



## ABILITY ENTERPRISE CO., LTD.

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

**U.S.\$15,000,000**

**Zero Coupon Convertible Bonds due 2008**

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**Issue Price: 100%**

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The Bonds will be direct, unconditional, unsecured and unsubordinated general obligations of Ability Enterprise Co., Ltd. (“**ABiCo**” or the “**Company**”) and rank at least equally with all other outstanding and future unsecured and unsubordinated general obligations of the Company. The Bonds will not bear interest except in limited circumstances. Bondholders may convert the Bonds into the Company’s common shares, par value NT\$10 per share (the “**Shares**”) on or after August 21, 2003 and prior to the close of business on August 21, 2008. The Conversion Price will initially be NT\$35.2 per Share, which is equivalent to U.S.\$1.02 per Share, based on a fixed rate of exchange of NT\$34.4 = U.S.\$1.00, subject to adjustment in certain events. In addition, the Conversion Price will be adjusted from time to time in certain circumstances relating to the then prevailing closing price of the Shares relative to the Conversion Price. The Shares are listed on the Taiwan Stock Exchange (the “**TSE**”) and application will be made to list the Shares issued upon conversion of the Bonds on the TSE. On July 30, 2003, the closing price of the Shares on the TSE was NT\$34.90 per Share.

Bondholders have the option to require the Company to redeem all or part of the Bonds held by that Bondholder on August 21, 2005 at 103.2% of principal amount. The Company has the option to redeem all, or part only, of the Bonds on or at any time after August 21, 2005 at Early Redemption Amount (as defined herein) in the event that the Closing Price (as defined herein) of the Shares on the TSE in U.S. Dollars, calculated at the prevailing exchange rate, for each of the 20 consecutive Trading Days (as defined herein), the last of which occurs not more than 10 days prior to the date upon which notice of such redemption is published, is at least 130% of the Conversion Price in effect on each such Trading Day translated into U.S. Dollars at the fixed exchange rate of NT\$34.4 = U.S.\$1.00. The Company may, at any time, redeem the Bonds in whole, but not in part, upon not less than 40 nor more than 60 days’ notice to the Bondholders, at the Early Redemption Amount if at least 95% in principal amount of the Bonds have already been redeemed, converted, or repurchased and cancelled. The Company may also redeem the Bonds in whole, but not in part, at their Early Redemption Amount in the event of certain changes relating to Republic of China taxation that would result in additional costs to the Company. The Company will redeem the Bonds at their principal amount at maturity on August 21, 2008, unless the Bonds have been previously redeemed, repurchased and cancelled or converted.

**For a discussion of certain factors that should be considered in connection with an investment in the Bonds, see “Risk Factors” on page 1 herein.**

No application has been or will be made to list the Bonds on any stock exchange. It is expected that delivery of the Bonds will be made in book entry form through the facilities of Euroclear and Clearstream, Luxembourg (each as defined herein) on August 21, 2003 (the “**Closing Date**”).

The Bonds, and the Shares deliverable upon conversion of the Bonds, have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons. The Bonds will be offered and sold outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act. The Bonds may not be offered in the Republic of China.

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*Sole Bookrunner  
Lead Manager*



**Barits Securities (Hong Kong) Limited**

The Company confirms that this Information Memorandum contains all information with respect to the Company and its subsidiaries as a whole, the Bonds, and the Shares which is material in the context of the issue and offering of the Bonds (including all information required by applicable laws of the ROC), that the information contained herein (save as set out below) is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed herein are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions, that there are no other facts, the omission of which would, in the context of the issue and offering of the Bonds, make this Information Memorandum as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respects, that all reasonable inquiries have been made by the Company to verify the accuracy of such information, and that this Information Memorandum does not contain any untrue statement of a material fact or omit to state a material fact required to be stated herein or necessary in order to make the statements herein, in the light of the circumstances under which they are made, not misleading. The Company accepts responsibility accordingly. Information provided herein with respect to the ROC, its political status and economy, has been derived from government and other public sources, and the Company accepts responsibility only for accurately extracting information from such sources.

The distribution of this Information Memorandum and the offering and sale of the Bonds in certain jurisdictions may be restricted by laws. Persons into whose possession this Information Memorandum comes are required by the Company and the Lead Manager (as defined in “Underwriting”) to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of the Bonds and distribution of this Information Memorandum, see “Underwriting”. This Information Memorandum does not constitute an offer of, or an invitation by or on behalf of the Company or the Lead Manager to subscribe for or purchase, any of the Bonds in any jurisdiction in which such offer or invitation would be unlawful.

No person is authorized in connection with the issue, offering or sale of the Bonds to give any information or to make any representation not contained in this Information Memorandum and any information or representation not contained herein must not be relied upon as having been authorized by the Company or the Lead Manager. Neither the delivery of this Information Memorandum nor any sale or allotment made in connection with the issue of the Bonds shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Company since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

The Bonds will be represented by beneficial interests in a permanent global certificate (the “**Global Certificate**”) in registered form, which will be registered in the name of a nominee of, and shall be deposited on or about August 21, 2003 with a common depository for, Euroclear Bank S.A./N.V. as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”).

The Company has prepared the audited consolidated and non-consolidated financial statements as at and for the years ended December 31, 2001 and 2002, and unaudited non-consolidated financial statements as at and for the three-month periods ended March 31, 2002 and 2003 contained herein in accordance with accounting principles generally accepted in the ROC. In addition, the Company has included herein certain unaudited non-consolidated pro forma financial information as at and for the years ended December 31, 2001 and 2002, which reflects certain pro forma adjustments resulted from the Company’s acquisition of Viewquest Technologies, Inc.

## NOTICE TO INVESTORS

The Bonds may not be offered or sold directly or indirectly in the ROC. The Bonds and the Shares issuable upon conversion of the Bonds have not been and will not be registered under the Securities Act. The Bonds and the Shares issuable upon conversion of the Bonds may not be offered or sold to any person in the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. In addition, no transfer of any interest in the Global Certificate may be made to any U.S. person outside the United States or any person in the United States for a period of 40 days after the later of the commencement of this offering and the latest closing date of this offering. Terms that are defined in Regulation S under the Securities Act and used in this section have the meanings assigned in Regulation S.

Each purchaser of the Bonds will be deemed to have represented and agreed as follows:

- (1) it is purchasing the Bonds for its own account or for an account with respect to which it exercises sole investment discretion, and it and any such account is outside the United States and is not a U.S. person;
- (2) it acknowledges that neither the Bonds nor the Shares issued upon conversion of the Bonds have been or will be registered under the Securities Act or with any securities regulatory authority of any jurisdiction and may not be offered or sold within the United States except as set forth below;
- (3) it understands and agrees that if in the future it decides to resell, pledge or otherwise transfer any Bond or beneficial interest therein, or any Shares issued upon conversion of the Bonds, it may do so only (i) in an offshore transaction meeting the requirements of Rule 903 or Rule 904 of Regulation S, (ii) pursuant to an exemption from registration under the Securities Act, if available, or (iii) pursuant to an effective registration statement under the Securities Act, and in each of cases (ii) and (iii), in accordance with applicable securities laws of the states of the United States;
- (4) if it is purchasing Bonds prior to the expiration of 40 days after the later of the commencement of the offering and the latest closing date (the “**distribution compliance period**”), it is purchasing the Bonds in an offshore transaction meeting the requirements of Rule 903 or 904 of Regulation S and the Bonds will not be sold, pledged or otherwise transferred to, or for the account or benefit of, any U.S. person outside the United States or any person in the United States during the distribution compliance period;
- (5) it agrees to, and each subsequent holder is required to, notify any purchaser from it of a Bond or beneficial interest therein of the resale restrictions referred to in sections (3) and (4) above, if then applicable;
- (6) it understands that, except in the circumstances referred to under the heading “The Form of the Bonds”, the Bonds, and beneficial interests therein, will be represented by the Global Certificate (as defined herein);
- (7) it understands that the Global Certificate will bear a legend to the following effects (unless otherwise agreed by the Company):

**“THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY JURISDICTION AND, ACCORDINGLY, MAY NOT BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED TO A U.S. PERSON OR WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT.**

**THIS LEGEND MAY BE REMOVED AFTER THE EXPIRATION OF 40 DAYS FROM THE ORIGINAL ISSUANCE OF THE ZERO COUPON CONVERTIBLE BONDS DUE 2008 OF ABILITY ENTERPRISE CO., LTD.”; and**

- (8) it acknowledges that the Company and the Lead Manager and others will rely upon the truthfulness and accuracy of the foregoing acknowledgements, representations and agreements; and if it is acquiring the Bonds as a fiduciary or agent for one or more accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

For further information about the requirements under the Indenture to effect exchanges or transfers of interests in the Global Certificate and of Bonds in certificated form, see “The Form of the Bonds”.

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### **ENFORCEABILITY OF FOREIGN JUDGMENTS IN THE ROC**

The Company is a company limited by shares incorporated under the ROC Company Law. Substantially all of the Company’s directors, executive officers, and supervisors, are residents of the ROC and a substantial portion of the assets of the Company and such persons are located in the ROC. As a result, it may not be possible for investors to effect service of process upon the Company or such persons outside the ROC, or to enforce against any of the judgments obtained in courts outside the ROC.

Any final judgment obtained against the Company or such persons in any court other than the courts of the ROC in respect of any legal suit or proceeding arising out of or relating to the Bonds, or the Shares issuable upon conversion of the Bonds, will be enforced by the courts of the ROC without further review of the merits only if the court in the ROC in which enforcement is sought is satisfied with the following:

- ▶ the court rendering the judgment has jurisdiction over the subject matter according to the laws of the ROC;
- ▶ the judgment is not contrary to the public order or good morals of the ROC;
- ▶ the judgment is a final judgment for which the period for appeal has expired or from which no appeal can be taken;
- ▶ if the judgment was rendered by default by the court rendering the judgment, the Company or such persons were served within the jurisdiction of such court, or process was served on the Company or such persons with judicial assistance of the ROC; and
- ▶ judgments of the courts of the ROC are recognized and enforceable in the court rendering the judgment on a reciprocal basis. Judgments obtained in certain United States courts have been confirmed to be recognized and enforceable in the courts of the ROC on a reciprocal basis.

A party seeking to enforce a foreign judgment in the ROC would, except under limited circumstances, be required to obtain foreign exchange approval from the Central Bank of China, for the payment out of the ROC of any amounts recovered in connection with the judgment denominated in a currency other than NT Dollars.

## **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Information Memorandum contains forward-looking statements that involve risks and uncertainties. Forward-looking terminology include “may”, “will”, “expect”, “anticipate”, “estimate”, “continue”, “believe”, “forecast”, “project” and other similar words. Statements that include such terminology are forward-looking statements. The Company’s actual results could differ materially from those anticipated in these forward-looking statements as a result of the risks and uncertainties faced by the Company described elsewhere in this Information Memorandum. The Company undertakes no obligation after the date of this Information Memorandum to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future which may affect information contained herein.

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## **TAX CONSULTANCY REQUIRED**

The Bonds may be deemed by taxing authorities in various jurisdictions to be issued with original issue discount. Prospective investors should consult their own adviser concerning the tax consequences of an investment in the Bonds or the Shares issuable upon conversion of the Bonds.

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### CERTAIN DEFINED TERMS, CONVENTIONS AND CURRENCY OF PRESENTATION

Except where the context otherwise requires, all references herein to “**ABiCo**” are to Ability Enterprise Co., Ltd. and all references to the “**Company**” are to ABiCo or ABiCo and its consolidated subsidiaries, as the context requires. All references herein to “**affiliate**” are to a person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the person specified, as these terms are defined in Rule 405 under the Securities Act. All references herein to “**Taiwan**” or the “**ROC**” are to the island of Taiwan and other areas under the effective control of the Republic of China. All references herein to the “**ROC Government**” or the “**ROC Company Law**” are references to the government of the Republic of China and the Company Law of the Republic of China, respectively. All references herein to “**ROC GAAP**” are to the Rules Governing Preparation of the Financial Statements of Securities Issuers and accounting principles generally accepted in the ROC and all references herein to “**U.S. GAAP**” are to accounting principles generally accepted in the United States. All references herein to the “**PRC**” or “**mainland China**” are to the People’s Republic of China and do not include Hong Kong, Macau or Taiwan. All references herein to the “**SFC**” are to the Securities and Futures Commission of the ROC. All references herein to the “**TSE**” are to the Taiwan Stock Exchange. All references herein to the “**GTSM**” are to the GreTai Securities Market (previously known as the ROC Over-the-Counter Securities Exchange).

The Company’s financial statements are prepared using ROC GAAP, and are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions, including the United States, other than those in the ROC. Certain financial amounts presented herein may not correspond directly to the Company’s financial statements included elsewhere herein or may not add up due to rounding.

The Company publishes its financial statements in New Taiwan Dollars, the lawful currency of the ROC. Except as otherwise indicated, all financial information set forth herein with respect to various members of the Company has been presented in New Taiwan Dollars. All references herein to “**New Taiwan Dollars**”, “**NT Dollars**” and “**NT\$**” are to New Taiwan Dollars, all references herein to “**United States Dollars**”, “**U.S. Dollars**” and “**U.S.\$**” are to United States Dollars, all references herein to “**€**” are to Euros, all references herein to “**HK\$**” are to Hong Kong Dollars, and all references herein to “**JPY**” are to Japan Yen. All translations from New Taiwan Dollars to United States Dollars were made on the basis of the average of buying and selling exchange rates in Taipei for cable transfers in NT Dollars per U.S. Dollar as certified by the Bank of Taiwan of NT\$34.75 = U.S.\$1.00 as of December 31, 2002 and NT\$34.75 = U.S.\$1.00 as of March 31, 2003. All amounts translated into United States Dollars as described above are unaudited and are provided solely for the convenience of the reader, and no representation is made that the NT Dollar or U.S. Dollar amounts referred to herein could have been or could be converted into U.S. Dollars or NT Dollars, as the case may be, at any particular rate, the above rates or at all. The closing rate between the NT Dollar and the U.S. Dollar on July 30, 2003 was NT\$34.4 = U.S.\$1.00.

## **RISK FACTORS**

*Prior to making an investment decision, prospective investors should carefully consider the following risk factors, along with the other matters set out in this Information Memorandum. The following risk factors could affect the Company's actual results and could cause them to differ materially from estimates in any forward-looking statements given by or on behalf of the Company. ROC laws and regulations may differ from the laws and regulations in other countries.*

### **Risks Relating to the Company's Channel Business Unit**

***The Company's business is dependent on certain major suppliers.***

The Company is dependent on its major suppliers. For example, a substantial portion of the Company's revenue is attributable to the import and sale of office automation ("OA") equipment including copy machines manufactured by Canon Inc. ("Canon"), in respect of which the Company is an exclusive distributor for Taiwan and a non-exclusive distributor for Vietnam. The relevant distribution agreements are generally renewable on a year-to-year basis but may be terminated during their terms in certain cases (including by either party giving prior notice) as provided under the agreements. There is no assurance that these distribution arrangements will not be terminated in accordance with the terms of the relevant agreements. If the Company's appointment as a distributor for its major suppliers is terminated and the Company is unable to obtain alternative satisfactory source(s) of supply of the relevant products at prices equal to or less than the price of the Canon OA equipment or to pass on the increased costs of the components to customers, the Company's gross margins and operating income could be negatively affected.

***There are relatively low entry barriers in the Company's channel business.***

There are low barriers to entry in the Company's channel business as capital investment and start-up costs are relatively low and required techniques are relatively few. Although several entry barriers exist in the supply and distribution of the Company's OA equipment products which include strong supplier-customer relationships and difficulty in and time required for building long standing customer relationship and large customer base with size comparable to the Company's, the Company is aware that other importers in the region where it conducts business may be developing or have developed the required channel and relationship to supply products which are similar to the Company's products. Any significant increase in competition could erode the Company's profit margins and weaken its earnings.

***The Company's future success depends on whether new products introduced by it will be accepted by customers.***

The Company's future success will depend in part on whether the Company will be able to constantly import news products that will be accepted by customers. There can be no assurance that the new products imported and distributed by the Company will be successful in meeting its customers' needs or market demands.

***The Company's leasing arrangements with its customers may require substantial cash flow.***

The end customers of the Company's OA equipment either purchase the equipment or lease the OA equipment from the Company or from financial leasing companies that purchase the equipment from the Company. If the end customers elect to lease the OA equipment from the Company, the Company will purchase the OA equipment from the supplier and then lease the equipment to the end customers, who will make monthly payments to the Company for the use of the OA equipment. These leasing arrangements require substantial cash flow for the Company to support them. If more customers elect to lease but not purchase the Company's OA equipment, there can be no assurance that the Company's cash position will not be materially adversely affected.

## **Risks Relating to the Company's Optical Product Business Unit**

### ***The Optical Product Business Unit's business depends on a small number of customers.***

The markets for the Company's digital imaging device products tend to be concentrated, with a large percentage of orders coming from a relatively small number of customers. For the first quarter of 2003, the largest three customers of the Optical Product Business Unit accounted for 29.28% of its net operating revenues. Its key customers may, in the future, vary order levels significantly. As there are no long-term purchase commitment made between the Company and its customers, there can be no assurance that such customers or any other customers will continue to place orders with the Company in the future at the same levels as in prior periods. The loss of one or more of the Optical Product Business Unit's major customers, or reduced orders by any one of them, could adversely affect the Company's results of operations. See "The Optical Product Business Unit does not usually enter into long-term supply contracts with its customers and therefore its customers may cancel, reduce or postpone their orders".

There is no assurance that any major customers of the Company will continuously place orders with or take deliveries from the Company in the future.

### ***The Optical Product Business Unit's business is highly dependent on the digital image processing products sectors.***

A substantial amount of the Optical Product Business Unit's sales are to customers in the digital image processing products sectors on an original equipment manufacture ("OEM") or original design manufacture ("ODM") basis. Therefore, the Company's financial performance, like other companies in the opto-electronics industry, depends on its customers' continued growth, viability and financial stability. These customers in turn depend on the growth and viability of the consumer opto-electronics industries, which can be subject to pronounced cyclicality. These industries are characterized by rapidly changing technologies and short product life cycles. The factors affecting the opto-electronics industries in general, or any of the Company's major customers or competitors in particular, could have a material adverse effect on the Company's results of operations. The Company's success depends to a significant extent on the success achieved by its customers in developing and marketing their products, some of which may be new and untested. If the customers' products become obsolete or fail to gain widespread commercial acceptance, the Company's business could be materially adversely affected.

### ***The Optical Product Business Unit does not usually enter into long-term supply contracts with its customers and therefore its customers may cancel, reduce or postpone their orders.***

Like many other businesses in this industry, the Company's Optical Product Business Unit does not generally enter into firm long-term supply contract with its customers and it continues to experience reduced lead-times in customer orders. Customers may cancel, reduce or postpone their orders for a number of reasons. Cancellations, reductions or postponements by a significant customer or by a group of customers could seriously adversely affect the Company's results of operations.

In addition, the Company makes significant decisions, including determining the levels of business that it will seek and accept, production schedules, components and raw material procurement commitments, personnel needs and other resource requirements, based on its estimates of customer requirements. The short-term nature of the Company's customers' commitments and the possibility of rapid changes in demand for their products reduce the Company's ability to estimate accurately future customer requirements. On occasion, customers may require rapid increases in production, which can stress the Company's resources and reduce margins. Although the Optical Product Business Unit has increased its manufacturing capacity and is still planning for further increases, it may not have sufficient capacity at any given time to meet its customers' demands. On the other hand, because many of the Optical Product Business Unit's costs and operating expenses are relatively fixed, a reduction in customer demand could impact the Company's gross margins and operating income.

***The Company may experience shortages of key components and parts.***

The Company currently purchases certain of its key components and parts from a limited number of suppliers. These suppliers' capacity may be insufficient should the Company's requirements increase or demand from other purchasers of such components and parts increases. For example, the Company, like many other digital still camera developers and manufacturers in the world, encountered significant shortage of CCD that severely impacted its operation and time of delivery in 2002. In addition, the Company is, in certain circumstances, required to source certain key components from suppliers who have been qualified by its customers and the Company may not be able to obtain alternative satisfactory sources of supply should such qualified suppliers be unable to supply it in the future. Accordingly, there can be no assurance that shortages of supply will not occur in the future and that, if such shortages occur, the Company will be able to obtain an adequate alternative supply of components and parts to meet production demand. If the Company is unable to obtain sufficient components and raw materials on a timely basis, the Company could experience manufacturing and shipping delays, which could adversely affect customer relationships and reduce sales. In addition, there can be no assurance that the Company would be able to pass on increased costs of components and raw materials to its customers.

***The Company may not be able to develop new products or keep pace with technological change.***

Like most other companies operating in the high-technology business sectors, the Company's future success will depend in part on its ability to develop and market products and manufacturing processes which meet changing customer needs and to successfully anticipate or respond to technological changes in manufacturing processes in a cost-effective and timely manner. Many of the Company's digital imaging device products have short product life cycles due to frequent product introductions, rapidly changing technology and evolving industry standards. There can be no assurance that the Company will be successful in developing new products as a result of its research and development efforts or that it will keep pace with technological changes taking place in the market. Failure to do so or delay in reacting to the technological changes could have a material adverse effect on the Company's business or on the results of operations.

***The Company faces intense competition from other digital still camera developers and manufacturers.***

The digital image processing industry in which the Company operates is highly competitive and includes a number of companies with widely varying levels of engineering expertise and sophistication, some of which have achieved a substantial market share. General competition in this industry is characterized by price erosion and rapid technological change. The Company competes with different companies depending upon the type of product or geographic area. The Company also faces competition from the manufacturing operations of its current and prospective customers, which continually evaluate the merits of manufacturing products internally. Some of the Company's competitors are much larger and have greater manufacturing, financial, research and development and marketing resources than the Company. Some of these competitors also carry product lines that the Company does not carry and provide services that the Company does not provide. No assurance can be given that the Company will be able to continue to compete successfully in its relevant markets.

***If necessary cash resources are unavailable to the Company, the Company will be unable to implement successfully its research and development plans.***

To keep up with the rapid pace of technological change and to develop attractive, cost-effective products, the Company must continue to invest significantly on research and development. The Company may not be able to generate cash flow from operations in sufficient amounts to allow it to maintain its desired level of spending on research and development. Any failure to maintain adequate research and development spending could jeopardize the Company's long-term prospects.

***The Company's business depends in part on its ability to obtain and preserve intellectual property rights.***

The Company's ability to compete successfully and achieve future growth will depend, in part, on the Company's ability to protect its proprietary technology. The Company relies on patents,

copyrights and trade secret protection rights to protect some of its proprietary technologies and products. These measures may not provide meaningful protection of the Company's intellectual property or commercial advantage. For example, the Company's competitors may be able to use technologies developed by the Company and published in connection with a patent application to develop similar or superior products. The Company intends to continue to file patent applications when appropriate to protect its proprietary technologies, but the process of seeking patent protection can be lengthy and expensive. Patents may not be issued for pending or future applications. If patents are issued, they may be challenged, invalidated or circumvented. Protection of intellectual property rights in different countries may vary.

***The Company may be involved in intellectual property disputes.***

The Company, like other companies in the high-technology business sectors, may from time to time receive communications from third parties asserting patent rights to the Company's products and, in such circumstances, it will enter into discussions with such parties as to their respective positions and the terms of any possible licenses in respect of such patent rights. Although the Company actively seeks to protect the intellectual property rights for its products and its internal know-how, there can be no assurance that claims will not be brought by third parties against the Company from time to time. Irrespective of the validity or successful assertion of these claims, the Company could incur significant costs with respect to the defense thereof which could have a material adverse effect on the Company's business, financial condition, results of operation and future prospects.

**Risks Relating to the Company's Business in General**

***The Company's historical sales growth and historical margins may not be sustainable.***

The Company's historical sales grew steadily. However, the sales growth may not be sustained in future periods. As the Company continues to develop and expand its operations and production capacity, its operating costs and expenses will continue to increase, putting pressure on gross margins and operating margins. In addition, competition could result in price pressure, lower sales, reduced margins and lower market share, any of which could materially and adversely affect the Company's results of operations. Therefore, period-to-period comparisons of operating results may not be meaningful and investors should not rely on the results of any period as an indication of future performance.

***If necessary capital resources are unavailable to the Company, the Company will be unable to implement successfully its capital expenditure plans.***

The Company will need significant amounts of capital to build, expand, maintain and upgrade its facilities and offices including the construction and outfitting of a new facility in Dongguan, Guangdong Province, the PRC. The Company currently expects to fund its further capital expenditures from external sources, including the proceeds of this offering, additional debt and equity financing and internally generated funds. The Company's ability to do so will depend on market conditions, its financial performance and other factors, many of which are beyond the Company's control. Necessary funding to implement the Company's planned capital expenditure program may not be available to it on satisfactory terms or at all.

***The Company's operating results vary significantly.***

The Company experiences significant fluctuations in its results of operations. The factors that contribute to fluctuations include:

- ▶ ability and result of research and development;
- ▶ the products imported and traded by the Company;
- ▶ the timing of customer orders;
- ▶ manners of trades by the Company's Channel Business Unit;

- ▶ the volume of these orders relative to the Company's capacity;
- ▶ market acceptance of new products developed and sold by the Company;
- ▶ changes in demand for the products and product obsolescence;
- ▶ the timing of the Company's expenditures in anticipation of future orders;
- ▶ the Company's effectiveness in managing manufacturing processes;
- ▶ changes in the cost and availability of labor and components;
- ▶ changes in economic conditions; and
- ▶ local factors and events that may affect the Company's production volume, such as local holidays.

***The Company is subject to operational risks and its insurance may not be adequate.***

The operation of manufacturing and warehouse facilities involves many risks and hazards, including the breakdown, failure or substandard performance of equipment, delay in delivery of equipment or improper installation or operation of equipment, difficulties in upgrading or expanding existing facilities in changing manufacturing line technologies, capacity constraints, labor disturbances, fire, natural disasters such as earthquakes or typhoons, environmental hazards and industrial accidents. The occurrence of material operational problems, including but not limited to the above events, could adversely affect the Company's manufacturing plants. These problems could cause delivery delays and reduced output.

The Company currently maintains insurance for facilities and inventories based on the historical records rather than the replacement cost. Such insurance, however, may not provide adequate coverage in certain circumstances. In addition, in accordance with industry practice, the Company does not currently carry any third party liability insurance to cover claims in respect of bodily injury or property or environmental damage resulting from accidents on the Company's property or relating to Company operations. The Company does not carry business interruption insurance. No assurance can be given that uninsured losses and liabilities incurred by the Company will not have a material adverse effect on the Company's results of operations.

***The Company may be unable to manage its growth effectively.***

The Company has grown rapidly. The Company's ability to manage growth effectively will require it to continue to implement and improve its operational, financial and management systems, continue to develop the management skills of its managers, and continue to train, motivate and manage its employees. If the Company fails to manage growth effectively, the Company's results of operations could be adversely affected.

***The Company is dependent on its ability to attract and retain qualified employees.***

The Company's success depends to a significant extent on the skills and efforts of key managerial and technical and other employees and upon its ability to continue to attract, retain and motivate qualified personnel. The Company competes with other manufacturing companies for technical and other employees and the competition for such employees is intense. There can be no assurance that the Company will be able to continue to attract and retain the services of qualified employees essential for the Company's growth. The loss of the services of certain of these employees or an inability to attract or retain qualified employees could have a material adverse effect on the Company.

***Certain existing shareholders have a significant influence on the Company, and the interests of these shareholders may be inconsistent with the interests of the other shareholders.***

As of December 31, 2002, the Company's directors and supervisors owned approximately 22.05% of the Company's outstanding Shares. While no person, so far as is known to the Company,

directly or indirectly, jointly or severally, exercises or could exercise control over the Company, the Company's directors and supervisors have and will continue to have the ability to exercise a significant influence over the Company's business and policy, including the matters relating to the management and policies, the timing and distribution of dividends and the election of the directors and supervisors of the Company. This influence may be exercised in a way that may not be consistent with the interests of other shareholders.

***The Company may be subject to changes in tax benefits and increased taxes.***

The Company has structured its operations among various jurisdictions in the most tax efficient manner. If the tax rates and policies applicable to the Company are rescinded or changed or if tax authorities were to challenge successfully the manner in which profits are recognized among the members of the Company, the Company's taxes could increase and its results of operations and cash flow could be adversely affected.

### **Risks Relating to the Offering**

***The Bondholders' ability to exercise their conversion rights may be limited.***

The Bonds are convertible into Shares at the option of the converting Bondholders pursuant to the terms of the Bonds. Purchasers of the Bonds will not be able to exercise their conversion right during the Closed Periods (as defined in the terms and conditions of the Bonds). Under current ROC law, regulations and policy, PRC persons are not permitted to hold or convert the Bonds or to register as shareholders of the Company.

The Company has not, at the date of this Information Memorandum, established or authorized the establishment of any depositary receipt ("DR") facility. Accordingly, conversion into DRs is not currently available. If in the future a DR facility is established or authorized, the Company may, to the extent permitted by applicable laws and regulations, make arrangements satisfactory to the Trustee (as defined in "Terms and Conditions of the Bonds") for the Shares issued on conversion of Bonds to be accepted for deposit (at the option of the converting Bondholder) into such DR facility, subject always to the terms of such DR facility, which terms may include certification or other requirements as conditions to the acceptance for deposit of the Shares issued on conversion of Bonds. There can be no assurance that the Company will in the future establish or authorize any DR facility or that any arrangements for the deposit of Shares into such DRs would be available to all Bondholders.

***Transfers of the Bonds and Shares are restricted.***

Neither the Bonds nor the Shares have been, nor will they be, registered under the securities laws of the United States or elsewhere and neither the Bonds nor the Shares may be publicly offered, sold, pledged or otherwise transferred in any jurisdiction where such registration may be required. See "Underwriting". The Bonds may not be publicly offered or sold, directly or indirectly, in the ROC.

***An active trading market for the Bonds may not develop.***

The Bonds are a new issue of securities for which there is currently no trading market. The Company cannot predict whether an active trading market for the Bonds will develop or be sustained. If an active trading market were to develop, the Bonds could trade at prices that may be lower than the initial offering price. Whether or not the Bonds could trade at lower prices depends on many factors including:

- ▶ prevailing interest rates and the markets for similar securities;
- ▶ the price of the Company's Shares;
- ▶ general economic conditions; and
- ▶ the Company's financial condition, historic financial performance and future prospects.

If an active market for the Bonds fails to develop or be sustained, the trading price of such Bonds could be materially adversely affected. No application has been made to have the Bonds listed on the Luxembourg Stock Exchange. The Bonds may not be publicly offered, sold, pledged or otherwise transferred in any jurisdiction where registration may be required.

***Shares eligible for future sale by the current shareholders may adversely affect the market price of the Shares.***

While the Company is not aware of any plans by any major shareholders to dispose of a significant amount of Shares, it cannot assure that one or more of the shareholders will not dispose of the Shares in the future. The Company also cannot predict the effect, if any, that future sales of the Shares, or the availability of the Shares for future sale, will have on the market price of the Shares prevailing from time to time. Sales of substantial amounts of common shares in the public market, or the perception that such sales may occur, could adversely affect the prevailing market price of the Shares.

***A Bondholder or its designee requesting the conversion of the Bonds into the Shares may be required to provide certain information to the Company, and failure to provide such information may result in a delay of the conversion.***

A Bondholder or its designee requesting the conversion of the Bonds into Shares may be required to provide certain information to the Company or the Conversion Agent, including the names and nationality of the person to be registered as the shareholder and the number of Shares to be acquired by such person and the number of Shares acquired by such person in the past through the date of conversion of the Bonds. Under applicable ROC laws, the Company is required to report to the ROC SFC if the person to be registered as a shareholder (1) is a “related party” of the Company as defined in the ROC Statement of Financial Accounting Standard No. 6, or (2) will hold, immediately following such conversion, more than 10% of the total number of our Shares outstanding. Failure to provide such information may result in a delay of the conversion of the Bonds.

***Holders of the Bonds will be required to appoint several local agents in Taiwan if they convert the Bonds into Shares, which may make ownership burdensome.***

Non-ROC Bondholders wishing to convert the Bonds into Shares are required under current ROC laws and regulations to appoint an agent, called a tax guarantor, in Taiwan for filing tax returns and making tax payments on their behalf. A tax guarantor must meet certain qualifications set by the Ministry of Finance of the ROC and, upon appointment, becomes a guarantor of the Bondholders’ ROC tax obligations. Bondholders wishing to repatriate profits derived from the sale of Shares received upon conversion or cash dividends or interest derived from any such Shares, will generally be required to submit evidence of appointment of a tax guarantor and the approval of the appointment by the ROC tax authorities. There is no assurance that Bondholders will be able to appoint and obtain approval for a tax guarantor in a timely manner.

In addition, under current ROC law, non-ROC holders of the Bonds who exercise their conversion rights to receive Shares, unless having been a qualified foreign institutional investor (“QFII”) or a non-ROC resident foreign investor (“**General Foreign Investor**”) and having obtained the relevant governmental approval, will be required to first obtain such approval as a QFII or a General Foreign Investor (as appropriate), and then to appoint a local agent in Taiwan to, among other things, open a securities trading account with a local securities brokerage firm, remit funds and exercise shareholders’ rights. They must also 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. Without the relevant governmental approval, the local agent, the custodian and the opening of the trading account, they will not be able to hold, sell or otherwise transfer Shares.

***A Bondholder or its designee requesting the conversion of its Bonds into Shares may be required to provide certain information to the Company, and failure to provide such information may prevent conversion or cause the conversion to be delayed.***

A Bondholder or its designee requesting the conversion of its Bonds into Shares may be required to provide certain information to the Company or the conversion agent, including the name and

nationality of the person to be registered as the shareholder and the number of Shares such person is acquiring and has acquired in the past through conversion of Bonds held by it, and supporting documents, before such conversion will be effected. Under applicable ROC laws, the Company is required to report to the ROC SFC if the person to be registered as a shareholder: (i) is a “related party” of the Company as defined in Statement of Financial Accounting Standard No. 6 of the ROC or (ii) will hold, immediately following such conversion, more than 10% of the total number of Shares deliverable upon the conversion of the aggregate principal amount of all Bonds at the time of issue. The conversion of the Bonds may be delayed if such information is not provided.

***Holders of the Bonds will bear the risk of fluctuations in the price of the Company’s Shares.***

The market price of the Bonds at any time will be affected by fluctuations in the price of the Company’s Shares. It is impossible to predict whether the price of the Company’s Shares will rise or fall. Trading prices of the Company’s Shares will be influenced by, among other things, the Company’s results of operations and political, economic, financial and other factors that can affect the capital markets on which the Company’s Shares are traded and the financial services market in Taiwan. Any decline in the price of the Company’s Shares would adversely affect the secondary market price of the Bonds.

***Holders of the Bonds will have no rights as shareholders until they acquire the Shares upon conversion of the Bonds.***

Unless and until the Bondholders acquire the Shares upon conversion of the Bonds, the Bondholders will have no rights with respect to the Company’s Shares, including any voting rights or rights to receive any regular dividends or other distributions with respect to the Shares. Bondholders who acquire the Company’s Shares upon exercise of a Conversion Right (as defined in the terms and conditions of the Bond) will be entitled to exercise the rights of shareholders only as to actions for which the applicable record date occurs after the Conversion Date (as defined in the terms and conditions of the Bond).

***Fluctuations in the exchange rate between the NT Dollar and the U.S. Dollar may have a material adverse effect on the value of the Bonds in U.S. Dollar.***

Although the principal amount of the Bonds is denominated in U.S. Dollars, the Company’s Shares are listed on the TSE, which quotes and trades the Company’s Shares in NT Dollars. As a result, fluctuations in the exchange rate between the NT Dollar and the U.S. Dollar will affect, among other things, the secondary market price of the Bonds and the U.S. Dollar equivalent of the Company’s Shares received upon conversion of the Bonds.

**Risk Relating to Shares**

***Sales of a significant portion of the Company’s Shares may adversely affect the price of the Bonds and the Shares.***

The market price of the Bonds and the Shares could decline as a result of the sale of large number of the Shares after this offering or the perception that such sales could occur. If the major shareholders of the Company sell a large number of the Company’s Shares after this offering, the market price of the Bonds and the Shares may be depressed and the value of the investment could be substantially decreased.

**Risks Relating to the ROC**

***Disruptions in the ROC’s political environment could seriously harm the Company’s business.***

The Company’s principal executive offices and a substantial portion of its assets are located in Taiwan. Accordingly, the financial condition and results of operations of the Company and the market price of the Shares may be affected by changes in ROC governmental policies, taxation, inflation, interest rates, social instability and other political, economic, diplomatic or social developments in or affecting the ROC which are outside of the Company’s control.

The ROC has a unique international political status. The PRC asserts sovereignty over mainland China and the ROC and does not recognize the legitimacy of the ROC government. The ROC government resists sovereignty of the PRC and holds the ROC as a state with full sovereign power equal to the PRC's. Although significant economic and cultural relations have been established in recent years between the ROC and the PRC, the government in the PRC has refused to renounce the possibility that it may at some point use force to gain control over the ROC. Relations between the ROC and the PRC and aspects of the ROC's political environment could negatively affect the Company's business.

The economy in the ROC has experienced significant downturns and related difficulties in recent years. The value of NT Dollars has fluctuated significantly since 1998. In addition, the capital markets in the ROC have experienced substantial downturns in recent years. The adverse economic conditions in Taiwan could materially and adversely affect the Company's business, results of operations and financial condition. The adverse economic conditions may also adversely affect the prices of the Company's Shares and the Bonds.

***Foreign exchange approvals may be required.***

Under existing ROC law, foreign exchange approvals must be obtained from the Central Bank of China (the "CBC") on a payment-by-payment basis for the conversion into foreign currencies in connection with the proceeds from the sale of subscription rights for newly issued Shares. In addition, foreign persons may, subject to certain required documents, but without foreign exchange approval of the CBC, remit outside and into the ROC foreign currencies of up to U.S.\$100,000 (or its equivalent) for each remittance. There can be no assurance that any such approval will be obtained in a timely manner or at all.

***The imposition of foreign exchange restrictions may have an adverse effect on foreign investors' ability to acquire ROC securities, including the Bonds and the Company's Shares, or repatriate the interest, dividends or sale proceeds from those securities.***

The ROC government may impose foreign exchange restrictions in certain emergency situations, including situations where there are sudden fluctuations in interest rates or exchange rates, where the ROC government experiences extreme difficulty in stabilizing the balance of payments or where there are substantial disturbances in the financial and capital markets in Taiwan. These restrictions may require foreign investors to obtain the ROC government's approval before acquiring ROC securities or repatriating the interest or dividends from those securities or the proceeds from the sale of those securities. No assurance can be given that these restrictions will not adversely affect, among other things, the secondary market price of the Bonds.

## TERMS AND CONDITIONS OF THE BONDS

*The following terms and conditions (except for the sentences in italics) will be endorsed on the Global Certificate and the Definitive Certificates issued in respect of the Bonds. The Global Certificate contains provisions which apply to the Bonds when they are represented by the Global Certificate, some of which modify the effect of the terms and conditions set out below. See "The Form of the Bonds".*

The issue of U.S.\$15,000,000 Zero Coupon Convertible Bonds Due 2008 (the "**Bonds**") of Ability Enterprise Co., Ltd. (the "**Company**") was authorized by resolutions of the board of directors of the Company adopted on July 14, 2003. The Bonds are constituted by an indenture (the "**Indenture**") to be dated as of August 21, 2003 and to be made between the Company and J.P. Morgan Corporate Trustee Services Limited (the "**Trustee**"), which term includes any successor trustee under the Indenture for the holders of the Bonds (the "**Bondholders**"). The Company will enter into a paying and conversion agency agreement (the "**Agency Agreement**") to be dated as of August 21, 2003 with the Trustee, JPMorgan Chase Bank, as the principal paying, transfer and conversion agent (the "**Principal Agent**") and J.P. Morgan Bank Luxembourg S.A., as the registrar (the "**Registrar**") and as paying, transfer and conversion agent, appointed thereunder (the "**Paying Agent**", the "**Conversion Agent**" and the "**Transfer Agent**" and such expression shall include the Principal Agent) in relation to the Bonds. The Registrar, the Principal Agent, the Paying Agent, the Conversion Agent and the Transfer Agent together are referred to as the "**Agents**". The statements in these Terms and Conditions ("**Conditions**") include summaries of, and are subject to, the detailed provisions of the Indenture. Copies of the Indenture and the Agency Agreement are available for inspection by the Bondholders during normal business hours at the principal office of the Trustee, at the date hereof at Trinity Tower, 9 Thomas More Street, London E1W 1YT, England, and at the specified offices of each of the Agents. The Bondholders are entitled to the benefit of the Indenture and are bound by, and are deemed to have notice of, all the provisions of the Indenture and the Agency Agreement.

### 1. Status

The Bonds constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured general obligations of the Company and rank at least equally among themselves and (subject to Condition 3) with all other present and future direct, unconditional, unsubordinated and unsecured obligations of the Company, except as may be required by mandatory provisions of law.

### 2. Form, Denomination and Title

#### *(A) Form and Denomination*

The Bonds will be issued in registered form, without coupons, in denominations of U.S.\$1,000 and integral multiples thereof. The Bonds will be offered and sold in principal amounts of U.S.\$1,000 or an integral multiple thereof and will be transferable in principal amounts of U.S.\$1,000 or an integral multiple thereof. The Bonds are not issuable in bearer form. The Bonds will initially be represented by a global certificate (the "**Global Certificate**") deposited with, and registered in the name of a nominee for, a common depositary for, Euroclear Bank S.A./N.V., as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, *société* anonyme ("**Clearstream, Luxembourg**").

Owners of interests in the Bonds will not be entitled to receive definitive physical certificates (the "**Definitive Certificates**") in respect of their Bonds, except in the limited circumstances described in the Global Certificate. In the event that certificates do become issuable, a Definitive Certificate will be issued to each Bondholder in respect of its registered holding of Bonds. Each Bond and each Definitive Certificate will be serially numbered with an identifying number which will be recorded on the relevant Definitive Certificate and in the register of Bondholders which the Company will procure to be kept by the Registrar.

### **(B) Title**

The Bonds will be registered instruments, title to which will pass only by transfer and registration in the register of Bondholders. The registered holder of any Bond will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of, the Definitive Certificates issued in respect of it) and no person will be liable for so treating the holder. In these Conditions, “**Bondholder**” and (in relation to a Bond) “**holder**” mean the person in whose name a Bond is registered.

### **3. Negative Pledge**

So long as any of the Bonds remain outstanding (as defined in the Indenture) or any amount is due under or in respect of any Bond or otherwise under the Indenture, the Company shall not, and shall ensure that none of its Principal Subsidiaries (as defined below), if any, will, create or permit to be outstanding any mortgage, charge, pledge, lien or other form of encumbrance (each an “**Encumbrance**”) upon the whole or any part of its, or, as the case may be, any such Principal Subsidiary’s undertaking, property, assets or revenues, present or future, to secure for the benefit of the holders of any International Investment Securities (as defined below) (i) payment of any sum due in respect of any such International Investment Securities, (ii) any payment under any guarantee of any such International Investment Securities or (iii) any payment under any indemnity or other like obligation relating to any such International Investment Securities without in any such case at the same time according to the Bonds, either the same security as is granted to or is outstanding in respect of such International Investment Securities, guarantee, indemnity or other like obligation or such other security as shall be approved by an Extraordinary Resolution (as defined in the Indenture) of the Bondholders.

As used herein, the term “**International Investment Securities**” means bonds, debentures, notes or investment securities of the Company or any other person evidencing indebtedness with a maturity of not less than one year from the date thereof which (i) either (a) are by their terms payable, or confer a right to receive payment, in any currency other than New Taiwan Dollars or (b) are denominated or payable in New Taiwan Dollars and more than 50% of the aggregate principal amount thereof is initially distributed outside Taiwan, the Republic of China (the “**ROC**”) by or with the authorization of the issuer thereof and (ii) are for the time being, or are capable of being, quoted, listed, ordinarily dealt in or traded on any stock exchange, quotation system or over-the-counter or other similar securities market outside the ROC.

“**Principal Subsidiary**” means any Subsidiary (as defined below) which engages in manufacturing, production and distribution businesses, (i) whose net operating revenues, as shown by the latest audited accounts (consolidated in the case of a company which itself has subsidiaries) of such Subsidiary, are at least 10% of the net operating revenues of the Company and its consolidated Subsidiaries as shown by the latest audited consolidated accounts of the Company or (ii) whose total assets, as shown by the latest audited accounts (consolidated in the case of a company which itself has subsidiaries) of such Subsidiary are at least 10% of the total assets of the Company and its consolidated Subsidiaries as shown by the latest audited consolidated accounts of the Company, which may be acquired or formed by the Company from time to time during the term of the Bonds.

“**Subsidiary**” means any corporation or other business entity more than 50% of the outstanding voting stock of which is for the time being owned directly or indirectly by the Company.

### **4. No Interest**

No interest will be payable on the Bonds, except as provided in Condition 10.

## 5. Transfers of Bonds; Issue of Definitive Certificates

### *(A) Transfers*

Subject to Condition 5(D) below, a Bond may be transferred by delivering the individual Definitive Certificate(s) evidencing that Bond duly endorsed and accompanied by a form of transfer, duly completed and signed, at the specified office of any Transfer Agent (including the Transfer Agent in Luxembourg) (if a Definitive Certificate has been issued) or, in the case of a Bond represented by the Global Certificate, delivery at such office of a form of transfer obtainable from any of the Transfer Agents (the “**Form of Transfer**”), duly completed and executed and any other evidence that such Transfer Agent may reasonably require. In the case of a transfer of only part of a holding of Bonds in respect of which a Definitive Certificate is issued, a new Definitive Certificate shall be issued to the transferee in respect of the part transferred and a further new Definitive Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. The Form of Transfer is available at the specified office of the Transfer Agent (including the Transfer Agent in Luxembourg).

Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.

### *(B) Delivery of New Definitive Certificates*

Each new Definitive Certificate to be issued upon a transfer of Bonds shall be available for delivery upon receipt by the Transfer Agent (including the Transfer Agent in Luxembourg) at its specified office of the relevant Definitive Certificate and the Form of Transfer. Delivery of the new Definitive Certificates shall be made at the specified office of such Transfer Agent to whom the relevant Definitive Certificate and the Form of Transfer shall have been surrendered or delivered or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant Form of Transfer or otherwise in writing, be mailed within five Business Days of receipt by the Transfer Agent of the relevant Definitive Certificate(s) and the Form of Transfer by uninsured post at the risk of the holder(s) entitled to the new Definitive Certificate(s) to such address as may be so specified, unless such holder(s) request(s) otherwise and pay(s) in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify.

Except in the limited circumstances described in the Global Certificate, owners of interests in the Bonds represented by the Global Certificate will not be entitled to receive Definitive Certificates (if issued) in respect of their individual holdings of the Bonds.

For the purposes of this Condition 5, “**Business Day**” means a day (other than a Saturday or Sunday) on which banks are open for business in the ROC, Luxembourg and the city in which the specified office of the relevant Transfer Agent with whom a Definitive Certificate is deposited or surrendered in connection with a transfer, conversion or redemption is located.

### *(C) Formalities Free of Charge*

Transfers of the Bonds will be effected without charge by or on behalf of the Company or any Transfer Agent, but only upon prior payment (or the giving of such indemnity as such Transfer Agent may require in respect) of any tax or other governmental charges which may be imposed in relation thereto.

### *(D) Restricted Transfer Periods*

No Bondholder may require the transfer of a Bond to be registered (i) during the period of 15 days ending on the due date for any payment of principal and premium (if any) on the Bond; (ii) after such Bond has been called for redemption pursuant to Condition 8(B) or 8(D); (iii) after the Conversion Notice (as defined in Condition 6(B)(i)) and the individual Definitive Certificates in respect of such Bond (if issued) have been deposited for conversion pursuant to Condition 6; or (iv) following exercise of the Bondholder’s put option pursuant to Condition 8(C).

## **(E) Regulations**

All transfers of Bonds and entries on the register of Bondholders will be made subject to the detailed regulations concerning transfer of Bonds (the “**Regulations**”) set forth in the Agency Agreement. The Regulations may be changed by the Company, with the prior written approval of the Trustee and the Registrar. A copy of the Regulations will be mailed (at the Company’s expense) by the Registrar to any Bondholder who asks for one and will also be available at the office of the Paying and Conversion Agent in Luxembourg and at the office of the Principal Agent.

## **6. Conversion**

*On exercise of the Conversion Right (as defined in Condition 6(A)(i)), each converting Bondholder pursuant to the election made by such Bondholder may: (i) elect to receive Shares in Taiwan, or (ii) in the event the Company establishes a depositary receipt facility following the closing and subject to compliance with the terms and conditions of the deposit agreement established with such depositary receipt facility and the relevant laws and regulations, elect to receive depositary receipts representing the interests in the Shares and the Bondholder may direct the Company to procure that Shares transferred and delivered upon conversion of the Bonds are deposited with the custodian for the DR Depositary (as defined in Condition 6(A)(i)) for the issuance and delivery of the DRs (as defined in Condition 6(A)(i)) by the DR Depositary.*

*In the event that the Company establishes a depositary receipt facility, it may procure additional Shares for deposit with the custodian for the DR Depositary subject to compliance with the terms and conditions of the deposit agreement and applicable laws and regulations. Such Shares could be procured by issuing new Shares, subject to compliance with applicable ROC laws and regulations and the Company’s Articles of Incorporation.*

*In the event the Company does establish a depositary receipt facility, the procedure for Bondholders to convert the Bonds into DRs will be substantially similar to the conversion procedure for Bondholders to convert the Bonds into Shares. In each case, the Bondholder will deposit the individual Definitive Certificate (if issued) in respect of a Bond and the Conversion Notice (as defined in Condition 6(B)(i)) with the Conversion Agent. However, in the case of conversion into DRs, the Bondholder will direct that all or some only of the Shares issuable upon conversion be deposited with the relevant DR Depositary for issuance of DRs.*

*The Company shall, within five Trading Days (as defined in Condition 8(B)) from the date the notification of the Conversion Notice is received by the Company or its domestic stock transfer agent from the Principal Agent, issue and deliver the Shares converted from the Bonds to the converting Bondholder or its designee, subject to the requirements relating to the conversion in the Indenture and in these terms and conditions being satisfied.*

*The Indenture provides, in summary, that the term “Shares” means, when used to refer to the class or classes of the Company’s capital stock into which the Bonds are convertible and when used in certain other instances, only the Company’s common shares, NT\$10 par value per share, but that when used elsewhere, including in Condition 6(C), such term also includes shares of any other class or classes of the share capital of the Company authorized after the date of the Indenture which have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or winding-up of the Company.*

### **(A) Conversion Right**

(i) *Conversion Period:* Each Bondholder has the right during the Conversion Period (as defined below) to convert any Bond into Shares, credited as fully paid, and may, if a depositary receipt facility has been established and depositary receipts representing the Shares (“**DRs**”) have been issued, and subject to compliance with the terms and conditions of the relevant deposit agreement, direct in the Conversion Notice (as defined in Condition 6(B)(i)) that all or some only of the Shares issuable upon conversion be deposited with the relevant DR depositary (the “**DR Depositary**”) for issuance of DRs on and subject to the terms set forth herein (the “**Conversion Right**”). Subject to and upon compliance with the provisions of this Condition 6(A), the

Conversion Right attaching to any Bond may be exercised, at the option of the holder thereof and as and to the extent provided herein, at any time on or after September 20, 2003 and prior to the close of business (at the place where the Conversion Notice and the individual Definitive Certificate (if issued) in respect of such Bond are deposited for conversion) on August 11, 2008 (or if such date shall not be a business day, on the immediately preceding business day at such place) (but in no event thereafter), or, if such Bond shall have been called for redemption prior to that date, then up to the close of business (at the place aforesaid) on the seventh day prior to the date fixed for redemption thereof (or if such day shall not be a business day at such place, on the immediately preceding business day at such place) (the “**Conversion Period**”); provided, however, that the Conversion Right during any Closed Period (as defined below) shall be suspended and the Conversion Period shall not include any such Closed Period. “**Closed Period**” shall mean any period during which, under the laws of the ROC or otherwise, the Company shall close its shareholders register, which period includes (a) 60 days prior to the date of the annual general meeting of shareholders (“**AGM**”), (b) 30 days prior to an extraordinary shareholders’ meeting, (c) five days prior to a record day for determining the identity of shareholders entitled to receive dividends, other rights or benefits, (d) the period from the seventh day prior to the date of the meeting of the board of directors determining the proposed dividends distribution for the preceding fiscal year or the period from the closure of the Company’s shareholders’ register before the annual general meeting (whichever earlier) to the relevant record date, (e) the period from the 15th Trading Day (as defined in Condition 8(B)) before the closure of the Company’s shareholders’ register for the Company’s rights issue where shareholders are entitled to subscribe for new Shares to the relevant record date, (f) the period from the date three (3) Taiwan business days prior to the Company’s notification to the TSE and/or any public announcement by the Company in respect of a record date (and the relevant closure of the shareholders register) for determining the identity of shareholders entitled to receive annual dividend distribution or other rights or benefits to such record date and (g) such other periods determined by ROC law applicable from time to time. The Company shall procure that the Bondholders and the Trustee are given not less than 10 days’ nor more than 60 days’ prior notice of any Closed Period in accordance with Condition 15.

*Under current ROC law, regulation and policy, PRC persons are not permitted to hold or convert the Bonds or to register as a shareholder of the Company. Under current ROC law, a PRC person means an individual holding a passport issued by the Peoples’ Republic of China (the “**PRC**”), a resident of any area of China under the effective control or jurisdiction of the PRC (but not including a special administrative region of the PRC such as Hong Kong or Macau, if so excluded by applicable laws of the ROC), any agency or instrumentality of the PRC and any corporation, partnership and other entity organized under the laws of any such area or controlled or beneficially owned by any such person, resident, agency or instrumentality.*

*Under current ROC law, a non-ROC converting Bondholder when exercising his Conversion Right to convert the Bonds into Shares is required (unless the Bondholder has the option under these Conditions to elect, and elects to receive DRs with respect to the Bonds to be converted and in such case, the Shares will be delivered to and deposited with a custodian appointed by the relevant DR Depository) to appoint a local agent in the ROC with such qualifications as are set by the Securities and Futures Commission of the ROC (the “**ROC SFC**”), to open a securities trading account with a local brokerage firm, pay ROC withholding taxes, remit funds, exercise shareholders’ rights and perform such other matters as may be designated by such converting Bondholder (or its designee), on behalf of and as agent for such converting Bondholder (or its designee). In addition, such non-ROC converting Bondholder must also appoint a custodian bank to hold the securities for safekeeping, make confirmation and settlement, and report all relevant information. Under existing ROC laws and regulations, without opening such accounts, an investor in the Bonds would not be able to receive, hold, sell or otherwise transfer the Shares into which the Bonds may have been converted on the TSE or otherwise.*

(ii) *Number of Shares and/or DRs Issuable on Conversion:* The number of Shares to be issued upon conversion of any Bond will be determined by dividing the principal amount of the Bond (translated into NT Dollars at the fixed rate of NT\$34.4 = U.S.\$1.00) by the Conversion Price (as defined in Condition 6(A)(iii)) in effect on the Conversion Date as defined in Condition 6(B)(ii) (translated into NT Dollars at the fixed rate of NT\$34.4 = U.S.\$1.00). Fractional Shares will not be issued or paid in cash, or in any other means. The number of DRs to be issued upon

conversion of any Bond (if applicable) will be determined by dividing the principal amount of the Bond by the Conversion Price in effect on the Conversion Date, and multiplying or dividing, as the case may be, the Conversion Price by the number of Shares represented by each DR on the Conversion Date.

If a Definitive Certificate or Definitive Certificates in respect of more than one Bond shall be deposited for conversion at any one time by the same Bondholder, the number of Shares (and/or DRs, if applicable) to be issued upon conversion thereof will be calculated on the basis of the aggregate principal amount of the Bonds in respect of which the Definitive Certificate(s) were so deposited. Fractions of Shares (and/or DRs, if applicable) will not be issued upon conversion, and cash adjustments will not be made in respect thereof by the Company. Notwithstanding the foregoing, in the event of a consolidation or reclassification of Shares (and DRs, if applicable) by operation of law or otherwise occurring after August 21, 2003, the Company will upon conversion of the Bonds pay in U.S. Dollars a sum equal to such portion of the principal amount of the Bond or Bonds converted as corresponds to any fraction of a Share (and/or DR, if applicable) not issued as aforesaid if such sum exceeds U.S.\$10. For the purpose of calculating the amount of such payment, the Company shall use the exchange rate referred to in this Condition 6(A)(ii).

(iii) *Initial Conversion Price*: The price at which Shares will be issued upon conversion (the “**Conversion Price**”) will initially be NT\$35.2 per Share, which is equivalent to U.S.\$1.02 per Share based on the fixed exchange rate of NT\$34.4 = U.S.\$1.00 but will be subject to adjustment in the manner provided in Conditions 6(C), 6(D) and 6(E). The price at which DRs will be issued upon conversion, in the event that the Company establishes a depositary receipt facility, will be determined by multiplying, or dividing, as the case may be, the Conversion Price by the number of Shares represented by each DR on the Conversion Date and will be subject to adjustment in the manner provided in Conditions 6(C), 6(D) and 6(E). In the event that a depositary receipt facility is established and DRs may be issued upon conversion, the term “Conversion Price” shall be understood to mean the price at which DRs will be issued or the price at which Shares will be issued, as the situation dictates.

(iv) *Revival on Default*: Notwithstanding the provisions of Condition 6(A)(i), if there shall be default in making payment in full in respect of any Bond which shall have been called for redemption prior to August 21, 2008 on the date fixed for redemption thereof, the Conversion Right attaching to such Bond will continue to be exercisable up to and including the close of business (at the place where the relevant individual Definitive Certificate (if issued) in respect of such Bond and the Conversion Notice (as defined in Condition 6(B)(i)) are deposited for conversion) on the date upon which the full amount of the monies payable in respect of such Bond has been duly received by the Trustee or the Principal Agent and notice of such receipt has been duly given to the Bondholders.

## **(B) Conversion Procedure**

(i) *Exercise Procedure*: To exercise the Conversion Right attaching to any Bond, the holder thereof must complete, execute and deposit at its own expense between 9:00 a.m. and 3:00 p.m. (local time at the specified office referred to below) on any business day (as defined below) during the Conversion Period at the specified office of a Conversion Agent outside of the ROC, a notice of conversion (a “**Conversion Notice**”) in duplicate, duly completed and signed, in the then current form obtainable from the specified office of any Conversion Agent, together with the relevant individual Definitive Certificate (if issued) and any certificates and other documents as may be required under the law of the ROC or the jurisdiction in which such Conversion Agent is located and any amount to be paid by the Bondholder. A Conversion Notice, or the relevant individual Definitive Certificate (if issued), deposited outside the hours specified above or on a day which is not a business day at the place of the specified office of the relevant Conversion Agent shall for all purposes be deemed to have been deposited with the Conversion Agent between 9:00 a.m. to 3:00 p.m. on the next business day.

Bondholders who deposit a Conversion Notice during a Closed Period will not be permitted to convert their Bonds until the Trading Day (as defined in Condition 8(B)) following the last day of the Closed Period which (if all other conditions to convert have been fulfilled) will be the Conversion Date for such Bonds. Such Bondholders or the relevant DR Depository, as applicable, will not be registered as holders of Shares until the Conversion Date.

If a DR facility has been established and DRs have been issued, the Conversion Notice shall contain an option for the Bondholder to elect to receive Shares and/or DRs upon such conversion. The Conversion Notice shall contain, inter alia, an appointment of a local agent by such converting Bondholder and an irrevocable instruction to exchange for Shares issued pursuant to Condition 6(B)(iii), as soon as Shares are available. A Conversion Notice once deposited may not be withdrawn without the consent in writing of the Company. The Company shall immediately notify in writing the Conversion Agents, Principal Agent and Trustee of such written consent of the Company accompanied by the relevant Conversion Notice. The price at which such Bonds will be converted will be the Conversion Price in effect on the Conversion Date.

In this Condition, “**business day**” means a day on which commercial banks are open for business in London, and in the place where the Conversion Agent with whom the relevant individual Definitive Certificate (if issued) and the Conversion Notice are deposited is open for business.

(ii) *Taxes and Expenses; Deposit Date and Conversion Date:* As conditions precedent to conversion, together with the Conversion Notice, the Bondholder must pay to the relevant Conversion Agent all stamp, issue, registration, excise and similar taxes or duties or transfer costs (if any) arising on conversion in the country in which the Bond is deposited for conversion, or payable in any jurisdiction consequent upon the issue or delivery of Shares (and/or DRs, if applicable) or any other property or cash upon conversion to or to the order of a person other than the converting Bondholder. Except as aforesaid, the Company will pay the expenses arising in the ROC on the issue of Shares (and/or DRs, if applicable) on conversion of Bonds and all charges of the Conversion Agents (and the relevant DR Depository, if applicable) in connection therewith as provided in the Indenture and Agency Agreement. The date on which any Definitive Certificate and the Conversion Notice (in duplicate) relating thereto, together with any certificates and other documents as may be required under applicable law or otherwise pursuant to this Condition 6 or a relevant deposit agreement (if applicable), are deposited with a Conversion Agent and the payments, if any, required to be paid by the Bondholder are made is hereinafter referred to as the “**Deposit Date**”. The “**Conversion Date**” applicable to a Bond shall mean the next day following the Deposit Date, which day both is a Trading Day as defined in Condition 8(B) and occurs during the Conversion Period. Bondholders who deposit a Conversion Notice during a Closed Period will not be permitted to convert their Bonds until the Trading Day following the last day of that Closed Period.

(iii) *Holder of Record:* With effect from the opening of business in the ROC on the Conversion Date, the Company will deem the converting Bondholder (or its designee) as indicated in the Conversion Notice to have become the holder of record of the number of Shares to be issued upon such conversion to such holder (disregarding any retroactive adjustment of the Conversion Price referred to below prior to the time such retroactive adjustment shall have become effective) and at such time, subject to Condition 6(B)(v), the rights of such converting Bondholder as a Bondholder with respect to such Bonds converted shall cease (except rights arising under Condition 6(B)(iv) and 6(B)(vi)).

In the event that a converting Bondholder has the option under these Conditions to elect, and elects, to receive DRs, with effect from the opening of business in the ROC on the Conversion Date, the Company will deem the relevant DR Depository to have become the holder of record of the number of Shares represented by such DRs to be issued upon such conversion (disregarding any retroactive adjustment of the Conversion Price referred to below prior to the time such retroactive adjustment shall have become effective) and upon delivery by the relevant DR Depository to the Bondholder of the number of DRs into which the Bonds are convertible, subject to Condition 6(B)(v), the rights of such converting Bondholder as a Bondholder with respect to such Bonds converted shall cease (except rights arising under Condition 6(B)(iv) and 6(B)(vi)).

(iv) *Availability of Shares*: The Company shall, for the benefit of Bondholders, ensure that sufficient Shares are available as soon as possible, but in any event within five Trading Days (as defined in Condition 6(B)(v)) from the date the notification of the Conversion Notice is received by the Company or its domestic stock transfer agent from the Principal Agent.

(v) *Delivery of Shares and/or DRs*: On the Conversion Date, the Company will register the converting Bondholder (or its designee) or the relevant DR Depository (or its designee), as applicable, in the Company's register of shareholders as the owner of the number of Shares to be issued pursuant to Condition 6(B)(iii) upon conversion of such Bonds and, subject to any applicable limitations then imposed by ROC laws and regulations, according to the request made in the relevant Conversion Notice, procure that, as soon as practicable, and in any event within five Trading Days from the date the notification of the Conversion Notice is received by the Company or its domestic stock transfer agent from the Principal Agent, deliver to the local agent appointed by the converting Bondholder, and/or to the relevant custodian, as agent for the relevant DR Depository (if the converting Bondholder has the option under these Conditions to elect, and elects, to receive DRs), a certificate or certificates for the relevant Shares, by electronic credit to the account established by the relevant local agent for the conversion of the Bonds, through the facilities of the Taiwan Securities Central Depository Co., Ltd., registered in the name specified for that purpose in the relevant Conversion Notice, together with any other property or cash (including, without limitation, cash payable pursuant to Condition 6(A)(ii)) required to be delivered upon conversion and such assignments and other documents (if any) as may be required by law to effect the delivery thereof. If the converting Bondholder has not created the required account, the Company will deliver the Shares after such account has been set up. For the purpose of this Condition 6(B)(v), the term "**Trading Day**" means a day on which the TSE is open for business.

In the event a converting Bondholder has the option under these Conditions to elect, and elects, to receive DRs on exercise of its Conversion Right, the Company agrees to deliver to and deposit with the relevant custodian, as agent for the relevant DR Depository, a sufficient number of Shares to represent the DRs such Bondholder is entitled to receive upon conversion. Such Shares will be registered in the name of the relevant DR Depository or its nominee and deposited in accordance with the terms of the relevant deposit agreement.

(vi) *Retroactive Adjustment of Conversion Price*: If the Conversion Date in relation to any Bond shall be on or after a date with effect from which an adjustment to the Conversion Price takes retroactive effect pursuant to any of the provisions referred to in Condition 6(C) and the Indenture and the relevant Conversion Date falls on a date when the relevant adjustment has not been reflected in the Conversion Price, the Company will, within 20 days after the effective date of such adjustment of the Conversion Price, issue and deliver (to the local agent appointed by the converting Bondholder and/or, if applicable, to the relevant custodian, as agent for the relevant DR Depository) such number of Shares as is equal to the excess of the number of Shares that would have been required to be issued upon conversion of such Bond if the relevant retroactive adjustment had been made as at the said Conversion Date over the number of Shares previously issued pursuant to such conversion, and in such event and in respect of such number of Shares, references in Condition 6(B)(v) to the Conversion Date shall be deemed to refer to the date upon which such retroactive adjustment becomes effective (disregarding the fact that it becomes effective retroactively). Fractions of Shares will not be issued and no cash adjustment will be made in respect thereof.

(vii) *Dividends and Other Entitlements*: Bondholders are not entitled to receive any stock or cash dividends prior to the conversion of their Bonds. To the extent permitted under the laws and regulations of the ROC, the converting Bondholders will be entitled to the annual dividend distributions or other benefits if the Conversion Date falls prior to the third Trading Day (as defined in Condition 6(B)(v)) before the Company's notification to the TSE in respect of a record date (and the relevant closure of shareholders' register) for determining the identity of shareholders who are entitled to such dividend distributions.

(viii) *Conversion Agents*: The Company reserves the right, subject to the provisions of the Agency Agreement, at any time to vary or terminate the appointment of any Conversion Agent and to appoint further or other Conversion Agents; provided that the Company will at all times maintain a Conversion Agent having specified offices in London, the United Kingdom. Notice of any such termination or appointment and of any changes in the specified offices of the Conversion Agents will be given promptly by the Company to the Bondholders in accordance with Condition 15.

**(C) Adjustments to Conversion Price**

The Conversion Price will be subject to adjustment in the manner set forth in the Indenture upon the occurrence of certain events set out in the Indenture, including:

- (i) the making of a free distribution or bonus issue of Shares;
- (ii) subdivisions, consolidations or reclassifications of Shares;
- (iii) the declaration of a dividend in Shares;
- (iv) the grant, issue or offer to the holders of Shares of rights or warrants to subscribe for or purchase Shares at less than the then Current Market Price (as defined below) or to subscribe for or purchase any securities convertible into or exchangeable for Shares at less than the then Current Market Price;
- (v) the distribution to the holders of Shares of evidences of indebtedness of the Company or of shares of capital stock of the Company (other than Shares) or of assets (other than regular periodic dividends in cash) or of rights or warrants to subscribe for or purchase shares or securities (other than those mentioned in (iv) above);
- (vi) the issue of securities (other than the Bonds and those mentioned in (iv) above) convertible into or exchangeable for Shares at less than the then Current Market Price or of rights or warrants (other than those mentioned in (iv) above) to subscribe for or purchase Shares at less than the then Current Market Price or to subscribe for or purchase securities convertible into or exchangeable for Shares at less than the then Current Market Price;
- (vii) the issue of Shares (other than Shares issued upon conversion of convertible bonds, including the Bonds, or in any of the circumstances described above but including Shares issued under any employee bonus or profit-sharing arrangements) at less than the then Current Market Price; and
- (viii) any other event or circumstance which would have in the determination of the Company or the Trustee an analogous effect to any of the events in (i) to (vii) above including, but not limited to, issues of receipts or certificates entitling holders to receive securities.

For the purposes of this Condition 6(C), the “**Current Market Price**” per Share on any date means the average of the daily Closing Prices (as defined below) of the relevant Shares for the 20 consecutive Trading Days before such date. If the Company has more than one class of share capital comprising Shares, then the relevant Current Market Price for Shares shall be the price for that class of Shares the issue of which (or of rights or warrants in respect of, or securities convertible into or exchangeable for, that class of Shares) gives rise to the adjustment in question.

No adjustment will be made where such adjustment would be less than 1% of the Conversion Price then in effect; provided, however, that any adjustment that would otherwise be required to be made will be carried forward and taken into account in determining any subsequent adjustment. Any adjustment will be notified promptly by the Company to the Bondholders in accordance with Condition 15.

The Indenture provides that the Conversion Price may be reduced, as a result of any adjustment required by this Condition 6(C), below the par value of the Shares for the time being to the extent permitted by ROC law, provided that any Shares issued on conversion of Bonds at such reduced Conversion Price would be legally issued and non-assessable Shares.

The Trustee will not be obliged to monitor whether any event has occurred which might fall within Condition 6(C)(i) to (viii) above and until it has actual knowledge by way of express notice in writing from the Company to the contrary, shall be entitled to assume that none has.

**(D) Conversion Price Reset**

The Conversion Price shall be adjusted (the “**Adjusted Conversion Price**”) on the date which is 45 days prior to each of the first, second, third and fourth anniversary after the date on which the Bonds are issued (the “**Reset Dates**” and each a “**Reset Date**”), in the event that the average Closing Price of the Shares on the TSE translated into U.S. Dollars at the then Prevailing Rate (as defined below) for 20 consecutive Trading Days immediately prior to a Reset Date (the “**Average Closing Price**”) is less than the Conversion Price then in effect on the relevant Reset Date, in accordance with the following formula:

$$\text{ACP} = \frac{\text{FER}}{\text{PR}} \times \text{CP}$$

ACP = Adjusted Conversion Price

FER = Fixed Exchange Rate (as defined below)

PR = Prevailing Rate

CP = Average Closing Price

Such Adjusted Conversion Price shall be rounded upwards, if necessary, to the nearest NT\$0.01, provided that:

- (i) any adjustment to the Conversion Price pursuant to this Condition 6(D) shall be limited so that the Conversion Price adjusted in accordance with this Condition 6(D) shall not be less than 80% of the initial Conversion Price prevailing on August 21, 2003 (as adjusted to reflect any adjustments required under Condition 6(C) above which may have occurred prior to the relevant Reset Date);
- (ii) the provisions of Condition 6(C) shall apply mutatis mutandis to this Condition 6(D) to ensure that appropriate adjustments shall be made to any Closing Price (as defined in Condition 8(B)) to reflect any adjustments made to the Conversion Price in accordance with Condition 6(C) during the period of calculation of the Average Closing Price;
- (iii) the Conversion Price shall not be reduced below the par value of the Shares (currently NT\$10 per share) unless, under applicable law then in effect, the Bonds could be converted at such reduced Conversion Price into legally issued, fully-paid and non-assessable Shares; and
- (iv) for the avoidance of doubt (x) any adjustments to the Conversion Price made pursuant to this Condition 6(D) shall only be downward adjustments and (y) an adjustment may be made in respect of a Reset Date notwithstanding that an adjustment may have been made in respect of a preceding Reset Date, if any.

The “**Prevailing Rate**” for the translation of the Closing Prices shall be the arithmetic average of the closing rate for the purchase of U.S. Dollars with NT Dollars quoted by Taipei

Forex Inc. at the close of business on each day of the 20 consecutive Trading Days preceding the relevant Reset Date. For the purpose of the formula in this Condition, the Prevailing Rate shall be expressed as the number of NT Dollars per U.S.\$1.00. The “**Fixed Exchange Rate**” is NT\$34.4 = U.S.\$1.00.

Any such adjustment shall become effective as of the relevant Reset Date and the Bondholders shall be notified of any adjustment to the Conversion Price within five days of the relevant Reset Date in accordance with Condition 15.

***(E) Alternative Conversion Price Reset***

To stimulate Bondholders’ interest to exercise their Conversion Right, Condition 6(E) provides an alternative. This is set in accordance with the regulations for underwriters’ assistance for public companies in the issuance of securities, which were amended by the Chinese Securities Association and were then filed for recordation with the ROC SFC. The alternative Conversion Price (the “**Alternative Conversion Price**”) and the period of exercise (i.e. seven Trading Days (as defined in Condition 8(B))) are set based on that regulations.

The Company may (but shall not be obliged to) grant the Bondholders options, within a seven Trading-Day period (the “**Alternative Conversion Period**”) starting from the date to be determined by the Company after July 22, 2005 and July 22, 2008 (each an “**Alternative Reset Date**”) and before the Put Date (as defined in Condition 8(C)(i)) or the Maturity Date (as defined in Condition 8(A)), to convert the Bonds into Shares based on the reset Alternative Conversion Price, which would be 88.24% and 84.39% of the then Market Price, respectively.

