COMPAL ELECTRONICS, INC.

(incorporated in Taiwan, Republic of China)

8,000,000 Global Depositary Receipts
each representing five shares of common stock
Offer Price: U.S.$15.27

Kinpo Electronics, Inc. ("Kinpo") is offering 40,000,000 shares (the "Deposited Shares") of common stock of par value NT$10 each (the "Shares") in Compal Electronics, Inc. (the "Company" or "Compal") through Nomura International (Hong Kong) Limited ("Nomura"). The Deposited Shares offered pursuant to this offering (the "Offer") will be evidenced by 8,000,000 global depositary receipts (the "GDRs") to be delivered by the Bank of New York as depositary (the "Depositary"), pursuant to a deposit agreement to be dated 9 November 1999 (the "Deposit Agreement"). Each GDR will represent five Deposited Shares. Payment for the GDRs will be in U.S. dollars at a price of U.S.$15.27 each.

Application has been made to list the GDRs on the Société de la Bourse de Luxembourg S.A. (the "Luxembourg Stock Exchange"). The Shares are currently listed on the Taiwan Stock Exchange (the "TSE").

The GDRs will be issued in global form and evidenced by a Master GDR (the "Master GDR") registered in the name of a nominee for Cedelbank and Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear system ("Euroclear"). Interests in the GDRs represented by the Master GDR will be shown on, and transfers thereof will be effected only through, records maintained by Cedelbank and Euroclear.

A holder of GDRs may request the Depositary to withdraw from the depositary receipt facility the Deposited Shares represented thereby at any time after the issue of the relevant GDRs and transfer such Deposited Shares to the holder, or to sell or cause to be sold on behalf of such holder the Deposited Shares represented by such GDRs.

See "Investment Considerations" for a discussion of certain factors to be considered in connection with an investment in the GDRs.

Exclusive Placing Agent

Nomura International (Hong Kong) Limited

9 November 1999

Each of the Company and Kinpo, having made all reasonable enquiries, confirms that this document contains all information with respect to the Company, the Company and its subsidiaries (the "Group") and associated companies taken as a whole, Kinpo, the GDRs and the Shares which is material in the context of the issue and offering of the GDRs, the statements contained in it relating to the Company, the Group and associated companies taken as a whole and Kinpo are in every material particular true and accurate and not misleading, the opinions and intentions expressed in this document with regard to the Company, the Group and associated companies taken as a whole and Kinpo are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, there are no other facts in relation to the Company, the Group and associated companies taken as a whole, Kinpo, the GDRs or the Shares the omission of which would, in the context of the issue and offering of the GDRs, make any statement in this Offering Circular misleading in any material respect and all reasonable enquiries have been made by the Company and Kinpo to ascertain such facts and to verify the accuracy of all such information and statements. Each of the Company and Kinpo accepts responsibility accordingly.

No dealer, salesman or other person has been authorised by the Company, Kinpo or Nomura to issue any advertisement or to give any information or make any representation in connection with the Offer other than those contained in this Offering Circular and, if issued, given or made, such advertisement, information or representation must not be relied upon as having been authorised by the Company, Kinpo or Nomura. The delivery of this Offering Circular at any time does not imply that the information contained in it is correct as at any time subsequent to its date.

Nomura makes no representations or warranties as to the accuracy or completeness of the information contained herein.

This Offering Circular does not constitute an offer or invitation by anyone in any country or jurisdiction in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such offer or invitation. Intending purchasers should inform themselves as to any taxation or exchange control legislation affecting them personally.

The GDRs and the Shares represented thereby have not been and will not be registered under the U.S. Securities Act of 1933 (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S).

The GDRs may not be offered, sold or delivered, directly or indirectly, in the Republic of China (the "ROC").

In this Offering Circular, any discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

The Company has prepared the audited non-consolidated financial statements as of and for the years ended 31 December 1996, 1997 and 1998 and the audited non-consolidated financial statements as of and for the six month periods ended 30 June 1998 and 1999 contained herein.

In this Offering Circular, references to the "PRC" are to the People's Republic of China, being mainland China and do not include Hong Kong, Macau or the ROC. References to the "ROC" and "Taiwan" are to the Republic of China, being the island of Taiwan and the surrounding areas under the effective control of the ROC.

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Unless otherwise specified or the context requires, references to "U.S. dollars" and "U.S.$" are to the lawful currency of the United States of America, references to "New Taiwan dollars", "NT dollars", "NT$" and "$" are to the lawful currency of the ROC, references to "Yen" and "Japanese Yen" are to the lawful currency of Japan and references to "Hong Kong dollars" and "HK$" are to the lawful currency of Hong Kong. Unless otherwise specified, where financial information in relation to the Company has been translated into U.S. dollars, it has been so translated, for convenience only, at the rate of NT$ 32.21 = U.S.$1.00, the average of the buying and selling rate provided by Bank of Taiwan on 31 December 1998 or NT$ 32.28 = U.S.$1.00, the average of the buying and selling rate provided by Bank of Taiwan on 30 June 1999, if the financial information relates to the Company's 30 June 1999 accounts. Such translation should not be construed as a representation that the amounts in question have been, could have been or could be converted into U.S. dollars at that or any other rate. The approximate middle market spot rate between the NT dollar and the U.S. dollar on 8 November 1999 was NT$ 31.76 = U.S.$1.00.

SUMMARY

The following summary is qualified in its entirety by the more detailed information and financial statements contained elsewhere in this Offering Circular.

THE COMPANY

Compal is a leading manufacturer of notebook personal computer systems ("notebook PCs"), cathode ray tube ("CRT") monitors and liquid crystal display ("LCD") monitors in the ROC. Compal also manufactures peripherals, accessories and spare parts primarily for notebook PCs. The Company believes that in Taiwan, in terms of sales, it is one of the three largest producers of notebook PCs, one of the ten largest producers of CRT monitors and one of the five largest producers of LCD monitors.

Compal's operations are organised into four major business lines — (i) notebook PCs, (ii) CRT monitors, (iii) LCD monitors and (iv) peripherals, accessories and spare parts. The Company sells its products mainly to original design manufacturing ("ODM") and original equipment manufacturing ("OEM") customers in the United States of America, Europe and Asia. The Company's major ODM and OEM customers include group companies of Dell, Hewlett Packard, Compaq, Fujitsu and NEC.

The Company also sells a small portion of its CRT monitors under its own brand names, "Visa" and "Sceptre", through its subsidiaries and affiliates in Europe and in the United States.

For the year ended 31 December 1998, net sales of notebook PCs, CRT monitors, LCD monitors and peripherals, accessories and spare parts amounted to approximately NT$22,806 million, NT$4,484 million, NT$186 million and NT$9,502 million, respectively, and accounted for 61.67 per cent., 12.13 per cent., 0.50 per cent. and 25.70 per cent. of net operating revenues of the Company, respectively. For the six months ended 30 June 1999, sales of notebook PCs, CRT monitors, LCD monitors and peripherals, accessories and spare parts amounted to approximately NT$11,317 million, NT$2,685 million, NT$721 million and NT$5,420 million, respectively, and accounted for 56.18 per cent., 13.33 per cent., 3.58 per cent. and 26.9 per cent. of net operating revenues of the Company respectively.

Compal currently has two production plants in the ROC and one operational production plant in the People's Republic of China (the "PRC"), with a second scheduled to commence mass production in the first quarter of 2000, and a third under construction. The two ROC production plants are located in Pincheng, Taoyuan County, Taiwan. They together occupy a gross floor area of 52,979 sq. m. and have the capacity to produce a total of approximately 300,000 notebook PCs and 20,000 LCD monitors (in addition to peripherals, accessories and spare parts) per month. The plants in the PRC are located in Kunshan, Jiangsu Province, PRC. All of the Company's CRT monitors are at present manufactured in one of the plants in the PRC, which has a total capacity to produce 300,000 CRT monitors per month. Construction of the second plant was completed in May 1999 and the plant is expected to commence mass production in the first quarter of 2000. Both plants together occupy a gross floor area of 40,000 sq. m. Construction of a third plant is under way on the same site. CRT monitors will be manufactured at all three plants.

The registered office of the Company is 7th Floor, Pateh Road, Section 4, Taipei, Taiwan, ROC.

The Shares of the Company were listed on the TSE in February 1992.

THE GDRs

Issue, Depositary and Custodian

Kinpo is offering 8,000,000 GDRs to non-U.S. persons outside the ROC and the United States in reliance on Regulation S under the Securities Act. The Deposited Shares represent approximately 3.40 per cent. of Compal's issued share capital — see "Placing". GDRs will be issued by the Depositary pursuant to the Deposit Agreement. Each GDR will evidence five Shares deposited with The International Commercial Bank of China (the "Custodian") in the ROC.

Kinpo

As at 3 September 1999, the latest date at which such determination can be made by the Company, Kinpo held a total of 110,975,602 (9.44 per cent.) issued Shares of the Company. Kinpo is depositing 40,000,000 Shares from its holding pursuant to the Deposit Agreement. Following the Offer, Kinpo will have an interest of 6.04 per cent. in the share capital of the Company.

Trading and Settlement

The GDRs will be issued in global form and evidenced by a Master GDR registered in the name of a nominee for Euroclear and Cedelbank. Interests in the GDRs represented by the Master GDR will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Cedelbank.

The Master GDR will bear a Securities Act legend and neither it, nor any interest therein, may be transferred except in compliance with the transfer restrictions set forth in such legend. See "Placing".

Sale and Withdrawal of Deposited Property

At any time after the issue of the GDRs, a GDR holder may request that the Deposited Shares evidenced by any GDR be transferred to such GDR holder or be sold or caused to be sold by the Depositary on such GDR holder's behalf upon production of such evidence of entitlement as the Depositary may reasonably require together with a duly executed order and payment of all necessary fees, taxes and expenses provided that the Company has delivered to the Custodian physical share certificates or in scripless form in respect of the Deposited Shares to be sold in the case of a request for sale of Deposited Shares.

Issue of Additional GDRs

Under current ROC law, except for additional GDRs to be issued in connection with (i) dividends in or on, or free distributions of, Shares or (ii) the exercise by existing GDR holders of their pre-emptive rights in the event of capital increases for cash or (iii) (as permitted under the Deposit Agreement) the purchase, whether through the Depositary or otherwise, of Shares on the TSE for deposit in the GDR facility, provided that the total number of GDRs outstanding after an issuance described in (iii) above may not exceed the number of issued GDRs previously approved by the Securities and Futures Commission (the "SFC") in connection with the Offer (plus any GDRs created pursuant to (i) and (ii) above), and subject to any adjustment in the number of Deposited Shares represented by each GDR, no additional GDRs may be issued by the Depositary after the closing of the Offer without specific ROC regulatory approval. Issues of additional GDRs under (iii) above will be permitted only to the extent that previously issued GDRs have been cancelled and, for so long as may be required by applicable law, the Deposited Shares represented thereby have been sold on the TSE. The Company may impose restrictions regarding further deposit of Shares from time to time. See "Terms and Conditions of GDRs — Sale and Withdrawal of Deposited Property and Further Issues of GDRs".

Voting

Voting rights with respect to the Deposited Shares may be exercised only in the manner described in "Terms and Conditions of the GDRs— Voting of Shares". Individual GDR holders will not have individual voting rights in respect of Deposited Shares.

Under the Articles of Incorporation of the Company, a holder of Shares has one vote for each Share, except that the votes of Shares by any holder of more than three per cent. of the total outstanding issued Shares will be discounted by a factor of one per cent. for that portion of the holding in excess of three per cent. This provision is applicable to the Depositary or its nominee, as representative of the holder of record of the Shares represented by the GDRs.

Offer Price

The offer price for the GDRs is U.S.$15.27 per GDR.

Dividends

Except as otherwise described, GDR holders will be entitled to receive dividends to the same extent as the holders of Shares subject to the terms of the Deposit Agreement and applicable laws of the ROC.

ROC TAXATION OF NON-RESIDENTS

Dividends (whether in cash or common stock) declared by the Company out of retained earnings and paid out to foreign holders of Shares are normally subject to ROC income tax collected by way of withholding at the time of distribution. The current rate of withholding is 20 per cent. for a Non-ROC Holder (as defined in the section headed "ROC Taxation of Non-Residents") on the amount of the distribution (in the case of cash dividends) or on the par value of the common stock (in the case of stock dividends). Withholding of income tax on stock dividends declared by the Company out of capital reserves is not required.

Under current ROC law, capital gains on sales of GDRs by Non-ROC Holders are not subject to ROC tax, and capital gains on sales of the Deposited Shares are also exempted from ROC tax. On 4 January 1996, the ROC Legislative Yuan passed a bill for the amendment of the ROC Income Tax Law that would have eliminated the exemption from ROC income tax for gains realised on the sale of ROC securities and imposed a capital gains tax. On 12 January 1996, this amendment was repealed by the Legislative Yuan. The reintroduction of a capital gains tax would require the Legislative Yuan to engage in the full legislative process for the enactment of tax legislation. See "ROC Taxation of Non-Residents".

FOREIGN EXCHANGE CONTROL

Under existing ROC law, 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 realised from the sale of any or all of the Deposited Shares represented by the GDRs, or (ii) any cash dividends or cash distribution relating to the Deposited Shares, or the sale of shares issued as a stock dividend deposited into the depositary receipt facility. In addition, 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 subscription rights for new Shares or for conversion into NT dollars of subscription payments in respect of rights offerings. Proceeds from the sale of any Deposited Shares withdrawn from the depositary receipt facility and stock dividends on such Deposited Shares may be remitted overseas by the GDR holders without CBC approval. See "Foreign Investment and Exchange Controls in the ROC".

MARKET FOR SHARES AND GDRS

The only trading market for the Shares is the TSE. Prior to the Offer, there has been no trading market for the GDRs. Application has been made to list the GDRs on the Luxembourg Stock Exchange.

SUMMARY FINANCIAL DATA

The financial information set forth below has been derived from the Company's audited financial statements for the years indicated. The financial statements of the Company are prepared in accordance with accounting principles and reporting practices in the ROC.

	For the year ended, and as at, 31 December			For the six months ended, and as at, 30 June	
	1996	1997	1998	1998	1999
	(in millions NT$, except per share data)				
Statement of Operations					
Operating revenue	19,293	25,980	36,978	17,027	20,143
Cost of sales	17,277	22,499	31,338	14,414	17,032
Gross profit..	2,016	3,482	5,640	2,613	3,111
Operating expenses	755	1,381	1,307	635	704
Operating income	1,248	2,098	4,330	1,971	2,421
Non-operating income	156	1,812	1,229	801	515
Non-operating expenses and losses	150	330	455	120	9
Net income before income tax	1,254	3,580	5,104	2,653	2,927
Net income	1,159	3,398	4,871	2,600	2,788
Earnings per share	$3.86	6.70	5.82	3.12	2.38
Balance Sheet					
Current assets	11,118	17,887	19,483	17,523	20,750
Total assets	13,547	24,246	29,690	26,829	32,274
Current liabilities	3,279	5,031	5,712	5,076	6,251
Long-term liabilities	2,634	690	245	639	107
Total liabilities	5,985	5,877	6,010	5,748	6,430
Total stockholders' equity	7,562	18,369	23,680	21,081	25,844

USE OF PROCEEDS

The aggregate proceeds, net of fees and commissions of Nomura, to be received by Kinpo from the issue of the GDRs (approximately U.S.$120 million) will be used for capital investment in Thailand, for the purchase of raw materials and for general working capital purposes of Kinpo.

Compal will not receive any of the proceeds of issue of the GDRs.

EXCHANGE RATE INFORMATION

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 Shares on the TSE and, as a result, will be likely to affect the market price of the GDRs. 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 Shares represented by GDRs. The exchange rate between the NT dollar and the U.S. dollar is not administratively fixed.

The following table sets forth the period-end Noon Buying Rate in New York between the NT dollar and the U.S. dollar as at 31 December for the years 1990 to 1998 and as at the last date of each month from January to October 1999 and as at 8 November 1999:—

	NT$ per U.S.$
1990	27.13
1991	25.74
1992	25.40
1993	26.62
1994	26.29
1995	27.29
1996	27.52
1997	32.80
1998	32.27
1999 (January)	32.34
(February)	33.13
(March)	33.17
(April)	32.75
(May)	32.80
(June)	32.31
(July)	32.24
(August)	31.90
(September)	31.85
(October)	31.82
(as at 8 November)	31.83

Source: Federal Reserve Statistical Release H.10 (512), 1990-1999, Board of Governors of the Federal Reserve System.

Any potential investor and buyer of the GDRs should pay particular attention to the fact that the Company is governed in the ROC by a legal and regulatory environment which in some respects may be different from that which prevails in other countries. Prior to making an investment decision, prospective investors should carefully consider, along with the other matters set out in this Offering Circular, the following investment considerations.

CONSIDERATIONS RELATING TO THE COMPANY AND ITS BUSINESS

Reliance On Certain Sources Of Key Components

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

The key components for notebook PCs are LCD panels, CD-ROM and/or DVD drives, batteries and memory chips. CRT tubes and LCD panels are the main components of CRT monitors and LCD monitors respectively. There has been a shortage in the supply of LCD panels since the beginning of 1999. Although the Company believes it has maintained good relationships with its LCD panel suppliers and is confident that its present supplies of LCD panels are sufficient to meet its production and assembly demands, there can be no assurance that shortages in these or other key components will not recur or occur in the future or that any such shortages will not have a negative impact on the operations of the Company.

Competition

The markets for the Company's major products are highly competitive and the Company has experienced considerable pressure on its prices and margins. The Company's main competitors in the production of notebook PCs include Quanta Computer Inc. and Acer Incorporated. The market for CRT monitors is equally competitive and the Company's main competitors include Samsung Display Devices, Co., LG Electronics, Inc. and Acer Peripherals, Inc. The Company's main competitors for LCD monitors include Acer Peripherals, Inc., CTX Opto-Electronics, Corp. and Amtran Technology Co., Ltd.

Although the Company believes that it is able to compete successfully in its markets, it is not possible to forecast what continued pressure there may be on the Company's prices, margins and results and any adverse effect thereof on the Company's profitability. See "The Company - Market Environment and Competition".

Dependence on Global Personal Computer Industry

As a manufacturer of notebook PCs and peripherals, 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 on the cycles of the personal computer industry. There can be no assurance that fluctuations in the personal computer industry cycles will not continue to impact the business of the Company.

Product Cycle, New Products and Technological Changes

Notebook PCs have a short product cycle due to frequent product introductions, rapidly changing technology and evolving industry standards. To cope with the constant pressure to introduce new products, the Company plans to continue to place emphasis on its research and development activities to keep pace with the market's development and to remain competitive. However, there can be no assurance that the Company will continue to develop new products as a result of its research and development or that it will keep pace with the technological changes taking place in the market. Failure to do so would have a material adverse effect on the Company's financial conditions and results of operations and the future prospects of the Company. See "The Company - Research and Development".

Dependence on ODM and OEM Customers

Compal has positioned itself as a major ODM and OEM supplier and intends to expand its ODM and OEM customer base. The three major customers for notebook PCs together contributed approximately 71 per cent. and 77 per cent. of the Company's net operating revenues in 1998 and for the six months ended 30 June 1999 respectively. Although the Company believes it maintains good relationships with its major ODM and OEM customers, no long-term sale and purchase agreements have been signed. The loss of one or more of these customers or reduction or delay in their orders could have an adverse effect upon the Company's operating results.

Exchange Rate Risks

For the six months ended 30 June 1999, overseas sales accounted for approximately 99 per cent. of its net operating revenues. Substantially all of the Company's sales are denominated in U.S. dollars. In addition, in 1998, over 90 per cent. of components and raw materials sourced overseas were paid for in U.S. dollars and the balance in Japanese Yen and NT dollars.

Accordingly, the Company's results of operations are exposed to fluctuations between the U.S. dollar, the Japanese Yen and the NT dollar exchange rates. The impact of future exchange rate fluctuations between these currencies 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 Year 2000

The use of computer systems that rely on two-digit date programmes to perform computations or other functions may cause such systems to malfunction with respect to the year 2000 and subsequent years. The Company has made certain investments in its desktop environment, networking environment and general computer infrastructure to ensure that they are year 2000-complaint in advance of the millennium. The Company completed its year 2000 testing in September 1999. There can be no assurance, however, that the year 2000 problem will be resolved successfully and in a timely fashion or that any failure or delay by the Company or any third parties which interact with the Company in achieving year 2000 compliance will not have an adverse effect on the operations of the Company or its subsidiaries.

CONSIDERATIONS RELATING TO THE OFFER

Potential Liquidity of the GDRs and the Shares

There has been no trading market for the Shares outside the ROC and the only trading market for the Shares is, and is expected to continue to be, the TSE. Application has been made to list the GDRs on the Luxembourg Stock Exchange.

At any time after the issue of the GDRs, a holder of GDRs may request the Depositary to withdraw from the depositary receipt facility the Deposited Shares represented thereby and transfer such Deposited Shares to such holder, or, on the holder's behalf and at the Depositary's discretion, to cause the Deposited Shares represented by the GDRs to be sold on the TSE (in each case, upon surrender of the GDRs at the principal office of the Depositary in New York and upon payment of any fees, expenses, taxes or governmental charges as provided in the Deposit Agreement, subject to the terms of the Deposit Agreement), provided, that the Company has delivered to the Custodian physical share certificates or in scripless form in respect of the Deposited Shares to be sold in the case of a request for sale of Deposited Shares. In connection with any such withdrawal or sale, GDRs evidencing such Deposited Shares will be cancelled. Unless additional GDRs are issued, as described below, the effect of such transactions will be to reduce the number of outstanding GDRs and, if a significant number of such transactions are effected, to reduce the liquidity of the GDRs. See "Limited Ability to Deposit Shares into the Depositary Facility" below. There can be no assurance that the Depositary will be able to arrange for a sale of Deposited Shares in a timely manner or at a specified price, particularly during periods of illiquidity or volatility with respect to the Shares.

Limited Ability to Deposit Shares into the Depositary Facility

Under current ROC law, no GDRs may be issued by the Depositary after closing of the Offer, without specific approval of the SFC, except in connection with the Offer and the issuance of additional GDRs in connection with (i) dividends in or on, or free distributions of, Shares, (ii) the exercise by the holders of existing GDRs of their pre-emptive rights in the event of capital increases for cash or (iii) (as permitted under the Deposit Agreement) the purchase, whether through the Depositary or otherwise, of Shares on the TSE for deposit in the depositary receipt facility, provided that the total number of GDRs outstanding after an issuance described in (iii) may not exceed the number of issued GDRs previously approved by the SFC in connection with the Offer (plus any GDRs created pursuant to clauses (i) and (ii) above), subject to any adjustment in the number of Deposited Shares represented by each GDR. Issuances under (iii) above will be permitted only to the extent that GDRs previously issued have been cancelled and, for so long as may be required by applicable law, the Deposited Shares represented thereby sold on the TSE.

Rights of Holders of GDRs (

Holders of GDRs may exercise voting rights with respect to the Deposited Shares in the manner described in "Terms and Conditions of the GDRs - Voting of Shares". Individual Holders will not have individual voting rights in respect of Deposited Shares. If so instructed by Holders of at least 51 per cent. of the GDRs outstanding at the relevant record date specified by the Depositary, however, the Depositary will be required to cause the Deposited Shares to be voted for or against resolutions at general shareholders' meetings in accordance with the instructions of such GDR holders subject to certain conditions. In the absence of clear instructions from at least 51 per cent. of the Holders outstanding at the relevant time, the Holders shall be deemed to have instructed the Depositary to authorise and appoint the Chairman of the Board of Directors of the Company (or such person as the Chairman may nominate) as the representative of the Depositary to vote all the Deposited Shares represented by GDRs in any manner he wishes, which may not be in the interests of the Holders. See "Terms and Conditions of the GDRs - Voting of Shares".

Exchange Rates and Foreign Exchange Exposure

Investors who purchase GDRs will be required to pay in U.S. dollars. The Shares are quoted in NT dollars on the TSE. Dividends in respect of the Shares will be paid in NT dollars. Fluctuations in the exchange rate between the NT dollar and the U.S. dollar will affect, among other things the U.S. dollar value of the proceeds which a Holder would receive upon sale in ROC of the Shares and the secondary market price of the GDRs. For information on the exchange rate between the NT dollar and US dollar. See "Exchange Rate Information".

CONSIDERATIONS RELATING TO THE ROC

The ROC Securities Market

The ROC securities market is smaller and more volatile than the securities markets in the United States, Europe and certain other countries. The TSE has had substantial fluctuations in the prices of listed securities and has shown particular volatility following certain political events, market events and scandals. In the past ten years, the TSE Index peaked at 12,495.34 points in February 1990 and reached a low 2,560.47 points in October 1990. On 8 November 1999, the TSE Index closed at 7,401.49 points. See "The Securities Market of the ROC". The TSE has experienced problems such as market manipulation, insider trading and payment defaults. In addition, following the September 1999 earthquake, the ROC government imposed until 8 October 1999 a temporary maximum limit of 3.5 per cent. on the daily decline of shares on the TSE instead of the previous 7 per cent. Such measures could have the effect of artificially supporting share prices. The recurrence of these or similar problems or events could adversely affect the market price and liquidity of the securities of ROC companies, including the GDRs and the Shares, in both domestic and international markets. Recently, the TSE has experienced a certain degree of volatility as a result of the ongoing disputes between the PRC and the ROC and this has led the ROC government to intervene in the stock market, if necessary, in order to provide support for the TSE Index. There can be no assurance that such volatility will not continue or increase, or that, should the ROC government begin and then terminate such intervention, the price of securities on the TSE, including the Shares, will not be adversely affected.

Enforceability of Foreign Judgments in the ROC

The Company is a company limited by shares incorporated in the ROC under the Company Law of the ROC. Substantially all of the Company's directors and executive officers and certain of the experts named herein are residents of the ROC, and a substantial portion of the assets of the Company and such persons are located in the ROC. In relation to any legal action arising out of or in connection with the GDRs and the Deposit Agreement, the Company will irrevocably submit to the jurisdiction of (i) the courts of England and will appoint an agent for service of process in England; and (ii) the courts in New York and any US Federal Court sitting in New York City. A judgment obtained in any of the said courts pursuant to any such legal action in respect of a definite sum payable would be recognised and enforced by the courts in the ROC provided, inter alia, the court of the ROC in which the enforcement is sought is satisfied that (i) the court rendering the judgment had jurisdiction over the subject matter according to the laws of the ROC, (ii) the judgment is not contrary to the public order or good morals of the ROC, (iii) if the judgment was rendered by default by the court rendering the judgment, the defendant was personally served while within the jurisdiction of such court, or process was served on the defendant with the judicial assistance of the ROC, (iv) judgments of the courts of the ROC are recognised and enforceable by the courts rendering the judgment on a reciprocal basis, and (v) the applicable procedures under the laws of the ROC with respect to the enforcement of foreign judgments are complied with. It is as yet untried in the courts of the ROC as to whether English judgments are recognised and enforceable in the ROC courts on a reciprocal basis. In addition, in circumstances other than those described above, it may not be possible for investors to effect service of process upon the Company or such persons outside the ROC, including within the United States, or to enforce against any of them, in U.S. courts or otherwise, judgments obtained in foreign courts, including in U.S. courts, predicated upon liability provisions of laws of foreign countries, including the civil liability provisions of the federal securities laws of the United States or any State or territory within the United States. A party seeking to enforce a foreign judgment in the ROC would be required to obtain foreign exchange approval from the CBC for the remittance out of the ROC of certain amounts recovered in respect of such judgment in a currency other than NT dollars.

Exchange Controls

Under existing ROC law, 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 Shares received as stock dividends or from the sale of subscription rights for new Shares. Except under certain limited circumstances, proceeds in excess of U.S.$100,000 per remittance from the sale of any Shares withdrawn by GDR holders 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, but no assurance can be given that this will be the case or that other exchange control will not be imposed. See "Foreign Investment and Exchange Controls in the ROC".

Political Status and International Relations of the ROC

The ROC has a unique international political status. Both the ROC and the PRC assert sovereignty over all of China (which includes Taiwan, certain other islands proximate to China and all of mainland China). The ROC government does not recognise the legitimacy of the PRC government and the PRC government does not recognise the legitimacy of the ROC government. Although significant economic and cultural relations have been established in recent years between the ROC and the PRC, the PRC has refused to renounce the possibility that it may at some point use force to gain control over Taiwan. In recent months, the relationship between the ROC and the PRC has been further strained as a result of certain disputes between the ROC and the PRC and the latter has not ruled out the possibility of taking some form of military action against the ROC.

Relations between the ROC and the PRC may from time to time have an adverse effect on the value of the TSE Index and may also affect the Company's financial condition and results of operations and the market price and liquidity of the GDRs and the Shares. No assurance can be given that the relations between the ROC and the PRC will improve, or that future military or economic activities may not be undertaken by either government to the detriment of the other.

21 September 1999 Earthquake

On 21 September 1999, a major earthquake struck central Taiwan causing significant property damage and loss of life mainly in central Taiwan. The Company experienced no major structural damage to its facilities or gas or chemical piping. Taiwan has experienced a number of aftershocks to the September 1999 earthquake, some of which were significant. There can be no assurance that future aftershocks, or new earthquakes, will not occur and will not have a material adverse effect on the Company's operations.

CAPITALISATION

The following table sets forth the short-term loans and capitalisation of the Company as at 30 June 1999:—

	As at 30 June 1999	
	Actual (in thousands)	
	NT$	US$(2)
Short-term loans	57,859	1,792
Convertible bonds payable	106,686	3,305
Stockholders' equity:		
Common stock(1)	11,722,752	363,158
Capital reserve	6,875,651	213,000
Retained earnings	7,171,347	222,161
Foreign currency translation adjustments	74,067	2,295
Total stockholders' equity	25,843,817	800,614
Total capitalisation	25,950,503	803,919

Notes:

(1) As at 30 June 1999, 1,400,000,000 of Shares were authorised and 1,172,275,200 Shares were outstanding. As at 30 September 1999, 1,175,073,315 Shares were outstanding.

(2) Translated into United States dollars solely for the convenience of the readers using the average of the buying and selling rate provided by the Bank of Taiwan on 30 June 1999 of NT$32.28 to U.S. $1.

