Compal Electronics, Inc.

(incorporated as a company limited by shares in Taiwan, the Republic of China)

24,000,000 Global Depositary Shares
Representing
120,000,000 Common Shares
(par value NT$10 per share)

The GDSs in the form of International GDSs are being offered hereby by the Purchasers outside the United States to non-U.S. persons in reliance on Regulation S under the United States Securities Act of 1933, as amended. In addition to the offering outside the United States, certain of the Purchasers, through their respective selling agents, are concurrently offering GDSs in the form of Rule 144A GDSs in the United States to qualified institutional buyers as defined in Rule 144A under the Securities Act. Each GDS will represent five Common Shares. The GDSs are not being offered in the Republic of China. Compal Electronics, Inc. is offering 20,000,000 GDSs, and Kinpo Electronics, Inc., Panpal Technology Corp. and Gempal Technology Corp. are offering 1,700,000 GDSs, 1,400,000 GDSs and 900,000 GDSs, respectively.

The International GDSs will be evidenced by a Master International GDR deposited with a custodian for and registered in the nominee name of a common depositary for Euroclear and Clearstream, Luxembourg. Except as described herein, beneficial interests in the Master International GDR will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their respective account holders.

The Common Shares are listed on the Taiwan Stock Exchange. The closing price per Common Share on the Taiwan Stock Exchange on May 15, 2001 was NT$42.70 (equivalent to U.S.$1.30 at the NT Dollar/U.S. Dollar exchange rate of NT$32.95=U.S.$1.00 based on the Federal Reserve Bank of New York noon buying rate for May 15, 2001). GDSs are listed on the Luxembourg Stock Exchange and traded on the International Order Book System of the London Stock Exchange. The closing price per GDS on May 15, 2001 was U.S.$6.50.

Application has been made to list the International GDSs being offered hereby on the Luxembourg Stock Exchange. For a period of three months following the initial delivery of the GDSs being offered hereby, such GDSs will not be fungible with any outstanding GDSs of the Company. See "Description of the Global Depositary Receipts—Deposit and Withdrawal".

See "Risk Factors" on page 17 for a discussion of certain factors to be considered in connection with an investment in the GDSs.

Offering Price: U.S.$6.07 per GDS

To the extent that the Purchasers sell more than 24,000,000 GDSs, the Purchasers have the option, exercisable until June 15, 2001, to purchase up to an additional 2,000,000 GDSs from Kinpo Electronics, Inc., 1,600,000 GDSs from Panpal Technology Corp. and 1,200,000 GDSs from Gempal Technology Corp. at the offering price less the underwriting discount.

The Purchasers expect to deliver the International GDSs being offered hereby through the facilities of Euroclear and Clearstream, Luxembourg against payment on May 21, 2001.

Global Coordinator

Goldman Sachs International

Goldman Sachs International

ABN AMRO Rothschild

Grand Cathay Securities Corporation **Indosuez W.I. Carr Securities**

Offering Circular dated May 16, 2001.

The Global Depositary Shares ("GDSs"), each representing five common shares, par value NT$10 per common share (the "Common Shares"), of Compal Electronics, Inc. ("Compal" or the "Company") and the Common Shares represented thereby have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), for offer or sale as part of their distribution and, subject to certain exceptions, may not be offered or sold in the United States or to U.S. persons. The GDSs offered hereby and the Common Shares represented thereby are not transferable except in accordance with the restrictions described herein. See "Description of the Global Depositary Receipts", "Form of GDRs and Transfer Restrictions" and "Underwriting".

No person has been authorized to give any information or to make any representations other than those contained in this Offering Circular, and, if given or made, such information or representations must not be relied upon as having been authorized. This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates or an offer to sell or the solicitation of an offer to buy such securities by any person in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Offering Circular nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

The distribution of this Offering Circular and the offering and sale of the GDSs and the Common Shares represented thereby in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Company and the Purchasers named in this Offering Circular to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on the offering and sale of the GDSs and the Common Shares, see "Underwriting".

There are restrictions on the offer and sale of the International GDSs and the Common Shares represented thereby in the United Kingdom. All applicable provisions of the Financial Services Act 1986 of Great Britain and the Public Offers of Securities Regulations 1995 with respect to anything done by any person in relation to the International GDSs in, from or otherwise involving the United Kingdom must be complied with. See "Underwriting".

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IN CONNECTION WITH THIS OFFERING, GOLDMAN SACHS INTERNATIONAL MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE GDSs AND THE COMMON SHARES AT A LEVEL WHICH MIGHT NOT OTHERWISE PREVAIL. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CERTAIN DEFINED TERMS, CONVENTIONS AND CURRENCY OF PRESENTATION

Except where the context otherwise requires, all references herein to "Compal" or the "Company" are references to Compal Electronics, Inc. and, where appropriate, Compal Electronics, Inc. and its subsidiaries. All references herein to "Taiwan" or the "ROC" are to the island of Taiwan and other areas under the effective control of the Republic of China. All references herein to the "ROC Government" or the "ROC Company Law" are references to the government of the Republic of China and the Company Law of the Republic of China, respectively. All references herein to "ROC GAAP" and "U.S. GAAP" are to accounting principles generally accepted in the ROC and the United States, respectively. All references herein to "China" or the "PRC" are to the People's Republic of China.

In this Offering Circular, (a) the International Deposit Agreement dated October 19, 2000 among the Company, The Bank of New York, as depositary (the "Depositary") and the owners and beneficial owners of global depositary receipts issued thereunder, as amended by a letter agreement thereto to be dated as of May 21, 2001, is referred to as the "International Deposit Agreement," and the Rule 144A Deposit Agreement dated October 19, 2000 among the Company, the Depositary and the owners and beneficial owners of global depositary receipts issued thereunder, as amended by a letter agreement thereto to be dated as of May 21, 2001, is referred to as the "Rule 144A Deposit Agreement," which together with the International Deposit Agreement are referred to as the "Deposit Agreements", (b) the global depositary shares issued under the International Deposit Agreement (the "International GDSs") and the global depositary shares issued under the Rule 144A Deposit Agreement (the "Rule 144A GDSs") are collectively referred to as the "Global Depositary Shares" or the "GDSs", (c) the global depositary receipts evidencing the International GDSs (the "International GDRs") and the global depositary receipts evidencing the Rule 144A GDSs (the "Rule 144A GDRs") are collectively referred to as the "Global Depositary Receipts" or the "GDRs" and (d) the common shares, par value NT$10 per share, of the Company are referred to herein as the "Common Shares".

The Company publishes its financial statements in New Taiwan dollars, the lawful currency of the ROC. All references herein to "United States Dollars", "U.S. Dollars" and "U.S.$" are to United States dollars and references to "New Taiwan Dollars", "NT Dollars" and "NT$" are to New Taiwan dollars. All translations from New Taiwan Dollars to United States Dollars were made (unless otherwise indicated) on the basis of the noon buying rate in The City of New York for cable transfers in NT Dollars per U.S. Dollar as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate") (i) on December 29, 2000 of NT$33.17 = U.S.$1.00 with respect to the financial information as at or for the year ended December 31, 2000 or (ii) on March 30, 2001 of NT$32.85 = U.S.$1.00 with respect to the financial information as at or for the three months ended March 31, 2001 and all other U.S. Dollar amounts included herein. On May 15, 2001, the Noon Buying Rate between New Taiwan Dollars and United States Dollars was NT$32.95 = U.S.$1.00. See "Exchange Rates". All amounts translated into United States Dollars as described above are provided solely for the convenience of the reader, and no representation is made that the NT$ or U.S.$ amounts referred to herein could have been or could be converted into U.S.$ or NT$, as the case may be, at any particular rate, the above rates or at all.

SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial statements appearing elsewhere herein. Except as otherwise indicated, all financial information set forth herein with respect to the Company has been presented in New Taiwan Dollars in conformity with ROC GAAP.

Compal Electronics, Inc.

The Company is a leading manufacturer of notebook personal computer systems ("notebook PCs") and display monitors, including cathode ray tube ("CRT") monitors and liquid crystal display ("LCD") monitors. The Company also manufactures peripherals, accessories and spare parts primarily for notebook PCs and, beginning in 2000, the Company began manufacturing wireless handsets using global system for mobile communication ("GSM") and code division multiple access ("CDMA") technologies. The Company believes it is one of the three largest producers of notebook PCs among Taiwanese companies. In 2000, Taiwanese notebook PC manufacturers supplied approximately 52.5% of the notebook PCs sold in the world, according to the Market Intelligence Center ("MIC"). Taiwan is projected to supply 56.3% of the world's production of notebook PCs for the year 2001 according to MIC. Worldwide shipment of portable PCs is projected by International Data Corporation ("IDC") to grow from approximately 19.9 million units in 1999 to 30.3 million units in 2001. The Company also manufactures information appliance products ("IAs") such as personal digital assistants ("PDAs") and pocket PCs.

With the trend away from integration of computer manufacturing, leading personal computer ("PC") vendors have increasingly outsourced their manufacturing in order to reduce costs, respond more quickly to customer needs and changes in product cycles and focus on building their brands. The Company has been a major beneficiary of this outsourcing trend. The Company mainly sells its products to customers in the United States, Europe and Asia on an original design manufacturing ("ODM") or original equipment manufacturing ("OEM") basis. The Company's major customers include Dell Products L.P. ("Dell"), Toshiba Corp. ("Toshiba"), Hewlett-Packard Company ("Hewlett-Packard"), Compaq Computer Corp. ("Compaq"), Fujitsu PC Corp. ("Fujitsu"), NEC-Mitsubishi Electric Visual Systems Corp. ("NEC") and Hitachi, Ltd. ("Hitachi"). The Company also sells CRT monitors under its own brand names, "Sceptre" and "Komodo", through its affiliate in the United States.

The Company has strategically expanded its product range to include IAs and wireless handsets to take advantage of the growing wireless market and to leverage the Company's manufacturing and research and development ("R&D") capabilities. According to IDC, the number of wireless users globally is projected to reach 1,081 million by 2003, with demand for mobile phones projected to reach 539 million units in 2003. The Company has a 58% interest in Compal Communications, Inc. ("Compal Communications"), a company that manufactures GSM handsets. The Company, pursuant to an agreement with Compal Communications, began manufacturing and shipping GSM handsets to Compal Communications in June 2000. In addition, the Company plans to produce GSM handsets for its own sale to ODM/OEM customers. The Company also plans to commence commercial manufacture and shipment of CDMA handsets during the third quarter of 2001. The Company develops and produces IAs, such as PDAs and pocket PCs, through its subsidiary Palmax Technology Co., Ltd. ("Palmax") in which the Company holds a 63% interest. On April 3, 2001, the Company and Palmax entered into a merger agreement. The Company expects that the merger with Palmax will occur in the second half of 2001.

In addition, the Company, in association with Kinpo Electronics, Inc. ("Kinpo"), Uni-President Group and Teco Electric & Machinery Co., Ltd. ("Teco") has established a joint venture company, Toppoly Optoelectronics Corp. ("Toppoly"), to engage in the development and production of low-temperature poly-silicon thin film transistor liquid crystal display ("LTPS TFT LCD") panels. These panels are expected to be used primarily in IAs and wireless handsets. The Company began construction of a facility in Taiwan to manufacture LTPS TFT LCD panels in February 2001 and expects production to commence in the second half of 2002.

For the year ended December 31, 2000, the Company had total consolidated net sales of NT$75.5 billion (U.S.$2.3 billion), with net sales of notebook PCs, CRT monitors, LCD monitors, peripherals, accessories and spare parts, and wireless handsets accounting for 67.9%, 15.1%, 5.2%, 11.7% and 0.1%, respectively, of total consolidated net sales. The Company's fiscal 2000 consolidated net sales represented a 59.6% increase over fiscal 1999 consolidated net sales of NT$47.3 billion. For the three months ended March 31, 2001, the Company had total non-consolidated net sales of NT$16.1 billion (U.S.$488.6 million), with net sales of notebook PCs, CRT monitors, LCD monitors and peripherals, accessories and spare parts accounting for 65.9%, 14.1%, 13.4% and 6.6%, respectively, of total non-consolidated net sales. Total non-consolidated net sales for the three months ended March 31, 2001 represented a 1.8% increase over total non-consolidated net sales for the three months ended March 31, 2000 of NT$15.8 billion.

The Company manufactures products in two plants in Taiwan and two plants in China. The two Taiwan production plants, both located in Pincheng, Taoyuan County, have the combined capacity to produce approximately 300,000 notebook PCs and 60,000 LCD monitors per month. In addition, the Company, together with Compal Communications, currently has the capacity to produce 150,000 GSM and CDMA handsets per month. The plants in China, both located in Kunshan, Jiangsu Province, have the capacity to produce approximately 600,000 CRT monitors per month. The Company recently completed construction of a third plant at the same site in Kunshan which, once equipped, may be used, among other things, to expand the Company's production capacity of CRT monitors in China. The Company also plans to shift some of its notebook PC production capability to China, should ROC government investment restrictions which currently prohibit Taiwanese manufacturers from producing notebook PCs in China be removed.

The Company's Common Shares have been listed on the Taiwan Stock Exchange since 1992 and the GDSs have been listed on the Luxembourg Stock Exchange since 1999. As of May 15, 2001, the Company had a market capitalization of approximately NT$84.37 billion (U.S.$2.56 billion).

The Company is a Taiwan registered company. Its registered office is located at 7th Floor, 319 Pateh Road, Section 4, Taipei, (105) Taiwan, ROC.

Strategy

The Company's primary objective is to enhance its position as one of the world's leading manufacturers of notebook PCs and CRT and LCD monitors while leveraging its strengths in its current businesses to diversify into wireless products and information appliances. The key components of the Company's strategy are as follows:

Be the ODM/OEM Manufacturing Partner of Choice in the Global Branded PC, Information Appliance and Wireless Industries

The Company's strategy is to be the manufacturing partner of choice for leading global branded PC, IA and wireless companies. Changing dynamics in such global markets are driving PC, IA and wireless companies to embrace a business model dependent upon ODM/OEM manufacturing companies' services and products. As an ODM/OEM manufacturer, the Company offers its customers an ability to design and produce high quality, high volume and low-cost customized notebook PCs, displays, IA products and wireless handsets with quick turn-around times. The Company is focused on continually improving its products and services in order to deliver even better design, manufacturing, production, fulfillment and after-sales services. The Company is also developing its production capacity which, when coupled with its management experience, will give it the ability to scale production quickly to meet large demand.

Foster Product Innovation and Improve Product Quality through R&D

The Company works closely with its customers to design and develop high-quality products that can be manufactured quickly and cost-effectively. The Company will continue to place strong emphasis on building a high-quality R&D team to design products suitable for immediate sale by customers and to enable the Company to move quickly in creating new products based on customer specifications.

Expand Relationships with Existing Customers and Diversify Customer Base

One of the Company's core aims is to build integrated relationships with its customers, from the design stage to after-sales service. The Company currently assigns a cross-department team to each key customer in order to develop an in-depth understanding of the specifications, testing, quality, logistics and inventory management needs of such customer. The Company plans to continue to develop its working relationships with its customers to strengthen its ties to customers, increase their switching costs and create competitive barriers to entry. The Company intends to increase its marketing efforts in order to broaden its existing customer relationships and build new relationships with other leading PC, IA and wireless companies. The Company also plans to maintain a diversified customer mix, in particular focusing on the outsourcing trend in Japan.

Capitalize on Opportunities Created by the Growing Wireless Market

The Company has entered the rapidly expanding global wireless market, and aims to leverage its technological and manufacturing expertise as well as its existing relationships with suppliers and customers to become a significant manufacturer of wireless and IA products. The Company believes that, by utilizing its expertise in portable electronics products, it is well-positioned to diversify into other electronics devices, such as IAs, GSM handsets and CDMA handsets, and to respond to future demand for new products combining wireless and computing functions as personal communications and computing technologies converge.

Expand China Production and R&D Base for Greater Competitive Advantage

With more of its key customers establishing production and marketing facilities in China, the Company aims to shorten its supply chain by utilizing its production capabilities in China to manufacture products at lower costs and to ship its products directly to the customers' factories or outlets in China. Currently, the Company manufactures all of its CRT monitors in its facilities in China. In addition, the Company plans to shift some of its notebook PC manufacturing capability to China should ROC restrictions on computer manufacturing in China be removed. The Company estimates that it could have a notebook PC production capacity in China of 150,000 units per month by the end of 2001 if such restrictions were removed. The Company believes that in connection with China's expected entry into the World Trade Organization, more leading PC, IA and wireless companies will establish operations in China and seek partnership with companies that can effectively supply and provide service in China. The Company plans to further support operations in China by opening a new R&D center in Kunshan in 2001. The new R&D center will engage in software and product development for entry-level products.

Build a Customer-Focused Global Logistics and Fulfillment Network

The leading notebook PC and desktop PC vendors have increasingly required ODM/OEM suppliers to provide global fulfillment and support networks so that such vendors can respond to market demand quickly and reduce their inventory risk. The Company's strategy is to offer clients the ability to ship and service products in Asia, Europe and the United States on a timely and cost-effective basis.

Develop Toppoly into a Major Manufacturer of LTPS TFT LCD Panels

The Company has a 33.1% interest in Toppoly, a joint venture company established to develop and manufacture LTPS TFT LCD panels. The Company's goal is for Toppoly to become a major manufacturer of LTPS TFT LCD panels to supply what the Company believes will be a growing market for such panels and to supply such panels for use in IAs and wireless handsets produced by the Company. LTPS TFT LCD panels are generally lighter, consume less power and produce clearer and brighter images than amorphous-silicon TFT LCD panels currently in wide use. The Company believes that when Toppoly begins producing such panels in the second half of 2002, LTPS TFT LCD panels will be in high demand due to their superior quality and the rapidly growing market for IAs and wireless handsets. In addition to supplying the global market for such panels, Toppoly is expected to enable the Company to source such panels for use in the Company's IAs and cellular handsets. The Company believes that the high quality of LTPS TFT LCD panels will give the Company's IAs and wireless handsets an advantage over competing products using amorphous silicon TFT LCD panels.

Competitive Strengths

With its design and manufacturing capability and service infrastructure, the Company believes that it is well-positioned to capitalize on the growth in the PC, IA and wireless sectors, outsourcing by leading global branded PC, IA and wireless companies and the growth of the customers it targets.

Proven Design and Manufacturing Track Record

The Company has assembled a high-quality R&D team to work hand in hand with some of the world's largest PC, IA and wireless vendors. The Company has also developed cost-effective and quality controlled manufacturing processes and facilities. The design for excellence ("DFx") project management program developed by the Company further streamlines its processes and reduces costs by, among other things, integrating the Company's R&D development work with its manufacturing process. The Company has manufactured products for its major customers which have won numerous awards.

High-Quality Customer Base Driving Future Growth

The Company's customers include many of the leading global PC vendors: Dell, Toshiba, Hewlett-Packard and Fujitsu for notebook PCs; Compaq, Hitachi and NEC for CRT monitors; and NEC, Compaq, Dell, Toshiba and Siemens PC System GMBH & Co. ("Siemens") for LCD monitors. The Company is continually taking steps to strengthen its close, strategic relationships with these customers as these customers represent an increasing share in the PC market due to ongoing consolidation of notebook PC sales among the leading vendors.

Depth of Customer Relationships Increases Switching Costs and Barriers to Entry

The Company provides its customers with leading design capabilities, a reliable supply of key components, high-quality and innovative products, scalable manufacturing facilities, a strategically-placed logistics and fulfillment network and convenient after-sales services. In addition, the Company assigns to each key customer a cross-functional team to ensure that these goods and services are designed, manufactured and delivered with high efficiency and consistency. The Company believes that the integration of its personnel and its design and manufacturing system with those of the customers has provided the Company with a sophisticated, in-depth understanding of its customers and their needs, creating competitive advantages by making it more costly for customers to switch to new manufacturing partners.

Value Added R&D Expertise

The Company believes that one of its significant competitive strengths is the quality of its R&D department, currently comprising 627 engineers, with in-depth experience in the computer manufacturing sector. The Company believes the effectiveness of its R&D department, due in large part to its close interaction with its other departments, has enabled the Company to reduce the time it takes to design and bring to market high-quality and high-performance products using advanced technology at a lower cost. The Company continues to focus on building R&D capabilities for its new businesses.

Competitive Cost Structure Due to Economies of Scale and Effective Cost Management

The Company enjoys economies of scale in its design and manufacturing process, customer service and sourcing of raw materials and components. Since many of the Company's products use a substantial number of the same materials and components, the Company has greater leverage in negotiations with key suppliers. Moreover, the Company's production facilities in China enhance the Company's ability to ramp up its total production capacity at relatively low cost. The Company will also be able to supply its key customers directly from its China plants, as these customers establish production and marketing facilities in China. In addition, the Company's suppliers of key components have been expanding their production infrastructure in China, allowing the Company to manage its supplies and costs more effectively.

Scalability Supporting Further Expansion in the PC, IA and Wireless Markets

The Company believes that consolidation in the PC, IA and wireless industries, coupled with the current trend towards increased outsourcing, will drive these vendors to identify and build closer relationships with partners, such as the Company, who have the ability to scale production rapidly to meet their growing needs.

The Offering

Issuer	Compal Electronics, Inc.
The Offering	The International GDSs are being offered by the Purchasers outside the United States in reliance on Regulation S under the Securities Act. The Rule 144A GDSs are being offered concurrently in the United States by certain of the Purchasers through their respective selling agents to qualified institutional buyers (as defined in Rule 144A).
Price per GDS	U.S.$6.07.
GDSs	Each GDS will represent five Common Shares. The GDSs are evidenced by the GDRs. See "Description of the Global Depositary Receipts".
Selling Shareholders	Kinpo, Panpal Technology Corp. ("Panpal") and Gempal Technology Corp. ("Gempal", and together with Kinpo and Panpal, the "Selling Shareholders"). Kinpo is the largest shareholder of the Company, holding 5.9% of the Company's share capital as of May 13, 2001, and the Company is also the largest shareholder of Kinpo, holding 10.4% of Kinpo's share capital as of May 14, 2001. See "Principal Shareholders". Panpal and Gempal are both 99.99%-owned subsidiaries of Compal. As of May 13, 2001, Kinpo owned 115,450,687 Common Shares, or approximately 5.8% of the outstanding Common Shares. Panpal owned 37,299,143 Common Shares, or approximately 1.9% of the outstanding Common Shares, and Gempal owned 28,005,730 Common Shares, or approximately 1.4% of the outstanding Common Shares. Kinpo is offering 8,500,000 Common Shares in the form of 1,700,000 GDSs, Panpal is offering 7,000,000 Common Shares in the form of 1,400,000 GDSs, and Gempal is offering 4,500,000 Common Shares in the form of 900,000 GDSs in the Offering.
Over-allotment Option	Kinpo, Panpal and Gempal have granted to the Purchasers an option, exercisable within 30 days from the date hereof, to purchase up to an additional 2,000,000 GDSs, 1,600,000 GDSs and 1,200,000 GDSs, respectively, representing 10,000,000 Common Shares, 8,000,000 Common Shares and 6,000,000 Common Shares, respectively, solely to cover over-allotments, if any. Assuming the Purchasers' over-allotment option is exercised in full, Kinpo will own approximately 4.7%, Panpal will own approximately 1.1%, and Gempal will own approximately 0.8% of the outstanding Common Shares following the Offering. See "Underwriting".
Total Common Shares Outstanding prior to and after the Offering	As of May 14, 2001 (and excluding any Common Shares or GDSs which may be issued in connection with conversions of the SIZeS described below) there were 1,978,418,352 Common Shares outstanding, including 48,659,280 Common Shares in the form of GDSs. Immediately after the Offering

(assuming the Purchasers' over-allotment option is exercised in full and excluding any Common Shares or GDSs which may be issued in connection with conversions of the SIZeS described below) there will be 2,078,418,352 Common Shares outstanding, including 192,659,280 Common Shares in the form of GDSs or temporary GDSs representing Common Shares or a Certificate of Payment evidencing the right to receive such Common Shares.

Listing . . . . Application has been made to list the International GDSs offered hereby on the Société de la Bourse de Luxembourg, S.A. (the "Luxembourg Stock Exchange"). Application has been made to have the Rule 144A GDSs offered hereby designated for trading in the PORTAL Market of the Nasdaq Stock Market Inc. (the "PORTAL Market"). The GDSs offered hereby will initially be issued in the form of temporary GDSs, and such temporary GDSs will not be listed on any stock exchange. A filing will be made to list the Common Shares represented by the GDSs offered hereby on the Taiwan Stock Exchange.

Trading Market for Common Shares and the GDSs . . . . The only trading market for the Common Shares is the Taiwan Stock Exchange. The Common Shares have been listed on the Taiwan Stock Exchange since 1992. International GDSs are listed on the Luxembourg Stock Exchange, and traded on the International Order Book System of the London Stock Exchange.

Issue of Additional GDSs . . . . Under current ROC law and the Deposit Agreements, additional GDSs may be issued only in connection with (i) dividends on or free distributions of Common Shares, (ii) the exercise by holders of their pre-emptive rights in connection with rights offerings and (iii) transfers between the depositary facility for the Rule 144A GDSs and the depositary facility for the International GDSs. In addition, to the extent that previously issued GDSs have been cancelled and the Common Shares represented thereby have been sold on the Taiwan Stock Exchange, additional GDSs may be issued without specific ROC regulatory approval, provided that the aggregate number of outstanding GDSs after such issuance does not exceed the total number of issued GDSs originally approved by the ROC Securities and Futures Commission plus any GDSs created pursuant to the previous sentence (subject to any adjustment in the number of Common Shares represented by each GDS). See "Description of the Global Depositary Receipts—Deposit and Withdrawal".

In October 2000, the Company issued US$148,000,000 principal amount of Stock Indexed Zero Coupon Securities due

2005 ("SIZeS") which may be converted at any time (subject to certain restrictions) into Common Shares. Subject to compliance with certain conditions, converting holders may elect to receive Common Shares or direct that the Common Shares issuable upon conversion be deposited with the Depositary for issuance of GDSs representing Common Shares. As of May 15, 2001 the Company had outstanding U.S.$144,900,000 principal amount of SIZeS. As of May 15, 2001, SIZeS could be converted into Common Shares deliverable in the form of GDSs at a conversion price of NT$38.077 per Common Share.

Voting Rights .... Holders of GDSs may control the exercise of voting rights with respect to the underlying Common Shares only in the manner provided in the applicable Deposit Agreement. See "Risk Factors—Risks Relating to Ownership of the GDSs—Holders of GDSs will have limited voting rights" and "Description of the Global Depositary Receipts—Voting of Deposited Securities".

Form and Denomination .... The initial deposits of Common Shares in connection with the Offering will be made (i) in the case of the Common Shares to be issued and sold by the Company, by the delivery to the Custodian of the Certificate of Payment (as defined in "Description of the Global Depositary Receipts") evidencing the right to receive the physical share certificates evidencing the Common Shares offered by the Company, and (ii) in the case of the Common Shares to be sold and deposited by the Selling Shareholders, by or on behalf of the Selling Shareholders by the delivery to the Custodian of the physical share certificates representing the Common Shares offered by the Selling Shareholders, in each case registered in the name of the Depositary's nominee. Upon receipt by the Custodian of the Certificate of Payment, and certificates representing the Common Shares being sold by the Selling Shareholders, the Depositary shall execute and deliver the Master Rule 144A GDR evidencing the Rule 144A GDSs to The Depository Trust Company ("DTC") and the Master International GDR evidencing the International GDSs to a common depository for the Euroclear system ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). Except as described herein, (i) beneficial interests in the Master Rule 144A GDR will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants and (ii) beneficial interests in the Master International GDR will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their respective accountholders.

The Company and Depositary have agreed that (i) the Rule 144A GDSs offered hereby will be issued as a separate temporary class of Rule 144A GDSs and will be consolidated with any other Rule 144A GDSs that are not temporary Rule 144A GDSs three months after they are issued or when the Custodian has received certificates for the underlying Common Shares, whichever is later and (ii) the International GDSs offered hereby will be issued as a separate temporary class of International GDSs and will be consolidated with the outstanding International GDSs listed on the Luxembourg Stock Exchange that are not temporary International GDSs three months after they are issued or when the Custodian has received certificates for the underlying Common Shares, whichever is later.

Sale or Withdrawal of Common Shares .... During the three month period following the closing of the Offering, a holder of GDSs being offered hereby may not withdraw and hold Common Shares represented by such GDSs or have such Common Shares sold on its behalf on the Taiwan Stock Exchange. After such three month period, a holder of GDSs being offered hereby may withdraw and hold the Common Shares represented by such GDSs or request the Depositary to sell or cause to be sold on behalf of such holder the Common Shares represented by such GDSs on the Taiwan Stock Exchange (in each case, upon surrender of the GDSs at the corporate trust office of the Depositary and upon payment of any fees, expenses, taxes or governmental charges and the completion and delivery by the holder to the Depositary of a certificate as provided in the applicable Deposit Agreement), provided that the Custodian has received physical share certificates in respect of the Common Shares to be withdrawn or sold. Under the ROC Securities and Exchange Law and applicable regulations, the Company is required to deliver the physical share certificates representing the Common Shares to the Custodian within 30 days after receiving approval from the relevant governmental authority of the Company's corporate amendment registration. The Company is required under the ROC Company Law to file an amendment to its corporate registration within 15 days after receiving the proceeds from the Offering. The Company has agreed in the Purchase Agreement relating to the GDSs being offered hereby to issue and deliver the physical share certificates in respect of the Certificate of Payment initially deposited in connection with this Offering no later than three months after the initial delivery of the GDSs.

Dividends .... On April 3, 2001, the Company's shareholders approved a cash dividend of NT$0.5 per Common Share, to be paid on June 6, 2001, and a stock dividend of NT$2.5 per Common

Share (i.e., one new additional Common Share of NT$10 par value for each four outstanding Common Shares of NT$10 par value), expected to be distributed in June or July 2001, in each case to holders of record on May 13, 2001. Because purchasers of the GDSs being offered hereby, or the Depositary, were not the holders of record of the Common Shares underlying such GDSs on May 13, 2001, the purchasers of the GDSs being offered hereby will not be entitled to such cash and stock dividends expected to be paid and distributed in June or July 2001. However, for years subsequent to 2001, holders of GDSs will be entitled to receive dividends, subject to the terms of the applicable Deposit Agreement, to the same extent as the holders of Common Shares, less the fees and expenses payable under such Deposit Agreement and any ROC tax applicable to such dividends. Cash dividends on the Common Shares, if any, will be paid in NT Dollars and, subject to any restrictions imposed by ROC law, regulations or applicable permits, will be converted into U.S. Dollars by the Depositary in the manner provided in the applicable Deposit Agreement and distributed to holders of GDSs. See "Dividends and Dividend Policy", "Description of the Global Depositary Receipts—Dividends, Other Distributions and Rights" and "Taxation—ROC Taxation—Dividends".

ROC Taxation .... Dividends (whether in cash or Common Shares) declared by the Company out of retained earnings and distributed to a Non-ROC Holder (as defined in "Taxation—ROC Taxation") in respect of Common Shares represented by GDSs are subject to ROC income tax. The current rate of withholding tax is 20% for Non-ROC Holders on the amount of the distribution (in the case of cash dividends) or on the par value of the shares (in the case of stock dividends). The 20% withholding tax can be reduced proportionately to the extent a 10% retained earnings tax was previously paid on the undistributed earnings by the Company. Distributions of Common Shares declared by the Company out of capital reserves are not subject to ROC tax. Under current ROC law, capital gains on the sale of Common Shares represented by GDSs are exempt from ROC income tax. Proceeds derived from sales of statutory subscription rights which are not evidenced by securities are subject to capital gains tax at the rate of (i) 25% of the gross amount received for Non-ROC Entities (as defined in "Taxation—ROC Taxation") and (ii) 35% of the gross amount received for Non-ROC Individuals (as defined in "Taxation—ROC Taxation"). See "Taxation—ROC Taxation".

Exchange Controls .... Under existing ROC laws and regulations relating to foreign exchange controls, the Depositary is not required to obtain foreign exchange approval from the Central Bank of China (the "CBC") for the conversion into foreign currencies of (i) any net proceeds realized from the sale of any or all of the

Common Shares represented by the GDSs, or (ii) any cash dividends or cash distribution relating to the Common Shares, or for the conversion of foreign currencies into NT Dollars for subscription payments in respect of rights offerings. In addition, the Depositary, also without any such approvals, may convert inward remittances of payments into NT Dollars for purchase of Common Shares for deposit in the depositary receipt facility against the creation of additional GDSs. The Depositary must obtain foreign exchange approval from the CBC on a payment-by-payment basis for conversion from NT Dollars into U.S. Dollars in respect of the proceeds from the sale of Common Shares received as stock dividends or from the sale of subscription rights for new Common Shares. Except under certain limited circumstances, proceeds in excess of U.S.$100,000 per remittance from the sale of any Common Shares withdrawn by holders of GDSs from the depositary receipt facility may not be remitted out of the ROC unless prior CBC approval is obtained. It is expected that the CBC will grant such foreign exchange approval as a routine matter. See "Description of the Global Depositary Receipts—Dividends, Other Distributions and Rights" and "Appendix B—Foreign Investment and Exchange Controls in the ROC".

Use of Proceeds .... The net proceeds to the Company from the Offering after payment of the underwriting discount and commissions and offering expenses are estimated to be approximately U.S.$117.7 million. The Company intends to use approximately NT$1.7 billion (U.S.$51.8 million) of the net proceeds of the Offering to repay short-term bank loans incurred to fund the Company's investments in Toppoly, with the balance to be used primarily to purchase input components and other raw materials. The net proceeds to Kinpo, Panpal and Gempal from the Offering after payment of the underwriting discount and commissions and offering expenses are estimated to be approximately U.S.$10.0 million, U.S.$8.2 million and U.S.$5.3 million, respectively (or U.S.$21.8 million, U.S.$17.7 million and U.S.$12.4 million, respectively, if the Purchasers' over-allotment option is exercized in full). Panpal intends to use up to NT$550 million (U.S.$16.7 million) of the net proceeds from its sale of Common Shares in the Offering to repay short-term bank loans incurred to fund its investments in Toppoly, with the balance (if any) to be used to fund further investment in Toppoly. Gempal intends to use all of the net proceeds from its sale of Common Shares in the Offering to fund further investment in Toppoly. The Company will not receive any of the net proceeds from the sale of Common Shares by Kinpo in the Offering. The Company will not directly receive any of the net proceeds from the sale of Common Shares by Panpal or Gempal (both of which are 99.99% owned subsidiaries of the Company) in the Offering.

Summary Consolidated and Non-Consolidated Financial Data

The summary consolidated statement of income data for the years ended December 31, 1998, 1999 and 2000 and the summary consolidated balance sheet data as of December 31, 1998, 1999 and 2000 set forth below are derived from the audited consolidated financial statements included in this Offering Circular and should be read in conjunction with, and are qualified in their entirety by reference to, such financial statements, including the notes thereto. The summary non-consolidated statement of income data for the three months ended March 31, 2000 and 2001 and the summary non-consolidated balance sheet data as of March 31, 2000 and 2001 are derived from the unaudited non-consolidated financial statements included in this Offering Circular and should be read in conjunction with, and are qualified in their entirety by reference to, such financial statements, including the notes thereto. The summary non-consolidated financial data as of and for the three months ended March 31, 2000 and 2001 include all adjustments necessary to fairly state this information in the opinion of management. Results for the three months ended March 31, 2000 and 2001 are not necessarily indicative of the results that may be expected for the full year. The consolidated and non-consolidated financial statements of the Company have been prepared and presented in accordance with ROC GAAP and reporting practices in the ROC. For a discussion of certain differences between ROC GAAP and U.S. GAAP, see "Summary of Certain Differences Between ROC GAAP and U.S. GAAP."

	Year Ended and as of December 31,				Three Months Ended and as of March 31,		
	1998	1999	2000		2000	2001	
	(NT$)	(NT$)	(NT$)	(U.S.$)	(NT$)	(NT$)	(U.S.$)
	(in millions, except for percentages and per share amounts)						
	(consolidated)				(non-consolidated)		
STATEMENT OF INCOME DATA							
Net sales	38,178	47,293	75,469	2,275	15,766	16,051	489
Cost of sales	32,185	40,562	67,937	2,048	14,521	14,571	444
Gross profit(1)	5,981	6,761	7,515	227	1,254	1,503	46
Operating expenses	(1,586)	(1,876)	(2,345)	(71)	(359)	(577)	(18)
Operating income	4,395	4,885	5,170	156	895	926	28
Non-operating income	1,233	817	1,238	37	426	116	4
Non-operating expenses and losses	(555)	(90)	(208)	(6)	(107)	(124)	(4)
Income before income taxes and minority interest loss	5,073	5,611	6,200	187	1,215	918	28
Income tax expense	(229)	(219)	(232)	(7)	(70)	(50)	(2)
Net income	4,871	5,398	5,983	180	1,145	868	26
Net income per share	3.16	3.48	3.84	0.12	0.74	0.56	0.02
BALANCE SHEET DATA							
Current assets	21,209	19,941	24,474	738	21,149	21,468	654
Long-term equity investments	4,799	11,607	19,232	580	14,512	22,632	689
Total assets	30,001	37,353	50,269	1,516	40,324	49,319	1,501
Current liabilities	(7,103)	(9,741)	(18,970)	(572)	(12,881)	(15,974)	(486)
Noncurrent liabilities	(314)	(141)	(192)	(6)	(186)	(354)	(11)
Total liabilities	(7,417)	(9,882)	(19,161)	(578)	(13,066)	(16,328)	(497)
Total stockholders' equity	22,584	27,471	31,108	938	27,258	32,991	1,004

(1) Calculation of gross profit includes an adjustment for the change in unrealized intercompany profits, in the amounts of (NT$11.5 million), NT$29.7 million, and (NT$16.3 million) for the years ended December 31, 1998, 1999 and 2000, respectively, and NT$9.0 million and NT$23.2 million for the three month periods ended March 31, 2000 and 2001, respectively. Profit and losses resulting from sales of products by the Company to subsidiaries and investee companies accounted for using the equity method are deferred as "unrealized profit from sales to subsidiaries" in the balance sheet, until such products are sold by the subsidiaries or investee companies.

RISK FACTORS

Any potential investor in, and buyer of, the GDSs should pay particular attention to the fact that the Company is governed in the ROC, and certain of its operations are governed in the PRC, by legal and regulatory environments which in some respects may be different from those which prevail in other countries. Before making an investment decision regarding the GDSs being offered hereby, prospective investors should carefully consider all of the information contained in this Offering Circular, including the following information:

Risks relating to the Company and its business

The Company depends on key ODM and OEM customers

For each of the three years ended December 31, 1998, 1999 and 2000, the Company's top five customers together accounted for approximately 86.1%, 82.2% and 86.0%, respectively, of the Company's total consolidated net sales. For each of the three years ended December 31, 1998, 1999 and 2000, the Company's largest customer accounted for approximately 46.2%, 47.3% and 25.5%, respectively, of the Company's total consolidated net sales. For the three months ended March 31, 2001, the Company's top five customers accounted for approximately 87.3%, and the Company's largest customer accounted for approximately 33.2%, of total non-consolidated net sales.

As is customary in the industry, the Company is not a party to any long-term sale and purchase agreements with its ODM and OEM customers. The loss of one or more of these customers or reduction or delay in their orders would have a material adverse effect on the Company's results of operations. In addition, because of the significance of such key customers to the Company, such customers may place demands on the Company's resources or require special services which have the effect of increasing the Company's operating costs.

The rate of growth in outsourcing for notebook PC manufacturing may not continue

In recent years, the Company has benefited from the trend of notebook PC vendors increasingly outsourcing their notebook PC manufacturing, especially to manufacturers in Taiwan. There can be no assurance that this outsourcing trend will continue and that notebook PC vendors will not in the future reduce orders to outside manufacturers or decide to produce more notebook PCs in-house. Recently, two of the Company's major customers have announced expansions of production in their respective China plants. If such customers and other leading vendors from which the Company receives purchase orders cease giving or reduce the amount of purchase orders to the Company due to a reversal or slowdown of such outsourcing trend, this would have an adverse effect on the Company's results of operations and prospects.

The Company depends on access to key components

The Company's production depends on obtaining adequate supplies of components on a timely basis. The Company purchases its main components from a limited number of component manufacturers which can satisfy its quality standards and meet its volume requirements.

The key components for notebook PCs are LCD panels, CPUs, hard drives, CD-ROM drives, DVD drives and batteries. The key components for CRT monitors and LCD monitors are CRTs and LCD panels, respectively. The key components for wireless handsets are chip sets, passive components, batteries and LCD panels. The key components for IAs include CPUs, LCD panels, flash memory chips, passive components and batteries. From time to time periodic shortages of such components have occurred. A shortage in any of these components would likely increase their prices and would depress the Company's margins to the extent that the Company was unable to pass these higher component prices on to its customers. In addition, any shortage in a key component could limit the number of units the Company is able to produce. The Company believes that such shortages are cyclical, and there can be no assurance that shortages of key components will not occur in the future or that any such shortages will not have a material adverse effect on the operations of the Company.

The Company operates in a highly competitive environment

The markets for the Company's major products are highly competitive, and the Company has experienced considerable pressure on its prices and margins. The personal computer industry has been characterized by periodic oversupply of products, price erosion, rapid technological change, short product life cycles and cyclical market patterns. The ability of the Company to compete depends on factors both within and outside of its control, including product pricing, product functionality, performance and reliability, successful and timely product development, success or failure of the Company's ODM or OEM customers in marketing their brands and products, component and supply costs, and general economic conditions. There can be no assurance that the Company will be able to compete successfully in the future as to any of these factors, and the failure of the Company to compete successfully in these or other areas could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company's main competitors in the production of notebook PCs include Quanta Computer Inc. ("Quanta"), Acer Incorporated, Arima Computer Corp. ("Arima") and Inventec Corp ("Inventec"). The Company's main competitors in the production of CRT monitors include Samsung Display Devices, Co. ("Samsung"), LG Electronics, Inc. ("LG"), Acer Communications & Multimedia Inc. ("ACM"), Lite-On Technology Corp. ("Lite-On Technology"), Philips L.G. and Tatung Co., Ltd. The Company's main competitors for LCD monitors include ACM, CTX Opto-Electronics Corp. and Amtran Technology Co., Ltd. The Company's main competitors in the production of wireless handsets include ACM, GVC Corporation, Quanta, Arima, Inventec, Flextronics International Ltd. ("Flextronics") and Solectron Corporation. Some of the Company's competitors have substantially greater financial, marketing, manufacturing, R&D and technological resources, greater brand-name recognition and larger customer bases than the Company. There can be no assurance that the Company will be able to compete successfully with such competitors.

The Company's gross margins are subject to downward pressure

The highly competitive environment and cyclical nature of the computer industry have subjected the Company to pressure on prices and margins. The principal factors which affect the Company's gross margins include price competition among OEM/ODM manufacturers of notebook PCs, monitors and other products of the Company, fluctuations of foreign exchange rates, reductions in average sale prices of the Company's products during the life cycles of such products, reduction in average sales prices due to increased sales of low-priced notebook PCs by the Company's ODM/OEM customers, fluctuations in the supply and demand for principal components and raw materials for such products, the Company's trend toward manufacturing and delivering more complete notebook PC systems and the Company's ability to reduce unit manufacturing costs. The Company has in the past experienced periodic shortages of certain key components and raw materials as well as pressure from its customers to reduce unit prices of its products. The Company has taken measures to reduce its operating costs including moving the production of its CRT monitors to China. However, the Company's gross margins may continue to be subject to downward pressure as a result of the factors mentioned above, which could have a material adverse effect on the Company's results of operations and prospects.

The Company's results of operations are subject to exchange rate fluctuations

In the year ended December 31, 2000, overseas sales, as to which payments are primarily in U.S. Dollars, accounted for approximately 99% of the Company's consolidated net sales. In addition, approximately 65% of components (including finished products) and raw materials were paid for in U.S. Dollars with 32% being paid for in NT Dollars and the balance being paid for in PRC Renminbi and Japanese Yen. Accordingly, fluctuations in exchange rates, in particular between the U.S. Dollar and the NT Dollar, affect the Company's gross and operating margins. In addition, foreign exchange fluctuations could result in foreign exchange losses in respect of the Company's assets and liabilities denominated in foreign currencies. While the Company recorded a net foreign exchange gain in the year ended December 31, 2000 of NT$498 million (U.S.$15.0 million), it had net foreign exchange losses of NT$40 million in the year ended December 31, 1999 and NT$434 million in the year ended December 31, 1998. During the first three months of 2001, the NT Dollar appreciated against the U.S. Dollar, from a Noon Buying Rate of NT$33.17 = U.S.$1.00 on December 29, 2000 to NT$32.85 = U.S.$1.00 on March 30, 2001, resulting in a non-consolidated net foreign exchange loss of NT$66 million (U.S.$2.0 million). The impact of future exchange rate fluctuations cannot be predicted. Although the impact of exchange rate fluctuations has in the past been partially mitigated by the Company's natural hedging between its foreign currency receivables and payables, there can be no assurance that the Company will be able to offset the overall impact of any exchange rate fluctuations in the future.

The Company's revenues depend on continuing demand for personal computers and related accessories

As a manufacturer of notebook PCs and display monitors, the business of the Company is dependent on continuing demand for personal computers and their accessories. The personal computer industry has been in the past highly cyclical and the business of the Company accordingly is dependent, among other things, on the cycles of the personal computer industry. Industry downturns have in the past resulted in reduced demand for the Company's products, lower average selling prices and reduced margins. There can be no assurance that cyclical fluctuations in the personal computer industry will not continue to impact the business of the Company.

The Company's results of operations depend on its ability to keep pace with product innovations and changes in technology

Notebook PCs, display monitors, wireless handsets and information appliances have short product cycles due to frequent product introductions, rapidly changing technology and evolving industry standards. The Company's success will depend in part on its ability to keep pace with technological developments and emerging industry standards and to respond to customer requirements by enhancing its current products and developing and introducing new products. There can be no assurance that the Company will be able to continue to develop new products as a result of its R&D activities or that it will keep pace with the technological changes taking place in the market. Failure to anticipate or respond rapidly to advances in technology and to adapt the Company's products appropriately would have a material adverse effect on the Company's financial condition, results of operations and future prospects.

The Company's new products and new investments may not be successful

Beginning in late 1999, the Company began to diversify its business operations through a series of strategic investments. In December 1999, the Company, in association with Kinpo and Uni-President Group, established Toppoly to engage in the development and production of LTPS TFT LCD panels. In May 2000, the Company acquired a 50.8% equity interest (subsequently increased to 58.3%) in Compal Communications to engage in the development and manufacture of GSM handsets. The Company also invested in Palmax, which the Company believes will enable it to capitalize on the increasing popularity of PDAs and other IAs. In October 1999, the Company established VACOM Wireless, Inc. ("VACOM"), a subsidiary in Korea, to engage in the R&D of CDMA handsets. Although the Company believes it has effectively managed its expansion with respect to existing and new businesses in recent years, the Company may not be able to continue to do so in the future. See "— The Company will need to manage its expansion".

The new product lines into which the Company is expanding are subject to rapid technology changes and intense competition. As a result the Company will need to offer, on an ongoing basis, more advanced technologies in order to respond to competitive industry conditions and customer requirements. In addition, advances in technology typically lead to rapid and significant declines in sales volumes for products made with older technologies and may lead to the Company's products becoming less competitive or obsolete. As a result, the Company will likely be required to make significant expenditures to acquire and develop technologies. In the wireless handset business, the Company's success will depend on its ability to identify and acquire rapidly developing cellular technologies and its ability to recruit and retain experienced R&D engineers. With respect to the manufacture of IAs, the Company will need to invest heavily in R&D in order to develop the design and manufacturing know-how required to manufacture more complex products such as PDAs and pocket PCs. With respect to the manufacture of LTPS TFT LCD panels, the Company is in the early stages of developing the necessary production capabilities, and the Company will be dependent on technologies acquired from existing producers. In addition, there can be no assurance that by the time the Toppoly is able to produce such panels, the LTPS TFT LCD technology will not have been replaced or superseded by a superior technology which may not be available to the Company or Toppoly.

Toppoly was formed as a joint venture, and the Company may in the future pursue other opportunities in joint ventures with third parties. Such investments may involve special risks associated with the possibility that the other shareholders or joint venture partners may, among other things, (i) have economic or business interests or goals that are inconsistent with those of the Company; (ii) take actions contrary to the instructions or requests of the Company or contrary to the Company's policies or objectives; (iii) be unable or unwilling to fulfill their obligations under the relevant joint venture or shareholders' agreements; or (iv) have financial difficulties.

The Company relies on key personnel

The Company's success depends on its ability to attract and retain highly qualified management, engineering and technical personnel. The process of hiring employees with the combination of skills and attributes required to implement the Company's strategy can be extremely competitive and time-consuming. In particular, the Company's recent expansion into the production of GSM and CDMA wireless handsets, IAs and LTPS TFT LCD panels has meant the Company must acquire a large number of additional employees with specific sets of skills. Such skilled workers, especially engineers with expertise in CDMA and GSM technologies, are in high demand, and there can be no assurance the Company will be able to attract and retain the necessary personnel. The loss of the services of key personnel (including through unexpected death or disability), or the inability to attract additional qualified personnel, could have a material adverse effect on the Company's business.

The Company relies on technology provided by third parties

The success of the Company's investment in the manufacture of LTPS TFT LCDs and its new CDMA handset product line is dependent in part upon technology provided by third parties. Toppoly recently entered into an agreement with a LTPS TFT LCD panel producer in Japan for the transfer of LTPS TFT LCD technology to Toppoly. See "Business of the Company—Toppoly Optoelectronics Corp." The Company also has entered into a license agreement with Qualcomm Incorporated ("Qualcomm") which provides for the transfer of certain CDMA technology to the Company. There can be no assurance that the LTPS TFT LCD producer, Qualcomm or other third parties will license or transfer additional advanced technologies to the Company or Toppoly in the future on terms satisfactory or acceptable to the Company or Toppoly, or at all. In the event that the Company or Toppoly is unable to license or obtain the transfer of advanced technologies from third parties, the Company or Toppoly, as the case may be, may be required to develop such technologies internally. There can be no assurance that the Company or Toppoly will be able to develop such technologies internally. Any of the foregoing factors could materially and adversely affect the business, results of operations, financial condition and prospects of the Company.

The Company's business depends on intellectual property and the Company may become involved in intellectual property litigation

The Company's success will depend in part on its ability to protect its proprietary rights and to operate without infringing on the proprietary rights of third parties. As of March 31, 2001, 331 patents were issued to the Company. In addition, the Company had 191 patent applications pending in different countries covering various aspects of its products, and the Company may apply for additional patents in the future. There can be no assurance that any of the Company's current or future patent applications will result in issued patents, that the scope of the claims in any patents that are currently held by or will be issued to the Company will prevent competitors from introducing competing products or that any patents that are currently held by or will be issued to the Company would be enforceable if challenged. In addition, other parties may hold or receive patents that contain claims covering other technology included in the Company's current or future products that could hinder or prevent the sale of the Company's products or require the Company to obtain licenses to such technology, which might not be available on acceptable terms or at all.

The computer and technology industries frequently feature disputes over intellectual property. The Company may in the future be required to defend its intellectual property rights against infringement, duplication, discovery and misappropriation by third parties or to defend itself against third-party claims of infringement. Disputes may also arise in the future with respect to ownership of technology developed by employees who were previously employed by other companies. In addition, the contracts the Company enters into with its customers typically include provisions obligating the Company to indemnify and hold harmless such customers from all claims relating to products the Company sells to such customers.

The Company is currently involved in intellectual property disputes which could result in substantial cost to, and diversion of management attention by, the Company. In October 2000, Samsung Electronics Co., Ltd. initiated a patent infringement action in the United States District Court for the Northern District of California against Compal and two of its subsidiaries and certain other notebook PC manufacturers in Taiwan. On February 13, 2001, Elonex I.P. Holdings Ltd. ("Elonex") filed several patent infringement actions in the United States District Court for the District of Delaware against the Company and a number of other major electronics and computer companies. On April 6, 2001, LG Electronics Inc. filed a complaint for patent infringement against the Company and two of its subsidiaries in the United States District Court for the Northern District of California. See "Business of the Company—Litigation and Legal Issues". An adverse determination in these disputes and any other intellectual property dispute or litigation in the future could subject the Company to significant liabilities to third parties, require the Company to seek licenses from or pay royalties to third parties or require the Company to develop appropriate alternative technology. There can be no assurance that any such licenses would be available on acceptable terms or at all, or that the Company could develop alternate technology at an acceptable cost or at all. Any of these events could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company may face potential liability with respect to product defects

The contracts the Company enters into with its major customers typically include warranties that the products the Company delivers will be free from defects and perform in accordance with agreed upon specifications. To the extent that products shipped by the Company to its customers do not, or are not deemed to, satisfy such warranties, the Company could be responsible for repairing or replacing any defective products, or, in certain circumstances, for the cost of effecting a recall of all products which might contain a similar defect, as well as for consequential damages.

On May 3, 2001, one of the Company's major customers, Dell, announced that it would recall approximately 284,000 batteries used in two of Dell's notebook computer series due to battery safety concerns. As these notebook PCs were manufactured by the Company for Dell, pursuant to the Company's agreement with Dell the Company could be liable for the costs of such recall as well as the costs associated with any damage that has occurred as a result of such product defect. The Company believes that, pursuant to the terms of its supply agreement with the Japanese supplier of the recalled batteries, such Japanese supplier would be responsible for indemnifying the Company for any losses the Company incurs due to the incorporation of such batteries into products manufactured by the Company. See "Business of the Company—Litigation and Legal Issues". However, there can be no assurance that the Company will be able to recover any losses incurred in respect of the defective batteries from the Japanese supplier, or would be able to recover any losses incurred as a result of product liability in the future from any third party, or that defects in the products sold by the Company, regardless of whether the Company is responsible for such defects, would not adversely affect the Company's standing and reputation in the marketplace, result in monetary losses and have a material adverse effect on the Company's business, financial condition and results of operations.

The Company may experience losses on inventories

Frequent new product introductions in the computer industry can result in a decline in average selling prices and the stated value of inventory. The Company's policy is to establish a full provision for any raw materials not utilized for a period of three months. With respect to other types of inventory, the Company establishes a provision for inventory loss based on the difference between the costs of inventory and the market price.

Since the introduction of the Company's global logistics delivery network in June 1999, the Company has assumed part of the inventory risks of its major customers, as finished goods, particularly CRT monitors, are first shipped to hubs established by the Company in the United States and Europe based on customers' rolling forecasts, for onward delivery to customers only after a firm order has been placed. This policy may have an adverse impact on the Company's inventory management.

The Company has purchased transportation insurance coverage for finished goods delivered to the Company's hubs as part of its global logistics delivery network. While the Company believes that the coverage it maintains through insurance policies with independent third party insurers should generally be adequate to cover the total amount of inventory maintained by the Company at any time, a sudden increase in its inventory level or an underestimation set out in its submission to the relevant insurers could result in the Company being under-insured.

The Company's operating results are seasonal

The Company's sales revenues are affected by seasonal variations in market conditions which contribute to the fluctuation of the average selling prices of notebook computers, monitors and wireless handsets. The Company generally experiences seasonal lows in the demand for notebook computers and monitors during the first quarter of the year, reflecting generally decreased demand for personal computers in the United States and Europe. On the other hand, the Company generally experiences seasonal peaks during the latter part of the third quarter and the fourth quarter of the year, primarily as a result of increased demand for personal computers in the United States and Europe from back-to-school and holiday season sales. The Company expects that its ongoing operations will continue to be materially affected by seasonality in its results of operations.

The Company's operations are subject to manufacturing risks

The manufacturing process for notebook PCs and monitors is continuously being updated in an effort to improve efficiency and to reduce product defects and unit manufacturing costs. There is a risk that from time to time there will be production difficulties that could cause delivery delays and reduced output. There can be no assurance that the Company will not experience manufacturing problems in achieving acceptable output, and/or product delivery delays, in the future as a result of, among other things, capacity constraints, construction delays, difficulties in upgrading or expanding existing facilities, difficulties in changing its manufacturing line technologies or delays in delivery of equipment, any of which could result in a loss of future revenues.

The Company will have additional capital requirements in connection with its business strategy

In connection with its strategy of diversification into new products, the Company estimates that in 2001 it will spend approximately NT$2.4 billion for purchase of equipment, construction of new facilities and strategic investments. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources". However, in the event of adverse market conditions, the Company may not have sufficient internal sources of liquidity to effect its current operational plan and would need to secure additional financing from external sources. There can be no assurance that external sources of liquidity will be available to fund the Company's ongoing operations or the Company's product diversification program. The failure to obtain financing would hinder the Company's ability to make continued investments in its product diversification program, which could materially and adversely affect the Company's business and results of operations.

The Company will need to manage its expansion

The Company's planned product diversification will put pressure on its managerial, technical, financial, production, operational and other resources. To manage future growth, the Company must add production and distribution capacity, enhance financing controls and hire additional engineering, particularly R&D, and finance personnel. The Company will need to manage relationships with a greater number of customers, suppliers, equipment vendors and other third parties. In particular, to successfully enter the wireless handset, IA and LTPS TFT LCD panel markets, the Company will need to develop relationships with customers for such products and to secure profitable purchase orders. As the Company expands production of its new product lines, it may experience problems as a result of, among other things, capacity constraints, construction delays, increasing production at new facilities or upgrading or expanding existing facilities. The Company may also experience problems securing a stable supply of components or the necessary equipment to expand and maintain its production capabilities. There can be no assurance that the Company will be able to manage its expansion and growth effectively.

Risks Relating to Ownership of the GDSs

The market for the GDSs and the Common Shares may not be liquid

There has been no trading market for the Common Shares outside the ROC and the only trading market for the Common Shares is the Taiwan Stock Exchange. The International GDSs are listed on the Luxembourg Stock Exchange and traded on the International Order Book System of the London Stock Exchange. Application has been made to list the International GDSs offered hereby on the Luxembourg Stock Exchange. Application has been made to have the Rule 144A GDSs offered hereby designated for trading in the PORTAL Market. The Company, the Selling Shareholders and the Purchasers will determine the offering price of the GDSs offered hereby based upon a variety of factors, including the market price of the outstanding GDSs and the Common Shares, prevailing market and economic conditions and the Company's recent financial performance. However, the Company cannot provide assurance that the market price of the GDSs will not in the future fall below the offering price of the GDSs.