The above-mentioned “**Market Price**” is the lowest among the average Closing Prices of the Shares on the TSE translated into U.S. Dollars at the Prevailing Rate for 10, 15 and 20 Trading Days immediately preceding the Alternative Reset Date before the Put Date or the Maturity Date.

The Company shall give Bondholders an Alternative Conversion Price reset notice (“**Alternative Reset Notice**”) as soon as practicable after the applicable Alternative Reset Date in accordance with Condition 15 and shall, inter alia, state:

- (i) that the Alternative Conversion Price is only in effect during the Alternative Conversion Period;
- (ii) the Market Price;
- (iii) the Alternative Conversion Price; and
- (iv) the Alternative Conversion Period.

The Alternative Conversion Price will only be applicable within the relevant seven Trading-Day Alternative Conversion Period described in this Condition 6(E). The Conversion Price will be applicable to any conversion before or after such Alternative Conversion Period.

***(F) Mergers; Disposals***

The Company will not merge, amalgamate or consolidate with or into any other corporation or entity where the Company is not the continuing entity or sell or transfer all, or substantially all, of the assets of the Company, whether as a single transaction or a number of transactions, related or not, to any corporation, entity or person or to one or more members of any group under the common control of any corporation, entity or person unless the Company shall have notified the Bondholders of such event in accordance with Condition 15 and the Company and such corporation, entity or person shall have executed an indenture supplemental to the Indenture in form and substance satisfactory to the Trustee providing that such corporation, entity or person shall assume the obligations of the Company under the Bonds, the Indenture and the Agency Agreement and providing that each Bond then outstanding shall be convertible into the class and amount of shares and other securities, cash and other property receivable upon such

consolidation, amalgamation, merger, sale or transfer by a holder of the number of Shares (and/or DRs, if applicable) into which such Bond would have been convertible immediately prior to such consolidation, amalgamation, merger, sale or transfer (assuming for such purpose that the Bonds were convertible at the time of such consolidation, amalgamation, merger, sale or transfer) at the Conversion Price as adjusted from time to time pursuant to the Indenture. Such supplemental indenture will provide for adjustments which will be as nearly equivalent as may be practicable to the adjustments provided for in the foregoing provisions to this Condition. The above provisions of this Condition 6(F) will apply in the same way to any subsequent or further consolidations, amalgamations, mergers, sales or transfers.

***(G) Conversion Undertakings***

(i) *Depository receipts*: Subject to the ROC SFC'S separate approval, if required, the Company may, at its option, but is not required to, make arrangements satisfactory to the Trustee for the Bonds to be converted into DRs or other scrip evidencing Shares. Any such arrangements shall be in addition to the provisions of these Conditions relating to conversion into Shares.

The Company has not as at the date of this Information Memorandum established or authorized the establishment of any depository receipt facility. Accordingly, conversion into DRs is not currently available. If in the future a depository receipt facility is established or authorized by the Company, the Company will, to the extent permitted by applicable laws and regulations, make arrangements satisfactory to the Trustee for Shares issued on conversion of Bonds to be accepted for deposit (at the option of the converting Bondholder) into such depository receipt facility, subject always to the terms of such depository facility, which terms may include certification or other requirements as conditions to the acceptance for deposit of Shares issued on conversion of Bonds. There can be no assurance that the Company will in future establish or authorize any depository facility or that any arrangements for the deposit of Shares into such depository facility would be available to any Bondholder.

The Company shall give notice to the Conversion Agents, the Principal Agent, the Trustee and the Bondholders in accordance with Condition 15 within 14 days of the establishment of any depository receipt facility.

(ii) *Closed Periods*: The Company undertakes to ensure that any Closed Period is as short a period as is reasonably practicable having regard to applicable ROC laws and regulation and practices.

**7. Payments**

***(A) Principal, Premium and Interest (if any)***

Payment of principal, premium and interest (if any) will be made against surrender of the relevant certificate at the specified office of any Agent by transfer to the registered account of the Bondholder or by U.S. Dollar check drawn on a bank in The City of New York, U.S.A., mailed (provided that the Principal Agent shall have received the relevant funds in full from the Company in accordance with the Agency Agreement) to the registered address of the Bondholder if it does not have a registered account. Payments of principal and premium will only be made after surrender of the relevant individual Definitive Certificate (if issued) at the specified office of any Agent.

***(B) Registered Accounts***

A Bondholder's registered account means the U.S. Dollar account maintained by or on behalf of it with a bank in The City of New York, U.S.A., details of which appear on the register of Bondholders at the close of business on the second business day (as defined in Condition 7(F)) before the due date for payment and a Bondholder's registered address means its address appearing on the register of Bondholders at that time.

**(C) Fiscal Laws**

All payments are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 9. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

**(D) Payment Initiation**

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that date is not a business day, for value the next following business day) will be initiated and, where payment is to be made by check, the check will be mailed (provided that the Principal Agent shall have received the relevant funds in full from the Company in accordance with the Agency Agreement), on the later of the due date for payment and the business day on which the relevant Definitive Certificate is surrendered (if applicable) at the specified office of an Agent.

**(E) Payment Delay**

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a business day, if the Bondholder is late in surrendering its Definitive Certificate (if applicable) or if a check mailed in accordance with this Condition arrives after the due date for payment.

**(F) Business Days**

In this Condition, “**business day**” means a day on which commercial banks are open for business in The City of New York, U.S.A. and London, United Kingdom and, in the case of the surrender of a Definitive Certificate in the place where the Definitive Certificate is surrendered.

**(G) Partial Payments**

If the amount of principal and premium which is due on the Bonds is not paid in full, the Registrar will annotate the register of Bondholders with a record of the amount of principal and/or premium, in fact paid.

Distribution of payments with respect to the Global Certificates held through Euroclear or Clearstream, Luxembourg will be made to the holders holding through participants of Euroclear or Clearstream, Luxembourg, as the case may be, to the account of JPMorgan Chase Bank, as Principal Agent and will be credited by Euroclear and Clearstream, Luxembourg, as the case may be, to the cash accounts of the participants of Euroclear or Clearstream, Luxembourg, in accordance with the relevant system’s rules and procedures, to the extent received by the Principal Agent.

**8. Redemption, Purchase and Cancellation**

**(A) Redemption at Maturity**

Unless previously redeemed, converted or repurchased and cancelled as herein provided, the Company will redeem the Bonds at their principal amount in U.S. Dollars on August 21, 2008 (the “**Maturity Date**”). The Bonds may be redeemed in whole or in part prior to that date only as provided in Condition 8(B), (C) and (D) below (but without prejudice to Condition 10).

**(B) Redemption at the Option of the Company**

On or at any time after August 21, 2005, the Company may, having given not less than 40 days’ nor more than 60 days’ notice to the Bondholders in accordance with Conditions 8(H) and 15 (which notice will be irrevocable), redeem all or part of the Bonds at Early Redemption Amount (as defined in this Condition 8(B)) if the Closing Price of the Shares translated into U.S. Dollars at the Prevailing Exchange Rate for each of the 20 consecutive Trading Days (as defined in this Condition 8(B)) is at least 130% of the Conversion Price then in effect, translated into

U.S. Dollars at the fixed exchange rate of NT\$34.4 = U.S.\$1.00, on each such Trading Day. If there shall occur an event giving rise to a change in the Conversion Price during any such 20 Trading Day period, appropriate adjustments for the relevant days shall be made for the purpose of calculating the Closing Price for such days. If the Closing Price cannot be determined for one or more consecutive Trading Days, such day or days will be disregarded in the relevant calculation and will be deemed not to have existed when ascertaining such 20 Trading-Day period.

Notwithstanding the foregoing paragraph, the Company may, at any time, redeem the Bonds in whole, but not in part, upon not less than 40 days' nor more than 60 days' notice to the Bondholders, at the Early Redemption Amount (as defined in this Condition 8(B)) if at least 95% in principal amount of the Bonds has already been redeemed, converted, or purchased and cancelled.

Upon the expiry of any such notice, the Company will be bound to redeem the Bonds to which such notice relates at the price aforesaid applicable at the date fixed for redemption.

The term "**Trading Day**" means a day on which the TSE is open for business but does not include a day when (a) no last transaction price or closing bid and offered prices for the Shares are reported and (b) (if the Shares are not listed or admitted to trading on such exchange) no closing bid and offered prices are furnished as aforesaid. The "**Closing Price**" of the Shares for each Trading Day shall be the last reported transaction price of the Shares on the TSE for such day or, if no transaction takes place on such day, the last available reported transaction price of the Shares on the TSE in effect on the Trading Day immediately preceding such day or, if the Shares are not listed or admitted to trading on such exchange, the average of the closing bid and offered prices of Shares for such day as furnished by a leading independent securities firm licensed to trade on the TSE selected by the Company for the purpose. The term "**Prevailing Exchange Rate**" in this Condition 8(B) means the closing rate of U.S. Dollars to NT Dollars quoted by Taipei Forex Inc. at the close of business on any relevant Trading Day.

The "**Early Redemption Amount**" of each Bond means its principal amount plus a premium (the "**Premium**") rounded up to the nearest cent determined in accordance with the following formula:

$$\text{Premium} = \text{U.S.}\$1,000 \times 0.015 \times \frac{\text{Days Outstanding}}{1,800} ; \text{ and}$$

Days Outstanding = the number of days from, and including, the date that the Bonds are issued (the "**Closing Date**") to, but excluding, the date for redemption, calculated on the basis of a year of 360 days consisting of 12 months of 30 days each.

**(C) Redemption at the Option of Bondholders**

Unless previously redeemed, converted or repurchased and cancelled as herein provided, the Company will, at the option of the holder of any Bond, redeem all or part of the Bonds held by that Bondholder on August 21, 2005 (the "**Put Date**") at 103.02% of their principal amount.

To exercise such option the holder must deposit the individual Definitive Certificate in respect of such Bonds (if issued) with any Agent and a duly completed redemption notice in the form obtainable from any of the Agents not more than 60 days nor less than 20 days prior to the Put Date. No Bond so deposited may be withdrawn (except as provided in the Agency Agreement) without the prior written consent of the Company and such written consent must be notified by the Company to the Principal Agent no later than seven business days prior to the Put Date. The Company shall give the Bondholders not more than 45 days' nor less than 30 days' notice of the commencement of the period for the deposit of individual Definitive Certificates (if issued) for redemption in accordance with Condition 15.

For the purpose of this Condition 8(C), “**business day**” shall mean a day on which commercial banks are open for business in London, New York City and Taipei.

***(D) Redemption for Taxation Reasons***

At any time, the Company may, having given not less than 40 days’ nor more than 60 days’ notice to the Bondholders in accordance with Conditions 8(H) and 15 (which notice shall be irrevocable), redeem all but not some of the Bonds at Early Redemption Amount (as defined in Condition 8(B)), if (i) the Company determines immediately prior to the giving of such notice that it has or will become obliged to pay additional amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of the ROC or any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after August 21, 2003 and (ii) such obligation cannot be avoided by the Company taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such additional amounts were a payment in respect of the Bonds then due. Prior to the giving of any notice of redemption pursuant to this paragraph, the Company shall deliver to the Trustee a certificate signed by two directors of the Company stating that the obligation referred to in (i) above cannot be avoided by the Company taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out in (ii) above, in which event it shall be conclusive and binding on the Bondholders. Bonds in respect of which a notice of redemption has been given under Condition 8(B) and Condition 8(C) shall not be affected by any notice given subsequently under this Condition 8(D).

***(E) Repurchase***

The Company may at any time and from time to time repurchase Bonds in the open market or otherwise. Bonds so repurchased will be surrendered and deemed cancelled and may not be reissued or resold.

***(F) Selection of Bonds***

In the case of redemption of some only of the Bonds pursuant to Condition 8(B), where individual Definitive Certificates have been issued, the Bonds to be redeemed will be selected individually by lot by the Principal Agent, in such place as the Trustee shall approve and in such manner as the Trustee shall deem to be appropriate and fair not more than 60 days and not less than 30 days prior to the date fixed for redemption or, where the Bonds are represented by a Global Certificate, in accordance with the relevant rules of the relevant clearing system.

***(G) Cancellation***

All Bonds which are redeemed or converted or purchased and surrendered to any Agent will forthwith be cancelled in accordance with the provisions of the Agency Agreement. Definitive Certificates in respect of all Bonds cancelled will be forwarded to or to the order of the Principal Agent and such Bonds may not be reissued or resold.

***(H) Redemption Notices***

All notices to Bondholders given by or on behalf of the Company pursuant to this Condition 8 will specify the date fixed for redemption, the redemption price, the Conversion Price as at the date of the relevant notice, the Closing Price of the Shares and the aggregate principal amount of the Bonds outstanding as at the latest practicable date prior to the publication of the notice and, in the case of a partial redemption, a list of the Bonds called for redemption.

## 9. Taxation

- (A) All payments of principal, premium and interest (if any) by the Company will be made free and clear of and without any deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the government of the ROC or any authority thereof or therein having power to tax, unless deduction or withholding of such taxes, duties, assessments or governmental charges is compelled by law.
- (B) Where such withholding or deduction is in respect of ROC withholding tax on premium or interest payments at the rate of up to and including 20%, the Company will increase the amount of premium or interest (if any) paid by it to the extent required so that the net amount of premium or interest (if any) received by Bondholders (without prejudice to Condition 7) would be equal to the amounts which would have been receivable in the absence of any such withholding or deduction.
- (C) In the event that any such withholding or deduction in respect of principal or any additional withholding or deduction in excess of 20% in respect of interest (if any) or premium is required, the Company will pay such additional amounts by way of principal, premium and interest (if any), as will result in the receipt by the Bondholders of the amounts which would have been receivable in the absence of any such withholding or deduction, except that no such additional amounts shall be payable in respect of any Bond:
- (i) to, or on behalf of, a holder who is subject to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his being connected with the ROC otherwise than merely by holding such Bond or by the receipt of principal in respect of the Bond; or
  - (ii) if the individual Definitive Certificate in respect of such Bond (if issued) is surrendered more than 30 days after the relevant date except to the extent that the holder would have been entitled to such additional amount on surrendering the relevant Definitive Certificate for payment on the last day of such 30 day period. For this purpose, the “**relevant date**” in relation to any Bond means (a) the due date for payment in respect thereof or (b) (if the full amount of the monies payable on such due date has not been received by the Trustee or the Principal Agent on or prior to such due date) the date on which notice is duly given to the Bondholders that such monies have been so received.
- (D) References in these Conditions to principal, premium or interest shall be deemed also to refer to any increased or additional amounts which may be payable in respect thereof under this Condition or any undertaking given in addition to or substitution for it under the Indenture.

## 10. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of not less than 25% in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall (but subject to it first being indemnified or secured by the holders to its satisfaction), give notice in writing to the Company that the Bonds are immediately due and payable, if any of the following events (an “**Event of Default**”) shall have occurred and be continuing:

- (i) there is failure to pay the principal of or any premium on any of the Bonds within 15 business days (as defined in this Condition 10) after the same shall become due and payable in accordance with these Conditions; or
- (ii) the Company defaults in performance or observance of or compliance with any of its other obligations (other than the covenant to pay the principal, premium or interest (if any) in

respect of the Bonds) set out in the Bonds or the Indenture which default is incapable of remedy or, if in the opinion of the Trustee such default is capable of remedy, such default is not in the opinion of the Trustee remedied within 30 days after written notice of such default shall have been given to the Company by the Trustee; or

- (iii) any other present or future indebtedness of the Company, or any of its Principal Subsidiaries, for or in respect of monies borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of an event of default (howsoever described), or any such indebtedness is not paid when due or, as the case may be, within any applicable grace period originally provided for, or the Company or any of its Principal Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee or indemnity or arrangement or obligation having a like or similar effect (howsoever described) for any monies borrowed or raised by any person, provided that the aggregate amount of the relevant indebtedness and guarantees in respect of which one or more events mentioned above in this Condition 10(iii) have occurred and is continuing equals or exceeds U.S.\$5,000,000 or its equivalent in any other currency (determined as provided below), and provided further that where two or more of the Company and/or its Principal Subsidiaries are/is liable for the payment of the same relevant indebtedness or guarantee (whether liable jointly and severally, by way of guarantee, surety or otherwise), any such amount shall be counted once only; or
- (iv) an execution by a court having jurisdiction is levied or enforced or sued out, or other legal enforcement process is levied or sued out upon, commenced or issued upon, against or in respect of the whole or any substantial part of the undertaking, property, assets or revenues of the Company or any of its Principal Subsidiaries and in any such case is not discharged or stayed within 60 days of having been so levied, sued out, commenced or issued, unless the Company or such Principal Subsidiary is contesting such proceedings in accordance with relevant laws and regulations; or
- (v) any person entitled to the benefit thereof shall institute appropriate legal proceedings to enforce any Encumbrance upon the whole or any substantial part of the assets or revenues of the Company or any Principal Subsidiary and the same is not stayed, discharged, released or satisfied (as the case may be) within 60 days of such proceedings, unless the Company or such Principal Subsidiary is contesting such proceedings in accordance with relevant laws and regulations; or
- (vi) the Company or any of its Principal Subsidiaries becomes bankrupt or insolvent, or consents to or suffers the appointment of an administrator, liquidator (except for the purpose of and followed by a voluntary solvent reorganization, merger, consolidation, amalgamation or other similar arrangement the terms of which have previously been approved by the Trustee or an Extraordinary Resolution of the Bondholders) or receiver (or other similar official) in bankruptcy or insolvency of the Company or any of its Principal Subsidiaries or in respect of the whole or any substantial part of the undertakings, property, assets or revenues of the Company or any of its Principal Subsidiaries or the Company or any of its Principal Subsidiaries stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts; or
- (vii) an order issued by a court with competent jurisdiction is made or an effective resolution passed by the Company for the winding-up or dissolution of the Company (except for the purpose of and followed by a solvent reconstruction, merger, consolidation, amalgamation or other similar arrangement the terms of which are approved by the Trustee or an Extraordinary Resolution of the Bondholders); or
- (viii) the Company shall merge, amalgamate or consolidate with any other corporation or entity (with the Company not being the continuing entity) or shall sell or dispose of substantially all its business or assets whether as a single transaction or a number of transactions, related or not, to any person, unless the Company shall have notified the Bondholders of such event in accordance with Condition 15 and the Company and such corporation, entity or person shall have executed an indenture supplemental to the Indenture in form and substance satisfactory to the Trustee and the Agents providing that such corporation, entity or person

shall assume the obligations of the Company under the Bonds, the Indenture and the Agency Agreement and providing that each Bond then outstanding shall be convertible into the class and amount of Shares and other securities, cash and other property receivable upon such consolidation, amalgamation, merger, sale or transfer by a holder of the number of Shares into which such Bond would have been convertible immediately prior to such consolidation, amalgamation, merger, sale or transfer (assuming for such purpose that the Bonds were convertible at the time of such consolidation, amalgamation, merger, sale or transfer) at the Conversion Price as adjusted from time to time pursuant to the Indenture; provided that such agreement by such other person shall not be required if such assumption shall be effective by operation of law; or

- (ix) any governmental authority or agency condemns, seizes, compulsorily purchases or expropriates all or a substantial part of the assets or shares of the Company; or
- (x) proceedings shall have been initiated against the Company or any of its Principal Subsidiaries under any applicable bankruptcy, insolvency or reorganization law and such proceedings shall not have been discharged or stayed within a period of 60 days, unless the Company or such Principal Subsidiary is contesting such proceedings in accordance with relevant laws and regulations; or
- (xi) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorization, exemption, filing, license, order, recording or registration) at any time required to be taken, fulfilled or done in order to (i) enable the Company lawfully to enter into, exercise its rights and perform and comply with its obligations under the Bonds and the Indenture, and (ii) ensure that those obligations are legally binding and enforceable is not taken, fulfilled or done, and such case is incapable of remedy or is not in the opinion of the Trustee remedied within such period (being not less than 30 days) as the Trustee may consider reasonable; or
- (xii) any event occurs which under the laws of the ROC has an analogous effect to any of the events referred to in the foregoing paragraphs.

For the purposes of Condition 10(iii) above, any indebtedness which is in a currency other than U.S. Dollars shall be translated into U.S. Dollars at the spot rate for the sale of U.S. Dollars against the purchase of the relevant currency quoted by any leading bank in the relevant market selected by the Trustee on any day when the Trustee requests such a quotation for such purposes. If no direct spot rate is available, a rate shall be calculated by reference to the cross-rates through U.S. Dollars and relevant currencies.

Upon any such notice being given to the Company by the Trustee, the Bonds will immediately become due and payable at 100% of their principal amount, and overdue interest on the amounts due, from the date on which such amounts first become due, shall be payable, to the extent permitted by law, at the rate of 6% per annum.

The term “**business day**” for the purpose of this Condition 10 means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are open for business in Taipei, Taiwan, ROC.

## **11. Prescription**

Claims in respect of (a) principal and premium and (b) interest (if any) will become unenforceable after 10 years (in the case of (a)) and five (5) years (in the case of (b)), from the relevant date for payment in respect thereof.

## **12. Enforcement**

At any time after the Bonds shall have become due and payable, the Trustee may, at its discretion and without further notice, take such proceedings against the Company as it may think fit to enforce payment of the Bonds together with premium with respect thereto and to enforce the provisions of the Indenture, but it will not be bound to take any such proceedings unless (a) it shall have been so

requested in writing by the holders of at least 25% in principal amount of the Bonds then outstanding or so directed by an Extraordinary Resolution and (b) it shall first have been indemnified and/or secured to its satisfaction. No Bondholder will be entitled to proceed directly against the Company, unless the Trustee, having become bound to do so, fails to do so and such failure shall have continued for a period of 60 days and no direction inconsistent with such written request or Extraordinary Resolution has been given to the Trustee during such 60-day period by the holders of a majority in principal amount of the outstanding Bonds.

### **13. Meetings of Bondholders, Modification and Waiver**

#### ***(A) Meetings***

The Indenture contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Bonds or the provisions of the Indenture. The quorum for a meeting to pass an Extraordinary Resolution will be two or more persons holding or representing over 50% in principal amount of the Bonds for the time being outstanding or, at any such meeting which has been adjourned, two or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented unless the business of such meeting includes consideration of proposals, inter alia, (i) to modify the maturity date of the Bonds, (ii) to reduce or cancel the amount of principal, premium or interest (if any) payable in respect of the Bonds, (iii) to change the currency of payment of the Bonds, (iv) to modify or cancel the right to convert the Bonds into Shares (except in accordance with Condition 6(B) and 13(B)) or to modify the circumstances in which the Bonds may be redeemed or converted at the option of the Company or to shorten the Conversion Period, (v) to modify the provisions relating to the resetting of the Conversion Price and (vi) to modify the provisions concerning the quorum required at any meeting of the Bondholders or the majority required to pass an Extraordinary Resolution or sign a resolution in writing, in which case the consent of each Bondholder is required. An Extraordinary Resolution passed at any meeting of Bondholders will be binding on all Bondholders, whether or not they are present at the meeting, and will be conclusive and binding upon all future Bondholders.

The Indenture provides that a written resolution signed by or on behalf of the holders of not less than 90% of the aggregate principal amount of Bonds outstanding shall be as valid and effective as a duly passed Extraordinary Resolution.

The Company shall prepare a supplement to this Information Memorandum and notify the Bondholders in accordance with Condition 15 in respect of any proposed Extraordinary Resolution relating to items (i) to (vi) above in this Condition 13(A).

#### ***(B) Modification of Conversion Right***

Notwithstanding Condition 13(A)(iv) above, the Trustee may agree, without the consent of the Bondholders, to any modification to or variation of the Conversion Rights (including modification of and additions to the declarations and statements to be made by Bondholders in a Conversion Notice) which is in its opinion necessary or desirable to effect or facilitate conversion as contemplated in these Conditions and which is not, in its opinion, materially prejudicial to the interests of the Bondholders. The Trustee's agreement may be subject to any condition which the Trustee requires including, but not limited to, obtaining, at the sole expense of the Company, an opinion of a merchant or investment bank or legal or other expert. Any such modification shall be binding on the Company and all the Bondholders. The Company shall prepare a supplement to this Information Memorandum and notify the Bondholders of such modification in accordance with Condition 15 as soon as practicable.

#### ***(C) Other Modifications and Waivers***

The Trustee may (but shall not be in any way be obligated to) agree, without the consent of the Bondholders, to (i) any modification (except as mentioned above) of, or the waiver or authorization of any breach or proposed breach of, the Bonds or the Indenture which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or (ii) any

modification of the Bonds, the Agency Agreement or the Indenture which, in the Trustee's opinion, is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provisions of law. In connection with such modification, waiver or authorization, the Trustee may require (at the sole expense of the Company) a certificate from the Company certifying, and a legal opinion advising the Trustee, that the modification, waiver or authorization is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provisions of law. Any such modification, waiver or authorization will be binding on the Bondholders and, unless the Trustee agrees otherwise, any such modification will be notified by the Company to the Bondholders in accordance with Condition 15 as soon as practicable thereafter.

***(D) Exercise of Trustee's Functions***

In connection with the exercise of its functions, powers, trusts, authorities and discretions (including but not limited to those in relation to any proposed modification, authorization or waiver) the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders. No Bondholders shall be entitled to require, nor shall any Bondholder be entitled to claim, from the Company or the Trustee, any indemnification or payment in respect of any tax or other consequences of any such exercise upon individual Bondholders.

**14. Replacement of Definitive Certificates**

If any Definitive Certificate is mutilated, defaced, destroyed, stolen or lost, it may be replaced at the specified office of the Registrar upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms of evidence and indemnity as the Company or the Registrar may reasonably require (which terms will require, inter alia, that if such Definitive Certificate is subsequently deposited for conversion into Shares there shall be paid to the Company on demand such costs at the fixed exchange rate of NT\$34.4 for each U.S.\$1.00 of the principal amount of such Bond). Mutilated or defaced Definitive Certificates must be surrendered before replacements will be issued.

**15. Notices**

In addition to the provisions set forth in the Global Certificate, if applicable, all notices to Bondholders shall be validly given if in writing in English and mailed to them at their respective addresses in the register of Bondholders maintained by the Registrar.

Any such notice shall be deemed to have been given on the later of the date of such publication and the seventh day after being so mailed.

**16. Indemnification**

The Indenture contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce payment unless indemnified to its satisfaction.

**17. Agents**

The names of the initial Agents and Registrar and their specified offices are set out at the end of this Information Memorandum. The Company reserves the right, subject to the provisions of the Agency Agreement, at any time to vary or terminate the appointment of further or other Agents, provided that the Company will at all times maintain Agents having specified offices in London, a Registrar and a Principal Agent. Notice of any such termination or appointment, of any changes in the specified offices of the Agents or of any change in the identity or specified office of the Registrar or the Principal Agent will be given promptly in accordance with Condition 15 by the Company to the Bondholders and the Trustee.

## 18. Governing Law and Jurisdiction

### *(A) Governing Law*

The Indenture and the Bonds are governed by and shall be construed in accordance with the laws of the State of New York, U.S.A.

### *(B) Jurisdiction*

The courts of the State of New York sitting in the Borough of Manhattan, The City of New York, and the federal courts of the United States sitting in the Borough of Manhattan, The City of New York, have non-exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Indenture or the Bonds and accordingly any legal action or proceedings arising out of or in connection with the Indenture or the Bonds (“**Proceedings**”) may be brought in such courts. The Company has in the Indenture irrevocably, for the benefits of the Trustee and the Bondholders submitted to the jurisdiction of such courts.

### *(C) Agent for Service of Process*

The Company has irrevocably appointed Law Debenture Corporate Services Inc. of 767 Third Avenue, New York, NY 10017, U.S.A. as its authorized agent for service of process in New York in any Proceedings.

## THE FORM OF THE BONDS

The Bonds will be issued in registered form, without coupons, in denominations of U.S.\$1,000 and integral multiples thereof. The Bonds are not issuable in bearer form.

The Bonds will be represented by a global certificate (the “**Global Certificate**”) which will be deposited with, and registered in the name of a nominee for, a common depository for Euroclear and Clearstream, Luxembourg. Upon the issuance of the Global Certificate, Euroclear and Clearstream, Luxembourg will credit, on their internal systems, the respective principal amounts of the individual beneficial interests in the Bonds represented by the Global Certificate to the accounts of persons who have accounts with Euroclear and Clearstream, Luxembourg (“**participants**”). These accounts will initially be designated by or on behalf of the Lead Manager. Ownership of beneficial interests in the Global Certificate will be limited to participants and persons who hold interests through participants. Beneficial interests in the Global Certificates will be shown on, and transfers thereof will be effective only through, records maintained by Euroclear and Clearstream, Luxembourg and their participants.

The Company expects that Euroclear and Clearstream, Luxembourg, or their nominees, upon receipt of any payment of principal, premium or interest (if any) in respect of the Bonds represented by the Global Certificate will credit the accounts of the participants with payments of principal, premium or interest (if any) on the date payable in amounts proportionate to their respective interests in such Bonds as shown on the records of Euroclear and Clearstream, Luxembourg or their nominees. The Company also expects that payments by such participants to owners of beneficial interests in the Bonds held through such participants will be governed by standing instructions and customary practices. Such payments will be the responsibility of the participants.

Payments, transfers, exchanges and other matters relating to interests in the Bonds may be subject to various policies and procedures adopted by Euroclear and Clearstream, Luxembourg from time to time. Transfers between participants in Euroclear and Clearstream, Luxembourg, and conversions through participants in Euroclear and Clearstream, Luxembourg, will be effected in the ordinary way in accordance with the rules and operating procedures of Euroclear and Clearstream, Luxembourg. None of the Company, the Trustee, the Agents (as defined in the terms and conditions of the Bonds) or any of their respective agents will have any responsibility or liability for the performance by Euroclear and Clearstream, Luxembourg or their participants of their respective obligations under the rules and procedures governing their operations, or for payments made on account of, or records relating to, interests in the Bonds held through Euroclear and Clearstream, Luxembourg and their participants.

Owners of interests in the Bonds will not be entitled to receive definitive physical certificates in respect of their interests in the Bonds except in the limited circumstances described below under “— The Global Certificate — Registration of title”.

The holder of a registered Bond in definitive certificated form may transfer or exchange such Bond by surrendering it at the office or agency maintained by the Company for such purpose in London, which offices will initially be the offices of the Paying Agents maintained in London or such other offices as may be notified by the Trustee from time to time.

Any such Bond in physical certificated form issued prior to the 41st day following the original issuance of the Bonds shall bear the legend set out under “Notice to Investors”.

### **The Global Certificate**

The Global Certificate contains provisions which apply to the Bonds that are represented by the Global Certificate, some of which modify the effect of the terms and conditions of the Bonds (the “**Conditions**”) set out in this Information Memorandum. Terms defined in the Conditions have the same meaning in the paragraphs below. The following is a summary of those provisions:

#### *Meetings*

The registered holder (as defined in the Conditions) of the Global Certificate will be treated as being two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at

any such meeting, as having one vote in respect of each U.S.\$1,000 in principal amount of Bonds for which the Global Certificate is issued. The Trustee may allow a person with an interest in Bonds in respect of which the Global Certificate has been issued to attend and speak at a meeting of Bondholders on appropriate proof of his identity and interest.

### ***Cancellation***

Cancellation of any Bond following its redemption, conversion or purchase by the Company will be effected by a reduction in the principal amount of the Bonds in the register of Bondholders.

### ***Trustee's powers***

In considering the interests of Bondholders while the Global Certificate is registered in the name of a nominee for a clearing system, the Trustee may, without being obliged to do so, have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to Bonds and may consider such interests as if such accountholders were the holders of the Bonds.

### ***Conversion***

Subject to the requirements of Euroclear and Clearstream, Luxembourg, the Conversion Right attaching to a Bond in respect of which the Global Certificate is issued may be exercised by the presentation to or to the order of the Principal Agent of one or more Conversion Notices duly completed by or on behalf of a holder of a book-entry interest in the Bond. Deposit of the Global Certificate with the Principal Agent together with the relevant Conversion Notice shall not be required. The exercise of the Conversion Right shall be notified by the Principal Agent to the Registrar and the holder of the Global Certificate.

### ***Payment***

Payments of principal, premium and interest (if any) in respect of Bonds represented by the Global Certificate will be made without presentation or if no further payment is to be made in respect of the Bonds, against presentation and surrender of the Global Certificate to or to the order of the Principal Agent or such other Paying Agent as shall have been notified to the Bondholders for such purpose.

### ***Notices***

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and Clearstream, Luxembourg or the Alternative Clearing System (as defined below), notices to Bondholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg, for communication by it to entitled accountholders.

### ***Redemption at the option of the Company***

Any drawing of Bonds required under Condition 8(F) in the event that the Company exercises its call option pursuant to Condition 8(B) in respect of less than the aggregate principal amount of Bonds in respect of which the Global Certificate is issued shall be made in accordance with the relevant rules of the clearing system. Notices will be made by the Company in accordance with the previous paragraph.

### ***Redemption at the option of Bondholders***

The Bondholders' put option in Condition 8(C) may be exercised by the holders of the Global Certificate giving notice to the Principal Agent of the principal amount of Bonds in respect of which the option is exercised and presenting the Global Certificate for endorsement or exercise within the time limits specified in Condition 8(C).

### ***Registration of title***

Definitive Certificates in definitive form for individual holdings of Bonds will not be issued in exchange for interests in Bonds in respect of which the Global Certificate is issued, except in case that (a) either Euroclear or Clearstream, Luxembourg (or any clearing system designated by the Company and approved in writing by the Trustee (the “**Alternative Clearing System**”) on behalf of which the Bonds evidenced by the Global Certificate may be held) is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, or (b) the Bonds become immediately due and payable in accordance with the provisions of Condition 10 or if in connection with judicial proceedings brought by the Trustee, the Trustee has been advised that it is necessary or appropriate for Definitive Certificates to be executed and delivered.

### ***Transfers***

Transfers of interests in the Bonds with respect to which the Global Certificate is issued shall be effected through the records of the relevant clearing system and its participants in accordance with the Conditions, the Agency Agreement and the rules and procedures of the relevant clearing system.

### ***Enforcement***

For the purposes of enforcement of the provisions of the Indenture against the Trustee, the persons named in a certificate of the holder of the Bonds in respect of which the Global Certificate is issued shall be recognized as the beneficiaries of the trusts set out in the Indenture, to the extent of the principal amount of their interest in the Bonds set out in the certificate of the holder, as if they were themselves the holders of Bonds in such principal amounts.

## **USE OF PROCEEDS**

The proceeds from the offering net of management and underwriting commission and selling fee are approximately U.S.\$14,982,000. The Company will use such proceeds to purchase raw materials.

## SELECTED FINANCIAL INFORMATION

The tables in this section present (i) summary historical financial and operating data of the Company as at the end of and for each year for the two-year period ended December 31, 2002 and as at the end of and for the three months ended March 31, 2002 and 2003 and (ii) summary unaudited pro forma consolidated financial and operating data as at the end of and for each of the two-year period ended December 31, 2002.

The summary historical financial information as at and for the years end December 31, 2001 and 2002 presented herein relates to the business of the Company before it acquired Viewquest Technologies, Inc. (“**Viewquest**”) on January 1, 2003. The summary historical financial information as at and for the three months ended March 31, 2002 and 2003 presented herein relates to (i) the combined results of operation of the Company and Viewquest as at and for the three months ended March 31, 2003 and (ii) the pro forma combined resulted of the Company and Viewquest as at and for the three months ended March 31, 2002 using the pooling of interest method in accounting for the acquisition of Viewquest which is permitted under ROC GAAP. The selected historical consolidated financial information as of and for the years ended December 31, 2001 and 2002 and non-consolidated financial information as of and for the three months ended March 31, 2002 and 2003 presented in this table are derived from the Company’s audited or reviewed consolidated and non-consolidated financial statements and notes thereto that are included elsewhere in this Information Memorandum. The Company’s financial statements were prepared using ROC GAAP and are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdictions, including the United States and United Kingdom. ROC GAAP differs in many material respects from U.S. GAAP. The selected financial information set forth below should be read in conjunction with the Company’s financial statements and the notes to those statements included elsewhere in this Information Memorandum.

The summary pro forma financial information is presented after giving effect to the combined results of operations of the Company and Viewquest. The summary pro forma consolidated income statement data and the summary pro forma consolidated balance sheet data are prepared using the pooling of interest method in accounting for the acquisition of Viewquest which is permitted under ROC GAAP. The summary unaudited pro forma consolidated income statement and balance sheet data do not purport to represent what the consolidated results of operations and financial position of the Company would actually have been if the events described above had in fact occurred on such dates, or at the beginning of 2001, or to project the consolidated statements of income and financial position of the Company for any future date or period.

## Summary Historical Financial and Operating Data

	Years ended December 31,			Three months ended March 31,		
	2001	2002	2002	2002	2003	2003
	NT\$	NT\$	U.S.\$ <sup>(1)</sup>	NT\$	NT\$	U.S.\$ <sup>(1)</sup>
	(consolidated, audited)			(non-consolidated, unaudited)		
	(in thousands, except per Share data)					
<b>Income Statement:</b>						
<b>ROC GAAP</b>						
Total revenues.....	2,693,943	2,764,717	79,560.20	829,932	1,342,200	38,624.46
Cost of revenues .....	2,220,848	2,317,516	66,691.11	712,542	1,133,311	32,613.27
Realized profit on intercompany sales.....	2,614	2,525	72.66	2,525	3,793	109.15
Unrealized profit on intercompany sales.....	(2,525)	(279)	(8.03)	(2,693)	(50)	(1.44)
Gross profit .....	473,184	449,447	12,933.72	117,222	212,632	6,118.90
Total operating expenses .....	441,486	410,619	11,816.37	150,308	177,546	5,109.24
Operating income (loss) .....	31,698	38,828	1,117.35	(33,086)	35,086	1,009.66
Non-operating income .....	431,293	252,612	7,269.41	96,244	189,963	5,466.56
Non-operating expenses .....	94,141	88,912	2,558.62	19,076	14,480	416.69
Income (Loss) before tax .....	368,850	202,528	5,828.14	44,082	210,569	6,059.53
Income tax (benefit).....	18,135	18,656	536.86	2,846	23,846	686.22
Net income .....	350,715	183,872	5,291.28	41,236	186,723	5,373.31
Minority interest rate income .....	(14,096)	46,808	1,346.99			
Consolidated net income (loss) .....	336,619	230,680	6,638.27			

### Per Share Data:

Earnings per Share —						
net income (loss) (in dollars).....	1.60	1.10	0.03	0.14	0.65	0.02

	As at December 31,			As at March 31,		
	2001	2002	2002	2002	2003	2003
	NT\$	NT\$	U.S.\$ <sup>(1)</sup>	NT\$	NT\$	U.S.\$ <sup>(1)</sup>
	(consolidated, audited)			(non-consolidated, unaudited)		
	(in thousands)					

### Balance Sheet Data:

<b>ROC GAAP</b>						
Cash and cash equivalents.....	448,376	316,498	9,107.86	325,753	335,539	9,655.80
Current assets .....	1,437,685	1,486,227	42,769.12	2,842,408	2,012,984	57,927.60
Working capital.....	211,075	(98,585)	(2,836.98)	1,358,020	649,805	18,699.42
Long-term investments.....	2,182,557	2,115,433	60,875.77	2,159,758	2,403,092	69,153.73
Property, plant and equipment.....	665,715	855,519	24,619.25	911,310	861,363	24,787.42
Total assets .....	4,366,322	4,529,633	130,349.15	6,001,625	5,394,768	155,245.12
<b>Current liabilities</b> .....	1,226,610	1,584,812	45,606.10	1,484,388	1,363,179	39,228.17
<b>Total liabilities</b> .....	1,736,028	1,801,050	51,828.78	1,842,977	1,406,840	40,484.60
<b>Income tax expense (benefit)</b> .....	18,135	18,656	536.86	2,846	23,846	686.22
<b>Stockholders equity</b> .....	2,630,294	2,728,583	78,520.37	4,158,648	3,987,928	114,760.52

## Summary unaudited pro forma consolidated financial and operating data

	Pro Forma Consolidated Year ended December 31,		
	2001	2002	2002
	NT\$	NT\$	U.S.\$ <sup>(1)</sup>
	(consolidated, unaudited) (in thousands, except per Share data)		
<b>Income Statement Data:</b>			
<b>ROC GAAP</b>			
Total revenues.....	4,452,852	4,325,388	124,471.60
Cost of revenues.....	3,660,252	3,841,767	110,554.45
Realized profit on intercompany sales.....	15,507	10,522	302.79
Unrealized profit on intercompany sales.....	(10,522)	(3,820)	(109.93)
Gross profit.....	797,585	490,323	14,110.01
Total operating expenses.....	632,404	666,347	19,175.45
Operating income (loss).....	165,181	(176,024)	(5,065.44)
Non-operating income.....	498,357	326,247	9,388.40
Non-operating expenses.....	102,365	75,303	2,166.99
Income (Loss) before tax.....	561,173	74,920	2,155.97
Income tax (benefit).....	46,990	(7,566)	(217.73)
Net income.....	514,183	82,486	2,373.70
Minority interest rate income.....	—	—	—
Consolidated net income (loss).....	514,183	82,486	2,373.70
<b>Per Share Data:</b>			
Earnings per Share — net income (loss) (in dollars).....	1.79	0.29	0.01

	Pro Forma Consolidated As at December 31,		
	2001	2002	2002
	NT\$	NT\$	U.S.\$ <sup>(1)</sup>
	(consolidated, unaudited) (in thousands)		
<b>Balance Sheet Data:</b>			
<b>ROC GAAP</b>			
Cash and cash equivalents.....	542,477	1,190,938	34,271.60
Current assets.....	2,943,400	2,605,527	74,979.19
Working capital.....	1,329,936	708,669	20,393.35
Long-term investments.....	2,305,492	2,330,961	67,078.01
Property, plant and equipment.....	739,985	865,312	24,901.06
Total assets.....	6,052,119	5,859,845	168,628.63
Current liabilities.....	1,613,464	1,896,858	54,585.84
Total liabilities.....	1,969,806	1,943,291	55,922.04
<b>Income tax expense (benefit).....</b>	46,990	(7,566)	(217.73)
<b>Stockholders equity.....</b>	4,082,313	3,916,554	112,706.59

(1) Translated into United States Dollars using the average of buying and selling rates published by the Bank of Taiwan at December 31, 2002 of NT\$34.75 = U.S.\$1.00, and at March 31, 2003 of NT\$34.75 = U.S.\$1.00. Such translation amounts are unaudited and should not be construed as representations that the NT Dollar amounts were, or have been, or could be, converted into U.S. Dollars at that or any other rate.

(2) Earnings per Share are calculated by dividing net income by the weighted average number of Shares outstanding during each year.

## THE COMPANY

*This Information Memorandum contains certain forward-looking statements. When used in this Information Memorandum, the words “believes”, “intends”, “anticipates” and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include the timing and acceptance of new product introductions, the actions of the Company’s competitors and business partners, and those discussed above under “Risk Factors”.*

### Overview

The Company imports and sells office automation (“OA”) equipment such as photocopiers, facsimile machines, multi-functional printers (“MFPs”) and LCD projectors and office furniture in Taiwan, Vietnam and the PRC. In addition, the Company in January 2003 acquired Viewquest Technologies, Inc. (“Viewquest”), a professional digital imaging developer and manufacturer, to manufacture digital still cameras and web cameras on an OEM/ODM or private labeling basis. The staff, facilities and other tangible and intangible assets owned or operated by Viewquest currently consist of the Company’s Optical Product Business Unit. As a result, the Company currently has the following two principal business units according to its product lines:

	<u>Channel Business Unit</u>	<u>Optical Product Business Unit</u>
<b>Function</b>	Imports and sells name brand OA equipment and telecommunication systems on a trading basis	Manufactures and supplies digital imaging devices such as digital still cameras and web cameras on an OEM/ODM or private labeling basis
<b>Products</b>	Photocopiers, facsimile machines, MFPs, LCD projectors, scanners, OA equipment accessories, telecommunication systems and office furniture	Digital still cameras and web cameras

### *Channel Business Unit*

The Company is an exclusive distributor in Taiwan and a non-exclusive distributor in Vietnam of OA equipment manufactured by Canon Inc. (“Canon”). The Company is also a non-exclusive distributor in Taiwan of telecommunication systems supplied by Fujitsu I-Network Systems Limited (“Fujitsu”). In addition, the Company distributes certain other products manufactured by other producers. The Company also offers related technical support and maintenance services to its customers. The Company’s Channel Business Unit currently operates 10 sales offices in Taiwan, which cover its business in Taiwan and Vietnam. The Company also sells OA equipment to distributors in the PRC via its subsidiary, ABiCo International (HK) Co., Ltd. The Company’s Channel Business Unit has also established 11 warehouses in the ROC. In the first three months of 2003, 34.23% of the Company’s total consolidated revenues were derived from the sales of OA equipment.

### *Optical Product Business Unit*

The Company, through its Optical Product Business Unit, designs, develops, manufactures and sells digital still cameras and other digital imaging devices, such as web cameras, on an OEM/ODM basis to certain leading digital imaging developers, and on a private labeling basis to retailers. The Company believes that its continuing research and development efforts facilitate its ability to periodically introduce innovative and technologically advanced new products.

Substantially all the Company’s products are manufactured at its manufacturing facilities in Dongguan, Guangdong Province, the PRC. The Company also maintains facilities in the ROC primarily for research and development purposes and for pilot production runs for new models. The Company is in the process of constructing new production facilities in Dongguan City, which are expected to commence operations by the first quarter of 2005.

The Company will also expand its business, with effect from the end of August 2003, to include the sale in Taiwan of certain digital cameras manufactured by Casio.

## Competitive Strengths

The Company believes that the following strengths contribute to its competitive position in the relevant markets:

- ▶ **Well established customer relationships and sales and marketing channels:** The Company as a manufacturer of digital imaging devices and distributor of OA equipment has established long-term supplier-customer relationships with some of the world's leading manufacturers of office equipment, telecommunication systems and digital imaging developers and retailers. The Company has long been a distributor in Taiwan for OA equipment manufactured by Canon and telecommunication systems such as automatic switchboards manufactured by Fujitsu. The Company has also established extensive sales channels for its OA equipment in Taiwan and other Asia Pacific countries such as Vietnam and the PRC, which enable the Company to provide efficient services to the end users. In addition, a number of digital imaging developers and retailers have put the Company on their approved vendor lists in recognition of the Company's consistently high product quality and quick response time.
- ▶ **Well maintained supply network:** The Company endeavors to ensure that it controls the quality and delivery time of all of its OA equipment and digital imaging device products. Accordingly, through strategic alliances and/or long-term supply contract with its key suppliers, the Company has built a solid supply network of OA equipment and key materials and components for producing digital imaging devices. The established supply network gives the Company control over quality, costs and supply chain management, as well as the flexibility necessary to customize components to match its customers' specifications, and to roll out and ramp up introduction of new products.
- ▶ **Strong optics, systems and image processing engineering expertise:** Viewquest has been merged into the Company and has become the Company's Optical Product Business Unit since January 2003. Viewquest was a professional digital imaging developer equipped with strong expertise and extensive know-how in integration of optics, systems and image processing engineering. Such strong expertise and extensive know-how place the Company at the technological forefront in the digital imaging development markets. The Company joins co-development programs with its suppliers and OEM/ODM customers in developing digital imaging devices, with the objective of producing compact, high-resolution and high-speed digital imaging devices. In addition, the Company's strength in optics, systems and image processing engineering not only ensures the production of high-quality digital imaging devices, but also allows it to produce prototypes for new products according to customers' schedules and to ramp up production rapidly to commercial volumes.
- ▶ **Strong and committed management team:** The senior management of the Company is led by a core team of highly experienced professionals in the fields of optical engineering, management and finance, with an average of over 10 years of experience. For years, the Company's senior management has also established solid relationships with its key suppliers. The Company endeavors to create a flexible working environment that encourages innovation. The Company believes that it has the leadership it needs to continue to leverage its core strengths in the future.

## Business Strategies

The Company's principal business objective is to continue to increase its sales, cash flow, profitability and market share by pursuing the following key strategic initiatives:

- ▶ **Focus on core technology and continue investing in research and development:** The Company believes that its success is to a larger extent dependent upon the ability to control the innovated and state-of-the-art digital imaging device manufacturing process. To meet current and anticipated future demands, the Company has committed significant resources to the research and development of sophisticated digital imaging technologies.

- ▶ **Utilize partnerships and alliances with industry leaders:** The Company believes that the joint development arrangements and alliances it has established with industry leaders in the OA equipment and digital imaging industry have been fundamental to its success. The Company's strategy is to continue to build on these alliances and partnerships. Maintaining close links with major manufacturers and brand names of OA equipment and digital imaging device products ensures that the products developed and introduced by the Company are relevant, up-to-date, and at the leading edge of technology in the industry.
  
- ▶ **Improve product quality and after-sales service:** Product quality and reliability and after-sales service are key factors in ensuring customer loyalty and in maintaining the Company's good reputation. The Company intends to further improve the quality of its products by continuing to refine its quality control procedures, training staff in quality control and investing in testing equipment used in the quality control process. The Company also plans to further improve its after-sales services by expanding its sales network to provide faster and better after-sales services to its customers.
  
- ▶ **Establish computerized management information system:** To organize and track its orders, materials and processes, the Company is developing and establishing a computer-integrated management information system. This system will track all phases of manufacturing in real-time, delivering crucial information on manufacturing production. The management information system is extremely valuable in oversight of process controls, real-time job tracking, assisting control of engineering changes and capacity planning. The Company expects to use the data provided by the management information system to accurately calculate unit costs, deliver goods on time and assure the quality reliability of goods. In addition, the management may evaluate and review key operational data daily and makes changes to processes as necessary. The Company believes this system will provide it with a competitive advantage through its high level of automation and integration in support of its business processes.

## **Corporate Information and Organization**

### *History*

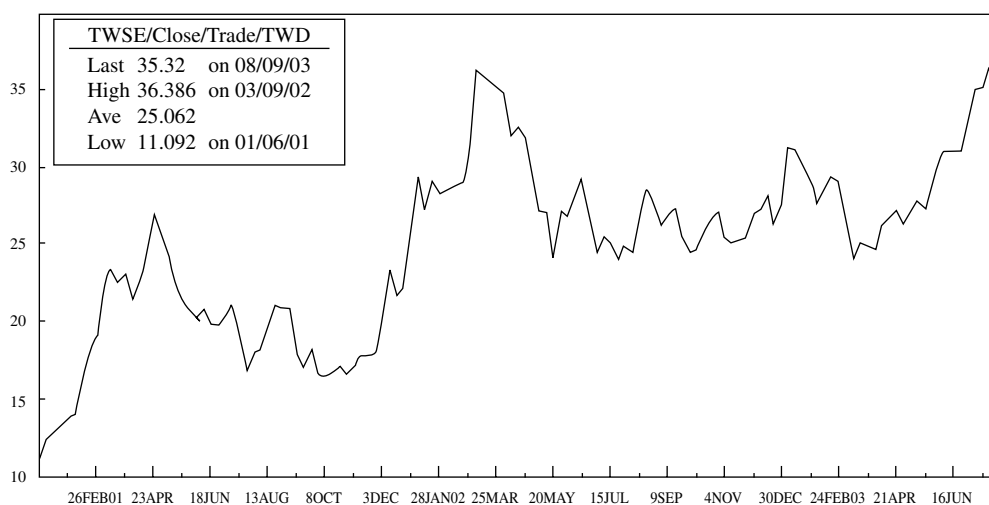
The Company was founded on May 21, 1965. The Company's main business since its inception focused on the trade and sales of OA equipment manufactured by Canon, such as calculators, facsimile machines, laser and bubble jet printers, mono and color photocopiers, LCD projectors, and accessories of the OA equipment. In 2001, the Company further increased its product lines to include Fujitsu telecommunication systems, such as automatic switchboards. Currently, the Company is the sole and exclusive licensed distributor of Canon OA equipment in Taiwan and a non-exclusive distributor of same in Vietnam, and a non-exclusive licensed distributor of Fujitsu telecommunications systems in Taiwan.

On January 1, 2003, the Company acquired Viewquest, a professional digital imaging device developer and manufacturer in Taiwan, and has started manufacturing digital still cameras and web cameras on an OEM/ODM and private labeling basis. After the acquisition, the Company has two main product lines, namely OA equipment and digital imaging devices.

The Company's corporate headquarter and principal place of business are located at No. 147, Fu-shing North Road, Taipei, Taiwan, ROC. The Company's web-site is [www.abico.com.tw](http://www.abico.com.tw). Information and hyperlinks contained in the Company's web-site are not incorporated into and are not a part of this Information Memorandum.

## Listing information

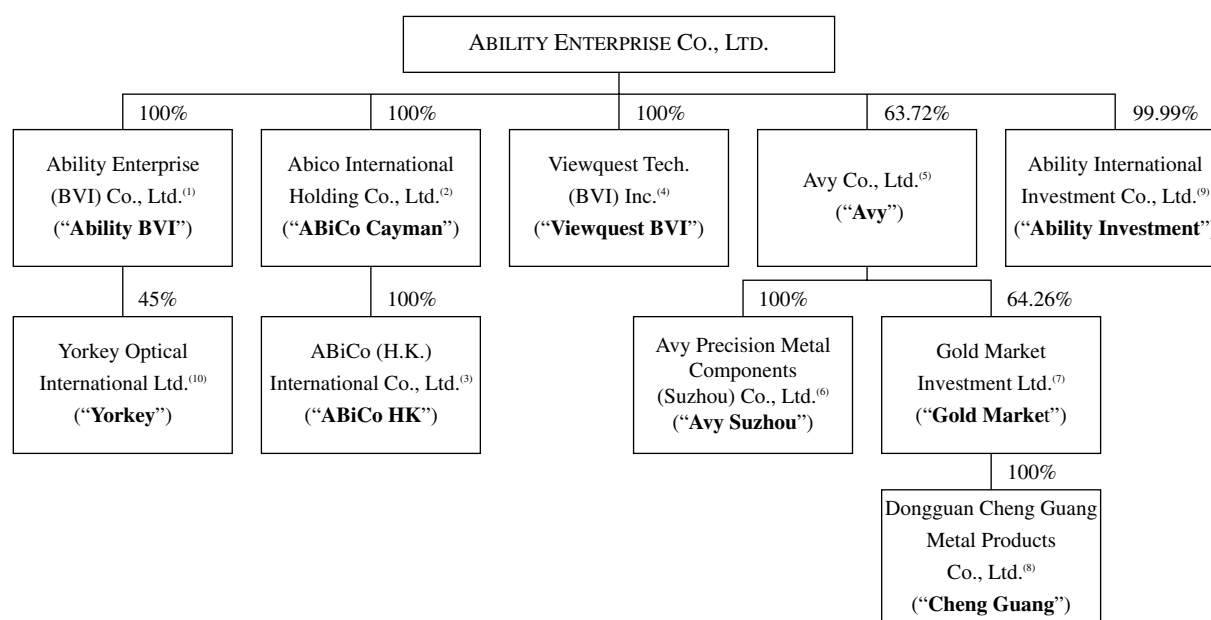
The Company's Shares have been listed on the TSE, under the trading code of 2374 since January 16, 1995. Since then, the highest closing price of the Shares quoted on the TSE was NT\$48.00 per Share, on August 26, 1997, and the lowest closing price of the Shares quoted on the TSE was NT\$10.15 per Share, on December 28, 2000. The following diagram illustrates the monthly movement of the Share price January 6, 2001 to August 9, 2003:



The average daily trading volume of the Company's Shares from January 1, 2003 to August 14, 2003 is approximately 9,731,000 shares.

## Corporate structure

The following diagram shows the structure of the Company and its consolidated subsidiaries and certain key associated companies, as of June 30, 2003, together with details of the Company's direct and indirect equity interests in such subsidiaries and certain key associated companies:



\* The Company has another subsidiary, namely Taiwan Imaging Systems Inc., however, the Company considers it not as material as those others listed above.

(1) Ability BVI was established in the British Virgin Islands on March 21, 2000. The registered office of Ability BVI is at 3 Fl., Omar Hodge Building, Wickhams Cay I, P.O. Box 362, Road Town, Tortola, British Virgin Islands. Ability BVI is an investment holding subsidiary of the Company. Ability BVI's paid-in capital as at December 31, 2002 was U.S.\$7,635,000. The operating results and financial conditions of Ability BVI were consolidated into ABiCo's financial statements.

- (2) ABiCo Cayman was established in Cayman Islands on August 7, 2001. ABiCo Cayman is an investment holding company which wholly owns ABiCo HK. Its registered office is at Scotia Centre, 4 Fl., P.O. Box 2804, George Town, Grand Cayman, Cayman Islands. The paid-in capital of ABiCo Cayman as at December 31, 2002 was U.S.\$1,129,065.56.
- (3) ABiCo HK was established in the Hong Kong Special Administrative Region of the PRC on October 10, 2001, as the Company's primary sales office in Hong Kong and the PRC. Its registered office is at Unit 1501, Concordia Plaza, 1 Science Museum Road, TSTE, Kowloon, Hong Kong. The paid-in capital of ABiCo as at December 31, 2002 was HK\$10,000. ABiCo HK is 100% beneficially owned by the Company.
- (4) Viewquest BVI was established in the British Virgin Islands on October 22, 1999. Viewquest BVI's principal business is design, manufacturing and sales of the digital imaging devices made by the Company. Viewquest BVI currently operates a manufacturing plant in Dongguan City, Guangdong Province, the PRC as the Company's main manufacturing plant of digital imaging devices. The paid-in capital of Viewquest BVI as at December 31, 2002 was U.S.\$6,630,000.
- (5) Avy was established in the ROC on May 3, 1975. Avy's registered address is at No. 56, Sec 2, Ya-Tarn Road, Tantz, Taichung Hsien, Taiwan, ROC. Avy's main business is manufacturing and trading of machinery parts and other products. Currently, Avy directly owns Avy Suzhou and Gold Market, both are key subsidiaries of the Company. Avy's paid-in capital as at December 31, 2002 was NT\$260,000,000. The operating results and financial conditions of Avy and its subsidiaries were consolidated into ABiCo's financial statements.
- (6) Avy Suzhou was established in the PRC on January 12, 2001. Avy Suzhou's registered office and facilities are located at No. 7, Center Road, Panyang Industrial Park, Xiang Cheng District, Su Zhou City, Jiang Su Province, China. The main products manufactured by Avy Suzhou are the metallic cases of digital still cameras and other electronic devices.
- (7) Gold Market was established in Samoa on April 3, 2000. Gold Market's registered office is at Offshore Chambers, P.O. Box 217, Apia, Samoa. Gold Market is an investment holding subsidiary of the Company. Gold Market's paid-in capital as at December 31, 2002 was U.S.\$2,800,634.80.
- (8) Cheng Guang was established in the PRC on August 1, 2000. Cheng Guang's registered office is at Xin Tang Industrial Park, Hou Jie Town, DongGuan City, Guan Dong, China. The primary business of Cheng Guang's principal business is trading in camera products and machinery parts etc. Cheng Guang's paid-in capital as at December 31, 2002 was RMB23,071,112.27.
- (9) Ability Investment was established in the ROC on August 15, 1997. Ability Investment's business address is at 12 Fl., 147 Fu Hsing North Road, Taipei, Taiwan, ROC. Ability Investment is the Company's primary investment holding company. Ability Investment's paid-in capital as at December 31, 2002 was NT\$199,000,000.
- (10) Yorkey was established in the British Virgin Islands on August 22, 1995. Yorkey's registered office is at Beaufort House, P.O. Box 438, Road Town, Tortola, British Virgin Islands. Yorkey's principal business is trading of products. Yorkey's paid-in capital as at December 31, 2002 was U.S.\$16,500,000.

## **Products and Services**

Products and services offered by the Company can be categorized as follows:

- ▶ OA equipment, including photocopiers, MFPs, scanners, LCD projectors, automatic switchboard systems and other electronic goods and accessories attached to the Company's OA equipment products, such as toners, papers and ink cartridges;
- ▶ Digital imaging devices, such as digital still cameras and web cameras, and telecommunication systems;
- ▶ Supply and maintenance services in connection with OA equipment; and
- ▶ Other products and services, including mainly copying charges pursuant to leasing arrangements.

The table below sets out the Company's pro forma consolidated and non-consolidated total net sales and percentages by product category for the period indicated:

	Year ended December 31,		Three months ended March 31,	
	2001	2002	2002	2003
	NT\$'000 (consolidated)	NT\$'000 (consolidated)	NT\$'000 (non-consolidated)	NT\$'000 (non-consolidated)
OA equipment.....	1,004,916	903,836	} 424,534	} 459,432
OA equipment supply and maintenance services <sup>(1)</sup> .....	848,603	669,065		
Digital imaging devices .....	2,059,765	1,869,605	263,752	714,703
Other products and services .....	539,568	882,882	141,646	168,065
Total net sales.....	<u>4,452,852</u>	<u>4,325,388</u>	<u>829,932</u>	<u>1,342,200</u>

(1) Including copying charges pursuant to leasing arrangements.

### ***OA equipment***

The Company has been distributing Canon OA equipment since 1965, the Company's inception. On October 1, 1995, the Company entered into a distribution agreement with Canon Hongkong Co. Ltd. to become the exclusive distributor of Canon OA equipment in Taiwan. Under another distribution agreement dated March 14, 1996, the Company is granted non-exclusive right to distribute Canon OA equipment and related accessories in Vietnam. The distribution agreements are currently subject to annual renewal. Canon OA equipment sold by the Company primarily consists of:

- ▶ mono and color high-speed photocopiers and accessories;
- ▶ laser and bubble jet printers and accessories;
- ▶ LCD and optical projectors;
- ▶ facsimile machines and accessories;
- ▶ high-speed scanners; and
- ▶ other products such as calculators, microfilm systems and video conference equipment.

In addition, the Company also distributes Fujitsu telecommunication systems, including home and business telephones and automatic switchboard systems.

For the years ended December 31, 2001 and 2002, sales of OA equipment, telecommunication systems, and related accessories accounted for 17.32% and 15.74% of the Company's consolidated total net sales on a pro forma basis respectively. For the three months ended March 31, 2002 (on a pro forma basis combining Viewquest's operation and financial results for the three months ended March 31, 2002) and 2003, sales of OA equipment accounted for 21.30% and 7.86%, respectively, of the Company's non-consolidated total sales.

### ***OA equipment supply and maintenance services***

The Company believes that equipment maintenance and accessories supply is critical to customer loyalty. The Company has established a team of approximately 157 engineers to provide maintenance services for the OA equipment sold by the Company and to supply accessories such as toners and ink cartridges for photocopiers and printers. The supply and maintenance services are generally chargeable on a usage basis.

For the years ended December 31, 2001 and 2002, net revenues derived from the Company's OA equipment supply and maintenance services accounted for 12.66% and 11.86% of the Company's consolidated total net sales on a pro forma basis. For the three months ended March 31, 2002 (on a pro forma basis combining Viewquest's operation and financial results for the three months ended March 31, 2002) and 2003, net revenues derived from the Company's OA equipment supply and maintenance services accounted for 16.63% and 8.10% of the Company's non-consolidated total net sales.

### ***Digital imaging devices***

The Company started manufacturing and supplying digital still cameras and web cameras since January 1, 2003, when it acquired Viewquest, a professional digital imaging developer. The Company's digital imaging devices employ electronic sensors consisting of arrays of photo-sensitive semiconductors to capture images which are recorded and stored in digital format on semiconductor memory devices. The images can be viewed or edited by and transferred between purpose-built electronic devices or downloaded to computers equipped with the appropriate software for viewing, editing, storage or further transmission.

The Company's digital still cameras can be categorized by reference to the resolution of the images captured by the camera (defined by the number of pixels per frame). Currently, the main categories by image resolution of digital cameras manufactured by the Company are: 1.3, 2.0, and 3.0 mega pixels per frame. Additional features incorporated into all models include LCD viewfinders, optical zoom features (with 2 or 3 times magnification), digital zoom features, automatic white balance, a slot for a memory card, the capability to connect to a computer and continuously transmit images to the computer and voice and moving picture recording functions. The Company is also capable of manufacturing 4.0 million pixels or higher resolution digital still cameras.

The Company supplies its digital imaging device products on an OEM/ODM basis to certain global leading brands. The Company also supplies the digital still camera products to a number of brand retailers in Asia and Europe on a private labeling basis.

For the three months ended March 31, 2002 (on a pro forma basis combining Viewquest's operation and financial results for the three months ended March 31, 2002) and 2003, sales of digital imaging device products accounted for 28.76% and 51.90%, respectively, of the Company's non-consolidated total sales.

### **Manufacturing Facilities**

The Company currently operates one manufacturing plant in Taipei, Taiwan and two in Dongguan, Guangdong Province, the PRC. The manufacturing facility in Taiwan is located at 4F, No. 8, Lane 7, Wuchiuan Road, Wugu Shiang, Taipei, occupying approximately 7,900 square meters of manufacturing space and employing 224 direct labors as of June 30, 2003. The Taipei plant is operated by the research and development department of the Company and is fully functioned to perform pilot-run for newly developed products. The two manufacturing plants in Dongguan are located at BBK Road, Wu Sha, Chang An, Dong Guan, the PRC, occupying approximately 16,680 square meters of manufacturing space and employing 2,100 direct labors as of June 30, 2003. The Dongguan Plants manufacture and assemble all lines of the Company's digital imaging devices. The Company is in the process of constructing new production facilities in Dongguan City, which are expected to commence operations by the first quarter of 2005. The Company's manufacturing facilities are accredited with QS9000 and ISO14001 quality standards.

### **Key Components and Parts**

The Company relies on third party suppliers for components and parts for assembling of digital still cameras and web cameras. In the case of certain components and parts, the Company is required to purchase from third party suppliers approved not only by it, but also by its OEM/ODM customers.

Key components and parts utilized by the Company include: lenses and lens units, CCD, ASIC/DSP chips, LCD viewfinders, and storage media.

The Company's primary components and parts are supplied by a limited numbers of suppliers, as follows:

<u>Key components and parts</u>	<u>Key suppliers</u>
▶ Lenses and lens units .....	Asia Optical, Copal, Baso Precision Optics Ltd.
▶ CCD.....	Sharp, Sony
▶ ASIC/DSP chips .....	Sunplus, Zoran, Texas Instruments
▶ LCD viewfinders .....	AU Optronics, Casio, Sony
▶ Storage media .....	Samsung, Sandisk

The Company has implemented various inventory and resource management systems to enable it to plan the allocation of resources to ensure a steady and timely supply of key components and parts. Procurement of the Company's raw materials and components is centralized based on the requirements provided by each production division and the third-party OEM/ODM manufacturers from time to time. By centralizing procurement, the Company believes that it can have higher bargaining power to negotiate competitive pricing, payment, delivery, quality and other terms of supply. Incoming quality control of the raw materials and components is performed by the Company and each of its subsidiaries.

Viewquest, as many other digital imaging developers and manufacturers in the world, in 2002 experienced a significant delay of its supply of CCD due to sudden increases of demand from mobile phones and other electronic devices with camera features. The Company therefore is diversifying its sources of CCD to avoid such similar situation in the future. The Company believes that there are sufficient alternative suppliers for all of its important components and parts.

## **Sales and Marketing**

### ***OA equipment***

The Company has a regional sales network, consisting of direct sales forces and customer service representatives. The end customers either purchase the OA equipment directly from the Company or lease the OA equipment directly from the Company or from financial leasing companies that purchase the OA equipment from the Company. To conduct its sales and marketing activities, the Company has sales offices located in various cities in Taiwan. Each office is responsible for developing new customers, providing sales and customer support and maintaining existing customer relationships. As of June 30, 2003, the Company had more than 110 sales representatives. The Company does not have any sales office in Vietnam; sales made to the customers in Vietnam are made directly from its headquarters in Taiwan.

The Company also sells OA equipment to distributors in the PRC who further supply the products to end customers. The Company does not maintain any sales office in the PRC. Sales made to the PRC distributors are through ABiCo HK.

### ***Digital imaging device***

Most of the Company's digital imaging device products are sold to the customers in Asia, including Japan, Europe and elsewhere on an OEM/ODM or private labeling basis. Different from OEM/ODM customers, customers purchasing digital imaging device products from the Company on a private labeling basis do not provide any specifications to the Company before production but purchase standard products from the Company and affix their brands for retail sales.

The Company's customers generally are invoiced at the time of delivery of the products with varying credit terms depending, in part, on the Company's internal credit assessment. The Company's pricing policy takes into account a number of factors including customer relations, product specification, cost of production, mode of transportation and size of order.

## Geographical regions

The following table sets out a breakdown of the Company's total sales of OA equipment by geographical region for the periods indicated:

	Year ended December 31,				Three months ended March 31,			
	2001		2002		2002		2003	
	NT\$	%	NT\$	%	NT\$	%	NT\$	%
	(consolidated)				(non-consolidated)			
	(in millions, except percentages)							
Taiwan.....	1,638,259	93	1,510,672	92	406,459	96	423,054	92
Others (including PRC and Vietnam)....	125,740	7	124,396	8	18,075	4	36,378	8

In addition, for the first three months of 2003, 11% (NT\$75,154,000), 39% (NT\$276,692,000), 26% (NT\$189,275,000) and 24% (NT\$173,582,000) of the Company's digital imaging device products are supplied to Taiwan, other Asian countries, the American continent and Europe, respectively.

## Digital Imaging Development

The Company believes that its continuing research and development efforts facilitate its ability to periodically introduce innovative, technologically advanced new products. After the merger and acquisition of Viewquest, the Company has committed to making substantial expenditures on research and development of digital imaging devices.

The Company invests significant resources in research and development through in-house research and development activities, joint development with major customers and strong incentives to employees. The Company finances its research and development activities primarily through the use of working capital. The focus of the Company's research and development activities is new product development, process and technology improvement and costs efficiency. The Company's research and development facilities are located principally in Taiwan.

The Company employs a broad range of technologies in manufacturing the Company's digital imaging device products and developing new products. All of the Company's digital imaging device products incorporate the following three core technologies: (i) hardware and software system integration between optics, mechanics and electronics to achieve the goal of efficient power management, portability and possibility of mass production; (ii) optical system design to ensure the quality of image captured by digital processing devices; and (iii) digital image processing, or algorithm, technology, such as interpolation, white balance, auto exposure and auto focus. The Company believes that system integration and algorithm technologies are significant factors to the success of the Company's digital imaging device products.

## Intellectual Property

As of June 30, 2003, the Company owned a total of 6 patents registered in the ROC for products and technologies developed through its own efforts as well as joint research and development efforts with other companies. Most of the Company's current patents will expire between April 2013 and April 2021. In addition, as of June 30, 2003, the Company had over 3 applications for patents either pending or under review in the ROC. The Company generally intends to continue to seek patent protection on any new inventions in design or process technology.

The Company has registered 1 trademark and service mark in the ROC.

## **Legal Proceedings**

Neither ABiCo nor any of its subsidiaries is involved in any litigation or other proceedings the outcome of which the Company believes might, individually or taken as a whole, materially affect the financial results or operations of ABiCo or any member of the Company.

## **Insurance**

The Company maintains insurance policies with independent third parties in respect of buildings, goods in transit, equipment and certain inventories covering loss due to fire and explosion. While the Company believes its insurance policies to be adequate and in line with industry norms in Taiwan, significant damage to any of the Company's production facilities, whether as a result of fire or other causes, could have a material adverse effect on the Company. Insurance coverage on property, plant and equipment of the Company, on a non-consolidated basis, amounted to approximately NT\$504.98 million (U.S.\$14.68 million) and NT\$501.87 million (U.S.\$14.59 million) as of December 31, 2001 and 2002, respectively. The Company does not have any third-party liability insurance covering its product liability. The Company does not carry business interruption insurance or key-personnel insurance or any policy of a similar nature.

## **Related Party Transactions**

The Company, its subsidiaries and certain of its affiliates, in the ordinary course of business or from time to time, enter into transactions with each other. The Company believes that all such transactions were based on general commercial practice, where the prices and payment terms made from and to the Company may depend upon the overall financial status of the Company and such affiliates. See Note 16 to the "Consolidated Financial Statements as at and for the years ended December 31, 2001 and 2002" and Note 17 to the "Non-consolidated Financial Statements as at and for the three-month periods ended March 31, 2002 and 2003".

## MANAGEMENT AND EMPLOYEES

### Directors

The Company's board of directors is elected by the shareholders in a general meeting at which a quorum, consisting of a majority of all issued and outstanding common shares, is present. The Chairman is elected by the board from among the directors. The Company's nine-member board of directors is responsible for the management of the Company's business.

The term of office for the Company's directors is three years from the date of election. Directors may serve any number of consecutive terms and may be removed from office at any time by the approval of at least two-thirds of the Shares represented at a shareholders' meeting in which a quorum of at least a majority of all issued and outstanding Shares are represented. Normally, all board members are elected at the same time, except where the posts of one-third or more of the directors are vacant, at which time a special meeting of shareholders will be convened to elect directors to fill the vacancies.

The following table sets forth the name of each of the Company's current directors, his/her position in the Company, the percentage of Shares held, his/her highest education and other significant positions held by him/her.

<u>Name</u>	<u>Position</u>	<u>Percent of Shares held<sup>(1)</sup></u>	<u>Significant position(s) and qualification</u>
Ability Investment Co. Ltd.....	Director	17.59%	Director, Taishiba International Co. Ltd, Avy Co. Ltd, Fit Active International Co. Ltd, and Chia Bon Venture Capital Co., Ltd.; Supervisor, Ability International Rent Co. Ltd, Taishiba International Co. Ltd, Avy Co. Ltd, and Fit Active International Co. Ltd.
LIN, Ju Ping .....	Director	0.01%	Supervisor, King Ability Enterprise Co. Ltd, Ability International Investment Co. Ltd, and Canon Marketing (Taiwan) Co. Ltd.; Director, Ability International Rent Co. Ltd., and Avy Co. Ltd.
Chia Mei Investment Co. Ltd. ....	Director	0.13%	Director, Taishiba International Co. Ltd
HSU, Yung China .....	Director	0.01%	Director, King Ability Enterprise Co. Ltd.

