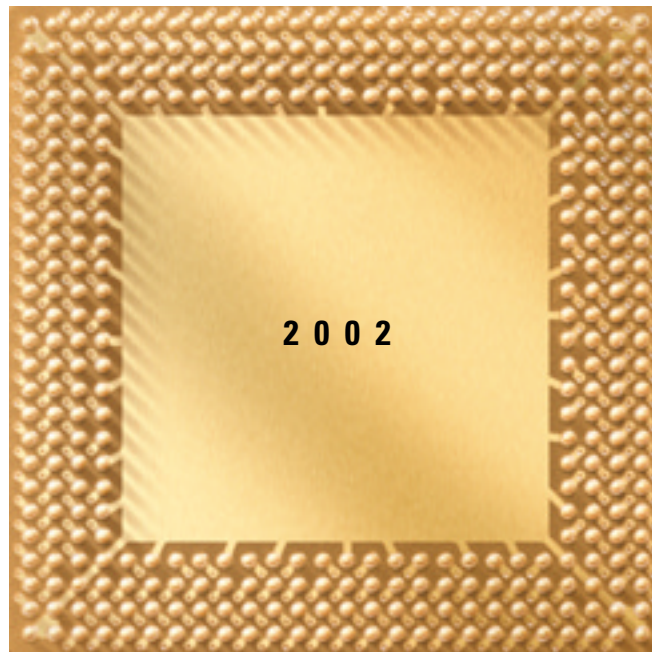


# A N N U A L R E P O R T



**Our Mission** To become the preferred packaging, assembly, and test supplier in the industry through our advanced technology, operational excellence, and superior services. ■

**Corporate Profile** ASAT Holdings Limited, a publicly traded company on the Nasdaq (ASTT as an ADR), provides advanced integrated circuit package designs and has offered outsourced assembly and test services to the semiconductor industry for almost 15 years. ASAT assembles a broad selection of innovative leaded and Ball Grid Array (BGA) packages utilizing advanced technology characterized by high electrical and thermal performance. The Company also has multi-chip module and flip chip assembly lines and supplies testing for complex broadband mixed-signal, system-on-a-chip, and RF package devices. ASAT is also the first company to develop Moisture Sensitive Level One (MSL-1) capability on standard leaded products. ASAT facilities and offices are located across the U.S., Asia and Europe, with major manufacturing sites in Asia. Construction is underway for the Company's new manufacturing facility in China. ■



# T O O U R S H A R E H O L D E R S

**As the new Chief Executive Officer** of ASAT Holdings Limited, I am honored to be part of a company with such a rich history of manufacturing and technical excellence. In the changing dynamics of the technology world, I welcome the opportunity to drive ASAT toward a new era of growth and profitability.

Fiscal 2002 was a difficult year for our industry and ASAT due to the challenging overall economic environment, continued overcapacity in the semiconductor market, and excess inventory across the industry. For the year, ASAT's net sales totaled \$102.4 million. Net loss for the year was \$102.8 million, or a loss of \$0.77 per American Depository Share (ADS).

Despite the changing dynamics in the semiconductor industry in 2002, ASAT made significant progress in its strategic objectives. At the beginning of the downturn, ASAT embarked on a three-part strategy to operate more efficiently in the current market environment and position the company for long-term growth. Our strategy included:

- Developing new technologies to increase market penetration in non-communications end-markets
- Diversifying our customer mix and revenue base
- Managing our cost structure to align costs with expected revenues during the downturn

## **Developing New Technologies**

ASAT's core competency has been, and will continue to be, our commitment to provide our customers and industry with advanced semiconductor packaging solutions. Our intimate knowledge of industry trends and requirements allows us to take a proactive approach towards development programs.

In fiscal 2002, we expanded our advanced packaging capabilities to meet the growing demand for smaller, high-performance devices. Our Leadless Plastic Chip Carrier (LPCC) family of packages has been well received for its ability to service high-speed applications where electrical performance is paramount and space constraints are unavoidable. The LPCC is designed to eliminate reliability concerns that exist with competitive packaging solutions currently available in the industry. This solution will not only service RF and high-performance applications, but also new logic and analog products that will support consumer and automotive applications. We expect demand for the LPCC to continue to increase in fiscal 2003.

The design activity and demand for our Module System Package (MSP) technology, which is focused on system-in-a-package and system-on-a-chip applications, increased significantly during the past year. MSP offers increased functionality through the integration of both active and passive components. We were pleased to see acceptance of this product across a wide range of applications, including high-performance network interface, RF wireless, industrial, and imaging applications.

ASAT is committed to the development and production of flip chip packages, which remain an important part of our long-term growth strategy. Although volume levels for the flip chip market have yet to meet initial industry-wide expectations, increased performance requirements will continue to drive this technology forward. ASAT, with its leading-edge approach to packaging and diversified customer base, will continue to advance its capabilities for flip chip applications.

## **Diversification Strategy**

Throughout fiscal 2002, we made increasing progress in our strategy to diversify beyond our traditional communications customer base. By year end, approximately 35 percent of our revenue came from products in non-communications end-markets, such as the consumer and PC peripheral markets, up from 20 percent in the first quarter. Many of our package solutions, which were designed to address the needs of our traditional customers in the communications sector, are beginning to gain traction in non-communications applications. This trend has allowed us to enter new market sectors that offer opportunities for further growth in fiscal 2003.

While continuing to diversify into other market sectors will remain a priority in fiscal 2003, the communications segment is an important part of our long-term strategy because of its high growth potential.

### **Managing Our Cost Structure**

Early in fiscal 2002, we began to aggressively reduce ASAT's cost structure to better align our expenses with expected revenues. The majority of our cost reductions were in our Hong Kong manufacturing facilities and administrative functions throughout the company. We instituted a salary reduction program, with across-the-board salary reductions of up to 25 percent. We made additional headcount reductions across all functions, with the exception of research and development, which we feel is a critical component for our long-term growth strategy. In addition, headcount was reduced from 2,900 in the first quarter to approximately 1,200 in the fourth quarter.

In November 2001, we announced that we would no longer provide funding to ASAT SA, our operations in Nancy, France. The decision, while difficult, had a positive financial impact for ASAT for the remainder of fiscal 2002.

We believe the cost-reduction measures implemented last year were prudent and have positioned the company to quickly return to profitability as market conditions improve.

### **Positioned For Growth**

Everyone at ASAT recognizes the challenges the industry has presented, and we are all working toward improving our operating performance during this time. At the beginning of fiscal 2003, we launched our Peak Performance Initiative, which will drive ASAT to become the unparalleled leader in advanced semiconductor package development by setting industry standards for acceptance, performance, reliability, and time-to-revenue. Through this initiative, we will achieve peak performance across all business functions. By executing on this goal-oriented strategy, it will take ASAT to a higher level in the customer value chain.

All of us at ASAT are dedicated to being the best. We appreciate your interest and support along the way.

Sincerely,



Harry R. Rozakis  
Chief Executive Officer  
ASAT Holdings Ltd.



*"I have spent the majority of my 20-year career in the semiconductor packaging and assembly industry in senior leadership positions. During my career, I have established benchmarks for operational excellence that have improved overall corporate performance. In sales and marketing positions, I have developed strategies that have led to exceptional sales growth rates. In addition to my leadership experience, I am the current chairman of the Semiconductor Assembly Council and former chairman of the Micro Electronics Packaging and Test Engineering Council, two prominent industry trade groups."*



# **ASAT Holdings Limited**

**Annual Report on Form 20-F  
for the Fiscal Year Ended April 30, 2002**

**Annual Meeting of Shareholders:  
Friday, August 30, 2002, at 10:00 a.m.  
ASAT Holdings Limited Headquarters  
QPL Industrial Building  
14 Floor, 138 Texaco Road  
Tsuen Wan, New Territories  
Hong Kong**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 20-F**

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED APRIL 30, 2002
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 000-30842

**ASAT Holdings Limited**

(Exact name of Registrant as specified in its charter)

**ASAT Holdings Limited**  
(Translation of Registrant's name into English)

**Cayman Islands**  
(Jurisdiction of incorporation or organization)

**14th Floor, 138 Texaco Road**  
**Tsuen Wan, New Territories**  
**Hong Kong**  
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act: None

Title of  
Each Class

Name of Exchange  
on which Registered

Securities registered or to be registered pursuant to Section 12(g) of the Act:

Class of ordinary shares, par value \$0.01

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

12.5% Senior Notes due 2006

Indicate the number of outstanding shares of each of the Issuer's classes of capital or common stock as of the close of the period covered by the annual report:

<u>Class</u>	<u>Number of shares outstanding as of April 30, 2002</u>
Ordinary Shares, par value \$0.01	668,947,000

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes  No

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17  Item 18

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## GENERAL INFORMATION

In this Annual Report, the terms “we”, “us”, “our”, “our company” and “ASAT” refer, as the context requires, to ASAT Holdings Limited (“ASAT Holdings”) and also to ASAT Limited (“ASAT HK”), ASAT, Inc. (“ASAT US”), ASAT (Finance) LLC (“ASAT Finance”), Timerson Limited (“Timerson”), ASAT (Cayman) Limited (“ASAT Cayman”), ASAT, S.A., ASAT Korea Limited (“ASAT Korea”), ASAT GmbH (“ASAT Germany”) and ASAT (S) Pte Ltd. (“ASAT Singapore”) which are each, direct or indirect, wholly owned subsidiaries of ASAT Holdings. Since ASAT, S.A. has been under court administration as of November 20, 2001, we no longer consolidate its financial results with our financial statements.

A “Glossary of Semiconductor Terms” set out definitions of technical terms used in this Annual Report.

We publish our financial statements in United States dollars, which are referred to as “Dollars” and “\$”.

## FORWARD-LOOKING STATEMENTS

Some statements made in this Annual Report are forward-looking statements, which are subject to various risks and uncertainties. These include statements with respect to us, our corporate plans, strategies and beliefs and other statements that are not historical facts. These statements can be identified by the use of forward-looking terminology such as “may”, “will”, “expect”, “anticipate”, “intend”, “estimate”, “continue”, “plan” or other similar words. The statements are based on our management’s assumptions and beliefs in light of the information currently available to us.

These assumptions involve risks and uncertainties which may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Potential risks and uncertainties include, without limitation:

- the highly cyclical nature of the semiconductor industry;
- our ability to timely meet our customers’ need for new products;
- our ability to compete against competitors with greater operating and financial resources in terms of volume production, price competitiveness and array of services;
- the demand for communications equipment;
- our ability to maintain high capacity utilization rates;
- our ability to obtain sufficient quantities and qualities of raw materials at competitive prices; and
- our ability to protect our intellectual property.

All of our forward-looking statements made herein and elsewhere are qualified in their entirety by the risk factors discussed in Item 3 “Key Information—Risk Factors” and other cautionary statements appearing in Item 5 “Operating and Financial Review and Prospects” in this Annual Report. These risk factors and statements describe circumstances which could cause actual results to differ materially from those contained in any forward-looking statement.

We do not intend to update forward-looking statements made herein to reflect actual results or changes in assumptions or other factors that could affect those statements.

## PART I

### ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

### ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

### ITEM 3. KEY INFORMATION

#### SELECTED FINANCIAL DATA

The following table presents the selected historical consolidated financial data of ASAT Holdings for the periods prior to April 30, 2000, as if all of ASAT Holdings' direct and indirect subsidiaries were separate from QPL International Limited and its affiliates ("QPL") during the periods presented. The selected historical consolidated financial data below as of April 30, 2001 and 2002 and for the years ended April 30, 2001 and 2002 were derived from our audited consolidated financial statements for such periods. The consolidated financial statements and related notes are included elsewhere in this Annual Report. The selected historical consolidated financial data below as of April 30, 1998, 1999 and 2000 and for the years ended April 30, 1998, 1999 and 2000 was derived from our audited consolidated financial statements for such periods.

You should read the following information in conjunction with Item 5 "Operating and Financial Review and Prospects" and our consolidated financial statements and the related notes, included elsewhere in this Annual Report.

	Fiscal Year Ended April 30,				
	1998	1999	2000	2001	2002
	(Dollars in thousands, except for share and ADS data)				
<b>Statement of Operations Data:</b>					
Net sales	\$ 243,103	\$ 220,623	\$ 312,131	\$ 340,236	\$ 102,408
Cost of sales	167,350	152,469	199,636	244,484	132,533
Gross profit (loss)	75,753	68,154	112,495	95,752	(30,125)
Operating expenses:					
Selling, general and administrative expenses	27,706	26,082	26,453	37,631	30,368
Research and development	4,467	4,437	4,676	5,954	6,437
Charges for obsolete equipment	—	—	12,340 <sup>(3)</sup>	—	—
Reorganization expenses	—	—	—	2,603	2,327
Non-recoverable and unutilized architectural cost	—	—	—	—	4,500
Write-off in relation to ASAT S.A.	—	—	—	—	24,285
Total operating expenses	32,173	30,519	43,469	46,188	67,917
Income (Loss) from operations	43,580	37,635	69,026	49,564	(98,042)
Other income (expense), net <sup>(1)</sup>	1,751	1,184	1,048	6,451	(1,499)
Interest expense	(9,949)	(7,204)	(18,994)	(18,119)	(14,246)
Recapitalization costs	—	—	(6,813) <sup>(4)</sup>	—	—
Income (Loss) before income taxes and extraordinary charge	35,382	31,615	44,267	37,896	(113,787)
Income tax (expense) benefit	(5,043)	(5,569)	(9,558)	(5,350)	10,960
Income (Loss) before extraordinary charge	\$ 30,339	\$ 26,046	\$ 34,709	\$ 32,546	\$ (102,827)
Extraordinary charge on early extinguishment of debt (net of income tax benefit of \$1,108) <sup>(5)</sup>	—	—	—	(13,126)	—
Net income (loss)	\$ 30,339	\$ 26,046	\$ 34,709	\$ 19,420	\$ (102,827)
Net income (loss) per share (basic and diluted) <sup>(2)</sup>					
before extraordinary charge	\$ 0.05	\$ 0.05	\$ 0.06	\$ 0.05	\$ (0.15)
Net income (loss) per share (basic and diluted) <sup>(2)</sup>	\$ 0.05	\$ 0.05	\$ 0.06	\$ 0.03	\$ (0.15)
Net income (loss) per ADS (basic and diluted) <sup>(2)</sup>					
before extraordinary charge	\$ 0.26	\$ 0.23	\$ 0.30	\$ 0.25	\$ (0.77)
Net income (loss) per ADS (basic and diluted) <sup>(2)</sup>	\$ 0.26	\$ 0.23	\$ 0.30	\$ 0.15	\$ (0.77)
Weighted average number of shares <sup>(2)</sup>	576,000,000	576,000,000	576,000,000	654,962,375	669,218,720
Weighted average number of ADSs <sup>(2)</sup>	115,200,000	115,200,000	115,200,000	130,992,475	133,843,744

	Fiscal Year Ended April 30,				
	1998	1999	2000	2001	2002
	(Dollars in thousands, except for share and ADS data)				
<b>Balance Sheet Data (at end of year):</b>					
Cash and cash equivalents .....	\$ 3,248	\$ 1,409	\$ 10,892	\$ 79,880	\$ 34,499
Total assets .....	253,068	218,683	283,481	403,503	277,398
Total debt <sup>(6)</sup> .....	95,472	95,142	198,217	97,837	98,131
Total shareholders' equity .....	82,399	76,994	14,124	250,566	147,201

	Fiscal Year Ended April 30,				
	1998	1999	2000	2001	2002
<b>Other Data:</b>					
Adjusted EBITDA <sup>(7)</sup> .....	\$ 65,147	\$ 61,991	\$105,516	\$ 87,495	\$(23,626)
Net cash provided by (used in) operating activities .....	47,155	62,272	81,720	62,482	(28,658)
Net cash used in investing activities .....	(37,702)	(23,905)	(69,814)	(104,049)	(15,699)
Net cash (used in) provided by financing activities .....	(8,221)	(40,206)	(2,423)	110,555	(856)
Depreciation and amortization .....	21,567	24,356	25,513	34,884	40,779
Capital expenditures .....	43,978	27,518	56,036	108,743	19,625

- (1) Other income (expense), net, mainly consists of interest income, net foreign exchange gains (losses), rental income, gain (loss) on disposal of property, plant and equipment and gain (loss) on disposal of other assets. See note 11 of the notes to our consolidated financial statements included in this Annual Report.
- (2) The computation of net income (loss) per share is calculated as the net income (loss) for the period divided by the weighted number of shares outstanding during the year, as adjusted on a retroactive basis for periods presented prior to fiscal year 2001 to reflect the 576,000,000 ordinary shares issued and outstanding following a share dividend of 47 ordinary shares for each outstanding ordinary share, which we undertook contemporaneously with completion of the offering of our ADSs. The computation of basic net income (loss) per share for the year ended April 30, 2001 and 2002 is based on a weighted average number of ordinary shares during the year in the amount of 654,962,375 and 669,218,720 respectively. Each ADS represents five ordinary shares.
- (3) Reflects a non-cash charge of \$12.3 million for obsolete equipment.
- (4) Reflects costs incurred in connection with our recapitalization in October 1999. See Item 5 "Operating and Financial Review and Prospects".
- (5) Reflects a non-cash charge incurred in connection with the early repayment of our \$40.0 million bank term loan, the \$17.0 million outstanding balance on our revolving credit facility and early redemption of 35% of our 12.5% senior notes due 2006.
- (6) Debt consists of bank debt, senior notes and capital lease obligations. At April 30, 2002, debt included the senior notes. At April 30, 2001, debt included the senior notes and capital lease obligations. At April 30, 2000, debt included the senior notes, the term loan facility and the revolving credit facility. At April 30, 1998, debt included the construction financing loan payable to QPL.
- (7) "Adjusted EBITDA" is defined in this Annual Report as income (loss) from operations, plus depreciation and amortization, and specific charges (representing inventory write-off plus reorganization expenses plus non-recoverable and unutilized architectural cost plus a write-off in relation to ASAT S.A. in fiscal year 2002), and is presented because it is generally accepted as providing useful information regarding a company's ability to service and/or incur debt. Adjusted EBITDA should not be considered in isolation or as a substitute for operating income, cash flows from operating activities and other income or cash flow statement data prepared in accordance with generally accepted accounting principles or as a measure of ASAT's profitability or liquidity. Adjusted EBITDA, as defined in this Annual Report, may not be comparable to similarly titled measures used by other companies.

## **RISK FACTORS**

Risks facing our businesses include the following:

### **Risks Relating to Our Industry**

*Our business is and will continue to be substantially affected by the highly cyclical nature of the semiconductor industry, which is beyond our control.*

Our business is substantially affected by market conditions in the semiconductor industry, which is highly cyclical. The industry has been subject to significant downturns characterized by reduced product demand, increased competition and declines in average selling prices and margins. Semiconductor industry conditions are often affected by manufacturing over-capacity and reduced demand and pricing in end-user markets.

Since mid-2001, the semiconductor industry has experienced one of its sharpest declines in history. Accordingly, our customers cut back production orders, reflecting inventory corrections and lower demand experienced in their end-user markets. While industry conditions appear to have improved in the latter half of calendar year 2001, there have been recent signs of a slower than expected rate of recovery and overall demand for most sectors remains significantly below that of calendar year 2000. This downturn has had a very adverse effect on our sales and financial performance. We cannot forecast when this downturn will end. A continued downturn would adversely effect our business, financial condition and results of operations and further erode our cash position. Unless we are able to substantially reduce our cash outflows in the near future, we will be required to seek new financing. There can be no assurance that such financing would be available to us on acceptable terms or at all. We may also be required to reduce our capital expenditures, which in turn could hinder our ability to implement our business plan and maintain our competitiveness. Because of the downturn of the industry, management is in the process of re-evaluating the product mix and direction of the business. Such re-evaluation may lead to significant write-down in fiscal year 2003.

*Our ability to develop new and successful advanced technologies and services is important to maintaining our competitive position and profitability. Any inability to meet our customers' schedules for new product introductions could affect our revenue, growth, future customer relationships and future product design windows.*

The semiconductor industry is characterized by rapid technological developments. Our customers seek advanced and quick time-to-market assembly and testing capabilities for their increasingly complex end-applications. Failure to advance our designs and process technologies successfully and in a timely manner could have a material adverse effect on our competitiveness and our profitability. Technological advances typically lead to rapid and significant decreases in prices for older products. Extended reliance on older products would reduce our gross margins and profitability, as prices decline in the face of newer, higher performance products.

*Because our industry is highly competitive and many of our competitors have greater operating and financial resources, we may not be able to secure new customers or maintain our customer base and we may experience increased price competition. In addition, if any of our competitors grow through acquisitions and we are unable to similarly grow, we may have difficulties competing against those competitors in terms of volume production, price competitiveness and array of services.*

The semiconductor assembly and testing industry is highly competitive, with over 40 independent providers of semiconductor assembly services worldwide. We believe our principal competitors include Advanced Semiconductor Engineering, Inc., Amkor Technology, Inc., ASE Test Limited, ChipPac Inc., Siliconware Precision Industries Co., Ltd. and ST Assembly Test Services Ltd. Many of our competitors have greater operating capacity and financial resources than we do and have proven research and development and marketing capabilities. Lengthy qualification periods and a familiarity between potential customers and their current assemblers may limit our ability to secure new customers. We also compete indirectly with the in-house packaging and testing service resources of many of our largest customers. These customers may decide to shift some or all of the packaging and testing services to internally sourced capacity. Due to this highly competitive environment, we may experience difficulties in securing additional business from our current customers or even maintaining our current level of business with our existing customers. We also could experience increased price competition.

In addition, if any of our competitors grow through acquisitions and we are unable to similarly grow, we may have difficulties competing against those competitors. As a result of such growth, they may have increased capacity and a broader array of services and may be better positioned to increase their market share by decreasing prices.

*Our assembly and testing processes are complex and prone to error, which may create defects and affect production yields.*

Semiconductor assembly and testing, particularly testing of mixed-signal semiconductors which perform both analog and digital functions, are complex processes involving sophisticated equipment and requiring high levels of precision. Both assembly and testing are prone to human error and equipment malfunction. Defective packages also result from:

- contaminants in the manufacturing environment;
- defective raw materials; or
- defective plating services.

These factors have periodically contributed to lower production yields and may continue to do so.

Should our company fail to maintain high standards or acceptable production yields, this circumstance could result in lost customers, increased costs of production, delays, substantial amounts of returned goods and related claims by customers. Any of these problems could have a material adverse effect on our business, financial condition and results of operations.

### **Risks Relating to Our Company**

*The decrease in demand for communications equipment has decreased the demand for our services and placed downward pressure on selling prices.*

A significant percentage of our net sales is derived from customers who use our assembly or test services for semiconductors used in communications equipment. We are currently experiencing an industry wide slowdown in demand in the communications sector. In fiscal year 2002, our sales declined sharply as a result of cutbacks in production orders by our customers in this sector, reflecting inventory corrections and lower demand from their end-user markets. In addition, a decline in the average selling price of communications equipment caused by lower demand has placed downward pressure on the prices of the components that are used in this equipment. If the average selling price of communications equipment continues to decrease, the pricing pressure on services provided by us could lead to further reduction in our net sales and increase our losses. Our company has embarked upon a strategy to diversify our customer base and reduce dependency on the communications sector. However, our strategy and the execution of such strategy may not be successful. This could adversely impact our financial condition and results of operations.

*Our profitability has been affected by capacity utilization rates, which are significantly influenced by factors outside of our control.*

As a result of the capital intensive nature of our business, our operations are characterized by high fixed costs. Consequently, insufficient utilization of installed capacity can negatively affect our profitability. In fiscal year 2002 our capacity utilization rates ranged from approximately 20% to 35% as a result of a decrease in demand for our assembly and test services caused by the severe downturn in the semiconductor industry. We cannot assure you that our capacity utilization rates will not continue at low levels. Our inability to maintain or increase capacity utilization rates would have an adverse effect on our business, financial condition and results of operations.

*Some of our debt obligations contain covenants limiting our financial and operating flexibility.*

Covenants under our senior notes restrict our ability, among other things:

- to incur debt or liens;
- to make investments or acquisitions;
- to merge or consolidate; and
- to sell assets and enter new businesses.

These restrictive covenants could restrict our flexibility in planning for, or reacting to, changes in our business and industry and increase our vulnerability to general adverse economic and industry conditions. We may enter into additional financing arrangements, which could further restrict our flexibility.

*We face risks associated with potential acquisitions, investments, strategic partnerships or other ventures, including whether we can identify opportunities, complete the transactions and integrate the other parties into our business. Difficulties in integrating these other parties into our business could disrupt our business and increase our expenses.*

We believe that the semiconductor packaging industry may undergo consolidation. We believe it may become increasingly important to acquire or make investments in complementary businesses, facilities, technologies, services or products, or enter into strategic partnerships with parties who can provide access to those assets, if appropriate opportunities arise. From time to time we have had discussions with companies regarding our acquiring, investing in or partnering with their businesses, products, services or technologies, and we regularly engage in such discussions in the ordinary course of our business. We may not identify suitable acquisition, investment or strategic partnership candidates, which may place us at a disadvantage if our competitors are able to grow through acquisition. If we do identify suitable candidates, we may not complete those transactions on commercially acceptable terms or at all. If we acquire another company, we could have difficulty in assimilating that company's personnel, operations and technology. In addition, the key personnel of the acquired company may decide not to work for us. If we make other types of acquisitions, we could have difficulty in integrating the acquired products, services or technologies into our operations. These difficulties could disrupt our ongoing business, distract our management and employees and increase our expenses. As of the date of this Annual Report, we have no agreement to enter into any material investment or acquisition transaction.