On and after the later of delivery to the Custodian of Common Shares in exchange for the Certificate of Payment issued in connection with the initial deposit of the Common Shares and August 21, 2001, a holder of GDSs offered hereby may withdraw and hold the Common Shares represented by such GDSs or request the Depositary to sell or cause to be sold on behalf of such holder the Common Shares represented by such GDSs, provided that the Custodian has received physical share certificates in respect of the Common Shares to be withdrawn or sold. There can be no assurance that the Depositary will be able to effect a sale of Common Shares in a timely manner or at a specified price, particularly during periods of illiquidity or volatility on the Taiwan Stock Exchange. Under current ROC law or as otherwise specified in the Deposit Agreements, except for additional GDSs which may be issuable in connection with (i) dividends on or free distributions of Common Shares, (ii) the exercise by owners of existing GDSs of their preemptive rights in connection with rights offerings, (iii) transfers between the depositary facility for the Rule 144A GDSs and the depositary facility for the International GDSs; and (iv) the purchase directly by any person or through the Depositary of Common Shares on the Taiwan Stock Exchange for deposit into the depositary facility to replace previously issued GDSs which have been canceled when the underlying Common Shares were withdrawn and sold on the Taiwan Stock Exchange, no additional GDSs may be issued by the Depositary without specific ROC regulatory approval.

Holders will not be able to withdraw the underlying Common Shares of the GDS for a period of three months after the initial delivery of the GDSs and will hold temporary GDSs

Under ROC regulations applicable to offerings of GDSs, newly issued shares of ROC companies initially offered in GDS form may not be withdrawn from the GDS facility until three months following the initial delivery of the GDSs. In addition, because the GDSs offered by the Selling Shareholders will not be segregated from the GDSs offered by the Company, the Common Shares underlying the GDSs offered by the Selling Shareholders are subject to the same restrictions as Common Shares newly issued by the Company. As a result, for a period of three months following closing of this offering, owners of any of the GDSs offered hereby will not be able to withdraw the underlying Common Shares from the GDS facility or sell the underlying Common Shares on the Taiwan Stock Exchange. During such three month period, owners of the GDSs offered hereby will hold temporary GDSs which will not be fungible with either the Company's existing GDSs or with the temporary GDSs initially receivable by converting holders of SIZeS. See "Description of the Global Depositary Receipts—Deposit and Withdrawal".

Holders of GDSs will have limited voting rights

Subject to the provisions described in the second succeeding paragraph below, which will apply to the election of directors and supervisors, if a holder or holders together holding at least 51% of the GDSs outstanding at the relevant record date instruct the Depositary to vote in the same manner in respect of one or more resolutions to be proposed at the meeting (other than the election of directors or supervisors), the Depositary will notify the instructions to the chairman of the Board of Directors of the Company or such other person as he may designate (the "Voting Representative") and appoint the Voting Representative as the representative of the Depositary and the holders to attend such meeting and vote all the Common Shares represented by GDSs to be voted in the manner so instructed by such holder in relation to such resolution or resolutions (the "Voting Instruction").

If, for any reason, the Depositary has not by the date specified by it received instructions from a holder or holders together holding at least 51% of all the GDSs outstanding at the relevant record date to vote in the same manner in respect of any resolution specified in the agenda for the meeting (other than the election of directors or supervisors), then such holders will be deemed to have instructed the Depositary to authorize and appoint the Voting Representative as the representative of the Depositary and the holders to attend such meeting and vote all the Common Shares represented by all GDSs as the Voting Representative deems appropriate with respect to such resolution or resolutions, which may not be in the interests of the holders of GDSs.

The Depositary will notify the instructions for the election of directors and supervisors received from holders to the Voting Representative and appoint the Voting Representative as the representative of the Depositary and the holders to attend such meeting, nominate, if necessary, the candidate or candidates named in such instructions, and vote the Common Shares represented by GDSs as to which the Depositary has received instructions from holders for the election of directors and supervisors in the manner so instructed, subject to any restrictions imposed by ROC law and the Articles of Incorporation of the Company. Such holders who by the date specified by the Depositary have not delivered instructions to the Depositary will be deemed to have instructed the Depositary to authorize and appoint the Voting Representative as the representative of the Depositary and the holders to attend such meeting and vote all the Common Shares represented by GDSs as to which the Depositary has not received instructions from the holders for the election of directors and supervisors as the Voting Representative deems appropriate with respect to such resolution or resolutions, which may not be in the best interests of the holders. Candidates standing for election as representatives of a shareholder may be replaced by such shareholder prior to the meeting of the shareholders, and the votes cast by the holders for such candidates shall be counted as votes for their replacements.

The ROC Company Law and the Company's Articles of Incorporation provide that the votes of Common Shares held by a holder of more than 3% of the total outstanding Common Shares will be discounted by 1% for that portion of the holding in excess of 3%. The Voting Representative, when exercising voting rights on behalf of the holders of the GDSs, will be subject to that discount.

Employee stock bonuses may have a diluting effect on the holdings and associated rights of the holders with respect to the Common Shares and the GDSs

Taiwanese companies generally pay employee stock bonuses (in the form of cash or stock) to their employees, and the Company's Articles of Incorporation provides that (after certain deductions and provisions) employees should receive as bonuses an aggregate of not less than 5% of the Company's distributed retained earnings. See "Business of the Company—Employees" and "Description of Common Shares—Dividends and Distributions". In 2000, the Company issued approximately 27 million Common Shares, and in 2001 the Company's shareholders have approved the issue of approximately 30 million Common Shares, expected to be delivered in June or July 2001, as employee stock bonuses. The number of Common Shares issuable and the amount transferred from retained earnings for employee stock bonuses are calculated by reference to the par value of NT$10 per Common Share, notwithstanding that the market value of the Common Shares as of the dates of declaration and distribution of the stock bonuses have been significantly higher than NT$10 per Common Share. Employee bonuses in the form of new Common Shares to employees will effectively dilute the holdings and associated rights of holders with respect to the GDSs.

Holders of GDSs may not be able to participate in rights offerings

The Company may, from time to time, distribute rights to its shareholders, including rights to acquire securities. Under the Deposit Agreements, the Depositary will not offer rights to holders of GDSs unless both the rights and the securities to which such rights relate are either exempt from registration under the Securities Act, with respect to a distribution to all holders of GDSs, or are registered under the provisions of the Securities Act. However, under the Deposit Agreements, the Company is under no obligation to file a registration statement with respect to such rights or underlying securities or to endeavor to have such a registration statement declared effective. Accordingly, holders of GDSs may be unable to participate in rights offerings by the Company and may experience dilution of their holdings as a result.

Holders of GDSs who withdraw Common Shares will be required to appoint a tax guarantor and a local agent in the ROC

Any holder of GDSs who is a non-ROC person and elects to withdraw Common Shares represented by GDSs and register as a shareholder of the Company will be required to appoint an agent (a "Tax Guarantor") in the ROC for filing tax returns and making tax payments. Such Tax Guarantor will be required to meet the qualifications set by the Ministry of Finance of the ROC and will act as the guarantor of the withdrawing holder's tax payment obligations. Evidence of the appointment of a Tax Guarantor and the approval of such appointment are required as conditions to such withdrawing Holder's repatriation of the profits derived from the sale of withdrawn Common Shares. There can be no assurance that a withdrawing holder will be able to appoint and obtain approval for a Tax Guarantor in a timely manner.

In addition, under current ROC law, such withdrawing holder is required to appoint a local agent in the ROC to, among other things, open a securities trading account with a local securities brokerage firm, remit funds and exercise a shareholder's rights. In addition, such withdrawing holder must appoint a local bank to act as custodian for confirmation and settlement of trades, safekeeping of securities and cash proceeds and reporting and declaration of information. Under existing ROC laws and regulations, without such an account, holders of GDSs that withdraw and hold the Common Shares represented thereby would not be able to hold or otherwise transfer the Common Shares on the Taiwan Stock Exchange or otherwise.

Risks Relating to the ROC

The value of an investment in the GDSs may be adversely affected by the volatility of the ROC securities market

The ROC securities market is smaller and more volatile than the securities markets in the United States and in certain European and other countries. The Taiwan Stock Exchange has experienced substantial fluctuations in the prices and volumes of sales of listed securities and there are currently limits on the range of daily price movements on the Taiwan Stock Exchange. The Taiwan Stock Exchange Index peaked at 12,495 in February 1990, and subsequently fell to a low of 2,560 in October 1990. On May 15, 2001, the Taiwan Stock Exchange Index closed at 5,158.79.

The Taiwan Stock Exchange has experienced problems such as market manipulation, insider trading and payment defaults. In addition, on March 20, 2000, immediately following the presidential election in which Mr. Chen Shui-bian of the opposition Democratic Progressive Party was elected as President of the ROC, the Ministry of Finance restricted daily downward price movements on the Taiwan Stock Exchange to 3.5% from the usual limit of 7%. This restriction was subsequently lifted on March 27, 2000. For the periods from October 4, 2000 to October 11, 2000, from October 20, 2000 to November 7, 2000 and from November 21, 2000 to December 29, 2000, the limit on the daily downward price movement was again set at 3.5%, and thereafter returned to 7%. The recurrence of such problems and restrictions on price movements could adversely affect the market price and liquidity of the securities of ROC companies, including the GDSs and the Common Shares, in both the domestic and the international markets.

ROC exchange controls may adversely affect the ability of holders of GDSs to receive dividends or realize the proceeds from the sale of the Company's Common Shares

Under existing ROC law and regulations relating to foreign exchange control, the Depositary must obtain foreign exchange approval from the CBC on a payment-by-payment basis for the conversion from NT Dollars into U.S. Dollars of the net proceeds realized from the sale of Common Shares received as stock dividends or from the sale of subscription rights for new Common Shares. Except under certain limited circumstances, proceeds in excess of U.S.$100,000 per remittance from the sale of any Common Shares withdrawn by holders of GDSs from the depositary receipt facility may not be remitted out of the ROC unless prior CBC approval is obtained. In addition, foreign exchange approval from the CBC would be required for the conversion into NT Dollars of inward remittances of subscription payments in respect of rights offerings. Although such approvals have been routinely granted in the past, there can be no assurance that in the future any such approval will be obtained in a timely manner or at all.

The ROC may impose a capital gain tax in the future

Under current ROC law, capital gains on securities transactions are exempt from ROC income tax. There can be no assurance that a capital gains tax will not be imposed in the future or as to the manner in which any ROC capital gains tax in respect of Common Shares represented by GDSs would be imposed or calculated. Historically, a portion of the Company's net income has also been derived from gains on sales of securities, and the imposition of an ROC capital gains tax on the sale of securities could reduce the net gain realized upon any future sales of such securities.

The Company is subject to ROC GAAP, which differs from U.S. GAAP

The Company is subject to financial reporting requirements in Taiwan that differ in significant respects from those applicable to companies in certain other countries, including the United States and the United Kingdom. In addition, the Company's financial statements are prepared in accordance with ROC GAAP which differ in certain material respects from U.S. GAAP. For example, under ROC GAAP, the distribution of employee stock bonuses is treated as an allocation from retained earnings, and the Company is not required to, and does not, charge the value of the employee stock bonuses to income. Under U.S. GAAP, however, the Company would be required to charge the market value of the employee stock bonuses to employee compensation expense in the period to which they relate; correspondingly the Company's net income and income per Common Share if they had been calculated in accordance with U.S. GAAP would be significantly reduced. See "—Employee stock bonuses may have a diluting effect on the holdings and associated rights of the holders with respect to the Common Shares and the GDSs" above. The Company has not quantified or identified the impact of the differences between ROC GAAP and U.S. GAAP. See "Summary of Certain Differences between ROC GAAP and U.S. GAAP". Potential investors should consult their own professional advisers for an understanding of such differences and how they might affect the financial information contained herein.

An investment in the GDSs may be adversely affected by considerations relating to the ROC

The Company is incorporated in the ROC and a majority of its assets are located in Taiwan and a majority of its revenues are derived from its operations in Taiwan. The ROC has a unique international political status. Although the Chinese nation has existed for several thousand years, since 1949 Taiwan and the Chinese mainland have been separately governed. The ROC, which was founded in 1912, governs Taiwan while the PRC, which was founded in 1949, has governed the Chinese mainland for the past 51 years. The ROC asserts that the ROC and the PRC are equal political entities which should have "state to state" relations while the PRC claims that it is the sole government in China and that Taiwan is part of China. Although significant economic and cultural relations have been established during recent years between the ROC and the PRC, relations have often been strained. The ROC opened direct "mini three links" (trade, shipping and mail links) between its two frontline islands of Kinmen and Matsu, and Xiamen and Fuzhou ports in Fujian province of the PRC on January 1, 2001, although the PRC still refuses to resume the long-stalled cross-strait dialogue. The government of the PRC has indicated that it may use military force to gain control over Taiwan in some circumstances, such as a declaration of independence by Taiwan, the prolonged delay by the ROC to commence reunification negotiations or the refusal by the ROC to accept the PRC's stated "one China" policy.

Tensions between the ROC and the PRC may adversely affect the value of the Taiwan Stock Exchange Index. An increase in tensions between the ROC and the PRC may also affect the market price and liquidity of the Common Shares and the GDSs, the status of the Company's property rights in its manufacturing facilities in the PRC, the Company's production in its China factories, the availability of the PRC as an export market for the Company's products and the ability of the Company to implement present and future plans for the development of production facilities in the PRC.

Taiwan is susceptible to earthquakes that could disrupt the normal operation of the Company's business and adversely affect earnings

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

Risks Relating to the PRC

The Company is subject to the political and economic situation and legal developments in the PRC

The Company currently has a significant portion of its assets in the PRC and expects to make further investments in the PRC in the future. The Company is also making limited sales of its products in the PRC. In addition, the Company plans to shift some of its notebook PC production capability to China, should ROC government investment restrictions which currently prohibit Taiwanese manufacturers from producing notebook PCs in China be removed. As a result, the business, financial condition, results of operations and future prospects of the Company are subject, to a significant degree, to the political and economic situation and legal developments in the PRC. There can be no assurance that the Company's investments in the PRC and the sales of its products in the PRC will not be adversely affected if relations between the PRC and the ROC are further strained.

The Company is subject to political risks in the PRC

Prior to 1978, the PRC had adopted a central economic planning system. Since 1978, the PRC government has permitted foreign investment and implemented economic reforms, gradually changing from a planned economy towards a market-oriented economy. However, many of the reforms and economic policies adopted or to be adopted by the PRC government are unprecedented or experimental in nature and may have unforeseen results, which may have an adverse effect on enterprises with substantial business in the PRC, including the Company.

The Company is subject to risks associated with the PRC legal system

Since 1979, many laws and regulations dealing with general economic matters or particular economic activities have been promulgated in the PRC. However, enforcement of existing laws and regulations may be uncertain and sporadic, and implementation and interpretation thereof may be inconsistent. The PRC judiciary is relatively inexperienced in enforcing the laws and regulations that currently exist, leading to a degree of uncertainty as to the outcome of any litigation. Further, it may be difficult to obtain swift and equitable enforcement, or to obtain enforcement of a judgment by a court of another jurisdiction. The PRC's legal system is based on written statutes and, therefore, decided legal cases do not have binding legal effect, although they are often followed by judges as guidance. The introduction of new PRC laws and regulations and the interpretation of existing ones may be subject to policy changes. As the PRC legal system develops, changes in such legislation or interpretation thereof may have a material adverse effect on the business, financial condition, results of operations and future prospects of the Company, and could cause the price of the Common Shares and the GDSs to fall.

USE OF PROCEEDS

The net proceeds to the Company from the Offering after payment of the underwriting discount and commissions and offering expenses are estimated to be approximately U.S.$117.7 million. The Company intends to use approximately NT$1.7 billion (U.S.$51.8 million) of the net proceeds of the Offering to repay short-term bank loans incurred to fund the Company's investments in Toppoly, with the balance to be used primarily to purchase input components and other raw materials. The net proceeds to Kinpo, Panpal and Gempal from the Offering after payment of the underwriting discount and commissions and offering expenses are estimated to be approximately U.S.$10.0 million, U.S.$8.2 million and U.S.$5.3 million, respectively (or U.S.$21.8 million, U.S.$17.7 million and U.S.$12.4 million, respectively, if the Purchasers' over-allotment option is exercised in full). Panpal intends to use up to NT$550 million (U.S.$16.7 million) of the net proceeds from its sale of Common Shares in the Offering to repay short-term bank loans incurred to fund its investments in Toppoly, with the balance (if any) to be used to fund further investment in Toppoly. Gempal intends to use all of the net proceeds from its sale of Common Shares in the Offering to fund further investment in Toppoly. The Company will not receive any of the net proceeds from the sale of Common Shares by Kinpo in the Offering. The Company will not directly receive any of the net proceeds from the sale of Common Shares by Panpal or Gempal (both of which are 99.99% owned subsidiaries of the Company) in the Offering.

MARKET PRICE INFORMATION

The Common Shares have been listed on the Taiwan Stock Exchange since 1992. The Company has generally declared and paid either stock dividends or both cash and stock dividends each year. See "Dividends and Dividend Policy". The table below sets forth, for the periods indicated, the high and low closing prices (actual and as adjusted for stock dividends) and the average daily volume of trading activity on the Taiwan Stock Exchange Index for the Common Shares and the highest and lowest of the daily closing values of the Taiwan Stock Exchange Index. For a recent closing price of the Common Shares, see the cover page of this Offering Circular.

	Closing Price per Common Share(1)		Adjusted Closing Price per Common Share(2)		Average Daily Trading Volume	Taiwan Stock Exchange Index	
	High	Low	High	Low		High	Low
	(NT$)	(NT$)	(NT$)	(NT$)	(in thousands of shares)		
1996							
First Quarter	30.60	27.30	5.51	4.91	4,159.12	5,146.04	4,690.22
Second Quarter	37.30	29.60	7.73	5.40	10,618.53	6,560.41	5,127.49
Third Quarter	43.00	31.40	8.91	6.51	8,893.55	6,533.59	5,955.50
Fourth Quarter	73.50	41.70	16.97	8.64	12,944.97	6,982.81	6,359.67
1997							
First Quarter	100.00	61.50	23.09	14.20	15,904.45	8,526.20	6,820.35
Second Quarter	142.00	94.50	33.31	21.82	20,733.07	9,030.28	7,952.12
Third Quarter	153.00	100.00	46.12	30.14	22,759.99	10,116.84	8,708.83
Fourth Quarter	106.00	69.50	32.17	21.19	21,664.00	8,695.02	7,089.56
1998							
First Quarter	140.50	87.00	42.84	26.53	21,573.81	9,277.09	7,375.14
Second Quarter	152.00	85.50	51.76	35.83	25,358.06	9,266.68	7,117.11
Third Quarter	125.00	97.00	54.37	42.19	22,087.79	8,047.67	6,251.38
Fourth Quarter	115.00	89.00	50.02	38.71	15,050.69	7,435.84	6,418.43
1999							
First Quarter	107.00	77.00	45.71	34.17	13,109.90	7,043.23	5,474.79
Second Quarter	131.00	81.00	76.02	38.31	33,889.24	8,608.91	7,018.68
Third Quarter	137.00	93.00	79.61	57.47	29,668.50	8,593.35	6,823.52
Fourth Quarter	113.00	92.00	66.44	55.69	13,012.99	8,448.84	7,362.69
2000							
First Quarter	132.00	97.50	75.76	60.79	21,992.13	10,202.20	8,536.50
Second Quarter	127.00	68.00	77.85	53.75	17,839.10	10,186.17	8,120.89
Third Quarter	78.50	45.60	61.66	36.04	10,941.00	8,585.52	6,185.14
Fourth Quarter	59.50	41.30	47.03	32.65	18,263.27	6,353.67	4,614.63
2001							
First Quarter	61.00	45.30	48.22	35.81	14,610.89	6,104.24	4,894.79
Second Quarter (up to May 15)	62.00	42.70	49.01	42.29	17,998.17	5,608.50	5,353.50

(1) Not retroactively adjusted for stock dividends paid by the Company. Source: Taiwan Economic Journal Data Bank.
(2) Retroactively adjusted annually for stock dividends paid by the Company.

As of May 13, 2001, the most recent date for which the Company has such information, there were approximately 154,303 holders of record of Common Shares.

The Taiwan Stock Exchange has experienced substantial fluctuations in the prices of listed securities and there are currently limits on the range of daily price movements. See "Risk Factors—Risks Relating to the ROC—The value of an investment in the GDSs may be adversely affected by the volatility of the ROC securities market" and "Appendix C—The Securities Market of the ROC—The Taiwan Stock Exchange" and "—Taiwan Stock Exchange Index".

The International GDSs are listed on the Luxembourg Stock Exchange and traded on the International Order Book System of the London Stock Exchange. As of May 14, 2001 there were 9,731,856 GDSs outstanding, each representing five Common Shares (not including 389,022 Type 1 Temporary GDSs (as defined in "Description of the Global Depositary Receipts") each representing five Entitlement Certificates).

The following table shows the high and low closing prices of the GDSs listed on the Luxembourg Stock Exchange from November 19, 1999:

	High(1) (U.S.$)	Low(1) (U.S.$)
1999(2)		
Fourth Quarter (from November 19)	17.30	14.80
2000		
First Quarter	20.50	16.00
Second Quarter	21.25	11.25
Third Quarter	12.45	8.13
Fourth Quarter	9.25	7.15
2001		
First Quarter	9.40	8.00
Second Quarter (up to May 15)	9.75	6.50

(1) Prices have not been retroactively adjusted for stock dividends paid by the Company. See "Dividends and Dividend Policy".

(2) The listed securities originally were global depositary receipts each representing five Common Shares issued under a deposit agreement dated November 9, 1999 between the Company and the Depositary (the "1999 Deposit Agreement"). On March 8, 2001, pursuant to an amendment of the 1999 Deposit Agreement dated October 19, 2000, the outstanding global depositary receipts were exchanged for International GDSs.

On May 15, 2001, the closing price of the GDSs on the Luxembourg Stock Exchange was U.S.$6.50.

SELLING SHAREHOLDERS

Kinpo is the largest shareholder of the Company, and the Company is also the largest shareholder of Kinpo. As of May 13, 2001, Kinpo owned 115,450,687 Common Shares, or approximately 5.8% of the Company's outstanding Common Shares. As of May 14, 2001, the Company held 10.4% of Kinpo's share capital. Kinpo currently holds 5.5% of Toppoly. Kinpo designs and manufactures consumer electronic products, communications products and PC peripheral products. See "Business of the Company—Relationship with Kinpo Electronics, Inc."

Panpal and Gempal are 99.99%-owned subsidiaries of the Company and are engaged in investing in businesses relating to the PC industry. As of May 13, 2001, Panpal owned 37,299,143 Common Shares, or approximately 1.9% of the Company's outstanding Common Shares, and Gempal owned 28,005,730 Common Shares, or approximately 1.4% of the Company's outstanding Common Shares.

Kinpo is selling 1,700,000 GDSs representing 8,500,000 Common Shares, Panpal is selling 1,400,000 GDSs representing 7,000,000 Common Shares and Gempal is selling 900,000 GDSs representing 4,500,000 Common Shares in the Offering. In addition, Kinpo, Panpal and Gempal have granted to the Purchasers an option exercisable within 30 days from the date hereof to purchase up to an additional 2,000,000 GDSs, 1,600,000 GDSs and 1,200,000 GDSs, respectively, representing 10,000,000 Common Shares, 8,000,000 Common Shares and 6,000,000 Common Shares, respectively, solely to cover over-allotments, if any. Assuming full exercise of the over-allotment option, Kinpo will own approximately 4.7%, Panpal will own approximately 1.1% and Gempal will own approximately 0.8% of the Company's outstanding Common Shares following the Offering. See "Principal Shareholders" and "Underwriting".

DIVIDENDS AND DIVIDEND POLICY

The Company has paid either stock dividends or both cash and stock dividends in each year since 1991. The following table sets forth the aggregate number of outstanding Common Shares entitled to dividends, as well as the cash dividends per share and stock dividends per share (as a percentage of Common Shares outstanding) paid during each of the years indicated in respect of Common Shares outstanding on the record date applicable to the payment of such dividends.

	Aggregate Number of Common Shares(1)	Cash Dividends per Share	Stock Dividends per Share(2)	Total Shares Issued as Stock Dividends
		(NT$)	(NT$)	
1996	258,300,000	0.5	1.5	38,745,000
1997	380,623,600	—	3.0	114,187,068
1998	583,844,001	—	4.0	233,537,600
1999	849,510,060	1.0	3.5	297,328,521
2000	1,176,760,020	2.0	3.0	353,028,006
2001(3)	1,556,834,837	0.5	2.5	389,208,708

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

(2) Holders of Common Shares receive as a stock dividend the number of Common Shares equal to the NT Dollar value per Common Share of the declared dividend, multiplied by the number of Common Shares owned, divided by the par value of NT$10 per Common Share. Fractional Common Shares are not issued but are paid in cash.

(3) The record date for such dividends was May 13, 2001, and such dividends are expected to be paid on June 6, 2001 (in respect of the cash dividend) and distributed in June or July 2001 (in respect of the stock dividend). As described below and under "Description of Common Shares—Dividends and Distributions", purchasers of the GDSs being offered hereby will not be entitled to such dividends to be paid and distributed in June or July 2001.

The Company historically has paid dividends on its Common Shares with respect to the preceding year after approval by the Company's shareholders at the annual general meeting of shareholders. In recent years, the Company has paid most of its dividends in the form of stock in order to reinvest its cash in operations. The Company's Articles of Incorporation provide that at least 10% of dividends each year for the three years beginning January 1, 2000 will be in cash. The Company expects that it will continue to pay a portion of its dividends in the form of stock. The form, frequency and amount of future dividends on the Common Shares will depend upon the Company's earnings, cash flow, financial condition, reinvestment opportunities and other factors.

Except in limited circumstances, under the ROC Company Law, the Company is not permitted to distribute dividends or make other distributions to shareholders in respect of any year in which it did not record net income. The ROC Company Law also requires that 10% of annual net income (less prior years' losses and outstanding tax) be set aside as legal reserve until the accumulated legal reserve equals the Company's paid-in capital. The remainder, plus the accumulated undistributed surplus profits carried over from the previous fiscal year, shall be the total allocable surplus profit, which after deduction of additional reserves therefrom for business operations and special reserve specified in the Company's Articles of Incorporation or decided by the shareholders' meeting, will be allocated in the proportions specified in the Company's Articles of Incorporation. See "Description of Common Shares —Dividends and Distributions" and Notes 12 and 13 of Notes to Consolidated Financial Statements as of and for the Years Ended December 31, 1998, 1999 and 2000.

Holders of GDSs will be entitled to receive dividends, subject to the terms of the applicable Deposit Agreement, to the same extent as the holders of the Common Shares. Cash dividends will be paid to the Depositary in NT Dollars and, after deduction of any applicable ROC taxes and except as otherwise described under "Description of the Global Depositary Receipts—Dividends, Other Distributions and Rights", will be converted by the Depositary into U.S. Dollars and paid to holders of GDSs. Stock dividends will be distributed to the Depositary and, after deduction of any applicable ROC taxes and except as otherwise described under "Description of the Global Depositary Receipts—Dividends, Other Distributions and Rights", will be distributed by the Depositary, in the form of additional GDSs, to holders of GDSs.

Holders of outstanding Common Shares on a dividend record date will be entitled to the full dividend declared without regard to any prior or subsequent transfer of such Common Shares. Holders of outstanding GDSs on the relevant dividend record date will, after deduction of any applicable ROC taxes and subject to the terms of the applicable Deposit Agreement, be entitled to the full amount of any dividend declared at the Company's next annual general meeting of the shareholders, which meeting is currently expected to be held in April 2002.

On April 3, 2001, the Company's shareholders approved a cash dividend of NT$0.5 per Common Share to be paid on June 6, 2001 and a stock dividend of NT$2.5 per Common Share (i.e., one new additional Common Share of NT$10 par value for each four outstanding Common Shares of NT$10 par value), expected to be distributed in June or July 2001, in each case to holders of record on May 13, 2001. Because purchasers of the GDSs being offered hereby, or the Depositary, were not the holders of record of the Common Shares underlying such GDSs on May 13, 2001, the record date for such dividend, the purchasers of the GDSs being offered hereby will not be entitled to such cash and stock dividends expected to be paid and distributed in June or July 2001. However, for years subsequent to 2001, holders of the GDSs being offered hereby will be entitled to receive dividends, subject to the terms of the applicable Deposit Agreement, to the same extent as other holders of Common Shares. See "Description of Common Shares".

For information relating to ROC withholding taxes payable on cash and stock dividends, see "Taxation—ROC Taxation—Dividends". For information relating to ROC foreign exchange approvals required for the conversion by the Depositary of dividends on Common Shares from NT Dollars into U.S. Dollars for the payment thereof to holders of GDSs, see "Appendix B—Foreign Investment and Exchange Controls in the ROC—Depositary Receipts".

EXCHANGE RATES

Fluctuations in the exchange rate between the NT Dollar and the U.S. Dollar will affect the U.S. Dollar equivalent of the NT Dollar price of the Common Shares on the Taiwan Stock Exchange and, as a result, will affect the market price of the GDSs. Such fluctuations will also affect the U.S. Dollar conversion by the Depositary of cash dividends paid in NT Dollars on, and the NT Dollar proceeds received by the Depositary from any sale of, Common Shares represented by GDSs or received by the Depositary in connection with the payment of stock dividends.

The following table sets forth the average and period-end Noon Buying Rate between NT Dollars and U.S. Dollars (in NT Dollars per U.S. Dollar) for the periods indicated:

	NT Dollars per U.S. Dollar Noon Buying Rate	
	Average (NT$)	Period-End (NT$)
1996	27.47	27.52
1997	29.06	32.80
1998	33.54	32.27
1999	32.32	31.39
2000	31.25	33.17
2001 (through May 15)	32.69	32.95

Sources: Federal Reserve Bulletin, 1994-1996, Board of Governors of the Federal Reserve System, Federal Reserve Statistical Release H.10 (512), 1997-2001, Board of Governors of the Federal Reserve System.

For information relating to ROC foreign exchange approvals required for the conversion by the Depositary of dividends on Common Shares or proceeds from the sale of Common Shares from NT Dollars into U.S. Dollars and the payment thereof to holders of GDSs, see "Appendix B—Foreign Investment and Exchange Controls in the ROC—Depositary Receipts".

CAPITALIZATION

The table below sets forth the non-consolidated short-term debt balance and total capitalization of the Company under ROC GAAP as of March 31, 2001 on an actual basis, an as adjusted basis and an as further adjusted basis.

The as adjusted basis gives effect to the following items approved at the Company's annual general meeting of shareholders on April 3, 2001:

(a) The appropriation of the Company's fiscal year 2000 net income through the distribution of (i) 233,525,225 shares of common stock as stock dividends, (ii) 29,906,455 shares of common stock for employee bonuses, (iii) directors remuneration of NT$119,662,530, and (iv) cash dividends of NT$778,417,424; and

(b) The transfer of capital surplus through the issuance of common stock dividends of 155,683,483 shares.

The as further adjusted basis gives effect to (i) the estimated net proceeds from the issuance of 100 million new Common Shares represented by 20 million GDSs at an issue price of U.S.$6.07 per GDS (after deducting underwriting commissions and discounts and estimated expenses of the Offering) and (ii) the application of approximately NT$1.7 billion of the proceeds of the Offering and NT$0.1 billion of cash to repay short-term borrowings. Short-term borrowings to be repaid consist of short-term bank loans and commercial paper and bear interest at rates ranging from 4.68% to 4.73%.

The following table should be read in conjunction with the Non-consolidated Financial Statements of the Company and the notes thereto included elsewhere herein. See "Management's Discussion and Analysis of Financial Condition and Results of Operations".

	As of March 31, 2001					
	Actual		As Adjusted		As Further Adjusted	
	(NT$)	(U.S.$)(1)	(NT$)	(U.S.$)(1)	(NT$)	(U.S.$)(1)
			(in millions)			
Short-term notes and bills payable	1,400	43	1,400	43	—	—
Short-term loans	400	12	400	12	—	—
Convertible bonds payable	4,844	147	4,844	147	4,844	147
Total short-term debt	6,644	202	6,644	202	4,844	147
Stockholders' equity:						
Common stock(2)	15,568	474	19,759	601	20,759	632
Capital surplus	4,374	133	2,817	86	5,683	173
Retained earnings	12,943	394	9,411	286	9,411	286
Foreign currency translation adjustments	106	3	106	3	106	3
Total stockholders' equity	32,991	1,004	32,093	976	35,959	1,094
Total capitalization	32,991	1,004	32,093	976	35,959	1,094

(1) Translated into United States Dollars solely for convenience of the reader using the Noon Buying Rate provided by the Federal Reserve Bank of New York on March 30, 2001 of NT$32.85 to U.S.$1.00.

(2) As of March 31, 2001, 2,000,000,000 shares of Common Stock were authorized and 1,556,834,837 shares were outstanding. Such number of authorized shares of Common Stock was subsequently increased to 2,800,000,000 on April 3, 2001 following approval at the Company's annual meeting of shareholders.

(3) As of March 31, 2001, the Company had no long-term borrowings. Except as disclosed above, there have been no significant changes in the short-term borrowings balance, long-term borrowings balance and total stockholders' equity of the Company since March 31, 2001.

SELECTED CONSOLIDATED AND NON-CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated statement of income data for the years ended December 31, 1998, 1999 and 2000 and the selected consolidated balance sheet data as of December 31, 1998, 1999 and 2000 set forth below are derived from the audited consolidated financial statements included in this Offering Circular and should be read in conjunction with, and are qualified in their entirety by reference to, such financial statements, including the notes thereto. The selected non-consolidated statement of income data for the three months ended March 31, 2000 and 2001 and the selected non-consolidated balance sheet data as of March 31, 2000 and 2001 are derived from the unaudited non-consolidated financial statements included in this Offering Circular and should be read in conjunction with, and are qualified in their entirety by reference to, such financial statements, including the notes thereto. The selected non-consolidated financial data as of and for the three months ended March 31, 2000 and 2001 include all adjustments necessary to fairly state this information in the opinion of management. Results for the three months ended March 31, 2000 and 2001 are not necessarily indicative of the results that may be expected for the full year. The consolidated and non-consolidated financial statements of the Company have been prepared and presented in accordance with ROC GAAP and reporting practices in the ROC. For a discussion of certain differences between ROC GAAP and U.S. GAAP, see "Summary of Certain Differences Between ROC GAAP and U.S. GAAP."

	Year Ended and as of December 31,				Three Months Ended and as of March 31,		
	1998	1999	2000		2000	2001	
	(NT$)	(NT$)	(NT$)	(U.S.$)	(NT$)	(NT$)	(U.S.$)
	(in millions, except for percentages and per share amounts)						
	(consolidated)				(non-consolidated)		
STATEMENT OF INCOME DATA							
Net sales	38,178	47,293	75,469	2,275	15,766	16,051	489
Cost of sales	32,185	40,562	67,937	2,048	14,521	14,571	444
Gross profit(1)	5,981	6,761	7,515	227	1,254	1,503	46
Operating expenses	(1,586)	(1,876)	(2,345)	(71)	(359)	(577)	(18)
Operating income	4,395	4,885	5,170	156	895	926	28
Non-operating income	1,233	817	1,238	37	426	116	4
Non-operating expenses and losses	(555)	(90)	(208)	(6)	(107)	(124)	(4)
Income before income taxes and minority interest loss	5,073	5,611	6,200	187	1,215	918	28
Income tax expense	(229)	(219)	(232)	(7)	(70)	(50)	(2)
Net income	4,871	5,398	5,983	180	1,145	868	26
Net income per share	3.16	3.48	3.84	0.12	0.74	0.56	0.02
BALANCE SHEET DATA							
Current assets	21,209	19,941	24,474	738	21,149	21,468	654
Long-term equity investments	4,799	11,607	19,232	580	14,512	22,632	689
Total assets	30,001	37,353	50,269	1,516	40,324	49,319	1,501
Current liabilities	(7,103)	(9,741)	(18,970)	(572)	(12,881)	(15,974)	(486)
Noncurrent liabilities	(314)	(141)	(192)	(6)	(186)	(354)	(11)
Total liabilities	(7,417)	(9,882)	(19,161)	(578)	(13,066)	(16,328)	(497)
Total stockholders' equity	22,584	27,471	31,108	938	27,258	32,991	1,004

(1) Calculation of gross profit includes an adjustment for the change in unrealized intercompany profits, in the amounts of (NT$11.5 million), NT$29.7 million, and (NT$16.3 million) for the years ended December 31, 1998, 1999 and 2000, respectively, and NT$9.0 million and NT$23.2 million for the three month periods ended March 31, 2000 and 2001, respectively. Profit and losses resulting from sales of products by the Company to subsidiaries and investee companies accounted for using the equity method are deferred as "unrealized profit from sales to subsidiaries" in the balance sheet, until such products are sold by the subsidiaries or investee companies.

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

The following discussion and analysis should be read in conjunction with the Consolidated and Non-consolidated Financial Statements of the Company and related notes thereto included elsewhere in this Offering Circular. Except as otherwise indicated, all financial information set forth herein with respect to the Company has been presented in New Taiwan Dollars in conformity with ROC GAAP. All financial information as at and for the years ended December 31, 1998, 1999 and 2000 set forth below is given on a consolidated basis. All financial information as at and for the three months ended March 31, 2000 and 2001 set forth below is given on a non-consolidated basis. The Company is not required to, and does not, prepare interim financial statements on a consolidated basis, and consolidated financial information for the three months ended March 31, 2000 and 2001 is therefore not available. As such, the interim non-consolidated financial information is not directly comparable to the consolidated financial information for the full 1998, 1999 and 2000 financial years.

Overview

The Company is a leading manufacturer of notebook PCs and display products. The Company has traditionally operated in four product areas: (i) notebook PCs, (ii) CRT monitors, (iii) LCD monitors and (iv) peripherals, accessories and spare parts. The Company recently expanded its product lines to include GSM mobile phone handsets, CDMA mobile phone handsets and, through Palmax, IA products.

The Company experienced significant growth in net sales from 1998 to 2000. The Company attributes this growth to its success in obtaining new customers for its notebook PCs, CRT monitors and LCD monitors during these periods, while at the same time expanding relationships with its existing customers, which resulted in growth in sales to these customers. The Company's consolidated net sales increased from NT$38.2 billion in 1998 to NT$75.5 billion (U.S.$2.28 billion) in 2000, an average annual increase of 41%. However, for the three months ended March 31, 2001, the Company's non-consolidated net sales increased only 2% to NT$16.1 billion (U.S.$488.6 million) from NT$15.8 billion for the corresponding period in 2000. The Company attributes this slower rate of growth to the global economic slowdown in the first quarter of 2001 and to the phasing out of an older product line of one of its major notebook PC customers.

The Company also experienced growth in net income from 1998 to 2000. The Company's consolidated net income increased from NT$4.9 billion in 1998 to NT$6.0 billion (U.S.$180.4 million) in 2000, an average annual increase of 11%. The growth in net income was primarily due to the growth in operating income as a result of the increases in sales. For the three months ended March 31, 2001, the Company's non-consolidated operating income increased to NT$926 million (U.S.$28.2 million) from NT$895 million for the corresponding period in 2000, an increase of 3.5%. However, non-consolidated net income decreased for the three months ended March 31, 2001 to NT$868 million (U.S.$26.4 million) from NT$1.1 billion for the three months ended March 31, 2000, principally as a result of a decrease in the Company's net investment income from long-term equity investments.

Companies in the PC industry typically experience seasonal fluctuations in their results of operations, with sales of such companies generally higher in the third and fourth quarters of the year in conjunction with the back-to-school and holiday seasons, and generally lower in the first quarter. The Company believes that its substantial annual increases in percentage terms in net sales over the 1998 to 2000 period helped to moderate the impact of such seasonality, resulting in growth in net sales in the first quarter of each of 2000 and 1999 as compared to the immediately preceding quarter. However, the Company believes that as the rate of growth in its net sales moderates, the Company's results of operations will become subject increasingly to the impact of the seasonality of the PC industry, including the possibility that sales in the first quarter of a given year will be lower than sales in the fourth quarter of the immediately preceding year.

Principal Income Statement Components

Net Sales. The Company's net sales are derived principally from sales of notebook PCs and, to a lesser extent, CRT monitors, LCD monitors and peripherals, accessories and spare parts to leading PC vendors in North America, Asia and Europe. In 2000, the Company's largest notebook PC customers were Dell, Toshiba, Hewlett-Packard and Fujitsu; its largest CRT monitor customers were Compaq and Hitachi; its largest LCD monitor customers were Compaq, NEC, Dell and Toshiba; and its largest customers for peripherals, accessories and spare parts were Dell and Hewlett-Packard. As a result of the phasing out of an older product line, Dell accounted for less than 3% of the Company's notebook PC sales for the three months ended March 31, 2001. However, the Company is introducing new product lines for Dell, and expects shipments to Dell to increase throughout 2001. The Company expects Dell to be one of the Company's top three notebook PC customers for the year ended December 31, 2001.

Costs of Sales. The Company's principal costs of sales are raw materials, supplies and components for the manufacture of notebook PCs, CRT monitors, LCD monitors and peripherals, accessories and spare parts. The primary components for the manufacture of notebooks PCs are LCD panels, which comprised approximately 46% of the consolidated cost of sales of notebook PCs in 2000. The primary components for the manufacture of CRT monitors are CRTs, which comprised approximately 60% to 65% (depending on monitor size) of the consolidated cost of sales of CRT monitors in 2000. The primary components for the manufacture of LCD monitors are LCD panels, which comprised approximately 85% of the consolidated cost of sales of LCD monitors in 2000.

Gross Margins. The Company's gross margins are impacted significantly by technological developments in the computer industry and the speed at which the Company and its principal customers are able to respond to such developments. The Company's gross margins are principally affected by the following factors:

- price competition among OEM/ODM manufacturers of notebook PCs, monitors and other products of the Company;
- fluctuations of exchange rates between the NT Dollar and the currencies in which payments to or by the Company are made;
- average sale prices of the Company's products, which tend to fall during the life cycle of the Company's products and as more advanced products are introduced, and which have fallen as a result of the recent trend toward increased sales of low priced notebook PCs by the Company's principal notebook PC customers;
- fluctuations in supply of and demand for (and the consequent fluctuations in market prices of) principal components for the Company's products;
- the Company's trend toward manufacturing and delivering more complete and fully equipped notebook PC systems which reduces overall margins for notebook PCs as additional components are added at lower margins; and
- the Company's ability to reduce unit manufacturing costs of its products by, among other things, increasing economies of scale through higher volume manufacturing and reducing variable and fixed costs.

Operating Expenses. The Company's operating expenses are categorized by selling expenses, administrative expenses and research and development expenses. Selling expenses generally include salaries of sales force personnel, export expenses and handling costs. Administrative expenses include salaries of administrative personnel (related to finance, accounting, information technology, human resources and legal functions). Research and development expenses include salaries of research and development personnel, purchases of research and development equipment and testing and verification costs.

Factors Affecting Financial Performance

A number of general factors affected the financial performance of the Company during the three years ended December 31, 2000 and the three months ended March 31, 2001. The principal factors are discussed below:

Worldwide Demand for Notebook PCs. In the three years ended December 31, 2000, worldwide demand for notebook PCs, the Company's principal product, increased significantly. According to IDC, worldwide portable PC sales grew from U.S.$37.3 billion in 1998 to U.S.$47.5 billion in 1999 and to an estimated U.S.$57.7 billion in 2000. As a result, demand for notebook PCs from the Company's major customers, all of whom are worldwide leaders in retail notebook PC sales, increased. The Company's sales revenues for the three year period ended December 31, 2000 with respect to notebook PCs experienced a compound annual growth rate of 49%. In the three months ended March 31, 2001, non-consolidated net sales by the Company of notebook PCs decreased 2.5% as compared to the three months ended March 31, 2000, in part as a result of the worldwide economic slowdown, particularly in the computer industry, which resulted in reduced consumer demand for the Company's notebook PC products.

Shift to Selling Notebook PCs on Complete System Basis. Before 1999, the Company manufactured notebook PCs on a bare bone system basis, where the Company shipped incomplete notebook PCs to customers, and the customers inserted other components and accessories, such as CPUs, viewing screens and hard disks, before selling to the ultimate purchaser. Beginning in 1999, the Company has sold an increasing proportion of notebook PCs as complete systems, including on a built-to-order ("BTO") or configured-to-order ("CTO") basis, where the Company assembles the entire notebook PC according to the customer's specifications, loads requested software applications and ships the product directly to a distributor or the end-user. Although the average selling prices for complete systems are generally higher than for notebook PCs manufactured on a bare bone system basis, the gross margins with respect to additional components inserted and for assembly of a complete notebook PC are generally low, and, as a result, the overall gross margins on complete system notebook PCs are generally lower than for those built on a bare bone system basis.

Trend Toward Lower Priced Notebook PCs. In recent years, the Company's notebook PC customers have been selling increasing numbers of low priced notebook PCs. The Company's customers make lower margins on such notebook PCs and, consequently, have pressured the Company to reduce its prices, resulting in lower margins for the Company.

Supply of LCD Panels. During the end of 1998 and the beginning of 1999, there was a worldwide shortage of LCD panels. LCD panels are used as viewing screens and are a key component in the manufacture of notebook PCs (comprising approximately 46% of the average cost of sales of a notebook PC in 2000), as well as in the manufacture of LCD monitors (comprising approximately 85% of the average cost of sales of an LCD monitor in 2000). The worldwide shortage of LCD panels increased the prices for these components, pushing up average cost of sales for notebook PCs and LCD monitors. The Company was unable to pass all of the increased LCD panel costs on to its customers, resulting in a decrease in gross margins in 1999 for notebook PCs and for LCD monitors. The LCD panel shortage also resulted in higher average inventory levels, as inventories of other components could not be utilized in the manufacturing process until additional LCD panels were obtained. The Company believes that the supply of LCD panels worldwide has now stabilized, and prices of LCD panels have declined since the beginning of 2000.

CRT Monitor "Price War". The onset of the Asian economic crisis in 1997 saw a number of CRT monitor manufacturers in Korea and Taiwan substantially reduce prices in order to lower inventory levels and attempt to increase, or to defend, market share. This "price war" resulted in substantially lower average selling prices for the Company's CRT monitor products. Lower prices along with higher component costs due to increased demand for components eroded the Company's margins on sales of CRT monitors. The CRT monitor price war also had a negative effect on sales of LCD monitors, which are substitutes to CRT monitors, as the lower average selling prices of CRT monitors made CRT monitors a more attractive alternative to LCD monitors. A number of CRT monitor manufacturers in Taiwan ceased operations in 1999 due to financial difficulties, and prices of CRT monitors stabilized during 2000.

Non-consolidated Results of Operations

Under ROC GAAP, the Company produces quarterly financial statements on a non-consolidated basis and annual financial statements on both a consolidated and non-consolidated basis. The Company is not required to, and does not, prepare interim financial statements on a consolidated basis. Therefore, consolidated financial information for the three month periods ended March 31, 2000 and 2001 is not available. The information with respect to the unaudited non-consolidated quarterly financial statements is not directly comparable to the information provided in the audited consolidated financial statements with respect to the full 1998, 1999 and 2000 financial years.

Substantially all sales of the Company's products, including sales of CRT monitors produced in Compal's production facilities at Kunshan, are recognized through the Company in order to utilize the Company's sales and marketing network and to allow customers to negotiate and deal directly with the Company. Customer orders are shipped from the place of manufacture directly to customers or to the Company's hubs in Europe and the United States. With respect to CRT monitors produced in Kunshan, Compal Electronics (China) Ltd. ("Compal China"), a wholly-owned subsidiary of Just International Ltd. ("Just"), which in turn is a wholly-owned consolidated subsidiary of the Company, invoices the Company at the time the goods leave China at the cost of production plus a margin determined by the Company. In the Company's non-consolidated financial statements, the Company records such purchases as inventory. When the inventory is sold, it is recorded as cost of goods sold. The net income or loss of Compal China is recorded as an investment gain or loss under long-term equity investment. See "—Three Months Ended March 31, 2001 Compared to Three Months Ended March 31, 2000—Non-Operating Income." In the Company's consolidated financial statements, revenues recorded by Compal China are consolidated with the Company's net sales. Accordingly, the information regarding the Company's non-consolidated gross margins is not directly comparable to the information provided in the audited consolidated financial statements.

The following table sets forth certain non-consolidated statement of income data as a percentage of total non-consolidated net sales of the Company for the three month periods ended March 31, 2000 and 2001.

	Three Months ended March 31,	
	2000	2001
Net sales	100.0%	100.0%
Cost of sales	(92.1)	(90.8)
Gross profit	7.9	9.4
Operating expenses		
Selling	(0.6)	(1.4)
Administrative	(0.6)	(1.0)
Research and development	(1.1)	(1.2)
Total operating expenses	(2.3)	(3.6)
Operating income	5.7	5.8
Non-operating income	2.7	0.7
Non-operating expenses and losses	(0.7)	(0.8)
Net income before income taxes and minority interest loss	7.7	5.7
Income tax expense	(0.4)	(0.3)
Net income	7.3	5.4

Three Months Ended March 31, 2001 Compared to Three Months Ended March 31, 2000

Net Sales. Non-consolidated net sales increased 1.8% to NT$16,051 million (U.S.$488.6 million) in the three months ended March 31, 2001 ("First Quarter 2001") from NT$15,766 million in the three months ended March 31, 2000 ("First Quarter 2000"). This increase was primarily due to a 284.3% increase in sales of LCD monitors from NT$561 million in First Quarter 2000 to NT$2,156 million (U.S.$65.6 million) in First Quarter 2001, principally as a result of substantial increases in sales to Compaq and NEC. The substantial increase in sales of LCD monitors was offset in part by a significant decrease in sales of peripherals, accessories and spare parts, which decreased 46.9% from NT$2,007 million in First Quarter 2000 to NT$1,065 million (U.S.$32.4 million) in First Quarter 2001, primarily due to lower sales of docking stations and port replicators to Dell. Sales of notebook PCs decreased 2.5% from NT$10,844 million in First Quarter 2000 to NT$10,575 million (U.S.$321.9 million) in First Quarter 2001, primarily due to lower shipments to Dell. Sales of CRT monitors decreased 4.2% from NT$2,355 million in First Quarter 2000 to NT$2,255 million (U.S.$68.6 million) in First Quarter 2001, primarily as a result of a decrease in average selling prices of LCD monitors, which became more attractive substitutes for CRT monitors.

Cost of Sales and Gross Margin. Total non-consolidated cost of sales increased only 0.3% to NT$14,571 million (U.S.$443.6 million) in First Quarter 2001 from NT$14,521 million in First Quarter 2000 despite the 1.8% increase in non-consolidated net sales. As a result, the Company's non-consolidated gross margin increased to 9.4% in First Quarter 2001 from 7.9% in First Quarter 2000. The increase in non-consolidated gross margin was mainly attributable to a decline in component prices, specifically LCD panels, which are used in the manufacture of both notebook PCs as well as LCD monitors.

Gross Profit. As a result of the foregoing, the Company's non-consolidated gross profit in First Quarter 2001 was NT$1,503 million (U.S.$45.8 million), an increase of 19.8% over non-consolidated gross profit of NT$1,254 million in First Quarter 2000.

Operating Expenses. The Company incurred non-consolidated operating expenses of NT$577 million (U.S.$17.6 million) in First Quarter 2001 as compared to non-consolidated operating expenses of NT$359 million in First Quarter 2000, an increase of 60.7%. Operating expenses also increased as a percentage of net sales, from 2.3% in First Quarter 2000 to 3.6% in First Quarter 2001. The increase in operating expenses was mainly due to increases in selling expenses in connection with new products, and administrative expenses attributable to an increase in the number of employees and to an increase in average salaries. Selling and administrative costs increased in 2000 in anticipation of continued significant increases in net sales in 2001, but such sales did not increase at a sufficiently high rate in First Quarter 2001 to offset the adverse affect on operating margin of the increases in selling and administrative expenses.

Operating Income. As a result of the foregoing, the Company had non-consolidated operating income of NT$926 million (U.S.$28.2 million) in First Quarter 2001 as compared to NT$895 million in First Quarter 2000, an increase of 3.5%.

Non-Operating Income. The Company had non-consolidated non-operating income of NT$116 million (U.S.$3.5 million) in First Quarter 2001 as compared to non-consolidated non-operating income of NT$426 million in First Quarter 2000, a decrease of 72.7%. The decrease in non-consolidated non-operating income was primarily attributable to decreases in net investment income and interest income. The Company had non-consolidated net investment income of NT$31 million (U.S.$0.9 million) in First Quarter 2001 consisting primarily of cash dividends received from Cal-Comp Electronics (Thailand) Public Co. Ltd., as compared to non-consolidated net investment income of NT$304 million in First Quarter 2000 consisting primarily of gains from sales of securities by the Company's subsidiaries Panpal and Gempal and of net income earned by the Company's subsidiary Just. The Company also realized non-consolidated interest income of NT$70 million (U.S.$2.1 million) in First Quarter 2001 as compared to NT$106 million in First Quarter 2000, as a result of higher cash and cash equivalents during First Quarter 2000 as compared to First Quarter 2001.

Non-Operating Expenses and Losses. Non-consolidated non-operating expenses and losses increased to NT$124 million (U.S.$3.8 million) in First Quarter 2001 from NT$107 million in First Quarter 2000. The increase resulted primarily from increased interest expense on indebtedness incurred to finance the Company's investment in Toppoly. In addition, losses due to value diminution of inventory increased to NT$22 million (U.S.$0.7 million) in First Quarter 2001 compared to NT$12 million in First Quarter 2000, as the prices of components, primarily LCD panels, held by the Company in inventory were marked down to reflect decreases in the market prices of such components. The Company had net foreign exchange loss of NT$66 million (U.S.$2.0 million) in First Quarter 2001 compared to a net foreign exchange loss of NT$74 million in First Quarter 2000, as the appreciation of the NT Dollar in both First Quarter 2001 and First Quarter 2000 resulted in losses on the Company's cash balance and accounts receivable denominated in U.S. Dollars.

Income Before Income Tax Expense. Primarily as a result of the decrease in non-operating income, non-consolidated income before income tax expense decreased 24.4% to NT$918 million (U.S.$27.9 million) in First Quarter 2001 from NT$1,215 million in First Quarter 2000.

Income Tax Expense. Non-consolidated income tax expense was NT$50 million (U.S.$1.5 million) (an effective rate of 5.4%) in First Quarter 2001 as compared to non-consolidated income tax expense of NT$70 million (an effective rate of 7.3%) in First Quarter 2000. For a discussion of certain tax credits applicable to the Company during First Quarter 2001, see Notes 2(j) and 12 to the Non-consolidated Financial Statements as of and for the Three Months Ended March 31, 2000 and 2001.

Net Income. As a result of the factors discussed above, net income decreased 24.2% to NT$868 million (U.S.$26.4 million) in First Quarter 2001 from NT$1,145 million in First Quarter 2000.

Consolidated Results of Operations

The following table sets forth certain consolidated statement of income data as a percentage of total consolidated net sales of the Company for each of the three years ended December 31, 1998, 1999 and 2000.

	Years ended December 31,		
	1998	1999	2000
Net sales	100.0%	100.0%	100.0%
Cost of sales	(84.3)	(85.8)	(90.0)
Gross profit	15.7	14.2	10.0
Operating expenses			
Selling	(1.7)	(1.4)	(1.1)
Administrative	(1.1)	(1.2)	(0.9)
Research and development	(1.4)	(1.4)	(1.1)
Total operating expenses	(4.2)	(4.0)	(3.1)
Operating income	11.5	10.3	6.9
Non-operating income	3.2	1.8	1.6
Non-operating expenses and losses	(1.5)	(0.2)	(0.3)
Income before income taxes and minority interest loss	13.3	11.9	8.2
Income tax expense	(0.6)	(0.5)	(0.3)
Net income	12.8	11.4	7.9

2000 Compared to 1999

Net Sales. Net sales increased 59.6% to NT$75,469 million (U.S.$2,275.2 million) in 2000 from NT$47,293 million in 1999. This increase was primarily due to a 91.0% increase in notebook PC sales to NT$51,223 million (U.S.$1,544.3 million) in 2000 from NT$26,813 million in 1999, as a result of increased sales to Toshiba and, to a lesser extent, to Hewlett-Packard and other customers. In addition, sales of CRT monitors increased 35.1% to NT$11,402 million (U.S.$343.7 million) in 2000 from NT$8,441 million in 1999 primarily due to increased sales to Compaq and the commencement of sales to Hitachi. Sales of peripherals, accessories and spare parts declined 12.4% to NT$8,792 million (U.S.$265.1 million) in 2000 from NT$10,040 million in 1999 primarily due to a decrease in orders from Dell for docking stations and port replicators. Sales of LCD monitors increased 97.1% to NT$3,942 million (U.S.$118.8 million) in 2000 from NT$2,000 million in 1999 primarily due to increases in orders from Compaq, Dell and Toshiba. As a result of declines in LCD panel prices, worldwide sales of LCD monitors increased significantly in 2000.

Costs of Sales and Gross Margin. Total cost of sales increased 67.5% to NT$67,937 million (U.S.$2,048.2 million) in 2000 from NT$40,562 million in 1999. As a result, the Company's gross margin decreased to 10.0% in 2000 from 14.2% in 1999. The decline in gross margin was mainly attributable to a decline in gross margin for sales of notebook PCs.

Higher priced "performance" notebook PCs, on which the Company has traditionally earned relatively higher margins, have in recent years comprised an increasingly smaller portion of the worldwide notebook PC market with the increased sales of lower priced "value" notebook PCs. During 2000, the Company's principal notebook PC customers introduced and sold increasing numbers of low priced notebook PCs which had the effect of reducing those customers' profit margins. As a result, the Company was pressured to lower its own margins on low priced notebook PCs. In addition, the Company sold a greater proportion of notebook PCs as complete systems in 2000 compared with 1999. Because of the narrow margins on the additional components required to assemble a complete notebook PC, the overall margins for such notebook PCs are lower than margins for bare bone notebook PCs shipped to a customer for final assembly.

Another factor which adversely affected the Company's cost of sales related to the decrease in the price of LCD panels during the first half of 2000. In December 1999, in anticipation of possible Year 2000 problems, the Company stocked larger than usual amounts of inventory, particularly LCD panels. With the prices of LCD panels declining significantly in 2000, the larger than usual stock of LCD panels purchased at higher prices in December 1999 had a negative impact on the cost of sales of the Company's notebook PCs and LCD monitors.