(1) As of June 30, 2003.

### Supervisors

The Company currently has two supervisors, each serving a three-year term. Supervisors are typically elected at the time when directors are elected. The supervisors' duties and powers include investigation of the Company's business condition, inspection of the Company's corporate records, verification and review of financial statements presented by the Company's board of directors at the

shareholders' meetings, convening of shareholders' meetings under certain circumstances, representing the Company in negotiations with the Company's directors and notification, when appropriate, to the board of directors to cease acting in contravention of any applicable law or regulation, the Company's Articles of Incorporation (the "**Articles**") or any resolution made at a shareholders' meeting. Each supervisor is elected by the Company's shareholders and cannot concurrently serve as a director, management officer or other staff member. For a public company, such as ABiCo, the ROC Company Law requires that at least two supervisors be in office at all times and that a supervisor's term of office be no more than three years.

The following table sets forth the name of each of the Company's current supervisors, the percentage of Shares held, his/her highest education and other significant positions held by him/her.

<u>Name</u>	<u>Position</u>	<u>Percent of Shares held<sup>(1)</sup></u>	<u>Significant position(s) and qualification</u>
HONG, Chun Lin .....	Supervisor	0.18%	Chairman, Yu-Ho Foods Co. Ltd.
CHEN, Tsang Ku.....	Supervisor	0.39%	Chairman, TMI Investment Co. Ltd.

(1) As of June 30, 2003.

In accordance with ROC law, each of the Company's directors and supervisors owes fiduciary duties to all shareholders. Currently, the Company does not have any independent directors or supervisors.

## Executive Officers

The following table sets forth information relating to the Company's executive officers. All executive officers listed below can be contacted at the registered office of the Company.

<u>Name</u>	<u>Position</u>	<u>Highest education</u>	<u>Significant experience before joining the Company</u>
TONG, Chun Jen .....	President	NTIT University Masters	—
TSENG, Ming Jen.....	President	Tamkang University Masters	Viewquest Technologies, Lite-On Technologies
JU, Ming Jang .....	Vice President	Tamkang University	Viewquest Technologies, Lite-On Technologies
HSU, Yung China .....	Assistant Vice President	Ta Rong Senior Vocational Industrial School	—
CHENG, Hung Ching...	Assistant Vice President	Tung-Fang Institute of Technology	—
LU, Wan I .....	Assistant Vice President	George Vocational High School	—
LEE, Ming Chen.....	Assistant Vice President	Taipei Municipal Nei-Hu Senior Vocational Industrial School	Viewquest Technologies, Lite-On Technologies
HSAR, Shu Seng .....	Assistant Vice President	National Taiwan Ocean University	Viewquest Technologies, Lite-On Technologies
CHIANG, Fu Chien .....	Assistant Vice President	National Taipei Institute of Technology	Viewquest Technologies, Lite-On Technologies

## Compensation of Directors, Supervisor and Executive Officers

In 2002, the Company paid to its directors, supervisors, president and vice presidents approximately NT\$8 million in aggregate cash remuneration.

## Interests of Management in Certain Transactions

Several of the Company's directors, supervisors and executive officers also serve as directors, supervisors or executive officers of companies with which the Company does business. These companies include ABiCo's affiliates. The Company conducts these transactions on an arms-length basis. See Note 16 in the "Notes to Consolidated Financial Statements as of and for the years ended December 31, 2001 and 2002".

## Employees

### Overview

The Company had the following number of employees as of the period indicated:

	As of December 31,		As of June 30,
	2001	2002	2003
Administrative .....	99	94	205
Research and development .....	2	2	97
Manufacturing .....	0	0	25
Sales and marketing .....	138	114	110
Others .....	224	199	183
Total .....	<u>463</u>	<u>409</u>	<u>620</u>

As of June 30, 2003, all of the Company's employees worked on a full-time basis. The average age of the employees is 34 years old. None of the Company's employees is represented by collective bargaining organization, such as a union, or subject to any bargaining agreements.

As of June 30, 2003, all of the Company's research and development personnel held a bachelor's degree or higher educational qualification and approximately 19.03% of the Company's senior to mid-ranking management and administration personnel held a bachelor's degree or higher educational qualification. The Company places considerable importance on the recruitment, training and retention of qualified and experienced engineers to oversee and manage the Company's manufacturing operations.

The Company's employees in the ROC are not unionized and neither the Company nor any of its subsidiaries has experienced any significant labor disputes in the past five years.

### Employee Remuneration

Employee salaries are reviewed annually. Salaries are adjusted based on industry standards, inflation, operation results and individual performance. As an incentive, additional bonuses in cash may be paid to employees at the discretion of management based on the performance of individuals. In addition, employees may also participate in annual profit distribution pursuant to the Articles.

The Articles provide that after the Company pay all taxes, recover any past losses and allocate legal reserve, at least 10% of the remaining portion of the surplus earnings shall be allocated to employees as employee bonuses in the form of cash or shares. In addition, the ROC laws require that employees be given preemptive rights to subscribe for between 10% to 15% of any rights issues or share offerings of the Company, except issuance in connection with exercises of employee stock options, exercises of warrants, conversion of bonds, mergers and spin-offs or by way of a private placement.

## UNDERWRITING

Barits Securities (Hong Kong) Limited (the “**Lead Manager**”) will, pursuant to a Subscription Agreement to be dated on or about August 21, 2003 (the “**Subscription Agreement**”), agree with the Company to subscribe and purchase the Bonds at the issue price of 100% of their principal amount less the combined management and underwriting commission and selling fee.

The Company will agree in the Subscription Agreement to indemnify the Lead Manager with certain liabilities, including the liabilities under the Securities Act, in connection with the offering of the Bonds.

The Company has agreed in the Subscription Agreement that, for a period of 180 days from the date of the Subscription Agreement, neither it nor any person acting on its behalf will issue, offer, pledge, sell, contract to sell, grant any option to purchase or otherwise dispose of, any equity securities, or any securities convertible or exchangeable for equity securities, or any rights, warrants or options to subscribe for equity securities of the Company, or apply to the ROC SFC in connection with any of such offering or sale during such 180-day period, in any case outside of Taiwan or denominated in a currency other than NT Dollars, other than pursuant to employee benefit plans or employee stock option plans or distributions of dividends or employee bonuses in the form of Shares and conversion of the Bonds, or the issue of Shares to sponsor any DR facility, in any such case without the prior written consent of the Lead Manager, such consent may not be unreasonably withheld.

The Bondholders who purchase the Bonds from the Lead Manager may be required to pay stamp taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the issue price of the Bonds.

### **Selling Restrictions**

No action has been or will be taken in any jurisdiction that would permit a public offering of the Bonds or the Shares issuable upon conversion of the Bonds, or the possession, circulation or distribution of this Information Memorandum or any other material relating to the Company, the Bonds or the Shares issuable upon conversion of the Bonds, in any jurisdiction where action for the purpose is required. Accordingly, neither the Bonds nor any Shares issuable upon conversion of the Bonds may be offered or sold, directly or indirectly, and neither this Information Memorandum nor any other offering material or advertisements in connection with the Bonds or the Shares issuable upon conversion of the Bonds may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction.

### ***United States***

The Lead Manager has acknowledged and agreed that the Bonds and the Shares to be issued upon conversion of the Bonds have not been and will not be registered under the Securities Act, and may not (i) as part of their distribution at any time or (ii) prior to the 40th day after the closing of the offering of the Bonds be offered or sold within the United States or to, or for the account or benefit of, U.S. persons. The Bonds are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the closing of the offering of the Bonds, an offer or sale of the Bonds or the Shares to be issued upon conversion of the Bonds 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***

The Lead Manager has acknowledged and agreed that:

- (1) it has not offered or sold and prior to the date six months after the issue of the Bonds and will not offer or sell any Bonds 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 Offer of Securities Regulations 1995;

- (2) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom; and
- (3) it has only issued or passed onto any person in the United Kingdom any document received by it in connection with the issue of the Bonds, if that person is of a kind described in Articles 19, 47 or 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (as amended) or is a person to whom such document may otherwise lawfully be issued or passed on.

### ***The ROC***

The Lead Manager has acknowledged and agreed that the Bonds may not be offered, sold or delivered in the ROC, as part of the distribution of the Bonds.

### ***Hong Kong***

The Lead Manager has acknowledged and agreed that:

- (1) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (i) to persons whose ordinary business it is to buy or sell shares or debentures (whether as principal or agent) or (ii) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong; and
- (2) it has not issued or had in its possession for the purposes of issue and will not issue or have in its possession for the purposes of issue any advertisement, invitation or document relating to the Bonds, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571) and any rules made thereunder.

### ***Japan***

The Bonds and the Shares have not been and will not be registered under the Securities and Exchange Law of Japan. Accordingly, the Lead Manager has acknowledged and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Bonds or Shares in Japan or to, or for the benefit of, any resident of Japan, except that the Lead Manager may offer and sell such Bonds or Shares pursuant to an exemption from the registration requirements of, and otherwise in compliance with the Securities and Exchange Law of Japan and other applicable laws and regulations of Japan. As used in this paragraph, “**resident of Japan**” means any person resides in Japan, including any corporation or other entity organized under the laws of Japan.

### ***Singapore***

The Lead Manager has acknowledged and agreed that this Information Memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore (the “**MAS**”) under the Securities and Futures Act 2001 (Act 42 of 2001) of Singapore (the “**Securities and Futures Act**”). Accordingly, the Lead Manager has acknowledged and agreed that it has not offered or sold or made the subject of an invitation for subscription or purchase nor circulated or distributed this Information Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the Bonds nor will it offer, sell or make the subject of an invitation for subscription or purchase or distribute this Information Memorandum or any other

document or material in connection with the subscription or purchase of the Bonds whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor or other person falling within Section 274 of the Securities and Futures Act, (ii) to a sophisticated investor (as defined in Section 275 of the Securities and Futures Act) and in accordance with the conditions specified in Section 275 of the Securities and Futures Act or (iii) pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

## **LEGAL MATTERS**

Certain legal matters with respect to the Bonds will be passed upon for the Company by Transpac International Law Offices, and for the Lead Manager by Baker & McKenzie. Baker & McKenzie will rely upon Transpac International Law Offices with respect to certain matters of ROC law. Transpac International Law Offices will rely upon Baker & McKenzie with respect to certain matters of United States federal and New York laws.

## **INDEPENDENT AUDITORS**

The consolidated financial statements of the Company, prepared in accordance with ROC GAAP as of December 31, 2000 and 2001 and for the two years ended December 31, 2000 and 2001 included in this Information Memorandum, have been audited by Diwan, Ernst & Young.

## GENERAL INFORMATION

### Registered Office and Principal Place of Business

The Company is registered with the Ministry of Economic Affairs of the ROC under a uniform registration number of 11394902. The Company's registered office is located at No. 147, Fu-shing North Road, Taipei, Taiwan, ROC.

### Company Confirmation

The Company, having made all reasonable inquiries, confirms that this Information Memorandum contains all information with respect to the Company and its subsidiaries as a whole, the Bonds, and the Shares which is material in the context of the issue and offering of the Bonds (including all information required by applicable laws of the ROC); that the information contained herein (save as set out below) is true and accurate in all material respects and is not misleading; that the opinions and intentions expressed herein are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions; that there are no other facts, the omission of which would, in the context of the issue and offering of the Bonds, make this Information Memorandum as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respects; that all reasonable inquiries have been made by the Company to verify the accuracy of such information; and that this Information Memorandum does not contain an untrue statement of a material fact or omit to state a material fact required to be stated herein or necessary in order to make the statements herein, in the light of the circumstances under which they are made, not misleading. The Company accepts responsibility accordingly. Information provided herein with respect to the ROC, its political status and economy, has been derived from government and other public sources, and the Company accepts responsibility only for accurately extracting information from such sources.

### Authorizations

The offering of the Bonds was authorized and approved by the Company's board of directors on July 14, 2003 and approved by the ROC SFC on July 29, 2003.

### No Listing

Application has not been and will not be made to list the Bonds on any stock exchange.

### Documents Available

Copies of the following documents may be inspected and freely obtainable during normal business hours at the specified office of the Paying Agent in London:

- ▶ a copy of the annual reports of the independent accountants, containing the audited consolidated and non-consolidated financial statements of the Company as at and for the years ended December 31, 2001 and 2002;
- ▶ a copy of the reports of the independent accountants, containing the unaudited financial statements of the Company as at and for the periods ended March 31, 2002 and 2003;
- ▶ the Subscription Agreement relating to the Bonds; and
- ▶ the Indenture constituting the Bonds (which includes the form of the Global Certificate) and the Paying and Conversion Agency Agreement (which includes the Regulations concerning transfer of Bonds).

In addition, copies of this Information Memorandum and the most recent consolidated annual financial statements of the Company will be available during normal business hours at the specified office of the Paying Agent in London.

## **Paying, Conversion and Transfer Agents**

The Company will at all times maintain paying, conversion and transfer agents having specified offices in London. The names of the initial agents and their specified offices are set out at the end of this Information Memorandum.

## **No Material Adverse Change**

Except as disclosed herein, there has been no material adverse change in the financial position of the Company and its subsidiaries since December 31, 2002, the date of the latest audited consolidated financial statements contained herein.

## **Governing Law**

The Subscription Agreement, the Paying and Conversion Agency Agreement and the Indenture in connection with the Offering are governed by the laws of the State of New York, the United States.

## **Clearance**

The Bonds have been accepted for clearance by Euroclear and Clearstream, Luxembourg. Relevant clearance and settlement information for the Bonds is set forth below:

Common Code: ..... 017456261  
ISIN: ..... XS0174562610

## **Litigation**

Save as disclosed in the section entitled “Risk Factors” and “The Company”, the Company is not involved in any legal or arbitration proceedings which may have, or have had in the past twelve months, a material adverse effect on the consolidated financial position of the Company and the Company’s subsidiaries, taken as a whole, and which are material in the context of the issue of the Bonds, nor is the Company aware that any such proceedings are pending or threatened. For detailed information, see “The Company — Legal Proceedings”.

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## REPORT OF INDEPENDENT ACCOUNTANTS

Ability Enterprise Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Ability Enterprise Co., Ltd. and its subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the management of Ability Enterprise Co., Ltd. and its subsidiaries. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The financial statements of one of its subsidiaries, Avy Co., Ltd., was audited by other auditors. Accordingly, our opinion on the consolidated financial statements referred to above, especially for the amounts presented in Avy Co., Ltd. and the information of Avy's investments as described in notes 23(2), were mainly based on other auditors' report. As of December 31, 2002 and 2001, total assets in Avy Co., Ltd. were NT\$598,044 thousand and NT\$509,850 thousand respectively and were 13.20% and 11.68% of total consolidated assets respectively. Net operating income for the years ended December 31, 2002 and 2001 were NT\$355,173 thousand and NT\$310,191 thousand and were 12.85% and 11.51% of the net consolidated operating income respectively.

We conducted our audits in accordance with generally accepted auditing standards in the Republic of China and "Guidelines for Certified Public Accountants' Examinations and Reports on Financial Statements". Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and other auditors' reports the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of Ability Enterprise Co., Ltd. and its subsidiaries as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended, in conformity with the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and generally accepted accounting principles in the Republic of China.

Deloitte & Touche  
Taipei, Taiwan, Republic of China  
March 20, 2003

The above auditors' report and the following financial statements are English translations of the Chinese auditors' report and financial statements prepared for and used in the Republic of China. The accompanying financial statements were prepared using accounting principles, procedures and reporting practices generally accepted in the Republic of China and are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than those in the Republic of China. The standards, procedures and practices utilized to audit such financial statements are those generally accepted and applied in the Republic of China.

**ABILITY ENTERPRISE CO., LTD. AND ITS SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS  
AS OF DECEMBER 31, 2001 AND 2002  
(Expressed in Thousands of New Taiwan Dollars)**

	<u>December 31, 2002</u>		<u>December 31, 2001</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents .....	\$316,498	7	\$448,376	10
Short-term investments - net (Note 3).....	51,149	1	31,740	1
Notes receivable - net .....	47,767	1	65,282	2
Notes receivable - related parties, net (Note 16).....	198,266	4	221,797	5
Accounts receivable - net .....	264,295	6	164,625	4
Accounts receivable - related parties, net (Note 16) .....	188,803	4	166,905	4
Inventories (Note 4) .....	245,275	6	227,144	5
Other current assets (Notes 14 and 16).....	174,174	4	111,816	2
	<u>1,486,227</u>	<u>33</u>	<u>1,437,685</u>	<u>33</u>
Long-term investments:				
Long-term equity investments (Notes 5 and 16).....	1,506,068	33	1,275,368	29
Rental assets (Notes 6 and 17) .....	609,365	14	907,189	21
	<u>2,115,433</u>	<u>47</u>	<u>2,182,557</u>	<u>50</u>
Property and equipment (Notes 7, 16 and 17):				
Cost:				
Land.....	365,940	8	290,569	7
Buildings .....	472,657	10	361,777	8
Machinery .....	63,434	1	50,604	2
Business equipments.....	20,512	1	56,458	—
Transportation equipments.....	7,004	—	8,703	—
Other equipments .....	75,932	2	32,793	1
	<u>1,005,479</u>	<u>22</u>	<u>800,904</u>	<u>18</u>
Less: Accumulated depreciation.....	(153,613)	(3)	(135,616)	(3)
Prepayments for equipments .....	3,653	—	427	—
	<u>855,519</u>	<u>19</u>	<u>665,715</u>	<u>15</u>
Intangible assets:				
Deferred pension cost (Note 11) .....	8,175	—	8,656	—
	<u>64,279</u>	<u>1</u>	<u>71,709</u>	<u>2</u>
Other assets (Notes 14 and 17).....	<u>64,279</u>	<u>1</u>	<u>71,709</u>	<u>2</u>
<b>TOTAL ASSETS.....</b>	<u><u>\$4,529,633</u></u>	<u><u>100</u></u>	<u><u>\$4,366,322</u></u>	<u><u>100</u></u>

See notes to financial statements.

**ABILITY ENTERPRISE CO., LTD. AND ITS SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS — (Continued)  
AS OF DECEMBER 31, 2001 AND 2002  
(Expressed in Thousands of New Taiwan Dollars)**

	<u>December 31, 2002</u>		<u>December 31, 2001</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Current liabilities:				
Short-term borrowings (Notes 8 and 17).....	\$582,511	13	\$572,252	13
Short-term notes and bills payable (Notes 9 and 17).....	227,195	5	259,250	6
Notes payable (Note 16).....	63,129	1	46,330	1
Accounts payable .....	218,471	5	89,359	2
Accounts payable - related parties (Note 16) .....	84,033	2	111,731	3
Accrued expenses .....	87,853	2	91,834	2
Income tax payable .....	4,075	—	5,655	—
Other payables .....	14,535	—	6,143	—
Long-term borrowings - current portion (Notes 10 and 17).....	300,000	7	—	—
Other current liabilities .....	3,010	—	44,056	1
	<u>1,584,812</u>	<u>35</u>	<u>1,226,610</u>	<u>28</u>
Long-term liabilities				
Bonds payable (Notes 10 and 17) .....	—	—	300,000	7
	<u>—</u>	<u>—</u>	<u>300,000</u>	<u>7</u>
Other liabilities:				
Reserve for land revaluation increment tax .....	27,758	1	27,758	1
Provision for pension (Note 11).....	18,262	1	11,165	—
Guarantee deposits received.....	16,934	—	23,430	1
Deferred credit - gain on inter-affiliate accounts .....	12,724	—	14,970	—
Minority interest.....	136,029	3	123,235	3
Consolidated credit.....	4,531	—	8,860	—
	<u>216,238</u>	<u>5</u>	<u>209,418</u>	<u>5</u>
Total liabilities .....	<u>1,801,050</u>	<u>40</u>	<u>1,736,028</u>	<u>40</u>
Shareholders' equity (Notes 12 and 13):				
Common stock, \$10 par value, both 280,800 thousand shares authorized and 210,492 thousand and 198,577 thousand shares issued respectively in 2002 and 2001 .....	2,104,916	46	1,985,770	45
Capital surplus				
Additional paid-in capital.....	64,931	2	64,931	2
Gain on sale of fixed asset.....	—	—	70,522	2
Treasury stock.....	13,992	—	13,992	—
Change of long-term equity investments.....	—	—	3,930	—
	<u>78,923</u>	<u>2</u>	<u>153,375</u>	<u>4</u>
Retained earnings:				
Legal reserve.....	148,125	3	107,411	2
Special reserve .....	65,256	—	85,293	2
Unappropriated retained earnings.....	364,476	10	340,421	8
	<u>577,857</u>	<u>13</u>	<u>533,125</u>	<u>12</u>
Unrealized losses on long-term equity investments .....	(56,296)	(1)	(65,256)	(1)
Cumulated translation adjustments .....	23,183	—	23,280	—
Total shareholders' equity .....	<u>2,728,583</u>	<u>60</u>	<u>2,630,294</u>	<u>60</u>
Commitments and contingencies (Note 18)				
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY.....</b>	<u><u>\$4,529,633</u></u>	<u><u>100</u></u>	<u><u>\$4,366,322</u></u>	<u><u>100</u></u>

See notes to financial statements.

**ABILITY ENTERPRISE CO., LTD. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2002**  
(Expressed in Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2002		2001	
	Amount	%	Amount	%
Operating revenues (Note 16) .....	\$2,812,356	102	\$2,756,200	102
Less: Sales return and allowance .....	(47,639)	(2)	(62,257)	(2)
	<u>2,764,717</u>	<u>100</u>	<u>2,693,943</u>	<u>100</u>
Operating costs (Note 16).....	<u>2,317,516</u>	<u>84</u>	<u>2,220,848</u>	<u>82</u>
Operating gross profit.....	447,201	16	473,095	18
Unrealized gain on Consolidated Company .....	(279)	—	(2,525)	—
Realized gain on Consolidated Company .....	2,525	—	2,614	—
	<u>449,447</u>	<u>16</u>	<u>473,184</u>	<u>18</u>
Operations expenses (Notes 11 and 16)				
Selling expenses .....	321,021	12	346,461	14
General and administrative expenses.....	89,598	3	95,025	3
	<u>410,619</u>	<u>15</u>	<u>441,486</u>	<u>17</u>
Net operating income .....	<u>38,828</u>	<u>1</u>	<u>31,698</u>	<u>1</u>
Non-operating revenue				
Interest revenues (Note 16) .....	6,774	—	8,870	—
Investment income - net (Note 5) .....	162,969	6	263,980	10
Gain on disposal of fixed assets .....	154	—	42,367	1
Gain on foreign currency exchange net (Note 20).....	—	—	27,356	1
Rent revenues (Notes 16 and 18).....	39,058	1	43,733	2
Other revenues (Note 16) .....	43,657	2	44,987	2
	<u>252,612</u>	<u>9</u>	<u>431,293</u>	<u>16</u>
Non-operating expenses				
Interest expenses .....	37,687	1	50,950	2
Losses on valuation of short-term investments.....	—	—	11,756	—
Losses on inventories valuation and obsolescence.....	1,767	—	4,212	—
Other expenses .....	49,458	2	27,223	1
	<u>88,912</u>	<u>3</u>	<u>94,141</u>	<u>3</u>
Income before taxes.....	202,528	7	368,850	14
Income tax expense (Note 14) .....	(18,656)	—	(18,135)	(1)
Pre-acquisition loss.....	4,349	—	—	—
Income (Loss) for minority interest, net of tax .....	42,459	1	(14,096)	(1)
Net income .....	<u>\$230,680</u>	<u>8</u>	<u>\$336,619</u>	<u>12</u>
Basic earnings per share (Note 15)				
By weighted-average shares - before tax.....	<u>\$1.18</u>		<u>\$1.79</u>	
By weighted-average shares - after tax .....	<u>\$1.10</u>		<u>\$1.70</u>	
By retroactively weighted-average shares - before tax .....	<u>\$1.18</u>		<u>\$1.69</u>	
By retroactively weighted-average shares - after tax.....	<u>\$1.10</u>		<u>\$1.60</u>	

See notes to financial statements.

**ABILITY ENTERPRISE CO., LTD. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2002**  
**(Expressed in Thousands of New Taiwan Dollars)**

	Common stock	Capital surplus	Retained earnings			Unrealized losses on valuation of long-term equity investments	Cumulated translation adjustments	Treasury stock	Total shareholders' equity
			Legal reserve	Special reserve	Unappropriated				
Balance as of January 1, 2001	\$1,873,368	\$192,772	\$86,597	\$60,900	\$208,998	\$(66,327)	\$(164,882)	\$2,193,274	
Appropriate of retained earnings:									
Legal reserve	—	—	20,814	—	(20,814)	—	—	—	
Special reserve	—	—	—	24,393	(24,393)	—	—	—	
Cash dividends	—	—	—	—	(93,669)	—	—	(93,669)	
The Board's remuneration	—	—	—	—	(3,155)	—	—	(3,155)	
Employee bonus	—	—	—	—	(4,733)	—	—	(4,733)	
Capital surplus transferred to capital	56,201	(56,201)	—	—	—	—	—	—	
Retained earnings transferred to capital	56,201	—	—	—	(56,201)	—	—	—	
Gain on sale of property and equipment from invested companies	—	2,231	—	—	(2,231)	—	—	—	
Losses on valuation of long-term equity investments	—	—	—	—	—	1,071	—	1,071	
Adjustment of equity change from invested companies	—	(10,770)	—	—	—	—	—	(10,770)	
Assets revaluation increment from invested companies	—	11,351	—	—	—	—	—	11,351	
Change in cumulated translation adjustments	—	—	—	—	—	—	21,432	21,432	
Net income for year 2001	—	—	—	—	336,619	—	—	336,619	
Treasury stock sold to employee	—	13,992	—	—	—	—	60,120	74,112	
Subsidiary sold the stock of Ability Enterprise Co., Ltd.	—	—	—	—	—	—	104,762	104,762	
Balance as of December 31, 2001	1,985,770	153,375	107,411	85,293	340,421	(65,256)	—	2,630,294	
Appropriate of retained earnings:									
Legal reserve	—	—	33,662	—	(33,662)	—	—	—	
Cash dividends	—	—	—	—	(119,146)	—	—	(119,146)	
The Board's remuneration	—	—	—	—	(5,017)	—	—	(5,017)	
Employee bonus	—	—	—	—	(7,525)	—	—	(7,525)	
Retained earnings transferred to capital	119,146	—	—	—	(119,146)	—	—	—	
10% legal reserve of gain on sale of property and equipment transferred from capital surplus to retained earnings	—	—	7,052	—	(7,052)	—	—	—	
Gain on sale of property and equipment transferred from capital surplus to retained earnings	—	(70,522)	—	—	70,522	—	—	—	
Reversal of special reserve - unrealized loss of long-term equity investment	—	—	—	(20,037)	20,037	—	—	—	
Change in unsubscribed capital of invested companies	—	(3,930)	—	—	(5,636)	—	—	(9,566)	
Losses on valuation of long-term equity investments	—	—	—	—	—	8,960	—	8,960	
Change in cumulated translation adjustments	—	—	—	—	—	—	(97)	(97)	
Net income for year 2002	—	—	—	—	230,680	—	—	230,680	
Balance as of December 31, 2002	\$2,104,916	\$78,923	\$148,125	\$65,256	\$364,476	\$(56,296)	\$—	\$2,728,583	

See notes to financial statements.

**ABILITY ENTERPRISE CO., LTD. AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2002  
(Expressed in Thousands of New Taiwan Dollars)**

	<b>2002</b>	<b>2001</b>
Cash flow from operating activities:		
Net income .....	\$230,680	\$336,619
Adjustment to reconcile net income to net cash provided by (used in) operating activities		
Income (Loss) for minority interest, net of tax .....	(42,459)	14,096
Preacquisition loss .....	(4,349)	—
Depreciation .....	163,719	184,936
Amortization .....	540	661
Amortization of consolidated credit .....	(4,983)	(4,984)
Losses on long-term equity investments .....	10,846	—
Losses on disposal of fixed assets .....	509	722
Losses on disposal of rental assets .....	11,501	4,308
Gain on disposal of fixed assets .....	(211)	(1,790)
Gain on disposal of rental assets .....	—	(44,378)
Gain on disposal of long-term investment .....	—	(66,496)
Losses on disposal of long-term investments .....	77,366	—
Losses on valuation of short-term investment .....	—	11,756
Investment income - equity method .....	(210,784)	(134,855)
Unrealized gain on inter-affiliate accounts .....	279	2,525
Realized gain on inter-affiliate accounts .....	(2,525)	(2,614)
Decrease in notes receivable .....	17,515	146,316
Decrease (Increase) in notes receivable - related parties .....	27,044	(193,596)
Decrease (Increase) in accounts receivable .....	(99,670)	138,318
Increase in accounts receivable - related parties .....	(25,412)	(157,210)
Increase (Decrease) in inventories .....	(61,768)	152,337
Increase in other receivables .....	(41,698)	(22,729)
Increase in other current assets .....	(33,594)	(3,369)
Increase in notes payable .....	16,800	37,878
Increase (Decrease) in accounts payable .....	129,112	(19,573)
Decrease in accounts payable - related parties .....	(27,698)	(16,984)
Decrease in accrued expenses .....	(3,981)	(10,426)
Decrease in income tax payable .....	(1,580)	(21,881)
Decrease in other payables .....	—	(197,441)
Increase (Decrease) in other current liabilities .....	(32,653)	10,153
Recognition of pension cost .....	—	2,303
Provision for pension cost .....	14,735	15,232
Deposit of pension fund .....	(11,952)	(13,034)
Advanced pension cost .....	—	(1,992)
Received of cash dividends .....	3,652	4,506
Decrease (Increase) in deferred income tax assets .....	14,228	(3,643)
	<b>113,209</b>	<b>145,671</b>
Net cash provided by operating activities .....		

See notes to financial statements.

**ABILITY ENTERPRISE CO., LTD. AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2002  
(Expressed in Thousands of New Taiwan Dollars)**

	<b>2002</b>	<b>2001</b>
Cash flow from investing activities:		
Purchase of long-term equity investments .....	\$(182,005)	\$(274,930)
Proceed from sale of long-term investments.....	78,990	223,874
Purchase of fixed assets.....	(24,608)	(11,545)
Purchase of rental assets.....	—	(1,000)
Proceeds from disposal of fixed assets.....	747	11,942
Proceeds from disposal of rental assets.....	—	100,568
Decrease (Increase) in short-term investments.....	(19,409)	70,893
Increase in unamortized expenses .....	(5,094)	(240)
Decrease in other assets.....	10,692	21,232
	<u>(140,687)</u>	<u>140,794</u>
Cash flows from financing activities:		
Increase in short-term borrowings .....	10,259	194,983
Increase (Decrease) in short-term notes and bills payable .....	(32,055)	149,630
Decrease in long-term borrowings.....	—	(280,000)
Increase (Decrease) in guarantee deposits received .....	(6,496)	1,439
Payments of cash dividends to minority interest .....	—	(42,800)
Treasury stock sold to employee.....	—	74,112
Issuance of common stock of minority interest .....	56,073	—
Payments of the Board's remuneration and employee bonus.....	(13,029)	(11,197)
Cash dividends .....	(119,146)	(93,669)
Other change in minority interest.....	—	(803)
	<u>(104,394)</u>	<u>(8,305)</u>
Exchange effects.....	<u>(6)</u>	<u>2,982</u>
Net increase (decrease) in cash and cash equivalents .....	(131,878)	281,142
Cash and cash equivalents, beginning of year .....	<u>448,376</u>	<u>167,234</u>
Cash and cash equivalents, end of year.....	<u>\$316,498</u>	<u>\$448,376</u>
Disclosure of cash flow information		
Interest paid .....	<u>\$30,183</u>	<u>\$51,587</u>
Income tax paid.....	<u>\$15,649</u>	<u>\$45,440</u>
Other investing and financing activities not affecting cash		
Long-term borrowings - current portion .....	<u>\$300,000</u>	<u>\$—</u>

See notes to financial statements.

# ABILITY ENTERPRISE CO., LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2001 AND 2002 (Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

### 1. DESCRIPTION OF BUSINESS

- (1) Ability Enterprise Co., Ltd. (the Consolidated Company) was authorized to establish in Taipei City on May 21, 1965 and merged Ability Business Machines Co., Ltd. commercial machine Ltd. on October 1, 1986. The operating activities include trading, rental, packing and maintenance services of machinery, software and hardware of computer system, communication equipments, and office equipment. The Company also acts as an agent or a consignee to tender or quote prices, and to export or import various international or local products that listed above.
- (2) Avy Co., Ltd. was established on May 3, 1975 and its registered and actual received capital as of December 31, 2001 were NT\$150,000 thousand representing 15,000 thousand shares of NT\$10 per share. The core business include manufacturing of handbag and leather cover, manufacturing of optics lenses, camera lens, appliances, precision mold (punching mold and plastics mold), precision punching component, camera's component, micro engine assembly including parts, machinery wholesale business, machinery retail business, machinery and equipment manufacturing, bidding of products above, and import and export of raw material.
- (3) Ability Enterprise (BVI) Co., Ltd. was established in March, 2000 and its registered and actual received capital as of December 31, 2002 were NT\$247,504 thousand (U.S.\$7,635 thousand) which have been invested in Dongguan Guang Tong Business Machines Co., Ltd. and Dongguan Yorkey Optical Machinery Components Ltd..

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (1) The basis of preparing consolidated financial statements

- 1) When the Consolidated Company owns more than 50% of an invested company's common stock, the invested company is treated as a subsidiary and must be included in the consolidated financial statements. However, if subsidiaries' total assets and operating revenue are below 10% of the Consolidated Company's respective account balances, consolidated financial statements are not required. If the total assets and operating revenues of all unconsolidated subsidiaries are over 30% of the Consolidated Company's respective account balances, consolidated financial statements are still required for those subsidiaries, of which total assets and operating revenues amounted to more than 3% of the Consolidated Company's respective account balances. When the percentage for all unconsolidated subsidiaries is less than 20%, consolidated financial statements are not required.
- 2) Subsidiaries to be included in consolidated financial statements were as follow:

Company's name	Relationship	Core business	Stock holding ratio %	Note
Avy Co., Ltd.....	Invested company measured by equity method	Produce and sell optical electron	63.72	—
Ability Enterprise (BVI) Co., Ltd...	Invested company measured by equity method	Holding company	100.00	—

- 3) Subsidiaries not included in consolidated financial statements were as follow:

<u>Company's name</u>	<u>Holding ratio %</u>	<u>Reason why not consolidated</u>
Ability International Investment Co., Ltd.....	99.99	Total assets and operating revenue not reaching 10% of the Company's respective account
Taiwan Imaging Systems Inc.....	93.25	"
Ability International Rent Co., Ltd. ....	44.95	"
Shin-ei Yorkey International Ltd. ....	50.00	"
Abico International Holding Co., Ltd.....	100.00	"
Gold Market Investments Ltd. - Samoa.....	64.26	"
Avy Precision Metal Product (Suzhou) Co., Ltd..	100.00	"

- 4) The entities of consolidated financial statements include Ability Co., Ltd. and the other two subsidiaries as described above. All significant internal transactions between consolidated entities were eliminated.

**(2) Foreign currency transactions and translation to financial statements in foreign currency**

The consolidated company's financial records are in NT Dollars. Foreign currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occurred. Liabilities in foreign currency at the balance sheet day are translated at year-end exchange rates. Realized or unrealized gains or losses on exchange, arose from real transaction or conversion of foreign liabilities, are recognized as current non-operating income or expenses. However, those exchange differences from long-term investments or money advances between the consolidated company and foreign companies are recognized as cumulative translation adjustments under shareholders' equity accounts.

Forward currency contracts for hedging risk of foreign currency debts are recorded at current exchange rate of the contract day. The difference between spot rate and exchange rates is amortized during contract's period. Open forward currency contracts are adjusted by the current exchange rates at the balance sheet date and the differences are recognized as current expenses or revenues. But those for risk of hedging exchange rate from net investment in foreign operating organizations, the difference is recognized as cumulative translation adjustments under shareholders' equity accounts.

**(3) Short-term investments**

Short-term investments are stated at the lower of aggregate cost (weighted-average method) or market value. Market value of listed stock is based on the average closing price of the last month of the accounting period; open-ended mutual funds are evaluated by the net worth on the balance sheet date. Declining losses are recognized as current expenses. Stock dividends are not recognized as investment income but treated as an increase in the number of shares held. The cost per share is recalculated based on total number of shares after increasing share numbers. The cost of selling marketable securities is determined by the weighted-average method.

**(4) Allowance for doubtful accounts**

Allowance for doubtful accounts is provided based on the expected collectibility.

**(5) Inventories**

Inventories are stated at the lower of cost (weighted-average method) or market value (net realizable value).

**(6) Long-term equity investments**

Long-term equity investments in listed equity securities that represent less than 20% of the investees' voting stock ownership and where the Consolidated Company and its subsidiaries do not have significant influence over the investees are stated at the lower of cost or market value. Unrealized loss thereon is recorded as a reduction in stockholders' equity. However, long-term investments in non-listed equity securities are stated at cost. When there is evidence showing that a decline in the market value of such investment is other than temporary and the probability of recovery is considered remote, the carrying value of the investment is reduced to reflect the market value and the resulting loss is recognized in the period of such reduction. Stock dividends are not recognized as investment income but treated as an increase in the number of shares held. The cost of long-term equity investment sold is calculated based on the weighted-average method.

Investments where the percentage of ownership exceeds 20%, or where the Consolidated Company and its subsidiaries have significant influence on the operating and financial policies of the invested Company's companies are accounted for by the equity method. When the Consolidated Company holds more than 50% of an invested companies' stock with voting rights or meets all of following conditions: 1. the beginning shareholder's equity of the long-term investment is more than NT\$50 million dollars and exceeds 5% of the Consolidated Company's capital stock; 2. the

Consolidated Company holds more than 30% of an invested companies' stock or the ownership percentage of the invested companies' stock held by the Consolidated Company and other companies that directly or indirectly controlled by the Consolidated Company's directors, supervisors, managers or the Consolidated Company exceeds 50%; 3. the Consolidated Company is one of the top three shareholders of an invested company or is appointed as invested companies' board of director or general manager; the investment losses or gains are required to be recorded as current losses or gains. Otherwise, the investment losses or gains needs to be deferred by one year. Under the equity method, the difference between the acquisition cost of the investment and the underlying equity of the investment is amortized over five years on a straight-line basis and recognized as investment income or loss.

Gains or losses on disposal of long-term equity investments are recognized as investment income or loss. The unrealized gains or losses between the Consolidated Company and invested companies or subsidiaries are deferred. For the unrealized gains or losses resulting from depreciable or amortizable assets, the gains or losses will be recognized yearly over the respective useful lives of the assets. However, the gains or losses will be recognized in the year of realization if the unrealized gains or losses result from other assets.

When the invested company issue new shares and the Consolidated Company do not subscribe the shares according to the Consolidated Company's ownership percentage, thus resulting in changes of net equity of invested companies' ownership, the change amounts will be adjusted to capital surplus. If such adjustments decrease capital surplus and the capital surplus is insufficient to be adjusted, retained earnings will be reduced accordingly.

**(7) Rental assets**

Rental assets are fixed assets and equipments that leased to others for operating purposes and are stated at acquisition cost. Depreciation is calculated on a straight-line basis over estimated useful lives of the assets and accounted under non-operating expenses or operating costs.

**(8) Property and equipment**

Property and equipment are stated at acquisition cost. Major renewals, improvements and additions are treated as capital expenditures. Depreciation is calculated on a straight-line basis over estimated useful lives of the assets. Interest expense from the acquisition period is capitalized and classified under appropriate categories of property and equipment. Gains or losses on the disposal of property and equipment are recorded as non-operating income or expense.

**(9) Short-term notes payable**

Short-term notes payable is evaluated by present value and the discount is listed as a deducting item of short-term notes payable.

**(10) Retirement benefits**

The defined benefit pension plan is eligible for all regular employees. The plan covering salaried employees provides benefit payments based on years of service and the employees' average salary of final six months. The plan is calculated by the accrual of retirement "credit". During the first fifteen years of service, an employee may accrue two credits per year. The accrual rate is one credit per year after the fifteenth year.

Under the funding policy of the plan, the Consolidated Company and Avy Co., Ltd. contribute, monthly, an amount equals to 5% of the employees' monthly salaries and wages to the pension fund.

The consolidated entity's pension plan was measured pursuant to SFAS No. 18, "Accounting for Pensions". The measurement date was established on the balance sheet date. The Consolidated Company accrues pension cost when the accumulated benefit obligation is over the fair value of the fund assets including service costs, amortization of unrecognized prior service costs, amortization of unrecognized gain or loss and amortization of unrecognized transitional net assets. The amortization is on the straight-line method over 15 years (Ability Enterprise Co., Ltd.) and 19 years (Avy Co., Ltd.) The Consolidated Company paid retirement benefits out of fund. If the fund is not sufficient, payment is reported as expense.

**(11) Consolidated debits**

When the cost of acquiring a subsidiary was lower than the net value of the subsidiary, the Company uses "Consolidated credit" to record any difference that couldn't be analyzed. The difference was amortized over five years form investment date.

**(12) Treasury stock**

The Consolidated Company uses the cost method to account for treasury stock. Under the cost method, treasury stock is debited at the cost of the shares purchased. When treasury stock is sold at a price greater than the cost, the difference is credited to capital surplus-treasury stock. If the sales price of treasury stock is lower than the cost, the

difference is used to offset capital surplus from similar treasury stock. If the capital surplus-treasury stock account is insufficient to cover the excess of the cost over the price, retained earnings is debited for the remaining amount. The book value of each share of treasury stock is equal to its weighted-average value and is calculated according to its reason for purchase.

**(13) Derivative financial instruments**

The premium from call or put option are recognized as realized income or expense at execution date. The unrealized option trading losses or gains are recognized as current expenses or revenues.

**(14) Income tax**

The estimation of income tax is based on accounting income. Deferred income tax assets and liabilities are recognized based on the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis amount, net loss carry forwards and unused tax credits. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary timing differences are expected to reverse or settled. The effect of the change in income tax rates on deferred income tax assets and liabilities is recognized in the year of enactment. The Consolidated Company also evaluates the possibility of the realization of deferred income tax assets, and recognizes a valuation allowance account if necessary.

Deferred income tax assets and liabilities are classified as current or non-current according to the assets or liabilities accounts from which they are derived, or according to the expected year of reversal if they are not related to specific assets or liabilities. Current deferred income tax assets and liabilities should be offset and listed as a net amount, as well as non-current deferred income tax assets and liabilities.

The Consolidated Company adopted the provisions of the Statements of Financial Accounting Standards No. 22, "Accounting for Income Taxes Credits", in dealing with the tax credits of purchasing equipments, technique, R&D, human resource development and investments etc. Those tax credits were recognized in current year.

The Consolidated Company's unappropriated retained earnings not distribution in next year will have an additional tax of 10% under the Integrated Income Tax System, starting from 1998, and recorded as income tax expense in the year of levy.

The adjustment of the tax expense levied in the prior years should be listed as income tax expense.

**(15) Earnings per share**

Simple earnings per share is calculated based on the weighted average outstanding shares during the period and is adjusted retroactively to reflect the effect of the increase in issued common stocks resulting from appropriation of retained earnings or capital surplus.

**3. SHORT-TERM INVESTMENTS**

	<b>December 31, 2002</b>		<b>December 31, 2001</b>	
	<b>Cost</b>	<b>Market value</b>	<b>Cost</b>	<b>Market value</b>
Listed/OTC stock.....	\$4,149	\$6,774	\$31,740	\$56,252
Mutual Fund .....	47,000	47,007	—	—
	51,149	<u>\$53,781</u>	31,740	<u>\$56,252</u>
Less: Allowance for decline in market value of short-term investments.....	—	—	—	—
	<u>\$51,149</u>		<u>\$31,740</u>	

#### 4. INVENTORIES

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Merchandise inventories .....	\$165,226	\$152,728
Raw materials .....	18,818	20,977
Work in process .....	3,208	1,826
Finished goods.....	10,078	9,503
Accessories .....	25,246	25,317
Components .....	<u>28,673</u>	<u>26,539</u>
	251,249	236,890
Less: allowance for inventory valuation loss .....	<u>(5,974)</u>	<u>(9,746)</u>
Net amount .....	<u><u>\$245,275</u></u>	<u><u>\$227,144</u></u>

The insurance coverage of the above inventories as of December. 31, 2002 and 2001 amounted to NT\$489,530 thousand and NT\$413,210 thousand respectively.

## 5. LONG-TERM EQUITY INVESTMENTS

	December 31, 2002		December 31, 2001	
	Holding %	Amount	Holding %	Amount
Equity method:				
Avy Co., Ltd.....	—	\$—	100.00	\$1,905
Yorkey Investment Ltd.....	—	—	45.00	116,667
Avy Precision Metal Product (Suzhou) Co., Ltd.....	100.00	45,701	100.00	52,992
Gold Market Investments Ltd. - Samoa.....	64.26	55,909	64.26	53,323
Yorkey Optical International Ltd.....	45.00	555,665	45.00	397,099
Shin-Ei Yorkey International Ltd. ....	50.00	16,957	50.00	12,934
Abico International Holding Co., Ltd.....	100.00	147,896	—	—
Ability International Investment Co., Ltd...	99.99	213,581	99.99	218,432
Taiwan Imaging Systems Inc. ....	93.25	23,734	93.25	21,427
King Ability Enterprise Co., Ltd. ....	—	—	67.50	9,493
Ability International Rent Co., Ltd. ....	44.95	10,204	44.95	10,119
Canon Marketing (Taiwan) Co., Ltd. ....	48.87	35,057	48.87	61,145
Abico Automation Co., Ltd.....	48.00	2,342	48.00	2,370
Abiconet International Co., Ltd. ....	40.00	20,348	40.00	19,417
Taiwan Daiosh Co., Ltd. ....	39.86	6,756	39.86	9,157
Guangdong United Optical Instrument Co., Ltd. ....	22.85	33,890	22.85	30,384
Area East Technology Corp. ....	—	—	22.22	10,018
The Progress Business Management Consultants Corp. ....	20.00	1,058	20.00	1,000
Subtotal.....		<u>1,169,098</u>		<u>1,027,882</u>
Cost method:				
E-Ten Information Systems Co., Ltd. ....	3.40	67,981	3.40	67,981
Xander International Corp.....	0.38	8,202	—	—
Power World Fund, Inc. ....	2.84	25,000	2.84	25,000
Jung Shing Wire Co., Ltd. ....	0.34	2,781	1.67	12,177
Shing Kong Financial Holding Co., Ltd. ...	0.02	10,565	—	—
Power World Securities Co., Ltd.....	—	—	0.57	20,000
Teamcam Information Corp.....	—	—	5.59	15,502
Taiwan Ohara Optical Co., Ltd. ....	7.00	14,000	7.00	14,000
Taiwan Video & Monitor Corp. ....	1.28	15,063	1.28	15,063
CC&C Technologies, Inc. ....	1.00	7,200	1.00	7,200
Vivavr Technology Co., Ltd. ....	2.08	3,546	4.85	7,092
Breeze Digital Technology Co., Ltd. ....	9.80	4,900	9.80	4,900
Presto Computer Turn-up Network Inc.....	9.33	3,663	9.33	3,663
Featron Computer Co., Ltd. ....	2.09	—	2.09	—
Minton Optic Industry Co., Ltd. ....	4.91	68,400	4.91	68,400
Wan Hai Lines Ltd. ....	0.03	5,464	0.10	22,591
Cathay Financial Holding Co., Ltd. ....	—	11,044	—	5,900
Cathay United Bank.....	—	—	0.04	5,129
King Ability Enterprise Co., Ltd. ....	19.50	2,400	—	—
Chiabon Venture Capital Co., Ltd. ....	10.00	100,000	—	—
General Plastic Industrial Co., Ltd. ....	0.66	22,400	—	—
Area East Technology Corp. ....	15.36	10,075	—	—
Datd Image Corporation ....	1.67	7,500	—	—
Subtotal.....		<u>390,184</u>		<u>294,598</u>
Total.....		1,559,282		1,322,480
Accumulated exchange effect.....		3,082		18,144
Less: allowance for valuation loss of long-term investment.....		<u>(56,296)</u>		<u>(65,256)</u>
Net amount of long term investments.....		<u>\$1,506,068</u>		<u>\$1,275,368</u>

The following is a summary of the original costs of investments under the equity method accounting:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Avy Co., Ltd.....	\$—	\$1,527
Avy Precision Metal Product (Suzhou) Co., Ltd.....	65,976	59,349
Gold Market Investments Ltd - Samon.....	61,075	61,075
Yorkey Optical International Ltd.....	241,051	241,051
Shin-ei Yorkey International Ltd.....	12,934	12,934
Abico International Holding Co., Ltd.....	39,602	—
Canon Marketing (Taiwan) Co., Ltd.....	61,145	61,145
Ability International Investment Co., Ltd.....	198,994	198,994
Taiwan Imaging Systems Inc.....	17,850	17,850
King Ability Interprise Co., Ltd.....	—	8,960
Yorkey Investment Ltd.....	—	316
Ability International Rent Co., Ltd.....	8,990	8,990
Abico Automation Co., Ltd.....	2,880	2,880
ABICONet International Co., Ltd.....	20,000	20,000
Taiwan Daiosh Co., Ltd.....	13,950	13,950
Guangdong United Optical Instrument Co., Ltd.....	28,097	28,097
Area East Technology Corp.....	—	10,000
The Progress Business Management Consultants Corp.....	10,000	10,000
	<u>\$782,544</u>	<u>\$757,118</u>

For 2002 and 2001, the original costs and investment income (loss) of investments under equity method were as follows:

	<u>2002</u>	<u>2001</u>
Yorkey Optical International Ltd.....	\$143,696	\$156,048
Shin-ei Yorkey International Ltd.....	4,023	—
Avy Co. Ltd (BVI).....	(122)	378
Avy Precision Metal Product (Suzhou) Co., Ltd.....	(13,918)	(6,357)
Gold Market Investments Ltd. - Samoa.....	2,586	(7,752)
Abico International Holding Co., Ltd.....	108,294	—
Ability International Investment Co., Ltd.....	(4,851)	782
Taiwan Imaging Systems Inc.....	2,307	3,066
King Ability Interprise Co., Ltd.....	(342)	220
Canon Marketing (Taiwan) Co., Ltd.....	(26,088)	—
Ability International Rent Co., Ltd.....	85	71
Abico Automation Co., Ltd.....	(28)	(510)
ABICONet International Co., Ltd.....	1,931	(583)
Yorkey Investment Ltd.....	(10,662)	(11,417)
The Progress Business Management Consultants Corp.....	58	—
Taiwan Daiosh Co., Ltd.....	(2,401)	(3,780)
Guangdong United Optical Instrument Co., Ltd.....	6,159	4,671
Area East Technology Corp.....	57	18
	<u>\$210,784</u>	<u>\$134,855</u>

In 2002, the Consolidated Company's long term investment income or loss from Yorkey Investment Ltd, Canon Marketing (Taiwan) Co., Ltd, Abico Automation Co., Ltd, ABICONet International Co., Ltd, Taiwan Daiosh Co., Ltd, Guangdong United Optical Instrument Co., Ltd, Area East Technology Corp. and 2001, Yorkey Investment Ltd, Abico Automation Co., Ltd, ABICONet International Co., Ltd, Taiwan Daiosh Co., Ltd, Guangdong United Optical Instrument Co., Ltd, Area East Technology Corp, The Progress Business Management Consultants Corp, were deferred for one year but no longer than next half-year financial reports according to Criteria Governing the Preparation of Financial Reports by Securities Firms. The investment losses from by equity method were NT\$30,974 thousand and NT\$11,601 thousand in 2002 and 2001 respectively.

In order to expand to the market of Mainland China, the Consolidated Company invested to Guangdong United Optical Instrument Co., Ltd (and the percentage of ownership was 22.85%) in 1999 and had approved by letter no. 88732635 issued by Investment Commission Ministry of Economy Affairs. As of December 31, 2002, the Consolidated Company had invested NT\$28,097 thousand (HKD6,900 thousand).

For the purpose of developing global marketing, the Consolidated Company invested in 48.73% of Canon Marketing (Taiwan) Co., Ltd. (original name: Formerly Taiwan Copyer Co., Ltd.) in March 2001. The Consolidated Company subscribed 49% of Canon Marketing (Taiwan) Co., Ltd.'s increased cash capital, NT\$42,000 thousand, on June 26, 2001 and the percentage of ownership had changed from 48.73% to 48.87%. As of December 31, 2002, the Consolidated Company had invested NT\$61,145 thousand.

The Consolidated Company sold 576 shares of King Ability Enterprise Co., Ltd in March 2002, so the percentage of ownership decreased from 67.50% to 19.50% and the Company also lost the significant influence to King Ability Enterprise Co., Ltd. The accounting valuation method had changed from equity method to cost method. The carrying value of investment was reduced to reflect the market value and long-term investments were stated at cost.

Teamcam Information Corp. reduced its capital by NT\$140,000 thousand (40%) on July 17, 2001. The Consolidated Company recognized investment losses NT\$10,334 thousand on December 31, 2000. The Board of Directors of Teamcam Information Corp. decided to merge with Xander Information Corp. on April 2, 2002. The conversion ratio for Teamcam Information Corp. to Xander International Corp. was 4.5 to 1, and the merger date was September 1, 2002. The Consolidated Company recognized permanent investment losses of NT\$7,300 thousand in 2002.

Area East Technology Corp. increased cash capital of NT\$20,100 thousand on June 11, 2002. Because the Consolidated Company didn't subscribe, the percentage of ownership was reduced from 22.22% to 15.36%. The Consolidated Company lost its significant influence and the accounting valuation method had changed from equity method to cost method. The carrying value of investment was reduced to reflect the market value and long-term investments were stated at cost.

Vivavr Technology Co., Ltd reduced capital by NT\$60,002 thousand (50%) on January 15, 2002. The Consolidated Company recognized investment losses of NT\$3,546 thousand according to the capital reduction on March 31, 2002.

The Consolidated Company invested 100% of Abico International Holding Co., Ltd. to expand the market of Mainland China in March 2002. As of December 31, 2002, the Consolidated Company had invested NT\$39,602 thousand (US\$1,129 thousand).

## 6. RENTAL ASSETS

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Cost:		
Land .....	\$186,999	\$266,843
Buildings .....	274,078	384,959
Equipments .....	<u>436,188</u>	<u>514,033</u>
Subtotal .....	897,265	1,165,835
Less: accumulated depreciation .....	<u>(287,900)</u>	<u>(258,646)</u>
Net rental assets .....	<u>\$609,365</u>	<u>\$907,189</u>

As of December 31, 2002 and 2001, please refer to note 17 for pledged assets of the rental assets.

As of December 31, 2002 and 2001, the insurance coverage for rental assets amounted to NT\$331,857 thousand and NT\$331,360 thousand, respectively.

## 7. PROPERTIES AND EQUIPMENT

As of December 31, 2002 and 2001, please refer to note 17 for pledged assets of the properties and equipment.

As of December 31, 2002 and 2001, the insurance coverage for fixed assets amounted to NT\$433,977 thousand and NT\$326,611 thousand, respectively.

## 8. SHORT-TERM BORROWINGS

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Mortgage borrowing.....	\$307,570	\$132,544
Credit loans .....	273,140	369,980
Letters of credit .....	1,801	69,728
Total .....	<u>\$582,511</u>	<u>\$572,252</u>

The interest rates for the above loans were 1.88%~6.50% and 2.60%~7.26% on 2002 and 2001, respectively. The due dates are within one year.

As of December 31, 2002 and 2001, details of pledged assets are summarized in note 17.

As of December 31, 2002 and 2001, unused credit lines available for borrowing amounted to NT\$1,746,205 thousand and NT\$1,533,320 thousand.

## 9. SHORT-TERM NOTES AND BILLS PAYABLE

	<u>December 31, 2002</u>		<u>December 31, 2001</u>	
	<u>Amount</u>	<u>Interest rate %</u>	<u>Amount</u>	<u>Interest rate %</u>
Commercial paper payables.....	\$228,000	1.88~2.65	\$260,000	2.53~4.50
Less: discount .....	(805)		(750)	
	<u>\$227,195</u>		<u>\$259,250</u>	

As of December 31, 2002 and 2001, commercial paper payables of merger were guaranteed by Union Bills Finance Corp., Mizuho Corporate Bank, Ltd., Bank of Tokyo-Mitsubishi Ltd., Union Bills Finance Corp., and Dai-Ichi Kangyo Bank.

As of December 31, 2002 and 2001, unused credit line available for short-term notes and bills amounted to NT\$122,000 thousand and NT\$156,072 thousand, respectively.

## 10. BONDS PAYABLE

	<u>December 31, 2002</u>		<u>December 31, 2001</u>	
	<u>Amount</u>	<u>Interest rate %</u>	<u>Amount</u>	<u>Interest rate %</u>
First issuance of secured corporate bond.....	\$300,000	5.5	\$300,000	5.5
Less: current portion.....	(300,000)		—	
	<u>\$—</u>		<u>\$300,000</u>	

As of April 12, 2000, the Board of Directors approved the first issuance of domestic corporate bond of NT\$300,000 thousand with par value of NT\$1,000 thousand, 5.5% interest rate from May 4, 2000 to May 4, 2003. The interests with simple compounding will be paid annually and the principal will be paid back on the maturity. The issuance was authorized on April 21, 2000 via file No. 32941 issued by SEC and the amount fully received in May 2000.

## 11. EMPLOYEE RETIREMENT BENEFITS

The following table sets forth the plan's funding status and the amounts recognized in the balance sheet of Ability Enterprise Co., Ltd's company as of December 31, 2002 and 2001:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Benefit obligation:		
Vested benefit obligation .....	\$3,289	\$—
Non-vested benefit obligation .....	92,958	85,608
	<u>          </u>	<u>          </u>
Accumulated benefit obligation.....	96,247	85,608
Present value of increase in future compensation .....	68,517	76,221
	<u>          </u>	<u>          </u>
Projected benefit obligation (PBO) .....	164,764	161,829
Plan assets at present value .....	(107,784)	(102,233)
	<u>          </u>	<u>          </u>
Excess of assets over PBO.....	56,980	59,596
Unrecognized net obligations at transition.....	(32,026)	(33,021)
Unrecognized pension loss .....	(22,204)	(24,980)
Amount that should be accrued for pension cost .....	—	—
	<u>          </u>	<u>          </u>
Accrued pension cost.....	<u>\$2,750</u>	<u>\$1,595</u>

The employees' vested benefits according to Ability Enterprise Co., Ltd's retirement plan amounted to NT\$4,328 thousand and zero.

The following table sets forth the plan's funding status and the amounts recognized in the balance sheet of Avy Co., Ltd. as of December 31, 2002 and 2001:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Benefit obligations:		
Vested benefit obligation .....	\$1,120	\$393
Non-vested benefit obligation .....	19,814	15,264
	<u>          </u>	<u>          </u>
Accumulated benefit obligation.....	20,934	15,657
Present value of increase in future compensation .....	9,349	6,438
	<u>          </u>	<u>          </u>
Projected benefit obligation (PBO) .....	30,283	22,095
Plan assets at present value .....	(5,422)	(6,087)
	<u>          </u>	<u>          </u>
Excess of assets over PBO.....	24,861	16,008
Unrecognized net obligations at transition.....	(14,947)	(7,241)
Unrecognized pension loss .....	(8,175)	(8,656)
Amount that should be accrued for pension cost .....	13,773	9,459
	<u>          </u>	<u>          </u>
Accrued pension cost.....	<u>\$15,512</u>	<u>\$9,570</u>

The Avy Co., Ltd. employees' vested benefits according to the Avy Co., Ltd's retirement plan amounted to NT\$1,271 thousand and NT\$393 thousand for the years 2002 and 2001.

Ability Enterprise Co., Ltd's net periodic pension cost for the years 2002 and 2001 were as follows:

	<u>2002</u>	<u>2001</u>
Service cost .....	\$5,548	\$9,325
Interest cost .....	7,534	8,627
Expected return on plan assets .....	(4,960)	(6,049)
Amortizations and deferrals .....	<u>3,618</u>	<u>3,330</u>
	<u>\$11,740</u>	<u>\$15,233</u>

Ability Enterprise Co., Ltd's pension funds had paid for the years 2002 and 2001 amounted to NT\$10,585 thousand and NT\$11,646 thousand, respectively.

The net periodic pension cost of Avy Co., Ltd. for the years 2002 and 2001 were as follows:

	<u>2002</u>	<u>2001</u>
Service cost .....	\$1,555	\$1,420
Interest cost .....	900	927
Expected return on plan assets .....	(250)	(415)
Amortizations and deferrals .....	<u>790</u>	<u>481</u>
	<u>\$2,995</u>	<u>\$2,413</u>

The pension funds of Avy Co., Ltd. had paid for the years 2002 and 2001 amounted to NT\$1,367 thousand and NT\$1,389 thousand, respectively.

Major assumptions used to determine Ability Enterprise Co., Ltd's information are as follows:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Discount rate .....	3.75%	4.75%
Rate of increase in future compensation .....	2.75%	3.50%
Expected long-term rate of return on plan assets .....	3.75%	4.72%

Major assumptions used to determine the information of Avy Co., Ltd. are as follows:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Discount rate .....	3.50%	4.00%
Rate of increase in future compensation .....	3.00%	3.00%
Expected long-term rate of return on plan assets .....	3.50%	4.00%

## 12. SHAREHOLDERS' EQUITY

### (1) Common stock

The shareholders' meeting of the Ability Enterprise Co., Ltd. held on May 31, 2001 resolved to transfer capital surplus of NT\$56,201 thousand and earnings of NT\$56,201 thousand to capital as 11,240 thousand shares. The issuance was authorized and registered with government authorities. After the transfer, the capital of Ability Enterprise Co., Ltd was NT\$1,985,770 thousand.

The shareholders' meeting of Ability Enterprise Co., Ltd. held on May 27, 2002 resolved to transfer earnings of NT\$119,146 thousand to capital. The issuance was authorized and registered with government authorities on July 1, 2002. As of July 31, 2002, total issuance of common stocks amounted to 11,914 shares, and capital of the Consolidated Company was NT\$2,104,916 thousand.

On August 23, 2002, the shareholder's meeting of Ability Enterprise Co., Ltd. approved the merge with Viewquest Technologies Inc. by issuing new shares of 77,786,486. The merger date was January 1, 2003. After the merger, the authorized capital of Ability Enterprise Co., Ltd. was NT\$5,400,000 thousand while paid-in capital was NT\$2,882,781 thousand.

**(2) Capital surplus**

According to the R.O.C. Company Law, capital surplus can only be used to offset a deficit or to increase capitals, and cannot be distributed as cash dividends. The amount of such capitalization depends on the result of operations, and cannot be over a certain ratio of transferred paid-in capital in excess of par value. Securities and Futures Commission, Ministry of Finance regulations stipulate that increasing capital derived from transferring additional paid-in capital can be done only once a year and only in the year other than the year in which such excess arose.

**(3) Legal reserve**

The R.O.C. Company Law stipulates that a company must retain 10% of its annual earnings as legal reserve until such retention equals to the amount of capital. The legal reserve may be used to offset an accumulated deficit, but cannot be distributed as cash dividends. However, 50% of the legal reserve may be converted to share capital when it reaches the amount equal to one-half of issued share capital upon resolution by the Consolidated Company's stockholders.

Currently SFC regulations stipulate that legal reserve can be used to increase share capital but have to offset the accumulated deficit first.

**(4) Earnings appropriation**

According to Securities Exchange Law No. 41, the Ability Enterprise Co., Ltd may additionally reserve the amount equal to any valuation or contra-account in the stockholders' equity in the fiscal year (such as unrealized losses on valuation of long-term investment, cumulative translation adjustments, etc.) from the net income and equity from prior periods; the same amount from prior period earnings should be reserved as special reserve and can not be distributed. If the valuation or contra-account of stockholders' equity is reversed, the special reserve amount could be distributed.

According to the R.O.C. Company Law and the Ability Enterprise Co., Ltd articles of incorporation, the Ability Enterprise Co., Ltd earnings are to be appropriated in the following order:

- a. Offset prior years' deficit (if any);
- b. 10% is to be set aside as legal reserve;
- c. A special reserve as deemed appropriation;
- d. The remaining balance is to be appropriated as follows: (1) 3% as directors' and supervisors' remuneration, (2) 10~15% as employees' bonus, and (3) the distribution of the remaining balance and undistributed earnings from previous year was decided by shareholders' meeting.

The Ability Enterprise Co., Ltd dividend policy requires that parts of dividend should be stock dividend to maintain operation. For satisfying stockholders' need of cash inflow, the percentage of cash dividend was made no less than 10%.

The board of directors has not yet approved the earnings appropriation for year 2002 until the date of the independent auditors' report. Please refer Market Observation Post System for the Ability Enterprise Co., Ltd earnings distribution in 2002.

In 2002, the Board of Directors of Ability Enterprise Co., Ltd resolved to appropriate the year 2001 earnings are follows: employees' bonus amounted to NT\$7,525 thousand, and the Board's remuneration amounted to NT\$5,017 thousand, The information about EPS was showed in note 15.

- (5) As of December 31, 2002 and 2001, the shareholders' imputation credit account, and the imputation credit ratio of Ability Enterprise Co., Ltd were summarized as follows:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Imputation credit account.....	\$9,227	\$36,517
	<u>2002</u>	<u>2001</u>
Expected (Actual) imputation credit account .....	2.54%	5.24%

- (6) As of December 31, 2002 and 2001, the unappropriated earnings of Ability Enterprise Co., Ltd were summarized as follows:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Unappropriated earnings 1997 and before.....	\$855	\$855
Unappropriated retained earnings since 1998.....	363,612	339,566
	<u>\$364,476</u>	<u>\$340,412</u>

The stockholders' imputation tax credit accounts and the imputed tax credit include tax payable of the fiscal year.

According to the R.O.C. Income Tax Law, the shareholders' imputation credit except 10% income tax levied on unappropriate retained earnings under the Integrated Income Tax System cannot be used by non-resident alien to offset his tax payable computed on dividends on earnings generated in the R.O.C.

### 13. TREASURY STOCK

<u>Reason</u>	<u>January 1, 2001</u>	<u>Increase in this period</u>	<u>Decrease in this period</u>	<u>December 31, 2001</u>
Transfer to employee .....	\$3,954	—	\$3,954	—

R.O.C. Securities Exchange Law regulates that corporation's purchase of their own stocks cannot be above 10% of issued shares, and the dollar amount of purchase cannot be more than the retained earnings plus reserve for capital increase and realized capital surplus. In 2000, the maximum of treasury stock was 3,954 thousand shares, the dollar amount of purchase was NT\$60,120 thousand, which is under the upper limit 10,000 thousand shares and NT\$424,281 thousand. In April, 2001, the treasury stock was purchased by employees at NT\$18.8 per share, premium on treasury stock was NT\$13,992 thousand which has been transferred to paid-in capital.

The Consolidated Company's treasury stock is without right to vote and receive dividend, as well as can't be pledged in accordance with SFC regulation.

#### 14. INCOME TAX

According to R.O.C. Income Tax Law, each company should file its own tax return instead of one consolidated company.

The Consolidated Company is subject to the income tax rate of 25 percent. The provision for income taxes for 2002 and 2001 were as follows:

	<u>2002</u>	<u>2001</u>
Current income tax expense .....	\$1,803	\$18,949
10% income taxes on unappropriated retained earnings .....	2,625	2,829
Deferred income tax expense .....	14,228	(3,643)
	<u>\$18,656</u>	<u>\$18,135</u>

The differences between "expected" income taxes at the statutory income tax rate and the income tax as reported in the accompanying financial statements for 2002 and 2001 were summarized as follows:

	<u>2002</u>	<u>2001</u>
Income tax at statutory rate .....	\$33,059	\$96,238
Tax-free collection revenue - land.....	—	(10,144)
Tax-free dividend revenue.....	(978)	(1,734)
Gains on sale of securities .....	10,878	(29,011)
Gains on investment accounted for under the equity method .....	(36,181)	(39,859)
10% income taxes on unappropriated retained earnings .....	2,625	2,829
Tax credit .....	(2,804)	(3,367)
Adjustment of prior years' estimated income taxes.....	(6,401)	(182)
Estimated adjustment of deferred income tax asset.....	8,217	2,456
The increment of allowance for income tax asset.....	1,825	—
Others.....	8,416	909
	<u>\$18,656</u>	<u>\$18,135</u>

The deferred income tax expenses consisted of the following:

	<u>2002</u>	<u>2001</u>
Reversal on losses on investment recognized according to equity-method .....	\$1,574	\$(698)
Reversal on long-term investment loss .....	(1,825)	2,583
Reversal on short-term investment unrealized loss .....	6,484	(2,939)
Gain on recovery of inventory valuation losses .....	1,133	1,238
Adjustment for bad debt for tax purposes.....	(1,097)	1
Sales allowance in the past received at this time.....	—	999
The approved number of discarding inventory .....	—	138
Adjustment for pension expense for tax purposes.....	(281)	(904)
Difference between depreciation method of financial and tax purposes.....	7,603	(5,111)
(Un)realized gain on inter-affiliate accounts.....	(302)	(62)
Unrealized gain on foreign currency exchange .....	(369)	1,163
The increment of allowance for income tax asset .....	1,825	—
Others.....	(517)	(51)
	<u>\$14,228</u>	<u>\$(3,643)</u>

The Consolidated Company's deferred income tax assets were as follows:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Current:		
Deferred income tax asset.....	\$12,507	\$26,408
Allowance for valuation of deferred income tax assets.....	—	—
Net deferred income tax assets .....	12,507	26,408
Deferred income tax liabilities.....	5	972
Current deferred income tax asset, net.....	<u>\$12,502</u>	<u>\$25,436</u>
Noncurrent:		
Deferred income tax assets .....	\$9,411	\$8,880
Allowance for valuation of deferred income tax asset .....	7,545	5,720
Net deferred income tax asset.....	1,866	3,160
Deferred income tax liabilities.....	—	—
Noncurrent deferred income tax asset (liabilities), net .....	<u>\$1,866</u>	<u>\$3,160</u>
Total deferred income tax assets .....	<u>\$21,918</u>	<u>\$35,288</u>
Total deferred income tax liabilities.....	<u>\$5</u>	<u>\$972</u>
Total allowance for valuation of deferred income tax asset .....	<u>\$7,545</u>	<u>\$5,720</u>

The tax effects of temporary differences incurred from deferred income tax assets and liabilities as of December 31, 2002 and 2001 were presented below:

	December 31, 2002		December 31, 2001	
	Amount	Income tax effect	Amount	Income tax effect
Deferred income tax asset:				
Losses on investment accounted for under the equity method .....	\$—	\$—	\$6,296	\$1,574
Losses on decline in market value of long-term investment .....	30,177	7,545	22,877	5,720
Losses on inventory valuation .....	5,974	1,493	10,507	2,626
Adjustment for bad debt for tax purposes ..	26,153	6,538	21,762	5,441
Adjustments of depreciation expense for tax purposes .....	13,688	3,422	44,102	11,025
Unrealized losses on valuation of long-term investment .....	—	—	25,938	6,484
Unrealized gain on inter-affiliate accounts .	—	—	2,862	716
Unrealized loss on foreign currency exchange .....	—	—	66	17
Adjustment for pension expense for tax purposes .....	7,469	1,867	6,345	1,586
Others.....	4,211	1,053	394	99
		21,918		35,288
Valuation of allowance .....		(7,545)		(5,720)
		<u>\$14,373</u>		<u>\$29,568</u>
Deferred income tax liabilities:				
Unrealized gain on foreign currency exchange .....	\$19	\$5	\$3,632	\$908
Other .....		—	255	64
		<u>\$5</u>		<u>\$972</u>

The National Tax Administration of Taipei has reviewed the tax return of the Consolidated Company through 2000. There was no unpaid tax for 2000.

