by the competent authorities because it is not sold in public after the deadline or for other reasons no matter whether the debts is due, the Contractor shall make up the collateral, pay off the debts, or

change the collateral within a months upon receipt of the Bank's notice; otherwise the Contractor waives the benefit of time on the debts owed to the Bank, all of which shall then be deemed to be due and the Bank may dispose or sell the security unconditionally at its sole discretion. The Contractor also agrees that the Bank has the total discretion on the time, method and its price for dispose or sale of the security for paying off the debts.

Article 2 Disposal of Unlisted Securities

In the event that the prices of the security/stock (see the security lists) falls or the business, finance, and credit of the issuing company deteriorates, which is estimated by the Bank to possibly harm the debts, whether the loans are dues or not, the Contractor shall make up the security or pay off the loans or change the security within the deadline given in Bank's notice; otherwise, the lender will lose the benefit of time as to the loans, which shall then be deemed due and the Contractor agrees that the Bank may dispose or sell the security at its sole discretion to pay off principals and interests immediately. The Contractor also agrees that the Bank has the total discretion on the time, method and its price for disposal or sale of the security for paying off the debts with this Agreement as the proof of the authorization which shall be not withdrawn before all debts are settled.

Article 3 Clause of Consent to Maintenance of Security (Listed/OTC Securities)

In consideration of the credit business between the Contractor and the Bank and in order to secure the loans, if the value of the security changes, the Contractor agrees to maintain the value of the security during the credit period and agrees to proceed according to the following clauses:

1. The security maintenance rate of the security shall be calculated by the total outstanding amount of the credit in combination with the total maintenance rate; the maintenance rate is calculated as follows: the market value of the security for the listed stock/ total outstanding amount of the credit×100%.
2. In case of a maintenance rate lower than ___% due to changes of market prices of the security, the Bank shall notify the Contractor to make up the difference.
3. If the total maintenance rate fails to reach the rate specified in Paragraph 2 of the Article within two business days upon the Bank's notice, and the Contractor doesn't make up any difference amount, the Contractor will lose the benefit of time on the loans; and all of which shall then be deemed due. The Bank may auction the security on the public market form the business day or sell the security for offset the principals and interests. The Contractor also agrees that the Bank has the total discretion on the time, method and its price for disposal or sale of the security for paying with this clause as the proof of authorization.
4. If the total maintenance rate rebounds to be higher than the rate set in Paragraph 2 of the article within two business days upon the Bank's notice, although the Contractor doesn't make up the difference, the Bank may not dispose the security temporarily; however, if the total maintenance rate later in any business day falls below the rate prescribed in Paragraph 2 of the article, the Contractor shall make up the difference on the same day; otherwise the Bank has the right to dispose the secured security from that day.
5. Although the Contractor doesn't make up the difference or make up only part of the deference, if the total maintenance rate rebounds to be higher than the rate specified in Paragraph 2 of the article plus 30% or the Contractor's payment for the difference prior to disposal of the security reaches the notified difference, the remedy record shall be canceled; however, the Bank has the right not to be bound by this Article.
6. The Bank agrees that the interest of the security made by the Contractor shall be received by the pledgor; however, the Contractor agrees that from the seven business days before the ex-rights standards days of the interests, the total maintenance rate would be based on the reference price after the ex-rights.
7. In case the Bank's rights and the interests of the leader or pledgor are impaired due to deterioration of the Contractor or the issuing company's business, finance and credits, the lender or pledgor agrees that the bank, based on its own evaluation that the rights may be impaired, may auction the security in accordance with Article 982, Civil Law for repayment of the debt.

   The auction mention above, the tender or pledgor agrees to exempt the Bank's obligations from giving a notice on the auction mentioned previously in case of emergency. The auction mentioned above is a right of the Bank, not an obligation.

Chapter 8: Security Provision Certificate and Mortgage Registering Contracts

The Contractor, to secure itself or any third party's existing (including occurred in the past but not paying off) and future loans with the Bank, hereby provides the following security to the Bank and agrees to comply with the following clauses:

Article 1 Scope of Secured Debts

The range of the security secured includes existing and future loans, documents, warranty, authorized warranty, overdraft, discount, authorized acceptance, payment in advance, commissioned issuing letter of credit, negotiation of drafts, credit card payment (including lending and cash pre-lending) and all other related debts, including interests, delay interests, penalties, damages, and all other debts.

Article 2 Methods of Debts Payment

The Contractor shall pay off the debts according to the originally agreed deadline, amount, and the interest rate.

Article 3 Jointly and Severally Debts

The Contractor agrees that, in making loans from the Bank by jointly signing and issuing receipts and invoice, the funds are deemed to have been appropriated to the Contractor even if the Bank simply appropriates the fund to the other debtor who jointly signs and issues the receipts and invoice. The Contractor shall recognize it as a part of debts and be held jointly liable for the debts.

Article 4 Acceleration Clauses

For all debts owed by the Contractor to the Bank, the Bank may terminate or decrease the amount of payment for credit or shorten the credit period or regard the principle and interest as due under any of the following circumstances:

1. The Contractor fails to pay any debt or principal as agreed.
2. The Contractor applies for amicable settlement, declaration of bankruptcy, reorganization, or is declared to be a dishonored account by the clearinghouse, closed down or liquidated.
3. The Contractor is obliged to provide security as agreed but fails to do so.
4. The Contractor's heir declares as limited succession or waives inheritance after the Contractor's death.
5. The Contractor's main property is declared to be confiscated due to criminal liability.
6. The Contractor fails to pay interests for any debt as agreed
7. The security is attached or lost, devaluated or insufficient to pay off the debts.
8. The actual use of the loan owed by the Contractor to the Bank is not consistent with the purpose approved by the Bank.
9. The Contractor is subject to compulsory execution, provisional detention, provisional disposition, or other injunctions, which leads to the danger that the debts of the Bank may not be paid.
10. Except stipulated above, all other matters stipulated in the agreements and expressly states that the acceleration deadline will be triggered for the Bank to secure its creditor's right (whether notice is given or not).

Any substantial agreed provision described in Paragraphs 1-5 and Paragraph 10 shall be exempted from any prior notice or request of the Bank.

Article 5 Defect Warrant

The Contractor solemnly declares that the security it provides is legally owned by the Contractor, to which no other party owns any right; in case of any dispute, the Contractor shall be held solely liable and the Bank shall not be involved.

The Contractor warrants that the movable property the Contractor provides for security and its storage location are consistent with the security list. If the Contractor provides a bill of lading or a warehouse bill or other property security as security, the Contractor warrants the name, type, quality, specification or other conditions expressed on the security is consistent with the literal meaning on the security. If the security is a bill of lading or a warehouse bill, and if inconsistency, shortage or any other fraud is found later in the quality or quantity recorded on the documents, no matter the goods are stored in Bank's warehouse or in other warehouse, the Contractor shall change or supplement security to be consistent with the items recorded on the documents or shall pay off the debts except it can be proved that such inconsistency, shortage or fraud is attributable to the Bank's willful or gross negligence.

Article 6 Movable Property Store Up and Custody

If the security is movable property, the Bank has the right to decide its storage location and method of custody and conduct inspection at any time. If the storage site and methods of custody of the Contractor are improper, the Bank may notify the Contractor to move them away or make improvements within a given time, and the Contractor agrees to follow the instruction immediately. When the Bank possesses the security according to the laws, it is not liable for mistake of moving or any losses incurred from non-moving unless they can be attributed to the Bank.

Article 7 Pledgee's Custody Liability

The Bank does not take any liability except arising from the willful act or gross negligence of the Bank in custody of the security. In case of anything that can be attributed to the Bank, it shall be liable only when its obligation of due diligence is limited to willful acts or gross negligence.

Article 8 Limited Disposal of Security and Obligations of Use, Custody and Attention

The Contractor shall not transfer, mortgage, pledge, lease, pawn, move, or dispose the security in any other manner without written consent of the Bank before the debts are paid off.

The security can be changed, amended, added or abandoned only with written consents of the Bank. Should need arises to change the registration, the Contractor shall go through all procedures of application for registration change at its own costs immediately.

The Contractor shall make proper use and take care of the security cautiously as a good custodian and never neglect the necessary maintenance actions such as repairing. All taxes and costs such as repairing fees shall be borne by the Contractor.

Article 9 Security changing and supplement providing

In the event that the security provided by the Contractor is damaged, lost, deteriorates, suffers decreases in value or is in danger of any situations motioned above for reasons not attributable to the Bank, the Contractor is willing to change, supplement or add any other security agreed to by the Bank or pay off all debts.

Article 10 various procedures and insurance

The Contractor would like to store in warehouse, pay taxes for, pay penalties for, insure (including renewal insurance and additional insurance), hand over, manage, and move the security or go through any other procedures as required by laws or agreements and make payments for all costs and taxes.

If the security can be covered by the insurance, the Contractor will take the Bank as the prior beneficiary and demand the insurance company to specify the pledge clause in the policy to cover fire insurance or other insurance the Bank requires at the party's own cost. If the Bank considers it necessary, it can cover insurance by itself or extend the fire insurance or other insurance, the Contractor shall pay the principals and interests of the premium paid in advance. Otherwise, the Bank may incorporate the principals and interests of the premium paid in advance into the secured debts range in first sequence of payment. However, the Bank has no obligation to cover insurance or renew the insurance in the Contractor's stead.

If the security is lost and the insurance company rejects or delay the payment for whatever reason, or the payment is not enough, the Contractor would like to pay off all the debts or provide another security recognized by the Bank.

Article 11 Note Receivables

Debtor or the Contractor provides note receivables to transfer the note to Bank by endorsement to pay off the debts or for security; the Contractor agrees to comply with the following provisions:

1. For the convenience of processing the account, the Bank may directly offset all debts owed by the debtor or the Contractor when the cashed notes are recorded into the account and accumulate up to certain amount. In case of any insufficiency, the Contractor shall be still liable for repayment of the debts.
2. After the above note receivables are cashed by the Bank when due and recorded into the account, if the Bank agrees that the debtor or the Contractor delivers the Bank another note receivable equal to or more than the amount that has been cashed in the manner set forth, the Bank may transfer the above cashed amount into the debtor or the Contractor's account in the Bank or other banks with the Contractor still being liable for repayment of debts owed to the bank according to the documents or mature bill it issued and signed.
3. If the above note receivables fail to be cashed, the Contractor or debtors fails to handle upon notice or cannot be contacted, the Bank may settle with the note debtor at any amount lower than the amount on the notes depending on the economic situation of the debtors.

Article 12 Notice to change the security and collection of the interests and compensation

In case of any changes to the security provided by the Contractor for example, damages, loss, devaluation or interest, or levy or other reasons where a third party is required to make compensation, the Contractor shall immediately notice the Bank, although under no obligation to collect, may collect on its own discretion to offset the Contractor's or the main debtor's debts. The Contractor may not obtain any compensation before the Bank consents. If the Contractor neglects to make the above notice and cause any damage to the Bank, the Contractor shall be liable for it.

Article 13 Return or Change of Security and Certificate

If anyone who holds the security receipts or keeps certificate issued by the Bank to the Contractor or deposit book or any receiving documents signed by the Contractor or the Contractor's seals comes to the Bank and requests to return or change the security or any rights certificate or any other documents, such a person shall be considered as the Contractor's agent and the bank may change or return as requested.

Article 14 Partly paying off

In the event that the Contractor pays off part of the debts and requests the Bank to return the security pro rata, the Contractor shall obtains the Banks consent. The Contractor shall pay the fees if the registration change is required.

Article 15 Performance sites

The items stipulated on this agreement will be performed in the Bank's business location.

Article 16 Governing law and the Jurisdiction

If the Contractor is a foreign individual or a legal entity and enters into various debt relations with the Bank, the elements, methods and effectiveness of its legal behaviors shall be governed by ROC laws.

The Contractor hereby agrees to submit to exclusive jurisdiction of the court where the Bank's head office or it branches is located or Taipei District Court for the first instance with respect to any proceeding arising from failure to perform this Agreement.

Article 17 Governing of Matters not Contained in This Agreement

Any matter not contained in this Agreement shall be governed by the Bank's general credit agreement or credit agreement.

Chapter 9: Clauses of Use of Information by Chinatrust Financial Holding Co., Ltd. and its Subsidiaries.

Article 1 The Contractor agrees that for the common promotion purpose the Bank may provide the Contractor's information (including, but not limited to, basic, account, credit, investment, insurance information,) to the financial holding company of the Bank and the subsidiaries controlled by the financial holding company in accordance with the Financial Holding Company Law for disclosure, transfer, or cross use.

Article 2 The contents and scope of the information provided in the preceding paragraph are as follows:

1. Basic Information: including the name, birth date, ID number, telephone and address, etc.
2. Account Information: including the account number or number with similar functions, credit card number, deposit account number, transaction account number, deposits/loans, and other transactions details and financial status, etc.
3. Credit Information: including records of dishonored notes, cancellation record, transaction refusals and business operation status, etc.
4. Investment Information: including the target of investment or disposal, the amount, time, etc.
5. Insurance Information: Including information related to insurance type, time limit, amount, premium, payment method, settlement status, insurance rejection records, etc.

Article 3 The Contractor acknowledges and agrees that, within the operation scope or to the extent permitted by the applicable laws, the Bank, the financial holding company of the Bank and the subsidiaries controlled by the financial holding company in accordance with the Financial Holding Company Law may collect, process by computer, transmit internationally, or use (including administrative research, promotion, sending consumption information, etc.) the Contractor's personal information.

Article 4 The Contractor further agrees that the Bank, the financial holding company of the Bank and the subsidiaries controlled by teh financial holding company in accordance with the Financial Holding Company Law may authorize a third party to handle transactions and operations under the Agreement; the Contractor also agrees to disclose all information of the Contractor as specified in Paragraph 1 herein to the Bank, the financial holding company of the Bank and the subsidiaries controlled by the financial holding company in accordance with the Financial Holding Company Law, or any third party authorized thereby.

Chapter 10: Penalties for Paying off Ahead of Time

The Contractor hereby promises paying off the debts NT (or foreign currency) _____ from the days of appropriate the payment by installment within _____ years. If the Contractor wants to pay off all or part of the loan ahead of the deadline, it shall notify the Bank two months in advance in writing and pay additional ___% of the loan principal or partly payment to Bank.

Chapter 11: Receipts

Article 1 The Contractor has received a photocopy of each of the following important documents to be signed for the purpose of transactions between the Contractor and the Bank (tick where appropriate):

1. ☑ Credit Seal Card
2. ☑Promissory Note
3. ☑ Bank Line of Credit Agreement and General Agreement
4. ☑Specific Clause Agreement
5. ☐ Bank Line of Credit Agreement and Supplement Agreement
6. ☐ Credit Drawdown Confirmation Letter
7. ☑ Financial Transaction Agreement
8. ☑ Credit Line and Promissory Note Confirmation Letter
9. ☐
10. ☐
11. ☐
12. ☐
13. ☐
14. ☐
15. ☐
16. ☐

Article 2 The Contractor shall comply with general clauses herein as well as other financial agreements and receipts signed by the Contractor or related persons (such as joint guarantor) for the need of separate credit lines. The Contractor has no objections even if it does not obtain the copies of those agreements and receipts. The Contractor’s agreement is evidenced by the Agreement.

Chapter 12: Other Specific Clauses

To: Chinatrust Commercial Bank Co., Ltd.

Contractor: Silicon Motion Inc. November 25, 2004
/s/ James Chow

Agrees to the terms and conditions described in Chapter 3, Chapter 9 and Chapter 11

Contractor:

_____

Contractor:

_____

Contractor:

_____

Contractor:

_____

Contractor:

_____

Supervised by /s/ Undertaken by /s/ Yu-yen Chang Guaranteed by /s/

Note: The legal representative shall sign in the field of “the contractor’s signature” if the contractor is a minor.

November 25, 2004

ACQUISITION AGREEMENT

BY AND AMONG

FEIYA TECHNOLOGY CORPORATION,

ALPINE ASSOCIATES LIMITED,

CRANE TECHNOLOGY, INC.,

SILICON MOTION, INC.,

CRANE ACQUISITION CORPORATION,

AND WITH RESPECT TO ARTICLES I, II, X AND XII ONLY,

MICHAEL LIN,

AS CRANE REPRESENTATIVE,

AND WITH RESPECT TO ARTICLES I, X AND XII ONLY,

TAIPEI COMMERCIAL LAW FIRM

AS ESCROW AGENT

Dated as of June 10, 2002

THIS ACQUISITION AGREEMENT (the "Agreement") is made and entered into as of June 10, 2002, by and among Feiya Technology Corporation, a company limited by shares established in the Republic of China, Taiwan ("Feiya"), Alpine Associate Limited, a company established in the British Virgin Islands ("Alpine"), Crane Technology, Inc., a Delaware corporation ("Crane"), Silicon Motion, Inc., a California corporation ("SMI"), Crane Acquisition Corporation, a California corporation ("Sub") and a wholly-owned subsidiary of Crane, Taipei Commercial Law Firm, as escrow agent (the "Escrow Agent") (the Escrow Agent being party with respect to ARTICLE I, ARTICLE II, ARTICLE X, and ARTICLE XII hereof only), and Michael Lin as Crane Representative (the "Crane Representative") (the Crane Representative being party with respect to ARTICLE I, ARTICLE X, and ARTICLE XII hereof only). Capitalized terms shall have the meanings set forth in ARTICLE I hereof.

RECITALS

A. Feiya is a designer and manufacturer of flash memory controllers and flash memory related products.

B. SMI is a developer of silicon products and supplies various markets and manufacturers with portable low power chips that provide high quality and scaleable solutions for its customers.

C. The Boards of Directors of each of Feiya, Crane, SMI, and Sub believe it is in the best interests of each company and its respective shareholders that Feiya acquire SMI (the "Acquisition").

D. In order to facilitate the Acquisition, and prior to the Initial Stock Purchase, Oxhill Developments Limited, a company established in the British Virgin Islands (the "Lender"), shall advance funds (the "Loan") in an aggregate amount of US$20,600,000 (the "Loan Amount") to Crane pursuant to the terms of that promissory note to be entered into prior to the Initial Stock Purchase substantially in the form attached hereto as Exhibit A (the "Promissory Note").

E. At the request of SMI and Feiya, Crane has been established to facilitate the Acquisition and become a holding company for SMI.

F. At the request of SMI and Feiya, Alpine will sell certain Feiya Common Stock to Crane to facilitate the Acquisition through Crane and Alpine.

G. In order to facilitate the Acquisition, and prior to the consummation of the Final Stock Purchase, Sub shall merge with and into SMI (the "Merger"). In the Merger, the separate corporate existence of Sub shall cease, and SMI shall continue as the surviving corporation and become a wholly-owned subsidiary of Crane. The shareholders of SMI in the Merger shall receive cash or shares of Crane and become the holders of all of the outstanding shares of Crane.

H. Pursuant to the terms of the Merger, among other things, (i) all of the issued and outstanding shares of SMI Preferred Stock shall be converted into the right to receive shares of Crane Common Stock, (ii) all of the issued and outstanding shares of SMI Common Stock and any SMI Common Stock that would be issued upon the exercise of SMI Options during the 15 days after the Effective Date, shall be converted into the right to receive US$0.001 per share, and (iii) all issued and outstanding options, and other rights to purchase SMI Capital Stock excluding warrants, if any, shall be cancelled or extinguished, each as further described in the ARTICLE II below.

I. Prior to the Merger, Crane shall purchase from Feiya and Alpine shares (the "Acquisition Consideration") of Feiya Common Stock (the "Initial Stock Purchase").

J. Subsequent to the Merger, Feiya shall purchase from Crane all of the outstanding shares of SMI capital stock, held by Crane after the Merger (the "Final Stock Purchase", and together with the Initial Stock Purchase, the "Stock Purchases").

K. Upon consummation of the Final Stock Purchase, Crane shall pay Lender the aggregate principal amount of the Promissory Note plus interest and any other amounts accruing under the Promissory Note, using proceeds received by Crane pursuant to the Final Stock Purchase.

L. After consummation of the Final Stock Purchase, Crane will distribute (subject to the Escrow) to its stockholders all of the shares of Feiya Common Stock it received in the Initial Stock Purchase (the "Distribution").

M. The Boards of Directors of Crane, SMI and Sub each have approved the Merger and this Agreement, and the Boards of Directors of Feiya, Alpine, and Crane each have approved the Stock Purchases and this Agreement.

N. Feiya, Crane, Alpine, and SMI desire to make certain representations, warranties, covenants and other agreements in connection with the Acquisition.

O. A portion of the shares of Feiya Common Stock purchased by Crane shall be held in escrow for purposes of satisfying damages, losses, expenses and other similar charges which may result from breaches of representations, warranties and covenants made by SMI in this Agreement. Such shares not used to satisfy such claims will be distributed promptly to the Crane Stockholders after release from the Escrow.

P. Promptly after the execution and delivery of this Agreement, as a material inducement to Feiya to enter into this Agreement, certain key employees of SMI identified on Exhibit B-1 (the "Key Employees") hereto are entering into Non-Competition Agreements, each in the form attached hereto as Exhibit B-2 (the "Non-Competition Agreements").

NOW, THEREFORE, in consideration of the mutual agreements, covenants and other promises set forth herein, the mutual benefits to be gained by the performance thereof, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged and accepted, the parties hereby agree as follows:

ARTICLE I
DEFINITIONS

For all purposes of this Agreement, the following terms shall have the following respective meanings:

"1996 Plan" shall have the meaning set forth in Section 3.2(f).

"1999 Plan" shall have the meaning set forth in Section 3.2(f).

"Acquisition" shall have the meaning set forth in Recital C.

"Acquisition Consideration" shall have the meaning set forth in Recital I.

"Affiliate" shall have the meaning set forth in Section 3.22(a).

"Agreement" shall have the meaning set forth in the introductory paragraph.

"Agreement of Merger" shall mean the Agreement of Merger relating to the Merger, in the form to be agreed upon by the parties and attached hereto as Exhibit C.

"Alpine" shall have the meaning set forth in the introductory paragraph.

"Alpine Consideration" shall have the meaning set forth in Section 2.1(a).

"Alpine Shares" shall have the meaning set forth in Section 2.1(a).

"Appraisal" shall have the meaning set forth in Section 2.2(f)(ii)(1).

"Basket Amount" shall have the meaning set forth in Section 10.2(c).

"California Code" shall mean the meaning set forth in Section 2.2(a)(i).

"Certificate" shall mean the meaning set forth in Section 2.2(c)(i).

"Closing Dates" shall mean the Initial Closing Date and the Final Closing Date.

"Closings" shall mean the Initial Closing, Second Closing, and the Final Closing.

"COBRA" shall have the meaning set forth in Section 3.22(a).

"Conflict" shall have the meaning set forth in Section 3.5.

"Contract" or "Contracts" shall have the meaning set forth in Section 3.5.

"Crane" shall have the meaning set forth in the introductory paragraph.

"Crane Common Stock" shall mean the Common Stock, par value US$0.0001 per share, of Crane.

"Crane Incorporator" shall have the meaning set forth in Section 5.1.

"Crane SMI Shares" shall have the meaning set forth in Section 2.3.

"Crane Representative" shall have the meaning set forth in the introductory paragraph.

"Crane Stockholders" shall mean the stockholders of Crane immediately after the Merger.

"Current Balance Sheet" shall have the meaning set forth in Section 3.7.

"Disclosure Schedule" shall have the meaning set forth in ARTICLE III.

"Dissenting Shares" shall mean any shares of SMI Capital Stock held by a SMI Shareholder who, in connection with the Merger, has exercised and perfected appraisal rights for such shares in accordance with Section 1300 et seq. of the California Corporations Code and who has not effectively withdrawn or lost such appraisal rights.

"Distribution" shall have the meaning set forth in Recital L.

"DOL" shall have the meaning set forth in Section 3.22(a).

"Effective Time" shall have the meaning set forth in Section 2.2(a)(ii).

"Environmental Permits" shall have the meaning set forth in Section 3.20(c).

"Employee" shall have the meaning set forth in Section 3.22(a).

"Employee Agreement" shall have the meaning set forth in Section 3.22(a).

"Equipment" shall have the meaning set forth in Section 3.12(c).

"ERISA" shall have the meaning set forth in Section 3.22(a).

"Escrow Agent" shall have the meaning set forth in the introductory paragraph.

"Escrow Fund" shall have the meaning set forth in Section 10.2(b).

"Escrow Period" shall have the meaning set forth in Section 10.2(d).

"Escrow Shares" shall have the meaning set forth in Section 2.4(b)(iii).

"Excess Dissenting Share Payments" shall have the meaning set forth in Section 2.2(f)(ii)(2).

"Exchange Agent" shall have the meaning set forth in Section 2.2(c)(ii).

"Existing Agreements" shall have the meaning set forth in Section 9.2(a)(vii).

"Feiya" shall have the meaning set forth in the introductory paragraph.

"Feiya Common Stock" shall mean the Common Stock, par value NT$10 per share, of Feiya.

"Feiya Designee" shall have the meaning set forth in Section 10.2(f)(i).

"Feiya Financial Statements" shall have the meaning set forth in Section 4.7.

"Feiya Material Adverse Effect" shall mean any change, event or effect that is materially adverse to the business, assets (including intangible assets), financial condition, results of operations or capitalization of Feiya and its subsidiaries, taken as a whole.

"Feiya Purchased Shares" shall have the meaning set forth in Section 2.1(a).

"Feiya Shares" shall have the meaning set forth in Section 2.1(a).

"Feiya Shares Consideration" shall have the meaning set forth in Section 2.1(a).

"FICA" shall have the meaning set forth in Section 3.10(b)(ii).

"Final Closing" shall have the meaning set forth in Section 2.4(e).

"Final Closing Date" shall have the meaning set forth in Section 2.4(e).

"Final Stock Purchase" shall have the meaning set forth in Recital J.

"Financials" shall have the meaning set forth in Section 3.7.

"FIRPTA Compliance Certificate" shall have the meaning set forth in Section 8.7.

"FMLA" shall have the meaning set forth in Section 3.22(a).

"FUTA" shall have the meaning set forth in Section 3.10(b)(ii).

"GAAP" shall mean United States generally accepted accounting principles consistently applied.

"Governmental Entity" shall have the meaning set forth in Section 3.6.

"Hazardous Material" shall have the meaning set forth in Section 3.20(a).

"Hazardous Materials Activities" shall have the meaning set forth in Section 3.20(b).

"Immediate Family Member" shall mean a Shareholder's spouse, mother, father, sister, brother, child (including by adoption), grandfather, grandmother, and grandchild.

"Indemnified Party" or "Indemnified Parties" shall have the meaning set forth in Section 10.2(a).

"Information Statement" shall have the meaning set forth in Section 8.1(b).

"Initial Closing" shall have the meaning set forth in Section 2.4(a).

"Initial Closing Date" shall have the meaning set forth in Section 2.4(a).

"Initial Stock Purchase" shall have the meaning set forth in Recital I.

"Intellectual Property" shall have the meaning set forth in Section 3.13(a).

"Intellectual Property Rights" shall have the meaning set forth in Section 3.13(a).

"Interim Financials" shall have the meaning set forth in Section 3.7.

"International Employee Plan" shall have the meaning set forth in Section 3.22(a).

"Investment Commission" shall have the meaning set forth in Section 2.4(b)(i).

"IRS" shall have the meaning set forth in Section 3.22(a).

"Key Employee(s)" shall have the meaning set forth in Recital P.

"Knowledge" shall mean (i) as to SMI, the knowledge of SMI's chief executive officer, chief financial officer, chief operating officer or vice president of engineering, assuming that such persons shall have made reasonable inquiry of those employees of SMI whom such persons reasonably believe would have actual knowledge of the matters represented, (ii) as to Crane, the knowledge of Crane's chief executive officer or president, assuming that such persons shall have made reasonable inquiry of those employees of Crane whom such persons reasonably believe would have actual knowledge of the matters represented, and (iii) as to Feiya, the knowledge of Feiya's chief executive officer, chief financial officer, chief operating officer or vice president of engineering, assuming that such persons shall have made reasonable inquiry of those employees of Feiya whom such persons reasonably believe would have actual knowledge of the matters represented

"Lender" shall have the meaning set forth in Recital D.

"Liability" shall have the meaning set forth in Section 3.8.

"Liens" shall have the meaning set forth in Section 3.10(b)(vi).

"Loan" shall have the meaning set forth in Recital D.

"Loan Amount" shall have the meaning set forth in Recital D.

"Loss" or "Losses" shall have the meaning set forth in Section 10.2(a).

"Maximum Limit" shall have the meaning set forth in Section 10.5.

"Memorandum of Understanding" shall mean the Memorandum of Understanding by and among Feiya and SMI dated as of January 3, 2002.

"Merger" shall have the meaning set forth in Recital G.

"Merger Consideration" shall have the meaning set forth in Section 2.2(c)(i).