*We generate a significant amount of revenue from a limited number of customers. The loss of, or reduced purchases by, one or more of our larger customers may have an adverse effect on our results of operations.*

For the fiscal year ended April 30, 2002, our top five customers accounted for approximately 55% of net sales and our largest customer accounted for approximately 23% of net sales. If any key customer were to significantly reduce its purchases from us, our results of operations would likely be adversely affected. While sales to major customers may vary from period to period, a major customer that permanently discontinues or significantly reduces its relationship with us could be difficult to replace. In line with industry practice, new customers usually require us to pass a lengthy and rigorous qualification process at the customers' cost. Furthermore, semiconductor companies generally rely on firms with which they have established relationships to meet their assembly and testing needs for existing and future generations of applications. Because of this, it may be difficult for us to attract new major customers.

*Because a significant portion of our production is in Asia, we are vulnerable to weaknesses in the economies of Asian countries.*

Most of our important suppliers of raw materials and semiconductor chips delivered to us for assembly and testing are located in Asia. Although substantially all our customers are U.S. or European multinational companies and nearly 100% of our invoices are billed in U.S. Dollars, we estimate that approximately 30% of our net sales in the fiscal year ended April 30, 2002 represented packages shipped to distribution centers and destinations within Asia. These factors raise a number of risks, including:

- exposure to economic and political developments;

- changes in laws and taxation;
- currency controls;
- transportation difficulties; and
- unfavorable import/export regulations in Asian countries.

These factors could adversely affect both our operations and the operations of our suppliers and customers. In addition, the sharp economic downturn in Asia in recent years adversely affected our business by reducing demand for our customers' products in Asia. Future economic downturns in Asia or elsewhere would likely be detrimental to our business, financial condition and results of operations.

*With most of our operations conducted in two facilities in Hong Kong, we are vulnerable to disasters and other disruptive events. Any such occurrence could temporarily disrupt or even shut down our assembly and testing operations. Such disruption could render us unable to assemble or test semiconductors, which could cause us to lose revenue and perhaps lose customers.*

We conduct all our assembly operations in one of our facilities in Hong Kong and our testing operations at our other facility in Hong Kong. Significant damage or other impediments to either of these facilities, whether as a result of fire, weather, industrial strikes, breakdowns of equipment, difficulties or delays in obtaining imported spare parts and equipment, natural disasters, terrorist incidents, industrial accidents or other causes could temporarily disrupt or even shut down our operations, which would have an adverse effect on our financial condition and operating results. We maintain insurance, including business interruption insurance, against some, but not all, of these events and we cannot assure you that our insurance would be adequate to cover any direct or indirect loss or liability resulting from those events.

*We rely on substantial amounts of intellectual property in our business. If we are unable to protect this intellectual property, we may lose advantages in innovation we may have over our competitors. We could become involved in infringement claims with third parties. These occurrences could have a significant negative impact on our business.*

We have patents, trademarks, confidentiality agreements, collaborative agreements and other arrangements intended to protect our proprietary technologies and products. These protections and any future measures we take might not adequately cover or protect our intellectual property. In particular, our competitors may be able to develop similar or superior products. Also, we cannot assure you that the Asian countries in which we market our products, such as Taiwan and China, will protect our intellectual property rights to the same extent as the United States. Even if we have valid protections, we may not have sufficient financial and legal resources to protect or enforce our rights. Furthermore, many of our products and technologies are not covered by any patent or pending patent application.

Third parties may claim that we are infringing their intellectual property rights. Such claims could have a serious adverse effect on our business and financial condition. We may seek licenses from such parties, but they could refuse to grant us a license or demand commercially unreasonable terms. We might not have sufficient resources to pay for the licenses. Such infringement claims could also cause us to incur substantial liabilities and to suspend or permanently cease the use of critical technologies or processes or the production or sale of major products.

*The loss of key executive officers and employees could negatively impact our business prospects. Our inability to retain key personnel at all levels would limit our ability to develop new and enhanced packaging and testing services.*

We depend on our ability to attract and retain highly skilled technical, managerial and marketing personnel. Competition for such personnel is intense and the retention of scientific and engineering personnel in our industry typically requires attractive compensation packages. In attracting and retaining such personnel, we may be required to incur significantly increased compensation costs. We cannot predict whether we will be successful in attracting and retaining the personnel we need to successfully develop new and enhanced packaging and

testing services and to return to growth and profitably. In addition, we do not maintain key man insurance on any of our key personnel.

*Environmental, health and safety laws could impose material liability on us and could require us to incur material capital and operational costs. Any new regulatory developments are beyond our control, and our financial condition may be negatively affected if we are required to incur significant costs of compliance.*

We are subject to environmental, health and safety laws in Hong Kong that impose controls on our air and water discharges, on the storage, handling, discharge and disposal of chemicals, and on employee exposure to hazardous substances. These laws could require us to incur costs to maintain compliance and could impose liability to remedy the effects of hazardous substance contamination. Although we have not incurred any significant liability under these laws in the past, stricter enforcement of existing laws, the adoption of new laws or regulations or our failure to comply with these laws or regulations could cause us to incur material liabilities and require us to incur additional expense, curtail our operations and restrict our ability to grow.

In addition, QPL provides us with chemical waste disposal services due to our respective facilities being located in the same building. QPL provides these services pursuant to a license issued by the Hong Kong government that must be renewed annually. If QPL fails to renew this license, the license is cancelled for any reason or we fail to otherwise have the benefit of this license, we will need to obtain a license from the government in order to dispose of the chemical waste generated by our assembly operations. Any failure to obtain such a license could materially and adversely affect our operations.

*Some of our costs are denominated in foreign currencies and any depreciation of the U.S. dollar against such foreign currencies could increase these costs.*

While substantially all of our revenues are U.S. dollar denominated, a portion of our costs are denominated in other currencies, primarily Hong Kong dollars and to a lesser extent Japanese yen. The Hong Kong dollar historically has accounted for the largest share of our costs. Because the exchange rate of the Hong Kong dollar to the U.S. dollar has remained close to the current linked rate of HK\$7.80 = \$1.00 since 1983, we have not experienced significant foreign exchange gains or losses associated with that currency. However, the Hong Kong government could change the linked rate or abandon the link altogether. Depreciation of the U.S. dollar against the Hong Kong dollar or Japanese yen would generally increase our Hong Kong dollar or Japanese yen expenses.

#### **ITEM 4. INFORMATION ON THE COMPANY**

##### **HISTORY AND DEVELOPMENT**

ASAT Holdings was incorporated in the Cayman Islands on October 20, 1999, as a limited liability company under the Companies Law (Revised) of the Cayman Islands. The principal executive offices for the ASAT group companies are located at 138 Texaco Road, Tsuen Wan, New Territories, Hong Kong. ASAT Holdings' registered office in the Cayman Islands is Ugland House, P.O. Box 309, South Church Street, George Town, Grand Cayman, Cayman Islands. Our telephone number in Hong Kong is (852) 2408-7811 and the telephone number for our registered office in the Cayman Islands is (345) 949-8066.

##### **Recapitalization**

On October 29, 1999, three groups of private equity funds separately managed by or affiliated with JPMP Master Fund Manager, L.P. (formerly Chase Capital Partners), Olympus Capital Holdings Asia and Orchid Asia Holdings LLC purchased a 50% equity interest in ASAT Holdings from QPL. Following the completion of our offering of ADSs on July 14, 2000, this investor group holds an approximately 43% equity interest in ASAT Holdings.

## **BUSINESS OVERVIEW**

We are one of the world's largest independent providers of semiconductor assembly and testing services. We offer a broad selection of semiconductor packages, including standard and advanced leaded and ball grid array, or BGA. Semiconductor packaging protects the enclosed semiconductor chip and provides a network of connections between the chip and a printed circuit board. Leaded packages encapsulate the chip in plastic with metal leads surrounding the edge of the package that connect the chip to the circuit board. BGA packages, however, connect the chip to the circuit board using solder balls on the bottom of the package.

During the fiscal year ended April 30, 2002, 54% of our assembly net sales were from advanced leaded packages and advanced BGA packages. Advanced leaded and all BGA assembly sales represented 66% of total sales including testing. See “—Semiconductor Assembly and Testing Services”. Of our net sales from BGA packages during this fiscal year, 65% were from advanced BGA packages. We also provide semiconductor testing services, particularly for mixed-signal semiconductors which perform both analog and digital functions. In fiscal year 2002, approximately 32% of our net sales from testing were from the testing of mixed-signal semiconductors.

We have historically targeted the communications sector of the semiconductor industry, including enterprise networking, mobile communications, and broadband communications segments. Each of these has been impacted by the industry downturn. In fiscal year 2002, we announced our strategy to diversify into other markets, including various consumer sectors and PC peripherals. As a result, we were able to reduce our dependency on communications, increase sales and reduce losses during the closing months of fiscal year 2002 as compared to previous months. We seek to differentiate our company from competitors by providing timely and comprehensive solutions to customers' complex semiconductor performance needs. We work closely with customers to design and provide advanced packaging and test solutions for each new generation of products. We have over 110 customers and many of our top customers are among the world's largest semiconductor companies. Our top ten customers by net sales during fiscal year 2002 were: Agilent Technologies, Altera, Philips, Analog Devices, Broadcom, Infineon Technologies, Flextronic, Conexant Systems, STMicroelectronics, and Vitesse Semiconductor.

For the year ended April 30, 2002 our top ten customers generated approximately 71% of our net sales and an estimated 66% of our net sales were from packaging and testing semiconductors for communications applications. During the same period, approximately 87% of our net sales were generated from sales to U.S. multinational companies, 12% to European multinational companies and 1% to Asian companies. In terms of net sales during the same period, we shipped approximately 63% of our packages to destinations in the United States, 30% to destinations in Asia and 7% to European and other destinations.

We provide assembly and testing services from our Hong Kong facilities where we operate 690 wire bonders, which are machines that attach connectivity wires to the semiconductor packages, and 42 semiconductor testing machines as of April 30, 2002. We also provide package design services, computer testing of package designs for thermal and electrical performance and testing support services from our facilities in Fremont, California and Hong Kong. Our sales offices and representatives are strategically located in the United States, Europe, Hong Kong, South Korea and Singapore, allowing us to work directly with customers at their facilities to provide effective design, testing and customer service. Through this network we are able to provide highly focused design and production services with rapid time-to-market design and production solutions.

### **Strategy**

Our strategy is to be a leading developer and provider of semiconductor assembly and testing services. The principal elements of our strategy include to:

- *Provide Advanced Assembly and Testing Capacity.* We believe this to be a core strength of ASAT providing a product range demanded by the higher growth potential customer segments in the semiconductor industry.

- *Continue Timely Market Introduction of Leading Innovative Packages.* We intend to maintain our leadership in introducing innovative packaging technology for advanced semiconductors. We intend to continue working closely with customers to understand their new semiconductor designs and end-products and to design advanced packaging solutions for each new generation of products. In fiscal year 2002, we saw satisfactory market acceptance of our advanced LPCC (leadless plastic chip carrier product) and introduced MSL-1 (moisture sensitive level one) capability products. These are in addition to other new products which are now in production, such as enhanced TBGA, fxBGA, flip chip and MSP (multi system in a package) Technology. We also have developed Paper Thin LPCC, TSBGA and Wafer Scale Packages.
- *Leverage Our Technologies to Serve a Broader Array of Market Opportunities.* We plan to utilize our intellectual property to increase sales in potential high growth market sectors outside of our traditional market strengths. Our strategy is to accomplish this by seeking new customers and by leveraging existing customer relationships to sell to a broader array of market sectors.
- *Reduce Our Cost Structure.* We have made significant reductions to operating and administrative costs over the past two fiscal years as part of a global restructuring program. We will continue to seek cost reduction in the future, including obtaining a low cost manufacturing facility in China.
- *Increase Testing Through Existing Packaging Customers.* We intend to capitalize on our well established advanced packaging customer base to expand our testing business. We have developed strategic relationships with many of our customers through which we provide a turnkey service involving design, engineering, assembly, testing and drop shipment. We believe these relationships position us to capture additional assembly and test outsourcing business, as semiconductor companies generally rely on firms with which they have established relationships to meet their assembly and testing needs.
- *Maintain High Quality of Service to Customers.* We will continue to emphasize providing a superior level of service to customers. We focus on providing comprehensive and timely solutions to customers' performance requirements in package design, assembly and testing. We locate customer application engineers and support personnel near our major customers' locations to provide prompt and effective service at their facilities. We also plan to expand our design and engineering services to more fully participate in the early stages of their design process.

### **Semiconductor Assembly and Testing Services**

We offer a broad selection of semiconductor packages, including standard and advanced leaded and BGA, as well as semiconductor testing services. Most of the revenue derived from testing services comes from testing services performed in connection with assembly services and the revenue generated from sales of testing services only is not significant to us. The following table sets forth the breakdown of net sales by product category for the periods indicated:

	Fiscal Year Ended April 30,				
	1998	1999	2000	2001	2002
	(Dollars in thousands)				
<b>Net sales:</b>					
Leaded packages:					
Standard .....	\$176,224	\$ 82,177	\$ 98,215	\$ 73,646	\$ 30,342
Advanced .....	32,704	48,578	75,441	90,740	25,758
Subtotal .....	208,928	130,755	173,656	164,386	56,100
BGA packages:					
Standard .....	10,027	30,678	19,592	7,170	14,459
Advanced .....	4,513	31,429	91,185	150,770	27,052
Subtotal .....	14,540	62,107	110,777	157,940	41,511
Testing .....	15,855	26,172	27,698	16,885	4,797
Other .....	3,780	1,589	—	1,025	—
Total .....	<u>\$243,103</u>	<u>\$220,623</u>	<u>\$312,131</u>	<u>\$340,236</u>	<u>\$102,408</u>

**As a percentage of total net sales:**

Leaded packages:					
Standard .....	72.5%	37.2%	31.5%	21.6%	29.6%
Advanced .....	13.5	22.0	24.1	26.7	25.2
Subtotal .....	86.0	59.2	55.6	48.3	54.8
BGA packages:					
Standard .....	4.1	14.0	6.3	2.1	14.1
Advanced .....	1.9	14.2	29.2	44.3	26.4
Subtotal .....	6.0	28.2	35.5	46.4	40.5
Testing .....	6.5	11.9	8.9	5.0	4.7
Other .....	1.5	0.7	—	0.3	—
Total .....	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

*Assembly of Semiconductor Packages*

Semiconductors are an integral component in a wide variety of everyday products, including telecommunications systems, personal computers, consumer electronics, office equipment and automotive products. Semiconductor packages are critical to the chip's performance and functionality and facilitate the integration of the semiconductor device into the end-product. We offer a wide range of semiconductor packages for a broad spectrum of electronic products. Our products can be grouped into three categories: leaded packages, BGA packages and testing services. In both the leaded and BGA package categories, we have been recognized for our position in advanced packaging. However, we also offer customers a variety of standard packages.

**Leaded Packages**

Leaded packages are characterized by a semiconductor chip encapsulated in a plastic mold compound with metal leads surrounding the perimeter of the package. The chip is attached to a leadframe, which is a multi-site carrier used in assembly. The chip is then encapsulated in a plastic package, with the ends of the leadframe protruding from the edges of the package to enable connection to a printed circuit board. This packaging type has evolved from packages designed to be plugged into the printed circuit board by inserting the leads into holes on the printed circuit board to the more modern surface mount design, in which the leads or pins are soldered to the surface of the printed circuit board. Specific packaging customization and evolutionary improvements are continually being engineered to improve electrical and thermal performance, reduce the size of packages and enable multi-chip assembly capability.

*Standard Leaded Packages.* Standard leaded packages are used in almost every electronics application, including automobiles, household appliances, desktop and notebook computers, and telecommunications products. We offer several types of standard leaded packages to satisfy the variations in our customers' end-products. We have introduced a new process technology which will allow our leadframe based packages to achieve MSL-1 capability. This will allow customers to store products that we assemble with an almost unlimited shelf life.

The table below sets forth information regarding our standard leaded packages<sup>(1)</sup>:

<u>Package Format</u>	<u>Number of Leads<sup>(2)</sup></u>	<u>Description</u>	<u>Applications</u>
Thin Quad Flat Package— TQFP .....	32-208	QFP with thickness of 1.0 mm for use in low profile, space constrained applications	Mobile phones, notebook computers and hard disk drives
Quad Flat Package— QFP .....	44-208	Package with leads on all four sides attached to a printed circuit board by surface mounting	Networking systems, consumer products and personal computers
Plastic Leaded Chip Carrier— PLCC .....	28-84	Standard leaded package designed for applications that do not have space constraints or high numbers of interconnects	Personal computers and consumer electronics

(1) The full names and explanations of these packages and applications are set forth in "Glossary of Semiconductor Terms".

(2) Indicates the number of input/output connections between the semiconductor package and the printed circuit board.

*Advanced Leaded Packages.* Our advanced leaded packages are similar to standard leaded packages but have advanced thermal and electrical characteristics. These advanced characteristics are necessary to maximize the performance of high frequency semiconductor chips used in sophisticated end-products. We offer a variety of lead counts and body sizes within this packaging group.

*EDQUAD.* Our major patented class of advanced leaded products is EDQUAD. This group of packages is designed specifically for applications that require significantly higher thermal and electrical performance than standard plastic packages can provide.

*LPCC.* In addition to the packages listed in the table below, we increased sales volume of our Leadless Plastic Chip Carrier, or LPCC, packages, a new class of advanced packaging that could replace current standard leadframe packages. LPCCs are designed for use in mobile communications, particularly cellular telephones, and analog to digital interfaces. These packages are based on a new technology which relies on conventional leadframes as base material. Unlike traditional leadframe packages, however, the leads in LPCC packages do not protrude from the package but are flush with the package surface. LPCCs are chip scale packages with a high density lead count and improved thermal and electrical performance similar to BGAs, a combination that enhances board level performance. LPCCs can be manufactured using conventional tooling, and therefore do not require large scale capital expenditures.

*TAPP.* Our Thin Array Plastic Packaging technology will provide metallic contacts to the circuit board that will allow high density circuitry in a small footprint package. This technology will provide thermal management and electrical enhancement.

*MSP Technology.* We have developed advanced Multi System in a Package Technology. This technology will incorporate multi-functions of a circuit into a single package. Each application is typically customer specific. This will allow the end users to conserve board space and to increase the performance of the circuit. This approach will utilize various assembly technologies to optimize both size, density and performance according to customer requirements.

The table below sets forth information regarding our advanced leaded packages<sup>(1)</sup>:

<b>Package Format</b>	<b>Number of Leads<sup>(2)</sup></b>	<b>Description</b>	<b>Applications</b>
Enhanced Dissipation Quad Flat Pack EDQUAD—QFP . . . . .	32-240	Advanced leaded product with significantly better thermal and electrical performance than conventional plastic packages	Microcontrollers, advanced logic and networking systems, advanced testing equipment
EDQUAD Shrink Small Outline Package—EDQUAD—SSOP . . . . .	16-28	Thermal enhancement of SSOP packages designed for portable products which require reduced size and weight	Microcontrollers, advanced logic and networking systems, advanced testing equipment
SLUG—QFP . . . . .	32-240	Thermally enhanced QFP with a copper slug attached to the back of the chip paddle	Microcontrollers, advanced logic and networking systems, advanced testing equipment
Integrated Thermally Enhanced QFP—INT-TEP-QFP . . . . .	128-208	Thermally enhanced QFP with an aluminum flag attached to the back of the chip paddle	Microcontrollers, advanced logic and networking systems, advanced testing equipment
Leadless Plastic Chip Carrier Package-LPCC . . . . .	8-196	Enhanced thermal and electrical performance leaded product with leads that are flush with surface	Mobile communications, analog to digital interfaces
MSP Technology . . . . .	100-1,000	Multi-chip and passive components using advanced assembly technology in a simple package	Processors, networking, and automotive
Thin Array Plastic Packaging- TAPP . . . . .	20-256	Package technology utilizing metal contacts in place of leads that will provide enhanced electrical and thermal performance	Micro controllers networking systems, mobile communications

- (1) The full names and explanations of these packages and applications are set forth in the “Glossary of Semiconductor Terms”.  
(2) Indicates the number of input/output connections between the semiconductor package and the printed circuit board.

### **Ball Grid Array Packages**

Ball grid array, or BGA technology is used in high performance (i.e. advanced packaging) applications, including hand held consumer products, enterprise networks, digital video disk players, home video game machines, wireless products, personal digital assistants and video cameras, computing platforms and high speed telecommunications switching stations and routers and consumer electronic products.

BGA technology was first developed to accommodate the increasingly high lead counts required for advanced semiconductors and to provide an increased circuit density per unit area. In a typical BGA package, the semiconductor chip is placed on top of a laminate (plastic or tape) substrate rather than a leadframe. The chip is connected to the circuitry in the substrate by a series of fine gold wires that are bonded to the top of the substrate near its edges. On the bottom of the substrate is a grid of solder balls that connect the packaged device to a printed circuit board.

BGA packages generally provide semiconductor manufacturers numerous benefits over leaded packages, including:

- smaller package size;
- more leads per unit area and higher circuit density;
- greater reliability;
- reduced likelihood of damage during handling;
- better electrical and thermal performance; and

- ease of attachment to a printed circuit board.

As with leaded packages, BGA packages can be categorized into standard and advanced packages.

*Standard BGA Packages.* Standard BGA packages have a grid array of balls on the underside of the integrated circuit, and are utilized in high-performance applications such as personal computer chipsets, graphics controllers and microprocessors.

The following table sets forth information regarding our standard BGA packages<sup>(1)</sup>:

<u>Package Format</u>	<u>Number of Leads<sup>(2)</sup></u>	<u>Description</u>	<u>Applications</u>
Plastic Ball Grid Array—PBGA . . . . .	225-672	Standard BGA package	Personal computer chipsets, graphics controllers and microprocessors
BGA Overmold . . . . .	28-672	BGA package with a transfer molded encapsulent and higher circuit density	Personal computer chipsets, graphics controllers and microprocessors
BGA—GT . . . . .	119-208	BGA package with a dispensed epoxy encapsulation and higher circuit density	Personal computer chipsets, graphics controllers and microprocessors

(1) The full names and explanations of these packages and applications are set forth in the “Glossary of Semiconductor Terms”.

(2) Indicates the number of input/output connections between the semiconductor package and the printed circuit board.

*Advanced BGA Packages.* We specialize in developing and assembling leading edge BGA packages. We currently offer our customers a variety of advanced packages and continually design additional packages and next generation of advanced BGA packages. The primary differences between standard and advanced BGA packages are their electrical and thermal performance levels.

*TBGA.* Tape BGA packages have higher density than our other standard BGA packages and are designed for use in complex semiconductor products such as high speed test systems, wireless communications systems and networking systems.

*Two Layer TBGA.* We have developed two layer TBGA, which is a two level tape process that improves electrical performance. This further enhances the TBGA to allow it to operate at even higher frequencies. This product is designed for use in complex, high speed applications, such as internet routers.

*Closed Loop TBGA.* We have developed and currently produce CLTBGA, a cost effective alternative to two layer TBGA, consistent with our effort to diversify our product applications.

*Chip Scale Family.* The chip scale family includes packages which are slightly larger than a semiconductor chip and have a substrate base. Chip scale packages are designed for high pin count semiconductors that require dense ball arrays in very small package sizes, such as wireless telephones, personal digital assistants, video cameras, digital cameras and wireless pagers. Within the chip scale family of packages, we currently offer fpBGA and are developing a variation of our fxBGA. This package technology represents a new, flexible BGA package introduced in fiscal year 2002. Our fxBGA packages are thinner, have higher circuit density and improved electrical and thermal performance.

*Flip Chip Packages.* Like BGA, flip chip packages use balls to connect to the printed circuit board. Within the flip chip package, however, the chip is connected to these balls by the use of an array of solder bumps on the bottom of the chip as opposed to the traditional method used in BGA of wire bonding the chip to the balls. This method of attachment further improves thermal and electrical performance of the chip and enables a higher density of interconnections which facilitates smaller packages. Flip chip technology can be used in a wide array of applications ranging from consumer products to highly sophisticated application specific integrated circuits, digital signal processors, and memory packages. Flip chip technology is considered by many in the

semiconductor industry to be the next generation of BGA packaging technology. We introduced our flip chip packages to our customers during fiscal year 2002.

The following table sets forth information regarding our advanced BGA packages<sup>(1)</sup>:

<u>Package Format</u>	<u>Number of Leads<sup>(2)</sup></u>	<u>Description</u>	<u>Applications</u>
Tape BGA—TBGA . . . . .	208-800	High performance thermal and electrical BGA package	High speed test systems, wireless communication systems and networking systems, set top boxes
Two Layer TBGA . . . . .	256-800	Two layer tape process that improves electrical performance	Complex, high speed applications such as internet routers
Fine Pitch BGA—fpBGA . . . . .	36-672	A BGA in the chip scale family mounted on tape substrate that has a solder ball pitch of less than 1.0 mm	Wireless telephones, personal digital assistants, video cameras, digital cameras and wireless pagers
Flexible BGA—fxBGA . . . . .	36-600	A new and flexible advanced BGA in the chip scale family package that is thinner, has a higher circuit density and improved electrical and thermal performance	Wireless telephones, personal digital assistants, video cameras, digital cameras and wireless pagers
Flip Chip (under development) . . . . .	600+	Semiconductor chip that uses the latest interconnect technology and improves density, electrical and thermal performance	High end wireless telephones and personal digital assistants, networking systems and set top boxes

(1) The full names and explanations of these packages and applications are set forth in the “Glossary of Semiconductor Terms”.

(2) Indicates the number of input/output connections between the semiconductor package and the printed circuit board.