#### 15. EARNINGS PER SHARE

	2002				
	Amount		Shares	Earnings per share	
	Before tax	After tax		Before tax	After tax
(In New Taiwan Dollars)					
Basic earnings per share:					
Net income for basis earnings per common stock .....	<u>\$249,336</u>	<u>\$230,680</u>	<u>210,492</u>	<u>\$1.18</u>	<u>\$1.10</u>

	2001				
	Amount		Shares	Earnings per share	
	Before tax	After tax		Before tax	After tax
(In New Taiwan Dollars)					
Basic earnings per share:					
Net income for basis earnings per common stock .....	\$354,754	\$336,619	198,577	\$1.79	\$1.70
Net income for retroactively basis earnings per common stock .....	\$354,754	\$336,619	210,492	\$1.69	\$1.60
Diluted earnings per share:					
Net income after distributing directors' and supervisors' remuneration and employees' bonus .....		\$324,077	198,577		\$1.63
Net income after distributing directors' and supervisors' remuneration and employees' bonus retroactively .....		\$324,077	210,492		\$1.54

## 16. RELATED PARTY TRANSACTIONS

### (1) Names and relationships of related parties

Name	Relationship with the Consolidated Company
King Ability Enterprise Co., Ltd.	Invested company measured by equity method (changed to cost method on March, 2002)
Taiwan Imaging Systems Inc.	Invested company measured by equity method
Taiwan Daiohs Co., Ltd.	Invested company measured by equity method
Area East technology Corp.	Invested company measured by equity method
Canon Marketing (Taiwan) Co., Ltd.	Invested company measured by equity method
Ability International Investment Co., Ltd.	Invested company measured by equity method
Abico International Holding Co., Ltd.	Invested company measured by equity method
Conon Inc.	The Consolidated Company's major suppliers
Xander International Corp.	The Consolidated Company was one of the directors in this company (Relationship has extinguished after merger)
Taishiba International Co., Ltd.	The director is the chairman of the Consolidated Company
Yu-Ho Foods Co., Ltd.	The chairman is the supervisor of the Consolidated Company
Jia Nai Investment Corp.	The chairman's close relatives, etc. and the directors of the entity
The Progress Business Management Consultants Corp.	The chairman is Avy Co., Ltd's manager
Yorkey Investment Ltd.	Invested company of Avy Co., Ltd. measured by equity method
Ability International Rent Co., Ltd.	The chairman is the supervisor of the Avy Co., Ltd.
Dongguan Cheungguang Precision Hardware Co., Ltd.	The invested company's 100% owned subsidiary
Avy Precision Metal Product (Suzhou) Co., Ltd.	Avy Co., Ltd.'s 100% use abandon method owned subsidiary in China
Gold Market Investment Ltd. - Samoa	Invested company of Avy Co., Ltd. measured by equity method
Others	Related parties defined by R.O.C. SFAS No. 6

(2) **Significant transactions with related parties**

1) *Sales and accounts receivable*

The following is a summary of combined company significant transactions with related parties as of year, 2002 and 2001:

	2002		2001	
	Amount	Percentage of revenue	Amount	Percentage of revenue
Yu-Ho Foods Co., Ltd.....	\$786,362	28	\$487,986	18
Canon Marketing (Taiwan) Co., Ltd.....	207,771	8	379,012	14
Area East Technology Corp.....	1,007	—	31,054	1
King Ability Enterprise Co., Ltd.....	23,009	1	15,301	1
Taiwan Imaging Systems Inc.....	9,026	—	14,054	—
Avy Co., Ltd.....	40,041	2	7,330	—
Xander International Corp.....	—	—	4,568	—
Dongguan Cheungguang Precision Hardware Co., Ltd..	59,531	2	15,505	1
Others.....	414	—	835	—
<b>Total .....</b>	<b>\$1,127,161</b>	<b>41</b>	<b>\$955,645</b>	<b>35</b>

The collecting periods of the Consolidated Company's receivables are within one to six months for related parties and one to three months for non-related parties. The sales prices for Xander International Corp. are the same for non-related parties. The markup ratios to Taiwan Imaging System Inc., Canon Marketing (Taiwan) Co., Ltd, Yu-Ho Foods Co., Ltd. are 1% to 5% of cost. The prices for other related parties are 10% to 20% less than prices for non-related parties or the same as distributors.

Accounts receivable to related parties as of December 31, 2002 and 2001 were as follows:

	December 31, 2002		December 31, 2001	
	Amount	%	Amount	%
Notes receivable				
Yu-Ho Foods Co., Ltd.....	\$198,138	99	\$212,912	95
Canon Marketing (Taiwan) Co., Ltd.....	1,480	1	9,827	4
King Ability Enterprise Co., Ltd.....	534	—	1,158	1
Other.....	192	—	235	—
<b>Total .....</b>	<b>\$200,344</b>	<b>100</b>	<b>\$224,132</b>	<b>100</b>

	December 31, 2002		December 31, 2001	
	Amount	%	Amount	%
Accounts receivable				
Canon Marketing (Taiwan) Co., Ltd.....	\$14,186	8	\$68,557	41
Yu-Ho Foods Co., Ltd.....	62,893	33	46,462	28
Dongguan Cheungguang Precision Hardware Co., Ltd.....	54,563	29	38,855	23
Avy Precision Metal Product (Suzhou) Co., Ltd.....	49,529	26	8,583	5
Taiwan Imaging Systems Inc.....	2,315	1	2,773	2
King Ability Enterprise Co., Ltd.....	5,389	3	829	1
Yorkey International Ltd.....	—	—	532	—
Others.....	524	—	573	—
<b>Total .....</b>	<b>\$189,399</b>	<b>100</b>	<b>\$167,164</b>	<b>100</b>

2) *Purchases and accounts payable*

Significant purchases with related parties for the year ended December 31, 2002 and 2001 were as follow:

	2002		2001	
	Amount	Percentage of purchases	Amount	Percentage of purchases
Conon Inc.....	\$506,440	23	\$838,231	45
Canon Marketing (Taiwan) Co., Ltd. ....	33,066	2	—	—
Taishiba International Co., Ltd...	41,913	2	37,673	2
Ability International Rent Co., Ltd. ....	29,896	1	5,700	—
Dongguan Cheungguang Precision Hardware Co., Ltd..	5,237	—	—	—
Avy Precision Metal Product (Suzhou) Co., Ltd.....	3,060	—	—	—
Others.....	—	—	3,094	—
<b>Total .....</b>	<b>\$619,612</b>	<b>28</b>	<b>\$884,698</b>	<b>47</b>

The Consolidated Company's purchases from Canon Inc. has been paid by forward L/C or T/T within fifteen days, while others payables to related parties' were within one to six months. Payables to supplier were by promissory note within one to three months.

Purchases and accounts payable with related parties as of December 31, 2002 and 2001 were as follows:

	December 31, 2002		December 31, 2001	
	Amount	%	Amount	%
<b>Accounts payable:</b>				
Canon Inc.....	\$35,288	42	\$86,308	77
Ability International Rent Co., Ltd. ....	14,874	18	—	—
Yu-Ho Foods Co., Ltd.....	15,788	19	9,827	9
Canon Marketing (Taiwan) Co., Ltd.....	17,175	20	—	—
Taishiba International Co., Ltd.....	62	—	8,854	8
Dongguan Cheungguang Precision Hardware Co., Ltd.....	—	—	3,223	3
Other.....	846	1	3,519	3
	<b>\$84,033</b>	<b>100</b>	<b>\$111,731</b>	<b>100</b>
<b>Notes payable:</b>				
Ability International Rent Co., Ltd. ....	\$—	—	\$3,347	7
Canon Marketing (Taiwan) Co., Ltd.....	—	—	1,757	4
	<b>\$—</b>	<b>—</b>	<b>\$5,104</b>	<b>11</b>

3) *Assets transaction*

- A. The Consolidated Company's long-term investment purchased from the related parties for the year ended December 31, 2001, were as follows:

<b>2001</b>		
	<b>Content</b>	<b>Amount</b>
Abico International Holding Co., Ltd. . . .	Purchase long-term investment - Canon Marketing (Taiwan) Co., Ltd. 2,047,000 shares	\$40,565
Ability International Rent Co., Ltd. . . . .	Machinery and equipment	2,514
		<u>\$43,079</u>

Purchase price of long-term investment is the same as agreement. There is no material difference between the transaction price and the invested companies' net value. So there is no material effect for the Consolidated Company.

- B. The Consolidated Company's long-term investment and fixed assets sold to the related parties for the year ended December 31, 2002 and 2001 were as follows:

<b>2002</b>				
	<b>Name</b>	<b>Book value</b>	<b>Sales price</b>	<b>Profit</b>
Avy Precision Metal Product (Suzhou) Co., Ltd.	Machinery equipment	\$122	\$122	\$—
<b>2001</b>				
	<b>Name</b>	<b>Book value</b>	<b>Sales price</b>	<b>Profit</b>
Jia Nai Investment Corp.	Purchase long-term investments - Maxedge Electronics Corp.	\$14,990	\$14,990	\$—
Ability International Investment Co., Ltd.	Purchase long-term investment - Ability International Investment Co., Ltd.	10	10	—
		<u>\$15,000</u>	<u>\$15,000</u>	<u>\$—</u>

Accounts receivable from above transaction have been collected for the year ended December 31, 2002 and 2001.

4) *Lease*

- A. The Consolidated Company leased the building and warehouse from related parties. The rent expenses for the year ended December 31, 2002 and 2001 were as follows:

	<b>2002</b>		<b>2001</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Abico International Holding Co., Ltd. . . . .	\$7,229	62	\$7,211	57
Ability International Rent Co., Ltd. . . . .	—	—	1,250	10
	<u>\$7,229</u>	<u>62</u>	<u>\$8,461</u>	<u>67</u>

- B. The Consolidated Company leased the building to related parties. The rent revenue for the year 2002 and 2001 were as follows:

	2002		2001	
	Amount	%	Amount	%
Canon Marketing (Taiwan) Co., Ltd.....	\$5,132	13	\$5,388	12
Taiwan Imaging Systems Inc.....	590	2	904	2
Taishiba International Co., Ltd.....	1,315	3	832	2
King Ability Enterprise Co., Ltd. ....	516	1	516	1
Other .....	48	—	71	—
	<u>\$7,601</u>	<u>19</u>	<u>\$7,711</u>	<u>17</u>

- 5) *Other accounts receivable from related parties (Other current assets)*

The Consolidated Company loan to related parties for the year 2002 was as follow:

	2002				
	Highest Balance	Ending Balance	Interest Revenue	Interest Rate (%)	Foreclosure Offer
Yu - Ho Foods Co., Ltd.	\$32,700	\$15,000	\$392	5.15~5.35	Promissory note NT\$319,500 thousand
Taishiba International Co., Ltd.	35,000	28,800	508	2.70~3.28	Promissory note NT\$50,000 thousand
King Ability Enterprise Co., Ltd.	1,880	930	51	4.375~4.45	Promissory note NT\$2,000 thousand
		<u>\$44,730</u>	<u>\$951</u>		

- 6) *Other revenues*

The subsidy received from Canon Inc. were as follow:

	2002	2001
EMC and Maintenance Subsidy.....	\$—	\$31,275
Advertisement Subsidy.....	1,067	13,083
Donation Subsidy.....	—	7,888
Research and Development Subsidy .....	—	1,308
	<u>\$1,067</u>	<u>\$53,554</u>

All subsidies are listed as other revenue but advertisement expense reduced NT\$1,067 thousand and NT\$7,133 thousand, cost of goods sold reduced NT\$0 and NT\$27,780 thousand, donation expense reduced NT\$0 and NT\$7,888 thousand for the year ended December 31, 2002 and 2001, respectively. Accounts receivable balance were NT\$0 and NT\$16,942 thousand for the year ended December 31, 2002 and 2001, respectively.

The Consolidated Company revenue from offering service to The Progress Business Management Consultants Corp. amounted to NT\$2,640 thousand and NT\$3,140 thousand for the year ended December 31, 2002 and 2001, respectively.

The Consolidated Company revenue from offering technology skill to Dongguan Cheugguang Precision Hardware Co., Ltd. amounted to NT\$12,592 thousand and NT\$6,301 thousand for the year ended December 31, 2002 and 2001, respectively.

The Consolidated Company revenue from offering technology skill to Avy Precision Metal Product (Suzhou) Co., Ltd. amounted NT\$12,888 thousand and NT\$3,122 thousand for the year ended December 31, 2002 and 2001, respectively.

7) *Endorsement*

- A. AVY CO., LTD. providing endorsement of loan or notes for related parties as of December 31, 2002 and 2001 were as follows.

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Avy Co., Ltd. (B.V.I.) .....	\$8,000	\$24,500

- B. The related parties providing endorsements of loans or notes to Ability Enterprise Co., Ltd. for the year ended December 31, 2002 and 2001 were as follows:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Abico International Holding Co., Ltd. ....	\$190,300	\$190,300

**17. PLEDGED ASSETS**

The Consolidated Company provides rental assets, fixed assets or certificates of deposit as collaterals for the bank loan or issuance of commercial paper. As of December 31, 2002 and 2001, the book value of pledged assets were as follows:

<u>Collateral</u>	<u>Pledged to secure</u>	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Rental Assets:			
Land	Long-term loans/issuance of commercial paper	\$186,999	\$266,843
Buildings	Long-term loans/issuance of commercial paper	233,321	347,211
		<u>420,320</u>	<u>614,054</u>
Fixed Assets:			
Land	Long-term loans/issuance of commercial paper	273,499	266,843
Buildings	Long-term loans/issuance of commercial paper	367,584	347,211
		<u>641,083</u>	<u>457,374</u>
Time Deposits (recorded as other assets - non-current)	Bonds payable and posted to the count as collateral for lawsuit	28,017	33,000
Total		<u>\$1,089,420</u>	<u>\$1,104,328</u>

**18. COMMITMENTS AND CONTINGENCIES**

- (1) As of December 31, 2002 and 2001, in order to purchase inventories, the unused letters of credit of the Consolidated Company amounted to NT\$50,468 thousand and NT\$47,950 thousand, respectively.

(2) As of December 31, 2002 and 2001, the future lease payments of buildings were as follows:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
2002.1.1~2002.12.31 .....	\$—	\$7,146
2003.1.1~2003.12.31 .....	5,362	1,245
2004.1.1~2004.12.31 .....	1,266	144
2005.1.1~2005.12.31 .....	667	144
2006.1.1~2006.12.31 .....	667	144
2007.1.1~2007.12.31 .....	595	—
	<u>\$8,557</u>	<u>\$8,823</u>

(3) As of December 31, 2002 and 2001, fixed assets rented out were as follows:

<u>Leasee</u>	<u>Lease period</u>	<u>Rental calculation</u>	<u>Rent revenues for the year ended December 31, 2002</u>	<u>Rent revenues for the year ended December 31, 2001</u>
Starbucks Coffee Company	2000.1.8~2010.1.7 (1999.12.1~2009.11.30 originally)	Monthly rent has been changed from NT\$340 thousand (including tax) to NT\$290 thousand since August, 2001. The rent is collected on the first day of every month and adjusted three percent higher than the prior year.	\$3,317	\$3,717
Veri Fone Systems Pte. Ltd. Taiwan Branch	2000.9.1~2003.8.31	Monthly rent is NT\$824 thousand (including tax), payable on the first day of every month	9,414	8,629
Taiwan Business Bank	2001.6.20~2006.6.19	Monthly rental is NT\$984 thousand (including tax), paid semiannually within 7 working days	10,435	5,939

The detail schedule of yearly rent receivable in ten years were as follow:

<u>Year</u>	<u>Amount</u>	
2003.1.1~2003.12.31 .....	\$19,710	
2004.1.1~2004.12.31 .....	13,503	
2005.1.1~2005.12.31 .....	13,600	
2006.1.1~2006.12.31 .....	8,613	
2007.1.1~2007.12.31 .....	3,657	
2008.1.1~2010.1.7 .....	<u>11,491</u>	(Present value of NT\$8,167 with 5% interest rate)
Total .....	<u>\$70,574</u>	

- (4) The lawsuit case as of December 31, 2002 were as follow:

Wei Tai Kuang Co., Ltd. brought a civil claim against the Company on February 27, 1997. Wei Tai Kuang Co., Ltd. claimed to have made an agreement with the Company since June 1994. According to the agreement, the Company was obliged to recall its laser printers and electric components, originally sold to Wei Tai Kuang Co., Ltd. The Company, however, did not recall and pay back. As a result, Wei Tai Kuang Co., Ltd. filed a lawsuit for NT\$5,261 thousand and the related interests. The Court of Appeal made the second instance on April 29, 1999 and decided to reject the application. Wei Tai Kuang Co., Ltd. appealed, then The Supreme Court dismissed the judgment of The Court of Appeal on April 29, 1999. The Company appealed on again on January 28, 2000. On May 18, 2001, The Supreme Court dismissed the original judgment and sent it back to the second instance. The Court of Appeal dismissed the original judgment made on December 26, 2001, and Wei Tai Kuang Co., Ltd.'s first instance lawsuit and the application for provisional of execution were both rejected. Wei Tai Kuang Co., Ltd. was dissatisfied with the decision of the court of appeal and lodge an application for leave to appeal to The Supreme Court.

If the result is unfavorable to the Company, the maximum loss would be the amount referred above.

## 19. SUBSEQUENT EVENTS

For the purposes of integrating and enhancing business performance and competitiveness, Ability Enterprise Co., Ltd. merged with Viewquest Technologies Inc. on January 1, 2003. The conversion ratio for Viewquest Technologies Inc. to Ability Enterprise Co., Ltd. was 1.11 to 1. The increased share capital of Ability Enterprise Co., Ltd. was NT\$777,865 thousand.

## 20. FINANCIAL INSTRUMENTS

### (1) Derivatives

#### 1) *Notional amount and credit risk amount*

As of December 31, 2002, the Consolidated Company had cleared its derivatives accounts. All transaction revenues and losses related were listed as non-operating revenues or losses.

The notional amount, book value and credit risk amount as of December 31, 2001 were as follows:

<u>Category</u>	<u>December 31, 2001</u>		
	<u>Notional amount</u>	<u>Book value amount</u>	<u>Credit risk amount</u>
Currency forwards:			
Forward proceeds receivable-foreign currencies.....	USD1,200	\$41,973	—
Forward exchange settlement payable .....	TWD40,207	<u>(40,207)</u>	—
Forward proceeds receivable - net .....		<u>\$1,766</u>	

The credit risk amount, accounting for potential market risk and credit risk, represents the possibility that an accounting loss to the Consolidated Company may occur as a direct result of the counterparts' failure to meet their contractual obligations. The Consolidated Company only deals with the well-known financial institutions with excellent credit standing. Consequently, the Consolidated Company does not anticipate any significant credit risk.

#### 2) *Market price risk*

The Company engaged in currency forwards transactions and currency options for hedging purposes. The exchange rate risk exposure derived from future foreign currency fluctuations is expected to be offset by the effects of such changes on hedged transactions.

#### 3) *Liquidity risk, cash flow risk, forecasted amount, period and uncertainty of cash demands*

As of December 31, 2001 the cash outflow from derivative contracts was NT\$40,207 thousand and cash inflow was NT\$1,200 thousand. These contracts were due before January 16, 2002.

The Consolidated Company forecasted its working capital is adequate to meet its derivatives transaction needs. On that account, the Consolidated Company does not anticipate significant capital raising risk and cash flow risk.

- 4) The primary objective of holding forward contract and currency option transactions is to limit exchange rate exposures related to assets and liabilities denominated in foreign currency and foreign currency commitments. In order to be highly effective in achieving offsetting changes in fair market value attributable to the hedged risk, the Consolidated Company designates derivative instruments negatively correlated to the proportionate changes in the fair market value of hedged item as hedging tools. Moreover, the positions are monitored on a timely basis.
  - 5) As of December 31, 2002 and 2001, the Consolidated Company incurred transactional exchange gain amounted to NT\$322 thousand and NT\$2,460 thousand, respectively.
- (2) Fair market value and book value of financial instruments determined as December 31, 2002 and 2001 are as follows:

<b>Non-derivative financial instruments</b>	<b>December 31, 2002</b>		<b>December 31, 2001</b>	
	<b>Book value</b>	<b>Fair market value</b>	<b>Book value</b>	<b>Fair market value</b>
<b>Assets:</b>				
Cash and cash equivalents .....	\$316,498	\$316,498	\$448,376	448,376
Short-term investments .....	51,149	53,781	31,740	56,252
Notes receivable .....	47,767	47,767	65,282	65,282
Notes receivable - related parties .....	198,266	198,266	221,797	221,797
Accounts receivable .....	264,295	264,295	164,625	164,625
Accounts receivable - related parties .....	188,803	188,803	166,905	166,905
Other current assets .....	148,793	148,793	76,303	76,303
Long-term investments .....	1,506,068	1,470,575	1,275,368	1,144,599
Other non-current assets .....	56,902	56,802	67,594	67,594
<b>Liabilities:</b>				
Short-term borrowings .....	582,511	582,511	572,252	572,252
Short-term notes and bills payable .....	227,195	227,195	259,250	259,250
Notes payable .....	63,129	63,129	46,330	46,330
Accounts payable .....	218,471	218,471	89,359	89,359
Accounts payable - related parties .....	84,033	84,033	111,731	111,731
Accrued expenses .....	87,853	87,853	91,834	91,834
Other current liabilities .....	3,010	3,010	19,592	19,592
Bonds payable .....	300,000	300,000	300,000	300,000
Other liabilities .....	16,934	16,934	23,430	23,430

The methods and assumptions for estimating fair values of non-derivative financial instruments are as follows:

- 1) Short-term financial instruments, such as cash and cash equivalents, notes and accounts receivable, other current assets, notes and accounts payable, short-term borrowings, commercial papers payable, accrued expenses, and other current liabilities, are stated at book value because of short maturity of these instruments.
- 2) Short-term investments are valued at market price. If the information was not readily available, The Company would evaluate based on other information.
- 3) If the market value were available, long-term equity investments would be recorded at the market value. If it were not available, long-term equity investments would be recorded at the book value of invested companies on the balance sheet day.
- 4) The fair market values of statutory deposits and guarantee deposit were estimated by discounting future cash flow. The discount rate is based on the current loan rate of the market.

(3) Non-derivative financial instruments with off-balance sheet market price risk:

*Off-balance sheet*

<u>Financial instruments</u>	<u>December 31, 2002</u>		<u>December 31, 2001</u>	
	<u>Book value</u>	<u>Fair market value</u>	<u>Book value</u>	<u>Fair market value</u>
Letter of credit .....	\$—	\$50,468	\$—	\$47,950
Endorsements.....	—	8,000	—	24,500

The fair market value was based on the contract.

(4) **Non-derivative financial instruments with concentration of credit risk**

As of December 31, 2002 and 2001, the balance exceeds 5% of the balance of notes receivable, amounted to NT\$203,092 thousand and NT\$212,912 thousand, or 80.12% and 74.16%, respectively.

As of December 31, 2002 and 2001, the balance exceeds 5% of the balance of accounts receivable, amounted to NT\$244,238 thousand and NT\$132,330 thousand, or 52.36% and 39.91%, respectively.

**21. RECLASSIFICATION OF PREVIOUS FINANCIAL STATEMENTS**

To reconcile the accounting methods used in 2001 with that in 2002, some items were reclassified. The reclassifications were not considered significant.

**22. OTHERS**

(1) **Significant agency contracts**

- 1) Ability Enterprise Co., Ltd. signed the contract to act as an agent for Canon Hong Kong Co., Ltd. on December 31, 2002. The products consist of copy machine and facsimile machine. There are restriction terms including not to compete and sales area limit.
- 2) Ability Enterprise Co., Ltd. signed the contract to act as an agent for Canon Inc.'s microcopy system from February 17, 2002 to February 16, 2003. The contract renewed every year automatically if no disagreement. There is not to compete covenant in the contract.
- 3) Ability Enterprise Co., Ltd. signed the contract to act as Canon Singapore Pte. Ltd.'s agent in the Vietnam area from January 1, 2003 to December 31, 2003. Without the formal termination notices, the contract renewed per year automatically. There are restriction terms including not to compete and sales area limit.

- (2) The eliminated transactions between Ability Enterprise Co., Ltd. and its subsidiaries for 2002 are disclosed as follows:

<u>Transaction type</u>	<u>Account</u>	<u>Amount</u>
1. Elimination of shareholder's equity between consolidated companies	Common stock - AVY	\$260,000
	Common stock - BVI	247,503
	Unappropriated retained earnings - BVI	156,739
	Capital surplus - AVY	97,969
	Unappropriated retained earnings - AVY	95,198
	Legal reserve - AVY	41,870
	Cumulated translation adjustments - BVI	13,808
	Cumulated translation adjustments - AVY	3,294
	Preacquisition loss	(4,349)
	Net loss not recognized as pension cost - AVY	(5,598)
	Consolidated credit	(9,514)
	Minority interest	(178,488)
	Long-term investments - Ability Enterprise Co., Ltd.	(718,432)
2. Elimination of investment revenue/loss between consolidated companies	Investment income - Ability Enterprise Co., Ltd.	81,664
	Long-term investments - Ability Enterprise Co., Ltd.	(81,664)
3. Elimination of transactions between consolidated companies	Accounts payable - related parties - AVY	44,395
	Operating revenues - Ability Enterprise Co., Ltd.	42,106
	Accounts payable - related parties - Ability Enterprise Co., Ltd.	567
	Operating revenues - Ability Enterprise Co., Ltd.	540
	Operating revenues - Ability Enterprise Co., Ltd.	80
	Other revenues - Ability Enterprise Co., Ltd.	8
	General and administration expenses - AVY	(88)
	Other expenses - AVY	(540)
	Accounts receivable - related parties - AVY	(567)
	Operating costs - AVY	(42,106)
	Accounts receivable - related parties - Ability Enterprise Co., Ltd.	(44,395)
	4. Minority interest income	Minority interest
Minority interest loss		(42,459)
5. Amortization of consolidated credit	Consolidated credit	4,983
	Other revenues	(4,983)
6. Elimination of assets sold by Ability Enterprise Co., Ltd. to AVY	Transportation equipment - Ability Enterprise Co., Ltd.	2,238
	Deferred credit - Ability Enterprise Co., Ltd.	280
	Accumulated depreciation - AVY	67
	Gain on disposal of fixed assets - Ability Enterprise Co., Ltd.	58
	General and administration expenses - AVY	(58)
	Business equipment - AVY	(1,000)
	Accumulated depreciation - Ability Enterprise Co., Ltd.	(1,585)

- (3) The eliminated transactions between Ability Enterprise Co., Ltd. and its subsidiaries for 2001 are disclosed as follows:

<u>Transaction type</u>	<u>Account</u>	<u>Amount</u>
1. Elimination of shareholder's equity between consolidated companies	Common stock - AVY	\$150,000
	Capital surplus - AVY	3,719
	Unappropriated retained earnings - AVY	233,339
	Common stock - BVI	247,503
	Unappropriated retained earnings - BVI	10,835
	Long-term equity investment - Ability Enterprise Co., Ltd.	(466,027)
	Minority interest	(154,756)
	Consolidated credit	(13,843)
	Capital surplus - Ability Enterprise Co., Ltd.	(10,770)
	2. Elimination of investment revenue/loss between consolidated companies	Consolidated credit
Investment income - Ability Enterprise Co., Ltd.		172,854
Minority interest income		10,787
Long-term investments - Ability Enterprise Co., Ltd.		(177,837)
Minority interest		(10,787)
3. Elimination of transactions between consolidated companies	Rent revenues - AVY	515,400
	General and administration expenses - Ability Enterprise Co., Ltd.	(515,400)
	Operating revenues - Ability Enterprise Co., Ltd.	9,335
	Operating costs - AVY	(9,232)
	General and administration expenses - AVY	(103)
	Other revenues - Ability Enterprise Co., Ltd.	43
	General and administration expenses - AVY	(43)
	Long-term investments - Ability Enterprise Co., Ltd.	64,200
4. Elimination of cash dividends and employee bonus appropriated by AVY	Minority interest	42,800
	Minority interest income	3,309
	Unappropriated retained earnings - AVY	(110,309)
	Cumulated translation adjustments - Ability Enterprise Co., Ltd.	18,021
	Long-term equity investments - Ability Enterprise Co., Ltd.	(16,725)
5. Elimination of cumulated translation adjustments between consolidated companies	Minority interest	(1,296)
	Notes payable - related parties - AVY	10,510
	Accounts payable - related parties - AVY	3
	Notes receivable - related parties - Ability Enterprise Co., Ltd.	(9,415)
	Accounts receivable - related parties - Ability Enterprise Co., Ltd.	(1,098)
6. Elimination of accounts receivable/payable between consolidated companies	Transportation equipment - Ability Enterprise Co., Ltd.	2,238
	Accumulated depreciation - AVY	10
	Gain on disposal of fixed assets - Ability Enterprise Co., Ltd.	347
	Accumulated depreciation - Ability Enterprise Co., Ltd.	(1,585)
	Business equipment - AVY	(1,000)
	Depreciation expenses - AVY	(10)
	Deferred credit - gain on inter-affiliate accounts - Ability Enterprise Co., Ltd.	338
	Gain on disposal of fixed assets	(338)
	Minority interest	(804)
	Net loss on not recognized as pension cost	804
7. Elimination of assets sold by Ability Enterprise Co., Ltd. to AVY		
8. Elimination of net loss on pension cost - AVY		

## 23. ADDITIONAL DISCLOSURE ITEMS

(1) Information related to significant transactions:

<u>Contents</u>	<u>Illustration</u>
Loans to others.....	Chart 1
Endorsement for others.....	Chart 2
Securities held as of December 31, 2002.....	Chart 3
Accumulated stock purchases or sales for the same stock of NT\$100 million or more than 20% of the Company's paid-in capital as of December 31, 2002.....	Chart 4
Real estate purchase reaching NT\$100 million or more than 20% of the Consolidated Company's paid-in capital.....	N/A
Real estate disposals of NT\$100 million or 20% and more of the Consolidated Company's capital.....	N/A
Purchase and sales transactions with the related parties of NT\$100 million or more than 20% of the Consolidated Company's paid-in capital.....	Chart 5
Receivables from the related parties of NT\$100 million or more than 20% of the Consolidated Company's paid-in capital.....	Chart 6
Financial derivatives.....	See Note 20

Chart 1 Loans to others in 2002 were as follows:

No.	Loan provider	Loan borrower	Trading entry	Largest amount in this period	Balance	Interest rate	Character	Business dealings amount	Reason	Allowance for bad debt		Upper limit on loan to individual company (see note)	Total limit amount
										Item	Value		
1	Ability Enterprise Co., Ltd	Taishiba International Co., Ltd.	Receivable of the related parties (other current asset)	\$35,000	\$28,800	2.70~3.28	Trading	Purchase \$41,913	—	—	Promissory note	\$156,365	40% of the Company's net value: \$1,091,433
2	Ability Enterprise Co., Ltd	King Ability Enterprise co., Ltd.	Receivable of the related parties (other current asset)	1,880	930	4.375~4.45	Trading	Sales \$23,009	—	—	Promissory note	9,204	
3	Ability Enterprise Co., Ltd	Yu-Ho Foods Co., Ltd.	Receivable of the related parties (other current asset)	32,700	15,000	5.15~5.35	Trading	Sales \$786,362	—	—	Promissory note	314,545	

*Note:* The Company's guidelines on loans to others: The upper limit of loans to every individual is 40% of the Company's net value or business dealings amount (purchase or sales which is higher). Total amount of the Company's loans to others should be under 40% of the Company's net value.

Chart 2 Endorsements to others in 2002 were as follows:

No.	Guaranteed company		Relationship	Limit of endorsements single company (note)	The highest amount of endorsements this period	Balance of endorsements	Amount of endorsements assured by properties	Percentage of cumulated endorsements over net value in previous period	The upper limit endorsements (note)
	Guarantee issuer	Company's name							
0	AVY CO., LTD.	AVY CO., LTD. (BVI)	b	\$375,712	\$24,500	\$8,000	\$—	2.13%	\$751,424

*Note 1:* The Company's guidelines on endorsements for others: The upper limit of endorsements to every individual is 100% of the Company's net value. Total amount of the Company's endorsements for others should be under 200% of the Company's net value.

*Note 2:* Relationship between the financial guarantees issuer and the guaranteed company is as follows:

- a. business partners
- b. directly held 50% or more of the subsidiary
- c. more than 50% of shareholder's equity being held by the parent company and the subsidiary companies
- d. the parent company that holds other company's common shares over 50% directly or investments via the subsidiary companies
- e. the affiliated companies mutually guaranteed due to the construction needs
- f. companies guaranteed by shareholders according to percentage of common shares

Chart 3 Securities held as of December 31, 2002 (number of shares and amounts are in thousands) were as follows:

							December 31, 2002		
Holding company	Securities' category and name	Relationship with the issuer	Recording entry	Share	Cost	(%)	Fair market value	Note	
Ability Enterprise Co., Ltd.	Asia Optical Co., Inc	—	Short-term investments	37,620	\$4,149	—	\$6,774		
Ability Enterprise Co., Ltd.	National Investment Trust Co., Ltd. Bond Fund	—	Short-term investments	64,575	10,000	—	10,007		
Ability Enterprise Co., Ltd.	Ability International Investment Co., Ltd.	Invested company measured by equity method	Long-term investments	19,899,400	213,581	99.99	174,031		
Ability Enterprise Co., Ltd.	Taiwan Imaging Systems Inc	Invested company measured by equity method	Long-term investments	1,865,000	23,734	93.25	23,745		
Ability Enterprise Co., Ltd.	King Ability Enterprise Co., Ltd	—	Long-term investments	234	2,400	19.50	2,542		
Ability Enterprise Co., Ltd.	Ability International Rent Co., Ltd.	Invested company measured by equity method	Long-term investments	899,000	10,204	44.95	10,286		
Ability Enterprise Co., Ltd.	Canon Marketing (Taiwan) Co., Ltd.	Invested company measured by equity method	Long-term investments	4,104,693	35,057	48.87	25,221		
Ability Enterprise Co., Ltd.	Abico Automation Co., Ltd.	Invested company measured by equity method	Long-term investments	480,000	2,342	48.00	1,902		
Ability Enterprise Co., Ltd.	Abico net International Co., Ltd.	Invested company measured by equity method	Long-term investments	2,000,000	20,348	40.00	20,348		
Ability Enterprise Co., Ltd.	Taiwan Daijohs Co., Ltd.	Invested company measured by equity method	Long-term investments	1,395,000	6,756	39.86	5,607		
Ability Enterprise Co., Ltd.	Area East Technology Corp.	—	Long-term investments	1,000,000	10,075	15.36	10,075		
Ability Enterprise Co., Ltd.	E-TEN Information Systems Co., Ltd.	Ability Enterprise Co., Ltd is one of the board directors in this company	Long-term investments	5,100,237	67,981	3.40	62,529		

**December 31, 2003**

<b>Holding company</b>	<b>Securities' category and name</b>	<b>Relationship with the issuer</b>	<b>Recording entry</b>	<b>Share</b>	<b>Cost</b>	<b>(%)</b>	<b>Fair market value</b>	<b>Note</b>
Ability Enterprise Co., Ltd.	Power World Fund, Inc.	—	Long-term investments	2,500,000	\$25,000	2.84	\$23,370	
Ability Enterprise Co., Ltd.	Jung Shing Wire Co., Ltd.	—	Long-term investments	367,558	2,781	0.34	7,550	
Ability Enterprise Co., Ltd.	Datd Image Corporation	—	Long-term investments	500,000	7,500	1.67	6,342	
Ability Enterprise Co., Ltd.	Shin Kong Financial Holding Co., Ltd.	—	Long-term investments	559,701	10,565	0.02	4,937	
Ability Enterprise Co., Ltd.	Taiwan Ohara Optical Co., Ltd.	—	Long-term investments	280,000	14,000	7.00	29,442	
Ability Enterprise Co., Ltd.	Taiwan Video & Monitor Corp.	—	Long-term investments	1,282,000	15,063	1.28	16,336	
Ability Enterprise Co., Ltd.	Minton Optic Industry Co., Ltd.	—	Long-term investments	2,622,000	68,400	4.91	39,317	
Ability Enterprise Co., Ltd.	CC&C Technologies, Inc.	—	Long-term investments	500,000	7,200	1.00	4,652	
Ability Enterprise Co., Ltd.	Vivavr Technology Co., Ltd.	—	Long-term investments	291,000	3,546	2.08	2,257	
Ability Enterprise Co., Ltd.	Wan Hai Lines Ltd.	—	Long-term investments	331,161	5,464	0.03	8,786	
Ability Enterprise Co., Ltd.	General Plastic Industrial Co., Ltd.	—	Long-term investments	400,000	22,400	0.66	16,860	
Ability Enterprise Co., Ltd.	Breeze Digital Technology Co., Ltd.	—	Long-term investments	490,000	4,900	9.80	2,224	
Ability Enterprise Co., Ltd.	Presto Computer Turn-up Network Inc.	—	Long-term investments	700,000	3,663	9.33	2,353	
Ability Enterprise Co., Ltd.	Featron Computer Co., Ltd.	—	Long-term investments	2,089,700	—	2.09	—	
Ability Enterprise Co., Ltd.	Cathay Financial Holding Co., Ltd.	—	Long-term investments	183,333	11,045	—	6,604	
Ability Enterprise Co., Ltd.	Xander International Corp.	—	Long-term investments	260,800	8,202	0.38	4,425	
Ability Enterprise Co., Ltd.	Chiabon Venture Capital Co., Ltd.	—	Long-term investments	10,000,000	100,000	10.00	99,438	
Ability Enterprise Co., Ltd.	The Progress Business Management Consultants Corp.	—	Long-term investments	100,000	1,058	20.00	1,058	

Chart 4 Accumulated stock purchases or sales for the same stock of NT\$ 100 million or more than 20% of the Consolidated Company's paid-in capital as of December 31, 2002:

Purchase (Sales) company	Securities' category and name	Entry	Trading party	Relation-ship	January 1, 2002			Purchase			Sold			December 31, 2002			
					Share	Cost	Share	Share	Cost	Share	Price	Book value	Gain (Loss)	Share	Cost		
Ability Enterprise Co., Ltd.	Chiabon Venture Capital Co., Ltd.	Long-term investment	Original stock warrant	—	—	\$—	10,000,000	\$100,000	—	—	\$—	\$—	—	—	—	10,000,000	\$100,000
AVY Co., Ltd.	香港精熙投資	Long-term investment	—	—	—	116,667	—	(10,662)	—	2,225	106,005	(103,780)	—	—	—	—	—

Note: Investment loss recognized in 2002.

Chart 5 Purchases and sales with the related party of NT\$100 million or more than 20% of the Consolidated Company's capital as December 31, 2002:

Purchaser (Supplier)	Trading party	Relationship	Purchases (Sales)	Trading situation			Reason			Accounts receivable (payable)		
				Amount	Percentage of related account %	Period	Unit price	Period	Balance	Percentage of related account %	Note	
Ability Enterprise Co., Ltd.	Canon Marketing (Taiwan) Co., Ltd.	Invested company measured by equity method	Sales	\$207,771	8	One month to six month	—	—	Notes receivable \$1,480	—	1	—
Ability Enterprise Co., Ltd.	Yu-Ho Foods Co., Ltd.	Chairman is the Company's supervisor	Sales	786,362	28	One month to six month	—	—	Accounts receivable \$14,186	—	3	—
Ability Enterprise Co., Ltd.	Canon Inc.	That company is the routinized director of corporation in our company	Purchases	506,440	23	Long-term letter of credit or fifteen days in the end of month T/T	—	—	Notes receivable \$198,138	—	80	—
									Accounts receivable \$62,893	—	13	—

Chart 6 Receivables from the related parties reaching NT\$100 million or more than 20% of the Consolidated Company's paid-in capital as of December 31, 2002:

Company	Trading party	Relationship	Receivable excess from the related parties	Ratio	Receivable due from the related parties		Post-period collected amount	Allowance for bad debt
					Amount	Process		
Ability Enterprise Co., Ltd.	Yu-Ho Foods Co., Ltd.	That board chairman is Ability's supervisor	\$261,031	3.02	—	—	\$67,392	\$2,296

(2) Information on The Company's invested companies:

Contents	Illustration
Invested Companies' profiles.....	Chart 1
Loan to other people.....	N/A
Endorsement for others.....	N/A
Securities held on December 31, 2002.....	Chart 2
Accumulated stock purchases or sales for the same stock reaching NT\$100 million or more than 20% of paid-in capital.....	N/A
The amount of purchasing real assets reaching NT\$100 million or more than 20% of paid-in capital.....	N/A
The amount of selling real assets reaching NT\$100 million or more than 20% of paid-in capital.....	N/A
Purchases and sales with the related parties reaching NT\$100 million or more than 20% of paid-in capital.....	N/A
Accounts receivable with related parties reaching NT\$100 million or more than 20% of paid-in capital.....	N/A
Financial derivatives.....	N/A

Chart 1 Invested Companies' profiles as of December 31, 2002 were as follows:

Investor	Invested company	Investee's address	Business	Original investment amount		December 31, 2002		Book value	Invested company's year 2002 income	Invested company's year 2002 gain/loss recognition	Note
				December 31, 2002	December 31, 2001	Shares	Percentage (%)				
Ability Enterprise Co., Ltd.	Ability International Investment Co., Ltd.	12th Fl., No.147 Fu-Hsing N.RD. Taipei, Taiwan, R.O.C.	General investing	\$198,994	\$198,994	19,899,400	99.99	\$213,581	\$(4,851)	(4,851)	Subsidiary company
Ability Enterprise Co., Ltd.	Taiwan Imaging Systems Inc.	10th Fl., No.147 Fu-Hsing N.RD. Taipei, Tainan, R.O.C.	Sell disk product	17,850	17,850	1,865,000	93.25	23,734	2,516	2,307	Subsidiary company
Ability Enterprise Co., Ltd.	King Ability Enterprise Co., Ltd.	No., 143, Section 2, Jian Kang Road, Tainan City	Rent or sell machine	2,471	8,960	234	19.50	2,400	(769)	(342)	Note 2
Ability Enterprise Co., Ltd.	Ability International Rent Co., Ltd.	6th Fl., No.147 Fu-Hsing N.RD. Taipei, Taiwan, R.O.C.	Lease	8,990	8,990	899,000	44.95	10,204	113	85	Subsidiary company
Ability Enterprise Co., Ltd.	Canon Marketing (Taiwan) Co., Ltd.	12th Fl., No.147 Fu-Hsing N.RD. Taipei, Taiwan, R.O.C.	Sale of copying machine	61,145	61,145	4,104,693	48.87	35,057	(59,301)	(26,088)	Note 1
Ability Enterprise Co., Ltd.	Abico Automation Co., Ltd.	12th Fl., No.101 Fu-Hsing N.RD. Taipei, Taiwan, R.O.C.	Automated system	2,880	2,880	480,000	48.00	2,342	239	(28)	Note 1
Ability Enterprise Co., Ltd.	ABICOnet International Co., Ltd.	7th Fl., No.178 Sec. Nan King E.RD. Taipei, Taiwan, R.O.C.	Wholesale of machinery equipments	20,000	20,000	2,000,000	40.00	20,348	4,829	1,931	Note 1
Ability Enterprise Co., Ltd.	Taiwan Daihois Co., Ltd.	2nd Fl., No.15 Lane 101, Sec.2, Xinheng N.RD. Taipei, Taiwan, R.O.C.	Retail of foods and beverages	13,950	13,950	1,395,000	39.86	6,756	(5,170)	(2,401)	Note 1

Investor	Invested company	Investee's address	Business	Original investment amount		December 31, 2002		Book value	Invested company's year 2002 income	Invested company's year 2002 gain/loss recognition	Note
				December 31, 2002	December 31, 2001	Shares	Percentage (%)				
Ability Enterprise Co., Ltd.	Guangdong United Optical Instrument Co., Ltd.	Xiao-Bian the Second Industry Zone, Chang-An Town, Dongguan City, Guangdong Province China.	Production, design and sale of camera	28,097	28,097	—	22.85	33,890	25,488	6,159	Note 1
Ability Enterprise Co., Ltd.	Area East Technology Corp.	10F1-2, No. 101, Fu-Hsing N. RD. Taipei, Taiwan, R.O.C.	Information software service	\$10,000	\$10,000	1,000,000	15.36	\$10,075	\$255	\$57	Note 2
Ability Enterprise Co., Ltd.	Abico International Holding Co., Ltd.	Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands.	Holding company	39,602	—	—	100.00	147,896	108,294	108,294	Subsidiary company

*Note 1:* The recognition of investment revenues were deferred for one year.

*Note 2:* The evaluation of King Ability Enterprise Co., Ltd. and Area East Technology Co., Ltd. were changed from equity method to cost method in 2002.

Chart 2 Securities held as of December 31, 2002 were as follows (number of shares and amounts are in thousands):

Holding company	Securities' category and name	Relationship with the issuer	Recording entry	December 31, 2003			Fair market value	Note
				Share	Cost	%		
Ability International Investment Co., Ltd.	CC & C Technologies, Co., Ltd.	—	Long-term investments	1,000,000	\$7,990	2.00	\$7,990	—
Ability International Investment Co., Ltd.	Fubon Financial Holding Co., Ltd.	—	Long-term investments	481,754	25,896	0.01	13,378	—
Ability International Investment Co., Ltd.	E-ten Information Systems Co., Ltd.	—	Long-term investments	866,482	45,208	0.58	10,623	—
Ability International Investment Co., Ltd.	Nien Hsing Tex Tile Co., Ltd.	—	Short-term investments	770,000	22,372	0.16	24,093	—
Ability International Investment Co., Ltd.	Acer Computer Co., Ltd.	—	Short-term investments	440,584	22,482	0.02	15,011	—
Ability International Investment Co., Ltd.	Teco Electric & Machinery Co., Ltd.	—	Short-term investments	1,150,000	17,075	0.06	12,662	—
Ability International Investment Co., Ltd.	Mital Technology Corporation	—	Short-term investments	220,000	10,215	0.10	6,422	—
Ability International Investment Co., Ltd.	Apex Biotechnology Corp.	—	Short-term investments	131,000	10,914	1.88	6,841	—
Ability International Investment Co., Ltd.	Jung Shing Wire Co., Ltd.	The parent company is the same	Long-term investments	1,804,000	29,496	1.80	37,054	—
Ability International Investment Co., Ltd.	Ability International Rent Co., Ltd.	—	Long-term investments	1,000	10	0.05	10	—
Ability International Investment Co., Ltd.	Fubon Dragon Bond Fund	—	Short-term investments	915,910.28	10,000	—	10,132	—

(3) Disclosure of information on investment in Mainland China

- 1) The name of invested companies, business, paid-in capital, investment method, cash inflow and outflow, percentage of common shares, investment revenue (loss), book value and remittance of investment income to Taiwan as of December 31, 2002 were as follows:

Name of investee company in China	Business	Paid-in capital	Investment method	Cash flow from Taiwan as of		Direct/indirect shares held %	Revenue	Book value	Cash flow to Taiwan as of December 31, 2002
				January 1, 2002	December 31, 2002				
				Cash outflow	Cash inflow				
Guangdong United Optical Instrument Co., Ltd.	Product, design and sell camera	HK\$30,200,000	Buy from Ability Enterprise Co., Ltd.	\$—	\$—	22.85	\$6,159	\$33,890	\$—
Dongguan Guang Tong Business Machines Co., Ltd.	Sell or product main board MCU board and I/O board in digital camera	US\$2,060,290	Invested in the Mainland China via the invested third party	—	—	34.68	39,448	52,775	—
Dongguan Yorkey Optical Machinery Components Ltd.	Operating in lead work, photocopier encrustation, camera encrustation, plastic fax encrustation sheath of optics fees	US\$8,030,647	Invested in the Mainland China via the invested third party	—	—	45.00	43,429	188,629	—
Avy Precision Metal Product (Suzhou) Co., Ltd.	Operating in parts of computer machine, accessories and camera and other parts	US\$2,000,000	Invested in the Mainland China via the invested third party	4,402	—	63.72	(8,362)	24,889	—
Dongguan Cheugguang Precision Hardware Co., Ltd.	Operating in parts of computer machine, accessories and camera and other parts	RMB9,459,806	Invested in the Mainland China via the invested third party	—	—	40.95	3,231	22,483	—
Dongguan Shim-Ei Yorkey Business Machine Co., Ltd.	Product and sell photocopier parts	RMB7,229,394	Buy from Yorkey Investment Ltd.	13,335	—	25.00	4,199	17,497	—

Note: The financial statement were audited by Lan-Jai CPAs Firm cooperating with BKR International accounting organization.

2) Investment limit in Mainland China area for the year ended of December. 31, 2002.

Ending balance of cumulative invested amount from Taiwan to the Mainland China area	Invested amount approved by Investment Commission	Investment limit in the Mainland China area regulated by Investment Commission (net value*40%)
HK\$6,900 thousand US\$4,702 thousand (Convert to NT\$158,109 thousand)	HK\$6,900 thousand US\$4,702 thousand (Convert to NT\$158,109 thousand)	NT\$1,091,433 thousand

3) The following are information related to investment in Mainland China that would influence financial statements including significant transactions with invested companies in the Mainland China directly or indirectly via the invested companies, price, terms of payment, unrealized gain or loss and others.

- (a) The price and percentage of purchase and related payables as of March 31, 2003: NA
- (b) The price and percentage of sale and related receivables as of March 31, 2003: NA.
- (c) The price of property transaction and related gain (loss) on disposal of properties: NA.
- (d) The purposes and balances of notes payable endorsement, guarantee or collateral as of March 31, 2003: NA.
- (e) The highest balance, ending balance, interest rates and current interest rate in financing: NA.
- (f) Other significant transactions to the acknowledgement of current net income or loss or financial position such as providing or receiving services: NA.

24. SEGMENTAL FINANCIAL INFORMATIONS:

(1) Financial informations by industry

	2002				Consolidated
	First business department	Second business department	Other departments	Avy adjustment	
Revenue come from customers .....	<u>\$1,145,353</u>	<u>\$487,737</u>	<u>\$1,131,627</u>	<u>\$354,859</u>	<u>\$2,764,717</u>
Total revenue .....	<u>\$1,145,353</u>	<u>\$457,848</u>	<u>\$1,131,627</u>	<u>\$354,859</u>	<u>\$2,764,717</u>
Department income (loss) .....	<u>\$364,547</u>	<u>\$29,889</u>	<u>\$53,982</u>	<u>\$106,145</u>	\$554,563
Investment income .....					162,969
General expense .....					(477,317)
Interest expense .....					<u>(37,687)</u>
Income before income tax from operating department .....					<u>\$202,528</u>
Recognizable assets .....	<u>\$573,199</u>	<u>\$180,713</u>	<u>\$987,365</u>	<u>\$210,343</u>	\$1,951,620
Long-term investment .....					1,506,068
General assets .....					<u>1,071,945</u>
Total assets .....					<u>\$4,529,633</u>
Depreciation, depletion and amortization expense .....	<u>\$174,434</u>	<u>\$831</u>	<u>\$9,872</u>	<u>\$8,134</u>	
Capitalized expense (increase fixed assets) .....	<u>\$2,586</u>	<u>\$—</u>	<u>\$8,321</u>	<u>\$14,252</u>	

	<b>2001</b>				
	<u><b>First business department</b></u>	<u><b>Second business department</b></u>	<u><b>Other department</b></u>	<u><b>Avy adjustment</b></u>	<u><b>Consolidated</b></u>
Revenue come from customers .....	<u>\$1,023,820</u>	<u>\$904,875</u>	<u>\$595,708</u>	<u>\$337,053</u>	<u>2,861,456</u>
Total revenue .....	<u>\$1,023,820</u>	<u>\$904,875</u>	<u>\$595,708</u>	<u>\$337,053</u>	<u>2,861,456</u>
Department income (loss) .....	<u>\$369,683</u>	<u>\$75,061</u>	<u>\$130,917</u>	<u>\$64,947</u>	\$640,608
Investment income .....					263,980
General expense .....					(484,788)
Interest expense .....					<u>(50,950)</u>
Income before income tax from operating department .....					<u>\$368,850</u>
Recognizable assets .....	<u>\$589,233</u>	<u>\$162,160</u>	<u>\$909,589</u>	<u>\$183,626</u>	\$1,844,608
Long-term investment .....					1,275,368
General assets .....					<u>1,246,346</u>
Total assets .....					<u>\$4,366,322</u>
Depreciation, depletion and amortization expense .....	<u>\$10,049</u>	<u>\$2,284</u>	<u>\$2,540</u>	<u>\$436</u>	
Capitalised expense (increase fixed assets) .....	<u>\$1,660</u>	<u>\$218</u>	<u>\$—</u>	<u>\$9,667</u>	

1. Product and services of each major department in the Consolidated Company:

- (1) first business department: retail, sale and rent machine, and commission revenues about volated product.
- (2) Second business department: peripherals sale and commission revenues from related products.

Department income above is operating and commission revenue from outside customers. The Company no departmental transfer or sale. Department income didn't include:

- 1) general revenue which is not related to the departments.
- 2) investment income which is evaluated by equity method.

2. Department income (loss) is the amount of subtracting department cost and expense from department revenue. Department cost and expense is the cost and expense related to the department revenue. If operating expense can't be attributed to the departments. Then attribute the expenses based on the square feet of the departments. But department cost and expense didn't include:

- 1) general expense which is not related to the department.
- 2) interest expense.
- 3) investment loss which is evaluated by equity method.

3. Department's recognizable assets include tangible and intangible assets directly belonged to each department. If the assets are used by two or more departments, share the expenses based on the square feet of the department. But department's recognizable assets didn't include:
- 1) assets that not used by any specific department.
  - 2) investment evaluated by equity method.

Book value of long-term investment in 2002 and 2001 are NT\$1,169,098 thousand and NT\$1,027,882 thousand. The Company invests Avy Precision Product (Suzhou) Co., Ltd., Gold Market Investments Ltd - Samoa, Yorkey Optical International Ltd., Shin-Ei Yorkey International Ltd., Ability international investment co., Ltd., Taiwan Imaging Systems Inc., Abico International Holding Co., Ltd., Ability international rent co., Ltd., Taiwan Daiohs Co., Ltd., Guangdong United Optical Instrument Co., Ltd., Abico Automation Co., Ltd., Abiconet International Co., Ltd., Canon Marketing (Taiwan) Co., Ltd. and The Process Business Management Consultants Corp. in 2002 and invests Avy Precision Product (Suzhou) Co., Ltd., Gold Market Investments Ltd. - Samoa, Yorkey Optical International Ltd., Shin-Ei Yorkey International Ltd., Ability international investment co., Ltd., Taiwan Imaging Systems Inc., King Ability Enterprise Co., Ltd., Ability international rent co., Ltd., Taiwan Daiohs Co., Ltd., Guangdong United Optical Instrument Co., Ltd., Abico Automation Co., Ltd., Abiconet International Co., Ltd., Area East Technology Corp., Canon Marketing (Taiwan) Co., Ltd. and The Process Business Management Consultants Corp. in 2001. Investment income evaluated by equity method in 2002 and 2001 are NT\$210,784 thousand and NT\$134,855 thousand.

(2) **Financial informations by geographic area**

The Consolidated Company established Hong Kong branch in 1995. The revenue from outside customers and recognizable assets of this branch reach 10% of net income and total assets. There fore detail information are as follows:

	<b>2002</b>				<b>Consolidated</b>
	<b>Hong Kong</b>	<b>Other overseas operating department</b>	<b>Internal department</b>	<b>Adjustment</b>	
Revenue come from outside customers .....	\$60,354	\$—	\$2,704,363	\$—	\$2,764,717
Total revenue .....	<u>\$60,354</u>	<u>\$—</u>	<u>\$2,704,363</u>	<u>\$—</u>	<u>\$2,764,717</u>
Department income (loss) .....	<u>\$9,133</u>	<u>\$—</u>	<u>\$545,430</u>	<u>\$—</u>	\$554,563
Investment income .....					162,969
General expense .....					(477,317)
Interest revenue .....					<u>(37,687)</u>
Income before income tax from operating department .....					<u>\$202,528</u>
Recognizable assets .....	<u>\$108,776</u>	<u>\$—</u>	<u>\$1,842,844</u>	<u>\$—</u>	\$1,951,620
Long-term investment .....					1,506,068
General assets .....					<u>1,071,945</u>
Total assets .....					<u>\$4,529,633</u>

2001					
	Hong Kong	Other overseas operating department	Internal department	Adjustment	Consolidated
Revenue come from outside customers .....	\$53,171	\$—	\$2,808,285	\$—	\$2,861,456
Total revenue .....	<u>\$53,171</u>	<u>\$—</u>	<u>\$2,808,285</u>	<u>\$—</u>	<u>\$2,861,456</u>
Department income (loss) .....	<u>\$3,596</u>	<u>\$—</u>	<u>\$637,012</u>	<u>\$—</u>	\$640,608
Investment income .....					263,980
General expense .....					(484,788)
Interest expense .....					<u>(50,950)</u>
Income before income tax from operating department .....					<u>\$368,850</u>
Recognizable assets .....	<u>\$47,611</u>	<u>\$—</u>	<u>\$1,796,997</u>	<u>\$—</u>	\$1,844,608
Long-term investment .....					1,275,368
General assets .....					<u>1,246,346</u>
Total assets .....					<u>\$4,366,322</u>

(3) **Information about export sales**

The export sales of the Consolidated Company in 2002 and 2001 were NT\$349,514 thousand and NT\$395,814 thousand. The detail information were as follows:

	2002	2001
America area .....	\$185	\$—
Asia area .....	349,118	317,184
Other areas .....	211	78,630
Total .....	<u>\$349,514</u>	<u>\$395,814</u>

(4) **Information of major customer**

The detail information of the Consolidated Company's single customer over 10% of total revenue in 2002 and 2001 were as follows:

Customer name	2002		
	Dollars	Ratio (%)	Industry
Yu-Ho Foods Co., Ltd. ....	\$786,362	28.44	Other
Customer name	2001		
	Dollars	Ratio (%)	Industry
Yu-Ho Foods Co., Ltd. ....	\$487,986	18.11	Other
Canon Marketing (Taiwan) Co., Ltd. ....	379,012	13.03	peripherals

## REPORT OF INDEPENDENT ACCOUNTANTS

Ability Enterprise Co., Ltd.:

We have audited the accompanying balance sheets of Ability Enterprise Co., Ltd. as of December 31, 2002 and 2001, and the related statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. Ability Enterprise Co., Ltd.'s long-term equity investments over 50% of ownership as of December 31, 2002 and 2001 were NT\$418,349 thousand and NT\$175,422 thousand respectively and were 9.94% and 4.35% of total assets respectively. In addition, the related net investment profits for the years ended December 31, 2002 and 2001 were NT\$16,948 thousand and NT\$21,163 thousand respectively and were 6.93% and 6.03% of income before tax. As described in Note 22(2), the information of invested companies were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it related to the information included for these companies, is based solely on the reports of other auditors.

We conducted our audits in accordance with generally accepted auditing standards in the Republic of China and "Guidelines for Certified Public Accountants' Examinations of and Reports on Financial Statements". Those standards and guidelines require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and other auditors' reports, the financial statements referred to above present fairly, in all material respects, the financial position of the Ability Enterprise Co. Ltd. as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended, in conformity with the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and generally accepted accounting principles in the Republic of China.

We have also audited the consolidated financial statements of Ability Enterprise Co., Ltd. and its subsidiaries as of and for the years ended December 31, 2002 and 2001, on which we expressed a modified unqualified opinion.

Deloitte & Touche  
Taipei, Taiwan, Republic of China  
March 20, 2003

The above auditors' report and the following financial statements are English translations of the Chinese auditors' report and financial statements prepared for and used in the Republic of China. The accompanying financial statements were prepared using accounting principles, procedures and reporting practices generally accepted in the Republic of China and are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than those in the Republic of China. The standards, procedures and practices utilized to audit such financial statements are those generally accepted and applied in the Republic of China.

**ABILITY ENTERPRISE CO., LTD.**

**NON-CONSOLIDATED BALANCE SHEETS  
AS OF DECEMBER 31, 2001 AND 2002  
(Expressed in Thousands of New Taiwan Dollars)**

	December 31, 2002		December 31, 2001	
	Amount	%	Amount	%
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents .....	\$236,626	6	\$434,481	11
Short-term investments - net (Note 3).....	14,149	—	31,740	1
Notes receivable - net .....	41,411	1	55,998	1
Notes receivable - related parties, net (Note 15).....	205,717	5	231,212	6
Accounts receivable - net (Note 15) .....	230,627	6	132,035	3
Accounts receivable - related parties, net (Note 15) .....	132,621	3	120,033	3
Inventories (Note 4) .....	212,390	5	194,785	5
Other current assets (Notes 13 and 15).....	99,867	2	87,553	2
 Total current assets .....	 1,173,408	 28	 1,287,837	 32
Long-term investments:				
Long-term equity investments (Notes 5 and 15).....	1,628,553	39	1,217,726	30
Rental assets (Notes 6 and 16) .....	554,987	13	851,965	21
	2,183,540	52	2,069,691	51
Property and equipment (Notes 7, 15 and 16):				
Cost:				
Land.....	365,252	9	285,408	7
Buildings .....	429,922	11	319,041	8
Business equipments.....	58,135	1	54,228	2
Transportation equipments .....	4,765	—	6,465	—
Signal equipments .....	7,205	—	7,965	—
Other equipments .....	8,104	—	9,402	—
 Total cost .....	 873,383	 21	 682,509	 17
Less: Accumulated depreciation.....	(89,013)	(2)	(78,871)	(2)
Prepayments for equipments .....	3,653	—	—	—
	788,023	19	603,638	15
 Other assets (Notes 13 and 16).....	 63,842	 1	 69,917	 2
 TOTAL ASSETS .....	 \$4,208,813	 100	 \$4,031,083	 100

See notes to financial statements.

**ABILITY ENTERPRISE CO., LTD.**

**NON-CONSOLIDATED BALANCE SHEETS — (Continued)  
AS OF DECEMBER 31, 2001 AND 2002  
(Expressed in Thousands of New Taiwan Dollars)**

	December 31, 2002		December 31, 2001	
	Amount	%	Amount	%
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Current liabilities:				
Short-term borrowings (Notes 8 and 16).....	\$520,801	12	\$534,728	13
Short-term notes and bills payable (Notes 9 and 16).....	227,195	6	219,353	6
Notes payable (Note 15).....	39,125	1	9,996	—
Accounts payable .....	180,044	4	61,946	2
Accounts payable - related parties (Note 15) .....	84,369	2	107,765	3
Accrued expenses .....	78,473	2	74,919	2
Long-term borrowings - current portion (Notes 10 and 16).....	300,000	7	—	—
Other current liabilities .....	14,021	—	51,750	1
	<u>1,444,028</u>	<u>34</u>	<u>1,060,457</u>	<u>27</u>
Long-term liabilities				
Bonds payable (Notes 10 and 16) .....	—	—	300,000	7
	<u>—</u>	<u>—</u>	<u>300,000</u>	<u>7</u>
Other liabilities				
Guarantee deposits received.....	16,934	1	23,430	1
Accrued pension liabilities (Note 11).....	2,750	—	1,595	—
Deferred credit - gains on inter-affiliate accounts .....	16,518	—	15,307	—
	<u>36,202</u>	<u>1</u>	<u>40,332</u>	<u>1</u>
Total liabilities .....	<u>1,480,230</u>	<u>35</u>	<u>1,400,789</u>	<u>35</u>
Shareholders' equity (Notes 12):				
Common stock, \$10 par value, 280,800 and 280,800 thousand shares authorized 210,492 thousand and 198,577 thousand shares issued and outstanding in December 31, 2002 and 2001.....	2,104,916	50	1,985,770	49
Capital surplus				
Additional paid-in capital.....	64,931	1	64,931	2
Gain on sale of fixed assets .....	—	—	70,522	2
Treasury stock.....	13,992	—	13,992	—
Change of long-term equity investments.....	—	—	3,930	—
	<u>78,923</u>	<u>1</u>	<u>153,375</u>	<u>4</u>
Retained earnings:				
Legal reserve.....	148,125	3	107,411	3
Special reserve .....	65,256	2	85,293	2
Unappropriated retained earnings.....	364,476	9	340,421	8
	<u>577,857</u>	<u>14</u>	<u>533,125</u>	<u>13</u>
Unrealized losses on long-term equity investments .....	(56,296)	(1)	(65,256)	(2)
Cumulated translation adjustments .....	23,183	1	23,280	1
Total shareholders' equity .....	<u>2,728,583</u>	<u>65</u>	<u>2,630,294</u>	<u>65</u>
Commitments and contingencies (Note 17)				
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY.....</b>	<b><u>\$4,208,813</u></b>	<b><u>100</u></b>	<b><u>\$4,031,083</u></b>	<b><u>100</u></b>

See notes to financial statements.

# ABILITY ENTERPRISE CO., LTD.

## NON-CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2002 (Expressed in Thousands of New Taiwan Dollars Except Earnings Per Share)

	2002		2001	
	Amount	%	Amount	%
Operating revenues (Note 15):				
Sales revenue .....	\$2,056,198	84	\$1,961,118	82
Copy revenue .....	299,510	12	335,829	14
Other operating revenue .....	143,488	6	157,018	7
	2,499,196	102	2,453,965	103
Less: Sales return and allowance .....	(43,413)	(2)	(60,878)	(3)
	2,455,783	100	2,393,087	100
Operating costs (Note 15).....	2,032,622	83	1,948,742	81
Operating gross profit .....	423,161	17	444,345	19
Unrealized gain on inter-affiliate accounts.....	(3,793)	—	(2,525)	—
Realized gain on inter-affiliate accounts .....	2,525	—	2,614	—
	421,893	17	444,434	19
Operation expenses (Notes 11 and 15)				
Selling expenses .....	321,021	13	347,132	14
General and administrative expenses.....	71,661	3	67,243	3
	392,682	16	414,375	17
Net operating income .....	29,211	1	30,059	2
Non-operating revenues				
Interest revenues (Note 15) .....	5,609	—	8,330	—
Investment income - net (Note 5).....	223,009	9	270,600	11
Gain on disposal of fixed assets .....	—	—	28,274	1
Gain on foreign currency exchange - net (Note 19).....	—	—	24,225	1
Rent revenues (Notes 15 and 17).....	32,624	1	37,017	2
Other revenues (Note 15) .....	10,639	1	42,545	2
	271,881	11	410,991	17
Non-operating expenses				
Interest expenses .....	31,404	1	46,894	2
Losses on valuation of short-term investments.....	—	—	11,756	1
Losses on inventories valuation and obsolescence.....	1,767	—	4,212	—
Other expenses .....	23,288	1	27,297	1
	56,459	2	90,159	4
Income before tax.....	244,633	10	350,891	15
Income tax expense (Note 13) .....	13,953	1	14,272	1
Net income .....	\$230,680	9	\$336,619	14
Basic earnings per share (Note 14)				
By weighted-average shares - before tax.....	\$1.16		\$1.77	
By weighted-average shares - after tax .....	\$1.10		\$1.70	
By retroactively weighted-average shares - before tax .....	\$1.16		\$1.67	
By retroactively weighted-average shares - after tax.....	\$1.10		\$1.60	

See notes to financial statements.

**ABILITY ENTERPRISE CO., LTD.**

**NON-CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2002  
(Expressed in Thousands of New Taiwan Dollars)**

	Common stock	Capital surplus	Retained earnings			Unrealized losses on valuation of long-term equity investments	Cumulated translation adjustments	Treasury stock	Total shareholders' equity
			Legal reserve	Special reserve	Unappropriated				
Balance as of January 1, 2001 .....	\$1,873,368	\$192,772	\$86,597	\$60,900	\$208,998	\$(85,292)	\$1,848	\$(60,120)	\$2,279,071
Appropriation of retained earnings:									
Legal reserve .....	—	—	20,814	—	(20,814)	—	—	—	—
Special reserve .....	—	—	—	24,393	(24,393)	—	—	—	—
Cash dividends .....	—	—	—	—	(93,669)	—	—	—	(93,669)
The Board's remuneration .....	—	—	—	—	(3,155)	—	—	—	(3,155)
Employee bonus .....	—	—	—	—	(4,733)	—	—	—	(4,733)
Capital surplus transferred to capital .....	56,201	(56,201)	—	—	—	—	—	—	—
Retained earnings transferred to capital .....	56,201	—	—	—	(56,201)	—	—	—	—
Gain on sale of property and equipment from invested companies .....	—	2,231	—	—	(2,231)	—	—	—	—
Losses on valuation of long-term equity investments .....	—	—	—	—	—	20,036	—	—	20,036
Adjustment of equity change from invested companies .....	—	(10,770)	—	—	—	—	—	—	(10,770)
Assets revaluation increment from invested companies .....	—	11,351	—	—	—	—	—	—	11,351
Change in cumulated translation adjustments .....	—	—	—	—	—	—	21,432	—	21,432
Net income for year 2001 .....	—	—	—	—	336,619	—	—	—	336,619
Treasury stock sold to employee .....	—	13,992	—	—	—	—	—	60,120	74,112
Balance as of December 31, 2001 .....	1,985,770	153,375	107,411	85,293	340,421	(65,256)	23,280	—	2,630,294
Appropriation of retained earnings:									
Legal reserve .....	—	—	33,662	—	(33,662)	—	—	—	—
Cash dividends .....	—	—	—	—	(119,146)	—	—	—	(119,146)
The Board's remuneration .....	—	—	—	—	(5,017)	—	—	—	(5,017)
Employee bonus .....	—	—	—	—	(7,525)	—	—	—	(7,525)
Retained earnings transferred to capital .....	119,146	—	—	—	(119,146)	—	—	—	—
10% legal reserve of gain on sale of property and equipment transferred from capital surplus to retained earnings .....	—	—	7,052	—	(7,052)	—	—	—	—
Gain on sale of property and equipment transferred from capital surplus to retained earnings .....	—	(70,522)	—	—	70,522	—	—	—	—
Reversal of special reserve-unrealized loss of long-term equity investment .....	—	—	—	(20,037)	20,037	—	—	—	—
Change in unsubscribed capital of invested companies .....	—	(3,930)	—	—	(5,636)	—	—	—	(9,566)
Losses on valuation of long-term equity investments .....	—	—	—	—	—	8,960	—	—	8,960
Change in cumulated translation adjustments .....	—	—	—	—	—	—	(97)	—	(97)
Net income for year 2002 .....	—	—	—	—	230,680	—	—	—	230,680
Balance as of December 31, 2002 .....	\$2,104,916	\$78,923	\$148,125	\$65,256	\$364,476	\$(56,296)	\$23,183	\$—	\$2,728,583

See notes to financial statements.

**ABILITY ENTERPRISE CO., LTD.**

**NON-CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2002  
(Expressed in Thousands of New Taiwan Dollars)**

	<b>2002</b>	<b>2001</b>
Cash flow from operating activities:		
Net income .....	\$230,680	\$336,619
Adjustment to reconcile net income to net cash provided by (used in) operating activities		
Depreciation .....	154,747	176,234
Amortization .....	497	567
Losses on long-term equity investments.....	10,846	—
Losses on disposal of fixed assets .....	509	722
Losses on disposal of rental assets .....	11,501	4,308
Gain on disposal of fixed assets .....	(216)	(93)
Gain on disposal of rental assets .....	—	(28,107)
Gain on disposal of long-term investments .....	(26,670)	(31,189)
Losses on valuation of short-term investments .....	—	11,756
Investment income - equity method .....	(166,787)	(181,792)
Unrealized gain-on inter-affiliate accounts.....	3,793	2,525
Realized gain-on inter-affiliate accounts .....	(2,525)	(2,614)
Decrease in notes receivable.....	14,587	142,734
Decrease (Increase) in notes receivable - related parties .....	25,495	(193,597)
Decrease (Increase) in accounts receivable .....	(98,592)	119,592
Increase in accounts receivable - related parties .....	(12,587)	(109,240)
Decrease (Increase) in inventories .....	(61,242)	154,662
Increase in other receivables.....	(18,970)	(8,239)
Increase in other current assets.....	(6,648)	(2,505)
Increase in notes payable.....	29,129	8,876
Increase (Decrease) in accounts payable .....	118,098	(17,289)
Decrease in accounts payable - related parties .....	(23,396)	(20,948)
Increase (Decrease) in accrued expenses.....	3,554	(9,356)
Decrease in income tax payable.....	(5,656)	(15,922)
Decrease in other current liabilities .....	(32,074)	(188,652)
Provision for pension cost .....	11,740	15,233
Deposit of pension fund.....	(10,585)	(11,646)
Advanced pension cost .....	—	(1,992)
Received of cash dividends.....	3,653	68,707
Decrease (Increase) in deferred income tax assets.....	14,597	(4,301)
	<b>167,478</b>	<b>215,053</b>
Net cash provided by operating activities .....		

See notes to financial statements.

**ABILITY ENTERPRISE CO., LTD.**

**NON-CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2002  
(Expressed in Thousands of New Taiwan Dollars)**

	<b>2002</b>	<b>2001</b>
Cash flow from investing activities:		
Purchase of long-term equity investments .....	\$(307,804)	\$(141,641)
Sale of long-term equity investments .....	75,239	82,806
Purchase of fixed assets .....	(10,907)	(1,878)
Purchase of rental assets .....	—	(1,000)
Proceeds from disposal of fixed assets .....	539	3,056
Proceeds from disposal of rental assets .....	—	29,568
Decrease in short-term investments .....	17,591	65,692
Increase in unamortized expenses .....	(5,094)	(240)
Decrease in other assets .....	9,378	21,554
	<u>(221,058)</u>	<u>57,917</u>
Net cash provided by (used in) investing activities .....		
Cash flows from financing activities:		
Increase (Decrease) in short-term borrowings .....	(13,927)	217,859
Increase in short-term notes and bills payable .....	7,842	109,733
Decrease in long-term borrowings .....	—	(280,000)
Increase (Decrease) in guarantee deposits received .....	(6,496)	1,439
Treasury stock sold to employee .....	—	74,112
Payments of salary of the Board and employee bonus .....	(12,542)	(7,888)
Cash dividends .....	(119,146)	(93,669)
	<u>(144,269)</u>	<u>21,586</u>
Net cash provided by (used in) financing activities .....		
Exchange effects .....	(6)	2,982
Net increase (decrease) in cash and cash equivalents .....	(197,855)	297,538
Cash and cash equivalents, beginning of year .....	<u>434,481</u>	<u>136,943</u>
Cash and cash equivalents, end of year .....	<u>\$236,626</u>	<u>\$434,481</u>
Disclosure of cash flow information		
Interest paid .....	<u>\$31,732</u>	<u>\$47,668</u>
Income tax paid .....	<u>\$8,970</u>	<u>\$34,495</u>
Other investing and financing activities not affecting cash		
Long-term borrowings - current portion .....	<u>\$300,000</u>	<u>\$—</u>

See notes to financial statements.