"Merger Ratios" shall have the meaning set forth in Section 2.2(b)(ii).

"MSOC" shall have the meaning set forth in Section 8.20.

"New Shares" shall have the meaning set forth in Section 10.2(e)(ii).

"Non-Competition Agreements" shall have the meaning set forth in Recital P.

"Officer's Certificate" shall have the meaning set forth in Section 10.2(f)(i).

"PBGC" shall have the meaning set forth in Section 3.22(a).

"Pension Plan" shall have the meaning set forth in Section 3.22(a).

"Power of Attorney" shall have the meaning set forth in Section 2.4(b)(iv)(1).

"Promissory Note" shall have the meaning set forth in Recital D.

"PTO" shall have the meaning set forth in Section 3.13(b).

"Registered Intellectual Property Rights" shall have the meaning set forth in Section 3.13(a).

"Returns" shall have the meaning set forth in Section 3.10(b)(i).

"Second Closing" shall have the meaning set forth in Section 2.4(c).

"Second Closing Date" shall have the meaning set forth in Section 2.4(c).

"Secretary of State" shall have the meaning set forth in Section 2.2(a)(ii).

"Securities Act" shall mean the U.S. Securities Act of 1933, as amended.

"Series A Preferred" shall have the meaning set forth in Section 3.2(a).

"Series B Preferred" shall have the meaning set forth in Section 3.2(a).

"Series C Preferred" shall have the meaning set forth in Section 3.2(a).

"Series D-1 Preferred" shall have the meaning set forth in Section 3.2(a).

"Series D-2 Preferred" shall have the meaning set forth in Section 3.2(a).

"Series E Preferred" shall have the meaning set forth in Section 3.2(a).

"Shareholders' Certificate" shall have the meaning set forth in Section 8.1(a).

"Significant Shareholder" shall have the meaning set forth in Section 3.15.

"SMI" shall have the meaning set forth in the introductory paragraph.

"SMI Authorizations" shall have the meaning set forth in Section 3.16.

"SMI Capital Stock" shall mean SMI Common Stock and SMI Preferred Stock, SMI Options, and SMI Warrants, collectively.

"SMI Common Stock" shall mean the Common Stock, no par value, of SMI.

"SMI Employee Plan" shall have the meaning set forth in Section 3.22(a).

"SMI Intellectual Property" shall have the meaning set forth in Section 3.13(a).

"SMI Material Adverse Effect" shall mean any change, event or effect that is materially adverse to the business, assets (including intangible assets), financial condition, results of operations or capitalization of SMI and its Subsidiaries, taken as a whole.

"SMI Options" shall mean all issued and outstanding options or other rights (including commitments to grant options or other rights, but excluding warrants) to purchase or otherwise acquire SMI Common Stock or SMI Preferred Stock (whether or not vested) held by any person or entity including any options or other rights issued under the 1996 Plan or 1999 Plan.

"SMI Preferred Shareholder" shall mean holder of SMI Preferred Stock.

"SMI Preferred Stock" shall mean the Series A Preferred, Series B Preferred, Series C Preferred, Series D-l Preferred, Series D-2 Preferred, and Series E Preferred, each of which has no par value, of SMI.

"SMI Registered Intellectual Property" shall have the meaning set forth in Section 3.13(j).

"SMI Shareholder" shall mean each holder of any SMI Capital Stock immediately prior to the Effective Time.

"SMI Shareholder Chop" or "SMI Shareholder Chops" shall have the meaning set forth in Section 2.4(b)(iii).

"SMI Warrants" shall mean all issued and outstanding rights to purchase or otherwise acquire SMI Preferred Stock immediately prior to the Effective Time other than SMI Options.

"Statute" shall have the meaning set forth in Section 2.4(b)(i).

"Stock Purchases" shall have the meaning set forth in Recital J.

"Sub" shall have the meaning set forth in introductory paragraph.

"Subsidiary" shall have the meaning set forth in Section 3.3.

"Surviving Corporation" shall have the meaning set forth in Section 2.2(a)(i).

"Tax" or "Taxes" shall have the meaning set forth in Section 3.10(a).

"Termination Date" shall have the meaning set forth in Section 10.1.

"Total Consideration" shall mean US$20,600,000.

"Year End Financials" shall have the meaning set forth in Section 3.7.

ARTICLE II
THE ACQUISITION

2.1 Initial Stock Purchase.

(a) Crane to Purchase Feiya Common Stock. At the Initial Closing and subject to and upon the terms and subject to the conditions of this Agreement, Feiya shall sell to Crane, and Crane shall purchase from Feiya 22,020,571 shares of newly issued Feiya Common Stock (the "Feiya Shares") at a price per share of NT$15.80 (the "Feiya Shares Consideration"). At the Initial Closing and subject to and upon the terms and subject to the conditions of this Agreement, Alpine shall sell, convey, transfer, assign and deliver to Crane, free and clear of all Liens, and Crane shall purchase from Alpine 3,400,000 shares of Feiya Common Stock owned beneficially and of record by Alpine (the "Alpine Shares" and together with the Feiya Shares, the "Feiya Purchased Shares") at a price per share of NT$102.35 (the "Alpine Consideration"). The consummation of the purchase of the Feiya Shares and Alpine Shares are conditioned on each other and should be deemed to occur simultaneously.

(b) Crane to Provide Feiya Common Stock; Escrow Fund. At the Initial Closing, Crane shall deposit the Escrow Shares into the Escrow Fund pursuant to Section 10.2(b).

2.2 The Merger.

(a) The Merger

(i) At the Effective Time (as defined in Section 2.2(a)(ii), Sub shall be merged with and into SMI, in accordance with the California Corporations Code (the "California Code") whereupon the separate existence of Sub shall cease, and SMI shall be the surviving corporation (the "Surviving Corporation").

(ii) At the Second Closing, and subject to and upon the terms and conditions of this Agreement, SMI and Sub will file the Agreement of Merger with the Secretary of State of the State of California (the "Secretary of State") and make all other filings or recordings required by the California Code in connection with the Merger. The Merger shall become effective on the date the Agreement of Merger are duly filed with the Secretary of State or at such later time and date as is agreed by each of the parties hereto and is specified in the Agreement of Merger (the "Effective Time").

(iii) From and after the Effective Time, the Surviving Corporation shall possess all the rights, privileges, powers and franchises and be subject to all of the restrictions, disabilities, liabilities and duties of Sub, all as provided in the California Code.

(b) Conversion of Shares. At the Effective Time, upon the terms and subject to the conditions set forth in this Agreement, by virtue of the Merger and without any action on the part of Sub or SMI:

(i) Each share of Common Stock of Sub outstanding immediately prior to the Effective Time shall be converted into and become one (1) share of SMI Common Stock, with the same rights, powers and privileges as SMI Common Stock. Crane shall be the record and beneficial owner of all the outstanding capital stock of the Surviving Corporation after the Merger.

(ii) Each share of SMI Preferred Stock issued and outstanding immediately prior to the Effective Time, other than Dissenting Shares, shall be converted into the number of shares of Crane Common Stock in the Merger, in the amounts indicated on Exhibit D hereto based on each share of Series A Preferred, Series B Preferred, Series C Preferred, Series D-1 Preferred and Series D-2 Preferred entitling the holder thereof to receive 1.2 shares of Crane Common Stock and each share of Series E Preferred entitling the holder thereof to receive 1.4 shares of Crane Common Stock (collectively, the "Merger Ratios"). No fractional shares shall be issued, but in lieu thereof, each holder of shares of SMI Preferred Stock who would otherwise be entitled to a fraction of a share of Crane Common Stock (after aggregating all fractional shares of Crane Common Stock to be received by such holder) shall be entitled to receive one share of Crane Common Stock.

(iii) All SMI Common Stock issued and outstanding immediately prior to the Effective Time and any SMI Common Stock that would be issued upon the exercise of SMI Options during the 15 days after the Effective Date, other than Dissenting Shares, shall entitle the holder thereof to receive payment in cash equal to US$0.001 per share, which amount shall be rounded up to the nearest $0.01 after aggregating all cash amounts to be paid to each holder. Upon payment on shares of SMI Common Stock, such shares will be deemed cancelled in the Merger. Exhibit E contains a list of each holder of SMI Common Stock immediately prior to the Effective Time and the amount of cash such holder shall be entitled to upon surrender of such holder's Certificates after the Merger.

(iv) All of the outstanding options issued under SMI's 1996 Stock Plan shall terminate in accordance with the terms of the 1996 Stock Plan at the Second Closing.

(v) All of the outstanding options issued under SMI's 1999 Stock Plan will fully vest. Upon vesting, these options will be exercisable for 15 days after the Effective Date. Any options not exercised during such 15 days will expire in accordance with the terms of the 1999 Stock Plan after to the Effective Time.

(vi) All of the outstanding SMI Warrants for SMI Preferred Stock shall, upon exercise, entitle the holder of the SMI Warrant to the right to receive a warrant exercisable for the number of shares of Crane Common Stock that the warrant holder would have received if it had exercised its SMI Warrant just prior to the Effective Time (with a corresponding proportional adjustment in the exercise price thereof based on the Merger Ratios). Such warrants will entitle the respective holder thereof, upon payment to exercise the warrant, to receive that number of shares of Crane Common Stock that such warrant holder would have been entitled to receive in the Acquisition if the SMI Warrant had been exercised prior to the Acquisition.

(c) Surrender of Certificates: Payment of Merger Consideration

(i) Surrender of Certificates. At the Effective Time, SMI Shareholders, other than holders of Dissenting Shares, will surrender the certificates representing their shares of SMI Capital Stock (each, a "Certificate") to the Exchange Agent for cancellation. Upon surrender of each Certificate for cancellation and exchange to the Exchange Agent, subject to the terms Section 2.2(c)(vi) hereof, the holder of such Certificate shall be entitled to receive (i) in the case of SMI Preferred Stock, each holder of SMI Preferred Stock shall receive a certificate representing such number of shares of Crane Common Stock into which SMI Preferred Stock formerly held by such SMI Shareholder shall have been converted in the Merger in accordance with Section 2.2(b)(ii) hereof, and (ii) in the case of SMI Common Stock, each holder of SMI Common Stock shall receive the amount of cash specified in Section 2.2(b)(iii) (collectively with the consideration to be paid to holders of SMI Preferred Stock set forth in Section 2.2(b), the "Merger Consideration").

(ii) Law Offices of Henry G. Chow shall be designated as exchange agent (the "Exchange Agent") in connection with the Merger to distribute the Merger Consideration which the SMI Shareholders shall be entitled to receive pursuant to Section 2.2(b) hereof.

(iii) Crane to Provide Crane Common Stock. At the Effective Time, Crane shall make available to the Exchange Agent for exchange in accordance with this Article 2 shares of Crane Common Stock issuable pursuant to Section 2.2(b) in exchange for outstanding shares of SMI Preferred Stock.

(iv) Exchange Procedures. Following the Effective Time, the SMI Shareholders will surrender the Certificates to the Exchange Agent for cancellation together with a letter of transmittal in such form and having such provisions that Crane may reasonably request. Upon surrender of a Certificate for cancellation to the Exchange Agent, or such other agent or agents as may be appointed by Crane, together with such letter of transmittal, duly completed and validly executed in accordance with the instructions thereto, subject to the terms of Section 2.2(c)(vi) hereof, the holder of such Certificate shall be entitled to receive from the Exchange Agent in exchange therefor, (i) in the case of SMI Preferred Stock, a certificate representing the number of whole shares of Crane Common Stock to which such holder is entitled pursuant to Section 2.2(b)(ii), and (ii) in the case of SMI Common Stock, the shareholders shall be entitled to receive the amount of cash specified in Section 2.2(b)(iii).

(v) Distributions With Respect to Unexchanged Shares. No dividends or other distributions declared or made after the Effective Time with respect to Crane Common Stock with a record date after the Effective Time will be paid to the holder of any unsurrendered Certificate with respect to the shares of Crane Common Stock represented thereby until the holder of record of such Certificate shall surrender such Certificate. Subject to applicable law and Section 2.2(c)(iv) above, following surrender of any such Certificate, there shall be paid to the record holder of the certificates representing whole shares of Crane Common Stock issued in exchange therefor, without interest, at the time of such surrender, the amount of dividends or other distributions with a record date after the Effective Time, theretofore paid with respect to such whole shares of Crane Common Stock.

(vi) Transfers of Ownership. If any certificate for shares of Crane Common Stock is to be issued in a name other than that in which the certificate surrendered in exchange therefor is registered, it will be a condition of the issuance thereof that the certificate so surrendered will be properly endorsed and otherwise in proper form for transfer and that the person requesting such exchange will have paid to Crane, or any agent designated by it, any transfer or other taxes required by reason of the registration or issuance of a certificate for shares of Crane Common Stock in any name other than that of the registered holder of the certificate surrendered, or established to the satisfaction of Crane, or any agent designated by it, that such tax has been paid or is not payable.

(vii) No Liability. Notwithstanding anything to the contrary in this Section 2.2, neither the Exchange Agent, the Surviving Corporation nor any party hereto shall be liable to a holder of shares of SMI Capital Stock for any amount properly paid to a public official pursuant to any applicable abandoned property, escheat or similar law.

(viii) Return of Merger Consideration. At any time following the sixth month after the Effective Time, the Exchange Agent shall deliver any undistributed Merger Consideration to Feiya. All certificates representing Merger Consideration returned to the Surviving Corporation by the Exchange Agent after such time may be cancelled and the rights of any SMI Shareholder to such Merger Consideration shall be deemed to be only as a general creditor thereof with respect to any Merger Consideration that may be payable upon surrender of certificates representing SMI Capital Stock.

(d) No Further Ownership Rights in SMI Capital Stock. The cash and shares of Crane Common Stock paid in respect of the surrender for exchange of shares of SMI Capital Stock, including any shares of SMI Common Stock and/or SMI Preferred Stock that would have been issued upon the exercise of outstanding SMI Options, SMI Warrants and SMI Preferred Stock, respectively, in accordance with the terms hereof, shall be deemed to be full satisfaction of all rights pertaining to such shares of SMI Capital Stock, and there shall be no further registration of transfers on the records of the Surviving Corporation of shares of SMI Capital Stock which were outstanding immediately prior to the Effective Time. If, after the Effective Time, Certificates are presented to the Surviving Corporation for any reason, they shall be canceled and exchanged as provided in this Section 2.2.

(e) Lost, Stolen or Destroyed Certificates. In the event any certificates evidencing shares of SMI Capital Stock shall have been lost, stolen or destroyed, the Exchange Agent shall issue in exchange for such lost, stolen or destroyed certificates, upon the making of an affidavit of that fact by the holder thereof, such amount, if any, as may be required pursuant to Section 2.2 hereof; provided, however, that Crane may, in its discretion and as a condition precedent to the issuance thereof, require the SMI Shareholder who is the owner of such lost, stolen or destroyed certificates to deliver a bond in such amount as it may reasonably direct against any claim that may be made against Crane or the Exchange Agent with respect to the certificates alleged to have been lost, stolen or destroyed.

(f) Closing of Transfer Books. At the close of business on the day of the Effective Time, the stock transfer books of SMI shall be closed and thereafter there shall be no further registration of transfers of SMI Capital Stock on the records of SMI. From and after the Effective Time, the holders of SMI Capital Stock outstanding immediately prior to the Effective Time shall cease to have any rights with respect to such SMI Capital Stock except as otherwise provided herein or by applicable law.

(i) From and after the Effective Time, each Certificate which prior to the Effective Time represented SMI Common Stock or SMI Preferred Stock (other than Dissenting Shares, as defined in Section 2.2(f)(ii) below), shall be deemed to represent only the right to receive the Merger Consideration and the holder of each such Certificate shall cease to have any rights with respect to SMI Capital Stock formerly represented thereby other than as provided in this Agreement.

(ii) Dissenting Shareholders.

(1) Notwithstanding any provision of this Agreement to the contrary, each share of SMI Preferred Stock and SMI Common Stock, the holder of which has not voted in favor of the Merger, that has perfected such holder's right to seek relief as a dissenting shareholder in accordance with the applicable provisions of the California Code ("Appraisal") and has not effectively withdrawn or lost such right to Appraisal (a "Dissenting Share"), shall not be converted into or represent a right to receive the consideration specified in this ARTICLE II, but the holder thereof shall be entitled only to such rights as are granted by the applicable provisions of the California Code; provided, however, that any Dissenting Share, held by a person at the Effective Time who shall, after the Effective Time, lose the right of Appraisal pursuant to the California Code, shall be deemed to be converted into, as of the Effective Time, the right to receive the Merger Consideration.

(2) The Surviving Corporation shall give (i) Feiya and Crane prompt notice of any written demand for appraisal received by SMI pursuant to the applicable provisions of the California Code, and (ii) Feiya the opportunity to participate in all negotiations and proceedings with respect to such demands. SMI shall not, except with the prior written consent of Feiya, voluntarily make any payment with respect to any such demands (other than payment of the Merger Consideration payable for such shares of SMI Capital Stock) or offer to settle or settle any such demands. Notwithstanding the foregoing, to the extent that Feiya or SMI (i) makes any payment or payments in respect of any Dissenting Shares in excess of the consideration that otherwise would have been payable in respect of such shares in accordance with this Agreement, (ii) incurs any other costs or expenses in respect of any Dissenting Shares (excluding payments for such shares) (together with (i) in this paragraph, "Excess Dissenting Share Payments"), Feiya shall be entitled to recover under the terms of ARTICLE X hereof the amount of such Excess Dissenting Share Payments without regard to the Basket Amount (as defined in Section 10.2(c)). The Surviving Corporation and SMI shall provide to Feiya (i) prompt notice of any written demands(s) for Appraisal, withdrawal of demands for Appraisal and any other instruments served pursuant to the applicable provisions of the California Code relating to the Appraisal process received by the Surviving Corporation or SMI, and (ii) the opportunity to direct all negotiations and proceedings with respect to demands for Appraisal under the California Code.

(3) To the extent that SMI Capital Stock are Dissenting Shares, upon the request of Feiya, Crane shall deliver to Feiya the Crane Common Stock and cash that such holders of Dissenting Shares would otherwise be entitled to receive, respectively, pursuant to Sections 2.2(b)(ii) and 2.2(b)(iii). Upon the request of Feiya, Crane shall also deliver to Feiya shares of Feiya Common Stock equal to the number of shares of Crane Common Stock delivered to Feiya in accordance with the first sentence of this Section 2.2(f)(ii)(3).

2.3 Final Stock Purchase. At the Final Closing and subject to and upon the terms and subject to the conditions of this Agreement, Feiya shall purchase from Crane, and Crane shall sell, convey, transfer, assign and deliver to Feiya, free and clear of all Liens, all of the outstanding shares of SMI capital stock (the "Crane SMI Shares") for an amount equal to the Total Consideration.

2.4 Closings.

(a) Initial Closing. Unless this Agreement is earlier terminated pursuant to Section 11.1 hereof, the closing of the Initial Stock Purchase (the "Initial Closing") will take place as promptly as practicable following the satisfaction or waiver of the conditions applicable to the Initial Closing set forth in ARTICLE IX hereof, but no later than two (2) business days after the satisfaction or waiver of such conditions, at the offices of Jones, Day, Reavis & Pogue, 2882 Sand Hill Road, Suite 240, Menlo Park, California, unless another time and/or place is mutually agreed upon in writing by Feiya, Crane, and SMI. The date upon which the Initial Closing actually occurs shall be referred to herein as the "Initial Closing Date".

(b) Initial Closing Deliverables. At the Initial Closing,

(i) Crane shall deliver to Feiya the respective formal letters of approval, dated on or before the date of the Initial Closing (and still valid as of the Initial Closing), issued by the Investment Commission of the ROC Ministry of Economic Affairs (the "Investment Commission") pursuant to the ROC Statute for Investment by Foreign Nationals (the "Statute") approving (1) the transfer of Alpine Shares from Alpine to Crane and (2) the issuance of Feiya Shares from Feiya to Crane.

(ii) Crane shall deliver the Feiya Shares Consideration to Feiya.

(iii) Feiya shall deliver evidence showing registration of Crane as the shareholder of such number of Feiya Shares to Crane, provided, however, that 2,542,057 shares of Feiya Common Stock duly endorsed by Crane for transfer purposes (the "Escrow Shares") will be deposited with the Escrow Agent in accordance with Section 10.2(b) and shall automatically be deemed a portion of the Escrow Fund on the Final Closing without any action by Feiya, Crane, or SMI.

(iv) SMI to deliver to Crane:

(1) For SMI Preferred Shareholders who are individuals, (a) a copy of such SMI Preferred Shareholder's passport and (b) a power of attorney based on the form set forth in Exhibit F-1 (the "Power of Attorney") authorizing Mr. William B. Lin of Deloitte & Touche, Taiwan, to take all such action that is necessary to effect the application in accordance with the applicable laws and regulations of the Republic of China for such SMI Preferred Shareholder (the power of attorney shall be notarized by the relevant Republic of China consulate where such SMI Preferred Shareholder is located); and

(2) For SMI Preferred Shareholders who are corporate entities, (a) a copy of such SMI Preferred Shareholder's certificate of incorporation and (b) a power of attorney based on the form set forth in Exhibit F-2 authorizing Mr. William B. Lin of Deloitte & Touche, Taiwan, to take all such action that is necessary to effect the application in accordance with the applicable laws and regulations of the Republic of China for such SMI Preferred Shareholder (both the certificate of incorporation and the power of attorney shall be notarized by the relevant Republic of China consulate where such SMI Preferred Shareholder is located).

(v) SMI to deliver to the Escrow Agent:

(1) For SMI Preferred Shareholders who are individuals, (a) of copy of such SMI Preferred Shareholder's passport and (b) a power of attorney based on the form set forth in Exhibit F-1 authorizing the Escrow Agent to take all such action that is necessary to effect the application in accordance with the applicable laws and regulations of the Republic of China for such SMI Preferred Shareholder (the power of attorney shall be notarized by the relevant Republic of China consulate where the SMI Preferred Shareholder is located); and

(2) For SMI Preferred Shareholders who are corporate entities, (a) a copy of such SMI Preferred Shareholder's certificate of incorporation and (b) a power of attorney based on the form set forth in Exhibit F-2 authorizing the Escrow Agent to take all such action that is necessary to effect the application in accordance with the applicable laws and regulations of the Republic of China for such SMI Preferred Shareholder (the power of attorney shall be notarized by the relevant Republic of China consulate where the SMI Preferred Shareholder is located).

(vi) Crane shall deliver the Alpine Consideration to Alpine.

(vii) Alpine shall deliver shares of Feiya Common Stock, duly endorsed for transfer to Crane, representing the Alpine Shares.

(c) Second Closing. The closing of the Merger (the "Second Closing") will take place no later than one (1) business day after the Initial Closing at the offices of Jones, Day, Reavis & Pogue, 2882 Sand Hill Road, Suite 240, Menlo Park, California, unless another time and/or place is mutually agreed upon in writing by Feiya and SMI. The date upon which the Second Closing actually occurs shall be referred to herein as the "Second Closing Date."

(d) Second Closing Deliverables. At the Second Closing, Crane shall deliver to Feiya a certified copy of the Agreement of Merger filed with the Secretary of State of the State of California evidencing the effectiveness of the Merger.

(e) Final Closing. The closing of Acquisition (the "Final Closing") will take place immediately after the Second Closing, at the offices of Jones, Day, Reavis & Pogue, 2882 Sand Hill Road, Suite 240, Menlo Park, California, unless another time and/or place is mutually agreed upon in writing by Feiya and Crane. The date upon which the Initial Closing actually occurs shall be referred to herein as the "Final Closing Date."

(f) Final Closing Deliverables. At the Final Closing

(i) Crane shall deliver certificates representing the Crane SMI Shares (accompanied by duly endorsed stock powers in blank) to Feiya.

(ii) Feiya shall deliver to Lender on behalf of Crane the Total Consideration.

(iii) Lender shall deliver to Crane evidence of full repayment of the Loan Amount and cancellation of the Promissory Note.

(iv) Feiya shall deliver by wire transfer the fees and expenses of Jones, Day, Reavis & Pogue.

(v) Crane shall deliver by wire transfer the fees and expenses of Milbank, Tweed, Hadley & McCloy, LLP.

(g) Post Final Closing Actions.

(i) After Final Closing, Crane shall make the Distribution in accordance with Section 8.15

2.5 Tax Consequences.

(a) None of the parties to this Agreement make any representations or warranties to other any other party regarding (i) the tax treatment of the Merger or the Stock Purchases, or (ii) any of the tax consequences to any other party. Each party solely relied on their own tax advisors in connection with this Agreement, the Merger, the Stock Purchases and the other transactions contemplated by this Agreement and the Non-Competition Agreements, and have not relied, and are not relying on other parties or their respective legal counsel or tax advisers for any advice or counsel with respect to the tax treatment of the Merger, the Stock Purchases and the other transactions contemplated by this Agreement and the Non-Competition Agreements.

(b) Solely for United Stated Federal Income Tax purposes, the transactions described in this Agreement with respect to the holders of SMI Preferred Stock are intended to be treated as a taxable exchange of SMI Preferred Stock for Feiya Shares.

2.6 Taking of Necessary Action; Further Action. If, any time after the Final Closing Date, any further action is necessary or desirable to carry out the purposes of this Agreement, or to consummate the transactions contemplated by the Stock Purchases and to ensure that SMI retains full right, title and possession to all of its assets, properties, rights, privileges, powers and franchises, Feiya, Alpine, Crane and SMI and their respective officers and directors are fully authorized (in the name of their respective corporations or otherwise, as appropriate) to take, and will take, all such lawful and necessary action.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF SMI

SMI hereby represents and warrants to Feiya, as of the date hereof and as of the Closing Dates as though made on the Closing Dates (except for those representations and warranties which specifically address matters only as of a particular date), subject to such exceptions as are specifically disclosed in writing (with reference to a specific section of this Agreement to which each such exception applies) in a disclosure schedule supplied by SMI to Feiya dated as of the date hereof and certified by a duly authorized officer of SMI (the "Disclosure Schedule"), which disclosure shall provide an exception to, or otherwise qualify or respond to, the representations or warranties of SMI specifically referred to in such disclosure and any other representation or warranty of SMI to the extent that it is reasonably apparent from such disclosure that such disclosure is applicable to such other representation or warranty, as follows:

3.1 Organization of SMI. SMI is a corporation duly organized, validly existing and in good standing under the laws of the State of California. SMI has the corporate power to own its properties and to carry on its business as currently conducted and as SMI currently contemplates to conduct such business. SMI is duly qualified or licensed to do business and is in good standing as a foreign corporation in each jurisdiction in which such qualification or license is required except where failure to be so qualified would not have an SMI Material Adverse Effect. SMI has delivered a true and correct copy of its Articles of Incorporation and Bylaws, each as amended to date and in full force and effect on the date hereof, to Feiya. Schedule 3.1 to this Agreement lists the directors and officers of SMI as of the date of this Agreement. Except as set forth in Schedule 3.1, the operations now being conducted by SMI are not now, and have never been, conducted by SMI under any name other than "Silicon Motion, Inc."

3.2 SMI Capital Structure.

(a) As of the date hereof and immediately prior to the Effective Time, the authorized capital stock of SMI consists of (i) 60,000,000 shares of Common Stock, no par value, and (ii) 22,172,735 shares of SMI Preferred Stock, no par value, of which 7,500,000 are designated Series A Preferred Stock (the "Series A Preferred"), of which 1,968,570 are designated Series B Preferred Stock (the "Series B Preferred"), of which 2,038,155 are designated Series C Preferred Stock (the "Series C Preferred"), of which 2,166,010 are designated Series D-1 Preferred Stock (the "Series D-1 Preferred"), of which 1,750,000 are designated Series D-2 Preferred Stock (the "Series D-2 Preferred"), and of which 6,750,000 are designated Series E Preferred Stock (the "Series E Preferred").

(b) As of the date hereof and immediately prior to the Effective Time, there are (i) 4,135,199 shares of SMI Common Stock, (ii) 7,500,000 shares of Series A Preferred, (iii) 1,950,108 shares of Series B Preferred, (iv) 2,038,155 shares of Series C Preferred, (v) 2,018,684 shares of Series D-1 Preferred, (vi) 1,750,000 shares of Series D-2 Preferred, and (vii) 5,080,153 shares of Series E issued and outstanding.

(c) As of the date hereof, the capitalization of SMI is as set forth in Schedule 3.2(c).

(d) As of the date hereof, the SMI Common Stock and SMI Preferred Stock is held of record by the persons with the addresses and in the amounts set forth in Schedule 3.2(d).