### Testing Services

We provide testing services for digital logic, analog and mixed signal products. Testing is the final stage in semiconductor production and involves using sophisticated test equipment and programs to electronically test different operation specifications of the semiconductor, including functionality, voltage, current and timing. We are able to test semiconductor chips upon initial delivery from the foundry as well as when they are packaged and ready for integration into the end-product. We have engineers and testing personnel located globally who work closely with customers at their facilities to develop testing programs and provide testing services.

*Mixed-Signal Testing.* We specialize in mixed-signal testing, which we began providing in 1993. We test a variety of mixed-signal semiconductors, including those used in communications applications such as network routers and switches; broadband products such as internet and set-top boxes; mobile telecommunications products such as cellular phones and wireless networks and consumer electronics products such as personal digital assistants and video games. Mixed-signal testing involves testing both analog and digital functions on a single chip. Mixed-signal semiconductors require a large number of parameters to be tested and a more precise level of measurement of the analog functions. This in turn requires specialized testing equipment and a high degree of engineering capability. Our team of engineers has over 35 years of combined experience in mixed-signal testing with companies such as Analog Devices, Intel, Texas Instruments and Philips.

*Digital Testing.* We test a variety of digital semiconductors, including high performance semiconductors used in personal computers, disk drives, modems and networking systems. Specific digital semiconductors tested include digital signal processors, field programmable gate arrays, microcontrollers, central processing units and application specific integrated circuits.

### Design Services

We have a dedicated team of engineers in Hong Kong and the United States to provide design services and computer modelling. These services focus on both thermal and electrical performance to ensure that our

customers' packaged semiconductor devices can operate at optimal levels. When the selection of a package is critical to the overall development of a semiconductor device, our design engineers select, design and develop the appropriate package for that device by simulating the semiconductor's performance and end-use environment.

### **Marketing, Sales, Distribution and Customer Support**

We sell our packaging and test services to our customers and support them through a network of international offices. To better serve our customers, our offices are located near our largest customers or near a concentration of several of our customers. Our offices and representatives are located in the United States (California, Texas, Massachusetts), Hong Kong, South Korea, Switzerland, Germany and Singapore. We offer global drop shipment services, whereby we deliver packaged semiconductors to destinations in any part of the world as instructed by our customers, including to their end-customers.

We dedicate account managers and support sales staff, application engineers and customer service representatives to work as teams in servicing customers and developing new business. Each of these teams focuses on specific customers and/or geographic regions. As part of this emphasis on developing business, these teams:

- jointly work with customers on design and technology advancement;
- develop and implement focused strategies for broadening our customer base;
- proactively address customer and business technology requirements.

Our marketing efforts focus on creating a brand awareness and familiarity with ASAT and our advanced packaging and testing services as well as technologies such as LPCC, which offer customer diversification opportunities for ASAT. We emphasize our position as a leader in BGA and advanced leaded packaging and mixed-signal testing and our focused strategy of providing our customers comprehensive solutions to their technological requirements. We focus our marketing efforts on publishing research articles in trade journals and periodicals, holding technical seminars for advanced packaging engineers and making technical presentations to our customers' end customers.

### **Customers**

We provide semiconductor assembly and testing services to over 110 customers worldwide. We design, assemble and test semiconductor packages for end-applications in a variety of industries. During the fiscal year ended April 30, 2002, approximately 66% of our total net sales was from assembling and testing semiconductors for communications semiconductors, less than 5% from semiconductors for personal computer applications and the remainder from semiconductors for consumer products and field programmable logic applications. The table

below sets forth information regarding a number of our customers that are important to our business in terms of sales volume, strategic relationships, advanced technology demand or potential growth:

<b>Industry</b>	<b>Customers</b>	<b>Applications(1)</b>
Wireless Communication . . . . .	Analog Devices, Inc., Infineon Technologies Corporation, Lucent Technologies, Inc., Motorola, Inc., STMicroelectronics N.V.	Cellular phones for Alcatel, Bosch, Ericsson, Motorola, Nokia, Siemens and Sony; Global Positioning System products
Networking/Broadband Communication . . . . .	Altera Corporation, Broadcom Corporation, Conexant Systems, Inc., CommQuest Technologies (IBM), Vitesse Semiconductor Corporation	Cable modems; ethernet; high speed networking applications; digital communication applications; internet set-top boxes; network servers and routers; optical network systems
Consumer Multimedia . . . . .	Analog Devices, Inc., Philips Electronics N.V., Texas Instruments Inc., VLSI Technology, Inc.	Camcorders; CD and DVD players; digital cameras; fingerprint recognition systems; home audio and video entertainment; mobile communications interface; personal digital assistants; professional audio applications; set-top boxes for direct satellite broadcast; video capture applications
Automotive . . . . .	STMicroelectronics N.V., Temic Semiconductors (Atmel)	Automotive entertainment; instrumentation and systems
Computer Systems and Peripherals . . . . .	Adaptec, Inc., National Semiconductor Corporation, Lucent Technologies, Inc., VLSI Technology, Inc.	CD-recordable products; co-processors; central processing units; high speed interfaces; power management systems; printers; system controllers

(1) An explanation of these applications is set forth in the "Glossary of Semiconductor Terms".

Many of our customers are leading telecommunications and networking product manufacturers, whose products require sophisticated semiconductor capabilities. Our success in becoming a leading provider of advanced BGA and other advanced technology is due in significant part to (1) our strong relationships with these customers and (2) our dedication to working closely with them to develop innovative solutions for their increasingly complex semiconductor performance requirements. For the fiscal year ended April 30, 2002, our largest single customer accounted for approximately 23% of our net sales, our top ten customers accounted for approximately 71% of net sales and each of Altera, Analog Devices, and Broadcom accounted for 10% or more of our net sales.

## **Operations**

We believe that total quality management is a key element of our semiconductor assembly operations. Our 250,000 square foot assembly facility in Hong Kong is ISO 9001, ISO 9002, QS-9000 and SAC level 1 certified. We have also acquired a 131,000 square foot building from Motorola that has become our test center. This site is also fully ISO 9001, ISO 9002, QS-9000 and SAC level 1 certified. ISO 9001 and ISO 9002 are worldwide manufacturing quality certification programs regarding product design and industrial quality that are administered by an independent standards organization. QS 9000 is a manufacturing quality certification program administered by an independent standards organization that is used primarily by United States automotive manufacturers. SAC level 1 is a worldwide manufacturing quality certification program administered by the Subcontractor Assembly Council for which assemblers must be sponsored by a major customer. We have also received the Hong Kong Governor's Award for Quality Achievement and an ISO 14001 certification for environmental control.

As part of our ongoing efforts to reduce cost, we are considering obtaining facilities that would allow us to move part of our packaging and testing facilities to China.

## **Suppliers**

The principal materials used in our assembly process are rigid and flexible substrates, leadframes, gold wire and molding compounds. We work closely with our primary materials suppliers to ensure that materials are

available and delivered on time. In the ordinary course of business, we purchase a majority of our lead frame requirements from QPL. We purchase our substrate requirements from several suppliers in Japan, Korea and Hong Kong. We purchase our wire bonders from major international manufacturers, including Kulicke & Soffa Industries and ESEC and our testing equipment from Teradyne Inc., Credence Systems Corporation and LTX Corporation. Other than our arrangement with QPL for lead frames, we have no significant supply contracts or arrangements with any supplier of materials. See Item 3 “Key Information—Risk Factors—Inadequate supplies of key materials such as ball array substrates, lead frames and gold wires could adversely affect our semiconductor assembly operations”.

We periodically purchase equipment through several suppliers to meet our assembly and testing requirements. We work closely with major suppliers to ensure that equipment is delivered on time and that the equipment meets our stringent performance specifications.

## **Competition**

There are over 40 companies worldwide providing independent semiconductor assembly and testing services. We believe our primary competitors are Advanced Semiconductor Engineering, Inc., Amkor Technology, Inc., ASE Test Limited, ChipPac, Inc., Siliconware Precision Industries Co., Ltd., and ST Assembly Test Services Ltd. We also compete with the internal assembly and testing resources of many of our largest customers. We compete indirectly with other semiconductor assemblers, many of whom only focus on specific geographic regions or do not provide advanced packaging.

We believe the principal elements of competition in the overall independent semiconductor assembly market include technical competence, sophistication of design services, quality, time-to-market, array of assembly services, production yields, customer service and price. In the area of test services, we compete on the basis of quality, cycle time pricing, location, available capacity, engineering capability, technical competence, customer service and flexibility. We believe that competition in the advanced BGA, advanced leaded packaging and testing industries centers primarily on service, technology and expertise.

In general, our customers principally rely on at least two independent assembly and test providers. Semiconductor assembly and test providers must pass a lengthy and rigorous qualification process that typically can take from three to six months. In addition, customers incur substantial costs in qualifying each new semiconductor assembler. Due to these factors and the heightened time-to-market demands of semiconductor end-users, semiconductor manufacturers incur significant costs in switching assembly and test providers and thus are often reluctant to change or add their providers.

Each of our primary competitors has significant assembly and testing capacity, financial resources, research and development operations, marketing and other capabilities, and has been operating for some time. These companies have also established relationships with many large semiconductor companies which are our current or potential customers.

## **Backlog**

Because of the fast-changing technology and functionality of semiconductor chip design, customers requiring semiconductor assembly and testing services generally do not place purchase orders far in advance. However, we engage in discussion with customers starting as early as six months in advance of the placement of purchase orders regarding such customers’ expected assembly and testing requirements. In addition, our customers generally agree to purchase from us any unused materials that we purchase to meet their forecasted demand. While we have long term sales arrangements with a number of customers, our customers generally may cancel or reschedule orders without significant penalty. Accordingly, our backlog as of any particular date may not be indicative of our future sales.

## Intellectual Property

We have obtained or applied for patents in the United States relating to a number of our advanced semiconductor packages. In addition, we have entered into patent and cross-licensing agreements with leading companies in the semiconductor industry including Motorola and VLSI Technology (Philips Electronics). Through these agreements, we use technologies and patents related to packages developed by these leading industry players. Our primary trademarks, trade names and service marks are “ASAT” and “Total Testing Services”.

We believe that our ability to succeed depends in large part on the technological skills of our employees and their ability to continue to innovate. While we will continue to file patent applications when appropriate to protect our proprietary technologies, we will also encourage our employees to continue to invent and innovate so as to maintain our competitiveness in the international marketplace.

Although we are not currently a party to any material litigation regarding intellectual property, the semiconductor industry is characterized by frequent claims regarding patent and other intellectual property rights. If a third party were to bring a valid legal claim against us, we could be required to:

- discontinue the use of any of our processes considered infringing;
- cease the manufacture, use, import and sale of infringing products;
- pay substantial damages;
- develop non-infringing technologies; or
- acquire licenses to the technology that we had allegedly infringed.

We may also need to enforce our patents and other intellectual property rights against infringements. If any of the above events occurs, we could incur substantial costs. We filed suit against our former patent law firm for breach of fiduciary duty and negligence in representation which we recently settled.

## ORGANIZATIONAL STRUCTURE

ASAT has the following principal direct or indirect wholly-owned subsidiaries as of April 30, 2002.

<u>Name</u>	<u>Place of Incorporation</u>	<u>Percentage of Ownership</u>	<u>Principal Activities</u>
ASAT Limited . . . . .	Hong Kong	100%	Assembly and testing services of integrated circuits
Timerson Limited . . . . .	Hong Kong	100%	Property investment holding
ASAT, Inc. . . . .	California	100%	Sales, marketing and service of semiconductors
ASAT (Finance) LLC . . . . .	Delaware	100%	Provision of financial services
ASAT (Cayman) Limited . . .	Cayman Islands	100%	Investment holding
ASAT (S) Pte Ltd. . . . .	Singapore	100%	Customer service
ASAT Korea Limited . . . . .	Korea	100%	Customer service
ASAT GmbH . . . . .	Germany	100%	Customer service

## PROPERTY, PLANT AND EQUIPMENT

Our headquarters, administrative offices and assembly and testing operations are located in a 250,000 square foot facility in Hong Kong. In this facility, we currently own 690 wire bonders. We have an additional 131,000 square foot testing facility in Hong Kong that is close to our existing facility. We have moved our Hong Kong testing operations to this new facility. In this facility we currently operate 42 testers. In addition, we have an option

to rent an additional 100,000 square feet in our current Hong Kong building. We lease our current Hong Kong facility from QPL under a lease with a five year term and have an option to renew for an additional five years.

## **Environmental Matters**

Semiconductor assembly and testing services produce a small amount of chemical waste. Since our assembly facility is located in Hong Kong, disposal and storage of chemical waste from our assembly and testing services are subject to Hong Kong laws and government regulations which impose various controls on the generation, storage, handling, discharge, treatment, transportation and disposal of chemicals. For instance, a manufacturing facility is required under Hong Kong law to obtain a license from the government before it can dispose of chemical waste.

Historically, we have shared chemical waste treatment and disposal facilities with QPL, whose leadframe manufacturing operations are located in the same building as our assembly operations. QPL has obtained the required license from the Hong Kong government to operate its waste treatment facility pursuant to which it disposes of chemical waste generated by our facility in Hong Kong. The license must be renewed annually. Following our recapitalization, we began sharing these chemical waste treatment and disposal facilities through a long term agreement with QPL pursuant to which we pay QPL a portion of the costs associated with our use of the facilities. We do not expect to incur significant costs relating to our waste disposal under this arrangement. See Item 3 “Risk Factors—Environmental, health and safety laws could impose material liability on us and could require us to incur material capital and operational costs. Any new regulatory developments are beyond our control, and our financial condition may be negatively affected if we are required to incur significant costs of compliance”.

We do not anticipate making material environmental capital expenditures in connection with our current operations. We cannot predict whether future environmental, health and safety laws will require additional capital equipment or impose other process requirements upon us, curtail our operations, or restrict our ability to expand our operations. We could be subject to material liabilities if the government adopts new environmental, health and safety laws, we fail to comply with new or existing laws, or other issues relating to hazardous substances arise.

## **ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

*You should read the following discussion and analysis in conjunction with the selected consolidated financial data, the consolidated financial statements, and the accompanying notes, and other financial information about ASAT which appear elsewhere in this Annual Report. The following discussion includes various forward-looking statements that involve risks and uncertainties. See “Forward-looking Statements” for special information regarding our forward-looking statements.*

### **CRITICAL ACCOUNTING POLICIES**

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to allowance for doubtful accounts, revenues, inventories, asset impairments, income taxes, commitments and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies relate to those policies that are most important to the presentation of our financial statements and require the most difficult, subjective and complex judgments.

**Revenue Recognition.** Our revenue recognition policy is significant because our revenue is a key component of our results of operations. The Company recognizes revenue in accordance with SEC Staff Accounting Bulletin No. 101. Revenue Recognition in Financial Statements (SAB 101), as amended by SAB 101A and 101B. SAB 101 requires that four fundamental criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services rendered; (3) the fee is fixed and determinable; and (4) collectibility is reasonably assured. The criteria are usually met at the time when packaged semiconductors have been shipped and title to the packaged semiconductors has been transferred to customers.

**Inventory Valuation.** At each balance sheet date, we evaluate our ending inventories for obsolete and non-saleable items. This evaluation considers analyses of sales levels by product, projections of future demand, and evidence of customers' expectation to buy back excess inventories as per our written supplier agreements. The majority of inventory components on hand, in excess of one year, are not valued. In addition, we consider the need to write down to net realizable value other inventories we believe to be obsolete or non-saleable. Remaining inventory balances are adjusted to approximate the lower of cost or net realizable value. If future demand or market conditions are less favorable than our projections, we would consider additional inventory write-downs which would be reflected in cost of sales in the period a determination is made.

**Impairment of Long-Lived Assets.** We routinely consider whether indicators of impairment of long-lived assets are present. If such indicators are present, we determine whether the sum of the estimated undiscounted cash flows attributable to the assets in question is less than their carrying value. If less, we recognize an impairment loss based on the excess of the carrying amount of the assets over their respective fair values. Fair value is determined by discounted future cash flows, appraisals or other methods. If the assets determined to be impaired are to be held and used, we recognize an impairment charge to the extent the fair value attributable to the asset is less than the asset's carrying value. The fair value of the asset then becomes the asset's new carrying value, which we depreciate over the remaining estimated useful life of the asset. We may incur impairment losses in future periods if factors influencing our estimates change or if our expectations for future revenues and the ability to utilize our assets change.

**Deferred Income Taxes.** We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We have considered future taxable income and prudent and feasible tax planning strategies in determining the need for a valuation allowance. In the event that we determine that we would not be able to realize all or part of our net deferred tax assets, an adjustment to the deferred tax assets would be charged to earnings in the period such determination is made. Likewise, if we later determine that it is more likely than not that the net deferred tax assets would be realized, then the previously provided valuation allowance would be reversed.

## **OPERATING RESULTS**

### **Operating Environment and Overview**

We are one of the world's largest independent providers of semiconductor assembly and testing services. We offer a broad selection of semiconductor packages, including standard and advanced leaded packages and ball grid array, or BGA, packages. We also provide semiconductor testing services, particularly for mixed-signal semiconductors which perform both analog and digital functions.

*Industry Demand.* Our business is substantially affected by market conditions in the semiconductor industry. The semiconductor industry is highly cyclical. The industry experienced sustained growth during the first half of the 1990s as global demand for semiconductors expanded at an accelerated pace due to the increasing pervasiveness of semiconductor applications and increased demand for semiconductors with greater functionality, increased speed and smaller size.

In 1996 and 1998, the industry experienced downturns characterized by reduced product demand, production over-capacity, increased competition and lower pricing. Through the first half of fiscal year 2001, the

industry experienced strong growth which allowed us to improve our production levels, revenue, gross margins and operating margins above our historical levels. Later in fiscal year 2001, the industry began the current downturn. We experienced an industry wide slowdown in demand in our end-user markets, primarily in the communications sector, which had historically accounted for approximately 80% of our sales. As a result, assembly utilization declined from historical levels of 80% or more to as low as 20% to 25% during fiscal year 2002 before recovering somewhat to approximately 30% to 35% in the fourth quarter of fiscal year 2002.

We responded to the industry downturn by undertaking significant cost reductions and reorganization programs, including headcount and compensation reductions, material cost reductions, select lease terminations on equipment, reducing operating costs, and the discontinuance of funding for ASAT, S.A. Additionally, we significantly reduced capital expenditures.

We cannot forecast when this downturn will end and expect it to have a very adverse effect on our sales, cash flow and financial performance generally. Because of the downturn of the industry, management is in the process of re-evaluating the product mix and direction of the business. Such re-evaluation may lead to significant write-down in fiscal year 2003.

*Technology Migration.* The semiconductor industry is subject to technology migration as increasingly complex semiconductor applications with higher performance requirements and greater functionality are developed. Typically, the newest semiconductor applications with the highest performance initially demand the highest price. Pricing and margins on these products generally decline as they are replaced by newer products with enhanced performance characteristics. Accordingly, the semiconductor industry (including the packaging industry) must continually develop products with greater functionality and performance.

Our strategy has been to capitalize on technology migration by continually developing and offering advanced packaging and testing services, which enable our customers' products to achieve high levels of performance. Our results in recent years reflected this strategy, as sales from BGA packages and advanced leaded packages increased each year as a percentage of total sales until fiscal year 2002. This trend paralleled the requirements of our customer base, which has been concentrated primarily in the communications industry.

In fiscal year 2002, as a result of our diversification strategy focusing on consumer base and other sectors, our sale of standard leaded packages increased as a percentage of total sales. The following table illustrates the growth of advanced BGA packages through fiscal year 2001; it also shows an increase in standard leaded sales as a percentage of total net sales in fiscal year 2002.

	<b>Fiscal Year Ended April 30,</b>				
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Standard leaded packages . . . . .	72.5%	37.2%	31.5%	21.6%	29.6%
Advanced leaded packages . . . . .	13.5	22.0	24.1	26.7	25.2
Standard BGA packages . . . . .	4.1	14.0	6.3	2.1	14.1
Advanced BGA packages . . . . .	1.9	14.2	29.2	44.3	26.4
Testing . . . . .	6.5	11.9	8.9	5.0	4.7
Other . . . . .	1.5	0.7	—	0.3	—
Total . . . . .	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

*Pricing and Revenue Recognition.* Our pricing is significantly influenced by general demand in the semiconductor industry and by the sophistication of our packaging and testing services. Other factors affecting pricing include the order size, strength and history of our relationship with the customer and our capacity utilization. Revenues are recognized net of discounts from packaged semiconductors sold directly to customers when persuasive evidence of an arrangement exists, the price is fixed or determinable, shipment is made and collectibility is reasonably assured.

*Cost of Sales and Gross Profit.* The most significant components of cost of goods sold are raw materials, labor and depreciation. Industry trends significantly affect the price of our services. They also affect our raw material costs, which account for a majority of our cost of sales.

*Gross Margins.* Most advanced BGA and advanced leaded packages tend to have higher margins than standard leaded packages due to the complexity and time sensitivity of end-products requiring advanced assembly. Testing, particularly mixed-signal testing, enjoys an even greater gross margin. Manufacturers of end-products that require advanced semiconductor assembly and testing typically utilize leading edge technology and compete primarily on the basis of speed to market and added features.

During the fourth quarter of fiscal year ended April 30, 2000, we revised the estimated useful lives for new production and test equipment to five years from the previous policy of six to twelve years. This was determined based upon the rapid rate of advancements in technologies used in new production and test equipment available on the market.

*Reorganization.* Due to the decline in demand in the end markets of the communications and computer sectors, many of our customers have initiated cost reduction programs. In response, we initiated a reorganization program, which included reductions in material costs, manufacturing labor and overhead, and administrative costs. We may seek to make further reductions in manufacturing labor and overhead costs absent improvement in the current market environment and end market demand. For the fiscal year ended April 30, 2002, we incurred \$2.3 million in reorganization charges in relation to our workforce reduction.

*Research and Development.* Because our new packaging technologies usually involve extensions and evolutions of existing technologies, we have been able in recent years to develop new products without significantly increasing our research and development expenditures. Our focus on working closely in the package design process with customers to develop tailor-made BGA and advanced leaded packages enables us to use our research and development resources efficiently. During our last three fiscal years, our research and development expenditures ranged between \$4.7 million and \$6.4 million to develop technologies that would satisfy our customers' future requirements.

*Customers.* For the fiscal year ended April 30, 2002, our largest single customer accounted for approximately 23% of net sales, our top ten customers accounted for approximately 71% of net sales and each of Altera, Analog Devices and Broadcom accounted for 10% or more of net sales.

## Results of Operations

The following table sets forth ASAT's results of operations as a percentage of net sales during the periods shown:

	Year Ended April 30,				
	1998	1999	2000	2001	2002
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Sales	68.8	69.1	64.0	71.9	129.4
Gross profit (loss)	31.2	30.9	36.0	28.1	(29.4)
Operating expenses:					
Selling, general and administrative	11.4	11.8	8.5	11.1	29.7
Research and development	1.8	2.0	1.5	1.7	6.3
Charges for obsolete equipment	—	—	3.9 <sup>(1)</sup>	—	—
Reorganization expenses	—	—	—	0.8	2.3
Non-recoverable and unutilized architectural costs	—	—	—	—	4.4 <sup>(3)</sup>
Write-off in relation to ASAT S.A.	—	—	—	—	23.7 <sup>(4)</sup>
Total operating expenses	13.2	13.8	13.9	13.6	66.4
Income (Loss) from operations	18.0	17.1	22.1	14.5	(95.8)
Other income (expense), net	0.7	0.5	0.3	1.9	(1.5)
Interest expense	4.1	3.3	6.1	5.3	13.9
Recapitalization costs	—	—	2.2 <sup>(2)</sup>	—	—
Income (Loss) before income taxes	14.6	14.3	14.1	11.1	(111.2)
Income tax (expense) benefit	(2.1)	(2.5)	(3.1)	(1.6)	10.7
Income (Loss) before extraordinary charge	12.5%	11.8%	11.0%	9.5%	(100.5)%
Extraordinary charge	—	—	—	3.9%	—
Net income (Loss)	12.5%	11.8%	11.0%	5.6%	(100.5)%

(1) Reflects a non-cash charge of \$12.3 million for obsolete equipment.

(2) Reflects costs incurred in connection with our recapitalization in October 1999.

(3) Reflects a non-recoverable charge of \$4.5 million for previously incurred architectural costs on a land use right disposed in fiscal 2002.

(4) Reflects a write-off in relation to ASAT, S.A. in fiscal year 2002. ASAT, S.A.'s financial position and results of operations have not been consolidated into our financial statements since November 2001.

### *Fiscal Year Ended April 30, 2002 Compared to Fiscal Year Ended April 30, 2001*

**Net Sales.** Net sales decreased 69.9% to \$102.4 million for fiscal year 2002 compared with \$340.2 million for fiscal year 2001. Assembly sales decreased 69.7% to \$97.6 million in fiscal year 2002 compared with \$322.3 million in fiscal year 2001. The decrease in assembly revenues reflected a decrease in sales volume and general decline in average selling price per unit experienced in fiscal year 2002 compared with 2001. Test revenues in fiscal year 2002 declined to \$4.8 million compared with \$16.9 million in fiscal year 2001. Net sales from advanced BGA and advanced leaded packages represented 54% of assembly sales in fiscal year 2002 compared with 75% in fiscal year 2001, reflecting our diversification to non-traditional market segments.

