UTAC

UNITED TEST AND ASSEMBLY CENTER LTD

PROPOSED SELECTIVE CAPITAL REDUCTION EXERCISE AND SHARE BUYBACK MANDATE

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1. INTRODUCTION

The Board of Directors of United Test and Assembly Center Ltd ("**UTAC**" or the "**Company**") wishes to announce that the Company is proposing to undertake the following:

(a) a selective capital reduction exercise (the "**Selective Capital Reduction**") to cancel all of the 36,533,333 ordinary shares of US$0.15 each in the capital of the Company (the "**Shares**"), held by its wholly-owned subsidiary, UTAC (Taiwan) Corporation (formerly known as UltraTera Corporation) ("**UTC**"), representing approximately 2.44% of the issued ordinary share capital of the Company as at 12 August 2005; and

(b) the adoption of a proposed share buyback mandate (the "**Share Buyback Mandate**").

2. DETAILS OF THE SELECTIVE CAPITAL REDUCTION EXERCISE

2.1 Terms

The Company and UTC have on 12 August 2005 entered into a conditional agreement pursuant to which the Company proposed the Selective Capital Reduction to cancel all of the 36,533,333 Shares held by UTC, representing approximately 2.44% of the issued ordinary share capital of the Company as at 12 August 2005.

The Selective Capital Reduction will be effected in accordance with the Companies Act, and pursuant thereto, the Company will cancel all of the 36,533,333 Shares held by UTC and will return to UTC an amount of US$0.3645 (or S$0.595 based on an exchange rate of US$1:S$1.63233) for each Share cancelled, based on the closing market trading price of the Shares traded on the SGX-ST on 1 March 2005.

The following sets out the steps involved in the Selective Capital Reduction:

(1) pursuant to the Selective Capital Reduction, the issued and paid-up ordinary share capital of the Company will be reduced by cancelling all of the 36,533,333 Shares held by UTC and US$5,480,000 (or S$8,945,168 based on an exchange rate of US$1:S$1.63233) of capital will be returned to UTC on the basis of US$0.15 for each Share held by UTC so cancelled; and

(2) the share premium account of the Company will be reduced by an amount of US$7,836,752 (or S$12,792,165 based on an exchange rate of US$1:S$1.63233) and that such reduction be effected by returning US$0.2145 (or S$0.3502 based on an exchange rate of US$1:S$1.63233) to UTC for each Share so cancelled.

2.2 Rationale for the Selective Capital Reduction

The rationale for the Selective Capital Reduction is to eliminate cross holding.

On 29 July 2004, the Company and UTC entered into an amended and restated share swap agreement for the acquisition of all the UTC Shares at an exchange ratio of 1 UTC Share to 1.33 new Shares (the "**UTC Acquisition**").

UTC became a wholly-owned subsidiary of the Company following the completion of the UTC Acquisition on 31 March 2005. Its shareholding in the Company as at completion of the UTC Acquisition amounted to 36,533,333 Shares.

Section 21 of the Companies Act prohibits UTC from being a member of UTAC, its holding company, and requires UTC to dispose of all its Shares within a period of 12 months after becoming UTAC's subsidiary, that is, by 30 March 2006. Further, under Section 21 of the Companies Act, upon UTC becoming a subsidiary of the Company on 31 March 2005, UTC is also no longer entitled to exercise the voting rights attached to the Shares which UTC holds. The Directors believe that the Selective Capital Reduction is the most appropriate mechanism through which UTC's shareholding in the Company can be eliminated, so as to achieve a shareholding structure of the Company which is compliant with Section 21 of the Companies Act.

In contrast to a sale of the Shares held by UTC, the Selective Capital Reduction will not result in a dilution in the Group's basic earnings per Share ("**EPS**") as the 36,533,333 Shares had been treated as treasury shares for accounting purposes at the completion of the UTC Acquisition on 31 March 2005, and had not formed part of the Company's public float. However, in a sale of the Shares held by UTC, the Company's public float would be enlarged by the 36,533,333 Shares, with a resultant dilutive effect on the Group's basic EPS.

3. DETAILS OF THE PROPOSED SHARE BUYBACK MANDATE

Approval is being sought from Shareholders at the extraordinary general meeting of the Company ("**EGM**") for the adoption of a general and unconditional Share Buyback Mandate for the purchase by the Company of its issued Shares. If approved, the Share Buyback Mandate will take effect from the date of the EGM and continue in force until the date of the next Annual General Meeting ("**AGM**") or such date as the next AGM is required by law to be held, unless prior thereto, share buybacks are carried out to the full extent mandated or the Share Buyback Mandate is revoked or varied by the Company in general meeting. The Share Buyback Mandate may be put to Shareholders for renewal at each subsequent AGM.

The Directors constantly seek to increase Shareholders' value and to improve, *inter alia*, the return on equity of the Company and its subsidiaries (the "**Group**"). A share buyback at the appropriate price level is one of the ways through which the return on equity of the Group may be enhanced. Share buybacks provide the Company with a mechanism to facilitate the return of surplus cash over and above its ordinary capital requirements, in an expedient and cost-efficient manner. It will also provide the Directors with greater flexibility over the Company's share capital structure with a view to enhancing the earnings and/or net asset value per share. The Directors further believe that share buybacks by the Company will help mitigate short-term market volatility, offset the effects of short-term speculation and bolster shareholder confidence.

If and when circumstances permit, the Directors will decide whether to effect the share purchases *via* market purchases or off-market purchases, after taking into account the amount of surplus cash available, the prevailing market conditions and the most cost-effective and efficient approach. The Directors do not propose to carry out purchases pursuant to the Share Buyback Mandate to such an extent that would, or in circumstances that might, result in a material adverse effect on the financial position of the Group.

4. FINANCIAL EFFECTS

4.1 The Selective Capital Reduction

The Selective Capital Reduction will not have any effect on the net tangible asset value per Share, EPS and gearing of the Group.

4.2 The Share Buyback Mandate

The Directors do not propose to exercise the Share Buyback Mandate to such an extent that it would have a material adverse effect on the working capital requirements of the Group. The purchase of the Shares will only be effected after considering relevant factors such as the working capital requirement, availability of financial resources, the expansion and investment plans of the Group, and the prevailing market conditions. The Share Buyback Mandate will be exercised with a view to enhance the earnings and/or net tangible assets value per Share of the Group.

5. CONDITIONS OF THE PROPOSED TRANSACTIONS

5.1 The Selective Capital Reduction

The Selective Capital Reduction is subject to, among others, the following:

(a) the passing of the special resolution of the Shareholders at the EGM to be held at a later date;

(b) the approval and confirmation of the High Court of the Republic of Singapore for the Selective Capital Reduction; and

(c) all other regulatory approvals and consents as may be required being obtained.

5.2 The Share Buyback Mandate

The Share Buyback Mandate is conditional upon the approval of the Shareholders at the EGM.

6. GENERAL

A circular to Shareholders, together with the notice of the EGM, to seek Shareholders' approval for the Selective Capital Reduction and the Share Buyback Mandate, will be despatched to Shareholders in due course.

BY ORDER OF THE BOARD

Lareina Yap Chu Han
Company Secretary

Singapore, 12 August 2005