(e) As of the date hereof and immediately prior to the Effective Time: (i) all outstanding shares of SMI Common Stock and SMI Preferred Stock are duly authorized, validly issued, fully paid and non-assessable and not subject to preemptive rights created by statute, the Articles of Incorporation or Bylaws of SMI, or any agreement to which SMI is a party or by which it is bound, and have been issued in compliance with federal and state securities laws; (ii) the designations, powers, preferences, rights, qualifications, limitations and restrictions in respect of SMI Preferred Stock are as set forth in SMI's Articles of Incorporation, as amended; (iii) there have been no adjustments made or required to be made to the conversion rates applicable to SMI Preferred Stock set forth in SMI's Articles of Incorporation; (iv) all outstanding shares of SMI Capital Stock and SMI Options have been issued or repurchased (in the case of shares that were outstanding and repurchased by SMI or any stockholder of SMI) in compliance with all applicable federal, state, foreign, or local statutes, laws, rules, or regulations, including federal and state securities laws; (v) SMI has not, and will not have, suffered or incurred any liability (contingent or otherwise) or Loss (as defined in Section 10.2(a) hereof) relating to or arising out of the repurchase of any SMI Capital Stock or SMI Options; (vi) there are no declared or accrued but unpaid dividends with respect to any shares of SMI Capital Stock; (vii) SMI has no capital stock authorized, issued or outstanding other than as set forth on Schedule 3.2(e)(1) hereof; (viii) no vesting provisions applicable to any shares of SMI Capital Stock to SMI Options, or to any other rights to purchase SMI Capital Stock, will accelerate as a result of the Merger other than as set forth on Schedule 3.2(e)(2) hereof; and (ix) the requisite vote required to approve the Merger and this Agreement under applicable law, SMI's Articles of Incorporation, SMI's Bylaws, and any other agreement to which SMI or any SMI Shareholder is bound is as set forth in Schedule 3.2(e)(3).

(f) As of the date hereof, except for SMI's 1996 Stock Option Plan (the "1996 Plan") and SMI's 1999 Stock Option Plan (the "1999 Plan"), SMI has never adopted or maintained any stock option plan or other plan providing for equity compensation of any person. SMI has reserved 2,550,000 shares of SMI Common Stock for issuance upon the exercise of options granted under the 1996 Plan, of which (i) 298,886 shares are issuable, as of the date hereof, upon the exercise of outstanding, unexercised options granted under the 1996 Plan (whether vested or unvested), and (ii) 2,418,200 shares have been issued, as of the date hereof, upon the exercise of options granted under the 1996 Plan. SMI has reserved 3,416,349 shares of SMI Common Stock for issuance upon the exercise of options granted under the 1999 Plan, of which (i) 2,808,700 shares are issuable, as of the date hereof, upon the exercise of outstanding, unexercised options granted under the 1999 Plan, and (ii) 4,939,300 shares have been issued, as of the date hereof, upon the exercise of options granted under the 1999 Plan.

(g) Each SMI Option shall have been canceled or extinguished as of the Second Closing for SMI Options granted pursuant to the 1996 Plan or 15 days after the Effective Date for SMI Options granted pursuant to the 1999 Plan.

(h) Schedule 3.2(h)(1) sets forth for each outstanding SMI Option as of the date of this Agreement, the name of the holder of such option, the number of shares of SMI Capital Stock issuable upon the exercise of such SMI Option, the exercise price of such SMI Option, the vesting schedule for such SMI Option, including the extent vested as of the date hereof and whether the vesting of such SMI Option will be accelerated by the transactions contemplated by this Agreement. Schedule 3.2(h)(2) sets forth for each outstanding SMI Warrant as of the date of this Agreement, the name of the holder of such warrant, the number of shares of SMI Capital Stock issuable upon the exercise of such SMI Warrant, the type of shares, and the exercise price of such SMI Warrant.

(i) Except for SMI Options and SMI Warrants described in Schedule 3.2(h)(1) and Schedule 3.2(h)(2), there are no options, warrants, calls, rights, commitments or agreements of any character, written or oral, to which SMI is a party or by which it is bound obligating SMI to issue, deliver, sell, repurchase or redeem, or cause to be issued, delivered, sold, repurchased or redeemed, any shares of SMI Capital Stock or obligating SMI to grant, extend, accelerate the vesting of, change the price of, otherwise amend or enter into any such option, warrant, call, right, commitment or agreement. There are no outstanding or authorized stock appreciation, phantom stock, profit participation, or other similar rights with respect to SMI. There are no voting trusts, proxies, or other agreements or understandings with respect to the voting stock of SMI. As a result of the Merger, Crane will be the sole record and beneficial holder of all issued and outstanding SMI capital stock and all rights to acquire or receive any shares of SMI capital stock.

3.3 Subsidiaries. Except as set forth on Schedule 3.3, SMI does not have, and has never had, any subsidiaries or affiliated companies and does not otherwise own, and has never otherwise owned, any shares of capital stock or any interest in, or control, directly or indirectly, any other corporation, partnership, association, joint venture or other business entity. Each SMI subsidiary or affiliated company set forth on Schedule 3.3 (each, a "Subsidiary") is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation. Each Subsidiary has the corporate power to own its properties and to carry on its business as now being conducted. Each Subsidiary is duly qualified or licensed to do business and in good standing as a foreign corporation in each jurisdiction in which such qualification or license is required. A true and correct copy of each Subsidiary's charter documents and bylaws, each as amended to date, has been made available to Feiya. Schedule 3.3 lists the directors and officers of each Subsidiary as of the date of this Agreement. All of the shares of capital stock of each Subsidiary are owned of record and beneficially by SMI. There are no options, warrants, calls, rights, commitments or agreements of any character, written or oral, to which any Subsidiary is a party or by which any is bound obligating such Subsidiary to issue, deliver, sell, repurchase or redeem, or cause to be issued, sold, repurchased or redeemed, any shares of the capital stock of such Subsidiary or obligating such Subsidiary to grant, extend, accelerate the vesting of, change the price of, otherwise amend or enter into any such option, warrant, call right, commitment or agreement. There are no outstanding or authorized stock appreciation, phantom stock, profit participation, or other similar rights with respect to any Subsidiary.

3.4 Authority. SMI has all requisite corporate power and authority to enter into this Agreement and the Agreement of Merger and, subject to the adoption of this Agreement by the SMI Shareholders, to consummate the transactions contemplated hereby and thereby. The execution and delivery of this Agreement and the Agreement of Merger and the consummation of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action on the part of SMI, and no further action is required on the part of SMI to authorize this Agreement or the Agreement of Merger and the transactions contemplated hereby and thereby. Except as set forth in Schedule 3.4, this Agreement and the Merger have been unanimously approved by the Board of Directors of SMI. This Agreement and the Agreement of Merger have been duly executed and delivered by SMI, and assuming the due authorization, execution and delivery by the other parties hereto and thereto, constitute the valid and binding obligations of SMI, enforceable against it in accordance with their respective terms, except as such enforceability may be subject to the laws of general application relating to bankruptcy, insolvency and the relief of debtors and rules of law governing specific performance, injunctive relief or other equitable remedies. SMI had all corporate power and authority to execute and deliver this Agreement, the Agreement of Merger, to file the Agreement of Merger with the Secretary of State of the State of California and to consummate the Merger, subject to the adoption of the Agreement of Merger by the SMI Shareholders.

3.5 No Conflict. Except as set forth in Schedule 3.5, the execution and delivery by SMI of this Agreement, the Agreement of Merger and any Related Agreement to which SMI is a party, and the consummation of the transactions contemplated hereby and thereby, will not conflict with or result in any violation of, or default under (with or without notice or lapse of time, or both), or give rise to a right of termination, cancellation, modification or acceleration of any obligation or loss of any benefit under (any such event, a "Conflict") (i) any provision of the charter documents SMI or any Subsidiary subject to the approval of this Agreement by the SMI Shareholders, (ii) any material mortgage, indenture, lease, contract, covenant or other agreement, instrument or commitment, or any material permit, concession, franchise or license to which Crane, SMI or any Subsidiary or any of their respective properties or assets (including intangible assets), is subject, or (iii) subject to obtaining the approval of this Agreement and the Agreement of Merger by the SMI Shareholders and obtaining the material consents, approvals, authorizations and permits and making the required registrations, filings and notifications as set forth in Schedule 3.6, any material judgment, order, decree, statute, law, ordinance, rule or regulation applicable to SMI or any Subsidiary or any of their respective properties (tangible and intangible) or assets. Except as set forth in Schedule 3.5, SMI and each Subsidiary are in material compliance with and have not breached, violated or defaulted under, or received notice that they have breached, violated or defaulted under, any of the terms or conditions of any material mortgage, indenture, lease, contract, covenant or other agreement, instrument or commitment, permit, concession, franchise or license to which SMI or such Subsidiary or any of their respective properties or assets (whether tangible or intangible) is subject (each a "Contract" and collectively the "Contracts"), nor does SMI have Knowledge of any event that would constitute such a breach, violation or default with the lapse of time, giving of notice or both. Each Contract is in full force and effect and neither SMI nor any Subsidiary is subject to any default thereunder, nor is any party obligated to SMI or any Subsidiary pursuant to any such Contract in default thereunder. SMI has obtained or will obtain prior to the Effective Time, all necessary consents, waivers and approvals of parties to any Contract as are required thereunder in connection with the Merger and the Stock Purchases, or for any such Contract to remain in full force and effect through and after the Effective Time and the Final Closing Date. Following the Final Closing Date, SMI and each Subsidiary will be permitted to exercise all of their respective rights under the Contracts without the payment of any additional amounts or consideration other than ongoing fees, royalties or payments which SMI and such Subsidiary would otherwise be required to pay pursuant to the terms of such Contracts had the transactions contemplated by the Merger and this Agreement not occurred.

3.6 Consents. Except as set forth in Schedule 3.6, no consent, waiver, approval, order or authorization of, or registration, declaration or filing with any court, administrative agency or commission or other national/federal, provincial/state, county, local or other foreign governmental authority, instrumentality, agency or commission (each, a "Governmental Entity") or any third party, including a party to any agreement with SMI or any Subsidiary (so as not to trigger any Conflict), is required by or with respect to SMI or any Subsidiary in connection with the execution and delivery of this Agreement, the Merger and the Agreement of Merger or the consummation of the transactions contemplated hereby or thereby, except for (i) such consents, waivers, approvals, orders, authorizations, registrations, declarations and filings as may be required under applicable federal and state securities laws, (ii) the filing of the Agreement of Merger with the Secretary of State of the State of California, and (iii) the approval of the Merger and the Agreement of Merger by the SMI Shareholders.

3.7 SMI Financial Statements. Schedule 3.7 sets forth (i) SMI's audited financial statements as of December 31, 2001, and the related statements of income, cash flow and shareholders' equity for the twelve-(12) month period ended December 31, 2001 (the "Year-End Financials"), and (ii) SMI's unaudited financial statements as of March 31, 2002, and the related unaudited statement of income for the three-(3) months ended March 31, 2002 (collectively, the "Interim Financials," and, together with the Year-End Financials, collectively, the "Financials"). The Financials have been prepared in accordance with GAAP consistently applied on a basis consistent throughout the periods indicated and consistent with each other (except that the Interim Financials do not contain footnotes and other presentation items that may be required by GAAP). The Financials present fairly the financial condition, operating results and cash flows of SMI as of the dates and for the periods indicated therein, subject in the case of the Interim Financials to normal year-end adjustments. SMI's unaudited balance sheet as of March 31, 2002 is referred to hereinafter as the "Current Balance Sheet."

3.8 No Undisclosed Liabilities. Neither SMI nor any Subsidiary has any liability, indebtedness, obligation, expense, claim, deficiency, guaranty or endorsement of any type, whether accrued, absolute, contingent, matured, unmatured or other (whether or not required to be reflected in financial statements in accordance with GAAP) (each, a "Liability") other than any such Liability which (i) is reflected in the Current Balance Sheet, (ii) has arisen since March 31, 2002, in the ordinary course of business consistent with past practice or (iii) arose prior to March 31, 2002 and is immaterial.

3.9 No Changes. Except as set forth in Schedule 3.9, between March 31, 2002 and the date of this Agreement there has not been, occurred or arisen any:

(a) transaction by SMI or any Subsidiary except in the ordinary course of business and consistent with past practice (other than signing of the term sheet providing for this transaction);

(b) amendments or changes to the Articles of Incorporation or Bylaws of SMI or Subsidiary;

(c) capital expenditures or capital expenditure commitments by SMI or any Subsidiary exceeding US$25,000 individually or US$100,000 in the aggregate;

(d) payment, discharge or satisfaction, in any amount in excess of US$100,000 in any one case, or US$100,000 in the aggregate, of any claim, liability or obligation (absolute, accrued, asserted or unasserted, contingent or otherwise), other than payment, discharge or satisfaction in the ordinary course of business of liabilities reflected or reserved against in the Current Balance Sheet;

(e) destruction of, damage to or loss of any material assets (whether tangible or intangible) or material business or loss of any material customer of SMI or any Subsidiary (whether or not covered by insurance);

(f) labor dispute, organizational effort by any union, unfair labor practice charge, wrongful termination charge or employment discrimination charge, or institution or threatened institution of any effort, complaint or other proceeding in connection therewith, involving SMI or any Subsidiary or affecting the operations of SMI or such Subsidiary;

(g) change in accounting methods or practices (including any change in depreciation or amortization policies or rates) by SMI or any Subsidiary other than as required by GAAP;

(h) change in any election in respect of Taxes, adoption or change in any accounting method in respect of Taxes, agreement or settlement of any claim or assessment in respect of Taxes, or extension or waiver of the limitation period applicable to any claim or assessment in respect of Taxes;

(i) revaluation by SMI or any Subsidiary of any of their respective assets, whether tangible or intangible, except as required by GAAP and as reflected on the Current Balance Sheet;

(j) declaration, setting aside or payment of a dividend or other distribution (whether in cash, stock or property) in respect of any SMI Common Stock or SMI Preferred Stock (excluding repurchase of SMI Warrants), or any split, combination or reclassification in respect of any shares of SMI Common Stock or SMI Preferred Stock, or any issuance or authorization of any issuance of any other securities in respect of, in lieu of or in substitution for shares of SMI Common Stock or SMI Preferred Stock, or any direct or indirect repurchase, redemption, or other acquisition by SMI of any shares of SMI Common Stock or SMI Preferred Stock (or options, warrants or other rights convertible into, exercisable or exchangeable therefor) (excluding repurchase of SMI Warrants), except in accordance with the agreements evidencing SMI Options or as contemplated by the transaction set forth in this Agreement;

(k) material increase in the salary or other compensation payable or to become payable by SMI or any Subsidiary to any of their respective officers, directors, employees or advisors, or the declaration, payment or commitment or obligation of any kind for the payment by SMI or any Subsidiary of a severance payment, termination payment, bonus or other additional salary or compensation to any such person;

(l) sale, lease or other disposition of any of the material assets or material properties of SMI or any Subsidiary or any creation of any security interest in such material assets or material properties;

(m) loan by SMI or any Subsidiary to any person or entity, incurring by SMI of any indebtedness (other than trade payables incurred in the ordinary course of business consistent with past practice), guaranteeing by SMI or any Subsidiary of any indebtedness, issuance or sale of any debt securities of SMI or any Subsidiary or guaranteeing of any debt securities of others, except for advances to employees for travel and business expenses in the ordinary course of business consistent with past practices;

(n) affirmative or knowing waiver or release of any right or claim of SMI or any Subsidiary, including any write-off or other compromise of any account receivable of SMI or any Subsidiary;

(o) the commencement, settlement, notice or threat of any lawsuit or proceeding or other investigation against SMI or any Subsidiary or their affairs, or any reasonable basis for any of the foregoing;

(p) event or condition of any character that has been or is reasonably likely to be materially adverse to the business, assets (whether tangible or intangible), financial condition, results of operations or capitalization of SMI and its Subsidiaries, taken as a whole; or

(q) agreement by SMI, any Subsidiary or any officer or employee on behalf of SMI or such Subsidiary to do any of the things described in the preceding clauses (a) through (p) of this Section 3.9 (other than negotiations with Feiya and its representatives regarding the transactions contemplated by this Agreement).

3.10 Tax Matters.

(a) Definition of Taxes. For the purposes of this Agreement, the term "Tax" or, collectively, "Taxes" shall mean (i) any and all federal, state, local and foreign taxes, assessments and other governmental charges, duties, impositions and liabilities, including taxes based upon or measured by gross receipts, income, profits, sales, use and occupation, and value added, ad valorem, transfer, franchise, withholding, payroll, recapture, employment, excise and property taxes, together with all interest, penalties and additions imposed with respect to such amounts, (ii) any liability for the payment of any amounts of the type described in clause (i) of this Section 3.10(a) as a result of being a member of an affiliated, consolidated, combined or unitary group for any period, and (iii) any liability for the payment of any amounts of the type described in clauses (i) or (ii) of this Section 3.10(a) as a result of any express or implied obligation to indemnify any other person or as a result of any obligations under any agreements or arrangements with any other person with respect to such amounts and including any liability for taxes of a predecessor entity.

(b) Tax Returns and Audits.

(i) As of the Closing Dates, SMI and each Subsidiary will have prepared and timely filed all required material federal, state, local and foreign returns, estimates, information statements and reports ("Returns") relating to any and all Taxes concerning or attributable to SMI, such Subsidiary or their respective operations, and such Returns are true and correct and have been completed in accordance with applicable law.

(ii) As of the Closing Dates, SMI and each Subsidiary (A) will have timely paid all Taxes it is then required to pay and will have withheld with respect to its employees all federal and state income taxes, Federal Insurance Contribution Act ("FICA"), Federal Unemployment Tax Act ("FUTA") and other Taxes required to be withheld, except for amounts that are not material in the aggregate, and (B) will have accrued on the Current Balance Sheet all Taxes attributable to the periods preceding the Current Balance Sheet, whether asserted or unasserted, contingent or otherwise, and will not have incurred any liability for Taxes for the period commencing after the date of the Current Balance Sheet and ending immediately prior to the Closing Dates, other than in the ordinary course of business.

(iii) Neither SMI nor any Subsidiary is delinquent in the payment of any material Tax, nor is there any Tax deficiency outstanding, assessed or to the Knowledge of SMI proposed against SMI or any Subsidiary, nor has SMI or any Subsidiary executed any waiver of any statute of limitations on or extending the period for the assessment or collection of any Tax.

(iv) No audit or other examination of any Return of SMI or any Subsidiary is presently in progress, nor has SMI or any Subsidiary been notified in writing of any request for such an audit or other examination.

(v) SMI has made available to Feiya, or its legal counsel, copies of all foreign, federal, state and local income and all state and local sales and use Returns for SMI and each Subsidiary filed for all periods since its inception.

(vi) To the Knowledge of SMI, there are, and immediately following the Closing Dates there will be, no liens, pledges, charges, claims, restrictions on transfer, mortgages, security interests or other encumbrances of any sort (collectively, "Liens") on the assets of SMI or any Subsidiary relating to or attributable to Taxes other than Liens for Taxes not yet due and payable.

(vii) Neither SMI nor any Subsidiary has Knowledge of assertion of any claim relating or attributable to Taxes which, if adversely determined, would result in any Lien on the assets of SMI.

(viii) None of SMI's or any Subsidiary's assets is treated as "tax-exempt use property," within the meaning of Section 168(h) of the Code.

(ix) Neither SMI nor any Subsidiary has filed any consent agreement under Section 341(f) of the Code or agreed to have Section 341(f)(4) of the Code apply to any disposition of a subsection (f) asset (as defined in Section 341(f)(4) of the Code) owned by SMI.

(x) Neither SMI nor any Subsidiary is a party to any tax sharing, indemnification or allocation agreement nor does SMI or any Subsidiary owe any amount under any such agreement.

(xi) Neither SMI nor any Subsidiary is, and neither has been at any time, a "United States Real Property Holding Corporation" within the meaning of Section 897(c)(2) of the Code.

(xii) No adjustment relating to any Return filed by SMI or any Subsidiary has been proposed in writing by any tax authority to SMI, any Subsidiary or any representative thereof.

(xiii) Neither SMI nor any Subsidiary has (a) ever been a member of an affiliated group (within the meaning of Code Section 1504(a)) filing a consolidated federal income Tax Return (other than a group including Crane following the Effective Time), (b) any liability for the Taxes of any person (other than SMI or any Subsidiary) under Treas. Reg. Section 1.1502-6 (or any similar provision of state, local or foreign law), as a transferee or successor, by contract, or otherwise or (c) ever been a party to any joint venture, partnership or other agreement that could be treated as a partnership for Tax purposes.

(xiv) Neither SMI nor any Subsidiary has constituted either a "distributing corporation" or a "controlled corporation" in a distribution of stock qualifying for tax-free treatment under Section 355 of the Code (x) in the two years prior to the date of this Agreement or (y) in a distribution which could otherwise constitute part of a "plan" or "series of related transactions" (within the meaning of Section 355(e) of the Code) in conjunction with the Merger.

(c) Executive Compensation Tax. There is no contract, agreement, plan or arrangement to which SMI or any Subsidiary is a party, including, without limitation, the provisions of this Agreement, covering any employee or former employee of SMI or any Subsidiary, which, individually or collectively, could give rise to the payment of any amount that would not be deductible pursuant to Sections 280G, 404 or 162(m) of the Code (other than a temporary disallowance of a deduction under Section 404(a)(5) of the Code).

3.11 Restrictions on Business Activities. There is no agreement (non-competition or otherwise), commitment, judgment, injunction, order or decree to which SMI or any Subsidiary is a party or otherwise binding upon SMI or any Subsidiary which has or may reasonably be expected to have the effect of prohibiting or impairing any business practice of SMI or any Subsidiary, any acquisition of property (tangible or intangible) by SMI or any Subsidiary, the conduct of business by SMI or any Subsidiary or otherwise limiting the freedom of SMI or any Subsidiary to engage in any line of business or to compete with any person. Without limiting the generality of the foregoing, neither SMI nor any Subsidiary has entered into any agreement under which SMI or such Subsidiary is restricted from selling, licensing or otherwise distributing any of their respective technology or products to, or from providing services to, customers or potential customers or any class of customers, in any geographic area, during any period of time or in any segment of the market.

3.12 Title of Properties; Absence of Liens and Encumbrances; Condition of Equipment.

(a) Neither SMI nor any Subsidiary owns any real property, nor has either SMI or any Subsidiary ever owned any real property. Schedule 3.12(a) sets forth a list of all real property leased by SMI or any Subsidiary as of the date of this Agreement, the name of the lessor, the date of the lease and each amendment thereto and, with respect to any such lease, the aggregate annual rental payable under any such lease. Each lease pursuant to which SMI leases any real property is in full force and effect, is valid and effective in accordance with their respective terms, and there is not, under any of such lease, any existing default or event of default (or event which with notice or lapse of time, or both, would constitute a default) by SMI or, to SMI's Knowledge, by any other party.

(b) Except as set forth in Schedule 3.12(b), SMI and each Subsidiary has good and marketable title to, or, in the case of leased properties and assets, marketable leasehold interests in, all of its tangible properties and assets, real, personal and mixed, used or held for use in its business, free and clear of any Liens, except (i) as reflected in the Current Balance Sheet, (ii) Liens for Taxes not yet due and payable, and (iii) such imperfections of title and encumbrances, if any, which do not detract materially from the value or interfere materially with the present use of the property subject thereto or affected thereby.

(c) Schedule 3.12(c) lists all material items of equipment owned or leased by SMI or a Subsidiary as of the date of this Agreement. Each material item of equipment (the "Equipment") owned or leased by SMI or a Subsidiary is (i) adequate in all material respects for the conduct of the business of SMI or such Subsidiary, as applicable, as currently conducted and as currently contemplated by SMI to be conducted, and (ii) in good operating condition in all material respects, regularly and properly maintained, subject to normal wear and tear.

3.13 Intellectual Property.

(a) Definitions. For all purposes of this Agreement, the following terms shall have the following respective meanings:

"Intellectual Property" shall mean any or all of the following (i) works of authorship including, without limitation, computer programs, source code and executable code, whether embodied in software, firmware or otherwise, documentation, designs, files, records, data and mask works, (ii) inventions (whether or not patentable), improvements, and technology, (iii) proprietary and confidential information, trade secrets and know how, (iv) databases, data compilations and collections and technical data, (v) logos, trade names, trade dress, trademarks and service marks, (vi) domain names, web addresses and sites, (vii) tools, methods and processes, and (viii) any and all instantiations of the foregoing in any form and embodied in any media.

"Intellectual Property Rights" shall mean worldwide common law and statutory rights associated with (i) patents and patent applications, (ii) copyrights, copyrights registrations and copyrights applications and "moral" rights, (iii) the protection of trade and industrial secrets and confidential information, (iv) trademarks, trade names and service marks, (v) analogous rights to those set forth above, (vi) divisionals, continuations, continuation-in-part, renewals, reissuances, reexaminations, and extensions of the foregoing (as applicable), and other proprietary rights relating to intangible intellectual property.

"Registered Intellectual Property Rights" shall mean Intellectual Property Rights that have been registered, filed, certified or otherwise perfected by recordation with any state, government or other public legal authority.

"SMI Intellectual Property" shall mean any Intellectual Property and Intellectual Property Rights that are owned by or exclusively licensed to SMI.

(b) Schedule 3.13(b) lists all Registered Intellectual Property owned by, or filed in the name of, SMI or any Subsidiary as of the date of this Agreement and lists as of the date of this Agreement any proceedings or actions before any court, tribunal (including the United States Patent and Trademark Office (the "PTO") or equivalent authority anywhere in the world) related to any of SMI's or any Subsidiary's Registered Intellectual Property Rights.

(c) Except as set forth in Schedule 3.13(c), each item of SMI Intellectual Property, including all Registered Intellectual Property listed in Schedule 3.13(b) above, and all Intellectual Property licensed to SMI or any Subsidiary, is free and clear of any Liens.

(d) Other than (i) "shrink-wrap" and similar widely available binary code and commercial end-user licenses, and (ii) as set forth on Schedule 3.13(d), to the extent that any Intellectual Property has been developed or created independently or jointly by any person other than SMI or any Subsidiary for which SMI or any Subsidiary has, directly or indirectly, paid, SMI or any Subsidiary has a written agreement with such person with respect thereto, and SMI or any Subsidiary thereby has obtained ownership of, and is the exclusive owner of, all such Intellectual Property therein and associated Intellectual Property Rights by operation of law or by valid assignment.

(e) Except as set forth in Schedule 3.13(e), Neither SMI nor any Subsidiary has transferred ownership of, or granted any exclusive license of or exclusive right to use, or authorized the retention of any exclusive rights to use or joint ownership of, any Intellectual Property or Intellectual Property Rights that is or was SMI Intellectual Property, to any other person.

(f) Other than (i) "shrink-wrap" and similar widely available binary code and commercial end-user licenses, or (ii) as set forth in Schedule 3.13(f), the SMI Intellectual Property constitutes all the Intellectual Property and Intellectual Property Rights used in and/or necessary to the conduct of the business of SMI or any Subsidiary as it currently is conducted or is currently contemplated by SMI or any Subsidiary to be conducted, including, without limitation, the design, development, manufacture, use, import and sale of products, technology and services (including products, technology or services currently under development) of SMI or any Subsidiary.

(g) Other than "shrink-wrap" and similar widely available binary code and commercial end-user licenses, Schedule 3.13(g) lists all contracts, licenses and agreements to which SMI or any Subsidiary is a party as of the date of this Agreement with respect to any Intellectual Property and Intellectual Property Rights. No person who has licensed Intellectual Property or Intellectual Property Rights to SMI or any Subsidiary has ownership rights or license rights to improvements made by SMI or any Subsidiary in Intellectual Property which has been licensed to SMI or any Subsidiary.

(h) Other than "shrink-wrap" and similar widely available binary code and commercial end-user licenses, Schedule 3.13(h) lists all contracts, licenses and agreements between SMI or any Subsidiary and any other person as of the date of this Agreement wherein or whereby SMI or such Subsidiary has agreed to, or assumed, any obligation or duty to warrant, indemnify, reimburse, hold harmless, guaranty or otherwise assume or incur any obligation or liability or provide a right of rescission with respect to the infringement or misappropriation by SMI, such Subsidiary or such other person of the Intellectual Property Rights of any person other than SMI or such Subsidiary.

(i) The operation of the business of SMI and each Subsidiary as they currently are conducted or are currently contemplated by SMI to be conducted, including but not limited to the design, development, use, import, manufacture and sale of the products, technology or services (including products, technology or services currently under development) of SMI and such Subsidiary, has not, does not and, will not infringe or misappropriate the Intellectual Property Rights of any person, violate the rights of any person (including rights to privacy or publicity), or constitute unfair competition or trade practices under the laws of any jurisdiction. Other than as set forth on Schedule 3.13(i) and Schedule 3.17, neither SMI nor any Subsidiary has received any notice from any person claiming that such operation or any act, product, technology or service (including products, technology or services currently under development) of SMI or any Subsidiary infringes or misappropriates the Intellectual Property Rights of any person or constitutes unfair competition or trade practices under the laws of any jurisdiction (nor does SMI have Knowledge of any claims or any basis therefor). There have been no assertions to SMI or any Subsidiary by other persons against SMI or any Subsidiary conflicting with SMI Intellectual Property.