# ABILITY ENTERPRISE CO., LTD.

## NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2002 (Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

### 1. DESCRIPTION OF BUSINESS

Ability Enterprise Co., Ltd. (the Company) was established in Taipei City on May 21, 1965 and merged Ability Business Machines Co., Ltd. commercial machine Ltd. on October 1, 1986. The operating activities include trading, rental, packing and maintenance service of machinery, software and hardware of computer system, communication equipments, and office equipment. The Company also acts as an agent or a consignee to tender or quote prices, and to export or import various international or local products that listed above.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (1) Foreign currency transactions and transformation to financial statements in foreign currency

The Company's financial records are in NT Dollars. Foreign currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occurred. Liabilities in foreign currency at the balance sheet day are translated at year-end exchange rates. Realized or unrealized gains or losses on exchange, arose from real transaction or conversion of foreign liabilities, are recognized as current non-operating income or expenses. However, those exchange differences from long-term investments or money advances between the Company and foreign companies are recognized as cumulative translation adjustments under shareholders' equity accounts.

Forward currency contracts for hedging risk of foreign currency debts are recorded at current exchange rate of the contract day. The difference between spot rate and exercise rate is amortized during contract's period. Open forward currency contracts are adjusted by the current exchange rates at the balance sheet date and the differences are recognized as current expenses or revenues. But those for risk of hedging exchange rate from net investment in foreign operating organizations, the difference is recognized as cumulative translation adjustments under shareholders' equity accounts.

#### (2) Short-term investments

Short-term investments are stated at the lower of aggregate cost (weighted-average method) or market value. Market value of listed stock is based on the average closing price of the last month of the accounting period; open-ended mutual funds are evaluated by the net worth on the balance sheet date. Declining losses are recognized as current expenses. Stock dividends are not recognized as investment income but treated as an increase in the number of shares held. The cost per share is recalculated based on total number of shares after increasing share numbers. The cost of selling marketable securities is determined by the weighted-average method.

#### (3) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on the expected collectibility.

#### (4) Inventories

Inventories are stated at the lower of cost (weighted-average method) or market value (net realizable value).

#### (5) Long-term equity investments

Long-term equity investments in listed equity securities that represent less than 20% of the invested companies' voting stock ownership and where the Company and its subsidiaries do not have significant influence over the invested company are stated at the lower of cost or market value. Unrealized loss thereon is recorded as a reduction in stockholders' equity. However, long-term investments in non-listed equity securities are stated at cost. When there is evidence showing that a decline in the market value of such investment is other than temporary and the probability of recovery is considered remote, the carrying value of the investment is reduced to reflect the market value and the resulting loss is recognized in the period of such reduction. Stock dividends are not recognized as investment income but treated as an increase in the number of shares held. The cost of long-term equity investment sold is calculated based on the weighted-average method.

When the percentage of ownership of equity method accounted investments is less than 20%, or where the Company loses significant influence on the invested companies, long-term investments are stated at cost. The carrying value of the investment is reduced to reflect the market value. Capital surplus from long-term equity investments would be eliminated by percentage based on the portion of long-term equity investments sold.

Investments where the percentage of ownership exceeds 20%, or where the Company and its subsidiaries have significant influence on the operating and financial policies of the invested companies are accounted for by the equity method. When the Company holds more than 50% of an invested company's stock with voting rights or meets all of following conditions: 1. the beginning shareholder's equity of the long-term investment is more than NT\$50 million dollars and exceeds 5% of the Company's capital stock; 2. the Company holds more than 30% of an invested companies' stock or the ownership percentage of the invested companies' stock held by the Company and other companies that directly or indirectly controlled by the Company's directors, supervisors, managers or the Company exceeds 50%; 3. the Company is one of the top three shareholders of an invested company or is appointed as invested companies' board of director or general manager; the investment losses or gains are required to be recorded as current losses or gains. Otherwise, the investment losses or gains needs to be deferred by one year. Under the equity method, the difference between the acquisition cost of the investment and the underlying equity of the investment is amortized over five years on a straight-line basis and recognized as investment income or loss.

When the Company owns more than 50% of an invested companies' common stock, the invested company is treated as a subsidiary and must be included in the consolidated financial statements. However, if the subsidiary's total assets and operating revenue are below 10% of the Company's respective account balances, consolidated financial statement is not required. If the total assets and operating revenues of all unconsolidated subsidiaries are over 30% of the Company's respective account balances, consolidated financial statement are still required for those subsidiaries, of which total assets and operating revenues amounted to more than 3% of the Company's respective account balances. When the percentage for all unconsolidated subsidiaries is less than 20%, consolidated financial statements are not required. Consolidated financial statement is not required for half-year financial reports.

Gains or losses on disposal of long-term equity investments are recognized as investment income or loss. The unrealized gains or losses between the Company and invested company or subsidiaries are deferred. For the unrealized gains or losses resulting from depreciable or amortizable assets, the gains or losses will be recognized yearly over the respective useful lives of the assets. However, the gains or losses will be recognized in the year of realization if the unrealized gains or losses result from other assets.

When the invested company issue new shares and the Company do not subscribe the shares according to the Company's ownership percentage resulting in changes of net equity of invested companies' ownership, the change amounts will be adjusted to capital surplus. If such adjustments decrease capital surplus and the capital surplus is insufficient to be adjusted, retained earnings will be reduced accordingly.

**(6) Rental assets**

Rental assets are fixed assets and equipments that leased to others for operating purpose and are stated at acquisition cost. Depreciation is calculated on a straight-line basis over estimated useful lives of the assets and accounted under non-operating expenses or operating costs.

**(7) Property and equipment**

Property and equipment are stated at acquisition cost. Major renewals, improvements and additions are treated as capital expenditures. Depreciation is calculated on a straight-line basis over estimated useful lives of the assets. Interest expense from the acquisition period is capitalized and classified under appropriate categories of property and equipment. Gains or losses on the disposal of property and equipment are recorded as non-operating income or expense.

**(8) Short-term notes payable**

Short-term notes payable is evaluated by present value and the discount is listed as a deducting item of short-term notes payable.

**(9) Retirement benefits**

The defined benefit pension plan is eligible for all regular employees. The plan covering salaried employees provides benefit payments based on years of service and the employees' average salary of final six months. The plan is calculated by the accrual of retirement "credit". During the first fifteen years of service, an employee may accrue two credits per year. The accrual rate is one credit per year after the fifteenth year.

Under the funding policy of the plan, the Company contributes, monthly, an amount equals to 5% of the employees' monthly salaries and wages to the pension fund.

The consolidated entity's pension plan was measured pursuant to SFAS No. 18, "Accounting for Pensions". The measurement date was established on the balance sheet date. The Company accrues pension cost when the accumulated benefit obligation is over the fair value of the fund assets. From January 1, 1996, the Company recognized net periodic pension cost, including service costs, amortization of unrecognized prior service costs, amortization of unrecognized gain or loss and amortization of unrecognized transitional net assets. The amortization is on the straight-line method over 15 years. The Company paid retirement benefits out of the pension fund. If the fund is not sufficient, payment is reported as expense.

(10) **Treasury stock**

The Company uses the cost method to account for treasury stock. Under the cost method, treasury stock is debited at the cost of the shares purchased. When treasury stock is sold at a price greater than the cost, the difference is credited to capital surplus-treasury stock. If the sales price of treasury stock is lower than the cost, the difference is used to offset capital surplus from similar treasury stock. If the capital surplus-treasury stock account is insufficient to cover the excess of the cost over the price, retained earnings is debited for the remaining amount. The book value of each share of treasury stock is equal to its weighted-average value and is calculated according to its reason for purchase.

(11) **Derivative financial instruments**

The premium from call or put option are recognized as realized income or expense at execution date. The losses or gains of executing option are recognized as current expenses or incomes.

(12) **Income tax**

The estimation of income tax is based on accounting income. Deferred income tax assets and liabilities are recognized based on the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis amount, net loss carry forwards and unused tax credits. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary timing differences are expected to reverse or settled. The effect of the change in income tax rates on deferred income tax assets and liabilities is recognized in the year of enactment. The Company also evaluates the possibility of the realization of deferred income tax assets, and recognizes a valuation allowance account if necessary. Deferred income tax assets and liabilities are classified as current or non-current according to the assets or liabilities accounts from which they are derived, or according to the expected year of reversal if they are not related to specific assets or liabilities. Current deferred income tax assets and liabilities should be offset and listed as a net amount, as well as non-current deferred income tax assets and liabilities.

The Company adopted the provisions of the Statements of Financial Accounting Standards No. 22, "Accounting for Income Taxes Credits", in dealing with the tax credits of purchasing equipments, technique, R&D, human resource development and investments etc. Those tax credits were recognized in current year.

The Company's unappropriated retained earnings not distribution in next year will have an additional tax of 10% under the Integrated Income Tax System, starting from 1998, and recorded as income tax expense in the year of levy.

The adjustment of the tax expense levied in the prior years should be listed as income tax expense.

(13) **Earnings per share**

Simple earnings per share is calculated based on the weighted average outstanding shares during the period and is adjusted retroactively to reflect the effect of the increase in issued common stocks resulting from appropriation of retained earnings or capital surplus.

3. **SHORT-TERM INVESTMENTS**

	<u>December 31, 2002</u>		<u>December 31, 2001</u>	
	<u>Cost</u>	<u>Market value</u>	<u>Cost</u>	<u>Market value</u>
Listed/OTC stock.....	\$14,149	<u>\$16,781</u>	\$31,740	<u>\$56,252</u>
Less: allowance for decline in market value...	<u>—</u>		<u>—</u>	
	<u>\$14,149</u>		<u>\$31,740</u>	

4. INVENTORIES

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Merchandise inventories.....	\$164,445	\$152,675
Components .....	28,673	25,317
Accessories .....	<u>25,246</u>	<u>26,539</u>
Subtotal .....	218,364	204,531
Less: allowance for inventory valuation losses .....	<u>(5,974)</u>	<u>(9,746)</u>
	<u><u>\$212,390</u></u>	<u><u>\$194,785</u></u>

The insurance coverage of the above inventories as of December 31, 2002 and 2001 amounted to NT\$474,530 thousand and NT\$393,210 thousand respectively.

## 5. LONG-TERM EQUITY INVESTMENTS

	December 31, 2002		December 31, 2001	
	Holding %	Amounts	Holding %	Amounts
Equity method:				
Ability Enterprise (BVI) Co., Ltd. ....	100.00	\$551,136	100.00	\$404,242
Abico International Holding Co., Ltd. ....	100.00	147,896	—	—
Ability International Investment Co., Ltd. ....	99.99	213,581	99.99	218,432
Taiwan Imaging Systems Inc. ....	93.25	23,734	93.25	21,427
King Ability Interprise Co., Ltd. ....	—	—	67.50	9,493
Avy Co., Ltd. ....	63.72	233,054	60.00	175,422
Ability International Rent Co., Ltd. ....	44.95	10,204	44.95	10,119
Canon Marketing (Taiwan) Co., Ltd. ....	48.87	35,057	48.87	61,145
Abico Automation Co., Ltd. ....	48.00	2,342	48.00	2,370
Abiconet International Co., Ltd. ....	40.00	20,348	40.00	19,417
Taiwan Daiohs Co., Ltd. ....	39.86	6,756	39.86	9,157
Guangdong United Optical Instrument Co., Ltd. ....	22.85	33,890	22.85	30,384
Area East Technology Corp. ....	—	—	22.22	10,018
Subtotal .....		<u>1,277,998</u>		<u>971,626</u>
Cost method:				
E-Ten Information Systems Co., Ltd. ....	3.40	67,981	3.40	67,981
Xander International Corp. ....	0.38	8,202	—	—
Power World Fund, Inc. ....	2.84	25,000	2.84	25,000
Jung Shing Wire Co., Ltd. ....	0.34	2,781	1.67	12,177
Shing Kong Financial Holding Co., Ltd. ....	0.02	10,565	—	—
Power World Securities Co., Ltd. ....	—	—	0.57	20,000
Teamcam Information Corp. ....	—	—	5.59	15,502
Taiwan Ohara Optical Co., Ltd. ....	7.00	14,000	7.00	14,000
Taiwan Video and Monitor Corp. ....	1.28	15,063	1.28	15,063
CC&C Technologies, Inc. ....	1.00	7,200	1.00	7,200
Vivavr Technology Co., Ltd. ....	2.08	3,546	4.85	7,092
Breeze Digital Technology Co., Ltd. ....	9.80	4,900	9.80	4,900
Presto Computer Turn-up Network Inc. ....	9.33	3,663	9.33	3,663
Featron Computer Co., Ltd. ....	2.09	—	2.09	—
Minton Optic Industry Co., Ltd. ....	4.91	68,400	4.91	68,400
Wan Hai Lines Ltd. ....	0.03	5,464	0.10	22,591
Cathay Financial Holding Co., Ltd. ....	—	11,044	—	5,900
Cathay United Bank .....	—	—	0.04	5,129
King Ability Enterprise Co., Ltd. ....	19.50	2,400	—	—
Chiabon Venture Capital Co., Ltd. ....	10.00	100,000	—	—
General Plastic Industrial Co., Ltd. ....	0.66	22,400	—	—
Area East Technology Corp. ....	15.36	10,075	—	—
Datd Image Corporation .....	1.67	7,500	—	—
Subtotal .....		<u>390,184</u>		<u>294,598</u>
		1,668,182		1,266,224
Cumulated translation adjustments .....		16,667		16,758
Less: allowance for decline in market value...		<u>(56,296)</u>		<u>(65,256)</u>
		<u>\$1,628,553</u>		<u>\$1,217,726</u>

*Note 1:* After the merger with Xander International Corp., Teamcam Information Corp. was extinguished in 2002. The share exchange was effective from September 1, 2002 and the share exchange ratio is 4.5:1.

*Note 2:* Power World Securities merged with Shin Kong Financial Holding Co., Ltd. in 2002. The share exchange was effective from February 19, 2002 and the share exchange ratio is 2.05:1.

*Note 3:* Cathay United Bank merged with Cathay Financial Holding Co., Ltd. in 2002. The share exchange was effective from April 22, 2002 and the share exchange ratio is 6:1.

For the years ended December 31, 2002 and 2001 the original costs of investments under the equity method of accounting were as follows:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Ability Enterprise (BVI) Co., Ltd. ....	\$247,504	\$247,504
Ability International Investment Co., Ltd. ....	198,994	198,994
Taiwan Imaging Systems Inc. ....	17,850	17,850
King Ability Enterprise Co., Ltd. ....	—	8,960
Avy Co., Ltd. ....	287,591	155,164
Canon Marketing (Taiwan) Co., Ltd. ....	61,145	61,145
Ability International Rent Co., Ltd. ....	8,990	8,990
Abico Automation Co., Ltd. ....	2,880	2,880
Abiconet International Co., Ltd. ....	20,000	20,000
Taiwan Daiohs Co., Ltd. ....	13,950	13,950
Guangdong United Optical Instrument Co. Ltd. ....	28,097	28,097
Area East Technology Corp. ....	—	10,000
Abico International Holding Co., Ltd. ....	39,602	—
	<u>\$926,603</u>	<u>\$773,534</u>

All subsidiaries over 50% held by the Company excluding Avy Co., Ltd. and Ability Enterprise (BVI) Co., Ltd. in 2002 and 2001, are not necessary to consolidate financial statements with the Company, because each subsidiary's total assets and total operating income are below 10% of the Company's total assets and operating revenue and all subsidiaries' combined assets and combined operating income are under 30% of the Company's total assets and total operating income.

The investment revenues (loss) of investments under equity method of accounting in 2002 and 2001 were as follows:

	<u>2002</u>	<u>2001</u>
Ability Enterprise (BVI) Co., Ltd. ....	\$146,894	\$156,674
Ability International Investment Co., Ltd. ....	(4,851)	782
Taiwan Imaging Systems Inc. ....	2,307	3,066
King Ability Enterprise Co., Ltd. ....	(342)	220
Avy Co., Ltd. ....	(65,230)	21,163
Ability International Rent Co., Ltd. ....	85	71
Canon Marketing (Taiwan) Co., Ltd. ....	(26,088)	—
Abico Automation Co., Ltd. ....	(28)	(510)
Abiconet International Co., Ltd. ....	1,931	(583)
Taiwan Daiohs Co., Ltd. ....	(2,401)	(3,780)
Guangdong United Optical Instrument Co., Ltd. ....	6,159	4,671
Area East Technology Corp. ....	57	18
Abico International Holding Co., Ltd. ....	108,294	—
	<u>\$166,787</u>	<u>\$181,792</u>

In 2002, the investment revenues (loss) recognized from Canon Marketing (Taiwan) Co., Ltd., Abico Automation Co., Ltd., Abiconet International Co., Ltd., Taiwan Daiohs Co., Ltd., Guangdong United Optical Instrument Co., Ltd., Area East Technology Corp. and 2001, Canon Marketing (Taiwan) Co., Ltd., Abico Automation Co., Ltd., Abiconet International Co., Ltd., Taiwan Daiohs Co., Ltd., Guangdong United Optical Instrument Co., Ltd., Area East Technology Corp. were deferred for one year but no longer than next half-year financial report according to the 8th term of "Criteria Governing the Preparation of Financial Reports by Securities Firms". Therefore the investment losses evaluated by equity method were NT\$20,370 and NT\$184 thousand in 2002 and 2001 respectively. And, the Company recognized investment income NT\$43,064 thousand and NT\$21,163 thousand respectively from Avy Co., Ltd. and Abico International Holding Co., Ltd., according to the report of other auditors.

The Company had invested 100% of Ability Enterprise (BVI) Co., Ltd. in March 2000 to expand its business to the production of optic-electronic components. As of December 31, 2002, the Company had invested NT\$247,504 thousand (US\$7,635 thousand) to Dongguan Guang Tong Business Machines Co., Ltd. and Dongguan Yorkey Optical Machinery Components Ltd., which was examined and approved by Investment Commission Ministry of Economic Affairs via letter No. 89022922 and 89028327.

In order to expand the market of Mainland China, the Company invested in 22.85% of Guangdong United Optical Instrument CO., Ltd. in 1999 and had approved by Investment Commission Ministry of Economy Affairs which letter No. 88732635. As of December 31, 2002, the Company had invested NT\$28,097 thousand (HKD6,900 thousand).

For the purpose of developing global marketing, the Company invested in 48.73% of Canon Marketing (Taiwan) Co., Ltd. (original name: Formerly Taiwan Copyer Co., Ltd.) in March 2001. The Company subscribed 49% of Canon Marketing (Taiwan) Co., Ltd. increased cash capital, NT\$42,000 thousand, on June 26, 2001 and the percentage of ownership had changed from 48.73% to 48.87%. As of December 31, 2002, the Company had invested NT\$61,145 thousand.

The Company sold 576 shares of King Ability Enterprise Co., Ltd. in March 2002, so the percentage of ownership decreased from 67.50% to 19.50% and the Company also lost the significant influence to King Ability Enterprise Co., Ltd. The accounting valuation method had changed from equity method to cost method. The carrying value of investment was reduced to reflect the market value and long-term investments were stated at cost.

Teamcam Information Corp. reduced its capital by NT\$140,000 thousand (40%) on July 17, 2001. The Company recognized investment losses NT\$10,334 thousand on December 31, 2000. The Board of Directors of Teamcam Information Corp. decided to merge with Xander International Corp. on April 2, 2002. The conversion ratio for Teamcam Information Corp. to Xander International Corp. was 4.5 to 1, and the merger date were September 1, 2002. The Company recognized permanent investment losses of NT\$7,300 thousand in 2002.

Area East Technology Corp. increased cash capital of NT\$20,100 thousand on June 11, 2002. Because the Company didn't subscribe, the percentage of ownership was reduced from 22.22% to 15.36%. The Company lost its significant influence and the accounting valuation method had changed from equity method to cost method. The carrying value of investment was reduced to reflect the market value and long-term investments were stated at cost.

Vivavr Technology Co., Ltd. reduced capital by NT\$60,002 thousand (50%) on January 15, 2002. The Company recognized investment losses of NT\$3,546 thousand according to the capital reduction on March 31, 2002.

The Company invested 100% of Abico International Holding Co., Ltd. to expand the market of Mainland China in March 2002. As of December 31, 2002, the Company had invested NT\$39,602 thousand (US\$1,129 thousand).

Avy Co., Ltd increased cash capital by 9,425,000 shares in December 2002. The Company subscribed 6,621,335 shares and the percentage of ownership increased from 60.00% to 63.72%.

## 6. RENTAL ASSETS

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Cost:		
Land.....	\$141,509	\$221,352
Buildings.....	244,082	354,963
Equipments.....	<u>436,188</u>	<u>514,033</u>
Subtotal.....	821,779	1,090,348
Less: accumulated depreciation.....	<u>(266,792)</u>	<u>(238,383)</u>
Net rental assets.....	<u><u>\$554,987</u></u>	<u><u>\$851,965</u></u>

Please refer to note 16 for pledged assets of the rental assets as of December 31, 2002 and 2001.

As of December 31, 2002 and 2001, the insurance coverage for rental assets amounted to NT\$331,857 thousand and NT\$331,360 thousand, respectively.

## 7. PROPERTIES AND EQUIPMENT

As of December 31, 2002 and 2001, please refer to note 16 for pledged assets of the properties and equipment.

As of December 31, 2002 and 2001, the insurance coverage for fixed assets amounted to NT\$383,477 thousand and NT\$275,611 thousand, respectively.

## 8. SHORT-TERM BORROWINGS

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Mortgage borrowing.....	\$280,000	\$129,000
Credit loans .....	239,000	336,000
Letters of credit .....	1,801	69,728
Total .....	<u>\$520,801</u>	<u>\$534,728</u>

The interest rates for the above loans were 1.88%~3.12% and 2.60%~4.37% in 2002 and 2001, respectively. The due dates are within one year.

As of December 31, 2002 and 2001, details of pledged assets are summarized in note 16.

As of December 31, 2002 and 2001, unused credit lines available for borrowing amounted to NT\$1,615,775 thousand and NT\$1,506,864 thousand.

## 9. SHORT-TERM NOTES AND BILLS PAYABLE

	<u>December 31, 2002</u>		<u>December 31, 2001</u>	
	<u>Amount</u>	<u>Interest rate %</u>	<u>Amount</u>	<u>Interest rate %</u>
Commercial paper payables.....	\$228,000	1.88~2.65	\$220,000	2.53~2.85
Less: discount .....	(805)		(647)	
	<u>\$227,195</u>		<u>\$219,353</u>	

As of December 31, 2002 and 2001, commercial paper payables were guaranteed by Union Bills Finance Corp., Mizuho Corporate Bank, Ltd., Bank of Tokyo-Mitsubishi Ltd., Union Bills Finance Corp. and Dai-Ichi Kangyo Bank.

As of December 31, 2002 and 2001, unused credit lines available for short-term notes and bills amounted to NT\$122,000 thousand and NT\$156,072 thousand.

## 10. BONDS PAYABLE

	<u>December 31, 2002</u>		<u>December 31, 2001</u>	
	<u>Amount</u>	<u>Interest rate %</u>	<u>Amount</u>	<u>Interest rate %</u>
First issuance secured corporate bond .....	\$300,000	5.5	\$300,000	5.5
Less: current portion.....	(300,000)		—	
	<u>\$—</u>		<u>\$300,000</u>	

As of April 12, 2000, the Board of Directors approved the first issuance of domestic corporate bond of NT\$300,000 thousand with par value of NT\$1,000 thousand, 5.5% interest rate from May 4, 2000 to May 4, 2003. The interests with simple compounding will be paid annually and the principal will be paid back on the maturity. The issuance was authorized on April 21, 2000 via file No. 32941 issued by SEC and the amount fully received in May 2000.

## 11. EMPLOYEE RETIREMENT BENEFITS

The following table sets forth the actuarial valuation of the plan's funded status and the amounts recognized in the balance sheet on December 31, 2002 and 2001:

	<b>December 31, 2002</b>	<b>December 31, 2001</b>
Benefit obligation:		
Vested benefit obligation .....	\$3,289	\$—
Non-vested benefit obligation .....	92,958	85,608
Accumulated benefit obligation.....	96,247	85,608
Present value of increase in future compensation .....	68,517	76,221
Projected benefit obligation (PBO) .....	164,764	161,829
Plan assets at present value .....	(107,784)	(102,233)
Excess of assets over PBO .....	56,980	59,596
Unrecognized net obligations at transition.....	(32,026)	(33,021)
Unrecognized pension loss .....	(22,204)	(24,980)
Amount that should be accrued for pension cost .....	—	—
Accrued pension cost .....	<u>\$2,750</u>	<u>\$1,595</u>

The employees' vested benefits according to the Company's retirement plan amounted to NT\$4,328 thousand and zero.

The net periodic pension cost for the years 2002 and 2001 were as follows:

	<b>2002</b>	<b>2001</b>
Service cost .....	\$5,548	\$9,325
Interest cost .....	7,534	8,627
Expected return on plan assets .....	(4,960)	(6,049)
Amortizations and deferrals .....	3,618	3,330
	<u>\$11,740</u>	<u>\$15,233</u>

The pension funds had paid for the years 2002 and 2001 amounted to NT\$10,585 thousand and NT\$11,646 thousand. Major assumptions used to determine the above information are as follows:

	<b>December 31, 2002</b>	<b>December 31, 2001</b>
Discount rate .....	3.75%	4.75%
Rate of increase in future compensation.....	2.75%	3.50%
Expected long-term rate of return on plan assets.....	3.75%	4.72%

## 12. SHAREHOLDERS' EQUITY

### (1) Common stock

The shareholders' meeting of the Company held on May 31, 2001 resolved to transfer capital surplus of NT\$56,201 thousand and earnings of NT\$56,201 thousand to capital. The issuance was authorized and registered with government authorities. After the transfer, total issuance of common stocks amounted to 11,240,280 shares, and capital of the Company was NT\$1,985,770 thousand.

The shareholders' meeting of the Company held on May 27, 2002 resolved to transfer earnings of NT\$119,146 thousand to capital as 11,914 thousand shares. The issuance was authorized and registered with government authorities on July 1, 2002. As of July 31 2002, the capital of the Company was NT\$2,104,916 thousand.

On August 23, 2002, the shareholder's meeting of the Company approved the merger with Viewquest Technologies Inc. by issuing new shares of 77,786,486. The merger date was January 1, 2003. After the merger, the authorized capital of the Company was NT\$5,400,000 thousand while paid-in capital was NT\$2,882,781 thousand.

(2) **Capital surplus**

According to the R.O.C. Company Law, capital surplus can only be used to offset a deficit or to increase capitals, and cannot be distributed as cash dividends. The amount of such capitalization depends on the result of operations, and cannot be over a certain ratio of transferred paid-in capital in excess of par value. Securities and Futures Commission, Ministry of Finance regulations stipulate that increasing capital derived from transferring additional paid-in capital can be done only once a year and only in the year other than the year in which such excess arose.

(3) **Legal reserve**

The R.O.C. Company Law stipulates that a company must retain 10% of its annual earnings as legal reserve until such retention equals to the amount of capital. The legal reserve may be used to offset an accumulated deficit, but cannot be distributed as cash dividends. However, 50% of the legal reserve may be converted to share capital when it reaches the amount equal to one-half of issued share capital upon resolution by the Company's stockholders.

(4) **Earnings appropriation**

According to Securities Exchange Law No. 41, the Company may additionally reserve the amount equal to any valuation or contra-account in the stockholders' equity in the fiscal year (such as unrealized losses on valuation of long-term investment, cumulative translation adjustments, etc.) from the net income and equity from prior periods; the same amount from prior period earnings should be reserved as special reserve and can not be distributed. If the valuation or contra-account of stockholders' equity is reversed, the special reserve amount could be distributed.

According to the R.O.C. Company Law and the Company's articles of incorporation, the Company's earnings are to be appropriated in the following order:

- a. Offset prior years' deficit (if any);
- b. 10% is to be set aside as legal reserve;
- c. A special reserve as deemed appropriation;
- d. The remaining balance is to be appropriated as follows: (1) 3% as directors' and supervisors' remuneration, (2) 10~15% as employees' bonus, and (3) the distribution of the remaining balance and undistributed earnings from previous year was decided by shareholders' meeting.

The Company's dividend policy requires that parts of dividend should be stock dividend to maintain operation. For satisfying stockholders' need of cash inflow, the percentage of cash dividend was made no less than 10%.

The board of directors has not yet approved the earnings appropriation for year 2002 until the date of the independent auditors' report. Please refer Market Observation Post System for the Company's earnings distribution in 2002.

In 2002, the Board of Directors resolved to appropriate the year 2001 earnings as follow: employees' bonus amounted to NT\$7,525 thousand, and the Board's remuneration amounted to NT\$5,017 thousand. The information about EPS was showed in note 14.

- (5) As of December 31, 2002 and 2001, the shareholders' imputation credit account, and the imputation credit ratio were summarized as follows:

	<b>December 31, 2002</b>	<b>December 31, 2001</b>
Imputation credit account.....	<u>\$9,227</u>	<u>\$36,517</u>
	<b>2002</b>	<b>2001</b>
Expected (Actual) imputation credit account .....	<u>2.54%</u>	<u>\$5.24%</u>

(6) As of December 31, 2002 and 2001, the unappropriated earnings were summarized as follows:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Unappropriated earnings 1998 and before.....	\$855	\$855
Unappropriated retained earnings since 1999.....	<u>363,612</u>	<u>339,566</u>
	<u>\$364,476</u>	<u>\$340,412</u>

The stockholders' imputation tax credit accounts and the imputed tax credit include tax payable of the fiscal year.

According to the R.O.C. Income Tax Law, the shareholders' imputation credit except 10% income tax levied on unappropriate retained earnings under the Integrated Income Tax System cannot be used by non-resident alien to offset his tax payable computed on dividends on earnings generated in the R.O.C.

(7) **Treasury stock**

<u>Reason</u>	<u>January 1, 2001</u>	<u>Increase in this year</u>	<u>Decrease in this year</u>	<u>December 31, 2001</u>
Transfer to stuff.....	<u>\$3,954</u>	<u>\$—</u>	<u>\$3,954</u>	<u>\$—</u>

R.O.C. Securities Exchange Law regulates that corporation's purchase of their own stocks cannot be above 10% of issued shares, and the dollar amount of purchase cannot be more than the retained earnings plus reserve for capital increase and realized capital surplus. In 2001, the maximum of treasury stock was 3,954 thousand shares, the dollar amount of purchase was NT\$60,120 thousand, which is under the upper limit 10,000 thousand shares and NT\$424,281 thousand. In April, 2001, the treasury stock was purchased by employees at NT\$18.8 per share, premium on treasury stock was NT\$13,992 thousand which has been transferred to paid-in capital.

The Company's treasury stock is without right to vote and receive dividend, as well as can't be pledged in accordance with SFC regulation.

**13. INCOME TAX**

The Company is subject to the income tax rate of 25 percent. The provision for income taxes for 2002 and 2001 were as follows:

	<u>2002</u>	<u>2001</u>
Current income tax expense.....	\$(644)	\$15,744
10% income taxes on unappropriated retained earnings.....	—	2,829
Deferred income tax expense.....	<u>14,597</u>	<u>(4,301)</u>
	<u>\$13,953</u>	<u>\$14,272</u>

The differences between “expected” income taxes at the statutory income tax rate and the income tax as reported in the accompanying financial statements for 2002 and 2001 were summarized as follows:

	<u>2002</u>	<u>2001</u>
Income tax at statutory rate .....	\$61,148	\$87,713
Tax-free collection revenue - land.....	—	(7,027)
Tax-free dividend revenue.....	(978)	(1,548)
Gains on sale of securities .....	(15,608)	(20,363)
Gains on investment accounted for under the equity method .....	(41,696)	(46,146)
Tax credit .....	—	(2,998)
10% income taxes on unappropriated retained earnings .....	—	2,829
Adjustment of prior years’ estimated income taxes.....	(7,386)	(1,553)
Estimated adjustment of deferred income tax asset.....	8,217	2,456
The increment of allowance for income tax asset.....	1,825	—
Others.....	8,431	909
	<u>\$13,953</u>	<u>\$14,272</u>

The deferred income tax expenses consisted of the following:

	<u>2002</u>	<u>2001</u>
Investment on equity-method invited companies.....	\$1,574	\$(698)
Reversal on long-term investments valuation loss .....	(1,825)	2,583
Reversal short-term investments valuation loss .....	6,484	(2,939)
Difference between depreciation method of financial and tax purposes .....	7,603	(5,111)
Reversal on inventories valuation losses .....	1,133	1,238
(Un)realized gain on inter-affiliate accounts.....	(302)	(62)
The approved number of discarding inventory .....	—	138
Unrealized gain on foreign currency exchange .....	—	505
Sales allowance in the past received at this time.....	—	999
Adjustment for bad debt for tax purposes.....	(1,097)	1
Adjustment for pension expense for tax purposes.....	(281)	(904)
The increment of allowance for income tax asset.....	1,825	—
Others.....	(517)	(51)
	<u>\$14,597</u>	<u>\$(4,301)</u>

The Company's deferred income tax assets were as follows:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Current:		
Deferred income tax asset.....	\$12,507	\$26,391
Allowance for valuation of deferred income tax assets.....	—	—
Net deferred income tax assets .....	12,507	26,391
Deferred income tax liabilities .....	—	581
Current deferred income tax assets, net .....	<u>\$12,507</u>	<u>\$25,810</u>
Noncurrent:		
Deferred income tax assets .....	\$9,411	\$8,880
Allowance for valuation of deferred income tax asset .....	(7,545)	(5,720)
Net deferred income tax assets .....	1,866	3,160
Deferred income tax liabilities .....	—	—
Noncurrent deferred income tax asset (liabilities), net .....	<u>\$1,866</u>	<u>\$3,160</u>
Total deferred income tax assets .....	<u>\$21,918</u>	<u>\$35,271</u>
Total deferred income tax liabilities.....	<u>\$—</u>	<u>\$581</u>
Total allowance for valuation of deferred income tax assets.....	<u>\$7,545</u>	<u>\$5,720</u>

The tax effects of temporary differences incurred from deferred income tax assets and liabilities as of December 31, 2002 and 2001 were presented below:

	December 31, 2002		December 31, 2001	
	Amount	Income tax effects	Amount	Income tax effects
Deferred income tax assets:				
Losses on investment accounted for under the equity method.....	\$—	\$—	\$6,296	\$1,574
Losses on decline in market value of long-term investment.....	30,177	7,545	22,877	5,720
Losses on inventory valuation.....	5,974	1,493	10,507	2,626
Adjustment for bad debt for tax purposes .	26,153	6,538	21,762	5,441
Adjustments of depreciation expense for tax purposes .....	13,688	3,422	44,102	11,025
Unrealized losses on short-term investment	—	—	25,938	6,484
Adjustment for pension expense for tax purposes .....	7,469	1,867	6,345	1,586
Others.....	4,212	1,053	3,256	815
		21,918		35,271
Valuation of allowance .....		(7,545)		(5,720)
		<u>\$14,373</u>		<u>\$29,551</u>
Deferred income tax liabilities				
Unrealized gain on foreign currency exchange .....	\$—	\$—	\$2,068	\$517
Other .....	—	—	255	64
		<u>\$—</u>		<u>\$581</u>

The National Tax Administration of Taipei has reviewed the tax return of the Company through 2000. There was no unpaid tax for 2000.

#### 14. EARNINGS PER SHARE

	2002				
	Amount		Shares	Earnings per share	
	Before tax	After tax		Before tax	After tax
(In New Taiwan Dollars)					
Basic earnings per share:					
Net income for basis earnings per common stock .....	<u>\$244,633</u>	<u>\$230,680</u>	<u>210,492</u>	<u>\$1.16</u>	<u>\$1.10</u>

	2001				
	Amount		Shares	Earnings per share	
	Before tax	After tax		Before tax	After tax
(In New Taiwan Dollars)					
Basic earnings per share:					
Net income for basis earnings per common stocking .....	\$350,891	\$336,619	198,577	\$1.77	\$1.70
Net income for retroactively basis earnings per common stock .....	\$350,891	\$336,619	210,492	\$1.67	\$1.60
Diluted earnings per share:					
Net income after distributing directors' and supervisors' remuneration and employees' bonus .....		\$324,077	198,577		\$1.63
Net income after distributing directors' and supervisors' remuneration and employees' bonus retroactively .....		\$324,077	210,492		\$1.54

## 15. RELATED PARTY TRANSACTIONS

(1) Names and relationships of related parties are as follows:

Name	Relationship with the Company
King Ability Enterprise Co., Ltd. ....	Invested company measured by equity method (changed to cost method on March, 2002)
Taiwan Imaging System Inc. ....	Invested company measured by equity method
Taiwan Daiohs Co., Ltd. ....	Invested company measured by equity method
Ability Enterprise (BVI) Co., Ltd. ....	One hundred percent-owned subsidiary
Avy Co., Ltd. ....	Invested company measured by equity method
Area East Technology Corp. ....	Invested company measured by equity method (changed to cost method on June, 2002)
Canon Marketing (Taiwan) Co., Ltd. ....	Invested company measured by equity method
Ability International Rent Co., Ltd. ....	Invested company measured by equity method
Ability International Investment Co., Ltd. ....	Invested company measured by equity method
Abico International Holding Co., Ltd. ....	Invested company measured by equity method
Canon Inc. ....	The Company's major suppliers
Xander International Corp. ....	The Company was one of the directors in this company (Relationship has extinguished after merger)
Taishiba International Co., Ltd. ....	The director is the chairman of the Company
Yu-Ho Foods Co., Ltd. ....	The chairman is the supervisor of the Company
Jia Nai Investment Corp. ....	The chairman's close relatives, etc. and the director's of the entity
Others .....	Related parties defined by R.O.C. SFAS No. 6

(2) Significant transactions with related parties

1) Sales and accounts receivable

The following is a summary of significant transactions with related parties as of December 31, 2002 and 2001:

	2002		2001	
	Amount	Percentage of revenues	Amount	Percentage of revenues
Yu-Ho Foods Co., Ltd. ....	\$786,362	32	\$487,986	20
Canon Marketing (Taiwan) Co., Ltd. ....	207,771	9	379,012	16
Area East Technology Corp. ....	1,007	—	31,054	1
King Ability Enterprise Co., Ltd. ....	23,009	1	15,301	1
Taiwan Imaging System Inc. ....	9,026	—	14,054	1
Avy Co., Ltd. ....	45,700	2	9,346	—
Xander International Corp. ....	—	—	4,568	—
Others .....	414	—	835	—
Total .....	<u>\$1,073,289</u>	<u>44</u>	<u>\$942,156</u>	<u>39</u>

The collecting periods of receivables are within one to six months for related parties and one to three months for non-related parties. The sales prices for Xander International Corp. are the same for non-related parties. The markup ratios to Taiwan Imaging System Inc., Canon Marketing (Taiwan) Co., Ltd, Yu-Ho Foods Co., Ltd. are 1% to 5% of total cost. The prices for other related parties are 10% to 20% less than prices for non-related parties or the same as distributors.

Accounts receivable to related parties as of December 31, 2002 and 2001 were as follows:

	December 31, 2002		December 31, 2001	
	Amount	%	Amount	%
Notes receivable				
Yu-Ho Foods Co., Ltd. ....	\$198,138	95	\$212,912	91
Canon Marketing (Taiwan) Co., Ltd. ....	1,480	1	9,827	4
Avy Co., Ltd. ....	7,450	4	9,414	4
King Ability Enterprise Co., Ltd. ....	534	—	1,158	1
Others .....	193	—	236	—
Total .....	<u>\$207,795</u>	<u>100</u>	<u>\$233,547</u>	<u>100</u>

	December 31, 2002		December 31, 2001	
	Amount	%	Amount	%
Accounts receivable				
Yu-Ho Foods Co., Ltd. ....	\$62,893	47	\$46,462	39
Canon Marketing (Taiwan) Co., Ltd. ....	14,186	11	68,557	57
Taiwan Imaging System Inc. ....	2,315	2	2,773	2
Avy Co., Ltd. ....	47,913	36	1,098	1
King Ability Enterprise Co., Ltd. ....	5,389	4	829	—
Other .....	521	—	573	1
Total .....	<u>\$133,217</u>	<u>100</u>	<u>\$120,292</u>	<u>100</u>

2) *Purchases and accounts payable*

Significant purchases with related parties for the year ended December 31, 2002 and 2001 were as follows:

	2002		2001	
	Amount	Percentage of purchases	Amount	Percentage of purchases
Canon Inc. ....	\$506,440	26	\$838,231	45
Ability International Rent Co., Ltd. ....	29,896	2	—	—
Taishiba International Co., Ltd. ....	41,913	2	37,673	2
Canon Marketing (Taiwan) Co., Ltd. ....	33,066	2	—	—
Others.....	2,271	—	3,094	—
Total.....	<u>\$613,586</u>	<u>32</u>	<u>\$878,998</u>	<u>47</u>

The Company's purchases from Canon Inc. has been paid by forward L/C or T/T within fifteen days. For Taishiba International Co., Ltd., it has been paid by T/E with maturity of fifty-five days or promissory note while other payables to related parties were within one to six months. Payables paid to suppliers were by promissory note within one to three months. There were no significant differences for purchase prices between related parties and other suppliers.

Purchases and accounts payable with related parties as of December 31, 2002 and 2001 were as follows:

	December 31, 2002		December 31, 2001	
	Amount	Percentage	Amount	Percentage
Accounts payable				
Canon Inc. ....	\$35,288	42	\$86,308	80
Canon Marketing (Taiwan) Co., Ltd. ....	17,175	20	—	—
Yu-Ho Foods Co., Ltd. ....	15,788	19	9,827	9
Ability International Rent Co., Ltd. ....	14,874	18	—	—
Taishiba International Co., Ltd. ....	62	—	8,854	8
Other .....	1,182	1	2,776	3
Total.....	<u>\$84,369</u>	<u>100</u>	<u>\$107,765</u>	<u>100</u>
Notes payable				
Canon Marketing (Taiwan) Co., Ltd. ....	\$—	—	\$1,757	100

3) *Assets transaction*

(1) Long-term investment purchased from the related parties for the year ended December 31, 2001 were as follows:

	2001	
	Content	Amount
Avy Co., Ltd.	Purchase long-term investment - Ability International Rent Co., Ltd. - 100,000 shares	\$1,000
Abico International Holding Co., Ltd.	Purchase long-term investment - Canon Marketing (Taiwan) Co., Ltd - 2,047,000 shares	40,565
		<u>\$41,565</u>

- (2) Long-term investment and fixed assets sold to the related parties for the year ended December 31, 2001, were as follows:

		2001		
		Book value	Sales price	Profit
Name				
Jia Nai Investment Corp.	Purchase of long-term investment - Maxedge Electronics Corp.	\$14,990	\$14,990	\$—
Ability International Investment Co., Ltd.	Purchase of long-term investment - Ability International Rent Co., Ltd.	10	10	—
		<u>\$15,000</u>	<u>\$15,000</u>	<u>\$—</u>

4) *Leases*

- (1) The Company leased the building and warehouse from related parties. The rent expenses were as follows:

	2002		2001	
	Amount	%	Amount	%
Abico International Holding Co., Ltd. ....	\$7,229	62	\$7,211	57
Avy Co., Ltd. ....	—	—	515	4
	<u>\$7,229</u>	<u>62</u>	<u>\$7,726</u>	<u>61</u>

- (2) The Company leased the building to related parties. The rent revenues were as follows:

	2002		2001	
	Amount	%	Amount	%
Canon Marketing (Taiwan) Co., Ltd. ....	\$5,132	16	\$5,388	15
Taiwan Imaging System Inc. ....	590	2	904	3
Taishiba International Co., Ltd. ....	1,315	4	832	2
King Ability Enterprise Co., Ltd. ....	516	1	516	1
Other .....	48	—	65	—
	<u>\$7,601</u>	<u>23</u>	<u>\$7,705</u>	<u>21</u>

5) *Accounts receivable from related parties (Other financial assets-current)*

The Company loans to related parties for the year ended December 31, 2002 were as follows:

	<b>2002</b>				
	<b>Highest balance for the year ended December 31, 2002</b>	<b>Balance on December 31, 2002</b>	<b>Interest Revenue</b>	<b>Interest Rate (%)</b>	<b>Collateral Offer</b>
Yu-Ho Foods Co., Ltd.	\$32,700	\$15,000	\$392	5.15~5.35	Promissory note NT\$319,500 thousand
Avy Co., Ltd.	84,000	—	1,057	2.58~4.89	Promissory note NT\$84,000 thousand (been returned)
Taishiba International Co., Ltd.	35,000	28,800	508	2.70~3.28	Promissory note NT\$50,000 thousand
King Ability Enterprise Co., Ltd.	1,880	930	51	4.375~4.45	Promissory note NT\$2,000 thousand
		<u>\$44,730</u>	<u>\$2,008</u>		

6) *Other revenues*

The subsidy received contributions to revenue from Canon Inc. for the year ended December 31, 2002 and 2001 were as follow:

	<b>2002</b>	<b>2001</b>
EMC and Maintenance Subsidy.....	\$—	\$31,275
Advertisement Subsidy.....	1,067	13,083
Donation Subsidy.....	—	7,888
Research and Development Subsidy .....	—	1,308
	<u>\$1,067</u>	<u>\$53,554</u>

All subsidies are listed as other revenue but advertisement expense reduced NT\$1,067 thousand and NT\$7,133 thousand, cost of goods sold reduced NT\$0 and NT\$27,780 thousand, donation expense reduced NT\$0 and NT\$7,888 thousand for the year ended December 31, 2002 and 2001, respectively. Accounts receivable balance were NT\$0 and NT\$16,942 thousand for the year ended December 31, 2002 and 2001, respectively.

7) *Endorsement*

(1) The related parties providing endorsement of loan or notes for the Company as of December 31, 2002 and 2001 were as follows:

	<b>December 31, 2002</b>	<b>December 31, 2001</b>
Abico International Holding Co., Ltd.....	<u>\$190,300</u>	<u>\$190,300</u>

- (2) The Company providing endorsements of loans or notes for the related parties as of December 31, 2002 and 2001 were as follows:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Ability Enterprise (BVI) Co., Ltd. ....	\$13,956	\$—

## 16. PLEDGED ASSETS

The Company provides rental assets, fixed assets and certificate of deposit as collateral for the bank loans or issuance of commercial paper. As of December 31, 2002 and 2001, the book values of pledged assets were as follows:

<u>Collateral</u>	<u>Pledged to secure</u>	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Rental Assets:			
Land .....	Long-term loans/issuance of commercial paper	\$141,509	\$221,353
Building .....	Long-term loans/issuance of commercial paper	224,433	337,478
		<u>365,942</u>	<u>558,831</u>
Fixed Assets:			
Land .....	Long-term loans/issuance of commercial paper	268,338	188,494
Building .....	Long-term loans/issuance of commercial paper	343,041	241,851
		<u>611,379</u>	<u>430,345</u>
Time Deposit (recorded as other assets - non- current).....	Bonds payable and posted to the court as collateral for lawsuit	28,017	33,000
Total .....		<u>\$1,005,338</u>	<u>\$1,022,176</u>

## 17. COMMITMENTS AND CONTINGENCIES

- (1) As of December 31, 2002 and 2001, in order to purchase inventories, the unused letters of credit of the Company amounted to NT\$50,468 thousand and NT\$47,950 thousand respectively.
- (2) The Company endorses for the related companies and business partners were NT\$13,956 and NT\$0 as of December 31, 2002 and 2001.
- (3) As of December 31, 2002 and 2001, the future lease payment of building were as follows:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
2002.1.1~2002.12.31 .....	\$—	\$7,146
2003.1.1~2003.12.31 .....	5,362	1,245
2004.1.1~2004.12.31 .....	1,266	144
2005.1.1~2005.12.31 .....	667	144
2006.1.1~2006.12.31 .....	667	144
2007.1.1~2007.12.31 .....	595	—
	<u>\$8,557</u>	<u>\$8,823</u>

(4) As of December 31, 2002 and 2001, fixed assets rented out were as follows:

<u>Leasee</u>	<u>Lease period</u>	<u>Rental calculation</u>	<u>Rent revenues for the year ended December 31, 2002</u>	<u>Rent revenues for the year ended December 31, 2001</u>
Starbucks Coffee Company	2000.1.8~2010.1.7 (1999.12.1~2009.11.30 originally)	Monthly rent has been changed from NT\$340 thousand (including tax) to NT\$290 thousand since August, 2001. The rent is collected on the first day of every month three percent higher than the prior year.	\$3,317	\$3,717
Veri Fone Systems Pte. Ltd. Taiwan Branch	2000.9.1~2003.8.31	Monthly rent is NT\$824 thousand (including tax), payable, on the first day of every month	9,414	8,629
Taiwan Business Bank	2001.6.20~2006.6.19	Monthly rental is NT\$984 thousand (including tax), paid semiannually within 7 working days	10,435	5,939

The detail schedule of yearly rent receivable in ten years were as follows:

<u>Period</u>	<u>Amount</u>
2003.1.1~2003.12.31.....	\$19,710
2004.1.1~2004.12.31.....	13,503
2005.1.1~2005.12.31.....	13,600
2006.1.1~2006.12.31.....	8,613
2007.1.1~2007.12.31.....	3,657
2008.1.1~2010.1.7 .....	11,491
	(Present value of NT\$8,167 with 5% discount rate)
	<u>\$70,574</u>

(5) The litigation case as of December 31, 2002 was as follow:

Wei Tai Kuang Co., Ltd. brought a civil claim against the Company on February 27, 1997. Wei Tai Kuang Co., Ltd. claimed to have made an agreement with the Company since June 1994. According to the agreement, the Company was obliged to recall its laser printers and electric components, originally sold to Wei Tai Kuang Co., Ltd. The Company, however, did not recall and pay back. As a result, Wei Tai Kuang Co., Ltd. filed a lawsuit for NT\$5,261 thousand and the related interests. The Court of Appeal made the second instance on April 29, 1999 and decided to reject the application. Wei Tai Kuang Co., Ltd. appealed, then The Supreme Court dismissed the judgment of The Court of Appeal on April 29, 1999. The Company appealed on again on January 28, 2000. On May 18, 2001, The Supreme Court dismissed the original judgment and sent it back to the second instance. The Court of Appeal dismissed the original judgment made on December 26, 2001, and Wei Tai Kuang Co., Ltd.'s first instance lawsuit and the application for provisional of execution were both rejected. Wei Tai Kuang Co., Ltd. was dissatisfied with the decision of the court of appeal and lodge an application for leave to appeal to The Supreme Court.

If the result is unfavorable to the Company, the maximum loss would be the amount referred above.

## 18. SUBSEQUENT EVENTS

For the purposes of integrating and enhancing business performance and competitiveness, the Company merged with Viewquest Technologies Inc. on January 1, 2003. The conversion ratio for Viewquest Technologies Inc. to the Company was 1.11 to 1. The increased capital of the Company was NT\$777,865 thousand.

## 19. FINANCIAL INSTRUMENTS

### (1) Derivatives

#### (a) *Notional amount and credit risk amount*

As of December 31, 2002, the Company had cleared its derivatives accounts. All transaction revenues and losses related were listed as non-operating revenues or losses.

The notional amount, book value and credit risk amount as of December 31, 2001 were as follows:

<u>Category</u>	<u>December 31, 2002</u>		
	<u>Notional amount</u>	<u>Book value amount</u>	<u>Credit risk amount</u>
Forwards:			
Forward proceeds receivable-foreign currencies.....	<u>USD1,200</u>	\$41,973	—
Forward exchange settlement payable .....	<u>TWD40,207</u>	<u>(40,207)</u>	—
Forward exchange settlement receivable-net .....		<u>\$1,766</u>	

The credit risk amount, accounting for potential market risk and credit risk, and measured at fair market value, represents the possibility that an accounting loss to the Company may occur as a direct result of the counterparts' failure to meet their contractual obligations. On account of well-known financial institutes with excellent credit standing as its counterparts, the Company does not anticipate any significant credit risk.

#### (b) *Market price risk*

The Company engages in derivative transactions for hedging purposes. The exchange rate risk and interest rate risk exposure derived from future foreign currency fluctuations and interest rate changes are expected to be offset by the effects of such changes on hedged transactions.

#### (c) *Liquidity risk, cash flow risk, forecasted amount, period and uncertainty of cash demands*

As of December 31, 2001, the cash outflow from derivative contracts was NT\$40,207 thousand and the cash inflow was NT\$1,200 thousand. These contracts were due before January 16, 2002.

The Company forecasted its working capital is adequate to meet its derivatives transaction needs. On that account, the Company does not anticipate significant capital raising risk and cash flow risk.

(d) The primary objective of holding forward contract and currency option transactions is to limit exchange rate exposures related to assets and liabilities denominated in foreign currency and foreign currency commitments. In order to be highly effective in achieving offsetting changes in fair market value attributable to the hedged risk, the Company designates derivative instruments negatively correlated to the proportionate changes in the fair market value of hedged item as hedging tools. Moreover, the positions are monitored on a timely basis.

(e) In 2002 and 2001, the Company incurred transactional exchange gain amounted to NT\$322 thousand and NT\$2,460 thousand, respectively.

- (2) Fair market value and book value of financial instruments determined as of December 31, 2002 and 2001 are as follows:

<b>Non-derivative financial instruments</b>	<b>December 31, 2002</b>		<b>December 31, 2001</b>	
	<b>Book value</b>	<b>Fair market value</b>	<b>Book value</b>	<b>Fair market value</b>
<b>Assets:</b>				
Cash and cash equivalents .....	\$236,626	\$236,626	\$434,481	\$434,481
Short-term investments .....	14,149	16,781	31,740	56,252
Notes receivable .....	41,411	41,411	55,998	55,998
Notes receivable - related parties .....	205,717	205,717	231,212	231,212
Accounts receivable .....	230,627	230,627	132,035	132,035
Accounts receivable - related parties .....	132,621	132,621	120,033	120,033
Other current assets .....	75,241	75,241	52,539	52,539
Long-term investments .....	1,628,553	1,600,273	1,217,726	1,152,313
Other non-current assets .....	56,465	56,465	65,844	65,844
<b>Liabilities:</b>				
Short-term borrowings .....	520,801	520,801	534,728	534,728
Short-term notes and bills payable .....	227,195	227,195	219,353	219,353
Notes payable .....	39,125	39,125	9,996	9,996
Accounts payable .....	180,044	180,044	61,946	61,946
Accounts payable - related parties .....	84,369	84,369	107,765	107,765
Accrued expenses .....	78,473	78,473	74,919	74,919
Other current liabilities .....	5,089	5,089	30,090	30,090
Bonds payable .....	300,000	300,000	300,000	300,000
Other liabilities .....	19,684	19,684	25,025	25,025

The methods and assumptions for estimating fair values of non-derivative financial instruments are as follows:

- (a) Short-term financial instruments, such as cash and cash equivalents, notes and accounts receivable, other current assets, notes and accounts payable, short-term borrowings, commercial papers payable, accrued expenses, and other current liabilities, are stated at book value because of the short maturity of these instruments.
  - (b) Short-term investments are valued at market price. If the information was not readily available, the Company would evaluate based on other financial information.
  - (c) As for long-term investments, the fair market value was based on the published market information; if the information was not readily available, the Company would estimate the fair market value based on financial or other information.
  - (d) The fair market values of statutory deposits and guarantee deposit were estimated by discounting expected cash flow. The discount rate is based on the current loan rate of the market.
- (3) Non-derivative financial instruments with off-balance sheet market price risk were as follows:

<b>Off-balance sheet financial instruments</b>	<b>December 31, 2002</b>		<b>December 31, 2001</b>	
	<b>Book value</b>	<b>Fair market value</b>	<b>Book value</b>	<b>Fair market value</b>
Letter of credit .....	\$—	\$50,468	\$—	\$47,950
Endorsements .....	—	13,956	—	—

- (4) Non-derivative financial instruments with concentration of credit risk were as follows:

As of December 31, 2002 and 2001, the balance exceeds 5% of the balance of notes receivable amounted to NT\$203,092 thousand and NT\$212,912 thousand, or 81.36% and 73.39% respectively.

As of December 31, 2002 and 2001, the balance exceeds 5% of the balance of notes receivable amounted to NT\$188,059 thousand and NT\$132,330 thousand, or 49.93% and 51.58% respectively.

## 20. SIGNIFICANT AGENCY CONTRACTS

- (1) The Company signed the contract to act as an agent for CANON HONG KONG CO., LTD on March 31, 2003. The products consist of copy machine and facsimile machine. There are restriction terms including not to compete and sales area limit.
- (2) The Company signed the contract to act as an agent for Canon Inc.'s microcopy system from February 17, 2002 to February 16, 2003. The contract renewed every year automatically if no disagreement. There is not to compete covenant in the contract.
- (3) The Company signed the contract to act as Canon Singapore Pte. Ltd.'s agent in the Vietnam area from January 1, 2003 to December 31, 2003. Without the formal termination notices, the contract renewed every year automatically. There are restriction terms including not to compete and sales area limit.

## 21. RECLASSIFICATION

To reconcile the accounting methods used in 2001 with that in 2002, some items were reclassified. The reclassifications were not considered significant.

## 22. ADDITIONAL DISCLOSURE ITEMS

### (1) Information related to significant transactions

<u>Contents</u>	<u>Illustration</u>
Loans to others.....	Chart 1
Endorsement for others.....	Chart 2
Securities held as of December 31, 2002 .....	Chart 3
Accumulated stock purchases or sales for the same stock of NT\$100 million or more than 20% of the Company's paid-in capital .....	Chart 4
Real estate purchase reaching NT\$100 million or more than 20% of the Company's paid-in capital .....	N/A
Real estate disposals of NT\$100 million or more than 20% of the Company's capital .....	N/A
Purchases and sales transactions with the related parties of NT\$100 million or more than 20% of the Company's paid-in capital .....	Chart 5
Receivables from related parties of NT\$100 million or more than 20% of the Company's paid-in capital .....	Chart 6
Financial derivatives .....	See Note 19

Chart 1 Loans to others in 2002 were as follows:

No.	Loan provider	Loan borrower	Trading entry	Largest amount in this period	Balance	Interest rate %	Character	Business dealings amount	Reason	Allowance for bad debt		Guarantee		Upper limit on loan to individual company (see note)	Total limit amount (see note)
										Item	Value	Item	Value		
1	Ability Enterprise Co., Ltd.	Avy Co., Ltd.	Receivables from the related parties (other current asset)	\$84,000	\$—	2.58-4.89	Short-term loan	Sales \$45,700	—	—	Promissory note (return at March 31, 2002)	\$84,000	\$124,366	40% of Company's book value \$1,091,433	
2	Ability Enterprise Co., Ltd.	Taishiba International Co., Ltd.	Receivables from the related parties (other current asset)	35,000	28,800	2.70-3.28	Trading	Purchase \$41,913	—	—	Promissory note	50,000	156,365		
3	Ability Enterprise Co., Ltd.	King Ability Enterprise Co., Ltd	Receivables from the related parties (other current asset)	1,880	930	4.375-4.45	Trading	Sales \$23,009	—	—	Promissory note	2,000	9,204		
4	Ability Enterprise Co., Ltd.	Yu-Ho Foods Co., Ltd.	Receivables from the related parties (other current asset))	32,700	15,000	5.15-5.35	Trading	Sales \$786,362	—	—	Promissory note	319,500	314,545		

*Note:* The Company's guidelines on loans to others: The upper limit of loans to every individual is 40% of the Company's net value or business dealings amount (purchase or sales which is higher). Total amount of the Company's loans to others should be under 40% of the Company's net value.

Chart 2 Endorsements for others in 2002 were as follows:

No.	Guaranteed company		Relationship	Limit of endorsements to single company (see note)	The highest amount of endorsements this period	Balance of endorsements	Amount of endorsements assured by properties	Percentage of cumulated endorsements over net value in previous period	The upper limit on endorsements (see note 2)
	Guarantee issuer	Company's name							
0	Ability Enterprise Co., Ltd.	Ability Enterprise (BVI) Co., Ltd	2	\$2,728,583	\$86,543	\$13,956	\$—	0.51%	\$5,457,166

*Note 1:* The Company's guidelines on endorsements to others: The upper limit of endorsements to every individual is 100% of the Company's net value. Total amount of the Company's endorsements to others should be under 200% of the Company's net value.

*Note 2:* Relationship between the financial guarantees issuer and the guaranteed company is as follows:

1. business partners
2. directly held 50% or more of the subsidiary
3. more than 50% of shareholder's equity being held by the parent company and the subsidiary companies
4. the parent company that holds other company's common shares over 50% directly or indirectly via the subsidiary companies
5. the affiliated companies mutually guaranteed due to the construction needs
6. companies guaranteed by shareholders according to percentage of equity held.

Chart 3 Securities held as of December 31, 2002 (number of shares and amounts are in thousands) were as follows:

							December 31, 2002		
Holding company	Security category and name	Relationship with the issuer	Recording entry	Shares	Cost	%	Fair market value	Note	
Ability Enterprise Co., Ltd.	Asia Optical Co., Inc.	—	Short-term investments	\$37,620	\$4,149	\$—	\$6,774		
Ability Enterprise Co., Ltd.	National Investment Trust Co., Ltd. Bond Fund	—	Short-term investments	64,575	10,000	—	10,007		
Ability Enterprise Co., Ltd.	Ability International Investment Co., Ltd.	Invested company measured by equity method	Long-term investments	19,899,400	213,581	99.99	174,031		
Ability Enterprise Co., Ltd.	Taiwan Imaging Systems Inc.	Invested company measured by equity method	Long-term investments	1,865,000	23,734	93.25	23,745		
Ability Enterprise Co., Ltd.	King Ability Enterprise Co., Ltd.	—	Long-term investments	234	2,400	19.50	2,542		
Ability Enterprise Co., Ltd.	Avy Co., Ltd.	Invested company measured by equity method	Long-term investments	16,566,335	233,054	63.72	239,381		
Ability Enterprise Co., Ltd.	Ability International Investment Co., Ltd.	Invested company measured by equity method	Long-term investments	899,000	10,204	44.95	10,286		
Ability Enterprise Co., Ltd.	Canon Marketing (Taiwan) Co., Ltd.	Invested company measured by equity method	Long-term investments	4,104,693	35,057	48.87	25,221		
Ability Enterprise Co., Ltd.	Abico Automation Co., Ltd.	Invested company measured by equity method	Long-term investments	480,000	2,342	48.00	1,902		
Ability Enterprise Co., Ltd.	Abiconet International Co., Ltd.	Invested company measured by equity method	Long-term investments	2,000,000	20,348	40.00	20,348		
Ability Enterprise Co., Ltd.	Taiwan Daihoh Co., Ltd.	Invested company measured by equity method	Long-term investments	1,395,000	6,756	39.86	5,607		
Ability Enterprise Co., Ltd.	Area East Technology Corp.	—	Long-term investments	1,000,000	10,075	15.36	10,075		
Ability Enterprise Co., Ltd.	E-Ten Corp	Ability Enterprise is one of the board directors in this Company	Long-term investments	5,100,237	67,981	3.40	62,529		

**December 31, 2002**

<b>Holding company</b>	<b>Security category and name</b>	<b>Relationship with the issuer</b>	<b>Recording entry</b>	<b>Shares</b>	<b>Cost</b>	<b>%</b>	<b>Fair market value</b>	<b>Note</b>
Ability Enterprise Co., Ltd.	Power World Fund, Inc.	—	Long-term investments	2,500,000	\$25,000	2.84	\$23,370	
Ability Enterprise Co., Ltd.	Jung Shing Wire Co., Ltd.	—	Long-term investments	367,558	2,781	0.34	7,550	
Ability Enterprise Co., Ltd.	Datd Image Corporation	—	Long-term investments	500,000	7,500	1.67	6,342	
Ability Enterprise Co., Ltd.	Shin Kong Financial Holding Co., Ltd.	—	Long-term investments	559,701	10,565	0.02	4,937	
Ability Enterprise Co., Ltd.	Taiwan Ohara Optical Co., Ltd.	—	Long-term investments	280,000	14,000	7.00	29,442	
Ability Enterprise Co., Ltd.	Taiwan Video & Monitor Corp.	—	Long-term investments	1,282,000	15,063	1.28	16,336	
Ability Enterprise Co., Ltd.	Minton Optic Industry Co., Ltd.	—	Long-term investments	2,622,000	68,400	4.91	39,317	
Ability Enterprise Co., Ltd.	CC&C Technologies, Inc.	—	Long-term investments	500,000	7,200	1.00	4,652	
Ability Enterprise Co., Ltd.	Vivavr Technology Co., Ltd.	—	Long-term investments	291,000	3,546	2.08	2,257	
Ability Enterprise Co., Ltd.	Wan Hai Lines Ltd.	—	Long-term investments	331,161	5,464	0.03	8,786	
Ability Enterprise Co., Ltd.	General Plastic Industrial Co., Ltd.	—	Long-term investments	400,000	22,400	0.66	16,860	
Ability Enterprise Co., Ltd.	Breeze Digital Technology Co., Ltd.	—	Long-term investments	490,000	4,900	9.80	2,224	
Ability Enterprise Co., Ltd.	Presto Computer Turn-up Network Inc.	—	Long-term investments	700,000	3,663	9.33	2,353	
Ability Enterprise Co., Ltd.	Featron Computer Co., Ltd.	—	Long-term investments	2,089,700	—	2.09	—	
Ability Enterprise Co., Ltd.	Cathay Financial Holding Co., Ltd.	—	Long-term investments	183,333	11,044	—	6,604	
Ability Enterprise Co., Ltd.	Xander International Corp.	—	Long-term investments	260,800	8,202	0.38	4,425	
Ability Enterprise Co., Ltd.	Chiabon Venture Capital Co., Ltd.	—	Long-term investments	10,000,000	100,000	10.00	99,438	

Chart 4 Accumulated stock purchases or sales for the same stock of NT\$100 million or more than 20% of the Company's paid-in capital as of December 31, 2002

Purchase (Sales) Company	Securities name	Recording entry	Trading party	Relation- ship	January 1, 2002			Purchase			Sell			December 31, 2002		
					Share	Cost	Share	Share	Cost	Share	Price	Book value	Gain or loss	Share	Cost	
Ability Enterprise Co., Ltd.	Avy Co., Ltd.	Long-term investments	Increase capital by cash	—	9,000,000	\$175,422	7,566,335 (note 1)	\$57,632 (note 2)	—	—	—	—	—	—	16,566,335	\$233,054
Ability Enterprise Co., Ltd.	Chiabon Venture Capital Co., Ltd.	Long-term investments	Original stock issuance	—	—	—	10,000,000	100,000	—	—	—	—	—	—	10,000,000	100,000

Note 1: including stock dividend 945,000 share from invested company

Note 2: including investment loss NT\$65,230 thousand measured by equity method

Chart 5 Purchases and sales with the related parties of NT\$100 million or more then 20% of the Company's paid-in capital as December 31, 2002

Purchaser (Supplier)	Trading situation			Reason			Account receivable (Payable)			
	Trading party	Relationship	Purchase (Sales) Amount	Percentage of related account %	Period	Unit price	Period	Balance	Percentage of related account %	Note
Ability Enterprise Co., Ltd.	Canon Marketing (Taiwan) Co., Ltd.	Invested company measured by equity method	\$207,771	10	One to six months	—	—	Notes receivable 1,480 Accounts receivable 14,186	14	—
Ability Enterprise Co., Ltd.	Yu-Ho Foods Co., Ltd.	Chairman is the Company's supervisor	786,362	38	One to six months	—	—	Notes receivable \$198,138 Accounts receivable \$62,893	79 17	—
Ability Enterprise Co., Ltd.	Canon Inc.	That company is the major supply of ours	506,440	26	Long-term letter or fifteen days in the end of month T/T	—	—	Accounts payable \$35,288	13	—

Chart 6 Receivables from the related parties reaching NT\$100 million or more than 20% of the Company's capital as of December 31, 2002

Company	Trading party	Relationship	Receivable from the related parties	Turnover	Receivables due from the related parties		Post-period collected amount	Allowance for bad debt
					Amount	Process		
Ability Enterprise Co., Ltd.	Yu-Ho Foods Co., Ltd.	That company's board chairman is the supervisor of Ability	\$261,031	\$3.02	\$—	\$—	\$67,392	\$2,296

(2) Information on the Company's invested companies

Contents	Illustration
Invested companies' profiles.....	Chart 1
Loan to others.....	Chart 2
Endorsements to others.....	Chart 3
Securities held on March 31, 2002 .....	Chart 4
Accumulated stock purchases or sales for the same stock reaching NT\$100 million or more than 20% of paid-in capital.....	Chart 5
The amount of purchasing real assets reaching NT\$100 million or more than 20% of paid-in capital .....	N/A
The amount of selling real assets reaching NT\$100 million or more than 20% of paid-in capital.....	N/A
Purchases and sales with the related parties reaching NT\$100 million or more than 20% of paid-in capital.....	N/A
Accounts receivable with related parties reaching NT\$100 million or more than 20% of paid-in capital.....	N/A
Financial derivatives .....	N/A

Chart 1 Invested companies' profiles as of December 31, 2002 were as follows:

Investor	Invested company	Invested company's address	Business	Original investment amount			December 31, 2002		Invested company's year 2002 income	Invested company's year 2002 gain/loss recognition	Note
				December 2002	December 31, 2001	Shares	Percentage (%)	Book value			
Ability Enterprise Co., Ltd.	Ability Enterprise (BVI) Co., Ltd.	3rd Floor, Omar Hodge Building, Wickhams Cay I, P O Box 362, Road Town, Tortola British Virgin Islands	A holding company	\$247,504	\$247,504	—	100.00	\$551,136	\$146,894	\$146,894	Subsidiary company
Ability Enterprise Co., Ltd.	Ability International Investment Co., Ltd.	12th Fl., No.147 Fu-Hsing N.RD. Taipei, Taiwan, R.O.C.	General investment	198,994	198,994	19,899,400	99.99	213,581	(4,851)	(4,851)	Subsidiary company
Ability Enterprise Co., Ltd.	Taiwan Imaging Systems Inc.	10th Fl., No.147 Fu-Hsing N.RD. Taipei, Taiwan, R.O.C.	Disk products	17,850	17,850	1,865,000	93.25	23,734	2,516	2,307	Subsidiary company
Ability Enterprise Co., Ltd.	King Ability Enterprise Co., Ltd	No. 143, Section 2, Jian Kang Road, Taiwan City.	Rent or sell machine	2,471	8,960	234	19.50	2,400	(769)	(342)	Note 2

Investor	Invested company	Invested company's address	Business	Original investment amount		December 31, 2002			Invested company's year 2002 gain/loss recognition	Note
				December 31, 2002	December 31, 2001	Shares	Percentage (%)	Book value		
Ability Enterprise Co., Ltd.	Avy Co., Ltd.	No.56, Sec. 2, Ya-Tarn RD., Taichung Hsien, Taiwan, R.O.C.	Electron optics	\$287,591	\$155,164	16,566,335	63.72	\$233,054	\$(117,021)	Subsidiary company
Ability Enterprise Co., Ltd.	Ability International Rent Co., Ltd.	6th Fl., No.147 Fu-Hsing N.RD. Taipei, Taiwan, R.O.C.	Lease	8,990	8,990	899,000	44.95	10,204	113	85 Subsidiary company
Ability Enterprise Co., Ltd.	Canon Marketing (Taiwan) Co., Ltd.	12th Fl., No.147 Fu-Hsing N.RD. Taipei, Taiwan, R.O.C.	Sale of copy machines	61,145	61,145	4,104,693	48.87	35,057	(59,301)	Note 1
Ability Enterprise Co., Ltd.	Abico Automation Co., Ltd.	12th Fl., No.101 Fu-Hsing N.RD. Taipei, Taiwan, R.O.C.	Automated system	2,880	2,880	480,000	48.00	2,342	239	(28) Note 1
Ability Enterprise Co., Ltd.	Abiconet International Co., Ltd.	7th Fl., No.178 Sec. Nan King E.RD. Taipei, Taiwan, R.O.C.	Wholesale of machinery equipments	20,000	20,000	2,000,000	40.00	20,348	4,829	1,931 Note 1
Ability Enterprise Co., Ltd.	Taiwan Daiohs Co., Ltd.	2nd Fl., No.15 Lane 101, Sec.2, Xinsheng N.RD. Taipei, Taiwan, R.O.C.	Retail of foods and beverages	13,950	13,950	1,395,000	39.86	6,756	(5,170)	(2,401) Note 1
Ability Enterprise Co., Ltd.	Guangdong United Optical instrument Co., Ltd	Xiao-Bian the Second Industry Zone, Chang-An Town, Dong-guan City, Guang dong Province China.	Production, design and sale of camera	28,097	28,097	—	22.85	33,890	25,488	6,159 Note 1
Ability Enterprise Co., Ltd.	Area East Technology Corp.	10th Fl., No. 101 Fu-Hsing N. RD. Taipei, Taiwan, R.O.C.	Information software service	10,000	10,000	1,000,000	15.36	10,075	255	57 Note 2

Investor	Invested company	Invested company's address	Business	Original investment amount		December 31, 2002			Invested company's year 2002 gain/loss recognition	Note
				December 31, 2002	December 31, 2001	Shares	Percentage (%)	Book value		
Ability Enterprise Co., Ltd.	Abico International Holding Co., Ltd	Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands.	A holding company	\$39,602	\$—	—	100.00	\$147,896	\$108,294	Subsidiary company

*Note 1:* The recognition of investment revenues were deferred for one year.

*Note 2:* The evaluation of invested company King Ability Enterprise Co., Ltd. and Area East Technology Co., Ltd. were changed from equity method to cost method in 2002.