The Company's gross margin was also affected by the fluctuation in the exchange rate between the NT Dollar and the U.S. Dollar. In 2000, approximately 32% of the Company's raw materials purchases were denominated in NT Dollars while approximately 99% of the Company's net sales were denominated in other currencies, mainly the U.S. Dollar. The appreciation of the NT Dollar against the U.S. Dollar in the first quarter of 2000 adversely affected the Company's gross margin, as the Company's cost of sales increased and its net sales in terms of NT Dollars decreased. As the NT Dollar stabilized and depreciated against the U.S. Dollar during the remainder of the year, the Company's gross margin increased, in particular in the second half of 2000.

Gross Profit. As a result of the foregoing, the Company's gross profit in 2000 was NT$7,515 million (U.S.$226.6 million), an increase of 11.2% over gross profit of NT$6,761 million in 1999.

Operating Expenses. The Company incurred operating expenses of NT$2,345 million (U.S.$70.7 million) in 2000 as compared to operating expenses of NT$1,876 million in 1999, an increase of 25.0%. The increase in operating expenses was mainly due to an increase in the number of employees required to support the Company's increased sales, as well as an increase in average salaries. Operating expenses declined, however, as a percentage of net sales from 4.0% in 1999 to 3.1% in 2000, primarily due to economies of scale afforded by higher sales volumes.

Operating Income. As a result of the foregoing, the Company had operating income of NT$5,170 million (U.S.$155.9 million) in 2000 as compared to NT$4,885 million in 1999, an increase of 5.8%.

Non-Operating Income. The Company had non-operating income of NT$1,238 million (U.S.$37.3 million) in 2000 as compared to non-operating income of NT$817 million in 1999, an increase of 51.5%. The increase in non-operating income was attributable to the Company's net foreign currency exchange gain and an increase in net investment income, offset by a decrease in interest income. The Company had net foreign exchange gain of NT$498 million (U.S.$15.0 million) in 2000, compared to a net foreign exchange loss of NT$40 million in 1999, as the depreciation of the NT Dollar in 2000 resulted in gains on the Company's cash balance and accounts receivable denominated in U.S. Dollars. The Company's net investment income of NT$291 million (U.S.$8.8 million) in 2000 consisted of a net loss of NT$69 million (U.S.$2.1 million) on long-term investments accounted for under the equity method, a gain of NT$249 million (U.S.$7.5 million) on disposal of investments, a loss of NT$37 million (U.S.$1.1 million) on disposal of investments and NT$148 million (U.S.$4.5 million) in cash dividends received. The Company also realized interest income of NT$382 million in 2000, as compared to NT$582 million in 1999, as a result of decreased cash balances.

Non-Operating Expenses and Losses. Non-operating expenses and losses increased to NT$208 million (U.S.$6.3 million) in 2000 from NT$90 million in 1999. The increase resulted primarily from an increase in interest expense from NT$39 million in 1999 to NT$139 million (U.S.$4.2 million), as a result of increased short-term debt, in the form of bank loans and the issue of commercial paper, incurred primarily to fund the Company's investments in Toppoly and a NT$57 million (U.S.$1.7 million) provision for inventory obsolescence.

Income Before Income Tax Expense. As a result of the foregoing, income before income tax expense increased 10.5% to NT$6,200 million (U.S.$186.9 million) in 2000 from NT$5,611 million in 1999.

Income Tax Expense. Income tax expense was NT$232 million (U.S.$7.0 million) (an effective rate of 3.7%) in 2000 as compared to income tax expense of NT$219 million (an effective rate of 3.9%) in 1999. For a discussion of certain tax credits applicable to the Company during 2000, see Note 14 to the Consolidated Financial Statements as of and for the Years Ended December 31, 1998, 1999 and 2000.

Net Income. As a result of the factors discussed above, net income increased 10.8% to NT$5,983 million (U.S.$180.4 million) in 2000 from NT$5,398 million in 1999.

1999 Compared to 1998

Net Sales. Net sales increased 23.8% to NT$47,293 million in 1999 from NT$38,178 million in 1998. This increase was primarily due to an increase in sales of all of the Company's principal products, but particularly notebook PCs and CRT monitors. Sales of notebook PCs increased primarily due to increases in purchase orders from Dell, Fujitsu and Hewlett-Packard. During 1999, the Company also commenced trial-run production of notebook PCs for Toshiba, but such production did not contribute a significant amount to sales of notebook PCs in 1999. Sales of CRT monitors increased as the Company commenced manufacturing CRT monitors for Compaq in June 1999.

Costs of Sales and Gross Margin. Total cost of sales increased 26.0% to NT$40,562 million in 1999 from NT$32,185 million in 1998. In 1999, the average procurement price of LCD panels increased as a consequence of the worldwide shortage of LCD panels, which increased the cost of sales for both notebook PCs and LCD monitors. As a result, the Company's gross margin decreased to 14.2% in 1999 from 15.7% in 1998.

Gross Profit. As a result of the foregoing, the Company's gross profit in 1999 was NT$6,761 million, an increase of 13.0% over gross profit of NT$5,981 million in 1998.

Operating Expenses. The Company incurred operating expenses of NT$1,876 million in 1999 as compared to operating expenses of NT$1,586 million in 1998, an increase of 18.3%. The increase in operating expenses was mainly due to an increase in headcount and related labor expenses in order to support the Company's increase in sales. Research and development expenses as a percentage of net sales was 1.4% in 1999 and 1998.

Operating Income. As a result of the foregoing, the Company had operating income of NT$4,885 million in 1999 as compared to NT$4,395 million in 1998, an increase of 11.1%.

Non-Operating Income. The Company had non-operating income of NT$817 million in 1999 as compared to non-operating income of NT$1,233 million in 1998, a decrease of 33.7%. In 1998, the Company's consolidated subsidiary Panpal realized net investment income of NT$362 million on the disposal of approximately 8.4 million Common Shares of the Company. The Company also realized interest income of NT$582 million in 1999, as compared to NT$667 million in 1998, as a result of lower interest rates on cash deposits in 1999.

Income Before Income Taxes. Income before income taxes increased 10.6% to NT$5,611 million in 1999 from NT$5,073 million in 1998, principally as a result of the net percentage increase in operating income of 11.1%, discussed above.

Income Tax Expense. Income tax expense was NT$219 million (an effective rate of 3.9%) in 1999 as compared to income tax expense of NT$229 million (an effective rate of 4.5%) in 1998. For a discussion of certain tax credits applicable to the Company during 1999, see Note 14 to the Consolidated Financial Statements as of and for the Years Ended December 31, 1998, 1999 and 2000.

Net Income. As a result of the factors discussed above, net income increased 10.8% to NT$5,398 million in 1999 from NT$4,871 million in 1998.

Working Capital Management

Careful management of working capital is an important part of the Company's operations. Accounts receivable and inventories, principal components of the Company's current assets, will continue to require significant amounts of working capital, particularly if net sales continue to increase. Accounts payable, the largest components of the Company's current liabilities, serve as sources of working capital as the Company attempts to take advantage of extended payment terms from suppliers when making purchases.

The following table summarizes the Company's accounts receivable, inventory, accounts payable and cash conversion cycle positions as at and for the dates and periods indicated.

	As at and for the Year ended December 31,						As at and for the Three Months ended March 31,			
	1998		1999		2000		2000		2001	
	NT$	Average Days	NT$	Average Days	NT$	Average Days	NT$	Average Days	NT$	Average Days
	(in millions, except for average days)									
	(Consolidated)						(Non-consolidated)			
Accounts receivable(1) . . .	5,373	43	5,909	44	10,715	40	9,097	45	8,651	56
Inventory(2)	2,594	33	6,312	40	6,971	36	4,283	30	4,093	30
Accounts payable(3)	4,667	45	8,121	58	9,546	47	8,346	52	8,417	56
Cash conversion cycle(4)	—	31	—	26	—	29	—	23	—	30

(1) The average days for accounts receivable for the years ended December 31, 1998, 1999 and 2000 is equal to 365 divided by (i) the net sales in such year divided by (ii) the average of the accounts receivable balance as of December 31 of that year and the accounts receivable balance as of December 31 of the immediately preceding year. The average days for accounts receivable for the three months ended March 31, 2000 and 2001 is equal to 90 divided by (i) the net sales in such three months divided by (ii) the average of the accounts receivable balance as of March 31 of that year and the accounts receivable balance as of December 31 of the immediately preceding year.

(2) The average days for inventory for the years ended December 31, 1998, 1999 and 2000 is equal to 365 divided by (i) the cost of sales in such year divided by (ii) the average of the inventory balance as of December 31 of that year and the inventory balance as of December 31 of the immediately preceding year. The average days for inventory for the three months ended March 31, 2000 and 2001 is equal to 90 divided by (i) the cost of sales in such three months divided by (ii) the average of the inventory balance as of March 31 of that year and the inventory balance as of December 31 of the immediately preceding year.

(3) The average days for accounts payable for the years ended December 31, 1998, 1999 and 2000 is equal to 365 divided by (i) the cost of sales in such year divided by the (ii) average of the accounts payable balance as of December 31 of that year and the accounts payable balance as of December 31 of the immediately preceding year. The average days for accounts payable for the three months ended March 31, 2000 and 2001 is equal to 90 divided by (i) the cost of sales in such three months divided by the (ii) average of the accounts payable balance as of March 31 of that year and the accounts payable balance as of December 31 of the immediately preceding year.

(4) The cash conversion cycle (the length of time between the purchase of inventory and the receipt of cash from accounts receivable) is equal to the sum of days saleable inventory and outstanding days receivable, minus outstanding days payable.

Notes and Accounts Receivable. The Company's billing terms for its major clients are generally 45 days on open account. The establishment of hubs in the United States and Europe, particularly for CRT monitors, generally enables the customers for such products to receive their goods sooner, which generally leads to earlier settlements of invoices. As a result, the Company was able to reduce its consolidated outstanding days receivable from 43 days in 1998 and 44 days in 1999 to 40 days in 2000.

In First Quarter 2001, the Company's non-consolidated outstanding days receivable was 56, compared to 45 in First Quarter 2000. This increase reflects a large receivable balance as at December 31, 2000 as a result of the 59.6% increase in consolidated net sales in 2000, combined with the seasonality of the business and the fact that non-consolidated sales in First Quarter 2001 were only marginally higher than in First Quarter 2000.

Inventory. The Company believes that sound inventory management is a key factor to the successful operation and financial performance of the Company's business. The Company's consolidated days saleable inventory was 33 days in 1998 and 40 days in 1999. The Company attributes this increase in days saleable inventory to the launch of its global logistics delivery network in June 1999, the shortage of LCD panels, which caused other components of notebook PCs and LCD monitors to accumulate in inventory, and additional stocking of components in anticipation of possible Year 2000 problems. Days saleable inventory improved from its 1999 level to 36 days in 2000, as the Year 2000 issue was satisfactorily resolved and the shortage of LCD panels eased. In addition, a number of raw material suppliers have also set up hubs in Taiwan, further reducing the Company's inventories in transit. In First Quarter 2001, the Company's non-consolidated days saleable inventory was 30 days, compared to 30 days in First Quarter 2000.

The Company's policy is to establish a full provision for any raw materials not utilized for a period of three months. With respect to other types of inventory, such as work in progress and finished goods, the Company establishes a provision for inventory loss based on the difference between the costs of inventory and the market price, if lower.

The Company has purchased transportation insurance coverage from independent third-party insurers for finished goods delivered as part of its global logistics delivery network, which generally insures against risk of damage up to 60 days from the date of shipment. In accordance with market practice, the Company is required to notify the insurers of the inventory amounts on a monthly basis, and the insurance coverage for the subsequent month is based on such inventory amount submitted by the Company in the previous month. While the Company believes that the coverage it maintains through insurance policies with independent third party insurers should generally be adequate to cover the total amount of inventory maintained by the Company at any time, a sudden increase in its inventory level or an underestimation set out in its submission to the relevant insurers could result in the Company being under-insured.

Notes and Accounts Payable. The Company's consolidated outstanding days payable were 45 days in 1998, 58 days in 1999 and 47 days in 2000. By increasing its domestic raw material purchases through suppliers who have established hubs in Taiwan, the Company has been able to offload part of its inventory risk to its suppliers while also extending the credit terms for settlement. Payment terms for overseas procurement are generally 60 days on an open account basis, while domestic procurements are generally on a 90-day credit basis. In addition to improved credit terms from suppliers, the increase in outstanding days payable in 1999 was partly the result of the Company's stocking of larger than usual amounts of inventory in December 1999 in anticipation of possible Year 2000 problems. In December 2000, the Company forecasted reduced demand from its customers in January 2001. In addition, as a result of the implementation of a new ERP system and the Chinese New Year holidays falling in January 2001, the Company anticipated curtailed manufacturing operations in January 2001. Accordingly, the Company reduced its purchases of materials in December 2000, resulting in reduced accounts payable as of December 31, 2000 and lower outstanding days payable for 2000. The Company's non-consolidated days payable were 52 days in First Quarter 2000 and 56 days in First Quarter 2001.

Cash Conversion Cycle. The Company's consolidated cash conversion cycle (being the sum of days saleable inventory and outstanding days receivable, minus outstanding days payable) was 31 days in 1998, 26 days in 1999 and 29 days in 2000. Its non-consolidated cash conversion cycle was 23 days in First Quarter 2000 and 30 days in First Quarter 2001.

Liquidity and Capital Resources

Over the 1998 to 2000 period, the Company's primary sources of liquidity were net cash provided by operating activities, short-term borrowings and an issuance of convertible bonds.

Net cash provided by operating activities was NT$5,013 million in 1998, NT$5,844 million in 1999 and NT$2,309 million (U.S.$69.6 million) in 2000. While net income increased 9.2% in 2000, the Company experienced a significant increase in working capital required to support the 59.6% increase in net sales, resulting in the lower net cash from operating activities in 2000.

The Company has lines of credit which provide for drawdowns as well as issuances of commercial paper from time to time. As at December 31, 2000, such lines totalled NT$10,506 million, under which NT$1,101 million had been drawn in the form of short-term loans, NT$2,128 aggregate principal amount of commercial paper had been issued and NT$7,277 million was unused. Drawdowns and commercial paper issued under such lines as at December 31, 2000 bore interest at rates ranging from 4.73% to 7.54%.

In October 2000, the Company issued U.S.$148 million aggregate principal amount of Stock Indexed Zero Coupon Securities due 2005 (the "SIZeS"). The SIZeS are convertible into Common Shares of the Company which may be delivered in the form of Common Shares or global depositary shares. The terms of the SIZeS provide that the holders of the SIZeS have the right to require the Company to repurchase such SIZeS on each of October 19, 2001, 2002, 2003 and 2004 at a price equal to 100% of the aggregate principal amount thereof.

In addition to funding its working capital requirements, the Company's principal uses of cash over the 1998 to 2000 period were capital expenditures, the repayment of debt and the payment of cash dividends.

For the years ended December 31, 1998, 1999 and 2000, the Company made long-term equity investments and capital expenditures of NT$3,193 million, NT$5,242 million and NT$13,337 million (U.S.$402.1 million), respectively. In 2000, the Company made long-term equity investments of NT$12,086 million (U.S.$364.4 million), consisting primarily of equity investments in Toppoly in the amount of NT$7,273 million (U.S.$219.3 million), in Compal Communications in the amount of NT$1,479 million (U.S.$44.6 million), in a fixed line telecommunications company in the amount of NT$1,000 million (U.S$30.1 million) and in Palmax in the amount of NT$858 million (U.S.$25.9 million). The Company made capital expenditures for property, plant and equipment of NT$1,251 million (U.S.$37.7 million), primarily for its new headquarters building and, to a lesser extent, manufacturing equipment. The Company used the proceeds of the issue of the SIZeS to repay short-term debt incurred to fund the Company's equity investment in Toppoly. See "Business of the Company—Toppoly Optoelectronics Corp.". The Company paid cash dividends in 2000 in the amount of NT$2,354 million (U.S.$71.0 million), at a rate of NT$2 per Common Share.

In First Quarter 2001, the Company's primary source of liquidity was net cash provided by operating activities. Net cash provided by operating activities was NT$3,739 million (U.S.$113.8 million) in First Quarter 2001, consisting largely of a decrease in accounts receivable of NT$2,524 million (U.S.$76.8 million).

In addition to funding its working capital requirements, the Company's principal uses of cash in First Quarter 2001 were for long-term equity investments, capital expenditures and the repayment of debt. In First Quarter 2001, the Company made long-term equity investments of NT$1,017 million (U.S.$30.9 million) consisting primarily of investments in International Semiconductor Technology Ltd. (NT$452 million), RF Integrated Corp. (NT$163 million), Emerging Display Technologies Corp. (NT$148 million), Compal Communications (NT$100 million) and Global Strategic Investment Inc. (NT$97 million). The Company also made capital expenditures for property, plant and equipment of NT$66 million (U.S.$2.0 million), and repaid NT$286 million in aggregate principal amount of indebtedness in First Quarter 2001.

The Company's principal uses of cash for 2001 will be for working capital, long-term investments and capital expenditures, the payment of dividends and the repayment of indebtedness. The Company estimates that NT$2.4 billion (U.S.$72.4 million) (including the amounts already expended in First Quarter 2001) will be incurred for long-term investments and capital expenditures for the full year 2001, of which approximately NT$1.8 billion (U.S.$54.3 million) will be used for long-term investments and approximately NT$630 million (U.S.$19.0 million) will be used for property, machinery and equipment procurement.

On April 3, 2001, the Company's shareholders approved a cash dividend of NT$0.5 per Common Share, to be paid on June 6, 2001. Cash dividend payments for 2001 are expected to amount to NT$778 million (U.S.$23.7 million). As the record date for such dividend payment was May 13, 2001, purchasers of the GDSs offered hereby will not be entitled to such cash dividend payment on June 6, 2001. See "Dividends and Dividend Policy".

The Company expects to meet its working capital, long-term investment, capital expenditure, dividend payment and repayment requirements for the remainder of 2001 primarily from cash generated from operations and the proceeds of the Offering. The Company may also consider future offerings of equity and/or equity-linked securities, subject to financing needs and market conditions. As of December 31, 2000, the Company had consolidated cash, cash equivalents and short-term investments amounting to NT$5,879 million (U.S.$177.2 million), consolidated short-term loans, short-term notes and bills payable of NT$3,229 million (U.S.$97.3 million), consolidated unused credit lines of NT$7,277 million (U.S.$219.4 million) and consolidated stockholders' equity of NT$31,108 million (U.S.$937.8 million). As of March 31, 2001, the Company had non-consolidated cash, cash equivalents and short-term investments amounting to NT$7,772 million (U.S.$236.6 million), non-consolidated short-term loans, short-term notes and bills payable of NT$1,800 million (U.S.$54.8 million), non-consolidated unused credit lines of NT$7,915 million (U.S.$240.9 million) and non-consolidated stockholders' equity of NT$4,374 million (U.S.$133.1 million).

From time to time, the Company reviews investment opportunities and will, if a suitable opportunity arises, make an investment. Future investments may be in the form of capital expenditures made directly or through subsidiaries, or acquisitions of, or investments in, other businesses or joint ventures with third parties.

Income Taxes

In recent years, the Company has paid income tax at an effective rate of approximately 5%, compared to the statutory rate of 25%, primarily due to tax exemptions under the ROC Statute for Upgrading Industries. Under such statute, the Company is exempted from taxation on income from sales of notebook PCs and certain monitors manufactured using machinery and equipment purchased with proceeds from the issue of Common Shares. This exemption lasts for five years commencing upon the completion of the investment plan for which the equipment was purchased. The Company estimates that this tax exemption reduced its income tax liability on a consolidated basis by NT$844 million in 1998, NT$949 million in 1999 and NT$1,065 million in 2000 and on a non-consolidated basis by NT$144 million in First Quarter 2001. The Company's purchases of machinery and equipment in 1999 for use in the production of notebook PCs, LCD monitors and wireless handsets are eligible for this exemption. The five-year exemption period with respect to such equipment purchases has not yet commenced. In lieu of this exemption, the statute provides the option for stockholders of the Company who have held their Common Shares for over two years to reduce their taxable income by up to 20% of the acquisition cost of such Common Shares. The stockholders may opt for this stockholder income tax deduction, instead of the five-year tax exemption for the Company, by a resolution of the meeting of stockholders. In addition, under the ROC Statute for Upgrading Industries, a company may earn investment tax credits ranging from 5% to 20% of equipment cost when it installs machinery to increase automation or for environmental protection purposes. These tax credits must be utilized within four succeeding years.

Inflation

The Company does not believe that inflation in Taiwan, where the majority of its operations are located, has had a material impact on its results of operations. Inflation in Taiwan was approximately 1.7%, 0.2% and 1.3% in 1998, 1999 and 2000, respectively.

Exchange Rates

For each of the years ended December 31, 1998, 1999 and 2000, over 98% of the Company's net sales were denominated in currencies other than the NT Dollar, principally U.S. Dollars. For the years ended December 31, 1998, 1999 and 2000, approximately 69%, 67% and 68%, respectively, of the Company's purchases of raw materials were denominated in currencies other than the NT Dollar, principally the U.S. Dollar and, to a lesser extent, the PRC Renminbi and the Japanese Yen. In addition, the Company has significant foreign currency-denominated assets, principally U.S. Dollar-denominated notes and accounts receivable and cash balances, and foreign currency-denominated liabilities, principally U.S. Dollar and Japanese Yen-denominated accounts payable. Accordingly, fluctuations in exchange rates, in particular between the U.S. Dollar and the NT Dollar, affect the Company's gross and operating margins and result in foreign exchange losses or gains in respect of the Company's assets and liabilities denominated in foreign currencies.

The Company recorded a net foreign exchange loss in 1998 of NT$434 million, principally as a result of the rapid appreciation of the NT Dollar against the U.S. Dollar in the fourth quarter of 1998. In 1999, the Company recorded a net foreign exchange loss of NT$40 million due to further appreciation of the NT dollar. The depreciation of the NT Dollar in 2000 resulted in a net gain on foreign exchange of NT$498 million (U.S.$15.0 million). In First Quarter 2001, the NT Dollar appreciated against the U.S. Dollar resulting in a non-consolidated net foreign exchange loss of NT$66 million (U.S.$2.0 million).

To the extent the Company is exposed to exchange rate fluctuations beyond its approximately 70% natural hedge of U.S. Dollar sales and costs of sales, the Company attempts to mitigate the adverse effects of exchange rate fluctuations on its business primarily through the use of forward exchange contracts. However, the impact of future exchange rate fluctuations between the U.S. Dollar and the NT Dollar on the Company's results of operations cannot accurately be predicted.

BUSINESS OF THE COMPANY

Introduction

The Company is a leading manufacturer of notebook PCs and display monitors including CRT monitors and LCD monitors. The Company also manufactures peripherals, accessories and spare parts primarily for notebook PCs and, beginning in 2000, the Company began manufacturing wireless handsets using GSM and CDMA technologies. The Company believes it is one of the three largest producers of notebook PCs among Taiwanese companies. In 2000, Taiwanese notebook PC manufacturers supplied approximately 52.5% of the notebook PCs sold in the world, according to MIC. Taiwan is projected to supply 56.3% of the world's production of notebook PCs for the year 2001 according to MIC. Worldwide shipment of portable PCs is projected by IDC to grow from approximately 19.9 million units in 1999 to 30.4 million units in 2001. The Company also manufactures IAs such as PDAs and pocket PCs.

With the trend away from integration of computer manufacturing, leading PC vendors have increasingly outsourced their manufacturing in order to reduce costs, respond more quickly to customer needs and changes in product cycles and focus on building their brands. The Company has been a major beneficiary of this outsourcing trend. The Company mainly sells its products to customers in the United States, Europe and Asia on an ODM or OEM basis. The Company's major customers include Dell, Toshiba, Hewlett-Packard, Compaq, Fujitsu, NEC and Hitachi. The Company also sells CRT monitors under its own brand names, "Sceptre" and "Komodo", through its affiliate in the United States.

The Company has strategically expanded its product range to include IAs and wireless handsets to take advantage of the growing wireless market and to leverage the Company's manufacturing and R&D capabilities. According to IDC, the number of wireless users globally is projected to reach 1,018 million by 2003, with demand for mobile phones projected to reach 539 million units in 2003. The Company has a 58% interest in Compal Communications, a company that manufactures GSM handsets. The Company, pursuant to an agreement with Compal Communications, began manufacturing and shipping GSM handsets to Compal Communications in June 2000. In addition, the Company plans to produce GSM handsets for its own sale to ODM/OEM customers. The Company also plans to commence commercial manufacture and shipment of CDMA handsets during the third quarter of 2001. The Company develops and produces IAs, such as PDAs and pocket PCs, through its subsidiary Palmax in which the Company holds a 63% interest. On April 3, 2001 the Company and Palmax entered into a formal merger agreement. The Company expects that the merger with Palmax will occur in the second half of 2001.

In addition, the Company, in association, with Kinpo, Uni-President Group and Teco, has established a joint venture company, Toppoly, to engage in the development and production of LTPS TFT LCD panels. These panels are expected to be used primarily in IAs and wireless handsets. The Company began construction of a facility in Taiwan to manufacture LTPS TFT LCD panels in February 2001 and expects production to commence in the second half of 2002. See "—Toppoly Optoelectronics Corp.".

For the year ended December 31, 2000, the Company had total consolidated net sales of NT$75.5 billion (U.S.$2.3 billion), with net sales of notebook PCs, CRT monitors, LCD monitors, peripherals, accessories and spare parts, and wireless handsets accounting for 67.9%, 15.1%, 5.2%, 11.7% and 0.1%, respectively, of total consolidated net sales. The Company's fiscal 2000 consolidated net sales represented a 59.6% increase over fiscal 1999 consolidated net sales of NT$47.3 billion (U.S.$1.4 billion). For the three months ended March 31, 2001, the Company had total non-consolidated net sales of NT$16.1 billion (U.S.$488.6 million), with net sales of notebook PCs, CRT monitors, LCD monitors and peripherals, accessories and spare parts accounting for 65.9%, 14.0%, 13.5% and 6.6%, respectively, of total non-consolidated net sales. Total non-consolidated net sales for the three months ended March 31, 2001 represented a 1.8% increase over total non-consolidated net sales for the three months ended March 31, 2000 of NT$15.8 billion (U.S.$479.9 million).

The Company manufactures products in two plants in Taiwan and two plants in China. The two Taiwan production plants, both located in Pincheng, Taoyuan County, have the combined capacity to produce approximately 300,000 notebook PCs and 60,000 LCD monitors per month. In addition, the Company, together with Compal Communications, currently has the capacity to produce 150,000 GSM and CDMA handsets per month. The plants in China, both located in Kunshan, Jiangsu Province, have the combined capacity to produce approximately 600,000 CRT monitors per month. The Company recently completed construction of a third plant at the same site in Kunshan which, once equipped, may be used, among other things, to expand the Company's production capacity of CRT monitors in China. The Company also plans to shift some of its notebook PC production capability to China, should ROC government investment restrictions which currently prohibit Taiwanese manufacturers from producing notebook PCs in China be removed.

The Company's Common Shares have been listed on the Taiwan Stock Exchange since 1992, and the GDSs have been listed on the Luxembourg Stock Exchange since 1999. As of May 15, 2001, the Company had a market capitalization of approximately NT$84.37 billion (U.S.$2.56 billion).

The Company is a Taiwan registered company. The Company was incorporated as a company limited by shares under ROC Company Law in June 1984. Its registered office is located at 7th Floor, 319 Pateh Road, Section 4, Taipei, (105) Taiwan, ROC.

Industry Overview

Notebook PC Market

The worldwide market for portable PCs has expanded rapidly in the past few years. According to IDC, 19.9 million portable PCs were shipped in 1999, a 28.2% increase over 1998. According to IDC, portable PC shipments increased by 30.5% to 26.0 million units in 2000. IDC estimates, however, that growth in notebook PC sales will slow in 2001 as compared to prior recent years.

Taiwan is currently the world's largest producer of notebook PCs, portable PCs which typically include integrated hard drives and diskettes and weigh 5-8 pounds or less. Over the past few years, growth in Taiwan's notebook PC production has outpaced that for the rest of the world, and as a result Taiwan overtook Japan as the largest producer of notebook PCs in the world in 1999. According to MIC, Taiwan's market share of global production of notebook PCs grew from 32% in 1997 to 39% in 1998 and to 49% in 1999 and is estimated to have increased to 53% in 2000. The Company expects this trend to continue as global notebook PC vendors increasingly need to outsource their notebook production to compete in a global market characterized by falling notebook PC prices.

The notebook PC industry has undergone continuing consolidation of both vendors and manufacturers. In 1998, the ten largest notebook PC vendors accounted for 72.6% of total industry shipments, according to IDC. This number increased to 77.8% in 1999 and is estimated to have increased to 80.6% in 2000. The same consolidation is occurring on the manufacturing side. In Taiwan the top five manufacturers of notebook PCs accounted for 72% of the island's notebook PC production in 1999, compared to only 63.3% in 1997 according to MIC. The Company believes that consolidation of manufacturers will continue in the year 2001 and beyond. Notebook PC vendors, including Japanese vendors which have historically conducted all manufacturing in-house, have relied increasingly on the limited number of ODM/OEM manufacturers that are able to provide better product quality and supply chain management.

Display Market

The PC monitor market enjoyed continued growth in 2000, following the growth in the overall PC market. According to IDC estimates, unit sales of desktop PCs reached 104.6 million, and revenues were over U.S.$141.1 billion in 2000, representing a 15.7% unit growth and a 12.3% revenue growth over 1999. IDC estimates, however, that growth in desktop PC sales will slow in 2001 as compared to prior recent years.

Taiwan is the largest manufacturer of CRT and LCD monitors in the world. According to MIC, Taiwan shipped approximately 62.4 million PC monitors in 2000, representing a growth of 11.6% from 55.9 million units shipped in 1999. Sales of PC monitors by Taiwanese manufacturers generated revenue of U.S.$10.2 billion in 2000, representing an increase of 9.1% from U.S.$9.4 billion in 1999.

CRT monitors represented about 96% of global PC monitor shipments and 88% of global PC monitor revenues in 2000, as compared to 4% and 12%, respectively, for LCD monitors according to IDC. The Company believes that CRT monitors will remain the dominant model of PC monitors in 2001 as the selling price of a CRT monitor is generally approximately 25% of that of an LCD monitor of the same screen size. CRT monitors with 15" and 17" screens were the most popular CRT models in 1999 in terms of units shipped. With respect to LCD monitors, 15" was the most commonly shipped size in 1999.

IDC estimates that for 2000, unit growth rates for PC monitors was 16.0% worldwide, and that revenues increased by 19.7% as the more expensive LCD monitors began to take a larger portion of the overall display market. In addition, the year 2000 was marked by an increase of sales of flat CRT monitors, according to IDC. Several monitor vendors have already moved their entire lines over to flat CRTs, and IDC expects that trend to accelerate.

Wireless Market

The world wireless market is experiencing a period of rapid growth. According to BIS Shrapnel Pty Ltd ("BIS"), worldwide mobile phone subscribers reached more than 630 million in 2000 and this base is expected to increase to approximately 1.25 billion subscribers in 2005.

Currently, mobile phones are in their second generation, which provides digital multiple access systems using either TDMA (Time Division Multiple Access) technology or CDMA technology. TDMA uses a slice of the spectrum commonly known as a "carrier" which is divided into channels or time slots per subscriber per call. The most popular access system based on TDMA technology is GSM. GSM technology has been, and is expected to continue to be in the near future, the most widely used technology in wireless communications. According to BIS, there were approximately 95.4 million GSM subscribers in the Asia-Pacific region in 2000. BIS forecasts that by 2005 Asia-Pacific GSM subscribers will number over 215.4 million.

The CDMA system uses digital codes, rather than radio frequency channels, to differentiate subscribers. CDMA is commonly adopted in North America and in certain Asian countries, particularly Korea and Japan. BIS estimates the number of CDMA subscribers in the Asia-Pacific region at 40.0 million for 2000. One reason the adoption of CDMA has been slower than that of GSM is that CDMA handsets are manufactured by only a few vendors, making them relatively expensive. However, BIS expects demand for CDMA handsets in Asia to reach 112.5 million subscribers by 2005. The Korean and Japanese markets are expected to be the main drivers of this growth.

Recently, major wireless handset vendors have reduced their own handset manufacturing and have outsourced an increasing amount of manufacturing to OEM/ODM manufacturers. In January 2001, Ericsson announced that it would abandon wireless handset production and outsource all of its handset manufacturing to Flextronics. Also in January 2001, Motorola, Inc. announced the closing of its handset manufacturing facility in the United States.

Strategy

The Company's primary objective is to enhance its position as one of the world's leading manufacturers of notebook PCs and CRT and LCD monitors while leveraging its strengths in its current businesses to diversify into wireless products and information appliances. The key components of the Company's strategy are as follows:

Be the ODM/OEM Manufacturing Partner of Choice in the Global PC, Information Appliance and Wireless Industries

The Company's strategy is to be the manufacturing partner of choice for leading global branded PC, IA and wireless companies. Changing dynamics in such markets, including shortened product cycles and faster time-to-market requirements, are driving PC, IA and wireless companies to embrace a business model dependent upon ODM/OEM manufacturing companies' services and products. As an ODM/OEM manufacturer, the Company offers its customers an ability to design and produce high-quality, high-volume and low-cost customized notebook PCs, displays, IA products and wireless handsets with quick turn-around times. The Company is focused on continually improving its products and services in order to deliver even better design, manufacturing, production, fulfillment and after-sales services. The Company is also developing its production capacity which, when coupled with its management experience, should give it the ability to scale production quickly to meet large demand. As a result, branded PC, IA and wireless customers would not have to allocate internal resources to establish and operate such capabilities; instead, those customers could focus more on their sales and marketing efforts.

Foster Product Innovation and Improve Product Quality through R&D

The Company works closely with its customers to design and develop high-quality products that can be manufactured quickly and cost-effectively. While price competitiveness is always a consideration, the Company believes that the leading global notebook PC and desktop PC vendors, which comprise the majority of its customer base, are more focused on product reliability, quality and innovation, and rapid time-to-market capability. The Company's R&D team plays a key role in enabling the Company to design products suitable for immediate sale by customers and allows the Company to move quickly in creating new products based on customer specifications. Furthermore, the R&D team is primarily responsible for integrating design and manufacturing processes in order to produce reliable and high-quality products. In addition, the R&D team has developed a system of component selection that employs frequent testing and uses various other means to ensure the quality of the products the Company delivers. Compal will continue to place strong emphasis on building a top-quality R&D team. Currently, the R&D team consists of 627 engineers. The Company plans to increase its R&D team to over 800 engineers by the end of 2001 as the Company grows its customer base and product lines.

Expand Relationships with Existing Customers and Diversify Customer Base

One of the Company's core aims is to build integrated relationships with its customers, from the design stage to after-sales service. The Company creates a cross-department team for each key customer in order to develop an in-depth understanding of the specifications, testing, quality, logistics and inventory management needs of such customer. The knowledge of and relationships with its customers allow the Company to strengthen its ties to customers, increasing switching costs and creating competitive barriers to entry. The Company plans to continue to develop and build upon these types of working relationships.

The Company intends to increase its marketing efforts in order to broaden its existing customer relationships and build new relationships with other leading companies. The Company also intends to cross-sell its various products to its existing customer base. For instance, the Company successfully expanded its relationships with Dell and Toshiba, from supplying only notebook PCs to also supplying LCD monitors.

The Company plans also to maintain a diversified customer mix in terms of geographic distribution and more specifically focus on the outsourcing trend in Japan. In 1999, the Company recognized the emerging outsourcing trend in Japanese notebook PC vendors and secured a contract from Toshiba, becoming its first OEM supplier.

Capitalize on Opportunities Created by the Growing Wireless Market

The Company has entered the rapidly expanding global wireless market. As personal communications and computing technologies converge, the growing trend is to combine various computing and wireless communications features and functions into a single product. The Company aims to leverage its technological and manufacturing expertise as well as its existing relationships with suppliers and customers in order to become a significant manufacturer of wireless handsets and IA products.

The Company believes that, by utilizing its expertise in portable electronics products, it is well-positioned to diversify into other electronics devices, such as IAs and wireless handsets, and to respond to future demands for products combining wireless communications and computing functions. In 1999, the Company expanded into IA manufacturing by acquiring a 50% stake (which was increased to 62.8% in August 2000) in Palmax, a Taiwan-based designer of IAs such as pocket PCs and PDA devices. In April 2001, the Company entered into a formal merger agreement with Palmax. The Company expects the merger to be effected in the second half of 2001. The Company's IA strategy is to design and manufacture IA products for ODM customers. In May 2000, the Company acquired a 50.8% stake (which was increased to 58.3% in January 2001) in Compal Communications, a company specializing in the manufacture of GSM handsets. The Company plans to manufacture GSM handsets for its own ODM customers as well as through Compal Communications. The Company also manufactures CDMA handsets under a license from Qualcomm. Compal has also established VACOM in Korea to focus on R&D for cellular CDMA handsets. Compal believes it is one of the first Taiwanese companies to manufacture both GSM and CDMA handsets. These investments also highlight part of Compal's strategy, which has been to acquire stakes in existing companies through which Compal can accelerate time to market for the products of such companies.

Expand China Production and R&D Base for Greater Competitive Advantage

The Company is utilizing its CRT monitor production capabilities in Kunshan, China to manufacture products at lower costs and service the global and Chinese markets more efficiently. With more of its key customers setting up production and marketing facilities in China, the Company can shorten its supply chain by shipping its display products directly from the Kunshan plants to the customers' factories or outlets in China. The Company also plans to add notebook PC production capability in China should the ROC government remove investment restrictions related to the computer industry. The Company currently produces all of its CRT monitors in two manufacturing plants in China and believes this existing presence in China will allow it to begin manufacturing some of its notebook PCs in China quickly and at relatively low cost should the ROC government's restrictions on notebook PC manufacturing by Taiwanese companies in China be removed. The Company estimates that it could have a notebook PC production capacity of 150,000 units per month by the end of 2001 if such restrictions were removed. The Company believes that in connection with China's expected entry into the World Trade Organization, more leading PC, IA and wireless companies will establish operations in China and seek partnership with companies that can effectively supply and provide service in China.

In addition, in order to further support operations in China, the Company plans to open a new R&D center in Kunshan in 2001. The new R&D center will be staffed originally with 100 engineers recruited from top Chinese universities, and will engage in software and product development for entry-level products. By moving these R&D functions to China, the Company will be able to focus its R&D resources in Taiwan on product development for more sophisticated, higher value products.

Build a Customer-Focused Global Logistics and Fulfillment Network

The leading notebook PC and desktop PC vendors have increasingly required ODM/OEM suppliers to provide global fulfillment and support networks so that such vendors can respond to market demand quickly and reduce their inventory risk. The Company's strategy is to offer clients the ability to ship and service products in Asia, Europe and the United States on a timely and cost-effective basis. For display customers, the Company has built distribution hubs strategically located in Europe and the United States. The Company first ships its monitors to these hubs, for rapid shipment within 24 to 48 hours to end users upon final orders being placed. For notebook PC customers, the Company offers customers the ability to produce notebook PCs on a BTO/CTO basis and to deliver such products to customer-designated locations within five to seven days of receiving an order. In addition, the Company has developed a Customer Relationship Management ("CRM") system through which the Company is able to communicate directly with its customers and customers can access electronically information on the Company's R&D, testing and production progress.

Develop Toppoly into a Major Manufacturer of LTPS TFT LCD Panels

The Company has a 33.1% interest in Toppoly, a joint venture company established to develop and manufacture LTPS TFT LCD panels. The Company's goal is for Toppoly to become a major manufacturer of LTPS TFT LCD panels to supply what the Company believes will be a growing market for such panels and to supply such panels for use in IAs and wireless handsets produced by the Company. The Company expects Toppoly to begin producing LTPS TFT LCD panels in the second half of 2002. Such panels are lighter, have better resolution, consume less power and produce clearer and brighter images compared to amorphous-silicon TFT LCD panels currently in wide use. LTPS TFT LCD panels employ recently developed technologies, and currently there are few manufacturers of such panels. The Company believes that when Toppoly begins producing LTPS TFT LCD panels in the second half of 2002, such panels will be in high demand due to their superior quality and the rapidly growing market for IAs and wireless handsets. The Company also believes that, based on its assessment of current global production capacity and investments to expand such capacity, there will be a supply shortage by the time Toppoly begins production of such panels. In addition to capitalizing on the potentially profitable market for LTPS TFT LCD panels, Toppoly will enable the Company to source such panels, even during supply shortages, for use in the Company's IAs and wireless handsets. The Company believes that the high quality of LTPS TFT LCD panels will give the Company's IAs and wireless handsets an advantage over competing products using amorphous silicon TFT LCD panels. The Company's investment strategy for Toppoly also highlights Compal's conservative approach to investing in new technologies, whereby Compal takes minority positions to diversify risk.

Competitive Strengths

With its manufacturing and service infrastructure and ability to provide total solutions to leading global PC, IA and wireless customers, the Company believes that it is well-positioned to capitalize on the growth in such sectors, outsourcing by leading global branded PC, IA and wireless companies and the growth of the customers that it targets. The following is a list of the Company's key competitive strengths:

Proven Design and Manufacturing Track Record

Many products the Company has manufactured for its major customers have won numerous awards, including the PC Magazine "The Best of 1999" award in December 1999, the PC Magazine Editors' Choice awards in July 1999 and February 2000 and awards from Dell, Hewlett-Packard and Intel. The Company has assembled a high-quality R&D team to work hand in hand with some of the world's largest PC and IA vendors. The Company has also developed cost-effective and quality-controlled manufacturing processes and facilities. The DFx program developed by the Company is a project management program which encompasses a broad range of the Company's operating functions, including R&D, design, manufacturing, packaging and quality and testing. Among other things, the DFx program is designed to enhance the design capability of the Company by matching its R&D development work with a high-quality manufacturing process. This initiative has further streamlined the Company's manufacturing processes and reduced unit manufacturing costs.

High-Quality Customer Base Driving Future Growth

The Company's customers include many of the leading global PC vendors: Dell, Toshiba, Hewlett-Packard and Fujitsu for notebook PCs; Compaq, Hitachi and NEC for CRT monitors; and NEC, Compaq, Dell, Toshiba and Siemens for LCD monitors. The Company has established close, strategic relationships with these customers. As the computing industry undergoes further consolidation of vendors and the Company's customers increase their share of the growing computing market, the Company believes it will be well-positioned to strengthen its relationships with such customers. In addition, the Company's expansion into the Japanese customer base in 1999 will enable it to take advantage of the growing outsourcing trend of Japanese companies.

Depth of Customer Relationships Increases Switching Costs and Barriers to Entry

The Company offers its customers a full range of products and services including leading design capabilities, a reliable supply of key components, high-quality and innovative products, scalable manufacturing facilities, a strategically-placed logistics and fulfillment network and convenient after-sales services. In addition, the Company assigns to each key customer a cross-function team to ensure that goods and services are designed, manufactured and delivered with efficiency and consistency. With the support of Compal's high-quality products and services, the Company's customers can concentrate on sales and marketing without having to divert attention and resources to managing the design, production and fulfillment processes.

The Company believes that the integration of its design and manufacturing capacity with customers has created competitive advantages. The Company's customer team, consisting of personnel from sales and marketing, logistics, R&D, manufacturing and quality assurances, becomes integrated with the customer's corporate management and develops an in-depth understanding of the customer's specifications, testing, quality, logistics, inventory and service needs, making it more costly for customers to switch to a new manufacturing partner. The Company's CRM system further enhances the link between the Company and its customers.

Value-Added R&D Expertise

The Company believes that one of its significant competitive strengths is the quality of its R&D department, currently comprising 627 engineers, and anticipated by the Company to expand to over 800 engineers by the end of 2001, with in-depth experience in the computer manufacturing sector. The department is divided into teams assigned to work either on different products or, in the case of notebook PCs, for specific key customers. Customer-specific R&D teams work closely with Company personnel in sales, logistics, manufacturing and quality assurance in order to develop products to best serve the needs of the specific customer and to maintain the Company's manufacturing readiness. The

Company believes the effectiveness of the R&D department, due in large part to its organization and the close interaction between it and the Company's other departments, has enabled the Company to reduce the time it takes to design and bring to market high-quality and high-performance products using advanced technology at a lower unit manufacturing cost.

The Company continues to focus on building R&D capabilities for its new businesses and has research teams comprising 75 engineers at Compal Communications for GSM products, 47 engineers at VACOM for CDMA products and 79 engineers at Palmax for IA products (which numbers of engineers in each case are included in the 627 engineers discussed above).

Competitive Cost Structure Due to Economies of Scale and Effective Cost Management

With annual sales exceeding 1.7 million notebook PCs and 2.5 million displays in 2000, the Company enjoys significant benefits of economies of scale in its design and manufacturing process, customer service and sourcing of raw materials and components. Since many of the Company's products use a substantial number of the same materials and components, the Company has greater leverage in negotiations with key suppliers. The Company's production facilities in Kunshan, China enhance the Company's ability to ramp up the total production capacity at relatively low cost. With more of its key customers establishing production and marketing facilities in China, the Company can ship its display products directly from its China plants to customers' factories or outlets in China. In addition, the Company's suppliers of key components have been expanding their production infrastructure in China, thereby allowing the Company to manage its supplies and costs more effectively.

Scalability Supports Further Expansion in the PC, IA and Wireless Markets

The Company believes that consolidation in the PC, IA and wireless industries, coupled with the current trend towards increased outsourcing, will drive these vendors to identify partners who have the ability to scale production rapidly to meet their growing needs. The Company currently has total monthly capacity to produce 300,000 notebook PCs, 60,000 LCD monitors and 600,000 CRT monitors. The Company's Taiwanese facilities have the capacity to manufacture 150,000 GSM and CDMA handsets per month. The Company believes that it is ranked among the top ten largest producers of notebook PCs worldwide for 2000 based upon the Company's estimates of production volume and shipments.

Compal Products

The Company's operations were historically organized into four major product lines—notebook PCs, CRT monitors, LCD monitors, and peripherals, accessories and spare parts. In 2000, the Company commenced the manufacture of wireless handsets. The following table sets out the breakdown of sales by product as a percentage of net sales for each of the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	1998	1999	2000	2000	2001
	%	% (Consolidated)	%	%	% (Non-consolidated)
Net Sales					
Notebook PCs	60.0	56.6	67.9	68.8	65.9
CRT monitors	13.3	17.8	15.1	14.9	14.0
LCD monitors	0.6	4.2	5.2	3.6	13.5
Peripherals, accessories and spare parts	26.1	21.4	11.7	12.7	6.6
Wireless handsets(1)	—	—	0.1	—	—
Total	100.0	100.0	100.0	100.0	100.0

(1) In 2000, the Company manufactured GSM handsets for Compal Communications. However, beginning January 1, 2001, Compal Communications began producing handsets itself in space leased from the Company rather than purchasing such handsets from the Company. Consequently, the Company did not have any non-consolidated net sales of wireless handsets in the three months ended March 31, 2001. See "—Wireless Handsets—GSM Handsets".

The following table sets out the unit sales of notebook PCs, CRT monitors, LCD monitors and wireless handsets for each of the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	1998	1999	2000	2000	2001
		(Consolidated)		(Non-consolidated)	
Unit Sales(1)					
Notebook PCs	726,808	1,012,899	1,798,457	374,639	378,056
CRT monitors	982,747	1,820,914	2,385,549	524,204	428,882
LCD monitors	7,889	81,239	194,723	23,938	133,458
Wireless handsets(2)	—	—	35,217	—	—
Total	1,717,444	2,915,052	4,413,946	922,781	940,396

(1) Due to the nature and variety of products produced under "peripherals, accessories and spare parts," the actual numbers of units produced under these products are not meaningful and therefore not provided.

(2) In 2000, the Company manufactured GSM handsets for Compal Communications. However, beginning January 1, 2001, Compal Communications began producing handsets itself in space leased from the Company rather than purchasing such handsets from the Company. Consequently, the Company did not sell any wireless handsets in the three months ended March 31, 2001. See "—Wireless Handsets—GSM Handsets".

In addition to notebook PCs, displays, peripherals, accessories and spare parts and wireless handsets, the Company produces IA products through Palmax. On April 3, 2001, after receiving authorization from their respective shareholders, the Company and Palmax entered into a formal merger agreement. The Company expects that it will merge with Palmax in the second half of 2001.

Following such merger, the business of Palmax will be fully included in the financial results of the Company. In accordance with ROC GAAP, however, the results of Palmax were not consolidated with the Company in 2000; therefore, IA products manufactured and sold by Palmax are not included in the tables above. For information with respect to IA products manufactured and sold by Palmax, see "—Information Appliances" below.

The geographic breakdown of the Company's net sales (according to shipment destinations) for the periods indicated below is as follows:

	Year ended December 31,			Three months ended March 31,	
	1998	1999	2000	2000	2001
	%	%	%	%	%
	(Consolidated)			(Non-consolidated)	
North and South America	65.0	59.2	41.4	40.9	27.4
Europe	23.0	22.1	22.1	21.5	27.0
Asia (excluding Taiwan)	9.2	16.5	35.2	35.6	45.0
Taiwan	1.4	1.5	0.9	1.4	0.4
Others	1.4	0.7	0.4	0.6	0.2
Total	100.0	100.0	100.0	100.0	100.0

The Company's consolidated net sales in Asia in the year ended December 31, 2000 increased significantly due principally to the addition of Toshiba as a major customer. The Company's non-consolidated net sales in North and South America decreased in the three months ended March 31, 2001 due principally to lower sales to Dell as an older product line was phased out.

Notebook PCs

The Company sells a wide range of notebook PC models that vary as to all of the major configurations, such as processor brand and speed, hard drive, memory, type and size of display, and number and type of modules, among other things. Typically, the Company works closely with its ODM/OEM customers to develop models meeting these customers' specific needs and requests. Notebook PCs sold under individual customers' brands will often be different in terms of configuration and style, even for substantially similar models. The computer industry commonly recognizes four categories of notebook PCs: performance (high-end), portable (light weight), value (low to mid-end) and ultraportable (thin and light). The Company produces each of these types of notebook PCs.

The Company's ODM/OEM customers for notebook PCs consist mainly of major vendors in the global and regional notebook PC markets, including, as of March 31, 2001, Dell, Toshiba, Hewlett-Packard, Fujitsu and Legend Computer System Ltd. (Hong Kong) ("Legend").

Before 1999, Compal manufactured all notebook PCs on a bare bone system basis, whereby various parts of the notebook PCs were assembled by Compal and the assembled products were then shipped to the customers for such customers to insert other components and accessories. Since 1999, Compal has been manufacturing and delivering increasing numbers of complete notebook PC systems, including notebook PCs on a BTO/CTO basis. Under a BTO/CTO arrangement, Compal assembles the entire notebook PC in its plants according to customers' specifications and loads requested software applications on to the notebook PCs. Compal then arranges for delivery of the finished product to a distributor or the end user according to the customers' instructions, generally within five to seven days after receipt of a firm order. In the year ended December 31, 2000, and the three months ended March 31, 2001, approximately 23% of Compal's consolidated notebook PC sales and approximately 44% of Compal's non-consolidated notebook PC sales, respectively, in value terms were on a BTO/CTO basis, and Compal expects this percentage to increase in the future. Compal anticipates that there will be more BTO/CTO orders from its customers in the future as this method allows vendors to reduce inhouse assembly and packaging costs and inventory levels. The BTO/CTO arrangement strengthens the Company's relationship with its customers as the customers become more dependent on the Company's products and services.

Because a small number of vendors dominate the global notebook PC industry, there are a limited number of large customers for the Company and other ODM/OEM manufacturers. As a result, the Company's sales of notebook PCs are concentrated in sales to a small number of key customers. The Company believes that its focus on a small number of major vendors enables it to work closely with such vendors in all aspects of design, production and distribution. In addition to working closely with current clients, the Company will continue to target aggressively the remaining top notebook PC vendors. In 1999, the Company's focus on diversifying its customer base resulted in the Company winning Toshiba as a new customer. By the end of 2000, Toshiba had become one of the Company's top two notebook PC customers.

Displays

The Company manufactures CRT monitors and LCD monitors of different sizes. At present, the Company's product range includes 14", 15", 17", 19" and 21" CRT monitors and 12", 14", 15" and 17" LCD monitors. In the year ended December 31, 2000, the Company sold approximately 2.4 million CRT monitors and approximately 194,000 LCD monitors, and revenues from sales of display products accounted for 20.3% of the Company's total consolidated net sales. For the three months ended March 31, 2001, the Company sold approximately 429,000 CRT monitors and 133,000 LCD monitors, with revenues from sales of display products accounting for 27.5% of the Company's total non-consolidated net sales.

The Company sells its displays to customers primarily on an ODM or OEM basis. The Company's principal display customers include Compaq and Hitachi for CRT monitors and Dell, Toshiba, Compaq and NEC for LCD monitors. The Company also manufactures displays under its own brand names, "Sceptre" and "Komodo", primarily for the U.S. market. Manufacture of own brand products is relatively small, with sales of the Company's Sceptre and Komodo products contributing 2.3% of the Company's total consolidated net sales of displays in the year ended December 31, 2000. The Company's CRT monitors are manufactured in its plants in China, while its LCD monitors are manufactured in its Taiwan plants.

The Company's strategy with regard to display products is to continue to add major ODM/OEM customers by leveraging its customer base for notebook PCs and other products. The Company recently secured NEC as a new customer for its CRT monitors and began shipping CRT monitors to NEC in April 2001. The Company markets to ODM/OEM customers by emphasizing its high quality, high volume manufacturing capabilities as demonstrated in the context of its notebook products. By adding new major ODM/OEM customers, the Company will increase production volumes, which leads to reduced unit manufacturing costs.

The Company also plans to change its product mix towards larger CRT monitors which have higher margins. The Company follows market trends closely and expects to expand its production capacity and increase its sales of LCD monitors as demand for LCD monitors is expected to increase with the continued narrowing of price differences between CRT monitors and LCD monitors.

Peripherals, Accessories and Spare Parts

In addition to notebook PCs, CRT monitors and LCD monitors, the Company also manufactures secondary batteries, memory chips, peripherals and accessories for notebook PCs and sells spare parts for notebook PCs. The Company's major accessories products include docking stations, which are the bases for the insertion of cards, and port replicators, which are used to connect notebook PCs with monitors and peripherals.

The Company sells its docking stations and port replicators mainly to Dell and Hewlett-Packard for use with their branded notebook PCs. Docking stations and port replicators usually carry higher margins than other spare parts, and margins for peripherals, accessories and spare parts are generally higher than those for notebook PCs, CRT monitors and LCD monitors.

In the year ended December 31, 2000, the percentage of the Company's consolidated net sales attributable to peripherals, accessories and spare parts decreased to 11.7% from 21.4% in the year ended December 31, 1999, mainly due to a decrease in orders for docking stations and port replicators from Dell. In the three months ended March 31, 2001, the percentage of the Company's non-consolidated net sales attributable to peripherals, accessories and spare parts was 6.6%. As the Company's customers increasingly purchase products from the Company on a complete system basis, the Company expects to ship more bundled products to customers such as Dell and Hewlett-Packard. As a result, sales of separate docking stations and port replicators by the Company as a percentage of the Company's net sales are expected to continue to decrease.

Wireless Handsets

The Company was one of the first companies in Taiwan to develop and manufacture both GSM and CDMA handsets.

GSM Handsets

In May 2000, the Company invested NT$1.3 billion to acquire a 50.8% interest (increased to 58.3% in January 2001) in Compal Communications, a company specializing in GSM handset development and manufacture, which had already developed a dual-band handset model. The Company believes that there are significant synergies in combining the GSM products already developed by Compal Communications with the Company's strength in manufacturing, sales and marketing, delivery and after-sales services and financial resources.

In 2000, the Company procured components and raw materials and manufactured GSM handsets for Compal Communications based on an arm's length arrangement between the two parties. Compal Communications then sold the handsets to cellular service providers and manufacturers. Compal began shipping GSM handsets in June 2000 to customers of Compal Communications in the PRC and other Asian markets. In the year ended December 31, 2000 the Company sold over 35,000 GSM handsets and revenues from sales of GSM handsets accounted for 0.1% of the Company's total consolidated revenues.

Beginning January 1, 2001, Compal Communications began producing handsets in space leased from the Company in one of the Company's Pincheng factories. Since that date, Compal Communications has also conducted its own procurement of materials and components. In the three months ended March 31, 2001, Compal Communications sold approximately 78,000 GSM handsets generating NT$253 million in revenues for Compal Communications.

In addition to engaging in the GSM handset business through its stake in Compal Communications, the Company also plans to manufacture and sell GSM handsets itself to ODM/OEM customers. The Company expects to begin shipping such handsets by June 2001.

The Company has a manufacturing capacity of 150,000 handsets per month, a portion of which is being leased by Compal Communications as described above. The Company plans to increase its manufacturing capacity to 700,000 handsets per month by the end of 2001.

The Company's GSM product strategy has been to focus initially on developing products and building up manufacturing capacity while selling GSM handsets to cellular service providers and smaller, second-tier handset manufacturers. The Company will then gradually focus increasingly on first-tier handset manufacturers with the aim of becoming their ODM/OEM partner of choice. In furtherance of this strategy, Compal Communications entered into a master ODM agreement for the development and supply of wireless communications devices with Motorola, Inc. on April 26, 2001.

The Company has plans to launch a GPRS phone by the end of second quarter 2001 and a tri-band WAP (Wireless Application Protocol) phone by the first quarter of 2002.

The Company has control of the Board of Compal Communications, and the Company's President, Jui-Tsung Chen, is Chairman of the Board of Compal Communications.

CDMA Handsets

In February 2000, the Company entered into a CDMA license agreement with Qualcomm to develop, make and sell products for CDMA wireless applications, including cellular handsets. Under the agreement, the Company also obtained CDMA technology from Qualcomm for the development of CDMA handsets. The Company believes that it is one of two Taiwanese cellular manufacturers to have entered into a CDMA license agreement with Qualcomm.

The Company plans to commence commercial manufacture and shipment of CDMA handsets during the third quarter of 2001. The Company will produce these handsets in its production facilities in Taiwan. Through VACOM, a Korean subsidiary in which the Company holds an 80.1% equity interest, the Company is developing "smart phones" combining CDMA with either WAP or PDA functions. A CDMA-WAP handset has the ability to access the Internet, whereas a CDMA-PDA handset has a variety of PDA functions built into the handset. The Company is planning to launch its first of such WAP phones in the fourth quarter of 2001.

The Company's goal is to position itself to take advantage of potential future demand for products using CDMA technology. To achieve this goal, the Company intends to engage in product development by acquiring relevant technologies and investing in R&D. Initially, the Company intends to target CDMA handset vendors in Korea and South America while awaiting the possible adoption of the CDMA standard in other markets, notably the PRC.