(j) Except as set forth in Schedule 3.13(i), each item of SMI Registered Intellectual Property Rights owned by, or filed in the name of, SMI or any Subsidiary (the "SMI Registered Intellectual Property") is valid and subsisting, and, to the Knowledge of SMI or any Subsidiary, all necessary registration, maintenance and renewal fees in connection with such SMI Registered Intellectual Property have been paid and all necessary documents and certificates in connection with such SMI Registered Intellectual Property have been filed with the relevant patent, copyright, trademark or other authorities in the United States or foreign jurisdictions, as the case may be, for the purposes of maintaining such SMI Registered Intellectual Property. In each case in which SMI or any Subsidiary has acquired any Intellectual Property rights from any person, SMI or such Subsidiary, as applicable, has obtained a valid and enforceable assignment sufficient to irrevocably transfer all rights in such Intellectual Property and the associated Intellectual Property Rights (including any right to seek past and future damages with respect thereto) to SMI or any Subsidiary and, to the maximum extent provided for by, and in accordance with, applicable laws and regulations, SMI or any Subsidiary has recorded each such assignment with the relevant governmental authorities, including the PTO, the U.S. Copyright Office, or respective equivalents in any relevant foreign jurisdiction, as the case may be.

(k) There are no contracts, licenses or agreements between SMI or Subsidiary and any other person with respect to SMI Intellectual Property under which there is any dispute regarding the scope of such agreement, or performance under such agreement including with respect to any payments to be made or received by SMI or any Subsidiary thereunder.

(l) Neither this Agreement nor the transactions contemplated by this Agreement, including the assignment to Feiya by operation of law or otherwise (to the extent that such transactions are deemed to effect such assignment) of any contracts or agreements to which SMI or any Subsidiary is a party, will result in: (i) Feiya, SMI or any Subsidiary granting to any third party any right to or with respect to any Intellectual Property owned by, or licensed to, any of them, (ii) Feiya, SMI or any Subsidiary being bound by, or subject to, any non-competition or other material restriction on the operation or scope or their respective businesses, or (iii) Feiya, SMI or any Subsidiary being obligated to pay any royalties or other material amounts to any third party in excess of those payable by any of them, respectively, in the absence of this Agreement or the transactions contemplated hereby.

(m) To the Knowledge of SMI, no person is infringing or misappropriating any SMI Intellectual Property.

(n) SMI or each Subsidiary has taken all reasonable steps to protect SMI's or such Subsidiary's rights in confidential information and trade secrets of SMI and such Subsidiary or provided by any other person to SMI or such Subsidiary. Without limiting the foregoing, SMI and each Subsidiary have, and enforces, a policy requiring each employee and consultant to execute proprietary information, confidentiality and assignment agreements substantially in SMI's standard forms, and all current and former employees and consultants of SMI or such Subsidiary have executed such an agreement in substantially SMI's standard form.

(o) No SMI Intellectual Property or Intellectual Property Rights or service of SMI or any Subsidiary is subject to any proceeding or outstanding decree, order, judgment or settlement agreement or stipulation that restricts in any manner the use, transfer or licensing thereof by SMI or such Subsidiary or may affect the validity, use or enforceability of such SMI Intellectual Property.

(p) None of SMI Intellectual Property was developed by or on behalf of or using grants or any other subsidies of any governmental entity or any university.

3.14 Agreements, Contracts and Commitments.

(a) Except as set forth in or excepted from (by virtue of the specific exclusions contained in Schedules 3.13(g) or 3.13(h)), Schedules 3.13(g) and 3.13(h), or as set forth in Schedule 3.14(a), neither SMI nor any Subsidiary is a party to nor is it bound by:

(i) any employment or consulting agreement, contract or commitment with an employee or individual consultant or salesperson or consulting or sales agreement, contract or commitment with a firm or other organization;

(ii) except as contemplated by this Agreement, any agreement or plan, including, without limitation, any stock option plan, stock appreciation rights plan or stock purchase plan, any of the benefits of which will be increased, or the vesting of benefits of which will be accelerated, by the occurrence of any of the transactions contemplated by this Agreement (either alone or upon the occurrence of any additional or subsequent events) or the value of any of the benefits of which will be calculated on the basis of any of the transactions contemplated by this Agreement;

(iii) any fidelity or surety bond or completion bond;

(iv) any lease of personal property having a value in excess of US$25,000 individually or US$100,000 in the aggregate;

(v) any agreement, contract or commitment relating to capital expenditures and involving future payments in excess of US$25,000 per individual payment or US$100,000 in aggregate payments;

(vi) any agreement, contract or commitment relating to the disposition or acquisition of assets or any interest in any business enterprise outside the ordinary course of SMI's business;

(vii) any mortgages, indentures, guarantees, loans or credit agreements, security agreements or other agreements or instruments relating to the borrowing of money or extension of credit, other than extension of credit in connection with trade payables in the ordinary course of business consistent with past practice;

(viii) any purchase order or contract for the purchase of materials involving in excess of US$25,000 individually or US$100,000 in the aggregate;

(ix) any construction contracts;

(x) any dealer, distribution, joint marketing or development agreement;

(xi) any non-employee sales representative, original equipment manufacturer, value added, remarketer, reseller or independent software vendor or other agreement for use or distribution of SMI's or any Subsidiary's products, technology or services; or

(xii) any other agreement, contract or commitment that involves US$25,000 individually or US$100,000 in the aggregate or more and is not cancelable without penalty within thirty (30) days.

3.15 Interested Party Transactions. Except as set forth in Schedule 3.15, no officer or, to the Knowledge of SMI, director or Significant Shareholder of SMI or any Subsidiary (nor any immediate family member of any of such persons, or any trust, partnership or corporation in which any of such persons has or has had an interest), has or has had, directly or indirectly, (i) an interest in any entity which furnished or sold, or furnishes or sells, services, products or technology that SMI or any Subsidiary furnishes or sells, or proposes to furnish or sell, or (ii) any interest in any entity that purchases from or sells or furnishes to SMI or any Subsidiary, any goods or services, or (iii) a beneficial interest in any Contract to which SMI or Subsidiary is a party; provided, however, that ownership of no more than one percent (1%) of the outstanding voting stock of a publicly traded corporation shall not be deemed to be an "interest in any entity" for purposes of this Section 3.15. For the purposes of this Agreement, "Significant Shareholder" shall mean a holder of five percent or more of SMI Capital Stock.

3.16 Governmental Authorization. Except where the failure to have governmental authorization would not have a Material Adverse Effect, each consent, license, permit, grant or other authorization (i) pursuant to which SMI or any Subsidiary currently operates or holds any interest in any of its properties, or (ii) which is required for the operation of SMI's or any Subsidiary's business as currently conducted or currently contemplated by SMI to be conducted by SMI or the holding of any such interest (collectively, "SMI Authorizations") has been issued or granted to SMI or such Subsidiary. SMI Authorizations are in full force and effect and, to SMI's Knowledge, constitute all SMI Authorizations required to permit SMI or each Subsidiary to operate or conduct its business.

3.17 Litigation. Except as set forth in Schedule 3.17, there is no action, suit, claim or proceeding of any nature pending, or to the Knowledge of SMI, threatened, against SMI or any Subsidiary, their respective properties (tangible or intangible) or any of their officers or directors (to the extent such action, suit, claim or proceeding reasonably relates to, or would adversely affect, such person's performance as an officer or director), nor to the Knowledge of SMI, is there any reasonable basis therefor. There is no investigation or other proceeding pending or to the Knowledge of SMI, threatened, against SMI or any Subsidiary, any of their respective properties (tangible or intangible) or any of their officers or directors by or before any Governmental Entity, nor to the Knowledge of SMI is there any reasonable basis therefor. No Governmental Entity has at any time challenged or questioned the legal right of SMI or any Subsidiary to conduct their respective operations as presently or previously conducted or as presently contemplated to be conducted.

3.18 Accounts Receivable.

(a) SMI and each Subsidiary have made available to Feiya a list of all accounts receivable of such parties as of March 31, 2002, together with a range of days elapsed since invoice.

(b) Except as set forth in Schedule 3.18(b), all of SMI's and each Subsidiary's accounts receivable, which have been made available to Feiya in accordance with Section 3.18 above, arose in the ordinary course of business, and are carried at values determined in accordance with GAAP consistently applied, and are collectible except to the extent of reserves therefor set forth in the Current Balance Sheet or, for receivables arising subsequent to March 31, 2002, as reflected on the books and records of SMI and such Subsidiary (which are prepared in accordance with GAAP). No person has any Lien on any of SMI's or any Subsidiary's accounts receivable and no request or agreement for deduction or discount has been made with respect to any of SMI's or any Subsidiary's accounts receivable.

3.19 Minute Books. The minutes of SMI and each Subsidiary made available to counsel for Feiya are the only minutes of SMI and such Subsidiary and contain accurate summaries of all actions of the Board of Directors (or committees thereof) of SMI and each Subsidiary and their respective shareholders since the time of incorporation of SMI or such Subsidiary, as the case may be.

3.20 Environmental Matters.

(a) Hazardous Material. Neither SMI nor any Subsidiary has: (i) operated any underground storage tanks at any property that SMI or such Subsidiary has at any time owned, operated, occupied or leased, or (ii) illegally released any amount of any substance that has been designated by any Governmental Entity or by applicable federal, state or local law to be radioactive, toxic, hazardous or otherwise a danger to health or the environment, including, without limitation, PCBs, asbestos, petroleum, and urea-formaldehyde and all substances listed as hazardous substances pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, or defined as a hazardous waste pursuant to the United States Resource Conservation and Recovery Act of 1976, as amended, and the regulations promulgated pursuant to said laws (a "Hazardous Material"), but excluding office and janitorial supplies properly and safely maintained. To the Knowledge of SMI, no Hazardous Materials are present in, on or under any property, including the land and the improvements, ground water and surface water thereof, that SMI or any Subsidiary has at any time owned, operated, occupied or leased.

(b) Hazardous Materials Activities. To the Knowledge of SMI, neither SMI nor any Subsidiary has transported, stored, used, manufactured, disposed of, released or exposed its employees or others to Hazardous Materials in violation of any law in effect on or before the Effective Time, nor has SMI or such Subsidiary disposed of, transported, sold, or manufactured any product containing a Hazardous Material (any or all of the foregoing being collectively referred to herein as "Hazardous Materials Activities") in violation of any rule, regulation, treaty or statute promulgated by any Governmental Entity in effect prior to or as of the date hereof to prohibit, regulate or control Hazardous Materials or any Hazardous Material Activity.

(c) Permits. To the Knowledge of SMI, SMI and each Subsidiary currently holds all environmental approvals, permits, licenses, clearances and consents (the "Environmental Permits") necessary for the conduct of SMI's and each Subsidiary's Hazardous Material Activities, respectively, and other businesses of SMI or such Subsidiary.

(d) Environmental Liabilities. No action, proceeding, revocation proceeding, amendment procedure, writ, injunction or claim is pending or, to the Knowledge of SMI threatened, concerning any Environmental Permit, Hazardous Material or any Hazardous Materials Activity of SMI or any Subsidiary.

3.21 Brokers' and Finders' Fees. Except as set forth in Schedule 3.21, neither SMI nor any Subsidiary has incurred, nor will it incur, directly or indirectly, any liability for brokerage or finders' fees or agents' commissions or any similar charges in connection with the Agreement or any transaction contemplated hereby. Schedule 3.21 sets forth the principal terms and conditions of any agreement, written or oral, with respect to such fees.

3.22 Employee Benefit Plans and Compensation.

(a) Definitions. For all purposes of this Section 3.22, the following terms shall have the following respective meanings:

"Affiliate" shall mean each Subsidiary and any other person or entity that is treated as a single employer with SMI Section 414(b), (c), (m) or (o) of the Code, and the Treasury regulations issued thereunder.

"COBRA" shall mean the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.

"DOL" shall mean the United States Department of Labor.

"Employee" shall mean any current or former employee, consultant or director of SMI or any Subsidiary.

"Employee Agreement" shall mean each management, employment, severance, consulting, relocation, repatriation, expatriation, visa, work permit or other agreement, contract or understanding between SMI or any Subsidiary and any Employee.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

"FMLA" shall mean the Family Medical Leave Act of 1993, as amended.

"IRS" shall mean the United States Internal Revenue Service.

"International Employee Plan" shall mean each material SMI Employee Plan that has been adopted or maintained by SMI or any Subsidiary, whether informally or formally, with respect to which SMI or any Subsidiary will or may have any liability for the benefit of Employees who perform services outside the United States.

"PBGC" shall mean the United States Pension Benefit Guaranty Corporation.

"Pension Plan" shall mean each SMI Employee Plan which is an "employee pension benefit plan," within the meaning of Section 3(2) of ERISA.

"SMI Employee Plan" shall mean any material plan, program, policy, practice, contract, agreement or other arrangement providing for compensation, severance, termination pay, deferred compensation, performance awards, stock or stock-related awards, fringe benefits or other employee benefits or remuneration of any kind, whether written, unwritten or otherwise, funded or unfunded, including without limitation, each "employee benefit plan," within the meaning of Section 3(3) of ERISA which is or has been maintained, contributed to, or required to be contributed to, by SMI or any Subsidiary for the benefit of any Employee, and with respect to which SMI or any Subsidiary has or may have any liability or obligation.

(b) Schedule. Schedule 3.22(b)(1) contains an accurate and complete list as of the date of this Agreement of each SMI Employee Plan and each Employee Agreement. Neither SMI nor any Subsidiary has made any binding commitment to establish any new SMI Employee Plan or Employee Agreement, to material modify any SMI Employee Plan or Employee Agreement (except to the extent required by applicable law, in each case as previously disclosed to Crane in writing, or as required by this Agreement), or to adopt or enter into any SMI Employee Plan or Employee Agreement. Schedule 3.22(b)(2) sets forth a table setting forth the name and salary of each Employee of SMI as of the date of this Agreement.

(c) Documents. Except as set forth on Schedule 3.22(c), SMI has provided or made available to Feiya correct and complete copies of (i) all documents embodying each SMI Employee Plan and each Employee Agreement including, without limitation, all amendments thereto and all related trust documents; (ii) the most recent annual actuarial valuations, if any, required under ERISA or the Code in connection with each SMI Employee Plan; (iii) the three (3) most recent annual reports (Form Series 5500 and all schedules and financial statements attached thereto), if any, required under ERISA or the Code in connection with each SMI Employee Plan; (iv) if SMI Employee Plan is funded, the most recent annual and periodic accounting of SMI Employee Plan assets; (v) the most recent summary plan description together with the summary(ies) of material modifications thereto, if any, required under ERISA with respect to each SMI Employee Plan; (vi) all material written agreements and contracts relating to each SMI Employee Plan, including, without limitation, administrative service agreements and group insurance contracts; (vii) all communications material to any Employee or Employees relating to any SMI Employee Plan and any proposed SMI Employee Plans, in each case, relating to any amendments, terminations, establishments, increases or decreases in benefits, acceleration of payments or vesting schedules or other events which would result in any material liability to SMI or any Subsidiary; (viii) all IRS determination, opinion, notification and advisory letters; and (ix) all policies pertaining to fiduciary liability insurance covering the fiduciaries for each SMI Employee Plan.

(d) Employee Plan Compliance. SMI and each Subsidiary has performed in all material respects all obligations required to be performed by it under each SMI Employee Plan has been established and maintained in accordance with its terms and in compliance in all material respects with all applicable laws, statutes, orders, rules and regulations, including but not limited to ERISA or the Code. Each SMI Employee Plan intended to qualify under Section 401(a) of the Code and each trust intended to qualify under Section 501(a) of the Code either has received a favorable determination, opinion, notification or advisory letter from the IRS with respect to each such SMI Employee Plan as to its qualified status under the Code, including all amendments to the Code effected by the Tax Reform Act of 1986 and subsequent legislation, or has remaining a period of time under applicable Treasury regulations or IRS pronouncements in which to apply for such letter and make any amendments necessary to obtain a favorable determination as to the qualified status of each such SMI Employee Plan. There are no actions, suits or claims pending, or, to the Knowledge of Crane or SMI threatened (other than routine claims for benefits) against any SMI Employee Plan or against the assets of any SMI Employee Plan. Each SMI Employee Plan may be amended, terminated or otherwise discontinued after the Final Closing Date in accordance with its terms, without material liability to Crane, SMI or any Affiliate (other than ordinary administration expenses). There are no audits, inquiries or proceedings pending or threatened by the IRS or DOL with respect to any SMI Employee Plan. Neither SMI nor any Affiliate is subject to any material penalty or tax with respect to any SMI Employee Plan under Section 502(i) of ERISA or Sections 4975 through 4980 of the Code.

(e) No Pension, Collectively Bargained, Multiemployer or Multiple Employer Plans. Neither of SMI, nor any other Affiliate has during the past five years maintained, established, sponsored, participated in, contributed to or been obligated to contribute to, any (i) Pension Plan subject to Title IV of ERISA or Section 412 of the Code, (ii) "multiemployer plan" within the meaning of Section (3)(37) of ERISA or (iii) multiple employer plan or any plan described in Section 413 of the Code.

(f) No Post-Employment Obligations. No SMI Employee Plan provides, or reflects or represents any liability to provide, retiree life insurance, retiree health or other retiree employee welfare benefits to any person for any reason, except as may be required by COBRA or other applicable statute, and to the Knowledge of Crane or SMI, neither SMI nor any Subsidiary has ever made a binding representation, promise or contract (whether in oral or written form) to or with any Employee (either individually or to Employees as a group) or any other person providing that such Employee(s) or other person would be entitled to retiree life insurance, retiree health or other retiree employee welfare benefit, except to the extent required by statute.

(g) Effect of Transaction. Except as set forth in Schedule 3.22(g), the execution of this Agreement and the consummation of the transactions contemplated hereby will not (either alone or upon the occurrence of any additional or subsequent events) constitute an event under any SMI Employee Plan, Employee Agreement, trust or loan that will or may result in any payment (whether of severance pay or otherwise), acceleration, forgiveness of indebtedness, vesting, distribution, increase in benefits or obligation to fund benefits with respect to any Employee, except as expressly required by this Agreement.

(h) Employment Matters. SMI and each Subsidiary: (i) is in compliance in all materials respects with all applicable foreign, federal, state and local laws, rules and regulations respecting employment, employment practices, terms and conditions of employment and wages and hours, in each case, with respect to Employees, (ii) has withheld and reported all amounts required by law or by agreement to be withheld and reported with respect to wages, salaries and other payments to Employees, (iii) is not liable for any arrears of wages or any taxes or any penalty for failure to comply with any of the foregoing, and (iv) is not liable for any payment to any trust or other fund governed by or maintained by or on behalf of any governmental authority, with respect to unemployment compensation benefits, social security or other benefits or obligations for Employees (other than routine payments to be made in the normal course of business and consistent with past practice). To the Knowledge of SMI, there are no pending, threatened, or reasonably anticipated claims or actions against SMI under any worker's compensation policy or long-term disability policy.

(i) Labor. No work stoppage or labor strike against SMI or any Subsidiary is pending or threatened, or reasonably anticipated. SMI does not know of any activities or proceedings of any labor union to organize any Employees. To the Knowledge of SMI, there are no actions, suits, claims, labor disputes or grievances pending, threatened, or reasonably anticipated relating to any labor, safety or discrimination matters involving any Employee, including, without limitation, charges of unfair labor practices or discrimination complaints. Neither SMI nor any Subsidiary has engaged in any unfair labor practices within the meaning of the National Labor Relations Act. Neither SMI nor any Subsidiary is, nor has either been in the past, a party to, or bound by, any collective bargaining agreement or union contract with respect to Employees and no collective bargaining agreement is being negotiated by SMI or any Subsidiary.

(j) International Employee Plan. Neither SMI nor any Subsidiary has, or has during the past five years had, the obligation to maintain, establish, sponsor, participate in or contribute to any International Employee Plan.

3.23 Insurance. As of the date of this Agreement, SMI and its Subsidiaries have insurance in amounts that are customary and reasonable for similarly situated companies. There is no claim by SMI or any Subsidiary pending under any of such policies or bonds as to which coverage has been questioned, denied or disputed by the underwriters of such policies or bonds. All premiums due and payable under all such policies and bonds have been paid, and SMI and each Subsidiary are otherwise in material compliance with the terms of such policies and bonds (or other policies and bonds providing substantially similar insurance coverage).

3.24 Compliance with Laws. SMI and each Subsidiary has complied in all material respects with, is not in violation of, and has not received any notices of violation with respect to, any applicable foreign, federal, state or local statute, law or regulation.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF FEIYA

Feiya hereby represents and warrants to SMI that on the date hereof and as of the Closing Dates, as though made on the Closing Dates, as follows:

4.1 Organization, Standing and Power. Feiya is a company limited-by-shares duly organized and validly existing under the laws of the Republic of China, and has the corporate power and authority to carry on its business as now being conducted and to own and operate the properties and assets now owned and being operated by it.

4.2 Authority. Feiya has all requisite corporate power and authority to enter into this Agreement and, subject to the adoption of this Agreement and the transactions contemplated thereby by the shareholders of Feiya, to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Feiya and, subject to the adoption of this Agreement and the transactions contemplated thereby by the shareholders of Feiya, no further action is required on the part of Feiya to authorize the Agreement and the transactions contemplated hereby. This Agreement has been duly executed and delivered by Feiya and constitutes the legal, valid and binding obligations of Feiya, enforceable in accordance with its terms, except as such enforceability may be limited by principles of public policy and subject to the laws of general application relating to bankruptcy, insolvency and the relief of debtors and rules of law governing specific performance, injunctive relief or other equitable remedies.

4.3 No Conflict. The execution and delivery of this Agreement does not, and the consummation of the transactions contemplated hereby will not, conflict with, or result in any violation of, or default under (with or without notice or lapse of time, or both), or give rise to a Conflict under (i) any provision of the charter documents of Feiya subject to the approval of this Agreement and the transactions contemplated hereby by the shareholders of Feiya, (ii) any mortgage, indenture, lease, contract or other agreement or instrument, permit, concession, franchise or license to which Feiya or any of its properties or assets is subject, except in each case where such Conflict will not have a Feiya Material Adverse Effect, (iii) subject to obtaining the approval of this Agreement by the shareholders of Feiya and any judgment, order, decree, statute, law, ordinance, rule or regulation applicable to Feiya or its properties or assets, except in each case where such Conflict will not have a Feiya Material Adverse Effect, or (iv) subject to obtaining Investment Commission approvals described in Section 2.4(b)(i) and any other approvals required by the government of the Republic of China.

4.4 Consents. No consent, waiver, approval, shareholder approval, order or authorization of, or registration, declaration or filing with, any Governmental Entity, or any third party is required by or with respect to Feiya in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby, except for (i) such consents, waivers, approvals, orders, authorizations, registrations, declarations and filings as may be required under applicable securities laws, (ii) such consents, waivers, approvals, orders, authorizations, registrations, declarations and filings which, if not obtained or made, would not have a Feiya Material Adverse Effect, and (iii) the approval of this Agreement and the transactions contemplated hereby by the shareholders of Feiya.

4.5 Feiya Shares. Feiya's authorized share capital is NT$900,000,000, divided into 90,000,000 shares of Feiya Common Stock, with a par value of NT$10 per Feiya Common Stock, of which are issued and outstanding as of the date hereof. All of such issued shares of Feiya Common Stock have been duly authorized and validly issued and are fully paid and none of them were issued in violation of any preemptive or other right. The Feiya Shares, when issued and sold by Feiya to Crane pursuant to the terms of this Agreement, shall be duly authorized, validly issued and fully paid, and shall not be issued in violation of any preemptive or other right. The Feiya Purchased Shares, when sold by Feiya to Crane in accordance with the terms of this Agreement, shall represent approximately 31.78 percent of the total issued and outstanding capital stock of Feiya.

4.6 Broker's and Finders' Fees. Feiya has not incurred, nor will it incur, directly or indirectly, any liability for brokerage or finders' fees or agents' commissions or any similar charges in connection with this Agreement or any transaction contemplated hereby.

4.7 Feiya Financial Statements. Feiya has made available to SMI a true and complete copy of its year end financial statements as of December 31, 2001 and quarterly financial statements as of March 31, 2002 (the "Feiya Financial Statements"). The Feiya Financial Statements have been prepared in accordance with Republic of China generally accepted accounting principles consistently applied on a basis consistent throughout the periods indicated and consistent with each other (except that the quarterly reports do not contain footnotes and other presentation items that may be required by Republic of China generally accepted accounting principles). The Feiya Financial Statements present fairly the financial condition of Feiya as of the dates and for the periods indicated therein.

4.8 No Undisclosed Liabilities. Feiya has no Liability other than any such Liability which (i) is reflected in the Feiya Financial Statements, (ii) has arisen since March 31, 2002, in the ordinary course of business consistent with past practice, or (iii) would not reasonably be expected to have a Feiya Material Adverse Effect.

4.9 Litigation. There is no action, suit, claim or proceeding of any nature pending, or to the Knowledge of Feiya, threatened, against Feiya and its properties (tangible or intangible) or any of their officers or directors (to the extent such action, suit, claim or proceeding reasonably relates to, or would adversely affect, such person's performance as an officer or director), nor to the Knowledge of Feiya is there any reasonable basis therefor, which might result, individually or in the aggregate, in a Feiya Material Adverse Effect. There is no investigation or other proceeding pending or to the Knowledge of Feiya, threatened, against Feiya, any of its properties (tangible or intangible) or any of their officers or directors by or before any Governmental Entity, nor to the Knowledge of Feiya is there any reasonable basis therefor, which might result, individually or in the aggregate, in a Feiya Material Adverse Effect. No Governmental Entity has at any time challenged or questioned the legal right of Feiya to conduct its operations as presently or previously conducted or as presently contemplated to be conducted.

4.10 Intellectual Property. The operation of the business of Feiya as it is currently conducted or is currently contemplated to be conducted by Feiya does not infringe or misappropriate the Intellectual Property Rights of any person, except to the extent as would not reasonably be expected to have a Feiya Material Adverse Effect.

4.11 No Changes from Feiya Financial Statements. Since the date of the Feiya balance sheet dated March 31, 2002 until the date hereof, there has not been a Feiya Material Adverse Effect.

4.12 Compliance with Laws. Feiya has complied with in all material respects, is not in violation of, and has not received any notices of violation with respect to, any applicable foreign, national, provincial or local statute, law or regulation.

4.13 Title of Properties; Absence of Liens and Encumbrances. Feiya has good and marketable title to, or, in the case of leased properties and assets, marketable leasehold interests in, all of its tangible properties and assets, real, personal and mixed, used or held for use in its business, free and clear of any Liens, except (i) as reflected in the Feiya Financial Statements, (ii) Liens for Taxes not yet due and payable, (iii) such imperfections of title and encumbrances, if any, which do not detract materially from the value or interfere materially with the present use of the property subject thereto or affected thereby, and (iv) such imperfections of title and encumbrances, if any, which do not collectively have a Feiya Material Adverse Effect.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF CRANE

Crane hereby represents and warrants to SMI and Feiya that on the date hereof and as of the Closing Dates, as though made on the Closing Dates, as follows:

5.1 Organization of Crane. Crane is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. Crane has no operations or business and at the Initial Closing its only assets shall be all of the proceeds of the Promissory Note and its only Liability shall be the Promissory Note. Crane is duly qualified or licensed to do business and is in good standing as a foreign corporation in each jurisdiction in which such qualification or license is required. Crane has delivered a true and correct copy of its Certificate of Incorporation and Bylaws, each as amended to date and in full force and effect on the date hereof, to SMI. Crane's Certificate of Incorporation at the Closing Dates shall be the same as on the date hereof. As of the date hereof and as of immediately prior to the Second Closing Date, Crane has no directors or officers. Crane's sole incorporator (the "Crane Incorporator") is Henry G. Chow.

5.2 Crane Capital Structure.

(a) As of the date hereof and immediately prior to the Second Closing, the authorized capital stock of Crane consists of and will consist of (i) 10,000 shares of Crane Common Stock, of which no shares are issued and outstanding, and (ii) no shares of preferred stock.

(b) Crane has never adopted or maintained any stock option plan or other plan providing for equity compensation of any person or issued any options, warrants or other rights (including commitments to grant options or other rights) to purchase or otherwise acquire Crane Common Stock.

5.3 Organization of Sub. Sub is a corporation duly organized, validly existing and in good standing under the laws of the State of California. Sub is duly qualified or licensed to do business and is in good standing as a foreign corporation in each jurisdiction in which such qualification or license is required.