Chart 2 Loans to others as of December 31, 2002 were as follows:

No.	Loan provider	Loan borrower	Trading entry	Upper limit on loans to individual (see Note)	Maximum balance in this period	Balance	Interest rate	Reason	Allowance for bad debt	Collateral		Business dealings amount	The upper limit (Note)
										Name	Value		
1	Ability Enterprise (BVI) Co., Ltd.	Avy Co., Ltd.	Receivable with the related party	\$124,366	\$20,728	\$—	3.7-3.8	Short-term loans	\$—	Promissory note (return at March 31, 2002)	\$20,358	\$—	\$211,935
2	Avy Co., Ltd.	Avy Co., Ltd. (BVI)	Short-term loans	35,139	20,580	—	4.0-6.0	Operation needs	—	Promissory note	20,580	23,941	150,285
3	"	Gold Market Investments Ltd.	Short-term loans	35,139	26,025	26,025	4.0-6.0	Operation needs	—	Promissory note	26,025	—	150,285

*Note:* The Company's guidelines on loans to others: The upper limit of loans to every individual is 40% of the Company's net value or business dealings amount (purchase or sales which is higher). Total amount of the Company's loans to others should be under 40% of the Company's net value.

Chart 3 Endorsements to others as of December 31, 2002 were as follows:

No.	Financial guaranties issuer	The guaranteed company	Relationship	Upper limit endorsements to individual (Note)	Maximum amount of endorsements	Amount of endorsements as of December 31, 2002	Amount of endorsements assured by properties	The percentage of endorsements over net value of recent financial statement	The highest limited amount of (Note)

*Note:* The Company's guidelines on endorsements for others: The upper limit of endorsement to every individual is 100% of the Company's net value. Total amount of the Company's endorsements for others should be under 200% of the Company's net value.

Chart 4 Securities held at December 31, 2002 were as follows (number of shares and amounts are in thousands):

		December 31, 2002					
Holding company	Category and name of security	Relationship with the issuer	Recording entry	Shares	Cost	% Fair market value	Note
Ability International Investment Co., Ltd.	CC&C Technologies, Inc.	—	Long-term investments	1,000,000	\$7,990	2.00	\$7,990 —
Ability International Investment Co., Ltd.	Fubon Financial Holding Co., Ltd.	—	Long-term investments	481,754	25,896	0.01	13,378 —
Ability International Investment Co., Ltd.	E-Ten Information Systems Co., Ltd.	—	Long-term investments	866,482	45,208	0.58	10,623 —
Ability International Investment Co., Ltd.	Nien Hsing Tex Tile Co., Ltd.	—	Short-term investments	770,000	22,372	0.16	24,093 —
Ability International Investment Co., Ltd.	Acer Computer Co., Ltd	—	Short-term investments	440,584	22,482	0.02	15,011 —
Ability International Investment Co., Ltd.	Teco Electric & Machinery Co., Ltd.	—	Short-term investments	1,150,000	17,075	0.06	12,662 —
Ability International Investment Co., Ltd.	Mitac Technology Corporation	—	Short-term investments	220,000	10,215	0.10	6,422 —
Ability International Investment Co., Ltd.	Apex Biotechnology Corp.	—	Short-term investments	131,000	10,914	1.88	6,841 —
Ability International Investment Co., Ltd.	Jung Shing Wire Co., Ltd.	—	Long-term investments	1,804,000	29,496	1.80	37,054 —
Ability International Investment Co., Ltd.	Ability International Rent Co., Ltd.	The parent company is the same.	Long-term investments	1,000	10	0.05	10 —
Ability International Investment Co., Ltd.	Fubon Bond Fund	—	Short-term investments	915,910.28	10,000	—	10,132 —
Ability International Investment Co., Ltd.	The Progress Business Management Consultants Corp.	—	Long-term investments	100,000	1,000	20.00	1,000 —

Chart 5 Accumulated stock purchases or sales for the same stock reaching NT\$100 million or more than 20% of paid-in capital

Purchaser (Supplier)	Securities' category and name	Entry	Trading party	January 1, 2002			Purchase			Sell			December 31, 2002	
				Share	Cost	Share	Share	Price	Book value	Gain (Loss)	Share	Cost		
Avy Co., Ltd.	Yorkey Investment Ltd.	Long-term investments	—	—	\$116,667	—	—	\$2,225	\$106,005	\$(103,780)	—	—	—	\$—

Note: Investment loss recognized in 2002.

(3) Disclosure of information on investment in Mainland China

1) The name of invested companies, main operation, paid-in capital, investment method, cash inflow and outflow, percentage of common shares, investment revenue (loss), book value and remittance of investment income to Taiwan as of December 31, 2002 were as follows:

Name of invested company in China	Main operation	Paid-in capital	Investment method	Cash flow from Taiwan as of		Cash flow from Taiwan as of December 31, 2002	Direct/indirect percentage of shares held	Investment income (loss)	Book value	Cash remittance of investment
				January 1, 2002	Amount					
Guangdong United Optical Instrument Co., Ltd.	Product, design, sale camera.	HK\$30,200,000	Buy from Ability Enterprise Co., Ltd.	\$28,097	\$—	\$28,097	22.85%	\$6,159	\$33,890	\$—
Dongguan Guang Tong Business Machines Co., Ltd.	Sale of main board MCU board / I/O board in digit camera	US\$2,060,290	Invested in the Mainland China via the invested third party	22,079	—	22,079	34.68%	39,448	52,775	—

Name of invested company in China	Main operation	Paid-in capital	Investment method	Cash flow from Taiwan			Direct/indirect percentage of shares held	Investment income (loss)	Book value	Cash remittance of investment
				Cash outflow	Amount					
					Cash inflow	Cash flow from Taiwan as of December 31, 2002				
Dongguan Yorkey Optical Machinery Components Ltd.	Operating in lead, work, photo copier encrustation, camera encrustation, fax encrustation, plastic encrustation, sheath of optics feed.	US\$8,030,647	Invested in the Mainland China via the invested third party	—	—	90,597	45.00%	43,429	188,629	—
Avy Precision Metal Product (Suzhou) Co., Ltd.	Operation in parts of computer machine, parts, camera and other parts	US\$2,000,000	Invested in the Mainland China via the invested third party	4,402	—	40,011	63.72%	(8,362)	24,889	—
Dong Guan Cheng Guang Precision Hardware Co., Ltd.	Operation in parts of computer machine, parts, camera and other parts	RMB9,459,806	Invested in the Mainland China via the invested third party	—	—	23,548	40.95%	3,231	22,483	—
Dong Guan Shin-Ei Yorkey Business Machine Co., Ltd.	Product and sell photocopier parts	RMB7,229,394	Buy from Yorkey Investment Ltd.	13,335	—	13,335	25%	4,199	17,497	—

Note: The financial statements were audited by Lan-Jai CPAs Firm cooperating with BKR International accounting organization.

2) Investment limit in Mainland China for the year ended of December 31, 2002.

Ending balance of cumulative invested amount from Taiwan to the Mainland China	Invested amount approved by Investment Commission	Investment limit in the Mainland China regulated by Investment Commission (net value*40%)
HK\$6,900 thousand US\$4,702 thousand (Convert to NT\$158,109 thousand)	HK\$6,900 thousand US\$4,702 thousand (Convert to NT\$158,109 thousand)	NT\$1,091,433 thousand

3) The following are information related to investment in Mainland China that would influence financial statements including significant transactions with invested companies in the Mainland China directly or indirectly via the invested companies, price, terms of payment, unrealized gain or loss and others.

- (a) The price and percentage of purchase and related payables as of December 31, 2002: NA
- (b) The price and percentage of sale and related receivables as of December 31, 2002: NA.
- (c) The price of property transaction and related gain (lose) on disposal of properties: NA.
- (d) The purposes and balances of notes payable endorsement, guarantee or collateral as of December 31, 2002: NA.
- (e) The highest balance, ending balance, interest rates and current interest rate in financing: NA.
- (f) Other significant transactions to the acknowledgement of current net income or loss or financial position such as providing or receiving services: NA.

## 23. SEGMENTAL FINANCIAL INFORMATIONS

### (1) Financial information by industry

	2002				
	<u>First business department</u>	<u>Second business department</u>	<u>Other departments</u>	<u>Adjustment</u>	<u>Consolidated</u>
Revenue come from customers .....	\$1,145,353	\$487,737	\$822,693	\$—	\$2,455,783
Total revenue .....	<u>\$1,145,353</u>	<u>487,737</u>	<u>822,693</u>	<u>—</u>	<u>2,455,783</u>
Department income (loss) .....	<u>\$364,547</u>	<u>\$29,889</u>	<u>\$77,779</u>	<u>\$—</u>	\$472,215
Investment income .....					223,009
General expense .....					(419,187)
Interest expense .....					<u>(31,404)</u>
Income before income tax from operating departments .....					<u>\$244,633</u>
Recognizable assets .....	<u>\$573,199</u>	<u>\$180,713</u>	<u>\$1,100,222</u>	<u>\$—</u>	\$1,854,134
Long-term investments .....					1,628,553
General assets .....					<u>726,126</u>
Total assets .....					<u>\$4,208,813</u>
Depreciation, depletion and amortization expense .....	<u>\$17,434</u>	<u>\$831</u>	<u>\$9,872</u>	<u>\$—</u>	
Capitalized expense (increase fixed assets) .....	<u>\$2,586</u>	<u>—</u>	<u>8,321</u>	<u>—</u>	

**2001**

	<u>First business department</u>	<u>Second business department</u>	<u>Other departments</u>	<u>Adjustment</u>	<u>Consolidated</u>
Revenue come from customers .....	\$1,023,820	\$904,875	\$604,891	\$—	\$2,533,586
Total revenue .....	<u>\$1,023,820</u>	<u>\$904,875</u>	<u>\$604,891</u>	<u>\$—</u>	<u>\$2,533,586</u>
Department income (loss) .....	<u>\$369,683</u>	<u>\$75,061</u>	<u>\$140,100</u>	<u>\$—</u>	\$584,844
Investment income .....					270,600
General expense.....					(457,659)
Interest expense .....					<u>(46,894)</u>
Income before income tax from operating department.....					<u>\$350,891</u>
Recognizable assets .....	<u>\$589,233</u>	<u>\$162,160</u>	<u>\$919,449</u>	<u>\$—</u>	\$1,670,842
Long-term investments.....					1,217,726
General assets.....					<u>1,142,515</u>
Total assets.....					<u>\$4,031,083</u>
Depreciation, depletion and amortization expense .....	<u>\$10,049</u>	<u>\$2,284</u>	<u>\$2,540</u>	<u>\$—</u>	
Capitalized expense (increase fixed assets) .....	<u>\$1,660</u>	<u>\$218</u>	<u>\$—</u>	<u>\$—</u>	

1. Product and services of each major department in the Company:

- 1) First business department: retail, sale and machine rental, and commission revenues from related products.
- 2) Second business department: peripherals sale and commission revenues from related products.

Department income above is operating and commission revenue from outside customers. The Company has no departmental transfer or sale. Department income didn't include:

- 1) general revenue which is not related to the departments.
- 2) investment income which is evaluated by equity method.

2. Department income (loss) is the amount of subtracting department cost and expense from department revenue. Department cost and expense is the cost and expense related to the department revenue. If operating expense can't be attributed to the departments, then attribute the expenses based on the square feet of the departments. But department cost and expense didn't include:

- 1) general expense which is not related to the department.
- 2) interest expense.
- 3) investment loss which is evaluated by equity method.

3. Department's recognizable assets include tangible and intangible assets directly belonged to each department. If the assets are used by two or more departments, share the expenses based on the equane feet of the department. But department's recognizable assets didn't include:
- 1) assets that not used by any specific department.
  - 2) investment evaluated by equity method.

Book value of long-term investment in 2002 and 2001 are NT\$1,238,369 thousand and NT\$923,128 thousand. The Company invests Ability Enterprise (BVI) Co., Ltd., Ability International Investment Co., Ltd., Taiwan Imaging Systems Inc., Ability International Rent Co., Ltd., Avy Co., Ltd., Taiwan Daiohs Co., Ltd., Guangdong United Optical Instrument Co., Ltd., Abico Automation Co., Ltd., Abiconet International Co., Ltd., Canon Marketing (Taiwan) Co., Ltd., Abico International Holding Co., Ltd., Ability Enterprise (BVI) Co., Ltd., Ability International Investment Co., Ltd. Taiwan Imaging Systems Inc., King Ability Enterprise Co., L., Ability International Rent Co., Ltd., Avy Co., Ltd., Taiwan Daiohs Co., Ltd., Guangdong United Optical Instrument Co., Ltd., Abico Automation Co., Ltd., Abiconet International Co., Ltd., Area East Technology Corp., Canon Marketing (Taiwan) Co., Ltd. Investment income evaluated by equity method in 2002 and 2001 are NT\$166,787 thousand and NT\$181,792 thousand respectively.

(2) **Financial informations by geographic area**

The Company established Hong Kong branch in 1995. The revenue from outside customers and recognizable assets of this branch reach 10% of net income and total assets. Therefore detail information are as follows:

	<b>2002</b>				<b>Consolidated</b>
	<b>Hong Kong</b>	<b>Other overseas operating department</b>	<b>Other departments</b>	<b>Adjustment</b>	
Revenue come from outside customers .....	\$60,354	\$—	\$2,395,429	\$—	\$2,455,783
Total revenue .....	<u>\$60,354</u>	<u>\$—</u>	<u>\$2,395,429</u>	<u>\$—</u>	<u>\$2,455,783</u>
Department income (loss) .....	<u>\$9,133</u>	<u>\$—</u>	<u>\$463,082</u>	<u>\$—</u>	\$472,215
Investment income .....					223,009
General expense.....					(419,187)
Interest revenue .....					<u>(31,404)</u>
Income before income tax from operating department.....					<u>\$244,633</u>
Recognizable assets .....	<u>\$108,776</u>	<u>\$—</u>	<u>\$1,745,358</u>	<u>\$—</u>	\$1,854,134
Long-term investments.....					1,628,553
General assets .....					<u>726,126</u>
Total assets.....					<u>\$4,208,813</u>

	<b>2001</b>				<b>Consolidated</b>
	<b>Hong Kong</b>	<b>Other overseas operating department</b>	<b>Other department</b>	<b>Adjustment</b>	
Revenue come from outside customers .....	\$53,171	\$—	\$2,480,415	\$—	\$2,533,586
Total revenue .....	<u>\$53,171</u>	<u>\$—</u>	<u>\$2,480,415</u>	<u>\$—</u>	<u>\$2,533,586</u>
Department income (loss) .....	<u>\$3,596</u>	<u>\$—</u>	<u>\$581,248</u>	<u>\$—</u>	\$584,844
Investment income .....					270,600
General expense .....					(457,659)
Interest expense .....					<u>(46,894)</u>
Income before income tax from operating department .....					<u>\$350,891</u>
Recognizable assets .....	<u>\$47,611</u>	<u>\$—</u>	<u>\$1,623,231</u>	<u>\$—</u>	\$1,670,842
Long-term investments .....					1,217,726
General assets .....					<u>1,142,515</u>
Total assets .....					<u>\$4,031,083</u>

(3) **Information about export sales**

The export sales of the Company in 2002 and 2001 were NT\$214,220 thousand and NT\$244,539 thousand. The detail information were as follows:

	<b>2002</b>	<b>2001</b>
America Area .....	\$—	\$—
Asia Area .....	214,220	244,539
Others Area .....	—	—
Total .....	<u>\$214,220</u>	<u>\$244,539</u>

(4) **Major customer information**

The detail information of company's single customer one 10% of total revenue in 2002 and 2001 were as follows:

<b>Customer name</b>	<b>2002</b>		
	<b>Dollars</b>	<b>Ratio (%)</b>	<b>Industry</b>
Yu-Ho Foods Co., Ltd. ....	\$786,362	32.02	Other
<b>Customer name</b>	<b>2001</b>		
	<b>Dollars</b>	<b>Ratio (%)</b>	<b>Industry</b>
Yu-Ho Foods Co., Ltd. ....	\$487,986	20.39	Other
Canon Marketing (Taiwan) Co., Ltd. ....	379,012	15.84	Peripheral

## REPORT OF INDEPENDENT ACCOUNTANTS

Ability Enterprise Co., Ltd.:

We have audited the financial statements of Eastern Multimedia Co., Ltd. and expressed modified unqualified opinions for the years ended December 31, 2002 and 2001. The financial statements of Viewquest Technology Inc. were audited by other auditors whose reports with modified unqualified opinions have been furnished to us as of December 31, 2002 and 2001. The accompanying pro forma consolidated balance sheets as of December 31, 2002 and 2001, and the related pro forma consolidated statements of income, pro forma consolidated statements of changes in shareholders' equity and pro forma consolidated statements of cash flows for the years then ended are prepared by the Consolidated Company's management based on the above respective financial statements with an assumption that the merger of Ability Enterprise Co., Ltd. and Viewquest Technologies Inc. on January 1, 2003 is retroactive from January 1, 2002. These financial statements are the responsibility of the Consolidated Company's management. Our responsibility is to furnish our report based on our review.

We have conducted our reviews by examining, calculating and inquiring on the pro forma consolidated financial statements and accounting policies, including the consistency of the consolidated financial statement and the respective financial statements, the elimination of material transactions between Ability Enterprise Co., Ltd. and Viewquest Technologies Inc., the elimination of unrealized gain or loss and the calculation of the consolidated income.

Based on our review, we are not aware of any material modifications that should be made to the accompanying pro forma consolidated financial statements for them to be in conformity both with respective financial statements and with R.O.C. generally accepted accounting principles.

Deloitte & Touche  
Taipei, Taiwan, Republic of China  
March 24, 2003

The above auditors' report and the following financial statements are English translations of the Chinese auditors' report and financial statements prepared for and used in the Republic of China. The accompanying financial statements were prepared using accounting principles, procedures and reporting practices generally accepted in the Republic of China and are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than those in the Republic of China. The standards, procedures and practices utilized to audit such financial statements are those generally accepted and applied in the Republic of China.

**ABILITY ENTERPRISE CO., LTD.**

**PRO FORMA CONSOLIDATED BALANCE SHEETS  
AS OF DECEMBER 31, 2001 AND 2002  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)**

	December 31, 2002		December 31, 2001	
	Amount	%	Amount	%
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents .....	\$1,190,938	20	\$542,477	9
Short-term investments - net (Note 4).....	34,869	1	1,079,989	18
Notes receivable - net .....	43,412	1	55,998	1
Notes receivable - related parties, net (Note 16).....	205,717	4	231,212	4
Accounts receivable - net .....	551,960	9	466,387	8
Accounts receivable - related parties, net (Note 16) .....	144,607	2	137,272	2
Inventories (Note 5) .....	231,685	4	237,886	4
Other current assets (Notes 14, 16 and 17).....	202,339	3	192,179	3
	<u>2,605,527</u>	<u>44</u>	<u>2,943,400</u>	<u>49</u>
Long-term investments:				
Long-term equity investments (Notes 6 and 16).....	1,775,974	30	1,453,527	24
Rental assets (Notes 7 and 17) .....	554,987	10	851,965	14
	<u>2,330,961</u>	<u>40</u>	<u>2,305,492</u>	<u>38</u>
Property and equipment (Notes 8, 16 and 17):				
Cost:				
Land.....	365,252	6	285,408	5
Buildings .....	429,922	7	319,041	5
Machinery and equipment.....	50,663	1	108,570	2
Business equipments.....	91,112	3	89,889	1
Transportation equipments .....	12,585	—	13,555	—
Leased improvements .....	12,420	—	12,791	—
Other equipments .....	10,364	—	27,728	1
	<u>972,318</u>	<u>17</u>	<u>856,982</u>	<u>14</u>
Total cost .....	972,318	17	856,982	14
Less: Accumulated depreciation.....	(117,930)	(2)	(118,152)	(2)
Prepayments for equipments .....	10,924	—	1,155	—
	<u>865,312</u>	<u>15</u>	<u>739,985</u>	<u>12</u>
Intangible assets				
Deferred pension cost.....	—	—	136	—
Other assets (Notes 14 and 17).....	58,045	1	63,106	1
	<u>58,045</u>	<u>1</u>	<u>63,106</u>	<u>1</u>
TOTAL ASSETS.....	<u>\$5,859,845</u>	<u>100</u>	<u>\$6,052,119</u>	<u>100</u>

See notes to financial statements.

**ABILITY ENTERPRISE CO., LTD.**

**PRO FORMA CONSOLIDATED BALANCE SHEETS — (Continued)**  
**AS OF DECEMBER 31, 2001 AND 2002**  
**(Expressed in Thousands of New Taiwan Dollars)**

	<u>December 31, 2002</u>		<u>December 31, 2001</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Current liabilities:				
Short-term borrowings (Notes 9 and 17).....	\$520,801	9	\$579,893	10
Short-term notes and bills payable (Notes 10 and 17).....	227,195	4	219,353	4
Notes payable (Note 16).....	39,125	1	9,996	—
Accounts payable .....	226,069	4	166,531	3
Accounts payable - related parties (Note 16).....	379,021	6	313,375	5
Accrued expenses .....	138,578	2	159,806	3
Long-term borrowings - current portion (Notes 11 and 17).....	300,000	5	12,328	—
Other current liabilities .....	66,069	1	152,182	2
	<u>1,896,858</u>	<u>32</u>	<u>1,613,464</u>	<u>27</u>
Long-term liabilities				
Bonds payable (Notes 11 and 17).....	—	—	300,000	5
Long-term borrowings (Note 17).....	—	—	12,328	—
	<u>—</u>	<u>—</u>	<u>312,328</u>	<u>5</u>
Other liabilities				
Guarantee deposits received.....	16,934	1	23,430	1
Accrued pension liabilities (Note 12) .....	9,234	—	5,277	—
Deferred credit - gains on inter-affiliate accounts .....	16,518	—	15,307	—
Credit on long-term investment (Note 5) .....	3,747	—	—	—
	<u>46,433</u>	<u>1</u>	<u>44,014</u>	<u>1</u>
Total liabilities .....	<u>1,943,291</u>	<u>33</u>	<u>1,969,806</u>	<u>33</u>
Shareholders' equity (Notes 13):				
Common stock, \$10 par value .....	2,882,781	49	2,763,635	46
Capital surplus				
Additional paid-in capital.....	491,232	9	491,232	8
Gain on sale of fixed assets .....	56	—	70,578	1
Treasury stock.....	13,992	—	13,992	—
Change of long-term equity investments.....	—	—	3,930	—
	<u>505,280</u>	<u>9</u>	<u>579,732</u>	<u>9</u>
Retained earnings:				
Legal reserve .....	187,230	3	128,760	2
Special reserve.....	65,256	1	85,293	2
Unappropriated retained earnings .....	309,282	5	566,929	9
	<u>561,768</u>	<u>9</u>	<u>780,982</u>	<u>13</u>
Unrealized losses on long-term equity investments .....	(56,296)	(1)	(65,256)	(1)
Cumulated translation adjustments.....	23,021	1	23,220	—
Total shareholders' equity.....	<u>3,916,554</u>	<u>67</u>	<u>4,082,313</u>	<u>67</u>
Commitments and contingencies (Note 18)				
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY.....</b>	<u><u>\$5,859,845</u></u>	<u><u>100</u></u>	<u><u>\$6,052,119</u></u>	<u><u>100</u></u>

See notes to financial statements.

**ABILITY ENTERPRISE CO., LTD.**

**PRO FORMA CONSOLIDATED STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2002  
(Expressed in Thousands of New Taiwan Dollars Except Earnings Per Share)**

	2002		2001	
	Amount	%	Amount	%
Operating revenues (Note 16):				
Sales revenue .....	\$3,932,137	91	\$3,987,350	90
Copy revenue .....	299,510	7	335,829	7
Other operating revenue .....	<u>152,268</u>	<u>3</u>	<u>222,842</u>	<u>5</u>
	4,383,915	101	4,546,021	102
Less: Sales return and allowance .....	<u>(58,527)</u>	<u>(1)</u>	<u>(93,169)</u>	<u>2</u>
	4,325,388	100	4,452,852	100
Operating costs (Note 16).....	<u>3,841,767</u>	<u>89</u>	<u>3,660,252</u>	<u>82</u>
Operating gross profit .....	483,621	11	792,600	18
Unrealized gain on inter-affiliate accounts.....	(3,820)	—	(10,522)	—
Realized gain on inter-affiliate accounts .....	<u>10,522</u>	<u>—</u>	<u>15,507</u>	<u>—</u>
	<u>490,323</u>	<u>11</u>	<u>797,585</u>	<u>18</u>
Operation expenses (Notes 12 and 16)				
Selling expenses.....	336,517	8	366,016	8
General and administrative expenses.....	176,244	4	153,971	3
Research and development expenses .....	<u>153,586</u>	<u>3</u>	<u>112,417</u>	<u>3</u>
	<u>666,347</u>	<u>15</u>	<u>632,404</u>	<u>14</u>
Net operating income .....	<u>(176,024)</u>	<u>(4)</u>	<u>165,181</u>	<u>4</u>
Non-operating revenues				
Interest revenues (Note 16) .....	10,076	—	13,859	—
Investment income under equity method (Note 6).....	74,762	2	145,082	3
Other investment income - net (Note 6).....	109,636	3	89,295	2
Gain on disposal of fixed assets .....	216	—	28,274	1
Gain on foreign currency exchange - net (Note 20) .....	—	—	46,812	1
Rent revenues (Notes 16 and 18).....	32,624	1	37,017	1
Gain on valuation of short-term investments.....	—	—	13,278	—
Reversal of decline in inventory value.....	64,638	1	8,104	—
Other revenues (Note 16) .....	<u>34,295</u>	<u>1</u>	<u>116,636</u>	<u>3</u>
	<u>326,247</u>	<u>8</u>	<u>498,357</u>	<u>11</u>

See notes to financial statements.

**ABILITY ENTERPRISE CO., LTD.**

**PRO FORMA CONSOLIDATED STATEMENTS OF INCOME — (Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2002**  
**(Expressed in Thousands of New Taiwan Dollars Except Earnings Per Share)**

	2002		2001	
	Amount	%	Amount	%
Non-operating expenses				
Interest expenses .....	\$35,979	1	\$52,875	1
Losses on disposal of fixed assets .....	8,553	—	17,441	—
Losses on foreign currency exchange - net .....	4,035	—	—	—
Losses on inventories valuation and obsolescence.....	1,767	—	4,212	—
Other expenses .....	24,969	1	27,837	1
	75,303	2	102,365	2
Income before tax.....	74,920	2	561,173	13
Income tax expense (Note 14) .....	(7,566)	—	46,990	1
Consolidated net income.....	\$82,486	2	\$514,183	12
Basic earnings per share (Note 15)				
By weighted-average shares - before tax.....	\$0.26		\$2.03	
By weighted-average shares - after tax .....	\$0.29		\$1.86	
By retroactively weighted-average shares - before tax .....	\$0.26		\$1.95	
By retroactively weighted-average shares - after tax.....	\$0.29		\$1.79	
Fully-diluted earnings per share (Note 15)				
By weighted-average shares - before tax.....	\$0.26		\$2.03	
By weighted-average shares - after tax .....	\$0.29		\$1.86	
By retroactively weighted-average shares - before tax .....	\$0.26		\$1.95	
By retroactively weighted-average shares - after tax.....	\$0.29		\$1.79	

See notes to financial statements.

**ABILITY ENTERPRISE CO., LTD.**

**PRO FORMA CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2002  
(Expressed in Thousands of New Taiwan Dollars)**

	Common stock	Common stock subscribed	Capital surplus	Retained earnings			Unrealized losses on valuation of long-term equity investments	Cumulated translation adjustments	Treasury stock	Total shareholders' equity
				Legal reserve	Special reserve	Unappropriated				
Balance as of January 1, 2001 .....	\$2,387,803	\$60,489	\$613,129	\$86,597	\$60,900	\$422,485	\$(85,292)	\$2,094	\$(60,120)	\$3,488,085
Appropriation of retained earnings:										
Legal reserve .....	—	—	—	42,163	—	(42,163)	—	—	—	—
Special reserve .....	—	—	—	—	24,393	(24,393)	—	—	—	—
Cash dividends .....	—	—	—	—	—	(93,669)	—	—	—	(93,669)
The Board's remuneration .....	—	—	—	—	—	(8,919)	—	—	—	(8,919)
Employee bonus .....	—	—	—	—	—	(4,733)	—	—	—	(4,733)
Issuance of common stock .....	60,000	(60,489)	72,000	—	—	—	—	—	—	71,511
Employees bonus transferred to common stock .....	38,430	—	—	—	—	(38,430)	—	—	—	—
Capital surplus transferred to capital .....	122,201	—	122,201	—	—	—	—	—	—	—
Retained earnings transferred to capital...	155,201	—	—	—	—	(155,201)	—	—	—	—
Gain on sale of property and equipment from invested companies .....	—	—	2,231	—	—	(2,231)	—	—	—	—
Losses on valuation of long-term equity investments .....	—	—	—	—	—	—	20,036	—	—	20,036
Adjustment of equity change from invested companies .....	—	—	(10,770)	—	—	—	—	—	—	(10,770)
Assets revaluation increment from invested companies .....	—	—	11,351	—	—	—	—	—	—	11,351
Change in cumulated translation adjustments .....	—	—	—	—	—	—	—	21,126	—	21,126
Consolidated net income for year 2001.....	—	—	—	—	—	514,183	—	—	—	514,183
Treasury stock sold to employee.....	—	—	13,992	—	—	—	—	—	60,120	74,112
Balance as of December 31, 2001 .....	\$2,763,635	\$—	\$579,732	\$128,760	\$85,293	\$566,929	\$(65,256)	\$23,220	\$—	\$4,082,313

See notes to financial statements.

**ABILITY ENTERPRISE CO., LTD.**

**PRO FORMA CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY — (Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2002**  
**(Expressed in Thousands of New Taiwan Dollars)**

	Common stock	Common stock subscribed	Capital surplus	Retained earnings			Unappropriated	Unrealized losses on valuation of long-term equity investments	Cumulated translation adjustments	Treasury stock	Total shareholders' equity
				Legal reserve	Special reserve	Unappropriated					
Appropriation of retained earnings:											
Legal reserve .....	\$—	\$—	\$—	\$51,418	\$—	\$—	\$(51,418)	\$—	\$—	\$—	\$—
Cash dividends .....	—	—	—	—	—	—	(214,123)	—	—	—	(214,123)
The Board's remuneration .....	—	—	—	—	—	—	(9,811)	—	—	—	(9,811)
Employee bonus .....	—	—	—	—	—	—	(23,506)	—	—	—	(23,506)
Retained earnings transferred to capital... 10% legal reserve of gain on sale of property and equipment transferred from capital surplus to retained earnings .....	119,146	—	—	—	—	—	(119,146)	—	—	—	—
Gain on sale of property and equipment transferred from capital surplus to retained earnings .....	—	—	—	7,052	—	—	(7,052)	—	—	—	—
Reversal of special reserve-unrealized loss of long-term equity investment ....	—	—	(70,522)	—	—	—	70,522	—	—	—	—
Change in unsubscribed capital of invested companies .....	—	—	—	—	(20,037)	—	20,037	—	—	—	—
Losses on valuation of long-term equity investments .....	—	—	—	—	—	—	(5,636)	—	—	—	(9,566)
Change in cumulated translation adjustments .....	—	—	—	—	—	—	—	8,960	(199)	—	(199)
Consolidated net income for year 2002....	—	—	—	—	—	—	82,486	—	—	—	82,486
Balance as of December 31, 2002 .....	\$2,882,781	\$—	\$505,280	\$187,230	\$65,256	\$309,282	\$(56,296)	\$23,021	\$—	\$—	\$3,916,554

See notes to financial statements.

**ABILITY ENTERPRISE CO., LTD.**

**PRO FORMA CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2002  
(Expressed in Thousands of New Taiwan Dollars)**

	<b>2002</b>	<b>2001</b>
Cash flow from operating activities:		
Net income .....	\$82,486	\$514,183
Adjustment to reconcile net income to net cash provided by (used in) operating activities		
Depreciation and amortization .....	188,490	208,430
Losses on long-term equity investments .....	10,846	—
Reversal of provision for inventory loss .....	(64,638)	(8,104)
Losses on disposal of fixed assets .....	509	722
Losses on disposal of rental assets .....	11,501	4,308
Expenses and losses transferred from property, plant and equipment and deferred expenses .....	—	2,154
Losses on disposal of fixed assets .....	7,828	17,274
Gain on disposal of rental assets .....	—	(28,107)
Gain on disposal of long-term investments .....	(26,670)	(31,189)
Losses on valuation of short-term investments .....	—	11,756
Investment income - equity method .....	(74,762)	(145,082)
Unrealized gain-on inter-affiliate accounts .....	3,820	10,522
Realized gain-on inter-affiliate accounts .....	(10,522)	(15,507)
Decrease in notes receivable.....	12,586	147,866
Decrease (Increase) in notes receivable - related parties .....	25,495	(193,597)
Decrease (Increase) in accounts receivable .....	(85,573)	690,671
Increase in accounts receivable - related parties .....	(7,334)	(57,801)
Decrease in inventories.....	27,202	378,013
Increase (Decrease) in other receivables .....	(5,285)	50,450
Increase in other current assets.....	(3,525)	(7,454)
Increase in notes payable.....	29,129	8,876
Increase (Decrease) in accounts payable .....	59,538	(457,006)
Increase in accounts payable - related parties .....	65,646	126,325
Decrease in accrued expenses .....	(21,228)	(52,044)
Decrease in income tax payable.....	(27,646)	(27,549)
Decrease in other current liabilities .....	(60,850)	(194,154)
Provision for pension cost .....	17,130	20,928
Deposit of pension fund.....	(13,037)	(16,706)
Advanced pension cost .....	—	(1,992)
Received of cash dividends.....	3,653	68,707
Increase in deferred income tax assets .....	(7,059)	(6,280)
Net cash provided by operating activities .....	137,730	1,018,613

See notes to financial statements.

**ABILITY ENTERPRISE CO., LTD.**

**PRO FORMA CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2002**  
**(Expressed in Thousands of New Taiwan Dollars)**

	<b>2002</b>	<b>2001</b>
Cash flow from investing activities:		
Purchase of long-term equity investments .....	\$(307,804)	\$(267,050)
Sale of long-term equity investments .....	75,239	82,806
Purchase of fixed assets .....	(42,523)	(82,551)
Purchase of rental assets .....	—	(1,000)
Proceeds from disposal of fixed assets .....	60,878	30,470
Proceeds from disposal of rental assets .....	—	29,568
Decrease in short-term investments .....	1,045,120	(809,368)
Increase in unamortized expenses .....	(6,289)	(240)
Decrease in other assets .....	15,958	56,945
	<u>840,579</u>	<u>(960,420)</u>
Net cash provided by (used in) investing activities .....		
Cash flows from financing activities:		
Increase (Decrease) in short-term borrowings .....	(71,420)	221,704
Increase (Decrease) in short-term notes and bills payable .....	7,842	(78,012)
Decrease in long-term borrowings .....	(12,328)	(292,330)
Increase (Decrease) in guarantee deposits received .....	(6,496)	1,439
Treasury stock sold to employee .....	—	74,112
Issuance of common stock .....	—	71,511
Payments of the Board's remuneration and employee bonus .....	(33,317)	(13,652)
Cash dividends .....	(214,123)	(93,669)
	<u>(329,842)</u>	<u>(108,879)</u>
Net cash used in financing activities .....		
Exchange effects .....	(6)	2,982
Net increase (decrease) in cash and cash equivalents .....	648,461	(47,722)
Cash and cash equivalents, beginning of year .....	542,477	590,199
	<u>\$1,190,938</u>	<u>\$542,477</u>
Cash and cash equivalents, end of year .....		
Disclosure of cash flow information		
Interest paid .....	\$36,676	\$53,398
	<u>\$36,676</u>	<u>\$53,398</u>
Income tax paid .....	\$31,096	\$80,818
	<u>\$31,096</u>	<u>\$80,818</u>
Other investing and financing activities not affecting cash		
Long-term borrowings - current portion .....	\$300,000	\$—
	<u>\$300,000</u>	<u>\$—</u>
Investing activities involved partial cash payment		
Increase in fixed assets .....	\$33,999	\$76,063
Beginning balance of payable - machinery and equipment		
(recorded as other payable) .....	21,468	26,078
Ending balance of payable - machinery and equipment (recorded as other payable) .....	(23,851)	(21,468)
	<u>\$33,999</u>	<u>\$76,063</u>
Cash paid .....	\$31,616	\$80,673
	<u>\$31,616</u>	<u>\$80,673</u>

See notes to financial statements.

# ABILITY ENTERPRISE CO., LTD.

## NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2002 (Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

### 1. DESCRIPTION OF BUSINESS

Ability Enterprise Co., Ltd. (the Ability) was established in Taipei City on May 21, 1965 and merged Ability Business Machines Co., Ltd. commercial machine Ltd. on October 1, 1986. The operating activities include trading, rental, packing and maintenance service of machinery, software and hardware of computer system, communication equipments, and office equipment. The Company also acts as an agent or a consignee to tender or quote prices, and to export or import various international or local products that listed above.

Viewquest technologies Inc. (the Viewquest) was incorporated on August 15, 1998 and operated on January 13, 1999. The Viewquest engages in the manufacturing of digital video camera and electronic component. With the approval of the 2002 special shareholders' meeting on August 23, 2002, the Viewquest merged with the Ability on January 1, 2003. The Ability is the surviving company while the Viewquest is the extinguished one.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (1) The objective of preparing consolidated financial statements

The consolidated balance sheets, consolidated income statements, consolidated shareholders' equity and consolidated statements of cash flows including the Ability and the Viewquest are for management's operation need.

#### (2) Subsidiary included in the consolidated financial statements

On August 23, 2002, the shareholder's meeting of the Ability approved the merger with the Viewquest by issuing new shares of 77,786,486. The merger date was January 1, 2003. The Ability should prepare the pro forma consolidated financial statements to present the substance of the whole economic entity.

The consolidated entities includes Ability Enterprise Co., Ltd. and Viewquest Technologies Inc. ("the Consolidated Company"). All transactions of inter-companies were eliminated in the consolidated financial statements.

#### (3) Foreign currency transactions and transformation to financial statements in foreign currency

The Consolidated Company's financial records are in NT Dollars. Foreign currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occurred. Liabilities in foreign currency at the balance sheet day are translated at year-end exchange rates. Realized or unrealized gains or losses on exchange, arose from real transaction or conversion of foreign liabilities, are recognized as current non-operating income or expenses. However, those exchange differences from long-term investments or money advances between the Consolidated Company and foreign companies are recognized as cumulative translation adjustments under shareholders' equity accounts.

#### (4) Options

The premium from call or put options are recorded as costs under asset or liability accounts. They are amortized during contract period and evaluated according to fair market prices at the balance sheet day. For those to hedge the risks of existing assets or liabilities and evaluate by fair market prices, the unrealized option trading losses or gains are recognized as current expenses or incomes. For those to hedge expected transaction risks, the unrealized option trading losses or gains are deferred until realization and recognized as an adjusting item of exercise price. For those contracts that are not for hedge and not evaluated at fair market prices, the unrealized option trading losses or gains are recognized as current expenses or revenues.

#### (5) Forward currency contracts

Forward currency contracts for hedging purposes are recorded at current exchange rate of the contract day. The difference between spot rate and exercise rate is amortized during contract's period. Open forward currency contracts are adjusted by the current exchange rates at the balance sheet date and the differences are recognized as current expenses or revenues. But those for risk of hedging exchange rate from net investment in foreign operating organizations, the difference is recognized as cumulative translation adjustments under shareholders' equity accounts.

**(6) Cross currency swaps**

Cross currency swaps for hedging purposes are recognized as accounts receivable and accounts payable according to the contract's exchange rates. The corresponding interests receivable and payables are based on contract's interest rates. At the balance sheet date, estimated interests receivable or payable in foreign currency is adjusted at the current exchange rates, and the unsettled principal of the contract is adjusted at the current exchange rates. The differences are recognized as current expenses or revenues.

**(7) Other financial instruments similar to futures and options contracts**

a. *Sale of stock put options for trading purpose*

The Company's sale of stock put options for trading purpose is recognized as short-term investment and the contract's price is fully paid on the day of trading. According to contract, if the closing price of the stock is higher than exercise price, the buyer of put options needs to pay premium and pay back contract principal. By contrary, if the closing price of the stock is lower than exercise price, the Company needs to buy the stock at exercise price. It is evaluated by fair market price at the end of the balance sheet date and unrealized losses or gains are recorded as current losses or gains.

b. *Asset swap for trading purpose*

Asset swap is the Company and the opposite party of the contract exchange particular foreign convertible bond contracts under the same trading construction. The opposite party purchases particular foreign convertible bond and exchange with the Company at the same time. Under this transaction, the interest rate of the bond has exchanged to higher interest rate of the notes. The Company pays the opposite-party contract price of the bonds at the contract date and receives contract price of the notes and interest incomes from the notes. However, the Company needs to bear the credit risks that bond seller breaches the contract and the opposite party does not fulfill contract. The contract price of the debt is listed under short-term investments on contract date and its market price is decided based on credit events on maturity day. Interest income from notes is estimated on the basis of contracting interest rates at the balance sheet day. Bad debt expenses are recognized in accordance to the related credit events and resulting current losses or gains are credited or charged to current income.

c. *Composite derivative financial instruments*

For financial instruments combined with options and bank deposits, contract prices are recorded under short-term investment on the contract dates. Market interest rate and contract interest rate are compared to decide daily floor and ceiling return rate of investment from bank deposit. Moreover, interest income is estimated on balance sheet date based on the results of comparing daily fair market interest rates and contract interest rates.

**(8) Short-term investments**

Short-term investments are stated at the lower of aggregate cost (weighted-average method) or market value. Market value of listed stock is based on the average closing price of the last month of the accounting period; open-ended mutual funds are evaluated by the net worth on the balance sheet date. Declining losses are recognized as current expenses. Stock dividends are not recognized as investment income but treated as an increase in the number of shares held. The cost per share is recalculated based on total number of shares after increasing share numbers. The cost of selling marketable securities is determined by the weighted-average method.

**(9) Allowance for doubtful accounts**

Allowance for doubtful accounts is provided based on the expected collectibility.

**(10) Inventories**

Inventories are stated at the lower of cost or net realizable value. Cost is determined by the weighted average method. When comparing with market value, current replacement price is used for materials, and net realized value is used as market value for work in process and finished goods. Provision is made for obsolete inventories at year-end.

**(11) Long-term equity investments**

Long-term equity investments in listed equity securities that represent less than 20% of the invested companies' voting stock ownership and where the Consolidated Company and its subsidiaries do not have significant influence over the invested company are stated at the lower of cost or market value. Unrealized loss thereon is recorded as a reduction in stockholders' equity. However, long-term investments in non-listed equity securities are stated at cost. When there is evidence showing that a decline in the market value of such investment is other than temporary and the probability of recovery is considered remote, the carrying value of the investment is reduced to reflect the market value and the resulting loss is recognized in the period of such reduction. Stock dividends are not recognized as investment income but treated as an increase in the number of shares held. The cost of long-term equity investment sold is calculated based on the weighted-average method.

When the percentage of ownership of equity method accounted investments is less than 20%, or where the Consolidated Company loses significant influence on the invested companies, long-term investments are stated at cost. The carrying value of the investment is reduced to reflect the market value. Capital surplus from long-term equity investments would be eliminated by percentage based on the portion of long-term equity investments sold.

Investments where the percentage of ownership exceeds 20%, or where the Consolidated Company and its subsidiaries have significant influence on the operating and financial policies of the invested companies are accounted for by the equity method. When the Consolidated Company holds more than 50% of an invested company's stock with voting rights or meets all of following conditions: 1. the beginning shareholder's equity of the long-term investment is more than NT\$50 million dollars and exceeds 5% of the Consolidated Company's capital stock; 2. the Consolidated Company holds more than 30% of an invested companies' stock or the ownership percentage of the invested companies' stock held by the Consolidated Company and other companies that directly or indirectly controlled by the Consolidated Company's directors, supervisors, managers or the Consolidated Company exceeds 50%; 3. the Consolidated Company is one of the top three shareholders of an invested company or is appointed as invested companies' board of director or general manager; the investment losses or gains are required to be recorded as current losses or gains. Otherwise, the investment losses or gains needs to be deferred by one year. Under the equity method, the difference between the acquisition cost of the investment and the underlying equity of the investment is amortized over five years on a straight-line basis and recognized as investment income or loss.

When the Consolidated Company owns more than 50% of an invested companies' common stock, the invested company is treated as a subsidiary and must be included in the consolidated financial statements. However, if the subsidiary's total assets and operating revenue are below 10% of the Consolidated Company's respective account balances, consolidated financial statement is not required. If the total assets and operating revenues of all unconsolidated subsidiaries are over 30% of the Consolidated Company's respective account balances, consolidated financial statement are still required for those subsidiaries, of which total assets and operating revenues amounted to more than 3% of the Consolidated Company's respective account balances. When the percentage for all unconsolidated subsidiaries is less than 20%, consolidated financial statements are not required. Consolidated financial statement is not required for half-year financial reports.

Gains or losses on disposal of long-term equity investments are recognized as investment income or loss. The unrealized gains or losses between the Consolidated Company and invested company or subsidiaries are deferred. For the unrealized gains or losses resulting from depreciable or amortizable assets, the gains or losses will be recognized yearly over the respective useful lives of the assets. However, the gains or losses will be recognized in the year of realization if the unrealized gains or losses result from other assets.

When the invested company issue new shares and the Consolidated Company do not subscribe the shares according to the Consolidated Company's ownership percentage resulting in changes of net equity of invested companies' ownership, the change amounts will be adjusted to capital surplus. If such adjustments decrease capital surplus and the capital surplus is insufficient to be adjusted, retained earnings will be reduced accordingly.

**(12) Rental assets**

Rental assets are fixed assets and equipments that leased to others for operating purpose and are stated at acquisition cost. Depreciation is calculated on a straight-line basis over estimated useful lives of the assets and accounted under non-operating expenses or operating costs.

**(13) Property and equipment**

Property and equipment are stated at acquisition cost. Major renewals, improvements and additions are treated as capital expenditures. Depreciation is calculated on a straight-line basis over estimated useful lives of the assets. Interest expense from the acquisition period is capitalized and classified under appropriate categories of property and equipment. Gains or losses on the disposal of property and equipment are recorded as non-operating income or expense.

**(14) Short-term notes payable**

Short-term notes payable is evaluated by present value and the discount is listed as a deducting item of short-term notes payable.

**(15) Retirement benefits**

The defined benefit pension plan is eligible for all regular employees. The plan covering salaried employees provides benefit payments based on years of service and the employees' average salary of final six months. The plan is calculated by the accrual of retirement "credit". During the first fifteen years of service, an employee may accrue two credits per year. The accrual rate is one credit per year after the fifteenth year.

Under the funding policy of the plan, the Consolidated Company contributes, monthly, an amount equals to 5% of the employees' monthly salaries and wages to the pension fund.

The consolidated entity's pension plan was measured pursuant to SFAS No. 18, "Accounting for Pensions". The measurement date was established on the balance sheet date. The Consolidated Company accrues pension cost when the accumulated benefit obligation is over the fair value of the fund assets. From January 1, 1996, the Consolidated Company recognized net periodic pension cost, including service costs, amortization of unrecognized prior service costs, amortization of unrecognized gain or loss and amortization of unrecognized transitional net assets. The amortization is on the straight-line method over 15 years. The Consolidated Company paid retirement benefits out of the pension fund. If the fund is not sufficient, payment is reported as expense.

**(16) Treasury stock**

The Consolidated Company uses the cost method to account for treasury stock. Under the cost method, treasury stock is debited at the cost of the shares purchased. When treasury stock is sold at a price greater than the cost, the difference is credited to capital surplus-treasury stock. If the sales price of treasury stock is lower than the cost, the difference is used to offset capital surplus from similar treasury stock. If the capital surplus-treasury stock account is insufficient to cover the excess of the cost over the price, retained earnings is debited for the remaining amount. The book value of each share of treasury stock is equal to its weighted-average value and is calculated according to its reason for purchase.

**(17) Income tax**

The estimation of income tax is based on accounting income. Deferred income tax assets and liabilities are recognized based on the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis amount, net loss carry forwards and unused tax credits. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary timing differences are expected to reverse or settled. The effect of the change in income tax rates on deferred income tax assets and liabilities is recognized in the year of enactment. The Consolidated Company also evaluates the possibility of the realization of deferred income tax assets, and recognizes a valuation allowance account if necessary.

Deferred income tax assets and liabilities are classified as current or non-current according to the assets or liabilities accounts from which they are derived, or according to the expected year of reversal if they are not related to specific assets or liabilities. Current deferred income tax assets and liabilities should be offset and listed as a net amount, as well as non-current deferred income tax assets and liabilities.

The Consolidated Company adopted the provisions of the Statements of Financial Accounting Standards No. 22, "Accounting for Income Taxes Credits", in dealing with the tax credits of purchasing equipments, technique, R&D, human resource development and investments etc. Those tax credits were recognized in current year.

The Consolidated Company's unappropriated retained earnings not distribution in next year will have an additional tax of 10% under the Integrated Income Tax System, starting from 1998, and recorded as income tax expense in the year of levy.

The adjustment of the tax expense levied in the prior years should be listed as income tax expense.

**(18) Earnings per share**

Simple earnings per share is calculated based on the weighted average outstanding shares during the period. Fully-diluted earnings per share is calculated under the assumption that warrants have been converted at the beginning of the period, and is adjusted to the revenue and expense from the conversion. The dilutive effects from employees' warrants were calculated by the treasury stock method.

### 3. REASON AND EFFECT FROM CHANGES OF SIGNIFICANT ACCOUNTING POLOCIES

From 2002, the Consolidated Company's earnings per share was measured pursuant to the new issued provisions of the Statements of Financial Accounting Standards No.24, "Earnings Per Share." The calculation method of fully-diluted earnings per share has changed under the new statements. However, there were no effects on the assets, liabilities and shareholders' equity as of December 31, 2002 and profit and loss for the years ended December 31, 2002.

### 4. SHORT-TERM INVESTMENTS

	<u>December 31, 2002</u>		<u>December 31, 2001</u>	
	<u>Cost</u>	<u>Market value</u>	<u>Cost</u>	<u>Market value</u>
Listed/OTC stock.....	\$14,149	\$16,781	\$31,740	\$56,252
Beneficiary security .....	—	—	981,890	981,890
Others .....	20,720	20,720	66,359	66,359
Less: allowance for decline in market value .	—	—	—	—
	<u>\$34,869</u>	<u>\$37,501</u>	<u>\$1,079,989</u>	<u>\$1,104,501</u>

### 5. INVENTORIES

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Merchandise inventories.....	\$164,445	\$152,675
Raw materials .....	16,477	104,120
Components .....	28,673	25,317
Accessories.....	25,246	26,539
Work in process .....	6,114	7,363
Finished goods.....	236	3,378
	<u>241,191</u>	<u>319,392</u>
Subtotal .....		
Less: allowance for inventory valuation losses.....	(9,506)	(81,506)
	<u>\$231,685</u>	<u>\$237,886</u>

## 6. LONG-TERM EQUITY INVESTMENTS

	December 31, 2002		December 31, 2001	
	Holding %	Amounts	Holding %	Amounts
Equity method:				
Ability Enterprise (BVI) Co., Ltd. ....	100.00	\$551,136	100.00	\$404,242
Abico International Holding Co., Ltd. ....	100.00	147,896	—	—
Ability International Investment Co., Ltd. ...	99.99	213,581	99.99	218,432
Taiwan Imaging Systems Inc. ....	93.25	23,734	93.25	21,427
King Ability Enterprise Co., Ltd. ....	—	—	67.50	9,493
Avy Co., Ltd. ....	63.72	233,054	60.00	175,422
Ability International Rent Co., Ltd. ....	44.95	10,204	44.95	10,119
Canon Marketing (Taiwan) Co., Ltd. ....	48.87	35,057	48.87	61,145
Abico Automation Co., Ltd. ....	48.00	2,342	48.00	2,370
Abiconet International Co., Ltd. ....	40.00	\$20,348	40.00	19,417
Taiwan Daiohs Co., Ltd. ....	39.86	6,756	39.86	9,157
Guangdong United Optical Instrument Co., Ltd. ....	22.85	33,890	22.85	30,384
Area East Technology Corp. ....	—	—	22.22	10,018
Viewquest Technologies International Inc. .	100.00	—	100.00	7,587
Viewquest Technologies (BVI) Inc. ....	100.00	132,421	100.00	213,214
Subtotal .....		1,410,419		1,192,427
Cost method:				
E-Ten Information Systems Co., Ltd. ....	3.40	67,981	3.40	67,981
Xander International Corp. ....	0.38	8,202	—	—
Power World Fund, Inc. ....	2.84	25,000	2.84	25,000
Jung Shing Wire Co., Ltd. ....	0.34	2,781	1.67	12,177
Shing Kong Financial Holding Co., Ltd. ....	0.02	10,565	—	—
Power World Securities Co., Ltd. ....	—	—	0.57	20,000
Teamcam Information Corp. ....	—	—	5.59	15,502
Taiwan Ohara Optical Co., Ltd. ....	7.00	14,000	7.00	14,000
Taiwan Video and Monitor Corp. ....	1.28	15,063	1.28	15,063
CC&C Technologies, Inc. ....	1.00	7,200	1.00	7,200
Vivavr Technology Co., Ltd. ....	2.08	3,546	4.85	7,092
Breeze Digital Technology Co., Ltd. ....	9.80	4,900	9.80	4,900
Presto Computer Turn-up Network Inc. ....	9.33	3,663	9.33	3,663
Featron Computer Co., Ltd. ....	2.09	—	2.09	—
Minton Optic Industry Co., Ltd. ....	4.91	68,400	4.91	68,400
Wan Hai Lines Ltd. ....	0.03	5,464	0.10	22,591
Cathay Financial Holding Co., Ltd. ....	—	11,044	—	5,900
Cathay United Bank. ....	—	—	0.04	5,129
King Ability Enterprise Co., Ltd. ....	19.50	2,400	—	—
Chiabon Venture Capital Co., Ltd. ....	10.00	100,000	—	—
General Plastic Industrial Co., Ltd. ....	0.66	22,400	—	—
Elite Advanced Laser Corporation. ....	3.03	15,000	3.03	15,000
Area East Technology Corp. ....	15.36	10,075	—	—
Datd Image Corporation. ....	1.67	7,500	—	—
Subtotal .....		405,184		309,598
		1,815,603		1,502,025
Cumulated translation adjustments .....		16,667		16,758
Less: allowance for decline in market value .		(56,296)		(65,256)
		<u>\$1,775,974</u>		<u>\$1,453,527</u>

*Note 1:* After the merger with Xander International Corp., Teamcam Information Corp. was extinguished in 2002. The share exchange was effective from September 1, 2002 and the share exchange ratio is 4.5:1.

*Note 2:* Power World Securities merged with Shin Kong Financial Holding Co., Ltd. in 2002. The share exchange was effective from February 19, 2002 and the share exchange ratio is 2.05:1.

*Note 3:* Cathay United Bank merged with Cathay Financial Holding Co., Ltd. in 2002. The share exchange was effective from April 22, 2002 and the share exchange ratio is 6:1.

For the years ended December 31, 2002 and 2001 the original costs of investments under the equity method of accounting were as follows:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Ability Enterprise (BVI) Co., Ltd. ....	\$247,504	\$247,504
Ability International Investment Co., Ltd. ....	198,994	198,994
Taiwan Imaging Systems Inc. ....	17,850	17,850
King Ability Enterprise Co., Ltd. ....	—	8,960
Avy Co., Ltd. ....	287,591	155,164
Canon Marketing (Taiwan) Co., Ltd. ....	61,145	61,145
Ability International Rent Co., Ltd. ....	8,990	8,990
Abico Automation Co., Ltd. ....	2,880	2,880
Abiconet International Co., Ltd. ....	20,000	20,000
Taiwan Daiohs Co., Ltd. ....	13,950	13,950
Guangdong United Optical Instrument Co. Ltd. ....	28,097	28,097
Area East Technology Corp. ....	—	10,000
Abico International Holding Co., Ltd. ....	39,602	—
Viewquest Technologies International Inc. ....	50,729	50,729
Viewquest Technologies (BVI) Inc. ....	<u>213,972</u>	<u>213,972</u>
	<u>\$1,191,304</u>	<u>\$1,038,235</u>

The investment revenues (loss) of investments under equity method of accounting in 2002 and 2001 were as follows:

	<u>2002</u>	<u>2001</u>
Ability Enterprise (BVI) Co., Ltd. ....	\$146,894	\$156,674
Ability International Investment Co., Ltd. ....	(4,851)	782
Taiwan Imaging Systems Inc. ....	2,307	3,066
King Ability Enterprise Co., Ltd. ....	(342)	220
Avy Co., Ltd. ....	(65,230)	21,163
Ability International Rent Co., Ltd. ....	85	71
Canon Marketing (Taiwan) Co., Ltd. ....	(26,088)	—
Abico Automation Co., Ltd. ....	(28)	(510)
Abiconet International Co., Ltd. ....	1,931	(583)
Taiwan Daiohs Co., Ltd. ....	(2,401)	(3,780)
Guangdong United Optical Instrument Co., Ltd. ....	6,159	4,671
Area East Technology Corp. ....	57	18
Abico International Holding Co., Ltd. ....	108,294	—
Viewquest Technologies International Inc. ....	(11,232)	(38,832)
Viewquest Technologies (BVI) Inc. ....	<u>(80,793)</u>	<u>2,122</u>
	<u>\$74,762</u>	<u>\$145,082</u>

In 2002, the investment revenues (loss) recognized from Canon Marketing (Taiwan) Co., Ltd., Abico Automation Co., Ltd., Abiconet International Co., Ltd., Taiwan Daiohs Co., Ltd., Guangdong United Optical Instrument Co., Ltd., Area East Technology Corp. and 2001, Canon Marketing (Taiwan) Co., Ltd., Abico Automation Co., Ltd., Abiconet International Co., Ltd., Taiwan Daiohs Co., Ltd., Guangdong United Optical Instrument Co., Ltd., Area East Technology Corp. were deferred for one year but no longer than next half-year financial report according to the 8th term of "Criteria Governing the Preparation of Financial Reports by Securities Firms". Therefore the investment losses evaluated by equity method were NT\$20,370 and NT\$184 thousand in 2002 and 2001 respectively. And, the Company recognized investment income NT\$31,832 thousand and NT\$(17,669) thousand respectively from Avy Co., Ltd., Abico International Holding Co., Ltd., Viewquest Technologies International Inc., and Viewquest Technologies (BVI) Inc. according to the report of other auditors'.

The Consolidated Company had invested 100% of Ability Enterprise (BVI) Co., Ltd. in March 2000 to expand its business to the production of optic-electronic components. As of December 31, 2002, the Consolidated Company had invested NT\$247,504 thousand (US\$7,635 thousand) to Dongguan Guang Tong Business Machines Co., Ltd. and Dongguan Yorkey Optical Machinery Components Ltd., which was examined and approved by Investment Commission Ministry of Economic Affairs via letter No. 89022922 and 89028327.

In order to expand the market of Mainland China, the Consolidated Company invested in 22.85% of Guangdong United Optical Instrument Co., Ltd. in 1999 and had approved by Investment Commission Ministry of Economy Affairs which letter No. 88732635. As of December 31, 2002, the Consolidated Company had invested NT\$28,097 thousand (HKD6,900 thousand).

For the purpose of developing global marketing, the Consolidated Company invested in 48.73% of Canon Marketing (Taiwan) Co., Ltd. (original name: Formerly Taiwan Copyer Co., Ltd.) in March 2001. The Consolidated Company subscribed 49% of Canon Marketing (Taiwan) Co., Ltd. increased cash capital, NT\$42,000 thousand, on June 26, 2001 and the percentage of ownership had changed from 48.73% to 48.87%. As of December 31, 2002, the Consolidated Company had invested NT\$61,145 thousand.

The Consolidated Company sold 576 shares of King Ability Enterprise Co., Ltd. in March 2002, so the percentage of ownership decreased from 67.50% to 19.50% and the Consolidated Company also lost the significant influence to King Ability Enterprise Co., Ltd. The accounting valuation method had changed from equity method to cost method. The carrying value of investment was reduced to reflect the market value and long-term investments were stated at cost.

Teamcam Information Corp. reduced its capital by NT\$140,000 thousand (40%) on July 17, 2001. The Company recognized investment losses NT\$10,334 thousand on December 31, 2000. The Board of Directors of Teamcam Information Corp. decided to merge with Xander International Corp. on April 2, 2002. The conversion ratio for Teamcam Information Corp. to Xander International Corp. was 4.5 to 1, and the merger date were September 1, 2002. The Consolidated Company recognized permanent investment losses of NT\$7,300 thousand in 2002.

Area East Technology Corp. increased cash capital of NT\$20,100 thousand on June 11, 2002. Because the Consolidated Company didn't subscribe, the percentage of ownership was reduced from 22.22% to 15.36%. The Consolidated Company lost its significant influence and the accounting valuation method had changed from equity method to cost method. The carrying value of investment was reduced to reflect the market value and long-term investments were stated at cost.

Vivavr Technology Co., Ltd. reduced capital by NT\$60,002 thousand (50%) on January 15, 2002. The Consolidated Company recognized investment losses of NT\$3,546 thousand according to the capital reduction on March 31, 2002.

The Consolidated Company invested 100% of Abico International Holding Co., Ltd. to expand the market of Mainland China in March 2002. As of December 31, 2002, the Consolidated Company had invested NT\$39,602 thousand. (US\$1,129 thousand)

Avy Co., Ltd increased cash capital by 9,425,000 shares in December 2002. The Consolidated Company subscribed 6,621,335 shares and the percentage of ownership increased from 60.00% to 63.72%.

The Consolidated Company had invested 100% of Viewquest Technologies International Inc. in 1998. As of December 31, 2002, the Consolidated Company had invested US\$1,500 thousand (NT\$50,729 thousand) for 6,000 thousand shares. In 2002, the Consolidated Company had long-term investment credit balance of NT\$3,747 thousand from recognition of investment loss of Viewquest Technologies International Inc. under equity method. Because the Consolidated Company intends to hold Viewquest Technologies International Inc., the investment credit balance had been recorded as investment credit under liabilities of the balance sheet.

## 7. RENTAL ASSETS

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Cost:		
Land .....	\$141,509	\$221,352
Buildings .....	244,082	354,963
Equipments .....	436,188	514,033
Subtotal .....	821,779	1,090,348
Less: accumulated depreciation .....	(266,792)	(238,383)
Net rental assets .....	<u>\$554,987</u>	<u>\$851,965</u>

Please refer to note 17 for pledged assets of the rental assets as of December 31, 2002 and 2001.

## 8. PROPERTIES AND EQUIPMENT

As of December 31, 2002 and 2001, please refer to note 17 for pledged assets of the properties and equipment.

**9. SHORT-TERM BORROWINGS**

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Mortgage borrowing.....	\$280,000	\$174,165
Credit loans .....	239,000	336,000
Letters of credit .....	1,801	69,728
Total .....	<u>\$520,801</u>	<u>\$534,728</u>

The interest rates for the above loans were 1.88%~3.12% and 1.80%~5.00% in 2002 and 2001, respectively. The due dates are within one year.

As of December 31, 2002 and 2001, details of pledged assets are summarized in note 17.

As of December 31, 2002 and 2001, unused credit lines available for borrowing amounted to NT\$1,615,775 thousand and NT\$1,506,864 thousand.

**10. SHORT-TERM NOTES AND BILLS PAYABLE**

	<u>December 31, 2002</u>		<u>December 31, 2001</u>	
	<u>Amount</u>	<u>Interest rate %</u>	<u>Amount</u>	<u>Interest rate %</u>
Commercial paper payables.....	\$228,000	1.88~2.65	\$220,000	2.53~2.85
Less: discount .....	(805)		(647)	
	<u>\$227,195</u>		<u>\$219,353</u>	

As of December 31, 2002 and 2001, commercial paper payables were guaranteed by Union Bills Finance Corp., Mizuho Corporate Bank, Ltd., Bank of Tokyo-Mitsubishi Ltd., Union Bills Finance Corp. and Dai-Ichi Kangyo Bank.

As of December 31, 2002 and 2001, unused credit lines available for short-term notes and bills amounted to NT\$122,000 thousand and NT\$156,072 thousand.

**11. BONDS PAYABLE**

	<u>December 31, 2002</u>		<u>December 31, 2001</u>	
	<u>Amount</u>	<u>Interest rate %</u>	<u>Amount</u>	<u>Interest rate %</u>
First issuance secured corporate bond .....	\$300,000	5.5	\$300,000	5.5
Less: current portion.....	(300,000)		—	
	<u>\$—</u>		<u>\$300,000</u>	

As of April 12, 2000, the Board of Directors approved the first issuance of domestic corporate bond of NT\$300,000 thousand with par value of NT\$1,000 thousand, 5.5% interest rate from May 4, 2000 to May 4, 2003. The interests with simple compounding will be paid annually and the principal will be paid back on the maturity. The issuance was authorized on April 21, 2000 via file No.32941 issued by SEC and the amount fully received in May 2000.

## 12. EMPLOYEE RETIREMENT BENEFITS

The following table sets forth the actuarial valuation of the plan's funded status and the amounts recognized in the balance sheet on December 31, 2002 and 2001:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Benefit obligation:		
Vested benefit obligation .....	\$3,289	\$—
Non-vested benefit obligation .....	<u>107,371</u>	<u>94,687</u>
Accumulated benefit obligation.....	110,660	94,687
Present value of increase in future compensation.....	<u>75,418</u>	<u>81,953</u>
Projected benefit obligation (PBO) .....	186,078	176,640
Plan assets at present value .....	<u>(116,250)</u>	<u>(107,630)</u>
Excess of assets over PBO.....	69,828	69,010
Unrecognized net obligations at transition.....	(36,985)	(37,357)
Unrecognized pension loss .....	(23,609)	(26,512)
Amount that should be accrued for pension cost .....	<u>—</u>	<u>136</u>
Accrued pension cost.....	<u>\$9,234</u>	<u>\$5,277</u>

The employees' vested benefits according to the Consolidated Company's retirement plan amounted to NT\$4,328 thousand and zero.

The net periodic pension cost for the years 2002 and 2001 were as follows:

	<u>2002</u>	<u>2001</u>
Service cost .....	\$10,240	\$14,162
Interest cost .....	8,333	9,256
Expected return on plan assets .....	(5,330)	(6,265)
Amortizations and deferrals .....	<u>3,887</u>	<u>3,775</u>
	<u>\$17,130</u>	<u>\$20,928</u>

The pension funds had paid for the years 2002 and 2001 amounted to NT\$10,585 thousand and NT\$11,646 thousand. Major assumptions used to determine the above information are as follows:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Discount rate .....	3.75%	4.25~4.75%
Rate of increase in future compensation.....	2.50~2.75%	3.00~3.50%
Expected long-term rate of return on plan assets.....	3.75%	4.00~4.72%

## 13. SHAREHOLDERS' EQUITY

### (1) Common stock

The shareholders' meeting of the Ability held on May 31, 2001 resolved to transfer capital surplus of NT\$56,201 thousand and earnings of NT\$56,201 thousand to capital. The issuance was authorized and registered with government authorities. After the transfer, total issuance of common stocks amounted to 11,240,280 shares, and capital of the Company was NT\$1,985,770 thousand.

The shareholders' meeting of the Ability held on May 27, 2002 resolved to transfer earnings of NT\$119,146 thousand to capital as 11,914 thousand shares. The issuance was authorized and registered with government authorities on July 1, 2002. As of July 31, 2002, the capital of the Company was NT\$2,104,916 thousand.

On August 23, 2002, the shareholder's meeting of the Ability approved the merger with Viewquest Technologies Inc. by issuing new shares of 77,786,486. The merger date was January 1, 2003. After the merge, the authorized capital of the Company was NT\$5,400,000 thousand while paid-in capital was NT\$2,882,781 thousand.

On October 24, 2002, the Board of the Consolidated Company resolved to declare employees' warrants of 6,000 units, and every unit could be exchanged to 1,000 common shares with conversion price of NT\$14.6. Additional 6,000,000 common shares would then be issued for the exercise of employees' warrants. The exercise price could be adjusted on the basis of the specific formula and the conversion rate once upon fluctuations, cash dividend declaration or consolidation. The duration of the warrant was five years, and its option could be separately exercised every single year after being kept for two years.

As of December 31, 2002, the distributed employees' warrants were as follows:

	<b>Common shares of authorized but not distributed warrants</b>	<b>Common shares of distributed warrants</b>
Authorized issue .....	\$6,000,000	\$—
Distribution.....	(6,000,000)	6,000,000
Call back and write off/abandonment .....	—	—
Additional declarations of bonus shares or adjustments of warrant units .....	—	—
Balance.....	<u>\$—</u>	<u>\$6,000,000</u>

(2) **Capital surplus**

According to the R.O.C. Company Law, capital surplus can only be used to offset a deficit or to increase capitals, and cannot be distributed as cash dividends. The amount of such capitalization depends on the result of operations, and cannot be over a certain ratio of transferred paid-in capital in excess of par value. Securities and Futures Commission, Ministry of Finance regulations stipulate that increasing capital derived from transferring additional paid-in capital can be done only once a year and only in the year other than the year in which such excess arose.

(3) **Legal reserve**

The R.O.C. Company Law stipulates that a company must retain 10% of its annual earnings as legal reserve until such retention equals to the amount of capital. The legal reserve may be used to offset an accumulated deficit, but cannot be distributed as cash dividends. However, 50% of the legal reserve may be converted to share capital when it reaches the amount equal to one-half of issued share capital upon resolution by the Company's stockholders.

(4) **Earnings appropriation**

According to Securities Exchange Law No.41, the Company may additionally reserve the amount equal to any valuation or contra-account in the stockholders' equity in the fiscal year (such as unrealized losses on valuation of long-term investment, cumulative translation adjustments, etc.) from the net income and equity from prior periods; the same amount from prior period earnings should be reserved as special reserve and can not be distributed. If the valuation or contra-account of stockholders' equity is reversed, the special reserve amount could be distributed.

According to the R.O.C. Company Law and the Company's articles of incorporation, the Company's earnings are to be appropriated in the following order:

- a. Offset prior years' deficit (if any);
- b. 10% is to be set aside as legal reserve;
- c. A special reserve as deemed appropriation;
- d. The remaining balance is to be appropriated as follows: (1) 3% as directors' and supervisors' remuneration, (2) 10~15% as employees' bonus, and (3) the distribution of the remaining balance and undistributed earnings from previous year was decided by shareholders' meeting.

The Company's dividend policy requires that parts of dividend should be stock dividend to maintain operation. For satisfying stockholders' need of cash inflow, the percentage of cash dividend was made no less than 10%.

The above dividend policy has been approved by the shareholders' meeting on August 23, 2002.

The board of directors has not yet approved the earnings appropriation for year 2002 until the date of the independent auditors' report. Please refer Market Observation Post System for the Consolidated Company's earnings distribution in 2002.

In 2002, the Board of Directors resolved to appropriate the year 2001 earnings as follow: employees' bonus amounted to NT\$23,506 thousand, and the Board's remuneration amounted to NT\$9,811 thousand. The information about EPS was in note15.

- (5) As of December 31, 2002 and 2001, the shareholders' imputation credit account, and the imputation credit ratio were summarized as follows:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Imputation credit account .....	\$9,227	\$36,517
	<u>2002</u>	<u>2001</u>
Expected (Actual) imputation credit ratio .....	2.54%	5.24%

- (6) As of December 31, 2002 and 2001, the unappropriated earnings was summarized as follows:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Unappropriated earnings 1998 and before.....	\$855	\$855
Unappropriated retained earnings since 1999.....	308,427	566,074
	<u>\$309,282</u>	<u>\$566,929</u>

The stockholders' imputation tax credit accounts and the imputed tax credit ratio include tax payable of the fiscal year.

According to the R.O.C. Income Tax Law, the shareholders' imputation credit except 10% income tax levied on unappropriate retained earnings under the Integrated Income Tax System cannot be used by non-resident alien to offset his tax payable computed on dividends on earnings generated in the R.O.C.

- (7) Treasury Stock

<u>Reason</u>	<u>January 1, 2001</u>	<u>Increase in this year</u>	<u>Decrease in this year</u>	<u>December 31, 2001</u>
Transfer to employee .....	\$3,954	—	\$3,954	—

R.O.C. Securities Exchange Law regulates that corporation's purchase of their own stocks cannot be above 10% of issued shares, and the dollar amount of purchase cannot be more than the retained earnings plus reserve for capital increase and realized capital surplus. In 2001, the maximum of treasury stock was 3,954 thousand shares, the dollar amount of purchase was NT\$60,120 thousand, which is under the upper limit 10,000 thousand shares and NT\$424,281 thousand. In April, 2001, the treasury stock was purchased by employees at NT\$18.8 per share, premium on treasury stock was NT\$13,992 thousand which has been transferred to paid-in capital.

The Company's treasury stock is without right to vote and receive dividend, as well as can't be pledged in accordance with SFC regulation.