**Cost of Sales and Gross Profit (Loss).** Our company incurred a gross loss of \$30.1 million in fiscal year 2002 compared with a gross profit of \$95.8 million in fiscal year 2001. Gross profit margin declined in fiscal year 2002 to a negative 29.4% compared to a positive 28.1% in fiscal year 2001. The major sources accounting for the decrease in gross profit margin were a decrease in net sales by 69.9% compared with the prior fiscal year, and an increase in depreciation expenses. Depreciation expenses as a percentage of total sales were 27.1% higher in fiscal year 2002 than fiscal year 2001 due to a greater investment in fixed assets, much of which was placed in service during fiscal year 2001 and was depreciated for a full year in fiscal year 2002. Although direct manufacturing, labor and overhead expenses were reduced by 47% in fiscal year 2002 compared to fiscal year 2001, this reduction was not sufficient to compensate for the impact of a 69.9% reduction in net sales and greater depreciation expenses. Material costs, declined 60.1% in fiscal year 2002 compared with 2001. In the fourth

quarter of fiscal year 2001, we commenced a cost reduction program in response to the industry downturn. See “—Reorganization and Cost Reduction Programs in Fiscal Year 2001” below.

*Reorganization Expense and Cost Reduction Programs in Fiscal year 2002.* In response to the industry downturn, we continued the reorganization program initiated in 2001, which included reductions in material costs, manufacturing labor and overhead, and administrative costs. Headcount was reduced by 47% from April 2001 to approximately 1,180 by the end of fiscal year 2002. As a result of headcount reductions made in fiscal year 2002 and 2001, severance charges were recognized in the amount of \$2.3 million before tax for fiscal year 2002 and \$2.6 million for fiscal year 2001.

*Selling, General and Administrative.* Selling, general and administration expenses decreased to \$30.4 million in fiscal year 2002 from \$37.6 million in fiscal year 2001, a decrease of 19.1%. The decrease was mainly due to the implementation of our cost reduction program, including reductions in headcount and compensation.

*Research and Development.* Research and development expenses increased by 6.7% to \$6.4 million in fiscal year 2002 from \$6.0 million in fiscal year 2001. The increase represented principally additional spending for R&D materials to support the development and enhancements of our products, including LPCC, TAPP, and MSL-1.

*Non-recoverable and unutilized architectural costs.* There were costs associated with the construction plan for a factory in Henggang County, Shenzhen, China. We are currently pursuing other options in China.

*Write-off in relation to ASAT, S.A.* In addition to our cost reduction efforts, we took actions to evaluate our French subsidiary, ASAT, S.A., as part of our global restructuring program. We elected to discontinue funding for this subsidiary, which we believed was no longer economically viable. ASAT, S.A. entered into court administration on November 20, 2001 and has been operated under court protection since that date and is no longer under our operational control. Certain assets and investments in the amount of \$24.3 million in ASAT, S.A. were written off. Results of ASAT, S.A. have not been consolidated into our consolidated financial statements since November 20, 2001.

*Other Income (Expense), net.* Other expense, net, was \$1.5 million in fiscal year 2002 compared with other income, net, of \$6.5 million in fiscal year 2001. The major factors for the decrease were the loss on the disposal of other assets and higher interest income generated in fiscal year 2001 from higher cash balances which were produced by the combination of proceeds from our initial public offering of equity and cash generated from operations.

*Interest Expense.* Interest expense decreased to \$14.2 million in fiscal year 2002 from \$18.1 million in fiscal year 2001. Of the \$14.2 million paid in fiscal year 2002, \$13.3 million was attributed to interest on the 12.5% senior notes due November 2006. Additionally, \$0.9 million in interest was attributed to amortization of the deferred charges arising upon issuance of the senior notes. In fiscal year 2001, interest expense was attributed to \$17.0 million interest on the 12.5% senior notes, which were issued in the middle of fiscal year 2000 and \$1.1 million for the amortization of the deferred charges.

*Income Taxes.* Income tax benefit was \$11.0 million in fiscal year 2002, indicating that our company incurred a net operating loss for fiscal year 2002. This is compared with income tax expense for fiscal year 2001 of \$5.4 million. The fiscal year 2002 tax benefit represented an effective tax benefit rate of 9.6% compared with a 14% effective tax expense rate in fiscal year 2001. The primary source of the benefit was due to the increase in net operating loss carryforwards available to offset deferred tax liability. The change in effective tax rate was primarily due to a write-off in relation to ASAT S.A. and disposal of other assets, which are not tax deductible.

#### ***Fiscal Year Ended April 30, 2001 Compared to Fiscal Year Ended April 30, 2000***

*Net Sales.* Net sales increased 9.0% to \$340.2 million for fiscal year 2001 compared with \$312.1 million for fiscal year 2000. Assembly sales increased 13.7% to \$322.3 million in fiscal year 2001 compared with \$284.4

million in fiscal year 2000. The increase in assembly revenues reflected an increase in sales volume and favorable mix (increased advanced packaging sales) offset by a modest decline in average selling price per unit experienced in fiscal year 2001 compared with 2000. Test revenues in fiscal year 2001 declined to \$16.9 million compared with \$27.7 million in fiscal year 2000. Net sales from advanced BGA and advanced leaded packages represented 75% of assembly sales in fiscal year 2001 compared with 59% in fiscal year 2000. During the final tri-mester of fiscal year 2001, sales decreased compared with the same period in the prior year as overall industry conditions started to decline.

*Cost of Sales and Gross Profit.* Gross profit decreased to \$95.8 million in fiscal year 2001 compared with \$112.5 million in fiscal year 2000. Gross profit margin declined in fiscal year 2001 to 28.1% compared to 36.0% of sales in fiscal year 2000, a decline of 7.9 margin points. The major sources accounting for the decrease in gross profit margin were increased expenses for depreciation, manufacturing labor and overhead, and materials. Depreciation expenses as a percentage of total sales were 1.9% higher in fiscal year 2001 than fiscal year 2000 arising from our capital investment program for growth. Expenses for manufacturing labor and overhead expenses were 2.8% higher as a percentage of sales in fiscal year 2001 than in fiscal year 2000, reflecting an investment in resources and infrastructure in anticipation for growth. However, contrary to our expectation, sales began to decline in the fourth quarter of fiscal year 2001, and the market decline outpaced our reduction in investment in resources and infrastructure. The increase in material costs, 3.2% higher as a percentage of sales in fiscal year 2001 compared with 2000, reflected (a) increases in material costs which rose faster than assembly sales, and (b) a decline in testing revenues. In the fourth quarter of fiscal year 2001, we commenced a cost reduction program in response to the industry downturn. See “—Reorganization and Cost Reduction Programs in Fiscal Year 2001” below. Most of the benefits from the program initiated in the fourth quarter were not realized during fiscal year 2001.

*Reorganization Expense and Cost Reduction Programs in Fiscal year 2001.* In response to the industry downturn, we initiated a reorganization, which included reductions in material costs, manufacturing labor and overhead, and administrative costs. As a result, severance charges amounting to \$2.6 million before tax, were recognized in the fourth quarter of fiscal year 2001.

*Selling, General and Administrative.* Selling expenses increased to \$37.6 million in fiscal year 2001 from \$26.5 million in fiscal year 2000, an increase of 42%. Selling expenses increased primarily due to additions in headcount. Additionally, we opened new sales offices in Korea, Singapore and the U.S. during the year. Administrative expenses increased as a result of personnel additions and certain programs initiated during the year.

*Research and Development.* Research and development expenses increased 27% to \$6.0 million in fiscal year 2001 from \$4.7 million in fiscal year 2000. The increase represented principally additions to personnel hired to support growth and the development of our new products, including LPCC, TAPP, and MSL-1. Furthermore, additional resources were employed to support development of the new Kestral product line, flip chip and the multi-systems in a package (MSP) offering.

*Other Income.* Other income increased to \$6.5 million in fiscal year 2001 compared with \$1.0 million in fiscal year 2000. The higher amount in fiscal year 2001 reflects higher investment income generated in fiscal year 2001 from higher cash balances which were produced by the combination of proceeds from our initial public offering of equity in 2000 and cash generated from operations.

*Interest Expense.* Interest expense decreased to \$18.1 million in fiscal year 2001 from \$19.0 million in fiscal year 2000. Of the \$18.1 million paid in fiscal year 2001, \$17.0 million was attributed to interest on the 12.5% senior notes due 2006. The principal amount outstanding on the senior notes has been reduced from \$155 million to approximately \$98.0 million. Additionally, \$1.1 million in interest was attributed to amortization of the deferred charges arising upon issuance of the senior notes. In fiscal year 2000, interest expense was attributed to three key items, \$15.7 million in interest on the 12.5% senior notes which were issued mid-fiscal year 2000, \$2.4 million paid to related parties, including, QPL, and \$0.9 million for the amortization of the deferred charges.

*Income Taxes.* Income tax expense reduced to \$5.4 million in fiscal year 2001 from \$9.6 million in fiscal year 2000. Fiscal year 2001 taxes represented an effective rate of 14% compared with a 21.6% rate in fiscal year 2000, which included a one time charge associated with our recapitalization. The primary source of the reduction was an increase in the percentage of total customer billings issued from Hong Kong as opposed to the U.S. Hong Kong has a statutory corporate rate of 16% as compared with the U.S. federal corporate tax rate of 34%.

*Extraordinary Charge.* ASAT incurred an extraordinary charge in fiscal year 2001 in the amount of \$13.1 million net of income taxes. This item represented a premium paid for the early redemption of 35% of our 12.5% senior notes. There was no such item in fiscal year 2000.

## **Inflation**

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could adversely affect our business, financial condition and results of operations.

## **LIQUIDITY AND CAPITAL RESOURCES**

*Cash Flow Provided by Operating Activities.* In fiscal year 2002, we experienced negative operating cash flow of \$28,658,000. Net cash provided by operating activities amounted to \$81,720,000 and \$62,482,000 for the years ended April 30, 2000 and 2001. The decrease in net cash provided by operating activities in fiscal year 2002 is primarily a result of decreased customer orders and revenues.

*Cash Flow Used in Investing Activities.* Cash flow used in investing activities amounted to \$69,814,000, \$104,049,000 and \$15,699,000 for the years ended April 30, 2000, 2001 and 2002, respectively. The investing activities primarily were for the purchase of equipment and machinery to support the capital expenditure requirements of our business.

*Cash Flow (Used in) Provided by Financing Activities.* Net Cash (used in) provided by financing activities amounted to (\$2,423,000), \$110,555,000 and (\$856,000) for the years ended April 30, 2000, 2001 and 2002, respectively.

Our financing activities during these three years consisted primarily of short-term and long-term loans, our senior note offering and an equity financing as well as debt repayments and senior note redemption payments. In fiscal year 2000, we received net proceeds of approximately \$152 million from a senior note offering. We used these proceeds to decrease bank borrowings and to recapitalize the company. In fiscal year 2001, we received net proceeds of approximately \$222 million from an equity offering. We used these proceeds to repay approximately \$49 million of short and long term debt, redeem a net \$52 million of senior notes, and the balance to fund capital expenditure programs and working capital needs. During fiscal year ended 2001 and 2002, we repurchased 6,273,000 and 780,000 ordinary shares at approximately \$5,339,000 and \$541,000 respectively under our ADS repurchase program announced in mid-January 2001.

*Capital Expenditures and Expansion.* In fiscal years 2000, 2001 and 2002, our capital expenditures totaled approximately \$56.0 million, \$108.7 million, and \$19.6 million, respectively. These expenditures were incurred primarily to develop our advanced BGA and other advanced packaging capabilities and to expand our testing capabilities.

Cash on hand at year end 2000, 2001, and 2002 was \$10,892,000, \$79,880,000 and \$34,499,000, respectively.

We currently plan capital expenditures of approximately \$12 million to \$24 million in fiscal year 2003. These plans are highly dependent on market conditions and our actual capital expenditures may vary. We

anticipate that these expenditures would be used primarily to fund investment in assembly and test equipment in response to specific requests of customers. As part of our cost reduction program, we also intend to lease a plant in China.

In fiscal year 2002, our cash outflows were \$45,213,000 and as of April 30, 2002, we had remaining cash on hand of \$34,499,000. Our ability to achieve positive cashflow will depend upon the industry recovery. We cannot forecast when such recovery will take place. Depending on the timing and pace of the industry recovery, we may seek additional financing to fund operations. Our capital expenditure program will also be adjusted depending on the business environment. Under the indenture for our 12.5% Senior Notes due 2006, we generally have the ability to incur up to \$10 million in debt and up to \$65 million in debt under a credit agreement consisting of term loans and revolving credit facilities. Beyond that, certain restrictive covenants in the indenture constrain our ability to incur additional financing such as the requirement that we meet a consolidated coverage ratio of 3.0:1.0. Consolidated coverage ratio is defined to mean the ratio of our aggregate EBITDA to our aggregate consolidated fixed charges for the relevant period. As we currently do not have earnings, we do not meet the ratio. Accordingly, if the types of debt that we may incur under the indenture are unavailable or insufficient, we may be required to seek other types of financing, including equity. There is no assurance that such additional financing would be available to us on commercially acceptable terms or at all.

*Debt.* As of April 30, 2002, our total outstanding debt was \$98.1 million, all of which relates to the 12.5% senior notes due 2006. As indicated above, the indenture that governs the senior notes requires us to comply with certain covenants, which in addition to limiting our ability to incur debt, limit our ability to:

- pay dividends, redeem capital stock and make certain other restricted payments or investments;
- merge, consolidate or sell all or substantially all of our assets; and
- create liens on assets.

*Contractual Obligations.* The following table summarizes our existing contractual obligations for future debt repayments, lease obligations and capital expenditures as of April 30, 2002:

<u>Contractual Obligations</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>4-5 years</u>
		(U.S. dollars)	
Long-Term Debt . . . . .	—	—	100,750,000
Capital expenditure for property, plant and equipment . . . . .	1,875,000	—	—
Operating Leases . . . . .	4,577,734	4,897,796	29,515
Total Contractual Cash Obligations . . . . .	<u>6,452,734</u>	<u>4,897,796</u>	<u>100,779,515</u>

## RESEARCH AND DEVELOPMENT

We focus our research and development efforts on developing new package designs and assembly processes and on improving the performance of our existing packages. We believe that providing timely and effective improvements in assembly technology is a key factor for success in the advanced packaging market. We have a proven track record of introducing innovative packages to the market. In the last two years, we have introduced five new types of semiconductor packages, including LPCC and TAPP. We have developed MSL-1 capability and are currently in the process of qualifying customers for this process technology. In fiscal year 2002 we promoted heavily our flip chip and MSP Technology. For a further explanation of these packages, see Item 4 “Business Overview—Assembly of Semiconductor Packages—Leaded Packages” and “Assembly of Semiconductor Packages—Ball Grid Array Packages”.

We work closely with our customers to ensure that our assembly and testing services meet our customers' changing needs. Our design and engineering teams participate in the early stages of our customers' design process to better understand the requirements of their end-products. We have teams of customer application engineers at five locations in the United States and Hong Kong to work directly with customers at their facilities. This coordination with customers allows us to develop timely and innovative package designs to meet their needs.

In addition to our internal and co-development work with our customers, we also work closely with our equipment and material suppliers in developing advanced processing capabilities and materials for use in our assembly processes. During our last three fiscal years, our research and development expenditures ranged between \$4.4 million and \$6.4 million or approximately 2% to 6% of net sales. We expect to increase our research and development expenditures as necessary to develop technologies that satisfy our customer's future requirements.

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth information about the persons who serve as directors and executive officers of ASAT as of June 15, 2002. Executive officers are appointed by, and serve at the discretion of, the board of directors. Shareholders are entitled to re-elect the board of directors at each annual general meeting.

#### *Directors*

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Position Held Since</u>
Edward Cheng .....	47	Director	October 1999
Tung Lok Li .....	50	Director	October 1999
Andrew Liu .....	45	Director	October 1999
J. Daniel McCranie .....	59	Director	February 2002
Lawrence Miao .....	37	Director	October 1999
Leonard Perham .....	59	Director and Chairman	March 2002
Harry Rozakis .....	51	Director and Chief Executive Officer	May 2002
Tan Boon Seng .....	46	Director	February 2002
Maura Wong .....	36	Director	June 2000

#### *Officers*

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Position Held Since</u>
J. Stanley Baumgartner, Jr. ....	51	Chief Financial Officer	September 2000
Joseph Martin .....	54	Chief Operating Officer	October 2001
Neil Mclellan .....	40	Chief Technology Officer	January 2000

**Edward Cheng** was appointed as a director on October 29, 1999. Mr. Cheng currently is the Chief Executive of USI Holdings Limited and the Co-Chairman of SUNDAY Communications Limited. USI, a publicly listed company on the Hong Kong Stock Exchange, is a member of the Wing Tai Asia Group. Mr. Cheng has held several positions with The Wharf Group from 1987 to 1994, including Executive Director responsible for Group Finance, Group Corporate Affairs and the Hotel Group. From 1985 to 1987, he was with the Hutchison Whampoa Group in China business development. Mr. Cheng currently is a member of the Hong Kong SAR Government's Mandatory Provident Fund Schemes Appeal Board, the Securities and Futures Commission's Takeovers and Mergers Panel and the Takeovers Appeal Committee, the Operations Review Committee of the Independent Commission Against Corruption, and the Executive Committee of the Hong Kong Housing Society.

**Tung Lok Li** was previously Chairman of ASAT's Board and has served as the Chairman of the Board of QPL and QPL (Holdings) Limited since their formation and was a Chairman of the Board of Peak Plastic and resigned in October 2001. Mr. Li holds a bachelor of science degree in chemical engineering from the University of Wisconsin, Madison.

**Andrew Liu** was appointed as a director on October 29, 1999. Mr Liu served as Chairman of the Board of Directors from October 1999 through May 2002. Mr. Liu is the Chief Executive Officer of J.P. Morgan Partners Asia. Mr. Liu heads a team of investment professionals responsible for advising the J.P. Morgan Asia Investment Fund, the Asia Opportunity Fund and other private investment funds with a combined committed capital of \$1.1 billion. Mr. Liu is also a non-Executive Director of Liu Chong Hing Bank Limited, a commercial bank based in Hong Kong. He was an Executive Director of the Bank from September 1997 to May 1999. Mr. Liu joined Morgan Stanley in 1981 and from 1990 through 1997 was President and Managing Director of Morgan Stanley Asia Limited. From 1993 to 1997, Mr. Liu was a member of the Stock Exchange Council of Hong Kong and was also a member of its Listing Committee.

**J. Daniel McCranie** was appointed director on February 25, 2002. Mr. McCranie has served as a director for a number of companies in the semiconductor industry, including Xicor, a manufacturer of programmable mixed signal devices and On Semiconductor, a global supplier of broadband integrated circuits. Mr. McCranie has served as Executive Vice President of Sales and Marketing for Cypress Semiconductor Corporation, CEO, Vice President, Sales and Marketing of SEEQ Technology Inc., and has formerly held positions at Harris Corporation, Advanced Micro Devices, American Micro Systems, and Philips Corporation. Mr. McCranie earned a B.S. in Electrical Engineering from Virginia Polytechnic Institute.

**Lawrence Miao** was appointed as a director on October 29, 1999. Mr. Miao is a Managing Director and one of the co-founders of Olympus Capital. From 1994 through 1997, Mr. Miao served as Executive Director of both Hopewell Holdings Limited and Consolidated Electric Power Asia, two of Hong Kong's largest developers of private investment projects. His primary responsibilities included the formation and management of joint ventures and local partnerships throughout Asia. Mr. Miao remains on the Board of Directors of Hopewell Holdings Limited. Mr. Miao holds an MBA from the Stanford Graduate School of Business Administration and a BA degree from the Woodrow Wilson School for International Affairs at Princeton University.

**Leonard Perham** was appointed as a director on March 4, 2002 and elected Chairman on May 28, 2002. Mr. Perham served for 16 years at Integrated Device Technology, CEO for nine years. Prior to Integrated Device Technology, Mr. Perham was CEO of Optical Information Systems, a division of Exxon Enterprises. He currently serves as CEO of Clear Logic, a fabless manufacturer of integrated circuits. He also serves as chairman of the board of NetLogic Microsystems and as a director of Ronal Systems, a manufacturer of equipment serving the semiconductor industry. He was a founder of Zilog, Inc. and has held positions at Advanced Micro Devices and Western Digital. Mr. Perham holds a B.S. in Electrical Engineering from Northeastern University.

**Harry Rozakis** was appointed as CEO of ASAT Holdings and has served as a director since May 28, 2002. Mr. Rozakis has 25 years experience in the semiconductor industry and has held senior management positions including CEO of EEMS Singapore and Executive Vice President of EEMS Italia, a leading provider of outsource manufacturing for semiconductor memories. Mr. Rozakis has held senior management positions at Tessera, a provider of intellectual property for chip-scale packaging, Reel Services Group, and at ChipPAC Inc. Mr. Rozakis has also served in a leadership role in several semiconductor industry associations, including the Semiconductor Assembly Council. He holds a masters and bachelors degree from Fairleigh Dickinson University.

**Tan Boon Seng** was appointed as a director on February 22, 2002. He is chairman and managing director of Lee Hing Development, an asset management company located in Hong Kong. He is also executive director of IGB Corporation Berhad, a listed company in Malaysia. He serves as director on a number of companies, including South China Holdings Ltd., South China Brokerage Company Ltd., Wo Kee Kong Holdings Ltd. and Star Cruises Ltd., all of which are listed on The Stock Exchange of Hong Kong.

**Maura Wong** was appointed as a director in June 2000. Ms. Wong is a Partner of J.P. Morgan Partners Asia with responsibilities for the private equity funds' activities in Hong Kong, China and Taiwan. From 1996 to 1999, she was Vice President of Exor Asia Limited, the international investment holding company of the Agnelli Group. Prior to that, Ms. Wong was Head of Business Development of Pacific Century Group, a venture capital group engaged in technology, telecommunications and financial services in Asia. Before joining Pacific Century Group, Ms. Wong worked at Goldman Sachs in both New York and Asia. Ms. Wong received an MBA from Harvard Business School as a Baker Scholar. She also holds a BA degree from the Woodrow Wilson School for International Affairs at Princeton University.

**J. Stanley Baumgartner, Jr.** joined ASAT in September 2000. From 1988 until joining our company, Mr. Baumgartner worked at Henkel KGaA in several capacities, including Vice President of Strategic Planning and Chief Financial Officer. He also worked at Booz Allen & Hamilton as a management consultant. Mr. Baumgartner is a Certified Public Accountant and holds a Masters of Business Administration from Harvard Business School and a B.S. degree from the Georgia Institute of Technology.

**Joseph Martin** has been with ASAT since 1993. From 1983 until joining ASAT, Mr. Martin served as Vice President of European Sales and Vice President of Marketing for advanced products for Amkor Electronics. From 1981 to 1983, Mr. Martin held several sales and managerial positions with TRW and prior to 1981 he held positions in factory and engineering management at Thompson CSF and Texas Instruments. Mr. Martin received an undergraduate degree in chemistry from Lamar University.

**Neil Mclellan** has been with ASAT since 1996. From 1993 until joining ASAT, he was with Dallas Semiconductor and with Texas Instruments from 1989 until 1993. Mr. Mclellan holds approximately 10 U.S. and international patents in semiconductor packaging. Mr. Mclellan received a bachelor of science degree in materials science from Rice University and an MBA from Southern Methodist University.

## COMPENSATION

For the year ended April 30, 2002, ASAT paid an aggregate compensation to its executive officers and directors as a group of approximately \$3.4 million. For the year ended April 30, 2002, the aggregate amount accrued by us to provide pension retirement or similar benefits for our directors and executive officers as a group was approximately \$47,000.

For information on stock options held by directors and officers as a group, see “—Share Ownership”.

## BOARD OF DIRECTORS

Under the Articles of Association, the board consists of nine directors, at least three of which shall be independent directors. Shareholders are entitled to re-elect the board of directors at each annual general meeting. Vacancies on the board can be filled by a majority of the directors present at a board meeting and vacancies of independent director seats also require approval by a majority of the independent directors. Vacancies can also be filled by a written resolution signed by all directors.

Pursuant to the shareholders agreement among the investor group and QPL, those parties have agreed to vote their shares so that: (1) three of the directors are individuals selected by QPL, (2) three of the directors are individuals selected by Asia Opportunity Fund and (3) three of the independent directors are individuals selected by Asia Opportunity Fund and nominated by QPL, subject to decrease as their respective shareholding decreases. See Item 7 “Major Shareholders and Related Party Transactions—Shareholders Agreement”. The investor group and QPL also agreed that as their respective shareholding decreases below specified thresholds, they will cause a related number of directors, which they previously appointed to resign and those seats shall be filled by nominee(s) approved by a majority of the continuing directors present at a board meeting and a majority of the independent directors.

## **Board of Directors' Committees**

The board has appointed an audit committee consisting of three members and they are Mr. J. Daniel McCranie, Mr. Edward Cheng and Ms. Maura Wong. The board of directors has determined that Ms. Wong's service on the audit committee is in the best interests of our company and its shareholders pursuant to NASDAQ rule 4350(d)(2) which permits one non-independent director to serve on the audit committee in such circumstances. The audit committee performs the following duties, among others, reviewing audited annual financial statements and other related financial matters, reviewing our interim financial results, and discussing with the management and outside auditors on the quality and adequacy of our internal financial controls.

The board also has appointed a compensation committee, which consists of Mr. Len Perham, Mr. Daniel McCranie and Mr. Harry Rozakis. The compensation committee reviews matters relating to the compensation of directors, senior management and employees.

## **EMPLOYEES**

As of April 30, 2002, we employed approximately 1,180 full-time employees, of whom 39 were employed in research and development, 693 in assembly, 71 in testing services, 222 in material control, quality control and assurance, 102 in marketing, sales and customer services and 57 in administration. There were 1,112 employees located in Hong Kong, 65 in the USA, four in Asia and four in Europe. We believe our relationship with our employees is generally good. Since April 30, 2001, we have reduced our workforce by approximately 47% as part of our reorganization and cost reduction programs.