5.4 Authority. Crane and Sub each has all requisite corporate power and authority to enter into this Agreement and the Agreement of Merger, subject to the adoption of this Agreement and the Agreement of Merger by Sub's shareholders to consummate the transactions contemplated hereby and thereby. The execution and delivery of this Agreement and the Agreement of Merger and the consummation of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action on the part of Crane and Sub, and no further action is required on the part of Crane or Sub to authorize this Agreement, the Agreement of Merger and the transactions contemplated hereby and thereby. This Agreement, the Merger and the Stock Purchases have been unanimously approved by the Boards of Directors of Crane and Sub, as applicable. This Agreement and the Agreement of Merger have been duly executed and delivered by Crane and Sub, as the case may be, and assuming the due authorization, execution and delivery by the other parties hereto and thereto, constitute the valid and binding obligations of Crane and Sub, as the case may be, enforceable against them in accordance with their respective terms, except as such enforceability may be subject to the laws of general application relating to bankruptcy, insolvency and the relief of debtors and rules of law governing specific performance, injunctive relief or other equitable remedies.

ARTICLE VI
REPRESENTATIONS AND WARRANTIES OF ALPINE

Alpine hereby represents and warrants to SMI that on the date hereof and as of the Initial Closing Date, as though made on the Initial Closing Date, as follows:

6.1 Authority. Alpine has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Alpine, and no further action is required on the part of Alpine to authorize the Agreement and the transactions contemplated hereby. This Agreement has been duly executed and delivered by Alpine, and assuming the due authorization, execution and delivery by the other parties hereto, constitute the valid and binding obligations of Alpine, enforceable against each such party in accordance with their respective terms, except as such enforceability may be subject to the laws of general application relating to bankruptcy, insolvency and the relief of debtors and rules of law governing specific performance, injunctive relief or other equitable remedies.

6.2 Title to Validity of Shares of Alpine Common Stock. Alpine now has, and at the Initial Closing Date will have, good and marketable title to and unrestricted power to vote and sell the Alpine Shares, free and clear of any Liens and, upon purchase and payment by Crane to Alpine of the Alpine Consideration in accordance with the terms of this Agreement, Crane will obtain good and valid title to all such Alpine Shares free and clear of any Liens. All Alpine Shares to be sold by Alpine pursuant to Section 2.1 hereof are registered in the name of Alpine.

ARTICLE VII
CONDUCT PRIOR TO THE CLOSINGS

7.1 Conduct of Business of SMI. During the period from the date of this Agreement and continuing until the earlier of the termination of this Agreement or the Final Closing, SMI shall and shall cause its Subsidiaries to use their best efforts, except to the extent that Feiya shall otherwise consent in writing or provided in this Agreement, to carry on SMI's and its Subsidiaries' businesses in the usual, regular and ordinary course in substantially the same manner as heretofore conducted, to pay the debts and Taxes of SMI and its Subsidiaries when due, to pay or perform other obligations when due, and, to the extent consistent with such business, use its commercially reasonable best efforts consistent with past practice and policies to preserve intact SMI's and its Subsidiaries' present business organizations, keep available the services of SMI's and its Subsidiaries' present officers and Key Employees and preserve SMI's and its Subsidiaries' relationships with customers, suppliers, distributors, licensors, licensees, and others having business dealings with it, all with the goal of preserving unimpaired SMI's and its Subsidiaries' goodwill and ongoing businesses at the Final Closing. During the period from the date of this Agreement and continuing until the earlier of the termination of this Agreement or the Final Closing, (i) SMI shall promptly notify Feiya of any material event or material occurrence or emergency not in the ordinary course of business of SMI or any Subsidiary, and (ii) except as expressly contemplated by this Agreement or as set forth in Schedule 7.1, SMI shall not, without the prior written consent of Feiya, and shall not permit any of its Subsidiaries, except as provided in this Agreement:

(a) enter into any commitment, activity, or transaction (including making any expenditure or entering into any commitment to make any capital expenditure) exceeding US$25,000 individually or US$100,000 in the aggregate, or any commitment or transaction of the type described in Section 3.9(c) hereof;

(b) (i) except for the granting of non-exclusive licenses of object code relating to the sale of SMI's products shipping on the date hereof entered into in the ordinary course of business, sell, license or transfer to any person or entity any rights to any SMI Intellectual Property or enter into any agreement with respect to any SMI Intellectual Property with any person or entity or with respect to any Intellectual Property of any person or entity, (ii) buy or license any Intellectual Property or enter into any agreement with respect to the Intellectual Property of any person or entity, (iii) enter into any agreement with respect to the development of any Intellectual Property with a third party, (iv) or change pricing or royalties charged by SMI to its customers or licensees, or the pricing or royalties set or charged by persons who have licensed Intellectual Property to SMI or any Subsidiary;

(c) enter into or amend any Contract pursuant to which any other party is granted marketing, distribution, development or similar rights of any type or scope with respect to any products or technology of SMI or any Subsidiary or enter into any strategic alliance or joint marketing arrangement or agreement;

(d) materially or adversely amend or otherwise modify (or agree to do so), or violate the terms of, any of the Contracts set forth or described in the Disclosure Schedule;

(e) commence or settle any litigation;

(f) declare, set aside or pay any dividends on or make any other distributions (whether in cash, stock or property) in respect of any SMI Common Stock or SMI Preferred Stock, or split, combine or reclassify any SMI Common Stock or SMI Preferred Stock, or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of SMI Common Stock or SMI Preferred Stock, or repurchase, redeem or otherwise acquire, directly or indirectly, any shares of SMI Common Stock or SMI Preferred Stock (or options, warrants or other rights exercisable therefor), or similar actions with the capital stock of any Subsidiary;

(g) issue, grant, deliver or sell or authorize or propose the issuance, grant, delivery or sale of, or purchase or propose the purchase of, any shares of capital stock of SMI or any Subsidiary or securities convertible into, or subscriptions, rights, warrants or options to acquire, or other agreements or commitments of any character obligating it to issue or purchase any such shares or other convertible securities, except for the issuance of shares of SMI Capital Stock upon the exercise of outstanding SMI Options;

(h) cause or permit any amendments to its Articles of Incorporation or Bylaws (or other equivalent organizational document) of SMI or any Subsidiary;

(i) acquire or agree to acquire by merging or consolidating with, or by purchasing any assets or equity securities of, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof, otherwise acquire or agree to acquire any assets which are material, individually or in the aggregate, to SMI's business, or otherwise acquire or agree to acquire any equity securities of any business;

(j) except as permitted pursuant to Section 7.1(b) hereof, sell, lease, license or otherwise dispose of any of its properties or assets;

(k) incur any indebtedness (except for normal trade payables incurred in the ordinary course of business consistent with past practice) or guarantee any indebtedness or issue or sell any debt securities or guarantee any debt securities of others;

(l) grant any loans to others or purchase debt securities of others or amend the terms of any outstanding loan agreement;

(m) grant any severance or termination pay (cash or otherwise) to any director, officer or employee, or adopt any new severance plan, amend or modify or alter in any manner any severance plan, agreement or arrangement existing on the date of this Agreement, or grant any equity-based compensation (all except pursuant to agreements entered into, and disclosed in writing to Feiya, prior to the date of this Agreement) whether payable in cash or stock;

(n) adopt or (except as required by law) amend any SMI Employee Plan, or enter into any employment contract, pay or agree to pay any special bonus or special remuneration (cash or otherwise) to any director or employee, or increase the salaries, wage rates or other compensation of its employees except payments made pursuant to standard written agreements in place on the date hereof and previously provided or disclosed to Feiya.

(o) revalue any of its assets, including without limitation writing down the value of inventory or writing off notes or accounts receivable, other than in the ordinary course of business or as required by GAAP;

(p) pay, discharge or satisfy, in an amount in excess of US$25,000 in any one case, or US$100,000 in the aggregate, any claim, liability or obligation (absolute, accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge or satisfaction in the ordinary course of business of liabilities reflected or reserved against in the Current Balance Sheet or incurred after March 31, 2002 in the ordinary course of business and not otherwise in violation of this Agreement;

(q) make or change any election in respect of Taxes, adopt or change any accounting method in respect of Taxes, enter into any closing agreement, settle any claim or assessment in respect of Taxes, or consent to any extension or waiver of the limitation period applicable to any claim or assessment in respect of Taxes;

(r) make any purchases, or enter into any Contract to purchase, any inventory, except in the ordinary course of business; or

(s) take, or agree in writing or otherwise to take, any of the actions described in Sections 7.1(a) through 7.1(r) hereof, or any other action that would (x) prevent SMI from performing or cause SMI not to perform their respective covenants hereunder, or (y) cause or result in any of their respective representations and warranties contained herein being untrue or incorrect.

7.2 No Solicitation.

(a) Except as contemplated by this Agreement, until the earlier of (i) the Final Closing, or (ii) the date of termination of this Agreement pursuant to the provisions of Section 11.1 hereof, SMI shall not (nor shall SMI permit any of SMI's officers, directors, employees, agents, or representatives to), directly or indirectly, take any of the following actions with any party other than Feiya, Crane and their designees: (i) solicit, encourage, initiate or participate in any inquiry, negotiations or discussions, or enter into any agreement, with respect to any offer or proposal to acquire all or any material part of SMI's business, properties or technologies, or any amount of SMI Capital Stock (whether or not outstanding), whether by merger, purchase of assets, tender offer, license or otherwise, or effect any such transaction, (ii) disclose any information not customarily disclosed to any person concerning SMI's business, technologies or properties, or afford to any person or entity access to its properties, technologies, books or records, not customarily afforded such access, (iii) assist or cooperate with any person to make any proposal to purchase all or any part of SMI Capital Stock or assets of SMI, other than inventory in the ordinary course of business, or (iv) enter into any agreement with any person providing for the acquisition of SMI, whether by merger, purchase of assets, license, tender offer or otherwise. In the event that SMI or any of SMI's affiliates shall receive, prior to the Closings or the termination of this Agreement, any offer, proposal, or request, directly or indirectly, of the type referenced in clause (a) or clause (c) above, or any request for disclosure or access of the type referenced in clause (b) above, SMI shall immediately notify Feiya thereof, including information as to the identity of the offeror or the party making any such offer or proposal and the specific terms of such offer or proposal, as the case may be, and such other information related thereto as Feiya may reasonably request.

(b) From and after the Effective Time of the Merger, Crane shall not (nor shall Crane permit any of Crane's officers, directors, employees, agents, or representatives to), directly or indirectly, take any of the following actions with any party other than Feiya and their designees: (i) solicit, encourage, initiate or participate in any inquiry, negotiations or discussions, or enter into any agreement, with respect to any offer or proposal to acquire all or any material part of Crane's business (including any shares of SMI Capital Stock), properties or technologies, or any amount of Crane Capital Stock (whether or not outstanding), whether by merger, purchase of assets, tender offer, license or otherwise, or effect any such transaction, (ii) disclose any information not customarily disclosed to any person concerning Crane's business, technologies or properties, or afford to any person or entity access to its properties, technologies, books or records, not customarily afforded such access, (iii) assist or cooperate with any person to make any proposal to purchase all or any part of Crane Capital Stock or assets of Crane (including any shares of SMI Capital Stock), or (iv) enter into any agreement with any person providing for the acquisition of Crane, whether by merger, purchase of assets, license, tender offer or otherwise. In the event that Crane or any of Crane's affiliates shall receive, prior to the Closings or the termination of this Agreement, any offer, proposal, or request, directly or indirectly, of the type referenced in clause (a) or clause (c) above, or any request for disclosure or access of the type referenced in clause (b) above, Crane shall immediately notify Feiya thereof, including information as to the identity of the offeror or the party making any such offer or proposal and the specific terms of such offer or proposal, as the case may be, and such other information related thereto as Feiya may reasonably request.

(c) The parties hereto agree that irreparable damage would occur in the event that the provisions of this Section 7.2 were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed by the parties hereto that Feiya shall be entitled to seek an injunction or injunctions to prevent breaches of the provisions of this Section 7.2 and to enforce specifically the terms and provisions hereof in any court of the United States or any state having jurisdiction, this being in addition to any other remedy to which Feiya may be entitled at law or in equity.

7.3 Conduct of Business of Crane. During the period from the date of this Agreement and continuing until the earlier of termination of this Agreement or the Final Closing, Crane agrees that other than the transactions contemplated by this Agreement, it will not conduct any business or incur any Liability.

7.4 Conduct of Business of Feiya. During the period from the date of this Agreement and continuing until the earlier of termination of this Agreement or the Final Closing, Feiya agrees to continue to conduct business in the ordinary course.

ARTICLE VIII
ADDITIONAL AGREEMENTS

8.1 Securities Act Compliance; SMI Shareholder Approval.

(a) The transactions contemplated by this Agreement (including the Merger and the Distribution) shall qualify for the exemption from the registration and prospectus delivery requirements of Section 5 of the Securities Act afforded by Section 4(2) of the Securities Act, Regulation D or Regulation S promulgated by the SEC under the Securities Act. Prior to the Initial Closing, SMI shall have provided to Feiya an executed Shareholder's Certificate in substantially the form attached hereto as Exhibit G (the "Shareholder's Certificate") for each SMI Shareholder receiving stock in the Merger, together with such other certifications and additional information as Feiya may reasonably request to ensure the availability of such exemptions from the registration and prospectus delivery requirements of the Securities Act.

(b) As soon as practicable after the execution of this Agreement, SMI shall prepare, with the cooperation of Feiya, a disclosure document for the SMI Shareholders to approve the principal terms of this Agreement, the Merger, the Stock Purchases, and the Distribution (the "Information Statement"). The Information Statement shall constitute a disclosure document for, among other things, cash to be received by the holders of SMI Common Stock, offer and issuance of the shares of Crane Common Stock to be received by the holders of SMI Preferred Stock in the Merger, and the distribution of the Feiya Common Stock to the Crane Stockholders. Feiya and SMI shall each use commercially reasonable efforts to cause the Information Statement to comply in all material respects with applicable federal and state securities laws requirements. Each of Feiya, Crane, and SMI agrees to provide promptly to the other such information concerning its business and financial statements and affairs as, in the reasonable judgment of the providing party or its counsel, may be required or appropriate for inclusion in the Information Statement, or in any amendments or supplements thereto, and to cause its counsel and auditors to cooperate with the other's counsel and auditors in the preparation of the Information Statement. Each of the parties hereto will promptly advise the other parties hereto, in writing if at any time prior to the Closings if SMI, Crane, or Feiya shall obtain knowledge of any facts that might make it necessary or appropriate to amend or supplement the Information Statement in order to make the statements contained or incorporated by reference therein not misleading or to comply with applicable law. The Information Statement shall contain the unanimous recommendation of the Board of Directors of SMI and Crane that the SMI Shareholders approve the principal terms of this Agreement, the Merger, the Stock Purchases, the Distribution and the conclusion of the Board of Directors of SMI and Crane that the terms and conditions of the Merger and the Stock Purchases are fair and reasonable to the SMI Shareholders. Anything to the contrary contained herein notwithstanding, SMI shall not include in the Information Statement any information with respect to Feiya or its affiliates or associates, the form and content of which information shall not have been approved by Feiya prior to such inclusion.

(c) SMI shall, promptly after the date hereof and in accordance with California Code, SMI's Articles of Incorporation and Bylaws and any contractual obligations of SMI to its Shareholders, seek the approval of the SMI Shareholders of the principal terms of this Agreement and the Merger. SMI shall ensure that such shareholder approval is solicited in compliance with California Code, SMI's Articles of Incorporation and Bylaws, any contractual obligations of SMI to its shareholders, and all other applicable legal requirements. SMI agrees to use its reasonable best efforts to secure the necessary votes required by California Code, its Articles of Incorporation, Bylaws, and any contractual obligations of SMI to effect the Merger.

(d) Crane shall, promptly after the date hereof and in accordance with Delaware Law, Crane's Certificate of Incorporation and Bylaws and any contractual obligations of Crane to its stockholders, seek approval of the Crane Stockholders of the principal terms of this Agreement, which constitutes the sale of substantially all of Crane's assets, the Stock Purchases, and the Distribution. Crane shall ensure that such stockholder approval is solicited in compliance with Delaware law, Crane's Certificate of Incorporation and Bylaws, any contractual obligations of Crane to its stockholders, and all other applicable legal requirements. Crane agrees to use its reasonable best efforts to secure the necessary votes required by Delaware Law to effect the Stock Purchases and this Agreement.

8.2 Legends. All certificates representing Crane Common Stock deliverable to any stockholder of SMI pursuant to this Agreement, or in connection with the Merger, and any certificates subsequently issued with respect thereto or in substitution therefor (including any shares issued or issuable in respect of any such shares upon any stock split, stock dividend, recapitalization, or similar event) also shall bear any legend required by the Commissioner of Corporations of the State of California or such as are required pursuant to any federal, state, local or foreign law governing such securities.

8.3 Access to Information. Subject to Section 8.4 below, SMI and Crane shall afford Feiya and its accountants, counsel and other representatives, reasonable access during the period prior to the Closings to (i) all of SMI's and its Subsidiaries' properties, books, contracts, commitments and records, including SMI's and its Subsidiaries' source code, (ii) all other information concerning the business, properties and personnel (subject to restrictions imposed by applicable law) of SMI and its Subsidiaries as Feiya may reasonably request, and (iii) all officers, Key Employees and directors of SMI and its Subsidiaries. SMI and Crane agree to provide to Feiya and its their accountants, counsel and other representatives copies of internal financial statements (including Tax returns and supporting documentation) promptly upon request. No information or knowledge obtained in any investigation pursuant to this Section 8.3 shall affect or be deemed to modify any representation or warranty contained herein or the conditions to the obligations of the parties to consummate the Merger and the Stock Purchases in accordance with the terms and provisions hereof.

8.4 Confidentiality. Each of the parties hereto hereby agrees that the information obtained in any investigation pursuant to Section 8.3 hereof, or pursuant to the negotiation and execution of this Agreement or the effectuation of the transactions contemplated hereby, shall be treated by the party receiving it as confidential; provided, however, that the foregoing shall not apply to information or knowledge which (a) a party can demonstrate was already lawfully in its possession prior to the disclosure thereof by the other party, (b) is generally known to the public and did not become so known through any violation of law, (c) became known to the public through no fault of such party, (d) is later lawfully acquired by such party from other sources, (e) is required to be disclosed by order of court or government agency without subpoena powers, or (f) which is disclosed in the course of any litigation between any of the parties hereto after the disclosing party has made reasonable efforts to keep such information confidential.

8.5 Public Disclosure. No party hereto shall issue any statement or communication to any third party (other than their respective agents or shareholders) regarding the subject matter of this Agreement or the transactions contemplated hereby, including, if applicable, the termination of this Agreement and the reasons therefor, without the consent of the other parties, which consent shall not be unreasonably withheld, except that this restriction shall be subject to Feiya's obligation to comply with applicable securities laws. After the Final Closing Date, Feiya shall have no obligations under this Section 8.5.

8.6 Consents. SMI shall use commercially reasonable efforts to obtain the consents, waivers and approvals under any of the Contracts as reasonably deemed appropriate or necessary by SMI or Feiya in connection with the Merger and the Stock Purchases, including all consents, waivers and approvals set forth in Schedule 3.6, so as to preserve all rights of, and benefits to, SMI thereunder from and after the Effective Time.

8.7 FIRPTA Compliance. On the Initial Closing Date, SMI shall deliver to Feiya a properly executed statement (a "FIRPTA Compliance Certificate") in a form reasonably acceptable to Feiya for purposes of satisfying Feiya's obligations under Treasury Regulation Section 1.1445-2(c)(3).

8.8 Reasonable Efforts. Subject to the terms and conditions provided in this Agreement, each of the parties hereto shall use commercially reasonable efforts to promptly take, or cause to be taken, all actions, and to promptly do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective the transactions contemplated hereby, to obtain all necessary waivers, consents and approvals and to effect all necessary registrations and filings and to remove any injunctions or other impediments or delays, legal or otherwise, in order to consummate and make effective the transactions contemplated by this Agreement; provided, however, that neither Feiya nor Crane shall be required to agree to any divestiture by Feiya, Crane, or SMI, or any of their subsidiaries or affiliates, of shares of capital stock or of any business, assets or property of Feiya or its subsidiaries or affiliates, or of SMI or its Subsidiaries or affiliates, or the imposition of any material limitation on the ability of any of them to conduct their businesses or to own or exercise control of such assets, properties and stock.

8.9 Notification of Certain Matters.

(a) SMI shall give prompt notice to Feiya of the occurrence or non-occurrence of any event, the occurrence or non-occurrence of which is likely to cause any representation or warranty of SMI contained in this Agreement to be untrue or inaccurate or any failure of SMI to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder, in each case, such that the conditions set forth in Sections 9.2(a)(ix), or 9.2(a)(xiii) would not be satisfied; provided, however, that the delivery of any notice pursuant to this Section 8.9 shall not (a) limit or otherwise affect any remedies available to the party receiving such notice or (b) constitute an acknowledgment or admission of a breach of this Agreement. No disclosure by SMI pursuant to this Section 8.9, however, shall be deemed to amend or supplement the Disclosure Schedule or prevent or cure any misrepresentations, breach of warranty or breach of covenant.

(b) Feiya shall give prompt notice to SMI of the occurrence or non-occurrence of any event, the occurrence or non-occurrence of which is likely to cause any representation or warranty of Feiya contained in this Agreement to be untrue or inaccurate or any failure of Feiya to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder, in each case, such that the conditions set forth in Sections 9.3(a)(ii), or 9.3(a)(v) would not be satisfied; provided, however, that the delivery of any notice pursuant to this Section 8.9 shall not (a) limit or otherwise affect any remedies available to the party receiving such notice or (b) constitute an acknowledgment or admission of a breach of this Agreement. No disclosure by Feiya pursuant to this Section 8.9, however, shall be deemed to amend or supplement the Disclosure Schedule or prevent or cure any misrepresentations, breach of warranty or breach of covenant.

8.10 Additional Documents and Further Assurances. Each party hereto, at the reasonable request of another party hereto, shall execute and deliver such other instruments and do and perform such other acts and things as may be reasonably necessary or reasonably desirable for effecting completely the consummation of the Merger, the Stock Purchases, the Agreement, the Non-Competition Agreements and the transactions contemplated hereby and thereby.

8.11 Termination of Options and Warrants. SMI shall use its commercially reasonable best efforts to terminate all unexercised SMI Options and SMI Warrants that would otherwise be outstanding immediately prior to the Effective Time, if any.

8.12 Feiya Common Stock Option Plan. Feiya shall cause to be established a stock option plan for SMI employees, directors, officers, and consultants determined by Board of Directors of Feiya which shall authorize approximately an aggregate of 18,000,000 shares of Feiya Common Stock for issuance thereunder. Such options shall be issued at the discretion of Feiya.

8.13 Appointment of Directors. The Crane Incorporator agrees to appoint, effective at the Effective Time of the Merger, (i) the individuals identified in Schedule 3.1 of the Disclosure Schedule as members of the Board of Directors of Crane; and (ii) Wallace Kou as President and Chief Executive Officer of Crane and Nai-Yu Pai as Vice President and Secretary of Crane.

8.14 Final Closing. Crane shall immediately proceed with the Final Closing upon the occurrence of the Second Closing.

8.15 Distribution. Crane shall use its best efforts to cause the Distribution to take place promptly after the Final Closing. Crane will cause the Distribution to be made in compliance with all applicable federal, state, and foreign securities laws. Crane will not distribute any Feiya Common Stock to an SMI Shareholder that has perfected, after the Merger, an Appraisal (a "Dissenter") with respect to the Merger. The portion of the Feiya Common Stock that would have been distributed to such Dissenter if such Dissenter had not sought an Appraisal and received Crane Common Stock in the Merger for its SMI Preferred Stock shall be delivered to Feiya at or prior to the Distribution in accordance with Section 2.2(f)(ii). Crane will not distribute any Feiya Common Stock to an SMI Shareholder that did not tender its consent to the Merger until such time has expired for such SMI Shareholder to notify SMI of its intent to exercise its dissenter's rights in accordance with the California Code. After such time period has expired, Crane shall distribute the Feiya Common Stock to such non-consenting SMI Shareholders in accordance with this Section 8.15.

8.16 Use of Loan Proceeds. Crane shall use the Loan Amount as consideration for the Initial Stock Purchase.

8.17 Repayment of Loan Amount to Lender. At the Final Closing, Crane shall repay Lender the aggregate principal amount of the Loan plus interest and any other amounts accruing under the Promissory Note, to be repaid using all of the proceeds received by Crane pursuant to the Final Stock Purchase. Such repayment shall satisfy in full all obligations of Crane owing to Lender under the terms of the Promissory Note.

8.18 Dissolution of Crane. In connection with the approval of the Stock Purchases and Merger, the Crane Stockholders shall approve the dissolution of Crane. Such dissolution shall be effected no later than December 31, 2002.

8.19 Transfer of SMI Intellectual Property. It is the intention of the parties that, as part of the Acquisition, all SMI Intellectual Property which can be transferred or assigned shall be transferred or assigned to Feiya effective upon the Final Closing without any additional consideration. At or prior to the Final Closing, SMI and Feiya shall execute a transfer and assignment agreement, the form of which shall be mutually agreed upon, setting forth the list of the SMI Intellectual Property to be transferred or assigned.

8.20 Mobile System On-a-Chip ("MSOC"). Immediately after the Final Closing, SMI will seek to secure third party financing for its MSOC business. In the event such financing cannot be secured with reasonable promptness after the Final Closing, SMI agrees that it will divest the MSCO business through a sale or disposition. In consideration for the tasks undertaken by Crane in the Acquisition, SMI and Feiya hereby grant Crane an assignable right of first refusal to act as placement agent (or other similar role) with respect to the financing of SMI's MSOC business. SMI and Feiya hereby also grant Crane an assignable right of first refusal to invest in SMI's MSOC business.

ARTICLE IX
CONDITIONS TO THE STOCK PURCHASES AND THE MERGER

9.1 Conditions to Obligations of Each Party to Effect the Stock Purchases and the Merger.

(a) The respective obligations of Feiya, Crane, SMI, and Alpine to effect the Merger and the Stock Purchases shall be subject to the satisfaction at or prior to the Initial Closing and the Second Closing of the following conditions:

(i) No Order. No Governmental Entity shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, executive order, decree, injunction or other order (whether temporary, preliminary or permanent) which is in effect and which has the effect of making the Merger or the Stock Purchases illegal or otherwise prohibiting consummation of the Merger or the Stock Purchases.

(ii) No Injunctions or Restraints; Illegality. No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Merger or the Stock Purchases shall be in effect, nor shall any proceeding brought by an administrative agency or commission or other governmental authority or instrumentality, domestic or foreign, seeking any of the foregoing be pending.

(iii) Promissory Note. Crane and Lender shall have entered into the Promissory Note and Crane shall have received the Loan Amount from Lender, which shall be sufficient to pay the Feiya Shares Consideration and the Alpine Consideration at the Initial Stock Purchase.

(iv) Feiya Shareholder Approval. This Agreement and the Agreement of Merger shall have been adopted and approved by Feiya's shareholders in accordance with Taiwan law and Feiya's Articles of Incorporation.

(v) Investment Commission Approval. Crane shall have received and delivered to Feiya the respective formal letters of approval, dated on or before the date of the Initial Closing (and still valid as of the Initial Closing), issued by the Investment Commission approving (1) the transfer of Alpine Shares from Alpine to Crane and (2) the issuance of Feiya Shares from Feiya to Crane.

(b) The respective obligations of Feiya and SMI to effect the Merger and the Stock Purchases shall be subject to the satisfaction at or prior to the Initial Closing and the Second Closing of the following conditions:

(i) Securities Exempt. The transactions contemplated by this Agreement, including the Merger, the Stock Purchases and the Distribution, shall qualify for the exemption from the registration and prospectus delivery requirements of Section 5 of the Securities Act afforded by Section 4(2) of the Securities Act through Regulation D or Regulation S promulgated by the SEC under the Securities Act.

(ii) No Litigation. There shall be no material action, suit, claim or proceeding of any nature pending or threatened against Feiya, Crane, Sub or SMI, their respective properties or assets (whether tangible or intangible), or any of their respective officers or directors.

(c) The respective obligations of Feiya and Crane to effect the Final Stock Purchase shall be subject to the satisfaction at or prior to the Final Closing the following condition:

(i) Occurrence of Second Closing. The Second Closing shall have occurred.

9.2 Conditions to the Obligations of Feiya and Alpine.

(a) Initial Closing. The respective obligations of Feiya and Alpine to effect the Initial Stock Purchase and Initial Closing shall be subject to the satisfaction at or prior to the Initial Closing of each of the following conditions, any of which may be waived, in writing, exclusively by Feiya:

(i) Resignation of Directors. Feiya shall have received a written resignation from each of the directors of SMI effective as of the Second Closing.