Information Appliances

The Company currently owns a 63% interest in Palmax, an IA manufacturer founded in September 1994. As wireless and IA technologies continue to converge, the Company believes that the business of Palmax, in combination with Compal's notebook PC, display and wireless handset businesses, will allow the Company to approach new technologies with expertise in all of these fields.

Palmax is focused on the production of PDAs, pocket PCs and wireless IA products (with both monochrome and color screens). Currently, Palmax has a production capacity of approximately 80,000 units per month at its production facilities located in Taoyuan, Taiwan.

Although Palmax historically sold its products primarily under its own brand name, the Company plans to take advantage of Compal's existing customer bases and know-how of ODM/OEM manufacturing to expand Palmax's sales on an ODM/OEM basis, until substantially all of Palmax's sales are on an ODM/OEM basis. The Company expects that over 80% of Palmax's total sales will be on an ODM/OEM basis by the end of 2001. Palmax currently sells color pocket PCs to Legend on an ODM basis and recently began a project with a major U.S. PDA vendor to develop pocket PCs. Palmax is in discussions with other potential ODM/OEM customers regarding production of PDAs and pocket PCs, including major Japanese manufacturers.

On February 6, 2001, the Company announced that Palmax would be merged into the Company by way of a share swap on the basis of three Palmax shares for each Common Share of the Company. On April 3, 2001, upon receiving the approval of its shareholders at the annual general meeting of shareholders, Compal entered into a formal merger agreement with Palmax. The merger is expected to be completed in the second half of 2001 and would result in the issuance of approximately 23.4 million new Common Shares of the Company. The merger is subject to, among other closing conditions, the approvals of the Taiwanese Fair Trade Commission (which approval was granted on March 1, 2001), the Taiwan Stock Exchange and the ROC SFC. The Company's IA business will be conducted through the "PMCC" (Personal Mobile Computing and Communications) division within Compal, which would involve both Palmax as well as existing Compal personnel.

The Company believes that it will derive significant benefits from the merger of Palmax into Compal. The Company believes that the merger will provide Compal with greater bargaining power with suppliers, as Compal and Palmax obtain components from many of the same providers. The merger is also expected to enhance the Company's ability to win ODM/OEM business for IAs, as many manufacturers of such products are more familiar with the Compal name and have already qualified Compal as a manufacturing partner with respect to notebook PCs and displays. The Company believes that merging the IA manufacturing business into Compal using the Compal name will facilitate the cross-selling of IAs to Compal's existing ODM/OEM notebook PC and display customers, several of whom are expanding into the IA market. The merger is also expected to result in certain operational efficiencies and economies of scale, as the business of Palmax is incorporated into the Compal organization. In addition, the Company plans to focus on the development of IA products that incorporate other Compal product technologies, such as LTPS TFT LCD panels to be produced by Toppoly.

As of and for the year ended December 31, 2000 Palmax had total assets, revenues and net loss of approximately NT$1,744.2 million (U.S.$52.6 million), NT$220.2 million (U.S.$6.6 million) and NT$112.7 million (U.S.$3.4 million), respectively. As of and for the three months ended March 31, 2001 Palmax had total assets, revenues and net loss of approximately NT$1,711 million (U.S.$52.1 million), NT$23 million (U.S.$0.7 million) and NT$46 million (U.S.$1.4 million), respectively. Under ROC GAAP, the Company is not required to include in its consolidated financial statements a subsidiary whose total assets or total revenues are less than 10% of the Company's total assets and total revenues. Accordingly, Palmax has not been consolidated in the consolidated financial statements of the Company for the 1998 to 2000 period. However, following the merger of Palmax into Compal as discussed above, the business of Palmax will be fully included in the financial results of the Company.

Toppoly Optoelectronics Corp.

The Company holds a 33.1% interest in Toppoly, a joint venture company established to develop and manufacture LTPS TFT LCD panels. An LTPS TFT LCD panel is different from a traditional amorphous-silicon TFT LCD panel in that it integrates driver integrated circuit chips into the "glass" of the panel. As a result, it is lighter, has better resolution, consumes less power and produces a clearer and brighter image. LTPS TFT LCD panels that are 10.4" or larger are used as viewing screens in notebook PCs and LCD monitors. Smaller panels can be used in products such as IAs, digital cameras and wireless handsets. Toppoly is expected to commence the manufacture of 2" to 6" panels by the second half of 2002 and subsequently to expand to larger panels.

The Company, along with Kinpo and the Uni-President Group, originally established Toppoly as a joint venture company in December 1999. As of December 31, 2000, Toppoly had stockholders' equity of NT$22.2 billion. All issued shares in Toppoly have been fully paid. The Company has invested NT$7,356 million (U.S.$221.8 million) for a 33.1% interest in Toppoly. There are no inter-company loans between Toppoly and the Company. The other major investors in Toppoly are the Uni-President Group, which has contributed NT$7,664 million (U.S.$231.1 million) for a 34.5% interest; Kinpo, which has contributed NT$1,217 million (U.S.$36.7 million) for a 5.5% interest; and Teco which in Toppoly's second round equity capital raising contributed NT$3,800 million (U.S.$114.6 million) for a 17.1% interest. Individuals connected with the Company, including Shen-Hsiang Hsu, the Chairman of the Company and Jui-Tsung Chen, the President and Director of the Company, have also invested in Toppoly. Of the 11 directors of Toppoly, the Company and Kinpo have appointed four directors, the Uni-President Group has appointed three directors and Teco has appointed two directors. In addition, in the joint venture agreement establishing Toppoly, the Company, Kinpo and the Uni-President Group agreed that Toppoly's Chairman and Chief Executive Officer would be appointed by the Company. Jui-Tsung Chen, the President of the Company, is Toppoly's Chairman and Chief Executive Officer.

In November 1999, the Company entered into an agreement with the Electronics Research Service Organization of the Industry Technology Research Institute, Taiwan under which it acquired basic LTPS-related technologies. Compal's rights and obligations under this agreement were subsequently transferred to Toppoly. In addition, Toppoly recently entered into an agreement with a major Japanese manufacturer to acquire technologies for product development and volume production of LTPS TFT LCD panels. By the terms of the agreement, Toppoly, in exchange for future transfer of technology and knowhow, agreed to pay a fixed amount annual royalty fee for the next five years and a one-time technology transfer fee consisting of both cash and shares to be issued in the future upon reaching certain enumerated milestones. In addition to the shares to be issued pursuant to the technology transfer agreement, the Company expects that Toppoly will also issue additional shares in connection with rights issues and issues to employees. As a result of the dilutive effect of such share issues (including the issuance of all shares issuable to the Japanese manufacturer pursuant to the agreement described above), the Company expects its interest in Toppoly to decline to 28.3% by mid-2002.

Manufacture of LTPS TFT LCD panels involves the production of mother glass substrates which are subsequently cut into individual panels. Production of LTPS TFT LCD panels will take place in a newly built factory in the Hsinchu Science-Based Industrial Park in Taiwan. The Company began construction of the facility in February 2001. The facility will be equipped and production is expected to begin in the second half of 2002. The Company expects the facility to have an initial production capacity of 30,000 mother glass substrates which is expected to be increased to 60,000 substrates by the end of 2003.

The Company plans to source LTPS TFT LCD panels from Toppoly for use in the Company's production of IAs and wireless handsets. Toppoly may also supply panels to Teco, a major manufacturer of electrical appliances in Taiwan, should Teco enter the IA manufacturing business. In addition, Toppoly's technology partner has a right to purchase a significant portion of Toppoly's output. The Company expects that a portion of Toppoly's output will also be sold to third party customers. The Company believes that its ability to offer IAs and wireless handsets with LTPS TFT LCD technology sourced from Toppoly will be a competitive advantage in the future for obtaining manufacturing orders from top tier IA and wireless handset vendors.

Although Toppoly is currently in the early stages of establishing its business, the Company's goal is for Toppoly to become a major manufacturer of LTPS TFT LCD panels. The Company believes that LTPS TFT LCD panels will be in high demand in the future due to their superior quality and the growing market for IAs and wireless handsets.

Sales and Marketing

The Company is organized into business units along product lines, with the Computer Business Unit for notebook PCs, the Display Business Unit for monitors and the PMCC division for wireless handsets and IAs. Each of these business units has sales and marketing teams focusing on the unit's products. Sales and marketing personnel are further divided into smaller groups dedicated to each of the Company's major customers. Each dedicated customer group is headed by an account manager who is primarily responsible for the Company's relationship with that specific customer.

The Company focuses its sales and marketing activities on a small number of large, global customers, with whom it seeks to build close relationships. The sales and marketing division endeavors both to maintain and to strengthen relationships with the Company's current customers and to expand the Company's business by attracting new clients and procuring larger, more diverse orders from existing clients. With respect to existing clients, the account manager responsible for a specific client will work closely both with the customer and with employees in Compal's other divisions, such as R&D and manufacturing, in order to develop products tailored to meet that customer's specific needs. The Company believes that such contact between Compal staff and that of the Company's clients further strengthens the Company's relationships with its customers.

With respect to attracting new customers, Compal mainly targets first tier companies with whom it is not currently doing business. To aid in the process of securing purchase orders from new customers, the Company will, often in response to a request for quotation, set up a team dedicated to a specific potential client.

Due to the competitiveness of the markets for the Company's products, long-term contracts are not typical. Compal does, however, enter into arrangements with customers whereby, for planning purposes, such customers supply Compal with non-binding rolling forecasts, which form the basis of purchase orders at a later point in time. The establishment of distribution hubs in the United States and Europe for displays enables customers to shorten time between firm orders and delivery.

The Company generally bills its customers on delivery of goods with a credit term of 45 to 90 days. Substantially all customer payments are made in U.S. Dollars.

The Company makes available to each of its major customers its CRM system to maintain an ongoing interactive channel of communication between the customer and the Company. The CRM system is an internal information system interfaced with the data base of the customer, through which the customer can monitor each stage of the progress of products from design to shipping. This customer engagement tool includes many protocols such as forecast, order, order confirmation, change of order, order change confirmation and shipment forecast. The Company believes its CRM system provides a convenient way for customers to interact with the Company and is an important element in achieving customer satisfaction.

Distribution and After-Sales Support

Compal ships most of its products either directly from its factories to its customers or, in the case of some of its CRT monitors, through its global distribution centers. In addition, notebook PC orders on a BTO/CTO basis are shipped to distributors or end-users typically within five to seven days after a firm order is received. In the year ended December 31, 2000 and in the three months ended March 31, 2001, approximately 23% of Compal's consolidated notebook PC sales and approximately 44% of Compal's non-consolidated notebook PC sales, respectively, in value terms were on a BTO/CTO basis, and the Company expects this percentage to increase in the future. Other orders are delivered according to vendor specification.

Although Compal does not intend to establish manufacturing sites in regions where its major customers are located, its policy is to maintain after-sales service centers in strategic locations. It currently has two after-sales service centers in the United States and one in each of Europe and Japan. These after-sales service centers serve as Compal's main point of contact with its notebook PC customers. The Company plans to adopt the same method for CRT and LCD monitors. The centers directly provide repair services to customers, thereby avoiding the expense and delay of shipping to Taiwan and eliminating the need for customers to establish their own service centers.

Raw Materials and Components

The Company focuses on managing its raw materials and components to minimize costs and potential disruption to its business. The Company has implemented a supply chain management ("SCM") system to allow closer communication between itself and its suppliers. Similar to the CRM system, the SCM system is an information system used by the Company to monitor the supply of components and raw materials and manage its inventory and control costs. The Company does not enter into long-term supply contracts with its suppliers, but provides many of them with 12-week rolling forecasts. Payment terms generally require the Company to make payment between 60 to 90 days after invoicing.

Notebook PCs

The Company sources all of the major components needed in the manufacture of notebook PCs from third party suppliers. The major components include LCD panels, CPUs, hard drives, CD-ROM drives, batteries, and DVD drives. The most significant component cost by far is that for LCD panels. Compal's principal suppliers of LCD panels are Samsung, LG, Mitsubishi and Chunghwa Picture Tube, Ltd. ("CPT"). In 1999, a global shortage drove up the price of LCD panels. The shortage of LCD panels has since eased, although the Company believes that such shortages are cyclical.

As a major notebook PC manufacturer in Taiwan, the Company believes it is in a better position than many of its smaller competitors to obtain a reliable supply of necessary components as the relationships the Company maintains with its suppliers, as well as the size of its purchases, help reduce the impact of any scarcities on Compal's business.

The Company typically contacts its suppliers on a weekly basis and provides them with 12-week rolling forecasts. The Company generally accumulates one month's worth of notebook PC raw materials and components in inventory, subject to adjustment for scarcity or oversupply.

Displays

The Company sources its components and raw materials for CRT monitors from leading domestic and overseas suppliers. The major components include CRTs and certain passive components, and the principal suppliers for CRTs include Samsung, CPT and Hitachi. The Company is not dependent upon any single supplier for any of its CRT monitor components and raw materials.

From time to time the Company has experienced shortages in CRT monitor components and raw materials. For example, in early 1995, the CRT monitor industry experienced a global shortage in CRT supply. The Company believes that there is currently a sufficient supply of components and raw materials for CRT monitors. In addition, the Company believes that the proximity of its CRT supplies in China reduces its transportation time and inventory costs.

The principal components for LCD monitors include LCD panels and, to a lesser extent, passive components such as chip capacitors and resistors. The Company obtains its major components for LCD monitors from a number of domestic and international suppliers including CPT and Samsung (with respect to 14" LCD panels), and CPT, Hannstar Display Group and LG (with respect to 15" LCD panels). There was a shortage in the supply of LCD panels in 1999, which resulted in a price increase in LCD monitor production cost. Since then, LCD panel prices have declined, primarily due to increases in supply, and the Company believes there is currently a sufficient supply of LCD panels. In the first half of 2000, there was a shortage in the market with respect to chip capacitors and resistors, but the Company believes that there is currently a sufficient supply of such passive components.

Wireless Handsets

The key components for wireless handsets are chip sets, passive components, batteries and LCD panels. For its GSM handsets, the Company sources its flash memory chips from Intel Semiconductor Ltd., digital signal processors from Texas Instruments, Incorporated and power amplifiers from Conexant Systems, Inc. The Company intends to source its CDMA chip sets from Qualcomm and certain of its key passive components from Japan. The Company expects that 50% of its raw materials for GSM handsets will be sourced in Taiwan, and approximately 50% of its raw materials for CDMA handsets will be sourced from the United States and Japan.

Information Appliances

The key components for IAs include flash memory chips, CPUs, LCD panels (including touch panels), random access memory chips, passive components and batteries. The Company expects to source CPUs from Intel Corp. and LCD panels from Sharp Corporation and other Japanese suppliers. The Company expects that, starting in the second half of 2002, the Company will source LTPS TFT LCD panels for its IA products from Toppoly. Recently there has been a shortage in the market with respect to touch panels. However, the Company does not expect this shortage to pose any significant disruption to its production of IAs.

Research and Development

The Company and its subsidiaries currently have an R&D staff consisting of 627 engineers organized into teams based on products. The focus of the department is to reduce the time-to-market of each product and to develop high-quality products. The main activities of the R&D engineers are product initialization and manufacturing readiness.

The Company's relationships with its customers begin at the R&D and design stage. The engineers from the R&D department utilize the quality improvement loop ("QIL") system and an advanced design method to achieve the most satisfactory design. At each stage of product design and development, the engineers work closely with the sales and marketing personnel and customers and interact with them via the CRM system with respect to specifications, schedule, prices and manufacturing readiness. R&D personnel conduct phase reviews and a series of tests for each new product. The engineers participate in weekly telephone calls with customers and conduct regular customer visits. The objective is to design high-quality products, measured by cost-effectiveness and ease of manufacturing.

Functional directors and knowledge managers supervise and coordinate the work of different R&D teams across the five function areas: sales and marketing, logistics, R&D, manufacturing and quality assurance. Two projects managers are assigned to each project and are each responsible for development and manufacturing aspects of the project.

Notebook PCs

The Company's current R&D activities relating to notebook PCs are focused mainly on enhancing and improving the Company's range of products. There are currently four core R&D teams, each dedicated to one of the Company's key ODM/OEM notebook PC customers. The R&D team also maintains direct communications with other industry leaders such as Intel and Microsoft, and participates in various standard bodies such as USB (Universal Serial Bus), IEEE1394 and Bluetooth wireless. Recent notebook PC R&D initiatives have included one of the first RAMBUS-based designs, easy-to-use Legacy Free design, porting to Linux based operating system, wireless LAN and Bluetooth implementation. Other technologies such as high speed board design and simulation, accurate impedance control method and advanced materials for lighter, stronger notebooks are also part of the

R&D program. The Company has an R&D staff of 321 employees working on notebook PCs, and plans to increase such staff to over 400 by the end of 2001.

Knowledge management is another key area for Compal's R&D group. The Company focuses on knowledge collection, sorting and sharing with the aim of improving the efficiency among different core R&D teams and achieving improved results.

Displays

The Company maintains an R&D staff of over 75 people that focuses on CRT and LCD monitors. As the CRT monitor is a relatively mature product, the R&D activities of the Company mainly focus on enhancing and improving its range of products to make them more competitive in the market. The R&D team collects market information from the Company's customers and suppliers and develops new products based on the customers' requirements, desired specifications and features. Recent R&D activities include work on the Diamondtron design for CRT monitors and flat CRT monitors.

Wireless Handsets

By investing in Compal Communications, the Company gained access to the GSM technology which had been developed by Compal Communications, including the capability of manufacturing dual-band GSM handsets. Compal Communications plans to move into the manufacture of tri-band GSM handsets in the future. Compal Communications has a team of 75 R&D personnel and plans to increase this number to over 150 by the end of 2001. In addition, the Company currently has its own GSM R&D team consisting of 29 engineers, which number it plans to increase to approximately 45 engineers by the end of 2001.

VACOM, the R&D center for the Company's CDMA handsets, currently employs 47 engineers.

Competition

Notebook PCs and Displays

The markets for notebook PCs, CRT monitors and LCD monitors are highly competitive. Competition mainly comes from other Taiwanese manufacturers, and the Company has experienced pressure on prices and margins. The Company competes with Quanta, Acer Incorporated, Arima and Inventec with respect to notebook PCs; Samsung and LG in Korea and ACM, Lite-On Technology, Philips L.G. and Tatung Co., Ltd. in Taiwan with respect to CRT monitors; and ACM, CTX Opto-Electronics Corp. and Amtran Technology Co., Ltd. with respect to LCD monitors.

As the Company focuses primarily on ODM/OEM customers, the Company seeks to offer superior design, products and service to its existing customers while also exploring opportunities to develop new relationships with other ODM/OEM customers. The Company believes that it will be able to maintain and improve its competitive position for a number of reasons. The Company's management team has been in the ODM and OEM business for a considerable period, and has acquired extensive experience and understanding of the development of each of the Company's major products. Unlike some of its competitors, Compal considers centralized manufacturing (having its manufacturing plants in a restricted number of locations) a more effective way of managing production than establishing worldwide manufacturing capabilities. Resources (including capital and manpower) saved by central manufacturing are devoted to improving the quality of the Company's products. However, to better serve its customers, Compal has established a number of after-sales hubs and service centers in the regions where its customers are located. The Company believes that centralized manufacturing combined with regional hubs and service centers enables it to maintain quality while providing enhanced service close to its customers.

In addition, the Company has been able to achieve greater economies of scale by moving all its CRT monitor production to Kunshan, China, which management considers to be a favorable geographical location characterized by lower average labor costs (compared to Taiwan) and a lower employee turnover rate (compared to the southern part of China). Manufacturing of notebook PCs in China by Taiwanese companies is currently prohibited by ROC law. However, the Company plans to add notebook PC production capability in China, should the prohibition be lifted, in order to reduce unit manufacturing costs.

Wireless Handsets

The Company is one of the first companies in Taiwan to manufacture both GSM and CDMA handsets. The Company's goal is to become an ODM/OEM manufacturing partner of major wireless handset vendors. In Taiwan, there are several manufacturers of handsets, including those which manufacture handsets on an ODM/OEM basis. Currently, the most significant ODM/OEM manufacturer of handsets in Taiwan is ACM, which sells handsets on an ODM/OEM basis to Motorola, Inc. Other competitors in Taiwan include GVC Corporation, Quanta, Arima and Inventec. In addition, several other notebook PC and electronics manufacturers in Taiwan have begun to develop or expressed interest in developing wireless handset manufacturing capability. Outside of Taiwan, major manufacturers of wireless handsets on an outsourced basis include Flextronics and Solectron Corporation. The Company believes that these companies will be its primary competitors in the market for ODM/OEM manufacturing of handsets.

The Company believes that competition in the wireless handset market will be intense. The Company's handset businesses are dependent on the success and growth of the relevant technology standard, and the growth in outsourcing of manufacturing by major handset vendors. While the Company believes that its R&D efforts, such as the establishment of VACOM as an R&D center in Korea, and the access to advanced technology through the Company's investment in Toppoly, will provide a competitive advantage over certain other entrants, there can be no assurance that other manufacturers in Taiwan or abroad may not be able to establish joint ventures or alliances which will give them access to advanced technology and customer orders. The Company plans to continue to focus its R&D on wireless technology as well as to leverage its customer base in other product lines to cultivate new clients for its wireless handsets.

Information Appliances

The Company believes that the global market for IAs has potential for significant growth. The Company, currently through Palmax, manufactures PDAs and pocket PCs mainly under Palmax's own brand name, but plans eventually to produce such products almost entirely on an ODM/OEM basis. Currently, most major vendors of PDAs and pocket PCs do not source their products from ODM/OEM manufacturers. As a result, the Company's primary source of competition is the manufacturing capacity of the vendors themselves, and the success of the Company's IA manufacturing business will be dependent on the growth of outsourcing among IA vendors. In the ODM/OEM market, the Company will compete with IA manufacturers in and outside Taiwan, such as HTC Corporation, which produces pocket PCs on an ODM/OEM basis for Compaq. In addition, should ODM/OEM manufacturing of IAs become more prevalent, the Company expects more electronics and computer manufacturers to expand into the business of manufacturing IAs.

Production Facilities

The Company currently has two production facilities operating in Taiwan and two in China. Compal's Taiwan manufacturing facilities are located in Pincheng, Taoyuan County, Taiwan. The two Taiwanese plants are located on the same site. The land and buildings are owned by Compal. Notebook PCs, LCD monitors, GSM handsets, CDMA handsets and peripheral products are manufactured at these two plants. The two Taiwanese plants together have eight production lines with a monthly capacity to produce 300,000 notebook PCs, 60,000 LCD monitors and 150,000 GSM and CDMA handsets.

The two manufacturing plants in China are located on the same site in Kunshan, Jiangsu Province. In addition, in November 2000 the Company completed construction of a third plant on the same site. The Company expects to install manufacturing equipment and begin production in the third plant by the second half of 2001. The two existing China plants currently are both dedicated to the production of CRT monitors. The existing plants have a combined monthly production capacity of 600,000 CRT monitors.

A major earthquake occurred in Taiwan on September 21, 1999. Although production at the two Taiwan plants was disrupted for two days, no significant damage or injury was suffered during or as a result of the earthquake. The two plants resumed full-scale operation on September 23, 1999, relying on the Company's own power generators. The consequent electricity restriction imposed in Taiwan had no significant effect on the plants, as Compal's own power generators generated sufficient electricity to sustain the operation throughout each affected production shift.

Quality Control

Compal places special emphasis on quality control which it considers it to be one of the keys to success in the computer industry. The Company employs quality control procedures at every critical manufacturing stage and carries out various tests on its sites. These tests include an engineering verification test, a development verification test and a production verification test. These tests enforce internal standards set by the Company for its products and are conducted by a team of staff dedicated to quality management. For customers having their own specifications, the Company will also carry out tests as prescribed by such customers. The Company also receives feedback reports from customers on a weekly basis. On-site checks are also carried out by the Company on its major suppliers' facilities.

Starting in 1998, the Company's quality control procedures have included the use of an internal database system known as the QIL system by which the Company consults internal databases at every stage in the development of a new product. The QIL database contains market information and experience gained from the development of past products. The Company believes that its QIL system helps to ensure quality as early as the design stage, and helps the Company to time- and cost-effectively design, engineer, develop and produce new products.

The notebook PCs that the Company developed and manufactured for its customers have received numerous awards for its products, most notably the PC Magazine Editors' Choice awards, Mobile Insights MI99 award and awards from Dell, Hewlett-Packard and Intel. The existing manufacturing facilities in both Taiwan and China have received ISO9002 and ISO14001 certification. In addition, the existing Taiwan manufacturing facilities have received ISO9001 certification. The Company plans to seek ISO certifications for its third China facility.

Trademarks, Patents and Licenses

As of March 31, 2001, the Company held 331 patents in respect of its products, in and outside of Taiwan. The Company believes that it is important to develop and patent its designs and special features in its products and may be able to license out some of the more important patents in the future. To date, the most significant patent the Company has developed is a design known as "Combo Module", which is a device combining the functions of a floppy diskette drive and a DVD drive. The design was patented in Taiwan and the United States in 1998. The Company intends to aggressively defend its patents and other intellectual property.

Due to the similarity between the marks "Compal" and "Compaq", the Company has anticipated that difficulties will arise if it files an application to register its name with the Trademark Registry in Taiwan and abroad. In order to address this issue, the Company has been engaged in negotiations with Compaq with a view to executing a co-existence agreement. If the Company is able to conclude such an agreement with Compaq on mutually satisfactory terms, the Company believes that it will be able to apply successfully for its mark to be registered.

Like other manufacturers of CRT monitors, the Company has signed a patent license agreement with Thomson Multimedia Licensing Corporation which grants the Company a license to produce color monitors, in consideration for which Compal will pay a fee for each monitor it produces. The Company has also entered into a license agreement with Qualcomm with respect to the sale and development of CDMA handsets using Qualcomm's CDMA technology. See "—Compal Products—Wireless Handsets—CDMA Handsets".

Environmental Protection

The Company is mainly engaged in the assembly of products which are generally not associated with environmental problems. The Company has not been subject to any material fines or action involving non-compliance with environmental regulations of Taiwan or China and believes that it is in compliance in all material respects with relevant environmental protection regulations.

Litigation and Legal Issues

In October 2000, Samsung Electronics Co., Ltd. initiated a patent infringement action in the United States District Court for the Northern District of California against Compal and two of its subsidiaries (Bizcom Electronics, Inc. and Sceptre Technologies Inc.) and certain other notebook PC manufacturers in Taiwan. The asserted patents purport to cover various aspects of notebook PC systems, including an easily-upgradable CPU board, a particular cache memory system, a counter for refreshing DRAMs using the system clock, a potential power saving feature related to modems, certain PC fascimile devices, and use of special keys for certain applications. Samsung has indicated that it will likely seek the payment of reasonable royalties if the action is successful. The Company submitted a preliminary response to the court in December 2000. The defendants, including the Company and its subsidiaries, dispute the claims and are pursuing a defense of the action. If the Company is required to pay royalties or damages, there can be no assurance that such payments would not have a material adverse effect on the Company's business, financial condition and results of operations.

On February 13, 2001, Elonex I.P. Holdings Ltd. filed several patent infringement actions in the United States District Court for the District of Delaware against the Company and a number of other major electronics and computer companies. The claims relate to infringement of patents relating to power management in CRT monitors. The Company intends to seek a commercial resolution to this dispute. However, if such resolution is not reached and the Company is held to have infringed on one or more of Elonex's patents, the Company may be required to pay damages. If the Company is required to pay royalties or damages, there can be no assurance that such payments would not have a material adverse effect on the Company's business, financial condition and results of operations.

On April 6, 2001, LG Electronics Inc. filed a complaint for patent infringement against the Company, Bizcom Electronics, Inc. and Sceptre Technologies, Inc. in the United States District Court for the Northern District of California. The complaint alleges infringement of five patents relating to various aspects of notebook PC systems and requests relief in the form of damages and injunctions enjoining future infringement. The Company intends to engage U.S. counsel and defend the suit. If the Company is required to pay royalties or damages or is enjoined, there can be no assurance that such payments or injunction would not have a material adverse effect on the Company's business, financial condition and results of operations.

On May 3, 2001, one of the Company's major customers, Dell, announced that it would voluntarily recall approximately 284,000 batteries used in Dell's Inspiron 5000 and Inspiron 5000e notebook computer series due to concerns that such batteries may overcharge, causing them to become very hot and possibly catch fire. As these notebook PCs were manufactured by the Company for Dell, pursuant to the Company's agreement with Dell the Company could be liable for the costs of such recall as well as the costs associated with any damage that has occurred as a result of such product defect. Pursuant to the terms of the supply agreement the Company entered into with the Japanese supplier of the recalled batteries, and subsequent correspondence between the Company and such supplier, the Company believes that such Japanese supplier would be responsible for indemnifying the Company for any costs associated with the defective batteries, including the recall and replacement of such batteries and any damages associated therewith. In addition, as the Inspiron 5000 and Inspiron 5000e models have been phased out by Dell and have not been produced by the Company since February 2001, the Company currently has no such models in its inventory stock. However, there can be no assurance that the Company will be able to recover any losses incurred in respect of the defective batteries from the Japanese supplier, or that such defects will not adversely affect the Company's standing and reputation in the marketplace, either of which could have a material adverse effect on the Company's business, financial condition and results of operations.

Save as disclosed above, the Company is not and has not been involved in, and the Company is not aware of, any material litigation or other proceedings or legal issues the outcome of which might, individually or taken as a whole, affect the financial condition or results of operations of the Company.

Insurance

The Company has insurance policies covering risks of fire and damage to machinery, land and sea delivery and construction and installation damage which it considers adequate. Fire insurance includes coverage of risks from explosions, earthquakes and flooding. The Company has also purchased transportation insurance coverage for finished goods delivered as part of its global logistics delivery network.

Employees

As of March 31, 2001, the Company had 3,508 employees. The Company's workforce is not unionized and the Company has not to date experienced any labor disputes. An employee relationship meeting is conducted monthly by the Company to address any employee-related issues raised by its workforce. The meeting is chaired by a Vice President of the Company and is attended by representatives of different departments in the Company to discuss staff affairs. The Company believes that it maintains a good relationship with its employees.

The salaries of the Company's employees are reviewed on an annual basis. Salaries are adjusted based on industry standards, inflation and individual performance. The Company normally pays annual bonuses to the Company's employees equivalent to an average of two months' salary. In addition, the Articles of Incorporation of the Company provides that the Company's employees are entitled to employee bonuses out of the retained earnings which may be paid in cash or stock. See "Description of Common Shares". In 2000, the Company issued approximately 27 million Common Shares, and in

2001 the Company's shareholders have approved the issue of approximately 30 million Common Shares, to be delivered in June or July 2001, as employee stock bonuses. Under ROC GAAP, employee stock bonuses are accounted for as a transfer from retained earnings to common shares in stockholders's equity. The amount allocated from retained earnings is calculated at par value of NT$10 per Common Share, notwithstanding that the market value of the Common Shares on the date of declaration and distribution of employee stock bonuses have been significantly higher than NT$10 per Common Share. The Company is not required to and does not charge the market value of the employee stock bonuses to employee compensation expense. ROC law requires that employees be given pre-emptive rights to subscribe to between 10% and 15% of any rights issues or share offerings of the Company. The Company does not have any share option schemes. See "Risk Factors—Risks Relating to Ownership of the GDSs—Employee stock bonuses may have a diluting effect on the holdings and associated rights of the holders with respect to the Common Shares and the GDSs".

The Company collects pension fund contributions for its domestic employees in accordance with the Labor Standards Laws of Taiwan and contributes 5% of the aggregate base monthly salaries of all domestic employees each month to Central Trust of China. All Taiwan companies listed on the Taiwan Stock Exchange are required to calculate their actuarial pension obligations. In common with other companies listed on the Taiwan Stock Exchange, the Company adopted Taiwan Statements of Financial Accounting Standard (SFAS) No.18 "Accounting for Pensions" as of December 31, 1995.

In order to maintain quality and efficiency and provide employees with relevant professional knowledge, the Company provides training programs for employees, including management. The Company's employee training programs are overseen by its human resources department. The Company's training strategy is focused on ensuring that both introductory and ongoing training provides employees with the requisite skills to carry out their job responsibilities.

The Company provides additional benefits to its employees, such as accident and medical insurance and, in some cases, accommodation.

Subsidiaries and Associated Companies

As of May 14, 2001, the Company held direct or indirect investments of 10% or more of the paid-in capital of the following principal subsidiaries and associated companies:

Name and Registered Office of Associated Company	Main business	The Company's effective equity interest (%)	Jurisdiction of incorporation
Allied Circuit Co., LTD. 128 Kung Erh Rd., Wu Lin Village, Lung Tan, Tao Yuan, Taiwan, ROC	Printed circuit board manufacturing	20.0	Taiwan
Beijing Compower Xuntong Electronic Technology Co., Ltd. Beijing 3F, DSP Building 17 Zhongguancun Road, Haidian Region Beijing 100080 China	Maintenance and wholesale of notebook PCs and other electronic products	50.0	PRC
Bizcom Electronics, Inc. 781 Ames Avenue, Miliptas, CA 95035, USA	Maintenance and wholesale of notebook PCs	100.0	U.S.A.
C&C Laboratory Co., Ltd. 7th Fl, 319 Pateh Rd., Sec. 4, Taipei, (105) Taiwan, ROC	EMI testing	34.1	Taiwan
Cal-Comp Electronics (Thailand) Public Co., Ltd. 191/54, 191/57 18th Fl., CTI Tower, Rachadapisek Road, Klongtoey, Bangkok 10110, Thailand	Manufacture of calculators, facsimile machines, cordless phones, printers, CD-Roms and other types of electronic products	10.6	Thailand

Name and Registered Office of Associated Company	Main business	The Company's effective equity interest (%)	Jurisdiction of incorporation
Compal Communications Inc. 7th Fl, 319 Pateh Rd., Sec. 4, Taipei, (105) Taiwan, ROC	Design, manufacture and sale of GSM handsets	58.3	Taiwan
Compal Electronics (CHINA) Co., Ltd 988 Tung Feng East Rd., Economic & Technical Development Zone, Kunshan, Jiangsu, China	Manufacture and sale of CRT monitors	100.0	PRC
Compal Europe B.V. Hoeksteen 149,2132 MX Hoofddorp, Netherlands	Maintenance and wholesale of notebook PCs and monitors	100.0	The Netherlands
Compal Europe (U.K.) Ltd. Unit A, Centrepoint, Marshall Stevens Way, Westinghouse Road, Trafford Park, Manchester, M17 1PP UK	Maintenance of notebook PCs	100.0	U.K.
Compal Holding Ltd. Tropic Isle Building, P.O. Box 438, Road Town, Tortola, British Virgin Islands	Holding company	100.0	British Virgin Islands
Compal International Ltd. Tropic Isle Building, P.O. Box 438, Road Town, Tortola, British Virgin Islands	Wholesale of monitors	100.0	British Virgin Islands
Compower International Ltd. Tropic Isle Building, P.O. Box 438, Road Town, Tortola, British Virgin Islands	Holding company	50.0	British Virgin Islands
Compower International Technology Co., Ltd. 11th Fl., 99 Nan-King E. Rd., Sec. 5, Taipei, (105) Taiwan, ROC	Retail of office equipment, information software, import and export	10.0	Taiwan
eASPNet Inc. One Capital Place, P.O. Box 1787, Grand Cayman Cayman Islands, B.W.I.	Application service provider	11.8	Cayman Islands
Emerging Technology Venture Capital Corp. 13F-1, No. 128, Sec. 3, Ming Sheng E. Rd., Taipei, Taiwan, ROC	Venture capital	10.0	Taiwan
Everskil Technology Co., Ltd. No. 10 Chung Shan Rd., Industrial Park, Taipei, Hsien, Taiwan, ROC	Plastic injection, pressing	11.1	Taiwan

Name and Registered Office of Associated Company	Main business	The Company's effective equity interest (%)	Jurisdiction of incorporation
FR Venture Capital Inc. 13F, 563, Chung Hsiao E. Rd., Sec. 4, Taipei, Taiwan, ROC	Venture capital	15.6	Taiwan
Fu Shung International Capital Development Inc. 11th-1 Floor, No. 22 Sec. 5, NanKing E. Rd., Taipei, (105) Taiwan, ROC	Venture capital	12.5	Taiwan
G-Advanced Semiconductor Tech. Corp. B2, No 8 Tung Hsing Rd., Taipei, 105 Taiwan, ROC	GaAs IC foundry	15.4	Taiwan
Gallery Management Limited The Lake Building 1st Floor, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands	Investment	41.1	British Virgin Islands
Gempal Technology Corp. 7th Fl, 319 Pateh Rd., Sec. 4, Taipei, (105) Taiwan, ROC	Wholesale of notebook PCs and monitors	99.99	Taiwan
Hua Cheng Venture Capital Corp 17th-1 Floor, 105 Tun Hwa S. Rd., Sec. 2, Taipei, Taiwan, ROC	Venture capital	10.0	Taiwan
International Semiconductor Technology Ltd. No. 5, South 6th Rd., K.E.P.Z. Kaohsiung, Taiwan, ROC	Smart card selling and testing	48.3	Taiwan
Just International (Singapore) Pte. Ltd. 138 Robinson Road #17-00 Hong Leong Centre Singapore 068906	Holding company	100.0	Singapore
Just International Ltd. Tropic Isle Building, P.O. Box 438, Road Town, Tortola, British Virgin Islands	Holding company	100.0	British Virgin Islands
Kadia Management Ltd. Tropic Isle Building, P.O. Box 439, Road Town, Tortola, British Virgin Islands	Holding company	100.0	British Virgin Islands
Kinpo Electronics, Inc. 10F, No 99, Nan-King East Road, Sec. 5, Taipei, Taiwan, ROC	Design and manufacture of consumer electronics, communications and PC peripherial products	10.4	Taiwan
Landport Capital Investment Company 8F, No.248 Nan-King E Rd., Sec. 3, Taipei (105) Taiwan, ROC	Venture Capital	14.9	Taiwan

Name and Registered Office of Associated Company	Main business	The Company's effective equity interest (%)	Jurisdiction of incorporation
Palmax Technology Co., Ltd. 3F, NO. 168, Li De St., Chung Ho City, Taipei Hsien, Taiwan, ROC	Manufacturing and sale of IAs	62.8	Taiwan
Panpal Technology Corp. 7th Fl, 319 Pateh Rd., Sec. 4, Taipei, (105) Taiwan, ROC	Wholesale of notebook PCs and monitors	99.99	Taiwan
RF Integrated Corp. 15375 Barranca Parkway, Suite B-109, Irvine, CA 92618 U.S.A.	GaAs RF IC Design	16.3	U.S.A.
SaveCom InfoCom Inc. 7th Fl, 319 Pateh Rd., Sec. 4, Taipei, (105) Taiwan, ROC	Fixed line business	99.97	Taiwan
Sceptre Industries Inc. 16800 East Gale Ave., City of Industry, CA 91745 USA	Maintenance and wholesale of notebook PCs and monitors	60.0	U.S.A.
Softchina I Venture Capital Corp. 13F-2, No. 50, Sec. 1, ChungHsiao W. Rd., Taipei, 100, Taiwan, ROC	Venture capital	15.0	Taiwan
Softchina (II) VC Corp. 13F-2, No.50, Sec. 1, ChungHsiao W. Rd., Taipei, 100, Taiwan ROC	Venture capital	15.0	Taiwan
Solomon Solutions Services Suite 3149 3F No.3 Pei-Ping West Road, Taipei Taiwan, ROC	Solution provider for hospitals and medical service providers	10.8	Taiwan
Toppoly Optoelectronics Corp. 5F, No. 18, Creation Road I, Science-Based Industrial Park, Hsinchu, Taiwan, ROC	Manufacture and sale of LTPS TFT-LCD panels	33.1	Taiwan
Uniflex Technology Inc. 6F, 22, Lane 583, Nei Hu Distrit Jui-Kuang Rd., Taipei, Taiwan, ROC	Flex printed circuit board manufacturing	15.0	Taiwan
Vacom Wireless Inc. 5-6fl, YungChang B/D, 250, ChoulSan-3Dong, KwangMeong City, Kyunggi-Do, Korea	Research and development on electric and communication apparatus	80.1	Korea

Description of Consolidated Subsidiaries

Panpal Technology Corp. was incorporated on August 20, 1997, with a paid-in capital of NT$3,472.0 million. The registered office for Panpal is at 7th Fl, 319 Pateh Road, Section 4, Taipei, (105) Taiwan, ROC. Its principal activities consist of investing in businesses relating to the PC industry. As of April 25, 2001, the Company owned a 99.99% stake in Panpal. As of and for the year ended December 31, 2000, Panpal had total assets, revenues and net profit of approximately NT$4,378 million, NT$195 million and NT$212 million, respectively (NT$3,617 million, NT$136 million and NT$21 million, respectively, in 1999). All the shares in Panpal have been fully paid up. Panpal did not pay any dividend for the year ended December 31, 2000. There are no intracompany loans between Panpal and the Company.

Just International Ltd. was incorporated on August 25, 1992, with a paid in capital of U.S.$27.8 million. The registered office for Just is at Tropic Isle Building, P.O. Box 438, Road Town, Tortola, British Virgin Islands. Its principal activities consist of acting as a holding company. As of April 25, 2001, the Company owned a 100.0% stake in Just. As of and for the year ended December 31, 2000, Just had total assets, revenues and net profit of approximately U.S.$153.7 million, U.S.$387.5 million and U.S.$13.6 million, respectively (U.S.$177.9 million, U.S.$396.2 million and U.S.$10.8 million, respectively, in 1999). All the shares in Just have been fully paid up. Just did not pay any dividend for the year ended December 31, 2000. There are no intracompany loans between Just and the Company.

Relationship with Kinpo Electronics, Inc.

Kinpo is the largest shareholder of the Company and the Company is the largest shareholder of Kinpo. As of May 13, 2001, the most recent record date for which the Company has such shareholder information, Kinpo held 5.8% of the Company's share capital and as of May 14, 2001, the Company held 10.4% of Kinpo's share capital. Kinpo is offering 1,700,000 GDSs in the Offering and has granted to the Purchasers an option exercisable within 30 days from the date hereof to purchase up to an additional 2,000,000 GDSs solely to cover over-allotments, if any. Assuming full exercise by the Purchasers of the over-allotment option, Kinpo will own approximately 4.7% of the outstanding Common Shares following the Offering. Kinpo currently holds 5.5% of Toppoly. Kinpo designs and manufactures consumer electronic products, communications products and PC peripheral products. Recently, Kinpo announced plans to participate in the wireless handset business. Mr. Sheng-Hsiung Hsu, Chairman of the Board of Kinpo, is also Chairman of the Board of Compal. In addition, there are four common directors and two common supervisors serving on both Boards. The original shareholders of Kinpo were Mr. Chao-Yin Hsu and certain members of his extended family. Transactions between Compal and Kinpo in recent years have not been material. Decisions made by the respective Boards of Directors of Kinpo and Compal are made independently of each other. However, there can be no assurance that Kinpo and Compal will not continue to pursue product expansion and diversification strategies which result in direct competition between the two companies.

MANAGEMENT

The Board of Directors has ultimate responsibility for the management of the business and affairs of the Company. At present, there are eleven Directors and three Supervisors who are elected by the shareholders of the Company at the Company's general shareholders' meeting. The term of office for Directors and the Supervisors is three years. Under the Company's Articles of Incorporation, the Board of Directors is required to elect a Director to act as a Chairman. The Chairman is the legal representative of the Company under the Company Law.

The Company's Articles of Incorporation require the election of three Supervisors. Under the Company Law, each Supervisor is responsible for overseeing the activities of the Board of Directors and has power to investigate the business and financial condition of the Company, examine its books, records and documents and request the Board of Directors to submit reports. A Supervisor may engage independent experts to carry out any such investigations or examinations at the cost of the Company. A Supervisor may also convene a meeting of shareholders when he deems it necessary.

The Company may, under the Company Law, by resolution adopted at a shareholders' meeting, allow any of its Directors to be a director of another company with the same or a similar scope of business as the Company or to engage in any businesses within the scope of the Company's business. However, a Director is precluded from voting in respect of any discussions regarding contracts or arrangements where he has, or will have, a direct or indirect personal interest or benefit.

The present Board of Directors was elected by the shareholders of the Company on March 30, 2000 for a term of three years expiring on March 29, 2003.

The particulars of each Director, Supervisor and Senior Executive of the Company are set forth as follows:

Name	Position with Compal	Age	Years with Compal*
Hsu, Sheng-Hsiung	Chairman	57	17
Chen, Jui-Tsung	Director and President	51	26
Hsu, Wen Being	Director	65	17
Lin, Lina	Director (Representative of Kinpo Electronics, Inc.)**	53	10
Hsu, Sheng-Chieh	Director	54	10
Hou, Lee-Chun	Director and Executive Vice President, President's Office	49	25
Lin, Kuang Nan	Director	56	13
Chang, Yung-Ching	Director and Senior Vice President, Computer Business Unit	44	10
Chen, Kung Yung	Director (Representative of China Development Industrial Bank)**	64	6
Shen, Wen-Chung	Director and General Manager, Computer Business Unit	46	9
Yang, Yu-Chin	Director	52	5
Ko, Charng-Chyi	Supervisor	65	17
Chou, Yen-Chia	Supervisor	51	3
Hsu, Chiung-Chi	Supervisor	36	7
Wang, Ping-Hsien	Senior Vice President, General Manager, Display Business Unit	51	15
Kung, Shao-Tsu	Senior Vice President, Computer Business Unit	40	9
Chang, Kao-An	Vice President, China Operations	42	9
Lin, Jui-ching	Vice President, Strategic Investment	47	15
Tso, Tseng-chin	Vice President, Human Resources & Administration	47	0

* Includes years worked with Kinpo.

** The number of years with Compal indicated is the number of years the relevant company has had a Representative on the Board.

Sheng-Hsiung Hsu, aged 57, is the Chairman of the Company. He received a bachelor's degree from National Taiwan Normal University. He has been with the Company for 17 years. He is also the Chairman of the Board of Directors of Kinpo, Panpal, Gempal, C&C Laboratory Co., Ltd., Compal Electronics (China) Ltd., Compower International Ltd. and Sceptre Industries Inc.

Jui-Tsung Chen, aged 51, is the President and a Director of the Company. He received a bachelor's degree from National Cheng Kung University (Electrical Engineering Department). He has been with the Company for 26 years and he is in charge of the operations of the Company. He is also the Chairman of the Board of Directors of Palmax, International Semiconductor Technology Ltd., Toppoly Optoelectronics Corp. and Bizcom Electronics, Inc. Mr. Chen is also a Director of Kinpo, Panpal, Gempal, VACOM and C&C Laboratory Co., Ltd.

Wen Being Hsu, aged 65, is a Director of the Company. He graduated from National Tao-Yuan Senior Vocational Agricultural & Industrial School. He has been with the Company for 17 years.

Lina Lin, aged 53, is a Director of the Company as representative of Kinpo. She received a bachelor's degree from Chinese Culture University (Business Administration Department).

Sheng-Chieh Hsu, aged 54, is a Director of the Company. He received a bachelor's degree from Tam Kang University (Architectural Department). He has been with the Company for 10 years. He is also a director of Kinpo.

Lee-Chun Hou, aged 49, is an Executive Vice President and a Director of the Company. He is in charge of Manufacturing and Quality Control. He received a bachelor's degree from Chung Yuan Christian University (Industrial Engineering Department). He has been with the Company for 25 years.

Kuang Nan Lin, aged 56, is a Director of the Company. He received a bachelor's degree from Tam Kang University (Mathematics Department). He has been with the Company for 13 years.

Yung-Ching Chang, aged 44, is a Senior Vice President and a Director of the Company. He is a Senior Vice President in the Computer Business Unit. He received a bachelor's degree from National Tsing Hua University (Industrial Engineering Department). He has been with the Company for 10 years.

Kung Yung Chen, aged 64, is a Director of the Company as representative of China Development Industrial Bank. He is an Executive Vice President of China Development Industrial Bank. He received a bachelor's degree from Tung Hai University (Economics Department).

Wen-Chung Shen, aged 46, is an Executive Vice President and a Director of the Company. He is in charge of R&D, Sales and Marketing and Global Logistics. He received a bachelor's degree from National Taiwan University (Electrical Engineering Department). He has been with the Company for nine years. He is also a director of Panpal, Gempal, C&C Laboratory Co., Ltd., International Semiconductor Technology Ltd. and Toppoly Optoelectronics Corp.

Yu-Chin Yang, aged 52, is a Director of the Company. He received a bachelor's degree from Weseda University, Japan. He has been with the Company for five years. He is also a director of Kinpo.

Charng-Chyi Ko, aged 65, is a Supervisor of the Company. He received a bachelor's degree from National Taiwan University (Division of Business). He has been with the Company for 17 years. He is also a supervisor of Kinpo.

Yen-Chia Chou, aged 51, is a Supervisor of the Company. He received a bachelor's degree from National Taiwan University (Geology Department). He has been with the Company for three years. He also is a supervisor of Kinpo.

Chiung-Chi Hsu, aged 36, is a Supervisor of the Company. He received a Master's degree from San Francisco Golden Gate University. He has been with the Company for seven years.

Ping-Hsien Wang, aged 51, is a Senior Vice President and General Manager in charge of the Display Business Unit. He was educated in the Electronical Department of National Chiao Tung Univesity. He has been with the Company for 15 years.

Shao-Tsu Kung, aged 40, is a Senior Vice President in the Computer Business Unit. He was educated in the Electrical Engineering Department of National Taiwan Univesity. He has been with the Company for nine years.

Kao-An Chang, aged 42, is a Vice President in charge of China Operations. He was educated in the Electronical Engineering Department of Chung Yuan Christian University. He has been with the Company for nine years.

Jui-ching Lin, aged 47, is a Vice President in charge of strategic investment. He was educated in the Industrial Engineering Department of Chung Yuan Christian University. He has been with the Company for 15 years.

Tseng-chin Tso, aged 47, is in charge of Human Resources and Administration. He was educated in the Electrical Engineering Department of National Taiwan University. He began working for the Company this year.

As of May 13, 2001 (and not including Common Shares expected to be distributed in June or July 2001 pursuant to an employee stock bonus), the Directors, Supervisors, Senior Executives and their families (spouses and children) held, directly or indirectly, approximately 12.04% of the Company's issued Common Shares.

Subject to proposal by the Board of Directors and approval by shareholders, the Directors, Supervisors and Senior Executives are entitled to annual remuneration amounting up to 2% of the net income allocated for distribution after offsetting accumulated net losses of prior years, any applicable income tax payments and a 10% appropriation to the legal reserve (until the accumulated legal reserve is equal to the amount of the Company's paid-in share capital). The aggregate remuneration and benefits in kind granted to the Directors, Supervisors and Senior Executives of the Company in their capacity as Directors, Supervisors and Senior Executives for the year ended December 31, 2000 was approximately NT$90.3 million (U.S.$2.7 million), NT$20.8 million (U.S.$0.7 million) and NT$54.1 million (US$1.6 million), respectively.

There have been no loans or advances made by the Company or any of its subsidiaries to, or guarantees given by the Company or any of its subsidiaries in relation to loans or advances received by, the Directors and none of the Directors, Supervisors or Senior Executives have or have had interests in transactions which are or were unusual in their nature or conditions or significant in relation to the business of the Company or any of its subsidiaries and which were effected by the Company during the current financial year or the financial year immediately preceding the date of this document, or were effected by the Company during earlier financial years and remain, in any respect, outstanding or unperformed.

The business address of all Directors, Supervisors and Senior Executives of the Company is 7th Floor, 319 Pateh Road, Section 4, Taipei, (105) Taiwan, ROC.

PRINCIPAL SHAREHOLDERS

Kinpo is the largest shareholder of the Company. As of May 13, 2001 Kinpo held approximately 115,450,687 million Common Shares, or a 5.8% shareholding in the Company.

The following table set forth certain information, as of May 13, 2001, with respect to the Common Shares owned by the top ten shareholders of the Company.

	Name of Shareholder	Number of Common Shares	Percentage of Total Outstanding Common Shares
1	Kinpo Electronics, Inc.	115,450,687	5.84%
2	Directorate General of Postal Remittances and Savings Banks	102,068,370	5.16%
3	The Bank of New York(1)	61,449,098	3.11%
4	Panpal Technology Corp.(2)	37,299,143	1.89%
5	The National Financial Stabilization Fund	32,742,000	1.65%
6	Gempal Technology Corp.(2)	28,005,730	1.42%
7	Chen, Jui -Tsung(3)	25,452,298	1.29%
8	Hsu Tsai, Li - Cu	25,112,073	1.27%
9	The Labor Retirement Fund Supervisory Committee	24,570,625	1.24%
10	Management Board of Public Service Pension Fund	23,323,750	1.18%
	Total	475,473,774	24.03%
	Total Shares Issued	1,978,418,352	

Notes:

(1) The Bank of New York is the depositary for the GDSs. See "Description of the Global Depositary Receipts—Information Relating to the Depositary".

(2) A 99.99%-owned subsidiary of Compal.

(3) Jui-Tsung Chen is the President of the Company. Figures do not include Common Shares expected to be distributed in June or July 2001 pursuant to an employee stock bonus.

As of May 13, 2001 the total number of Common Shares currently held by the Directors and Supervisors, Senior Executives, their spouses and minor children (including the Common Shares held by Kinpo and China Development Industrial Bank, each of which is represented by a director on the Company's Board of Directors, but not including Common Shares expected to be distributed in June or July 2001 pursuant to an employee stock bonus) was 238,123,230 or 12.04% of the outstanding Common Shares.

CHANGES IN ISSUED SHARE CAPITAL

According to the Articles of Incorporation, the Company has only one class of capital stock, Common Shares with a par value of NT$10 per share. Currently, the Company's Articles of Incorporation provide that the Company's authorized share capital is NT$28,000,000,000 divided into 2,800,000,000 Common Shares, which includes 300,000,000 Common Shares reserved for issuance upon conversion of bonds. All issued Common Shares are in registered form.

The following table shows, *inter alia*, the increases in the Company's issued share capital since June 1984:

Date of Issue	Type of Issue	Number of Common Shares Issued	Number of Common Shares outstanding after Issue
June 1984	Incorporation	5,000,000	5,000,000
July 1986	Rights issue	3,000,000	8,000,000
June 1987	Rights issue	5,000,000	13,000,000
June 1988	Rights issue	6,890,000	19,890,000
April 1990	Rights issue	30,000,000	49,890,000
September 1991	From Retained Earnings	7,483,500	65,355,900
	From Capital Reserve	7,982,400	
September 1992	From Retained Earnings	1,960,677	76,466,403
	From Capital Reserve	9,149,826	
November 1993	From Capital Reserve	7,646,640	100,000,000
	Rights issue	15,886,957	
October 1994	From Retained Earnings	10,000,000	150,200,000
	From Capital Reserves	10,000,000	
	Employees' bonuses	200,000	
	Rights Issue	30,000,000	
October 1995	From Retained Earnings	22,530,000	258,300,000
	From Capital Reserves	15,020,000	
	Employees' bonuses	550,000	
	Rights Issue	70,000,000	
May 1996	From Retained Earnings	7,749,000	297,600,000
	From Capital Reserves	30,996,000	
	Employees' bonuses	555,000	
December 1996	Rights Issue	70,000,000	367,600,000
April 1997	Conversion of convertible bonds	13,023,560	380,623,560
August 1997	From Retained Earnings	22,837,413.6	497,018,000
	From Capital Reserves	91,349,654.4	
	Employees' bonuses	2,207,372	
September 1997	Conversion of convertible bonds	24,174,233	521,192,233
December 1997	Rights Issue	60,000,000	581,192,233
March 1997	Conversion of convertible bonds	2,651,768	583,844,001
May 1998	From Retained Earnings	58,384,400	834,369,000
	From Capital Reserves	175,153,200	
	Employees' bonuses	16,987,399	
September 1998	Conversion of convertible bonds	10,272,722	844,641,722
February 1999	Rights Issue	2,200,000	846,841,722
March 1999	Conversion of convertible bonds	2,668,338	849,510,060
May 1999	From Retained Earnings	297,328,521	
	Employees' bonuses	24,351,419	1,171,190,000
June 1999	Conversion of convertible bonds	1,085,200	1,172,275,200
September 1999	Conversion of convertible bonds	2,798,115	1,175,073,315
January 2000	Rights Issue	1,560,000	1,176,633,315
March 2000	Conversion of convertible bonds	126,705	1,176,760,020
May 2000	From Retained Earnings	82,373,201	
	From Capital Resources	270,654,805	
	Employees' bonuses	26,981,974	1,556,770,000
December 2000	Conversion of convertible bonds	64,837	1,556,834,837
May 2001	Conversion of convertible bonds	2,468,352	1,559,303,189
May 2001	From Retained Earnings	233,525,225	1,978,418,352
	From Capital Resources	155,683,483	
	Employee's bonuses	29,906,455	

Immediately following the Offering (and excluding any Common Shares or GDSs which may be issued in connection with conversions of the SIZeS described below) there will be 2,078,418,352 Common Shares outstanding, including 192,659,280 Common Shares in the form of GDSs or temporary GDSs representing Common Shares or a Certificate of Payment evidencing the right to receive such Common Shares.

DESCRIPTION OF COMMON SHARES

The following is a summary of certain provisions of the Company's Articles of Incorporation, the ROC Company Law, the ROC Securities and Exchange Law and the regulations promulgated thereunder.

The ROC Company Law and the ROC Securities and Exchange Law provide that any change in the authorized share capital of a public company, such as the Company, requires the approval of its board of directors, an amendment to its Articles of Incorporation (which requires shareholder approval), and the approval of the SFC and the Ministry of Economic Affairs ("MOEA"). The rights attaching to the Common Shares are described below.

Dividends and Distributions

Except under limited circumstances as permitted under the Company Law, a company is not permitted to distribute dividends or to make any other distributions to shareholders at any time when that company has no Earnings (as defined below). In addition, before distributing a dividend or making any other distribution to shareholders, a company must recover any past losses, pay all outstanding taxes and set aside in a reserve, known as the "Legal Reserve", 10% of its net profits after tax ("Earnings") until such time as its Legal Reserve equals its paid-in-capital. Subject to compliance with these requirements, a company may pay dividends or make other distributions from its Earnings, reserves or other as permitted by the Company Law as set forth below.