#### 14. INCOME TAX

The Consolidated Company is subject to the income tax rate of 25 percent. The provision for income taxes for 2002 and 2001 were as follows:

	<u>2002</u>	<u>2001</u>
Current income tax expense .....	\$(4,800)	\$41,278
10% income taxes on unappropriated retained earnings .....	4,293	11,992
Deferred income tax expense .....	(7,059)	(6,280)
	<u>\$(7,566)</u>	<u>\$46,990</u>

The differences between “expected” income taxes at the statutory income tax rate and the income tax as reported in the accompanying financial statements for 2002 and 2001 were summarized as follows:

	<u>2002</u>	<u>2001</u>
Income tax at statutory rate .....	\$18,720	\$140,283
Tax-free collection revenue-land .....	—	(7,027)
Tax-free dividend revenue .....	(978)	(1,548)
Gains on sale of securities .....	(26,444)	(22,190)
Gains on investment accounted for under the equity method .....	(18,690)	(36,791)
Tax credit .....	—	(31,648)
10% income taxes on unappropriated retained earnings .....	4,293	11,992
Adjustment of prior years’ estimated income taxes .....	(11,553)	(4,690)
Estimated adjustment of deferred income tax asset .....	8,217	2,456
The increment of allowance for income tax asset .....	1,825	—
Others .....	17,044	(3,847)
	<u>\$(7,566)</u>	<u>\$46,990</u>

The deferred income tax expenses consisted of the following:

	<u>2002</u>	<u>2001</u>
Investment on equity-method invested companies .....	\$1,574	\$(698)
Reversal on long-term investments valuation loss .....	(1,825)	2,583
Reversal short-term investments valuation loss .....	6,484	(2,939)
Difference between depreciation method of financial and tax purposes .....	7,603	(5,111)
Reversal on inventories valuation losses .....	18,190	3,264
(Un)realized gain on inter-affiliate accounts .....	1,992	1,162
The approved number of discarding inventory .....	—	138
Unrealized gain on foreign currency exchange .....	2,563	(6,503)
Sales allowance in the past received at this time .....	—	999
Adjustment for bad debt for tax purposes .....	(1,097)	1
Adjustment for pension expense for tax purposes .....	(281)	(904)
Allowance for loss on disposal of assets .....	4,689	—
The increment of allowance for income tax asset .....	1,825	—
Unused tax credit .....	(34,829)	(8,814)
Others .....	(13,947)	10,542
	<u>\$(7,059)</u>	<u>\$(6,280)</u>

The Consolidated Company's deferred income tax assets were as follows:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Current:		
Deferred income tax asset.....	\$87,616	\$79,846
Allowance for valuation of deferred income tax assets.....	—	—
Net deferred income tax assets .....	87,616	79,846
Deferred income tax liabilities.....	—	581
Current deferred income tax assets, net .....	<u>\$87,616</u>	<u>\$79,265</u>
Noncurrent:		
Deferred income tax assets .....	\$9,411	\$8,880
Allowance for valuation of deferred income tax asset .....	(7,545)	(5,720)
Net deferred income tax assets .....	1,866	3,160
Deferred income tax liabilities.....	13,235	12,237
Noncurrent deferred income tax asset (liabilities), net .....	<u>\$15,101</u>	<u>\$16,397</u>
Total deferred income tax assets .....	<u>\$97,027</u>	<u>\$88,726</u>
Total deferred income tax liabilities.....	<u>\$13,235</u>	<u>\$13,818</u>
Total allowance for valuation of deferred income tax assets.....	<u>\$7,545</u>	<u>\$5,720</u>

The tax effects of temporary differences incurred from deferred income tax assets and liabilities as of December 31, 2002 and 2001 were presented below:

	<b>December 31, 2002</b>		<b>December 31, 2001</b>	
	<b>Amount</b>	<b>Income tax effects</b>	<b>Amount</b>	<b>Income tax effects</b>
Deferred income tax assets:				
Losses on investment accounted for under the equity method.....	\$—	\$—	\$6,296	\$1,574
Losses on decline in market value of long-term investment.....	30,177	7,545	22,877	5,720
Losses on inventory valuation.....	9,506	2,376	82,267	20,566
Adjustment for bad debt for tax purposes .	26,153	6,538	21,762	5,441
Adjustments of depreciation expense for tax purposes .....	13,688	3,422	44,102	11,025
Unrealized losses on short-term investment	—	—	25,938	6,484
Adjustment for pension expense for tax purposes .....	7,469	1,867	6,345	1,586
Contingent liabilities on sales warrant .....	1,839	460	7,801	1,950
Adjustments of employee benefit for tax purposes .....	1,200	300	2,400	600
Unrealized losses on foreign currency exchange .....	58	14	12,377	3,094
Unrealized gain on inter-affiliate accounts .	27	7	7,997	1,999
Allowance for loss on disposal of assets....	—	—	18,753	4,689
Unused tax credit.....	58,012	58,012	23,183	23,183
Others.....	65,944	16,486	3,256	815
		97,027		88,726
Valuation of allowance.....		(7,545)		(5,720)
		<u>\$89,482</u>		<u>\$83,006</u>

	<b>December 31, 2002</b>		<b>December 31, 2001</b>	
	<b>Amount</b>	<b>Income tax effects</b>	<b>Amount</b>	<b>Income tax effects</b>
Deferred income tax liabilities .....				
Unrealized gain on foreign currency exchange .....	\$—	\$—	\$2,068	\$517
Reserve for losses on foreign investments..	52,940	13,235	52,948	13,237
Other .....	—	—	255	64
		<u>\$13,235</u>		<u>\$13,818</u>

The National Tax Administration of Taipei has reviewed the tax return of the Consolidated Company through 2000. There was no unpaid tax for 2000.



## 16. RELATED PARTY TRANSACTIONS

### (1) Names and relationships of related parties are as follows:

Name	Relationship with the Company
King Ability Enterprise Co., Ltd.	Invested company measured by equity method (changed to cost method on March, 2002)
Taiwan Imaging System Inc.	Invested company measured by equity method
Taiwan Daiohs Co., Ltd.	Invested company measured by equity method
Ability Enterprise (BVI) Co., Ltd.	One hundred percent-owned subsidiary
Avy Co., Ltd.	Invested company measured by equity method
Area East Technology Corp.	Invested company measured by equity method (changed to cost method on June, 2002)
Canon Marketing (Taiwan) Co., Ltd.	Invested company measured by equity method
Ability International Rent Co., Ltd.	Invested company measured by equity method
Ability International Investment Co., Ltd.	Invested company measured by equity method
Abico International Holding Co., Ltd.	Invested company measured by equity method
Canon Inc.	The Consolidated Company's major suppliers
Xander International Corp.	The Consolidated Company was one of the directors in this company (Relationship has extinguished after merger)
Taishiba International Co., Ltd.	The director is the chairman of the Consolidated Company
Yu-Ho Foods Co., Ltd.	The chairman is the supervisor of the Consolidated Company
Jia Nai Investment Corp.	The chairman's close relatives, etc. and the director's of the Consolidated Company
Uniwill Computer Corp.	The general manager is the vice-chairman of the Company
Viewquest Technologies International Inc.	Invested company measured by equity method
Viewquest Technologies (BVI) Inc.	Invested company measured by equity method
Others	Related parties defined by R.O.C. SFAS No.6

### (2) Significant transactions with related parties

#### 1) Sales and accounts receivable

The following is a summary of significant transactions with related parties as of December 31, 2002 and 2001:

	2002		2001	
	Amount	Percentage of revenues	Amount	Percentage of revenues
Yu-Ho Foods Co., Ltd. ....	\$786,362	18	\$487,986	11
Canon Marketing (Taiwan) Co., Ltd. ....	207,771	5	379,012	8
Area East Technology Corp. ....	1,007	—	31,054	1
King Ability Enterprise Co., Ltd. ....	23,009	—	15,301	—
Taiwan Imaging System Inc. ....	9,026	—	14,054	—
Avy Co., Ltd. ....	45,700	1	9,346	—
Xander International Corp. ....	—	—	4,568	—
Uniwill Computer Corp. ....	29,205	1	924	—
VQIT .....	71	—	34,549	1
VQT (BVI) .....	68	—	—	—
Others .....	414	—	835	—
Total .....	<u>\$1,102,633</u>	<u>25</u>	<u>\$977,629</u>	<u>21</u>

The collecting periods of receivables are with in one to six months for related parties and one to three months for non-related parties. The sales prices for Xander International Corp. are the same for non-related parties. The markup ratios to Taiwan Imaging System Inc., Canon Marketing (Taiwan) Co., Ltd, Yu-ho Foods Co., Ltd. are 1% to 5% of total cost. The sale price and the term of receivables with Uniwill Computer Corp., VQTI and VQT (BVI) were based on contracts. The prices for other related parties are 10% to 20% less than prices for non-related parties or the same as distributors.

Accounts receivable to related parties as of December 31, 2002 and 2001 were as follows:

	December 31, 2002		December 31, 2001	
	Amount	%	Amount	%
Notes receivable				
Yu-Ho Foods Co., Ltd.....	\$198,138	95	\$212,912	91
Canon Marketing (Taiwan) Co., Ltd.....	1,480	1	9,827	4
Avy Co., Ltd.....	7,450	4	9,414	4
King Ability Enterprise Co., Ltd. ....	534	—	1,158	1
Others.....	193	—	236	—
Total .....	<u>\$207,795</u>	<u>100</u>	<u>\$233,547</u>	<u>100</u>

	December 31, 2002		December 31, 2001	
	Amount	%	Amount	%
Accounts receivable				
Yu-Ho Foods Co., Ltd.....	\$62,893	43	\$46,462	34
Canon Marketing (Taiwan) Co., Ltd.....	14,186	10	68,557	50
Taiwan Imaging System Inc. ...	2,315	2	2,773	2
Avy Co., Ltd.....	47,913	33	1,098	1
King Ability Enterprise Co., Ltd. ....	5,389	4	829	—
VQTI.....	8,714	6	17,239	13
Uniwill Computer Corp.....	3,272	2	—	—
Others.....	521	—	573	—
Total .....	<u>\$145,203</u>	<u>100</u>	<u>\$137,531</u>	<u>100</u>

2) *Purchases and accounts payable*

Significant purchases with related parties for the year ended December 31, 2002 and 2001 were as follows:

	2002		2001	
	Amount	Percentage of purchases	Amount	Percentage of purchases
Canon Inc. ....	\$506,440	13	\$838,231	26
Ability International Rent Co., Ltd.....	29,896	—	—	—
Taishiba International Co., Ltd. ...	41,913	1	37,673	1
Canon Marketing (Taiwan) Co., Ltd.....	33,066	1	—	—
VQT (BVI) .....	1,586,167	41	962,640	30
Uniwill Computer Corp.....	128	—	—	—
Others.....	2,271	—	3,094	—
Total .....	<u>\$2,199,881</u>	<u>56</u>	<u>\$1,841,638</u>	<u>57</u>

The Consolidated Company's purchases from Canon Inc. has been paid by forward L/C or T/T within fifteen days. For Taishiba International Co., Ltd., it has been paid by T/E with maturity of fifty-five days or promissory note while other payables to related parties were within one to six months. The purchases price and the term of payables with VQT (BVI) and Uniwill Computer Corp. were based on contracts. Payables paid to suppliers were by promissory note within one to three months. There were no significant differences for purchase prices between related parties and other suppliers.

Purchases and accounts payable with related parties as of December 31, 2002 and 2001 were as follows:

	December 31, 2002		December 31, 2001	
	Amount	Percentage	Amount	Percentage
Accounts payable				
Canon Inc.....	\$35,288	9	\$86,308	27
Canon Marketing (Taiwan) Co., Ltd.....	17,175	5	—	—
Yu-Ho Foods Co., Ltd. ....	15,788	4	9,827	3
Ability International Rent Co., Ltd.....	14,874	4	—	—
Taishiba International Co., Ltd. ....	62	—	8,854	3
VQT (BVI) .....	294,652	78	205,610	66
Other .....	1,182	—	2,776	1
Total .....	<u>\$379,021</u>	<u>100</u>	<u>\$313,375</u>	<u>100</u>
Notes payable				
Canon Marketing (Taiwan) Co., Ltd.....	<u>\$—</u>	<u>—</u>	<u>\$1,757</u>	<u>18</u>

3) *Assets transaction*

- (1) Long-term investment purchased from the related parties for the year ended December 31, 2001 were as follows:

	2001	
	Content	Amount
Avy Co., Ltd.....	Purchase long-term investment - Ability International Rent Co., Ltd. - 100,000 shares	\$1,000
Abico International Holding Co., Ltd..	Purchase long-term investment - Canon Marketing (Taiwan) Co., Ltd - 2,047,000 shares	40,565
		<u>\$41,565</u>

- (2) Long-term investment and fixed assets sold to the related parties for the year ended December 31, 2002 and 2001, were as follows:

	Name	2002		
		Book value	Sales price	Profit
VQT (BVI)	Fixed assets	<u>\$56,957</u>	<u>\$59,504</u>	<u>\$2,547</u>

<b>2001</b>				
	<b>Name</b>	<b>Book value</b>	<b>Sales price</b>	<b>Profit</b>
Jia Nai Investment Corp.	Purchase of long-term investment - Maxedge Electronics Corp.	\$14,990	\$14,990	\$—
Ability International Investment Co., Ltd.	Purchase of long-term investment - Ability International Rent Co., Ltd.	10	10	—
VQT (BVI)	Fixed assets	23,538	27,413	3,875
		<u>\$38,538</u>	<u>\$42,413</u>	<u>\$3,875</u>

4) *Leases*

- (1) The Consolidated Company leased the building and warehouse from related parties. The rent expenses were as follows:

	<b>2002</b>		<b>2001</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Abico International Holding Co., Ltd.....	\$7,229	62	\$7,211	57
Avy Co., Ltd.....	—	—	515	4
	<u>\$7,229</u>	<u>62</u>	<u>\$7,726</u>	<u>61</u>

- (2) The Consolidated Company leased the building to related parties. The rent revenues were as follows:

	<b>2002</b>		<b>2001</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Canon Marketing (Taiwan) Co., Ltd. ....	\$5,132	16	\$5,388	15
Taiwan Imaging System Inc. ....	590	2	904	3
Taishiba International Co., Ltd.....	1,315	4	832	2
King Ability Enterprise Co., Ltd. ....	516	1	516	1
Other .....	48	—	65	—
	<u>\$7,601</u>	<u>23</u>	<u>\$7,705</u>	<u>21</u>

5) *Accounts receivable from related parties (Other financial assets-current)*

- a. The Consolidated Company loans to related parties for the year ended December 31, 2002 were as follows:

<b>2002</b>					
	<b>Highest balance for the year ended December 31, 2002</b>	<b>Balance on December 31, 2002</b>	<b>Interest Revenue</b>	<b>Interest Rate (%)</b>	<b>Collateral Offer</b>
Yu-Ho Foods Co., Ltd.	\$32,700	\$15,000	\$392	5.15~5.35	Promissory note NT\$319,500 thousand
Avy Co., Ltd.	84,000	—	1,057	2.58~4.89	Promissory note NT\$84,000 thousand (been returned)
Taishiba International Co., Ltd.	35,000	28,800	508	2.70~3.28	Promissory note NT\$50,000 thousand
King Ability Enterprise Co., Ltd.	1,880	930	51	4.375~4.45	Promissory note NT\$2,000 thousand
		<u>\$44,730</u>	<u>\$2,008</u>		

- b. Other receivable incurred from significant transactions with related parties for the year ended December 31, 2002 were as follows:

	<b>2001</b>
Uniwill Computer Corp. ....	<u>\$6,603</u>

6) *Other revenues*

- a. The Consolidated Company received subsidy from Canon Inc. for the year ended December 31, 2002 and 2001 were as follow:

	<b>2002</b>	<b>2001</b>
EMC and Maintenance Subsidy.....	\$—	\$31,275
Advertisement Subsidy.....	1,067	13,083
Donation Subsidy.....	—	7,888
Research and Development Subsidy .....	—	1,308
	<u>\$1,067</u>	<u>\$53,554</u>

All subsidies are listed as other revenue but advertisement expense reduced NT\$1,067 thousand and NT\$7,133 thousand, cost of goods sold reduced NT\$0 and NT\$27,780 thousand, donation expense reduced NT\$0 and NT\$7,888 thousand for the year ended December 31, 2002 and 2001, respectively. Accounts receivable balance were NT\$0 and NT\$16,942 thousand for the year ended December 31, 2002 and 2001, respectively.

- b. Miscellaneous revenue from related parties as of December 31, 2002 and 2001 were as follows:

	<u>2001</u>
VQT (BVI).....	\$4,696
Uniwill Computer Corp. ....	<u>5,319</u>
	<u>\$10,015</u>

7) *Endorsement*

- (1) The related parties providing endorsement of loan or notes for the Consolidated Company as of December 31, 2002 and 2001 were as follows:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Abico International Holding Co., Ltd. ....	<u>\$190,300</u>	<u>\$190,300</u>

- (2) The Consolidated Company providing endorsements of loans or notes for the related parties as of December 31, 2002 and 2001 were as follows:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Ability Enterprise (BVI) Co., Ltd. ....	\$13,956	\$—
VQT (BVI) .....	<u>—</u>	<u>395,328</u>
	<u>\$13,956</u>	<u>\$395,328</u>

## 17. PLEDGED ASSETS

The Consolidated Company provides rental assets, fixed assets and certificate of deposit as collateral for the bank loans or issuance of commercial paper. As of December 31, 2002 and 2001, the book values of pledged assets were as follows:

<u>Collateral</u>	<u>Pledged to secure</u>	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Rental Assets:			
Land	Long-term loans/issuance of commercial paper	\$141,509	\$221,353
Building	Long-term loans/issuance of commercial paper	224,433	337,478
		<u>365,942</u>	<u>558,831</u>
Fixed Assets:			
Land	Long-term loans/issuance of commercial paper	268,338	188,494
Building	Long-term loans/issuance of commercial paper	343,041	241,851
Machinery and equipments	Long-term loans/issuance of commercial paper	—	34,926
		<u>611,379</u>	<u>465,271</u>
Time Deposit (recorded as other current assets)	Short-term loans, letter of credits and issuance of commercial paper	1,000	8,000
Time Deposit (recorded as other assets - non-current)	Bonds payable and posted to the court as collateral for lawsuit	28,017	33,000
Total		<u>\$1,006,338</u>	<u>\$1,065,102</u>

## 18. COMMITMENTS AND CONTINGENCIES

- (1) As of December 31, 2002 and 2001, in order to purchase inventories and equipments, etc., the unused letters of credit of the Consolidated Company amounted to NT\$101,358 thousand and NT\$60,181 thousand respectively.
- (2) The Consolidated Company endorses for the related companies and business partners were NT\$13,956 thousand and NT\$0 as of December 31, 2002 and 2001.
- (3) As of December 31, 2002 and 2001, the future lease payment of building were as follows:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
2002.1.1~2002.12.31 .....	\$—	\$7,146
2003.1.1~2003.12.31 .....	5,362	1,245
2004.1.1~2004.12.31 .....	1,266	144
2005.1.1~2005.12.31 .....	667	144
2006.1.1~2006.12.31 .....	667	144
2007.1.1~2007.12.31 .....	595	—
	<u>\$8,557</u>	<u>\$8,823</u>

(4) As of December 31, 2002 and 2001, fixed assets rented out were as follows:

<u>Leasee</u>	<u>Lease Period</u>	<u>Rental Calculation</u>	<u>Rent revenues for the year ended December 31, 2002</u>	<u>Rent revenues for the year ended December 31, 2001</u>
Starbucks Coffee Company	2000.1.8~2010.1.7 (1999.12.1~2009.11.30 originally)	Monthly rent has been changed from NT\$340 thousand (including tax) to NT\$290 thousand since August, 2001. The rent is collected on the first day of every month and increase three percent every year.	\$3,317	\$3,717
Veri Fone Systems Pte. Ltd. Taiwan Branch	2000.9.1~2003.8.31	Monthly rent is NT\$824 thousand (including tax), payable on the first day of every month	9,414	8,629
Taiwan Business Bank	2001.6.20~2006.6.19	Monthly rental is NT\$984 thousand (including tax), paid semiannually within 7 working days	10,435	5,939

The detail schedule of yearly rent receivable in ten years were as follows:

<u>Period</u>	<u>Amount</u>
2003.1.1~2003.12.31.....	\$19,710
2004.1.1~2004.12.31.....	13,503
2005.1.1~2005.12.31.....	13,600
2006.1.1~2006.12.31.....	8,613
2007.1.1~2007.12.31.....	3,657
2008.1.1~2010.1.7 .....	11,491
	(Present value of NT\$8,167 with 5% discount rate)
	<u><u>\$70,574</u></u>

(5) The litigation case as of December 31, 2002 was as follow:

Wei Tai Kuang Co., Ltd. brought a civil claim against the Company on February 27, 1997. Wei Tai Kuang Co., Ltd. claimed to have made an agreement with the Company since June 1994. According to the agreement, the Company was obliged to recall its laser printers and electric components, originally sold to Wei Tai Kuang Co., Ltd. The Company, however, did not recall and pay back. As a result, Wei Tai Kuang Co., Ltd. filed a lawsuit for NT\$5,261 thousand and the related interests. The Court of Appeal made the second instance on April 29, 1999 and decided to reject the application. Wei Tai Kuang Co., Ltd. appealed, then The Supreme Court dismissed the judgment of The Court of Appeal on April 29, 1999. The Company appealed on again on January 28, 2000. On May 18, 2001, The Supreme Court dismissed the original judgment and sent it back to the second instance. The Court of Appeal dismissed the original judgment made on December 26, 2001, and Wei Tai Kuang Co., Ltd.'s first instance lawsuit and the application for provisional of execution were both rejected. Wei Tai Kuang Co., Ltd. was dissatisfied with the decision of the court of appeal and lodge an application for leave to appeal to The Supreme Court.

If the result is unfavorable to the Company, the maximum loss would be the amount referred above.

- (6) As of December 31, 2002 and 2001, the total future minimum rent under the operating lease agreement for the Consolidated Company's office building were NT\$29,924 thousand and NT\$68,586 thousand respectively.
- (7) The Company had signed the contracts for purchasing equipments and future payment amounted to NT\$7,886 thousand.

## 19. SUBSEQUENT EVENTS

For the purposes of integrating and enhancing business performance and competitiveness, the Ability merged with Viewquest Technologies Inc. on January 1, 2003. The conversion ratio for Viewquest Technologies Inc. to the Ability was 1.11 to 1. The increased capital of the Company was NT\$ 777,865 thousand.

## 20. FINANCIAL INSTRUMENTS

### (1) Derivatives

#### (a) Notional amount and credit risk amount

As of December 31, 2002, the Consolidated Company had cleared its derivatives accounts. All transaction revenues and losses related were listed as non-operating revenues or losses.

The notional amount, book value and credit risk amount as of December 31, 2001 were as follows:

<u>Category</u>	<b>December 31, 2002</b>		
	<b>Notional amount</b>	<b>Book value amount</b>	<b>Credit risk amount</b>
Forward foreign currency contracts:			
Sales in advance.....	USD4,500	\$—	Note 1
Asset swap for trading purpose .....	USD500	—	Note 2
Sale of stock put options for trading purpose ....	USD100	—	Note 3
<u>Category</u>	<b>December 31, 2001</b>		
	<b>Notional amount</b>	<b>Book value amount</b>	<b>Credit risk amount</b>
Forward currency option contracts:			
Call .....	USD2,000	\$—	Note 1
Put .....	USD23,500	—	Note 2
Forward foreign currency contracts:			
Sales in advance.....	USD1,000	—	Note 1
Purchases in advance.....	USD1,200	—	Note 1
Interest rate swap.....	NTD200,000	—	Note 1

*Note 1:* The credit risk amount, accounting for potential market risk and credit risk, and measured at fair market value, represents the possibility that an accounting loss to the Consolidated Company may occur as a direct result of the counterparts' failure to meet their contractual obligations. On account of well-known financial institutes with excellent credit standing as its counterparts, the Company does not anticipate any significant credit risk.

*Note 2:* The Consolidated Company is the seller of options, therefore, the Consolidated Company does not anticipate any credit risk.

*Note 3:* The Consolidated Company had paid the contracting price, the credit risk is the contracting prices.

- (b) As of December 31, 2002 and 2001, the contracts amounted to other receivables (payables) - forward contract and interests were as follows:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Forward proceeds receivables.....	\$156,669	\$—
Forward proceeds receivables - Yen .....	—	32,924
Forward exchange settlement payables - USD .....	(156,993)	(35,000)
Forward exchange settlement payables - NTD .....	—	(40,207)
Forward proceeds receivables - USD.....	—	41,973
	(324)	(310)
Less: unamortized discount .....	<u>324</u>	<u>135</u>
Recorded as other payables.....	<u>\$—</u>	<u>\$(175)</u>
Fair value .....	<u>\$(96)</u>	<u>\$(1,804)</u>
Interest receivables .....		\$648
Interest payables .....		<u>(569)</u>
Recorded as other receivables .....		<u>\$79</u>

(c) *Market price risk*

- a) Forward currency option contracts, forward foreign currency contracts, interest rate swap and other composite financial instruments:

The Consolidated Company engages in derivative transactions for hedging purposes. The exchange rate risk and interest rate risk exposure derived from future foreign currency fluctuations and interest rate changes are expected to be offset by the effects of such changes on hedged transactions. The possible gain or loss from non-hedging transactions is endurable and the operating foreign assets from the Consolidated Company can cover the cash outflow. Therefore the market price risk is limited.

- b) Sale of stock put options for trading purpose:

The Consolidated Company engaged in sale of put options for trading purposes. The Consolidated Company assessed the contracts periodically, set good selling prices and the contract prices are paid in advance. Therefore, market price risk is under control and no cash flow risk at exercise date.

- c) Asset swap for trading purpose:

The Consolidated Company engaged in asset swap for trading purpose. The swap asset is fixed rate bonds and contract price has been paid on contract date. Therefore, there are no market price risk and cash flow risk.

- (d) Forward currency contracts:

The forward currency contracts in 2002 and 2001 were estimated to have cash inflow of NT\$156,669, cash outflow of US\$4,500 thousand on February 19, 2003 and Japanese Yen 124,430 thousand cash outflow, US\$1,000 thousand cash inflow on January 15, 2002, respectively.

- (e) Forward currency options:

Whether the option contracts would be settled depends on the variability of exchange rate upon the counterparties. If the Consolidated Company settle the purchases of option contracts, the cash inflow would be NT\$66,277 and the related cash outflow would be US\$2,000 thousand in 2001. If the counter parties settle the sales of option contracts, the cash inflow would be NT\$831,067 and the related cash outflow would be US\$23,500 thousand in 2001.

The Consolidated Company had cleared all options as of December 31, 2002. Therefore there was no future cash needs or uncertainty.

(f) Interest rate swap:

The Consolidated Company is engaged in an interest rate swap contract with banks from November 8, 2001 to November 12, 2002. The Consolidated Company exchanges the semiannually paid interest of fixed interest rate, 2.12%, with interest of floating rate.

(g) In 2002, and 2001, the realized net loss recognized from the derivative transactions above was NT\$2,624 and NT\$4,354, respectively and the interest revenue from the derivative interest rate transactions were NT\$474 and NT\$79, respectively.

(2) Fair market value and book value of financial instruments determined as of December 31, 2002 and 2001 are as follows:

<b>Non-derivative financial instruments</b>	<b>December 31, 2002</b>		<b>December 31, 2001</b>	
	<b>Book Value</b>	<b>Fair market value</b>	<b>Book Value</b>	<b>Fair market value</b>
<b>Assets:</b>				
Cash and cash equivalents .....	\$1,190,938	\$1,190,938	\$542,477	\$542,477
Short-term investments .....	34,869	37,501	1,079,989	1,104,501
Notes receivable .....	43,412	43,412	55,998	55,998
Notes receivable - related parties .....	205,717	205,717	231,212	231,212
Accounts receivable .....	551,960	551,960	466,387	466,387
Accounts receivable - related parties .....	144,607	144,607	137,272	137,272
Other current assets .....	76,241	76,241	60,539	60,539
Long-term investments .....	1,772,227	1,743,947	1,453,527	1,388,114
Other non-current assets .....	56,465	56,465	65,844	65,844
<b>Liabilities:</b>				
Short-term borrowings .....	520,801	520,801	579,893	579,893
Short-term notes and bills payable .....	227,195	227,195	219,353	219,353
Notes payable .....	39,125	39,125	9,996	9,996
Accounts payable .....	226,069	226,069	166,531	166,531
Accounts payable - related parties .....	379,021	379,021	313,375	313,375
Accrued expenses .....	138,578	138,578	159,806	159,806
Other current liabilities .....	5,089	5,089	30,090	30,090
Bonds payable .....	300,000	300,000	300,000	300,000
Long-term borrowings .....	—	—	24,656	24,656
Other liabilities .....	26,168	26,168	28,707	28,707

The methods and assumptions for estimating fair values of non-derivative financial instruments are as follows:

- Short-term financial instruments, such as cash and cash equivalents, notes and accounts receivable, other current assets, notes and accounts payable, short-term borrowings, commercial papers payable, accrued expenses, and other current liabilities, are stated at book value because of the short maturity of these instruments.
- Short-term investments are valued at market price. If the information was not readily available, the Company would evaluate based on other financial information.
- As for long-term investments, the fair market value was based on the published market information; if the information was not readily available, the Company would estimate the fair market value based on financial or other information.
- The fair market values of statutory deposits and guarantee deposit were estimated by discounting expected cash flow. The discount rate is based on the current loan rate of the market.
- The long-term loan rate is similar with current loan rate of the market. Therefore the discounted future cash flows (ie, fair value) of long-term borrowings is similar to its book value.

- (3) Non-derivative financial instruments with off-balance sheet market price risk were as follows:

*Off-balance sheet*

<u>Financial instruments</u>	<u>December 31, 2002</u>		<u>December 31, 2001</u>	
	<u>Book Value</u>	<u>Fair market value</u>	<u>Book Value</u>	<u>Fair market value</u>
Letter of credit .....	\$—	\$101,358	\$—	\$60,181
Endorsements.....	—	13,956	—	—

- (4) Non-derivative financial instruments with concentration of credit risk were as follows:

As of December 31, 2002 and 2001, the balance exceeds 5% of the balance of notes receivable amounted to NT\$203,092 thousand and NT\$212,912 thousand, or 80.71% and 73.39% respectively.

As of December 31, 2002 and 2001, the balance exceeds 5% of the balance of notes receivable amounted to NT\$456,487 thousand and NT\$454,886 thousand, or 63.84% and 74.79% respectively.

## 21. SIGNIFICANT AGENCY CONTRACTS

- (1) The Consolidated Company signed the contract to act as an agent for CANON HONG KONG CO.,LTD on March 31, 2003. The products consist of copy machine and facsimile machine. There are restriction terms including not to compete and sales area limit.
- (2) The Consolidated Company signed the contract to act as an agent for Canon Inc.'s microcopy system from February 17, 2002 to February 16, 2003. The contract renewed every year automatically if no disagreement. There is not to compete covenant in the contract.
- (3) The Consolidated Company signed the contract to act as Canon Singapore Pte. Ltd.'s agent in the Vietnam area from January 1, 2003 to December 31, 2003. Without the formal termination notices, the contract renewed every year automatically. There are restriction terms including not to compete and sales area limit.

## 22. ADDITIONAL DISCLOSURE ITEMS

- (1) **Information related to significant transactions:**

<u>Contents</u>	<u>Illustration</u>
Loans to others.....	Chart 1
Endorsement for others.....	Chart 2
Securities held as of December 31, 2002 .....	Chart 3
Accumulated stock purchases or sales for the same stock of NT\$100 million or more than 20% of the Company's paid-in capital.....	Chart 4
Real estate purchase reaching NT\$100 million or more than 20% of the Company's paid-in capital.....	N/A
Real estate disposals of NT\$100 million or more than 20% of the Company's capital.....	N/A
Purchases and sales transactions with the related parties of NT\$100 million or more than 20% of the Company's paid-in capital.....	Chart 5
Receivables from related parties of NT\$100 million or more than 20% of the Company's paid-in capital.....	Chart 6
Financial derivatives .....	See Note 20

Chart 1 Loans to others in 2002 were as follows:

No.	Loan provider	Loan borrower	Trading entry	Largest amount in this period	Balance	Interest rate %	Character	Business dealings amount	Reason	Guarantee		Upper limit on loan to individual company (see note)
										Allowance for bad debt	Value	
1	Ability Enterprise Co., Ltd.	Avy Co., Ltd.	Receivables from the related parties (other current asset)	\$84,000	\$—	2.58~4.89	Short-term loan	Sales \$45,700	—	Promissory note (return at March 31, 2002)	\$84,000	\$124,366 40% of Company's book value \$1,091,433
2	Ability Enterprise Co., Ltd.	Taishiba International Co., Ltd.	Receivables from the related parties (other current asset)	35,000	28,800	2.70~3.28	Trading	Purchase \$41,913	—	Promissory note	50,000	156,365
3	Ability Enterprise Co., Ltd.	King Ability Enterprise Co., Ltd	Receivables from the related parties (other current asset)	1,880	930	4.375~4.45	Trading	Sales \$23,009	—	Promissory note	2,000	9,204
4	Ability Enterprise Co., Ltd.	Yu-Ho Foods Co., Ltd.	Receivables from the related parties (other current asset))	32,700	15,000	5.15~5.35	Trading	Sales \$786,362	—	Promissory note	319,500	314,545

*Note:* The Company's guidelines on loans to others: The upper limit of loans to every individual is 40% of the Company's net value or business dealings amount (purchase or sales which is higher). Total amount of the Company's loans to others should be under 40% of the Company's net value.

Chart 2 Endorsements for others in 2002 were as follows:

No.	Guarantee issuer	Guaranteed company		Limit of endorsements to single company (see note)	The highest amount of endorsements this period	Balance of endorsements	Amount of endorsements assured by properties	Percentage of cumulated endorsements over net value in previous period	The upper limit on endorsements (see note 2)
		Company's name	Relationship						
0	Ability Enterprise Co., Ltd.	Ability Enterprise (BVI) Co., Ltd	2	\$2,728,583	\$86,543	\$13,956	\$—	0.51%	\$5,457,166
0	Viewquest Technology Inc.	Viewquest Technology (BVI) Inc.	2	475,188	231,125	—	—	—	1,187,971

*Note 1:* The Company's guidelines on endorsements to others: The upper limit of endorsements to every individual is 100% of the Company's net value. Total amount of the Company's endorsements to others should be under 200% of the Company's net value.

*Note 2:* Relationship between the financial guarantors issuer and the guaranteed company is as follows:

1. business partners
2. directly held 50% or more of the subsidiary
3. more than 50% of shareholder's equity being held by the parent company and the subsidiary companies
4. the parent company that holds other company's common shares over 50% directly or indirectly via the subsidiary companies
5. the affiliated companies mutually guaranteed due to the construction needs
6. companies guaranteed by shareholders according to percentage of equity held.

Chart 3 Securities held as of December 31, 2002 (number of shares and amounts are in thousands) were as follows:

							December 31, 2002		
Holding company	Security category and name	Relationship with the issuer	Recording entry	Shares	Cost	%	Fair market value	Note	
Ability Enterprise Co., Ltd.	Asia Optical Co., Inc.	—	Short-term investments	37,620	\$4,149	—	\$6,774		
Ability Enterprise Co., Ltd.	National Investment Trust Co., Ltd. Bond Fund	—	Short-term investments	64,575	10,000	—	10,007		
Ability Enterprise Co., Ltd.	Ability International Investment Co., Ltd.	Invested company measured by equity method	Long-term investments	19,899,400	213,581	99.99	174,031		
Ability Enterprise Co., Ltd.	Taiwan Imaging Systems Inc.	Invested company measured by equity method	Long-term investments	1,865,000	23,734	93.25	23,745		
Ability Enterprise Co., Ltd.	King Ability Enterprise Co., Ltd.	—	Long-term investments	234	2,400	19.50	2,542		
Ability Enterprise Co., Ltd.	Avy Co., Ltd.	Invested company measured by equity method	Long-term investments	16,566,335	233,054	63.72	239,381		
Ability Enterprise Co., Ltd.	Ability International Investment Co., Ltd.	Invested company measured by equity method	Long-term investments	899,000	10,204	44.95	10,286		
Ability Enterprise Co., Ltd.	Canon Marketing (Taiwan) Co., Ltd.	Invested company measured by equity method	Long-term investments	4,104,693	35,057	48.87	25,221		
Ability Enterprise Co., Ltd.	Abico Automation Co., Ltd.	Invested company measured by equity method	Long-term investments	480,000	2,342	48.00	1,902		
Ability Enterprise Co., Ltd.	Abiconet International Co., Ltd.	Invested company measured by equity method	Long-term investments	2,000,000	20,348	40.00	20,348		
Ability Enterprise Co., Ltd.	Taiwan Daiohs Co., Ltd.	Invested company measured by equity method	Long-term investments	1,395,000	6,756	39.86	5,607		
Ability Enterprise Co., Ltd.	Area East Technology Corp.	—	Long-term investments	1,000,000	10,075	15.36	10,075		
Ability Enterprise Co., Ltd.	E-Ten Corp	Ability Enterprise is one of the board directors in this Company	Long-term investments	5,100,237	67,981	3.40	62,529		

**December 31, 2002**

<b>Holding company</b>	<b>Security category and name</b>	<b>Relationship with the issuer</b>	<b>Recording entry</b>	<b>Shares</b>	<b>Cost</b>	<b>%</b>	<b>Fair market value</b>	<b>Note</b>
Ability Enterprise Co., Ltd.	Power World Fund, Inc.	—	Long-term investments	2,500,000	25,000	2.84	23,370	
Ability Enterprise Co., Ltd.	Jung Shing Wire Co., Ltd.	—	Long-term investments	367,558	2,781	0.34	7,550	
Ability Enterprise Co., Ltd.	Datd Image Corporation	—	Long-term investments	500,000	7,500	1.67	6,342	
Ability Enterprise Co., Ltd.	Shin Kong Financial Holding Co., Ltd.	—	Long-term investments	559,701	10,565	0.02	4,937	
Ability Enterprise Co., Ltd.	Taiwan Ohara Optical Co., Ltd.	—	Long-term investments	280,000	\$14,000	7.00	\$29,442	
Ability Enterprise Co., Ltd.	Taiwan Video & Monitor Corp.	—	Long-term investments	1,282,000	15,063	1.28	16,336	
Ability Enterprise Co., Ltd.	Minton Optic Industry Co., Ltd.	—	Long-term investments	2,622,000	68,400	4.91	39,317	
Ability Enterprise Co., Ltd.	CC&C Technologies, Inc.	—	Long-term investments	500,000	7,200	1.00	4,652	
Ability Enterprise Co., Ltd.	Vivavr Technology Co., Ltd.	—	Long-term investments	291,000	3,546	2.08	2,257	
Ability Enterprise Co., Ltd.	Wan Hai Lines Ltd.	—	Long-term investments	331,161	5,464	0.03	8,786	
Ability Enterprise Co., Ltd.	General Plastic Industrial Co., Ltd.	—	Long-term investments	400,000	22,400	0.66	16,860	
Ability Enterprise Co., Ltd.	Breeze Digital Technology Co., Ltd.	—	Long-term investments	490,000	4,900	9.80	2,224	
Ability Enterprise Co., Ltd.	Presto Computer Turn-up Network Inc.	—	Long-term investments	700,000	3,663	9.33	2,353	
Ability Enterprise Co., Ltd.	Featron Computer Co., Ltd.	—	Long-term investments	2,089,700	—	2.09	—	
Ability Enterprise Co., Ltd.	Cathay Financial Holding Co., Ltd.	—	Long-term investments	183,333	11,044	—	6,604	
Ability Enterprise Co., Ltd.	Xander International Corp.	—	Long-term investments	260,800	8,202	0.38	4,425	
Ability Enterprise Co., Ltd.	Chiabon Venture Capital Co., Ltd.	—	Long-term investments	10,000,000	100,000	10.00	99,438	
Viewquest Technologies Inc.	Promos UCB	—	Short-term investments	—	17,375	—	17,375	
Viewquest Technologies Inc.	UMC Notes	—	Short-term investments	—	3,345	—	3,345	
Viewquest Technologies Inc.	Viewquest Technologies International Inc.	Subsidiary	Long-term investments	6,000,000	(3,347)	100.00	(3,747)	
Viewquest Technologies Inc.	Viewquest International (BVI) Inc.	Subsidiary	Long-term investments	6,630,000	132,421	100.00	132,421	
Viewquest Technologies Inc.	Elite Advanced Laser Corporation	—	Long-term investments	1,500,000	15,000	3.00	15,000	

Chart 4 Accumulated stock purchases or sales for the same stock of NT\$ 100 million or more than 20% of the Company's paid-in capital as of December 31, 2002

Purchase (Sales) company	Securities name	Recording entry	Trading party	Relation-ship	January, 1, 2002			Purchase			December 31, 2002					
					Share	Cost	Share	Share	Cost	Share	Price	Book value	Gain or loss	Share	Cost	
Ability Enterprise Co., Ltd.	Avy Co., Ltd.	Long-term investments	Increase capital by cash	—	9,000,000	\$175,422	7,566,335 (note 1)	\$57,632 (note 2)	—	—	—	—	—	—	16,566,335	\$233,054
Ability Enterprise Co., Ltd.	Chiabon Venture Capital Co., Ltd.	Long-term investments	Original stock issuance	—	—	—	10,000,000	100,000	—	—	—	—	—	—	10,000,000	100,000
Viewquest Technologies Inc.	Central Diamond Bond Fund	Short-term investments	—	—	—	—	9,703,320.72	104,000	9,703,320.72	104,373	104,000	373	—	—	—	—
Viewquest Technologies Inc.	Jih Sun Bond Fund	Short-term investments	—	—	7,493,432.92	92,230	16,286,499.46	205,300	23,779,932.38	300,204	297,530	2,674	—	—	—	—
Viewquest Technologies Inc.	Jih Sun Excellent Bond Fund	Short-term investments	—	—	—	—	13,399,108.06	136,214	13,399,108.06	136,798	136,214	584	—	—	—	—
Viewquest Technologies Inc.	Tai-Yu Long River Bond Fund	Short-term investments	—	—	3,350,097	36,000	21,432,003.40	234,000	24,782,100.20	272,226	270,000	2,226	—	—	—	—
Viewquest Technologies Inc.	Shinkong NT\$ High Yield Fund	Short-term investments	—	—	—	—	7,560,674.67	116,000	7,560,674.67	116,204	116,000	204	—	—	—	—
Viewquest Technologies Inc.	Phoenix Bond Fund	Short-term investments	—	—	—	—	11,271,158.50	158,000	11,271,158.50	158,821	158,000	821	—	—	—	—
Viewquest Technologies Inc.	Twund Solomon Bond Fund	Short-term investments	—	—	13,792,199	142,000	16,086,951.93	173,000	16,086,951.35	321,735	315,000	6,735	—	—	—	—
Viewquest Technologies Inc.	Taiwan International Securities Co., Ltd	Short-term investments	—	—	11,980,946.70	154,260	9,563,595.09	126,000	9,563,595.79	283,911	280,260	3,651	—	—	—	—
Viewquest Technologies Inc.	Home Run Bond Fund	Short-term investments	—	—	3,736,333	47,500	5,637,521.30	73,000	5,637,521.70	121,347	120,500	847	—	—	—	—
Viewquest Technologies Inc.	Kgi Victory Bond Fund	Short-term investments	—	—	—	—	19,711,222.85	197,800	19,711,222.85	198,408	197,800	608	—	—	—	—
Viewquest Technologies Inc.	Fubon Bond Fund	Short-term investments	—	—	—	—	15,082,772.41	166,000	15,082,772.41	166,624	166,000	624	—	—	—	—

Note 1: including stock dividend 945,000 share from invested company

Note 2: including investment loss NT\$65,230 thousand measured by equity method

Chart 5 Purchases and sales with the related parties of NT\$100 million or more than 20% of the Company's paid-in capital as December 31, 2002

Purchaser (Supplier)	Trading party	Relationship	Trading situation			Reason			Account receivable (Payable)		
			Purchase (Sales) Amount	Percentage of related account %	Period	Unit price	Period	Balance	Percentage of related account %	Note	
Ability Enterprise Co., Ltd.	Canon Marketing (Taiwan) Co., Ltd.	Invested company measured by equity method	Sales \$207,771	10	One to Six months	\$—	—	Notes receivable \$1,480 Accounts receivable \$14,186	1	—	
Ability Enterprise Co., Ltd.	Yu-Ho Foods Co., Ltd.	Chairman is the Company's supervisor	Sales 786,362	38	One to Six months	—	—	Notes receivable \$198,138 Accounts receivable \$62,893 Accounts payable \$35,288	79	—	
Ability Enterprise Co., Ltd.	Canon Inc.	That company is the major supply of ours	Purchase 506,440	26	Long-term letter or fifteen days in the end of month T/T	—	—	Accounts payable	13	—	
Viewquest Technologies Inc.	Viewquest Technologies Inc.	Subsidiary	Purchase 1,586,167	80	Note	—	—	Accounts payable \$294,652	86	—	

Note: Based on the terms of agreement.

Chart 6 Receivables from the related parties reaching NT\$100 million or more than 20% of the Company's capital as of December 31, 2002

Company	Trading party	Relationship	Receivable from the related parties	Turnover	Receivables due from the related parties		Allowance for bad debt
					Amount	Process	
Ability Enterprise Co., Ltd.	Yu-Ho Foods Co., Ltd.	That company's board chairman is the supervisor of Ability	\$261,031	\$3.02	—	\$67,392	\$2,296

(2) Information on the Company's invested companies:

Contents	Illustration
Invested Companies' profiles.....	Chart 1
Loan to others.....	Chart 2
Endorsements to others.....	Chart 3
Securities held on March 31, 2002 .....	Chart 4
Accumulated stock purchases or sales for the same stock reaching NT\$100 million or more than 20% of paid-in capital.....	Chart 5
The amount of purchasing real assets reaching NT\$100 million or more than 20% of paid-in capital .....	N/A
The amount of selling real assets reaching NT\$100 million or more than 20% of paid-in capital.....	N/A
Purchases and sales with the related parties reaching NT\$100 million or more than 20% of paid-in capital.....	Chart 6
Accounts receivable with related parties reaching NT\$100 million or more than 20% of paid-in capital.....	N/A
Financial derivatives .....	Chart 7

Chart 1 Invested companies' profiles as of December 31, 2002 were as follows:

Investor	Invested company	Invested company's address	Business	Original investment amount		December 31, 2002		Invested company's year 2002 gain/loss recognition	Note		
				December 31, 2002	December 31, 2001	Shares	Percentage (%)			Book value	Invested company's year 2002 income
Ability Enterprise Co., Ltd.	Ability Enterprise (BVI) Co., Ltd.	3rd Floor, Omar Hodge Building, Wickhams Cay I, P O Box 362, Road Town, Tortola British Virgin Islands	A holding company	\$247,504	\$247,504	—	100.00	\$551,136	\$146,894	\$146,894	Subsidiary company
Ability Enterprise Co., Ltd.	Ability International Investment Co., Ltd.	12th Fl., No.147 Fu-Hsing N.RD. Taipei, Taiwan, R.O.C.	General investment	198,994	198,994	19,899,400	99.99	213,581	(4,851)	(4,851)	Subsidiary company
Ability Enterprise Co., Ltd.	Taiwan Imaging Systems Inc.	10th Fl., No.147 Fu-Hsing N.RD. Taipei, Taiwan, R.O.C.	Disk products	17,850	17,850	1,865,000	93.25	23,734	2,516	2,307	Subsidiary company

Investor	Invested company	Invested company's address	Business	Original investment amount		December 31, 2002		Invested company's year 2002 income	Invested company's year 2002 gain/loss recognition	Note
				December 31, 2002	December 31, 2001	Shares	Percentage (%)			
				Book value	Book value	Book value	Book value			
Ability Enterprise Co., Ltd.	King Ability Enterprise Co., Ltd.	No. 143, Section 2, Jian Kang Road, Taiwan City.	Rent or sell machine	2,471	8,960	234	19.50	2,400	(769)	(342) Note 2
Ability Enterprise Co., Ltd.	Avy Co., Ltd.	No.56, Sec. 2, Ya-Tarn RD., Tantz, Taichung Hsien, Taiwan, R.O.C.	Electron optics	287,591	155,164	16,566,335	63.72	233,054	(117,021)	(65,230) Subsidiary company
Ability Enterprise Co., Ltd.	Ability International Rent Co., Ltd.	6th Fl., No.147 Fu-Hsing N.RD. Taipei, Taiwan, R.O.C.	Lease	8,990	8,990	899,000	44.95	10,204	113	85 Subsidiary company
Ability Enterprise Co., Ltd.	Canon Marketing (Taiwan) Co., Ltd.	12th Fl., No.147 Fu-Hsing N.RD. Taipei, Taiwan, R.O.C.	Sale of copy machines	61,145	61,145	4,104,693	48.87	35,057	(59,301)	(26,088) Note 1
Ability Enterprise Co., Ltd.	Abico Automation Co., Ltd.	12th Fl., No.101 Fu-Hsing N.RD. Taipei, Taiwan, R.O.C.	Automated system	\$2,880	\$2,880	480,000	48.00	\$2,342	\$239	\$(28) Note 1
Ability Enterprise Co., Ltd.	Abiconet International Co., Ltd.	7th Fl., No.178 Sec. Nan King E.RD. Taipei, Taiwan, R.O.C.	Wholesale of machinery equipments	20,000	20,000	2,000,000	40.00	20,348	4,829	1,931 Note 1
Ability Enterprise Co., Ltd.	Taiwan Daiohs Co., Ltd.	2nd Fl., No.15 Lane 101, Sec.2, Xinsheng N.RD. Taipei, Taiwan, R.O.C.	Retail of foods and beverages	13,950	13,950	1,395,000	39.86	6,756	(5,170)	\$(2,401) Note 1
Ability Enterprise Co., Ltd.	Guangdong United Optical instrument Co., Ltd	Xiao-Bian the Second Industry Zone, Chang-An Town, Dongguan City, Guangdong Province China.	Production, design and sale of camera	28,097	28,097	—	22.85	33,890	25,488	6,159 Note 1

Investor	Invested company	Invested company's address	Business	Original investment amount		December 31, 2002		Invested company's year 2002 income	Invested company's year 2002 gain/loss recognition	Note
				December 31, 2002	December 31, 2001	Shares	Percentage (%)			
Ability Enterprise Co., Ltd.	Area East Technology Corp.	10th Fl., No. 101 Fu-Hsing N. RD. Taipei, Taiwan, R.O.C.	Information software service	10,000	10,000	1,000,000	15.36	10,075	255	57 Note 2
Ability Enterprise Co., Ltd.	Abico International Holding Co., Ltd	Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands.	A holding company	39,602	—	—	100.00	147,896	108,294	108,294 Subsidiary company
Viewquest Technologies Inc.	Viewquest Technologies International Inc.	46716 Lakeview Blvd. Fremont, CA 94538	Import, wholesale, distribution and sale of digital video and still camera products	\$50,729	\$50,729	6,000,000	100.00	\$(3,747)	\$(11,232)\$	Subsidiary company
Viewquest Technologies Inc.	Viewquest Technologies (BVI) Inc.	The premises of Commonwealth Trust Limited, Seelight House, Tortola, British Virgin Islands.	Trade, sale and manufacture of digital video and still camera products	213,972	213,972	6,630,000	100.00	132,421	(81,837)	(80,793) Subsidiary Note 3 company

Note 1: The recognition of investment revenues were deferred for one year.

Note 2: The evaluation of invested company King Ability Enterprise Co., Ltd. and Area East Technology Co., Ltd. were changed from equity method to cost method in 2002.

Note 3: The investment loss included the losses NT\$81,837 accounted for under the equity method and the realized gross profit NT\$1,044 from sale to the Company.

Chart 2 Loans to others as of December 31, 2002 were as follows:

No.	Loan provider	Loan borrower	Trading entry	Upper limit on loans to individual (see Note)	Maximum balance in this period	Interest rate	Reason	Allowance for bad debt		Collateral		Business dealings amount	The upper limit (Note)
								Balance	Value	Name	Value		
1	Ability Enterprise (BVI) Co., Ltd.	Avy Co., Ltd.	Receivable with the related party	\$124,366	\$20,728	3.7~3.8	Short-term loans	—	\$20,358	Promissory note (return at March 31,2002)	\$—	\$211,935	
2	Avy Co., Ltd.	Avy Co., Ltd. (BVI)	Short-term loans	35,139	20,580	4.0~6.0	Operation needs	—	20,580	Promissory note	23,941	150,285	
3	Avy Co., Ltd.	Gold Market Investments Ltd.	Short-term loans	35,139	26,025	4.0~6.0	Operation needs	—	26,025	Promissory note	—	150,285	

*Note:* The Company's guidelines on loans to others: The upper limit of loans to every individual is 40% of the Company's net value or business dealings amount (purchase or sales which is higher). Total amount of the Company's loans to others should be under 40% of the Company's net value.

Chart 3 Endorsements to others as of December 31, 2002 were as follows:

No.	Financial guarantees issuer	The guaranteed company	Company's name	Relationship	Upper limit endorsements to individual (Note)	Maximum amount of endorsements	Amount of endorsements as of December 31, 2002	Amount of endorsements assured by properties	The highest limited amount of (Note)	The percentage of endorsements over net value of recent financial statement
0	Avy Co., Ltd.	Avy Co., Ltd. (BVI)	—	—	\$375,712	\$24,500	\$8,000	\$—	\$751,424	2.13%

*Note:* The Company's guidelines on endorsements for others: The upper limit of endorsement to every individual is 100% of the Company's net value. Total amount of the Company's endorsements for others should be under 200% of the Company's net value.

Chart 4 Securities held at December 31, 2002 were as follows (number of shares and amounts are in thousands):

Holding company	Category and name of security	Relationship with the issuer	Recording entry	December 31, 2002			Note	
				Shares	Cost	%		Fair market value
Ability International Investment Co., Ltd.	CC&C Technologies, Inc.	—	Long-term investments	1,000,000	\$7,990	2.00	\$7,990	—
Ability International Investment Co., Ltd.	Fubon Financial Holding Co., Ltd.	—	Long-term investments	481,754	25,896	0.01	13,378	—
Ability International Investment Co., Ltd.	E-Ten Information Systems Co., Ltd.	—	Long-term investments	866,482	45,208	0.58	10,623	—
Ability International Investment Co., Ltd.	Nien Hsing Tex Tile Co., Ltd.	—	Short-term investments	770,000	22,372	0.16	24,093	—
Ability International Investment Co., Ltd.	Acer Computer Co., Ltd.	—	Short-term investments	440,584	22,482	0.02	15,011	—
Ability International Investment Co., Ltd.	Teco Electric & Machinery Co., Ltd.	—	Short-term investments	1,150,000	17,075	0.06	12,662	—
Ability International Investment Co., Ltd.	Mitac Technology Corporation	—	Short-term investments	220,000	10,215	0.10	6,422	—
Ability International Investment Co., Ltd.	Apex Biotechnology Corp.	—	Short-term investments	131,000	10,914	1.88	6,841	—
Ability International Investment Co., Ltd.	Jung Shing Wire Co., Ltd.	—	Long-term investments	1,804,000	29,496	1.80	37,054	—
Ability International Investment Co., Ltd.	Ability International Rent Co., Ltd.	The parent company is the same.	Long-term investments	1,000	10	0.05	10	—
Ability International Investment Co., Ltd.	Fubon Bond Fund	—	Short-term investments	915,910.28	10,000	—	10,132	—
Avy Co., Ltd.	The Progress Business Management Consultants Corp.	—	Long-term investments	100,000	1,000	20.00	1,000	—

Chart 5 Accumulated stock purchases or sales for the same stock reaching NT\$100 million or more than 20% of paid-in capital

Purchaser (Supplier)	Securities' category and name	Entry	Trading party	Relation-ship	January 1, 2002			December 31, 2002						
					Share	Cost	Share	Share	Price	Book value	Gain (Loss)	Share	Cost	
Avy Co., Ltd.	Yorkey Investment Ltd.	Long-term investments	—	—	—	\$116,667	—	—	\$2,225	\$106,005	\$(103,780)	—	—	\$—

Note: Investment loss recognized in 2002.

Chart 6 Purchases or sales with related party in excess of NT\$100 million or over 20% of paid-in capital:

Name of purchaser or buyer	Name of the counterparty	Relationship	Transaction terms			Description of and reasons for differences in transaction terms compares to non-related party transaction	Accounts or notes receivable (payable)				
			Purchase (Sales)	Amount	% of total purchase (sales)			Unit price	Credit period	Balance	% of total accounts of notes receivable (payable)
Viewquest Technologies (BVI) Inc.	Viewquest Technologies Inc.	Parent Company	Sales	(1,586,167)	99	99 Note	—	—	294,652	99	—

Note: Based on the terms of agreement.

Chart 7 Information on derivative transactions:

- a. In 2001, Viewquest Technologies (BVI) Inc. entered into non-delivery forward exchange contracts with several banks. As of December 31, 2001, the amount of outstanding non-delivery forward exchange contracts were US\$6,000 thousand, and the amount of contract receivables and payables were \$207,643 thousand and \$210,163 thousand, respectively. The unamortized discount on non-delivery forward contract NT\$2,520 thousand was recorded as foreign exchange loss and other payable. As of December 31, 2002, the Consolidated Company had cleared all transactions.
- b. Credit risk: The derivative financial instruments were deal with reputable international financial institutions. Thus the credit risk is low.
- c. Market risk: The Company entered into these non-delivery forward contracts not to hedge the risk. The loss, if any, from these contracts will not cause any major loss to Viewquest Technologies (BVI) Inc. because the contracts are short term. Therefore, there is no material market risk.
- d. Liquidity risk, cash flow risk and amounts, time span and uncertainty of future cash demand:

The operating capital of Viewquest Technologies (BVI) Inc. is enough to cover its derivative transactions; therefore, there is no funding risk nor major cash flow risk. The non-delivery forward contracts were matured on January 23, 2002, and the cash inflow due would be NT207,643 thousand and the related cash outflow would be US\$6,000 thousand. As of December 31, 2002, the Viewquest had cleared all non-delivery forward exchange contracts. The exchange gains from the derivative transactions were NT\$73 thousand and NT\$2,636 thousand in 2002 and 2001.

(3) Disclosure of information on investment in Mainland China

1) The name of invested companies, main operation, paid-in capital, investment method, cash inflow and outflow, percentage of common shares, investment revenue (loss), book value and remittance of investment income to Taiwan as of December 31, 2002 were as follows:

Name of invested company in China	Main operation	Paid-in capital	Investment method	Cash flow from Taiwan		Investment income (loss)	Direct/indirect percentage of shares held	Book value	Cash remittance of investment
				January 1, 2002	December 31, 2002				
				Cash outflow	Cash inflow				
Guangdong United Optical Instrument Co., Ltd.	Product, design, sale camera.	HK\$30,200,000	Buy from Ability Enterprise Co., Ltd.	\$—	\$—	\$6,159	22.85%	\$33,890	\$—
Dongguan Guang Tong Business Machines Co., Ltd.	Sale of main board MCU board / I/O board in digit camera	US\$2,060,290	Invested in the Mainland China via the invested third party	22,079	—	39,448	34.68%	52,775	—
Dongguan Yorkey Optical Machinery Component Ltd.	Operating in Lead, work, Photo copier encrustation, Camera encrustation, Fax encrustation, plastic encrustation, sheath of optics feed.	US\$8,030,647	Invested in the Mainland China via the invested third party	90,597	—	43,429	45.00%	188,629	—
Avy Precision Metal Product (Suzhou) Co., Ltd.	Operation in parts of computer machine, parts, camera and other parts	US\$2,000,000	Invested in the Mainland China via the invested third party	35,609	4,402	(8,362)	63.72%	24,889	—
Dong Guan Cheng Guang Precision Hardware Co., Ltd.	Operation in parts of computer machine, parts of camera and other parts	RMB9,459,806	Invested in the Mainland China via the invested third party	23,548	—	3,231	40.95%	22,483	—
Dong Guan Shin-Ei Yorkey Business Machine Co., Ltd.	Produce and sell photocopier parts	RMB7,229,394	Buy from Yorkey Investment Ltd.	—	13,335	4,199	25%	17,497	—

Note: The financial statements were audited by Lan-Jai CPAs Firm cooperating with BKR International accounting organization.

2) Investment limit in Mainland China for the year ended of December 31, 2002.

<b>Ending balance of cumulative invested amount from Taiwan to the Mainland China</b>	<b>Invested amount approved by Investment Commission</b>	<b>Investment limit in the Mainland China regulated by Investment Commission (net value*40%)</b>
HK\$6,900 thousand US\$4,702 thousand (Convert to NT\$153,707 thousand)	HK\$6,900 thousand US\$4,702 thousand (Convert to NT\$153,707 thousand)	NT\$1,091,433 thousand

3) The following are information related to investment in Mainland China that would influence financial statements including significant transactions with invested companies in the Mainland China directly or indirectly via the invested companies, price, terms of payment, unrealized gain or loss and others.

- (a) The price and percentage of purchase and related payables as of December 31, 2002: NA.
- (b) The price and percentage of sale and related receivables as of December 31, 2002: NA.
- (c) The price of property transaction and related gain (loss) on disposal of properties: NA.
- (d) The purposes and balances of notes payable endorsement, guarantee or collateral as of December 31, 2002: NA.
- (e) The highest balance, ending balance, interest rates and current interest rate in financing: NA.
- (f) Other significant transactions to the acknowledgement of current net income or loss or financial position such as providing or receiving services: NA.

23. SEGMENTAL FINANCIAL INFORMATIONS:

(1) Financial information by industry:

1) Ability Enterprise Co., Ltd.

	2002				Consolidated
	First business department	Second business department	Other departments	Adjustment	
Revenue come from customers .....	\$1,145,353	\$487,737	\$822,693	\$—	\$2,455,783
Total revenue .....	<u>\$1,145,353</u>	<u>\$487,737</u>	<u>\$822,693</u>	<u>\$—</u>	<u>\$2,455,783</u>
Department income (loss) .....	<u>\$364,547</u>	<u>\$29,889</u>	<u>\$77,779</u>	<u>\$—</u>	\$472,215
Investment income .....					223,009
General expense .....					(419,187)
Interest expense .....					(31,404)
Income before income tax from operating departments .....					<u>\$244,633</u>
Recognizable assets ....	<u>\$573,199</u>	<u>180,713</u>	<u>1,100,222</u>	<u>—</u>	\$1,854,134
Long-term investments .....					1,628,553
General assets .....					<u>726,126</u>
Total assets .....					<u>\$4,208,813</u>
Depreciation, depletion & amortization expense .....	<u>\$17,434</u>	<u>\$831</u>	<u>\$9,872</u>	<u>\$—</u>	
Capitalized expense (increase fixed assets) .....	<u>\$2,586</u>	<u>\$—</u>	<u>\$8,321</u>	<u>\$—</u>	

**2001**

	<u>First business department</u>	<u>Second business department</u>	<u>Other departments</u>	<u>Adjustment</u>	<u>Consolidated</u>
Revenue come from customers .....	\$1,023,820	\$904,875	\$604,891	\$—	\$2,533,586
Total revenue .....	<u>\$1,023,820</u>	<u>\$904,875</u>	<u>\$604,891</u>	<u>\$—</u>	<u>\$2,533,586</u>
Department income (loss) .....	<u>\$369,683</u>	<u>\$75,061</u>	<u>\$140,100</u>	<u>\$—</u>	\$584,844
Investment income .....					270,600
General expense .....					(457,659)
Interest expense .....					<u>(46,894)</u>
Income before income tax from operating department .....					<u>\$350,891</u>
Recognizable assets ....	<u>\$589,233</u>	<u>\$162,160</u>	<u>\$919,449</u>	<u>\$—</u>	\$1,670,842
Long-term investments .....					1,217,726
General assets .....					<u>1,142,515</u>
Total assets .....					<u>\$4,031,083</u>
Depreciation, depletion & amortization expense .....	<u>\$10,049</u>	<u>\$2,284</u>	<u>\$2,540</u>	<u>\$—</u>	
Capitalized expense (increase fixed assets) .....	<u>\$1,660</u>	<u>\$218</u>	<u>\$—</u>	<u>\$—</u>	

a. Product and services of each major department in the Consolidated Company:

- (a) First business department: retail, sale and machine rental, and commission revenues from related products.
- (b) Second business department: peripherals sale and commission revenues from related products.

Department income above is operating and commission revenue from outside customers. The Consolidated Company has no departmental transfer or sale. Department income didn't include:

- (a) general revenue which is not related to the departments.
- (b) investment income which is evaluated by equity method.

b. Department income (loss) is the amount of subtracting department cost and expense from department revenue. Department cost and expense is the cost and expense related to the department revenue. If operating expense can't be attributed to the departments, then attribute the expenses based on the square feet of the departments. But department cost and expense didn't include:

- (a) general expense which is not related to the department.
- (b) interest expense.
- (c) investment loss which is evaluated by equity method.

- c. Department's recognizable assets include tangible and intangible assets directly belonged to each department. If the assets are used by two or more departments, share the expenses based on the equane feet of the department. But department's recognizable assets didn't include:
- (a) assets that not used by any specific department.
  - (b) investment evaluated by equity method.

Book value of long-term investment in 2002 and 2001 are NT\$1,238,369 thousand and NT\$923,128 thousand. The Company invests Ability Enterprise (BVI) Co., Ltd., Ability International Investment Co., Ltd., Taiwan Imaging Systems Inc., Ability International Rent Co., Ltd., Avy Co., Ltd., Taiwan Daiohs Co., Ltd., Guangdong United Optical Instrument Co., Ltd., Abico Automation Co., Ltd., Abiconet International Co., Ltd., Canon Marketing (Taiwan) Co., Ltd., Abico International Holding Co., Ltd., Ability Enterprise (BVI) Co., Ltd., Ability International Investment Co., Ltd. Taiwan Imaging Systems Inc., King Ability Enterprise Co., L., Ability International Rent Co., Ltd., Avy Co., Ltd., Taiwan Daiohs Co., Ltd., Guangdong United Optical Instrument Co., Ltd., Abico Automation Co., Ltd., Abiconet International Co., Ltd., Area East Technology Corp., Canon Marketing (Taiwan) Co., Ltd. Investment income evaluated by equity method in 2002 and 2001 are NT\$166,787 thousand and NT\$181,792 thousand respectively.

2) *Viewquest Technologies Inc.*

It only operated in manufacturing of digital video and still camera products. Therefore there is no segmental financial information.

(2) **Financial informations by geographic area**

The Company established Hong Kong branch in 1995. The revenue from outside customers and recognizable assets of this branch reach 10% of net income and total assets. Therefore detail information are as follows:

	<b>2002</b>				<b>Consolidated</b>
	<b>Hong Kong</b>	<b>Other overseas operating department</b>	<b>Other departments</b>	<b>Adjustment</b>	
Revenue come from outside customers .....	\$60,354	\$—	\$2,395,429	\$—	\$2,455,783
Total revenue .....	<u>\$60,354</u>	<u>\$—</u>	<u>\$2,395,429</u>	<u>\$—</u>	<u>\$2,455,783</u>
Department income (loss) .....	<u>\$9,133</u>	<u>\$—</u>	<u>\$463,082</u>	<u>\$—</u>	<u>\$472,215</u>
	<b>2002</b>				
	<b>Hong Kong</b>	<b>Other overseas operating department</b>	<b>Other department</b>	<b>Adjustment</b>	<b>Consolidated</b>
Investment income .....					\$223,009
General expense .....					(419,187)
Interest revenue .....					<u>(31,404)</u>
Income before income tax from operating department .....					<u>\$244,633</u>
Recognizable assets .....	<u>\$108,776</u>	<u>\$—</u>	<u>\$1,745,358</u>	<u>\$—</u>	<u>\$1,854,134</u>
Long-term investments .....					\$1,628,553
General assets .....					<u>726,126</u>
Total assets .....					<u>\$4,208,813</u>

	<b>2001</b>				
	<b>Hong Kong</b>	<b>Other overseas operating department</b>	<b>Other department</b>	<b>Adjustment</b>	<b>Consolidated</b>
Revenue come from outside customers .....	\$53,171	\$—	\$2,480,415	\$—	\$2,533,586
Total revenue .....	<u>\$53,171</u>	<u>\$—</u>	<u>\$2,480,415</u>	<u>\$—</u>	<u>\$2,533,586</u>
Department income (loss) .....	<u>\$3,596</u>	<u>\$—</u>	<u>\$581,248</u>	<u>\$—</u>	\$584,844
Investment income .....					270,600
General expense .....					(457,659)
Interest expense .....					<u>(46,894)</u>
Income before income tax from operating department .....					<u>\$350,891</u>
Recognizable assets .....	<u>\$47,611</u>	<u>\$—</u>	<u>\$1,623,231</u>	<u>\$—</u>	\$1,670,842
Long-term investments .....					1,217,726
General assets .....					<u>1,142,515</u>
Total assets .....					<u>\$4,031,083</u>

The Viewquest didn't have international operating department in year 2002 and 2001. Therefore the geographic financial information is the same as the Viewquest's income statement.

**(3) Information about export sales**

The export sales of the Consolidated Company in 2002 and 2001 were NT\$1,949,665 thousand and NT\$2,254,895 thousand. The detail information were as follows:

	<b>2002</b>	<b>2001</b>
America area .....	\$619,217	\$1,588,558
Asia area .....	1,066,264	645,284
Other areas .....	<u>264,184</u>	<u>21,053</u>
Total .....	<u>\$1,949,665</u>	<u>\$2,254,895</u>

(4) **Major customer information**

The detail in formation of company's single customer one 10% of total revenue in 2002 and 2001 were as follows:

<b>Customer name</b>	<b>2002</b>		
	<b>Dollars</b>	<b>Ratio (%)</b>	<b>Industry</b>
A	\$786,362	18.18	Other
B	489,429	11.32	Other

<b>Customer name</b>	<b>2001</b>		
	<b>Dollars</b>	<b>Ratio(%)</b>	<b>Industry</b>
C	\$967,973	21.74	Other
D	561,544	12.61	Other
A	487,986	10.95	Other

## REPORT OF INDEPENDENT ACCOUNTANTS

Ability Enterprise Co., Ltd.:

We have reviewed the accompanying balance sheets of Ability Enterprise Co. Ltd. (the Company) as of March 31, 2003 and 2002, and the related statements of income, changes in shareholders' equity and cash flows for the three-month periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our reviews.

Except as discussed in the following paragraph, we conducted our reviews in accordance with R.O.C. Statement of Financial Accounting Standards (SFAS) No. 36 "Review of Financial Statements". We only performed analytical procedures, comparison and inquiries, but did not audit in accordance with auditing standards generally accepted in the Republic of China. Accordingly, we do not express such an opinion based on audits of the financial statements taken as a whole.

As described in Note 5 to the financial statements, Ability Enterprise Co. Ltd.'s long-term equity investments over 50% of ownership as of March 31, 2003 and 2002 were NT\$1,422,399 thousand and NT\$1,113,966 thousand respectively. The related net investment profits for the three-month periods then ended were NT\$108,090 thousand and NT\$22,895 thousand respectively. These figures were based on the invested companies' financial statements without being reviewed by auditors. As described in Note 23(2), the information of invested companies were not reviewed by auditors.

Based on our reviews, except for the possible adjustments if invested companies' financial statements and related information were reviewed by auditors, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with accounting principles generally accepted in the Republic of China.

As described in Note 21 to the financial statements, Ability Enterprise Co. Ltd. and Viewquest Technologies Inc. merged on January 1, 2003. The equity method of merge was adopted based on opinion No. 220 and 221 issued by the Accounting Research and Development Foundation of Republic of China. The financial statements for the three-month period ended March 31, 2002 were restated accordingly.

Deloitte & Touche  
Taipei, Taiwan, Republic of China  
April 24, 2003

The above auditors' review report and the following financial statements are English translations of the Chinese auditors' review report and financial statements prepared for and used in the Republic of China. The accompanying financial statements were prepared using accounting principles, procedures and reporting practices generally accepted in the Republic of China and are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than those in the Republic of China. The standards, procedures and practices utilized to review such financial statements are those generally accepted and applied in the Republic of China.

**ABILITY ENTERPRISE CO., LTD.**

**NON-CONSOLIDATED BALANCE SHEETS  
AS OF MARCH 31, 2002 AND 2003  
(Expressed in Thousands of New Taiwan Dollars)**

	(Unaudited)		(Unaudited)	
	March 31, 2003		March 31, 2002	
	Amount	%	Amount	%
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents .....	\$335,539	6	\$325,753	5
Short-term investments - net (Note 3) .....	137,149	2	1,295,409	22
Notes receivable - net .....	38,417	1	49,553	1
Notes receivable - related parties, net (Note 17).....	248,325	5	201,158	3
Accounts receivable - net .....	575,535	11	307,565	5
Accounts receivable - related parties, net (Note 17) .....	220,137	4	155,505	3
Inventories (Note 4) .....	227,947	4	263,317	4
Other financial assets - current (Note 17) .....	193,318	4	108,294	2
Other current assets (Note 15).....	36,617	1	135,854	2
	<u>2,012,984</u>	<u>38</u>	<u>2,842,408</u>	<u>47</u>
Long-term investments:				
Long-term equity investments (Note 5)				
Long-term investments - equity method .....	1,487,314	27	1,234,781	20
Long-term investments - cost method .....	383,266	7	289,860	5
	<u>1,870,580</u>	<u>34</u>	<u>1,524,641</u>	<u>25</u>
Rental assets (Notes 6 and 8) .....	532,512	10	635,117	11
	<u>2,403,092</u>	<u>44</u>	<u>2,159,758</u>	<u>36</u>
Other financial assets - noncurrent (Note 18) .....	67,582	1	87,311	2
Property and equipment (Notes 7 and 18):				
Land.....	368,156	7	362,560	6
Buildings .....	430,546	8	427,975	7
Machinery .....	35,719	1	92,362	2
Business equipments.....	83,855	1	81,553	1
Transportation equipments .....	12,585	—	13,242	—
Leasehold improvements .....	12,420	—	12,827	—
Other equipments .....	34,667	1	49,959	1
	<u>977,948</u>	<u>18</u>	<u>1,040,478</u>	<u>17</u>
Less: Accumulated depreciation.....	(126,145)	(2)	(131,215)	(2)
Unfinished construction and prepayments for equipments .....	9,560	—	2,047	—
	<u>861,363</u>	<u>16</u>	<u>911,310</u>	<u>15</u>
Other assets (Note 15).....	49,747	1	838	—
<b>TOTAL ASSETS</b> .....	<u><u>\$5,394,768</u></u>	<u><u>100</u></u>	<u><u>\$6,001,625</u></u>	<u><u>100</u></u>

See notes to financial statements.