(ii) SMI Shareholder Approval. This Agreement and the transactions contemplated hereby and thereby, including the Merger, the Final Stock Purchase and the Distribution shall have been adopted and approved in accordance with the California Code (and Delaware General Corporations Law, as applicable) and SMI's Articles of Incorporation and Crane's Certificate of Incorporation, as applicable) and by:

(1) the SMI Shareholders holding at least sixty percent (60%) of SMI Common Stock voting together as a separate class,

(2) the SMI Shareholders holding at least fifty percent (50%) of all SMI Common Stock, Series A Preferred, Series B Preferred, Series C Preferred, Series D-1 Preferred, Series D-2 Preferred and Series E Preferred voting together as a separate class,

(3) the SMI Shareholders holding at least ninety percent (90%) of SMI Preferred Stock, voting together as a separate class,

(4) the SMI Shareholders holding at least fifty percent (50%) of the SMI Series A Preferred, Series B Preferred, Series C Preferred and Series D Preferred, voting together as a separate class,

(5) the SMI Shareholders holding at least fifty percent (50%) of Series A Preferred, voting together as a separate class,

(6) the SMI Shareholders holding at least fifty percent (50%) of Series B Preferred, voting together as a separate class,

(7) the SMI Shareholders holding at least fifty percent (50%) of Series C Preferred, voting together as a separate class,

(8) the SMI Shareholders holding at least fifty percent (50%) of Series D-1 Preferred, voting together as a separate class,

(9) the SMI Shareholders holding at least fifty percent (50%) of Series D-2 Preferred, voting together as a separate class, and

(10) the SMI Shareholders holding at least fifty percent (50%) of Series E Preferred, voting together as a separate class.

(iii) SMI Certificate of Good Standing (Initial Closing). Feiya shall have received a long-form certificate of good standing of SMI from the Secretary of State of the State of California dated within five (5) days prior to the Initial Closing.

(iv) Certificate of Officer of SMI (Initial Closing). Feiya shall have received a certificate, validly executed by the Chief Executive Officer of SMI for and on its behalf, to the effect that:

(1) all covenants and obligations under this Agreement required to be performed by SMI on or before the Initial Closing Date have been so performed in all material respects (unless otherwise waived in accordance with the terms hereof); and

(2) the conditions to the obligations of Feiya set forth in this Section 9.2(a) have been satisfied (unless otherwise waived in accordance with the terms hereof).

(v) Certificate of Secretary of SMI (Initial Closing). Feiya shall have received certificates dated as of the Initial Closing Date, validly executed by the Secretary of SMI, certifying as to (i) the terms and effectiveness of the Articles of Incorporation and the Bylaws of SMI, (ii) the valid adoption of resolutions of the Board of Directors of SMI approving this Agreement and the consummation of the transactions contemplated hereby, including the Merger and the Final Stock Purchase and the Distribution, and (iii) the valid adoption of resolutions of the SMI Shareholders adopting this Agreement in accordance with the requirements set forth in Section 9.2(a)(ii).

(vi) SMI Shareholders' Certificates. Each SMI Shareholder shall have executed a Shareholder's Certificate and shall have provided such other representations, warranties, certifications and additional information as Feiya may reasonably request to ensure the availability of such exemptions from the registration and prospectus delivery requirements of the Securities Act.

(vii) Waiver and Termination of Existing Agreements. The parties to the Amended and Restated Voting Agreement, Amended and Restated Right of First Refusal and Third Amended and Restated Investors' Rights Agreement each dated as of November 22, 2000, by and among SMI and the parties set forth therein (the "Existing Agreements"), shall have waived their rights thereunder, and the Existing Agreements shall have been amended to terminate upon the Effective Time.

(viii) Cancellation of All SMI Options. All SMI Options shall have been canceled or extinguished as of the Second Closing for SMI Options granted pursuant to the 1996 Plan or 15 days after the Effective Date for SMI Options granted pursuant to the 1999 Plan.

(ix) Representations and Warranties, True and Correct. The representations and warranties of SMI contained in this Agreement (i) shall have been true and correct in all respects as of the date of this Agreement (or as of such other date specified therein) and (ii) shall be true and correct in all respects on and as of the Initial Closing Date with the same force and effect as if made on and as of such Closing Date (or as of such other date specified therein), except, with respect to clauses (i) and (ii), in each case, or in the aggregate, as does not constitute a Material Adverse Effect on SMI; provided, however, that such Material Adverse Effect qualifier shall be inapplicable with respect to representations and warranties contained in Sections 3.4 and 3.21 each of which individually shall have been true and correct in all respects as of the date of this Agreement and shall be true and correct in all material respects on and as of such Closing Date, and provided, further, that such Material Adverse Effect qualifier shall be inapplicable with respect to representations and warranties contained in Section 3.13, which individually shall have been true and correct in all material respects as of the date of this Agreement and shall be true and correct in all material respects on and as of such Closing Date (it being understood that, for purposes of determining the accuracy of such representations and warranties, (x) all "Material Adverse Effect" and materiality qualifications and other qualifications based on the word "material" or similar phrases contained in such representations and warranties shall be disregarded, and (y) any update of or modification to the Disclosure Schedule made or purported to have been made after the date of this Agreement shall be disregarded). Feiya and Alpine shall have received certificates with respect to the foregoing signed on behalf of SMI by a duly authorized officer thereof.

(x) No Material Adverse Change. There shall not have occurred any event or condition of any character that has had or is reasonably likely to have a SMI Material Adverse Effect since the date of this Agreement.

(xi) FIRPTA Certificate. Feiya shall have received a copy of the FIRPTA Compliance Certificate, validly executed by a duly authorized officer of SMI.

(xii) Continued Employment. All Key Employees shall have accepted offers of employment at Feiya or the Surviving Corporation and executed and delivered such company's standard confidentiality and assignment of inventions agreement.

(xiii) Covenants. SMI shall have performed and complied with, in all material respects, all covenants and obligations under this Agreement required to be performed and complied with by SMI as of the Initial Closing.

(b) Second Closing. The Respective obligations of Feiya and Alpine to effect the Merger shall be subject to the satisfaction at or prior to the Second Closing of each of the following conditions, any of which may be waived, in writing, exclusively by Feiya.

(i) Representations and Warranties, True and Correct. The representations and warranties of SMI contained in this Agreement (i) shall have been true and correct in all respects as of the date of this Agreement (or as of such other date specified therein) and (ii) shall be true and correct in all respects on and as of the Second Closing Date with the same force and effect as if made on and as of such Closing Date (or as of such other date specified therein), except, with respect to clauses (i) and (ii), in each case, or in the aggregate, as does not constitute a Material Adverse Effect on SMI; provided, however, that such Material Adverse Effect qualifier shall be inapplicable with respect to representations and warranties contained in Sections 3.4 and 3.21 each of which individually shall have been true and correct in all respects as of the date of this Agreement and shall be true and correct in all material respects on and as of such Closing Date, and provided, further, that such Material Adverse Effect qualifier shall be inapplicable with respect to representations and warranties contained in Section 3.13, which individually shall have been true and correct in all material respects as of the date of this Agreement and shall be true and correct in all material respects on and as of such Closing Date (it being understood that, for purposes of determining the accuracy of such representations and warranties, (x) all "Material Adverse Effect" and materiality qualifications and other qualifications based on the word "material" or similar phrases contained in such representations and warranties shall be disregarded, and (y) any update of Section or modification to the Disclosure Schedule made or purported to have been made after the date of this Agreement shall be disregarded). Feiya and Alpine shall have received certificates with respect to the foregoing signed on behalf of SMI by a duly authorized officer thereof.

(ii) Covenants. SMI shall have performed and complied with, in all material respects, all covenants and obligations under this Agreement required to be performed and complied with by SMI.

(iii) SMI Certificate of Good Standing (Second Closing). Feiya shall have received a long-form certificate of good standing of SMI from the Secretary of State of the State of California dated within five (5) days prior to the Second Closing.

(iv) Certificate of Officer of SMI (Second Closing). Feiya shall have received a certificate, validly executed by the Chief Executive Officer of SMI for and on its behalf, to the effect that:

(1) all covenants and obligations under this Agreement required to be performed by SMI on or before the Second Closing Date have been so performed in all material respects (unless otherwise waived in accordance with the terms hereof); and

(2) the conditions to the obligations of Feiya set forth in this Section 9.2(b) have been satisfied (unless otherwise waived in accordance with the terms hereof).

(v) Certificate of Secretary of SMI (Second Closing). Feiya shall have received certificates dated as of the Second Closing Date, validly executed by the Secretary of SMI, certifying as to (i) the terms and effectiveness of the Articles of Incorporation and the Bylaws of SMI, (ii) the valid adoption of resolutions of the Board of Directors of SMI approving this Agreement and the consummation of the transactions contemplated hereby, including the Merger and the Stock Purchases, and (iii) the valid adoption of resolutions of the SMI Shareholders adopting this Agreement in accordance with the requirements set forth in Section 9.2(a)(ii).

(vi) Milbank Legal Opinion. Feiya and Alpine shall have received a legal opinion from Milbank, Tweed, Hadley & McCloy LLP, special legal counsel to SMI, in the form to be agreed upon by the parties and attached hereto as Exhibit H.

(vii) Continued Employment. All Key Employees shall have accepted offers of employment at Feiya or the Surviving Corporation and executed and delivered such company's standard confidentiality and assignment of inventions agreement.

(viii) No Material Adverse Change. There shall not have occurred any event or condition of any character that has had or is reasonably likely to have a SMI Material Adverse Effect since the date of this Agreement.

9.3 Conditions to Obligations of SMI.

(a) Initial Closing. The obligations of SMI to consummate and effect the Merger, the Stock Purchases and the transactions contemplated hereby shall be subject to the satisfaction at or prior to the Initial Closing of the following conditions, any of which may be waived, in writing, exclusively by SMI:

(i) No Material Adverse Change. There shall not have occurred any event or condition of any character that has had or is reasonably likely to have a Feiya Material Adverse Effect since the date of this Agreement.

(ii) Representations and Warranties of Feiya. The representations and warranties of Feiya in this Agreement (i) shall have been true and correct in all respects as of the date of this Agreement, and (ii) shall be true and correct in all respects on the Initial Closing Date with the same force and effect as if made on such date, except, with respect to clauses (i) and (ii), (A) in each case, or in the aggregate, as does not constitute a Feiya Material Adverse Effect, (B) for changes contemplated by this Agreement, (C) for those representations and warranties which address matters only as of a particular date (which representations shall have been true and correct (subject to the Feiya Material Adverse Effect qualifications as set forth in the preceding clause (A)) as of such particular date), (it being understood that, for purposes of determining the accuracy of such representations and warranties, all "Feiya Material Adverse Effect" qualifications and other qualifications based on the word "material" or similar phrases contained in such representations and warranties shall be disregarded). SMI shall have received a certificate with respect to the foregoing signed on behalf of Feiya by duly authorized officer thereof.

(iii) Representations and Warranties of Crane. The representations and warranties of Crane in this Agreement (i) shall have been true and correct in all material respects as of the date of this Agreement, and (ii) shall be true and correct in all material respects on the Initial Closing Date with the same force and effect as if made on the such date.

(iv) Representations and Warranties of Alpine. The representations and warranties of Alpine in this Agreement (i) shall have been true and correct in all material respects as of the date of this Agreement, and (ii) shall be true and correct in all material respects on the Initial Closing Date with the same force and effect as if made on such date.

(v) Feiya Covenants. Feiya shall have performed and complied in all material respects with all covenants and obligations of this Agreement required to be performed and complied with by it as of the Initial Closing.

(vi) Crane Covenants. Crane shall have performed and complied in all material respects with all covenants and obligations of this Agreement required to be performed and complied with by it as of the Initial Closing.

(vii) Certificate of Feiya (Initial Closing). SMI shall have received a certificate executed on behalf of Feiya by the Chairman to the effect that:

(1) all covenants and obligations under this Agreement to be performed by Feiya on or before the Initial Closing Date have been so performed in all material respects;

(2) the conditions to the obligations of SMI set forth in this Section 9.3(a) related to Feiya have been satisfied (unless otherwise waived in accordance with the terms hereof);

(3) the terms and effectiveness of the Articles of Incorporation of Feiya;

(4) the valid adoption of resolutions of the Board of Directors of Feiya approving this Agreement and the consummation of the transactions contemplated hereby, including the Stock Purchases; and

(5) the valid adoption of resolutions of the Feiya Shareholders adopting this Agreement.

(viii) Certificate of Crane (Initial Closing). SMI shall have received a certificate executed on behalf of Crane Incorporator to the effect that:

(1) all covenants and obligations under this Agreement to be performed by Crane on or before the Initial Closing Date have been so performed in all material respects;

(2) the conditions to the obligations of SMI set forth in this Section 9.3(a) related to Crane have been satisfied (unless otherwise waived in accordance with the terms hereof);

(3) the terms and effectiveness of the Certificate of Incorporation and the Bylaws of Crane; and

(4) the valid corporate approval of Crane approving this Agreement and the consummation of the transactions contemplated hereby, including the Merger, the Stock Purchases and the Distribution.

(ix) Crane Certificate of Good Standing. SMI shall have received a long-form certificate of good standing of Crane from the Secretary of State of the State of Delaware dated within five (5) days prior to the Initial Closing.

(x) Sub Certificate of Good Standing. SMI shall have received a long-form certificate of good standing of Sub from the Secretary of State of the State of California dated within five (5) days prior to the Initial Closing.

(b) Second Closing. The obligations of SMI to consummate and effect the Merger, the Stock Purchases and the transactions contemplated hereby shall be subject to the satisfaction at or prior to the Second Closing of the following conditions, any of which may be waived, in writing, exclusively by SMI:

(i) Representations and Warranties of Feiya. The representations and warranties of Feiya in this Agreement (i) shall have been true and correct in all respects as of the date of this Agreement, and (ii) shall be true and correct in all respects on the Second Closing Date with the same force and effect as if made on such date, except, with respect to clauses (i) and (ii), (A) in each case, or in the aggregate, as does not constitute a Feiya Material Adverse Effect, (B) for changes contemplated by this Agreement, (C) for those representations and warranties which address matters only as of a particular date (which representations shall have been true and correct (subject to the Feiya Material Adverse Effect qualifications as set forth in the preceding clause (A)) as of such particular date), (it being understood that, for purposes of determining the accuracy of such representations and warranties, all "Feiya Material Adverse Effect" qualifications and other qualifications based on the word "material" or similar phrases contained in such representations and warranties shall be disregarded). SMI shall have received a certificate with respect to the foregoing signed on behalf of Feiya by duly authorized officer thereof.

(ii) Representations and Warranties of Crane. The representations and warranties of Crane in this Agreement (i) shall have been true and correct in all material respects as of the date of this Agreement, and (ii) shall be true and correct in all material respects on the Second Closing Date with the same force and effect as if made on the such date.

(iii) Representations and Warranties of Alpine. The representations and warranties of Alpine in this Agreement (i) shall have been true and correct in all material respects as of the date of this Agreement, and (ii) shall be true and correct in all material respects on the Second Closing Date with the same force and effect as if made on such date.

(iv) Feiya Covenants. Feiya shall have performed and complied in all material respects with all covenants and obligations of this Agreement required to be performed and complied with by it as of the Second Closing.

(v) Crane Covenants. Crane shall have performed and complied in all material respects with all covenants and obligations of this Agreement required to be performed and complied with by it as of the Second Closing.

(vi) Certificate of Feiya (Second Closing). SMI shall have received a certificate executed on behalf of Feiya by the Chairman to the effect that:

(1) all covenants and obligations under this Agreement to be performed by Feiya on or before the Second Closing Date have been so performed in all material respects;

(2) the conditions to the obligations of SMI set forth in this Section 9.3(b) relate to Feiya have been satisfied (unless otherwise waived in accordance with the terms hereof);

(3) the terms and effectiveness of the Articles of Incorporation of Feiya;

(4) the valid adoption of resolutions of the Board of Directors of Feiya approving this Agreement and the consummation of the transactions contemplated hereby, including the Stock Purchases; and

(5) the valid adoption of resolutions of the Feiya Shareholders adopting this Agreement.

(vii) Certificate of Crane (Second Closing). SMI shall have received a certificate executed on behalf of the Crane Incorporator to the effect that:

(1) all covenants and obligations under this Agreement to be performed by Crane on or before the Second Closing Date have been so performed in all material respects;

(2) the conditions to the obligations of SMI set forth in this Section 9.3(b) related to Crane have been satisfied (unless otherwise waived in accordance with the terms hereof);

(3) the terms and effectiveness of the Certificate of Incorporation and the Bylaws of Crane;

(4) the valid corporate approval of Crane approving this Agreement and the consummation of the transactions contemplated hereby, including the Merger, the Stock Purchases and the Distribution; and

(viii) Jones Day Legal Opinion. SMI shall have received a legal opinion from Jones, Day, Reavis & Pogue, special legal counsel to Feiya, in the form to be agreed upon by the parties and attached hereto as Exhibit I.

(ix) No Material Adverse Change. There shall not have occurred any event or condition of any character that has had or is reasonably likely to have a Feiya Material Adverse Effect since the date of this Agreement.

ARTICLE X
SURVIVAL OF REPRESENTATIONS AND WARRANTIES; ESCROW; INDEMNIFICATION

10.1 Survival of Representations and Warranties. The representations and warranties of SMI, Crane, Feiya, and Alpine contained in this Agreement, or in any certificate or other instrument delivered pursuant to this Agreement, shall terminate on the first anniversary of the Final Closing Date (the "Termination Date").

10.2 Recovery For Losses.

(a) Indemnification. Crane (solely to the extent of the Escrow Shares) agrees to indemnify and hold Feiya and its officers, directors and affiliates, including SMI after the Final Closing, (each an "Indemnified Party" and together the "Indemnified Parties") harmless, on and after the Second Closing Date, against all claims, losses, liabilities, damages, deficiencies, costs and expenses, including reasonable attorneys' fees and expenses of investigation and defense (hereinafter individually a "Loss" and collectively "Losses") incurred or sustained by an Indemnified Party, directly or indirectly as a result of (i) any inaccuracy or breach of a representation or warranty of SMI contained in this Agreement or in any certificate, instrument or other document delivered by SMI pursuant to the terms of this Agreement, (ii) any failure by SMI to perform or comply with any covenant contained herein, (iii) any Excess Dissenting Share Payments and (iv) any failure by Crane after the Merger to perform or comply with any covenant contained herein. For purposes of this ARTICLE X, any qualification set forth in any representation or warranty to the effect that the impact of the matter described therein (or omitted from disclosure thereunder) shall be material to SMI or its Subsidiaries or have an SMI Material Effect to SMI or its Subsidiaries in order for such representation or warranty to be inadequate or breached shall be disregarded. Neither Crane nor the Crane Stockholders shall have any right of contribution from Feiya or SMI with respect to any Loss claimed by an Indemnified Party.

(b) Escrow Fund. As security for the indemnity provided for in Section 10.2(a) hereof and by virtue of this Agreement, at the Final Closing, Crane will be deemed to have deposited with the Escrow Agent the Escrow Shares (plus any additional shares as may be issued in respect of any stock split, stock dividend or recapitalization effected by Feiya after the Initial Closing) without any act of any party. The Escrow Shares shall be available to compensate the Indemnified Parties for any claims by such parties for any Losses suffered or incurred by them and for which they are entitled to recovery under this ARTICLE X. At the Initial Closing, the Escrow Shares, without any act of Crane, will be deposited with the Escrow Agent, such deposit of the Escrow Shares to constitute an escrow fund (the "Escrow Fund") to be governed by the terms set forth herein. The Escrow Agent may execute this Agreement following the date hereof and prior to the Initial Closing, and such later execution, if so executed after the date hereof, shall not affect the binding nature of this Agreement as of the date hereof between the other signatories hereto.

(c) Basket. Notwithstanding any provision of this Agreement to the contrary, Feiya may not recover any Losses unless and until one or more Officer's Certificates (as defined in Section 10.2(e)(iv) below) identifying Losses in excess of US$200,000 in the aggregate (the "Basket Amount") has or have been delivered to the Escrow Agent as provided in Section 10.2(l) hereof, in which case Feiya shall be entitled to recover all Losses so identified in excess of the Basket Amount. Notwithstanding the foregoing, Feiya shall be entitled to recover for, and the Basket Amount shall not apply as a threshold to, any and all claims or payments made with respect to any Excess Dissenting Share Payments.

(d) Escrow Period; Distribution upon Termination of Escrow Periods. Subject to the following requirements, the Escrow Fund shall be in existence immediately following the Final Closing and shall terminate at 5:00 p.m. Pacific time on the first anniversary of the Final Closing Date (the "Escrow Period"); provided, however, that the Escrow Period shall not terminate with respect to any amount which, in the reasonable judgment of Feiya, subject to the objection of the Crane Representative and the subsequent arbitration of the matter in the manner provided in Section 10.2(h) hereof, is necessary to satisfy any then pending and unsatisfied claims specified in any Officer's Certificate (as defined in Section 10.2(l) below) delivered to the Escrow Agent pursuant to Section 10.2(e)(iv) below prior to the termination of the Escrow Period with respect to facts and circumstances existing prior to the termination of such Escrow Period. As soon as all such claims have been resolved, the Escrow Agent shall deliver to Crane the remaining portion of the Escrow Fund, if any, not required to satisfy such claims. In the event that Crane has liquidated prior to the release of any shares from the Escrow Fund, the Escrow Shares shall be distributed *pro rata* in accordance with the stock ownership of Crane immediately prior to the dissolution.

(e) Protection of Escrow Fund; Distribution of Interest from Escrow Fund.

(i) The Escrow Agent shall hold and safeguard the Escrow Fund during the Escrow Period, shall treat such fund as a trust fund in accordance with the terms of this Agreement and not as the property of Feiya and shall hold and dispose of the Escrow Fund only in accordance with the terms hereof.

(ii) Any shares of Feiya Common Stock or other equity securities issued or distributed by Feiya (including shares issued upon a stock split) ("New Shares") in respect of Feiya Common Stock in the Escrow Fund which have not been released from the Escrow Fund shall be added to the Escrow Fund and become a part thereof. New Shares issued in respect of shares of Feiya Common Stock which have been released from the Escrow Fund shall not be added to the Escrow Fund but shall be distributed to the record holders thereof. Cash dividends on Feiya Common Stock shall not be added to the Escrow Fund but shall be distributed to Crane.

(iii) Any rights issued with respect to Feiya Common Stock in the Escrow Fund shall be distributed to Crane.

(iv) Crane shall have voting rights with respect to the shares of Feiya Common Stock contributed to the Escrow Fund (and on any voting securities added to the Escrow Fund constituting New Shares).

(f) Claims Upon Escrow Fund.

(i) Upon receipt by the Escrow Agent at any time on or before the date thirty (30) days after the end of the Escrow Period of a certificate signed by any officer of Feiya: (A) stating that Feiya has paid, sustained or properly accrued or reasonably anticipates that it will have to pay, sustain or accrue Losses, (B) specifying in reasonable detail the individual items of Losses included in the amount so stated, the date each such item was paid, sustained or properly accrued, or the basis for such anticipated liability, and the nature of the misrepresentation, breach of warranty or covenant or other indemnity to which such item is related, (C) the number of shares of Feiya Common Stock to be delivered to Feiya out of the Escrow Fund and the basis of the calculation, and (D) the person to which such shares of Feiya Common Stock shall be delivered (the "Feiya Designee"), the Escrow Agent shall, subject to the provisions of Section 10.2(g) hereof, deliver to the Feiya Designee out of the Escrow Fund, as promptly as practicable, shares of Feiya Common Stock held in the Escrow Fund in an amount equal to such Losses (an "Officer's Certificate").

(ii) For the purposes of determining the number of shares of Feiya Common Stock to be delivered to the Feiya Designee out of the Escrow Fund pursuant to this ARTICLE X ,

(1) in the event the shares of Feiya Common Stock are not publicly traded securities on a securities exchange or official over-the-counter market, the shares of Feiya Common Stock shall be valued at NT$27.38, or

(2) in the event the shares of Feiya Common Stock are publicly traded securities on a securities exchange or official over-the-counter market, the shares of Feiya Common Stock shall be valued as the average of the closing price of Feiya Common Stock on the principal market for such Feiya Common Stock over the period of ten (10) trading days ending the day before delivery of such shares out of the Escrow Fund.

(g) Objections to Claims. At the time of delivery of any Officer's Certificate to the Escrow Agent, a duplicate copy of such certificate shall be delivered to the Crane Representative (as defined in Section 10.2(j)) and for a period of thirty (30) days after such delivery, the Escrow Agent shall make no delivery to the Feiya Designee of any Escrow Shares pursuant to Section 10.2(l)(i) hereof unless the Escrow Agent shall have received written authorization from the Crane Representative to make such delivery. After the expiration of such thirty (30) day period, the Escrow Agent shall make delivery of shares of Feiya Common Stock from the Escrow Fund in accordance with Section 10.2(e)(iv) hereof, provided, however, that no such payment or delivery may be made if the Crane Representative shall object in a written statement to the claim made in the Officer's Certificate, and such statement shall have been delivered to the Escrow Agent prior to the expiration of such thirty (30) day period.

(h) Resolution of Conflicts; Arbitration.

(i) In case the Crane Representative shall object in writing to any claim or claims made in any Officer's Certificate to recover Losses from the Escrow Fund within thirty (30) days after delivery of such Officer's Certificate, such Crane Representative and Feiya shall attempt in good faith to agree upon the rights of the respective parties with respect to each of such claims. If the Crane Representative and Feiya should so agree, a memorandum setting forth such agreement shall be prepared and signed by both parties and shall be furnished to the Escrow Agent. The Escrow Agent shall be entitled to rely on any such memorandum and distribute shares of Feiya Common Stock from the Escrow Fund in accordance with the terms hereof.

(ii) If no such agreement can be reached after good faith negotiation and prior to sixty (60) days after delivery of an Officer's Certificate, either Feiya or the Crane Representative may demand arbitration of the matter unless the amount of the Loss is at issue in pending litigation with a third party, in which event arbitration shall not be commenced until such amount is ascertained or both parties agree to arbitration, and in either such event the matter shall be settled by arbitration conducted by one arbitrator mutually agreeable to Feiya and the Crane Representative. In the event that, within thirty (30) days after submission of any dispute to arbitration, Feiya and the Crane Representative cannot mutually agree on one arbitrator, then, within fifteen (15) days after the end of such thirty (30) day period, Feiya and the Crane Representative shall each select one arbitrator. The two arbitrators so selected shall select a third arbitrator.

(iii) Any such arbitration shall be held in Santa Clara County, California, under the rules then in effect of the American Arbitration Association. The arbitrator(s) shall determine how all expenses relating to the arbitration shall be paid, including without limitation, the respective expenses of each party, the fees of each arbitrator and the administrative fee of the American Arbitration Association. The arbitrator or arbitrators, as the case may be, shall set a limited time period and establish procedures designed to reduce the cost and time for discovery while allowing the parties an opportunity, adequate in the sole judgment of the arbitrator or majority of the three arbitrators, as the case may be, to discover relevant information from the opposing parties about the subject matter of the dispute. The arbitrator or a majority of the three arbitrators, as the case may be, shall rule upon motions to compel or limit discovery and shall have the authority to impose sanctions, including attorneys' fees and costs, to the same extent as a competent court of law or equity, should the arbitrators or a majority of the three arbitrators, as the case may be, determine that discovery was sought without substantial justification or that discovery was refused or objected to without substantial justification. The decision of the arbitrator or a majority of the three arbitrators, as the case may be, as to the validity and amount of any claim in such Officer's Certificate shall be final, binding, and conclusive upon the parties to this Agreement. Such decision shall be written and shall be supported by written findings of fact and conclusions which shall set forth the award, judgment, decree or order awarded by the arbitrator(s). Within thirty (30) days of a decision of the arbitrator(s) requiring payment by one party to another, such party shall make the payment to such other party.

(iv) Judgment upon any award rendered by the arbitrator(s) may be entered in any court having jurisdiction. The forgoing arbitration provision shall apply to any dispute between Crane and the Indemnified Party under this ARTICLE X hereof.

(i) Crane Representative; Power of Attorney. Michael Lin shall be appointed as agent and attorney-in-fact (the "Crane Representative") for and on behalf of Crane, to give and receive notices and communications, to authorize delivery to Feiya shares of Feiya Common Stock from the Escrow Fund in satisfaction of claims by an Indemnified Party, to object to such deliveries, to agree to, negotiate, enter into settlements and compromises of, and demand arbitration and comply with orders of courts and awards of arbitrators with respect to such claims, and to take all actions necessary or appropriate in the judgment of the Crane Representative for the accomplishment of the foregoing. Such agency may be changed by Crane from time to time upon not less than thirty (30) days prior written notice to Feiya. Any vacancy in the position of Crane Representative may be filled by Crane.