## **SHARE OWNERSHIP**

### **Stock Option Plan**

We adopted a stock option plan on July 6, 2000. We have authorized 110,000,000 ordinary shares for issuance under the plan. The plan is a non-qualified, discretionary option grant program under which eligible individuals may be granted options to purchase ordinary shares. Under the plan, the board will determine which individuals will be granted options, the number of ordinary shares subject to the option, the exercise price for the shares, the vesting periods and any other terms that will apply as the board deems appropriate. The individuals eligible to participate in our stock option plan will include key officers, employees, consultants and non-employee directors of the ASAT group companies. The plan is designed to attract employees and important individuals to the ASAT group companies and to provide recipients with a proprietary interest in ASAT.

Our stock option plan includes the following features:

- The board will specify the dates each option will begin and terminate and may also accelerate the date on which the options may be exercised. The plan will terminate in 10 years, except for options then outstanding. No options may be granted after this 10 year period.
- The board will be authorized to grant options for ordinary shares which may be made available from authorized but unissued ordinary shares or ordinary shares that we hold in treasury.
- The exercise price for any options granted under the plan may be paid in cash, or, at the option of the board, a combination of cash and ordinary shares owned for at least six months.
- In the event of a merger or other business combination, the board may replace granted options with options for shares of the surviving entity or may cancel outstanding options and cash out the affected participants for all unexercised options (whether then exercisable or not).
- If a dividend or distribution is made or a recapitalization, reorganization or other event occurs which would dilute the stock option plan benefits, the board may adjust the number of ordinary shares authorized under the plan, the number of ordinary shares subject to outstanding options and the exercise price under any option, or cancel the outstanding options and cash out the affected participants.

- The board may amend, suspend or terminate the plan and may amend the terms of any option. If any of these actions would materially and adversely affect the rights of an option recipient, the board must first obtain that individual's consent.

We implemented our stock option plan on July 11, 2000, when we granted stock options for 76,655,065 ordinary shares at a per share exercise price equal to \$12.00 per ADS. Our stock options generally expire 10 years from the grant date. As of April 30, 2002, we had outstanding stock options for 67,419,055 ordinary shares, the details of the exercise prices are as follows:

<u>Number of Shares</u>	<u>Per Share Exercise Price Equivalent to Price Per ADS</u> (U.S. dollars)	<u>Expiration Date</u>
48,793,375	12.00	July 11, 2010
6,090,890	7.69	September 27, 2010
487,500	5.59	November 22, 2010
462,500	4.25	February 21, 2011
810,000	5.03	May 29, 2011
9,149,790	4.31	August 24, 2011
625,000	1.41	February 25, 2012
1,000,000	1.63	March 4, 2012

Additional stock options for 5,130,000 ordinary shares were granted on May 28, 2002 at an exercise price of \$1.60 per ADS. These options expire on May 28, 2012.

Of the total amount of outstanding stock options as of April 30, 2002, we have outstanding stock options granted to our directors and executive officers as a group for 30,566,235 ordinary shares, and the details of the exercise prices are as follows:

<u>Number of Shares</u>	<u>Per Share Exercise Price Equivalent to Price Per ADS</u> (U.S. dollars)	<u>Expiration Date</u>
21,611,375	12.00	July 11, 2010
2,761,440	7.69	September 27, 2010
4,568,420	4.31	August 24, 2011
625,000	1.41	February 25, 2012
1,000,000	1.63	March 4, 2012

Additional stock options for 5,000,000 ordinary shares were granted in May 2002 to one of the executive officers at an exercise price of \$1.60 per ADS. These options expire on May 28, 2012.

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### MAJOR SHAREHOLDERS

The following table contains information as of June 21, 2002 concerning the ownership of our ordinary shares by each person who we know beneficially owns 5% or more of our ordinary shares and by all of our directors and executive officers as a group.

<u>Shareholder</u>	<u>Number of Ordinary Shares Owned<sup>(7)</sup></u>	<u>Percentage Owned</u>
JPMP Master Fund Manager, L.P. related funds: <sup>(1)(2)</sup>		
Chase Asia Investment Partners II (Y), LLC . . . . .	50,054,883	7.5%
CAIP Co-Investment Fund Parallel Fund (I) C.V. . . . .	12,134,114	1.8%
CAIP Co-Investment Fund Parallel Fund (II) C.V. . . . .	8,089,409	1.2%
Asia Opportunity Fund, L.P. . . . .	124,985,594	18.7%
	<u>195,264,000</u>	<u>29.2%</u>
Olympus Capital Holdings Asia related funds <sup>(2)(3)</sup> . . . . .	72,288,000	10.8%
QPL International Holdings Limited <sup>(2)(4)</sup> . . . . .	288,000,000	43.1%
Directors and executive officers as a group <sup>(5)</sup> . . . . .	—	—

(1) See “—JPMP Master Fund Manager, L.P.” below.

(2) QPL has pledged to the investor group a portion of its shares in ASAT Holdings to secure its indemnification of the investor group with respect to tax liabilities. See “—Other Arrangements” below.

(3) Held by Olympus Capital Holdings Asia I, L.P., Reservoir-Olympus II, L.P., Olympus KB, L.P., Olympus Capital Asia, L.P., Olympus Capital Asia Offshore, L.P., Olympus Holdings, L.P., ZAM-Olympus Co-Invest, L.L.C., Olympus-ASAT I, L.L.C. and Olympus-ASAT II, L.L.C. and may be transferred among Olympus Capital Holdings Asia affiliates. See “—Olympus Capital Holdings Asia” below.

(4) Held by The Industrial Investment Company Limited and QPL (US) Inc. (formerly Worltek International Limited), wholly owned subsidiaries of QPL. A significant portion of the shares of ASAT Holdings owned by QPL are pledged to the investor group or QPL’s creditors.

(5) Mr. Tung Lok Li, one of our directors, beneficially owns approximately 37% of QPL, which in turn indirectly owns approximately 43% of ASAT Holdings’ ordinary shares. Mr. Andrew Liu, one of our directors, is the chief executive officer and a significant equity holder of JP Morgan Asia Equity Advisors LDC, the management company of Chase Asia Investment Partners II (Y), LLC, Asia Opportunity Fund, L.P., CAIP Co-Investment Fund Parallel Fund (I) C.V. and CAIP Co-Investment Fund Parallel Fund (II) C.V. (collectively, the “Parallel Funds”). Mr. Lawrence Miao, one of our directors, is a managing director and significant equity holder of Olympus Capital Holdings Asia and its affiliates.

### JPMP Master Fund Manager, L.P.

Chase Asia Investment Partners II (Y), LLC (“CAIP”), the Asia Opportunity Fund L.P. (“AOF”), and the parallel funds are private equity funds managed by J.P. Morgan Asia Equity Advisors, LDC. The funds have agreed to co-invest on a proportional basis in leading companies in Asia. JPMP Master Fund Manager, L.P. is a global private equity firm managing proprietary funds and is one of the world’s largest private equity organizations.

### Olympus Capital Holdings Asia

Olympus Capital Holdings Asia I, L.P., Reservoir-Olympus II, L.P., Olympus KB, L.P., Olympus Capital Asia, L.P., Olympus Capital Asia Offshore, L.P., Olympus Holdings, L.P., Olympus-ASAT I, L.L.C. and Olympus-ASAT II, L.L.C. are direct investment funds managed by Olympus Capital Holdings Asia. Olympus Capital Holdings Asia is a direct investment firm that targets significant investments in public and private

companies operating in Asia. ZAM-Olympus Co-Invest, L.L.C. is a co-investment vehicle for Olympus Capital Holdings Asia and Ziff Asset Management, L.P., an investment fund managed by Ziff Brothers Investments for the Ziff family.

### **QPL International Holdings Limited**

QPL (Holdings) Ltd. was formed in 1981 under the name of Quality Platers Limited and redomiciled as a Bermuda company in 1989 when it changed its name to QPL International Holdings Limited. QPL International Holdings Limited became listed on The Stock Exchange of Hong Kong Limited in 1989 pursuant to a redomicile.

### **Shareholders Agreement**

The shareholders listed in the table above (the “Shareholders”) entered into a shareholders agreement relating to transfers of ASAT Holdings’ ordinary shares, voting rights and other matters. Under the shareholders agreement, the Shareholders agreed to vote their ordinary shares and take all action so that three directors on the Board are appointed by AOF, three by QPL and three independent directors are selected by AOF and agreed to by QPL, subject to decrease as their respective shareholding decreases.

The agreement also limits the ability of Shareholders to transfer their ordinary shares in ASAT Holdings, except with respect to sales over an internationally recognized stock exchange or in a registered offering by the selling shareholder, in each case, subject to laws and regulations of the relevant jurisdiction. These share transfer restrictions include rights of first offer, tag along rights and the right of QPL, AOF and CAIP to require the other Shareholders to participate in a sale of ordinary shares to a third party if the per share purchase price meets a minimum threshold and other conditions are met, as more fully described in the shareholders agreement. The investor group has signed an agreement generally to vote in unison.

### **Other Arrangements**

As part of our recapitalization, QPL indemnified the investor group for various tax liabilities of ASAT and pledged its shares in ASAT Holdings to the investor group to secure this indemnification. The pledge initially applied to 70% of QPL’s shareholding in ASAT Holdings and decreases in stages to 0% over six years (subject to any tax indemnification amounts arising prior to the expiration of the six year period and that remain outstanding upon expiration of this period).

### **RELATED PARTY TRANSACTIONS**

We have purchased the majority of our leadframe requirements from QPL, as well as, to a significantly lesser extent, other raw materials, tooling and spare parts. We leased from QPL office and assembly space and obtained certain services from QPL, including chemical waste treatment and disposal services. The expenses incurred by us in connection with these purchases, leased facilities and services from QPL totaled in the aggregate approximately \$54.9 million, \$54.4 million and \$13.9 million in fiscal years 2000, 2001 and 2002, respectively.

Mr. Tung Lok Li received \$0.75 million in fiscal year 2002 for strategic planning and sales development services for our assembly and testing services under a consultancy agreement.

For shareholding of our directors, see footnote 4 in “— Major Shareholders.”

### **ITEM 8. FINANCIAL INFORMATION**

See Item 18 “Financial Statements”.

### **Our Dividend Distribution Policy**

Our policy is not to pay dividends for the foreseeable future. Furthermore, our ability to pay dividends is restricted by the covenants of the indenture for our 12.5% notes due 2006.

## ITEM 9. THE OFFER AND LISTING

### Market Price Information—American Depositary Shares (ADSs)

Our ADSs have been listed and traded on Nasdaq National Market under the symbol “ASTT” since July 14, 2000. Each ADS represents ownership interests in five ordinary shares (or the right to receive five ordinary shares). The Bank of New York acts as the depository of our ADSs. The following table shows, for the period indicated, the high and low closing prices for the ADSs as quoted on Nasdaq National Market.

	<u>High<sup>(1)</sup></u>	<u>Low<sup>(1)</sup></u>
	(US\$)	
Year 2000*	11.56	4.00
Third quarter*	11.56	6.25
Fourth quarter	7.06	4.00
Year 2001	6.00	1.00
First quarter	6.00	3.44
Second quarter	5.60	3.50
Third quarter	5.06	2.75
Fourth quarter	3.00	1.00
December	1.74	1.00
Year 2002		
January	2.17	1.37
February	1.70	1.25
March	2.18	1.59
April	2.06	1.54
May	1.97	1.45
June (to June 26)	1.49	1.18

\* beginning July 14, 2000

(1) Market price data presented above is on the basis of a calendar year ending December 31.

## ITEM 10. ADDITIONAL INFORMATION

### MEMORANDUM AND ARTICLES OF ASSOCIATION

ASAT Holdings is incorporated as an exempted company in the Cayman Islands, and its affairs are governed by its Memorandum and Articles of Association and The Companies Law (2001 Second Revision) of the Cayman Islands and the common law of the Cayman Islands. The following is a summary of the Memorandum and Articles of Association, including rights and privileges pertaining to the shares of ASAT Holdings.

#### Objects and Purpose

The Memorandum of Association of ASAT Holdings provides that the objects for which it is established are unrestricted.

#### Directors

The Articles of Association provide that any contract or arrangement in which a director of ASAT Holdings is interested shall be approved by a majority of the disinterested directors or by the shareholders in a general

meeting prior to entry into the contract or arrangement. No director (except for the independent directors) shall be entitled to any remuneration for serving as a director. The Board may exercise all the powers of ASAT Holdings to borrow money without restriction. There is no mandatory age limit by which directors must retire. There is no shareholding qualification for directors.

### **Ordinary Shares**

There are no limitations in the Articles on the right to own securities, including the rights of non-resident or foreign shareholders to hold or exercise voting rights.

*Voting rights.* The holders of ordinary shares are entitled on a show of hands to one vote per holder and on a poll to one vote per share on all matters to be voted on by ASAT Holdings' shareholders.

*Dividend Rights.* Holders of the ordinary shares of ASAT Holdings are entitled to share equally, share for share, if dividends are declared on ASAT Holdings' ordinary shares, whether such dividends are payable in cash, property or securities of ASAT Holdings. Any dividend unclaimed after a period of 6 years from the date when it was declared shall be forfeited and shall revert to ASAT Holdings.

*Liquidation Rights, Other Rights.* In the event of a voluntary or an involuntary liquidation, dissolution or winding up of ASAT Holdings, the holders of ordinary shares of ASAT Holdings are entitled to share equally, share for share, in the assets available for distribution and shall be entitled to receive all assets and funds of ASAT Holdings remaining and available for distribution, divided on a pro rata basis according to the number of ordinary shares owned. Except as set forth above, holders of ordinary shares of ASAT Holdings have no conversion or redemption rights. The Articles contain provisions dealing with the manner in which capital calls can be made on shareholders but these only apply to situations in which the shares are issued partly paid and are subject to the specific terms of issue of such partly paid shares.

### **Changing Shareholder Rights**

A special resolution of shareholders (that is a resolution passed by a two thirds majority of ordinary shareholders present at a properly convened and constituted shareholder meeting or unanimously in writing by all shareholders) is required to change the rights attaching to the ordinary shares.

### **Share Capital**

ASAT Holdings has a total authorized share capital of \$30,000,000, divided into 3,000,000,000 ordinary shares of par value \$0.01, 668,947,000 of which are outstanding and have been fully paid.

Cayman law provides that the share capital of ASAT Holdings may be increased in such manner as is provided for in the articles of association of the relevant company. The Articles of Association of ASAT Holdings provide that the share capital may be increased by ordinary resolution of the shareholders. The Articles of Association are permissive of a repurchase or a reduction in share capital subject to approval by special resolution and such additional approvals as are required under the Companies Law of the Cayman Islands (in the case of a reduction of capital, this would require approval of the Grand Court of the Cayman Islands).

### **Transfer of Shares**

Under the Articles of Association of ASAT Holdings, ordinary shares are freely transferable by way of an instrument of transfer as prescribed by the Board.

Ordinary shares held by QPL, the investor group or their permitted transferees are subject to a shareholders agreement between those parties. Under that agreement, the parties are not allowed to transfer any shares unless

to permitted transferees, in registered public offerings, on Nasdaq or an internationally recognized stock exchange on which the ordinary shares are listed, or in accordance with the right of first offer, tag along and drag along requirements in the agreement, subject to applicable law, including U.S. securities law. Any ordinary share owned by QPL, the investor group or their permitted transferees will be released from these contractual transfer restrictions once the ordinary share is sold in a registered public offering or on Nasdaq or an internationally recognized stock exchange on which the ordinary shares are listed. The ADSs sold in the offering of our ADSs completed on July 14, 2000 by the selling shareholders, and the ordinary shares represented by the ADSs, have not been subject to these transfer restrictions since completion of the offering of our ADSs. See Item 7 “Major Shareholders and Related Party Transactions—Shareholders Agreement”.

### **Differences in Corporate Law**

The Companies Law is modeled after that of England but does not follow recent United Kingdom statutory enactments and differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Law applicable to ASAT Holdings and the laws applicable to companies incorporated in the United States and their shareholders.

*Mergers and Similar Arrangements.* Cayman Islands law does not provide for mergers as that expression is understood under United States corporate law. Mergers in the United States generally require the approval of a majority of the outstanding common stock of both entities involved in the proposed merger. In the Cayman Islands, however, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement is approved by a majority of the shareholders or of each class of shareholders, as the case may be, and creditors with whom the arrangement is to be made and who must represent a majority in number representing three-fourths in value of the shareholders or 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 ought not to be approved, the court can be expected to approve the arrangement if it satisfies itself that:

- 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 such as a businessman would reasonably approve; and
- the arrangement is not one that would more properly be sanctioned under a different provision of the Companies Law.

When a take-over offer is made and accepted by holders of 90% of the shares within four months, the offeror 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 can be made to the Grand Court of the Cayman Islands, but this is unlikely to succeed unless there is evidence of fraud, bad faith or collusion.

If the arrangement and reconstruction is approved, the dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of United States corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

In addition, Cayman Islands law does not specifically require shareholder approval for a disposition of all or substantially all of an entity’s assets, which in the United States would typically require approval by at least a majority of the holders of the outstanding common stock of the entity proposing to dispose of its assets.

*Shareholders’ Suits.* Our Cayman Islands counsel is not aware of any reported class action or derivative action having been brought in a Cayman Islands court. In principle, ASAT Holdings itself would normally be the

proper plaintiff, and an action may not be brought by a minority shareholder for loss of value to its shareholding. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, exceptions to the foregoing principle in respect of losses suffered by a company apply in circumstances in which:

- a company is acting or proposing to act illegally or ultra vires;
- the act complained of, although not ultra vires, could be effected only if authorized by more than a simple majority vote;
- the individual rights of the plaintiff shareholder have been infringed or are about to be infringed; or
- those who control the company are perpetrating a “fraud on the minority”.

### **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 Articles of Association permit us to indemnify officers and directors for losses, damages, cost and expenses incurred in their capacities as such if they acted in good faith and in a manner they reasonably believed to be in our best interests, and in any criminal action, if they had no reasonable cause to believe their conduct was unlawful. If the director or officer is found liable by the court, we may indemnify him only if the court determines that the director or officer is fairly and reasonably entitled to indemnity.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling the registrant pursuant to the foregoing provisions, we have been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable as a matter of U.S. law.

### **Annual General Meeting**

As a matter of Cayman Islands law, ASAT Holdings is not required to hold an annual general meeting of shareholders. If it does hold an annual general meeting then it is required to call such meeting on not less than 21 days’ notice. Directors may call a meeting of shareholders at any other time. Where a special resolution (as defined above) is to be proposed at the meeting, such meeting shall be called by not less than 21 days’ notice in writing to all shareholders. Any other general meeting is required to be called by not less than 14 days’ notice in writing to all shareholders.

### **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, we will provide our shareholders with annual audited financial statements.

### **MATERIAL CONTRACTS**

In March 2001, we entered into a supply agreement with QPL Limited and Talent Focus Limited, an affiliate of QPL Limited, pursuant to which QPL Limited and Talent Focus Limited, as our preferred suppliers, agreed to supply lead frames based on our orders from time to time during the term of the contract. The contract is valid until April 30, 2004, and is renewable thereafter. The prices for the leadframes provided to us under this contract are to be fair market value plus a premium of not less than 5% of fair market value. Fair market value is

determined by reference to the quotations obtained from two or more reputable vendors in the integrated circuit industry selected by us and approved by QPL Limited and Talent Focus Limited.

## **EXCHANGE CONTROLS AND OTHER LIMITATIONS**

The laws of the Cayman Islands where ASAT Holdings is incorporated and those of Hong Kong where we operate our businesses and the Memorandum and Articles of Association of ASAT Holdings do not impose exchange control or restrictions on the remittance of dividends or other payments to nonresident holders of the ordinary shares and ADSs.

## **TAXATION**

### **United States Federal Income Taxation**

We discuss below the material United States federal income tax and general Cayman Islands and Hong Kong tax consequences of the beneficial ownership and disposition of the ADSs or ordinary shares or notes (for the purpose of this section ADSs, ordinary shares and notes are referred to as “securities”). This discussion is based on laws, regulations, rulings, income tax conventions or treaties, administrative practices and judicial decisions in effect at the date of this Annual Report. Subsequent legislative, judicial or administrative changes or interpretations may be retroactive and could affect your tax consequences.

Your tax treatment as a holder of securities may vary depending upon your particular situation, and some holders may be subject to special rules not discussed below. We do not discuss below state, local and foreign other than Cayman Islands and Hong Kong, tax consequences of the ownership and disposition of the ADSs or ordinary shares. This summary does not address all tax aspects that may be important to you as a holder of securities.

**You are urged to consult your tax advisors as to your particular tax consequences of the ownership, exercise and disposition of a security, including whether any state, local or foreign tax laws apply to you.**

### **United States Taxation**

The following is a general discussion of the material United States federal income tax considerations relevant to the ownership and disposition of the securities. This summary is based on existing United States federal income tax law, which is subject to change, possibly retroactively. The discussion addresses only persons that hold securities as capital assets, which generally is property held for investment, under the United States Internal Revenue Code of 1986, as amended, and that use the U.S. dollar as their functional currency. The discussion does not consider the circumstances of particular purchasers, such as banks, insurance companies, tax-exempt organizations, dealers, traders who elect to mark to market, persons holding securities as part of a hedge, straddle, or conversion transaction, and persons treated as owning 10% or more of the voting power of our shares, that are subject to special tax rules that may differ significantly from those discussed below. We expect, and the discussion therefore assumes, that we will not be a passive foreign investment company within the meaning of section 1297 of the Internal Revenue Code. No ruling has been sought from the United States Internal Revenue Service and, accordingly, there can be no assurance the United States Internal Revenue Service will agree with the conclusions set forth below.

For purposes of this discussion, “U.S. holder” means a beneficial owner of securities that is:

- an individual who is a citizen or resident of the United States;
- a corporation, partnership or other business entity organized in or under the laws of the United States or any of its political subdivisions;
- a trust (1) the administration of which is subject to the primary supervision of a United States court and which has one or more United States persons who have the authority to control all substantial decisions

of the trust, or (2) that was in existence on August 20, 1996, was treated as a United States person under the Internal Revenue Code on the preceding day, and elected to continue to be so treated; or

- an estate the income of which is subject to United States federal income taxation regardless of its source.

“Non-U.S. holder” means a beneficial owner of securities that is not a U.S. holder.

### **Taxation of ADSs and Ordinary Shares**

In general, for United States federal income tax purposes, U.S. holders of ADSs will be treated as the owners of the ordinary shares represented by the ADSs. Accordingly, no gain or loss will be recognized upon the exchange of ADSs for the holders’ proportionate interest in the ordinary shares represented by such ADSs. A U.S. holder’s tax basis in the withdrawn shares will be the same as its tax basis in the ADSs surrendered for such shares, and the holding period in the withdrawn shares will include the period during which the holder held the ADSs.

We believe that we are not subject to treatment as a controlled foreign corporation, passive foreign investment company or foreign personal holding company for United States federal income tax purposes. Except as expressly noted below, therefore, under the headings “—Controlled Foreign Corporation,” “—Passive Foreign Investment Company” and “—Foreign Personal Holding Company”, the discussion below assumes that we will not be so treated.

*Distributions on ADSs or Ordinary Shares.* To the extent that a cash distribution on ADSs or ordinary shares is paid to a U.S. holder out of our current or accumulated earnings and profits, as determined for United States federal income tax purposes, such distribution will be includable in the U.S. holder’s gross income as foreign source dividend income in an amount equal to the U.S. dollar value of such distribution without reduction for any applicable foreign withholding tax. To the extent that the amount of any distribution on ADSs or ordinary shares exceeds our current and accumulated earnings and profits, as determined for United States federal income tax purposes, a U.S. holder’s pro rata share of such excess amount would be treated:

- as a nontaxable return of capital that would be applied against and would reduce the U.S. holder’s tax basis in its ADSs or ordinary shares until this basis is equal to zero; and
- to the extent excess distributions remain, as capital gain.

Subject to conditions and limitations such as minimum holding period requirements, the U.S. dollar value of the foreign income taxes, if any, withheld from a distribution to a U.S. holder on ADSs or ordinary shares may be claimed as a credit against the U.S. holder’s United States federal income tax liability. Alternatively, a U.S. holder may claim a deduction for such amount of foreign income taxes withheld in a taxable year, but only if such U.S. holder does not elect to claim a foreign tax credit in respect of any foreign taxes paid by it in the taxable year. Dividends on ADSs or ordinary shares generally will constitute “passive income” within the meaning of section 904 (d)(2)(A) of the Internal Revenue Code or, in the case of some U.S. holders, “financial services income” within the meaning of section 904(d)(2)(C) of the Internal Revenue Code for United States foreign tax credit purposes.

The rules relating to foreign tax credits are extremely complex and the availability of a foreign tax credit depends on numerous factors. Prospective purchasers of ADSs or ordinary shares should consult their tax advisors concerning the application of the United States foreign tax credit rules to their particular situations.

The amount of any distribution paid in a currency other than the U.S. dollar will be the U.S. dollar value of the payment made, determined at the spot foreign exchange rate on the date such payment is includable in the income of the U.S. holder, regardless of whether the payment is in fact converted into U.S. dollars. Any gain or

loss resulting from currency exchange fluctuations during the period from the date the dividend payment is includable in income to the date such payment is converted into U.S. dollars will be treated as United States source ordinary income or loss.