(3) Pursuant to a resolution of the Board of Directors dated 2 September 1999, the Company has announced a rights issue of 1,560,000 Shares of NT$10 each at a price of NT$80 which will increase the Company's total issued and fully paid up share capital to NT$124.8 million. The rights issue was approved by the SFC on 28 October 1999, and is expected to be completed in January 2000.

(4) Except as disclosed above, there has been no material change in the capitalisation of the Company since 30 June 1999.

THE COMPANY

INTRODUCTION

Compal is a leading manufacturer of notebook personal computer systems ("notebook PCs"), cathode ray tube ("CRT") monitors and liquid crystal display ("LCD") monitors in the ROC. Compal also manufactures peripherals, accessories and spare parts primarily for notebook PCs. The Company believes that in Taiwan, in terms of sales, it is one of the three largest producers of notebook PCs, one of the ten largest producers of CRT monitors and one of the five largest producers of LCD monitors.

Compal's operations are organised into four major business lines — (i) notebook PCs, (ii) CRT monitors, (iii) LCD monitors and (iv) peripherals, accessories and spare parts. The Company sells its products mainly to original design manufacturing ("ODM") and original equipment manufacturing ("OEM") customers in the United States of America, Europe and Asia. The Company's major ODM and OEM customers include group companies of Dell, Hewlett Packard, Compaq, Fujitsu, Toshiba and NEC.

The Company also sells a small portion of its CRT monitors under its own brand names, "Visa" and "Sceptre", through its subsidiaries and affiliates in Europe and in the United States.

For the year ended 31 December 1998, net sales of notebook PCs, CRT monitors, LCD monitors and peripherals, accessories and spare parts amounted to approximately NT$22,806 million, NT$4,484 million, NT$186 million and NT$9,502 million, respectively, and accounted for 61.67 per cent., 12.13 per cent., 0.50 per cent. and 25.70 per cent. of net operating revenues of the Company, respectively. For the six months ended 30 June 1999, sales of notebook PCs, CRT monitors, LCD monitors and peripherals, accessories and spare parts amounted to approximately NT$11,317 million, NT$2,685 million, NT$721 million and NT$5,420 million, respectively, and accounted for 56.18 per cent., 13.33 per cent., 3.58 per cent. and 26.9 per cent. of net operating revenues of the Company respectively.

Compal currently has two production plants in the ROC and one operational production plant in the People's Republic of China (the "PRC"), with a second scheduled to commence mass production in the first quarter of 2000, and a third under construction. The two ROC production plants are located in Pincheng, Taoyuan County, Taiwan. They together occupy a gross floor area of 52,979 sq. m. and have the capacity to produce a total of approximately 300,000 notebook PCs and 20,000 LCD monitors (in addition to peripherals, accessories and spare parts) per month. The plants in the PRC are located in Kunshan, Jiangsu Province, PRC. All of the Company's CRT monitors are at present manufactured in one of the plants in the PRC, which has a total capacity to produce 300,000 CRT monitors per month. Construction of the second plant was completed in May 1999 and the plant is expected to commence mass production in the first quarter of 2000. Both plants together occupy a gross floor area of 40,000 sq. m. Construction of a third plant is under way on the same site. CRT monitors will be manufactured at all three plants.

The registered office of the Company is 7th Floor, Pateh Road, Section 4, Taipei, Taiwan, ROC.

HISTORY

The Company was incorporated on 3 June 1984 with an initial share capital of NT$50 million. It began manufacturing computer terminals, monitors, keyboards and other computer peripherals in 1985. In 1989, the Company began to develop notebook PCs. It received International Standard Organisation ("ISO") 9002 certification for its ROC production facilities in 1993 and received ISO9001 certification in 1994. In 1995, Compal, via its subsidiary Just International Ltd., set up Compal Electronics (China) Ltd. and began construction of its first production plant in Kunshan, PRC. Compal received ISO14001 certification for its environmental management in 1997.

The Shares of the Company were listed on the TSE in February 1992.

STRATEGY

The Company has established itself as one of the leading manufacturers in the world of notebook PCs, CRT monitors and LCD monitors. The Company intends to capitalise on its market position, as well as its technological and production capability, to maintain and enhance its position in these markets. The Company intends to accomplish this goal by continuing to implement the following business strategies.

Focus on ODM and OEM Customers

Compal has positioned itself as a major ODM and OEM supplier. It intends to expand its ODM and OEM customer base while at the same time maintaining production of its own brand products around the current level. However, the brand name "Visa" is expected to be phased out gradually while CRT monitors will continue to be manufactured under the brand name "Sceptre".

Competitiveness

The markets for computer products are highly competitive and Compal will strive to enhance its competitiveness by maintaining its production lines for CRT monitors in the PRC where labour and production costs are low. The Company believes that this will enable it to achieve high-volume production at a low cost. Compal's strategy will be to move some of its lower-end low-cost notebook PCs production lines to the PRC manufacturing plants in the event that the ROC government relaxes regulations which currently forbid Taiwanese manufacturers to produce notebook PCs in the PRC.

Shipment Arrangement with ODM/OEM Customers and After-Sales Services

With respect to notebook PCs, Compal has introduced for certain customers a new arrangement whereby Compal ships fully-configured products to the end consumers, thus saving time and transportation costs. Although Compal does not intend to set up manufacturing sites in the regions where its major customers are located, its policy is to maintain after-sales service centres in strategic locations. It currently has two after-sales service centres in the United States and one in Europe. It plans to set up one in Japan in the first quarter of 2000. These after-sales service centres serve as Compal's main point of contact with its notebook PC customers. They provide direct repair services to customers, so that time is saved by not having to have the products shipped to Taiwan for repair.

PRODUCTS

The Company's operations are organised into four major business lines — notebook PCs, CRT monitors, LCD monitors and peripherals, accessories and spare parts.

The following table sets out the net operating revenue of the Company and its percentage breakdown by type of product for each of the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	1996		1997		1998		1998		1999	
Net Operating Revenue	NT$m	%	NT$m	%	NT$m	%	NT$m	%	NT$m	%
Notebook PCs	10,783	55.89	17,187	66.16	22,806	61.67	11,010	64.66	11,317	56.18
CRT monitors	5,826	30.20	4,079	15.70	4,484	12.13	2,116	12.42	2,685	13.33
LCD monitors	259	1.34	723	2.78	186	0.50	94	0.55	721	3.58
Peripherals, accessories and spare parts	2,425	12.57	3,991	15.36	9,502	25.70	3,807	22.37	5,420	26.91
Total	19,293	100	25,980	100	36,978	100	17,027	100	20,143	100

The following table sets out the unit production volume of notebook PCs, CRT monitors and LCD monitors produced by the Company for each of the periods indicated:

	Year ended 31 December			Six months ended 30 June	
Net Production	1996	1997	1998	1998	1999
Notebook PCs	261,856	391,062	725,692	266,514	415,410
CRT monitors	974,634	842,186	987,306	456,561	560,016
LCD monitors	9,440	23,387	9,750	4,009	30,633
Total	1,245,930	1,256,635	1,722,748	727,084	1,006,059

Notebook PCs

Sales of notebook PCs contributed 61.67 per cent. and 56.18 per cent. respectively of the Company's net operating revenues for the year ended 31 December 1998 and the six months ended 30 June 1999. Sales of notebook PCs are expected to remain the major source of operating revenues of Compal.

Sales of notebook PCs amounted to approximately NT$22,806 million in 1998, representing a growth of 32.69 per cent. over sales in 1997. Compal expects the growth to continue in the full year 1999.

According to Market Intelligence Center, Compal was the third largest notebook PCs producer in the ROC in 1998, in terms of production volume and ranked within the top ten producers globally.

Before mid-1999, Compal manufactured all notebook PCs on a configure-to-order ("CTO") basis, whereby various parts of the notebook PCs were assembled by Compal and the assembled pieces were then shipped to the ODM or OEM customers for them to insert other components and accessories. From mid-1999, Compal has started to manufacture notebook PCs on a build-to-order ("BTO") basis. Under this BTO arrangement, Compal assembles the entire notebook PC in its plants according to customers' specifications and loads the software applications on to the notebook PCs. The finished products will then be shipped to the end-users directly by Compal, according to the ODM/OEM customers' instructions. Currently approximately 10 per cent. of notebook PCs production is on a BTO basis. However, Compal anticipates that this proportion may increase in the future.

In addition to the shift from a CTO basis to a BTO basis, Compal also intends to focus more on lower-end, low cost notebook PCs. The time taken to manufacture products of this kind is shorter than for middle to high-end products and the technology involved is also simpler. Subject to relaxation of ROC regulations, Compal is contemplating moving some of its lower-end, low cost notebook PC production lines to its manufacturing plants in the PRC to take advantage of the lower production costs.

The major customers for Compal's notebook PCs include group companies of Dell, Hewlett-Packard and Fujitsu.

CRT Monitors

At present, the Company's product range includes 14", 15", 17" and 19" CRT monitors. The following table sets out the net sales for each product for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	1996		1997		1998		1998		1999	
CRT monitors	NT$m	Units	NT$m	Units	NT$m	Units	NT$m	Units	NT$m	Units
14"	2,649	541,827	1,258	357,625	771	237,115	559	168,828	46	15,741
15"	2,632	384,665	1,911	387,006	1,832	466,846	813	189,536	912	243,726
17"	554	48,183	919	97,598	1,789	273,757	738	97,704	1,542	282,096
19"	—	—	—	—	115	9,737	7	503	186	18,535
Others	—	—	—	—	—	—	—	—	—	—
Gross sales	5,835	974,675	4,088	842,229	4,507	987,455	2,117	456,571	2,686	560,098
Less: sales allowance and discount	(5)	(41)	(9)	(43)	(23)	(149)	(1)	(10)	(1)	(82)
Net sales	5,826	974,634	4,079	842,186	4,484	987,306	2,116	456,561	2,685	560,016

Sales of CRT monitors amounted to approximately NT$4,484 million in 1998, representing a growth of 9.93 per cent. over sales in 1997. In June 1999, Compal began manufacturing CRT monitors for Compaq and the Company expects this relationship will significantly increase its CRT monitor production as sales to Compaq are expected to contribute approximately 50 per cent. of total sales of CRT monitors in full-year 1999.

Between 1996 and 1998 annual sales of 14" and 15" CRT monitors decreased year on year while for the same period annual sales of 17" CRT monitors increased substantially. For the six months ended 30 June 1999, sales of 14" CRT monitors dropped substantially to NT$46 million from NT$559 million for the same period in 1998. This reduction in sales was more than compensated by a substantial increase in sales of 17" CRT monitors from NT$738 million in the first half of 1998 to NT$1,542 million in the first half of 1999. Sales of 15" CRT monitors increased from NT$813 million in 1998 to NT$912 million in 1999.

Recently, the Company has seen a gradual return to popularity of the 15" CRT monitor as a result of an extensive campaign by certain internet providers to offer free PCs to their internet subscribers, as well as an increasing market demand for low cost PCs, in both cases using a 15" CRT monitor.

As the technology for the manufacture of CRT monitors is relatively mature, Compal's aim is to maintain its profitability by economies of scale and cost control. Relocation of all CRT monitor production lines to the PRC in 1997 was an important step in reducing production costs, thus enhancing the Company's competitiveness in this market.

In addition to Compaq, the Company will also approach other potential major [illegible] also continue to manufacture its own brand name products.

At present, all CRT monitors are sold to OEM customers on a CTO basis.

LCD Monitors

Compal started manufacturing LCD monitors in January 1995. Its current product range includes 12", 14" and 15" thin-film transistor liquid crystal display ("TFT-LCD") monitors. 15" TFT-LCD monitors have been and are expected to continue to be a major product of the Company throughout 1999. The following table sets out the net sales for each product for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	1996		1997		1998		1998		1999	
LCD monitors	NT$m	Units	NT$m	Units	NT$m	Units	NT$m	Units	NT$m	Units
11"	25	1,192	243	10,054	12	729	12	729	—	—
12"	226	8,108	180	6,666	105	6,662	48	2,418	61	4,343
14"	7	128	294	6,449	40	1,157	33	842	1	37
15"	1	29	8	259	31	1,275	2	42	660	26,260
Gross sales	259	9,457	725	23,431	188	9,823	95	4,031	722	30,640
Less: sales allowance and discount.. ..	(0)	(17)	(2)	(44)	(2)	(73)	(1)	(22)	(1)	(7)
Net sales	259	9,440	723	23,387	186	9,750	94	4,009	721	30,633

Sales of LCD monitors amounted to approximately NT$186 million in 1998, representing a decrease of 74.27 per cent. from sales in 1997. The decrease was caused principally by a fall in prices for LCD monitors resulting from oversupply, and a consequent fall in the price of the key component, LCD panels. There has, however, been a shortage in the supply of LCD panels since the beginning of 1999. Compal has maintained a good working relationship with LCD panel suppliers and has in place arrangements with a number of backup suppliers. It has so far not experienced any significant difficulty in meeting its customers' demands.

Compal's major customers for LCD monitors include NEC and Compaq.

Peripherals, Accessories and Spare Parts

In addition to its three major products, the Company also manufactures secondary batteries, memory chips, peripherals and accessories for notebook PCs and sells spare parts for notebook PCs. The major accessories products include docking stations and port replicators. Sales of docking stations and port replicators accounted for 8.54 per cent. and 10.25 per cent. of net operating revenues of the Company for the year ended 31 December 1998 and for the six months ended 30 June 1999, respectively.

Sales of peripherals, accessories and spare parts amounted to NT$9,502 million in 1998, representing an increase of 138.08 per cent. over sales in 1997. The profit margins for peripherals are relatively high. The sales trend for peripherals normally follows closely the sales trend for notebook PCs.

Diversification into other products

Compal may consider diversifying into manufacture of telecommunications products, if suitable opportunities arise. Compal believes that it can successfully develop the expertise and experience gained in connection with its current product range to manufacture mobile phone handsets and other telecommunications products.

PRODUCTION FACILITIES

The Company currently has two production facilities in the ROC. In the PRC, it has one operational production facility; another which is scheduled to commence commercial production in the first quarter of 2000; and a third under construction. Its strategy is to manufacture products targeted at the lower end of the market, which tend also to have lower margins, in the PRC, which provides a low cost manufacturing environment. Compal will retain high-end production and research and development in the ROC.

Compal's ROC manufacturing facilities are located in Pincheng, Taoyuan County, Taiwan. The two plants are located on the same site with a land space of 39,474 sq. m. and together provide a gross floor area of 52,979 sq. m. The land and buildings are owned by Compal. Notebook PCs, LCD monitors and peripheral products are manufactured at these two plants. The plants have a combined monthly capacity to produce 300,000 notebook PCs and 20,000 LCD monitors (in addition to peripheral products).

The manufacturing plants in the PRC are located on the same site of 193,200 sq. m. in Kunshan. At present, only one plant is in mass production. Construction of the second plant has been completed. Test runs are scheduled to be carried out in December 1999 and the plant is scheduled to commence production in the first quarter of 2000. A third plant is being constructed on the same site and is expected to be completed in the second half of 2000. The gross floor areas of the three plants are 20,000 sq. m., 20,000 sq. m. and planned to be 40,000 sq. m. (approximately) respectively. They are, or are to be, dedicated to the production of CRT monitors. The two existing plants are expected to have a combined total monthly capacity to produce 600,000 CRT monitors when the second plant begins commercial production.

A major earthquake occurred in Taiwan on 21 September 1999. Although production at the two ROC 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 23 September 1999. The electricity restrictions imposed in Taiwan following the earthquake had no significant effect on the plants as Compal's own power generators generated sufficient electricity to sustain operations throughout each affected production shift.

SALES AND MARKETING

Sales of Compal's products are carried out and booked at the Company's headquarters in the ROC. Compal currently has over 50 personnel responsible for sales and marketing activities.

The Company's major geographical markets for notebook PCs, CRT monitors and peripherals, accessories and spare parts are the United States and Europe, whereas it sells LCD monitors mainly to Japan and Europe. For the six months ended 30 June 1999, overseas sales accounted for approximately 99.00 per cent. of its net operating revenues. Substantially all invoices are settled in U.S. dollars.

The Company believes it maintains good relationships with its major ODM and OEM customers although no long-term sale and purchase agreements are signed. Compal's major customers for notebook PCs are Dell, Fujitsu and Hewlett-Packard. These three customers together contributed approximately 71 per cent. and 77 per cent. of the Company's net operating revenues in 1998 and for the six months ended 30 June 1999, respectively.

Since May 1999 Compaq has been a customer of the Company for CRT monitors. Compal entered into a basic purchasing agreement with Compaq, under which the basic terms and conditions for sale and purchase, including indicative prices, are fully set out and will apply to each order concluded between Compal and Compaq in the future. It provides that the quantities of products to be provided by the Company are updated by Compaq every week, through 12-month rolling forecasts. Neither party is under any commitment to deal with each other.

With respect to LCD monitors, Compal also established NEC as a major customer in April 1999.

Customers generally provide Compal with rolling forecasts for 6 months (in the case of notebook PCs and CRT monitors) and 3 months (in the case of LCD monitors).

In accordance with industry practice, customers are generally billed on delivery of goods with varying credit terms of around 45 days (in the case of notebook PCs), 75 to 90 days (in the case of CRT monitors) and around 45 days (in the case of LCD monitors).

COMPONENTS AND RAW MATERIALS

The Company's production depends on obtaining adequate supplies of components and raw materials on a timely basis. The Company purchases its main components from a limited number of component manufacturers who can satisfy its quality standards and meet its volume requirements. Components and raw materials accounted for approximately 95 per cent. of the Company's production costs for the year ended 31 December 1998 and for the six months ended 30 June 1999, respectively.

The Company believes it maintains good relationships with its major suppliers of components and raw materials. The Company sources its components and raw materials from leading domestic and overseas suppliers. The Company is not dependent upon any single supplier for any of its components and raw materials. For the year ended 31 December 1998 and for the six months ended 30 June 1999, approximately 52 per cent. and 57 per cent., respectively, of the Company's components and raw materials purchases were sourced locally in the ROC. Key components for CRT monitors manufactured in the PRC are sourced from Chung Hwa Picture Tubes Inc. and Samsung Electronics, Corp. Ltd.

In 1998, over 90 per cent. of components and raw materials sourced overseas were paid for in U.S. dollars and the balance in Japanese Yen and NT dollars. Components and raw materials sourced locally were paid for in NT dollars. Local payment terms are generally around 90 days whereas overseas suppliers request payment to be made between 50 to 60 days after the date of invoice. The Company does not enter into any long-term supply contracts. It generally places orders and provides rolling forecasts to its suppliers on a monthly basis.

The key components for notebook PCs are LCD panels, CD-ROM and/or DVD drives, batteries and memory chips. CRT tubes and LCD panels are the main components of CRT monitors and LCD monitors respectively. The Company has not experienced any significant disruption in the supply of raw materials and components.

QUALITY CONTROL

Compal places great emphasis on quality control as it considers it to be one of the keys to success in the computer industry. It employs quality control procedures and tests at every critical stage of the manufacturing process. Tests include product verification tests, engineering verification tests and design verification tests. These tests prescribe an internal standard set by Compal for its products and are conducted by a team of staff dedicated to quality management. For customers having their own specifications, Compal will also carry out tests accordingly. It also receives feedback reports from customers on a weekly basis. On-site checks are also carried out by Compal on its major suppliers' facilities.

The Company has received numerous awards for its products, most notably the PC Magazine Editors' Choice award and Mobile Insights MI99 award. The manufacturing facilities in both the ROC and the PRC have received ISO9002 and ISO14001 certification. In addition, the ROC manufacturing facilities have received ISO9001 certification.

RESEARCH AND DEVELOPMENT ("R&D")

In order to remain competitive, the Company will continue to place emphasis on its R&D activities. The principal R&D activities are carried out in the ROC. The Company currently employs 376 staff in its R&D division, of which 51 people hold at least master's degrees.

The Company's current R&D activities focus mainly on enhancing and improving its current range of products.

The R&D team works in close co-operation with the Company's customers and suppliers. 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.

For the year ended 31 December 1998, R&D expenses of the Company amounted to approximately NT$536 million which represented 1.4 per cent. of the Company's net operating revenues. It is the Company's policy to allocate approximately 1.5 per cent. of its sales annually to its R&D activities.

MARKET ENVIRONMENT AND COMPETITION

The markets for the Company's major products are highly competitive. Competitors comprise mainly other ROC manufacturers. 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 long time and has acquired extensive experience and understanding of the development of each of its major products. The management has set down clear strategies as to how the Company should develop its business. Teamwork is highly valued. The Company will continue to focus its efforts to maintain itself as a major ODM/OEM supplier. Dedicated teams will continue to work closely with its customers. Compal considers central manufacturing (in which its manufacturing plants are concentrated in a restricted number of locations, mainly in the ROC) a better way of organising its production, rather than establishing a worldwide manufacturing capability, because it permits greater control over production. Resources (including capital and manpower) saved by central manufacturing are devoted to improving the quality of its products. To better serve its customers, Compal has set up a number of after-sales services centres in the regions where its customers are located.

In addition, the Company has been able to achieve greater economies of scale by moving all its CRT monitor production lines to Kunshan in the PRC, which the management considers to be a good geographical location where the employee turnover rate tends to be lower than in the southern part of the PRC.

TRADEMARKS, PATENTS AND LICENCES

The Company currently holds 151 patents in respect of its products, registered in and outside of the ROC. The Company believes that it is important to develop and patent its designs and special features in its products and hopes to 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 floppy disks drive and DVD drive. The design was patented in 1998.

Owing to the similarity between the marks "Compal" and "Compaq", the Company has anticipated that difficulties will almost certainly arise if it files an application to register its mark in the ROC or abroad. The Company has been in negotiation with Compaq with a view to signing up a co-existence agreement. Relying on such an agreement, the Company believes that it will be able to apply successfully for its mark to be registered.

The Company has signed a patent licence agreement with Thomson Multimedia Licensing Corporation which grants the Company a licence to produce colour monitors in consideration for which Compal will pay a fee for each monitor it produces. The Company is currently in discussion with some other companies for the licensing of other important patents.

ENVIRONMENTAL ISSUES

The Company is mainly engaged in the assembly of computer products, an activity which is generally not associated with environmental problems. The Company has not been subject to any material fines or action involving non-compliance with ROC or PRC environmental regulations and believes that it is in compliance with all relevant environmental protection regulations.

LITIGATION

The Company and its subsidiaries are not and have not been involved in, and the Company and its subsidiaries are not aware of, any material litigation or other proceedings the outcome of which might, individually or taken as a whole, affect the financial results or operations of the Company or its subsidiaries.

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.

YEAR 2000 ("Y2K") COMPLIANCE

The Company set up a special project team to deal with the Y2K issues in September 1998. The team consists of 3 full-time staff and a number of part-time staff. The project team has implemented procedures to identify and rectify elements in the Company's information system which are not Y2K compliant. Tests have been carried out in various areas, including the desktop environment, networking environment and general computer infrastructure. All manufacturing plants, R&D areas and quality assurance laboratories have been covered. The scheduled date for achieving Y2K compliance was the end of September 1999. Progress had been on schedule and was found to be satisfactory by the project team on the scheduled date.

The project team has also enquired as to the level of Y2K compliance of its major suppliers through questionnaires and, in some cases, interviews and site visits. No major problems have been found as a result of these steps with its major suppliers. The Company also submits Y2K reports to its customers who have been generally satisfied with the progress the Company has achieved.

The Company has spent approximately NT$105 million (including manpower resources) on achieving Y2K compliance. Although the management considers that progress has been satisfactory, it will continue to adopt a prudent approach. It will continue its discussion with suppliers as regards any contingency plans if business is disrupted by any unforeseen Y2K-related events.

RECENT DEVELOPMENTS

The Company has filed its unaudited non-consolidated financial statements for the nine months ended 30 September 1998 and 1999 with the SFC. The following is a summary of certain financial data with respect to the nine month financial statements:

	For the nine months ended, and as at, 30 September	
	1998	1999
	(in millions NT$)	
Statement of Operations		
Net operating revenue	25,795	32,858
Gross profit	3,956	4,597
Operating income	2,934	3,580
Net income	3,922	4,101
Balance Sheet		
Cash and cash in bank	11,883	12,263
Total assets	28,721	35,687
Current liabilities	5,714	8,382
Long-term liabilities	292	102
Total stockholders' equity	22,715	27,203

The Company has filed its audited non-consolidated financial statements for the three years ended 31 December 1998 and for the six months ended 30 June 1998 and 1999 with the SFC. The financial statements have been audited by KPMG, auditors of the Company, who conducted the audit of such financial statements in accordance with "Regulations Governing the Audit of Annual Financial Reports of Listed Companies." With respect to the financial statements for the two years ended 31 December 1997, the auditors provided for a restatement in connection with the Company's provision of raw materials to its related parties, Cal-Comp Thailand and CPI. This restatement was in conformity with a ruling adopted by the SFC on 18 March 1998 applicable to all ROC companies. Accordingly, the auditors do not regard the restatement as a qualification to their audited report.

Net operating revenues of the Company increased by 42.3 per cent. to NT$36,978 million in 1998 from NT$25,980 million in 1997. This was primarily attributable to an increase in sales of notebook PCs and peripherals, accessories and spare parts. Gross profit was NT$5,640 million (or 15.2 per cent. of operating revenues) in 1998, a NT$2,158 million, or 62.0 per cent. increase over the NT$3,482 million gross profit (or 13.4 per cent. of operating revenues) in 1997. The increase in gross profit as a percentage of operating revenues reflected an improvement of the Company's gross margins due principally to an increase in selling prices for notebook PCs as well as an increase in the proportion of net operating revenues contributed by sales of peripherals, accessories and spare parts (from 15.4 per cent. in 1997 to 25.7 per cent. in 1998) which carried a higher gross profit margin than other products of the Company. Operating income increased by 106.4 per cent. to NT$4,330 million in 1998, as operating expenses of the Company decreased by 5.4 per cent. from NT$1,381 million in 1998 to NT$1,307 million in 1998, primarily as a result of the Company's success in reducing selling expenses to NT$441 million in 1998 from NT$648 million in 1997.

Non-operating income of the Company decreased by 32.2 per cent. to NT$1,229 million in 1998 from NT$1,812 million in 1997. This was primarily due to a net gain on foreign currency exchange of NT$1,377 million in 1997, contrasting with a net loss on foreign currency exchange in 1998, reflecting the general movements of the NT dollar against the US dollar in those periods.

Net income of the Company increased by 43.3 per cent. from NT$3,398 million in 1997 to NT$4,871 million in 1998.

For the six months ended 30 June 1999, the Company recorded net operating revenues of NT$20,143 million, an increase of 18.3 per cent. from NT$17,027 million for the same period in 1998. The continuing increase in the proportion of net operating revenues contributed by peripherals, accessories and spare parts continued to play an important role in the increase of the Company's overall operating revenues, from NT$3,807 million (22.4 per cent. of operating revenues) to NT$5,420 million (26.9 per cent. of operating revenues). In the second quarter of 1999, the Company secured an important ODM customer for its CRT monitors and for its LCD monitors. This led to an increase in operating revenues for CRT monitors (from NT$2,116 million for the six months ended 30 June 1998 to NT$2,685 million for the same period in 1999) and for LCD monitors (from NT$ 94 million for the six months ended 30 June 1998 to NT$721 million for the same period in 1999).

Gross profit was NT$3,111 million (or 15.4 per cent. of net operating revenues) for the six months ended 30 June 1999, a NT$498 million, or 19.1 per cent., increase over the NT$2,613 million (or 15.3 per cent. of net operating revenues) for the same period in 1998. Gross profit as a percentage of net operating revenues remained almost the same, at 15.3 per cent. for the first six months of 1998 and 15.4 per cent. for the same period in 1999. Although there was a percentage increase of peripherals, accessories and spare parts, which carried a higher profit margin, in the first six months of 1999, this improvement in profit margin was off-set by an increase in sales of CRT monitors as a percentage of net operating revenues, which carried a lower profit margin than other products of the Company. There was also a shortage in TFT-LCD panels in 1999, which increased the cost of sales of LCD monitors.

Operating income of the Company for the six months ended 30 June 1999 increased to NT$2,421 million from NT$1,971 million for the same period in 1998.

Non-operating income of the Company for the six months ended 30 June 1999 decreased by 35.7 per cent. to NT$515 million for NT$801 million for the same period in 1998. The increase in non-operating income as a result of a net investment gain of NT$149 million (principally due to a disposal of the Company's Shares held by one of the Company's subsidiaries) was more than off-set by a decrease in net gain on foreign currency exchange from NT$461 million for the first six months of 1998 to NT$31 million for the same period in 1999. However, non-operating expenses of the Company were substantially reduced by 92.4 per cent. to NT$9 million from NT$120 million for the same period in1998, the Company having recorded a net investment loss of NT$65 the first six months of 1998, primarily as a result of the adoption of equity method in the Company's accounting treatment of Compal China. The Company also made a provision for inventory loss of NT$21 million. Interest expenses of the Company were reduced to NT$7 million for the first six months of 1999 from NT$31 million for the same period in 1998.

Net income of the Company for the six months ended 30 June 1999 was NT$2,788 millions, a NT$188 million, or 7.2 per cent., increase over NT$2,600 million for the same period in 1998.

MANAGEMENT AND EMPLOYEES

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 29 May 1997 for a term of 3 years expiring on 28 May 2000 and is comprised of the following individuals:

Name	Position with the Company	Other principal positions held outside the Company
Sheng-Hsiung Hsu	Chairman	Chairman of the Board of Directors of Kinpo and Cal-Comp Electronics (Thailand) Inc.
Jui-Tsung Chen	Director	Director of Kinpo and Compal Investment Corp.
Wen Being Hsu	Director	None
Hsien-Min Kuo(1)	Director	President and Director of Kinpo
Sheng-Chieh Hsu	Director	Director of Kinpo
Lee-Chun Hou	Director	None
Hsiao-Chin Chiang	Director	Director of Cal-Comp Electronics (Thailand) Inc. and Kinpo
Kuang Nan Lin	Director	None
Kung Yung Chen(2)	Director	None
Wen-Chung Shen	Director	Director of Compal Investment Corp. and Kinpo
Yu-Chin Yang	Director	Director of Kinpo
Charng-Chyi Ko	Supervisor	Supervisor of Kinpo
Yen-Chia Chou	Supervisor	Supervisor of Kinpo
Chiung-Chi Hsu	Supervisor	None

Notes:

(1) Representative of Kinpo Electronics, Inc.

(2) Representative of China Development Corp.