(j) Actions of the Crane Representative. A decision, act, consent or instruction of the Crane Representative, including but not limited to an amendment, extension or waiver of this Agreement pursuant to Section 11.3 and Section 11.4 hereof, shall constitute a decision of Crane and shall be final, binding and conclusive upon Crane, the Escrow Agent, and Feiya may rely upon any such decision, act, consent or instruction of the Crane Representative as being the decision, act, consent or instruction of Crane. The Escrow Agent and Feiya are hereby relieved from any liability to any person for any acts done by them in accordance with such decision, act, consent or instruction of the Crane Representative.

(k) Third-Party Claims. In the event Feiya becomes aware of a third party claim which Feiya believes may result in a demand against the Escrow Fund, Feiya shall notify the Crane Representative of such claim, and the Crane Representative, as representative for Crane, shall be entitled, at its expense, to participate in, but not to determine or conduct, the defense of such claim. Feiya shall have the right in its sole discretion to conduct the defense of and settle any such claim; provided, however, that except with the consent of the Crane Representative, no settlement of any such claim with third party claimants shall alone be determinative of the amount of Losses relating to such matter. In the event that the Crane Representative has consented to any such settlement, Crane shall have no power or authority to object under any provision of this ARTICLE X to the amount of any claim by Feiya against the Escrow Fund with respect to such settlement.

(l) Escrow Agent's Duties.

(i) The Escrow Agent shall be obligated only for the performance of such duties as are specifically set forth herein, and as set forth in any additional written escrow instructions which the Escrow Agent may receive after the date of this Agreement which are signed by an officer of Feiya and the Crane Representative, and may rely and shall be protected in relying or refraining from acting on any instrument reasonably believed to be genuine and to have been signed or presented by the proper party or parties. The Escrow Agent shall not be liable for any act done or omitted hereunder as Escrow Agent while acting in good faith and in the exercise of reasonable judgment, and any act done or omitted pursuant to the advice of counsel shall be conclusive evidence of such good faith.

(ii) The Escrow Agent is hereby expressly authorized to comply with and obey orders, judgments or decrees of any court of law, notwithstanding any notices, warnings or other communications from any party or any other person to the contrary. In case the Escrow Agent obeys or complies with any such order, judgment or decree of any court, the Escrow Agent shall not be liable to any of the parties hereto or to any other person by reason of such compliance, notwithstanding any such order, judgment or decree being subsequently reversed, modified, annulled, set aside, vacated or found to have been entered without jurisdiction.

(iii) The Escrow Agent shall not be liable in any respect on account of the identity, authority or rights of the parties executing or delivering or purporting to execute or deliver this Agreement or any documents or papers deposited or called for hereunder.

(iv) The Escrow Agent shall not be liable for the expiration of any rights under any statute of limitations with respect to this Agreement or any documents deposited with the Escrow Agent.

(v) In performing any duties under the Agreement, the Escrow Agent shall not be liable to any party for damages, losses, or expenses, except for gross negligence or willful misconduct on the part of the Escrow Agent. The Escrow Agent shall not incur any such liability for (A) any act or failure to act made or omitted in good faith, or (B) any action taken or omitted in reliance upon any instrument, including any written statement or affidavit provided for in this Agreement that the Escrow Agent shall in good faith believe to be genuine, nor will the Escrow Agent be liable or responsible for forgeries, fraud, impersonations, or determining the scope of any representative authority. In addition, the Escrow Agent may consult with legal counsel in connection with Escrow Agent's duties under this Agreement and shall be fully protected in any act taken, suffered, or permitted by him/her in good faith in accordance with the advice of counsel. The Escrow Agent is not responsible for determining and verifying the authority of any person acting or purporting to act on behalf of any party to this Agreement.

(vi) If any controversy arises between the parties to this Agreement, or with any other party, concerning the subject matter of this Agreement, its terms or conditions, the Escrow Agent will not be required to determine the controversy or to take any action regarding it. The Escrow Agent may hold all documents and shares of Feiya Common Stock and may wait for settlement of any such controversy by final appropriate legal proceedings or other means as, in the Escrow Agent's discretion, the Escrow Agent may be required, despite what may be set forth elsewhere in this Agreement. In such event, the Escrow Agent will not be liable for damage. Furthermore, the Escrow Agent may at its option, file an action of interpleader requiring the parties to answer and litigate any claims and rights among themselves. The Escrow Agent is authorized to deposit with the clerk of the court all documents and shares of Feiya Common Stock held in escrow, except all cost, expenses, charges and reasonable attorney fees incurred by the Escrow Agent due to the interpleader action and which the parties jointly and severally agree to pay. Upon initiating such action, the Escrow Agent shall be fully released and discharged of and from all obligations and liability imposed by the terms of this Agreement.

(vii) The parties and their respective successors and assigns agree jointly and severally to indemnify and hold Escrow Agent harmless against any and all losses, claims, damages, liabilities, and expenses, including reasonable costs of investigation, counsel fees, and disbursements that may be imposed on Escrow Agent or incurred by Escrow Agent in connection with the performance of his/her duties under this Agreement, including but not limited to any litigation arising from this Agreement or involving its subject matter.

(viii) The Escrow Agent may resign at any time upon giving at least thirty (30) days written notice to the parties; provided, however, that no such resignation shall become effective until the appointment of a successor escrow agent which shall be accomplished as follows: Feiya and the Crane Representative shall use their best efforts to mutually agree on a successor escrow agent within thirty (30) days after receiving such notice. If the parties fail to agree upon a successor escrow agent within such time, the Escrow Agent shall have the right to appoint a successor escrow agent authorized to do business in the State of California. The successor escrow agent shall execute and deliver an instrument accepting such appointment and it shall, without further acts, be vested with all the estates, properties, rights, powers, and duties of the predecessor escrow agent as if originally named as escrow agent. The Escrow Agent shall be discharged from any further duties and liability under this Agreement.

(m) Fees. All fees of the Escrow Agent for performance of its duties hereunder shall be paid by Feiya in accordance with the standard fee schedule of the Escrow Agent. It is understood that the fees and usual charges agreed upon for services of the Escrow Agent shall be considered compensation for ordinary services as contemplated by this Agreement. In the event that the conditions of this Agreement are not promptly fulfilled, or if the Escrow Agent renders any service not provided for in this Agreement, or if the parties request a substantial modification of its terms, or if any controversy arises, or if the Escrow Agent is made a party to, or intervenes in, any litigation pertaining to this escrow or its subject matter, the Escrow Agent shall be reasonably compensated for such extraordinary services and reimbursed for all costs, attorney's fees, and expenses occasioned by such default, delay, controversy or litigation.

10.3 Limitations of Liability.

(a) Resort to the Escrow Shares shall be the exclusive remedy of an Indemnified Party pursuant to this indemnity set forth in Section 10.2 if the Merger closes; provided, however, that nothing herein shall limit any remedy for (i) willing, knowing, intentional or fraudulent breaches or inaccuracies of the representations and warranties or breaches of covenants of SMI contained in this Agreement or (ii) breaches of covenants of Crane, the performance of which is to occur after the Second Closing.

(b) Nothing herein shall limit the liability of SMI for any breach or inaccuracy of any representation, warranty or covenant contained in this Agreement if the Merger and/or the Stock Purchases do not close.

10.4 Indemnification of Crane and Alpine. Notwithstanding anything to the contrary which may be contained herein, Feiya and Crane agree to indemnify and hold the Crane Incorporator and Alpine and its incorporators, officers, directors and affiliates for all acts prior to the Second Closing harmless (to the extent of the Escrow Shares in the case of Crane) against all claims, losses, liabilities, damages, deficiencies, costs and expenses, including reasonable attorneys' fees and expenses of investigation and defense incurred or sustained by the Crane Incorporator, Alpine and its incorporators, officers, directors and affiliates, directly or indirectly, as a result of Crane and Alpine being a party to this Agreement and the transactions contemplated hereby and the Crane Incorporator carrying out the actions under this Agreement, except for any claim, loss, liability, damage, deficiency, cost or expense resulting from (i) the breach by Crane or Alpine prior to the Second Closing of any representation, warranty or covenant set forth herein, or (ii) gross negligence or willful misconduct of Crane Incorporator, Alpine or any of its incorporators, officers, directors and affiliates.

10.5 Feiya Limitations of Liability. If the Merger Closes, the parties hereto agree that except for willing, knowing, intentional or fraudulent breaches or inaccuracies of representations, warranties and covenants, the aggregate of all claims (if any) made by all parties under this Agreement against Feiya for breaches of its representations, warranties, or any failure by Feiya to perform or comply with any covenants under this Agreement shall be limited to $2,000,000 (the "Maximum Limit"). Notwithstanding the foregoing, no amount may be recovered from Feiya for (i) breaches or inaccuracies of representations, warranties or (ii) failure by Feiya to perform or comply with its covenants until the aggregate amount of any claims for breach, inaccuracy, failure to perform or comply exceed $200,000, in which case Feiya shall only be responsible for claims in excess of such amount and up to the Maximum Limit.

ARTICLE XI
TERMINATION, AMENDMENT AND WAIVER

11.1 Termination. Except as provided in Section 11.2 hereof, this Agreement may be terminated and the Merger and Stock Purchases abandoned at any time prior to the Second Closing:

(a) by mutual agreement of SMI and Feiya;

(b) by Feiya, on the one hand, or SMI, on the other hand, if the Second Closing Date shall not have occurred by July 15, 2002; provided, however, that the right to terminate this Agreement under this Section 11.1(b) shall not be available to any party whose action or failure to act has been a principal cause of or resulted in the failure of the Merger and Stock Purchases to occur on or before such date and such action or failure to act constitutes a breach of this Agreement;

(c) by Feiya, on the one hand, or SMI, on the other hand, if: (i) there shall be a final non-appealable order of an applicable court in effect preventing consummation of the Merger or the Stock Purchases, or (ii) there shall be any statute, rule, regulation or order enacted, promulgated or issued or deemed applicable to the Merger or Stock Purchases by any Governmental Entity that would make consummation of the Initial Closing or the Second Closing illegal;

(d) by Feiya if there shall be any action taken, or any statute, rule, regulation or order enacted, promulgated or issued or deemed applicable to the Merger or a Stock Purchases by any Governmental Entity, which would: (i) prohibit Feiya's ownership or operation of any portion of the business of SMI, or (ii) compel Feiya or SMI to dispose of or hold separate all or any portion of the business or assets of SMI or Feiya as a result of the Merger or a Stock Purchase;

(e) by Feiya if it is not in material breach of its obligations under this Agreement and there has been a breach of any representation, warranty, covenant or agreement of SMI contained in this Agreement such that the conditions set forth in Section 9.2(a)(ix) would not be satisfied and such breach has not been cured within twenty (20) calendar days after written notice thereof to SMI; provided, however, that no cure period shall be required for a breach which by its nature cannot be cured; or

(f) by SMI if SMI is not in material breach of its obligations under this Agreement and there has been a breach of any representation, warranty, covenant or agreement of Feiya contained in this Agreement such that the conditions set forth in Section 9.3(a)(ii) would not be satisfied and such breach has not been cured within twenty (20) calendar days after written notice thereof to Feiya; provided, however, that no cure period shall be required for a breach which by its nature cannot be cured.

Where action is taken to terminate this Agreement pursuant to this Section 11.1, it shall be sufficient for such action to be authorized by the Board of Directors (as applicable) of the party taking such action.

11.2 Effect of Termination. In the event of termination of this Agreement as provided in Section 11.1 hereof, this Agreement shall forthwith become void and there shall be no liability or obligation on the part of Feiya, Crane, Sub, SMI, or Alpine or their respective officers, directors or shareholders; provided, however, that each party hereto shall remain liable for any breaches of this Agreement prior to its termination; and provided further, that, the provisions of Sections 8.4 and 8.5 hereof, ARTICLE XII hereof and this Section 11.2 shall remain in full force and effect and survive any termination of this Agreement pursuant to the terms of this Section 11.2.

11.3 Amendment. This Agreement may be amended by the parties hereto at any time by execution of an instrument in writing signed on behalf of each of the parties hereto. For purposes of this Section 11.3, after the Second Closing, the Crane Stockholders agree that any amendment of this Agreement signed by the Crane Representative shall be binding upon and effective against the Crane Stockholders whether or not they have signed such amendment.

11.4 Extension; Waiver. At any time prior to the Closings, Feiya, on the one hand, and SMI, on the other hand, may, to the extent legally allowed, (i) extend the time for the performance of any of the obligations of the other party hereto, (ii) waive any inaccuracies in the representations and warranties made to such party contained herein or in any document delivered pursuant hereto, and (iii) waive compliance with any of the agreements or conditions for the benefit of such party contained herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party.

ARTICLE XII
GENERAL PROVISIONS

12.1 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally or by commercial messenger or courier service, or mailed by registered or certified mail (return receipt requested) or sent via facsimile (with acknowledgment of complete transmission) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice); provided, however, that notices sent by mail will not be deemed given until received:

(a) if to Feiya, Crane prior to the Second Closing or Sub, to:

Feiya Technology Corp.
3F-8. No. 81, Shueili Rd.
Hsiu Chui, Taiwan 300
R.O.C.
Attn: Jason Chiang
Telephone No.: (03) 572-0699
Facsimile No.: (03) 572-0599

(b) if to SMI, to:

1040 E. Brokaw Road
San Jose, CA 95131-2309
Attn: Wallace Kou
Telephone No.: (408) 501-5333
Facsimile No.: (408) 467-9390

with a copy to:

Milbank Tweed Hadley & McCloy LLP
630 Hansen Way, Second Floor
Palo Alto, California 94304-1022
Attention: Douglas A. Tanner, Esq.
Telephone No.: (650) 739-7000
Facsimile No.: (303) 739-7100

(c) if to the Crane after the Second Closing or Crane Representative:

1040 E. Brokaw Road
San Jose, CA 95131-2309
Attn: Michael Lin
Telephone No.: (408) 501-5322
Facsimile No.: (408) 467-9390

with a copy to:

1040 E. Brokaw Road
San Jose, CA 95131-2309
Attn: Wallace Kou
Telephone No.: (408) 501-5333
Facsimile No.: (408) 467-9390

(d) if to the Escrow Agent:

Taipei Commercial Law Firm 7F, 149, Sec.
2 Min Sheng E. Rd.
Taipei, Taiwan
Attn: Johnson Huang
Telephone No.: (02) 25169756
Facsimile No.: (02) 25169715

12.2 Interpretation. The words “include,” “includes” and “including” when used herein shall be deemed in each case to be followed by the words “without limitation.” The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

12.3 Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other party, it being understood that all parties need not sign the same counterpart.

12.4 Entire Agreement; Assignment. This Agreement, the Exhibits hereto, the Disclosure Schedule, and the documents and instruments and other agreements among the parties hereto referenced herein: (i) constitute the entire agreement among the parties with respect to the subject matter hereof and supersede all prior agreements and understandings both written and oral, including term sheets, among the parties with respect to the subject matter hereof, (ii) are not intended to confer upon any other person any rights or remedies hereunder, and (iii) shall not be assigned by operation of law or otherwise, except that Feiya may assign its rights and delegate its obligations hereunder to its affiliates as long as Feiya remains ultimately liable for all of Feiya’s obligations hereunder.

12.5 Severability. In the event that any provision of this Agreement or the application thereof, becomes or is declared by a court of competent jurisdiction to be illegal, void or unenforceable, the remainder of this Agreement will continue in full force and effect and the application of such provision to other persons or circumstances will be interpreted so as reasonably to effect the intent of the parties hereto. The parties further agree to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision that will achieve, to the extent possible, the economic, business and other purposes of such void or unenforceable provision.

12.6 Other Remedies. Any and all remedies herein expressly conferred upon a party will be deemed cumulative with and not exclusive of any other remedy conferred hereby, or by law or equity upon such party, and the exercise by a party of any one remedy will not preclude the exercise of any other remedy.

12.7 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, regardless of the laws that might otherwise govern under applicable principles of conflicts of laws thereof. Each of the parties hereto irrevocably consents to the exclusive jurisdiction and venue of any court within Santa Clara County, State of California, in connection with any matter based upon or arising out of this Agreement or the matters contemplated herein, agrees that process may be served upon them in any manner authorized by the laws of the State of California for such persons and waives and covenants not to assert or plead any objection which they might otherwise have to such jurisdiction, venue and such process.

12.8 Rules of Construction. The parties hereto agree that they have been represented by counsel during the negotiation and execution of this Agreement and, therefor, waive the application of any law, regulation, holding or rule of construction providing that ambiguities in an agreement or other document will be construed against the party drafting such agreement or document.

12.9 Waiver of Jury Trial. Each of the parties hereto hereby irrevocably waives all right to trial by jury for any action, proceeding or counterclaim (whether based on contract, tort, or otherwise) against out of or relating to this Agreement or the Actions of any party hereto in negotiation, administration, performance or enforcement hereof.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, Feiya, Alpine, Crane, Sub, SMI, the Crane Representative (with respect to ARTICLE I, ARTICLE X, and ARTICLE XII hereof only), and the Escrow Agent (with respect to ARTICLE I, ARTICLE II, ARTICLE X, and ARTICLE XII only) have caused this Agreement to be signed, all as of the date first written above.

FEIYA TECHNOLOGY CORPORATION

By: /s/ James Chow
Name:
Title:

CRANE REPRESENTATIVE

By: /s/ Michael Lin
Name: Michael Lin
Title:

ESCROW AGENT

TAIPEI COMMERCIAL LAW FIRM

By: /s/ Johnson Huang
Name:
Title:

SILICON MOTION, INC.

By: /s/ Wallace Kou
Name:
Title:

CRANE TECHNOLOGY, INC.

By: /s/
Name:
Title:

CRANE ACQUISITION, INC.

By:
Name:
Title:

ALPINE ASSOCIATES LIMITED

By: /s/
Name:
Title:

[SIGNATURE PAGE TO ACQUISITION AGREEMENT]

SHARE EXCHANGE AGREEMENT*

by and between

SILICON MOTION, INC.

And

SILICON MOTION TECHNOLOGY CORPORATION

Dated as of February 4, 2005

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* *This document is an unofficial translation of the Share Exchange Agreement entered into in Chinese by SILICON MOTION, INC. and SILICON MOTION TECHNOLOGY CORPORATION on February 4, 2005. In the event that there is any inconsistency between the Chinese version and the English translation herein, the Chinese version shall prevail.*

THIS SHARE EXCHANGE AGREEMENT (this "Agreement") is entered into on the 4th day of February, 2005, by and between Silicon Motion, Inc. ("SMI"), a corporation established and existing under the laws of the Republic of China ("ROC"), with its principal place of business at No. 20-1, Taiyuan St., Jhubei City, Hsinchu County 302, Taiwan, and Silicon Motion Technology Corporation ("SMTC"), a company established and existing under the laws of Cayman Islands having its registered office at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town Grand Cayman, British West Indies.

W I T N E S S E T H :

WHEREAS, the Board of Directors of SMI, after considering SMI's overall business plan and future prospects, wishes to propose to the meeting of SMI's shareholders to adopt resolutions to exchange shares with SMTC pursuant to the Business Mergers and Acquisitions Law of the ROC, whereby all issued and outstanding common shares of SMI will be transferred to SMTC in exchange for new shares in the capital of SMTC, as a result of which SMI will become a wholly owned subsidiary of SMTC; and

WHEREAS, upon completion of share exchange as contemplated herein, SMTC wishes to, at an appropriate time in the future but subject to market conditions, the receipts of all relevant regulatory approvals and other relevant factors, seek to access international capital markets, including a listing of SMTC's securities on an exchange outside of Taiwan.

NOW, THEREFORE, in consideration of the mutual promises contained herein, the parties hereby agree as follows:

SECTION 1 DEFINITIONS AND INTERPRETATION

1.1 Definitions

As used in this Agreement, the following capitalized expressions shall have the following respective meanings:

"Agreement" means this Share Exchange Agreement, as amended from time to time in accordance with the terms hereof.

"Authority" means any governmental or regulatory agency, authority, bureau, commission, department, official or similar body or instrumentality thereof, or any governmental court, arbitral tribunal or other body administering alternative dispute resolution.

"Business Day" means any day other than a Saturday, Sunday or a day on which commercial banking institutions located in Taipei or Cayman Island are authorized or required to close.

"Closing" has the meaning set forth in Section 3.1.

"Closing Date" means the date the Closing shall take place.

"Dissenting Shares" has the meaning set forth in Section 4.4.

"Encumbrance" means any lien, security interest, mortgage, deed of trust, pledge, charge, option, proxy, right of first refusal, restriction on transfer, right of preemption or any other encumbrance of any kind.

"Intellectual Property" means any trademark, service mark, trade name, product designation, logo, slogan, invention, patent, trade secret, copyright, know-how, proprietary design or process, computer software and database, Internet address or domain name (including any registrations or applications for registration or renewal of any of the foregoing), research in progress, or any other similar type of proprietary intellectual property right existing on the date hereof.

"Law" means any applicable statute, law, rule, regulation, ordinance, code, permit, or license of any competent jurisdiction.

“Material Adverse Effect” means a material adverse effect on the business, assets, liabilities, condition, results of operations or prospects of SMI and its Subsidiaries, taken as a whole, or SMTC and its Subsidiaries, taken as a whole, as the context in which such term is used may require.

“Ordinary Course of Business” means, the ordinary course of business of a Person, consistent with such Person’s past practice and custom, including, with respect to any category, quantity or dollar amount, term and frequency of payment, delivery, accrual, expense or any other accounting entry.

“Participating SMI Shareholder” or “Participating SMI Shareholders” means the shareholders of record, individually and collectively, of SMI immediately prior to the Closing who have not exercised their objection rights pursuant to Section 4.4 hereof.

“Person” means and includes any individual, corporation, juridical entity, association, statutory body, partnership, joint venture, trust, estate, unincorporated organization or government, state or any political sub-division, instrumentality, agency or authority thereof.

“Returns” means all reports, estimates, declarations of estimated tax, information statements and returns relating to, or required to be filed in connection with, any Taxes, including information returns or reports with respect to backup withholding and other payments to third parties.

“Share Exchange” means the share exchange contemplated in this Agreement between SMI and SMTC.

“SMI” means Silicon Motion, Inc. a corporation established under the laws of the ROC.

“SMI Common Shares” means (i) all the issued and outstanding shares of common stock of SMI as of the Closing Date, and (ii) all issued shares of common stock of SMI which are held in treasury by SMI as of the Closing Date, if any.

“SMI Financial Statements” means SMI’s audited financial statements as of June 30, 2004, and SMI’s unaudited financial statements as of September 30, 2004.

“SMI Options” means all outstanding options, whether vested or unvested, to purchase SMI Common Shares issued under the SMI Option Plan.

“SMI Option Plan” means the SMI Guidelines for Issuance and Subscription of Employee Stock Options approved by SMI’s Board of Directors on June 30, 2004 and amended on December 20, 2004, of which the Financial Supervisory Commission of Executive Yuan of ROC approved on November 23, 2004 and December 31, 2004 respectively.

“SMTC” means Silicon Motion Technology Corporation (“SMTC”), a corporation established under the laws of Cayman Islands.

“SMTC Ordinary Shares” means ordinary shares of US$0.01 per share in the capital of SMTC.

“SMTC Replacement Options” has the meaning set forth in Section 4.3.

“Subsidiary” means, with respect to any Person, (a) any corporation more than 50% of whose stock of any class or classes having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation is at the time owned by such Person, directly or indirectly through Subsidiaries, (b) any partnership, limited liability company, association, joint venture, trust or other entity in which such Person, directly or indirectly through Subsidiaries, is either a general partner, has a more than 50% equity interest at the time or otherwise owns a controlling interest, (c) any corporation in which such Person controls the composition of the board of directors, and (d) any corporation in which such Person controls more than half of the voting power.

"Taxes" means any present or future taxes, levies, imposts, duties, fees, assessments, deductions, withholdings or other charges of whatsoever nature, that may now or hereafter be imposed or asserted by any jurisdiction or any political subdivision thereof or any taxing authority therein and all interest, penalties or similar liabilities with respect thereto.

1.2 Interpretation

1.2.1 The headings in this Agreement are inserted solely for convenience and shall not affect the construction of this Agreement.

1.2.2 In this Agreement, unless the context otherwise requires, words importing the singular shall include the plural and vice versa.

1.2.3 A gender includes all genders.

1.2.4 A reference to "US Dollars", "USD" and "US$" is to the legal tender of United States of America, a reference to "NT Dollars", "NTD" and NT$" is to the legal tender of the ROC.

SECTION 2 SHARE EXCHANGE

Upon and subject to the terms and conditions of this Agreement, each Participating SMI Shareholder shall transfer, convey, assign and deliver to SMTC, free of any Encumbrances, all of his, her or its SMI Common Shares held as of the Closing Date together with all dividends, benefits and other rights and privileges accruing or attaching thereto, and SMTC shall issue SMTC Ordinary Shares to such Participating SMI Shareholders in exchange thereof. Upon Closing of the Share Exchange, SMI shall be a wholly-owned subsidiary of SMTC.

SECTION 3 CLOSING

3.1 Closing

The Closing of the Share Exchange contemplated by this Agreement (the "Closing") shall take place on or about May 16, 2005 (or such other date as may be agreed in writing by the parties hereto) subject to the conditions precedent listed in Section 5 being satisfied not later than three (3) Business Days before the Closing Date.

If any of the conditions precedent to the obligations of the parties hereto to consummate the transactions contemplated hereby have not been satisfied or waived by such date, the Closing shall take place on such mutually agreeable later date as soon as practicable (and in any event not later than three (3) Business Days) after the satisfaction or waiver of all conditions precedent set forth in Section 5 hereof.

3.2 Deliveries by SMI at Closing

At the Closing, SMI will deliver or cause to be delivered to SMTC:

3.2.1 Certificates of the President of SMI certifying SMI's compliance with the conditions precedent set forth in Section 5.2 and the undertakings and covenants set forth in Section 8.1 respectively.

3.2.2 Certified minutes and resolutions of meetings of the board of directors and shareholders of SMI setting forth all necessary SMI corporate approvals required for the Share Exchange.

3.2.3 Evidence or copies of any consents, approvals, orders, qualifications or waivers required by any third party or Authority for SMI and the Participating SMI Shareholders (to the extent required) to consummate the transactions contemplated by this Agreement, including the approval of the Investment Commission of Taiwan's Ministry of Economic Affairs for the Share Exchange as an outward investment by the Participating Shareholders, and the approval of Taiwan's Fair Trade Commission for the combination of SMTC and SMI (if necessary).

3.2.4 Reasonable evidence of SMI's corporate record of all share certificates of SMI Common Shares being transferred in SMTC's favor as of the Closing, evidencing SMTC's ownership of all issued and outstanding SMI Common Shares.

3.3 Deliveries by SMTC at Closing

At the Closing, SMTC will deliver or cause to be delivered to SMI:

3.3.1 Certificates of the Director of SMTC certifying SMTC's compliance with the conditions precedent set forth in Section 5.1 and the undertakings and covenants set forth in Section 9.1 respectively.

3.3.2 Certified minutes and resolutions of meetings of the board of directors and, if required, shareholders of SMTC setting forth all necessary SMTC corporate approvals required for the Share Exchange.

3.3.3 Evidence or copies of any consents, approvals, orders, qualifications or waivers required by any third party or Authority for SMTC to consummate the transactions contemplated by this Agreement, including the approval of the Investment Commission of Taiwan's Ministry of Economic Affairs of the Share Exchange as a foreign investment transaction, and the approval of Taiwan's Fair Trade Commission for the combination of SMTC and SMI (if necessary).

3.3.4 Reasonable evidence showing that the number of SMTC's Ordinary Shares which the Participating SMI Shareholders are entitled to receive pursuant to Section 3.1 have been issued and allotted and the share certificates for such SMTC's Ordinary Shares in the name of the Participating SMI Shareholders have been issued and delivered to SMI or its designated agent on behalf of the Participating SMI Shareholders.

3.4 Reasonable Best Efforts

The parties hereto shall use their respective reasonable best efforts to promptly and diligently perform all acts, as required by the Law, for effecting the Share Exchange in accordance with this Agreement.

3.5 Directors and Supervisors

The office term of the existing directors and supervisors of SMI as of the Closing Date shall survive the Share Exchange unless otherwise designated by SMTC after the Closing.

SECTION 4 CONSIDERATION

4.1 Exchange Ratio

The parties hereto agree that the exchange ratio for the Share Exchange is 1:1 (the "Exchange Ratio") whereby each one issued SMI Common Shares held by a Participating SMI Shareholder at the Closing shall be exchanged for one SMTC Ordinary Share.