A distribution of additional shares of our stock to U.S. holders with respect to their ADSs or ordinary shares that is pro rata to all our shareholders may not be subject to United States federal income tax. In the case of such a non-taxable stock dividend, such a distribution will not give rise to foreign source income and a U.S. holder will not be able to use the foreign tax credit arising from any withholding tax imposed in connection with such distribution unless the foreign tax credit can be applied (subject to applicable limitations) against United States federal income tax due on other foreign source income of the U.S. holder. The tax basis of such additional shares will be determined by allocating the U.S. holder's adjusted tax basis in the ADSs or ordinary shares between the ADSs or shares and the additional shares, based on their relative fair market values on the date of distribution.

*Sale, Exchange or Other Disposition.* A U.S. holder generally will recognize gain or loss upon a sale or other taxable disposition of ADSs or ordinary shares in an amount equal to the difference between the United States dollar value of the amount realized on the sale or other taxable disposition and the U.S. holder's adjusted tax basis in the ADSs or ordinary shares, as applicable. Such gain or loss will generally be capital gain or loss and, in the case of some non-corporate U.S. holders, may be subject to United States federal income tax at a preferential rate where the U.S. holder's holding period exceeds one year. Any gain or loss recognized by a U.S. holder on a sale or other taxable disposition of ADSs or ordinary shares will generally be treated as United States source gain or loss for foreign tax credit purposes. A U.S. holder's ability to deduct capital losses in respect of ADSs or ordinary shares is subject to limitations.

*Controlled Foreign Corporation.* We believe that we are not subject to treatment as a controlled foreign corporation. We would be a controlled foreign corporation if United States persons that own 10% or more of the voting power of our equity, referred to as "U.S. 10% Shareholders", in the aggregate own more than 50% of our voting power or the value of our equity. Complex attribution rules apply in determining whether a person is treated as a U.S. 10% Shareholder and whether U.S. 10% Shareholders in the aggregate own more than 50% of our voting power or the value of our equity. Although we do not believe we are a controlled foreign corporation, the principles for applying these tests are not entirely clear and this determination is based on factors beyond our control such as the identity of our shareholders, and in the case of our shareholders treated as pass-through entities for federal income tax purposes, the identity of the owners of such entities. Accordingly, we cannot assure you that we are not or will not become a controlled foreign corporation. If we are a controlled foreign corporation, U.S. 10% Shareholders would be required to include in income their pro rata share of our Subpart F income, which generally is income of a passive nature such as dividends and interest, whether or not we pay dividends, and would be subject to special rules on disposition of ADSs or ordinary shares that may treat all or a portion of any gain as ordinary dividend income. We urge you to consult your tax adviser regarding the consequences of an investment in a controlled foreign corporation before purchasing ADSs or shares.

*Passive Foreign Investment Company.* We believe that we are not subject to treatment as a passive foreign investment company. However, because the passive foreign investment company determination is made annually on the basis of facts and circumstances that may be beyond our control and because the principles for applying the passive foreign investment company tests are not entirely clear, we cannot assure you that we are not and will not become a passive foreign investment company. If we have been or are a passive foreign investment company for any taxable year, a U.S. holder would be subject to additional tax on certain excess distributions received or gains realized with respect to the ADSs or shares. The excess distribution or gain would be allocated ratably over their holding period, the amount allocated to the current tax year would be subject to tax as ordinary income, and the amount allocated to each previous tax year would be subject to tax at the highest applicable marginal rate in effect for that year and an interest charge would be imposed to recover the deemed benefit from the deferred payment of the tax. These rules would effectively prevent a U.S. holder from treating the gain realized on the disposition of the ADSs or ordinary shares as capital gain. You could avoid the rules just described if, at the time you acquired your ADSs or ordinary shares, you were eligible for and timely made a

mark-to-market election. We urge you to consult your tax advisor regarding the consequences of an investment in a passive foreign investment company before purchasing ADSs or ordinary shares.

*Foreign Personal Holding Company.* We believe that we are not subject to treatment as a foreign personal holding company. We would be a foreign personal holding company if 60%, or 50% in any year following the year in which we first became a foreign personal holding company, or more of our gross income were foreign personal holding company income (which is generally income of a passive nature such as dividends and interest) and more than 50% of the voting power or the value of our equity were held, directly or indirectly, by five or fewer U.S. individuals. Complex attribution rules apply in determining whether a U.S. individual is treated as owning our equity and whether such individuals in the aggregate own more than 50% of the voting power or the value of our equity. Although we do not believe we are or will be a foreign personal holding company, the principles for applying these tests are not entirely clear and this determination is based on factors beyond our control such as the identity of our shareholders, and in the case of our shareholders treated as pass-through entities for federal income tax purposes, the identity of the owners of such entities. Accordingly, we cannot assure you that we are not or will not become a foreign personal holding company. If we are a foreign personal holding company, U.S. holders, whether or not such holders are individuals, would be required to include in income their pro rata share of our foreign personal holding company income whether or not we pay dividends.

### **Taxation of Notes**

*Original Issue Discount and Stated Interest.* The notes were issued with original issue discount, for U.S. federal income tax purposes in an amount equal to the excess of the stated redemption price due at maturity over the initial issue price of the notes. For this purpose, the notes will have a stated redemption price at maturity equal to their stated principal amount and an issue price equal to the initial purchase price. Accordingly, U.S. holders are required to include original issue discount in ordinary income over the period that they hold the notes in advance of the receipt of the cash attributable thereto. The amount of original issue discount to be included in income is determined using a constant yield method, which will result in a greater portion of such discount being included in income in the later part of the term of the notes. Any amount of discount included in income will increase a holder's adjusted tax basis in the notes. Payments of stated interest paid on the notes will be includable in income when received or accrued in accordance with a holder's regular method of tax accounting.

*Sale, Exchange or Disposition of the Notes.* Upon the sale, exchange or other disposition of a note, a U.S. holder generally will recognize capital gain or loss equal to the difference between the amount of cash and the fair market value of property received by such U.S. holder (except to the extent attributable to accrued stated interest, which will be treated as interest) and such U.S. holder's adjusted tax basis in the note (i.e., its adjusted issue price). Such capital gain or loss generally will be long-term capital gain or loss if the U.S. holder has held the note for more than one year. Long-term capital gains realized by individuals on the sale, exchange or other disposition of notes generally are subject to a maximum U.S. federal income tax rate of 20%. The deductibility of capital losses is subject to limitations.

### **Taxation of Non-U.S. Holders**

Payments of interest (including original issue discount) on a note to a non-U.S. holder generally will not be subject to U.S. federal income tax unless such income is effectively connected with the non-U.S. holder's conduct of a trade or business in the United States. Gain realized by a non-U.S. holder on the sale or other disposition of a note generally will not be subject to U.S. federal income tax unless (1) the gain is effectively connected with the non-U.S. holder's conduct of a trade or business in the United States, or (2) the non-U.S. holder is an individual who was present in the United States for at least 183 days in the taxable year of the sale or other disposition and certain other conditions are met.

*Information Reporting and Backup Withholding.* Payments with respect to, and proceeds from the sale or other disposition of the securities may be subject to information reporting to the United States Internal Revenue

Service and to a 30% United States backup withholding tax. Backup withholding will not apply, however, to a corporation or to a holder who furnishes a correct taxpayer identification number or certificate of foreign status or who otherwise establishes an exemption from backup withholding.

### **Cayman Islands Taxation**

The Cayman Islands currently does not levy any 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 ASAT Holdings levied by the Government of the Cayman Islands except for stamp duties which 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 tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

### **Hong Kong Taxation**

The following is a general outline of the material tax considerations in relation to any beneficial ownership and disposition of the ADSs or ordinary shares but it does not purport to deal with the tax consequences applicable to all categories of investors.

*Tax on dividends.* Under the laws of Hong Kong, a holder of the ADSs or ordinary shares is not subject to Hong Kong tax on dividends, whether by withholding or otherwise, paid by ASAT Holdings.

*Profits tax.* In general, no tax is imposed in Hong Kong in respect of gains from the sale of property, including ADSs and shares. However, trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax which is currently imposed at the rate of 16% for corporations and 15% for individuals. Guidance provided by the Hong Kong Inland Revenue authority suggests that gains from sales or disposition of ADSs or ordinary shares issued outside of and not listed in Hong Kong may be considered to be derived from or to arise in Hong Kong if the relevant purchase or sales contracts are negotiated and concluded in Hong Kong, and such gains may be subject to Hong Kong profit tax if those persons deal or trade in the ADSs or ordinary shares as part of their business being carried out in Hong Kong. Whether profits of a trade are taken to be derived from Hong Kong is a question of fact and may vary depending upon the nature of the persons involved.

*Stamp Duty.* A sale or purchase of shares is subject to Hong Kong stamp duty if the transfer of such shares is required to be registered in Hong Kong. None of (1) the issuance of ordinary shares directly to the depositary or to the custodian for the account of the depositary, (2) the transfer and delivery of ordinary shares directly to the depositary or to the custodian for the account of the depositary, and (3) the issuance of ADSs upon the deposit of ordinary shares with the depositary or the custodian as described in (1) or (2) above should attract stamp duty. No Hong Kong stamp duty is payable in respect of any transfer of the ADSs or ordinary shares outside Hong Kong.

*Estate Duty.* Estate duty is imposed on the principal value of property situated in Hong Kong passing on the death of a person. The ADSs and the ordinary shares shall be regarded as property situated outside Hong Kong for estate duty purposes.

### **DOCUMENTS ON DISPLAY**

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended. Accordingly, we will file reports and other information with the Securities and Exchange Commission. You may inspect and copy the reports and other information we file at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Washington, DC20549, and at the regional offices of the

Commission located at Suite 1400, Citicorp Center, 500 West Madison Street, Chicago, Illinois 60661-2511 and 13th Floor, 7 World Trade Center, New York, New York 10048. You may also obtain copies of such material by mail from the Public Reference Branch of the Commission at 450 Fifth Street, N.W., Washington, DC 20549, at prescribed rates. The Commission also maintains a web site at <http://www.sec.gov> that contains reports, proxy statements and other information regarding registrants that file electronically with the Commission. Our annual reports and some of the other information submitted by us to the Commission may be accessed through this web site.

## **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

### **Market Sensitivity**

We have market risk primarily in connection with the pricing of our packaging products and services and the purchase of raw materials. Both pricing and cost of raw materials are significantly influenced by semiconductor market conditions. We have been successful in negotiating cost reductions for raw materials, but these reductions have typically not been as much as the declines in average selling prices. Therefore, we experience margin decline as a result of market decline. In general, raw material cost reductions, which we have been negotiating, have not kept pace with the decline in average selling prices.

Substantially all of our net sales, costs, assets and liabilities have been denominated in either U.S. dollars or Hong Kong dollars which have been officially linked to the U.S. dollar at a relatively fixed rate. As a result, we have not experienced material foreign exchange gains or losses. Substantially all our net sales are denominated and received in U.S. dollars. We purchase raw materials and machinery and equipment primarily in a mix of U.S. dollars and Japanese yen. Labor and administrative costs are incurred primarily in Hong Kong dollars and, to a lesser extent, U.S. dollars. Overall, we estimate that in the fiscal year ended April 30, 2002, approximately 99% of our marketing costs and operating expenses (excluding depreciation) were in Hong Kong or U.S. dollars. Historically, our borrowings have been in both U.S. dollars and Hong Kong dollars. Following our recapitalization in 1999, substantially all borrowings have been in U.S. dollars.

## **ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable.

## PART II

### ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

### ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not Applicable

### ITEM 15. [RESERVED]

### ITEM 16. [RESERVED]

## PART III

### ITEM 17. FINANCIAL STATEMENTS

We have responded to Item 18 in lieu of responding to this item.

### ITEM 18. FINANCIAL STATEMENTS

See pages F-1 through F-28.

### ITEM 19. EXHIBIT INDEX

<u>Exhibits</u>	<u>Description</u>
1.1*	Restated Memorandum of Association of ASAT Holdings Limited.
1.2*	Restated Articles of Association of ASAT Holdings Limited.
2.2*	Form of Deposit Agreement between ASAT Holdings Limited and The Bank of New York.
2.3*	Form of ADR (included in Exhibit 4.1).
2.4*	Form of specimen certificate representing ordinary shares of ASAT Holdings Limited.
2.5**	Indenture dated as of October 29, 1999, between ASAT (Finance) LLC, ASAT Holdings Limited and its subsidiaries, and The Chase Manhattan Bank, as trustee.
2.6**	Form of New Note (included in Exhibit 2.5).
4.1†	ASAT Holding Limited Stock Option Plan.
4.3†	Form of ASAT Holdings Non-Qualified Stock Option Agreement.
4.4†††	Supply Agreement dated March 8, 2001 entered into among ASAT Limited, Talent Focus Limited and QPL Limited.
8.0†††	Subsidiaries of the Registrant.
99†††	Letter re Andersen Assurances.

\* Incorporated herein by reference to Registrant's Registration Statement on Form F-1 filed on July 7, 2000 (Registration No. 333-12124).

\*\* Incorporated herein by reference to Registrant's Registration Statement on Form F-4 filed on December 29, 1999 (Registration No. 11292-01).

† Incorporated herein by reference to Registrant's Registration Statement on Form S-8 filed on February 13, 2001 (Registration No. 333-55464).

†† Incorporated herein by reference to Registrant's Annual Report on Form 20-F filed on August 3, 2001.

††† Filed herewith.

**SIGNATURE**

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, as amended, the Registrant, ASAT Holdings Limited, certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form 20-F and has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

Date: June 28, 2002

ASAT Holdings Limited

By:           /s/ J. STANLEY BAUMGARTNER, JR.            
**J. Stanley Baumgartner, Jr.**  
**Chief Financial Officer**

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors  
of ASAT Holdings Limited

We have audited the accompanying consolidated balance sheets of ASAT Holdings Limited (the "Company") as of April 30, 2001 and 2002 and the related consolidated statements of operations and comprehensive income, consolidated statements of shareholders' equity, and consolidated statements of cash flows for the years ended April 30, 2001 and 2002. These consolidated financial statements set out on pages F-4 to F-28 are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The consolidated financial statements for the year ended April 30, 2000 were audited by other auditors whose report dated June 9, 2000, except for the note of subsequent event, as of which the date was July 6, 2000, expressed an unqualified opinion.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of April 30, 2001 and 2002 and the results of its operations and its cash flows for the two years then ended in conformity with generally accepted accounting principles in the United States of America.

/s/ Arthur Andersen & Co

Hong Kong  
June 25, 2002

## INDEPENDENT AUDITORS' REPORT

To the shareholders and board of directors  
of ASAT Holdings Limited

We have audited the accompanying consolidated statements of operations and comprehensive income, shareholders' equity and cash flows for the year ended April 30, 2000 of ASAT Holdings Limited and subsidiaries (the "Companies"). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated results of operations and cash flows of ASAT Holdings Limited and subsidiaries for the year ended April 30, 2000 in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte Touche Tohmatsu

Hong Kong  
June 9, 2000, except for  
the note of subsequent event, as to which  
the date is July 6, 2000

**ASAT HOLDINGS LIMITED**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF APRIL 30, 2001 and 2002**  
**(Expressed in United States dollars)**

	<u>Note</u>	<u>2001</u>	<u>2002</u>
		\$'000	\$'000
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents .....		79,880	34,499
Accounts receivable, net .....	5	16,474	14,640
Inventories .....	6	29,361	11,050
Prepaid expenses and other current assets .....		7,094	5,919
Total current assets .....		<u>132,809</u>	<u>66,108</u>
Property, plant and equipment, net .....	7	256,252	207,123
Other assets .....	8	9,370	—
Deferred charges, net .....	2	5,072	4,167
Total assets .....		<u>403,503</u>	<u>277,398</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Current portion of other long-term debt .....		278	—
Accounts payable .....		16,779	8,349
Accrued liabilities .....	9	10,069	7,593
Amount due to QPL .....	4	1,205	944
Amount due to a related company .....	4	362	—
Total current liabilities .....		<u>28,693</u>	<u>16,886</u>
Deferred income taxes .....	12	26,685	15,180
12.5% senior notes due 2006 .....	10	97,559	98,131
Total liabilities .....		<u>152,937</u>	<u>130,197</u>
Commitments and contingencies .....	19		
Shareholders' equity:			
Common stock (\$0.01 par value, 3,000,000,000 ordinary shares authorized; 676,000,000 ordinary shares issued; 669,727,000 and 668,947,000 ordinary shares outstanding, respectively) .....	13	6,760	6,760
Less: Repurchase of shares at par .....	13	(63)	(71)
		<u>6,697</u>	<u>6,689</u>
Additional paid-in capital .....		228,542	228,009
Retained earnings (Accumulated deficit) .....		15,327	(87,500)
Accumulated other comprehensive income .....		—	3
Total shareholders' equity .....		<u>250,566</u>	<u>147,201</u>
Total liabilities and shareholders' equity .....		<u>403,503</u>	<u>277,398</u>

The accompanying footnotes are an integral part of these financial statements.

**ASAT HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**  
**FOR THE YEARS ENDED APRIL 30, 2000, 2001 AND 2002**  
**(Expressed in United States dollars)**

	<u>Note(s)</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
		\$'000	\$'000	\$'000
Net sales				
—Third parties .....		312,030	340,236	102,408
—QPL .....		101	—	—
Total net sales .....		<u>312,131</u>	<u>1340,236</u>	<u>102,408</u>
Cost of sales				
—Purchases from QPL and a related party .....	4	53,893	54,081	11,175
—Third party costs .....		145,743	190,403	121,358
Total cost of sales .....		<u>199,636</u>	<u>244,484</u>	<u>132,533</u>
Gross profit (loss) .....		<u>112,495</u>	<u>95,752</u>	<u>(30,125)</u>
Operating expenses				
—Selling, general and administrative .....	4	26,453	37,631	30,368
—Research and development .....		4,676	5,954	6,437
—Charges for obsolete equipment .....		12,340	—	—
—Reorganization expenses .....	16	—	2,603	2,327
—Non-recoverable and unutilized architectural cost .....	8	—	—	4,500
—Write-off in relation to ASAT S.A. ....	17	—	—	24,285
Total operating expenses .....		<u>43,469</u>	<u>46,188</u>	<u>67,917</u>
Income (Loss) from operations .....		69,026	49,564	(98,042)
Other income (expense), net .....	11	1,048	6,451	(1,499)
Interest expense:				
—Amortization of deferred charges .....		(922)	(1,112)	(905)
—Third parties .....		(15,668)	(17,007)	(13,341)
—QPL .....		(2,404)	—	—
Recapitalization costs .....		<u>(6,813)</u>	—	—
Income (Loss) before income taxes .....		44,267	37,896	(113,787)
Income tax (expense) benefit .....	12	<u>(9,558)</u>	<u>(5,350)</u>	<u>10,960</u>
Income (Loss) before extraordinary charge .....		34,709	32,546	(102,827)
Extraordinary charge on early extinguishment of debt (net of tax effect of \$1,108) .....	10,18	<u>—</u>	<u>(13,126)</u>	<u>—</u>
Net income (loss) .....		34,709	19,420	(102,827)
Other comprehensive income:				
Foreign currency translation .....		—	—	3
Comprehensive income (loss) .....		<u>34,709</u>	<u>19,420</u>	<u>(102,824)</u>

The accompanying footnotes are an integral part of these financial statements.

**ASAT HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE**  
**INCOME (LOSS)—(Continued)**  
**FOR THE YEARS ENDED APRIL 30, 2000, 2001 AND 2002**  
**(Expressed in United States dollars)**

	<u>Note</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Basic and diluted net income (loss) per share (dollars per share):	2			
Income (Loss) before extraordinary charge . . . . .		\$ 0.06	\$ 0.05	\$ (0.15)
Extraordinary charge on early extinguishment of debt . . . .		—	(0.02)	—
Basic and diluted net income (loss) per share (dollars per share) . . . . .		<u>\$ 0.06</u>	<u>\$ 0.03</u>	<u>\$ (0.15)</u>
Weighted average number of shares outstanding:	2			
Basic . . . . .		<u>576,000,000</u>	<u>654,962,375</u>	<u>669,218,720</u>
Diluted . . . . .		<u>593,814,336</u>	<u>667,132,978</u>	<u>669,218,720</u>

The accompanying footnotes are an integral part of these financial statements.

**ASAT HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED APRIL 30, 2000, 2001 AND 2002**  
**(Expressed in United States dollars)**

	Common Stock (Note 13)		Additional paid-in capital	Retained earnings (Accumulated deficit)	Accumulated other comprehensive income	Total
	Shares	Amount				
	'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as of May 1, 1999 . . . . .	576,000	5,760	8,910	62,572	(248)	76,994
Net income for the year . . . . .	—	—	—	34,709	—	34,709
Issuance of ordinary shares . . . . .	—	—	120	—	—	120
Fair value of warrants attached to the senior notes . . . . .	—	—	2,726	—	—	2,726
Costs incurred by QPL on behalf of ASAT (Note 1) . . . . .	—	—	701	—	—	701
Distribution of net balance with QPL (Note 4) . . . . .	—	—	—	27,614	—	27,614
Dividend . . . . .	—	—	—	(128,988)	—	(128,988)
Holding loss realized during the year . . .	—	—	—	—	248	248
Balance as of April 30, 2000 . . . . .	576,000	5,760	12,457	(4,093)	—	14,124
Net income for the year . . . . .	—	—	—	19,420	—	19,420
Issuance of ordinary shares . . . . .	100,000	1,000	239,000	—	—	240,000
Expenses for initial public offering . . . .	—	—	(17,639)	—	—	(17,639)
Repurchase of shares . . . . .	(6,273)	(63)	(5,276)	—	—	(5,339)
Balance as of April 30, 2001 . . . . .	669,727	6,697	228,542	15,327	—	250,566
Net loss for the year . . . . .	—	—	—	(102,827)	—	(102,827)
Translation adjustment . . . . .	—	—	—	—	3	3
Repurchase of shares . . . . .	(780)	(8)	(533)	—	—	(541)
Balance as of April 30, 2002 . . . . .	668,947	6,689	228,009	(87,500)	3	147,201

The accompanying footnotes are an integral part of these financial statements.

**ASAT HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED APRIL 30, 2000, 2001 and 2002**  
**(Expressed in United States dollars)**

	<u>2000</u>	<u>2001</u>	<u>2002</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Operating activities:			
Net income (loss) .....	34,709	19,420	(102,827)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization:			
Property, plant and equipment and noncompete covenants .....	24,150	33,109	39,303
Deferred charges and debt discount .....	1,363	1,775	1,476
Deferred income taxes .....	1,806	4,693	(11,505)
Loss (gain) on disposal of property, plant and equipment .....	608	(392)	160
Loss on disposal of other assets .....	—	—	4,166
Charges for obsolete equipment .....	12,340	—	—
Loss on write-off in relation to ASAT S.A. ....	—	—	24,285
Loss on write-off of non-recoverable and unutilized architectural cost .....	—	—	4,500
Provision for doubtful accounts .....	(580)	(212)	1
Deferred charges written-off .....	—	5,496	—
Cost incurred by QPL on behalf of ASAT .....	701	—	—
Others .....	156	(46)	—
Changes in operating assets and liabilities:			
Accounts receivable, net .....	(3,000)	24,598	1,628
Inventories .....	(9,657)	(3,336)	16,117
Prepaid expenses and other current assets .....	(1,170)	(683)	792
Accounts payable .....	12,302	(12,888)	(2,518)
Accrued liabilities .....	145	2,129	(3,875)
Amount due to a related company .....	282	65	(361)
Eliminated items as a result of acquisition of ASAT S.A. ....	—	1,601	—
Income taxes payable .....	7,565	(12,847)	—
Net cash provided by (used in) operating activities .....	<u>81,720</u>	<u>62,482</u>	<u>(28,658)</u>
Investing activities:			
Proceeds from sale of property, plant and equipment .....	5,438	668	3,926
Acquisition of property, plant and equipment .....	(56,036)	(108,743)	(19,625)
Acquisition of a subsidiary, net cash inflow (a) .....	—	4,026	—
Increase in restricted cash .....	665	—	—
Proceeds from sale of marketable securities .....	119	—	—
Option to acquire ASAT S.A. ....	(20,000)	—	—
Net cash used in investing activities .....	<u>(69,814)</u>	<u>(104,049)</u>	<u>(15,699)</u>
Financing activities:			
Net decrease in short-term bank borrowings .....	(39,255)	(9,000)	—
Proceeds from accounts receivable financing .....	40,221	—	—
Repayment under accounts receivable financing .....	(47,709)	—	—
Issuance of 12.5% senior notes due 2006 .....	151,502	—	—
Partial redemption of 12.5% senior notes due 2006 .....	—	(52,321)	—
Increase in other long-term debt .....	40,000	—	—
Repayment of capital lease obligations .....	—	(54)	(109)
Repayment of other long-term debt .....	(39,399)	(40,000)	—
Net increase (decrease) in amount due to QPL .....	32,914	(4,319)	(206)
Dividend to QPL prior to recapitalization .....	(128,988)	—	—
Cost in relation to deferred charges .....	(11,829)	(773)	—
Issuance of ordinary shares .....	120	—	—
Proceeds from initial public offering, net of expenses .....	—	222,361	—
Repurchase of shares .....	—	(5,339)	(541)
Net cash (used in) provided by financing activities .....	<u>(2,423)</u>	<u>110,555</u>	<u>(856)</u>
Net increase (decrease) in cash and cash equivalents .....	9,483	68,988	(45,213)
Cash and cash equivalents at the beginning of the year .....	1,409	10,892	79,880
Effects of foreign exchange rates change .....	—	—	(168)
Cash and cash equivalents at the end of the year .....	<u>10,892</u>	<u>79,880</u>	<u>34,499</u>
Non-cash investing activity:			
Exercise of option to acquire ASAT S.A. ....	—	20,000	—

The accompanying footnotes are an integral part of these financial statements.