The business address of all Directors and Supervisors of the Company is 7th Floor, Pateh Road, Section 4, Taipei, Taiwan, ROC.

As at 3 September 1999, the latest date at which such determination can be made by the Company, the Directors, the Supervisors and their families (spouses and children) held, directly or indirectly, 152,759,531 Shares, approximately 13 per cent. of the Company's issued Shares.

The aggregate remuneration and benefits in kind granted to the Directors and Supervisors of the Company in their capacity as Directors and Supervisors for the year ended 31 December 1998 were approximately NT$44 million and NT$13 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 or Supervisors 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.

Employees

As at 30 September 1999, the Company and its subsidiaries had 5,221 employees, 4,094 of which were direct labour workers. Approximately 49 per cent. of the Company's employees are employed in the PRC and approximately 51 per cent. are employed in the ROC.

The Company's workforce is not unionised and the Company has not experienced any labour 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 the 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 once every year. Salaries are adjusted based on industry standards, inflation and individual performance. The Company normally pays annual bonuses to all employees amounting to two month's salary. As an incentive, additional bonuses may be paid at the discretion of management based on the performance of individuals. In addition, ROC law requires that employees be given pre-emptive rights to subscribe to between 10 and 15 per cent. of any rights issues or share offerings of the Company. The Company does not have any share option schemes.

PRINCIPAL SHAREHOLDERS

The ten largest holders of the Shares of the Company as at 3 September 1999, the latest date at which such determination can be made by the Company, as they appeared on the register of Shares of the Company, were as follows:

Name	Shares	%
Kinpo Electronics, Inc.	110,975,602	9.44
Compal Investment Corp.	23,832,280	2.03
Li-Chu, Hsu Tsai	15,438,146	1.31
Jui-Tsung Chen	14,918,144	1.27
Compal Holding Corp.	18,134,296	1.54
Bai-Li Lin	10,229,679	0.87
Employees Pension Committee	8,486,584	0.72
Sheng-Hsiung Hsu	6,649,535	0.57
Jing-Rong Liu	6,580,070	0.56
Yu-Chin Yang	6,261,849	0.53
Total	221,506,185	18.84

SUBSIDIARIES AND ASSOCIATED COMPANIES

As of 31 October 1999, the Company held direct or indirect investments of 20 per cent. or more of the paid-in capital of the following principal subsidiaries and associated companies:

Directly held

Company	Main business	Place of Incorporation	Total paid-in Capital	The Company's effective equity interest (%)
Just International Ltd. ..	Holding company	British Virgin Islands	US$26,010,000	100
Just International (Singapore) Pte. Ltd. ..	Holding company	Singapore	SG$5,358,758	100
Compal Holding Ltd.	Holding company	British Virgin Islands	US$4,050,000	100
Compal Europe B.V.	Maintenance and wholesale of notebook PCs and monitors	The Netherlands	NLG$791,000	100
Bizcom Electronics, Inc.	Maintenance and wholesale of notebook PCs and monitors	U.S.A	US$100,000	100
Compal Investment Corp.	Investment	Taiwan	NT$3,472,000,000	100
Compal Holding Corp. ..	Investment	Taiwan	NT$900,000,000	100
Compal Europe (U.K.) Ltd..	Maintenance of notebook PCs	U.K.	GBP100,000	100
Vacom Wireless Inc.	Research and development on electric and communication apparatus	Korea	KRW482,000,000	100
International Semiconductor Technology Ltd	Smart card sealing and testing	Taiwan	NT$1,200,000,000	50.80
Palmax Technology Co., Ltd.	Assembly and sale of "Hand Held" and PDA	Taiwan	NT$800,000,000	35.00

Indirectly held

Company	Main business	Place of Incorporation	Total paid-in Capital	The Company's effective equity interest (%)
Compal Electronics (China) Ltd.	Manufacture and sale of CRT monitors	PRC	US$25,000,000	100
Compal International Ltd.	Wholesale of monitors	British Virgin Islands	US$500,000	100
Sceptre Technologies Inc.	Maintenance and wholesale of monitors and notebook PCs	U.S.A.	US$1,088,000	60.00

RELATIONSHIP WITH KINPO ELECTRONICS, INC. ("KINPO")

Kinpo is principally engaged in the design and manufacture of consumer electronics products, communications products and PC peripheral products.

Kinpo was established in 1973 when it commenced production of calculators. The founding shareholders of Kinpo were Mr Chao-Yin Hsu and certain members of his extended family. The shares of Kinpo have been listed on the Taiwan Stock Exchange since November 1989.

As at 3 September 1999, Kinpo was the largest shareholder of the Company, with a holding of 9.44 per cent. of the Company's share capital. Following the issue of the GDRs, Kinpo's shareholding in the Company will be reduced to approximately 6.04 per cent. but Kinpo will remain the largest shareholder of the Company.

The Company is the largest shareholder of Kinpo, currently holding 9.00 per cent. of the share capital of Kinpo. Mr Sheng-Hsiung Hsu, chairman of the Board of Kinpo, is also Chairman of the Board of Compal. In addition, there are seven directors and two supervisors serving on both Boards.

Kinpo designs and manufactures consumer electronics products, such as calculators, electronic personal organisers and integrated receiver decoders; communications products, such as facsimile machines, global positioning system receivers and cordless telephones; and PC peripheral products, such as printers and scanners. It mainly sells its products to ODM and OEM customers. It also markets facsimile machines under its own brand names to retail customers in Taiwan and the PRC.

Business transactions between Compal and Kinpo over recent years have not been significant.

DIVIDENDS

All dividend payments are subject to a legally required minimum reserve. Dividends may be distributed either in cash or take the form of common stock. The ratio between any cash dividend and stock dividend is proposed by the Board of Directors and determined by the shareholders at a shareholders' meeting. Dividends are paid annually to shareholders usually within three months, in respect of both cash dividends and stock dividends, of shareholder approval being received. The dividends paid by the Company in respect of the last four years are set out in the following table:

	31 December			
	1995 (NT$)	1996 (NT$)	1997 (NT$)	1998 (NT$)
Cash dividend per Share	0.5	—	—	1
Stock dividend per Share[(1)]	1.5	3	4	3.5

Note:—

(1) Holders of shares receive in a stock dividend the number of shares equal to the NT dollar value per share of the declared dividend, multiplied by the number of shares owned, divided by the par value of NT$10 per share.

MARKET PRICE INFORMATION

The Shares have been listed on the TSE since 18 February 1992. The table below sets forth, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the TSE for the Shares (adjusted for the effects of rights issue, employee bonus and stock dividends) and the high and low of the daily closing values of the TSE Index.

	Closing Price Per Share(1) High	Closing Price Per Share(1) Low	Average Daily Trading Volume	Taiwan Stock Exchange Index High	Taiwan Stock Exchange Index Low
	(NT$)	(NT$)	(In Thousands of Shares)		
1995 First Quarter	57.50	48.30	2,244.24	7,124.66	6,167.79
Second Quarter	57.00	38.10	3,011.44	6,575.71	5,238.79
Third Quarter	47.40	26.10	5,932.56	5,624.69	4,503.37
Fourth Quarter	32.20	26.20	4,148.64	5,260.78	4,565.72
1996 First Quarter	30.60	27.30	4,159.12	5,146.04	4,690.22
Second Quarter	37.30	29.60	10,618.53	6,560.41	5,127.49
Third Quarter	43.00	31.40	8,893.55	6,535.59	5,955.50
Fourth Quarter	73.50	41.70	12,944.97	6,982.81	6,359.67
1997 First Quarter	100.00	61.50	15,904.45	8,526.20	6,820.35
Second Quarter	142.00	94.50	20,733.07	9,030.28	7,952.12
Third Quarter	153.00	100.00	22,759.99	10,116.84	8,708.83
Fourth Quarter	106.00	69.50	21,664.00	8,695.02	7,089.56
1998 First Quarter	140.50	87.00	21,573.81	9,277.09	7,375.14
Second Quarter	152.00	85.50	25,358.06	9,266.68	7,117.11
Third Quarter	125.00	97.00	22,087.79	8,047.67	6,251.38
Fourth Quarter	115.00	89.00	15,050.69	7,435.84	6,418.43
1999 January	105.00	89.00	11,806.29	6,438.30	5,984.00
February	89.50	80.00	12,106.87	6,318.52	5,474.79
March	92.50	78.50	15,415.28	7,043.23	6,263.54
April	114.50	88.00	24,404.00	7,629.09	7,018.68
May	113.00	81.50	27,450.48	7,614.60	7,316.57
June	127.00	88.50	49,811.86	8,608.91	7,397.62
July	133.00	106.00	40,106.75	8,593.35	7,326.75
August	119.00	104.00	33,024.96	8,157.73	6,823.52
September	109.00	96.00	15,872.50	8,273.33	7,577.85
October	109.50	98.00	10,913.80	7,879.91	7,501.63
November (up to 8 November)	108.50	102.00	11,340.43	7,814.89	7,376.56

Source: Taiwan Economic Journal Data Bank

On 8 November 1999, the closing price of the Shares on the TSE was NT$ 103.50.

Note:

(1) Stock prices have not been retroactively adjusted for stock dividends paid by the Company.

AUDITOR'S REPORTS AND NON-CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY FOR, AND AS AT, THE THREE YEARS ENDED 31 DECEMBER 1996, 1997 AND 1998

Independent Auditors' Report

The Board of Directors
Compal Electronics Inc.:

We have audited the non-consolidated balance sheets of Compal Electronics Inc. as of December 31, 1996, 1997 and 1998, and the related non-consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended expressed in New Taiwan dollars. Our audits were made in accordance with Republic of China generally accepted auditing standards and the "Guidelines for Certified Public Accountants' Examinations and Reports on Financial Statements" and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As stated in note 18 to the financial statements, the Company's provision of raw materials to its related parties, Cal-Comp Thailand and CPI, for processing purposes should not be treated as sales. For the purpose of comparison, the recognized revenues and costs from those transactions, which amounted to $462,098 and $453,908, were off-set for the year ended December 31, 1996 and 1997. The restatements to the financial statements has no impact on the net income for the years ended December 31, 1996 and 1997.

As discussed in note 2 to the financial statements, the reporting currency of Compal Electronics Inc. is the New Taiwan dollar. The accompanying financial statements for 1998 have been translated into United Stated dollars from the financial statements expressed in New Taiwan dollars, solely for the convenience of the readers. Such translation methodology is described in note 2 to the financial statements.

In our opinion, the non-consolidated financial statements referred to in the first paragraph present fairly the financial position of Compal Electronics Inc. as of December 31, 1996, 1997 and 1998, and the results of its operations and its cash flows for the years then ended, in conformity with the Republic of China generally accepted accounting principles applied on a consistent basis.

KPMG
February 1, 1999

COMPAL ELECTRONICS INC.

Balance Sheets
December 31, 1996, 1997 and 1998
(expressed in thousands of dollars)

	New Taiwan dollars						US dollars (note 2)
	December 31, 1996 (Restated)		December 31, 1997 (Restated)		December 31, 1998		December 31, 1998
Assets	Amount	%	Amount	%	Amount	%	*Amount*
Current assets:							
Cash and cash equivalents (note 3)	$6,428,063	47.5	9,902,308	40.8	10,244,354	34.5	*318,049*
Short-term investments, net (note 4)	21,005	0.1	363,944	1.5	23,970	0.1	*744*
Notes and accounts receivable, net — non-related parties (note 5)	1,295,064	9.6	3,000,122	12.4	4,691,568	15.8	*145,656*
Notes and accounts receivable, net — related parties (note 14)	860,457	6.3	1,366,100	5.6	1,282,945	4.3	*39,831*
Inventories, net (note 6)	2,249,332	16.6	2,284,105	9.4	1,789,453	6.0	*55,556*
Prepayments (notes 11 and 14)	127,822	0.9	485,179	2.0	123,671	0.4	*3,839*
Other current assets (notes 13, 14 and 16)	135,992	1.1	485,027	2.1	1,326,587	4.5	*41,185*
Total current assets	11,117,735	82.1	17,886,785	73.8	19,482,548	65.6	*604,860*
Long-term equity investments (note 7)	713,852	5.3	3,992,586	16.5	7,138,994	24.1	*221,639*
Property, plant and equipment (note 8):							
Land	687,464	5.1	1,297,517	5.4	1,297,517	4.4	*40,283*
Building	272,089	2.0	286,782	1.2	336,552	1.1	*10,449*
Machinery and equipment	429,177	3.2	514,940	2.1	568,680	1.9	*17,655*
Molding equipment	315,340	2.3	235,643	1.0	365,512	1.2	*11,348*
Other equipment	135,213	1.0	167,064	0.6	206,272	0.8	*6,404*
	1,839,283	13.6	2,501,946	10.3	2,774,533	9.4	*86,139*
Less: accumulated depreciation	(417,848)	(3.1)	(372,858)	(1.5)	(553,856)	(1.9)	*(17,195)*
Unfinished construction and prepayment for purchase of equipment	128,778	0.9	201,289	0.8	806,961	2.7	*25,053*
Net property, plant and equipment	1,550,213	11.4	2,330,377	9.6	3,027,638	10.2	*93,997*
Other assets:							
Deferred expense and other	93,533	0.7	30,993	0.1	41,011	0.1	*1,273*
Deferred income tax assets, net (note 13)	71,723	0.5	5,167	—	—	—	—
Total other assets	165,256	1.2	36,160	0.1	41,011	0.1	*1,273*
Total assets	$13,547,056	100.0	24,245,908	100.0	29,690,191	100.0	*921,769*

See accompanying notes to financial statements.

dollars note 2)
ber 31, 1998
Amount
318,049
744
145,656
39,831
55,556
3,839
41,185
604,860
221,639
40,283
10,449
17,655
11,348
6,404
86,139
(17,195)
25,053
93,997
1,273
—
1,273
921,769

Balance Sheets
December 31, 1996, 1997 and 1998
(expressed in thousands of dollars)

	New Taiwan dollars						US dollars (note 2)
	December 31, 1996 (Restated)		December 31, 1997 (Restated)		December 31, 1998		December 31, 1998
Liabilities and Stockholders' Equity	Amount	%	Amount	%	Amount	%	*Amount*
Current liabilities:							
Short-term loans (note 9)	$660,482	4.9	524,962	2.2	173,217	0.6	5,378
Notes and accounts payable, net — nonrelated parties	1,633,854	12.1	3,143,483	12.9	4,259,757	14.3	132,250
Notes and accounts payable, net — related parties (note 14)	435,900	3.2	30,542	0.2	1,423	—	44
Income tax payable	88,492	0.7	116,111	0.5	179,151	0.6	5,562
Accrued expenses	349,755	2.5	835,222	3.4	793,240	2.7	24,627
Other current liabilities	110,618	0.8	380,940	1.6	305,331	1.0	9,479
Total current liabilities	3,279,101	24.2	5,031,260	20.8	5,712,119	19.2	177,340
Long-term liabilities:							
Convertible bonds payable (note 10)	2,632,541	19.5	690,328	2.8	244,745	0.8	7,598
Long-term loans	1,595	—	—	—	—	—	—
Total long-term liabilities	2,634,136	19.5	690,328	2.8	244,745	0.8	7,598
Other liabilities:							
Deposit-in	230	—	273	—	269	—	8
Deferred income tax liabilities, net (note 13)	—	—	—	—	23,305	0.1	724
Unrealized profit from sales to affiliates	21,557	0.1	24,397	0.1	27,545	0.1	855
Credit balance of long-term equity investments (note 7)	49,835	0.4	131,021	0.5	1,894	—	59
	71,622	0.5	155,691	0.6	53,013	0.2	1,646
Total liabilities	5,984,859	44.2	5,877,279	24.2	6,009,877	20.2	186,584
Capital Stock (note 12):							
Common stock	3,676,000	27.1	5,811,922	24.0	8,446,417	28.5	262,230
Entitlement certificates of bond-to-stock conversion	—	—	22,708	0.1	2,356	—	73
Advance receipts for common stock	—	—	—	—	5,620	—	174
	3,676,000	27.1	5,834,630	24.1	8,454,393	28.5	262,477
Capital reserve (note 12):							
Paid-in capital in excess of par value	2,212,812	16.4	7,958,530	32.9	6,592,188	22.3	204,663
Gain on disposal of property, plant and equipment	274,443	2.0	20,535	—	21,093	—	655
	2,487,255	18.4	7,979,065	32.9	6,613,281	22.3	205,318
Retained earnings (note 12):							
Legal reserve	83,343	0.6	193,713	0.8	533,465	1.8	16,562
Special reserve	93,590	0.7	37,851	0.2	269,295	0.9	8,361
Unappropriated retained earnings	1,196,247	8.8	4,266,612	17.6	7,744,205	26.1	240,428
	1,373,180	10.1	4,498,176	18.6	8,546,965	28.8	265,351
Foreign currency translation adjustments	25,762	0.2	56,758	0.2	65,675	0.2	2,039
Total stockholders' equity	7,562,197	55.8	18,368,629	75.8	23,680,314	79.8	735,185
Commitments and contingent liabilities (notes 14 and 16)							
Total liabilities and stockholders' equity	$13,547,056	100.0	24,245,908	100.0	29,690,191	100.0	921,769

See accompanying notes to financial statements.

COMPAL ELECTRONICS INC.

Statements of Income

Years ended December 31, 1996, 1997 and 1998
(expressed in thousands of dollars, except earning per share)

	New Taiwan dollars						US dollars (note 2)
	1996 (Restated)		1997 (Restated)		1998		1998
	Amount	%	Amount	%	Amount	%	Amount
Operating revenue, net (note 18)	$19,292,840	100.0	25,980,327	100.0	36,977,906	100.0	1,148,026
Cost of sales (note 18)	17,276,636	89.5	22,498,737	86.6	31,337,978	84.8	972,927
Gross profit	2,016,204	10.5	3,481,590	13.4	5,639,928	15.2	175,099
Increase in unrealized gross profit from sales to affiliates	(13,242)	(0.1)	(2,840)	—	(3,148)	—	(98)
	2,002,962	10.4	3,478,750	13.4	5,636,780	15.2	175,001
Operating expenses:							
Selling expenses	264,349	1.4	648,221	2.5	440,767	1.2	13,684
Administrative expenses	180,363	0.9	302,118	1.2	330,746	0.9	10,269
Research and development expenses	310,477	1.6	430,370	1.6	535,664	1.4	16,630
	755,189	3.9	1,380,709	5.3	1,307,177	3.5	40,583
Operating income	1,247,773	6.5	2,098,041	8.1	4,329,603	11.7	134,418
Non-operating income:							
Interest income	83,046	0.4	297,927	1.2	619,772	1.7	19,242
Investment gain, net (note 7)	—	—	—	—	476,333	1.3	14,788
Gain on foreign currency exchange, net	—	—	1,377,108	5.2	—	—	—
Gains on sale of fixed assets	55,181	0.3	332	—	743	—	23
Other	18,073	0.1	136,628	0.5	132,341	0.3	4,109
	156,300	0.8	1,811,995	6.9	1,229,189	3.3	38,162
Non-operating expenses and losses:							
Interest expense	47,128	0.3	158,645	0.6	47,827	0.1	1,485
Investment loss, net (note 7)	24,527	0.1	56,712	0.2	—	—	—
Loss on foreign currency exchange, net	46,327	0.2	—	—	397,623	1.1	12,345
Provision for inventory loss	18,876	0.1	109,256	0.4	104	—	3
Other	13,549	0.1	5,224	—	9,646	—	299
	150,407	0.8	329,837	1.2	455,200	1.2	14,132
Net income before income tax expense	1,253,666	6.5	3,580,199	13.8	5,103,592	13.8	158,448
Income tax expense (note 13)	94,839	0.5	182,432	0.7	232,575	0.6	7,221
Net income	$1,158,827	6.0	3,397,767	13.1	4,871,017	13.2	151,227
Earnings per share (expressed in New Taiwan dollars):	$3.86		6.70		5.82		0.18
Earnings per share of 1997 calculated by adjusting dividends declared in 1998 retroactively	$1.74		4.49				

See accompanying notes to financial statements

Statements of Changes in Stockholders' Equity

Years ended December 31, 1996, 1997 and 1998
(expressed in thousands of dollars)

	Common stock	Entitlement certificates of bond-to-stock conversion	Capital reserve	Retained earnings Legal reserve	Retained earnings Special reserve	Retained earnings Unappropriated	Foreign currency translation adjustments	Total
1996 New Taiwan dollars								
Balance on January 1, 1996	$2,583,000	—	1,692,088	54,684	27,747	405,153	1,894	4,764,566
Appropriation:								
Increase in special reserve	—	—	—	—	65,843	(65,843)	—	—
Legal reserve	—	—	—	28,659	—	(28,659)	—	—
Employees' bonuses	5,550	—	—	—	—	(5,732)	—	(182)
Directors' remunerations	—	—	—	—	—	(5,732)	—	(5,732)
Stock dividends	77,490	—	—	—	—	(77,490)	—	—
Cash dividends	—	—	—	—	—	(129,150)	—	(129,150)
Gain on disposal of property, plant and equipment transferred to capital reserve	—	—	55,127	—	—	(55,127)	—	—
Capital reserve transferred to common stock	700,000	—	1,050,000	—	—	—	—	—
Convertible bond transferred to common stock	309,960	—	(309,960)	—	—	—	—	1,750,000
Advance receipts for common stock	—	—	—	—	—	—	—	—
Net profit for 1996	—	—	—	—	—	1,158,827	—	1,158,827
Foreign currency translation adjustments	—	—	—	—	—	—	23,868	23,868
1997 New Taiwan dollars								
Balance on December 31, 1996	3,676,000	—	2,487,255	83,343	93,590	1,196,247	25,762	7,562,197
Appropriation:								
Decrease in special reserve	—	—	—	—	(55,739)	55,739	—	—
Legal reserve	—	—	—	110,370	—	(110,370)	—	—
Employees' bonuses	22,074	—	—	—	—	(22,074)	—	—
Directors' remunerations	—	—	—	—	—	(22,074)	—	(22,074)
Stock dividends	228,374	—	—	—	—	(228,374)	—	—
Gain on disposal of property, plant and equipment transferred to capital reserve	—	—	249	—	—	(249)	—	—
Capital increment through cash	600,000	—	4,680,000	—	—	—	—	5,280,000
Capital reserve transferred to common stock	913,497	—	(913,497)	—	—	—	—	—
Convertible bond transferred to common stock	371,977	22,708	1,725,058	—	—	—	—	2,119,743
Net profit for 1997	—	—	—	—	—	3,397,767	—	3,397,767
Foreign currency translation adjustments	—	—	—	—	—	—	30,996	30,996
Balance on December 31, 1997	$5,811,922	22,708	7,979,065	193,713	37,851	4,266,612	56,758	18,368,629

See accompanying notes to financial statements.

COMPAL ELECTRONICS INC.

Statements of Changes in Stockholders' Equity (Continued)

Years ended December 31, 1996, 1997 and 1998
(expressed in thousands of dollars)

	Common stock	Advance receipts for common stock	Entitlement certificates of bond-to-stock conversion	Capital reserve	Retained earnings Legal reserve	Retained earnings Special reserve	Retained earnings Unappropriated	Foreign currency translation adjustments	Total
1998 New Taiwan dollars									
Balance on December 31, 1997	$5,811,922	—	22,708	7,979,065	193,713	37,851	4,266,612	56,758	18,368,629
Appropriation:									
Increase in special reserve	—	—	—	—	—	231,444	(231,444)	—	—
Legal reserve	—	—	—	—	339,752	—	(339,752)	—	—
Employees' bonuses	169,874	—	—	—	—	—	(169,876)	—	(2)
Directors' remunerations	—	—	—	—	—	—	(67,950)	—	(67,950)
Stock dividends	583,844	—	—	—	—	—	(583,844)	—	—
Gain on disposal of property, plant and equipment transferred to capital reserve	—	—	—	558	—	—	(558)	—	—
Capital reserve transferred to common stock	1,751,532	—	—	(1,751,532)	—	—	—	—	—
Convertible bond transferred to common stock	129,245	—	(20,352)	385,190	—	—	—	—	494,083
Advance receipts for common stock	—	5,620	—	—	—	—	—	—	5,620
Net profit for 1998	—	—	—	—	—	—	4,871,017	—	4,871,017
Foreign currency translation adjustments	—	—	—	—	—	—	—	8,917	8,917
Balance on December 31, 1998	$8,446,417	5,620	2,356	6,613,281	533,465	269,295	7,744,205	65,675	23,680,314
1998 US dollars (note 2)									
Balance on December 31, 1997	$180,438	—	706	247,720	6,014	1,175	132,462	1,762	570,277
Appropriation:									
Increase in special reserve	—	—	—	—	—	7,186	(7,186)	—	—
Legal reserve	—	—	—	—	10,548	—	(10,548)	—	—
Employees' bonuses	5,274	—	—	—	—	—	(5,274)	—	—
Directors' remunerations	—	—	—	—	—	—	(2,109)	—	(2,109)
Stock dividends	18,126	—	—	—	—	—	(18,126)	—	—
Gain on disposal of property, plant and equipment transferred to capital reserve	—	—	—	18	—	—	(18)	—	—
Capital reserve transferred to common stock	54,379	—	—	(54,379)	—	—	—	—	—
Convertible bond transferred to common stock	4,013	—	(633)	11,959	—	—	—	—	15,339
Advance receipts for common stock	—	174	—	—	—	—	—	—	174
Net profit for 1998	—	—	—	—	—	—	151,227	—	151,227
Foreign currency translation adjustments	—	—	—	—	—	—	—	277	277
Balance on December 31, 1998	$262,230	174	73	205,318	16,562	8,361	240,428	2,039	735,185

See accompanying notes to financial statements.

Statements of Cash Flows

Years ended December 31, 1996, 1997 and 1998
(expressed in thousands of dollars)

	New Taiwan dollars			*US dollars (note 2)*
	1996	1997	1998	*1998*
Cash flows from operating activities:				
Net income	$1,158,827	3,397,767	4,871,017	*151,227*
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	191,462	180,271	230,772	*7,165*
Provision of allowance for bad debts, sales returns and discounts	18,693	234,873	21,071	*654*
Provision of allowance for inventory loss	18,876	109,256	104	*3*
Equity on (gain) loss of affiliates, net	31,790	54,562	(486,113)	*(15,092)*
Increase in notes and accounts receivables	(408,069)	(2,445,574)	(1,629,362)	*(50,586)*
Decrease (increase) in inventories	(469,404)	(144,029)	494,548	*15,354*
Decrease (increase) in prepayment and other current assets	25,753	(706,392)	(480,052)	*(14,904)*
Increase in notes and accounts payable	939,668	1,104,271	1,087,155	*33,752*
Increase in income tax payable	83,433	27,619	63,040	*1,957*
Increase (decrease) in accrued expenses and other current liabilities	202,877	824,747	(117,592)	*(3,651)*
Increase in accrued premium of convertible bonds and other	—	154,708	48,499	*1,506*
Other	(26,801)	74,497	16,308	*506*
Cash provided by operating activities	1,767,105	2,866,576	4,119,395	*127,891*
Cash flows from investing activities:				
Additions to property, plant and equipment	(396,946)	(951,754)	(940,401)	*(29,196)*
Sale of property, plant and equipment	9,723	23,868	20,109	*624*
Decrease (increase) in short-term investments	4,120	(342,939)	339,974	*10,555*
Additions to long-term investments	(394,218)	(3,223,548)	(2,780,505)	*(86,324)*
Other	(75,845)	(18,812)	(25,752)	*(799)*
Cash used in investing activities	(853,166)	(4,513,185)	(3,386,575)	*(105,140)*
Cash flows from financing activities:				
Increase (decrease) in short-term loans	403,219	(135,520)	(351,745)	*(10,920)*
Capital injection by cash	1,750,000	5,280,000	5,620	*174*
Directors' remuneration and employees' bonus	(135,064)	(22,074)	(67,950)	*(2,109)*
Increase (decrease) in deposits in	(74)	43	23,301	*723*
Increase in convertible bonds payable	2,611,645	—	—	—
Other	(3,123)	(1,595)	—	—
Cash provided (used in) by financing activities	4,626,603	5,120,854	(390,774)	*(12,132)*
Net increase in cash and cash equivalents	5,540,542	3,474,245	342,046	*10,619*
Cash and cash equivalents at beginning of year	887,521	6,428,063	9,902,308	*307,430*
Cash and cash equivalents at end of year	$6,428,063	9,902,308	10,244,354	*318,049*
Supplementary disclosures of cash flow information:				
Cash paid during the period for:				
Interest	$22,831	30,434	11,111	*345*
Income taxes paid	$22,860	146,809	233,230	*7,241*
Investing and financing activities not effecting cash flows:				
Convertible bonds payable and others transferred to capital stock and capital reserves	$—	2,119,743	494,083	*15,339*

See accompanying notes to financial statements.

COMPAL ELECTRONICS INC.

Notes to Financial Statements

December 31, 1996, 1997 and 1998
(expressed in thousands of dollars unless otherwise specified)

1. **Organization**

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

2. **Summary of Significant Accounting Policies**

(a) Foreign currency transactions

The Company maintains its books in New Taiwan dollars. Foreign currency transactions are recorded in New Taiwan dollars at the exchange rates prevailing on the transaction dates. All assets and liabilities denominated in foreign currency are translated into New Taiwan dollars at the exchange rates prevailing on the balance sheet date. Gains or losses resulting from settlement or translation are recognized as non-operating income or losses.

The Company's forward exchange contracts are intended to hedge the risks of changes in foreign currency exchange rates. Forward exchange contract receivables and payables are recorded in New Taiwan dollars at the spot rate on the date of contract inception, and the balances on the balance sheet date are 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.

The financial statements of foreign investees reported in foreign currencies are translated into to New Taiwan dollars at the exchange rates prevailing on the balance sheet date, with the exception of shareholders' equity, which is translated at historical rates, and revenues, costs and expenses, which are translated at the weighted-average exchange rates during the reporting period. Translation differences resulting from translation of the financial statements into New Taiwan dollars are recorded as foreign currency translation adjustments, a separate component of stockholders' equity.

(b) Cash equivalents

Cash equivalents represent investments in bonds purchased under resale agreements and commercial paper with a maturity of three months or less from the date of investment.