Following approval by the shareholders in a general meeting, dividends are paid annually to shareholders from a company's Earnings, in proportion to the number of shares held by them as listed on the register of shareholders as of the relevant record date ("Annual Dividends"). Annual Dividends may be distributed either in cash or in the form of common stock or a combination thereof, as determined by the shareholders at such meeting. All Common Shares, outstanding and fully paid as of the relevant record date for the distribution of dividends, are entitled to share equally in any dividend or other distribution so approved. The amount of any dividends is determined by the shareholders in a general meeting.

On April 3, 2001, the Company's shareholders approved a cash dividend of NT$0.5 per Common Share, to be paid on June 6, 2001, and a stock dividend of NT$2.5 per Common Share (i.e., one new additional Common Share of NT$10 par value for each four outstanding Common Shares of NT$10 par value), to be distributed in June or July 2001, in each case to holders of record on May 13, 2001. Because purchasers of the GDSs being offered hereby, or the Depositary, were not the holders of record of the Common Shares underlying such GDSs on May 13, 2001, the purchasers of the GDSs being offered hereby will not be entitled to such cash and stock dividends to be paid and distributed in June or July 2001.

The Company's Articles of Incorporation provide that after recovering any past losses, paying all income taxes in accordance with the law and deducting 10% of the net profits as Legal Reserve, the remaining portion (plus the accumulated undistributed surplus profits carried over from the last fiscal year as permitted by the Company Law) shall be the total surplus profit available for distribution, which are allocated as follows:

1. 2% of such total surplus profit shall be distributed to directors and supervisors as remuneration.

2. 5% of such total surplus profit shall be distributed to employees as bonus.

3. The balance may be distributed as a shareholders' dividend to all shareholders in proportion to their individual holdings proposed by the Board of Directors and approved by the shareholders' meeting.

In addition to permitting dividends to be paid out of Earnings, the Company Law permits a company to make distributions to its shareholders in the form of additional shares of common stock from reserves (including the Legal Reserve and any special reserve or capital surplus reserve). In the case of a company's Legal Reserve, however, the recapitalized portion payable out of such Legal Reserve is limited to 50% of the total accumulated Legal Reserve and such recapitalization can only be effected when the accumulated Legal Reserve amounts to 50% of the paid-in-capital of the Company.

For information as to ROC taxes on dividends and distributions, see "Taxation—ROC Taxation".

Pre-emptive Rights and Issues of Additional Shares

According to the Company Law, when a company (such as the Company) issues new shares of capital stock for cash, 10% to 15% of the issue must be offered to its employees. According to the Securities and Exchange Law (in the case of a listed company such as the Company), at least 10% of the issue must also be offered to the public in order to fulfil the company's obligations as a public and listed company except when exempted by the SFC. This percentage can be increased by a resolution passed at a shareholders' meeting, thereby reducing the number of new shares subject to the pre-emptive rights of existing shareholders. Unless the percentage of the shares to be offered to the public is increased by such a resolution, existing shareholders of the company have a pre-emptive right to acquire the remaining 75% to 80% of the issue in proportion to their existing shareholdings. Such shares with respect to which no pre-emptive right has been exercised may be offered to other persons, subject to ROC law. Under the Company Law, the pre-emptive rights of shareholders are transferable, but the pre-emptive rights of employees may not be transferred. In practice, the Company will notify the shareholders or employees of the availability of such pre-emptive rights, and prescribe in the notice a period for paying the subscription price, and if the price is not paid or the pre-emptive right is waived, the shareholders or employees in question will not be able to obtain the new shares.

Authorized but unissued shares of any class may be issued at such times and, subject to the above mentioned provisions of the Company Law and the Securities and Exchange Law, upon such terms as the Board of Directors may determine.

Meeting of Shareholders

The general meeting or shareholders of the Company is generally held in Taipei, Taiwan, within six months after the end of each fiscal year. Notice in writing of general meetings, stating the place, time and purpose thereof, must be dispatched to each shareholder at least 20 days prior to the date set for the meeting. Extraordinary meetings of shareholders may be convened by resolution of the Board of Directors whenever they consider it necessary, or under certain circumstances by shareholders or by a Supervisor. A notice in writing of such extraordinary meeting, stating the place, time and purpose thereof, must be dispatched to each shareholder at least 10 days prior to the date set for such meeting.

Voting Rights

A holder of Common Shares has one vote for each Common Share, except that the votes of Common Shares held by a holder of more than 3% of the total outstanding Common Shares will be discounted by 1% for that portion of the holding in excess of such 3%. This will apply to the Depositary to the extent that more than 3% of outstanding Common Shares are represented by GDSs. Except as otherwise provided by law or by the Articles of Incorporation of the Company, a resolution can be adopted by the holders of a simple majority of the Common Shares represented at a shareholders' meeting at which a majority of the holders of the Common Shares is present.

The Company Law also provides that in order to approve certain major corporate actions, including any amendment of the Articles of Incorporation (which is required for, *inter alia*, any increase in authorized share capital), the dissolution or amalgamation of a company, the transfer of the whole or a substantial part of its business or its assets or the taking over of the whole of the business or assets of any other company which would have a significant impact on the acquiring company's operations, or the distribution of any stock dividend, a meeting of the shareholders must be convened with a quorum of holders of at least two-thirds of all issued and outstanding shares of common stock (or three-fourths in the case of dissolution or amalgamation of the company) at which the holders of at least a majority of the common stock represented at the meeting vote in favor thereof. Alternatively, in the case of a public company such as the Company, such a resolution may be adopted by the holders of at least two-thirds (or three-fourths in case of dissolution or amalgamation) of the shares of common stock represented at a meeting of shareholders at which holders of at least a majority of issued and outstanding shares of common stock are present.

A shareholder may be represented at a general or extraordinary meeting by proxy. A proxy must be delivered to the Company five days prior to the commencement of the meeting.

Register of Shareholders and Record Dates

The Company currently appoints Chinatrust Commercial Bank in Taipei, Taiwan as its share registrar to maintain the register of shareholders of the Company and to enter transfers of the Common Shares in the register upon presentation of the certificates in respect of the Common Shares transferred. Under the Company Law, a transfer of Common Shares is effected by endorsement and delivery of the related share certificates. In order, however, to assert shareholders' rights against the Company, the transferee must have his name and address registered on the register of shareholders. Shareholders are required to file their respective specimen signatures or seals with the Company.

The Company Law permits the Company to set a record date and/or close the register of shareholders for a specified period in order for the Company to determine the shareholders or pledgees that are entitled to certain other rights pertaining to Common Shares by giving advance public notice. As provided in the Company's Articles of Incorporation, the Company's register of shareholders is closed for periods of one month, 15 days and five days immediately before each annual general meeting of shareholders, each extraordinary meeting of shareholders and each record date, respectively. The settlement of trading of the common stock is normally carried out on the book-entry system maintained by Taiwan Securities Central Depositary Co., Ltd.

Annual Financial Statements

Ten days before the general meeting of shareholders, the Company's annual financial statements must be made available at its principal office in Taipei for inspection by the shareholders. The Board of Directors is required to furnish the resolution for allocation of surplus profit or making up loss, including audited financial statements, to its shareholders.

Acquisition of Common Shares by the Company

With minor exceptions, the Company may not acquire its Common Shares under the ROC Company Law.

Liquidation Rights

In the event of liquidation of the Company, its assets remaining after payment of all debts, liquidation expenses and taxes will be distributed *pro rata* to the shareholders in accordance with the ROC Company Law and the Company's Articles of Incorporation.

INFORMATION RELATING TO THE DEPOSITARY

The Bank of New York is a state-chartered New York banking corporation and a wholly-owned subsidiary of The Bank of New York Company, Inc., a New York corporation. The principal executive office of The Bank of New York is located at One Wall Street, New York, New York 10286, and the Corporate Trust Office is located at 101 Barclay Street, New York, New York 10286.

A copy of The Bank of New York's charter and by-laws, as amended, together with copies of The Bank of New York Company, Inc.'s most recent financial statements and annual report, are available for inspection at its principal executive office in New York and at the office of the listing agent, Banque Générale du Luxembourg S.A. located at 50, Avenue J.F. Kennedy, L-2951, Luxembourg.

DESCRIPTION OF THE GLOBAL DEPOSITARY RECEIPTS

The following, other than the paragraphs in italics, is a summary of certain material provisions of the Rule 144A Deposit Agreement dated October 19, 2000, as amended by a letter agreement thereto to be dated as of May 21, 2001 among the Company, the Depositary and the Owners and Beneficial Owners (as defined in the Rule 144A Deposit Agreement) from time to time of Rule 144A GDRs and the International Deposit Agreement dated October 19, 2000, as amended by a letter agreement thereto to be dated as of May 21, 2001 among the Company, the Depositary and the Owners and Beneficial Owners (as defined in the International Deposit Agreement) from time to time of International GDRs, pursuant to which the Rule 144A GDRs and International GDRs, respectively, are to be issued. This summary does not purport to be complete and is subject to and qualified in its entirety by reference to the Deposit Agreements, including the forms of Rule 144A GDRs and International GDRs. Terms used in this description and not otherwise defined shall have the meanings set forth in the Deposit Agreements. Copies of the Deposit Agreements are available for inspection at the Corporate Trust Office of the Depositary, currently located at 101 Barclay Street, New York, New York 10286, and at the principal Taipei office of the International Commercial Bank of China, the custodian and agent of the Depositary under each of the Deposit Agreements (the "Custodian"). The Depositary's principal executive office is located at One Wall Street, New York, New York 10286. Unless the context otherwise requires, references herein to GDRs shall apply equally to the Rule 144A GDRs and the International GDRs.

Global Depositary Receipts

Rule 144A GDSs evidenced by Rule 144A GDRs are issuable by the Depositary pursuant to the Rule 144A Deposit Agreement. International GDSs evidenced by International GDRs are issuable by the Depositary pursuant to the International Deposit Agreement. Each GDS will represent five Common Shares, or evidence of the right to receive five Common Shares, deposited with the Custodian and registered in the name of the Depositary or its nominee (together with any additional Common Shares at any time deposited or deemed deposited under the Deposit Agreements and any other securities, cash or other property received by the Depositary or the Custodian in respect of such Common Shares, the "Deposited Securities"). Only persons in whose name GDSs are registered on the books of the Depositary as owners of the GDSs will be treated by the Depositary and the Company as Owners.

The following description applies equally to the Rule 144A Deposit Agreement and the International Deposit Agreement, except as specifically indicated.

Deposit and Withdrawal

In connection with the issuance by a ROC company of new shares for cash, such as the Common Shares underlying the GDSs, settlement is initially made by the delivery to the persons purchasing the new Common Shares of a Certificate of Payment evidencing the right to receive the physical shares certificates representing the Common Shares. The initial deposit of Common Shares in connection with the Offering will be made (i) in the case of the Shares to be issued and sold by the Company, by the delivery to the Custodian of a Certificate of Payment evidencing the right to receive the physical share certificates evidencing the Common Shares offered by the Company, which Common Shares will be registered in the name of the Depositary or its nominee and (ii) in the case of the Shares to be sold and deposited by the Selling Shareholders, by or on behalf of the Selling Shareholders by the delivery to the Custodian of the physical share certificates representing the Shares registered in the name of the Depositary or its nominee.

The Company is required under the ROC Company Law to file an amendment to its corporate registration within 15 days after the closing date of the Offering (the "Closing Date"). Under the ROC Securities and Exchange Law and applicable regulations, the Company is required to deliver the *definitive share certificates evidencing the Common Shares represented by GDSs to the Custodian within 30 days after receiving approval from the MOEA of such amendment. The Company has agreed to issue and deliver the definitive share certificates evidencing the Common Shares represented by GDSs sold in the Offering within three months after the Closing Date.*

The Depositary has agreed, subject to the terms and conditions of the relevant Deposit Agreement, that upon delivery to the Custodian of Common Shares (or evidence of rights to receive Common Shares) to be represented by the GDSs and pursuant to appropriate instruments of transfer in a form satisfactory to the Custodian, the Depositary will upon payment of the fees, charges and taxes provided in the relevant Deposit Agreement, execute and deliver at its Corporate Trust Office to, or upon the written order of, the person or persons named in the notice of the Custodian delivered to the Depositary or requested by the person depositing such Common Shares with the Depositary, a GDR or GDRs, registered in the name or names of such person or persons, and evidencing any authorised number requested by such person or persons.

No deposit of Common Shares may be made into the Rule 144A GDS facility or the International GDS facility, and no GDSs may be issued against such deposits, without specific ROC regulatory approval, except in connection with (i) dividends on or free distributions of Common Shares, (ii) the exercise by Owners of existing GDSs of their pre-emptive rights in connection with rights offerings, (iii) transfers between the depositary facility for the Rule 144A GDSs and the depositary facility for the International GDSs and (iv) to the extent that previously issued GDSs have been canceled and the Common Shares represented thereby have been sold on the Taiwan Stock Exchange, reissuances of GDSs of up to an aggregate amount of outstanding GDSs not exceeding the total number of GDSs (subject to adjustment for the issuances described in clauses (i) and (ii) above) that were originally approved by the ROC SFC.

Any deposit of Common Shares for Rule 144A GDSs must be accompanied by a written certification ("Depositor Certificate") by or on behalf of the person who will be the beneficial owner of the Rule 144A GDS or Rule 144A GDSs to be issued upon deposit of such Deposited Securities, to the effect that (a) the Rule 144A GDSs and the Common Shares of the Company represented thereby have not been registered under the Securities Act, (b) it is a QIB acquiring such beneficial ownership for its own account or for the account of one or more QIB and (c) it will comply with the restrictions set forth under "Form of GDRs and Transfer Restrictions" on transfers of the Rule 144A GDSs and the underlying Common Shares. No shares will be accepted for deposit unless accompanied by evidence satisfactory to the Depositary that all conditions to such deposit have been satisfied by the depositor under ROC laws and regulations. The Depositary may also refuse to accept certain Common Shares for deposit under the Rule 144A Deposit Agreement if it believes that GDSs representing such Common Shares would not be eligible for resale pursuant to Rule 144A.

A registration statement on Form F-6 under the Securities Act relating to the International GDSs issued pursuant to the International Deposit Agreement may be filed with and declared effective (the "Effective Time") by the U.S. Securities and Exchange Commission ("SEC" or the "Commission"). However, the Company has no present intention to cause any such registration statement to be filed with the SEC. There can be no assurance that a registration statement under the Securities Act relating to the International GDSs will be filed or, if filed, will be declared effective under the Securities Act by the SEC, nor can there be any assurance as to the timing of the filing of any such registration statement or the timing of the effectiveness thereof under the Securities Act.

Prior to the Effective Time, any depositor of Common Shares for International GDRs is required to (a) have made the representations and warranties required pursuant to the International Deposit Agreement and (b) acknowledge and agree that the International GDRs, the GDSs evidenced thereby and the Common Shares represented thereby have not been registered under the Securities Act and until the expiration of the 40-day period commencing on the later of the date of the commencement of the offering of the International GDSs and the last related closing (the "Distribution Compliance Period") may not be offered, sold, pledged or otherwise transferred except (i) in accordance with Rule 144A under the Securities Act to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or the account of a QIB or (ii) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States and *provided* that in connection with any transfer during the Distribution Compliance Period under (i) above, the transferor shall withdraw the Common Shares or the Deposited Securities in accordance with the terms and conditions of the International Deposit Agreement and instruct that such Common Shares be delivered to the Custodian under the Rule 144A Deposit Agreement for issuance, in accordance with the terms and conditions thereof, of Rule 144A GDSs to or for the account of such QIB.

As of May 14, 2001, 9,731,856 GDSs representing 48,659,280 Common Shares (not including 389,022 Type 1 Temporary GDSs (as defined below)) were issued and outstanding. In addition, as of May 15, 2001 the Company had outstanding U.S.$144,900,000 principal amount of Stock Indexed Zero Coupon Securities due 2005 (the "SIZeS") which may be converted at any time (subject to certain restrictions) into Common Shares. Subject to compliance with certain conditions, converting holders may elect to receive Common Shares or direct that the Common Shares issuable upon conversion be deposited with the Depositary for issuance of GDSs representing Common Shares. As of May 15, 2001, SIZeS could be converted into Common Shares deliverable in the form of GDSs at a conversion price of NT$38.077 per Common Share. On exercise of these conversion rights, converting SIZeS holders will initially receive Entitlement Certificates or temporary GDSs representing Entitlement Certificates ("Type 1 Temporary GDSs"), which are not fungible with GDSs. Type 1 Temporary GDSs will not be listed on any stock exchange. Upon issuance and delivery of Common Shares in exchange for such Entitlement Certificates, in accordance with the terms and conditions of the SIZeS, the Type 1 GDSs will be exchanged for GDSs.

Commencing three months after the Closing Date, an Owner may, to the extent that settlement for trading of Common Shares through the book-entry system maintained by the Taiwan Securities Central Depositary Co. Ltd. is permitted, withdraw and hold the Common Shares represented by the GDSs offered hereby or request the Depositary to sell or cause to be sold on behalf of such Owner the Common Shares represented by such GDSs on the Taiwan Stock Exchange. However, Owners will not be able to withdraw Common Shares either for delivery or sale unless and until the Company has delivered to the Custodian physical share certificates for the Common Shares.

In addition, prior to the later of three months after the Closing Date and delivery by the Company to the Custodian of physical share certificates evidencing the Common Shares represented by the GDSs offered hereby, Owners of such GDSs will hold temporary GDSs ("Type 2 Temporary GDSs") which will not be fungible with either the Company's existing GDSs or with the Type 1 Temporary GDSs initially receivable by converting holders of SIZeS. Type 2 Temporary GDSs will not be listed on any stock exchange. Three months after the Closing Date or when the Custodian has received certificates for the underlying Common Shares, whichever is later, the Type 2 Temporary GDSs will be consolidated with the other outstanding Rule 144A GDSs or International GDSs, as the case may be, that are not temporary GDSs.

Upon surrender at the Corporate Trust Office of the Depositary of a GDR for the purpose of withdrawal of the Deposited Securities underlying GDSs evidenced by such GDR, and upon payment of the fees, governmental charges and taxes provided in the relevent Deposit Agreement, and subject to the terms and conditions of such Deposit Agreement, the Articles of Incorporation of the Company and the Deposited Securities, the Owner of such GDSs will be entitled (i) to request that such Deposited Securities be sold on such Owner's behalf, or (ii) to delivery, to an account registered with the Company maintained by such Owner in the ROC, of the amount of Deposited Securities at the time represented by the GDSs, or (iii) if applicable ROC law should change to prohibit one of the foregoing options, to whichever option shall remain, or (iv) to such other dispositions of the Deposited Securities at the time represented by GDSs for such Owner's benefit as the Depositary and the Company may agree upon in compliance with ROC law.

In the case of any sale of Deposited Securities under (i) above, the following provisions shall apply:

The person requesting withdrawal of Deposited Securities shall deliver, or cause to be delivered, to the Depositary a written order requesting the Depositary to sell, or cause to be sold, such Deposited Securities. Upon the receipt of such an order and any other required instruments, the Depositary shall make a reasonable effort, in its sole discretion, to sell or cause to be sold such Deposited Securities in accordance with applicable law through a securities company in the ROC on the Taiwan Stock Exchange or in such manner as is or may be permitted under applicable ROC law. Any such sale of Deposited Securities shall be at the risk and expense of the Owner requesting such sale. There is no assurance that the Depositary will be able to effect any sale of the Deposited Securities in a timely manner or at a specified price, particularly during periods of illiquidity or volatility with respect to the Deposited Securities.

Upon receipt of any proceeds from such sale, the Depositary shall, subject to the provisions of the relevant Deposit Agreement and any restrictions imposed by ROC laws and regulations, convert or cause to be converted any such proceeds into U.S. Dollars and distribute any such proceeds to the Owners entitled thereto, after deduction or payment of any fees, expenses, taxes and governmental charges incurred in connection with such sale.

Under current ROC laws and regulations, a non-ROC withdrawing Owner is required to appoint a local agent in the ROC to, among other things, pay ROC taxes, open a securities trading account (with prior approval granted by the Taiwan Stock Exchange) with a local securities brokerage firm, remit funds and exercise a stockholder's right. In addition, such non-ROC withdrawing Owner must also appoint a bank in the ROC to act as custodian for confirmation and settlement of trades, safekeeping of securities and cash proceeds and reporting of information. Under existing ROC laws and regulations, without obtaining an approval from the Taiwan Stock Exchange and opening such securities trading account, a non-ROC withdrawing Owner would not be able to sell or otherwise transfer the Shares on the Taiwan Stock Exchange or otherwise.

In the case of any delivery of Deposited Securities under (ii) above, the following provisions shall apply:

Delivery of such Deposited Securities may be made by the delivery of (a) certificates in the name of such Owner or as ordered by him or certificates properly endorsed or accompanied by proper instruments of transfer to such Owner or as ordered by him and (b) any other securities, property and cash to which such Owner is then entitled in respect of such GDSs to such Owner or as ordered by him.

No Deposited Securities may be withdrawn upon surrender of a Rule 144A GDR in the manner described above unless, at or prior to the time of surrender, the Depositary shall have received a written certificate and agreement by or on behalf of the person surrendering such Rule 144A GDR or who after withdrawal will be the beneficial owner of the Deposited Securities withdrawn, acknowledging that such Common Shares have not been registered under the Securities Act, certifying that, (a) if it is the person surrendering the Rule 144A GDR, it is a QIB and is selling or transferring such Rule 144A GDR or the underlying Common Shares to another QIB or to a non-U.S. person (within the meaning of Regulation S) or (b) if it will be the beneficial owner upon withdrawal of the Common Shares underlying such Rule 144A GDR, it is either (i) a non-U.S. person (within the meaning of Regulation S) or (ii) a QIB (as defined in Rule 144A) and in the case of (ii), agrees (x) not to offer, sell, pledge or otherwise transfer such Common Shares except in a transaction that complies with the restrictions on transfer set forth under "Form of GDRs and Transfer Restrictions" and (y) not to deposit or cause to be deposited such Common Shares into any unrestricted depositary receipt facility established or maintained by a depositary bank (including another facility maintained by the Depositary) relating to such Common Shares unless such Common Shares are no longer deemed to be restricted securities within the meaning of Rule 144(a)(3) under the Securities Act.

During the Distribution Compliance Period no Deposited Securities may be withdrawn upon surrender of an International GDR in the manner described above unless at or prior to the time of surrender, the Depositary shall have received a written certificate and agreement by or on behalf of the person surrendering such International GDR or who after withdrawal will be the beneficial owner of the Common Shares withdrawn, (a) acknowledging that such Common Shares have not been registered and will not be registered under the Securities Act, (b) certifying that, (i) if it is the person surrendering the International GDR, it is a non-U.S. person (within the meaning of Regulation S) and is selling or transferring such International GDR or the underlying Common Shares to another non-U.S. person or to a QIB in reliance on Rule 144A, in which latter case it shall cause, during the Distribution Compliance Period, the underlying Common Shares to be deposited under the Rule 144A Deposit Agreement for issuance of Rule 144A GDRs in accordance with the terms and conditions of the Rule 144A Deposit Agreement or (ii) if it will be the beneficial owner upon withdrawal of the Common Shares underlying such International GDR, it is either (x) a QIB and will cause, during the Distribution Compliance Period, the underlying Common Shares to be deposited under the Rule 144A Deposit Agreement for issuance of Rule 144A GDRs in accordance with the terms and conditions of the Rule 144A Deposit Agreement or (y) a non-U.S. person and in the case of (y), agrees, during the Distribution Compliance Period, not to offer, sell, pledge or otherwise transfer such Common Shares except in a transaction that complies with the restrictions on transfer set forth below under "Form of GDRs and Transfer Restrictions".

Notwithstanding any of the foregoing, the Depositary may not accept requests for withdrawal or sale of Deposited Securities and no such withdrawal or sale shall be completed prior to three months after the Closing Date, *provided, however,* that the Depositary may accept requests for withdrawal of Deposited Securities from the Rule 144A facility or the international facility, as the case may be, during such period of time if such request for withdrawal is accompanied by instructions to be given to the Custodian for the immediate deposit under the International Deposit Agreement or the Rule 144A Deposit Agreement, as the case may be, of such withdrawn Deposited Securities and to the Depositary for the issuance of International GDRs or Rule 144A GDRs, as the case may be, all in accordance with the provisions of the International Deposit Agreement or the Rule 144A Deposit Agreement, as the case may be.

Neither the Depositary nor the Custodian under the International Deposit Agreement, nor any nominee or person on their behalf, shall accept Rule 144A GDRs issued pursuant to the Rule 144A Deposit Agreement or Common Shares withdrawn from the Rule 144A Deposit Agreement for the purpose of deposit under the International Deposit Agreement, or issue International GDRs against delivery thereof, as long as such Rule 144A GDRs or Common Shares are or may be deemed to be "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act.

Dividends, Other Distributions and Rights

Subject to any restrictions imposed by ROC law, regulations or applicable permits, the Depositary is required to convert or cause to be converted into U.S. Dollars, to the extent that in its judgment it can do so on a reasonable basis and can transfer the resulting U.S. Dollars to the United States, all cash dividends and other cash distributions denominated in a currency other than U.S. Dollars, including NT Dollars ("Foreign Currency") that it receives in respect of the Deposited Securities, and to distribute the resulting U.S. Dollar amount (net of any expenses of conversion incurred by the Depositary and of the fees of the Depositary) to the Owners entitled thereto, in proportion to the number of GDSs representing such Deposited Securities held by them, respectively. Such distribution may be made upon an averaged or other practicable basis without regard to any distinctions among Owners on account of exchange restrictions or the date of delivery of any GDR or GDRs or otherwise. The amount distributed will be reduced by any amount on account of taxes to be withheld by the Company or the Depositary. See "—Liability of Owner for Taxes". If the Depositary determines that in its judgment any Foreign Currency received by it cannot be so converted and transferred, or if any approval or license of any government or agency thereof which is required for such conversion is denied or in the opinion of the Depositary is not obtainable, or if any such approval or license is not obtained within a reasonable period as determined by the Depositary, the Depositary may, subject to applicable laws and regulations, distribute the Foreign Currency (or an appropriate document evidencing the right to receive such foreign currency) received by it to, or in its discretion hold such Foreign Currency uninvested and without liability for interest thereon for the respective accounts of, the Owners entitled to receive the same. If any such conversion of Foreign Currency, in whole or in part, cannot be effected for distribution to some of the Owners entitled thereto, the Depositary may in its discretion make such conversion and distribution in U.S. Dollars to the extent permissible to the Owners entitled thereto, and may distribute the balance of the Foreign Currency received by it to, or hold such balance uninvested and without liability for interest thereon for the respective accounts of, the Owners entitled thereto. Notwithstanding the foregoing, Owners of International GDSs may elect to receive any such cash dividends or other cash distributions in a Foreign Currency under certain circumstances (a "Currency Election") as set forth in the International Deposit Agreement.

If the Company declares a dividend in, or free distribution of, Common Shares, the Depositary may distribute to the Owners of outstanding GDRs entitled thereto, in proportion to the number of GDSs held by them, respectively, additional GDRs evidencing an aggregate number of GDSs representing the amount of Common Shares received as such dividend or free distribution, subject to the terms and conditions of the relevant Deposit Agreement with respect to the deposit of Common Shares and the issuance of GDSs, including the withholding of any tax or other governmental charge and the payment of fees of the Depositary. The Depositary may withhold any such distribution of GDRs if it has not received satisfactory assurances from the Company that such distribution does not require registration under the Securities Act or is exempt from registration under the provisions of such Act. In lieu of delivering GDRs evidencing fractional GDSs in the event of any such dividend or free distribution, the Depositary will sell the amount of Common Shares represented by the aggregate of such fractions and distribute the net proceeds in accordance with the relevant Deposit Agreement. If additional GDRs are not so distributed, each GDS shall thenceforth also represent the additional Common Shares distributed upon the Deposited Securities represented thereby. Each Beneficial Owner of Rule 144A GDSs (and prior to the Effective Time, each Beneficial Owner of International GDSs) or Common Shares so distributed shall be deemed to have acknowledged that the Common Shares have not been registered under the Securities Act and to have agreed to comply with the restrictions on transfer set forth under "Form of GDRs and Transfer Restrictions".

If the Company offers or causes to be offered to the holders of any Deposited Securities any rights to subscribe for additional Common Shares or any rights of any other nature, the Depositary will have discretion as to the procedure to be followed in making such rights available to any Owners of GDSs or in disposing of such rights for the benefit of any Owners and making the net proceeds available in U.S. Dollars to such Owners or, if by the terms of such rights offering or for any other reason, the Depositary may not either make such rights available to any Owners or dispose of such rights and make the net proceeds available to such Owners, then the Depositary shall allow the rights to lapse; *provided, however,* if at the time of the offering of any rights the Depositary determines in its discretion that it is lawful and feasible to make such rights available to all Owners or to certain Owners but not to other Owners, the Depositary may distribute to any Owner to whom it determines the distribution to be lawful and feasible in proportion to the number of GDSs held by such Owner, warrants or other instruments therefor in such form as it deems appropriate. If the Depositary determines in its discretion that it is not lawful and feasible to make such rights available to certain Owners, it may sell the rights, warrants or other instruments in proportion to the number of GDSs held by the Owners to whom it has determined it may not lawfully or feasibly make such rights available, and allocate the net proceeds (net of the fees and expenses of the Depositary and all taxes and governmental charges payable in connection with such rights and subject to the terms and conditions of the relevant Deposit Agreement) of such sales for the account of such Owners otherwise entitled to such rights, warrants or other instruments, upon an averaged or other practical basis without regard to any distinctions among such Owners because of exchange restrictions or the date of delivery of any GDR of GDRs, or otherwise.

In circumstances in which rights would not otherwise be distributed, if an Owner of GDSs requests the distribution of warrants or other instruments in order to exercise the rights allocable to the GDSs of such Owner, the Depositary will make such rights available to such Owner upon written notice from the Company to the Depositary that (a) the Company has elected in its sole discretion to permit such rights to be exercised and (b) such Owner has executed such documents as the Company has determined in its sole discretion are reasonably required under applicable law. Upon instruction pursuant to such warrants or other instruments to the Depositary from such Owner to exercise such rights, upon payment by such Owner to the Depositary for the account of such Owner of an amount equal to the purchase price of the Common Shares to be received in exercise of the rights, and upon payment of the fees of the Depositary as set forth in the relevant Deposit Agreement and in such warrants or other instruments, the Depositary will, on behalf of such Owner, exercise the rights and purchase the Shares, and the Company shall cause the Common Shares so purchased to be delivered to the Depositary on behalf of such Owner. As agent for such Owner, the Depositary will cause the Common Shares so purchased to be deposited, and will execute and deliver GDRs to such Owner, pursuant to the relevant Deposit Agreement.

The Depositary will not offer rights to Owners unless both the rights and the securities to which such rights relate are either exempt from registration under the Securities Act with respect to a distribution to all Owners or are registered thereunder. If an Owner of GDSs requests the distribution of warrants or other instruments, notwithstanding that there has been no such registration under the Securities Act, the Depositary shall not effect such distribution unless it has received an opinion from recognized counsel in the United States for the Company, to be provided at the sole expense of the Company, upon which the Depositary may rely that such distribution to such Owner is exempt from such registration. Notwithstanding any terms of the relevant Deposit Agreement to the contrary, the Company shall have no obligation to prepare and file a registration statement for any purpose.

The Depositary shall not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to owners in general or any Owner in particular.

Whenever the Depositary shall receive any distribution other than cash, Common Shares or rights in respect of the Deposited Securities, the Depositary will cause the securities or property received by it to be distributed to the Owners entitled thereto, after deduction or upon payment of any fees and expenses of the Depositary or any taxes or other governmental charges, in proportion to their holdings, respectively, in any manner that the Depositary may reasonably deem equitable and practicable for accomplishing such distributions; *provided, however*, that if in the opinion of the Depositary such distribution cannot be made proportionately among the Owners entitled thereto, or if for any other reason (including any requirement that the Company or the Depositary withhold an amount on account of taxes or other governmental charges or that such securities must be registered under the Securities Act in order to be distributed) the Depositary deems such distribution not to be feasible, the Depositary may adopt such method as it may deem equitable and practicable for the purpose of effecting such distribution, including but not limited to the sale (at public or private sale) of the securities or property thus received, or any part thereof, and the net proceeds (net fees and expenses as provided in the relevant Deposit Agreement) of any such sale will be distributed by the Depositary to the Owners entitled thereto as in the case of a distribution received in cash.

If the Depositary determines that any distribution of property (including Common Shares and rights to subscribe therefor) is subject to any tax or other governmental charge which the Depositary is obligated to withhold, the Depositary may dispose of all or a portion of such property in such amounts and in such manner as the Depositary deems necessary and practicable to pay such taxes or charges, by public or private sale, and the Depositary will distribute the net proceeds of any such sale after deduction of such taxes or charges to the Owners entitled thereto in proportion to the number of GDSs held by them, respectively.

Upon any change in nominal or par value, split-up, consolidation or any other reclassification of Deposited Securities, or upon any recapitalization, reorganization, merger or consolidation or sale of assets affecting the Company or to which it is a party, any securities that shall be received by the Depositary or Custodian in exchange for, in conversion of, or in respect of Deposited Securities will be treated as new Deposited Securities under the relevant Deposit Agreement, and the GDSs shall thenceforth represent, in addition to the existing Deposited Securities, the right to receive the new Deposited Securities so received in exchange or conversion, unless additional GDRs are delivered pursuant to the following sentence. In any such case, the Depositary may execute and deliver additional GDRs as in the case of distribution in Common Shares, or call for the surrender of outstanding GDRs to be exchanged for new GDRs specifically describing such new Deposited Securities.

Record Dates

Whenever any cash dividend or other cash distribution shall become payable or any distribution other than cash shall be made, or whenever rights shall be issued with respect to the Deposited Securities, or whenever for any reason the Depositary causes a change in the number of Common Shares that are represented by each GDS, or whenever the Depositary shall receive notice of any meeting of holders of Common Shares, or other Deposited Securities, or whenever the Depositary shall find it necessary or convenient, the Depositary will fix a record date which shall be the same date or as near as possible to the corresponding date fixed by the Company, (a) for the determination of the Owners who shall be (i) entitled to receive such dividend, distribution or rights, or the net proceeds of the sale thereof, (ii) entitled to give instructions for the exercise of voting rights at any such meeting or (iii) obligated to pay any charges in connection with the servicing of the Common Shares or other Deposited Securities, or (b) on or after which each GDS will represent the changed number of Common Shares, all subject to the provisions of the relevant Deposit Agreement.

Voting of Deposited Securities

Upon receipt of notice of any meeting of holders of Common Shares or other Deposited Securities, the Depositary shall, at the written request of the Company, as soon as practicable thereafter, fix a record date for determining the Owners entitled to receive information as to such meeting and shall deliver to the Owners of record: (a) the notice of such meeting sent by the Company, including, if an election of directors or supervisors is to be held at the meeting, a list of the candidates who have expressed their intention to run for an election of directors or supervisors, if such list is provided to the Depositary by the Company, (b) a statement that (i) if the Depositary receives instructions from Owners as of the close of business on a record date established by the Depositary of an aggregate of at least 51% of Rule 144A GDSs and International GDSs (a "Majority of Owners") instructing the Depositary to vote Common Shares in respect of any matter in the same manner (other than the election of directors or supervisors) to be voted upon at such meeting, then the Depositary will in respect of such matter appoint the Chairman of the Company or a person designated by the Chairman of the Company (the "Voting Representative") as the representative of the Depositary and the Owners to attend such meeting and to vote all the Common Shares represented by GDSs in accordance with such identical instructions, insofar as practical and permitted under applicable law and the Articles of Incorporation of the Company and (ii) if the Depositary does not receive such identical instructions from a Majority of Owners with respect to such matters, the Depositary will appoint the Voting Representative to attend the relevant meeting and to vote all the Common Shares represented by GDSs as the Voting Representative deems appropriate, and (c) a statement as to the manner in which instruction in respect of such matter may be given by Owners.

If the Depositary receives instructions from a Majority of Owners instructing the Depositary to vote Common Shares in respect of any matter in the same manner (other than the election of directors or supervisors) to be voted upon at such meeting, then the Depositary will in respect of such matter appoint the Voting Representative as representative of the Depositary and the Owners to attend such meeting and to vote all the Common Shares represented by GDSs in accordance with such identical instructions, insofar as practicable and permitted under applicable law and the Articles of Incorporation of the Company. If the Depositary does not receive such identical instructions from a Majority of Owners with respect to such matter, the Depositary will appoint the Voting Representative to attend such meeting and to vote all the Common Shares represented by GDSs as the Voting Representative deems appropriate; provided, however that the Depositary will not make any such appointment unless it has received an opinion of ROC counsel to the Company addressed to the Depositary and in form and substance satisfactory to the Depositary, at the Company's sole expense, to the effect that, under ROC law (i) the relevant Deposit Agreement is valid, binding and enforceable against the Company and the Owners and the Beneficial Owners and (ii) the Depositary will not be deemed to be authorized to exercise any discretion when voting in accordance with the relevant Deposit Agreement and will not be subject to any potential liability for losses arising from such voting.

In connection with the election of directors and supervisors, the Company will provide in the notice to stockholders an indication of the number of directors or supervisors to be elected and a list of the candidates proposed by the Company. Additional or different candidates may be nominated at the meeting of the stockholders other than those proposed in the list provided by the Company. The Depositary will forward the instructions for election of directors and supervisors that it has received from the Owners to the Voting Representative and appoint the Voting Representative as the representative of the Depositary and the Owners to attend such meeting, nominate, if necessary, the candidate or candidates named in such instructions, and vote the Common Shares represented by GDSs for which it has received instructions for the election of directors and supervisors from Owners in the manner so instructed. If the Depositary does not receive any such instructions from any Owner as provided above by the date fixed by the Depositary as the last date to accept such instructions, then, subject to the preceding sentence, the Depositary will appoint the Voting Representative to attend the relevant meeting and vote all the Common Shares represented by GDSs as to which the Depositary has not received instructions (with respect to the election of directors and supervisors) as the Voting Representative deems appropriate; provided, however that the Depositary will not make any such appointment unless it has received an opinion of ROC counsel to the Company addressed to the Depositary and in form and substance satisfactory to the Depositary, at the Company's sole expense, to the effect that, under ROC law (i) the relevant Deposit Agreement is valid, binding and enforceable against the Company and the Owners and Beneficial Owners and (ii) the Depositary will not be deemed to be authorized to exercise any discretion when voting in accordance with the relevant Deposit Agreement and will not be subject to any potential liability for losses arising from such voting. In connection with the election of directors and supervisors, candidates standing for election as representatives of a stockholder may be replaced by such stockholder prior to the meeting of the stockholders, and the votes cast by the Owners for such candidates shall be counted as votes for their replacements.

The Depositary, in order to be qualified to act as representative of Owners, shall take all appropriate actions required from time to time by applicable laws and regulations of the ROC, including acting as an Owner in its own capacity.

There can be no assurance that the Owners generally or any Owner in particular will receive the notice described in this paragraph sufficiently prior to the date established by the Depositary for the receipt of instructions to ensure that the Depositary will in fact receive such instructions on or before such date.

The ROC Company Law and the Articles of Incorporation of the Company provide that a holder of Common Shares has one (1) vote for each Common Share, except that a holder of more than three percent (3%) of the total outstanding Common Shares will be discounted by a factor of one percent (1%) of that portion of the holding in excess of three percent (3%), e.g. a holder of ten percent (10%) of the total outstanding Common Shares would be permitted to exercise voting rights only with respect to 9.93 percent (9.93%) of such Common Shares. This provision is applicable to the Depositary, as holder of record of the Common Shares represented by the GDSs. Common Shares which have been withdrawn from the depositary receipt facility and transferred on the Company's register of shareholders to a person other than the Depositary may be voted by the holders thereof, subject to the limitations described in this paragraph. However, holders may not receive sufficient advance notice of shareholder meetings to enable them to withdraw the Common Shares and vote at such meetings.

Reports and Other Communications

The Depositary will make available for inspection by Owners at its Corporate Trust Office any reports and communications, including any proxy soliciting material, received from the Company, which are both (a) received by the Depositary as the holder of the Deposited Securities and (b) made generally available to the holders of such Deposited Securities by the Company. The Depositary will also send to the Owners copies of such reports, when furnished by the Company pursuant to the relevant Deposit Agreement. Any such reports and communications, including any proxy soliciting material, furnished to the Depositary by the Company will be furnished in English when so required pursuant to any regulations of the Commission.

For so long as any of the GDSs are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, at any time the Company is neither subject to Section 13 or 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Company has agreed in the Deposit Agreements to supply to the Depositary such information in the English language, in sufficient quantities, as is required to be delivered to any holder or beneficial owner of GDSs and a prospective purchaser designated by such holder (in each case, within the meaning of Rule 144A under the Securities Act) and the information delivery requirements of Rule 144A(d)(4) under the Securities Act, in order to permit compliance with Rule 144A thereunder in connection with resales of GDSs. Subject to receipt, the Depositary will deliver such information on behalf of the Company in its capacity as an agent only, at the Company's expense during any period in which the Company informs the Depositary that the Company is subject to the information delivery requirements of Rule 144A(d)(4), to any such holder, or beneficial owner or prospective purchaser at the request of such holder, beneficial owner or prospective purchaser.

Amendment and Termination of the Deposit Agreements

The GDRs and the Deposit Agreements may at any time be amended by agreement between the Company and the Depositary without the consent of the Owners or Beneficial Owners of GDRs; *provided, however,* that any amendment that imposes or increases any fees or charges (other than taxes, other governmental charges, delivery and other such expenses), or which otherwise prejudices any substantial existing right of Owners, will not take effect as to outstanding GDRs until the expiration of 30 days after notice of any amendment has been given to the Owners of outstanding GDRs. Every Owner of a GDS, at the time any amendment so becomes effective, will be deemed by continuing to hold such GDS to consent and agree to such amendment and to be bound by the relevant Deposit Agreement as amended thereby.

The Depositary shall at any time at the direction of the Company terminate the Deposit Agreements by mailing notice of such termination to the Owners or Beneficial Owners of the GDRs then outstanding at least 30 days prior to the date fixed in such notice for such termination. The Depositary may likewise terminate the Deposit Agreements by mailing notice of such termination to the Company and the Owners of all GDRs then outstanding if, any time after 30 days have expired after the Depositary shall have delivered to the Company a written notice of its election to resign, a successor depositary shall not have been appointed and accepted its appointment, in accordance with the terms of the Deposit Agreements. If any GDRs remain outstanding after the date of termination of the Deposit Agreements, the Depositary thereafter will discontinue the registration of transfers of GDRs, will suspend the distribution of dividends to the Owners thereof and will not give any further notices or perform any further acts under the Deposit Agreements, except the collection of dividends and other distributions pertaining to the Deposited Securities, the sale of rights and other property and the delivery of underlying Deposited Securities, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights or other property, in exchange for surrendered GDRs (after deducting the fees of the Depositary and other expenses set forth in the Deposit Agreements). At any time after the expiration of one year from the date of termination, the Depositary may sell the Deposited Securities then held thereunder and hold uninvested the net proceeds of such sale together with any other cash, unsegregated and without liability for interest, for the pro rata benefit of the Owners that have not theretofore surrendered their GDRs, such Owners thereupon becoming general creditors of the Depositary with respect to such net proceeds. After making such sale, the Depositary will be discharged from all obligations under the Deposit Agreements, except to account for net proceeds and other cash (after deducting the fees of the Depositary and other expenses set forth in the Deposit Agreements and any applicable taxes or other governmental charges). Upon termination of the relevant Deposit Agreement, the Company shall be discharged from all obligations under the relevant Deposit Agreement except for its obligations to the Depositary with respect to indemnities and payment of charges.

Charges of Depositary

The Depositary will charge any party depositing or withdrawing Common Shares or any party surrendering GDRs or to whom GDRs are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by the Company or an exchange of stock regarding the GDRs or Deposited Securities or a distribution of GDRs pursuant to the relevant Deposit Agreement) where applicable: (1) taxes and other governmental charges; (2) such registration fees as may from time to time be in effect for the registration of transfers of Common Shares generally on the share register of the Company (or the appointed agent of the Company for transfer and registration of Common Shares) and applicable to transfers of Common Shares to the name of the Depositary or its nominee or the Custodian or its nominee on the making of deposits or withdrawals; (3) such cable, telex and facsimile transmission expenses as are expressly provided in the relevant Deposit Agreement to be at the expense of persons depositing Common Shares or Owners; (4) such expenses as are incurred by the Depositary in the conversion of Foreign Currency pursuant to the relevant Deposit Agreement; (5) a fee not in excess of U.S.$5.00 per 100 GDSs (or portion thereof) for the issuance or surrender, respectively, of GDRs pursuant to the Deposit Agreement; (6) a fee not in excess of U.S.$.02 per GDS (or portion thereof) for any cash distribution made pursuant to the relevant Deposit Agreement; (7) a fee for the distribution of securities or rights pursuant to the relevant Deposit Agreement, such fee being in an amount equal to the fee for the issuance of GDSs referred to above which would have been charged as a result of the deposit by Owners of such securities (for purposes of this clause (7) treating all such securities as if they were Common Shares) but which securities are instead distributed by the Depositary to Owners; (8) a fee not in excess of U.S.$1.50 per certificate for issuances or registrations of transfers of GDRs in definitive form made pursuant to the relevant Deposit Agreement; (9) any other charge payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents in connection with the servicing of Common

Shares or other Deposited Securities (which charge shall be assessed against Owners of record as of the date or dates set by the Depositary in accordance with the relevant Deposit Agreement and shall be collected at the sole discretion of the Depositary by billing such Owners for such charge or by deducting such charge from one or more cash dividends or other cash distributions); and (10) a Currency Election fee of U.S.$.05 or less per International GDS for the acceptance by the Depositary of a Currency Election.

Liability of Owner for Taxes

If any tax or other governmental charge shall become payable by the Custodian or the Depositary with respect to any GDR, the GDSs evidenced thereby or any underlying Deposited Securities, such tax or other governmental charge will be payable by the Owner of such GDS to the Depositary. The Depositary may refuse to effect any transfer of such GDS of any withdrawal of Deposited Securities underlying such GDS until such payment is made and may withhold any dividends or other distributions or may sell for the account of the Owner or Beneficial Owners thereof any part or all of the Deposited Securities underlying such GDS and may apply such dividends, distributions or the proceeds of any such sale to pay any such tax or other governmental charge and the Owner of such GDS shall remain liable for any deficiency.

General

Neither the Depositary nor the Company nor any of their respective directors, employees, agents or affiliates will be liable to any Owner or Beneficial Owner if by reason of any provision of any present or future law or regulation of the United States, ROC or any other country, or of any other governmental or regulatory authority or stock exchange or by reason of any provision, present or future, of the Articles of Incorporation of the Company, or by reason of any provision of any securities issued or distributed by the Company, or any offering or distribution thereof, or by reason of any act of God or war or other circumstances beyond its control, the Depositary or the Company or any of their directors, employees, agents or affiliates shall be prevented, delayed or forbidden from, or be subject to any civil or criminal penalty on account of, doing or performing any act or thing which by the terms of the relevant Deposit Agreement or the Deposited Securities it is provided shall be done or performed; nor will the Depositary or the Company incur any liability to any Owner or Beneficial Owner by reason of any nonperformance or delay, caused as stated in the preceding clause, in the performance of any act or thing which by the terms of the Deposit Agreement it is provided shall or may be done or performed, or by reason of any exercise of, or failure to exercise, any discretion provided for under the relevant Deposit Agreement or the Articles of Incorporation of the Company.

The Company and the Depositary assume no obligation nor will they be subject to any liability under the Deposit Agreements to Owners or Beneficial Owners of GDSs, except that they agree to perform their respective obligations specifically set forth under the relevant Deposit Agreement without negligence or bad faith.

The GDSs are transferable on the books of the Depositary, provided that the Depositary may close the transfer books at any time or from time to time when deemed expedient by it in connection with the performance of its duties or at the written request of the Company. As a condition precedent to the execution and delivery, registration of transfer, split-up, combination or surrender of any GDR or withdrawal of any Deposited Securities, the Depositary or the Custodian may require payment from the person presenting the GDR or the depositor of the Common Shares of a sum sufficient to reimburse it for any tax or other governmental charge and any stock transfer or registration fee with respect thereto (including any such tax or charge and fee with respect to Common Shares being deposited or withdrawn) and payment of any applicable fees payable by the Beneficial Owners. The Depositary may refuse to deliver GDRs, to register the transfer of any GDS or to make any distribution on, or related to, Common Shares until it has received such proof of citizenship or residence, exchange control approval or other information as it may deem necessary or proper as to the identity and genuineness of any signature and may also require compliance with any regulations the Depositary may establish consistent with the relevant Deposit Agreement. The delivery, transfer and surrender of GDRs generally may be suspended during any period when the transfer books of the Depositary, the Company or the Foreign Registrar are closed or if any such action is deemed necessary or advisable by the Depositary or the Company. At any time or from time to time at and subsequent to the Effective Time, the surrender of outstanding International GDRs, and the withdrawal of Deposited Securities may not be suspended subject only to (i) the temporary delays caused by closing the transfer books of the Depositary or the Company or the deposit of Common Shares in connection with voting at a shareholders' meeting or the payment of dividends, (ii) the payment of any fees, taxes, and similar charges and (iii) compliance with any U.S. or foreign laws or governmental regulations relating to the GDSs or to the withdrawal of the Deposited Securities.

Subject to the terms and conditions of the Deposit Agreements unless requested in writing by the Company to cease doing so, the Depositary may execute and deliver GDRs prior to the receipt of Common Shares (a "Pre-Release") and deliver Common Shares upon the receipt and cancellation of GDRs which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such GDR has been Pre-Released. The Depositary may receive GDRs in lieu of Common Shares in satisfaction of a Pre-Release. Each Pre-Release must be (i) preceded or accompanied by a written representation and agreement from the person to whom the GDRs or Common Shares are to be delivered (the "Pre-Releasee") that such person, or its customer, owns the Common Shares or GDRs to be remitted, as the case may be, assigns all beneficial right, title and interest in such Common Shares or GDRs, as the case may be, to the Depositary for the benefit of the Owners, and will not take any action with respect to such Common Shares or GDRs, as the case may be, that is inconsistent with the transfer of beneficial ownership (including, without the consent of the Depositary, disposing of such Common Shares of GDRs, as the case may be) other than in satisfaction of such pre-Release, (ii) at all times fully collateralized with cash, U.S. government securities or such other collateral, as the Depositary determines, in good faith, will provide substantially similar liquidity and security, (iii) terminable by the Depositary on not more than five business days' notice and (iv) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of Common Shares not deposited but represented by GDSs outstanding at any time as a result of Pre-Releases will not normally exceed 30% of the Common Shares deposited under the Deposit Agreements; *provided, however,* that the Depositary reserves the right to disregard such limit from time to time as it deems reasonably appropriate, and may, with the prior written consent of the Company, change such limit for purposes of general application. The Depositary will also set U.S. Dollar limits with respect to Pre-Release transactions to be entered into under the Deposit Agreements with any particular Pre-Releasee on a case-by-case basis as the Depositary deems appropriate. For purposes of enabling the Depositary to fulfill its obligations to the Owners under the Deposit Agreements, the collateral referred to in clause (ii) above shall be held by the Depositary as security for the performance of the Pre-Releasee's obligations to the Depositary in connection with a Pre-Release transaction, including the Pre-Releasee's obligation to deliver Common Shares or GDRs upon termination of a Pre-Release transaction (and shall not, for the avoidance of doubt, constitute Deposited Securities). Each deposit of Common Shares under the Rule 144A Deposit Agreement or, prior to the Effective Time, the International Deposit Agreement, in connection with a Pre-Release described above shall be subject to receipt by the Depositary of a duly executed and completed Depositor Certificate. The Depositary may retain for its own account any compensation received by it in connection with the foregoing.

The Depositary will keep books, at its transfer office in The City of New York, for the registration and registration of transfer of GDSs, which at all reasonable times will be open for inspection by the Owners, provided that such inspection shall not be for the purpose of communicating with Owners in the interest of a business or object other than the business of the Company or a matter related to the Deposit Agreements or the GDSs.

The Depositary may upon the written approval of the Company, appoint one or more co-transfer agents for the purpose of affecting transfers, combinations and split-ups of GDSs at designated transfer offices on behalf of the Depositary. In carrying out its functions, a co-transfer agent may require evidence of authority and compliance with applicable laws and other requirements by Beneficial Owners or Owners or persons entitled thereto and will be entitled to protection and indemnity to the same extent as the Depositary.

Governing Law

The Deposit Agreements are governed by the laws of the State of New York.

FORM OF GDRs AND TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any resale, pledge or other transfer of Rule 144A GDSs, International GDSs or Common Shares represented thereby.

The Rule 144A GDSs, the International GDSs and the Common Shares represented thereby have not been registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Interests in the GDSs will be held through interests in the Master GDRs. Such interest in the Master GDRs will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants.

Rule 144A GDSs

Each owner of an interest in Rule 144A GDSs, by it acceptance thereof, will be deemed to have represented, agreed and acknowledged that:

(1) It is (a) a qualified institutional buyer within the meaning of Rule 144A ("QIB"), (b) acquiring such Rule 144A GDSs for its own account or for the account of a QIB and (c) aware, and each beneficial owner of such Rule 144A GDSs has been advised, that the sale of such Rule 144A GDSs to it is being made in reliance on Rule 144A.

(2) It understands that such Rule 144A GDSs have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities laws of any State of the United States.

(3) It understands that the Rule 144A GDRs and the Master Rule 144A GDR, unless otherwise determined by the Company and the Depositary in accordance with applicable law, will bear a legend substantially to the following effect:

THIS RULE 144A GLOBAL DEPOSITARY RECEIPT ("GDR"), THE RULE 144A GLOBAL DEPOSITARY SHARES ("RULE 144A GDSs") EVIDENCED HEREBY, AND THE UNDERLYING SHARES OF COMPAL ELECTRONICS, INC. (THE "SHARES") REPRESENTED THEREBY, HAVE NOT BEEN, AND ARE NOT EXPECTED TO BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND SUCH SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, TO A PERSON THAT IS (A) A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) OR A PURCHASER THAT THE SELLER AND ANY PERSON ACTING ON THE SELLER'S BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER, IN EACH CASE PURCHASING FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, AND (B) AWARE THAT THE OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (2) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR (4) PURSUANT TO AN EXEMPTION FROM

REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS. EACH OWNER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR OR AN INTEREST IN THE RULE 144A GDSs EVIDENCED HEREBY, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING AND FOLLOWING RESTRICTIONS AND THAT NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR RESALES OF THIS SECURITY OR THE SHARES REPRESENTED THEREBY.

NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE FOREGOING, THE SHARES REPRESENTED BY THE RULE 144A GDSs EVIDENCED HEREBY MAY NOT BE DEPOSITED INTO ANY UNRESTRICTED DEPOSITARY RECEIPT FACILITY IN RESPECT OF THE SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK (INCLUDING THE BANK OF NEW YORK), UNLESS AND UNTIL SUCH TIME AS SUCH SHARES ARE NO LONGER "RESTRICTED SECURITIES" WITHIN THE MEANING OF THE SECURITIES ACT.

(4) The Company, the Depositary, the Purchasers, the Selling Shareholders and their respective affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Rule 144A GDSs for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

(5) It understands that the GDSs offered in reliance on Rule 144A will be represented by the Master Rule 144A GDR. Before any interest in the Master Rule 144A GDR may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Master International GDR, it will be required to provide the Depositary with written certifications (in the forms provided in the Rule 144A Deposit Agreement and the International Deposit Agreement) as to compliance with applicable securities laws.

International GDSs

Each owner of an interest in the International GDSs prior to the expiration of the period ending 40 days after the later of the commencement of the Offering and the closing date for such Offering (the "distribution compliance period"), by its acceptance thereof, will be deemed to have represented, agreed and acknowledged that:

(1) It understands that such International GDSs have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such International GDSs except (a) in accordance with Rule 144A under the Securities Act to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or the account of a QIB or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.

(2) The Company, the Depositary, the Purchasers, the Selling Shareholders and their respective affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

(3) It understands that the Master International GDR, unless otherwise determined by the Company and the Depositary in accordance win applicable law, will bear a legend substantially to the following effect:

THIS INTERNATIONAL GLOBAL DEPOSITARY RECEIPT ("GDR"), THE INTERNATIONAL GLOBAL DEPOSITARY SHARES ("INTERNATIONAL GDSs") EVIDENCED HEREBY AND THE UNDERLYING SHARES OF COMPAL ELECTRONICS, INC. (THE "COMPANY") (THE "SHARES") REPRESENTED THEREBY, HAVE NOT BEEN AND ARE NOT EXPECTED TO BE

REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND PRIOR TO THE EXPIRATION OF THE 40-DAY PERIOD FOLLOWING THE LATER OF THE OFFERING OF SHARES BY THE COMPANY OR ITS AFFILIATES, OR SECURITIES CONVERTIBLE, EXERCISABLE, OR EXCHANGEABLE INTO SHARES, PURSUANT TO WHICH OFFERING OR SECURITIES THIS GDR IS DELIVERED, AND THE RELATED CLOSING (THE "DISTRIBUTION COMPLIANCE PERIOD") SUCH SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (I) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE I44A UNDER THE SECURITIES ACT TO A PERSON THAT IS (A) A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) OR A PURCHASER THAT THE SELLER AND ANY PERSON ACTING ON THE SELLER'S BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER AND (B) AWARE THAT THE OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, OR (2) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS AND FURTHER PROVIDED THAT, IN CONNECTION WITH ANY TRANSFER UNDER (I) ABOVE, THE TRANSFEROR SHALL, PRIOR TO THE SETTLEMENT OF SUCH SALE, WITHDRAW THE SHARES FROM DEPOSIT UNDER THE INTERNATIONAL DEPOSIT AGREEMENT AND CAUSE INSTRUCTIONS TO BE GIVEN TO THE CUSTODIAN FOR THE DEPOSITING OF SUCH SHARES UNDER THE RULE 144A DEPOSIT AGREEMENT AND TO THE DEPOSITARY FOR THE ISSUANCE OF RULE 144A GDRs TO OR FOR THE ACCOUNT OF SUCH QUALIFIED INSTITUTIONAL BUYER, ALL IN ACCORDANCE WITH THE PROVISIONS OF THE RULE 144A DEPOSIT AGREEMENT. EACH OWNER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS GDR OR AN INTEREST IN THE INTERNATIONAL GDSs EVIDENCED HEREBY, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING AND FOLLOWING RESTRICTIONS.