4.2 Consideration

The total number of SMI Common Shares to be transferred to SMTC by way of share exchange shall be One Hundred and Five Million Four Hundred and Twelve Thousand (105,412,000) shares, minus the number of Dissenting Shares purchased by SMI pursuant to Section 4.4 hereunder. To facilitate the Share Exchange, SMTC will increase its paid-in share capital by an amount of up to United States Dollar One Million Fifty Four Thousand One Hundred And Twenty (US$1,054,120) by issuing up to One Hundred and Five Million Four Hundred Twelve Thousand (105,412,000) SMTC Ordinary Shares with par value US$0.01 each, to be delivered to the Participating Shares upon the Closing. The number of SMTC Ordinary Share to be issued upon the Share Exchange pursuant to the Exchange Ratio shall be rounded to the nearest one share.

4.3 SMI Option

4.3.1 Subject to any amendment required to be made to the SMI Option Plan under the Law and be filed to the competent Authority, and effective as of the Closing, all rights with respect to each option to purchase SMI Common Shares (a "SMI Option" or "SMI Options") then outstanding pursuant to SMI Option Plan will be converted into and become rights with respect to SMTC Ordinary Shares, and SMTC will assume each such SMI Option (an "Assumed Option") and the terms of the stock option plan under which it was issued and the stock option agreement by which it is evidenced in accordance with SMI Option Plan. From and after the Closing, (i) each Assumed Option may be exercised solely for shares of SMTC Ordinary Shares, (ii) the number of shares of SMTC Ordinary Shares to be acquired upon the exercise of each such Assumed Option will be equal to the number of shares of SMI Common Shares to be acquired upon the exercise of the SMI Option immediately prior to the relevant effective time multiplied by the Exchange Ratio, rounding to the nearest whole share, (iii) the per share exercise price under each Assumed Option will be adjusted by dividing the per share exercise price under such SMI Option by the Exchange Ratio and rounding up to the nearest cent and (iv) any restriction on the exercise of any such SMI Option will continue in full force and effect and the term, exercisability, vesting schedule and other provisions of such SMI Option Plan will otherwise remain unchanged; provided, however, that each Assumed Option will, in accordance with its terms, be subject to further adjustment as appropriate to reflect any stock split, stock dividend, reverse stock split, reclassification, recapitalization or other similar transaction subsequent to the Closing. Within twenty (20) Business Days after the Closing, SMTC will issue to each person who, immediately after the Closing, was a holder of an Assumed Option a document in form and substance reasonably satisfactory to SMI evidencing the foregoing assumption of such SMI Option by SMTC.

4.3.2 Notwithstanding anything to the contrary contained in this Section 4.3, in lieu of assuming outstanding SMI Options in accordance with Section 4.3.1, SMTC may, at its election and to the extent permitted by Law, cause such outstanding SMI Options to be replaced by issuing substantially equivalent replacement stock options in substitution therefor, which replacement stock options will include equivalent terms relating to acceleration, vesting and the effect of a change in control. Nothing in this Section 4.3.2 will be construed to eliminate any vested right of a holder of any SMI Option.

4.4 Dissenting Shares

Notwithstanding any other provisions of this Agreement to the contrary, any SMI Common Shares held by a holder who has exercised and perfected its objection right for such SMI Common Shares in accordance with the relevant ROC laws (the "Dissenting Shares") shall be purchased by SMI or a Person designated by SMI in accordance with the relevant ROC laws. SMI shall give SMTC prompt notice of any written demand for objection received by SMI from its shareholders pursuant to the applicable provisions of the relevant ROC laws. SMI shall use its best efforts to complete any such repurchase of the Dissenting Shares prior to the Closing.

Dissenting Shares which are not purchased by SMI prior to the Closing shall be exchanged for SMTC Ordinary Shares in accordance with the same exchange ratio as set forth in Section 4.1 hereof, and subject to purchase by SMTC (or its third party designee) in accordance with the relevant Law after the Closing.

SECTION 5 CONDITIONS TO CLOSING

5.1 Conditions Precedent for SMI Obligation

The obligations of SMI to consummate the Share Exchange at the Closing are subject to the satisfaction (or waiver by SMI) of the following conditions:

5.1.1 The representations and warranties of SMTC made in this Agreement shall be true and correct in all material respects as of the date hereof and as of the Closing Date as though made as of the Closing and SMTC shall have performed and complied in all material respects with all terms, agreements and covenants contained in this Agreement required to be performed or complied by SMTC on or before the Closing Date.

5.1.2 No provision of any applicable Law and no judgment, injunction, order or decree of any Authority shall be in effect which shall prohibit the consummation of the Closing.

5.1.3 This Agreement and the Share Exchange shall have been approved by the shareholders of SMI at its shareholders' meetings.

5.1.4 All consents, approvals, waivers, subordinations and permits, if any, required in connection with the consummation of the Share Exchange shall have been obtained, including but not limited to:

(a) the approval of Taiwan's Fair Trade Commission for the combination of SMI and SMTC (if necessary);

(b) the approval of the Investment Commission of Taiwan's Ministry of Economic Affairs for the Share Exchange as an outward investment by the Participating Shareholders;

5.1.5 Prior to the Closing Date, no event shall have occurred which, individually or when considered together with all other matters, has, or could reasonably be expected to have, a Material Adverse Effect on SMTC, and SMI shall not have discovered any fact or circumstance (previously unknown to SMI) which, individually or when considered together with all other matters, has, or could reasonably be expected to have, a Material Adverse Effect on SMTC.

5.2 Conditions Precedent for SMTC Obligation

The obligations of SMTC to consummate the Share Exchange at the Closing are subject to the satisfaction (or waiver by SMTC) of the following conditions:

5.2.1 The representations and warranties of SMI made in this Agreement shall be true and correct in all material respects as of the date hereof and as of Closing, as though made as of the Closing and SMI shall have performed and complied in all material respects with all terms, agreements and covenants contained in this Agreement required to be performed or complied with by SMI on or before the Closing Date.

5.2.2 No provision of any applicable Law and no judgment, injunction, order or decree of any Authority shall be in effect which shall prohibit the consummation of the Closing.

5.2.3 This Agreement and the Share Exchange shall have been approved by the board of directors of SMTC.

5.2.4 All consents, approvals, waivers, subordinations and permits, if any, required in connection with the consummation of the Share Exchange shall have been obtained, including but not limited to:

(a) the approval of the Investment Commission of Taiwan's Ministry of Economic Affairs for the Share Exchange as a foreign investment transaction; and

(b) the approval of Taiwan's Fair Trade Commission for the combination of SMTC and SMI (if necessary).

5.2.5 Prior to the Closing Date, no event shall have occurred which, individually or when considered together with all other matters, has, or could reasonably be expected to have, a Material Adverse Effect on SMI; and SMTC shall not have discovered any fact or circumstance (previously unknown to SMTC) which, individually or when considered together with all other matter has, or could reasonably be expected to have, a Material Adverse Effect on SMI.

SECTION 6 REPRESENTATIONS AND WARRANTIES OF SMI

As an inducement and consideration for the Share Exchange on the terms as set out in this Agreement, SMI represents and warrants to, and for the benefit of, SMTC that the statements contained in this Section 6 are true, correct and complete as of the date of this Agreement and will be true as of the Closing in all material respects, except as otherwise expressly provided herein:

6.1 Organization and Standing

6.1.1 SMI is a corporation duly organized, existing and in good standing under, and by virtue of, the laws of the ROC. SMI has the requisite corporate power and has obtained all necessary governmental approvals, licenses, certificates and permission to carry on its business as now conducted. SMI has kept all the corporate records updated, accurate and complete, and has made all necessary filings on time in compliance with the laws of the ROC. SMI has provided to SMTC certified true copies of its Articles of Incorporation or other constitutive documents (collectively the "SMI Fundamental Documents"), Company Registration Particulars, Business License, a list of its shareholders, a list of the members of its Board of Directors, and other relevant information on its Subsidiaries.

6.1.2 SMI is not in liquidation or subject to liquidation, has not taken any steps to enter into liquidation, and has not ceased its business activities; no application has been made for liquidating SMI or the revocation of its business license, and there are no grounds on which an application could be based for the liquidation of SMI or the revocation of its business license.

6.1.3 SMI has complied with SMI constitutional documents in all respects, and none of the activities, agreements, commitments or rights of SMI is ultra vires or unauthorized.

6.2 Capitalization

As of the date hereof, the authorized paid-in share capital of SMI is NT Dollars One Billion Fifty Four Million One Hundred And Twenty Thousand (NT$1,054,120,000) divided into one hundred five million four hundred twelve thousand (105,412,000) shares with par value of New Taiwan Dollars Ten (NT$10) each, all of which have been duly authorized and validly issued and paid up. All outstanding shares of SMI were issued in compliance with the laws of the ROC.

The SMI Common Shares are, and will at the Closing be, fully paid up non-assessable and not subject to further calls, and free from any and all Encumbrances. The SMI Common Shares rank, and will at the Closing rank, pari passu with all shares issued by SMI, including without limitation the rights to dividends and voting rights.

6.3 Consent and Approval

The execution and performance of this Agreement by SMI will not cause SMI to be in breach of (i) any agreement, obligation, law, rule, regulation or government policy to which SMI is subject; or (ii) its constitutional document (where applicable). SMI has obtained or will obtain prior to the Closing all necessary and requisite consents and approvals, including waivers of the first right of refusal, to execute and deliver this Agreement and to perform SMI's obligations hereunder, and this Agreement is valid, legal, binding and enforceable against SMI in accordance with its terms. SMI has passed or will pass prior to the Closing all necessary resolutions to authorize its execution, delivery and performance of this Agreement.

6.4 Financial Statements

SMI has delivered to SMTC the SMI Financial Statements. The SMI Financial Statements are complete and correct in all respects and have been prepared in accordance with the generally accepted accounting principles of the ROC applied on a consistent basis throughout the periods indicated. The Financial Statements accurately set out and describe the financial condition and operating results of SMI and its subsidiaries and affiliates (collectively the "Group" and each a "Group Company") as of the dates and during the periods indicated therein. Since September 30, 2004, there has not been any material change in the assets, liabilities, financial condition or operations of the Group Company except for the changes due to business conducted in ordinary course. Full provision or reserve has been made in the Financial Statements for all Taxes (deferred or otherwise) liable to be assessed on the Group, and all Taxes which have been assessed have been fully paid. Each Group Company has filed all the necessary Taxes in compliance with any law, rule, regulation or government policy to which it is subject.

6.5 Title to Properties and Assets

Each Group Company has good and marketable title to, and legally and beneficially owns or has valid leasehold interests or rights to use of, all its property and assets, free and clear of all mortgages, liens, loans and encumbrances, except liens for Taxes, assessments or other governmental charges or levies not yet due, and statutory liens for landlords, carriers, warehousemen, mechanics, materialmen and other liens by operation of law created in the ordinary course of business of the Group Company consistent with past practices for amounts not yet due.

6.6 Intellectual Property Rights

6.6.1 All patents, registered designs, know-how or trade secrets, copyrights, trademarks, service marks, trade names, or similar intellectual property rights (whether registered or not) and all pending applications therefor which are or are likely to be material to the business of the Group are (or where appropriate in the case of pending application will be):

(i) legally and beneficially vested in SMI and do not infringe any third party's Intellectual Property rights;

(ii) valid and enforceable under applicable Laws;

(iii) not being infringed or attached or opposed by any person; and

(iv) not subject to any license or authority of another.

6.6.2 The products and services dealt in by the Group, do not use or embody any patents, registered designs, know-how or trade secrets, copyrights, trademarks or similar intellectual property rights (whether registered or not) other than:

(i) those belonging to SMI and referred to in paragraph (1) above; or
(ii) those in respect of which licenses have been obtained and are currently in force

and do not infringe any third party's Intellectual Property rights and no claims have been made and no applications are pending of which SMI is aware.

6.7 Litigation

Other than those disclosed in the Financial Statements or the public records of SMI, there is no action, suit, proceeding or investigation pending or currently threatened against SMI or any Group Company which questions the validity of this Agreement or the right of SMI to enter into this Agreement, or to consummate the share exchange transactions contemplated hereby, or which might result, either individually or in the aggregate, in any material adverse change in the assets, condition, affairs or prospects of any Group Company, financially or otherwise, or any change in the current equity ownership of any Group Company, nor is SMI aware (after due enquiry) that there is any basis for the foregoing. SMI is not a party or subject to the provisions of any order, writ, injunction, judgment or decree of any court or government agency or instrumentality.

6.8 Employees

No Group Company has any collective bargaining agreements with any of its employees.

6.9 Agreements

No Group Company is a party to any material written or oral contract not made in the ordinary course of business and within arm's length.

6.10 No Contingent Liabilities, etc.

No Group Company has given any guarantee, indemnity or suretyship for principal amounts recoverable exceeding that stated in the respective last audited accounts of such Group Company.

6.11 No Option, etc. Granted

Except for the SMI Options under SMI Option Plan, no Group Company has issued, conferred upon or granted to any of its directors or any person, firm or corporation any option over any shares or any right to subscribe for any shares of any Group Company or any right to convert any debt or obligation into shares whether fully paid or otherwise.

6.12 Compliance with Law and Regulations

SMI is not in violation of any law, regulation or government policy affecting the conduct of SMI's business or its management or shareholder structure or the ownership or operation of its property.

6.13 Disclosure

No representation or warranty made by SMI in this Agreement contains any untrue statement of a fact or omits to state a fact necessary to make the statements made herein, in light of the circumstances under which they were made, not misleading.

All information relating to the Group which might be relevant or material in connection with the proposed Share Exchange has been disclosed in writing to SMTC, and such information is true and correct in all material respects. There is no fact or circumstance not disclosed in writing to SMTC which might be material for disclosure to it in the context of the Share Exchange contemplated herein.

6.14 Indemnification

SMI shall at all times save harmless and keep SMTC indemnified against all actions, proceedings, claims, demands, penalties, costs and expenses which may be brought or made against or incurred by SMTC by reason of any breach of any covenant, representation or warranty or undertaking made or given by SMI under this Agreement (the "Warranties").

SECTION 7 REPRESENTATIONS AND WARRANTIES OF SMTC

As an inducement and consideration for the Share Exchange on the terms as set out in this Agreement, SMTC represents and warrants to, and for the benefit of, SMI that the statements contained in this Section 7 are true, correct and complete as of the date of this Agreement and will be true as of the Closing in all material respects, except as otherwise expressly provided herein:

7.1 Organization and Standing

7.1.1 SMTC is a corporation duly organized, existing and in good standing under, and by virtue of, the laws of Cayman Islands. SMTC has the requisite corporate power and has obtained all necessary governmental approvals, licenses, certificates and permission to carry on its business as now conducted. SMTC has kept all the corporate records updated, accurate and complete, and has made all necessary filings on time in compliance with the laws of the Cayman Islands. SMTC has provided to SMI certified true copies of its Certificate of Incorporation, Memorandum and Articles of Association or other constitutional documents (collectively the "SMTC Fundamental Documents"), a list of its shareholders and a list of the members of its Board of Directors.

7.1.2 SMTC is not in liquidation or subject to liquidation, has not taken any steps to enter into liquidation, and has not ceased its business activities; no application has been made for liquidating SMTC or the revocation of its business license, and there are no grounds on which an application could be based for the liquidation of SMTC or the revocation of any license or approval for conduct of its business.

7.1.3 SMTC has complied with SMTC Fundamental Documents in all respects, and none of the activities, agreements, commitments or rights of SMTC is ultra vires or unauthorized.

7.1.4 Annex A to the Agreement is the valid and effective Memorandum and Articles of Association of SMTC as of the date hereof.

7.2 Capitalization

The authorized share capital of SMTC at the date hereof is US$50,000 divided into 50,000 shares of par value of US$1 each, and at Closing will be US Dollars Two Million (US$2,000,000) divided into Two Hundred Million (200,000,000) common shares with par value of US$0.01 each. All outstanding shares of SMTC were issued in compliance with the laws of Cayman Islands.

The issued SMTC Common Shares are, and will at the Closing be, fully paid up non-assessable and not subject to further calls, and free from any and all Encumbrances. The SMTC Common Shares rank, and will at the Closing rank, pari passu with all shares issued by SMTC, including without limitation the rights to dividends and voting rights.

7.3 Consent and Approval

The execution and performance of this Agreement by SMTC will not cause SMTC to be in breach of (i) any agreement, obligation, law, rule, regulation or government policy to which SMTC is subject; or (ii) its constitutional document (where applicable). SMTC has obtained or will obtain prior to the Closing all necessary and requisite consents and approvals, including waivers of the first right of refusal, to execute and deliver this Agreement and to perform SMTC's obligations hereunder, and this Agreement is valid, legal, binding and enforceable against SMTC in accordance with its terms. SMTC has passed or will pass prior to the Closing all necessary resolutions to authorize its execution, delivery and performance of this Agreement.

7.4 Disclosure

SMTC warrants that all information contained in this Agreement and all other information contained in any written document or written or oral communication which has been given by or on behalf of SMTC and its Subsidiaries or by any of the directors or officials or professional advisers of SMTC or any of its Subsidiaries to any of the officers, employees, representatives or professional advisers of SMI in the course of the negotiations leading to this Agreement was when given and considered in light of all other information so provided true, complete and accurate in all material respects and there is no fact or matter or circumstance not disclosed in writing to SMI which renders or would render any such information untrue, inaccurate or misleading in any material respect or the disclosure of which might reasonably affect the willingness of SMI to enter into this Agreement, or the price at or terms upon which SMI would be willing to swap its stock for SMTC stock.

SECTION 8 UNDERTAKING AND COVENANT BY SMI

8.1 Conduct of Business by SMI

During the period from the date of this Agreement to the Closing Date, SMI and its Subsidiaries will conduct operations only in the Ordinary Course of Business (including managing its working capital in accordance with its past practice and custom) and use its commercially reasonable efforts to: (i) preserve intact its business organizations, (ii) keep available the services of its officers and employees, and (iii) maintain its relationships and goodwill with licensors, suppliers, distributors, customers, landlords, employees, agents and others having business relationships with SMI or its Subsidiaries.

Notwithstanding anything to the contrary contained herein, during the period from the date of this Agreement and continuing until the Closing, without the prior written consent of SMTC, SMI shall not do any of the following and shall not permit its Subsidiaries to do any of the following:

8.1.1 Grant any severance or termination pay to any officer or employee except pursuant to written agreements outstanding, or policies existing, on the date hereof, or adopt any new severance plan or agreement or make changes in the terms of employment of any of its employees.

8.1.2 Sell, license or transfer to any Person any Intellectual Property rights of SMI, or buy or license any Intellectual Property rights or enter into any agreement with respect to the Intellectual Property rights of any Person.

8.1.3 Declare, set aside or pay any dividends on or make any other distributions (whether in cash, shares, equity securities or property) in respect of any shares or split, combine or reclassify any shares or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for any shares.

8.1.4 Purchase, redeem or otherwise acquire, directly or indirectly, any shares in the capital of SMI or its Subsidiaries, except repurchases of Dissenting Shares pursuant to applicable ROC Law.

8.1.5 Purchase or otherwise acquire, directly or indirectly, any shares of SMTC, except in connection with the exchange of SMI treasury shares with SMTC’s Ordinary Shares in connection with the Share Exchange.

8.1.6 Cause, permit or propose any amendments to its Articles of Incorporation.

8.1.7 Sell, lease, license, encumber or otherwise dispose of any properties or assets, except sales of inventory and used equipment in the Ordinary Course of Business consistent with past practice.

8.2 Delisting and Removal of Public Company Status

As soon as practical after the Closing Date, SMI shall apply for (i) a voluntary delisting from the Emerging Stock Market of the Taiwan GreTai Securities Market, and (ii) the termination of its “public company” status pursuant to the applicable ROC laws.

8.3 Material Changes

SMI will promptly notify SMTC in writing of any event known, to SMI which would, or would be reasonably likely to, render any representation or warranty of SMI contained in this Agreement, untrue or inaccurate in any material respect at the Closing Date.

SECTION 9 UNDERTAKING AND COVENANT BY SMTC

9.1 Conduct of Business by SMTC

During the period from the date of this Agreement to the Closing Date, SMTC will conduct operations only in the Ordinary Course of Business (including managing its working capital in accordance with its past practice and custom) and use its commercially reasonable efforts to: (i) preserve intact its business organizations, (ii) keep available the services of its officers and employees, and (iii) maintain its relationships and goodwill with licensors, suppliers, distributors, customers, landlords, employees, agents and others having business relationships with SMTC or its Subsidiaries. SMTC will confer with SMI concerning operational matters of a material nature and report from time to time to SMI concerning the business, operations and finances of SMTC.

Notwithstanding anything to the contrary contained herein, during the period from the date of this Agreement and continuing until the Closing, without SMI's prior written consent, SMTC shall not do any of the following and shall not permit its Subsidiaries to do any of the following:

9.1.1 Sell, license or transfer to any Person any Intellectual Property rights of SMTC, or buy or license any Intellectual Property rights or enter into any agreement with respect to the Intellectual Property rights of any Person.

9.1.2 Cause, permit or propose any amendments to its Memorandum and Articles of Association except for the purpose of effecting the Share Exchange or facilitating the initial public offering and listing of its shares on a stock exchange. Without limiting the generality of the foregoing, SMTC shall before the Closing procure its authorized share capital in the Memorandum and Articles of Association to be increased to US Dollars Two Million (US$2,000,000) divided into Two Hundred Million (200,000,000) common shares with par value of US$0.01 each.

9.1.3 Acquire or agree to acquire by merging or consolidating with, or by purchasing any equity interest in or a portion of the assets of, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof, or otherwise acquire or agree to acquire any assets for aggregate consideration in excess of US$100,000, or enter into any joint venture, strategic partnership or alliance.

9.1.4 Enter into any commitment, activity or transaction (including entering into any commitment to make any capital expenditure) not in the Ordinary Course of Business or in any event exceeding US$100,000 individually or US$500,000 in the aggregate.

9.1.5 Make any change in the nature, scope or organization of SMTC business.

9.1.6 Make any loans or grant any credit (other than given in the Ordinary Course of Business and advances made to employees against expenses incurred by them on its behalf).

9.2 Material Changes

SMTC will promptly notify SMI in writing of any event known to SMTC, which would, or would be reasonably likely to, render any representation or warranty of SMTC contained in this Agreement, untrue or inaccurate in any material respect at the Closing Date.

SECTION 10 TERM and TERMINATION

10.1 Term of Agreement

This Agreement shall become and remain effective upon the approval at the meeting of the shareholders of SMI until any termination pursuant to Section 10.2 below.

10.2 Termination of Agreement

The parties hereto may terminate this Agreement prior to the Closing, as provided below:

10.2.1 SMTC and SMI may terminate this Agreement by mutual written consent;

10.2.2 SMTC may terminate this Agreement by giving written notice to SMI in the event of a breach by SMI of any of its representations, warranties or covenants contained in this Agreement, and such breach, individually or in combination with any other such breach, (i) would cause the conditions set forth in Section 5.2 not to be satisfied and (ii) is not cured within fifteen (15) days following delivery by SMTC to SMI of written notice of such breach; or

10.2.3 SMI may terminate this Agreement by giving written notice to SMTC in the event of a breach by SMTC of any of its representations, warranties or covenants contained in this Agreement, and such breach, individually or in combination with any other such breach, (i) would cause the conditions set forth in Section 5.1 not to be satisfied and (ii) is not cured within fifteen (15) days following delivery by SMI to SMTC of written notice of such breach.

10.3 Effect of Termination

If any party hereto terminates this Agreement pursuant to Section 10.1, all obligations of the parties hereto hereunder shall terminate without any liability of any party hereto to any other party (except for any liability of any party hereto for willful breaches of this Agreement).

SECTION 11 MISCELLANEOUS

11.1 Notices

Any notice given hereunder shall be in English and in writing and may be delivered personally with written acknowledgment of receipt, or may be sent by facsimile with a confirming copy sent by registered airmail, postage prepaid and return receipt requested, addressed as follows:

a. If to Silicon Motion, Inc.:

Silicon Motion, Inc.
Address: No. 20-1, Taiyuan St., Jhubei City, Hsinchu County 302, Taiwan,
Facsimile No.: +886 (3) 552-6988
Telephone No.: +886 (3) 552-6888
Attention: Mr. Wallace Kou

b. If to Silicon Motion Technology Corporation:

Silicon Motion Technology Corporation
Address: No. 20-1, Taiyuan St., Jhubei City, Hsinchu County 302, Taiwan,
Facsimile No.: +886 (3) 552-6988
Telephone No.: +886 (3) 552-6888
Attention: Mr. Chiang Chi-Chen

or to such other address as any party hereto may have furnished in writing to the other party in the manner provided above. Any notice under this Agreement shall be deemed effectively given (a) upon personal delivery to the party to be notified, or (b) if by facsimile, upon confirmation of successful transmission report generated by the sender’s machine, or (c) three (3)Business Days after deposit with Federal Express, DHL or similar international overnight courier, prepaid for overnight delivery and addressed as set forth herein, or (d) five (5) Business Days after deposit as first class registered or certified mail with return receipt requested, postage prepaid, with the relevant national postal service, and addressed to the party to be notified at the address indicated herein.

11.2 Entire Agreement

This Agreement shall supersede any and all prior agreements, documents or other instruments with respect to the matters covered hereby.

11.3 Modification and Waiver

No variation or modification of this Agreement and no waiver of any of the provisions and conditions hereof, or granting of any consent contemplated hereby, shall be valid unless in writing and signed by the party against whom enforcement of any such variation, modification, waiver or consent is sought.

11.4 Severability

Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement. In the event of any invalidity of any provisions of this Agreement due to any Law, change or interpretation of Law or interpretation of any competent authority, such invalidity shall be dealt in accordance with Law and by the Board of Directors of the parties hereto to the extent permitted by Law.

11.5 Counterparts

This Agreement may be executed in any number of counterparts, each of which when so executed and delivered, whether in the original form or by facsimile, shall constitute an original hereof, but all of which together shall constitute one agreement.

11.6 Successors and Assigns

SMI and SMTC may not assign or transfer any of their rights or obligations under this Agreement without the prior express written consent of the other party. This Agreement shall be binding upon and inure to the benefit of the respective successors and permitted assigns of the parties hereto.

11.7 Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the ROC.

11.8 Dispute Settlement

In the event of a controversy arising out of, or relating to this Agreement, or any modification or extension thereof, the parties hereto shall negotiate in good faith to resolve such controversy. Where they are unable to resolve their differences, the courts of the ROC shall have non-exclusive jurisdiction over such controversy.

Annex A: Memorandum and Articles of Association of SMTC

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

Silicon Motion, Inc.

By: /s/ James Chow
Name:
Title:

Silicon Motion Technology Corporation

By: /s/ Jason Chiang
Name:
Title:

EXHIBIT 21.1

SUBSIDIARIES OF SILICON MOTION TECHNOLOGY CORPORATION

Silicon Motion, Inc., a corporation organized under the laws of Taiwan, Republic of China ("SMI Taiwan")

Silicon Motion, Inc., a corporation organized under the laws of the State of California ("SMI USA", a wholly-owned subsidiary of SMI Taiwan).

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

To the Board of Directors of Silicon Motion Technology Corporation:

We consent to the use in this Registration Statement of Silicon Motion Technology Corporation on Form F-1 of our audit report dated March 18, 2005 (April 26, 2005 as to Note 1, May 1, 2005 as to Note 21 and May 13, 2005 as to Note 16) relating to the financial statements of Silicon Motion Technology Corporation, appearing in the Prospectus, which is part of the Registration Statement.

We also consent to the reference made to us under the section entitled “Experts” in such Prospectus.

/s/ Deloitte & Touche

Hsinchu, Taiwan
Republic of China

June 8, 2005

Exhibit 23.3

Letterhead of Preston Gates & Ellis

June 9, 2005

Silicon Motion Technology Corporation
No. 20-1, Taiyuan Street
Jhubei City, Hsinchu County 302, Taiwan

Ladies and Gentlemen:

We hereby consent to the use of our name under the caption "Legal Matters" in the prospectus included in the registration statement on Form F-1, originally filed by Silicon Motion Technology Corporation on June 9, 2005, with the Securities and Exchange Commission under the Securities Act of 1933, as amended. In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, as amended, or the regulations promulgated thereunder.

Very truly yours,

/s/

PRESTON GATES & ELLIS LLP

{Letterhead of Preston Gates & Ellis LLP}

June 9, 2005

Via Edgar
Securities and Exchange Commission
Judiciary Plaza
450 5th Street, N.W.
Washington, D.C. 20549

Re: Silicon Motion Technology Corporation
Registration Statement on Form F-1

Gentlemen and Ladies:

On behalf of our client Silicon Motion Technology Corporation, we are filing herewith electronically the above referenced registration statement.

Pursuant to 17 CFR 202.3a, a filing fee in the amount of $13,535.50 has been deposited via wire transfer into the Commission's lockbox.

If you have any questions or comments, please contact the undersigned at 206.370.7639.

Very truly yours,

PRESTON GATES & ELLIS LLP

By \s\ Christopher H. Cunningham

Christopher H. Cunningham