(c) Short-term investment

Short-term investments represent investments in certificates of beneficial interest and commercial paper purchased under resale agreements. Certificates of beneficial interest are stated at the lower of cost or market value. Cost is determined using the weighted-average method. Market value of closed-end certificates of beneficial interest is based on the average closing price of the last month of the accounting period. The value of open-end certificates of beneficial interest is based on the net value on the balance sheet date. Commercial paper purchased under resale agreement is treated as a financing transaction and booked based on the actual cost. The difference between the acquisition and selling prices of commercial paper purchased under resale agreement is recognized as interest revenue.

(d) Allowance for doubtful accounts receivable

Provision for bad debts is based on an aging analysis and the likelihood of collection of doubtful accounts.

(e) Inventories

Inventories are stated at the lower of cost or market value. Cost is determined by using the weighted-average method. 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.

(f) Long-term equity investments

Investments in listed equity securities which are intended to be held for the long-term and in non-listed equity securities are accounted for as long-term equity investments. Long-term investments in 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, and 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 cost of investment and the amount of underlying equity in net assets of an investee is amortized using the straight-line method over ten years.

The financial statements of [illegible] financial statements as of the end of each fiscal year, except for those whose total assets and revenues do not exceed 10% of the Company's total assets and revenues, respectively. In addition, if the total assets or sales of all excluded investees exceed 30% of the corresponding accounts of the Company, then each such excluded investee whose total assets or sales exceed 3% of the corresponding accounts of the Company shall be included in the consolidated financial statements. The investees shall be included in the consolidated financial statements thereafter, until the percentage of all excluded investees decreases to less than 20%.

(g) Property, plant and equipment

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 have 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 cost using the same method. Gains on the disposal of property, plant and equipment are included in non-operating income, and are transferred to capital reserve in the year of disposal, net of the related income tax.

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

(h) Deferred expenses

Charges for royalties are deferred and amortized over the contract periods, and costs of computer software are amortized by using the straight-line method over three years.

(i) 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. In addition, the redemption price over the principal amount of the redeemable convertible bonds, is amortized within the issuance date and the last redeemable date by using the interest method. The amount is recognized as a liability.

The entitlement certificate of bond-to-stock conversion is 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 convertible bond payable over the par value of the common stock and the related accrued premium, accrued interest and deferred issuance costs are transferred to capital reserve — paid-in capital in excess of par value. In accordance with the conversion rules, the entitlement certification of bond-to-stock conversion is registered as common stock twice a year.

(j) Retirement plan

The Company has established an employee noncontributory retirement plan covering all regular employees. 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 per cent. of salaries and wages to a pension fund 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 fund is insufficient.

The Company had its pension plan actuarially valued on the year-end date and recognized 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 employee for 20 years.

(k) Income taxes

Income taxes is calculated based on accounting income. The amounts for deferred tax liabilities or 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 shall be recorded as deferred tax liability. The tax effects of deductible temporary differences and tax credits will be recognized as deferred tax assets. An allowance is provided for deferred tax assets that may not be realized in the future.

Deferred tax assets or liabilities are classified as current or noncurrent based on the classification of the asset or liability that resulted in the deferred item, or on certain transactions not directly related to an asset or liability, the timing of recognition of the deferred item for income tax purposes.

(l) Earnings per share

Earnings 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 are not 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 per cent. If the dilution effect is greater than 3 per cent., 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 dividends issued.

(m) Convenience translation into US dollars

The financial statements are stated in New Taiwan dollars. Translation of the 1998 New Taiwan dollar amounts into US dollar amounts are included solely for the convenience of the readers, using the average of the buying and selling rate provided by the Bank of Taiwan on December 31, 1998, of NT$32.21 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

	New Taiwan dollars December 31,			*US dollars (note 2) December 31,*
	1996	1997	1998	*1998*
Cash on hand and petty cash	$625	583	601	*19*
Checking accounts and demand deposits	10,005	42,692	27,268	*847*
Time deposits	6,088,953	9,247,183	10,211,511	*317,029*
Bonds purchased under resale agreement and commercial paper	328,480	611,850	4,974	*154*
	$6,428,063	9,902,308	10,244,354	*318,049*

4. Short-term Investments

	New Taiwan dollars December 31,			*US dollars (note 2) December 31,*
	1996	1997	1998	*1998*
Open-end certificates of beneficial interest (net asset value as of December 31, 1996, 1997 and 1998 were $23,660, $81,208 and $18,980, respectively)	$21,005	60,040	20,000	*621*
Close-end certificates of beneficial interest (market price was $4,990 in 1998)	—	—	10,000	*310*
Foreign negotiable certificates of deposits	—	303,904	—	—
Less: allowance for losses on valuation of short-term investments	—	—	(6,030)	*(187)*
	$21,005	363,944	23,970	*744*

5. Notes Receivable, Accounts Receivable and Doubtful Accounts Receivable — nonrelated parties

	New Taiwan dollars December 31,			*US dollars (note 2) December 31,*
	1996	1997	1998	*1998*
Notes and accounts receivable:				
Notes receivable	$34,525	40,802	85,289	*2,648*
Accounts receivable	1,283,760	3,117,239	4,798,404	*148,972*
Less: allowance for bad debt	(12,715)	(31,426)	(22,709)	*(705)*
allowance for sales return and discount	(10,506)	(126,493)	(169,416)	*(5,259)*
	$1,295,064	3,000,122	4,691,568	*145,656*
Doubtful accounts receivable:				
Doubtful accounts receivable	$30,537	35,446	35,446	*1,100*
Less: allowance for bad debt	(30,537)	(35,446)	(35,446)	*(1,100)*
	$—	—	—	—

The specific receivables with delayed payment or with reasonable doubt can be claimed, or for clients suffering critical financial problems, can be recorded under doubtful accounts receivable. These receivables are provided for under the allowance for bad debt.

6. Inventories

	New Taiwan dollars December 31,			US dollars (note 2) December 31,
	1996	1997	1998	1998
Finished goods	$273,468	432,223	102,116	*3,171*
Work in process	710,245	703,249	410,293	*12,738*
Raw materials	1,147,443	1,173,168	929,421	*28,855*
Inventories in transit	187,895	154,440	500,708	*15,545*
	2,319,051	2,463,080	1,942,538	*60,309*
Less: allowance for inventory loss	(69,719)	(178,975)	(153,085)	*(4,753)*
	$2,249,332	2,284,105	1,789,453	*55,556*
Insurance amount for inventory	$2,766,000	2,716,000	2,000,000	*62,093*

7. Long-term Equity Investments and Credit Balance of Long-term Equity Investment

	New Taiwan dollars December 31,						US dollars (note 2) December 31,
	1996		1997		1998		1998
	Ownership %	Amount	Ownership %	Amount	Ownership %	Amount	*Amount*
Long-term equity investments:							
Under the lower of cost or market value:							
Kinpo Electronics, Inc. (Market value was $175,197, $1,310,662 and $2,167,207 at December 31, 1996, 1997 and 1998, respectively)	2	$85,352	9	1,307,684	9	1,307,684	*40,599*
Under the equity method:							
Compal Investment Corp. (Compal Investment)	—	—	100	594,282	100	3,514,570	*109,114*
Compal Holding Corp. (Compal Holding)	—	—	100	904,056	100	941,591	*29,233*
Just International Ltd. (Just)	100	408,615	100	720,611	100	824,909	*25,610*
Just International (Singapore) Pte Ltd. (Just — Singapore)	100	72,647	100	96,383	100	96,318	*2,990*
Compal Europe B.V. (CEBV)	—	—	—	—	100	48,098	*1,493*
Bizcom Electronics, Inc. (Bizcom)	100	16,468	100	28,780	100	60,477	*1,878*
Under the cost method:							
Cal-comp Electronics (Thailand) Ltd. (Cal-comp Thailand)	8	108,924	8	133,643	8	133,643	*4,149*
Armedia, Inc. (the original registered name was "Arcus Technology, Inc.")	5	7,629	5	7,629	5	7,629	*237*
Apack Technologies Inc. (Apack)	—	—	—	—	9	138,400	*4,297*
		699,635		3,793,068		7,073,319	*219,600*
Foreign currency translation adjustments		14,217		67,518		65,675	*2,039*
Subtotal		713,852		3,860,586		7,138,994	*221,639*
Prepayments for long-term investments	—	—	10	132,000	—	—	*—*
Total		$713,852		3,992,586		7,138,994	*221,639*
Credit balance of long-term equity investments:							
Campal Europe B.V. (CEBV)	100	$59,487	100	118,367	—	—	*—*
Pagine Corporation (Pagine)	78	1,894	78	1,894	78	1,894	*59*
		61,381		120,261		1,894	*59*
Foreign currency translation adjustments		(11,546)		10,760		—	*—*
Total		$49,835		131,021		1,894	*59*

(a) Net investment income and losses from long-term equity investments under the equity method for the years ended December 31, 1996, 1997 and 1998 amounted to $31,790 (loss), $54,562 (loss) and $486,113 (income), respectively, and were based on investee companies' audited financial statements.

(b) The Company funded its wholly owned subsidiaries, Compal Investment and Compal Holding in August 1997 and October 1997 in order to reinvest and build up strategic alliances.

(c) The Company increased its investment in Apack in May 1998 in order to integrate material suppliers and improve products' competitiveness. The percentage of ownership was 9.23%.

(d) The Company increased its investment in CEBV by $174,105 (US$5,300,000) in March 1998. The related registration procedures have been completed. The net investment balance of CEBV became positive after its capital was increased by cash injection. As such, the investment balance in CEBV was reclassified from a credit balance of long-term equity investment to long-term equity investment.

(e) As of December 31, 1996, 1997 and 1998, the original costs of long-term investments under the equity method were as follows:

	New Taiwan dollars			*US dollars (note 2)*
	December 31, 1996	December 31, 1997	December 31, 1998	*December 31, 1998*
Compal Investment	$—	599,940	3,199,940	*99,346*
Compal Holding	—	899,940	899,940	*27,940*
Just	414,538	736,024	736,024	*22,851*
Just — Singapore	73,140	96,270	96,270	*2,989*
Bizcom	2,488	2,488	2,488	*77*
Pagine	79,431	79,431	79,431	*2,466*
CEBV	1,437	1,437	175,542	*5,450*
	$571,034	2,415,530	5,189,635	*161,119*

8. Property, Plant and Equipment

As of December 31, 1996, 1997 and 1998, property, plant and equipment were insured for $874,400, $1,079,328 and $1,469,940, respectively. See note 15 for information regarding pledged assets.

9. Short-term Loans

(a) As of December 31, 1996, 1997 and 1998, all short-term loans were import loans under usance letter of credit (L/C). Certain loans were pledged by the Company's notes guaranteed by several directors.

(b) In 1996 and 1997, most of the short-term loans were paid off before the bank began to chart for the interest to account with the exception of certain loans in Japanese yen. Annual interest rates on short-term loans ranged from 1.06% – 1.41% and 1.06% – 1.59%, respectively.

(c) As of December 31, 1996, 1997 and 1998, the unused short-term credit lines amounted to approximately $3,981,656, $3,421,240 and $5,184,164, respectively.

10. Convertible Bonds Payable

In 1996, the Company issued overseas unsecured bonds with a face value of US$95,000,000. As of December 31, 1996, 1997 and 1998, the details of the convertible bonds payable were as follows:

	New Taiwan dollars			*US dollars (note 2)*
	December 31, 1996	December 31, 1997	December 31, 1998	*December 31, 1998*
Aggregate principal amount	$2,612,500	2,612,500	2,612,500	*81,108*
Converted amount (US$75,486,000 and US$88,480,000 in 1997 and 1998, respectively.)	—	(2,075,865)	(2,433,200)	*(75,542)*
Accrued premium	20,041	53,430	34,697	*1,077*
Losses on foreign currency exchange	—	100,263	30,748	*955*
Balance at the end of period	$2,632,541	690,328	244,745	*7,598*

The significant terms of the convertible bonds are as follows:

(a) *Interest:* rate 1.25% per annum after ROC withholding taxes, due June 30, annually;

(b) *Duration:* seven years (November 21, 1996 to November 21, 2003);

(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 November 21, 2003;

(d) *Redemption at the option of the Company:* [illegible] circumstances:

1. After November 21, 1999: if the closing price of the Company's common shares on the Taiwan Stock Exchange for a period of 30 consecutive trading days before redemption has been at least 140% of the conversion price in effect on each such trading day, the Company may notify the bondholders and redeem the bonds at their principal amount plus interest, which is calculated based on an annual interest rate of 7.13% and the number of days outstanding.

2. Certain changes, if any, in ROC taxation may require the Company to gross up for payments of principal, or to gross up for payment of interest or premium, at a rate exceeding 20%.

(e) *Redemption at the option of bondholders:* bondholders may opt to have the bonds redeemed by the Company on November 21, 2001, at 135.36% of the bond's principal amount.

(f) *Terms of conversion:*

1. Bondholders may opt to have the bonds converted into common stock of the Company from January 20, 1997 to November 6, 2003, instead of final cash redemption upon expiration of the bonds.

2. Conversion price: as of December 31, 1996, 1997 and 1998, the conversion price was $62.5, $46.2 and $32.33 per share of common stock, respectively.

3. The conversion price is translated into New Taiwan dollars at the fixed rate of NT$27.5 = US$1.

11. Pension

The Company had an actuarial valuation of its pension plan on December 31, 1996, 1997 and 1998, respectively. According to the actuarial reports, the reconciliation of funded status and accrued pension cost are as follows:

	New Taiwan dollars			*US dollars (note 2)*
	1996	1997	1998	*1998*
Benefit obligations:				
Vested benefit obligations	$—	—	(1,935)	*(60)*
Non-vested benefit obligations	(62,496)	(80,931)	(103,184)	*(3,203)*
Accumulated benefit obligation	(62,496)	(80,931)	(105,119)	*(3,263)*
Effect of estimated future increase in salary	(98,063)	(116,682)	(149,733)	*(4,649)*
Projected benefit obligation	(160,559)	(197,613)	(254,852)	*(7,912)*
Fair value of plan assets	154,537	202,563	254,674	*7,907*
Funded status	(6,022)	4,950	(178)	*(5)*
Net unrecognized transition assets	(20,932)	(19,830)	(18,728)	*(581)*
Unrecognized net loss	29,221	28,528	42,782	*1,327*
Prepaid pension cost	$2,267	13,648	23,876	*741*

The net pension costs in 1996, 1997 and 1998 consisted of the following:

	New Taiwan dollars			*US dollars (note 2)*
	1996	1997	1998	*1998*
Service cost	$23,005	25,815	34,867	*1,082*
Interest cost	7,607	11,239	14,575	*452*
Expected return on plan assets	(9,116)	(12,076)	(15,355)	*(476)*
Amortization of net unrecognized transition cost	(1,801)	(409)	103	*3*
Net pension cost	$19,695	24,569	34,190	*1,061*

Actuarial assumptions are as follows:

	1996	1997	1998
Discount rate	7.0%	7.0%	7.0%
Future salary increase rate	6.0%	6.0%	6.0%
Expected long-term rate of return on plan assets	7.0%	7.0%	7.0%

As of December 31, 1996, 1997 and 1998, there were no employees that qualified for retirement. No pension payment were made to participants in 1996, 1997 or 1998.

12. Stockholders' Equity

(a) Capital Increase

Based on a resolution of the annual stockholders' meeting held on March 27, 1996, the Company increased its authorized common stock to 450,000,000 shares, and increased its capital through the issuance of stock dividends by transfers from capital reserve, retained earnings and employees' bonuses of $393,000. In addition, based on a resolution of the board of directors' meeting held on August 29, 1996, the Company increased its common stock by a cash injection of $700,000 at $25 (New Taiwan dollars) per share on December 13, 1996. The total common stock issued after the capital expansion was 367,600,000 shares, at a par value of $10 (New Taiwan dollars)per share.

Based on a resolution of the annual stockholders' meeting held on May 29, 1997, the Company increased its authorized common stock to 850,000,000 shares, and increased its capital through the issuance of stock dividends by transferring capital reserves, retained earnings, and employees' bonuses, that aggregated $1,163,945.

A portion of the overseas convertible bonds were converted into 37,198,000 shares of common stock on March 22, 1997 and September 9, 1997.

Based on a resolution of the board of directors' meeting held on August 6, 1997, the Company increased its common stock by a cash injection of $600,000. The common stock was issued at $88 New Taiwan dollars per share on November 28, 1997.

A portion of the overseas convertible bonds were converted into 12,924,000 shares of common stock on February 25, 1998, and September 4, 1998.

Based on a resolution of the annual stockholders' meeting held on April 8, 1998, the Company increased its authorized common stock to 1,100,000,000 shares, and increased its capital through the issuance of stock dividends by transferring capital reserves, retained earnings, and employees' bonuses that aggregated $2,505,250.

Based on a resolution of the board of director's meeting held on September 3, 1998, the Company increased its common stock by a cash injection of $22,000. The capital injection application was approved by the authorities on November 19, 1998. The Common stock was issued at $80 new Taiwan dollars per share, on January 28, 1999. As of December 31, 1998, the amount of advance receipts for common stock was $5,620.

As of December 31, 1996, 1997 and 1998, the authorized common stock was $4,500,000, $8,500,000 and $11,000,000 at par value of NT$10, and the issued common stock amounted to $3,676,000, $5,811,922 and $8,446,417 respectively.

(b) Capital reserve

As of December 31, 1997 and 1998, the excess of the convertible price over the par value of common stock, and the related accrued premium and interest after net of deferred issuance cost, amounted to $1,725,058 and $2,110,248 and was transferred to capital reserve.

Pursuant to ROC Company Law, capital reserves can only be used to offset a deficit or to increase share capital. Cash dividends cannot be declared out of capital reserve. According to Securities and Futures Commission (SFC) regulations, capital increases by transferring additional paid-in capital in excess of par value, can be done once a year commencing in the following year. Such capitalization cannot exceed a certain percentage of paid-in capital in excess of par value and the capital issued, depending on the operating results of the Company.

(c) Special reserve

According to the Company's articles of incorporation, unrealized foreign currency exchange gains accounted for under Statement of Financial Accounting Standards No. 14, must be set aside as a special reserve before appropriation, if any. The special reserve shall be transferred to retained earnings upon realization.

(d) 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.

Pursuant to ROC Company Law, the legal reserve shall be used exclusively to offset losses, and shall 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.

13. Income Taxes

(a) The Company's purchase of machinery through an increase of capital in 1991, was for the production of notebook PCs, computer monitors, and terminals which met prescribed criteria under the "Statute for the Encouragement of Investment". The Company is therefore entitled to an income tax exemption for four years on income from such products from December 1, 1993 to November 30, 1997.

(b) The Company's purchase of machinery through a capital injection in 1995 is for the production of notebook PCs, multi-medium PCs, and 17 inches or above Liquid Crystal Display (LCD) monitors, meeting prescribed criteria under the "Statute for Upgrading Industries". The Company is therefore entitled to an income tax exemption on income from such products from September 1, 1997 to August 31, 2001.

(c) The Company's purchase of machinery [illegible] and meets prescribed criteria under the "Statute for Upgrading Industries". Based on the resolution of the shareholders' meeting held on April 8, 1998, the Company is therefore entitled to an income tax exemption for five years on income from such products. The tax exemption period is from January 31, 1998 to January 30, 2003.

(d) The Company's purchase of machinery through capital injection in 1997, is for the production of notebook PCs, which meets prescribed criteria under the "Statute for Upgrading Industries". According to the tax law: the Company may opt to have an income tax exemption for five years on income from such products, or the shareholders of the Company, who have held the shares for a period of over two years, may credit up to 20% of the acquisition price of such stocks against the profit-seeking enterprise income tax or the individual income tax payable, based on the resolution of the shareholders' meeting held within two years from the date of the cash injection, i.e. by October 16, 1999. The board of shareholders of the Company have not made the decision about which of the above options should be applied. Since the machinery has not been used, there is no impact on the calculation of the Company's income tax expense for the year ended December 31, 1998.

(e) The Company's income is subject to a 25% income tax. The income tax expense for the years ended December 31, 1996, 1997 and 1998, consisted of the following:

	New Taiwan dollars			*US dollars (note 2)*
	1996	1997	1998	*1998*
Current income tax expense	$106,293	165,691	246,749	*7,661*
Deferred income tax expense (benefits)	(11,454)	16,741	(14,174)	*(440)*
Income tax expense	$94,839	182,432	232,575	*7,221*

(f) The difference between "expected" income tax computed by applying the statutory income tax rate and income tax expense as reported in the accompanying financial statements, is summarized as follows:

	New Taiwan dollars			*US Dollars (note 2)*
	1996	1997	1998	*1998*
"Expected" income tax expense	$313,407	895,040	1,275,888	*39,612*
Investment gains recognized under the equity method (Domestic)	—	—	(89,456)	*(2,777)*
Estimated tax effect of tax exemption	(122,763)	(727,962)	(844,154)	*(26,208)*
Investment tax credits	(51,645)	(73,618)	(66,000)	*(2,049)*
Valuation allowance for deferred income tax assets	(36,893)	102,626	19,776	*614*
Underaccrued (overaccrued) income tax in prior years	10,649	(14,273)	(90,443)	*(2,808)*
Gain on sale of land	(13,741)	—	—	—
Other	(4,175)	619	26,964	*837*
Income tax expense	$94,839	182,432	232,575	*7,221*

(g) Deferred income tax assets (liabilities) as of December 31, 1996, 1997 and 1998 consisted of the following:

	New Taiwan dollars			US Dollars (note 2)
	1996	1997	1998	1998
Deferred income tax assets:				
Investment loss recognized under the equity method (overseas)	$47,048	60,774	65,094	2,021
Unrealized foreign currency exchange loss	7,216	38,686	48,490	1,505
Sales returns and discounts	12,932	35,089	42,354	1,315
Accrued warranty cost	1,500	69,292	63,420	1,969
Loss on valuation of inventory	17,430	44,744	31,253	970
Bad debt expense	7,634	22,825	5,706	177
Accrued loyalty cost	—	18,000	7,694	239
Other	27,583	13,585	16,685	518
Valuation allowance for deferred income tax assets	(27,445)	(130,071)	(149,847)	(4,652)
Net deferred income tax assets	93,898	172,924	130,849	4,062
Deferred income tax liabilities:				
Accrued pension liabilities	(1,352)	(4,830)	(7,374)	(229)
Unrealized foreign currency exchange gain	(5,955)	(98,244)	(2,673)	(83)
Investment gain recognized under the equity method (overseas)	—	—	(36,778)	(1,142)
Net deferred income tax assets	$86,591	69,850	84,024	2,608
Deferred income tax assets — current	$22,175	167,757	117,376	3,644
Deferred income tax liabilities — current	(7,307)	(103,074)	(10,047)	(312)
Net deferred income tax assets (liabilities) — noncurrent	71,723	5,167	(23,305)	(724)
	$86,591	69,850	84,024	2,608

(h) In 1998, according to the interpretations issued by the ROC Ministry of Finance, the Company is entitled to refile its 1997 tax returns for the revision of the tax-exemption formula under the "Statute for Upgrading Industries", and the tax credits for expenditure on dealing with Y2K issues. Therefore, the tax payable was reduced by $51,275. The tax authorities have assessed the Company's income tax returns through 1996.

(i) 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, creditable ratio, which represents the imputation credit per dollar of accumulated retained earnings, shall be calculated for resident shareholders when corporations declare dividends.

As of December 31, 1998, the Company's ICA balance was $158,041. After filing its 1998 income tax return, the Company's estimated creditable ratio for its 1998 earnings distribution to resident shareholders, was approximately 7.07%.

14. Related Party Transactions

(a) Name of the related parties and relationship

Related Party	Relationship with the Company
Cal-comp Thailand	Cal-comp Thailand's chairman of the board of directors is the same as the Company's chairman
Bizcom	100% owned subsidiary company accounted for under the equity method
CEBV	100% owned subsidiary company accounted for under the equity method
Compal International Ltd. (CPI)	100% owned subsidiary company accounted for under the equity method
Compal Investment	100% owned subsidiary company accounted for under the equity method
Sceptre Technologies, Inc. (Sceptre)	Investee company accounted for under the equity method starting from January 1998
Compower International Technology Co. Ltd. (CPR)	CPR's chairman of the board of directors is the same as the Company's

(b) Summary of signi[illegible]

(1) **Sales**

	New Taiwan dollars						US dollars (note 2)
	1996		1997		1998		1998
	Amount	% of net operating revenue	Amount	% of net operating revenue	Amount	% of net operating revenue	*Amount*
Sceptre	$1,639,925	8.5	2,687,707	10.3	2,647,770	7.2	*82,203*
CEBV	923,252	4.8	315,432	1.2	600,568	1.6	*18,646*
Bizcom	165,917	0.8	108,345	0.4	93,397	0.2	*2,900*
Other ..	155	—	418	—	104,562	0.3	*3,246*
	$2,729,249	14.1	3,111,902	11.9	3,446,297	9.3	*106,995*

Sale prices to related parties were similar to those for general customers. The collection periods were approximately 88 days for Sceptre, 45-120 days for CEBV, and 60-120 days for Bizcome.

(2) **Purchases**

	New Taiwan dollars						US dollars (note 2)
	1996		1997		1998		1998
	Amount	% of net purchases	Amount	% of net purchases	Amount	% of net purchases	*Amount*
CPI	$—	—	1,364,576	6.4	4,500,525	17.4	*139,724*
Cal-comp Thailand	2,613,219	15.7	759,608	3.6	—	—	—
Other ..	2,434	—	18,634	—	2,540	—	*79*
	$2,615,653	15.7	2,142,818	10.0	4,503,065	17.4	*139,803*

Purchase prices for finished goods from Cal-comp Thailand and CPI were similar to those for general suppliers.

(3) **Processing deal with related parties**

The Company offered raw material to Cal-Comp Thailand, and CPI, two of the Company's related parties, for processing.

The receivable balances resulting from the above transactions as of December 31, 1996, 1997 and 1998 were as follows:

	New Taiwan dollars December 31,			US dollars (note 2) December 31,
	1996	1997	1998	*1998*
Cal-Comp Thailand	$43,458	10	—	—
CPI	—	227,989	2,147	*67*
	$43,458	227,999	2,147	*67*

(4) **Notes and accounts receivable (payable), prepayment to suppliers**

The balances resulting from the above sales, purchases and other services transactions as of December 31, 1996, 1997 and 1998, were as follows:

	New Taiwan dollars December 31,						*US dollars (note 2) December 31,*
	1996		1997		1998		*1998*
	Amount	%	Amount	%	Amount	%	*Amount*
Notes and accounts receivable:							
Sceptre	$498,419	23.1	1,202,948	27.6	941,208	15.8	*29,221*
CEBV	310,244	14.4	165,095	3.8	209,779	3.5	*6,513*
Bizcom	66,117	3.1	84,765	1.9	83,822	1.4	*2,602*
CPR	—	—	—	—	41,797	0.7	*1,298*
Other	16	—	140	—	13,350	0.2	*414*
Less: allowance for bad debts	(14,339)	(0.7)	(86,848)	(2.0)	(7,011)	(0.1)	*(217)*
	$860,457	39.9	1,366,100	31.3	1,282,945	21.5	*39,831*
Prepayments to suppliers:							
CPI	$—	—	—	—	57,566	46.6	*1,787*
Notes and accounts payable:							
Cal-comp Thailand	$433,846	—	15,676	0.5	915	—	*28*
CPI	—	—	6,981	0.2	—	—	*—*
Other	2,054	—	7,885	0.3	508	—	*16*
	$435,900	—	30,542	1.0	1,423	—	*44*

(5) **Guarantees (expressed in thousand of US dollars, NT dollars or Netherlands guilders)**

	December 31,		
	1996	1997	*1998*
Loan guarantee:			
Sceptre	*US$2,000*	*US$2,000*	*US$2,000*
CEBV	*US$2,500*	*US$2,500*	*US$2,500*
Compal Investment	—	—	NT$1,150,000
	—	—	*US$18,000*
Credit guarantee:			
Compal Investment	—	*US$18,000*	—
	—	NT$1,550,000	NT$400,000
	—	*US$14,000*	*US$14,000*
CPI	—	NT$350,000	—
CEBV	NLG$4,000	NLG$4,000	—
Bizcom	*US$1,000*	—	—

15. **Pledged Assets**

The book value of assets pledged as collateral as of December 31, 1996, 1997 and 1998, is summarized as follows:

		New Taiwan dollars		
Asset	Subject	1996	1997	1998
Fixed assets	Long-term loan	$17,492	—	—

(a) As of December 31, 1997 and 1998, the unused balance of L/Cs for purchases of materials was approximately $312,151 and $163,107, respectively.

(b) As of December 31, 1998, the undue progress payments, according to the contracts signed by the Company with third parties for construction of the Company's new office building and factory, amounted to $1,070,925.

(c) On October 15, 1998, the Company entered into a purchase agreement with LG Semicon Co., Ltd. (LGS), a Korean Corporation, and made an advance payment amounting to US$30,000,000 (dollars). Accordingly, LGS issued an irrevocable stand-by L/C advance in the Company's favor, and agreed to supply the Company TFT LCD panels continuously and steadily at a most favorable pricing. However, due to a business merger between LGS and the third party, LGS and the Company mutually agreed to terminate the purchase agreement. As of February 26, 1999 the original advance payment to LGS has been collected by the Company.

17. Related Information about Financial Instruments

(a) Forward exchange contracts

The Company's forward exchange contracts are intended to hedge the risk of changes in foreign currency exchange rates, and not for speculation purposes. As of December 31, 1996, the outstanding forward contracts amounted to US$20,000,000, which have varying maturities from January 13, 1997 to February 18, 1997.

	December 31, 1996
Forward exchange contract receivables	$ 528,819
Forward exchange contract payables	(549,820)
Premium (discount)	2,049
Forward exchange contract payables, net	$ (18,952)

Forward exchange contract payables resulting from forward exchange contracts net of receivables are stated as other payables.

In order to minimize the exposure to credit risk, the Company entered into forward contracts with several internationally recognized financial institutions. The possibility of a breaching of the contracts is considered remote, and any loss shall be relatively immaterial even when the contract is broken. The forward exchange contract is also exposed to market risks for changes in foreign currency exchange rates, which, nevertheless, will be offset by the foreign currency assets and liabilities valued at the prevailing spot rate on the balance sheet date.

As of December 31, 1996, the balance of forward exchange contracts and their estimated fair values were as follows:

	December 31, 1996	
	Book value	Estimated fair value
Forward exchange contracts — other payables	$ (18,952)	(17,179)

The estimated fair value was based on quotes from financial institutions.