UPON THE EXPIRATION OF DISTRIBUTION COMPLIANCE PERIOD, THE INTERNATIONAL GDSs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY SHALL NO LONGER BE SUBJECT TO THE RESTRICTIONS PROVIDED IN THIS LEGEND, PROVIDED THAT AT SUCH TIME AND THEREAFTER THE OFFER OR SALE OF THE INTERNATIONAL GDSs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY BY THE OWNER HEREOF IN THE UNITED STATES WOULD NOT BE RESTRICTED UNDER ANY APPLICABLE SECURITIES LAWS OF THE UNITED STATES OR OF THE STATES OR TERRITORIES OF THE UNITED STATES.

Other Provisions regarding Transfers of the GDRs

Interests in the Rule 144A GDSs may be transferred to a person whose interest in such GDSs is subsequently represented by the Master International GDR only upon receipt by the Depositary of written certifications (in the forms provided in the Rule 144A Deposit Agreement and the International Deposit Agreement) from the transferor to the effect that, among other things, such transfer is being made in accordance with Regulation S. Interests in the International GDSs may be transferred to a person whose interest in such GDSs is subsequently represented by the Master Rule 144A GDR only upon receipt of the Depositary of written certifications from the transferor (in the form provided in the Rule 144A Deposit Agreement) to the effect that, among other things, the transferee is a QIB. Any interest in GDSs represented by one of the Master GDRs that is transferred to a person whose interest in such GDSs is subsequently represented by the other Master GDR will, upon transfer, cease to be an interest in the GDSs represented by such first Master GDR and, accordingly, will therefore be subject to all transfer restrictions and other procedures applicable to interests in GDSs represented by such other Master GDR for so long as it remains such an interest.

Any resale or other transfer, or attempted resale or other transfer, made other than in compliance with the above-stated restrictions shall not be recognized by the Company or the Depositary in respect of the GDSs or the Common Shares represented thereby.

Settlement and Clearance

Ownership of Rule 144A GDSs evidenced by the Master Rule 144A GDR will be limited to DTC participants or persons who hold interests through DTC participants. Ownership of such interests will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of DTC participants) and the records of DTC participants (with respect to interests of persons other than DTC participants).

So long as DTC, or its nominee, is the registered holder of the Master Rule 144A GDR, DTC or such nominee, as the case may be, will be considered the sole owner of the Rule 144A GDSs evidenced thereby for all purposes under the Rule 144A Deposit Agreement and the Rule 144A GDSs.

Transfers between DTC participants will be effected through DTC. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Rule 144A GDSs evidenced by the Master Rule 144A GDR to such persons may be limited. Because DTC can only act on behalf of DTC participants, who in turn act on behalf of indirect participants, the ability to a person owning Rule 144A GDSs evidenced by the Master Rule 144A GDR to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take action in respect of such interest, may be affected by the lack of physical individual definitive securities in respect of such interest.

DTC has advised the Company as follows: DTC is a limited purpose trust company organized under New York Banking Law, a "banking organization" within the meaning of New York Banking Law, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the U.S. Securities Exchange Act of 1934. DTC holds securities for DTC participants and facilitates the settlement of securities transactions, such as transfers and pledges, between DTC participants through electronic book-entry changes in DTC participants' accounts, thereby eliminating the need for physical movement of certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Access to the DTC system also is available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with direct participants either directly or indirectly.

Beneficial interests in the International GDSs held through Euroclear and Clearstream, Luxembourg will be represented by the Master International GDR registered in the name of a common depositary for Euroclear and Clearstream, Luxembourg. The aggregate holdings of beneficial interests in the International GDSs in Euroclear and Clearstream, Luxembourg will be reflected in the book-entry accounts of each such institution. Ownership of International GDSs evidenced by the Master International GDR will be limited to Euroclear or Clearstream, Luxembourg accountholders or persons who hold interests through such accountholders. Ownership of such interests will be shown on, and the transfer of that ownership will be effected only through, records maintained by the common depositary (with respect to the aggregate holdings of Euroclear and Clearstream, Luxembourg), the records of Euroclear and Clearstream, Luxembourg (with respect to the holdings of their respective accountholders) and the records of such Euroclear and Clearstream, Luxembourg accountholders (with respect to the interests of persons trading International GDSs through such accountholders).

Transfers of International GDSs held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg.

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

TAXATION

ROC Taxation

In the opinion of Tsar & Tsai, the following discussion addresses the principal ROC tax consequences of the ownership and disposition of GDSs representing Common Shares to a non-resident individual or non-resident entity that holds such GDSs (a "Non-ROC Holder"). As used in the preceding sentence, a "non-resident individual" (a "Non-ROC Individual") is a foreign national individual who is not physically present in the ROC for 183 days or more during any calendar year in which he or she owns GDSs and a "non-resident entity" (a "Non-ROC Entity") is a corporation or a non-corporate body that is organized under the laws of a jurisdiction other than the ROC for profit-making purposes and does not have a fixed place of business or other permanent establishment in the ROC.

Under current ROC law, capital gains on securities transactions are exempt from ROC income tax. There can be no assurance that a capital gains tax will not be imposed in the future or as to the manner in which any ROC capital gains tax in respect of Common Shares represented by GDSs would be imposed or calculated. Historically, a portion of the Company's net income has also been derived from gains on sales of securities, and the imposition of an ROC capital gains tax on the sale of securities could reduce the net gain realised upon any future sales of such securities.

GDSs

Dividends

Dividends (whether in cash or stock) declared by the Company out of retained earnings and distributed to a Non-ROC Holder in respect of Common Shares represented by GDSs (or Temporary GDSs) are subject to ROC withholding tax, currently at a rate of 20% on the amount of the distribution (in the case of cash dividends) or on the par value of the distributed shares (in the case of stock dividends). The Depositary may dispose of a portion of the dividends to pay such tax.

Distributions of stock dividends out of capital reserves are not subject to ROC withholding tax.

Sale

Under current ROC law, transfers of GDSs (or Temporary GDSs) are not subject to ROC securities transaction tax.

Gains on sale of GDSs (or Temporary GDSs) are not subject to ROC income tax.

Common Shares

Dividends

Dividends (whether in cash or stock) declared by the Company out of retained earnings and distributed to a Non-ROC Holder in respect of Common Shares are subject to ROC withholding tax as described above under "—GDSs—Dividends".

Sale

Securities transaction tax is payable and withheld by the seller at the rate of 0.3% of the transaction price upon a sale of Common Shares.

Under current ROC law, capital gains on transactions in shares issued by ROC companies are exempt from income tax. This exemption applies to capital gains derived from sale of Common Shares.

Subscription Rights

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

Inheritance Tax and Gift Tax

ROC inheritance tax is payable on any property within the ROC of a deceased Non-ROC Individual, and ROC gift tax is payable on any property within the ROC donated by any such person. Inheritance tax is payable at rates ranging from 2% of the first NT$600,000 to 50% of amounts over NT$100,000,000. Gift tax is payable at rates ranging from 4% of the first NT$600,000 to 50% of amounts over NT$45,000,000. Under ROC Inheritance and Gift Tax Law, shares issued by ROC companies are deemed located in the ROC irrespective of the location of the owner. It is unclear whether a holder of GDSs will be considered to own Common Shares for this purpose.

Tax Treaty

The United States does not have an income tax treaty with the ROC. At present, the ROC has entered into income tax treaties with Singapore, Australia, Indonesia, New Zealand, South Africa, Gambia, Swaziland, Malaysia, Macedonia and Vietnam. It is unclear whether a Non-ROC Holder will be considered to own Common Shares for the purposes of these income tax treaties. Accordingly, Non-ROC Holders of GDSs who are entitled to the benefits of the relevant income tax treaty should consult their own tax advisors concerning their eligibility for benefits under the treaty with respect to GDSs.

Tax Reform

In order to increase Taiwan's competitiveness, an amendment to the ROC Income Tax Law (the "Amendment") was enacted on January 1, 1998, to integrate the corporate income tax and the shareholder income tax with respect to dividend income with the aim of eliminating the double taxation effect for resident shareholders of Taiwanese corporations.

According to the Amendment, a 10% retained earnings tax will be imposed on a company for its after-tax earnings generated after January 1, 1998 which are not distributed in the following year. The retained earnings tax so paid will further reduce the retained earnings available for future distribution. When the Company declares dividends out of those retained earnings, up to a maximum amount of 10% of the net dividend received will be credited against the 20% withholding tax imposed on the Non-ROC Holders of its Common Shares.

Tax Guarantor

Holders of GDSs withdrawing Common Shares represented by such GDSs are required under current ROC law and regulations to appoint an agent in the ROC for filing tax returns and making payments. Such agent must meet certain qualifications set by the ROC Ministry of Finance and, upon appointment, becomes a guarantor of such withdrawing holder's ROC tax obligations. Evidence of the appointment of such agent and the approval for such appointment by the ROC tax authorities may be required as conditions to such withdrawing holder's repatriation of the profit derived from the sale of withdrawn Common Shares. There can be no assurance that such withdrawing holder of GDSs will be able to appoint and obtain approval for such agent in a timely manner.

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

United States Federal Income Taxation

The following is a summary of the material U.S. federal income tax consequences of the acquisition, ownership and disposition of GDSs by a U.S. Holder (as defined below). This summary deals only with initial purchasers of GDSs that are U.S. Holders and that will hold the GDSs as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of GDSs by particular investors, and does not address state, local, foreign or other tax laws. In particular, this summary does not address tax considerations applicable to investors that own (directly or indirectly) 10% or more of the voting stock of the Company nor does this summary discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as banks, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organizations, dealers in securities or currencies, investors that will hold the GDSs as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar).

As used herein, the term "U.S. Holder" means a beneficial owner of GDSs that is (i) a citizen or resident of the United States for U.S. federal income tax purposes, (ii) a corporation, or other entity treated as a corporation, created or organized under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust.

The summary assumes that the Company is not a passive foreign investment company (a "PFIC") for U.S. federal income tax purposes, which the Company believes to be the case. The Company's possible status as a PFIC must be determined annually and therefore may be subject to change. If the Company were to be a PFIC in any year, special, possibly materially adverse, consequences would result for U.S. Holders.

The summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as currently in effect and all subject to change at any time, perhaps with retroactive effect.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR OWN TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE GDSs OR COMMON SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

U.S. Holders of GDSs

For U.S. federal income tax purposes, a U.S. Holder of GDSs will be treated as the owner of the corresponding number of Common Shares held by the Depositary, and references herein to Common Shares refer also to GDSs representing the Common Shares.

Dividends

General. Distributions paid by the Company out of current or accumulated earnings and profits (as determined for U.S. federal income tax purposes), before reduction for any ROC withholding tax paid by the Company with respect thereto, will generally be taxable to a U.S. Holder as foreign source dividend income, and will not be eligible for the dividends received deduction allowed to corporations. Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of the U.S. Holder's basis in the Shares and thereafter as capital gain.

Foreign Currency Dividends. Dividends paid in NT Dollars will be included in income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day the dividends are received by the Depositary, regardless of whether the NT Dollars are converted into U.S. dollars. If dividends received in NT Dollars are converted into U.S. dollars on the day they are received by the Depositary, the U.S. Holder generally will not be required to recognize foreign currency gain or loss in respect of the dividend income.

Effect of ROC Withholding Taxes. As discussed in "—ROC Taxation", under current law payments of dividends by the Company to foreign investors are subject to a 20% ROC withholding tax. For U.S. federal income tax purposes, U.S. Holders will be treated as having received the amount of ROC taxes withheld by the Company, and as then having paid over the withheld taxes to the ROC taxing authorities. As a result of this rule, the amount of dividend income included in gross income for U.S. federal income tax purposes by a U.S. Holder with respect to a payment of dividends may be greater than the amount of cash actually received (or receivable) by the U.S. Holder from the Company with respect to the payment.

Subject to certain limitations, a U.S. Holder will generally be entitled to a credit against its U.S. federal income tax liability, or a deduction in computing its U.S. federal taxable income, for ROC income taxes withheld by the Company. For purposes of the foreign tax credit limitation, foreign source income is classified into one of several "baskets", and the credit for foreign taxes on income in any basket is limited to U.S. federal income tax allocable to that income. Dividends paid by the Company generally will constitute foreign source income in the "passive income" basket or, in the case of certain holders, the "financial services income" basket. In certain circumstances, a U.S. Holder may be unable to claim foreign tax credits (and may instead be allowed deductions) for foreign taxes imposed on a dividend if the U.S. Holder (i) has not held the GDSs for at least 16 days in the 30-day period beginning 15 days before the ex dividend date, or (ii) holds the GDSs in arrangements in which the U.S. Holder's expected profit, after non-U.S. taxes, is insubstantial. U.S. Holders that are accrual basis taxpayers must translate ROC taxes into U.S. Dollars at a rate equal to the average exchange rate for the taxable year in which the taxes accrue, while all U.S. Holders must translate taxable dividend income into U.S. Dollars at the spot rate on the date received. This difference in exchange rates may reduce the U.S. dollar value of the credits for ROC taxes relative to the U.S. Holder's U.S. federal income tax liability attributable to a dividend.

Prospective purchasers should consult their tax advisers concerning the foreign tax credit implications of the payment of ROC taxes.

Exchange of GDSs for Common Shares

No gain or loss will be recognised upon the exchange of GDSs for the U.S. Holder's proportionate interest in Common Shares. A U.S. Holder's tax basis in the withdrawn Common Shares will be the same as the U.S. Holder's tax basis in the GDSs surrendered, and the holding period of the Common Shares will include the holding period of the GDSs.

Sale or other Disposition

Upon a sale or other disposition of GDSs (other than an exchange of GDSs for Common Shares) or Common Shares, a U.S. Holder generally will recognize capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the amount realized on the sale or other disposition and the U.S. Holder's adjusted tax basis in the GDSs or Common Shares. This capital gain or loss will be long-term capital gain or loss if the U.S. Holder's holding period in the Common Shares or GDSs exceeds one year. Any gain or loss will generally be U.S. source, except that losses will be treated as foreign source to the extent the U.S. Holder received dividends that were includible in the financial services income basket during the 24-month period prior to the sale.

Passive Foreign Investment Company Considerations

A foreign corporation will be a PFIC in any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to the applicable "look-through rules," either (i) at least 75% of its gross income is "passive income" or (ii) at least 50% of the average value of its assets is attributable to assets which produce passive income or are held for the production of passive income. The Company does not believe that it should be treated as a PFIC for U.S. federal income tax purposes, but the Company's possible status as a PFIC must be determined annually and therefore may be subject to change. This determination will depend in part on whether the Company continues to earn substantial amounts of operating income, as well as on the market valuation of the Company assets and the Company's spending schedule for its cash balances and the proceeds of the Offering. If the Company were to be treated as a PFIC, U.S. Holders of Common Shares would be required (i) to pay a special U.S. addition to tax on certain distributions and gains on sale and (ii) to pay tax on any gain from the sale of Common Shares at ordinary income (rather than capital gains) rates in addition to paying the special addition to tax on this gain. Prospective purchasers should consult their tax advisers regarding the potential application of the PFIC regime.

Backup Withholding and Information Reporting

Payments of dividends and other proceeds with respect to GDSs by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding at a rate of 31% may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. Certain U.S. Holders (including, among others, corporations) are not subject to backup withholding. U.S. Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

UNDERWRITING

The Company, the Selling Shareholders and the Purchasers named below (the "Purchasers") have entered into a Purchase Agreement dated May 16, 2001 with respect to the GDSs. Subject to certain conditions set forth in the Purchase Agreement, each Purchaser has severally agreed to purchase the number of GDSs indicated in the following table. Goldman Sachs International is the representative of the Purchasers.

Purchaser	Number of GDSs
Goldman Sachs International	18,480,000
ABN AMRO Rothschild	3,600,000
Grand Cathay Securities Corporation	960,000
Indosuez W. I. Carr Securities Limited	960,000
Total	24,000,000

If the Purchasers sell more GDSs than the total number set forth in the table above, the Purchasers have an option to buy up to an additional 2,000,000, 1,600,000 and 1,200,000 GDSs, which may be either Rule 144A GDSs or International GDSs as the Purchasers may elect, from Kinpo, Panpal and Gempal, respectively, to cover such sales. They may exercise that option for 30 days. If any GDSs are purchased pursuant to this option, the Purchasers will severally purchase GDSs in approximately the same proportion as set forth in the table above.

The purchase price per GDSs will be the initial offering price set forth on the cover of this Offering Circular less the underwriting discount of US$0.182 per GDS purchased. The Purchasers propose to offer the GDSs at the Offering Price. After the GDSs are released for sale, the representative of the Purchasers may change the offering price and the other selling terms. The GDSs may be offered as Rule 144A GDSs or International GDSs.

The following tables show the per GDS and total underwriting discounts and commissions to be paid to the Purchasers by the Company and the Selling Shareholders. Such amounts are shown assuming both no exercise and full exercise of the Purchasers' option to purchase 4,800,000 additional GDSs.

Paid by the Company	No Exercise	Full Exercise
Per GDS	U.S.$ 0.182	U.S.$ 0.182
Total	U.S.$3,640,000	U.S.$3,640,000

Paid by Selling Shareholders	No Exercise	Full Exercise
Per GDS	U.S.$ 0.182	U.S.$ 0.182
Total	U.S.$728,000	U.S.$1,601,600

Compal and the Selling Shareholders have been advised by the representative of the Purchasers, on behalf of the Purchasers, that (a) Goldman, Sachs & Co., ABN AMRO Rothschild LLC and Credit Agricole Indosuez Securities, Inc., as selling agents, propose to resell the Rule 144A GDSs only to QIBs in the United States in reliance on Rule 144A under the Securities Act and (b) the Purchasers propose to resell the International GDSs outside the United States in offshore transactions in reliance on Regulation S under the Securities Act and in accordance with applicable law. Any offer or sale of Rule 144A GDSs in reliance on Rule 144A will be made by broker-dealers who are registered as such under the Exchange Act. Terms used above have the meanings given to them by Regulation S and Rule 144A under the Securities Act.

The GDSs and the Common Shares represented by the GDSs have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Each Purchaser has agreed that, except as permitted by the Purchase Agreement, it will not offer or sell the International GDSs or the Common Shares represented thereby (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the Offering and the last related Closing Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells the International GDSs (other than a sale pursuant to Rule 144A) during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the International GDSs within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The International GDSs are being sold outside of the United States to non-U.S. persons in reliance on Regulation S. The Purchase Agreement provides that Purchasers may, through their respective U.S. broker-dealer affiliates, arrange for the offer and resale of the Rule 144A GDSs within the United States only to qualified institutional buyers in reliance on Rule 144A.

In addition, until the expiration of the 40 day period referred to above, an offer or sale of International GDSs within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act or pursuant to another exemption from registration under the Securities Act.

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

Each Purchaser offering International GDSs has acknowledged and agreed that (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any International GDSs other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong and (ii) it has not issued and will not issue any invitation or any advertisement relating to the International GDSs in Hong Kong (except if permitted to do so by the securities laws of Hong Kong) other than with respect to International GDSs intended to be disposed of to persons outside Hong Kong or to be disposed of only to persons whose business involves the acquisition, disposal or holding of securities, whether as principal or as agent.

Each of the Purchasers has agreed that it has not and will not offer or sell any GDSs or distribute any document or other material relating to the GDSs, either directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor or other person specified in Section 106C of the Companies Act, Chapter 50 of Singapore (the "Singapore Companies Act") or (ii) to a sophisticated investor, and in accordance with the conditions, specified in Section 106D of the Singapore Companies Act or (iii) otherwise pursuant to, and in accordance with the conditions of, any other provision of the Singapore Companies Act.

The International GDSs may not be offered, sold, transferred or delivered in or from The Netherlands, as part of their initial distribution or as part of any re-offering, and neither this Offering Circular nor any other document in respect of the offering may be distributed or circulated in The Netherlands, other than to individuals or legal entities which include, but are not limited to, banks, brokers, dealers, institutional investors and undertakings with a treasury department, who or which trade or invest in securities in the conduct of a business or profession.

The Purchasers have represented and agreed that they have not offered, sold or delivered and will not offer, sell or deliver, at any time, directly or indirectly, any Common Shares or GDSs acquired by them as part of the Offering in the ROC or to, or for the account or benefit of, any resident of the ROC.

The Company, Kinpo, Panpal, Gempal, Jui-Tsung Chen (the President of the Company, who will hold an aggregate of 25,452,298 Common Shares, or 1.2% of the outstanding Common Shares after giving effect to the Offering of the GDSs and excluding any Common Shares which may be issued to him pursuant to the employee stock bonus expected to be distributed in June or July 2001), and Li-Cu Hsu Tsai (who will hold an aggregate of 25,112,073 Common Shares, or 1.2% of the outstanding Common Shares after giving effect to the Offering of the GDSs) have agreed with the Purchasers, during a period of 90 days after the date of this Offering Circular, not to, and the Company has agreed to cause its subsidiaries not to, offer, sell, contract to sell or otherwise dispose of, any securities of the Company that are substantially similar to the Common Shares or the GDSs, including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, Common Shares or any such substantially similar securities, subject to certain exceptions, without the prior written consent of Goldman Sachs International.

Buyers of International GDSs sold by the Purchasers may be required to pay stamp taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the offering price of the GDSs.

The Company has applied to have the International GDSs being offered hereby listed for trading on the Luxembourg Stock Exchange.

In connection with the Offering, the Purchasers may purchase and sell Common Shares or GDSs in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the Purchasers of a greater number of GDSs than they are required to purchase in the Offering. "Covered" short sales are sales made in an amount not greater than the Purchasers' option to purchase additional GDSs from the Company in the Offering. The Purchasers may close out any covered short position by either exercising their option to purchase additional GDSs or purchasing GDSs in the open market. In determining the source of GDSs to close out the covered short position, the Purchasers will consider, among other things, the price of GDSs available for purchase in the open market as compared to the price at which they may purchase GDSs through the over-allotment option. "Naked" short sales are any sales in excess of such option. The Purchasers must close out any naked short position by purchasing GDSs in the open market. A naked short position is more likely to be created if the Purchasers are concerned that there may be downward pressure on the price of the GDSs in the open market after pricing that could adversely affect investors who purchase in the Offering. Stabilizing transactions consist of various bids for or purchases of the GDSs and the Common Shares made by the Purchasers in the open market prior to the completion of the Offering.

The Purchasers may also impose a penalty bid. This occurs when a particular Purchaser repays to the other Purchasers a portion of the underwriting discount received by it because the representatives have repurchased GDSs sold by or for the account of such Purchaser in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or retarding a decline in the market price of the GDSs and the Common Shares and, together with the imposition of a penalty bid, may stabilize, maintain or otherwise affect the market price of the GDSs or Common Shares. As a result, the price of the GDSs and the Common Shares may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time. These transactions may be effected in the over-the-counter market or on the Taiwan Stock Exchange (subject to applicable ROC law) or otherwise.

The Company and the Selling Shareholders have agreed to indemnify the several Purchasers and certain other persons against certain liabilities, including liabilities under the Securities Act.

The Company estimates that its share of the total expenses of the Offering, excluding underwriting discounts and commissions, will be approximately U.S.$40,000.

Goldman Sachs International is acting as Global Coordinator in the Offering.

LEGAL MATTERS

Certain legal matters with respect to the GDSs and the Common Shares will be passed upon for the Company by Tsar & Tsai, Taipei, Taiwan, ROC. Certain legal matters with respect to the GDSs will be passed upon for the Purchasers by Linklaters, Hong Kong. Linklaters will rely upon Tsar & Tsai with respect to certain matters of ROC law. Tsar & Tsai will rely upon Linklaters with respect to certain matters of U.S. federal and New York State law.

ACCOUNTANTS

The consolidated financial statements of Compal Electronics, Inc. as of December 31, 1998, 1999 and 2000 and for the years then ended included in this Offering Circular have been audited by KPMG Certified Public Accountants, independent certified public accountants, to the extent and for the periods indicated in their report thereon. Such consolidated financial statements have been included in reliance upon the report of KPMG Certified Public Accountants.

GENERAL INFORMATION

The Company is registered with the Ministry of Economic Affairs of the ROC under a uniform registration number of 21222725. The Company's registered office is located at 7th Floor, 319 Pateh Road, Section 4, Taipei, (105) Taiwan, ROC.

The Company accepts responsibility for the information contained herein. To the best of the Company's knowledge and belief (having taken all reasonable care to ensure that such is the case), the information contained herein is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Offering and the issue of the GDSs were authorized and approved by the Board of Directors of the Company on December 22, 2000 and by the ROC Securities and Futures Commission on January 20, 2001.

Application has been made to list the International GDSs offered hereby on the Luxembourg Stock Exchange. The legal notice relating to the issue of the GDSs, the Articles of Incorporation of the Company, the Articles of Association and the By-laws of the Depositary, and the Deposit Agreements will be registered prior to the listing with the Chief Registrar of the District Court in Luxembourg (*Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg*), where such documents will be available for inspection and where copies thereof can be obtained upon request.

For so long as any of the GDSs are outstanding and listed on the Luxembourg Stock Exchange, Banque Générale du Luxembourg S.A. will serve as the intermediary between the Luxembourg Stock Exchange and persons connected with the issue and listing of the GDSs, and copies of the most recent annual audited consolidated and non-consolidated accounts and semi-annual unaudited consolidated and non-consolidated accounts of the Company, the Articles of Incorporation of the Company and the Deposit Agreements will be available at the offices of Banque Générale du Luxembourg S.A. at 50, Avenue J.F. Kennedy, L-2951, Luxembourg and the Depositary will publish all notices to holders of the GDSs in the *Luxemburger Wort*. The Company publishes notices pursuant to requirements of ROC regulations in newspapers with general circulation in the ROC.

Except as disclosed herein, there has been no change in the financial position of the Company and its subsidiaries since December 31, 2000, the date of the latest audited financial statements contained herein.

Save as disclosed in the section "Business of the Company—Litigation and Legal Issues", neither the Company nor any of its subsidiaries is involved in any litigation, arbitration or administrative proceedings relating to claims which are material in the context of the issue of the GDSs and, so far as any of them is aware, no such litigation, arbitration or administrative proceedings are pending or threatened.

The Deposit Agreements and the Purchase Agreement are governed by the laws of the State of New York.

Trading on the Luxembourg Stock Exchange will be settled through Euroclear or Clearstream, Luxembourg, which have only accepted for clearance the International GDSs. Holders of Rule 144A GDSs wishing to effect trades on the Luxembourg Stock Exchange will first have to exchange their relevant interest in the Master Rule 144A GDS for an interest in the Master International GDS in the manner provided for in the Deposit Agreements.

The Rule 144A GDSs have been accepted for clearance through the facilities of The Depository Trust Company, New York, New York. The CUSIP number for the Rule 144A GDSs is 20440Y309 and the ISIN for the Rule 144A GDSs is US20440Y3099. The ISIN for the International GDSs is US20440Y2000. The International GDSs have been accepted for clearance through Euroclear and Clearstream, Luxembourg under Common Code number 010399408.

Prior to the later of three months after the Closing Date and delivery by the Company to the Custodian of physical share certificates evidencing the Common Shares represented by the GDSs being offered by the Company hereby, Owners will hold temporary GDSs which will not be fungible with the Company's existing GDSs. The temporary Rule 144A GDSs will be accepted for clearance through the facilities of The Depository Trust Company, New York, New York. The CUSIP number for the temporary Rule 144A GDSs is 20440Y853 and the ISIN for the temporary Rule 144A GDSs is US20440Y8536. The ISIN for the temporary International GDSs is US20440Y8460. The temporary International GDSs have been accepted for clearance through Euroclear and Clearstream, Luxembourg under Common Code number 012953127. Temporary International GDSs will not be listed on any stock exchange.

SUMMARY OF CERTAIN DIFFERENCES BETWEEN ROC GAAP AND U.S. GAAP

The consolidated and non-consolidated financial statements of the Company are prepared and presented in accordance with ROC GAAP, which differs in certain material respects from U.S. GAAP. Certain principal differences between ROC GAAP applicable to the Company and U.S. GAAP are summarized below. Additionally, no attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which events and transactions are presented in the consolidated and non-consolidated financial statements or notes thereto. Further, no attempt has been made to identify future differences between ROC GAAP and U.S. GAAP as a result of prescribed changes in accounting standards. Regulatory bodies that promulgate ROC GAAP and U.S. GAAP have significant projects ongoing that could affect future comparisons such as this one.

Subject	ROC GAAP	U.S. GAAP
Presentation of Interim Non-Consolidated Financial Statements	Under ROC Securities Futures Commission requirements, the Company is only required to prepare non-consolidated financial statements for interim periods. The Company's investment in its subsidiaries is accounted for under the equity method of accounting in the non-consolidated financial statements. The net income (loss) from the Company's subsidiaries is included in investment income (loss) as a one line item in the non-operating section of the non-consolidated statement of income. The Company's investment in its subsidiaries is included in long-term equity investments are a one line item in the non-consolidated balance sheet.	Under U.S. GAAP, parent company only non-consolidated financial statements are not allowed to be presented as the primary financial statements.
Consolidation Policy	Subsidiaries whose total sales and total assets are less than 10% of the parent company's total revenues and total assets, and whose aggregate sales and assets are less than 30% of total sales and total assets of the parent company, are not required to be consolidated. The Company accounts for these subsidiaries under the equity method of accounting.	All majority owned subsidiaries are required to be consolidated under U.S. GAAP unless control is temporary.
	Also, if the Company owned greater than 50% of the outstanding common stock of a subsidiary in previous years, and the Company's ownership is	Under U.S. GAAP, previous year financial statements are not restated for subsidiaries in which the Company no longer holds a majority interest.

Subject	ROC GAAP	U.S. GAAP
	reduced to less than 50% in the most recent fiscal year included in the consolidated financial statements, the financial statements of the subsidiary are excluded from consolidation. In this situation, the consolidated financial statements are restated to account for the subsidiary under the equity method for all periods presented.	
Functional Currency	In accordance with ROC statutory requirements, the functional currency of an ROC incorporated company must be the New Taiwan dollar. In practice, ROC GAAP also follows this principle.	Under U.S. GAAP, an entity's functional currency is the currency of the primary economic environment in which the entity operates; normally, that is the currency of the environment in which an entity primarily generates and expends cash.
Comprehensive Income	Under ROC GAAP, there is no requirement to present comprehensive income.	Comprehensive income and its components (revenues, expenses, gains and losses) must be presented in a full set of financial statements under U.S. GAAP. Comprehensive income includes all changes in stockholders' equity during a period except those resulting from investments by or distributions to owners, including certain items not included in the current results of operations.
Net Income Per Share	The Company computes net income per share based on the weighted average number of outstanding shares. The number of outstanding shares is retroactively adjusted for stock dividends and new common stock issued through unappropriated earnings and capital surplus. No consideration is required to be given to convertible securities with a less than 3% dilutive effect. If the dilutive effect exceeds 3%, both simple and basic net income per share is presented. Simple net income per share is based on the weighted	Under U.S. GAAP, when a simple capital structure exists, basic earnings per share is based on the weighted average number of shares outstanding. When a complex capital structure exists, diluted earnings per share is based on the weighted average number of shares outstanding plus the number of additional shares that would have been outstanding if dilutive potential common shares had been issued, with appropriate adjustments to income or loss that would result

Subject	ROC GAAP	U.S. GAAP
	average number of shares outstanding. Basic net income per share is based on the fully dilutive effect assuming that all common stock equivalents have been converted into shares of common stock.	from the assumed conversions of those potential common shares. The materiality of the dilutive effect is not considered. Generally, basic and diluted earnings per share calculations are not retroactively adjusted for new common stock issued through unappropriated earnings and capital surplus.
Accounting for Derivative Financial Instruments	There are no definitive accounting standards under ROC GAAP which address accounting for derivative financial instruments such as forward foreign currency exchange contracts.	Under U.S. GAAP, accounting for derivative financial instruments is in large part determined by the purpose for which the instrument was entered into. In general, derivative financial instruments which are entered into for speculative or trading purposes (or which do not meet the criteria for accounting for such items as hedges), rather than to hedge exposures to risks, are accounted for at fair value with all gains and losses recognized currently in earnings. Derivative financial instruments which (i) are entered into in order to hedge certain exposures and (ii) meet defined criteria in order to be classified as hedges, are accounted for in a manner so as to offset the gains and losses applicable to the derivative financial instrument against the gains and losses on the transaction or commitment which is being hedged (i.e. either by recording the gains and losses on derivative financial instruments currently when they are used as hedges of existing (on-balance sheet) transactions or by deferring the gains and losses on derivative financial instruments when they are used as hedges of committed or anticipated transaction).

Subject	ROC GAAP	U.S. GAAP
		Also, in June 1998, the U.S. Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities", applicable for the fiscal quarter beginning 1 January 2001. This Statement, as amended, establishes accounting and reporting standards for derivative instruments and for hedging activities. SFAS No. 133, as amended, requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and the type of hedge transaction. The ineffective portion of all hedges will be recognized in earnings.
Investments in Debt and Marketable Equity Securities	Investments in debt securities and short-term investments are stated at the lower of amortized cost or market value. Long-term investments in publicly listed equity securities that represent less than 20% of the investee's common stock ownership are stated at the lower of cost or market value, and unrealized losses are deducted from stockholders' equity.	Investments in debt and marketable equity securities are classified into one of three categories: trading, held-to-maturity, or available-for-sale. Debt and marketable equity securities classified as trading securities are reported at fair value with unrealized gains and losses included in earnings; debt securities classified as held-to-maturity securities are reported at amortized cost; and, debt and marketable equity securities classified as available-for-sale securities are reported at fair value with unrealized gains and losses reported in accumulated other comprehensive income.

Subject	ROC GAAP	U.S. GAAP
	Stock dividends received are recorded as an increase in voting stock and not as investment income.	Stock dividends received are recorded as investment income based on the fair value of the stock.
Start-up Costs	Under ROC GAAP, certain start-up costs may be capitalized and amortized to income over the estimated period of benefit.	Under U.S. GAAP, start-up costs are generally expensed as incurred, and starting in fiscal years beginning after December 15, 1998, all start-up costs must be expensed as incurred.
Depreciation of Property, Plant and Equipment	In practice, depreciation is generally provided using the guideline service lives as prescribed by the ROC Tax Authorities plus one additional year as salvage value.	Depreciation is provided over the asset's estimated useful life. Once an asset has been fully depreciated, there is no further depreciation if the asset continues to be used in the business.
	ROC Securities and Futures Commission regulations applicable to public companies require that when property, plant and equipment has been fully depreciated over the prescribed service life and the underlying asset continues to be used, the remaining unamortized value (i.e., the salvage value portion) is depreciated over the asset's remaining economic life.	
Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of	ROC GAAP has no specific standards which address impairment of long-lived assets; normally such assets would be carried at cost less accumulated depreciation.	U.S. SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," requires that long-lived assets held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In assessing the recoverability, the entity estimates the future cash flows, undiscounted and without interest charges, expected to result from the use of the asset and its eventual disposal. If the sum of such expected future cash flows is less than the carrying amount of the asset, an impairment loss is recognized.

Subject	ROC GAAP	U.S. GAAP
		U.S. SFAS No. 121 also requires that long-lived assets to be disposed of be reported at the lower of carrying amount or fair value less cost to sell.
Intercompany Transactions	Intercompany gains or losses arising from sales of property, plant and equipment to subsidiary companies may be deferred and amortized over the remaining economic life of the respective assets.	Intercompany gains or losses arising from sales of property, plant and equipment are either wholly eliminated or partially eliminated to the extent of the gain or loss which relates to the investor's ownership interest in the investee.
Land Leasehold Rights	Under ROC GAAP, land leasehold rights may be amortized using the interest method over their estimated useful lives.	Under U.S. GAAP, land leasehold rights would be amortized using the straight line method over their estimated useful lives.
Computer Software Developed or Obtained for Internal Use	ROC GAAP has no specific accounting practice related to costs of computer software developed or obtained for internal use.	U.S. GAAP has detailed rules regarding the accounting treatment for internal-use software costs. The American Institute of Certified Public Accountants Statement of Position 98-1 specifies the requirements for the capitalization of internal-use computer software costs.
Deferred Income Taxes	Under ROC SFAS No. 22, "Accounting for Income Taxes," current tax liabilities are recognized for estimated taxes payable for the current period. ROC GAAP requires that all temporary differences between the carrying amounts of assets and liabilities and their respective tax bases be recognized as deferred income tax liabilities or assets. A valuation allowance is provided on deferred income tax assets to the extent that it is "more likely than not" that such deferred income tax assets will not be realized. A change in tax rate or law requires an adjustment to such deferred income tax assets and liabilities in the period of enactment, and is reported as part of results of operations.	The requirements under U.S. SFAS No. 109, "Accounting for Income Taxes," are similar to ROC SFAS No. 22. However, application of the "more likely than not," criteria related to the recognition of a deferred income tax asset valuation allowance may result in a difference between U.S. and ROC GAAP.

Subject	ROC GAAP	U.S. GAAP
Retained Earnings Tax	Companies in the ROC are subject to a 10% tax on profits retained and earned after December 31, 1997. If the retained profits are distributed to the stockholders in the following fiscal year, the tax can be avoided. Under ROC GAAP, income tax expense is recorded in the statement of income in the following fiscal year if the earnings are not distributed to the stockholders.	Under U.S. GAAP, income tax expense related to the 10% retained profit tax is recorded in the statement of income in the year that the profits were earned based on management's estimate of the amount of profits to be retained.
Bonuses to Employees, Directors and Supervisors	Under ROC GAAP, employee bonuses and the remuneration of directors and supervisors paid in accordance with the Company's Articles of Incorporation as a part of the distribution of earnings are recorded as an appropriation from retained earnings in the period the distribution of earnings is approved at the Company's stockholders meeting. If employee bonuses are paid through the issuance of common shares of the Company, the amount transferred from retained earnings is based on the par value of the common shares issued. The remuneration of directors and supervisors must be paid in cash and may not be paid through the issuance of common shares.	U.S. GAAP requires that all such bonuses and remuneration be recorded as compensation expense at a defined measurement date. In addition, if the employee bonuses are paid in the form of common shares, the fair value of the common shares issued is used to determine the amount of the expense.
Stockholder Bonuses	Stockholder bonuses (stock dividends) of the Company are recorded as a reduction to retained earnings for the par value of the stock issued, and a like amount is recorded to the common stock account.	Under U.S. GAAP, stock dividends are recorded as a reduction to retained earnings based on the fair value of the stock issued, and a like amount is recorded to the capital stock accounts.
Capital Surplus	The following items are treated by the Company as capital under ROC GAAP:	
	(a) any premium on issuance of capital stock; (b) any after-tax gain on disposal of property, plant and equipment;	Under U.S. GAAP item (a) of the preceding column is reported as additional paid-in capital, item (b) remains a component of retained earnings.

Subject	ROC GAAP	U.S. GAAP
Treasury Stock	Under ROC GAAP, gains or losses resulting from the sale of treasury stock may be recognized in the statement of income in the period in which such stock was sold.	Under U.S. GAAP, gains or losses from the sale of treasury stock are recorded as an adjustment to additional paid-in capital.
	In addition, dividends received related to treasury stock held by a Company's subsidiary may be recognized as income.	Dividend income related to treasury stock is not recognized as income in the statement of income.
Advance Receipts for Common Stock	Advance receipts for common stock may be recorded as stockholders' equity under ROC GAAP.	Under U.S. GAAP, advance receipts for common stock would be recorded as a liability until such time as the Company could not be required to refund such advance receipts.
Accounting for Pensions	ROC SFAS No. 18, "Accounting for Pensions," was adopted for the Company's pension plan as of December 31, 1995 and as of January 1, 1999 for the pension plan of a subsidiary of the Company. Under SFAS No. 18, the annual pension provision is recognized as a charge to the statement of income over the employees' service period. SFAS No. 18 focuses on the plan's benefit formula as the basis for determining the benefit earned, and therefore the cost incurred for each year. The determination of the benefit earned is actuarially determined, and includes components for service cost, time value of money, return on plan assets and gains or losses from changes in previous assumptions. In certain cases, a minimum liability is recognized through a direct charge to stock holders' equity. Also upon adoption of SFAS No. 18, the initial difference between the projected benefit obligation and the fair value of the plan assets	Under U.S. GAAP, the annual pension provision is recognized in accordance with U.S. SFAS No. 87, "Employers' Accounting for Pensions." SFAS No. 87 is substantially similar to ROC SFAS No. 18. However, the unrecognized transitional asset/liability balance, representing the initial difference between the projected benefit obligation and the fair value of plan assets upon adoption of ROC SFAS No. 18, would be different under U.S. SFAS No. 87 as U.S. SFAS No. 87 would have been implemented prior to December 31, 1995.

Subject	ROC GAAP	U.S. GAAP
	is recognized in the statement of income over the average expected employees' service period.	
Compensated Absences	ROC GAAP has no specific accounting practice regarding compensated absences.	Compensated absences must be accrued based on the liability for employees' rights to receive compensation for future absences when certain conditions are met.

Management has not quantified the effects of the aforementioned differences between ROC GAAP and U.S. GAAP. Accordingly, there can be no assurance that net income and stockholders' equity reported in accordance with ROC GAAP would not be lower if determined in accordance with U.S. GAAP.

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INDEX TO FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Compal Electronics, Inc.:

We have audited the accompanying consolidated balance sheets of Compal Electronics, Inc. and subsidiaries as of December 31, 1998, 1999 and 2000, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits 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 Compal Electronics, Inc. and subsidiaries as of December 31, 1998, 1999 and 2000, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of China.

The accompanying consolidated financial statements as of and for the years ended December 31, 2000 have been translated into United States dollars solely for the convenience of the readers. We have audited the translation and, in our opinion, the consolidated financial statements expressed in New Taiwan dollars have been translated into United States dollars on the basis set forth in note 2(n) of the notes to the consolidated financial statements.

KPMG Certified Public Accountants

Taipei, Taiwan (Republic of China)
January 21, 2001

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of China. The standard procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 1998, 1999 and 2000
(expressed in thousands of New Taiwan or US dollars)

	1998	1999	2000	
	NT$	NT$	NT$	US$
Assets				
Current assets:				
Cash and cash equivalents (note 4)	11,660,110	7,141,903	5,860,046	176,667
Short-term investments (note 5)	116,727	—	19,260	581
Accounts receivable (notes 6 and 17)	5,044,680	5,729,900	10,074,957	303,737
Accounts receivable — related parties (note 16)	328,555	178,710	640,015	19,295
Inventories (notes 7 and 17)	2,594,116	6,312,458	6,971,328	210,170
Prepaid assets (notes 12 and 16)	66,105	88,321	54,916	1,655
Other current assets (notes 14 and 15)	1,399,131	489,471	853,235	25,723
Total current assets	21,209,424	19,940,763	24,473,757	737,828
Long-term equity investments (notes 8 and 15)	4,799,120	11,606,784	19,232,397	579,813
Property, plant and equipment (note 9):				
Land and land leasehold rights	1,445,818	1,473,189	1,331,193	40,132
Buildings	601,934	1,401,260	2,426,312	73,148
Machinery and equipment	591,049	1,566,834	2,084,197	62,834
Molding equipment	602,316	556,896	859,919	25,924
Other equipment	477,632	588,272	724,457	21,841
	3,718,749	5,586,451	7,426,078	223,879
Less: accumulated depreciation	(682,334)	(1,069,347)	(1,681,107)	(50,681)
Construction in progress and prepayment for purchase of equipment	906,019	1,177,835	233,058	7,026
Net property, plant and equipment	3,942,434	5,694,939	5,978,029	180,224
Other assets:				
Leased assets (notes 9 and 16)	—	—	241,686	7,286
Deferred expenses and other noncurrent assets	50,288	110,457	343,323	10,351
Total assets	30,001,266	37,352,943	50,269,192	1,515,502

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Continued)

December 31, 1998, 1999 and 2000
(expressed in thousands of New Taiwan or US dollars)

	1998	1999	2000	
	NT$	NT$	NT$	US$
Liabilities and Stockholders' Equity				
Current liabilities:				
Short-term loans (note 10)	471,124	464,928	1,101,058	33,195
Short-term notes and bills payable (note 10)	563,324	—	2,128,292	64,163
Accounts payable	4,665,860	8,114,790	9,537,101	287,522
Accounts payable — related parties (note 16)	1,423	6,456	8,834	266
Income tax payable	179,151	9,525	156,341	4,713
Accrued expenses	793,240	834,394	1,032,556	31,129
Other current liabilities (note 15)	429,037	311,164	125,855	3,794
Convertible bonds payable (note 11)	—	—	4,879,517	147,107
Total current liabilities	7,103,159	9,741,257	18,969,554	571,889
Noncurrent liabilities:				
Convertible bonds payable (note 11)	244,745	—	—	—
Deferred income tax liabilities, net (note 14)	23,305	126,239	161,360	4,865
Unrealized profit from sales to subsidiaries	35,944	6,275	22,544	680
Credit balance of long-term equity investments and other non-current liabilities (note 8)	9,818	7,998	7,645	230
	313,812	140,512	191,549	5,775
Total liabilities	7,416,971	9,881,769	19,161,103	577,664
Stockholders' equity (note 13):				
Common stock	8,446,417	11,750,733	15,568,348	469,350
Entitlement certificates of bond-to-stock conversion	2,356	1,267	—	—
Advance receipts for common stock	5,620	46,758	—	—
	8,454,393	11,798,758	15,568,348	469,350
Capital surplus (note 13):				
Paid-in capital in excess of par value	6,592,188	6,921,885	4,326,946	130,448
Gain on disposal of property, plant and equipment	21,093	21,093	21,161	638
Surplus from long-term equity investments accounted for by the equity method	—	—	—	—
	6,613,281	6,942,978	4,348,107	131,086
Retained earnings (note 13):				
Legal reserve	533,465	1,020,511	1,560,309	47,040
Special reserve	269,295	535,575	45,284	1,365
Unappropriated retained earnings	7,744,205	8,225,136	10,469,208	315,623
	8,546,965	9,781,222	12,074,801	364,028
Foreign currency translation adjustment	65,675	47,997	175,669	5,296
Treasury stock (note 13)	(1,096,019)	(1,099,781)	(1,058,836)	(31,922)
Total stockholders' equity	22,584,295	27,471,174	31,108,089	937,838
Commitments and contingencies (notes 16 and 18)				
Total liabilities and stockholders' equity	30,001,266	37,352,943	50,269,192	1,515,502

See accompanying notes to consolidated financial statements.

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 1998, 1999 and 2000
(expressed in thousands of New Taiwan or US dollars, except net income per share)

	1998	1999	2000	
	NT$	NT$	NT$	US$
Net sales (note 16)	38,178,323	47,293,452	75,468,781	2,275,212
Cost of sales (note 16)	32,185,296	40,562,005	67,937,138	2,048,150
	5,993,027	6,731,447	7,531,643	227,062
Change in unrealized intercompany profits	(11,547)	29,669	(16,269)	(490)
Gross profit	5,981,480	6,761,116	7,515,374	226,572
Operating expenses:				
Selling	644,913	666,056	850,190	25,631
Administrative	405,679	540,956	673,675	20,310
Research and development	535,664	669,161	821,499	24,766
	1,586,256	1,876,173	2,345,364	70,707
Operating income	4,395,224	4,884,943	5,170,010	155,865
Non-operating income:				
Interest income (notes 4 and 8)	666,837	581,507	382,436	11,529
Investment income, net (notes 8 and 13)	419,451	113,798	291,407	8,785
Foreign currency exchange gain, net	—	—	497,965	15,013
Other	146,293	121,275	65,742	1,982
	1,232,581	816,580	1,237,550	37,309
Non-operating expenses and losses:				
Interest expense	111,048	38,739	138,570	4,178
Foreign currency exchange loss, net	433,689	39,907	—	—
Provision for inventory obsolescence	—	—	57,246	1,726
Other	10,083	11,845	11,737	354
	554,820	90,491	207,553	6,258
Income before income taxes and minority interest loss	5,072,985	5,611,032	6,200,007	186,916
Income tax expense (note 14)	(229,148)	(219,172)	(231,997)	(6,994)
Minority interest in net loss of subsidiaries	27,180	6,124	15,185	458
Net income	4,871,017	5,397,984	5,983,195	180,380
Net income per share	3.16	3.48	3.84	0.12

See accompanying notes to consolidated financial statements.

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years ended December 31, 1998, 1999 and 2000
(expressed in thousands of New Taiwan dollars)

	Common stock	Advance receipts for common stock	Entitlement certificates of bond-to-stock conversion	Capital surplus	Retained earnings: Legal reserve	Retained earnings: Special reserve	Retained earnings: Unappropriated	Treasury stock	Foreign currency translation adjustment	Total Stockholders' Equity
	NT$	NT$	NT$	NT$	NT$	NT$	NT$	NT$	NT$	NT$
Balance on January 1, 1998	5,811,922	—	22,708	7,979,065	193,713	37,851	4,266,612	(1,595,818)	56,758	16,772,811
Appropriation of 1997 net income:										
Special reserve	—	—	—	—	—	231,444	(231,444)	—	—	—
Legal reserve	—	—	—	—	339,752	—	(339,752)	—	—	—
Employee bonuses	169,874	—	—	—	—	—	(169,876)	—	—	(2)
Directors' remuneration	—	—	—	—	—	—	(67,950)	—	—	(67,950)
Stock dividends	583,844	—	—	—	—	—	(583,844)	—	—	—
Gain on disposal of property, plant and equipment transferred to capital surplus	—	—	—	558	—	—	(558)	—	—	—
Capital surplus transferred to common stock	1,751,532	—	—	(1,751,532)	—	—	—	—	—	—
Convertible bonds converted into common stock	129,245	—	(20,352)	385,190	—	—	—	—	—	494,083
Advance receipts for common stock	—	5,620	—	—	—	—	—	—	—	5,620
Net income for 1998	—	—	—	—	—	—	4,871,017	—	—	4,871,017
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	8,917	8,917
Sale of treasury stock, net of purchases	—	—	—	—	—	—	—	499,799		499,799
Balance on December 31, 1998	8,446,417	5,620	2,356	6,613,281	533,465	269,295	7,744,205	(1,096,019)	65,675	22,584,295
Balance on December 31, 1998	8,446,417	5,620	2,356	6,613,281	533,465	269,295	7,744,205	(1,096,019)	65,675	22,584,295
Appropriation of 1998 net income:										
Increase in special reserve	—	—	—	—	—	266,280	(266,280)	—	—	—
Legal reserve	—	—	—	—	487,046	—	(487,046)	—	—	—
Employee bonuses	243,514	—	—	—	—	—	(243,523)	—	—	(9)
Directors' remuneration	—	—	—	—	—	—	(97,409)	—	—	(97,409)
Stock dividends	2,973,285	—	—	—	—	—	(2,973,285)	—	—	—
Cash dividends	—	—	—	—	—	—	(849,510)	—	—	(849,510)
Convertible bond converted into common stock	65,517	—	(1,089)	175,697	—	—	—	—	—	240,125
Issuance of common stock for cash	22,000	(5,620)	—	154,000	—	—	—	—	—	170,380
Advance receipts for common stock	—	46,758	—	—	—	—	—	—	—	46,758
Net income for 1999	—	—	—	—	—	—	5,397,984	—	—	5,397,984
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	(17,678)	(17,678)
Purchase of treasury stock, net of sales	—	—	—	—	—	—	—	(3,762)		(3,762)
Balance on December 31, 1999	11,750,733	46,758	1,267	6,942,978	1,020,511	535,575	8,225,136	(1,099,781)	47,997	27,471,174
Balance on December 31, 1999	11,750,733	46,758	1,267	6,942,978	1,020,511	535,575	8,225,136	(1,099,781)	47,997	27,471,174
Appropriation of 1999 net income:										
Special reserve	—	—	—	—	—	(490,291)	490,291	—	—	—
Legal reserve	—	—	—	—	539,798	—	(539,798)	—	—	—
Employee bonuses	269,820	—	—	—	—	—	(269,899)	—	—	(79)
Directors' remuneration	—	—	—	—	—	—	(107,960)	—	—	(107,960)
Stock dividends	823,732	—	—	—	—	—	(823,732)	—	—	—
Cash dividends	—	—	—	—	—	—	(2,353,520)	—	—	(2,353,520)
Gain on disposal of property, plant and equipment transferred to capital surplus	—	—	—	68	—	—	(68)	—	—	—
Capital surplus transferred to common stock	2,706,548	—	—	(2,706,548)	—	—	—	—	—	—
Convertible bonds converted into common stock	1,915	—	(1,267)	2,409	—	—	—	—	—	3,057
Issuance of common stock for cash	15,600	(46,758)	—	109,200	—	—	—	—	—	78,042
Adjustment due to non-proportional investment in investee's increase in capital	—	—	—	—	—	—	(134,437)	—	—	(134,437)
Net income for 2000	—	—	—	—	—	—	5,983,195	—	—	5,983,195
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	127,672	127,672
Sale of treasury stock, net of purchases	—	—	—	—	—	—	—	40,945	—	40,945
Balance on December 31, 2000	15,568,348	—	—	4,348,107	1,560,309	45,284	10,469,208	(1,058,836)	175,669	31,108,089

See accompanying notes to consolidated financial statements.

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 1998, 1999 and 2000
(expressed in thousands of New Taiwan or US dollars)

	1998	1999	2000	
	NT$	NT$	NT$	US$
Cash flows from operating activities:				
Net income	4,871,017	5,397,984	5,983,195	180,380
Adjustments to reconcile net income to cash provided by operating activities:				
Minority interest in net loss of subsidiaries	(27,180)	(6,124)	(15,185)	(458)
Depreciation and amortization	364,420	499,222	782,802	23,600
Allowance for doubtful accounts, sales returns and discounts	21,071	18,286	110,663	3,336
Change in inventory obsolescence provision	104	(22,777)	57,572	1,736
Investment loss (income), net	(67,453)	118,333	69,390	2,092
Gain on sale of long-term equity investments	—	(65,015)	(258,245)	(7,785)
Increase in accounts receivable	(1,677,063)	(553,660)	(4,917,025)	(148,237)
Decrease (increase) in inventories	615,521	(3,695,565)	(716,442)	(21,599)
Decrease (increase) in prepaid and other current assets	(705,923)	887,385	(250,982)	(7,567)
Increase in accounts payable	1,481,525	3,232,911	1,424,689	42,951
Increase (decrease) in income tax payable	63,040	(169,626)	146,816	4,426
Increase (decrease) in accrued expenses and other current liabilities	(22,540)	139,221	12,853	387
Other	96,511	63,249	(121,557)	(3,665)
Cash provided by operating activities	5,013,050	5,843,824	2,308,544	69,597
Cash flows from investing activities:				
Additions to property, plant and equipment	(1,075,349)	(2,272,775)	(1,250,938)	(37,713)
Decrease (increase) in short-term investments	247,217	116,727	(19,260)	(581)
Acquisition of long-term equity investments	(2,137,631)	(6,957,430)	(12,085,901)	(364,362)
Cash dividends received	—	56,814	102,552	3,092
Sale of long-term equity investments	—	71,881	750,706	22,632
Repayment of long-term equity investments	—	—	3,800,000	114,561
Increase in deferred expenses	—	(74,300)	(251,627)	(7,586)
Other	(14,998)	6,514	9,819	296
Cash used in investing activities	(2,980,761)	(9,052,569)	(8,944,649)	(269,661)
Cash flows from financing activities:				
Increase (decrease) in short-term loans	(946,500)	(569,520)	2,764,422	83,341
Issuance of common stock for cash	5,620	217,138	78,042	2,353
Increase in convertible bonds payable	—	—	4,882,650	147,201
Directors' remuneration and employee bonuses	(67,950)	(97,418)	(108,039)	(3,257)
Decrease (increase) in treasury stock	499,799	(3,762)	40,945	1,234
Cash dividends paid	—	(849,510)	(2,353,520)	(70,953)
Other	1,376	(2,068)	3,519	106
Cash provided by (used in) financing activities	(507,655)	(1,305,140)	5,308,019	160,025
Effect of exchange rate changes on cash and cash equivalents	(53,081)	(4,323)	46,229	1,394
Net increase (decrease) in cash and cash equivalents	1,471,553	(4,518,208)	(1,281,857)	(38,645)
Cash and cash equivalents at beginning of year	10,188,557	11,660,111	7,141,903	215,312
Cash and cash equivalents at end of year	11,660,110	7,141,903	5,860,046	176,667
Supplementary disclosures of cash flow information:				
Cash paid during the period for:				
Interest	65,154	29,833	237,960	7,174
Income taxes	496,623	267,069	102,190	3,081
Supplementary disclosures of investing and financing activities not affecting cash flows:				
Convertible bonds payable and other items transferred to common stock and capital surplus	494,083	240,125	3,056	92

See accompanying notes to consolidated financial statements.

(1) Organization

Compal Electronics, Inc. (the "Company") was incorporated in the Republic of China ("ROC") as a company limited by shares in June 1984. The major business activities of the Company are the manufacture and sale of notebook personal computers ("PCs"), monitors and wireless handsets.

Consolidated subsidiaries that are directly owned by the Company included the following as of December 31, 2000.

Just International Ltd. ("Just") was incorporated in the British Virgin Islands on August 25, 1992. The main activity of Just is investing in equity securities. As of December 31, 2000, the Company owned 100% of Just's outstanding common stock amounting to an investment balance of US$27,810. From 1996 to 1999, Just invested US$26,800 in Compal Electronics (China) Ltd. ("CPC"), which was incorporated in People's Republic of China and is engaged in the manufacture and sale of monitors. As of December 31, 2000, Just owned 100% of CPC's outstanding common stock. Just also invested in Sceptre Industries Inc. ("Sceptre"), which was incorporated in the United States of America and is mainly engaged in the sale of notebook and monitors. As of December 31, 2000, Just owned 60% of Sceptre's outstanding common stock amounting to an investment balance of US$1,088.

Compal Investment Corp. ("Compal Investment") was incorporated in August 1997 in the ROC. The main activity of Compal Investment is investing in businesses relating to the PC industry. Since December 1999, Compal Investment was renamed Panpal Technology Co. ("Panpal") in order to expand its business in selling electronic material. As of December 31, 2000, the Company owned 100% of Panpal's outstanding common stock amounting to an investment balance of NT$3,472,000.

(2) Summary of Significant Accounting Policies

(a) Accounting principles and consolidation policy

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the ROC. These financial statements are not intended to present the consolidated financial position of the Company and the related consolidated results of operations and cash flows based on accounting principles and practices generally accepted in countries and jurisdictions other than the ROC.

The consolidated financial statements include the accounts of the Company and all subsidiaries in which more than 50% of the shares are owned by the Company and in which total assets or sales exceeds 10% of the Company's total assets or sales. If the total assets and sales of a subsidiary are less than 10% of the Company's total assets and sales, then the subsidiary is accounted for under the equity method of accounting.