**ASAT HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**  
**FOR THE YEARS ENDED APRIL 30, 2000, 2001 AND 2002**  
**(Expressed in United States dollars)**

	<u>2000</u>	<u>2001</u>	<u>2002</u>
	\$'000	\$'000	\$'000
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
—Interest expense .....	17,709	16,154	12,594
—Partial redemption of 12.5% senior notes due 2006, including \$6,781 charges related primarily to the premium for early redemption and associated fees ...	—	61,031	—
—Income taxes .....	189	13,799	309
(a) Acquisition of a subsidiary:			
Net assets acquired			
Cash and cash equivalents .....	—	4,026	—
Accounts receivable, net .....	—	294	—
Inventories .....	—	2,723	—
Prepaid expenses and other current assets .....	—	397	—
Amount due from a fellow subsidiary .....	—	1,661	—
Property, plant and equipment .....	—	15,196	—
Capital lease obligations .....	—	(332)	—
Accounts payable .....	—	(1,850)	—
Amount due to QPL .....	—	(224)	—
Amount due to immediate holding company .....	—	(60)	—
Accrued liabilities .....	—	(1,831)	—
	<u>—</u>	<u>20,000</u>	<u>—</u>
Goodwill arising on acquisition .....	<u>—</u>	<u>—</u>	<u>—</u>
Option to acquire ASAT S.A. at cost (Note 3a) .....	<u>—</u>	<u>20,000</u>	<u>—</u>
Cash paid upon exercise of option .....	<u>—</u>	<u>—</u>	<u>—</u>
Add: Cash and cash equivalents .....	<u>—</u>	<u>4,026</u>	<u>—</u>
Net cash inflow from acquisition of a subsidiary .....	<u>—</u>	<u>4,026</u>	<u>—</u>
(b) Deconsolidation of a subsidiary (Note 17):			
Cash and cash equivalents .....	—	—	746
Accounts receivable, net .....	—	—	204
Amount due from a fellow subsidiary .....	—	—	291
Inventories .....	—	—	2,194
Prepaid expenses and other current assets .....	—	—	206
Property, plant and equipment .....	—	—	13,971
Current portion of other long-term debt .....	—	—	(169)
Accounts payable .....	—	—	(1,137)
Accrued liabilities .....	—	—	(1,703)
Amount due to QPL .....	—	—	(55)
Amounts due to fellow subsidiaries .....	—	—	(147)
	<u>—</u>	<u>—</u>	<u>14,401</u>

The accompanying footnotes are an integral part of these financial statements.

## ASAT HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Amount expressed in United States dollars unless otherwise stated)

#### 1. Organization and Basis of Presentation

ASAT Holdings Limited, a company incorporated in the Cayman Islands (including its consolidated subsidiaries, collectively “ASAT” or the “Company”) was formed on October 20, 1999 and was wholly-owned by QPL International Holdings Limited (and together with its subsidiaries “QPL”). On October 26, 1999, ASAT acquired by exchange of shares QPL’s 99.9% ownership of its wholly-owned subsidiaries, ASAT Limited and Timerson Limited, both incorporated in the Hong Kong Special Administrative Region (“Hong Kong”) of the People’s Republic of China (“PRC”), and ASAT Inc., a company incorporated in California, United States of America (“US”), ASAT (Finance) LLC, a Delaware, US, incorporated company, and ASAT (Cayman) Limited, incorporated in the Cayman Islands. This exchange of shares has been accounted for as a reorganization of entities under common control. The financial statements have been prepared to reflect the consolidated financial position, results of operations and comprehensive income (loss) and cash flows of these companies for all the periods presented in a manner similar to the pooling-of-interests method. In December, 2000, ASAT Holdings Limited exercised the option to acquire ASAT S.A. from QPL for \$20,000 thousand and the acquisition became effective in January 2001. Accounted for under the purchase method, ASAT S.A. has become a wholly-owned subsidiary of ASAT Holdings Limited. Since November 20, 2001, ASAT S.A. has been operated under court administration and is no longer under the Company’s operational control. The entire investment in ASAT S.A. has been written off and the Company no longer consolidates the financial position and results of operations of ASAT S.A. from November 20, 2001 (Note 17).

All significant intra-group transactions and balances have been eliminated on consolidation.

On July 14, 2000, the Company offered 20,000 thousand American Depositary Shares (“ADS”) representing 100,000 thousand ordinary shares at \$12.00 per ADS to the public and has the ADSs quoted on the Nasdaq National Market under the symbol “ASTT”.

ASAT is principally engaged in the provision of assembly and testing services of integrated circuits to customers in the semiconductor industry. The Company’s principal production facilities are located in Hong Kong. The Company maintains sales offices in Hong Kong, Europe, South Korea, Singapore and the US.

Prior to the corporate structure reorganization described above, QPL provided certain administrative, management and waste disposal services to the Company. In addition, the consolidated statements of operations include an allocation of the costs of shared facilities with QPL, costs of general and administrative services and overhead costs prior to the corporate structure reorganization. Such allocated expenses were determined according to allocation bases deemed appropriate for the nature of each expense item, including relative headcount and relative use of shared facilities. Most of such costs were included in payables to QPL. Certain other common costs, including the compensation of the Chairman, were incurred on behalf of ASAT and have been credited to additional paid-in capital. Management believes that these allocation methods were based on assumptions that are reasonable under the circumstances. However, the financial information included herein may not be representative of the consolidated financial position, results of operations, and cash flows of the Company in the future or what they would have been had the Company operated as a separate entity during the year presented.

#### 2. Summary of Significant Accounting Policies

##### *(a) Recognition of revenue*

The Company recognizes revenue net of discounts from packaged semiconductors sold directly to customers, when persuasive evidence of an arrangement exists, the price is fixed or determinable, shipment is

## ASAT HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

#### 2. Summary of Significant Accounting Policies (Continued)

made and collectibility is reasonably assured. Shipping and handling costs associated with product sales are included in cost of sales.

##### *(b) Cash and cash equivalents*

Cash and cash equivalents include cash on hand, cash accounts, interest bearing savings accounts placed with banks and financial institutions and all highly liquid debt instruments with original maturity of three months or less, less any amounts which are restricted as to use.

##### *(c) Treasury stock*

The Company accounts for treasury stock using the par value method.

##### *(d) Inventories*

Inventories consist of raw material and work-in-progress and are stated at the lower of cost or market value. Cost of raw materials include purchase and related costs incurred in bringing the products to their present location and condition. Cost is determined by the first-in, first-out method. Cost of work-in-progress includes costs of direct materials.

##### *(e) Property, plant and equipment*

Property, plant and equipment are recorded at cost less accumulated depreciation. Gains or losses on disposals are reflected in current operations. Major expenditures for betterments and renewals are capitalized. All ordinary repairs and maintenance costs are expensed as incurred.

Depreciation for financial reporting purposes is provided using the straight-line method over the estimated useful lives of the assets as follows:

Owned property	Over the unexpired lease term
Plant and machinery	5-12 years
Leasehold improvements	8 years
Fixtures and furniture	5-10 years
Loose toolings	5-10 years
Motor vehicles	5 years
Office equipment	3-5 years
Computer and software	1-3 years

##### *(f) Valuation of long-lived assets*

The Company accounts for long-lived assets in accordance with Statements of Financial Accounting Standards (“SFAS”) No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of”, which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present. For this purpose, assets are grouped at the lowest level for which separate cash flows are determined. Reviews are regularly performed to determine whether the carrying value of assets is impaired. The Company determines the existence of such impairment by measuring the expected future cash flows (undiscounted and without interest charges) and comparing such amount to the net asset carrying value. An

## ASAT HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

#### 2. Summary of Significant Accounting Policies (Continued)

impairment loss, if any, is measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset.

##### *(g) Deferred charges*

Fees and expenses directly related to the issue of senior notes are capitalized and are being amortized over the life of the notes except for the portion attributable to the senior notes early redeemed which are charged to statement of operations in the period of redemption. Deferred charges are stated at cost of \$6,296 thousand less accumulated amortization of \$1,224 thousand and \$2,129 thousand at April 30, 2001 and 2002 respectively.

##### *(h) Research and development expenditures*

Research and development expenditures are expensed in the period incurred.

##### *(i) Income taxes*

The Company accounts for income tax using SFAS No. 109 “Accounting for Income Taxes”, which requires the asset and liability approach for financial accounting and reporting for income taxes. Under this approach, deferred taxes are provided for the estimated future tax effects attributable to temporary differences between financial statement carrying amounts of assets and liabilities and their respective tax bases, and for the expected future tax benefits from items including tax loss carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected in the years of recovery or reversal and the effect from a change in tax rates is recognized in income for the period of enactment. A valuation allowance is provided for the portion of deferred tax assets if it will more likely than not be unrealized.

##### *(j) Foreign currency translation*

The Company uses the United States dollar as its functional and reporting currencies. Monetary assets and liabilities denominated in currencies other than the United States dollar are remeasured into the United States dollar at the rates of exchange at the balance sheet date. Transactions in currencies other than the United States dollar during the year are converted into the United States dollar at the rates of exchange at the transaction dates. Exchange differences are recognized in the statement of operations.

On consolidation, balance sheets of subsidiaries denominated in currencies other than the United States dollar are translated into the United States dollar at the rates of exchange at the balance sheet date. Statements of operations of subsidiaries denominated in currencies other than the United States dollar are translated into the United States dollar at average exchange rates during the year. Exchange differences resulting from the translation of financial statements denominated in currencies other than the United States dollar and the effect of exchange rate changes on intercompany transactions of a long-term investment nature are accumulated and credited or charged directly to a separate component of shareholders' equity and are reported as other comprehensive income (loss).

##### *(k) Reorganization expenses*

The Company records reorganization expenses in the statement of operations in the period in which management approves the plan of termination with all of the following conditions in place:

- Prior to the balance sheet date, management having the appropriate level of authority to involuntarily terminate employees approves and commits the enterprise to the plan of termination and establishes the benefits that current employees will receive upon termination;

**ASAT HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**2. Summary of Significant Accounting Policies (Continued)**

- Prior to the balance sheet date, the benefit arrangement is communicated to employees. The communication of the benefit arrangement includes sufficient detail to enable employees to determine the type and amount of benefits they will receive if they are terminated;
- The plan of termination specifically identifies the number of employees to be terminated, their job classifications or functions, and their locations; and
- The period of time to complete the plan of termination indicates that significant changes to the plan of termination are not likely.

*(l) Net income (loss) per share*

Net income (loss) per share is computed in accordance with SFAS No. 128 “Earnings per share” by dividing net income (loss) for each year by the weighted average number of ordinary shares outstanding during the year.

Diluted net income (loss) per share is computed by dividing net income (loss) by the weighted average number of ordinary shares and ordinary share equivalents outstanding during the year. The weighted average shares used to compute diluted net income (loss) per share include the incremental shares of ordinary shares relating to outstanding options and warrants to the extent such incremental shares are dilutive.

The following table sets forth the computation of net income (loss) per share:

	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Numerator:			
Income (Loss) before extraordinary charge . . . . .	34,709	32,546	(102,827)
Extraordinary charge on early extinguishment of debt . . . . .	—	(13,126)	—
Net income (loss) . . . . .	34,709	19,420	(102,827)
Denominator for net income (loss) per share:			
Basic . . . . .	576,000,000	654,962,375	669,218,720
Warrants . . . . .	17,814,336	12,170,603	—
Diluted . . . . .	593,814,336	667,132,978	669,218,720

The diluted net income (loss) per share was the same as the basic net income (loss) per share for the years ended April 30, 2000 and 2001. For the year ended April 30, 2001, options to purchase 15,940,355 ADSs were outstanding but not included in the computation of diluted net income per share because the option exercise prices were greater than the average market price of the ADSs and therefore, the effect would be anti-dilutive. For the year ended April 30, 2002, the stock options and warrants are anti-dilutive and are therefore ignored in the computation of diluted net income (loss) per share.

The weighted average number of shares for the year ended April 30, 2000 have been retroactively adjusted to show the effect of the share dividend of 47 ordinary shares for each outstanding ordinary share authorized by the Company on July 6, 2000. This was a stock split in the form of a dividend (Note 13).

*(m) Concentration of credit risk*

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable.

## ASAT HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

#### 2. Summary of Significant Accounting Policies (Continued)

The Company places its cash investments with various financial institutions. The Company believes that no significant credit risk exists as these investments are made with high-credit, quality financial institutions.

The Company's business activities and accounts receivable are with customers in the semiconductor industry, the majority of which are located throughout Asia, Europe and the US. The Company performs ongoing credit evaluations of its customers. The Company believes that no significant credit risk exists as credit losses, when realized, have been within the range of management's expectations.

##### *(n) Comprehensive income (loss)*

The Company follows SFAS No. 130 "Reporting Comprehensive Income" for the reporting and display of its comprehensive income and its components in the financial statements and thereby reports a measure of all changes in equity of an enterprise that results from transactions and other economic events other than transactions with the shareholders. Items of comprehensive income (loss) are reported in both the consolidated statement of operations and comprehensive income (loss) and the consolidated statement of shareholders' equity.

##### *(o) Financial instruments*

The carrying value of financial instruments, which consist of cash and cash equivalents, related company balances, accounts receivable, prepaid expenses and other current assets, accounts payable, and accrued liabilities, approximates fair value due to the short-term nature of these instruments.

##### *(p) Use of estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect reported amounts of certain assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities as of and for the reporting periods. Actual results could differ from those estimates. Differences from those estimates are reported in the period they become known and are disclosed to the extent they are material to the financial statements taken as a whole.

##### *(q) Segment information*

The Company has adopted SFAS No. 131 "Disclosure about Segments of an Enterprise and Related Information". SFAS No. 131 establishes standards for the way that public business enterprises report information about operating segments in annual consolidated financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. SFAS No. 131 also establishes standards for reporting information about operating segments on a basis consistent with the Company's internal organization structure as well as information about geographical areas, business segments and major customers.

##### *(r) Related parties*

Parties are considered to be related to the Company if the parties, directly or indirectly, through one or more intermediaries, control, are controlled by, or are under common control with the Company. Related parties also include principal owners of the Company, its management, members of the immediate families of principal owners of the Company and its management and other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of

## ASAT HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

#### 2. Summary of Significant Accounting Policies (Continued)

the transacting parties might be prevented from fully pursuing its own separate interests. A party which can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests is also a related party.

##### *(s) Stock-based compensation*

SFAS No. 123 “Accounting for Stock-Based Compensation” encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to account for stock-based compensation awarded to employees using the intrinsic value method prescribed in Accounting Principles Board Opinions (“APB”) No. 25 “Accounting for Stock Issued to Employees” and related interpretations. Accordingly, compensation cost for stock options awarded to employees, officers and directors is measured as the excess, if any, of the quoted market price of the Company’s stock at the date of the grant over the amount an employee must pay to acquire the stock.

The Company has adopted the pro-forma fair value disclosures as permitted under SFAS No. 123.

##### *(t) Operating leases*

Rental payments under operating leases are expensed on a straight-line basis over the periods of the respective leases.

##### *(u) New accounting standards*

In July 2001, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 141, “Business Combinations” (SFAS 141) and Statement of Financial Accounting Standards No. 142 “Goodwill and Other Intangible Assets” (SFAS 142). SFAS 141 requires that business combinations initiated after June 30, 2001 to be accounted for under the purchase method of accounting. Our adoption of SFAS 141 will not have a material effect on our financial statements.

SFAS 142 addresses how intangible assets shall be accounted for in financial statements upon their acquisition. Under SFAS 142, goodwill and other intangible assets deemed to have indefinite lives may not be amortized, but shall be reviewed and tested annually for impairment. SFAS 142 will be effective for fiscal years beginning after December 15, 2001. Our adoption of SFAS 142 on May 1, 2002 will not have a material effect on our financial statements.

In August 2001, the FASB issued Statement of Accounting Standards No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” (SFAS 144). SFAS 144 addresses the financial accounting and reporting for impairment of long-lived assets and for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired. SFAS 144 will be effective for fiscal years beginning after December 15, 2001. Our adoption of SFAS 144 on May 1, 2002 will not have a material effect on our financial statements.

In April 2002, the FASB issued SFAS No. 145, “Rescission of FASB Statements No., 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections”. This statement made revisions to the accounting for gains and losses from the extinguishments of debts, rescinded Statement No. 44, and required certain lease modifications that have economic effects similar to sale and leaseback transactions be accounted for in the same manner as sales-leaseback transactions. The Company is required to adopt this statement beginning

## ASAT HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

#### 2. Summary of Significant Accounting Policies (Continued)

on May 1, 2003. The Company is in the process of evaluating the effect the adoption of this standard will have on its consolidated results of operations, financial position and cash flows, if any.

*(v) Reclassification*

Certain amounts in the prior periods' financial statements have been reclassified to conform to the presentation adopted in the current year.

#### 3. Subsidiaries

Details of the Company's consolidated subsidiaries as of April 30, 2001 and 2002 were as follows:

<u>Company name</u>	<u>Place of incorporation</u>	<u>Ownership interest attributable to the Company</u>		<u>Principal activities</u>
		<u>2001</u>	<u>2002</u>	
ASAT Inc. (b) . . . . .	United States of America ("US")	100%	100%	Sales and marketing
ASAT (Cayman) Limited (b) . . .	The Cayman Islands	100%	100%	Investment holding
ASAT Limited (b) . . . . .	Hong Kong	100%	100%	Assembly and testing services of integrated circuits
ASAT (Finance) LLC (b) . . . . .	US	100%	100%	Provision of financial services
ASAT (S) Pte Ltd. . . . .	Singapore	100%	100%	Provision of customer services
ASAT Korea Limited . . . . .	Korea	100%	100%	Provision of customer services
ASAT GmbH (incorporated on January 14, 2002) . . . . .	Germany	—	100%	Provision of customer services
ASAT S.A. (a) . . . . .	France	100%	—	Assembly and testing services of integrated circuits
Timerson Limited (b) . . . . .	Hong Kong	100%	100%	Property investment holding

- (a) On November 20, 2001, ASAT S.A. filed for administration and the Company no longer consolidates the financial position and results of operations of ASAT S.A. from November 20, 2001 (Note 17).
- (b) These entities have undergone a reorganization in October 1999 as mentioned in Note 1 above. As entities are under common control, the corporate structure reorganization has been recorded in a manner similar to the pooling-of-interests method.

#### 4. Related Party Transactions

The total purchase of materials from QPL and Peak Plastic & Metal Products (International) Limited ("Peak Plastic") during the relevant years were as follows:

	<u>2000</u>	<u>2001</u>	<u>2002</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
QPL . . . . .	49,454	49,552	10,585
Peak Plastic . . . . .	4,439	4,529	590
	<u>53,893</u>	<u>54,081</u>	<u>11,175</u>

*(i) QPL*

QPL owns approximately 50%, 43% and 43% of the Company's ordinary shares as of April 30, 2000, 2001 and 2002 respectively.

## ASAT HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

#### 4. Related Party Transaction (Continued)

##### (i) QPL (Continued)

Major arrangements were summarized as follows:

*Purchase of materials*—The Company purchased leadframes from QPL amounting to \$34,218 thousand, \$38,008 thousand and \$10,032 thousand for the years ended April 30, 2000, 2001 and 2002 respectively.

The Company also purchased other raw materials from QPL amounting to \$15,236 thousand, \$11,544 thousand and \$553 thousand for the years ended April 30, 2000, 2001 and 2002 respectively.

*Purchase and sale of plant and equipment*—The Company acquired certain plant and equipment from QPL amounting to \$1,172 thousand, \$1,215 thousand and \$436 thousand for the years ended April 30, 2000, 2001 and 2002 respectively. The Company also sold certain plant and equipment to QPL amounting to \$102 thousand, \$99 thousand and nil for the years ended April 30, 2000, 2001 and 2002 respectively.

*Rental expenses*—The Company leases its Hong Kong office and manufacturing premises from QPL under various lease agreements which expire on September 30, 2004. The Company paid rental expense of \$2,796 thousand, \$3,119 thousand and \$3,097 thousand for the years ended April 30, 2000, 2001 and 2002 respectively.

*Administrative and management services*—QPL absorbed salaries and benefits of various executives providing management services to ASAT Inc. prior to the corporate structure reorganization described in Note 1. The costs were calculated by allocating certain executives proportional time spent on ASAT Inc. and were amounted to \$425 thousand in the year ended April 30, 2000. No such expenses were charged by QPL during the years ended April 30, 2001 and 2002.

The Company uses the chemical wastage disposal services and repairs and maintenance services provided by QPL under a cost sharing agreement. The Company paid services fees of \$361 thousand, \$474 thousand and \$241 thousand for the years ended April 30, 2000, 2001 and 2002 respectively. The Company also received chemical wastage disposal income from QPL of \$176 thousand for the year ended April 30, 2000.

In addition, the Company made reimbursements of management operation fees to QPL under a cost sharing agreement of \$657 thousand for the year ended April 30, 2000. No such reimbursements were made during the years ended April 30, 2001 and 2002.

*Provision for management information services*—The Company provides management information services to QPL under a cost sharing agreement and received service income of \$124 thousand, \$243 thousand and \$55 thousand for the years ended April 30, 2000, 2001 and 2002 respectively.

*Distribution of net balance*—Before our recapitalization when ASAT was a wholly-owned Subsidiary of QPL, advances were made to QPL interest free without an repayment terms. The net amounts transferred to and from QPL, including the other purchases and sales transactions but excluding the construction financing amounted to \$32,914 thousand during the year ended April 30, 2000. No such advances were made in fiscal years 2002 or 2001.

*Acquisition of ASAT S.A.*—Prior to the acquisition by the Company in January 2001, ASAT S.A. was a subsidiary of QPL.

The amount due to QPL was unsecured and interest free.

**ASAT HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**4. Related Party Transaction (Continued)**

*(ii) Peak Plastic*

Mr. T. L. Li, a director and shareholder of the Company, was a director of and had an indirect equity interest in Peak Plastic during the years ended April 30, 2000 and 2001. With effect from October 2001, Mr. T. L. Li retired from the Board of Directors of Peak Plastic and Peak Plastic ceased to be a related company to ASAT. The Company purchased packing materials from Peak Plastic during the years ended April 30, 2000, 2001 and 2002 and the amount due to Peak Plastic had been reclassified to accounts payable since October 2001.

**5. Accounts Receivable, Net**

	<b>2001</b>	<b>2002</b>
	<b>\$'000</b>	<b>\$'000</b>
Accounts receivable . . . . .	17,337	14,805
Less: Allowance for doubtful debts . . . . .	(863)	(165)
	<b>16,474</b>	<b>14,640</b>

**6. Inventories**

The components of inventories, net of the related reductions to the lower of cost or net realizable value, were as follows:

	<b>2001</b>	<b>2002</b>
	<b>\$'000</b>	<b>\$'000</b>
Raw materials . . . . .	28,750	10,405
Work-in-progress . . . . .	611	645
	<b>29,361</b>	<b>11,050</b>

Management continuously reviews slow-moving inventory which, based on inventory levels, material composition and expected usage of that date, resulted in a write down of 1,834 thousand, \$2,214 thousand and \$4,000 thousand for the years ended April 30, 2000, 2001 and 2002 respectively.

**7. Property, Plant and Equipment, Net**

Property, plant and equipment consisted of the following:

	<b>2001</b>	<b>2002</b>
	<b>\$'000</b>	<b>\$'000</b>
Plant and machinery . . . . .	308,976	278,521
Owned property . . . . .	14,062	10,478
Leasehold improvements . . . . .	2,075	2,324
Furniture and fixtures, computer and software, office equipment and motor vehicles . . . . .	64,611	65,925
Loose toolings . . . . .	32,053	35,119
	<b>421,777</b>	<b>392,367</b>
Less: Accumulated depreciation . . . . .	(165,525)	(185,244)
	<b>256,252</b>	<b>207,123</b>

During the years ended April 30, 2000, 2001 and 2002, depreciation expenses amounted to \$23,164 thousand, \$32,667 thousand and \$39,303 thousand respectively.

**ASAT HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**8. Other Assets**

Other assets consisted of the following:

	<b>2001</b>	<b>2002</b>
	<b>\$'000</b>	<b>\$'000</b>
Land use right .....	3,451	—
Capitalized architectural and land improvement costs .....	5,919	—
	9,370	—

During the year ended April 30, 2002, the Company wrote off \$4,500 thousand non-recoverable and unutilized architectural costs associated with a previously planned manufacturing site in Shenzhen, the PRC. In addition, the Company sold its land use right in Shenzhen back to the government-related company from which the land use right was originally purchased, for a consideration of \$3,846 thousand resulting in a net pre-tax loss of \$4,166 thousand upon disposal of other assets (Note 11).

**9. Accrued Liabilities**

Accrued liabilities consisted of the following:

	<b>2001</b>	<b>2002</b>
	<b>\$'000</b>	<b>\$'000</b>
Accrued bonus .....	1,422	1,023
Accrued salaries .....	686	229
Accrued vacation pay .....	2,039	729
Accrued reorganization expenses .....	1,148	—
Accrued senior notes interest .....	692	549
Accrued deferred charges .....	25	—
Accrued audit fee .....	264	171
Accrued machine rental charges .....	387	—
Accrued legal and professional fee .....	492	697
Accrued for write-off of ASAT S.A. (Note 17) .....	—	2,384
Accrued repairs and maintenance charges .....	—	582
Other accrued liabilities .....	2,914	1,229
	10,069	7,593

**10. 12.5% Senior Notes Due 2006 and Warrants**

	<b>2001</b>	<b>2002</b>
	<b>\$'000</b>	<b>\$'000</b>
100,750 units (2001—100,750 units) 12.5% senior notes due November 2006 .....	100,750	100,750
Less: Unamortized discounts on the senior notes .....	(3,191)	(2,619)
	97,559	98,131

**ASAT HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**10. 12.5% Senior Notes Due 2006 and Warrants (Continued)**

The senior notes (the “Notes”) are unsecured. On August 23, 2000, 35% of the aggregate principal amount of the Notes were redeemed. The redemption price was 112.5% of the principal, as provided in the Notes. As a result of this early redemption, the Company recorded an extraordinary charge of \$10,534 thousand. The Notes remaining may be redeemed, at the option of the Company, at any time on or after November 1, 2003 at various redemption prices set out in the agreement for the issue of the Notes. The non-redeemed portion will be due in one balloon payment on maturity.