(b) Written Options

The Company sold several European option contracts, which can be exercised only upon expiration. No premium was received for those sold option contracts as of December 31, 1996. Gain or loss, after net of the premium, is recognized upon the exercise or expiration of the contract.

The average exercise price of the outstanding written options at the end of 1996 was approximately ¥110:US$. The spot rate of US dollar to Yen was approximately ¥116/US$ as of December 31, 1996.

As of December 31, 1996, the outstanding option contracts were as follows:

	Notional principal	Credit risk	Estimated premium would be received upon expiration	Estimated fair value
Written option-US dollar put	¥ 1,729,750	—	$ 3,521	$ 2,211

(c) Cash requirement of derivative financial instruments

The cash requirement of the Company's derivative financial instruments will be relatively immaterial as they can be settled by purchasing other derivatives to offset the original, or paying the net amount.

(d) Related Information about Financial Instruments

The carrying amounts and fair values of financial instruments as of December 31, 1998, were as follows:

	December 31, 1998	
	Carrying amounts	Fair values
Assets:		
Cash and cash equivalents	$ 10,244,354	10,244,354
Short-term investments	23,970	23,970
Notes and accounts receivable	5,974,513	5,974,513
Liabilities:		
Short-term loans	173,217	173,217
Notes and accounts payable	4,261,180	4,261,180
Convertible bonds payable	244,745	235,741

The fair values of financial instruments are estimated based on the following assumptions:

(a) The carrying amounts of short-term financial instruments approximate fair value due to the short maturity of these instruments. This concept is applied for cash and cash equivalents, notes and accounts receivable, short-term loans, and notes and accounts payable.

(b) The fair values of short-term investments are based on quoted market prices.

(c) The fair values of convertible bonds payable is estimated based on the current rates offered to the Company for debt of the same remaining maturities.

18. Other

(a) In 1996 and 1997, the Company offered raw materials to Cal-Comp Thailand and CPI, two of the Company's related parties, for processing. According to Securities and Futures Commission (SFC) regulations, this type of transaction should not been treated as sales. As such, for the purpose of comparison, the Company off-set the recognized revenues and costs from those transactions, which amounted to $462,098 and $453,908, and restated the 1996 and 1997 financial statements.

The restatement to the financial statements had no impact on the Company's net income for the year ended December 31, 1996 and 1997. The revenue and cost of sales after restatement were as follows:

Year		Before restatement	After restatement	Difference
1996	Revenue (net)	$ 19,754,938	19,292,840	(462,098)
	Cost of sales	17,738,734	17,276,636	(462,098)
1997	Revenue (net)	26,434,235	25,980,327	(453,908)
	Cost of sales	22,952,645	22,498,737	(453,908)

(b) As of December 31, 1998, 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
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
SystemSoft Corporation	Basic input system, keyboard control software and PCMCIA driver program.	April 1998 — March 2003

(c) Reclassification

Certain accounts for the 1996 and 1997 financial statements have been reclassified to conform with the 1998 presentation. Such reclassifications did not have a significant impact on the accompanying financial statements.

19. Segment Information

(a) Industrial information

The Company is engaged in a single industry, which manufactures and sells notebook personal computers and computer monitors.

(b) [illegible]

The Company has no foreign operating segment; thus no geographic information is provided.

(c) Export sales

Export sales to geographic areas over 10% of the total revenue in the income statements of 1996, 1997 and 1998 are summarized as follows:

	New Taiwan dollars			US dollars (note 2)
Destination area	1996	1997	1998	*1998*
The United States	$9,371,247	17,908,024	23,686,009	*735,363*
Europe	4,909,965	4,456,198	8,787,965	*272,833*
Asia	3,601,998	2,526,121	3,509,746	*108,964*
Other (individually less than 10% of total revenue)	770,542	494,461	533,885	*16,575*
	$18,653,752	25,384,804	36,517,605	*1,133,735*

(d) Major Clients

Sales to individual customers over 10% of the total revenue in the income statements of 1996, 1997 and 1998 are summarized as follows:

	New Taiwan dollars						US dollars (note 2)
	1996		1997		1998		*1998*
	Amount	% of net operating revenue	Amount	% of net operating revenue	Amount	% of net operating revenue	*Amount*
A Company	$5,131,405	26.4	11,217,169	42.3	17,634,870	47.7	*547,497*
B Company	3,029,730	15.6	5,131,596	19.4	4,243,530	11.5	*131,746*
C Company	1,639,925	8.4	2,685,279	10.1	2,647,770	7.2	*82,203*
D Company	—	—	1,919,260	7.2	7,847,568	21.2	*243,637*
	$9,801,060	50.4	20,953,304	79.0	32,373,738	87.6	*1,005,083*

AUDITOR'S REPORT AND NON-CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY FOR, AND AS AT, THE SIX-MONTH PERIODS ENDED 30 JUNE 1998 AND 1999

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Compal Electronics Inc.:

We have audited the non-consolidated balance sheets of Compal Electronics Inc. as of June 30, 1998 and 1999, and the non-consolidated related statements of income, changes in stockholders' equity and cash flows for the six month period then ended expressed in New Taiwan dollars. Our audits were made in accordance with generally accepted auditing standards and the "Guidelines for Certified Public Accountants' Examinations and Reports on Financial Statements" and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As stated in note 7 of the financial statements, the amounts for long-term equity investments accounted for under the equity method, which amounted to $5,109,660,000 and $6,364,600,000, as of June 30, 1998 and 1999, respectively, and the related investment losses of $65,225,000 and gains of $145,125,000, recognized for the six month period ended June 30, 1998 and 1999, respectively, were based on the investee companies' unaudited financial statements.

As discussed in note 2 to the financial statement, the reporting currency of Compal Electronics Inc. is the New Taiwan dollar. The accompanying financial statements as of and for the six month period ended June 30, 1999 have been translated into United States dollars from the financial statements expressed in New Taiwan dollars, solely for the convenience of the readers. Such translation methodology is described in note 2 to the financial statements.

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had the non-consolidated financial statements related to the long-term equity investments discussed in the second paragraph been audited; the non-consolidated financial statements referred to in the first paragraph present fairly the financial position of Compal Electronics Inc. as of June 30, 1998 and 1999, and the results of its operations and its cash flows for the six month periods then ended, in conformity with Republic of China generally accepted accounting principles applied on a consistent basis.

KPMG
July 23, 1999

Balance Sheets
June 30, 1998 and 1999
(expressed in thousands of dollars)

	New Taiwan dollars				US dollars (note 2)
	June 30, 1998		June 30, 1999		June 30, 1999
Assets	Amount	%	Amount	%	Amount
Current assets:					
Cash and cash equivalents (note 3)	$9,260,211	34.5	10,169,301	31.5	315,034
Short-term investments (note 4)	49,446	0.2	6,050	—	187
Notes and accounts receivable, net — non-related parties (note 5)	4,471,527	16.6	5,761,793	17.9	178,494
Notes and accounts receivable, net — related parties (note 14)	1,202,631	4.5	1,389,960	4.3	43,059
Inventories, net (note 6)	2,025,749	7.6	3,124,397	9.7	96,791
Prepayments	47,618	0.2	60,417	0.2	1,872
Other current assets (notes 13 and 14)	466,113	1.7	238,438	0.7	7,387
Total current assets	17,523,295	65.3	20,750,356	64.3	642,824
Long-term equity investments (note 7)	6,669,788	24.9	7,977,273	24.7	247,127
Property, plant and equipment (notes 8 and 16):					
Land	1,297,517	4.8	1,297,517	4.0	40,196
Building	328,192	1.2	464,347	1.4	14,385
Machinery and equipment	588,290	2.2	822,886	2.6	25,492
Molding equipment	289,597	1.1	395,502	1.2	12,252
Other equipment	189,179	0.7	227,294	0.7	7,041
	2,692,775	10.0	3,207,546	9.9	99,366
Less: accumulated depreciation	(458,789)	(1.7)	(687,084)	(2.1)	(21,285)
Unfinished construction and prepayment for purchase of equipment	286,281	1.1	976,631	3.0	30,255
Net property, plant and equipment	2,520,267	9.4	3,497,093	10.8	108,336
Other assets:					
Deferred expenses and other	48,243	0.1	49,170	0.2	1,524
Deferred income tax assets, net (note 13)	67,586	0.3	—	—	—
Total other assets	115,829	0.4	49,170	0.2	1,524
Total assets	$26,829,179	100.0	32,273,892	100.0	999,811

See accompanying notes to financial statements.

COMPAL ELECTRONICS INC.

Balance Sheets
June 30, 1998 and 1999
(expressed in thousands of dollars)

	New Taiwan dollars				US dollars (note 2)
	June 30, 1998		June 30, 1999		June 30, 1999
Liabilities and Stockholders' Equity	Amount	%	Amount	%	Amount
Current liabilities:					
Short-term loans (note 9)	$185,825	0.7	57,859	0.2	*1,792*
Notes and accounts payable	3,417,489	12.7	5,105,402	15.8	*158,160*
Notes and accounts payable — related parties (note 14)	44,825	0.1	188,622	0.6	*5,844*
Income tax payable	238,982	0.9	52,940	0.2	*1,640*
Accrued expenses	793,150	2.9	707,935	2.2	*21,931*
Other current liabilities (note 13)	395,435	1.5	137,937	0.4	*4,273*
Total current liabilities	5,075,706	18.8	6,250,695	19.4	*193,640*
Long-term and other liabilities:					
Convertible bonds payable (note 10)	639,200	2.4	106,686	0.3	*3,305*
Deferred income tax liabilities, net and other (notes 7 and 13)	33,035	0.1	72,694	0.2	*2,252*
	672,235	2.5	179,380	0.5	*5,557*
Total liabilities	5,747,941	21.3	6,430,075	19.9	*199,197*
Stockholders' equity (note 13):					
Common stock	8,343,690	31.1	11,711,900	36.3	*362,822*
Entitlement certificates of bond-to-stock conversion	19,581	0.1	10,852	—	*336*
	8,363,271	31.2	11,722,752	36.3	*363,158*
Capital reserve:					
Paid-in capital in excess of par value	6,272,653	23.5	6,854,558	21.2	*212,347*
Gain on disposal of property, plant and equipment	21,093	—	21,093	0.1	*653*
	6,293,746	23.5	6,875,651	21.3	*213,000*
Retained earnings:					
Legal reserve	533,465	2.0	1,020,511	3.2	*31,614*
Special reserve	269,294	1.0	535,575	1.7	*16,592*
Unappropriated retained earnings	5,473,655	20.4	5,615,261	17.4	*173,955*
	6,276,414	23.4	7,171,347	22.3	*222,161*
Foreign currency translation adjustments (note 7)	147,807	0.6	74,067	0.2	*2,295*
Total stockholders' equity	21,081,238	78.7	25,843,817	80.1	*800,614*
Commitments and contingent liabilities (notes 14 and 16)					
Total liabilities and stockholders' equity	$26,829,179	100.0	32,273,892	100.0	*999,811*

See accompanying notes to financial statements.

US dollars (note 2) June 30, 1999
Amount
1,792
158,160
5,844
1,640
21,931
4,273
193,640
3,305
2,252
5,557
199,197
362,822
336
363,158
212,347
653
213,000
31,614
16,592
173,955
222,161
2,295
800,614
999,811

Statements of Income

Six month periods ended June 30, 1998 and 1999
(expressed in thousands of dollars, except earning per share)

	New Taiwan dollars				US dollars (note 2)
	Six month period ended June 30, 1998		Six month period ended June 30, 1999		Six month period ended June 30, 1999
	Amount	%	Amount	%	Amount
Operating revenue, net (note 14)	$17,026,882	100.0	20,142,846	100.0	624,004
Cost of sales (note 14)	14,414,123	84.7	17,032,052	84.6	527,635
Gross profit	2,612,759	15.3	3,110,794	15.4	96,369
Decrease (increase) in unrealized gross profit from sales to affiliates	(6,457)	—	13,954	0.1	432
	2,606,302	15.3	3,124,748	15.5	96,801
Operating expenses:					
Research and development expenses	248,759	1.4	304,789	1.5	9,442
Selling expenses	204,137	1.2	234,146	1.2	7,254
Administrative expenses	182,070	1.1	165,134	0.8	5,115
	634,966	3.7	704,069	3.5	21,811
Operating income	1,971,336	11.6	2,420,679	12.0	74,990
Non-operating income:					
Interest income	304,451	1.8	279,650	1.3	8,663
Investment gain, net (note 7)	—	—	149,206	0.7	4,622
Gain on foreign currency exchange, net	460,762	2.7	31,067	0.2	963
Other	36,185	0.2	55,455	0.3	1,718
	801,398	4.7	515,378	2.5	15,966
Non-operating expenses and losses:					
Interest expense	31,291	0.2	7,362	—	228
Investment loss, net (note 7)	65,069	0.4	—	—	—
Provision for inventory loss	20,986	0.1	—	—	—
Other	2,689	—	1,753	—	54
	120,035	0.7	9,115	—	282
Net income before income taxes	2,652,699	15.6	2,926,942	14.5	90,674
Income tax expense (note 13)	52,233	0.3	138,833	0.7	4,301
Net income	$2,600,466	15.3	2,788,409	13.8	86,373
Earnings per share (expressed in New Taiwan dollars):	$3.12		2.38		0.07
Earnings per share of 1998 calculated by adjusting dividends declared in 1999 retroactively	$2.25				

See accompanying notes to financial statements

COMPAL ELECTRONICS INC.

Statements of Changes in Stockholders' Equity

Six month period ended June 30, 1998 and 1999 (expressed in thousands of dollars)

	Common Stock	Advance receipts for common stock	Entitlement certificates of bond-to-stock conversion	Capital reserve	Legal reserve	Retained earnings Special reserve	Unapp-ropriated	Foreign currency translation adjustments	Total
1998 New Taiwan dollars									
Balance on January 1, 1998	$5,811,922	—	22,708	7,979,065	193,713	37,851	4,266,612	56,758	18,368,629
Appropriation:									
Legal reserve	—	—	—	—	339,752	—	(339,752)	—	—
Employees' bonuses (included cash and stock)	169,874	—	—	—	—	—	(169,876)	—	(2)
Directors' and supervisors' remunerations	—	—	—	—	—	—	(67,950)	—	(67,950)
Increase in special reserve	—	—	—	—	—	231,443	(231,443)	—	—
Capital injection through transfer of retained earnings	583,844	—	—	—	—	—	(583,844)	—	—
Gain on disposal of property, plant and equipment transferred to capital reserve	—	—	—	558	—	—	(558)	—	—
Capital reserve transferred to common stock	1,751,532	—	—	(1,751,532)	—	—	—	—	—
Convertible bond transferred to common stock	26,518	—	(3,127)	65,655	—	—	—	—	89,046
Net profit for the six month period ended June 30, 1998	—	—	—	—	—	—	2,600,466	—	2,600,466
Foreign currency translation adjustments	—	—	—	—	—	—	—	91,049	91,049
Balance on June 30, 1998	$8,343,690	—	19,581	6,293,746	533,465	269,294	5,473,655	147,807	21,081,238
1999 New Taiwan dollars									
Balance on January 1, 1999	$8,446,417	5,620	2,356	6,613,281	533,465	269,295	7,744,205	65,675	23,680,314
Appropriation:									
Legal reserve	—	—	—	—	487,046	—	(487,046)	—	—
Directors' and supervisors' remunerations	—	—	—	—	—	—	(97,409)	—	(97,409)
Employees' bonuses (included cash and stock)	243,514	—	—	—	—	—	(243,523)	—	(9)
Increase in special reserve	—	—	—	—	—	266,280	(266,280)	—	—
Capital injection through retained earnings to be distributed	2,973,285	—	—	—	—	—	(2,973,285)	—	—
Cash dividends	—	—	—	—	—	—	(849,510)	—	(849,510)
Convertible bonds transferred to common stock	26,684	—	8,496	108,370	—	—	—		143,550
Capital increment through cash	22,000	(5,620)	—	154,000	—	—	—	—	170,380
Net profit for the six month period ended June 30, 1999	—	—	—	—	—	—	2,788,109	—	2,788,109
Foreign currency translation adjustments	—	—	—	—	—	—	—	8,392	8,392
Balance on June 30, 1999	$11,711,900	—	10,852	6,875,651	1,020,511	535,575	5,615,261	74,067	25,843,817
1999 US dollars									
Balance on January 1, 1999	$261,661	174	73	204,872	16,526	8,342	239,908	2,035	733,591
Appropriation:									
Legal reserve	—	—	—	—	15,088	—	(15,088)	—	—
Directors' and supervisors' remunerations	—	—	—	—	—	—	(3,018)	—	(3,018)
Employees' bonuses (included cash and stock)	7,544	—	—	—	—	—	(7,544)	—	—
Increase in special reserve	—	—	—	—	—	8,250	(8,250)	—	
Capital injection through retained earnings to be distributed	92,109	—	—	—	—	—	(92,109)	—	
Cash dividends	—	—	—	—	—	—	(26,317)	—	(26,317)
Convertible bonds transferred to common stock	827	—	263	3,357	—	—	—		4,447
Capital increment through cash	681	(174)	—	4,771	—	—	—	—	5,278
Net profit for the six month period ended June 30, 1999	—	—	—	—	—	—	86,373	—	86,373
Foreign currency translation adjustments	—	—	—	—	—	—	—	260	260
Balance on June 30, 1999	$362,822	—	336	213,000	31,614	16,592	173,955	2,295	800,614

See accompanying notes to financial statements

COMPAL ELECTRONICS INC.

Statements of Cash Flows

Six month period ended June 30, 1998 and 1999
(expressed in thousands of dollars)

	New Taiwan dollars		US dollars (note 2)
	Six month period ended June 30, 1998	Six month period ended June 30, 1999	*Six month period ended June 30, 1999*
Cash flows from operating activities:			
Net income	$2,600,466	2,788,109	*86,373*
Adjustments to reconcile net income to net cashprovided by operating activities:			
Depreciation and amortization	94,238	147,748	*4,577*
Provision (reversal) of allowance for bad debt, sales returns and discounts	107,692	(32,615)	*(1,010)*
Provision (reversal) of allowance for inventory loss	20,896	(28,333)	*(878)*
Equity on (gain) loss of affiliates, net	65,225	(145,125)	*(4,496)*
Increase in notes, accounts receivables and accounts receivables-overdue	(1,123,828)	(1,144,625)	*(35,459)*
Decrease (increase) in inventories	237,460	(1,306,611)	*(40,477)*
Decrease in prepayment and other current assets	340,335	1,151,403	*35,669*
Decrease (increase) in deferred income tax assets	(174,278)	33,634	*1,042*
Increase in notes and accounts payable	288,288	1,032,844	*31,996*
Increase (decrease) in income tax payable	122,871	(126,211)	*(3,910)*
Decrease in accrued expenses and other current liabilities	(91,377)	(252,699)	*(7,828)*
Increase (decrease) in accrued premium of convertible bonds payable	29,777	(21,793)	*(675)*
Other	6,677	(12,262)	*(381)*
Cash provided by operating activities	2,524,442	2,083,464	*64,543*
Cash flows from investing activities:			
Additions to property, plant and equipment	(304,362)	(611,834)	*(18,954)*
Decrease in short-term investments	314,498	17,920	*555*
Additions to long-term investments	(2,780,504)	(684,761)	*(21,213)*
Other	2,763	(15,222)	*(471)*
Cash used in investing activities	(2,767,605)	(1,293,897)	*(40,083)*
Cash flows from financing activities:			
Repayment of short-term loans	(339,137)	(115,358)	*(3,573)*
Cash dividends	—	(849,510)	*(26,317)*
Directors' and supervisors' remunerations and employee's special bonuses	(67,952)	(97,418)	*(3,018)*
Capital injection by cash	—	170,380	*5,278*
Other	8,155	27,286	*845*
Cash used in financing activities	(398,934)	(864,620)	*(26,785)*
Net decrease in cash and cash equivalents	(642,097)	(75,053)	*(2,325)*
Cash and cash equivalents at beginning of period	9,902,308	10,244,354	*317,359*
Cash and cash equivalents at end of period	$9,260,211	10,169,301	*315,034*
Supplementary disclosures of cash flow information:			
Interest paid	$31,480	2,184	*68*
Income taxes paid	$103,641	117,990	*3,655*
Investing and financing activities not effecting cash flows:			
Convertible bonds payable and others transferred to capital stock and capital reserves	$89,046	143,550	*4,447*

See accompanying notes to financial statements.

COMPAL ELECTRONICS INC.

Notes to Financial Statements

June 30, 1998 and 1999
(expressed in thousands of dollars unless otherwise specified)

1. **Organization**

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

2. **Summary of Significant Accounting Policies**

(a) Foreign currency transactions

The Company maintains its books in New Taiwan dollars. Foreign currency transactions are recorded in New Taiwan dollars at the exchange rates prevailing on the transaction dates. All assets and liabilities denominated in foreign currency are translated into New Taiwan dollars at the exchange rates prevailing on the balance sheet date. Gains or losses resulting from settlement or translation are recognized as non-operating income or losses.

The financial statements of foreign investees reported in foreign currencies are translated into to New Taiwan dollars at the exchange rates prevailing on the balance sheet date, with the exception of shareholders' equity, which are translated at historical rates, and revenues, costs and expenses, which are translated at the weighted-average exchange rates during the reporting period. Translation differences resulting from translation of the financial statements into New Taiwan dollars are recorded as foreign currency translation adjustments, a separate component of stockholders' equity.

(b) Cash equivalents

Cash equivalents represent investments in bonds purchased under resale agreements with a maturity of three months or less from the date of investment.

(c) Short-term investment

Short-term investments represent investments in certificates of beneficial interest. Certificates of beneficial interest are stated at the lower of cost or market value. Cost is determined by using the weighted-average method. Market value of close-end certificates of beneficial interest is based on the average closing price of the last month of the accounting period, while market value of open-end certificates of beneficial interest is based on the net value on the balance sheet date.

(d) Allowance for doubtful accounts receivable

Provision for bad debts is based on an aging analysis and the likelihood of collection of doubtful accounts.

(e) Inventories

Inventories are stated at the lower of cost or market value. Cost is determined using the weighted-average method. 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.

(f) Long-term equity investments

Investments in listed equity securities, which are intended to be held for the long-term, and in non-listed equity securities are accounted for as long-term equity investments. Long-term investments in listed equity securities that represent less than 20 per cent. 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 per cent. 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 other than temporary, the investment is written down to reflect such decline and 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 per cent. The difference between cost of investment and the amount of underlying equity in net assets of an investee is amortized by using the straight-line method over ten years.

The financial statements of majority-owned subsidiaries (more than 50 per cent.) are consolidated into the Company's financial statements as of the end of each fiscal year, except for those whose total assets and revenues do not exceed 10 per cent. of the Company's total assets and revenues, respectively. In addition, if the total assets or sales of all excluded investees exceed 30 per cent. of the corresponding accounts of the Company, then each such excluded investee whose total assets or sales exceed 3 per cent. of the corresponding accounts of the Company shall be included in the consolidated financial statements. The investees shall be included in the consolidated financial statements thereafter, until the percentage of all excluded investees decreases to less than 20 per cent.

(g) Property, plant and equipment

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 ... the Company will estimate the ... have reached their estimated useful lives but are still in use, the Company will estimate the residual values and depreciate the remaining cost using the same method. Gains on the disposal of property, plant and equipment are included in non-operating income, and are transferred to capital reserve in the year of disposal, net of the related income tax.

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

(h) Deferred expenses

Charges for royalties are deferred and amortized over the contract periods. Costs of computer software are amortized by using the straight-line method over three years.

(i) 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. In addition, the redemption price over the principal amount of the redeemable convertible bonds is amortized within the issuance date and the last redeemable date, which is five years, by using the interest method and is recognized as a liability.

The entitlement certificate of bond-to-stock conversion is 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 given, are 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 the related accrued premium, accrued interest and deferred issuance costs are transferred to capital reserve paid-in capital, in excess of par value. In accordance with the conversion rules, the entitlement certification of bond-to-stock conversion is registered as common stock twice a year.

(j) Retirement plan

The Company has established an employee noncontributory retirement plan covering all regular employees. 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.

In accordance with Republic of China (ROC) Statement of Financial Accounting Standard No. 18, "Accounting for Pensions", the Company had its pension plan actuarially valued on the year-end date and recognizes 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 employee for 20 years.

(k) Income taxes

Income taxes is calculated based on accounting income. The amounts for deferred tax liabilities or assets are calculated by applying the provisions of enacted tax laws to determine the amount of tax payable or refundable, currently or in future years. The tax effect of taxable temporary differences shall be recorded as a deferred tax liability. The tax effects of deductible temporary differences and tax credits will be recognized as deferred tax assets. An allowance is provided for deferred tax assets that may not be realized in the future.

Deferred tax assets or liabilities are classified as current or noncurrent based on the classification of the asset or liability that resulted in the deferred item, or on certain transactions not directly related to an asset or liability, or on the timing of recognition of the deferred item for income tax purposes.

(l) Earnings per share

Earnings 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 are not common stock equivalents. Therefore, 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 per cent. If the dilution effect is greater than 3 per cent., 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 dividends issued.

(m) Convenience translation into US dollars

The financial statements are stated in New Taiwan dollars. Translation of the 1999 New Taiwan dollars amounts into US dollar amounts are included solely for the convenience of the readers, using the average of the buying and selling rate provided by the Bank of Taiwan on June 30, 1999, of NT$32.28 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 U.S. dollars at this rate or any other rate of exchange.

3. Cash and Cash Equivalents

	New Taiwan dollars		US dollars (note 2)
	June 30, 1998	June 30, 1999	June 30, 1999
Cash on hand and petty cash	$1,204	629	19
Checking accounts and demand deposits	71,555	172,725	5,351
Time deposits	8,937,952	9,196,578	284,900
Commercial paper purchased under resale agreement	249,500	799,369	24,764
	$9,260,211	10,169,301	315,034

4. Short-term Investments

	New Taiwan dollars		US dollars (note 2)
	June 30, 1998	June 30, 1999	June 30, 1999
Close-end certificates of beneficial interest (market price was $6,050 at June 30, 1999)	$—	10,000	310
Open-end certificates of beneficial interest (net asset value was $49,446 at June 30, 1998)	55,120	—	—
Allowance for losses on valuation of short-term investments	(5,674)	(3,950)	(123)
	49,446	6,050	187

5. Notes Receivable, Accounts Receivable and Doubtful Accounts Receivable — Nonrelated Parties

	New Taiwan dollars		US dollars (note 2)
	June 30, 1998	June 30, 1999	June 30, 1999
Notes and accounts receivable:			
Notes receivable	$90,691	42,692	1,322
Accounts receivable	4,610,252	5,870,877	181,874
Less: allowance for bad debt	(27,791)	(13,136)	(407)
allowance for sales return and discount	(201,625)	(138,640)	(4,295)
	$4,471,527	5,761,793	178,494
Doubtful accounts receivable:			
Doubtful accounts receivable	35,446	35,446	1,098
Less: allowance for bad debt	(35,446)	(35,446)	(1,098)
	$—	—	—

The specific receivables with delayed payment or with reasonable doubt can be claimed, or for clients suffering critical financial problems, can be recorded under doubtful accounts receivable. These receivables are provided for under the allowance for bad debt.

6. Inventories

	New Taiwan dollars		US dollars (note 2)
	June 30, 1998	June 30, 1999	June 30, 1999
Finished goods	$233,774	1,052,424	32,603
Work in process	628,310	450,034	13,942
Raw materials	1,087,477	1,650,524	51,131
Inventories in transit	267,600	96,167	2,979
	2,217,161	3,249,149	100,655
Less: allowance for inventory loss	(191,412)	(124,752)	(3,864)
	$2,025,749	3,124,397	96,791
Insurance amount for inventory	$2,600,000	2,229,216	69,059

7. Long-term Equity Investments and Credit Balance of Long-term Equity Investments

	New Taiwan dollars		US dollars (note 2)
	June 30, 1998	June 30, 1999	June 30, 1999
Long-term equity investments:			
Under the equity method	$5,111,554	6,366,494	197,227
Under the lower of cost or market value	1,307,685	1,307,685	40,511
Under the cost method	250,549	260,594	8,073
Subtotal	6,669,788	7,934,773	245,811
Prepayments for long-term investments	—	42,500	1,316
Total	$6,669,788	7,977,273	247,127
Credit balance of long-term equity investments	$1,894	1,894	59

(a) As of June 30, 1998 and 1999, the market value of long-term investments, using the lower of cost or market value method, amounted to $2,515,179 and $2,115,981, respectively.

(b) Net investment losses and gains on long-term equity investments under the equity method for the six month period ended June 30, 1998 and 1999, amounted to $65,225 (losses) and $145,125 (gains), respectively, and were based on the investees' unaudited financial statements.

(c) As of June 30, 1998 and 1999, the original costs of long-term investments under the equity method were as follows:

	New Taiwan dollars		US dollars (note 2)
	June 30, 1998	June 30, 1999	June 30, 1999
Compal Investment Corp. (Compal Investment)	$3,199,940	3,199,940	99,131
Compal Holding Corp. (Compal Holding)	899,940	899,940	27,879
Just International Ltd. (Just)	736,024	736,024	22,801
Compal Europe B.V. (CEBV)	175,542	175,542	5,438
Compal Holding Ltd. (CPH)	—	132,662	4,110
International Semiconductor Technologies Inc. (International Semiconductor)	—	509,600	15,787
Others	178,189	178,189	5,520
	$5,189,635	5,831,897	180,666

8. Property, Plant and Equipment

The Company did not provide its fixed assets as collateral for any loans. As of June 30, 1998 and 1999, property, plant and equipment were insured for $1,277,328 and $1,613,480, respectively.

9. Short-term Loans

(a) As of June 30, 1998 and 1999, all short-term loans were import loans under usance letter of credit (L/C), and were repaid before interest was charged. Certain loans were pledged by the Company's notes guaranteed by several directors and supervisors.

(b) As of June 30, 1998 and 1999, the unused short-term credit lines amounted to approximately $5,150,300 and $5,464,382, respectively.