The consolidated financial statements in 1998, 1999 and 2000 included in the consolidated accounts of Just, and Panpal (all basis of consolidation jointly called "the Company"). All significant intercompany accounts and transactions have been eliminated. The common stock of the Company acquired by its subsidiaries is recorded as treasury stock, a deduction from stockholders' equity in the accompanying consolidated balance sheets.

Since the total assets and sales of Gempal Technology Co. ("Gempal"), Compal Communication Limited ("CCI"), Palmax Technology Co., Ltd. ("Palmax"), Compal Europe B.V. ("CEBV"), Bizcom

Electronics, Inc. ("Bizcom"), SaveCom InfoCom Inc. ("SaveCom"), Compal Europe (UK) Ltd. ("CEUK"), Compal Holding Ltd. ("CPH"), Vacom Wireless, Inc. ("Vacom"), Pagine Corporation ("Pagine") which is in the process of liquidation, and Just International (Singapore) Pte Ltd. ("Just-Singapore") total assets and total sales do not individually exceed 10% of the corresponding amounts of the Company, and the aggregate total assets and total sales of all of these subsidiaries is less than 30% of the Company's total assets and sales, respectively, the financial statements of these subsidiaries have not been consolidated in the accompanying consolidated financial statements.

Sceptre's fiscal year ends on September 30th. Sceptre is a subsidiary of Just. According to the Republic of China Statements of Financial Accounting Standards ("SFAS") No. 7 "Consolidated Financial Statements," if the subsidiary's fiscal year end differs from the Company's fiscal year end by three months, then the subsidiary's financial statements using its fiscal year end can be used for purposes of consolidation.

(b) Foreign currency transactions and translation

The functional currency of each group company is their respective local currency. The Company's reporting currency is the New Taiwan dollar. Foreign currency transactions are translated at the rates prevailing on the transaction dates. Foreign currency receivables and payables are translated into New Taiwan dollars or local currency at the approximate market rate of exchange prevailing on the balance sheet date. The resulting unrealized gains or losses are included in current operations.

If a forward exchange contract is intended to hedge the risks of changes in foreign currency exchange rates, the related forward exchange contract receivables and payables are recorded in New Taiwan dollars at the spot rate on the date of contract inception. The spot rate balance on the balance sheet date is then translated into New Taiwan dollars at the prevailing spot rate. Gains or losses resulting from translation on the balance sheet date are recognized as non-operating income or losses. The discount or premium on a forward exchange contract is amortized over the life of the contract.

If a foreign currency option contract is intended to hedge the risks of changes in foreign currency exchange rates, the related assets or liabilities are not recorded on the date of contract inception, and exchange gains or losses resulting from settlement are recognized as non-operating income or losses. The related premiums received or paid are accounted for advance receipts or prepaid expenses and amortized over the life of the contract. Gains or losses resulting from exercise are recognized as non-operating income or losses.

(c) Cash equivalents

Cash equivalents represent investments in promissory notes and commercial paper with a maturity of three months or less from the date of investment.

(d) Short-term investments

Short-term investments represent investments in mutual funds. Mutual funds are stated at the lower-of-cost-or-market value. Cost is determined using the weighted-average method. Market value of closed-end mutual funds is based on the average closing price of the last month of the accounting period. The value of open-end mutual funds is based on the fair market value on the balance sheet date.

(e) Allowance for doubtful accounts

The allowance for doubtful accounts is based on an aging analysis and the likelihood of collection of the Company's accounts receivable balances.

(f) Inventories

Inventories are stated at the lower-of-cost-or-market value. Market value for raw materials and work in process is based on replacement cost. The market value of finished goods is based on net realizable value.

(g) Long-term equity investments

Investments in equity securities which are intended to be held for the long-term are classified as long-term equity investments in the accompanying balance sheets. Long-term equity investments in publicly listed equity securities that represent less than 20% of the investee's common stock ownership are stated at the lower-of-cost-or-market value. Long-term equity investments in non-listed equity securities that represent less than 20% of the investee's common stock ownership are stated at cost. However, if there is evidence indicating a decline in the value of an investment is not temporary, the investment is written down to reflect such decline. The resulting loss is recognized in the period incurred. Stock dividends are not recognized as income but as an increase in the number of the shares held.

Long-term equity investments are accounted for under the equity method when the Company owns between 20% and 50% of the investee's common stock or if the Company owns greater than 50% of a subsidiary's common stock, but the subsidiary's total assets and sales is less than 10% of the Company's total assets and sales (refer to note 2(a)). The difference between the cost of the investment and the amount of underlying equity in net assets of an investee is amortized using the straight-line method over ten years. When an investee issues new shares, and the Company does not invest in such shares in proportion to its ownership percentage, the resulting change in the Company's ownership percentage in the net assets of the investee is recorded in the Company's long-term equity investment account with an offsetting entry made directly to either capital surplus or retained earnings.

Unrealized intercompany profits or losses resulting from transactions between the Company and its subsidiaries and investees accounted under the equity method are deferred until realized.

Long-term equity investments in foreign subsidiaries and investees accounted for by the equity method are translated into New Taiwan dollars at the year end exchange rate. The related investment income (loss) is translated using weighted-average exchange rates during the applicable periods. Adjustments from these translations are reflected in stockholders' equity as a foreign currency translation adjustment.

(h) Property, plant and equipment and leased assets

Property, plant and equipment are stated at cost. Interest in connection with the acquisition or construction of property, plant and equipment is capitalized. Excluding land and land use rights, depreciation of property, plant and equipment is provided for by using the straight-line method over the estimated useful lives of the assets. If the property, plant and equipment has reached their estimated useful lives but are still in use, the Company will estimate the remaining useful lives and residual values and depreciate the remaining costs using the same method. Gains on the disposal of property, plant and equipment are included in non-operating income, and are transferred to capital surplus in the year of disposal, net of the related income taxes.

The expenditures for obtaining land leasehold rights, including charges for land leasehold rights and related expenses, are capitalized and amortized as rental expense by using the interest method over the contract periods.

Property, plant and equipment leased to other parties under operating leases are classified as rental assets. Rental income received by the Company is recorded as non-operating income. The related depreciation is accounted for as a deduction from rental income.

Leasehold improvements are amortized by using the straight-line method over the shorter of the estimated useful lives or the contract periods.

(i) Deferred expenses

Charges for royalties are deferred and amortized over their respective contract periods. The cost of computer software is amortized by using the straight-line method over three years.

(j) Convertible bonds payable

Costs incurred for the issuance of redeemable convertible bonds are amortized during the period between the issuance date and the last redeemable date.

Entitlement certificates related to bond-to-stock conversions are issued upon the bondholder's exercise of the option to convert the convertible bonds into the Company's common stock. The number of entitlement certificates for bond-to-stock conversions that is to be issued, is calculated based on the volume of the convertible bond and the conversion price at the time of the conversion. The convertible bond payable over the par value of the common stock and deferred issuance costs are transferred to capital surplus upon conversion. In accordance with the conversion rules, the entitlement certificates issued on bond-to-stock conversions are registered as common stock three times a year.

(k) Retirement plan

The Company has established employee noncontributory retirement plans covering all regular employees in the ROC. According to these plans, employees are eligible for retirement or are required to retire after meeting certain age or service requirements. The retirement benefits are lump-sum payments and are determined principally by the length of service of the employees. Payments of employee retirement benefits are based on the years of service and the average salary six-months before the employee's retirement. Each employee will earn two months' salary for the first fifteen years of service, and one month's salary for each service year after the sixteenth year. The maximum is forty-five months of salary.

The Company has made monthly cash contributions of 5% of salaries and wages to its pension funds maintained with the Central Trust of China. Payment of employee retirement benefits will first be paid by the pension fund, and then by the Company if the level of funds is insufficient.

The Company adopted ROC SFAS No. 18, "Accounting for Pensions" on December 31, 1995. Net periodic pension costs, including services costs, interest cost, expected return on plan assets, and amortization of net unrecognized transition assets over the average remaining service period of the employees for 20 years, have been actuarially calculated for the Company in accordance with SFAS No.18.

In 2000, the Company amended its retirement plans to reduce the required service period needed for vesting in plan benefits. The prior service cost related to this change is amortized over 20 years.

Payments of employee retirement benefits in all consolidated subsidiaries are based on local labor law of each subsidiary's registered jurisdiction.

(l) Income taxes

Deferred income tax liabilities and assets are calculated by applying the provisions of enacted tax law to determine the amount of tax payable or refundable, currently or in future years. The tax effect of taxable temporary differences are recorded as deferred tax liabilities. The tax effects of deductible temporary differences, net operating losses and income tax credits are recognized as deferred income tax assets. The realization of deferred income tax assets is evaluated and if it is considered more likely than not that the asset will not be realized, a valuation allowance is recognized accordingly.

Deferred income tax assets or liabilities are classified as current or non-current based on the classification of the asset or liability relating to the deferred item, or for certain transactions not directly related to an asset or liability, based on the timing of the expected reversal date.

The 10% surtax on undistributed earnings is recorded as current income tax expense after the resolution to appropriate retained earnings is approved in a stockholders' meeting.

The Company's income tax returns is calculated and filed based on the Company's, and each subsidiary's, registered local Tax Law.

(m) Net income per share

Net income per share of common stock is computed based on the weighted-average number of common shares outstanding during the period. The convertible bonds issued in 1996 by the Company are not common stock equivalents and the convertible bonds issued in 2000 are common stock equivalents. As such, assuming the convertible bonds are converted to common stock, simple earnings per share will be disclosed if there is no dilution effect or the dilution effect is less than 3%. If the dilution effect is greater than 3%, both simple earnings per share and fully diluted earnings per share shall be disclosed. Earnings per share for prior periods are retroactively adjusted to reflect the effect of stock issued through the transfer of capital reserves, retained earnings and employee bonuses.

(n) Convenience translation into US dollars

The consolidated financial statements are stated in New Taiwan dollars. Translation of the 2000 New Taiwan dollar amounts into US dollar amounts for 2000 are included solely for the convenience of the readers, using the noon buying rate provided by the Federal Reserve Bank of New York on December 29, 2000, of NT$33.17 to US$1. The convenience translations should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into US dollars at this rate or any other rate of exchange.

(3) Change in the Consolidation of Certain Subsidiaries

In 1998 and 1999, the financial statements of, Just, SaveCom and Panpal (including C&C Laboratory) were consolidated in the Company's previously issued consolidated financial statements. Since the total assets and total revenues of SaveCom did not exceed 10% of the Company's total assets and total revenues in 2000, and since Panpal's ownership in C&C Laboratory decreased below 50% in 2000, the accounts of SaveCom and C&C Laboratory have not been consolidated as of and for the year ended December 31, 2000. Accordingly, the 1998 and 1999 consolidated financial statements have been restated to exclude the consolidation of SaveCom and C&C Laboratory for comparison purposes.

As of December 31, 1999, the total assets of SaveCom amounted to NT$10,197,781. No revenue was recorded by SaveCom for the year ended December 31, 1999. The following table shows certain asset and liability accounts of the Company before restatement of SaveCom and after restatement of SaveCom as of December 31, 1999.

	Before restatement	After restatement	Increase (decrease)
	NT$	NT$	NT$
Cash and cash equivalents	17,311,415	7,141,903	(10,169,512)
Long-term equity investments	7,577,416	11,606,784	4,029,368
Total assets	43,592,706	37,352,943	(6,239,763)
Minority interest	6,177,195	(9,309)	(6,186,504)
Total liabilities	16,121,532	9,881,769	(6,239,763)

(4) Cash and Cash Equivalents

	December 31,			
	1998	1999	2000	
	NT$	NT$	NT$	US$
Cash on hand	731	12,404	1,190	36
Checking accounts and demand deposits	143,371	187,550	123,832	3,733
Time deposits	11,511,035	6,334,443	5,692,446	171,614
Bonds purchased under resale agreements and commercial paper	4,974	607,506	42,578	1,284
	11,660,111	7,141,903	5,860,046	176,667

The Company's interest income is primarily generated from cash and cash equivalents.

(5) Short-term Investments

	December 31,			
	1998	1999	2000	
	NT$	NT$	NT$	US$
Open-end mutual funds (net asset value as of December 31, 1998 and 2000 was NT$27,510 and NT$19,260, respectively)	29,540	—	20,000	603
Closed-end mutual funds (market price as of December 31, 1998 was NT$4,990)	10,000	—	—	—
Promissory notes	83,217	—	—	—
Less: allowance for losses on valuation of short-term investments	(6,030)	—	(740)	(22)
	116,727	—	19,260	581

(6) Accounts Receivable

	December 31,			
	1998	1999	2000	
	NT$	NT$	NT$	US$
Accounts receivable	5,249,608	5,927,109	10,355,216	312,186
Less: allowance for doubtful accounts	(35,512)	(19,539)	(36,750)	(1,108)
allowance for sales returns and discounts	(169,416)	(177,670)	(243,509)	(7,341)
	5,044,680	5,729,900	10,074,957	303,737

(7) Inventories

	December 31,			
	1998	1999	2000	
	NT$	NT$	NT$	US$
Finished goods	657,863	2,349,345	2,419,976	72,957
Work in process	435,945	757,239	726,806	21,911
Raw materials	1,156,537	3,164,660	3,804,919	114,710
Raw materials in transit	500,748	175,414	211,399	6,373
	2,751,093	6,446,658	7,163,100	215,951
Less: allowance for inventory obsolescence	(156,977)	(134,200)	(191,772)	(5,781)
	2,594,116	6,312,458	6,971,328	210,170
Insurance amount for inventory	2,483,357	3,387,561	7,763,563	234,054

(8) Long-term Equity Investments and Credit Balance of Long-term Equity Investment

	December 31,			
	1998	1999	2000	
	NT$	NT$	NT$	US$
Long-term equity investments:				
Under the equity method	1,134,855	3,343,853	12,388,946	373,499
Under the lower-of-cost-or-market value method	1,850,159	1,880,159	1,842,671	55,552
Under the cost method	1,814,108	2,582,772	4,997,780	150,672
	4,799,122	7,806,784	19,229,397	579,723
Prepayment for long-term equity investments		3,800,000	3,000	90
Total	4,799,122	11,606,784	19,232,397	579,813
Credit balance of long-term equity investments	1,894	5,766	1,894	57

(a) Net investment income (loss) on long-term equity investments accounted for under the equity method for the years ended December 31, 1998, 1999 and 2000 amounted to NT$67,453, (NT$118,333) and (NT$69,390), respectively. The calculation of these gains and losses were based on the subsidiaries' and investee's audited financial statements.

(b) The Company increased its investment in SaveCom InfoCom Inc. by NT$199,940 in December 1999. SaveCom InfoCom Inc. plans to be engaged in Type I telecommunications businesses, which includes local, long distance and international network business (integrated network business). According to "Regulations Governing Fixed Network Telecommunications Business" in the ROC, the applicable minimum paid-in capital to apply for operation of a fixed network telecommunications business is NT$40,000,000, and the applicant shall deposit NT$10,000,000 in a special capital account before submission of the application. In addition to the Company's investment in SaveCom InfoCom Inc.'s common stock, the Company deposited NT$3,800,000 in the special account of SaveCom InfoCom Inc. and recorded this amount as a prepayment of long-term equity investments on December 29, 1999. SaveCom InfoCom Inc. did not obtain the establishment approval on March 19, 2000. On April 12, 2000, the prepayment for the long-term equity investment was returned to the Company along with an additional amount of NT$20,100 representing interest income.

(c) Net investment income for the year ended December 31, 2000 amounted to NT$291,407, which primarily included cash dividends of NT$68,141 received from Cal-Comp Electronic (Thailand) Ltd., gains on sale of long-term equity investments in IST of NT$139,445, and cash dividends of NT$48,406 received from Kinpo Electronics, Inc.

(d) As of December 31, 1998, 1999 and 2000, the original costs of long-term equity investments under the equity method consisted of the following:

	December 31,			
	1998	1999	2000	
	NT$	NT$	NT$	US$
Gempal	899,940	899,940	899,940	27,131
CCI	—	—	1,479,793	44,612
Toppoly Optoelectronice Corp. ("Toppoly")	—	83,064	7,215,568	217,533
IST	—	729,600	629,600	18,981
Palmax Technology CO.,	—	533,685	1,391,198	41,942
Other	372,091	1,371,365	1,394,609	42,044
	1,272,031	3,617,654	13,010,708	392,243

(9) Property, Plant and Equipment and Leased Assets

The Company does not provide property, plant and equipment as collateral for their loans. The Company's new office building in Neihu, Taiwan began to operate in the second quarter of 2000. Accordingly, the related costs were transferred from construction in progress to building at the end of second quarter of 2000. As of December 31, 1998, 1999 and 2000, insurance coverage for property, plant and equipment and capital lease assets amounted to NT$2,267,793, NT$3,450,378 and NT$6,064,869, respectively.

In December 1995, CPC entered into an agreement with the government authority of Kunshan City, Jiangsu Province, People's Republic of China, to acquire land leasehold rights. The contract period extends from April 10, 1996 to April 9, 2046. According to the contract, total expenditures for obtaining land leasehold rights amounted to NT$151,342. The related annual administrative expense amounted to NT$639.

The Company entered into agreements with its subsidiary, CCI, and an unrelated company in June and December 2000 to lease a portion of its office space and parking lots. The contract periods extends from one to three years. According to the contract, the rental should be paid monthly. As of

December 31, 2000, the rental receivable for the next two years amounted to NT$37,297 and the rental receivable for the third year should be adjusted based on inflation. Leased assets consisted of the following as of December 31, 2000:

	NT$	US$
Land	148,228	4,469
Buildings and other	110,884	3,343
	259,112	7,812
Less: accumulated depreciation	(17,426)	(526)
	241,686	7,286

(10) Short-term Loans

	December 31,			
	1998	1999	2000	
	NT$	NT$	NT$	US$
Credit loans	233,475	379,194	1,101,058	33,195
Usance letters of credit	237,649	85,734	—	—
	471,124	464,928	1,101,058	33,195
Commercial paper (net of discount of NT$21,708 as of December 31, 2000)	563,324	—	2,128,292	64,163
Unused short-term credit line	7,174,392	6,412,006	7,277,141	219,389
Range of interest rates	1.00% – 8.50%	1.00% – 6.57%	4.73% – 7.54%	

As of December 31, 1999 and 2000, all short-term loans were unsecured. In 1998, certain import loans under usance letters of credit were collateralized by certain of the Company's inventories and accounts receivable. In addition, certain directors of the Company have personally guaranteed loans covered by letters of credit.

(11) Convertible Bonds Payable

In 1996, the Company issued overseas unsecured bonds with a face value of US$95,000 (bearing a interest rate of 1.25%). In November 1999, the outstanding convertible bonds were fully redeemed at the option of the Company. As of December 31, 1998 and 1999, the convertible bonds payable consisted of the following:

	December 31,	
	1998	1999
	NT$	NT$
Aggregate principal amount (US$95,000)	2,612,500	2,612,500
Converted amount (US$88,486 and US$94,758 as of December 31, 1998 and 1999, respectively.)	(2,433,200)	(2,605,845)
Redemption at the option of the Company (US$242)	—	(6,655)
Accrued premium	34,697	—
Losses on foreign currency exchange	330,748	—
	244,745	—

The Company issued overseas unsecured zero coupon bonds with a face value of US$148,000 on October 19, 2000. As of December 31, 2000, the convertible bonds payable consisted of the following:

	NT$	US$
Aggregate principal amount (US$148,000)	4,636,840	139,790
Converted amount (US$100 in 2000)	(3,133)	(94)
Losses on foreign currency exchange	245,810	7,411
Balance as of December 31, 2000	4,879,517	147,107

The significant terms of the convertible bonds are as follows:

(a) Interest rate: 0%;

(b) Duration: five years (October 19, 2000 to October 19, 2005);

(c) Final redemption: unless previously redeemed at the option of the Company or the bondholders, or converted in accordance with the offering of the bonds, the bonds are to be redeemed at the principal amount on October 19, 2005;

(d) Redemption at the option of the Company: the Company may redeem the bonds at a redemption price equal to 100% of the unpaid principal amount under the following circumstances:

1. On or after October 19, 2003: if (i) the closing price (translated into US Dollars at the prevailing rate) of the Company's common shares on the Taiwan Stock Exchange or (ii) the closing price of the Company's GDRs on the Luxembourg Stock Exchange for a period of 30 consecutive trading days before redemption has been at least 130% of the conversion price (translated into U.S. dollars at the fixed rate, NT$31.33) in effect on each such trading day.

2. In the event that at least 95% in principal amount of the bonds originally outstanding has been redeemed, repurchased, and conceled or converted.

3. In the event of certain changes in ROC taxation, which would require the Company to gross up for payments of principal, if any, at a rate exceeding 20%.

(e) Redemption at the option of bondholders: the bondholders have the right to require the Company to repurchase the bonds at a price equal to 100% of the unpaid principal amount under the following circumstances:

1. On October 19th of each of 2001, 2002, 2003 and 2004.

2. In the event that the Company's shares cease to be listed or admitted to trading on the Taiwan Stock Exchange.

3. In the event of change of control of the Company.

(f) Terms of conversion:

1. Bondholders may opt to have the bonds converted into common stock or GDRs of the Company from November 19, 2000 to September 19, 2005.

2. Conversion price: NT$48.321 per share of common stock.

3. The conversion price is translated into New Taiwan dollars at the fixed rate of NT$31.33 = US$1.

(12) Pension

An actuarial valuation of the Company's pension plan was performed on December 31, 1998, 1999 and 2000. According to the actuarial reports, the reconciliation of funded status and accrued pension cost are as follows:

	December 31,			
	1998	1999	2000	
	NT$	NT$	NT$	US$
Benefit obligations:				
Vested benefit obligations	(1,935)	(1,598)	(9,368)	(282)
Non-vested benefit obligations	(103,184)	(158,041)	(261,041)	(7,870)
Accumulated benefit obligation	(105,119)	(159,639)	(270,409)	(8,152)
Projected future employee compensation increases	(149,733)	(222,660)	(268,847)	(8,105)
Projected benefit obligation	(254,852)	(382,299)	(539,256)	(16,257)
Fair value of plan assets	254,674	317,643	374,505	11,290
Funding status	(178)	(64,656)	(164,751)	(4,967)
Net unrecognized transition assets	(18,728)	(17,626)	(16,524)	(498)
Unrecognized net loss	42,782	94,991	72,289	2,179
Unrecognized prior service cost	—	—	87,566	2,640
Prepaid pension cost (accrued pension)	23,876	12,709	(21,420)	(646)

The net pension costs in 1998, 1999 and 2000 consisted of the following:

	December 31,			
	1998	1999	2000	
	NT$	NT$	NT$	US$
Service cost	34,867	50,224	66,981	2,019
Interest cost	14,575	21,993	29,345	885
Expected return on plan assets	(15,355)	(19,479)	(21,647)	(653)
Amortization of net unrecognized transition cost	103	2,222	5,338	161
Net pension cost	34,190	54,960	80,017	2,412

Actuarial assumptions are as follows:

	1998	1999	2000
Discount rate	7.0%	7.0%	6.5%
Projected future rate increase of employee compensation	6.0%	6.0%	5.5%
Expected long-term rate of return on plan assets	7.0%	7.0%	6.5%

As of December 31 1998, none of the plan participants had vested in their benefits. As of December 31, 1999 and 2000, the vested benefits were approximately NT$62,366 and NT$78,558, respectively. No pension payments was made to plan participants in 1998. Pension payments of NT$8,901 and NT$6,121 were made in 1999 and 2000, respectively.

(13) Stockholders' Equity

(a) Capital Increase

Based on a resolution of the annual stockholders' meeting held on April 8, 1998, the Company increased its authorized common stock to 1.1 billion shares, and increased its common stock through the issuance of stock dividends by transferring capital surplus, retained earnings and employees bonuses amounting to NT$2,505,250.

Based on a resolution of the board of directors meeting held on September 3, 1998, the Company increased its common stock through issuance of common stock amounting to NT$22,000. The common stock was issued at 80 New Taiwan dollars per share.

A portion of the overseas convertible bonds were converted into 12.924 million shares of common stock in 1998.

Based on a resolution of the annual stockholders' meeting held on April 8, 1999, the Company increased its authorized common stock to 1.4 billion shares, and increased its common stock through the issuance of stock dividends by transferring capital surplus, retained earnings and employee bonuses amounting to NT$3,216,799.

Based on a resolution of the board of directors meeting held on September 2, 1999, the Company increased its common stock through the issuance of common stock amounting to NT$15,600. The common stock was issued at 80 New Taiwan dollars per share.

A portion of the overseas convertible bonds were converted into 6.552 million shares of common stock in 1999.

Based on a resolution of the annual stockholders' meeting held on March 30, 2000, the Company increased its authorized common stock to 2 billion shares, declared 2 New Taiwan dollar cash dividends per share, which amounted to NT$2,353,520, and increased its common stock through the issuance of stock dividends by transferring capital surplus, retained earnings and employee bonuses amounting to NT$3,800,100. The registration procedures related to this issuance has been completed as of December 31, 2000.

As of December 31, 1998, 1999 and 2000, the authorized common stock, at a par value of 10 New Taiwan dollars per share, amounted to NT$11,000,000, NT$14,000,000 and NT$20,000,000, respectively. Total issued and outstanding common stock amounted to NT$8,446,417, NT$11,750,733 and NT$15,568,348 as of December 31, 1998, 1999 and 2000, respectively.

As of December 31, 1998, 1999 and 2000, treasury stock of the Company held by subsidiaries amounted to NT$1,096,019, NT$1,099,781 and NT$1,058,836, respectively.

(b) Capital surplus

Pursuant to ROC Company Law, capital surplus can only be used to offset a deficit or to increase common stock. Cash dividends cannot be declared out of capital surplus. According to the ROC Securities and Futures Commission regulations, capital increases by transferring paid-in capital in excess of par value, can occur only once per year commencing in the following year. Such capitalization can not exceed a certain percentage, or based on the net result of the Company, of paid-in capital related to the excess of the proceeds from common stock issuances over the par value.

(c) Special reserve

According to the Company's articles of incorporation, unrealized foreign currency exchange gains accounted for under SFAS No. 14, must be set aside as a special reserve before profit appropriation. The special reserve is transferred to retained earnings when the exchange gains or losses are realized.

(d) Legal reserve and limitation on distribution of retained earnings

Based on the Company's articles of incorporation, 10% of annual net income after tax is to be set aside as legal reserve, 2% as remuneration to the directors and supervisors, and 5% as a bonus to employees after offsetting prior years' deficits, if any. The remaining balance can be distributed as dividends to stockholders after special reserves are appropriated, if any. The remaining balance will be distributed as cash dividends, which will not be lower than 10% of total cash and stock dividends in the current year for the consideration of capital demands of the Company's future operations and the cash inflow expectation of the Company's stockholders. If the retained earnings and working capital exceeds the operational and cash dividend needs of the Company, the percentage of cash dividends may be increased in the next three years.

Based on Panpal's articles of incorporation, 10% of its annual net income is to be set aside as legal reserve after offsetting prior years' deficits, if any. No more than 2% of unappropriated earnings, after deducting the legal reserve, can be distributed as remuneration to the directors and supervisors and no more than 2% (but not equal to zero) as bonuses to employees. The remaining balance can be distributed as dividends to stockholders based on the proposal provided at the board of directors' meeting and approved by the stockholders' meeting.

Based on Just's articles of incorporation, before recommending a dividend, the directors may set aside reserves based on a resolution by the directors' meeting. The remaining balance can be distributed as dividends to stockholders based on the resolution of the directors' meeting under the following two circumstances.

(i) the Company will be able to satisfy its liabilities as they become due in the ordinary course of its business; and

(ii) the realizable value of the assets of the Company will not be less than the sum of its total liabilities, other than deferred income taxes, as shown in the books of account, and its capital.

Pursuant to ROC Company Law, the legal reserve must be used exclusively to offset losses, and can not be used for any other purpose, except that one-half of the legal reserve may be capitalized based on the resolution of the stockholders' meeting when it equals at least 50% of paid-in capital.

Since 1999, according to SFC regulations, when there is a deduction item of stockholders' equity incurred in the year, an amount equal to the deduction item before appropriation must be included as a special reserve within retained earnings. The special reserve will be available for dividend distribution only after the related stockholder's equity deduction item has been reversed.

(e) Treasury stock

The Company records treasury stock held by subsidiaries as a deduction to stockholders' equity in the accompanying consolidated balance sheets. In 1998, the Company recognized a gain on the sale of treasury stock of approximately NT$362 million in the consolidated statement of income. In 1999, the Company recognized dividend income of approximately NT$18 million related to treasury stock held by a subsidiary. In 2000, the Company recognized a gain on the sale of treasury stock of approximately NT$58 million and recognized dividend income of approximately NT$46 million related to treasury stock held by a subsidiary.

(14) Income Taxes

(a) The purchase of machinery through proceeds from common stock issuances met the prescribed criteria under the "Statute for Upgrading Industries" in the following years:

Year	Tax exemption products	Tax exemption chosen	Tax exemption period
1995	Notebook PCs, multi-media PCs and 17-inch or above Liquid Crystal Display ("LCD") monitors	Tax exemption on the Company's corporate income taxes for five years	September 1, 1996 — August 31, 2001
1996	Notebook PCs	Tax exemption on the Company's corporate income taxes for five years	January 31, 1998 — January 30, 2003
1997	Notebook PCs	Stockholders' income tax deduction	
1998	Notebook PCs	Tax exemption on the Company's corporate income tax for five years	October 31, 1999 — October 30, 2004
1999	Notebook PCs, LCD monitors, Cellphone	Tax exemption on the Company's corporate income tax for five years	Tax exemption period is not applied until the Company completes its investment plan

The Company's purchase of machinery, through proceeds from common stock issuances in 1999, for the production of notebook PCs, Liquid Crystal Display monitors and cellphone, met the prescribed criteria under the "Statute for Upgrading Industries." According to the tax law, the Company chose to have an income tax exemption for five years on income from such products. The expected tax exemption period is from December 16, 2000 to December 15, 2005. The related income tax expense for the years then ended will be subject to recalculation if the above assumptions are changed.

(b) The operations of the Company and Panpal are subject to income tax at a rate of 25%. CPC is subject to income tax at a rate of 15%. According to the PRC Tax Law, CPC can, from the year in which it begins to make profits, be exempted from income tax in the first and second years and allowed a 50% reduction in the third to fifth years. CPC has begun to make profits in 2001. The Company's operations outside Taiwan are subject to income tax rates applicable to the related foreign jurisdiction. The components of income tax expense of the Company for the years ended December 31, 1998, 1999 and 2000, consisted of the following:

	1998			
	The Company	Panpal	Other Subsidiaries	Total
	NT$	NT$	NT$	NT$
Current income tax expense (benefit)	246,749	2,324	(5,751)	243,322
Deferred income tax benefit				
Investment income recognized under the equity method, net	(32,458)	—	—	(32,458)
Other deferred income tax expense	18,284	—	—	18,284
	(14,174)	—	—	(14,174)
Total income tax expense (benefit)	232,575	2,324	(5,750)	229,148

	1999			
	The Company	Panpal	Other Subsidiaries	Total
	NT$	NT$	NT$	NT$
Current income tax expense (benefit)	90,491	26	(6,382)	84,135
10% surtax on unappropriated earnings	—	9,525	—	9,525
	90,491	9,551	(6,382)	93,660
Deferred income tax expense (benefit)				
Investment tax credits	(359)	—	—	(359)
Net operating loss carryforwards	—	2,123	—	2,123
Investment income recognized under the equity method, net	73,014	—	—	73,014
Other deferred income tax expense	46,318	(2,127)	6,543	50,734
	118,973	(4)	6,543	125,512
Total income tax expense	209,464	9,547	161	219,172

	2000			
	The Company NT$	Panpal NT$	Total NT$	Total US$
Current income tax expense (benefit)	208,147	(14,343)	193,804	5,843
10% surtax on unappropriated earnings	70,660	11,789	82,449	2,485
	278,807	(2,554)	276,253	8,328
Deferred income tax expense (benefit)				
Investment tax credits	(61,034)	(163,751)	(224,785)	(6,777)
Net operating loss carryforwards	—	(5,692)	(5,692)	(172)
Investment income recognized under the equity method, net	93,190	—	93,190	2,810
Other deferred income tax expense	26,029	67,002	93,031	2,805
	58,185	(102,441)	(44,256)	(1,334)
Total income tax expense (benefit)	336,992	(104,995)	231,997	6,994

(c) A reconciliation of the expected income tax expense computed at the Taiwan statutory rate of 25% to the actual income tax expense (benefit) is summarized as follows:

	1998			
	The Company NT$	Panpal NT$	Other Subsidiaries NT$	Total NT$
Income tax expense (benefit) computed at the Taiwan Statutory rate of 25%	1,275,888	80,643	(88,294)	1,268,237
Investment loss (income), net	(89,456)	(1,482)	81,554	(9,384)
Non-taxable gain on sale of marketable securities	—	(90,445)	—	(90,445)
Estimated tax effect of tax exemption	(844,154)	—	—	(844,154)
Investment tax credits	(66,000)	—	—	(66,000)
Change in deferred income tax asset valuation allowance	19,776	9,670	18,818	48,264
Overaccrued income tax in the prior year	(90,443)	—	—	(90,443)
Other	26,964	3,938	(17,829)	13,073
Actual income tax expense (benefit)	232,575	2,324	(5,751)	229,148

	1999			
	The Company	Panpal	Other Subsidiaries	Total
	NT$	NT$	NT$	NT$
Income taxes computed at the Taiwan statutory rate of 25%	1,401,852	7,569	(5,151)	1,404,270
Investment loss, net	7,054	229	—	7,283
Non-taxable gain on sale of marketable securities	—	(5,661)	—	(5,661)
Estimated tax effect of tax exemption	(948,646)	—	—	(948,646)
Investment tax credits	(180,000)	—	—	(180,000)
Change in deferred income tax asset valuation allowance	17,591	(11,690)	6,543	12,444
Underaccrued (overaccrued) income tax in the prior years	(89,151)	11,690	—	(77,461)
10% surtax on unappropriated earnings	—	9,525	—	9,525
Other	764	(2,115)	(1,231)	(2,582)
Actual income tax expense	209,464	9,547	161	219,172

	2000				
	The Company	Panpal	Other Subsidiaries	Total	Total
	NT$	NT$	NT$	NT$	US$
Income taxes computed at the Taiwan statutory rate of 25%	1,580,037	26,801	(12,909)	1,593,929	48,053
Investment income, net	(56,147)	(12,265)	—	(68,412)	(2,062)
Non-taxable gain on sale of marketable securities	(35,176)	(21,559)	—	(56,735)	(1,710)
Estimated tax effect of tax exemption	(1,065,019)	—	—	(1,065,019)	(32,108)
Investment tax credits	(243,700)	(163,751)	—	(407,451)	(12,284)
Change in deferred income tax asset valuation allowance	58,295	61,828	10,944	131,067	3,951
Underaccrued (overaccrued) income tax in the prior years	28,042	(7,309)	—	20,733	625
10% surtax on unappropriated earnings	70,660	11,789	—	82,449	2,486
Other	—	(529)	1,965	1,436	43
Actual income tax expense	336,992	(104,995)	—	231,997	6,994

(d) Deferred income tax assets (liabilities) as of December 31, 1998, 1999 and 2000 are summarized as follows:

	December 31,			
	1998	1999	2000	
	NT$	NT$	NT$	US$
Deferred income tax assets:				
Investment loss recognized under the equity method	65,094	89,915	118,689	3,578
Unrealized foreign currency exchange loss	48,490	51,309	79,359	2,392
Sales returns and discounts	42,354	44,418	60,877	1,835
Accrued warranty cost	63,420	52,359	65,005	1,960
Inventory provisions	46,320	21,612	25,506	769
Investment tax credits	—	359	219,250	6,610
Net operating loss carryforwards	12,708	24,078	39,226	1,183
Other	33,836	26,859	34,992	1,055
	312,222	310,909	642,904	19,382
Valuation allowance	(181,373)	(193,817)	(326,788)	(9,852)
Net deferred income tax assets	130,849	117,092	316,116	9,530
Deferred income tax liabilities:				
Prepaid pension costs	(7,374)	(5,968)	—	—
Investment income recognized under the equity method	(36,778)	(134,613)	(256,577)	(7,735)
Unrealized foreign currency exchange gain	(2,673)	(11,456)	(50,228)	(1,514)
Net deferred income tax assets (liabilities)	84,024	(34,945)	9,311	281
Net deferred income tax assets—current	107,329	91,294	170,671	5,145
Net deferred income tax liabilities—noncurrent	(23,305)	(126,239)	(161,360)	(4,864)
	84,024	(34,945)	9,311	281

(e) The ROC tax authorities have assessed the Company's income tax returns through 1997. The tax authorities have assessed the Company additional income tax expense for 1997 in the amount of NT$51,275, which was mainly due to different interpretations related to tax-exempt income. The Company disagreed with the assessment and filed an appeal related to this issue in February 2000. As to the total amount of the additional assessment, NT$20,692 of the assessed additional income tax expense was recognized in the accompanying statement of income in the year ended December 31, 2000. The remaining balance of NT$30,583 has not been recognized in the accompanying statements of income as management believes that the Company will successfully appeal this amount with the tax authority.

(f) Imputation credit account and creditable ratio

Beginning in 1998, the corporate income tax paid at the corporate level can be used to offset the resident stockholders' individual income tax. The amount of imputation credit which stockholders can claim depends on total corporate income tax paid at the corporate level. Beginning in 1998, corporations have been required to set up an Imputation Credit Account ("ICA") to keep track of the corporate income taxes paid and the imputation credit they have allocated for stockholders. In addition, the creditable ratio, which represents the imputation credit per dollar of accumulated retained earnings, shall be calculated for resident stockholders when corporations declare dividends. A calculation of the ICA balance and creditable ratio as of December 31, 1998, 1999 and 2000 is as follows:

	December 31,		
	1998	1999	2000
	NT$	NT$	NT$
Unappropriated earnings retained prior to January 1, 1998	3,143,041	3,143,041	3,143,041
Unappropriated earnings retained after January 1, 1998	4,870,459	5,617,670	7,371,451
Total	8,013,500	8,760,711	10,514,492
ICA balance	158,041	212,245	175,535
Creditable ratio for earnings distribution	—	5.09%	3.63%

(15) Related Information About Financial Instruments

(a) Derivative financial instruments

1. Foreign currency options and forward exchange contracts

	December 31, 1999					
Financial Instruments	Nominal Amount	Transaction period	Maturities	Strike rate	Fair value	Credit risk
	US$				NT$	
USD forward foreign currency exchange contracts	54,000	December 13, 1999	February 15, 2000 to March 17, 2000	30.509 31.532	(8,005)	—

	December 31, 1999					
Financial Instruments	Nominal Amount	Transaction period	Maturities	Strike rate	Fair value	Credit risk
	US$				NT$	
USD put options sold	15,000	December 18, 2000	January 19, 2001 March 16, 2001	32.62 34.50	(666)	—

The Company did not hold any derivative financial instruments in 1998.

2. Credit risk

The amount of credit risk equals the aggregate amount of contracts with a positive fair value. The amount of the credit risk is a potential loss of the Company if the counterpart involved in that transaction defaults. Since the Company's derivative financial instruments agreements are entered into with financial institutions with good credit ratings, management does not believe that there is significant credit risk from these transactions.

3. Market risk

The purpose of the foreign currency options and the forward exchange contracts are to hedge the exchange risk of the foreign currency assets. Therefore, gains or losses resulting from changes in exchange rates will be offset by those from the hedged item. Management believes that the related market risk is not significant.

4. Liquidity risk

The Company will incur cash inflows and outflows within the periods shown below. Management does not believe that there are any financing risks due to expected sufficient US dollars received from accounts receivable. Management believes that the cash flow risk is not significant because contracted foreign currency exchange rates are fixed.

	December 31, 1999		
Financial Instruments	**Date**	**Cash outflow**	**Cash inflow**
		US$	**NT$**
USD forward foreign exchange contracts	February 2000 to March 2000	54,000	1,702,172

	December 31, 2000		
Financial Instruments	**Date**	**Cash outflow**	**Cash inflow**
		US$	**NT$**
Foreign currency options sold	January 2001 to March 2001	15,000	511,100

5. The categories and objectives of the derivatives, and strategies to accomplish the underlying objectives

The foreign currency options and the forward exchange contracts held by the Company are for the purpose of hedging the risks that may result from changes in currency rates of foreign currency assets and liabilities rather than for the purpose of trading. The hedging strategies of the Company are to hedge the market risk to the highest extent possible. The Company uses derivatives that are highly correlated to the changes in fair values of the hedged items as hedging instruments.

6. Presentation in the consolidated financial statements

The receivables and payables derived from forward foreign currency exchange contracts were offset against each other, and the net amount was accounted for as other current assets. As of December 31, 1999, the balance of net forward exchange contracts receivable was NT$11,456. The exchange gain resulting from the forward transactions for the year ended December 31, 1999 was included in non-operating income in the accompanying consolidated statements of income.

As of December 31, 2000, premiums related to foreign currency option contracts received amounting to $2,547 was accounted for as other current liabilities in the accompanying consolidated balance sheet.

7. Fair value of derivative financial instruments

The book value and the estimated fair value of foreign currency options were as follows:

	December 31, 1999	
	Book value	Estimated fair value
	NT$	NT$
Net forward foreign exchange contracts receivable	11,456	(8,005)

	December 31, 2000	
	Book value	Estimated fair value
	NT$	NT$
Foreign currency options—other current liabilities	(2,547)	(666)

The fair value of a derivative is the expected receivable or payable amount assuming that the contract is terminated on the balance sheet date. Generally, the unrealized gain or loss on open contracts is included in the fair value. The above fair value estimates were based on quotes from financial institutions.

(b) Non-derivative financial instruments

Except for long-term equity investments, the book value of non-derivative financial instruments were similar to their fair market value as of December 31, 1998, 1999 and 2000.

As of December 31, 1998, 1999 and 2000, the book value of long-term equity investments were NT$4,799,122, NT$11,606,784 and NT$19,232,397, respectively, of which NT$1,850,159, NT$1,880,159 and NT$1,842,671 were invested in publicly listed equity securities, respectively. The remaining balance was invested in companies that are not publicly listed. The fair value of these publicly listed investments was NT$2,602,115, NT$4,726,845 and NT$1,676,533 as of December 31, 1998, 1999 and 2000, respectively.

(16) Related Party Transactions

(a) Name of the related parties and relationship

Related Party	Relationship with the Company
Bizcom	100% owned subsidiary company
CEBV	100% owned subsidiary company
Compower International Ltd. ("Compower")	Compower's chairman of the board is the same as the Company's chairman
CEUK	100% owned subsidiary company
Palmax	Investee company
CCI	Investee company

(b) Summary of significant transactions with related parties

1. Sales

	1998		1999		2000		
	Amount	% of net operating revenue	Amount	% of net operating revenue	Amount	% of net operating revenue	Amount
	NT$		NT$		NT$		US$
CEBV	600,568	1.5	113,658	0.3	446	—	13
Bizcom	93,397	0.2	203,562	0.4	583,607	0.8	17,594
Compower	—	—	91,989	0.2	154,101	0.2	4,646
CCI	—	—	—	—	192,967	0.3	5,818
Other	104,403	0.3	56,173	0.1	42,924	—	1,294
	798,368	2.0	465,382	1.0	974,045	1.3	29,365

Sale prices to related parties were similar to those for third party customers. The collection periods were approximately 45 to 120 days for CEBV, 60 to 120 days for Bizcom, 90 days for Compower and 60 days for CCI.

2. Purchases

The Company purchased finished goods from related parties in 1998, 1999 and 2000, amounting to NT$2,540, NT$89,393 and NT$69,816, respectively. Purchase prices for finished goods from related parties were similar to those from third party suppliers.

3. Manufacturing agreement with related party

Manufacturing expenses paid to Palmax amounted to NT$4,964 and NT$24,558 for the years ended December 31, 1999 and 2000, respectively.

4. Processing fees income

Processing fees income received from CCI amounted to NT$192,967 for the year ended December 31, 2000.

5. Notes and accounts receivable (payable), prepayments to suppliers

The balances resulting from the above sales, purchases and other services transactions as of December 31, 1998, 1999 and 2000, were as follows:

	1998		1999		2000		
	Amount	%	Amount	%	Amount	%	Amount
	NT$		NT$		NT$		US$
Accounts receivable:							
CEBV	209,779	3.9	4,284	—	2,058	—	62
Bizcom	83,822	1.5	106,474	1.8	339,879	3.2	10,247
Compower	—	—	17,005	0.3	95,749	0.9	2,887
CEUK	—	—	—	—	46,644	0.4	1,406
CCI	—	—	—	—	215,515	2.0	6,497
Other	41,965	0.8	83,963	1.4	799	—	24
Less: allowance for doubtful accounts	(7,011)	(0.1)	(33,016)	(0.5)	(60,629)	(0.5)	(1,828)
	328,555	6.1	178,710	3.0	640,015	6.0	19,295
Prepayments to suppliers							
Palmax	—	—	70,036	78.6	—	—	—
Notes and accounts payable:							
Other	1,423	—	6,456	—	8,834	—	266

6. Rental Income

On June 18, 2000, the Company entered into an agreement with its subsidiary, CCI, to lease out part of its office space and parking lots for one year. According to the contract, the monthly rental is NT$1,012. The related rental income in 2000 amounted to NT$6,265.

7. Guarantees

	December 31,		
	1998	1999	2000
	US$	US$	US$
Loan guarantee:			
CEBV	2,500	2,500	—
Bizcom		—	2,000
Credit guarantee:			
CEUK		1,000	1,000

(17) Pledged Assets

There were no pledged assets as of December 31, 1999 and 2000. Assets pledged as collateral included the following at December 31, 1998:

Assets	Subject	Carrying amounts December 31, 1998
		NT$
Accounts receivable	Loans by letter of credit	292,733
Inventory	Loans by letter of credit	213,018
		505,751

(18) Commitments and Contingencies

(a) As of December 31, 2000, the unused balance of the Company's letters of credit for the purchase of materials and machinery was approximately NT$289,383.

(b) See note 16 for guarantees made to related parties.

(19) Subsequent Event

Based on a resolution of the board of directors meeting held on December 22, 2000, for the long-term demands of capital and expansion of business, the Company projected to increase its common stock through issuance of new shares at a volume no more than 100 million shares. The new shares issued are planned to be used to offer the Global Depositary Shares ("GDSs"). The Company intends to use the proceeds from the GDSs offering to repay short-term borrowings incurred to invest in Toppoly Optoelectronics, Inc. and to purchase raw material. The Company has filed the application to the ROC Securities and Future Commission on April 6, 2000.

(20) Other

(a) As of December 31, 2000, the Company had the following royalty agreements:

Royalty Owners	Content	Period
Phoenix Technologies, Ltd.	Produce, use, and sell quantitative Memory-Basic Input/Output Systems	Authorized certain quantity; contract shall be renewed after quantity fulfilled
International Business Machines Corporation ("IBM")	Produce, use, lease and sell all of IBM's "Information Handling System" products which have or will have patents in the ROC	January 1, 1996 — December 31, 1999 and developing a new contract
SystemSoft Corporation	Basic input system, keyboard control software and PCMCIA driver program.	April 1998 — March 2003
RCA Thomson Licensing Corporation	Produce, USE, lease, sell and export the color monitor which have patents in People's Republic of China, royalty is estimated by product volumes	January 1, 1998 — December 31, 2002
Qualcomm Incorporated	Acquire related technologies of manufacturing and researching in CDMA mobile phone	None
Lucent Technologies Inc.	Acquire related technologies of manufacturing and researching in GPRs mobile phone	July 2000 — June 2003

(b) Reclassification

Certain accounts for the 1998 and 1999 consolidated financial statements have been reclassified to conform with the 2000 presentation. Such reclassifications do not have a significant impact on the presentation of the accompanying consolidated financial statements.

(21) Segment Information

(a) Industrial information

The Group's operations include two industry segments: electronics and telecommunications. The Group's electronics segment manufactures and sells notebooks, personal computers and computer monitors. The major industry's revenue, segment income and identifiable assets of the electronics segment are over 90% of the subject sums of all industries. Consequently, no segment information is required to be disclosed.

(b) Geographic information

Geographic information has not been disclosed in the accompanying consolidated financial statements as sales and identifiable assets of the Company's foreign operations is less than 10% of the Company's consolidated sales and identifiable assets.

(c) Export sales

Export sales to geographic areas generating over 10% of the total revenue in the consolidated statements of income of 1998, 1999 and 2000 are summarized as follows:

	1998	1999	2000	
Destination area	NT$	NT$	NT$	US$
United States	24,743,428	28,997,895	31,252,030	942,178
Europe	8,787,965	9,841,417	16,652,346	502,030
Asia	3,509,746	6,972,874	26,548,355	800,373
Other (individually less than 10% of total revenue)	651,168	389,710	314,467	9,480
	37,692,307	46,201,896	74,767,198	2,254,061

(d) Significant customers

Sales to individual customers generating over 10% of consolidated net sales for the years ended December 31, 1998, 1999 and 2000 are summarized as follows:

	1998		1999		2000		
Customers	Amount	% of total revenue	Amount	% of total revenue	Amount	% of total revenue	Amount
	NT$		NT$		NT$		US$
A	17,634,870	46.2	22,343,895	47.3	19,293,114	25.5	581,643
B	—		993,051	2.1	17,942,304	23.8	540,920
C	7,847,568	20.5	8,708,370	18.4	13,601,690	18.0	410,060
D	—	—	4,734,227	10.0	7,750,984	10.3	233,675
	25,482,438	66.7	36,779,543	77.8	58,588,092	77.6	1,766,298

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

NON-CONSOLIDATED BALANCE SHEETS

March 31, 2000 and 2001
(expressed in thousands of New Taiwan or US dollars)
(Unaudited)

	2000	2001	
	NT$	NT$	US$
Assets			
Current assets:			
Cash and cash equivalents (note 3)	7,145,646	7,772,310	236,600
Accounts receivable (note 4)	8,313,252	7,512,657	228,696
Accounts receivable—related parties (note 14)	783,258	1,138,524	34,659
Inventories (note 5)	4,282,972	4,093,085	124,599
Prepaid and other current assets (notes 12 and 13)	623,508	951,022	28,950
Total current assets	21,148,636	21,467,598	653,504
Long-term equity investments (notes 6)	14,512,158	22,632,363	688,961
Property, plant and equipment (note 7):			
Land and land leasehold rights	1,330,497	1,180,969	35,950
Buildings	1,878,726	1,923,425	58,552
Machinery and equipment	1,318,261	1,804,717	54,938
Molding equipment	556,349	766,361	23,329
Other equipment	247,300	299,044	9,104
	5,331,133	5,974,516	181,873
Less: accumulated depreciation	(950,431)	(1,442,749)	(43,920)
Construction in progress and prepayment for purchase of equipment	198,083	53,284	1,622
Net property, plant and equipment	4,578,785	4,585,051	139,575
Other assets:			
Leased assets (notes 7 and 14)	—	294,121	8,953
Deferred expenses and other noncurrent assets	84,359	339,564	10,337
	84,359	633,685	19,290
Total assets	40,323,938	49,318,697	1,501,330

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

NON-CONSOLIDATED BALANCE SHEETS (Continued)

March 31, 2000 and 2001
(expressed in thousands of New Taiwan or US dollars)
(Unaudited)

	2000	2001	
	NT$	NT$	US$
Liabilities and Stockholders' Equity			
Current liabilities:			
Short-term loans (note 8)	1,405,158	400,000	12,177
Short-term notes and bills payable (note 8)	—	1,399,501	42,603
Accounts payable	6,867,775	8,201,577	249,668
Accounts payable — related parties (note 14)	1,478,256	215,625	6,564
Income tax payable	21,552	191,858	5,840
Accrued expenses and other current liabilities	754,262	721,749	21,971
Cash dividends payable (note 11)	2,353,520	—	—
Convertible bonds payable (note 9)	—	4,843,577	147,445
Total current liabilities	12,880,523	15,973,887	486,268
Noncurrent liabilities:			
Accrued pension liability and other (notes 6 and 10)	12,262	27,896	849
Deferred income tax liabilities, net (note 12)	159,300	289,316	8,807
Unrealized profit from sales to subsidiaries	14,122	36,658	1,116
	185,684	353,870	10,772
Total liabilities	13,066,207	16,327,757	497,040
Stockholders' equity (note 11):			
Common stock	11,767,600	15,568,348	473,922
Capital surplus (note 11):			
Paid-in capital in excess of par value	7,031,085	4,326,946	131,718
Other	21,093	46,874	1,427
	7,052,178	4,373,820	133,145
Retained earnings (note 11):			
Legal reserve	1,560,309	1,560,309	47,498
Special reserve	45,284	45,284	1,378
Unappropriated retained earnings	6,859,260	11,337,485	345,129
	8,464,853	12,943,078	394,005
Foreign currency translation adjustment	(26,900)	105,694	3,218
Total stockholders' equity	27,257,731	32,990,940	1,004,290
Commitments and contingencies (notes 14 and 16)			
Total liabilities and stockholders' equity	40,323,938	49,318,697	1,501,330

See accompanying notes to non-consolidated financial statements.

COMPAL ELECTRONICS, INC.

NON-CONSOLIDATED STATEMENTS OF INCOME

Three-month periods ended March 31, 2000 and 2001
(expressed in thousands of New Taiwan or US dollars, except net income per share amounts)
(Unaudited)

	2000	2001	
	NT$	NT$	US$
Net sales (note 14)	15,765,916	16,051,085	488,618
Cost of sales (note 14)	14,520,671	14,571,270	443,570
	1,245,245	1,479,815	45,048
Change in unrealized intercompany profits	9,024	23,162	705
Gross profit	1,254,269	1,502,977	45,753
Operating expenses:			
Selling	90,726	216,033	6,576
Administrative	88,874	163,735	4,984
Research and development	179,794	197,054	5,999
	359,394	576,822	17,559
Operating income	894,875	926,155	28,194
Non-operating income:			
Interest income (note 3)	105,670	69,591	2,118
Investment income, net (note 6)	304,113	30,652	933
Other (note14)	16,706	16,190	493
	426,489	116,433	3,544
Non-operating expenses and losses:			
Interest expense	20,858	35,995	1,096
Foreign currency exchange loss, net	73,804	65,959	2,008
Other	11,869	22,514	685
	106,531	124,468	3,789
Net income before income tax expense	1,214,833	918,120	27,949
Income tax expense (note 12)	69,723	49,842	1,517
Net income	1,145,110	868,278	26,432
Simple net income per share	0.74	0.56	0.02
Basic net income per share (note 11)		0.53	0.02

See accompanying notes to non-consolidated financial statements.

COMPAL ELECTRONICS, INC.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

Three-month periods ended March 31, 2000 and 2001
(expressed in thousands of New Taiwan or US dollars)
(Unaudited)

	2000	2001	
	NT$	NT$	US$
Cash flows from operating activities:			
Net income	1,145,110	868,278	26,432
Adjustments to reconcile net income to cash provided by (used in) operating activities:			
Depreciation and amortization	126,405	201,591	6,136
Allowance for doubtful accounts, sales returns and discounts	47,185	50,751	1,545
Change in inventory obsolescence provision	11,536	22,353	680
Investment loss (income), net	(234,714)	2,695	82
Decrease (increase) in accounts receivable	(2,569,228)	2,523,662	76,824
Decrease in inventories	824,936	1,381,823	42,065
Increase in prepaid and other current assets	(38,690)	(222,006)	(6,758)
Increase (decrease) in accounts payable	112,282	(1,045,605)	(31,830)
Increase in income tax payable	21,552	41,412	1,261
Decrease in accrued expenses and other current liabilities	(306,197)	(49,217)	(1,498)
Increase in net deferred income tax liabilities	17,232	2,219	68
Other	15,237	(38,492)	(1,172)
Cash provided by (used in) operating activities	(827,354)	3,739,464	113,835
Cash flows from investing activities:			
Additions to property, plant and equipment	(13,719)	(65,500)	(1,994)
Acquisition of long-term equity investments	(258,260)	(1,016,504)	(30,944)
Increase in deferred expenses	(2,024)	(63,441)	(1,931)
Other	36,330	17,464	532
Cash used in investing activities	(237,673)	(1,127,981)	(34,337)
Cash flows from financing activities:			
Increase (decrease) in short-term loans	1,239,381	(285,898)	(8,703)
Issuance of common stock for cash	78,042	—	—
Other	(8)	(276)	(9)
Cash provided by (used in) financing activities	1,317,415	(286,174)	(8,712)
Net increase in cash and cash equivalents	252,388	2,325,309	70,786
Cash and cash equivalents at beginning of period	6,893,258	5,447,001	165,814
Cash and cash equivalents at end of period	7,145,646	7,772,310	236,600
Supplementary disclosures of cash flow information:			
Cash paid during the period for:			
Interest	11,842	14,724	448
Income taxes	10,247	6,212	189
Supplementary disclosures of investing and financing activities not affecting cash flows:			
Cash dividends and directors' remuneration payable	2,461,480	—	—
Supplementary disclosures of non-cash purchases of property, plant and equipment:			
Increase in property, plant and equipment	150,598	32,208	981
Decrease (increase) in other current liabilities	(56,836)	33,292	1,1013
Increase in short-term loans	(80,043)	—	—
Cash paid	13,719	65,500	1,994

See accompanying notes to non-consolidated financial statements.

COMPAL ELECTRONICS, INC.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2000 and 2001

(expressed in thousands of New Taiwan or US dollars, unless otherwise specified)

(Unaudited)

(1) Organization

Compal Electronics, Inc. (the "Company") was incorporated in the Republic of China ("ROC") as a company limited by shares in June 1984. The major business activities of the Company are the manufacture and sale of notebook personal computers ("PCs"), monitors and wireless handsets.

(2) Summary of Significant Accounting Policies

The Company prepares its non-consolidated financial statements in accordance with accounting principles generally accepted in the ROC. These non-consolidated financial statements are not intended to present the financial position of the Company and the related non-consolidated results of operations and cash flows based on accounting principles and practices in countries and jurisdictions other than the ROC. The financial statements of the Company's subsidiaries are not consolidated in the accompanying non-consolidated financial statements. These investments are accounted for using the equity method as described in point (e) to this note. The significant accounting policies adopted in preparing the non-consolidated financial statements are summarized below:

The accompanying non-consolidated financial statements are unaudited, but include all adjustments necessary to fairly state the financial statements, in the opinion of management, in accordance with ROC GAAP as it pertains to interim financial statements. The results for the three-month periods ended March 31, 2000 and 2001 are not necessarily indicative of the results that may be expected for the full year.