The Notes were sold as separate units together with detachable warrants, which entitle the holders thereof to subscribe a total of 17,814,336 ordinary shares of the Company at an exercise price of approximately \$0.39 per ordinary share, subject to adjustment, at any time from November 1, 2001 to November 1, 2006. The warrants do not provide the holders any voting rights but the shares to be issued upon exercise of the warrants will be voting shares. The fair value of the warrants has been deducted from the gross proceeds from the issuance of the Notes and was allocated to additional paid-in capital upon the issuance of the Notes in October 1999. The fair value of the warrants was determined using the Black-Scholes pricing model, which takes into account a number of factors, including expected volatility of the underlying stock’s return, the level of interest rates, the relationship of the underlying stock’s price to the strike price of the warrants, and the time remaining until the warrants expire.

The fair value of the senior notes as of April 30, 2002 was approximately \$75,563 thousand.

The Notes contain covenants restricting the ability of ASAT (Finance) LLC, the guarantors and their affiliates to act in a number of ways. These covenants include restrictions on their ability to incur debt, to make restricted payments, to incur liens, to sell assets, to engage in related party transactions, to undertake a business combination, to change their line of business and to make investments of a specified nature. The Notes also generally restrict ASAT (Finance) LLC, the guarantors and their affiliates from paying dividends to equity holders unless the Company meets the financial ratio tests included in the indenture. No event of default under the indenture has occurred and the aggregate amount of restricted payments together with the proposed restricted payment would not exceed the threshold as defined in the indenture.

**11. Other Income (Expense), Net**

Other income (expense), net, consisted of the following:

	<u>2000</u>	<u>2001</u>	<u>2002</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Interest income .....	250	5,202	1,524
Foreign currency exchange gain (loss), net .....	229	(58)	59
Insurance claim .....	—	—	153
Write-back of long outstanding payable balances .....	—	—	440
Loss on sale of marketable securities .....	(156)	—	—
Gain (Loss) on disposal of property, plant and equipment .....	—	392	(160)
Loss on disposal of other assets (Note 8) .....	—	—	(4,166)
Bad debt recovered .....	465	197	—
Rental income .....	—	274	293
Others .....	260	444	358
	<u>1,048</u>	<u>6,451</u>	<u>(1,499)</u>

**ASAT HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**12. Income Taxes**

Income is subject to taxation in the various countries in which the Company and its subsidiaries operate. The income (loss) before income taxes and extraordinary charge by geographical locations was as follows:

	<u>2000</u>	<u>2001</u>	<u>2002</u>
	\$'000	\$'000	\$'000
Hong Kong .....	38,219	34,379	(86,758)
US .....	6,048	4,587	(22,654)
France .....	—	(1,070)	(4,375)
	<u>44,267</u>	<u>37,896</u>	<u>(113,787)</u>

The current and deferred elements of income tax provision (reversal) by geographical location were as follows:

	<u>2000</u>	<u>2001</u>	<u>2002</u>
	\$'000	\$'000	\$'000
Current:			
Hong Kong .....	7,118	48	290
US .....	634	167	255
Deferred:			
Hong Kong .....	1,806	5,135	(11,505)
	<u>9,558</u>	<u>5,350</u>	<u>(10,960)</u>

The components of the net deferred income tax liabilities as of April 30, 2001 and 2002 were as follows:

	<u>2001</u>	<u>2002</u>
	\$'000	\$'000
Temporary differences arising from depreciation and amortization .....	(32,385)	(28,816)
Total deferred tax liabilities .....	(32,385)	(28,816)
Reserves and accruals not currently deductible .....	390	348
Net operating losses carried forward .....	7,124	17,220
Total deferred tax assets .....	7,514	17,568
Less: valuation allowance .....	(1,814)	(3,932)
Net deferred tax liabilities .....	<u>(26,685)</u>	<u>(15,180)</u>

**ASAT HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**12. Income Taxes (Continued)**

The reconciliation of the effective tax rate of the Company to the Hong Kong tax rate (the principal tax jurisdiction of the Company) was as follows:

	<u>2000</u>	<u>2001</u>	<u>2002</u>
Hong Kong tax rate . . . . .	16.0%	16.0%	16.0%
Tax effect of difference in Hong Kong and US taxation rates . . . . .	3.3	0.3	1.4
Effect of loss making companies . . . . .	—	0.5	—
Non-taxable interest income . . . . .	—	(2.2)	0.1
Non-deductible expenses			
Interest expenses . . . . .	3.2	—	—
Loss on investment . . . . .	—	—	(4.0)
Loss on disposal of other assets . . . . .	—	—	(0.7)
Other . . . . .	—	—	(0.5)
Change in valuation allowance . . . . .	(3.7)	(0.4)	(1.9)
Others, net . . . . .	<u>2.8</u>	<u>(0.1)</u>	<u>(0.8)</u>
	<u>21.6%</u>	<u>14.1%</u>	<u>9.6%</u>

As of April 30, 2002, the Company had United States federal net operating loss carryforwards of approximately \$10,540 thousand which expires from 2008 to 2022. The extent to which the loss carryforwards can be used to offset future taxable income to taxes may be limited, depending on the extent of ownership changes within any three-year period as provided by Section 382 of the Internal Revenue Code and applicable California state tax law. It also had for its operations in Hong Kong operating loss carryforwards of \$85,225 thousand, which can be carried forward indefinitely to offset against operating income arising in the future.

**13. Common Stock**

	<u>2001</u>	<u>2002</u>
	<u>\$'000</u>	<u>\$'000</u>
Authorized:		
3,000,000,000 (2001—3,000,000,000) ordinary shares of \$0.01 each . . . . .	<u>30,000</u>	<u>30,000</u>
Issued:		
676,000,000 (2001—676,000,000) ordinary shares of \$0.01 each . . . . .	<u>6,760</u>	<u>6,760</u>
Outstanding:		
668,947,000 (2001—669,727,000) ordinary shares of \$0.01 each . . . . .	<u>6,697</u>	<u>6,689</u>

On July 6, 2000, the Company amended its articles of association to reclassify all shares as ordinary shares and increase its number of authorized shares to 3,000,000 thousand. On July 6, 2000, the Company also authorized a share split in the form of a share dividend of 47 ordinary share for each outstanding ordinary share. The Company's consolidated financial statements have been retroactively adjusted to show the effect of the reclassification and the share dividend for all periods presented.

In January 2001, the Company announced a \$20,000 thousand ADS buyback program. During the years ended April 30, 2001 and 2002, the Company has repurchased 6,273 thousand and 780 thousand ordinary shares at \$5,339 thousand and \$541 thousand respectively.

**ASAT HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**14. Stock Option Plan**

On July 6, 2000, the Company adopted a Share Option Plan under which the Board of Directors may, at their discretion, invite any key officers, employees, consultants and non-employee directors of ASAT to subscribe for its shares up to a maximum of 110,000 thousand ordinary shares of the Company. The Board of Directors will determine which individuals will be granted options, the number of ADS subject to the options, the exercise price for the options, the vesting periods and any other terms that will apply as the Board deems appropriate. The exercise price of all options granted under this plan were equal to or greater than the market value of ADS on the date of grant. No compensation cost was recognized during fiscal 2001 and 2002 under APB No. 25.

Movement of the Company's stock options is as follows:

	<b>2000</b>		<b>2001</b>		<b>2002</b>	
	<u>Number of ADS options</u>	<u>Weighted-average exercise price</u>	<u>Number of ADS options</u>	<u>Weighted-average exercise price</u>	<u>Number of ADS options</u>	<u>Weighted-average exercise price</u>
Outstanding						
Beginning of year . . . . .	—	\$ —	—	\$ —	15,940,355	\$11.39
Granted during the year . . . . .	—	—	17,572,415	11.39	2,372,713	3.98
Exercised during the year . . . . .	—	—	—	—	—	—
Cancelled during the year . . . . .	—	—	(1,632,060)	11.44	(4,829,257)	11.25
Outstanding						
End of year . . . . .	<u>—</u>	\$ —	<u>15,940,355</u>	\$11.39	<u>13,483,811</u>	\$10.13
Exercisable						
End of year . . . . .	<u>—</u>	\$ —	<u>1,416,591</u>	11.92	<u>3,548,822</u>	\$10.60

The options are issued in the following orders during the years ended April 30, 2001 and 2002:

<u>ADS options issuance date</u>	<u>Number of ADS options issued</u>	<u>Exercise price</u>	<u>Vesting period</u>
<b>2001</b>			
July 11, 2000 . . . . .	15,331,013	\$12.00	4 years
September 27, 2000 . . . . .	1,519,302	7.69	1 year
September 27, 2000 . . . . .	338,600	7.69	4 years
November 22, 2000 . . . . .	213,000	5.59	4 years
February 21, 2001 . . . . .	170,500	4.25	4 years
Total . . . . .	<u>17,572,415</u>		
<b>2002</b>			
May 29, 2001 . . . . .	162,000	\$ 5.03	4 years
August 24, 2001 . . . . .	1,846,713	4.31	1 year
August 24, 2001 . . . . .	39,000	4.31	4 years
February 25, 2002 . . . . .	125,000	1.41	3 years
March 4, 2002 . . . . .	200,000	1.63	3 years
Total . . . . .	<u>2,372,713</u>		

**ASAT HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**14. Stock Option Plan (Continued)**

Certain unexercised options were cancelled for option holders who left the Company, either voluntarily or under the reorganization, during the year.

In no circumstances was there a grant of an option to the same individual for whom an option was cancelled.

The options' maximum term is 10 years from the grant date.

The following table summarizes information about stock options issued under the plan described above that are outstanding and exercisable at April 30, 2002:

Range of exercise price	Options outstanding			Options exercisable		
	Number of ADS options	Weighted-average exercise price	Weighted-average contractual life (years)	Number of ADS options	Weighted-average exercise price	Weighted-average contractual life (years)
\$1.41–\$1.63 . . . .	325,000	\$ 1.55	9.83	—	—	—
\$4.31–\$5.59 . . . .	2,181,958	\$ 4.42	9.26	67,600	\$ 4.93	8.83
\$7.69–\$12.00 . . .	10,976,853	\$11.52	8.27	3,481,222	\$10.71	8.30
Total . . . . .	<u>13,483,811</u>	\$10.13	8.47	<u>3,548,822</u>	\$10.60	8.31

Pro-forma information regarding net income (loss) and net income (loss) per share is required by SFAS No. 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of SFAS No. 123. The weighted average fair value of stock options at the date of grant of \$0.84 and \$2.66 per option for the years ended April 30, 2001 and 2002, respectively, were estimated using the Black-Scholes option pricing model with the following assumptions:

	<u>2000</u>	<u>2001</u>	<u>2002</u>
Risk-free interest rate . . . . .	N/A	5%	4.28%
Expected life . . . . .	N/A	4	5
Expected stock volatility . . . . .	N/A	50%	80%
Dividend yield . . . . .	N/A	0%	0%

The Black-Scholes option pricing model requires the input of subjective assumptions, including the expected volatility of stock price. Because changes in subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing model may not necessarily provide a reliable single measure of the fair value of the stock options.

**ASAT HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**14. Stock Option Plan (Continued)**

If the Company had accounted for its stock option plans by recording compensation based on the fair value at grant date for such awards consistent with the method of SFAS No. 123, the Company's net income (loss) and net income (loss) per share would have been increased/reduced to the pro forma amounts as follows:

	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Net income (loss)			
Net income (loss), as reported . . . . .	34,709	19,420	(102,827)
Net income (loss), pro forma . . . . .	—	6,079	(124,898)
Net income (loss) per ordinary share (dollars per share):			
—Basic . . . . .	—	0.03	(0.15)
—Diluted . . . . .	—	0.03	(0.15)
Pro forma net income (loss) per ordinary share (dollars per share):			
—Basic . . . . .	—	0.01	(0.19)
—Diluted . . . . .	—	0.01	(0.19)

**15. Employee Benefit Plan**

The aggregate employers' contributions which have been made were as follows:

	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Employers' contributions . . . . .	554	1,204	1,816

The Company has established a mandatory provident scheme for its Hong Kong employees who did not join the defined contribution plan described below. The assets of the plan are held under provident funds managed by independent trustees. The employees can elect to contribute a fixed amount of an individual employee's monthly basic salary. The employer's contributions are based on 5% of the individual employee's monthly basic salary or at a maximum of approximately \$128 per month.

Also, the Company has a defined contribution plan for its Hong Kong employees. The assets of the plan are also held under provident funds managed by independent trustees. The employees can elect to contribute a fixed percentage from 1% to 5% (in 1% increments) of an individual employee's monthly basic salary. The employer's contributions are based on the percentage of contribution by the employee of the individual employee's monthly basic salary. The employees are entitled to the whole of the employer's contributions and accrued interest thereon after 10 years of complete service or at a reduced scale of 30% to 90%, after completion of 3 to 9 years of service, respectively.

In addition, ASAT, Inc. has a 401(k) plan which covers all employees with six months or more of service. Employees who participate in the plan may contribute a portion of their salaries up to a limit specified by law. The Company's contribution to the plan is made at the discretion of the Board of Directors, whereby the Company's contributions to the plan for the years ended April 30, 2000, 2001 and 2002 were \$397 thousand, \$498 thousand and \$503 thousand respectively.

## ASAT HOLDINGS LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

#### 16. Reorganization

In connection with the Company's cost reduction program, the Board of Directors had approved and terminated the services of approximately 707 and 1,046 employees who served in the manufacturing, sales & marketing and administrative functions for the years ended April 30, 2001 and 2002 respectively. The aggregate amount of the termination benefits charged to the statements of operations, based on offer and acceptance of termination benefits, amounted to \$2,603 thousand and \$2,327 thousand for the years ended April 30, 2001 and 2002 respectively.

#### 17. Write-off in Relation to ASAT S.A.

In October 2001, the Company determined not to fund its subsidiary ASAT S.A. located in Nancy, France as part of the global restructuring program. ASAT S.A. has filed for court protection under French law and is currently operating under the court administration. As a result, the Company has written off its entire investment in ASAT S.A. during the year ended April 30, 2002, resulting in a loss of \$24,285 thousand recorded in the statement of operations.

Such write-off consisted of net assets of ASAT S.A. as of November 20, 2001 of \$14,401 thousand, accrual of \$2,384 thousand for ASAT S.A.'s payables, as well as \$7,500 thousand of machinery, owned by ASAT Limited and earlier transferred to ASAT S.A. for its operations. As of April 30, 2002, the Company's carrying value of its investment in ASAT S.A. is nil. The Company believes the foregoing write-offs and accruals are adequate.

#### 18. Extraordinary Charge on Early Extinguishment of Debt

On July 17, 2000, the Company used a portion of the proceeds of its initial public offering to early repay the \$40,000 thousand secured bank loan and its revolving credit facility outstanding at \$17,000 thousand. On August 23, 2000, the Company used an additional portion of the proceeds to redeem 35% or \$53 million of the outstanding aggregate principal amount of the 12.5 % senior notes due November 2006. As a result of the early repayment, the Company recorded an extraordinary charge of \$13,126 thousand (net of tax effect of \$1,108) for the year ended April 30, 2001.

#### 19. Commitments and Contingencies

##### *Capital expenditure*

As of April 30, 2002, the Company had contracted for capital expenditure on property, plant and equipment of \$1,875 thousand (2001—\$8,405 thousand).

##### *Operating leases*

The Company leases certain land and buildings (see Note 4 for those leased from QPL) and plant and machinery, under operating leases agreements expiring at various time through September 2006, most of these leases do not contain renewal options or escalation clauses. Rental expenses under operating leases for the years ended April 30, 2000, 2001 and 2002 amounted to \$10,830 thousand, \$9,936 thousand and \$5,933 thousand respectively.

**ASAT HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**19. Commitments and Contingencies (Continued)**

Future minimum lease payments under operating leases are as follows:

	<u>\$'000</u>
Year ending April 30:	
2003 .....	4,578
2004 .....	3,456
2005 .....	1,371
2006 .....	71
2007 .....	29
	<u>9,505</u>

*Contingent liabilities*

Hong Kong employees who have served the Company for not less than five years, are entitled to long service payments when their employment is terminated under certain conditions as stated in the Employment Ordinance of Hong Kong. The long service payments are determined on the basis of the number of years of service and final pay, less benefits set aside in the mandatory pension fund. Any liabilities for such post-employment benefits are accrued when they are probable of occurrence. As of April 30, 2002, the contingent liabilities in relation to the long service payment amounted to \$1,477 thousand. No accrual is made as management considers the occurrence of this contingency is remote.

**20. Segment Information**

The Company operates in a single business segment comprising the assembly and testing services of integrated circuits to customers in the semiconductor industry. The Company's net sales are generated from the following geographical locations:

	<u>2000</u> <u>\$'000</u>	<u>2001</u> <u>\$'000</u>	<u>2002</u> <u>\$'000</u>
Hong Kong .....	280,648	311,653	93,178
US .....	204,424	176,662	59,591
France .....	—	3,294	2,356
Transfer between geographic areas .....	<u>(172,941)</u>	<u>(151,373)</u>	<u>(52,717)</u>
Total net sales .....	<u>312,131</u>	<u>340,236</u>	<u>102,408</u>

Intercompany sales between geographic areas were recorded at cost plus a mark-up. Such transfers, including unrealized profits, are eliminated on consolidation.

An analysis of net sales by geographic destination is as follows:

	<u>2000</u>	<u>2001</u>	<u>2002</u>
US .....	63.3%	56.2%	63.2%
Asia (a) .....	19.3%	31.7%	30.3%
Hong Kong .....	15.4%	5.6%	1.8%
Europe .....	2.0%	6.5%	4.7%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

**ASAT HOLDINGS LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**20. Segment Information (Continued)**

The geographical distribution of the Company's identifiable assets are summarized as follows:

	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Hong Kong .....	236,727	293,352	243,754
Asia (a) .....	9,370	9,587	2,929
US .....	37,384	78,661	30,715
France .....	—	21,903	—
	<u>283,481</u>	<u>403,503</u>	<u>277,398</u>

- (a) Asia mainly represents Singapore, the Philippines, Taiwan, Japan, Malaysia, the PRC (excluding Hong Kong) and Korea.

**21. Major Customers**

An analysis of percentage of sales to major customers is as follows:

	<b>2000</b>	<b>2001</b>	<b>2002</b>
Customer:			
A .....	14.8%	5.7%	N/A
B .....	15.7%	14.3%	22.7%
C .....	11.6%	11.9%	12.9%
D .....	9.5%	15.7%	11.3%
E .....	4.9%	11.4%	2.8%
F .....	N/A	N/A	4.6%
G .....	<u>N/A</u>	<u>N/A</u>	<u>3.9%</u>

## GLOSSARY OF SEMICONDUCTOR TERMS

This glossary contains definitions and other terms as they relate to our businesses and as they are used in this report. As such, these definitions may not correspond to standard industry definitions.

Array	A group of items (elements, leads, bonding pads, circuits, etc.) arranged in rows and columns.
BGA	A type of packaging known as ball grid array, where the chip is placed on top of a laminate substrate that has a grid of solder balls underneath connecting the packaged device to a printed circuit board.
Chip	An individual integrated circuit that has not yet been packaged. Also used as a generic term for semiconductor devices.
Chipset	Two or more chips designed to perform as a unit for one or more functions.
Chip scale packages	Any semiconductor package in which the package is no more than 1.2 times the size of the semiconductor chip.
Co-processor	Semiconductor chip that coordinates and controls the operation of a microprocessor.
Deposition	A term applied to growing thin layers wither in a vacuum condensation mode, or via electroplating techniques.
DVD	Digital video disk.
Encapsulation	Enclosing the die in an organic medium either by transfer mold process or glob top techniques.
Ethernet	A widely used type of local area network (LAN).
fpBGA	Fine Pitch Ball Grid Array. A version of a BGA package, mounted on tape substrate, that has a solder ball pitch of less than 1.0 mm.
fxBGA	A new and flexible advanced BGA package that is thinner, has a higher circuit density and improved electrical and thermal performance.
Field programmable logic	A type of semiconductor device which can have its functionality altered via electronic means to conform to a custom application.
Flip chip	Type of BGA package which uses an array of solder bumps on the bottom of the semiconductor chip to connect the chip to the balls on the bottom of the package.
Global Positioning System (GPS)	A system for identifying locations across the planet.
Input/Output	A connector which interconnects the chip to the package or one package level to the next level in the hierarchy. Also referred to as pin out connections or terminals.
Integrated circuit	A combination of two or more transistors on a base material, usually silicon. All semiconductor chips, including memory chips and logic chips, are very complicated integrated circuits with thousands of transistors.
INT-TEP-QFP	A QFP package with an aluminum flag attached to the back of the die paddle to enhance thermal dissipation of the package.

Laminate substrate . . . . .	An organic substrate used for the routing of BGA products between the chip pads and the solder ball pads.
Leadframe . . . . .	A metal frame, connected to the bonding pads of the chip by lead, that provides electrical connection to external points.
Logic device or system . . . . .	A device that contains digital integrated circuits that process, rather than store, information.
LPCC . . . . .	Leadless Plastic Chip Carrier, a leadframe based chip scale package.
Microcontrollers . . . . .	Similar to microprocessor, but dealing with a simpler information set.
Microprocessor . . . . .	A standard circuit design that provides functions similar to central processing units by interpreting and executing instructions, usually incorporating arithmetic capabilities.
Mixed signal products . . . . .	Products that can process both digital and analog data.
Molding . . . . .	Encapsulating the chip, leadframe and wirebondings in molded plastic with leads protruding. The molded plastic is an epoxy based material called "molding compound."
MSL-1 Capability . . . . .	Process technology which allows our leadframe based packages to achieve moisture sensitive level one.
MSP Technology . . . . .	Multi-System in a Package Technology is customer specific technology incorporating multi-functions of a circuit in a single package.
Optical network system . . . . .	A localized network of personal computers that are connected by high frequency fiber optic lines.
PBGA . . . . .	Plastic Ball Grid Array, which is a standard BGA package.
Pitch . . . . .	The center-to-center distance between adjacent leads on a package.
PLCC . . . . .	Plastic Leaded Chip Carrier which is a standard leaded package.
Power management system . . . . .	A class of semiconductor packages that incorporate features to increase the thermal dissipation properties of the package.
Printed circuit board . . . . .	A laminate sheet into which integrated circuits are soldered. Wires on the board connect the circuits with each other, forming a larger functional unit. Printed circuit boards generally are a subsystem within a larger electronic system.
QFP . . . . .	Quad Flat Pack, which is a semiconductor package with leads on all four sides attached to a printed circuit board by surface mounting.
Routers . . . . .	Interconnections between two or more data communications networks.
Servers . . . . .	A centralized computer that either manages a personal computer network or allows decentralized access.
Set-top box . . . . .	An electronic device which sits on top of a television to allow cable and/ or internet access and can be supported either by phone lines or direct satellite access.
Solder ball . . . . .	A tin lead alloy sphere that is attached to a BGA substrate to allow for printed circuit board attachment.

Substrate .....	The underlying material upon which a device, circuit, or epitaxial layer is fabricated, normally a silicon wafer.
Surface mount .....	A circuit board packaging technique in which the leads (pins) on the chips and components are soldered on top of the board.
System controller .....	A high performance semiconductor which is the primary control function provider for complex electronic systems.
TAPP .....	Thin Array Plastic Packaging Technology which provides metallic contacts to the circuit board allowing high density circuitry in a small footprint package.
TBGA .....	Tape Ball Grid Array, which is a BGA package with a more flexible substrate and higher density than conventional plastic packages.
TQFP .....	Thin Quad Flat Package, which is a standard leaded package.
Two Layer TBGA .....	Two level tape process in BGA packaging that doubles the density available in a given area.
Wafer .....	Thin, round, flat piece of silicon that is the base of most integrated circuits.
Wire bonding .....	The method used to attach very fine wire to semiconductor components in order to provide electrical continuity between the semiconductor chip and a terminal.

## **Corporate Information**

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Symbol: ASTT

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### **Legal Counsel**

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### **Annual Meeting**

Friday, August 30, 2002 at 10:00 a.m.  
ASAT Holdings Limited  
Hong Kong

**Board of Directors**

Leonard Perham  
Chairman  
Chief Executive Officer  
Clear Logic, Inc.

Harry R. Rozakis  
Director and Chief Executive Officer  
ASAT Holdings Limited

Tung Lok Li  
Chairman  
QPL International

Andrew Liu  
Chief Executive Officer  
J.P. Morgan Partners Asia

Dan McCranie  
Director

Lawrence S. Miao  
Managing Director  
Olympus Capital Holdings Asia

Tan Boon Seng  
Chairman/Managing Director  
Lee Hing Development Ltd.

Maura Wong  
Partner  
J.P. Morgan Partners Asia

**Senior Management**

Harry R. Rozakis  
Director and Chief Executive Officer

J. Stanley Baumgartner, Jr.  
Senior Vice President and  
Chief Financial Officer

Joseph Martin  
Chief Operating Officer

Neil Mclellan  
Chief Technology Officer

**Internet Address Information**

Visit us online at [www.asat.com](http://www.asat.com) for more information.

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