10. Convertible Bonds Payable

In 1996, the Company issued overseas unsecured bonds with a face value of US$95,000.000. As of June 30, 1998 and 1999, the details of the convertible bonds payable were as follow:

	New Taiwan dollars		*US dollars (note 2)*
	June 30, 1998	June 30, 1999	*June 30, 1999*
Aggregate principal amount (US$95,000,000)	$2,612,500	2,612,500	*80,932*
Converted amount (US$78,428,000 and US$92,265,000 in 1998 and 1999, respectively)	(2,156,770)	(2,537,288)	*(78,602)*
Accrued premium	69,936	18,335	*568*
Unrealized losses on foreign currency exchange	113,534	13,139	*407*
Balance at the end of period	$639,200	106,686	*3,305*

The significant terms of the convertible bonds are as follows:

(a) *Interest rate:* 1.25% per annum after ROC withholding taxes, due June 30, annually;

(b) *Duration:* seven years (November 21, 1996 to November 21, 2003);

(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 November 21, 2003;

(d) *Redemption at the option of the Company:* the Company may redeem the bonds under the following circumstances:

1. After November 21, 1999: if the closing price of the Company's common shares on the Taiwan Stock Exchange for a period of 30 consecutive trading days before redemption has been at least 140% of the conversion price in effect on each such trading day, the Company may notify the bondholders and redeem the bonds at their principal amount plus interest, which is calculated based on an annual interest rate of 7.13% and the number of days outstanding.
2. In the event of certain changes in ROC taxation which would require the Company to gross up for payments of principal, or to gross up for payment of interest or premium, if any, at a rate exceeding 20%.

(e) *Redemption at the option of bondholders:* Bondholders may opt to have the bonds redeemed by the Company on November 21, 2001, at 135.36% of the bondµs principal amount.

(f) *Terms of conversion:*

1. Bondholders may opt to have the bonds converted into common stock of the Company from January 20, 1997 to November 6, 2003, instead of final cash redemption upon expiration of the bonds.
2. Conversion price: as of June 30, 1998 and 1999, the conversion price was NT$32.33 and NT$23.44, per common stock share, respectively.
3. The conversion price is translated into New Taiwan dollars at the fixed rate of NT$27.5 = US$1.

11. Pension

The Company's pension expenses for the six month period ended June 30, 1998 and 1999, amounted to $17,095 and $27,480, respectively. As of June 30, 1998 and 1999, the pension fund deposited with the Central Trust of China amounted to $228,538 and $274,480, respectively.

The vested benefits were approximately $0 and $68,616 , as of June 30, 1998 and 1999, respectively. No pensions were paid in either year.

12. Stockholders' Equity

(a) *Capital Increase*

A portion of the overseas convertible bonds were converted into 12,924,000 shares of common stock in 1998.

Based on a resolution of the annual stockholders' meeting held on April 8, 1998, the Company increased its authorized common stock to 1,100,000,000 shares, and increased its capital through the issuance of stock dividends by transfers from capital reserve, retained earnings and employees' bonuses amounting to $2,505,250.

Based on a resolution of the board of director's meeting held on September 3, 1998, the Company increased its common stock through a cash injection of $22,000. The common stock was issued at new Taiwan dollars $80 per share, on January 28, 1999.

In the first quarter of 1999, a portion of the overseas convertible bonds were converted into 2,668,000 shares of common stock on February 22, 1999.

Based on a resolution of the annual stockholders' meeting held on April 8, 1999, the Company increased its authorized common stock to 1,400,000,000 shares, and increased its capital through the issuance of stock dividends by transferring retained earnings, and employee [illegible] were completed.

As of June 30, 1998 and 1999, the authorized common stock amounted to $11,000,000 and $14,000,000 at par values of NT$10, and the issued common stock amounted to $8,343,690 and $11,711,900, respectively.

(b) Capital reserve

As of June 30, 1998 and 1999, the excess of the convertible price over the par value of common stock and the related accrued premium and interest, after net of deferred issuance cost, amounted to $1,790,713 and $2,218,618, and was transferred to capital reserve.

Pursuant to ROC Company Law, capital reserves can only be used to offset a deficit or to increase share capital. Cash dividends cannot be declared out of capital reserve. According to the Securities and Futures Commission (SFC) regulations, capital increased by transferring additional paid-in capital in excess of par value can only be carried out once a year commencing in the following year. Such a capitalization cannot exceed a certain percentage of paid-in capital in excess of par value and the capital issued depending on the operating results of the Company.

(c) Special reserve

According to the Company's articles of incorporation, unrealized foreign currency exchange gains accounted for under Statement of Financial Accounting Standards No. 14 must be set aside as a special reserve before appropriation, if any. The special reserve shall be transferred to retained earnings upon realization.

(d) 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.

Pursuant to ROC Company Law, the legal reserve shall be used exclusively to offset losses, and shall 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 its paid-in capital.

(e) Imputation Credit Account and Creditable Ratio

Starting 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, creditable ratio, which represents the imputation credit per dollar of accumulated retained earnings, shall be calculated for resident shareholders when corporations declare dividends.

As of June 30, 1999, the Company's unappropriate retained earnings balance included the retained earnings prior to 1998 which amounted to $2,873,746.

As of June 30, 1999, the Company's ICA balance was $11,365.

13. Income Taxes

(a) The Company's purchase of machinery through capital injection in the following years met prescribed criteria under the "Statute for Upgrading Industries". According to the tax law, (1) the Company may opt to have an income tax exemption for five years on income from such products, or (2) the shareholders of the Company, who have held the shares for a period of over two years, may credit up to 20% of the acquisition price of such stocks against the profit-seeking enterprise's income tax or the individual income tax payable.

Year	Tax exemption products	Tax exemption chosen	Tax exemption period
1995	Notebook PCs, multi-medium PCs and 17 inches or above Liquid Crystal Display (LCD) monitors	Tax exemption on the Company's corporate income tax for five years	September 1, 1996–August 31, 2001
1996	Notebook PCs	Tax exemption on the Company's corporate income tax for five years	January 31, 1998–January 30, 2003
1997	Notebook PCs	Individual income tax deduction	

The Company's expansion of machinery through capital injections in 1998 for the production of notebook PCs, met prescribed criteria under the "Statute for Upgrading Industries". The board of shareholders of the Company have not decided about which options to apply. In accordance with the valuation of the Company's management, the five-year income tax exemption is more beneficial. The related income tax expense for the six month period then ended, and deferred income tax assets on June 30, 1999, will be subject to recalculation if the above assumptions are being changed.

(b) The Company's income is subject to a 25% income tax. The income tax expenses for the six month period ended June 30, 1998 and 1999, consisted of the following:

	New Taiwan dollars		US dollars (note 2)
	Six month period ended June 30, 1998	Six month period ended June 30, 1999	*Six month period ended June 30, 1999*
Current income tax expense (benefits)	226,511	(8,221)	*(255)*
Deferred income tax expense (benefits)	(174,278)	147,054	*4,556*
Income tax expenses	52,233	138,833	*4,301*

(c) The difference between "expected" income tax computed by applying the statutory income tax rate, and income tax expense as reported in the accompanying financial statements, is summarized as follows:

	New Taiwan dollars		US dollars (note 2)
	Six month period ended June 30, 1998	Six month period ended June 30, 1999	*Six month period ended June 30, 1999*
"Expected" income tax expense	$663,165	731,725	*22,668*
Estimated tax effect of tax exemption	(466,864)	(539,296)	*(16,707)*
Investment tax credits	(46,305)	(64,055)	*(1,984)*
Increase (decrease) in valuation allowance for deferred income tax assets	(83,914)	103,832	*3,217*
Overaccrued income tax in prior years	(40,923)	(89,151)	*(2,762)*
Other	27,074	(4,222)	*(131)*
Income tax expense	$52,233	138,833	*4,301*

(d) Deferred income assets (liabilities) as of June 30, 1998 and 1999, are as follows:

	New Taiwan Dollars		US dollars (note 2)
	June 30, 1998	June 30, 1999	*June 30, 1999*
Deferred income tax assets:			
Investment loss recognized under the equity method (overseas)	$86,707	63,104	*1,955*
Unrealized foreign currency exchange loss	52,602	48,276	*1,496*
Sales returns and discounts	50,406	34,660	*1,074*
Accrued warranty cost	85,242	73,170	*2,267*
Loss on valuation of inventory	49,990	17,672	*547*
Other	30,912	23,428	*725*
	355,859	260,310	*8,064*
Valuation allowance for deferred income tax assets	(46,157)	(253,679)	*(7,859)*
Net deferred income tax assets	309,702	6,631	*205*
Deferred income tax liabilities:			
Accrued pension liabilities	(5,851)	(6,606)	*(205)*
Unrealized foreign currency exchange gain	(41,757)	(2,707)	*(84)*
Investment gain recognized under the equity method (overseas)	(17,966)	(60,348)	*(1,869)*
Net deferred income tax assets (liabilities)	$244,128	(63,030)	*(1,953)*
Net deferred income tax assets (liabilities)- current	176,542	(6,091)	*(189)*
Net deferred income tax assets (liabilities)- noncurrent	67,586	(56,939)	*(1,764)*
	$244,128	(63,030)	*(1,953)*

(e) In 1998, according to the interpretations issued by the ROC Ministry of Finance, the Company is entitled to refile its 1997 tax returns for the revision of the tax-exemption formula under the Statute for Upgrading Industries, and the tax credits for expenditure on dealing with Y2K issues. Therefore, the tax payables was reduced by $51,275. The tax authorities have assessed the Company's income tax returns through 1996.

14. Related Party [illegible]

(a) Name of the related parties and relationship

Related Party	**Relationship with the Company**
CEBV	100% owned subsidiary company
Compal International Ltd. (CPI)	100% owned subsidiary company
Compal Investment	100% owned subsidiary company
Sceptre Technologies, Inc. (Sceptre)	Investee company accounted for under the equity method
Compower International Technology Co., Ltd. (CPR)	CPR's chairman of the board of directors is the same as the Company's

(b) Summary of significant transactions with related parties

(1) Sales

	New Taiwan dollars				US dollars (note 2)
	Six month period ended June, 30 1998		Six month period ended June 30, 1999		Six month period ended June 30, 1999
	Amount	% of net operating	Amount	% of net operating	Amount
Sceptre	$1,229,895	7.2	1,603,792	8.0	*49,684*
CEBV	226,183	1.3	128,350	0.6	*3,976*
Others	45,634	0.3	150,617	0.7	*4,666*
	$1,501,712	8.8	1,882,759	9.3	*58,326*

Sale prices for both Sceptre and CEBV were similar to those for general customers. The collection periods were approximately 88 days for Sceptre, and 45-120 days for CEBV.

(2) Purchases

	New Taiwan dollars				US dollars (note 2)
	Six month period ended June, 30 1998		Six month period ended June 30, 1999		Six month period ended June 30, 1999
	Amount	% of net operating	Amount	% of net operating	Amount
CPI	$2,114,803	17.5	3,513,529	19.9	*108,845*
Others	2,539	—	—	—	—
	$2,117,342	17.5	3,513,529	19.9	*108,845*

Purchase prices for finished goods from CPI were similar to those for general suppliers.

(3) Processing deal with related parties

The Company offered raw material to CPI, one of the Company's related parties, for processing.

The balance of other receivables resulting from the above transaction as of June 30, 1998 and 1999, were as follows:

	New Taiwan dollars		US dollars (note 2)
	June, 30 1998	June 30, 1999	June 30, 1999
CPI	$47,021	1,299	*41*

(4) **Notes and accounts receivable (payable)**

The balances resulting from the above sales, purchases and other services transactions as of June 30, 1998 and 1999, were as follows:

	New Taiwan dollars				US dollars (note 2)
	June, 30 1998		June 30, 1999		June 30, 1999
	Amount	%	Amount	%	Amount
Notes and accounts receivable:					
Sceptre	$1,005,590	17.7	1,178,168	16.5	36,498
CEBV	170,284	3.0	88,910	1.2	2,754
CPR	—	—	74,489	1.0	2,308
Others	86,000	1.5	63,137	0.9	1,956
	1,261,874	22.2	1,404,704	19.6	43,516
Less: allowance for bad debts	(59,243)	(1.0)	(14,744)	(0.2)	(457)
	$1,202,631	21.2	1,389,960	19.4	43,059
Notes and accounts payable:					
CPI	$40,152	1.2	188,042	3.6	5,826
Others	4,673	—	580	—	18
	$44,825	1.2	188,622	3.6	5,844

(5) **Guarantees (expressed in thousand of US or NT dollars)**

	June 30, 1998	June 30, 1999
Loan guarantee:		
CEBV	US$2,500	US$2,500
Sceptre	US$2,000	US$2,000
Compal Investment	US$18,000	US$18,000
	NT$1,750,000	NT$1,600,000
L/Cs pledged to bank loans:		
CPI	US$14,000	US$14,000
	NT$350,000	

15 **Pledged Assets**

The Company did not pledge its assets secured for any loans.

16 **Commitments and Contingent Liabilities**

(a) As of June 30, 1999, the unused balance of L/Cs for the purchase of materials was approximately $225,860.

(b) As of June 30, 1999, the undue progress payments, according to the contracts signed by the Company with third parties for the construction of the Company's new office building and factory, amounted to $656,166.

(c) See note 14 for guarantees to related parties.

17 **Related Information About Financial Products**

(a) The Company did not invest in derivative financial instruments. As of June 30, 1999, the book value of non-derivative financial instruments was similar to fair market value, except for long-term equity investments.

(b) As of June 30, 1999, the book value of long-term equity investments was $7,977,273. For the long-term equity investments, $1,307,685 was invested in listed equity securities, and $6,669,588 was invested in non-listed equity securities, which could not be estimated using fair market values.

(a) As of June 30, 1999, 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
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
SystemSoft Corporation	Basic input system, keyboard control software and PCMCIA driver program.	April 1998-March 2003

(b) Reclassification

Certain accounts in the first half year of 1998 financial statements have been reclassified to conform with the 1999 presentation. Such reclassifications did not have a significant impact on the accompanying financial statements.

SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ROC GAAP AND US GAAP

The unconsolidated financial statements of the Issuer are prepared and presented in accordance with ROC GAAP, which differs in certain material respects from US GAAP. Certain principal differences between ROC GAAP applicable to the Issuer and US GAAP are summarised below. Such presentation should not be taken as inclusive of all ROC GAAP/US GAAP differences. 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 financial statements or notes thereto. Further, no attempt has been made to identify future differences between ROC GAAP and US GAAP as a result of prescribed changes in accounting standards. Regulatory bodies that promulgate ROC GAAP and US GAAP have significant projects ongoing that could affect future comparisons such as this one.

Subject	ROC GAAP	US GAAP
Presentation of Non-consolidated Financial Statements	Under ROC GAAP requirements non-consolidated financial statements of the Issuer are presented as the primary financial statements and consolidated financial statements as supplemental financial statements. Only the non-consolidated financial statements have been presented in this Offering Circular	Under US GAAP, parent-company-only non-consolidated financial statements are not allowed to be presented. Only consolidated financial statements may be presented in accordance with US GAAP.
Investment in Debt and 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 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 non-listed equity securities that represent less than 20 % of the investee's common stock ownership are stated at cost, subject to permanent impairment test.	Investments in marketable equity securities are classified in one of three categories: trading, held-to-maturity or available-for-sale. 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 a separate component of stockholders' equity.
Intercompany Transactions	Intercompany gains or losses arising from sales of certain property, plant and equipment to subsidiary and investee companies may be deferred and amortized over the remaining economic life of the respective assets.	Intercompany gains and 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.

Subject	ROC GAAP	
Bonuses to Employees, Directors and Supervisors	According to ROC regulations and the Article of Incorporation of the Issuer, a portion of distributable earnings should be set aside as bonuses to employees, directors and supervisors. Bonuses to directors and supervisors are always paid in cash. However, bonuses to employees may be granted in cash or stock or both. All of these appropriations, including stock bonuses which are valued at par value of NT$10, are charged against retained earnings under ROC GAAP, after such appropriations are formally approved by the shareholders in the following year.	All bonuses are charged to current income in the year incurred.
Stock Dividends	Stock dividends of the Issuer are recorded as a reduction to its retained earnings for the par value of the stock issued, and a like amount recorded to the capital stock account.	Stock dividends are recorded as reduction to retained earnings based on the fair value of the stock issued, and like amount recorded to the capital stock and capital surplus accounts.
Capital Surplus	Under ROC GAAP, the following items are treated as capital surplus: (a) premium on issuance of common stocks; (b) gain, net of applicable income tax, on disposal of properties; (c) donations; (d) revaluation increment on properties, and (e) the value of assets of a company acquired in a merger in excess of assumed liabilities and the consideration paid for shares of such company in connection with the acquisition.	Under US GAAP, items (a) and (c) of the preceding column are the same as in ROC GAAP; item (b) of the preceding column is recorded as part of net income which is then included as a component of retained earnings; items (d) and (e) of the preceding column are not permitted.
Accounting for Pensions	ROC Statement of Financial Accounting Standard No 18 (ROC SFAS No. 18), "Accounting for Pensions", was adopted by the Issuer as of 31 December 1995 and effective in January, 1996. ROC SFAS No. 18 is substantially similar to US SFAS No. 87 except for the effect of the adoption ROC SFAS No. 18 in relating to amortization of unrecognized net transitional obligations.	Under US GAAP, the annual pension provision is recognized as a charge to results of operations over the employees' service period in accordance with SFAS No. 87. SFAS No. 87. 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 share to stockholders' equity.

Subject	ROC GAAP	US GAAP
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 held and used by an entity, normally such assets would be carried at cost less accumulated depreciation.	Under US GAAP, FAS 121 requires entities to perform separate calculations for assets to be held and used to determine whether recognition of an impairment loss is required, and if so, to measure the impairment. If the sum of expected future cash flows, undiscounted and without interest charges, is less than an asset's carrying value, an impairment loss is recognized; if the sum of the expected future cash flows is greater than an asset's carrying value, an impairment loss cannot be recognized. Measurement of an impairment loss is based on the fair value of the asset. FAS 121 also generally requires that long-lived assets and certain identifiable intangibles to be disposed of be reported at the lower of the carrying value or fair value less cost to sell.
Treasury Stock	Under ROC GAAP, stock of the Issuer held by its subsidiaries may be accounted for as an asset on the balance sheet.	Under US GAAP, when a subsidiary holds its parent's stocks as investments, the stocks should be treated as treasury stocks in the consolidated balance sheets as a reduction in stockholders' equity.
Derivative Transactions	Under ROC GAAP, there are no specific rules related to accounting for certain types of financial derivatives, nor criteria for hedge accounting. Therefore, companies have flexibility in choosing when to follow hedge accounting versus fair value accounting for derivative.	US GAAP contains detail rules related to when hedge accounting is appropriate. Thus, little flexibility exists in accounting for derivative transactions.
Deferred Expenses	Under ROC GAAP, deferred expenses include organization costs, issuance costs of bonds, testing costs of reinstallation of machinery and equipment. The deferred expenses shall be amortized by systematic charges to income over the periods estimated to be benefited.	Under US GAAP, start-up costs are generally expensed as incurred and starting in fiscal year beginning after 15 December 1998, all start-up costs must be expensed as incurred.

Subject	ROC GAAP	
Earnings Per Share	Under ROC GAAP, earnings per share of common stock is computed based on the weighted-average of common shares and common share equivalents outstanding during the period (simple earnings per share). Fully diluted earnings per share is also presented if the dilution effect of convertible securities and common stock equivalents is greater than 3% of simple earnings per share.	US GAAP requires a dual presentation of basic and diluted earnings per share for companies with complex capital structures. Basic earnings per share excludes dilution and is computed by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the company.
Comprehensive Income	Under ROC GAAP, there is no requirement to present comprehensive income	Effective for fiscal years beginning after 31 December 1997, comprehensive income and its components (revenues, expenses, gains and losses) must be presented in the financial statements under US 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.
Compensated Absences	ROC GAAP has no specific accounting practice regarding compensated absences.	Compensated absences must be accrued based on the liability for employees for future absences when certain conditions are met under US GAAP.
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.	US GAAP has detailed rules regarding the accounting treatment for internal-use software costs. AICPA Statement of Position 98-1 specifies the requirements for the capitalization of internal-use computer software costs.
Retained Earnings Tax	Companies in the ROC are subject to a 10% tax on profits retained and earned after 31 December 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 US 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.

Subject	ROC GAAP	US GAAP
Deferred Income Taxes	Under ROC Statement of Financial Accounting Standards No.22, "Accounting for Income Tax" (SFAS No.22), current tax liabilities are recognized for estimated taxes payable for the current period. ROC GAAP requires that all temporary differences between the carrying values of assets and liabilities and their respective tax bases be recognized as deferred tax liabilities or assets. A valuation allowance is provided on deferred tax assets to the extent that it is not "more likely than not" such deferred tax assets will be realized. A change in tax rate or law requires an adjustment to such deferred tax assets and liabilities in the period of enactment, and is reported as part of results of operations.	The requirements under US Statement of Financial Standards No. 109, "Accounting for Income Taxes," is similar to ROC SFAS No.22. Application of the ROC GAAP and US GAAP standards sometimes differ in practice.

Management has not quantified the effects of the aforementioned differences between ROC GAAP and US 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 US GAAP.

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.

Increases in Issued Share Capital

According to the Articles of Incorporation, the Company has only one class of capital stock, Shares with a par value of NT$10 per share. Currently, the Company's Articles of Incorporation provide that the Company's authorised share capital is NT$14,000,000,000, divided into 1,400,000,000 Shares (which includes 140,000,000 Shares reserved for issuance upon conversion of bonds), and its paid-in share capital is NT$11,750,733,150, divided into 1,175,073,315 Shares. All issued Shares are in registered form.

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

Date of Issue	Type of Issue	Number of Shares Issued	Number of 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	1,171,190,000
	Employees' bonuses	24,351,419	
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

The ROC Company Law and the ROC Securities and Exchange Law provide that any change in the authorised 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 if such change also involves a change in the authorised share capital of the company) and the approval of the SFC and the Ministry of Economic Affairs ("MOEA"). The rights attaching to the 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 per cent. 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 at 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 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. See "Description of the Shares".

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 per cent. 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 allocable surplus profit, which are allocated as follows:

1. Up to 2 per cent. of the total surplus profit shall be distributed to directors and supervisors as remuneration.
2. Stock bonuses shall be distributed to employees up to the number equal to 5 per cent. of such total surplus profit.
3. the remaining balance shall be distributed as a shareholders' bonus 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 recapitalised portion payable out of such Legal Reserve is limited to 50 per cent. of the total accumulated Legal Reserve and such recapitalisation can only be effected when the accumulated Legal Reserve amounts to 50 per cent. of the paid-in-capital of the company.

For information as to ROC taxes on dividends and distributions, see "ROC Taxation of Non-Residents".

Pre-emptive Rights and Issues of Additional Shares

According to the Company Law, when a company (including the Company) issues new shares of capital stock for cash, 10 per cent. to 15 per cent. 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 per cent. 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 per cent. to 80 per cent. 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 [illegible] not be able to obtain the new shares.

Authorised 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 Shares has one vote for each Share, except that the votes of Shares held by a holder of more than three per cent. of the total outstanding Shares will be discounted by one per cent. for that portion of the holding in excess of such three per cent. This will apply to the Depositary or its nominee as the representative of Holders. 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 Shares represented at a shareholders' meeting at which a majority of the holders of the 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 authorised 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 favour 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 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 satisfactory written evidence of his appointment as proxy.

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 Shares in the register upon presentation of the certificates in respect of the Shares transferred. Under the Company Law, the transfer of 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 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 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 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 Shares by the Company

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

Liquidation Rights

In the event of the liquidation of the Company, the 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.

Upon issue, the GDRs will be evidenced by a single Master GDR in registered form. The Master GDR will be registered in the name of a common nominee (the "Common Nominee") and held by the Common Depositary in London for Cedelbank and Euroclear on the Closing Date. The Master GDR contains provisions which apply to the GDRs while they are in master form, some of which modify the effect of the Conditions of the GDRs. The following is a summary of those provisions. Unless otherwise defined herein, terms defined in the Conditions shall have the same meaning herein.

Exchange

The Master GDR will only be exchanged for certificates in registered form evidencing GDRs in the circumstances described in (i), (ii) or (iii) below. The Depositary will undertake in the Master GDR to make available certificates evidencing GDRs in definitive registered form in whole but not in part in exchange for the Master GDR to Holders within 60 days in the event that:

(i) Cedelbank or Euroclear, or any successor, notifies the Depositary in writing that it is unwilling or unable to continue as a depositary and a successor depositary is not appointed within 90 calendar days; or

(ii) either Cedelbank or Euroclear is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Depositary is available within 45 days; or

(iii) the Depositary has determined that, on the occasion of the next payment in respect of the GDRs, the Depositary or its agent would be required to make any deduction or withholding from any payment in respect of the GDRs which would not be required were the GDRs represented by certificates in definitive registered form.

Upon the occurrence of an event in (iii) above, any person appearing in the records maintained by Cedelbank and Euroclear as entitled to any interest in the Master GDR shall be entitled to require the Depositary to procure the exchange of an appropriate part of the Master GDR for GDRs in definitive registered form upon written notice to the Depositary and upon providing any necessary certifications. Any such exchange will be at the expense of such person.

Upon any exchange of a part of the Master GDR for GDRs in registered definitive form, any distribution of GDRs pursuant to Condition 5, 7 or 10 or any reduction in the number of GDRs represented by the Master GDR following any withdrawal of Deposited Property pursuant to Condition 1, the relevant details shall be entered by the Depositary on the Register maintained by the Depositary, whereupon the number of GDRs evidenced by the Master GDR shall be reduced or increased (as the case may be) accordingly.

Payments and Distributions

Payments of cash dividends and other amounts (including cash distributions) in respect of the GDRs evidenced by the Master GDR will be made by the Depositary through Cedelbank and Euroclear on behalf of persons entitled thereto upon receipt of funds therefor from the Company. A free distribution or rights issue of Shares to the Depositary on behalf of Holders which results in an increase of the number of GDRs will result in the records of the Depositary being adjusted to reflect the enlarged number of GDRs evidenced by the Master GDR.

Surrender of GDRs

Any requirement in the Conditions relating to the surrender of a GDR to the Depositary shall be satisfied by the production by the Common Depositary on behalf of a person entitled to an interest therein, of such evidence of entitlement of such person as the Depositary may reasonably require. The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary, any Agent and the Custodian, of the title of such person to receive (or to issue instructions for the receipt of) all moneys or other property payable or distributable and to issue voting instructions in respect of the Deposited Property evidenced by such GDRs.

Notices

For so long as the Master GDR is registered in the name of the Common Depositary for Euroclear and Cedelbank, notices to Holders may be given by the Depositary by delivery of the relevant notice to the Common Nominee for communication to persons entitled thereto in substitution for methods required by Condition 23.

The Depositary is a state-chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board. The Depositary was created by a Special Act of the New York Legislature passed on 19 April 1871. It is a wholly owned subsidiary of The Bank of New York Company Inc., a New York corporation. The Corporate office of the Depositary is located at, 1 Wall Street, New York, New York 10286. A copy of the Depositary's 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 the Corporate Trust Office of the Depositary located at 101 Barclay Street-12E, New York, New York 10286, at the office of the listing agent, Banque Générale du Luxembourg at 50, avenue J.F. Kennedy, L-2951 Luxembourg and at The Bank of New York, 46 Berkeley Street, London W1X 6AA.

TERMS AND CONDITIONS OF THE GDRs

The following terms and conditions (subject to completion and amendment and excepting sentences in italics) will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt certificate.

The Global Depositary Receipts ("GDRs") represented by this certificate are each issued in respect of five equity shares of par value NT$10 each (the "Shares") in Compal Electronics, Inc. (the "Company") pursuant to and subject to an agreement dated 9 November 1999, and made between the Company and The Bank of New York in its capacity as depositary for the Facility (the "Depositary") (such an agreement, as amended from time to time, being hereinafter referred to as the "Deposit Agreement"). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed The International Commercial Bank of China as Custodian (the "Custodian") to receive and hold on its behalf any relevant documentation respecting certain Shares deposited with and held by the Custodian or its agents on behalf of the Depositary pursuant to the terms of the Deposit Agreement and such other Shares and securities received by the Depositary or the Custodian in respect thereof and held pursuant to the terms of the Deposit Agreement (the "Deposited Shares") and all and any rights, interests and other securities, property and cash held by the Custodian or the Depositary or their respective agents and attributable to the Deposited Shares together with any right of the Depositary or the Custodian to receive Deposited Shares or any such rights, interests and securities, property and cash as aforesaid (together with the Deposited Shares, the "Deposited Property"). The Depositary shall hold the Deposited Property for the benefit of the Holders (as defined below) as bare trustees in proportion to their holdings of GDRs. In these terms and conditions (the "Conditions"), references to the "Depositary" are to the Bank of New York pursuant to the Deposit Agreement, references to the "Custodian" are to The International Commercial Bank of China and/or any other custodian from time to time appointed by the Depositary pursuant to the Deposit Agreement and references to the "Main Office" means, in relation to the relevant Custodian, its head office at 3rd Floor, 2 Chung Ching S.Road, Section 1, Taipei, Taiwan, ROC or such other location of the head office of the Custodian in The Republic of China as may be designated by the Custodian with the approval of the Depositary (if outside the city of Taipei) or the head office of any other custodian from time to time appointed under the Deposit Agreement.