(a) Foreign currency transactions

The Company's reporting currency is the New Taiwan dollar. Foreign currency transactions are translated at the rates prevailing on the transaction dates. Foreign currency receivables and payables are translated into New Taiwan dollars at the approximate market rates of exchange prevailing on the balance sheet date. The resulting unrealized gains or losses are included in current operations.

If a forward exchange contract is intended to hedge the risks of changes in foreign currency exchange rates, the related forward exchange contract receivables and payables are recorded in New Taiwan dollars at the spot rate on the date of contract inception, and the balance on the balance sheet date is translated into New Taiwan dollars at the prevailing spot rate. Gains or losses resulting from translation on the balance sheet date are recognized as non-operating income or losses. The discount or premium on a forward exchange contract is amortized over the life of the contract.

(b) Cash equivalents

Cash equivalents represent investments in promissory notes and commercial paper with a maturity of three months or less from the date of investment.

(c) Allowance for doubtful accounts

The allowance for doubtful accounts is based on aging analysis and the likelihood of collection of the Company's accounts receivable balances.

(d) Inventories

Inventories are stated at the lower of cost or market value. Market value for raw materials and work in process is based on replacement cost. The market value of finished goods is based on net realizable value.

(e) Long-term equity investments

Investments in equity securities are intended to be held for the long-term are classified as long-term equity investments in the accompanying non-consolidated balance sheets. Long-term investments in publicly listed equity securities that represent less than 20% of the investee's common stock ownership are stated at the lower of cost or market value. Long-term investments in non-listed equity securities that represent less than 20% of the investee's common stock ownership are stated at cost. However, if there is evidence indicating a decline in the value of an investment is not temporary, the investment is written down to reflect such decline. The resulting loss is recognized in the period incurred. Stock dividends are not recognized as income but as an increase in the number of the shares held.

Long-term investments are accounted for under the equity method when the percentage of ownership exceeds 20%. The difference between the cost of the investment and the amount of underlying equity in net assets of an investee is amortized using the straight-line method over ten years. When an investee issues new shares, and the Company does not invest in such shares in proportion to its ownership percentage, the resulting change in the Company's ownership percentage in the net assets of the investee is recorded in the Company's long-term equity investment account with an offsetting entry made directly to either capital surplus or retained earnings.

Unrealized intercompany profits or losses resulting from transactions between the Company and its subsidiaries and investees accounted under the equity method are deferred until realized.

Long-term equity investment of foreign subsidiaries and investees accounted for by the equity method are translated into New Taiwan dollars at the exchange rates prevailing on the balance sheet date. The related investment income (loss) is translated using the weighted-average exchange rates during the applicable periods. Adjustments, net of the related income taxes, from these translations are reflected in stockholders' equity as a foreign currency translation adjustment.

(f) Property, plant and equipment and leased assets

Property, plant and equipment are stated at cost. Interest in connection with the acquisition or construction of property, plant and equipment is capitalized. Excluding land, depreciation of property, plant and equipment is provided for by using the straight-line method over the estimated useful lives of the assets. If the property, plant and equipment has reached their estimated useful lives but are still in use, the Company will estimate the remaining useful lives and residual values and depreciate the remaining costs using the same method. Gains on the disposal of property, plant and equipment are included in non-operating income, and are transferred to capital surplus in the year of disposal, net of the related income taxes.

Property, plant and equipment leased to other parties under operating leases are classified as leased assets. Rental income received by the Company is recorded as non-operating income. The related depreciation is accounted for as a deduction from rental income.

(g) Deferred expenses

Charges for royalties are deferred and amortized over the contract periods. The cost of computer software is amortized by using the straight-line method over three years.

(h) Convertible bonds payable

Costs incurred for the issuance of redeemable convertible bonds are amortized during the period between the issuance date and the last redeemable date.

Entitlement certificates related to bond-to-stock conversions are issued upon the bondholder's exercise of the option to convert the convertible bonds into the Company's common stock. The number of entitlement certificates for bond-to-stock conversion that is to be given is calculated based on the volume of the convertible bond and the conversion price at the time of the conversion. The amount of convertible bond payable exceeding the par value of the common stock and deferred issuance costs are transferred to capital surplus upon conversion. In accordance with the conversion rules, the entitlement certificates issued on of bond-to-stock conversion are registered into common stock three times a year.

(i) Retirement plan

The Company has established an employee noncontributory retirement plan covering all regular employees in the ROC. According to this plan, employees are eligible for retirement or are required to retire after meeting certain age or service requirements. The retirement benefits are lump-sum payments and are determined principally by the length of service of the employees. Payments of employee retirement benefits are based on the years of service and the average salary six-months before the employee's retirement. Each employee will earn two months' salary for the first fifteen years of service and one month salary for each service year after the sixteenth year. The maximum is forty-five months of salary.

The Company has made a monthly cash contribution of 5% of salaries and wages to a pension fund maintained with the Central Trust of China. Payment of employee retirement benefits will be paid by the pension fund first and then by the Company, if the fund is insufficient.

The Company adopted ROC SFAS No. 18, "Accounting for Pensions" on December 31, 1995. Net periodic pension costs, including services costs, interest cost, expected return on plan assets, and amortization of net unrecognized transition assets over the average remaining service period of the employees for 20 years, have been actuarially calculated for the Company in accordance with SFAS No. 18.

In 2000, the Company amended their retirement plans to reduce the required service period needed for vesting in plan benefits. The prior service cost related to this change is amortized over 20 years.

(j) Income taxes

Deferred income tax liabilities and assets are calculated by applying the provisions of enacted tax law to determine the amount of tax payable or refundable, currently or in future years. The tax effect of taxable temporary differences are recorded as deferred income tax liabilities. The tax effects of deductible temporary differences, net operating losses and income tax credits are recognized as deferred income tax assets. The realization of deferred income tax assets is evaluated and if it is considered more likely than not that the asset will not be realized, a valuation allowance is recognized accordingly.

Deferred income tax assets or liabilities are classified as current or non-current based on the classification of the asset or liability that resulted in the deferred item, or for certain transactions not directly related to an asset or liability, based on the timing of the expected reversal date.

The 10% surtax on undistributed earnings is recorded as current income tax expense after the resolution to appropriate retained earnings is approved in a stockholders' meeting.

The Company's income tax returns are calculated and filed based on local tax law in the ROC.

(k) Net income per share

Net income per share of common stock is computed based on the weighted-average number of common shares outstanding during the period. The convertible bonds issued by the Company in 2000 are common stock equivalents. As such, assuming the convertible bonds are converted to common stock, simple earnings per share will be disclosed if there is no dilution effect or the dilution effect is less than 3%. If the dilution effect is greater than 3%, both simple earnings per share and basic earnings per share shall be disclosed. Net income per share for prior periods are retroactively adjusted to reflect the effect of stock issued by transferring capital surplus and retained earnings employee stock bonuses.

(l) Convenience translation into US dollars

The non-consolidated financial statements are stated in New Taiwan dollars. Translation of the 2001 New Taiwan dollar amounts into US dollar amounts are included solely for the convenience of the readers, using the noon buying rate provided by the Federal Reserve Bank of New York on March 30, 2001 of NT$32.85 to US$1. The convenience translations should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into US dollars at this rate or any other rate of exchange.

(3) Cash and Cash Equivalents

	March 31,		
	2000	2001	
	NT$	NT$	US$
Cash on hand	873	2,004	61
Checking accounts and demand deposits	526,276	568,580	17,308
Time deposits	6,259,931	6,910,020	210,351
Bonds purchased under resale agreements and commercial papers	358,566	291,706	8,880
	7,145,646	7,772,310	236,600

The Company's interest income is primarily generated from cash and cash equivalents.

(4) Accounts Receivable

	March 31,		
	2000	2001	
	NT$	NT$	US$
Accounts receivable	8,545,431	7,807,131	237,660
Less: allowance for doubtful accounts, sales returns and discounts	(232,179)	(294,474)	(8,964)
	8,313,252	7,512,657	228,696

(5) Inventories

	March 31, 2000 NT$	2001 NT$	2001 US$
Finished goods	1,301,269	1,177,572	35,847
Work in process	1,342,771	557,514	16,972
Raw materials	1,576,424	2,447,733	74,512
Raw materials in transit	203,619	117,813	3,586
	4,424,083	4,300,632	130,917
Less: allowance for inventory obsolescence	(141,111)	(207,547)	(6,318)
	4,282,972	4,093,085	124,599
Insurance amount for inventory	5,187,627	4,920,000	149,772

(6) Long-term Equity Investments and Credit Balance of Long-term Equity Investments

	March 31, 2000 NT$	2001 NT$	2001 US$
Long-term equity investment:			
Under the equity method	8,026,083	17,738,290	539,978
Under the lower-of-cost-or-market value	1,307,684	1,440,789	43,860
Under the cost method	1,378,391	3,450,284	105,031
	10,712,158	22,629,363	688,869
Prepayment of long-term equity investments	3,800,000	3,000	92
Total	14,512,158	22,632,363	688,961
Credit balance of long-term equity investments	12,006	1,894	58

(a) Net investment income (loss) on long-term equity investments accounted for under the equity method for the three-month periods ended March 31, 2000 and 2001 amounted to NT$234,714 and NT$(2,695), respectively. The calculation of these gains and losses were based on the subsidiaries' and investee's unaudited financial statements.

(b) The Company increased its investment in SaveCom InfoCom Inc. by NT$199,940 in December 1999. SaveCom InfoCom Inc. plans to be engaged in Type I telecommunications businesses, which includes local, long distance and international network business (integrated network business). According to "Regulations Governing Fixed Network Telecommunications Business" in the ROC, the applicable minimum paid-in capital to apply for operation of a fixed network telecommunications business is NT$40,000,000, and the applicant shall deposit NT$10,000,000 in a special capital account before submission of the application. In addition to the Company's investment in SaveCom InfoCom Inc.'s common stock, the Company deposited NT$3,800,000, and recorded this amount as a prepayment of long-term equity investments on December 29, 1999. SaveCom InfoCom Inc. did not obtain the establishment approval on March 19, 2000. On April 12, 2000, the prepayment for the long-term equity investment was returned to the Company along with an additional amount of NT$20,100 representing interest income.

(c) Net investment income for the three-month period ended March 31, 2001 amounted to NT$30,652, which primarily include cash dividends of NT$30,868 received from Cal-Comp Electronic (Thailand) Ltd.

(d) As of March 31, 2000 and 2001, the original investment costs of long-term equity investments accounted for under the equity method were as follows:

	March 31,		
	2000	2001	
	NT$	NT$	US$
Panpal Technology Co. ("Panpal")	3,199,940	3,199,940	97,411
Gempal Technology Co. ("Gempal")	899,940	899,940	27,395
Just International Ltd. ("Just")	793,118	793,118	24,144
Compal Communication Inc. ("CCI")	—	1,579,793	48,091
Toppoly Optoelectronics Corp. ("Toppoly")	83,064	6,615,568	201,387
International Semiconductor Technology Ltd. ("IST")	629,600	1,081,391	32,919
Palmax Technology Co., Ltd. ("Palmax")	463,279	1,259,749	38,348
Other	1,095,259	1,152,241	35,076
	7,164,200	16,581,740	504,771

(7) Property, Plant and Equipment and Leased Assets

The Company does not provide property, plant or equipment as collateral for its loans. As of March 31, 2000 and 2001, insurance coverage for property, plant and equipment and operating lease assets amounted to NT$4,674,449 and NT$3,480,160, respectively.

The Company entered into agreements with its subsidiary, CCI, and an unrelated company on June 18 and December 1, 2000 to lease a portion of its office space and parking lots. On January 1, 2001, the Company leased a portion of its plants to CCI. The contract periods extend from one to three years. According to the contracts, the rental should be paid monthly. As of March 31, 2001, the rental receivable for the remaining contract period amounted to NT$44,240. Leased assets consisted of the following as of March 31, 2001:

	March 31, 2001	
	NT$	US$
Land	149,529	4,552
Buildings and other	151,820	4,621
	301,349	9,173
Less: accumulated depreciation	(7,228)	(220)
	294,121	8,953

(8) Short-term Loans and Short-term Notes and Bills Payable

	March 31,		
	2000	2001	
	NT$	NT$	US$
Credit loans	—	400,000	12,177
Usance letters of credit	78,843	—	—
Export promotion loans	1,326,315	—	—
	1,405,158	400,000	12,177
Notes and bills payable (net of discount of NT$499)	—	1,399,501	42,603
Unused short-term credit line	3,978,928	7,914,628	240,932
Range of interest rates	6.90%	4.30%	

As of March 31, 2000 and 2001, all short-term loans and short-term notes and bills payable were unsecured. All import loans under usance letters of credit in 2000 were paid before the bank began to charge interest.

(9) Convertible Bonds Payable

The Company issued overseas unsecured zero coupon convertible bonds with a face value of US$148,000 on October 19, 2000. As of March 31, 2001, the convertible bonds payable consisted of the following:

	NT$	US$
Aggregate principal amount (US$148,000)	4,636,840	141,152
Converted amount (US$100)	(3,133)	(96)
Foreign currency exchange loss	209,870	6,389
Balance as of March 31, 2001	4,843,577	147,445

The significant terms of the convertible bonds are as follows:

(a) Interest rate: 0%;

(b) Duration: five years (October 19, 2000, to October 19, 2005);

(c) Final redemption: unless previously redeemed at the option of the Company or the bondholders, or converted in accordance with the offering of the bonds, the bonds are to be redeemed at the principal amount on October 19, 2005;

(d) Redemption at the option of the Company: the Company may redeem the bonds at a redemption price equal to 100% of the unpaid principal amount under the following circumstances:

1. On or after October 19, 2003: if (i) the closing price (translated into US Dollars at the prevailing rate) of the Company's common shares on the Taiwan Stock Exchange or (ii) the closing price of the Company's GDRs on the Luxembourg Stock Exchange for a period of 30 consecutive trading days before redemption has been at least 130% of the conversion price (translated into U.S. dollars at the fixed rate of NT$31.33) in effect on each such trading day;

2. In the event that at least 95% of the principal amount of the bonds originally outstanding has been redeemed, repurchased, or converted; or

3. In the event of certain changes in ROC taxation the Company has agreed to redeem the bonds if the withholding tax rate exceeds 20%.

(e) Redemption at the option of bondholders: the bondholders have the right to require the Company to repurchase the bonds at a price equal to 100% of the unpaid principal amount under the following circumstances:

1. On October 19th of 2001, 2002, 2003 and 2004;

2. In the event that the Company's shares cease to be listed or admitted to trading on the Taiwan Stock Exchange;

3. In the event of change of control of the Company.

(f) Terms of conversion:

1. Bondholders may opt to have the bonds converted into common stock or GDRs of the Company from November 19, 2000 to September 19, 2005;

2. Conversion price: NT$48.321 per share of common stock; and

3. The conversion price is translated into New Taiwan dollars at the fixed rate of NT$31.33 = US$1.

(10) Pension

	Three-month periods ended March 31		
	2000	2001	
	NT$	NT$	US$
Net pension cost	19,488	26,272	800
Pension fund deposits in the Central Trust of China	318,761	396,127	12,059
Prepaid pension cost (Accrued pension liability)	2,964	(32,562)	(991)
Vested benefits	74,899	82,462	2,510

(11) Stockholders' Equity

(a) Capital Increase

Based on a resolution of the annual stockholders' meeting held on March 30, 2000, the Company increased its authorized common stock to 2 billion shares, declared a 2 New Taiwan dollar cash dividend per share, which amounted to NT$2,353,520, and increased its common stock through the issuance of stock dividends by transferring capital surplus, retained earnings and employee stock bonuses amounting to NT$3,800,100. The registration procedures related to this issuance have been completed.

A portion of the overseas convertible bonds was converted into 192,000 shares of common stock in 2000.

As of March 31, 2000 and 2001, the authorized common stock, at a par value of 10 New Taiwan dollars per share, was NT$20,000,000.

(b) Capital surplus

Pursuant to the ROC Company Law, capital surplus can only be used to offset a deficit or to increase common stock. Cash dividends cannot be declared out of capital surplus. According to the ROC Securities and Futures Commission ("SFC") regulations, capital increases by transferring paid-in capital in excess of par value can occur only once per year commencing in the following year. Such capitalization cannot exceed a certain percentage, or based on the net results of the Company, of paid-in capital related to the excess of the proceeds from common stock issuances over the par value.

(c) Special reserve

According to the Company's articles of incorporation, unrealized foreign currency exchange gains accounted for under SFAS No. 14 must be set aside as a special reserve before appropriation. The special reserve is transferred to retained earnings when the exchange gains or losses are realized.

(d) Legal reserve and limitation on distribution of retained earnings

Based on the Company's articles of incorporation, 10% of annual net income after tax is to be set aside as legal reserve, 2% as remuneration to the directors and supervisors, and 5% as bonus to employees after offsetting prior years' deficits, if any. The remaining balance can be distributed as dividends to stockholders after special reserves are appropriated, if any. The remaining balance will be distributed as cash dividends, which will not be lower than 10% of total cash and stock dividends in the current year for the consideration of capital demands of the Company's future operation and the cash inflow expectation of the Company's stockholders. If the retained earnings and working capital exceeds the operational and cash dividends needs of the Company, the percentage of cash dividends may be increased in the next three years.

Pursuant to the ROC Company Law, the legal reserve must be used exclusively to offset losses and cannot be used for any other purpose, except that one-half of the legal reserve may be capitalized based on a resolution of the stockholders' meeting when it equals at least 50% of paid-in capital.

Since 1999, according to SFC regulations, when there is a deduction item in stockholders' equity incurred in the year, an amount equal to the deduction before appropriation must be included as a special reserve within retained earnings. The special reserve will be available for dividend distribution only after the related stockholders' equity deduction item has been reserved.

(e) As of March 31, 2001, the outstanding overseas convertible bonds are common stock equivalents. Assuming the outstanding convertible bonds are fully converted on January 1, 2001, the weighted-average number of shares of outstanding common stock as of March 31, 2001 will increase 95,894 thousand shares to 1,652,729 thousand shares, and basic net income per share will be NT$0.53.

(12) Income Taxes

(a) The purchase of machinery through proceeds from common stock issuances met the prescribed criteria under the "Statute for Upgrading Industries" in the following years:

Year	Tax exemption products	Tax exemption chosen	Tax exemption period
1995	Notebook PCs, multi-media PCs and 17-inch or above Liquid Crystal Display ("LCD") monitors	Tax exemption on the Company's corporate income taxes for five years	September 1, 1996 — August 31, 2001
1996	Notebook PCs	Tax exemption on the Company's corporate income taxes for five years	January 31, 1998 — January 30, 2003
1997	Notebook PCs	Stockholders' income tax deduction	
1998	Notebook PCs	Tax exemption on the Company's corporate income taxes for five years	October 31, 1999 — October 30, 2004
1999	Notebook PCs, Liquid Crystal Display ("LCD") monitors, Cellphones	Tax exemption on the Company's corporate income taxes for five years	The Company completed its investment plan in the fourth quarter of 2000, and planned to apply for tax exemption period in the second quarter of 2001

The Company's purchase of machinery, through proceeds from common stock issuances in 1999 for the production of notebook PCs, Liquid Crystal Display monitors and cellphones, met the prescribed criteria under the "Statute for Upgrading Industries." According to the tax law, the Company chose to have an income tax exemption for five years on income from such products. The expected tax exemption period is from December 1, 2000 to November 30, 2005. The related income tax expense for three-month period ended March 31, 2001 will be subject to recalculation if the above assumptions are changed.

(b) The operations of the Company are subject to income tax at a rate of 25%. The components of the income tax expense of the Company for the three-month periods ended March 31, 2000 and 2001, consisted of the following:

	Three-month periods ended March 31		
	2000	2001	
	NT$	NT$	US$
Current income tax expense	52,491	47,623	1,449
Deferred income tax expense			
Investment tax credits	(359)	7,228	220
Investment income recognized under the equity method, net	36,688	(1,447)	(44)
Unrealized foreign currency exchange losses, net	(22,330)	(5,395)	(164)
Valuation allowance	12,530	6,032	184
Other deferred tax benefit	(9,297)	(4,199)	(128)
	17,232	2,219	68
Total income tax expense	69,723	49,842	1,517

(c) A reconciliation of the expected income tax expense computed at the Taiwan statutory rate of 25% to the actual income tax expense is summarized as follows:

	Three-month periods ended March 31		
	2000	2001	
	NT$	NT$	US$
Income tax expense computed at the Taiwan Statutory rate of 25%	303,698	229,520	6,987
Estimated tax effect of tax exemption	(222,018)	(143,922)	(4,381)
Investment tax credits	(22,876)	(40,395)	(1,230)
Change in deferred income tax assets valuation allowance	12,530	6,032	184
Investment gains recognized under the equity method (domestic)	(21,990)	(1,393)	(43)
Underaccrued income tax in prior years	20,692	—	—
Other	(313)	—	—
Actual income tax expense	69,723	49,842	1,517

(d) Deferred income tax assets (liabilities) as of March 31, 2000 and 2001, were as follows:

	March 31,		
	2000	2001	
	NT$	NT$	US$
Deferred income tax assets:			
Investment loss recognized under the equity method	95,116	119,279	3,631
Inventory provisions	24,497	31,094	946
Unrealized foreign currency exchange loss	74,886	62,575	1,905
Sales returns and discounts	51,119	66,521	2,025
Accrued warranty cost	53,914	64,847	1,974
Investment tax credits	—	54,165	1,649
Accumulated foreign currency translation adjustment	8,967	—	—
Other	22,301	23,443	714
	330,800	421,924	12,844
Valuation allowance	(179,968)	(231,765)	(7,055)
Net deferred income tax assets	150,832	190,159	5,789
Deferred income tax liabilities:			
Unrealized foreign currency exchange gain	(12,707)	(29,792)	(907)
Investment income recognized under the equity method	(176,502)	(255,720)	(7,785)
Accumulated foreign currency translation adjustment	—	(35,231)	(1,072)
Other	(4,837)	—	—
Net deferred income tax liabilities	(43,214)	(130,584)	(3,975)
Net deferred income tax assets—current	116,086	158,732	4,832
Net deferred income tax liabilities—noncurrent	(159,300)	(289,316)	(8,807)
	(43,214)	(130,584)	(3,975)

(e) The ROC tax authorities have assessed the Company's income tax returns through 1997. The tax authorities have assessed the Company additional income tax expense for 1997 in the amount of NT$51,275, which was mainly due to different interpretations related to tax-exempt income. The Company disagreed with the assessment and filed an appeal related to this issue in February 2000. As to the total amount of the additional assessment, NT$20,692 of the assessed additional income tax expense was recognized in the accompanying non-consolidated statement of income. As of March 31, 2001, the remaining balance of NT$30,583 has not been recognized in the accompanying non-consolidated statements of income as management believes that the Company will successfully appeal this amount with the tax authority.

(f) Imputation credit account and creditable ratio

Beginning in 1998, the corporate income tax paid at the corporate level can be used to offset the resident shareholders' individual income tax. The amount of imputation credit which shareholders can claim depends on total corporate income tax paid at the corporate level. Beginning in 1998, corporations have been required to set up an Imputation Credit Account ("ICA") to keep track of the corporate income taxes paid and the imputation credit they have allocated for shareholders. In addition, the creditable ratio, which represents the imputation credit per dollar of accumulated retained earnings, shall be calculated for resident shareholders when corporations declare dividends.

A calculation of the ICA balance as of March 31, 2000 and 2001 and the creditable ratio for 1999 and 2000 is as follows:

	March 31,		
	2000	2001	
	NT$	NT$	US$
Unappropriated earnings retained prior to January 1, 1998	3,143,041	3,143,041	95,678
Unappropriated earnings retained after January 1, 1998	3,761,503	8,239,728	250,829
Total	6,904,544	11,382,769	346,507
ICA balance	204,008	175,535	5,344

	1999	2000
Creditable ratio for earnings distribution	3.63%	2.38%

(g) As of March 31, 2001, the Company's unused investment tax credits, mainly resulting from purchases of machinery for automation of production, research and development expenses, and personnel training expenditures, were as follows:

Year	Unused tax credits		Year of expiry
	NT$	US$	
2000	13,770	419	2004
2001	40,395	1,230	2005
	54,165	1,649	

ROC income tax regulations stipulate that tax credits can be applied for only up to 50% of the income tax liability. Tax credits should be applied sequentially after first applying the current year's tax credit, and any unused balance can be carried forward for the following four years, subject to the same percentage limitation for each year except for the last year, in which it will expire.

(13) Related Information About Financial Instruments

(a) Derivative financial instruments

1. Forward foreign currency exchange contracts

	March 31, 2000					
Financial instruments	Nominal amount	Transaction period	Maturities	Strike rate	Fair value	Credit risk
	US$				NT$	
USD forward foreign currency exchange contracts	30,000	February 15, 2000 — March 17, 2000	April 14, 2000 — April 17, 2000	30.675 — 30.72	8,598	—

The Company did not hold any derivative financial instruments as of March 31, 2001.

2. Credit risk

The amount of credit risk equals the aggregate amount of contracts with a positive fair value. The amount of the credit risk is a potential loss of the Company if the counterpart involved in that transaction defaults. Since the Company's derivative financial instrument agreements are entered into with financial institutions with good credit ratings, management does not believe that there is significant credit risk from these transactions.

3. Market risk

The purpose of the forward exchange contracts is to hedge the exchange risk of the foreign currency assets. Therefore, the gains or losses resulting from changes in exchange rates will be offset by those from the hedged item. Management believes that the related market risk is not significant.

4. Liquidity risk

The Company will incur cash inflows and outflows within the periods shown below. Management does not believe that there is any financing risks due to expected sufficient US dollars received from accounts receivable. Management believes that the cash flow risk is not significant because contracted foreign currency exchange rates are fixed.

	March 31, 2000		
Financial instruments	**Dates**	**Cash outflow**	**Cash inflow**
		US$	**NT$**
USD forward foreign currency exchange contracts	April 2000	30,000	920,700

5. Categories and objectives of derivatives, and strategies to accomplish the underlying objectives

The forward exchange contracts held by the Company are for the purpose of hedging the risks that may result from changes in currency rates of foreign currency assets and liabilities rather than for the purpose of trading. The hedging strategies of the Company are to hedge the market risk to the highest extent possible. The Company uses derivatives that are highly correlated to the changes in fair values of the hedged items as hedging instruments.

6. Presentation in the non-consolidated financial statements

The receivables and payables derived from forward foreign currency exchange contracts were offset against each other, and the net amount was accounted for as other current assets. As of March 31, 2000, the balance of net forward exchange contracts receivable was NT$6,400. The exchange gains resulting from the forward transactions for the three-month period ended March 31, 2000, were included in non-operating incomes in the accompanying non-consolidated financial statements of income.

7. Fair value of derivative financial instruments

	March 31, 2000	
	Book value	**Estimated fair value**
	NT$	**NT$**
Net forward foreign exchange contracts receivable	6,400	8,598

The fair value of a derivative is the expected receivable or payable amount assuming that the contract is terminated on the balance sheet date. Generally, the unrealized gain or loss on open contracts is included in the fair value. The above fair value estimates were based on quotes from financial institutions.

(b) Non-derivative financial instruments

1. Except for long-term equity investments, as of March 31, 2000 and 2001, the book value of non-derivative financial instruments were similar to their fair market value.

2. As of March 31, 2000 and 2001, the book values of long-term equity investments were NT$14,512,158 and NT$22,632,363, respectively, of which NT$1,307,684 and NT$1,440,789 were invested in publicly listed equity securities, respectively. The remaining balance was invested in companies that are not publicly listed. The fair value of these publicly listed investments were NT$3,859,011 and NT$2,020,196 as of March 31, 2000 and 2001, respectively.

(14) Related-party Transactions

(a) Name of the related parties and relationship

Related Party	Relationship with the Company
Bizcom Electronic, Inc. ("Bizcom")	100% owned subsidiary company
Compal Europe B.V. ("CEBV")	100% owned subsidiary company
Compal International Ltd. ("CPI")	100% owned subsidiary company
Compal Europe (UK) Limited ("CEUK")	100% owned subsidiary company
CCI	Investee company
Sceptre Industries, Inc. ("Sceptre")	Investee company

(b) Summary of significant transactions with related parties

1. Sales

	Three-month period ended March 31,				
	2000		2001		
	Amount NT$	% of net sales	Amount NT$	% of net sales	Amount US$
Sceptre	173,657	1.1	68,055	0.4	2,072
Bizcom	114,791	0.7	103,727	0.6	3,158
Others	25,733	0.2	20,907	0.1	636
	314,181	2.0	192,689	1.1	5,866

Sales prices to related parties were similar to those for third party customers. The collection periods were approximately 30 to 88 days (88 days for the three-month period ended March 31, 2000) for Sceptre, and 75 to 120 days (60 - 120days for the three-month period ended March 31, 2000) for Bizcom.

2. Purchases

	Three-month period ended March 31,				
	2000		2001		
	Amount NT$	% of net purchases	Amount NT$	% of net purchases	Amount US$
CPI	1,925,009	21.2	1,807,581	16.4	55,025
Others	1,676	0.4	—	—	—
	1,926,685	21.6	1,807,581	16.4	55,025

Purchase prices for finished goods from related parties were similar to those from third-party suppliers.

3. Accounts receivable (payable)

The balances resulting from the above sales, purchases and other services transactions as of March 31, 2000 and 2001, were as follows:

	March 31,				
	2000		2001		
	Amount NT$	%	Amount NT$	%	Amount US$
Accounts receivable:					
Sceptre	633,051	7.0	598,453	6.9	18,218
Bizcom	152,178	1.7	293,565	3.4	8,937
CCI	—	—	216,873	2.5	6,602
Other	37,914	0.4	114,691	1.3	3,491
	823,143	9.1	1,223,582	14.1	37,248
Less: allowance for doubtful accounts	(39,885)	(0.5)	(85,058)	(0.9)	(2,589)
	783,258	8.6	1,138,524	13.2	34,659
Accounts payable:					
CPI	1,477,205	17.7	215,600	2.6	6,564
Other	1,051	—	25	—	—
	1,478,256	17.7	215,625	2.6	6,564

4. Rental Income

The Company entered into an agreement with its subsidiary, CCI, to lease a portion of its office space parking lots and plants for one year. According to the contract, the monthly rental is NT$1,745. The related rental income for the three-month period ended March 31, 2001 amounted to NT$5,236.

5. Guarantees

	March 31,	
	2000	2001
	US$	US$
Loan guarantee:		
Sceptre	2,000	2,000
CEBV	2,500	—
CPI	14,000	—
Bizcom	—	2,000
Credit guarantee — CEUK	1,000	1,000

(15) Pledged Assets

There were no pledged assets as of March 31, 2000 and 2001.

(16) Commitments and Contingencies

(a) As of March 31, 2001, the unused balance of the Company's letters of credit for the purchase of materials was approximately NT$67,594.

(b) On October 13, 2000, Samsung Electronics Co., Ltd. ("Samsung") brought a civil lawsuit in the State Court of California against the Company and various other companies related to patent rights infringement and sought damages. Management intends to vigorously defend this case and does not believe that the ultimate disposition of this matter will have a material adverse effect on the Company's financial statements.

(c) See note 14 for guarantees made to related parties.

(17) Subsequent Event

(a) Based on a resolution of the annual stockholders' meeting held on April 3, 2001, the Company declared 0.5 New Taiwan dollar cash dividends per share, and increased its common stock through the issuance of stock dividends by transferring capital surplus and retained earnings, and employee stock bonuses amounting to NT$4,191,152. The application has been filed to the SFC and will be effective on April 16, 2001.

(b) Based on a resolution of annual stockholders' meeting held on April 3, 2001, the Company entered into an contract to merge with Palmax. The major terms of this merger are as follows:

- After this merger, the Company will be the surviving company, and Palmax will be the dissolved company.
- The Company will issue 23,396 thousand shares of its common stock to the stockholders of Palmax, resulting in a stock swap of three shares of Palmax for one share of the Company, after this merger is approved by the authorities.

The application of this merger has been filed to Taiwan Stock Exchange Corporation on April 9, 2001.

(18) Others

(a) As of March 31, 2000, the effective royalty agreements were as follows:

Royalty Owners	Content	Period
Phoenix Technologies, Ltd.	Produce, use, and sell quantitative Memory-Basic Input / Output Systems (BIOS)	Authorized certain quantity; contract shall be renewed after quantity fulfilled
SystemSoft Corporation	Basic input system, keyboard control software and PCMCIA driver program.	April 1998 — March 2003
Qualcomm Incorporated	Acquire related technologies for manufacturing and researching CDMA mobile phones	None
Lucent Technologies Inc.	Use specified GSM/GPRS technologies	July 2000 — June 2003
Openwave System Inc.	Use Cellphone technologies	March 2001 — May 2001 and contract will be renewed

(b) Reclassification

Certain accounts in the financial statements for the first quarter of 2000 have been reclassified to conform with the 2001 presentation. Such reclassification does not have a significant impact on the accompanying non-consolidated financial statements.

TAIWAN, THE REPUBLIC OF CHINA

The information set forth in this section has been extracted from various government and other publicly available publications, which have not been prepared or independently verified by the Company, the Selling Shareholders, the Purchasers, the Depositary or any of their respective affiliates or advisors in connection with the Offering.

General

Taiwan is an island of 36,000 square kilometers located across the Taiwan Strait from the PRC. About one quarter of the island is arable and the remainder is mainly mountainous. Taiwan has a population of approximately 22 million and is one of the most densely populated areas of the world.

Political Status and International Relations

The ROC has a unique international political status. Although the Chinese nation has existed for several thousand years, since 1949, Taiwan and the Chinese mainland have been separately governed. The ROC, which was founded in 1912, governs Taiwan while the People's Republic of China (the "PRC"), which was founded in 1949, has governed the Chinese mainland for the past 51 years. The ROC asserts that the ROC and the PRC are equal political entities while the PRC claims that it is the sole government in China and that Taiwan is part of China. Although relations between the ROC and the PRC have improved in a number of significant respects, the PRC has consistently refused to renounce the possibility that it may at some point use force to gain control over Taiwan. Relations between the ROC and the PRC have been strained as a result of the PRC's military exercises off the coast of Taiwan and certain other matters.

Although the ROC is no longer a member of the United Nations or its affiliated international organizations, it maintains active trade and financial relations with most major economic powers and maintains trade missions in locations around the world. The ROC government is currently seeking admission to the World Trade Organization and re-admission to the United Nations.

The ROC Government is organized into five branches or "Yuans": the Executive Yuan, the Legislative Yuan, the Judicial Yuan, the Examination Yuan and the Control Yuan. The Executive Yuan formulates and implements the national economic policy. There is also a National Assembly, an elected body whose main function is to promulgate and amend the constitution.

The ROC Government is headed by the President, who also serves as the commander-in-chief of the armed forces and is partially entrusted with the exercise of emergency power. In the past, the National Assembly has elected the President and Vice President to six-year terms. However, beginning in 1996 the President and Vice President have been directly elected by the people for four-year terms. The President appoints the Premier with the consent of the majority of the Legislative Yuan (the sitting legislative body) and also appoints the Deputy Premier and cabinet ministers on the recommendation of the Premier. The Premier heads the Executive Yuan (the cabinet). The Legislative Yuan is the ROC's sitting legislative body, and is responsible for the enactment of all national laws. The Judicial Yuan administers the judicial system and vests judicial review powers in the Council of Grand Justices. The Control Yuan audits government accounts and has the power to investigate and impeach government officials. The Examination Yuan is empowered to examine and select government officials and establish pay scales and other terms of employment for the civil service.

Since 1986, the ROC Government has been implementing political liberalization. The ROC Government has made progress in democratizing the political process, resulting in the development of opposition political parties, the beginning of open elections, and tolerance for open public debates. As a result of these changes, the opposition parties, the most powerful of which is the Democratic Progressive Party, have obtained a greater representation in the government. In March 2000, Mr. Chen Shui-bian of the Democratic Progressive Party was elected President of the Republic of China.

Economy

The table below sets forth selected economic data relating to the ROC for the periods indicated.

	Year Ended December 31,					
	1995	1996	1997	1998	1999	2000
	(billions of U.S. Dollars, except where indicated)					
Real gross national product (percentage change)	5.9%	6.3%	4.3%	5.6%	6.9%	5.9%
Consumer price index (percentage change)	3.7%	3.1%	0.9%	1.7%	0.2%	1.3%
Industrial production index(1)	98.0	100.0	107.4	110.3	118.8	127.4
Exports	111.7	116.0	122.1	110.6	121.6	148.4
Imports	103.6	102.4	114.4	104.7	110.7	140.0
Trade balance	8.1	13.6	7.7	5.9	10.9	8.4
Current balance	5.5	10.9	7.1	3.4	8.4	9.3
Foreign exchange reserves	90.3	88.0	83.5	90.3	106.2	106.7
Government surplus (deficit) (billions of NT Dollars)	(313.4)	(395.0)	(319.8)	(302.5)	(557.9)	(459.2)

Notes:

(1) Industrial production index represents an index of the total annual value of ROC industrial production based on a scale with the year 1996 equaling 100.

Sources: Taiwan Statistical Data Book 1996, Council for Economic Planning and Development, ROC; Quarterly National Economic Trends, Taiwan Area, February 1997; Directorate-General of Budget, Accounting and Statistics, Executive Yuan, ROC; Financial Statistics Monthly, Taiwan District, ROC, February 1997; Economic Research Department, the Central Bank of China; and Monthly Statistics of the Republic of China, December 1996, Directorate-General of Budget, Accounting and Statistics, Executive Yuan, ROC 2001.

During the period from 1981 to 1987, Taiwan's economy built up a significant current account surplus, peaking at U.S.$18 billion in 1987. With exchange controls in place, the capital account stayed roughly in balance over the period, allowing Taiwan to accumulate foreign exchange reserves in excess of U.S.$76 billion by the end of that period. During the 1990s, the foreign exchange reserve increased to approximately U.S.$90.5 billion by the end of 1998, making it one of the largest in the world. The increase in capital was one reason for the rapid share price inflation in the 1980s and early 1990s. The CBC acted to reduce the inflationary impact of this rapid acceleration in monetary growth through two measures. First, beginning in 1987, the CBC liberated outflow and restricted inflow of foreign currency and the NT Dollar was allowed to appreciate 50% against the U.S. Dollar by the end of 1989. Second, the CBC has since gradually relaxed monetary control as the demand for funds has risen due to increasing overseas investment, strong government spending on infrastructure and other capital projects and the revival of domestic private investment.

FOREIGN INVESTMENT AND EXCHANGE CONTROLS IN THE ROC

The information presented in this section has been extracted from publicly available documents which have not been prepared or independently verified by the Company, the Selling Shareholders, the Purchasers, the Depositary or any of their respective affiliates or advisors in connection with the Offering.

References to the Securities and Futures Commission (the "ROC SFC") herein include both the ROC SFC and the ROC Securities and Exchange Commission, its predecessor.

General

Historically, foreign investment in the ROC securities markets was restricted. However, commencing in 1983, the ROC Government has from time to time enacted legislation and adopted regulations to permit foreign investment in the security markets of the ROC.

Depositary Receipts

In April 1992, the ROC SFC promulgated regulations permitting ROC companies with securities listed on the Taiwan Stock Exchange, with the prior approval of the ROC SFC, to sponsor the issue and sale to foreign investors of depositary receipts ("DRs") representing deposited shares of ROC companies. In December 1994, the Ministry of Finance promulgated new regulations (the "Regulations") allowing companies whose shares are traded on the OTC market or listed on the Taiwan Stock Exchange, upon approval by the ROC SFC, to sponsor the issue and sale of DRs. The approval by the ROC SFC is granted in respect of a fixed number of DRs which, except in connection with stock dividends, the exercise of pre-emptive rights by existing DR holders in the event of capital increases for cash, or the creation of additional DRs as may be permitted by law, may not be increased without separate ROC SFC approvals.

Under the Regulations, DR holders, excluding PRC persons, will be permitted to withdraw the underlying securities of ROC companies, provided that if the underlying securities are new shares issued by such companies for cash, any such withdrawal can only be made by DR holders commencing three months after the initial issuance of DRs. A holder of such DR may withdraw and hold the shares represented by such DR or may request the depositary bank issuing the DR to cause the underlying securities to be sold in the ROC and to distribute the proceeds of such sale to the DR holder.

Under existing ROC laws and regulations relating to foreign exchange control, a depositary may, without obtaining further approvals from the CBC or any other governmental authority or agency of the ROC, convert NT Dollars to other currencies, including U.S. Dollars, in respect of the proceeds of the sale of shares represented by DRs or received as stock dividends in respect of such shares deposited into the depositary receipt facility and any cash dividends or cash distributions received in respect of such shares. In addition, a depositary, also without any such approvals, may convert inward remittances of payments into NT Dollars for purchases of underlying shares for deposit in the depositary receipt facility against the creation of additional DRs or conversion into NT Dollars of subscription payments in respect of rights offerings. However, a depositary must obtain foreign exchange approval from the CBC on a payment-by-payment basis for conversion from NT Dollars into other currencies in respect of the proceeds from the sale of subscription rights for new shares. It is expected that the CBC will grant such foreign exchange approval as a routine matter. Proceeds from sale of the underlying shares withdrawn from the depositary receipt facility may be used for reinvestment in the Taiwan Stock Exchange or the OTC market, subject to limitations and restrictions applicable to Qualified Foreign Institutional Investors or General Foreign Investors (as defined below).

Overseas Corporate Bonds

Since 1989, the ROC SFC has approved a series of overseas bonds issued by ROC companies listed on the Taiwan Stock Exchange in offerings outside the ROC. The Regulations also permit the companies whose shares are traded on the OTC market to issue and offer overseas corporate bonds. Under current ROC law, such overseas corporate bonds can be converted by bondholders (other than persons of the PRC) into shares of ROC companies or, subject to ROC SFC approval, may be converted into depositary receipts issued by the same ROC company or by the issuing company of the exchange shares, in the case of exchangeable bonds. The Regulations also permit public issuing companies to issue corporate debt in offerings outside the ROC. Proceeds from the sale of the shares converted from overseas convertible bonds may be used for reinvestment in securities listed on the Taiwan Stock Exchange or traded on the OTC market, subject to limitations and restrictions applicable to Qualified Foreign Institutional Investors or General Foreign Investors (as applicable).

Under current ROC law, a non-ROC converting bondholder, when exercising his conversion right to convert bonds into shares, is required to appoint a local agent (with such qualifications as are set by the ROC SFC) to open a securities trading account with a local brokerage firm, as custodian for the securities, or open a central depositary account to pay ROC taxes, make confirmations and settlement, remit funds, exercise shareholders' rights and perform such other matters as may be designated by such converting bondholder on behalf of and as agent for such converting bondholder. In addition, such converting bondholder is required to appoint a tax guarantor for filing tax returns and making tax payments.

Unless otherwise limited by the CBC, an ROC company may, without obtaining further approvals from the CBC or any other government authority of the ROC, convert NT Dollars to other foreign currencies, including U.S. Dollars, for making payments in respect of redemption of the bonds or repayment of principal of and interest on the bonds. A non-ROC converting bondholder may, through its local agent and without obtaining prior approval from the CBC, convert into foreign currencies net proceeds realized from the sale of converted entitlement certificates, shares or any stock dividends relating to such shares, or any cash dividend or other cash distribution in respect of such shares, as well as inward remittance of subscription payments in respect of rights offerings and tax payments.

Qualified Foreign Institutional Investors

On December 28, 1990 the Executive Yuan approved guidelines drafted by the ROC SFC which allowed direct investment in ROC securities listed on the Taiwan Stock Exchange or other securities approved by the ROC SFC by certain eligible foreign institutional investors. Under current guidelines, eligible foreign institutional investors include:

(i) banks which rank among the top 1,000 banks in the non-Communist world having experience in international financial, securities or trust business;

(ii) insurance companies which have existed for more than three years and hold securities assets of at least U.S.$300 million;

(iii) fund management institutions which have existed for more than three years and manage securities assets of at least U.S.$200 million;

(iv) offshore fund management institutions which are more than 50% owned by an ROC securities investment trust enterprise, provided that the funds to be used for investment in ROC securities do not come from (1) the ROC, (2) funds owned by such offshore fund management institutions or (3) the PRC;

(v) general securities firms which have a net worth of at least U.S.$100 million and experience in international securities investments;

(vi) offshore subsidiary securities firms which are more than 50% owned by an ROC securities firm or other offshore securities firms which are wholly owned by such offshore subsidiary securities firms;

(vii) offshore subsidiary securities firms which are 100% owned by an ROC securities firm or other offshore securities firms which are more than 51% owned by such offshore subsidiary securities firms;

(viii) foreign government-owned investment institutions;

(ix) pension funds which have been set up for two years;

(x) mutual funds, unit trusts or investment trusts which have been established for three years and have assets of at least U.S.$200 million; and

(xi) other institutional investors approved by the ROC SFC.

Eligible foreign institutional investors who wish to qualify as Qualified Foreign Institutional Investors must be approved initially by the CBC in order to apply for and receive an investment permit from the ROC SFC. Such application with the ROC SFC requires the submission of, among other documents, proof of eligibility, proof of appointment of a local agent and custodian, credentials thereof and a copy of the custodial contract. Foreign institutional investors who receive a permit (each a "Qualified Foreign Institutional Investor") may currently invest up to U.S.$2 billion, and are required to remit the full amount into the ROC within two years after receiving such investment permit. Custodians for Qualified Foreign Institutional Investors are also required to submit to the CBC and the ROC SFC a monthly report of trading activities and status of assets under custody and other matters. Capital remitted to the ROC under these guidelines may be remitted out of the ROC at any time after the date such capital is remitted to the ROC. Capital gains and income on investments may be remitted out of the ROC at any time.

Other Foreign Investment

In addition to Qualified Foreign Institutional Investors, certain individual and institutional foreign investors which meet certain qualifications set by the ROC SFC ("General Foreign Investors") may invest in the shares of Taiwan Stock Exchange listed companies or companies whose shares are traded on the OTC market up to a limit of U.S.$50 million (in the case of institutional investors) and U.S.$5 million (in the case of individual investors) after obtaining permission from the Taiwan Stock Exchange.

Foreign Investors (other than Qualified Foreign Institutional Investors, General Foreign Investors, investors in overseas convertible bonds and GDRs) who wish to make direct investments in the shares of ROC companies are required to submit a Foreign Investment Approval ("FIA") application to the Investment Commission of the MOEA or other government authority. The Investment Commission or such other government authority reviews each FIA application and approves or disapproves each application after consultation with other governmental agencies (such as the CBC and the ROC SFC).

Under current law, any non-ROC person possessing an FIA may repatriate (i) annual net profits, interest and cash dividends attributable to the approved investment and (ii) capital and capital gains attributable to such investment.

In addition to the general restriction against direct investment by non-ROC persons in securities of ROC companies, non-ROC persons (except for certain cases) are currently prohibited from investing in certain industries in the ROC pursuant to a Negative List, as amended by the Executive Yuan. The prohibition on foreign investment in the prohibited industries specified in the Negative List is absolute in the absence of specific exemption from the application of the Negative List. Pursuant to the Negative List, certain other industries are restricted so that non-ROC persons (except for certain cases) may invest in such industries only up to a specified level and with the specific approval of the relevant competent authority which is responsible for enforcing the relevant legislation which the Negative List is intended to implement.

Exchange Controls

The ROC's Foreign Exchange Control Statute and regulations thereunder provide that all foreign exchange transactions must be executed by banks designated to handle such business by the Ministry of Finance and by the CBC. Current regulations favor trade-related foreign exchange transactions and FIA investments. Consequently, foreign currency earned from exports of merchandise and services may now be retained and used freely by exporters, and all foreign currency needed for the importation of merchandise and services may be purchased freely from the designated foreign exchange banks.

Trade aside, ROC companies and resident individuals may, without foreign exchange approval, remit outside the ROC foreign currency of up to U.S.$50 million (or its equivalent) and U.S.$5 million (or its equivalent) respectively in each calendar year. In addition, ROC companies and resident individuals may, without foreign exchange approval, remit into the ROC foreign currency of up to U.S.$50 million (or its equivalent) and U.S.$5 million (or its equivalent) respectively in each calendar year. The above limits apply to remittances involving a conversion of NT Dollars to a foreign currency and vice versa. A requirement is also imposed on all enterprises to register medium- and long-term foreign debt with the CBC.

In addition, foreign persons, may, subject to certain requirements, but without foreign exchange approval of the CBC, remit outside and into the ROC foreign currencies of up to U.S.$100,000 (or its equivalent) for each remittance. The above limit applies to remittances involving a conversion of NT Dollars to a foreign currency and vice versa.

APPENDIX C

THE SECURITIES MARKET OF THE ROC

The information presented in this section has been extracted from publicly available documents which have not been prepared or independently verified by the Company, the Selling Shareholders, the Purchasers, the Depositary or any of their respective affiliates or advisors in connection with the Offering.

References to the Securities and Futures Commission (the "ROC SFC") herein include both the ROC SFC and the ROC Securities and Exchange Commission, its predecessor.

In September 1960, the ROC Government established the Securities and Exchange Commission (the "ROC SEC") to supervise and control all aspects of the domestic securities market, and the ROC securities market began to take shape soon thereafter. In the 1970s and the early 1980s, the ROC government implemented a number of steps designed to upgrade the quality and importance of the ROC securities market, such as encouraging listings on the Taiwan Stock Exchange and establishing an over-the-counter market. In the mid-1980s, the government began to revise its laws and regulations in a manner designed to facilitate the gradual internationalization of the ROC securities market. In 1997, the ROC Securities and Exchange Commission was renamed ROC SFC.

The Taiwan Stock Exchange

In 1961, the ROC SEC, working together with private interests, established the Taiwan Stock Exchange to provide a marketplace for securities trading. The Taiwan Stock Exchange is a corporation owned by government-controlled and private banks and enterprises. The Taiwan Stock Exchange is independent of entities transacting business through it, each of which pays a user's fee. Subject to limited exceptions, all transactions in listed securities by brokers, traders and integrated securities firms (firms which are permitted to combine the activities of brokerage, dealing and underwriting) must be made through the Taiwan Stock Exchange.

The Taiwan Stock Exchange commenced operations in 1962 and during the remainder of the 1960s grew at a slow pace, largely due to lack of experience among issuers and investors and an unwillingness on the part of ROC businesses to offer their shares to the public. During the early 1980s, the ROC SFC more actively encouraged new listings on the Taiwan Stock Exchange, and the number of listed companies grew from 119 in 1983 to 624 as of May 15, 2001. As of May 15, 2001, the total market value of shares listed on the Taiwan Stock Exchange was approximately NT$8,942 billion.

The Taiwan Stock Exchange has established specific requirements for listing based on the number and distribution of stockholders, the amount of capital, profitability and capital structure.

For a company to be listed, subject to certain exceptions, it must have been established for at least five fiscal years, have paid-in capital of at least NT$600 at the time it applies for listing and have at least 1,000 registered stockholders, including not fewer than 500 stockholders each holding between 1,000 and 50,000 shares. Such 500 stockholders must together hold either at least 20% of the outstanding shares or at least 10 million shares. The company may not have accumulated deficit for the previous fiscal year and pre-tax net profit and operating profit of the company must meet any of the following requirements: (i) having exceeded 6% of paid-in capital for each of the previous two fiscal years, or having exceeded 6% in average of the paid-in capital for the previous two fiscal years with the profitability of the most recent fiscal year being superior than that of the preceding fiscal year, or (ii) having been no less than 3% of the paid-in capital for the previous five fiscal years. However, certain special listing criteria apply to high-tech companies and key business engaging in national economic development.

The Over-the-Counter Market

To complement the Taiwan Stock Exchange, an over-the-counter ("OTC") market was established in September 1982 on the initiative of the ROC SFC. In early 1988, the ROC SFC promulgated regulations designed to encourage trading of unlisted securities of companies whose securities do not qualify for listing on the Taiwan Stock Exchange. The OTC market is currently limited to unlisted equity securities, bank and corporate bonds and debentures and government bonds. As of May 15, 2001, 356 public issuing companies had offered their equity securities to be traded on the OTC market. The value of all bonds outstanding in the OTC market grew from approximately NT$76 billion at the end of 1983 to NT$2,210.58 billion on May 15, 2001.

Taiwan Stock Exchange Index

The Taiwan Stock Exchange Index is comparable to the Standard and Poor's Index in the United States and the Nikkei Stock Average in Japan, insofar as it is calculated on the basis of a wide selection of listed shares weighted according to the number of shares outstanding. It is compiled using the "Paasche Formula" by dividing the market value by the base day's total market value for the index shares. The Taiwan Stock Exchange Index is the oldest and most widely quoted market index in the ROC.

The weighing of stocks in the index is fixed as long as the number of shares outstanding remains constant. When the total number of shares outstanding changes, the weight of each stock is adjusted. Stock splits and stock dividends are adjusted automatically. Cash dividends are not included in the calculation.

The following table sets forth, for the periods indicated, certain information relating to the Taiwan Stock Exchange Index.

Period	No. of Listed Companies at Period End	Trading Value	Index High	Index Low	Index at Period End
		(in billions)			
1990	199	NT$19,031	12,495	2,560	4,530
1991	221	9,683	6,305	3,316	4,601
1992	256	5,917	5,392	3,328	3,377
1993	285	9,057	6,071	3,136	6,071
1994	313	18,812	7,184	5,195	7,125
1995	347	10,152	7,051	4,503	5,174
1996	382	12,908	6,983	4,690	6,934
1997	404	37,241	10,117	6,820	8,187
1998	437	29,619	9,277	6,251	6,418
1999	462	29,292	8,609	5,475	8,449
2000	531	30,527	10,202	4,614	4,739
2001 (through May 15)	624	8,786	6,104	4,894	5,158

Source: Status of Securities Listed on Taiwan Stock Exchange up to May 15, 2001. Taiwan Stock Exchange.

As indicated above, the performance of the Taiwan Stock Exchange has in recent years been characterized by extreme price volatility. On May 15, 2001, the Taiwan Stock Exchange Index closed at 5,158.79.

Price Limits, Commissions, Transaction Tax and Other Matters

Fluctuations in the price of securities traded on the Taiwan Stock Exchange are subject to a restriction of 7% above and below the previous day's closing price (or reference price set by the

Taiwan Stock Exchange if the previous day's closing price is not available because of lack of trading activity) in the case of equity securities and 5% in the case of debt securities. However, these restrictions have been modified from time to time by the Ministry of Finance based on market conditions. The ROC SFC has announced that limitations on price fluctuations will be relaxed with a view to eventually abolishing all share price fluctuations controls. Brokerage commissions are set by the Taiwan Stock Exchange. Effective from July 1, 2000, the ceiling for commission rate brokers is 0.1425% of the transaction price. Brokers may determine the commission rate within this ceiling, provided that they report the rates to the ROC SFC. A securities transaction tax, currently levied at the rate of 0.3% of the transaction price, is payable by the seller of equity securities and at the rate of 0.1% of the transaction price, is payable by the seller of debt securities other than government bonds. Such securities transaction taxes are withheld at the time of the transaction giving rise to such taxes. Sales of shares of companies listed on the Taiwan Stock Exchange are currently sold in "round lots" of 1,000 shares. Investors who desire to sell less than 1,000 shares of a listed company occasionally experience delays in effecting such sales. Transactions that include 500 trading lots (500,000 shares) or more must be registered and executed pursuant to certain Taiwan Stock Exchange guidelines.

Regulation and Supervision

The ROC SFC has been under the jurisdiction of the Ministry of Finance since 1981. The ROC SFC has extensive regulatory authority over companies listed on the Taiwan Stock Exchange and unlisted public issuing companies generally, including ROC companies whose capital exceeds the currently specified minimum amount of NT$500 million. Such companies are generally required to obtain approval from, or registration with, the ROC SFC for all securities offerings. The ROC SFC has promulgated regulations requiring, unless otherwise exempted, periodic reporting of financial and operating information by all public companies. In addition, the ROC SFC is responsible for the establishment of standards for financial reporting and carries out licensing and supervision with respect to the other participants in the ROC securities market.

The ROC SFC has responsibility for implementation of the Securities and Exchange Law and for overall administration of governmental policies in the ROC securities market.

The Securities and Exchange Law prohibits market manipulation. It also permits an issuer to recover certain short-term trading profits made through purchases and sales within 6 months by directors, managerial personnel, supervisors and 10% or above stockholders of the issuer. The Securities and Exchange Law prohibits trading by "insiders" based on non-public information that materially affects share price movement. Pursuant to the Securities and Exchange Law, the term "insiders" includes directors, supervisors, managers and 10% stockholders of the issuing company and their spouses, minor children and nominees, any person who has learned such information due to an occupational or controlling relationship with the issuing company and any person who has learned such information from any of the foregoing. Sanctions include prison terms. In addition, damages may be awarded to persons injured by the transaction. Notwithstanding these regulatory requirements, there have been recurring press reports on insider trading and manipulation of stock prices in the ROC.

The Securities and Exchange Law also imposes criminal liability on certified public accountants and lawyers who make false certifications in their examination and audit of an issuer's contracts, reports and other evidentiary documents that are related to securities transactions. ROC SFC regulations require that financial reports of listed companies be audited by accounting firms consisting of at least three certified public accountants and be signed by at least two certified public accountants.

The Securities and Exchange Law was amended in January 1988 to provide for, among other things, new regulations relating to public offerings of securities; measures to strengthen the capital structure of issuers; civil liability for material misstatements or omissions made by issuers; more stringent regulation of the securities activities of officers, directors and major stockholders of issuers; regulations regarding tender offers; and a significant expansion of the prohibitions against insider trading, including the imposition of treble civil damages and criminal sanctions.

The Securities and Exchange Law was further amended on July 19, 2000 to provide for, among other matters, the treasury stock system and criminal liabilities on certain personnel of a company for direct or indirect trading of the company's securities against the company's interest.

The ROC SFC does not have criminal or civil enforcement powers under the Securities and Exchange Law. Criminal actions may be pursued only by the district prosecutors located in the district where the defendant is domiciled or where the violation occurred. Under ROC law, civil actions may only be brought by plaintiffs who assert that they have suffered damage. The ROC SFC is directly empowered to curb abuses and violations of applicable laws and regulations only through administrative measures such as issuance of warnings, imposition of administrative fines and revocation of licenses.

In addition to providing a market for securities trading, the Taiwan Stock Exchange has primary responsibility for reviewing applications by ROC issuers to list on the Taiwan Stock Exchange. However, the ROC SFC also reviews all securities offerings by listed companies. If issuers of listed securities violate relevant laws and regulations or encounter significant difficulties, the Taiwan Stock Exchange may, with the approval of the ROC SFC, delist securities of such issuers.

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