References in these Conditions to the "Holder" of any GDR means the person recorded in the books of the Depositary maintained for such purpose (the "Register") as holder for the time being. The Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificates in respect of GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Main Office of the Custodian. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. **Holders are deemed to have notice of and be bound by all of the provisions of the Deposit Agreement applicable to them.**

1. Sale and Withdrawal of Deposited Property and Further Issues of GDRs

(A) Any Holder may request that the Deposited Property attributable to any GDR be sold on such Holder's behalf by the Depositary upon production of such evidence that such Holder is the Holder of, and entitled to, the relevant GDR as the Depositary may reasonably require at the specified office of the Depositary or any Agent accompanied by:

(i) a duly executed order (in form approved by the Depositary) requesting the Depositary to cause the Deposited Property to be sold and requesting the proceeds thereof (after deducting such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement or these Conditions and not paid pursuant to paragraph (ii) below) to be credited to a specified cash account of the Holder with Cedelbank or Euroclear (as the case may be);

(ii) payment of such fees, taxes, duties, charges and expenses as may be required under the Deposit Agreement or these Conditions;

(iii) the surrender (if appropriate) of GDR certificates in definitive registered form to which the Deposited Property being withdrawn is attributable; and

(iv) the delivery to the Depositary of a duly executed and completed certificate substantially in the form set out in Schedule 3, Part B to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered during the Distribution Compliance Period (such term being defined as the 40-day period beginning on the latest of the commencement of the Offering and the original issue date of the GDRs) in respect of surrendered GDRs.

through a licensed securities ... the laws of ROC. Any such sale will be at the risk and ... assurance is given by the Depositary that the sale will be effected, nor as to the timing of ... particularly during periods of illiquidity or volatility with respect to the Shares. Upon receipt of any proceeds from any such sale the Depositary will, subject to the Deposit Agreement, applicable ROC laws and regulations and Condition 8, convert or cause the conversion of any such proceeds into US dollars and distribute any such proceeds to the Holder entitled thereto after deduction or payment of all fees, taxes, duties, charges, costs and expenses applicable or incurred in connection with such sale and conversion, as provided in the Deposit Agreement and these Conditions:

(B) Any Holder may request withdrawal of, and the Depositary shall subject to the prevailing ROC laws and regulations thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence that such person is the Holder of, and entitled to, the relevant GDR as the Depositary may reasonably require at the specified office of the Depositary or any Agent accompanied by:

(i) a duly executed order (in the form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Main Office of the Custodian, or (at the request, risk and expense of the Holder) at the specified office from time to time of the Depositary or any Agent (located in London or such other place as permitted under applicable law from time to time) to, or to the order in writing of, the person or persons designated in such order;

(ii) the payment of such fees, taxes, duties, charges and expenses as may be required under these Conditions, or the Deposit Agreement;

(iii) the surrender (if appropriate) of GDR certificates in definitive registered form to which the Deposited Property being withdrawn is attributable; and

(iv) the delivery to the Depositary of a duly executed and completed certificate substantially in the form set out in Schedule 3, Part B to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered during the Distribution Compliance Period (such terms being defined as the 40-day period beginning on the latest of the commencement of the Offering and the original issue date of the GDRs), in respect of surrendered GDRs.

(C) Certificates for withdrawn Deposited Shares will contain such legends (including, if applicable, the legend required in respect of the Securities Act), and withdrawals of Deposited Shares may be subject to such transfer restrictions or certificates, as the Company or the Depositary may from time to time determine to be necessary for compliance with applicable laws and regulations.

(D) Upon production of such documentation and the making of such payment as aforesaid in accordance with Condition 1(B), the Depositary will direct the Custodian, within a reasonable time after receiving such direction from such Holder, to deliver at its Main Office to, or to the order in writing of, the person or persons designated in the accompanying order:

(i) a certificate for, or other appropriate instrument of title to, or evidence of a book-entry transfer in respect of the relevant Deposited Shares, registered in the name of the Depositary or its nominees and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and

(ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof as aforesaid; provided however that the Depositary may make delivery at its specified office in New York of any Deposited Property which is in the form of cash;

PROVIDED FURTHER THAT the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

(a) will direct the Custodian to deliver the certificates for, or other instruments of title to, or book-entry transfer in respect of the relevant Deposited Shares, and any document relative thereto and any other documents referred to in sub-paragraphs (D)(i) and (D)(ii) of this Condition 1 (together with any other property forming part of the

Deposited Property which may be held by the Custodian or its agent and is attributable to such Deposited Shares); and/or

(b) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof),

in each case to the specified office in Taipei of any Agent as designated by the surrendering Holder in the order accompanying such GDR.

(E) Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition 1 will be made subject to any laws or regulations applicable thereto.

(F) After the initial deposit of Shares in connection with the initial offering of the GDRs, unless otherwise agreed by the Depositary and the Company and permitted by applicable law, only the following may be deposited under the Deposit Agreement;

(i) Shares issued as a dividend or free distribution in respect of Deposited Shares pursuant to Condition 5;

(ii) Shares subscribed or acquired by Holders from the Company through the exercise of rights distributed by the Company to such persons in respect of Deposited Shares pursuant to Condition 7;

(iii) Securities issued by the Company to Holders in respect of Deposited Shares as a result of any change in the par value, sub-division, consolidation or other reclassification of Deposited Shares or otherwise pursuant to Condition 10;

(iv) Shares deposited as permitted by and in accordance with ROC law and regulations in effect from time to time. In the case of a deposit of Shares requested under this paragraph (iv), the Depositary will refuse to accept Shares for deposit if such deposit is not permitted under any restriction notified by the Company to the Depositary from time to time; and

(v) the Company may by notice in writing to the Depositary, impose restrictions regarding further deposit of Shares from time to time.

Under ROC law and regulations currently in effect, the total number of GDRs outstanding after an issue described in paragraph (iv) may not exceed the number of issued GDRs previously approved by the ROC Securities and Futures Commission ("SFC") in connection with the initial offer of GDRs (plus any GDRs created pursuant to paragraphs (i) and (ii) above) and subject to any adjustment in the number of Shares represented by each GDR. Deposits of Shares under paragraph (iv) will be permitted only to the extent that previously issued GDRs have been cancelled and, for so long as required by applicable law, the Shares represented thereby sold on the TSE.

(G) Except for additional GDRs to be issued in connection with (i) dividends in, or free distribution of Shares, (ii) the exercise by existing Holders of pre-emption rights in the event of capital increases for cash, or (iii) the creation of additional GDRs pursuant to Condition 1(F)(iv) above, the Depositary will refuse to accept Shares and/or other securities for deposit after the final closing of the initial offering unless it is notified by the Company in writing that all governmental or administrative authorisations, consents, approvals, registrations or permits required under applicable law in ROC have been obtained or made.

Reference in these Conditions to "Deposited Shares" or "Shares" shall include such securities, where the context permits.

(H) In accordance with the terms of the Deposit Agreement and these Conditions and upon delivery of a duly executed order (in a form approved by the Company and the Depositary) and a duly executed certificate substantially in the form of Schedule 3, Part A of the Deposit Agreement by or on behalf of any investor who is to become the beneficial owner of the GDRs, the Depositary may from time to time execute and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects (or the same in all respects except for the first dividend payment on the Shares corresponding to such further GDRs) and, subject to the terms of the Deposit Agreement and these Conditions, the Depositary may accept for deposit any the already outstanding GDRs. References in these Conditions (unless the context requires otherwise) any further GDRs issued pursuant to this Condition 1(H) and forming a single series with the already outstanding GDRs.

(I) Any further GDRs issued pursuant to Condition 1(H) which correspond to Shares which have different dividend rights from the Shares corresponding to the outstanding GDRs will correspond to a separate temporary Master GDR. Upon becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by a Master GDR (by increasing the total number of GDRs evidenced by the Master GDR by the number of such further GDRs, as applicable).

(J) The Depositary may issue GDRs against rights to receive Shares from the Company (or any agent of the Company recording Share ownership). No such issue of GDRs will be deemed a "Pre-Release" as defined in paragraph (K) of this Condition 1.

(K) Unless requested in writing by the Company to cease doing so, and to the extent permitted by applicable ROC laws and notwithstanding the provisions of paragraph (H) of this Condition 1, the Depositary may execute and deliver GDRs or issue interests in a Master GDR prior to the receipt of Shares (a "Pre-Release"). The Depositary may, pursuant to paragraph (B) of this Condition 1, deliver 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 Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation from the person to whom GDRs or Deposited Property are to be delivered (the "Pre-Releasee") that such person, or its customer, (i) owns or represents the owner of the corresponding Deposited Property or GDRs to be remitted (as the case may be), (ii) assigns all beneficial right, title and interest in such Deposited Property or GDRs (as the case may be) to the Depositary in its capacity as such and for the benefit of the Holders and (iii) will not take any action with respect to such GDRs or Deposited Property (as the case may be) that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such GDRs or Deposited Property, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralised with cash or such other collateral as the Depositary determines in good faith will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five business days' notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of GDRs which are outstanding at any time as a result of Pre-Release will not normally represent more than 30 per cent. of the total number of GDRs then outstanding; provided, however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate, and may, with the prior written consent of the Company, change such limits for the purpose of general application. The Depositary will also set dollar limits with respect to such transactions hereunder with any particular Pre-Releasee hereunder on a case by case basis as the Depositary deems appropriate. The collateral referred to in sub-paragraph (b) above shall be held by the Depositary as security for the performance of the Pre-Releasee's obligations in connection herewith including the Pre-Releasee's obligation to deliver Shares and/or other securities or GDRs upon termination of a transaction anticipated hereunder (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder). The Depositary may retain for its own account any compensation received by it in connection with the foregoing, including without limitation earnings on the collateral.

The person to whom any Pre-Release of GDRs or shares is to be made pursuant to this sub-clause shall be requested to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 3 Part A of the Deposit Agreement.

2. Suspension of Issue of GDRs and of Withdrawal of Deposited Property

The Depositary shall be entitled, at its reasonable discretion, at such times as it shall determine, to suspend the issue or transfer of GDRs (and the deposit of Shares) generally or in respect of particular Shares. In particular, to the extent that it is in its opinion practicable for it to do so, the Depositary will refuse to execute and deliver GDRs or to register transfers of GDRs if it has been notified by the Company in writing that the Deposited Shares or GDRs or any depositary receipts corresponding to shares are listed on a U.S. Securities Exchange or quoted on a US automated inter dealer quotation system. Further, the Depositary may suspend the withdrawal of Deposited Property during any period when the Register, or the register of shareholders of the Company is closed or, generally or in one or more localities, if deemed necessary or desirable or advisable by the Depositary in good faith at any time or from time to time, in order to comply with any applicable law or governmental or stock exchange regulations or any provision of the Deposit Agreement or for any other reason. The Depositary shall (unless otherwise notified by the Company) restrict the withdrawal of Deposited Shares where the Company notifies the Depositary in writing that such withdrawal would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Company's Articles of Incorporation or would otherwise violate any applicable laws.

3. Transfer and Ownership

The GDRs are in registered form, each corresponding to five Shares. Title to the GDRs passes by registration in the Register and, accordingly, transfer of title to a GDR is effective only upon such registration. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in violation of applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depositary and the Company as its beneficial owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of any certificate issued in respect of it) and no person will be liable for so treating the Holder.

Prior to expiration of the Distribution Compliance Period, no owner of GDRs may transfer GDRs or Shares represented thereby to, or for the account of, any person except in accordance with Regulation S.

During the Distribution Compliance Period, neither the Custodian nor the Depositary will make any actual delivery of Shares to any Holder or beneficial owner at an address within the United States.

4. Cash Distribution

Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property, the Depositary shall, as soon as practicable, convert the same into United States dollars in accordance with Condition 8. The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 23, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the earliest date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares corresponding to the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11; PROVIDED THAT:-

(a) in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and

(b) the Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary.

5. Distribution of Shares

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend or free distribution of Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, additional GDRs corresponding to an aggregate number of Shares received pursuant to such distribution. Such additional GDRs shall be distributed by an increase in the number of GDRs corresponding to the Master GDRs or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) sell such Shares so received and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

6. [illegible]

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution, PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof, in such way as the Depositary may determine to be equitable and practicable including, without limitation, by way of sale (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) and shall (in the case of a sale) distribute the resulting net proceeds as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

7. Rights Issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall, subject to (i), (ii) and (iii) below, as soon as practicable give notice to the Holders, in accordance with Condition 23, of such offer or invitation, specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specifying details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:

(i) if and to the extent that the Depositary shall, at its discretion, deem it to be lawful and reasonably practicable, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in New Taiwan Dollars or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and to distribute the Shares, securities or other assets so subscribed or acquired to the Holders entitled thereto by an increase in the number of GDRs corresponding to the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or

(ii) if and to the extent that the Depositary shall at its discretion, deem it to be lawful and reasonably practicable, the Depositary will distribute such rights to the Holders entitled thereto in such manner as the Depositary may at its discretion determine; or

(iii) if and to the extent that the Depositary deems any such arrangement and distribution as is referred to in paragraphs (i) and (ii) above to all or any Holders not to be lawful and reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary (a) will, PROVIDED THAT Holders have not taken up rights through the Depositary as provided in (i) above, sell such rights (either by public or private sale and otherwise at its discretion subject to all applicable laws and regulations) or (b) may, if such rights are not transferable, in its discretion, arrange for such rights to be exercised and the resulting Shares or securities sold and, in each case, distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

(iv) (a) Notwithstanding the foregoing, in the event that the Depositary offers rights pursuant to Condition 7(i) (the "Primary GDR Rights Offering"), if authorised by the Company to do so, the Depositary may, in its discretion, make arrangements whereby in addition to instructions given by a Holder to the Depositary to execute rights on its behalf pursuant to Condition 7(i), such Holder is permitted to instruct the Depositary to subscribe on its behalf for additional rights which are not attributable to the Deposited Shares represented by such Holder's GDRs ("Additional GDR Rights") if at the date and time specified by the Depositary for the conclusion of the Primary GDR Offering (the "Instruction Date") instructions to exercise rights have not been received by the Depositary from the Holders in respect of all their initial entitlements. Any Holder's instructions to subscribe for such Additional GDR Rights ("Additional GDR Rights Requests") shall specify the maximum number of Additional GDR Rights that such Holder is prepared to accept (the "Maximum Additional Subscription") and must be received by the Depositary by the Instruction Date. If by the Instruction Date any rights offered in the Primary GDR Rights Offering have not been subscribed by the Holders initially entitled thereto ("Unsubscribed Rights"), subject to Condition 7(iv)(c) and receipt of the relevant subscription price in New Taiwan Dollars or other relevant currency, together with such fees, taxes, duties, charges, costs and expenses as it may deem necessary, the Depositary shall make arrangements for the allocation and distribution of Additional GDR Rights in accordance with Condition 7(iv)(b).

(b) Holders submitting Additional GDR Rights Requests shall be bound to accept the Maximum Additional Subscription specified in such Additional GDR Request but the Depositary shall not be bound to arrange for a Holder to receive the Maximum Additional Subscription so specified but may make arrangements whereby the Unsubscribed Rights are allocated *pro rata* on the basis of the extent of the Maximum Additional Subscription specified in each Holder's Additional GDR Rights Request.

(c) In order to proceed in the manner contemplated in this Condition 7(iv), the Depositary shall be entitled to receive such opinions from ROC counsel and US counsel as in its discretion it deems necessary which opinions shall be in a form and provided by counsel satisfactory to the Depositary and at the expense of the Company and may be requested in addition to any other opinions and/or certifications which the Depositary shall be entitled to receive under the Deposit Agreement and these Conditions. For the avoidance of doubt, save as provided in these Conditions and the Deposit Agreement, the Depositary shall have no liability to the Company or any Holder in respect of its actions or omissions to act under this Condition 7(iv) and, in particular, the Depositary will not be regarded as being negligent, acting in bad faith, or in wilful default if it elects not to make the arrangements referred to in Condition 7(iv)(a).

The Company has agreed in the Deposit Agreement that it will, unless prohibited by applicable law or regulation, give its consent to, and if requested use all reasonable endeavours (subject to the next paragraph) to facilitate, any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 4, 5, 6, 7 or 10 (including the obtaining of legal opinions from counsel reasonably satisfactory to the Depositary concerning such matters as the Depositary may specify).

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Condition 4, 5, 6, 7 or 10 or the securities to which such rights relate in order for the Company to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities corresponding to such rights, the Depositary will not offer such rights or distribute such securities or other property to the Holders or sell such securities unless and until the Company procures the receipt by the Depositary of an opinion from counsel reasonably satisfactory to the Depositary and the Company that a registration statement is in effect or that the offering and sale of such rights or securities to such Holders or owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and they shall not be liable for any losses, damages or expenses resulting from any failure to do so.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable to dispose of the rights in any manner provided in paragraphs (i), (ii) and (iii) above, the Depositary shall permit the rights to lapse. The Depositary will not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Holders or owners of GDRs in general or to any Holder or owner of a GDR or Holders or owners of GDRs in particular.

8. Conversion of Foreign Currency

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distributions or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the

Depositary shall as soon as practicable itself convert or cause financial institution, by sale or in any other manner that it may reasonably determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary shall make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may deem desirable. If at any time the Depositary shall determine that in its judgement any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence 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 licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may at its discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance for the account of, the Holders entitled thereto, and notify the Holders accordingly.

9. Distribution of any Payments

(A) Any distribution of cash under Conditions 4, 5, 6, 7 or 10 will be made by the Depositary to Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable) and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 23, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDRs, according to usual practice between the Depositary and Cedelbank or Euroclear, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDRs in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law or regulation in respect of such GDRs or the relevant Deposited Property.

(B) Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable), subject to any laws or regulations applicable thereto. If any distribution made by the Company with respect to the Deposited Property and received by the Depositary shall remain unclaimed at the end of three years from the date upon which such distribution is made available to Holders in accordance with the Deposit Agreement, all rights of the Holders to such distribution or the proceeds of the sale thereof shall be extinguished and the Depositary shall (except for any distribution upon the liquidation of the Company when the Depositary shall retain the same) return the same to the Company for its own use and benefit subject, in all cases, to the provisions of applicable law or regulation.

10. Capital Reorganisation

Upon any change in the nominal or par value, sub-division, consolidated or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital, or upon any reorganisation, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders and at its discretion may treat such event as a distribution and comply with the relevant provisions of Conditions 4, 5, 6 and 9 with respect thereto, or may execute and deliver additional GDRs in respect of Shares or may require the exchange of existing GDRs for new GDRs which reflect the effect of such change.

11. Withholding Taxes and Applicable Laws

(A) Payments to Holders of dividends or other distributions on or in respect of the Deposited Shares will be subject to deduction of ROC and other withholding taxes, if any, at the applicable rates.

(B) If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in

ROC in order for the Depositary to receive from the Company Shares or other securities or other property to be distributed under Conditions 4, 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company will apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such law. In this connection, the Company has undertaken in the Deposit Agreement to the extent reasonably practicable to take such action as may be required in obtaining or filing the same. The Depositary shall not be obliged to distribute GDRs representing such Shares, securities or other property deposited under these Conditions or make any offer of any such rights or sell any securities represented by any such rights with respect to which (as notified to the Depositary by the Company) such authorisation, consent, registration or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain any such authorisation, consent or permit, or to file any such report.

12. Voting of Shares

(A) Holders may exercise voting rights with respect to the Deposited Shares in the manner described below. The Company shall notify the Depositary of any resolution to be proposed at any general meeting of the Company and the agenda therefor and the Depositary will cause the Deposited Shares to be voted in the manner set out in this Condition 12.

(B) Each Holder shall be deemed, by acceptance of GDRs or acquisition of any beneficial interest therein, to have authorised and directed the Depositary, without liability, to appoint the Chairman of the Company or such other person as he may designate, as representative of the Depositary or its nominee who is registered as representative of the Holders in respect of the Deposited Shares (the "Registered Holder"), to vote the Deposited Shares as set forth in Clause 5 and Condition 12 (and as such provisions may be amended). The Company shall provide to the Depositary sufficient copies, as the Depositary may reasonably request, of such notices of any meetings of the shareholders of the Company (general or extraordinary) and the agenda therefor in the form the Company generally makes available to holders of Shares as well as an English language summary translation of such notices and communications relating to matters to be voted on by holders of Shares contained in such agenda at least 17 calendar days before any general Shareholders' meeting or at least 7 calendar days before any extraordinary Shareholders' meeting. The Depositary shall mail such notices to Holders as soon as practicable after receipt of the same by the Depositary except that, notwithstanding anything to the contrary, where the Company fails to supply the notices of any meeting of the shareholders of the Company (general or extraordinary) containing the requisite information together with the English summary translation to the Depositary on a business day in Taipei that is at least 17 calendar days (in the case of a general Shareholder's meeting) or at least 7 days (in the case of an extraordinary Shareholder's meeting) prior to the relevant Shareholders' meeting (such period not covering the date of despatch of such notice and the due date of the Shareholders' meeting), the Depositary is under no obligation to mail notices to Holders of the meeting of the shareholders of the Company, and will endeavour to cause all Deposited Shares represented by the GDRs to be represented at the relevant meeting insofar as practicable and permitted under applicable law but will not cause the Deposited Shares to be voted; provided, however, the Depositary may determine, at its sole discretion, to send such notices to Holders and/or cause the Deposited Shares to be voted as it deems appropriateHolders may exercise voting rights with respect to the Deposited Shares in the manner described below. The Company shall notify the Depositary of any resolution to be proposed at any general meeting of the Company and the agenda therefor and the Depositary will cause the Deposited Shares to be voted in the manner set out in this Condition 12.

(C) The Depositary shall, at the same time as notifying Holders of the meeting, issue a voting instruction form to each Holder by which each Holder may give instructions to the Depositary to vote for or against each and any resolution specified in the agenda for the meeting. In order for such voting instruction to be valid, the voting instruction form must be completed and duly signed by the Holder and returned to the Depositary by such record date as the Depositary may specify. If a Holder or Holders together holding at least 51.0 per cent of the GDRs outstanding at the relevant record date shall instruct the Depositary to vote in the same direction in respect of any particular resolution the Depositary shall notify the instruction in respect of that resolution to the Chairman of the Board of Directors of the Company or such other person as he may designate and app… person designated by him as the representative of the Registered Holders to attend such meeting and vote all the Deposited Shares evidenced by GDRs in the direction so instructed by such Holders in relation to such resolution or resolutions.

(D) If, for any reason (other than failure by the Company to supply the notice of Shareholders' meeting to the Depositary within the requisite time period provided in paragraph (A) above), the Depositary has not by the receipt date specified by it received instructions from Holders, together holding at least 51.0 per cent of all the GDRs outstanding at the relevant record date to vote in the same direction in respect of any particular resolution (including election of directors and/or supervisors) then subject to the following paragraph, the Holders shall be deemed in respect of that particular resolution to have instructed the Depositary to authorise and appoint the Chairman of the Board of Directors of the Company or such other person as he may designate as the representative of the Depositary and the Registered Holder to attend and vote at such meeting all the Deposited Shares represented by GDRs in respect of that particular resolution. In such circumstances, the Chairman of the Board of Directors of the Company or that other person designated by him shall be free to exercise the votes attaching to the Deposited Shares in any manner he wishes, which may not be in the interests of Holders.

(E) The Depositary shall not be required to take any action required by this Condition 12 unless it shall have received an opinion from the Company's legal counsel (such counsel being reasonably acceptable to the Depositary) at the expense of the Company to the effect that under ROC law (i) the voting arrangement is valid and binding on Holders under ROC law and the statutes of the Company and the Depositary is permitted to act in accordance with the provisions of this Condition 12, (ii) the Depositary will not be deemed to be exercising voting discretion when causing the voting in accordance with this Condition 12, and (iii) the Depositary will not be subject to any potential liability under ROC law for any losses arising from such voting on the ground that the voting in accordance with this Condition 12 is in violation of ROC law or under ROC law infringes the interests of Shareholders. In the event that the Depositary does not receive such an opinion, the Depositary will not grant the authorisation and appointment and will endeavour to cause all Deposited Shares to be represented at the relevant Shareholders' meeting insofar as practicable and permitted under applicable law but will not cause any such Deposited Shares to be voted, and the Company and the Depositary shall take such actions, including amendment of this Condition 12 in a manner reasonably acceptable to the Depositary, as they shall deem appropriate to endeavour to provide for the exercise of voting rights by the representative of the Registered Holder at succeeding meetings in a manner consistent with applicable ROC law. By continuing to hold GDRs, all Holders shall be deemed to have agreed to the provisions of this Condition 12, as it may be amended from time to time in accordance with applicable ROC law.

(F) The Depositary shall not, and the Depositary shall ensure that the Custodian and its nominees do not, under any circumstances, exercise any discretion as to voting and neither the Depositary nor the Custodian and its nominees shall vote or attempt to exercise the right to vote that attaches to the Deposited Shares, other than in accordance with such instructions given by Holders in accordance with this Condition 12.

13. Documents to be Furnished, Recovery of Taxes, Duties and Other Charges

The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. In default thereof, the Depositary may for the account of the Holder discharge the same out of the proceeds of sale on any Stock Exchange on which the Shares may from time to time be listed, and subject to all applicable laws and regulations, of any appropriate number of Deposited Shares or other Deposited Property and subsequently pay any surplus to the Holder. Any such request shall be made by giving notice pursuant to Condition 23.

14. Liability

(A) In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or owners of GDRs or any other person.

(B) Neither the Depositary, the Custodian, the Company, any Agent, nor any of their agents, officers, directors or employees shall incur any liability to any other of them or to any Holder or owner of a GDR or any other person with an interest in any GDRs if, by reason of any provision of any present or future law or regulation of ROC or any other country or of any relevant governmental authority, or by reason of the interpretation or application of any such present or future law or regulation or any change therein, or by reason of any other circumstances beyond their control, or in the case of the Depositary, the Custodian, the Agent or any of their agents, officers, directors or employees, by reason of any provision, present or future, of the Articles of Incorporation of the Company, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor shall any of them incur any liability to any Holder or owner of GDRs or any other person with an interest in any GDRs by reason of any exercise of, or failure to exercise, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).

(C) Neither the Depositary nor any Agent shall be liable (except for its own negligence or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of GDRs or any other person, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs or any signature on any transfer or instruction purporting to be such and subsequently found to be forged or not authentic or for its failure to perform any obligations under the Deposit Agreement or these Conditions.

(D) The Depositary and its agents may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates, or in relation to the Deposited Property (including without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or any other person for any profit arising therefrom.

(E) The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 1(A), 5, 6, 7, 10, 13 or 21 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures but shall have no liability (in the absence of its own negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be reasonably practicable.

(F) The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.

(G) The Depositary shall have no responsibility whatsoever to the Company, any Holders or any owner of GDRs or any other person as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.

(H) In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 22, be obliged to have regard to the consequences thereof for the Holders or the owners of GDRs or any other person.

Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its opinion, necessary to comply with any such law, directive or regulation.

(J) The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise but it shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares, for deposit or GDRs for surrender or requesting transfers thereof.

(K) Any such advice, opinion, certificate or information (as discussed in (J) above) may be sent or obtained by letter, telex, facsimile transmission, telegram or cable and the Depositary shall not be liable for acting on any advice, opinion, certificate or information purported to be conveyed by any such letter, telex or facsimile transmission although (without the Depositary's knowledge) the same shall contain some error or shall not be authentic.

(L) The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication in written form, signed on behalf of the Company by a director of the Company or by a person duly authorised by a Director of the Company or such other certificate from persons specified in (J) above which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.

(M) The Depositary shall have no obligation under the Deposit Agreement except to perform its obligations as are specifically set out therein without wilful default, negligence or bad faith.

(N) The Depositary may delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons as agreed by the Company, whether being a joint Depositary of the Deposit Agreement or not, all or any of the powers, authorities and discretions vested in the Depositary by the Deposit Agreement and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interests of the Holders think fit, provided that no objection from the Company to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depositary's ultimate holding company. Any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Company in making such delegation. The Company shall not in any circumstances and the Depositary shall not (provided that it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable and if so requested by the Company, pursue (at the Company's expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Company. Any delegation under this Condition which includes the power to sub-delegate shall provide that the delegate shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice thereof to the Company and the Depositary.

(O) The Depositary may, in the performance of its obligations hereunder, instead of acting personally, employ and pay an agent, whether a solicitor or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money.

(P) The Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute and the Depositary shall not (in the case of deposit with itself, in the absence of its own negligence, wilful default, or bad faith or that of its agents, directors, officers or employees) be responsible for any losses, liability or expenses incurred in connection with any such deposit.

(Q) Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with its performance or non-performance or the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement or these Conditions except to the extent that such loss or damage arises from the wilful default, negligence or bad faith of the Depositary or that of its agents, officers, directors or employees.

(R) No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured to it.

(S) For the avoidance of doubt, the Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable ROC law as the same may be amended from time to time. Notwithstanding the generality of Condition 4, the Depositary shall refuse to register any transfer of GDRs or any deposit of Shares against issuance of GDRs if notified by the Company, or the Depositary becomes aware of the fact, that such transfer or issuance would result in a violation of the limitations set forth above.

(T) No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement.

15. Issue and Delivery of Replacement GDRs and Exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of the destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the Holder) at the specified office of any Agent.

16. Depositary's Fees, Costs and Expenses

(A) The Depositary shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:

(i) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Offering) or the cancellation of GDRs upon the withdrawal of Deposited Property: US$0.05 or less per GDR issued or cancelled;

(ii) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;

(iii) for issuing GDR certificates in definitive registered form (other than pursuant to (ii) above): the greater of US$1.50 per GDR certificate (plus printing costs) or such other sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work plus costs (including but not limited to printing costs) and expenses involved;

(iv) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares: a fee of US$0.02 or less per GDR for each such dividend or distribution; and

(v) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution: US$0.05 or less per outstanding GDR for each such issue of rights, dividend or distribution;

Depositary, any Agent or the Custodian in connection with any of the above.

(B) The Depositary is entitled to receive from the Company the fees, taxes, duties, charges costs and expenses as specified in a separate agreement between the Company and the Depositary.

17. Agents

(A) The Depositary shall be entitled to appoint one or more agents (the "Agents") for the purpose, *inter alia*, of making distributions to the Holders.

(B) Notice of appointment or removal of any Agent or any change in the specified office of the Depositary or any Agent will be duly given by the Depositary to the Holders.

18. Listing

The Company has undertaken in the Deposit Agreement to use its best endeavours to maintain, so long as any GDR is outstanding, a listing for the GDRs on the Luxembourg Stock Exchange.

For that purpose the Company will pay all fees and sign and deliver all undertakings required by the Luxembourg Stock Exchange in connection therewith. In the event that the listing on the Luxembourg Stock Exchange is not maintained, the Company has undertaken in the Deposit Agreement to use its best endeavours with the reasonable assistance of the Depositary (provided at the Company's expense) to obtain and maintain a listing of the GDRs on any other internationally recognised stock exchange in Europe.

19. The Custodian

The Depositary has agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian PROVIDED THAT the Custodian shall not be obliged to segregate cash comprised in the Deposited Property from cash otherwise held by the Custodian. The Custodian shall be responsible solely to the Depositary PROVIDED THAT, if and so long as the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Depositary by giving 90 days' prior notice, except that if a replacement Custodian is appointed which is a branch or affiliate of the Depositary, the Custodian's resignation or discharge may take effect immediately on the appointment of such replacement Custodian. Upon the removal of or receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in ROC, if any), which shall, upon acceptance of such appointment, and the expiry of any applicable notice period, become the Custodian. Whenever the Depositary in its discretion determines that it is in the best interests of the Holders to do so, it may, after prior consultation with the Company, terminate the appointment of the Custodian and, in the event of any such termination, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in the ROC, if any), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such termination. The Depositary shall notify Holders of such change immediately upon such change taking effect in accordance with Condition 23. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as therein specified; PROVIDED THAT, in the case of such temporary deposit in another place, the Company consented to such deposit, and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Company if and to the extent that the obtaining of such insurance is reasonably practicable and the premiums payable are of a reasonable amount.

20. Resignation and Termination of Appointment of the Depositary

(A) The Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 90 days' prior notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving at least 90 days' prior notice in writing to the Company and the Custodian. Within 30 days after the giving of either such notice, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 and to the Luxembourg Stock Exchange.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in such notice; PROVIDED THAT no such termination of appointment or resignation shall take effect until the appointment by the Company of a successor depositary under the Deposit Agreement and the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions, by the successor depositary. The Company has undertaken in the Deposit Agreement to use its best endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 and to the Luxembourg Stock Exchange.

(B) Upon the termination of appointment or resignation of the Depositary and against payment of all fees and expenses due to the Depositary from the Company under the Deposit Agreement, the Depositary shall deliver to its successor as depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all property and cash held by it under the Deposit Agreement. The Deposit Agreement provides that, upon the date when such termination of appointment or resignation takes effect, the Custodian shall be deemed to be the Custodian thereunder for such successor depositary, and the Depositary shall thereafter have no obligation under the Deposit Agreement or the Conditions (other than liabilities accrued prior to the date of termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations).

21. Termination of Deposit Agreement

(A) Either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement Depositary within 90 days of the date on which the Depositary has given notice pursuant to Condition 20 that it wishes to resign, may terminate the Deposit Agreement by giving 90 days' prior notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 23.

(B) During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property corresponding to each GDR held by it, subject to the provisions of paragraph (B) of Condition 1 and upon compliance with Condition 1, free of the charge specified in paragraph (A)(i) of Condition 16 for such delivery and surrender, but upon payment by the Holder of any sums payable by the Depositary to the Custodian and/or any other expenses incurred by the Depositary in connection therewith for such delivery, and otherwise in accordance with the Deposit Agreement.

(C) If any GDRs remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action, except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, *pro rata* to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are the Holders. After making such sale, the Depositary shall be discharged from all obligations to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

22. Amendment of Deposit Agreement and Conditions

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 22) may at any time and from time to time be amended by agreement between the Company and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary, and any amendment (except as aforesaid) which shall increase or impose fees payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders until the expiration of three months after such notice shall have been given. During such period of three months, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 1, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, free of the charge specified in paragraph (A)(i) of Condition 16 for such delivery and surrender but otherwise in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendments ... they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 1, the Deposited Property attributable to the relevant GDR.

For the purposes of this Condition 22, an amendment shall not be regarded as being materially prejudicial to the interests of Holders if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares PROVIDED THAT temporary GDRs will represent such Shares until they are so consolidated.

23. Notices

(A) Any and all notices to be given to any Holder shall be duly given if personally delivered, or sent by mail (if domestic, first class, if overseas, first class airmail) or air courier, or by telex or facsimile transmission confirmed by letter sent by mail or air courier, addressed to such Holder at the address of such Holder as it appears on the transfer books for GDRs of the Depositary, or, if such Holder shall have filed with the Depositary a written request that notices intended for such Holder be mailed to some other address, at the address specified in such request.

(B) Delivery of a notice sent by mail or air courier shall be effective three days (in the case of domestic mail or air courier) or seven days (in the case of overseas mail) after receipt, and any notice sent by telex transmission, as provided in this Condition 23, shall be effective when the sender receives the answerback from the addressee at the end of the telex and any notice sent by facsimile transmission, as provided in this Condition 23, shall be effective when the intended recipient has confirmed by telephone to the transmitter thereof that the recipient has received such facsimile in complete and legible form. The Depositary or the Company may, however, act upon any telex or facsimile transmission received by it from the other or from any Holder, notwithstanding that such telex or facsimile transmission shall not subsequently be confirmed as aforesaid.

(C) So long as GDRs are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, all notices to be given to Holders generally will also be published in a leading daily newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).

24. Reports and Information on the Company

(A) The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depositary with six copies in the English language (and to make available to the Depositary, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) of, in respect of the financial year ending on 31 December 1998 and in respect of each financial year thereafter, the non-consolidated (and, if published for holders of Shares, consolidated) balance sheets as at the end of the financial year and the non-consolidated (and, if published for holders of Shares, consolidated) statements of income for such financial year in respect of the Company, prepared in conformity with generally accepted accounting principles in ROC and reported upon by independent public accountants selected by the Company, as soon as practicable (and in any event within 180 days) after the end of such year.

(B) The Depositary shall upon receipt thereof give due notice to the Holders that such copies are available upon request as its specified office and the specified office of any Agent.

25. Copies of Company Notices

Except as otherwise provided herein, the Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary on or before the day when the Company first gives notice, by mail, publication or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, such number of copies of such notice and any other material (which contains information having a material bearing on the interests of the Holders) furnished to such holders by the Company (English translations of the originals if the originals were prepared in a language other than English) in connection therewith as the Depositary may reasonably request. Except as provided below, the Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to paragraph (A) of Condition 9, and shall make the same available to Holders in such manner as it may determine.

26. Moneys held by the Depositary

The Depositary shall be entitled to deal with moneys paid to it by the Company for the purposes of the Deposit Agreement in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Company or any Holder or any other person for any interest thereon, except as otherwise agreed and shall not be obliged to segregate such moneys from other moneys belonging to the Depositary.

27. Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

28. Governing Law

(A) The Deposit Agreement and the GDRs are governed by and shall be construed in accordance with English law except that the certifications set forth in Schedules 3 and 4 to the Deposit Agreement and any provisions relating thereto shall be governed by and construed in accordance with the laws of the State of New York. The rights and obligations attaching to the Deposited Shares will be governed by ROC law. The Company has submitted in respect of the Deposit Agreement and the Deed Poll to the jurisdiction of the English courts and the courts of the State of New York and any United States Federal Court sitting in New York City and has appointed an agent for service of process in London and New York City. The Company has also agreed in the Deposit Agreement, and the Deed Poll to allow, respectively, the Depositary and the Holders to elect that Disputes are resolved by arbitration.

(B) The Company has irrevocably appointed Hackwood Secretaries Limited currently at One Silk Street, London EC2Y 8HQ, as its agent in England to receive service of process in any Proceedings in England based on the Deed Poll and appointed CT Corporation System of 1633, Broadway, New York NY10019, USA, as its agent in New York to receive service of process in any Proceedings in New York. If for any reason the Company does not have such an agent in England or New York as the case may be, it will promptly appoint a substitute process agent and notify the Holders and the Depositary of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

(C) The courts of England are to have jurisdiction to settle any disputes (each a "Dispute") which may arise out of or in connection with the GDRs and accordingly any legal action or proceedings arising out of or in connection with the GDRs ("Proceedings") may be brought in such courts. Without prejudice to the foregoing, the Depositary further irrevocably agrees that any Proceedings may be brought in any New York State or United States Federal Court sitting in New York City. The Depositary irrevocably submits to the non-exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

(D) These submissions are made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdictions (whether concurrently or not).

(E) In the event that the Depositary is made a party to, or is otherwise required to participate in, any litigation, arbitration, or Proceeding (whether judicial or administrative) which arises from or is related to or is based upon any act or failure to act by the Company, or which contains allegations to such effect, upon notice from the Depositary, the Company has agreed to fully cooperate with the Depositary in connection with such litigation, arbitration or Proceeding.

(F) The Depositary irrevocably appoints The Bank of New York, London Branch, (Attention: The Manager) of 46 Berkeley Street, London W1X 6AA as its agent in England to receive service of process in any Proceedings in England based on any of the GDRs. If for any reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent in England and notify the Holders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

THE SECURITIES MARKET OF THE ROC

The information in this section has been extracted from publicly available documents which have not been independently verified by the Company, Nomura or any of their respective affiliates or advisors in connection with the issue of the GDRs.

In September 1960, the ROC Government established the Securities and Exchange Commission whose name was subsequently changed in 1997 to the SFC 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 TSE 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 internationalisation of the ROC securities market.

The Taiwan Stock Exchange

In 1961, the SFC, working together with private interests, established the TSE to provide a marketplace for securities trading. The TSE is a corporation owned by government-controlled and private banks and enterprises. The TSE 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 TSE.

The TSE 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 SFC more actively encouraged new listings on the TSE, and the number of listed companies grew from 119 in 1983 to 163 by the end of 1988. There were 462 listed companies on 8 November 1999. As of 8 November 1999, the total market capitalisation of shares listed on the TSE was NT$10,240 billion.

In the absence of special regulatory approval, only ROC companies are permitted to list their securities on the TSE. However, the SFC has recently adopted regulations that permit foreign issuers to list their equity securities directly on the TSE or through the use of Taiwan Depositary Receipts. The TSE has established specific requirements for listing based on the number and distribution of stockholders, the amount of capital, profitability, the issuer's year of existence and capital structure. For a company to be listed on the TSE, it must have been established for at least five fiscal years, have a paid-in capital of at least NT$300 million for the latest two fiscal years and at least 1,000 registered shareholders, including not fewer than 500 shareholders each holding between 1,000 to 50,000 shares. Such 500 shareholders must together hold either at least 20 per cent. of the outstanding shares or 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 six per cent. of paid-in capital for each of the previous two fiscal years, or having exceeded six per cent. 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 three per cent. 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.

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 Values	Index High	Index Low	Index at Period End
		(in NT$ billions)			
1989	181	25,408.0	10,773.11	4,873.18	9,624.18
1990	199	19,031.3	12,495.34	2,560.47	4,530.16
1991	221	9,682.7	6,305.22	3,316.26	4,600.67
1992	256	5,917.1	5,391.63	3,327.67	3,377.06
1993	285	9,056.7	6,070.56	3,135.56	6,070.56
1994	313	18,812.1	7,183.75	5,194.63	7,124.66
1995	347	10,151.5	7,051.49	4,503.37	5,173.73
1996	382	12,907.6	6,982.81	4,690.22	6,933.94
1997	404	37,241.2	10,116.84	6,820.35	8,187.27
1998	437	29,619.0	9,277.1	6,251.38	6,418.43
1999* (up to 8 November 1999)	462	24,567.4	8,608.91	5,474.79	7,401.49

Source: Status of Securities Listed on Taiwan Stock Exchange.
* Taiwan Economic Journal Data Bank

As indicated above, the performance of the TSE has in recent years been characterised by extreme price volatility.

On 8 November 1999, the Taiwan Stock Exchange Index closed at 7,401.49.

Price Limits, Commissions, Transaction Tax And Other Matters

Fluctuations in the price of securities traded on the TSE are currently subject to a restriction of 7 per cent. above and below the previous day's closing price (or reference price set by the TSE if the previous day's closing price is not available because of lack of trading activity) in the case of equity securities and 5 per cent. in the case of debt securities. The SFC has announced that limitations on price fluctuations will be relaxed with a view to eventually abolishing all share price fluctuations controls. Currently, the commission rates for brokers are in the range of 0.1 per cent. to 0.1425 per cent. of the transaction price for equity securities and 0.05 per cent. to 0.1 per cent. of the transaction price for debt securities. A securities transaction tax, currently levied at the rate of 0.3 per cent. of the transaction price, is payable by the seller of equity securities and at the rate of 0.1 per cent. of the transaction price, is payable by the seller of debt securities. 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 TSE 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.

Regulation And Supervision

The SFC is under the jurisdiction of the Ministry of Finance. The SFC has extensive regulatory authority over companies listed on the TSE, companies traded on the OTC and unlisted public issuing companies whose capital exceeds the currently specified minimum amount of NT$200 million. Such companies are generally required to obtain approval from, or registration with, the SFC for all securities offerings. The SFC has promulgated regulations requiring, unless otherwise exempted, periodic reporting of financial and operating information by all listed companies. In addition, the 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 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 requires an issuer to recover certain short-term trading profits made through purchases and sales within six months by directors, managers, supervisors and 10 per cent. 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 per cent. or above 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 [illegible] 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. 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 SFC does not have criminal or civil enforcement powers under the Securities and Exchange Law. Criminal actions may be pursued only by prosecutors upon the recommendation of the SFC. Under ROC law, civil actions may only be brought by plaintiffs who assert that they have suffered damage. The 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 TSE has primary responsibility for reviewing applications by ROC issuers to list on the TSE. However, the SFC also reviews all securities offerings by listed companies. If issuers of listed securities violate relevant laws and regulations or encounter significant difficulties, the TSE may, with the approval of the SFC, delist securities of such issuers.

FOREIGN INVESTMENT AND EXCHANGE CONTROLS IN THE ROC

The information in this section has been extracted from publicly available documents which have not been independently verified by the Company, Nomura or any of their respective affiliates or advisors in connection with the issue of the GDRs.

Foreign Investment

Historically, foreign investment in the ROC securities market has been restricted. Since 1983, however, the ROC government has from time to time enacted legislation and adopted regulations to make investment in the ROC securities market by non-ROC persons possible, initially through overseas trust funds raised by authorised and regulated securities investment trust enterprises established in the ROC ("Overseas Funds"). A March 1988 ruling of the SFC permitted foreign individuals who held an ROC alien resident certificate to invest in the units of domestic closed-end investment trust funds and, in March 1989, the Executive Yuan approved amended regulations allowing local branches of foreign insurance companies to make limited investments in securities listed on the TSE. Under the current ROC laws and regulations, non-ROC persons may invest in ROC securities (other than as described above) through the following vehicles.

Global Depositary Receipts

In April 1992, the SFC promulgated regulations permitting ROC companies with securities listed on the TSE, with the prior approval of the SFC, to sponsor the issue and sale to foreign investors of global depositary receipts ("DRs") representing deposited shares of ROC companies. In December 1994, the Ministry of Finance promulgated new regulations ("Regulations") allowing companies whose shares are traded on the over-the-counter ("OTC") market or listed on the TSE, upon approval of the SFC to sponsor the issue and sale of DRs. The approval by the SFC will be 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 SFC approvals.

Commencing three months after the initial issue of DRs, a holder of such DR may request the foreign depositary bank issuing the DR to cause the underlying shares to be sold in the ROC and to distribute the proceeds of such sale to the DR holder or to withdraw from the depositary receipt facility shares represented by DRs and transfer such shares to such holder, provided, however, that the three months' restriction will not apply to the sale or withdrawal of the underlying shares which were issued and outstanding prior to the initial issuance of the DRs. Under current ROC law, no deposits of shares may be made in a depositary receipt facility and no DRs may be issued against such deposits without specific SFC approval, except in connection with an offering and the issuance of additional DRs in connection with (i) dividends in or on, or free distributions of shares, (ii) the exercise by holders of existing DRs of their pre-emptive rights in the event of capital increases for cash or (iii) if permitted under the offering plan, deposit agreement and custody agreement, the purchase through the depositary bank of the underlying shares on the TSE or the OTC market (as applicable) for deposit in the depositary receipt facility, provided that the total number of DRs outstanding after an issuance described in clause (iii) may not exceed the number of issued DRs previously approved by the SFC in connection with the offering (plus any DRs created pursuant to clauses (i) and (ii) above) and subject to any adjustment in the number of shares represented by each DR. Issuance under Clause (iii) will be permitted to the extent that previously issued DRs have been cancelled and the shares withdrawn from the depositary receipt facility upon cancellation of such DRs have been sold on the TSE or the OTC market (as applicable).

Under current ROC law, a holder of DRs who withdraws the underlying shares is required to appoint an eligible local agent to open a securities trading account with a local securities brokerage firm after having obtained consent from the TSE, pay ROC taxes, remit funds, exercise rights on securities and perform such other matters as may be designated by the holder. In addition, such holder must appoint a local bank to act as custodian for handling confirmation and settlement of trades, safekeeping of securities and cash proceeds and reporting and declaration of information.

Pursuant to current foreign exchange regulations, 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. A 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 subscription rights [illegible] NT dollars for subscription payments in respect of rights offerings. Proceeds from the sale of any underlying shares of the DRs withdrawn from the depositary receipt facility and stock dividends on such underlying shares, may be remitted overseas by the DR holders without CBC approval. Proceeds from sale of the underlying shares withdrawn from the depositary receipt facility may be used for reinvestment in the TSE 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 SFC has approved a series of overseas bonds issued by ROC companies listed on the TSE in offerings outside the ROC. The Regulations also permit companies whose shares are traded on the OTC market to issue and offer overseas corporate bonds. Under current ROC law, such overseas corporate bonds may be converted by non-ROC persons (other than persons of the PRC) into shares of ROC companies or, subject to 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 sale of the shares converted from overseas convertible bonds may be used for reinvestment in securities listed on the TSE or traded on the OTC market, subject to limitations and restrictions applicable to Qualified Foreign Institutional Investors or General Foreign Investors ("'QFII"s) (as applicable).

Qualified Foreign Institutional Investors

On 28th December, 1990, the Executive Yuan approved guidelines drafted by the SFC which, as of 1st January, 1991, allow direct investment in ROC securities listed on the TSE or on the OTC or other ROC securities approved by the SEC 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.$300,000,000;

(iii) fund management institutions which have existed for more than three years and manage assets of at least U.S.$200,000,000;

(iv) offshore fund management institutions which are more than 50 per cent. owned by ROC securities investment trust enterprises, provided the funds to be used to invest in ROC securities do not come from (1) the ROC, (2) funds owned by such offshore fund management institutions or (3) mainland China;

(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 per cent. owned by an ROC securities firm or other offshore securities firms which are 100 per cent. owned by such offshore subsidiaries;

(vii) offshore subsidiary securities firms which are 100 per cent. owned by an ROC securities firm or other offshore securities firms which are more than 51 per cent. owned by such offshore subsidiaries;

(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 SFC.

QFIIs who wish to invest directly in the ROC securities market are required to apply for an investment permit from the SFC and if the investment exceeds U.S.$50 million an approval from the CBC is also required. QFIIs who receive a permit may currently invest up to U.S.$600,000,000 (with certain limited exceptions) and are required to remit the full amount into the ROC within one year after receiving such investment permit. The percentage of individual foreign ownership and total foreign ownership in an ROC listed company (or a company whose shares are traded on the OTC market) are both limited to 50 per cent.

The foreign ownership limitations apply to investments in the ROC securities market by QFIIs, General Foreign Investors and Overseas Funds, Shares represented by DRs and shares converted from OCBs are disregarded for the purposes of calculation of the foregoing investment limits. However, if a foreign investor sells shares converted from overseas convertible bonds or shares withdrawn from the depositary receipt facility and uses the proceeds therefrom to reinvest in securities listed on the TSE or traded on the OTC market, the 50 per cent. foreign ownership limitations will apply to the investment so made by the foreign investor. ROC Custodians for QFIIs are also required to submit to the CBC and the SFC a report of trading activities and status of assets under custody and other matters every month. 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 remitted out of the ROC may be returned to the ROC within one year of the outward remittance without SFC approval. Capital gains and income on investments may be remitted out of the ROC at any time.

Other Foreign Investment

With the exception of Qualified Foreign Institutional Investors, under existing ROC laws and regulations relating to foreign investment, non-resident foreign investors ("General Foreign Investors") may, after obtaining permission from the TSE, invest in the shares of TSE-listed companies or companies whose shares are traded on the OTC market. No investment ceiling amount is imposed on onshore General Foreign Investors. However, the investment ceiling amount for an offshore General Foreign Investor is U.S.$5 million (for an individual investor) or U.S.$50 million (for an institutional investor). An onshore General Foreign Investor is entitled to make inward remittances or outward remittances of foreign currency of up to U.S.$5 million (for an individual investor) and U.S.$50 million (for an institutional investor) each year.

Foreign investors (other than Qualified Foreign Institutional Investors, General Foreign Investors and 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 SFC).

Under current law, any non-ROC person possessing an FIA approval may repatriate the approved investment and annual net profits, interest and cash dividends attributable to the approved investment. Capital and capital gains attributable to such investment may be repatriated only after the expiration of a one-year waiting period.

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 Decree No. 18641 (the "Decree"), as amended by the Executive Yuan. The prohibition on foreign investment in the prohibited industries specified in the Decree is absolute in the absence of specific exemption from the application of the Decree. Pursuant to the Decree, 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 Decree is intended to implement.

Exchange Controls

The 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 favour 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.$50,000,000 (or its equivalent) and U.S.$5,000,000 (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 [illegible] foreign currency of up to U.S.$100,000 (or its approval of the CBC, remit outside and into the ROC foreign currency 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*.

ROC TAXATION OF NON-RESIDENTS

The following is a summary of the principal ROC tax consequences of the ownership and disposition of GDRs representing shares to a non-resident individual or non-resident entity that holds GDRs (a "Non-ROC Holder"). As used in the preceding sentence, a "non-resident individual" (a "Non-ROC Individual") is a foreign national individual who owns GDRs and is not physically present in the ROC for 183 days or more during any calendar year and a "non-resident entity" (a "Non-ROC Entity") is a corporation or a non-corporate body that is organised under the laws of a jurisdiction other than the ROC for profit-making purposes and has no fixed place of business or other permanent establishment in the ROC. Prospective purchasers of GDRs should consult their own tax advisers concerning the ROC tax consequences of owning GDRs.

Dividends

Dividends (whether in cash or common stock) declared by the Company out of retained earnings and paid out to a Non-ROC Holder in respect of Shares represented by the GDRs are normally subject to ROC income tax collected by way of withholding at the time of distribution. The current rate of withholding is 20 per cent. for Non-ROC Holders on the amount of the distribution (in the case of cash dividends) or on the par value of the common stock (in the case of stock dividends). Although in certain circumstances income tax imposed on certain stock dividends distributed by the Company may be deferred until the sale or other disposition of such stock dividends, the Depositary will elect to waive the deferral of income tax on such stock dividends.

Distributions of Shares declared by the Company out of capital reserves are not subject to ROC withholding tax.

Capital Gains

Gains from the sale of property in the ROC are generally subject to ROC income tax. However, under current ROC law, capital gains on securities transactions are exempt from income tax. This exemption currently applies to capital gains derived from the sale of common stock. On 4th January, 1996, the ROC Legislative Yuan passed a bill for the amendment of the ROC Income Tax Law that would have eliminated the exemption from ROC income tax for gains realised on the sale of ROC securities and imposed a capital gains tax. On 12 January 1996, this amendment was repealed by the Legislative Yuan. The reintroduction of a capital gains tax would require the Legislative Yuan to engage in the full legislative process for the enactment of tax legislation.

Sales of GDRs by Non-ROC Holders are not regarded as sales of ROC securities and thus any gains derived from transfers of GDRs are not currently subject to ROC income tax.

Preemptive Rights

Distribution by the Company of statutory preemptive rights for the Shares in compliance with the ROC Company Law are not subject to ROC tax. Proceeds derived from sales of statutory preemptive rights by a Non-ROC Holder may be subject to the ROC securities transaction tax, currently at the rate of 0.3 per cent., if such a sale is deemed to be a sale of "securities" (as defined by the ROC Securities and Exchange Law), but will be exempt from capital gains taxation under current ROC law. However, if such a sale is deemed not to be a sale of "securities", then the securities transaction tax will not be imposed, but the proceeds derived from therefrom will be subject to ROC income tax at the rate of 20 per cent. It is unclear whether the sale of statutory preemptive rights will be considered a sale of "securities" for this purpose.

Securities Transaction Tax

Securities transaction tax, currently at the rate of 0.3 per cent. of the gross amount received, will be withheld upon a sale of Shares by the securities broker. Transfers of GDRs by Non-ROC Holders are not subject to ROC securities transaction tax.

Estate Tax and Gift Tax

ROC estate tax is payable on any property within the ROC of a deceased who is a Non-ROC Individual, and ROC gift tax is payable on any property within the ROC donated by any such person. Estate tax is currently payable at rates ranging from two per cent. of the first NT$600,000 to 50 per cent. of amounts over NT$100,000,000. Gift tax is payable at rates ranging from four per cent. of the first NT$600,000 to 50 per cent. of amounts over NT$45,000,000. Under ROC estate and gift tax laws, shares issued by ROC companies are deemed located in the ROC irrespective of the location of the holder of GDRs will be considered to own Shares for this purpose.

Tax Treaties

At present, the ROC has double taxation treaties with Indonesia, Singapore, Australia, South Africa, Vietnam, New Zealand, Gambia, Swaziland, Malaysia and the Republic of Macedonia, which limit the rate of withholding tax on dividends paid with respect to shares in ROC companies. It is unclear whether a Non-ROC Holder will be considered to own Shares for the purposes of such treaties. Accordingly, holders of GDRs who are otherwise entitled to the benefits of the relevant income tax treaty should consult their own tax advisers concerning their eligibility for benefits under the relevant treaty with respect to GDRs.

PLACING

Pursuant to a placing agreement (the "Placing Agreement") dated 4 November 1999 between Nomura, Kinpo and the Company, Nomura has agreed to subscribe the GDRs representing the Deposited Shares at a price of U.S.$15.27 per GDR. Kinpo has agreed to pay to Nomura a placing fee of 1.50 per cent. of the gross proceeds of the Offer of the GDRs. Kinpo has further agreed to reimburse Nomura certain expenses incurred by it in connection with the placing.

Each of the Company and Kinpo has agreed, in the Placing Agreement with Nomura, that neither of them, nor any of their subsidiaries, nor any person acting on any of their behalf, will (or will evince an intention to) offer, sell, contract to sell or otherwise dispose of any securities of the same class as the Deposited Shares or any securities convertible into or exchangeable for securities of the same class as the Deposited Shares or other instruments representing interests in securities of the same class as the Deposited Shares (other than (i) in connection with the issue of the GDRs, (ii) on conversion of convertible securities in issue on the date of the Placing Agreement or (iii) pursuant to a distribution of dividends or employee bonuses in the form of Shares or a rights issue) without the prior written consent of Nomura for a period beginning on the date of the Placing Agreement and ending on the date which is 90 days (in the case of the Company) and 180 days (in the case of Kinpo) after the date of the issue of the GDRs (in each case inclusive).

United States

The GDRs and the Shares represented thereby have not been and will not be registered under the Securities Act. Subject to certain exceptions, neither the GDRs nor the Shares may be offered, sold or delivered within the United States or to U.S. persons. Nomura has agreed that it will not offer, sell or deliver any GDRs within the United States or to U.S. persons, except as permitted by the Placing Agreement.

In addition, until 40 days after the commencement of the offering of GDRs, an offer or sale of GDRs within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Nomura has represented and agreed that:—

1. it has not offered or sold and will not offer or sell any GDRs to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which 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;
2. 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 GDRs in, from or otherwise involving the United Kingdom; and
3. it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue of the GDRs, if that person 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 such document may otherwise lawfully be issued or passed on.

Hong Kong

Nomura has represented and agreed that (i) it has not offered or sold and will not offer or sell the GDRs in Hong Kong, by means of any document, other than to persons whose ordinary business it 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 advertisement, invitation or document relating to the GDRs in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to GDRs which are intended to be disposed of to persons outside Hong Kong or only to persons whose business involves the acquisition, disposal or holding of securities, whether as principal or agent.

ROC

Nomura has agreed that it has not offered or sold and will not offer or sell any GDRs representing the Deposited Shares in the ROC.

GENERAL INFORMATION

Clearance and Trading

The GDRs have been accepted for clearance through Euroclear and Cedelbank under Common Code number 10399408. The International Securities Identification Number (ISIN) for the GDRs is US20440Y2000.

Listing

Application has been made to list the GDRs on the Luxembourg Stock Exchange. The legal notice relating to the issue of the GDRs, the Deposit Agreement and the Articles of Incorporation of the Company will be lodged with the Chief Registrar of the District Court in Luxembourg (*Greffier en Chef du Tribunal d'Arrondissement de et á Luxembourg*), where the same may be inspected and copies thereof obtained.

The Deposited Shares are currently listed on the TSE.

Independent Accountants

The financial statements of the Company for the years ended 31 December 1996, 1997 and 1998 and the financial statements of the Company for the six-month periods ended 30 June 1998 and 1999 have been audited by KPMG, independent accountants of the Company as indicated in their report included herein.

Financial Targets

In accordance with the requirements of the SFC, companies whose shares are listed on the TSE are required in certain circumstances and for certain periods (including for periods following listing or a rights issue) to publish certain financial targets in respect of the relevant year. Those targets include revenues and net income. The Company has published (and will continue to publish) such targets. Nomura has not been involved in the preparation or verification of, makes no representation in respect of and accepts no responsibility for, any such targets.

No Material Adverse Change

There has been no material adverse change in the financial position of the Company since 30 June 1999.

Litigation

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 GDRs and, so far as any of them is aware, no such litigation, arbitration or administrative proceedings are pending or threatened.

Approvals and Consents

The Company and Kinpo have obtained all necessary consents, approvals and authorisations in the ROC in connection with the transfer of the Deposited Shares and issue of the GDRs. Approval for the issue of the GDRs was given by the Board of Directors of the Company at meetings held on 6 September 1999, and by the shareholders of the Company at a meeting held on 8 April 1999. The issue of the GDRs and the transfer of the Deposited Shares were approved by the SFC in its letters dated 21 October 1999 Ref. No. (88) Tai-Tsai-Tseng-(1)-85884 and Ref. No. (88) Tai-Tsai-Tseng-(1)-85884-1.

Available Documents

Copies of the Articles of Incorporation of the Company, the Placing Agreement, the Deposit Agreement and the Deed Poll may be inspected and the most recent audited annual and semi-annual financial statements of the Company and the unaudited financial statements of the Company for each first and third quarterly financial period of the Company may be obtained on any business day (except Saturdays and Sundays and legal holidays) at the offices of the Depositary for the time being in New York and at the offices of Banque Générale du Luxembourg located at 50, avenue J.F. Kennedy, L-2951, Luxembourg in Luxembourg, so long as any of the GDRs remains outstanding.

Listing Agent

As long as the GDRs are listed on the Luxembourg Stock Exchange, Banque Générale du Luxembourg will serve as intermediary between the Luxembourg Stock Exchange and persons connected with the issuance and listing of the GDRs.

Notices

All notices to GDR holders will be published in a newspaper with general circulation in Luxembourg, which is expected to be the *Luxemburger Wort*.

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