**ABILITY ENTERPRISE CO., LTD.**

**NON-CONSOLIDATED BALANCE SHEETS — (Continued)  
AS OF MARCH 31, 2002 AND 2003  
(Expressed in Thousands of New Taiwan Dollars)**

	(Unaudited)		(Unaudited)	
	March 31, 2003		March 31, 2002	
	Amount	%	Amount	%
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>LIABILITIES:</b>				
Current liabilities:				
Short-term borrowings (Notes 8 and 18).....	\$90,929	2	\$492,263	8
Short-term notes and bills payable (Note 9).....	99,875	2	314,170	5
Notes payable (Note 17).....	22,319	1	34,045	1
Accounts payable .....	318,758	6	208,574	4
Accounts payable - related parties (Note 17).....	220,790	4	232,051	4
Accrued expenses.....	107,501	2	77,506	1
Income tax payable .....	10,241	—	31,819	1
Advance receipts.....	178,216	3	27,616	—
Long-term borrowings - current portion (Notes 10, 11 and 18).....	300,000	5	21,574	—
Other current liabilities (Note 20) .....	14,550	—	44,770	1
	<u>1,363,179</u>	<u>25</u>	<u>1,484,388</u>	<u>25</u>
Long-term Liabilities				
Bonds payable (Note 10).....	—	—	300,000	5
Other liabilities				
Accrued pension liabilities (Note 12) .....	8,690	—	4,971	—
Guarantee deposits received.....	16,139	1	21,740	—
Deferred income tax liabilities - noncurrent (Note 15).....	—	—	8,420	—
Deferred credits - gains on inter-affiliate accounts.....	12,802	—	23,458	1
Long-term investments credit balance (Note 5) .....	6,030	—	—	—
	<u>43,661</u>	<u>1</u>	<u>58,589</u>	<u>1</u>
Total Liabilities.....	<u>1,406,840</u>	<u>26</u>	<u>1,842,977</u>	<u>31</u>
Shareholders' equity (Notes 13 and 21):				
Common stock, \$10 par value, 540,000 and 390,800 thousand shares authorized, 288,278 thousand and 276,363 thousand shares issued, 285,278 thousand and 276,363 thousand shares outstanding in March 31, 2003 and 2002.....	2,882,781	54	2,763,635	46
Capital surplus				
Additional paid-in capital.....	491,232	9	491,232	8
Gain on sale of fixed assets.....	56	—	70,578	1
Change of long-term equity investments.....	—	—	3,930	—
Treasury stock.....	13,992	—	13,992	—
	<u>505,280</u>	<u>9</u>	<u>579,732</u>	<u>9</u>
Retained earnings:				
Legal reserve.....	187,231	3	128,760	2
Special reserve.....	65,256	1	85,293	2
Unappropriated retained earnings .....	496,005	9	608,165	10
	<u>748,492</u>	<u>13</u>	<u>822,218</u>	<u>14</u>
Unrealized loss on long-term equity investments .....	(81,603)	(1)	(30,150)	(1)
Cumulated translation adjustments.....	22,757	1	23,213	1
Treasury stock.....	(89,779)	(2)	—	—
Total shareholders' equity .....	<u>3,987,928</u>	<u>74</u>	<u>4,158,648</u>	<u>69</u>
Commitments and contingencies (Note 19)				
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY .....</b>	<b>\$5,394,768</b>	<b>100</b>	<b>\$6,001,625</b>	<b>100</b>

See notes to financial statements.

**ABILITY ENTERPRISE CO., LTD.**

**NON-CONSOLIDATED STATEMENTS OF INCOME  
FOR THE THREE MONTHS ENDED MARCH 31, 2002 AND 2003  
(Expressed in Thousands of New Taiwan Dollars, Except Earnings Per Share)**

	(Unaudited)		(Unaudited)	
	January 1 ~ March 31, 2003		January 1 ~ March 31, 2002	
	Amount	%	Amount	%
Operating revenues (Note 17):				
Sales revenue .....	\$1,278,571	95	\$725,718	87
Copy revenue .....	66,149	5	72,534	9
Other operating revenue .....	30,825	2	43,632	5
	1,375,545	102	841,884	101
Less: Sales returns and allowances .....	(33,345)	(2)	(11,952)	(1)
	1,342,200	100	829,932	100
Operating costs (Notes 12, 14 and 17) .....	1,133,311	84	712,542	86
Operating gross profit.....	208,889	16	117,390	14
Unrealized gain on inter-affiliate accounts .....	(50)	—	(2,693)	—
Realized gain on inter-affiliate accounts .....	3,793	—	2,525	—
	212,632	16	117,222	14
Operation expenses (Notes 12, 14 and 17)				
Selling expenses .....	101,044	7	84,752	10
General and administrative expenses.....	36,298	3	36,582	4
Research and development expenses .....	40,204	3	28,974	4
	177,546	13	150,308	18
Net operating income (Loss) .....	35,086	3	(33,086)	(4)
Non-operating revenues				
Interest revenues (Note 20) .....	1,867	—	1,750	—
Investment income on equity-method investees (Note 5).....	108,090	8	22,895	3
Other investment income - net.....	7,109	1	56,481	7
Rent revenues (Note 17) .....	8,082	1	8,813	1
Gain on disposal of fixed assets .....	48,706	3	37	—
Other revenues (Notes 17 and 20) .....	16,109	1	6,268	—
	\$189,963	14	\$96,244	11

**ABILITY ENTERPRISE CO., LTD.**

**NON-CONSOLIDATED STATEMENTS OF INCOME — (Continued)**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2002 AND 2003**  
**(Expressed in Thousands of New Taiwan Dollars, Except Earnings Per Share)**

	(Unaudited)		(Unaudited)	
	January 1 ~ March 31, 2003		January 1 ~ March 31, 2002	
	Amount	%	Amount	%
Non-operating expenses				
Interest expenses .....	\$5,673	—	\$9,487	1
Other expenses .....	8,807	1	9,589	1
	14,480	1	19,076	2
Income before tax .....	210,569	16	44,082	5
Income tax expense (Note 15) .....	23,846	2	2,846	—
Net income (Note 21) .....	\$186,723	14	\$41,236	5
Basic earnings per share (Note 16)				
By weighted-average shares - before tax .....	\$0.73		\$0.16	
By weighted-average shares - after tax .....	\$0.65		\$0.15	
By retroactively weighted-average shares - before tax .....	\$0.73		\$0.15	
By retroactively weighted-average shares - after tax .....	\$0.65		\$0.14	
Diluted earnings per share (Note 16)				
By weighted-average shares - before tax .....	\$0.73		\$0.16	
By weighted-average shares - after tax .....	\$0.65		\$0.15	
By retroactively weighted-average shares - before tax .....	\$0.73		\$0.15	
By retroactively weighted-average shares - after tax .....	\$0.65		\$0.14	

See notes to financial statements.

**ABILITY ENTERPRISE CO., LTD.**

**NON-CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE THREE MONTHS ENDED MARCH 31, 2002 AND 2003  
(Expressed in Thousands of New Taiwan Dollars)**

	Common stock	Capital surplus	Retained earnings			Unappropriated	Unrealized losses on valuation of long-term investment	Cumulated translation adjustments	Treasury stock	Total shareholders' equity
			Legal reserve	Special reserve						
Balance as of January 1, 2002 .....	\$2,763,635	\$579,732	\$128,760	\$85,293	\$566,929	\$(65,256)	\$23,220	\$—	\$4,082,313	
Reversal of unrealized losses on valuation of long-term equity investment .....	—	—	—	—	—	35,106	—	—	35,106	
Change in cumulated translation adjustments .....	—	—	—	—	—	—	(7)	—	(7)	
Net income for the three-month period ended March 31, 2002 .	—	—	—	—	41,236	—	—	—	41,236	
Balance as of March 31, 2002 .....	\$2,763,635	579,732	128,760	85,293	608,165	(30,150)	23,213	—	4,158,648	
Balance as of January 1, 2003 .....	\$2,882,781	505,280	187,231	65,256	309,282	(56,296)	23,020	—	3,916,554	
Unrealized losses on valuation of long-term equity investment .	—	—	—	—	—	(25,307)	—	—	(25,307)	
Change in cumulated translation adjustments .....	—	—	—	—	—	—	(263)	—	(263)	
Purchase of treasury stock .....	—	—	—	—	—	—	—	(89,779)	(89,779)	
Net income for the three-month period ended March 31, 2003 .	—	—	—	—	186,723	—	—	—	186,723	
Balance as of March 31, 2003 .....	\$2,882,781	\$505,280	\$87,231	\$65,256	\$496,005	\$(81,603)	\$22,757	\$(89,779)	\$3,987,928	

See notes to financial statements.

**ABILITY ENTERPRISE CO., LTD.**

**NON-CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED MARCH 31, 2002 AND 2003  
(Expressed in Thousands of New Taiwan Dollars)**

	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>January 1 ~ March 31, 2003</b>	<b>January 1 ~ March 31, 2002</b>
	<b>Amount</b>	<b>Amount</b>
Cash flow from operating activities:		
Net income .....	\$186,723	\$41,236
Adjustment to reconcile net income to net cash provided by (used in) operating activities		
Depreciation .....	41,975	48,171
Amortization .....	510	255
Losses on long-term equity investments.....	—	10,846
Gain on disposal of fixed assets .....	(48,706)	(37)
Gain on investment under equity method .....	(108,090)	(22,895)
Unrealized gain on inter-affiliate accounts .....	50	2,693
Realized gain on inter-affiliate accounts .....	(3,793)	(2,525)
Loss on disposal of fixed assets .....	1,915	2,996
Gain on disposal of long-term investments .....	(4,371)	(14,420)
Decrease in notes receivable.....	4,995	6,445
Decrease (Increase) in accounts receivable - related parties .....	(42,608)	30,054
Decrease (Increase) in accounts receivable .....	(23,576)	167,555
Increase in accounts receivable - related parties .....	(75,530)	(19,177)
Increase in Inventories.....	(16,767)	(30,310)
Increase in other current assets .....	(48,390)	(72,255)
Increase (Decrease) in notes payable .....	(16,806)	19,619
Increase (Decrease) in accounts payable .....	92,689	(54,118)
Increase (Decrease) in accounts payable - related parties.....	(158,231)	14,837
Decrease in accrued expenses .....	(31,077)	(100,317)
Decrease in other payables .....	(18,964)	(1,430)
Increase (Decrease) in other current liabilities .....	155,929	(16,587)
Decrease in deferred income tax asset .....	17,724	2,845
Provision for pension cost .....	3,447	3,534
Deposit of pension fund.....	(3,991)	(3,840)
Net cash provided by (used in) operating activities .....	\$(94,943)	\$13,175

**ABILITY ENTERPRISE CO., LTD.**

**NON-CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)  
FOR THE THREE MONTHS ENDED MARCH 31, 2002 AND 2003  
(Expressed in Thousands of New Taiwan Dollars)**

	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>January 1 ~ March 31, 2003</b>	<b>January 1 ~ March 31, 2002</b>
	<b>Amount</b>	<b>Amount</b>
Cash flow from investing activities		
Purchase of long-term equity investments .....	\$(5,168)	\$(43,465)
Sale of long-term equity investments .....	—	33,520
Purchase of fixed assets .....	(12,842)	(447)
Proceeds from disposal of fixed assets .....	3,313	36
Increase in short-term investments .....	(102,280)	(215,420)
Decrease (Increase) in other assets .....	4,550	(7,015)
Net cash used in investing activities .....	(112,427)	(232,791)
Cash flows from financing activities		
Increase (Decrease) in short-term borrowings .....	(429,872)	42,370
Decrease in short-term notes and bills payable .....	(127,320)	(34,699)
Decrease in long-term borrowings .....	—	(3,082)
Decrease in guarantee deposits received .....	(795)	(1,690)
Purchase of treasury stock .....	(89,779)	—
Net cash provided by (used in) financing activities .....	(647,766)	2,899
Exchange effects .....	(263)	(7)
Net increase in cash and cash equivalents .....	(855,399)	(216,724)
Cash and cash equivalents, beginning of period .....	1,190,938	542,477
Cash and cash equivalents, end of period .....	\$335,539	\$325,753
Supplemental information on cash flow		
Interest paid .....	\$6,028	\$5,605
Income tax paid .....	\$54	\$101
Other investing and financing activities not affecting cash		
Long-term borrowings-current portion .....	\$300,000	\$21,574

# ABILITY ENTERPRISE CO., LTD. AND ITS RELATED ENTITIES

## NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE THREE MONTHS ENDED MARCH 31, 2002 AND 2003 (Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

### 1. DESCRIPTION OF BUSINESS

Ability Enterprise Co., Ltd. (the Company) was established in Taipei City on May 21, 1965 and merged Viewquest Technologies Inc. on January 1, 2003. The operating activities include trading, rental, packing and maintenance services of machinery, software and hardware of computer system, communication equipments, photographic equipments, information software, electronic materials and office equipment. The Company also acts as an agent or a consignee to tender or quote prices, and to export or import various international or local products that listed above. The number of employees was 614 as of March 31, 2003.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company prepares its financial statements in accordance with "Criteria Governing the Preparation of Financial Reports by Securities Firms" and generally accepted accounting principles in the Republic of China.

#### (1) Difference between current and non-current

Current assets represent liquid assets of maturity within twelve months after the end of the accounting period or that going to be sold or consumed during normal operating process. Current liabilities represent liabilities that required to be paid off within twelve months after the end of the accounting period or arose from operation and expected to be paid off during normal operating process of business operating cycle. Assets (liabilities) that are not current are classified as non-current assets (liabilities).

#### (2) Foreign currency transactions and translation to financial statements in foreign currency

The Company's financial records are in NT Dollars. Foreign currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occurred. Liabilities in foreign currency at the balance sheet day are translated at year-end exchange rates. Realized or unrealized gains or losses on exchange arose from real transaction or conversion of foreign liabilities, are recognized as current non-operating income or expenses. However, those exchange differences from long-term investments or money advances between the Company and foreign companies are recognized as cumulative translation adjustments under shareholders' equity accounts.

#### (3) Options

The premium from call or put options are recorded as costs under asset or liability accounts. They are amortized during contract period and evaluated according to fair market prices at the balance sheet day. For those to hedge the risks of existing assets or liabilities and evaluate by fair market prices, the unrealized option trading losses or gains are recognized as current expenses or incomes. For those to hedge expected transaction risks, the unrealized option trading losses or gains are deferred until realization and recognized as an adjusting item of exercise price. For those contracts that are not for hedge and not evaluated at fair market prices, the unrealized option trading losses or gains are recognized as current expenses or revenues.

#### (4) Forward currency contracts

Forward currency contracts for hedging purposes are recorded at current exchange rate of the contract day. The difference between spot rate and exercise rate is amortized during contract's period. Open forward currency contracts are adjusted by the current exchange rates at the balance sheet date and the differences are recognized as current expenses or revenues.

#### (5) Cross currency swaps

Cross currency swaps for hedging purposes are recognized as accounts receivable and accounts payable according to the contract's exchange rates. The corresponding interests receivable and payables are based on contract's interest rates. At the balance sheet date, estimated interests receivable or payable in foreign currency is adjusted at the current exchange rates, and the unsettled principal of the contract is adjusted at the current exchange rates. The differences are recognized as current expenses or revenues.

(6) **Other financial instruments similar to futures and options contracts**

a. *Sale of stock put options for trading purpose*

The Company's sale of stock put options for trading purpose is recognized as short-term investment and the contract's price is fully paid on the day of trading. According to contract, if the closing price of the stock is higher than exercise price, the buyer of put options needs to pay premium and pay back contract principal. By contrary, if the closing price of the stock is lower than exercise price, the Company needs to buy the stock at exercise price. It is evaluated by fair market price at the end of the balance sheet date and unrealized losses or gains are recorded as current losses or gains.

b. *Asset swap for trading purpose*

Asset swap is the Company and the opposite party of the contract exchange particular foreign convertible bond contracts under the same trading construction. The opposite party purchases particular foreign convertible bond and exchange with the Company at the same time. Under this transaction, the interest rate of the bond has exchanged to higher interest rate of the notes. The Company pays the opposite-party contract price of the bonds at the contract date and receives contract price of the notes and interest incomes from the notes. However, the Company needs to bear the credit risks that bond seller breaches the contract and the opposite party does not fulfill contract. The contract price of the debt is listed under short-term investments on contract date and its market price is decided based on credit events on maturity day. Interest income from notes is estimated on the basis of contracting interest rates at the balance sheet day. Bad debt expenses are recognized in accordance to the related credit events and resulting current losses or gains are credited or charged to current income.

c. *Composite derivative financial instruments*

For financial instruments combined with options and bank deposits, contract prices are recorded under short-term investment on the contract dates. Market interest rate and contract interest rate are compared to decide daily floor and ceiling return rate of investment from bank deposit. Moreover, interest income is estimated on balance sheet date based on the results of comparing daily fair market interest rates and contract interest rates.

(7) **Short-term investments**

Short-term investments are stated at the lower of aggregate cost (weighted-average method) or market value. Market value of listed stock is based on the average closing price of the last month of the accounting period; open-ended mutual funds are evaluated by the net worth on the balance sheet date. Declining losses are recognized as current expenses. Stock dividends are not recognized as investment income but treated as an increase in the number of shares held. The cost per share is recalculated based on total number of shares after increasing share numbers. The cost of selling marketable securities is determined by the weighted-average method.

(8) **Allowance for doubtful accounts**

Allowance for doubtful accounts is provided based on the expected collectibility.

(9) **Inventories**

Inventories are stated at the lower of cost (weighted-average method) or market value (net realizable value).

(10) **Long-term equity investments**

Long-term equity investments in listed equity securities that represent less than 20% of the invested company's voting stock ownership and where the Company and its subsidiaries do not have significant influence over the investees are stated at the lower of cost or market value. Unrealized loss thereon is recorded as a reduction in stockholders' equity. However, long-term investments in non-listed equity securities are stated at cost. When there is evidence showing that a decline in the market value of such investment is other than temporary and the probability of recovery is considered remote, the carrying value of the investment is reduced to reflect the market value and the resulting loss is recognized in the period of such reduction. Stock dividends are not recognized as investment income but treated as an increase in the number of shares held. The cost of long-term equity investment sold is calculated based on the weighted-average method.

When the percentage of ownership of equity method accounted investments is less than 20%, or where the Company loses significant influence on the invested companies, long-term investments are stated at cost. The carrying value of the investment is reduced to reflect the market value. Capital surplus from long-term equity investments would be eliminated by percentage based on the portion of long-term equity investments sold.

Investments where the percentage of ownership exceeds 20%, or where the Company and its subsidiaries have significant influence on the operating and financial policies of the invested companies are accounted for by the equity method. When the Company holds more than 50% of an invested Company's stock with voting rights or meets all of following conditions: 1. the beginning shareholder's equity of the long-term investment is more than NT\$50 million dollars and exceeds 5% of the Company's capital stock; 2. the Company holds more than 30% of an invested company's stock or the ownership percentage of the stock held by the Company and other companies that directly or indirectly controlled by the Company's directors, supervisors, managers or the Company exceeds 50%; 3. the Company is one of the top three shareholders of an invested company or is appointed as invested company's board of director or general manager; the investment losses or gains are required to be recorded as current losses or gains. Otherwise, the investment losses or gains needs to be deferred by one year. Under the equity method, the difference between the acquisition cost of the investment and the underlying equity of the investment is amortized over five years on a straight-line basis and recognized as investment income or loss.

When the Company owns more than 50% of an invested company's common stock, the invested company is treated as a subsidiary and must be included in the consolidated financial statements. However, if the subsidiary's total assets and operating revenue are below 10% of the Company's respective account balances, consolidated financial statement is not required. If the total assets and operating revenues of all unconsolidated subsidiaries are over 30% of the Company's respective account balances, consolidated financial statement are still required for those subsidiaries, of which total assets and operating revenues amounted to more than 3% of the Company's respective account balances. When the percentage for all unconsolidated subsidiaries is less than 20%, consolidated financial statements are not required. Consolidated financial statement is not required for half-year financial reports.

Gains or losses on disposal of long-term equity investments are recognized as investment income or loss. The unrealized gains or losses between the Company and invested company or subsidiaries are deferred. For the unrealized gains or losses resulting from depreciable or amortizable assets, the gains or losses will be recognized yearly over the respective useful lives of the assets. However, the gains or losses will be recognized in the year of realization if the unrealized gains or losses result from other assets.

When the invested company issue new shares and the Company do not subscribe the shares according to the Company's ownership percentage resulting in changes of net equity of invested company's ownership, the change amounts will be adjusted to capital surplus. If such adjustments decrease capital surplus and the capital surplus is insufficient to be adjusted, retained earnings will be reduced accordingly.

**(11) Rental assets**

Rental assets are fixed assets and equipments that leased to others for operating purpose and are stated at acquisition cost. Depreciation is calculated on a straight-line basis over estimated useful lives of the assets and accounted under non-operating expenses or operating costs.

**(12) Property and equipment**

Property and equipment are stated at acquisition cost. Major renewals, improvements and additions are treated as capital expenditures. Depreciation is calculated on a straight-line basis over estimated useful lives of the assets. Interest expense from the acquisition period is capitalized and classified under appropriate categories of property and equipment. Gains or losses on the disposal of property and equipment are recorded as non-operating income or expense.

**(13) Short-term notes payable**

Short-term notes payable is evaluated by present value and the discount is listed as a deducting item of short-term notes payable.

**(14) Retirement benefits**

The defined benefit pension plan is eligible for all regular employees. The plan covering salaried employees provides benefit payments based on years of service and the employees' average salary of final six months. The plan is calculated by the accrual of retirement "credit". During the first fifteen years of service, an employee may accrue two credits per year. The accrual rate is one credit per year after the fifteenth year.

Under the funding policy of the plan, the Company contributes, monthly, an amount equals to 5% of the employees' monthly salaries and wages to the pension fund.

The consolidated entity's pension plan was measured pursuant to SFAS No. 18, "Accounting for Pensions". The measurement date was established on the balance sheet date. The Company accrues pension cost when the accumulated benefit obligation is over the fair value of the fund assets. From January 1, 1996, the Company recognized net periodic pension cost, including service costs, amortization of unrecognized prior service costs, amortization of unrecognized gain or loss and amortization of unrecognized transitional net assets. The amortization is on the straight-line method over 15 years. The Company paid retirement benefits out of the pension fund. If the fund is not sufficient, payment is reported as expense.

**(15) Treasury stock**

The Company uses the cost method to account for treasury stock. Under the cost method, treasury stock is debited at the cost of the shares purchased. When treasury stock is sold at a price greater than the cost, the difference is credited to capital surplus-treasury stock. If the sales price of treasury stock is lower than the cost, the difference is used to offset capital surplus from similar treasury stock. If the capital surplus-treasury stock account is insufficient to cover the excess of the cost over the price, retained earnings is debited for the remaining amount. The book value of each share of treasury stock is equal to its weighted-average value and is calculated according to its reason for purchase.

**(16) Non-derivative financial instruments**

The Company recorded its financial instruments at cost. Fair market value of marketable securities is determined using the closing market price at year-end. Short-term financial instruments use the book value of the balance sheet as the fair value. Fair market value of long-term financial instruments is estimated by discounting future cash flows. Revenues or expenses derived from financial instruments are recorded as current gain or loss.

**(17) Income tax**

The estimation of income tax is based on accounting income. Deferred income tax assets and liabilities are recognized based on the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis amount, net loss carry forwards and unused tax credits. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary timing differences are expected to reverse or settled. The effect of the change in income tax rates on deferred income tax assets and liabilities is recognized in the year of enactment. The Company also evaluates the possibility of the realization of deferred income tax assets, and recognizes a valuation allowance account if necessary.

Deferred income tax assets and liabilities are classified as current or non-current according to the assets or liabilities accounts from which they are derived, or according to the expected year of reversal if they are not related to specific assets or liabilities. Current deferred income tax assets and liabilities should be offset and listed as a net amount, as well as non-current deferred income tax assets and liabilities.

The Company adopted the provisions of the Statements of Financial Accounting Standards No. 22, "Accounting for Income Taxes", in dealing with the tax credits of purchasing equipments, technique, R&D, human resource development and investments etc. Those tax credits were recognized in current year.

The Company's unappropriated retained earnings not distribution in next year will have an additional tax of 10% under the Integrated Income Tax System, starting from 1998, and recorded as income tax expense in the year of levy.

The adjustment of the tax expense levied in the prior years should be listed as income tax expense.

**(18) Earnings per share**

Simple earnings per share is calculated based on the weighted average outstanding shares during the period and is adjusted retroactively to reflect the effect of the increase in issued common stocks resulting from appropriation of retained earnings or capital surplus.

**(19) Merger**

If the merge meets with the requirement of the opinion No. 220 and 221 issued by the Accounting Research and Development Foundation of Republic of China, the Company should adopt equity method. When the value of shares of the Company being merged is higher than newly issued shares, capital surplus-additional paid-in capital is credited for the difference. When the value of shares of the Company being merged is higher than newly issued shares, capital surplus-additional paid-in is credited for the difference. When the value of shares of the Company being merged is lower than newly issued shares, capital surplus arose from the similar transactions will be deducted. If the capital surplus is insufficient, retained earnings will be reduced accordingly.

### 3. SHORT-TERM INVESTMENTS

	March 31, 2003		March 31, 2002	
	Cost	Market Value	Cost	Market Value
Listed/OTC stock.....	\$4,149	<u>139,744</u>	\$4,149	<u>1,299,510</u>
Beneficiary certificate .....	133,000		1,205,436	
Corporate bonds.....	—		68,334	
Principal guaranteed bills.....	—		17,490	
Less: Allowance for decline in market value of short-term investments.....	<u>—</u>		<u>—</u>	
	<u>\$137,149</u>		<u>\$1,295,409</u>	

### 4. INVENTORIES

	March 31, 2003	March 31, 2002
Merchandise inventories.....	\$151,270	\$164,877
Raw materials .....	10,540	118,332
Components .....	25,506	28,068
Accessories.....	33,109	29,432
Work in progress.....	17,021	1,459
Finished goods.....	<u>236</u>	<u>2,406</u>
Subtotal .....	237,682	344,574
Less: allowance for inventory valuation losses.....	<u>(9,735)</u>	<u>(81,257)</u>
Net amount.....	<u>\$227,947</u>	<u>\$263,317</u>

The insurance coverage of the above inventories as of March 31, 2003 and 2002 amounted to NT\$587,904 thousand and NT\$499,251 thousand respectively.

## 5. LONG-TERM EQUITY INVESTMENTS

	March 31, 2003		March 31, 2002	
	Holding %	Amount	Holding %	Amount
Equity Method:				
Ability Enterprise (BVI) Co., Ltd .....	100.00	\$686,653	100.00	\$448,898
Ability International Investment Co., Ltd...	99.99	210,315	99.99	227,903
Taiwan Imaging Systems Inc.....	93.25	22,606	93.25	19,397
King Ability Enterprise Co., Ltd.....	—	—	19.50	1,716
Avy Co., Ltd.....	63.72	239,867	60.00	173,955
Ability International Rent Co., Ltd. ....	44.95	10,265	44.95	10,157
Abico International Holding Co., Ltd.....	100.00	147,495	100.00	37,498
Canon Marketing (Taiwan) Co., Ltd.....	48.87	35,057	48.87	61,145
Abico Automation Co., Ltd.....	48.00	2,342	48.00	2,370
Abiconet International Co., Ltd.....	40.00	20,348	40.00	19,417
Taiwan Daiohs Co., Ltd. ....	39.86	6,756	39.86	9,157
Guangdong United Optical Instrument Co., Ltd. ....	22.85	33,890	22.85	30,384
Area East Technology Corp. ....	—	—	22.22	10,018
Viewquest Technologies International Inc. .	100.00	—	100.00	4,819
Viewquest Technologies (BVI) Inc.....	100.00	105,198	100.00	191,339
Subtotal .....		1,520,792		1,248,173
Cumulated translation adjustments .....		16,667		16,758
Less: allowance for decline in market value .....		(50,145)		(30,150)
		<u>1,487,314</u>		<u>1,234,781</u>
Cost Method:				
E-TEN Information Systems Co., Ltd.....	3.40	\$67,981	3.40	67,981
Xander International Corp.....	0.38	8,202	—	—
Power World Fund Inc.....	2.84	25,000	2.84	25,000
Jung Shing Wire Co., Ltd. ....	0.34	2,781	0.45	3,285
Shin Kong Financial Holding Co., Ltd.....	0.02	10,565	—	—
Power World Securities Co., Ltd.....	—	—	0.04	20,000
Teamcam Information Corp.....	—	—	5.10	8,202
Taiwan Ohara Optical Co., Ltd. ....	7.00	14,000	7.00	14,000
Taiwan Video & Monitor Corp.....	1.28	15,063	1.28	15,063
CC&C Technologies, Inc.....	1.00	7,200	1.00	7,200
Vivavr Technology Co., Ltd.....	2.08	3,546	4.85	3,546
Breeze Digital Technology Co., Ltd. ....	9.80	4,900	9.80	4,900
Presto Computer Turn-up Network Inc.....	9.33	3,663	9.33	3,663
Featron Computer Co., Ltd. ....	2.09	—	2.09	—
Cost Method:				
Minton Optic Industry Co., Ltd.....	4.91	68,400	4.91	68,400
King Ability Enterprise Co., Ltd.....	19.50	2,400	—	—
Area East Technology Corp. ....	15.36	10,075	—	—
Datd Image Corporation.....	5.00	22,500	—	—
Chiabon Venture Capital Co., Ltd. ....	10.00	100,000	—	—
General Plastic Industrial Co., Ltd.....	0.66	22,400	—	—
Wan Hai Lines Ltd. ....	—	3	0.10	22,591
Elite Advanced Laser Corporation.....	3.03	15,000	3.03	15,000
Cathay Financial Holding Co., Ltd.....	—	11,045	—	5,900
Cathay United Bank.....	—	—	0.04	5,129
Subtotal .....		414,724		289,860
Less: allowance for decline in market value...		(31,458)		—
		<u>383,266</u>		<u>289,860</u>
Net long-term equity investments .....		<u>\$1,870,580</u>		<u>\$1,524,641</u>

*Note 1:* After the merger with Xander International Corp, Teamcam Information Corp. was extinguished in 2002. The share exchange was effective from September 1, 2002 and the share exchange ratio was 4.5:1.

*Note 2:* Power World Securities Co., Ltd. merged with Shin Kong Financial Holding Co., Ltd. in 2002. The share exchange was effective from February 19, 2002 and the share exchange ratio was 2.05:1.

*Note 3:* Cathay United Bank merged with Cathay Financial Holding Co., Ltd. in 2002. The share exchange was effective from April 22, 2002 and the share exchange ratio was 6:1.

The following is a summary of the original costs of investments under the equity method accounting:

	<b>March 31, 2003</b>	<b>March 31, 2002</b>
Ability Enterprise (BVI) Co., Ltd. ....	\$247,504	\$247,504
Ability International Investment Co., Ltd. ....	198,994	198,994
Taiwan Imaging Systems Inc. ....	17,850	17,850
King Ability Enterprise Co., Ltd. ....	—	2,209
Avy Co., Ltd. ....	287,591	155,164
Ability International Rent Co., Ltd. ....	8,990	8,990
Abico International Holding Co., Ltd. ....	39,602	39,602
Viewquest Technologies International Inc. ....	50,731	50,731
Viewquest Technologies (BVI) Inc. ....	213,972	213,972
Canon Marketing (Taiwan) Co., Ltd. ....	61,145	61,145
Abico Automation Co., Ltd. ....	2,880	2,880
Abiconet International Co., Ltd. ....	20,000	20,000
Taiwan Daiohs Co., Ltd. ....	13,950	13,950
Guangdong United Optical Instrument Co., Ltd. ....	28,097	28,097
Area East Technology Corp. ....	—	10,000
	<u>\$1,191,306</u>	<u>\$1,071,088</u>

For the three-month periods ended March 31, 2003 and 2002, the original costs and investment revenues (loss) of investments under equity method without auditor's review were as follows:

	<b>March 31, 2003</b>	<b>March 31, 2002</b>
Ability Enterprise (BVI) Co., Ltd. ....	\$135,517	\$44,656
Ability International Investment Co., Ltd. ....	(3,266)	9,471
Taiwan Imaging Systems Inc. ....	(1,128)	(2,029)
King Ability Enterprise Co., Ltd. ....	—	(1,027)
Avy Co., Ltd. ....	6,813	(1,467)
Ability International Rent Co., Ltd. ....	61	38
Abico International Holding Co., Ltd. ....	(401)	(2,104)
Viewquest Technologies International Inc. ....	(2,283)	(2,768)
Viewquest Technologies (BVI) Inc. ....	(27,223)	(21,875)
	<u>\$108,090</u>	<u>\$22,895</u>

For the three-month periods ended March 31, 2003 and 2002, the investment revenues (loss) recognized from Canon Marketing (Taiwan) Co., Ltd., Abico Automation Co., Ltd., Abiconet International Co., Ltd., Taiwan Daiohs Co., Ltd., Guangdong United Optical Instrument Co., Ltd. equipment and Canon Marketing (Taiwan) Co., Ltd., Abico Automation Co., Ltd., Abiconet International Co., Ltd., Taiwan Daiohs Co., Ltd., Guangdong United Optical Instrument Co., Ltd. were deferred for one year but no longer than next half-year financial report according to the 8th term of "Criteria Governing the Preparation of Financial Reports by Securities Firms".

The Company had invested 100% of Ability Enterprise (BVI) Co., Ltd. in March 2000 to expand its business to the production of optic-electronic components. As of March 31, 2003, the Company had invested NT\$247,504 thousand (US\$7,635 thousand) to Dongguan Guang Tong Business Machines Co., Ltd. and Dongguan Yorkey Optical Machinery Components Ltd., which was examined and approved by Investment Commission Ministry of Economic Affairs via letter No. 89022922 and 89028327.

In order to expand the market of Mainland China, the Company invested in 22.85% of Guangdong United Optical Instrument Co., Ltd. in 1999 and had approved by Investment Commission Ministry of Economy Affairs with letter no. 88732635. As of March 31, 2003, the Company had invested NT\$28,097 thousand (HKD6,900 thousand).

For the purpose of developing global marketing, the Company invested in 48.73% Canon Marketing (Taiwan) Co., Ltd. (original name: TW Formerly Taiwan Copyer Co., Ltd.) in March 2001. The Company subscribed 49% of Canon Marketing (Taiwan) Co., Ltd.'s increased cash capital, NT\$42,000 thousand, on June 26, 2001 and the percentage of ownership had changed from 48.73% to 48.87%. As of March 31, 2003, the Company had invested NT\$61,145 thousand.

The Company sold 576 shares of King Ability Enterprise Co., Ltd. in March 2002, so the percentage of ownership decreased from 67.50% to 19.50% and the Company also lost the significant influence to King Ability Enterprise Co., Ltd. The accounting valuation method had changed from equity method to cost method. The carrying value of investment was reduced to reflect the market value and long-term investments were stated at cost.

Teamcam Information Corp. reduced its capital by NT\$140,000 thousand (40%) on July 17, 2001. The Company recognized investment losses NT\$10,334 thousand on December 31, 2000. The Board of Directors of Teamcam Information Corp. decided to merge with Xander International Corp. on April 2, 2002. The conversion ratio for Teamcam Information Corp. to Xander International Corp. was 4.5 to 1, and the merger date was September 1, 2002. The Company recognized permanent investment losses of NT\$7,300 thousand in 2002.

Area East Technology Corp. increased cash capital of NT\$20,100 thousand on June 11, 2002. Because the Company didn't subscribe, the percentage of ownership was reduced from 22.22% to 15.36%. The Company lost its significant influence and the accounting valuation method had changed from equity method to cost method. The carrying value of investment was reduced to reflect the market value and long-term investments were stated at cost.

Vivavr Technology Co., Ltd reduced capital by NT\$60,002 thousand (50%) on January 15, 2002. The Company recognized investment losses of NT\$3,546 thousand according to the capital reduction on March 31, 2002.

The Company invested 100% of Abico International Holding Co., Ltd. to expand the market of Mainland China in March 2002. As of March 31, 2003, the Company had invested NT\$39,602 thousand (US\$1,129 thousand).

Avy Co., Ltd. increased cash capital by 9,425,000 shares in December 2002. The Company subscribed 6,621,335 shares and the percentage of ownership increased from 60.00% to 63.72%.

The Company invested 100% of Viewquest Technology International Inc. in 1998. As of March 31, 2003, the Company had invested US\$1,500 thousand (NT\$50,731 thousand) for 6,000,000 shares. Due to the recognition of investment losses under equity method, the Company had credit balance, NT\$6,030 thousand, of long-term investment for the three-month periods ended March 31, 2003. The Company intended to support Viewquest Technology, so the credit balance had been recorded as long-term investment credit under liabilities of balance sheet.

## 6. RENTAL ASSETS

	<b>March 31, 2003</b>	<b>March 31, 2002</b>
Cost:		
Land .....	\$135,340	\$144,201
Buildings .....	243,458	246,028
Equipments .....	427,291	488,950
Subtotal .....	806,089	879,179
Less: accumulated depreciation .....	(273,577)	(244,062)
Net rental assets .....	<u>\$532,512</u>	<u>\$635,117</u>

As of March 31, 2003 and 2002, please refer to note 18 for pledged assets of the rental assets.

As of March 31, 2003 and 2002, the insurance coverage for rental assets amounted to NT\$331,857 thousand and NT\$329,705 thousand, respectively.

## 7. PROPERTIES AND EQUIPMENT

As of March 31, 2003 and 2002, please refer to note 18 for pledged assets of the properties and equipment.

As of March 31, 2003 and 2002, the insurance coverage for fixed assets amounted to NT\$383,477 thousand and NT\$334,704 thousand, respectively.

## 8. SHORT-TERM BORROWINGS

	<u>March 31, 2003</u>	<u>March 31, 2002</u>
Mortgage borrowing.....	\$76,000	\$450,020
Letters of credit.....	14,929	29,243
Credit loans.....	—	13,000
Total.....	<u>\$90,929</u>	<u>492,263</u>

The interest rates for the above loans were 1.75%~1.85% and 2.67%~3.22% for the three-month periods ended March 31, 2003 and 2002, respectively. The due dates are within one year.

Details of pledged assets are summarized in note 18.

As of March 31, 2003 and 2002, unused credit lines available for borrowing (including short-term notes and bills payable) amounted to NT\$2,264,725 thousand and NT\$2,103,795 thousand.

## 9. SHORT-TERM NOTES AND BILLS PAYABLE

	<u>March 31, 2003</u>		<u>March 31, 2002</u>	
	<u>Amount</u>	<u>Interest rate %</u>	<u>Amount</u>	<u>Interest rate %</u>
Commercial paper payables.....	\$100,000	1.55~1.58	\$315,000	2.05~2.60
Less: discount.....	(125)		(830)	
	<u>\$99,875</u>		<u>\$314,170</u>	

As of March 31, 2003 and 2002, commercial paper payables were guaranteed by Union Bills Finance Corp. Fubon Bills Finance Corp. Dai-Ichi Kangyo Bank. E.Sun Bills Finance Corp. Dah Chung Bills Finance Corp. and China Bills Finance Corporation.

## 10. BONDS PAYABLE

	<u>March 31, 2003</u>		<u>March 31, 2002</u>	
	<u>Amount</u>	<u>Interest rate %</u>	<u>Amount</u>	<u>Interest rate %</u>
First issuance of secured corporate bond .....	\$300,000	5.5	\$300,000	5.5
Less: current portion.....	(300,000)		—	
	<u>\$—</u>		<u>\$300,000</u>	

As of April 12, 2000, the Board of Directors approved the first issuance of domestic corporate bond of NT\$300,000 thousand with par value of NT\$1,000 thousand, 5.5% interest rate from May 4, 2000 to May 4, 2003. The interests with simple compounding will be paid annually and the principal will be paid back on the maturity. The issuance was authorized on April 21, 2000 via file No.32941 issued by SEC and the amount was fully received in May 2000.

## 11. LONG-TERM BORROWINGS

<u>Creditor Bank</u>	<u>Payment description and contract period</u>	<u>March 31, 2003</u>	<u>March 31, 2002</u>
China Development Industrial Bank .....	Operating funds September 6, 2001~September 6, 2002. The loan will be paid back fully on the maturity.	\$—	\$21,574
Less: due within one year .....		—	(21,574)
		<u>\$—</u>	<u>\$—</u>

The Company had paid back the above loans during the third quarter of 2002.

The interest rate of long-term borrowings was 7.48% for the first quarter of 2002.

As of March 31, 2003 and 2002, the unused credit lines available for long-term borrowings were zero.

Details of pledged assets for the above loan as of March 31, 2002 are summarized in note 18.

## 12. EMPLOYEE RETIREMENT BENEFITS

The Company applied R.O.C. SFAS No.18, "Accounting for Pensions". As of March 31, 2003 and 2002, the Company has recognized the net pension cost amounted to NT\$3,447 thousand and NT\$3,534 thousand, respectively.

## 13. SHAREHOLDERS' EQUITY

### (1) Common stock

The shareholders' meeting of the Company held on May 27, 2002 resolved to transfer earnings of NT\$119,146 thousand to capital as 11,914 thousand shares. The issuance was authorized and registered with government authorities on July 1, 2002. As of July 31, 2002, the capital of the Company was NT\$2,104,916 thousand.

On August 23, 2002, the shareholder's meeting of the Company approved the merger with Viewquest Technologies Inc. by issuing new shares of 77,786,486. The issuance was authorized and registered with government authorities. After the merger, the authorized capital of the Company was NT\$5,400,000 thousand while paid-in capital was NT\$2,882,781 thousand. According to opinion No 220 and 221 from the Accounting and Research Foundation, the equity method was used to account for the merger. Capital of the Company on March 31, 2002 would be NT\$2,763,635 thousand after the restatement of the financial statements.

On October 24, 2002, the Board of Directors resolved to declare employees' warrants of 6,000 units, and every unit could be exchanged to 1,000 common shares with conversion price of NT\$14.6. Additional 6,000,000 common shares would then be issued for the exercise of employees' warrants. The exercise price could be adjusted on the basis of the specific formula and the conversion rate once upon fluctuations, cash dividend declaration or consolidation. The duration of the warrant was five years, and its option could be separately exercised every single year after being kept for two years.

As of March 31, 2003, the distributed employees' warrants were as follows:

	<u>Common shares of authorized but not distributed warrants</u>	<u>Common shares of distributed warrants</u>
Authorized issue .....	\$6,000,000	\$—
Distribution.....	(6,000,000)	6,000,000
Call back and write off/abandonment .....	—	—
Additional declarations of bonus shares or adjustments of warrant units.....	—	—
Balance.....	<u>\$—</u>	<u>\$6,000,000</u>

(2) **Capital surplus**

According to the R.O.C. Company Law, capital surplus can only be used to offset a deficit or to increase capitals, and cannot be distributed as cash dividends. The amount of such capitalization depends on the result of operations, and cannot be over a certain ratio of transferred paid-in capital in excess of par value. Securities and Futures Commission, Ministry of Finance regulations stipulate that increasing capital derived from transferring additional paid-in capital can be done only once a year and only in the year other than the year in which such excess arose.

(3) **Legal reserve**

The R.O.C. Company Law stipulates that a company must retain 10% of its annual earnings as legal reserve until such retention equals to the amount of capital. The legal reserve may be used to offset an accumulated deficit, but cannot be distributed as cash dividends. However, 50% of the legal reserve may be converted to share capital when it reaches the amount equal to one-half of issued share capital upon resolution by the Company's stockholders.

Currently SFC regulations stipulate that legal reserve can be used to increase share capital but have to offset the accumulated deficit first.

(4) **Earnings appropriation**

According to Securities Exchange Law No. 41, the Company may additionally reserve the amount equal to any valuation or contra-account in the stockholders' equity in the fiscal year (such as unrealized losses on valuation of long-term investment, cumulative translation adjustments, etc.) from the net income and equity from prior periods; the same amount from prior period earnings should be reserved as special reserve and can not be distributed. If the valuation or contra-account of stockholders' equity is reversed, the special reserve amount could be distributed.

According to the R.O.C. Company Law and the Company's articles of incorporation, the Company's earnings are to be appropriated in the following order:

- a. Offset prior years' deficit (if any);
- b. 10% is to be set aside as legal reserve;
- c. A special reserve as deemed appropriation;
- d. The remaining balance is to be appropriated as follows: (1) 3% as directors' and supervisors' remuneration, (2) 10~15% as employees' bonus, and (3) the distribution of the remaining balance and undistributed earnings from previous years was decided by shareholders' meeting.

The Company's dividend distribution policy requires that parts of dividend should be stock dividend to maintain operation. For satisfying stockholders' need of cash inflow, the percentage of cash dividend was made no less than 10%.

In 2002, the Board of Directors resolved to appropriate the year 2001 earnings as follows: employees' stock bonus amounted to 1,500 thousand shares, employees' bonus amounted to NT\$5,761 thousand, and directors' and supervisors' remuneration amounted to NT\$6,228 thousand, Basic EPS after tax is NT\$0.29 in year 2002. If the employees' bonus and the Board's remuneration were recorded as expenses in the year, then the pro forma Basic EPS after tax is NT\$0.19.

In 2001, the Board of Directors resolved to appropriate the year 2001 earnings as follows: employees' bonus amounted to NT\$7,525 thousand, and directors' and supervisors' remuneration amounted to NT\$5,017 thousand, Basic EPS after tax is NT\$1.86 in the year. If the employees' bonus and directors' and supervisors' remuneration were recorded as expenses in the year, then the pro forma Basic EPS after tax is NT\$1.82.

- (5) As of March 31, 2003 and 2002, the shareholders' imputation credit account and the imputation credit ratio were summarized as follows:

	<u>March 31, 2003</u>	<u>March 31, 2002</u>
Imputation credit account.....	<u>\$9,227</u>	<u>\$36,517</u>
	<u>2002</u>	<u>2001</u>
Expected (Actual) imputation credit account .....	<u>2.54%</u>	<u>5.24%</u>

(6) As of March 31, 2003 and 2002, the unappropriated earnings were summarized as follows:

	<u>March 31, 2003</u>	<u>March 31, 2002</u>
Unappropriated earnings 1998 and before.....	\$855	\$855
Unappropriated earnings since 1999.....	495,150	607,310
	<u>\$496,005</u>	<u>\$608,165</u>

The stockholders' imputation tax credit accounts and the imputed tax credit ratio include tax payable of the fiscal year.

According to the R.O.C. Income Tax Law, the shareholders' imputation credit except 10% income tax levied on unappropriate retained earnings under the Integrated Income Tax system cannot be used by non-resident alien to offset his tax payable computed on dividends or earnings generated in the R.O.C.

(7) **Treasury Stock**

<u>Reason</u>	<u>January 1, 2003</u>	<u>Increase in this period</u>	<u>Decrease in this period</u>	<u>March 31, 2003</u>
Transfer to staff.....	\$—	\$3,000	\$—	\$3,000

R.O.C. Securities Exchange Law regulates that corporation's purchase of their own stocks cannot be above 10% of issued shares, and the dollar amount of purchase cannot be more than the retained earnings plus reserve for capital increase and realized capital surplus. In the first season of 2003, the maximum of treasury stock was 3,000 thousand shares, the dollar amount of purchase was NT\$89,799 thousand, which is under the upper limit 21,049 thousand shares and NT\$555,448 thousand. As of March 31, 2003, the Company purchased 3,000 thousand shares and the costs were NT\$89,799 thousand.

The Company's treasury stock is without right to vote and receive dividend, as well as can't be pledged in accordance with SFC regulations.

**14. PERSONNEL EXPENSE, DEPRECIATION EXPENSE AND AMORTIZATION**

The Company's personnel expense, depreciation expense and amortization for the three-month periods ended March 31, 2003 and 2002 were summarized as follows:

	<u>January 1~March 31, 2003</u>			<u>January 1~March 31, 2002</u>		
	<u>Operating cost</u>	<u>Operating expense</u>	<u>Total</u>	<u>Operating cost</u>	<u>Operating expense</u>	<u>Total</u>
Personnel expense						
Salary expense.....	\$10,138	\$75,752	\$85,890	\$7,873	\$70,466	\$78,339
Insurance expense.....	1,074	5,225	6,299	853	4,620	5,473
Pension expense.....	208	713	921	171	3,325	3,496
Other personnel expense .....	32	132	164	9	166	175
Depreciation expense (note).....	29,552	11,062	40,614	37,228	5,280	42,508
Depletion expense .....	—	—	—	—	—	—
Amortization.....	324	186	510	62	193	255

*Note:* Excluding depreciation expense under non-operating expense.

## 15. INCOME TAX

The Company is subject to the income tax rate of 25 percent. The provision for income taxes for the three-month periods ended March 31, 2003 and 2002 were as follows:

	<u>January 1- March 31, 2003</u>	<u>January 1- March 31, 2002</u>
Current income taxes .....	\$6,122	\$—
Deferred income taxes .....	17,724	2,846
	<u>\$23,846</u>	<u>\$2,846</u>

The differences between “expected” income taxes at the statutory income tax rate and the income tax as reported in the accompanying financial statements for the three-month periods ended March 31, 2003 and 2002 were summarized as follows:

	<u>January 1- March 31, 2003</u>	<u>January 1- March 31, 2002</u>
Income taxes at statutory rate .....	\$52,632	\$11,010
Gains on sale of securities .....	(1,074)	(6,110)
Gains on investment accounted for under the equity method .....	(27,023)	(5,724)
The increment of allowance for income tax asset .....	—	886
Tax-free dividend revenue .....	(700)	—
Others .....	11	2,784
	<u>\$23,846</u>	<u>\$2,846</u>

The deferred income tax expense consists of the following:

	<u>January 1- March 31, 2003</u>	<u>January 1- March 31, 2002</u>
Loss on investment accounted for under equity-method .....	\$—	\$(1,657)
Losses on long-term investments valuation .....	—	(886)
Losses on short-term investments valuation .....	—	6,484
Adjustments of depreciation expense for tax purposes .....	—	(794)
Losses on inventories valuation .....	(57)	—
(Un)realized gain on inter-affiliate accounts .....	935	(38)
Adjustments of employee benefit for tax purposes .....	75	—
Unrealized gain on foreign currency exchange .....	—	(455)
Adjustments of bad debts for tax purposes .....	(1,623)	(644)
Tax credit .....	2,961	—
Loss carryforward .....	15,433	—
Allowance for increment of deferred income tax assets .....	—	886
Others .....	—	(50)
	<u>\$17,724</u>	<u>\$2,846</u>

The Company's deferred income tax assets were as follows:

	<u>March 31, 2003</u>	<u>March 31, 2002</u>
Current:		
Deferred income tax assets .....	\$14,841	\$74,889
Allowances for valuation of deferred income tax assets .....	—	—
Net deferred income tax assets .....	14,841	74,889
Deferred income tax liabilities .....	—	126
Current deferred income tax assets, net .....	<u>\$14,841</u>	<u>\$74,763</u>
Non-current:		
Deferred income tax assets .....	64,462	11,423
Allowances for valuation of deferred income tax assets .....	(7,544)	(6,606)
Net deferred income tax assets .....	56,918	4,817
Deferred income tax liabilities .....	13,235	13,237
Non-current deferred income tax assets(liabilities), net .....	<u>\$43,683</u>	<u>\$(8,420)</u>
Total deferred income tax assets .....	<u>\$79,303</u>	<u>\$86,312</u>
Total deferred income tax liabilities .....	<u>\$13,235</u>	<u>\$13,363</u>
Total allowances for valuation of deferred income tax assets .....	<u>\$7,544</u>	<u>\$6,606</u>

The tax effects of temporary differences incurred from deferred income tax assets and liabilities as of March 31, 2003 and 2002 were as follows:

	<u>March 31, 2003</u>		<u>March 31, 2002</u>	
	<u>Amount</u>	<u>Tax effect</u>	<u>Amount</u>	<u>Tax effect</u>
Deferred income tax assets:				
Loss on investment accounted for under equity-method .....	\$—	\$—	\$12,924	\$3,231
Losses on long-term investments valuation .....	30,177	7,544	26,423	6,606
Losses on inventories valuation .....	9,735	2,434	82,267	20,566
Adjustment of bad debts for tax purposes .....	32,646	8,161	24,338	6,085
Adjustments of depreciation expense for tax purposes .....	13,688	3,422	47,277	11,819
Allowance for loss on disposal of assets .....	—	—	18,753	4,689
Unrealized losses on foreign currency exchange .....	338	85	12,377	3,094
Adjustments of employee benefit for tax purposes .....	900	225	2,400	600
Unrealized gain on inter-affiliate accounts .....	78	19	11,013	2,753
Adjustments of pension expense for tax purposes .....	7,469	1,867	6,345	1,586
Contingent liabilities on sales warrant .....	1,979	495	7,801	1,950
Unused tax credit .....	55,051	55,051	23,183	23,183
Others .....	—	—	599	150
Valuation of allowance .....		79,303		86,312
		(7,544)		(6,606)
		<u>\$71,759</u>		<u>\$79,706</u>

	March 31, 2003		March 31, 2002	
	Amount	Tax effect	Amount	Tax effect
Deferred income tax liabilities:				
Unrealized gain on foreign currency exchange .....	\$—	\$—	248	\$62
Reserve for losses on foreign investments..	52,940	13,235	52,948	13,237
Others.....	—	—	256	64
		<u>\$13,235</u>		<u>13,363</u>

The National Tax Administration of Taipei has reviewed the tax return of the Company through 2000. There was no unpaid tax for 2000.

## 16. EARNINGS PER SHARE

The Company's earnings per share (EPS) is calculated based on the weighted-average outstanding number of shares during the period and is adjusted retroactively to reflect the effect of the increase in issued common stock resulting from declarations of stock dividends. The EPS's contents were as follows:

	For the three-month period ended March 31, 2003				
	Amount		Shares	Earnings per share	
	Before tax	After tax		Before tax	After tax
	(In New Taiwan Dollars)				
Basic EPS:					
Net income for basic earnings per common stock .....	<u>\$210,569</u>	<u>\$186,723</u>	<u>\$288,278</u>	<u>\$0.73</u>	<u>\$0.65</u>
Diluted EPS:					
Net income for diluted earnings per common stock .....	<u>\$210,569</u>	<u>\$186,723</u>	<u>\$288,479</u>	<u>\$0.73</u>	<u>\$0.65</u>
	For the three-month period ended March 31, 2002				
	Amount		Shares	Earnings per share	
	Before tax	After tax		Before tax	After tax
	(In New Taiwan Dollars)				
Basic EPS:					
Net income for basic earnings per common stock .....	<u>\$44,082</u>	<u>\$41,236</u>	<u>\$276,363</u>	<u>\$0.16</u>	<u>\$0.15</u>
Net income for retroactively basic earnings per common stock .....	<u>\$44,082</u>	<u>\$41,236</u>	<u>\$288,278</u>	<u>\$0.15</u>	<u>\$0.14</u>

## 17. RELATED PARTY TRANSACTIONS

(1) Names and relationships of related parties are as follows:

Name	Relationship with the Company
King Ability Enterprise Co., Ltd.	Invested company measured by equity method (changed to cost method in 2002)
Taiwan Imaging Systems Inc.	Invested company measured by equity method
Taiwan Daiohs Co., Ltd.	Invested company measured by equity method
Avy Co., Ltd.	Invested company measured by equity method
Area East Technology Corp.	Invested company measured by equity method (changed to cost method on June, 2002)
Canon Marketing (Taiwan) Co., Ltd.	Invested company measured by equity method
Ability Investment Co, Ltd.	Investor company treat the Company by equity method
Canon Inc.	The Company's major supplier
Ability International Rent Co.,	Invested company measured by equity method
Taishiba International Co., Ltd.	The director is the chairman of the Company
Yu-Ho Foods Co., Ltd.	The chairman is the supervisor of the Company
Uniwill Computer Corp.	The general manager is the vice-chairman of the Company
Ability Enterprise (BVI) Co., Ltd	100% owned subsidiary
Viewquest Technologies International Inc.	Invested company measured by equity method
Viewquest Technologies (BVI) Inc.	Invested company measured by equity method
Others	Related parties defined by R.O.C. SFAS No. 6

(2) **Significant transactions with related parties**

1. *Sales and accounts receivable*

The following is a summary of significant transactions with related parties as of March 31, 2003 and 2002:

	January 1~March 31, 2003		January 1~March 31, 2002	
	Amount	Percentage of revenues	Amount	Percentage of revenues
Yu-Ho Foods Co., Ltd.....	\$171,859	13	\$143,723	17
Canon Marketing (Taiwan) Co., Ltd. ....	9,696	1	90,344	11
King Ability Enterprise Co., Ltd. ....	4,209	—	7,274	1
Uniwill Computer Corp.....	—	—	2,737	—
Taiwan Imaging Systems Inc.....	1,888	—	1,435	—
Taishiba International AI Co., Ltd.....	160,022	12	—	—
Area East Technology Corp.....	210	—	181	—
Others.....	324	—	46	—
Total .....	<u>\$348,208</u>	<u>26</u>	<u>\$245,740</u>	<u>29</u>

The collecting periods of receivables are within one to six months for related parties and one to three months for non-related parties. The markup ratios to Taiwan Imaging Systems Inc., Canon Marketing (Taiwan) Co., Ltd., Yu-Ho Foods Co., Ltd. are 1% to 5% of total costs. The sales price and the term of receivables with Uniwill Computer Corp. Taishiba International Co., Ltd. were based on contracts. The prices for other related parties are 10% to 20% less than prices for non-related parties.

Accounts receivable to related parties for three-month periods ended March 31, 2003 and 2002 were as follows:

	March 31, 2003		March 31, 2002	
	Amount	%	Amount	%
Notes Receivable				
Yu-Ho Foods Co., Ltd.....	\$196,865	79	\$177,820	88
Canon Marketing (Taiwan) Co., Ltd.....	680	—	9,554	5
Avy Co., Ltd.....	52,465	21	8,894	4
King Ability Enterprise Co., Ltd. ....	179	—	6,031	3
Others.....	644	—	891	—
Total .....	<u>\$250,833</u>	<u>100</u>	<u>\$203,190</u>	<u>100</u>

	March 31, 2003		March 31, 2002	
	Amount	%	Amount	%
Accounts Receivable				
Canon Marketing (Taiwan) Co., Ltd.....	\$9,834	4	\$81,169	52
Taishiba International Co., Ltd. ....	124,736	57	—	—
Yu-Ho Foods Co., Ltd.....	77,805	35	53,202	34
VQTI.....	—	—	14,908	9
King Ability Enterprise Co., Ltd. ....	5,706	3	4,306	3
Uniwill Computer Corp.....	—	—	1,387	1
Taiwan Imaging Systems Inc..	2,153	1	1,609	1
Others.....	470	—	838	—
Total .....	<u>\$220,704</u>	<u>100</u>	<u>\$157,419</u>	<u>100</u>

## 2. Purchases and accounts payable

Significant purchases with related parties for the three-month periods ended March 31, 2003 and 2002 were as follows:

	March 31, 2003		March 31, 2002	
	Amount	Percentage of purchases	Amount	Percentage of purchases
Canon Inc. ....	\$69,479	6	\$180,982	34
Taishiba International Co., Ltd.....	—	—	14,013	3
Canon Marketing (Taiwan) Co., Ltd. ....	4,221	—	5,350	1
Viewquest Technologies (BVI) Inc. ....	587,023	50	168,565	31
Ability International Rent Co., Ltd .....	31,991	3	—	—
Total.....	<u>\$692,714</u>	<u>59</u>	<u>\$368,910</u>	<u>69</u>

The Company's purchases from Canon Inc. had been paid by long-term letters of credit or T/T within fifteen days. For Taishiba International Co., Ltd, it had been paid by T/E with maturity of fifty-five days or promissory note while other payables to related parties were within one to six months. Payables to suppliers were by promissory note within one to three months. There were no significant differences for purchase prices between related parties and other suppliers.

Purchases and accounts payable with related parties for the three-month periods ended March 31, 2003 and 2002 was as follows:

	March 31, 2003		March 31, 2002	
	Amount	%	Amount	%
Notes Payable:				
Canon Marketing (Taiwan) Co., Ltd. ....	\$610	3	\$4,564	13
Accounts Payable				
Viewquest Technologies (BVI) Inc...	\$159,679	72	\$111,715	48
Ability International Rent Co., Ltd ..	30,668	14	—	—
Canon Inc. ....	23,694	11	110,055	47
Canon Marketing (Taiwan) Co., Ltd. ....	1,531	1	—	—
Taishiba International Co., Ltd.....	60	—	10,144	4
Yu-Ho Foods Co., Ltd.....	2,883	1	—	—
Others.....	2,275	1	137	1
	<u>\$220,790</u>	<u>100</u>	<u>\$232,051</u>	<u>100</u>

3. *Accounts receivable from related parties (Other financial assets-current)*

The Company financed to related parties for the three-month periods ended March 31, 2003 were as follows:

	Highest balance for the three-month period ended March 31, 2003	Balance on March 31, 2003	Interest Revenue	Interest Rate %	Collateral Offer
Yu-Ho Foods Co., Ltd.	\$15,000	\$—	\$—	5.15~5.35	Promissory note NT\$319,500 thousand (returned)
King Ability Enterprise Co., Ltd.	1,976	1,976	12	3.80	Promissory note NT\$2,000 thousand
Taishiba International Co., Ltd.	23,100	23,100	78	2.70	Promissory note NT\$50,000 thousand
		<u>\$25,076</u>	<u>\$90</u>		

The Company financed related parties for the three-month period ended March 31, 2002 were as follows:

	<b>Highest balance for the three- month period ended March 31, 2003</b>	<b>Balance on March 31, 2002</b>	<b>Interest Revenue</b>	<b>Interest Rate %</b>	<b>Collateral Offer</b>
Yu-Ho Foods Co., Ltd.	\$9,700	\$9,700	\$79	5.35	Promissory note NT\$319,500 thousand
Avy Co., Ltd.	31,000	31,000	54	4.625~4.89	Promissory note NT\$31,000 thousand
Taishiba International Co., Ltd.	6,850	6,850	5	3.28	Promissory note NT\$50,000 thousand
		<u>\$47,550</u>	<u>\$138</u>		

4. *Leases*

- (1) The Company leased the buildings and warehouses from related parties. The rent expenses for the three-month periods ended March 31, 2003 and 2002 were as follows:

	<b>March 31, 2003</b>		<b>March 31, 2002</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Ability Investment Co, Ltd. ..	<u>\$1,697</u>	<u>21</u>	<u>\$2,174</u>	<u>25</u>

- (2) The Company leased the buildings to related parties. The rent revenue for the three-month periods ended March 31, 2003 and 2002 were as follows:

	<b>March 31, 2003</b>		<b>March 31, 2002</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Canon Marketing (Taiwan) Co., Ltd. ....	\$1,082	13	\$1,930	22
Taishiba international Co., Ltd. ..	449	6	314	4
Taiwan Imaging Systems Inc. ....	30	—	232	3
King Ability Enterprise Co., Ltd. ....	129	2	129	1
Others .....	12	—	12	—
	<u>\$1,702</u>	<u>21</u>	<u>\$2,617</u>	<u>30</u>

5. *Other revenues*

The subsidy received from Canon Inc. as of three-month periods ended March 31, 2003 and 2002 were as follows:

	<b>March 31, 2003</b>	<b>March 31, 2002</b>
Advertisement subsidy .....	<u>\$—</u>	<u>\$1,067</u>

For the three-month periods ended March 31, 2003 and 2002, the above subsidy, NT\$0 and NT\$736 thousand, were recorded respectively as deduction item of cost of goods sold. The remaining was recorded as other incomes. Accounts receivable of the subsidy were NT\$0 and NT\$1,120 thousand for the three-month periods ended March 31, 2003 and 2002, respectively.

6. *Receipts and payments for others (recorded under other financial assets-current)*

The accounts receivable incurred from purchasing raw materials for related parties for the three-month periods ended March 31, 2003 and 2002 were as follows.

	<b>March 31, 2003</b>		<b>March 31, 2002</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Viewquest Technologies (BVI) Inc.....	\$53,610	59.49	\$2,330	4.90
Viewquest Technologies International Inc. ....	8,139	9.03	14,908	31.35
Uniwill Computer Corp.....	3,281	3.64	1,387	2.92
	<u>\$65,030</u>	<u>72.16</u>	<u>\$18,625</u>	<u>39.17</u>

7. *Endorsements*

- (1) The related parties providing endorsements of loans or notes for the Company as of March 31, 2003 and 2002 were as follows:

	<b>March 31, 2003</b>	<b>March 31, 2002</b>
Ability Investment Co., Ltd. ....	<u>\$—</u>	<u>\$190,300</u>

- (2) The Company providing endorsements of loans or notes for the related parties as of March 31, 2003 and 2002 were as follows:

	<b>March 31, 2003</b>	<b>March 31, 2002</b>
Abiliy Enterprise (BVI) Co., Ltd.....	\$29,626	\$—
Viewquest Technologies (BVI) Inc. ....	—	373,034
	<u>\$29,626</u>	<u>\$373,034</u>

## 18. PLEDGED ASSETS

The Company provides rental assets, fixed assets or certificates of deposit as collaterals for the bank loans or issuance of commercial paper. As of March 31, 2003 and 2002, book value of pledged assets were as follows:

<u>Collateral</u>	<u>Pledged to secure</u>	<u>March 31, 2003</u>	<u>March 31, 2002</u>
Rental Assets:			
Land	Long-term loans	\$135,340	\$144,201
Buildings	Long-term loans	222,666	230,093
		<u>358,006</u>	<u>374,294</u>
Fixed Assets:			
Land	Long-term loans	\$271,242	265,646
Buildings	Long-term loans	341,844	346,272
Machinery and equipments	Long-term loans	—	34,926
		<u>613,086</u>	<u>646,844</u>
Time Deposits (recorded as other assets - non-current)	Bonds payable	<u>27,112</u>	<u>33,000</u>
Total		<u><u>\$998,204</u></u>	<u><u>\$1,054,138</u></u>

## 19. COMMITMENTS AND CONTINGENCIES

- (1) As of March 31, 2003 and 2002, in order to purchase inventories, the unused letters of credit of the Company amounted to NT\$181,352 thousand and NT\$56,643 thousand, respectively.
- (2) As of March 31, 2003 and 2002, the expected future lease payments of buildings were as follows:

	<u>March 31, 2003</u>	<u>March 31, 2002</u>
2002.4.1~2003.3.31 .....	\$—	\$6,903
2003.4.1~2004.3.31 .....	14,983	3,016
2004.4.1~2005.3.31 .....	13,551	1,151
2005.4.1~2006.3.31 .....	3,397	144
2006.4.1~2007.3.31 .....	54	108
	<u><u>\$31,985</u></u>	<u><u>\$11,322</u></u>

(3) As of March 31, 2003 and 2002, fixed assets rented out were as follows:

<u>Lessee</u>	<u>Lease Period</u>	<u>Lease Terms</u>	<u>Rent revenues of the three- month period ended March 31, 2003</u>	<u>Rent revenues of the three- month period ended March 31, 2003</u>
Starbucks Coffee Company	2000.1.8~2010.1.7 (1999.12.1~2009.11.30 originally)	Monthly rent has been changed from NT\$340 thousand (tax included) to NT\$290 thousand since August, 2001. The rent is collected on the first day of every month and adjusted from second year by three percent annually.	\$829	\$829
Veri Fone Systems Pte. Ltd. Taiwan Branch	2000.9.1~2003.8.31	Monthly rent, NT\$824 thousand (tax included), payable on the first day of every month.	2,353	2,353
Taiwan Business Bank	2001.6.20~2006.6.19	Monthly rent, NT\$984 thousand (tax included), paid semiannually within 7 working days.	2,688	2,529

In the future, the expected annual lease receivables were as follows:

<u>Year</u>	<u>Amount</u>
2003.4.1~2004.3.31 .....	\$17,992
2004.4.1~2005.3.31 .....	14,180
2005.4.1~2006.3.31 .....	14,235
2006.4.1~2007.3.31 .....	6,287
2007.4.1~2008.3.31 .....	3,657
2008.4.1~2011.1.7 .....	6,658 (Present value of NT\$4,866 with 5% discount rate)
 Total .....	 <u><u>\$63,009</u></u>

(4) The litigation case as of March 31, 2003 was as follow:

Wei Tai Kuang Co., Ltd. brought a civil claim against the Company on February 27, 1997. Wei Tai Kuang Co., Ltd. claimed to have made an agreement with the Company since June 1994. According to the agreement, the Company was obliged to recall its laser printers and electric components, originally sold to Wei Tai Kuang Co., Ltd. The Company, however, did not recall and pay back. As a result, Wei Tai Kuang Co., Ltd. filed a lawsuit for NT\$5,261 thousand and the related interests. The Court of Appeal made the second instance on April 29, 1999 and decided to reject the application. Wei Tai Kuang Co., Ltd. appealed, then The Supreme Court dismissed the judgment of The Court of Appeal on April 29, 1999. The Company appealed on again on January 28, 2000. On May 18, 2001, The Supreme Court dismissed the original judgment and sent it back to the second instance. The Court of Appeal dismissed the original judgment made on December 26, 2001, and Wei Tai Kuang Co., Ltd.'s first instance lawsuit and the application for provisional of execution were both rejected. Wei Tai Kuang Co., Ltd. was dissatisfied with the decision of the court of appeal and lodge an application for leave to appeal to The Supreme Court.

If the result is unfavorable to the Company, the maximum loss would be the amount referred above.

## 20. FINANCIAL INSTRUMENTS

### (1) Derivatives

#### 1) *Notional amount and credit risk amount*

As of March 31, 2003, the company had cleared its derivatives accounts. All transaction revenues and losses related were listed as non-operating revenues or losses.

The notional amount, book value and credit risk amount as of March 31, 2002 were as follows:

<u>Category</u>	<u>March 31, 2002</u>		
	<u>Notional amount</u>	<u>Book value amount</u>	<u>Credit risk amount</u>
Currency Options:			
Buy US Dollars/Sell NT Dollars.....	<u>USD5,000</u>	\$—	\$—
Interest rate swap .....	<u>NTD200,000</u>	\$—	\$—

The credit risk amount, accounting for potential market risk and credit risk, represents the possibility that an accounting loss to the Company may occur as a direct result of the counterparts' failure to meet their contractual obligations. The Company only deals with the counterparts who are well-known financial institutions with excellent credit standing. Consequently, the Company does not anticipate any significant credit risk.

#### 2) *Market price risk*

The Company engaged in derivative transactions for hedging purposes. The exchange rate risk and interest rate risk exposure derived from future foreign currency fluctuations and interest rate changes are expected to be offset by the effects of such changes on hedged transactions. In addition to the short-term maturity and endurable fluctuation range of derivative transactions for non-hedging purposes, the market price risk is not expected to be material.

#### 3) *Liquidity risk, cash flow risk, forecasted amount, period and uncertainty of cash demands*

a. The Company forecasted its working capital is adequate to meet its derivatives transaction needs. On that account, the Company does not anticipate significant capital raising risk and cash flow risk.

b. The Company is engaged in an interest rate swap contract with banks from November 8, 2001 to November 12, 2002. The Company exchanges the semiannually paid interest of fixed interest rate, 2.12%, with interest of floating rate.

4) The primary objective of holding forward contracts and currency options for hedging purposes is to limit exchange rate exposures related to assets and liabilities denominated in foreign currencies and foreign currency commitments. In order to be highly effective in achieving offsetting changes in fair market value attributable to the hedged risk, the Company designates derivative instruments negatively correlated to the proportionate changes in the fair market value of hedged item as hedging tools. Moreover, the positions are monitored on a timely basis.

5) As of March 31, 2003 and 2002, the Company incurred transactional exchange gain amounted to NT\$935 thousand and NT\$504 thousand, respectively from exchange rate derivatives, while interest revenues were NT\$297 thousand and NT\$108 thousand, respectively from interest rate derivative.

- (2) Fair market value and book value of financial instruments determined as of March 31, 2003 and 2002 were as follows:

<b>Non-derivative financial instruments</b>	<b>March 31, 2003</b>		<b>March 31, 2002</b>	
	<b>Book value</b>	<b>Fair market value</b>	<b>Book value</b>	<b>Fair market value</b>
<b>Assets:</b>				
Cash and cash equivalents .....	\$335,539	\$335,539	\$325,753	\$325,753
Short-term investments .....	137,149	139,744	1,295,409	1,299,510
Notes receivable .....	38,417	38,417	49,553	49,553
Notes receivable - related parties .....	248,325	248,325	201,158	201,158
Accounts receivable .....	575,535	575,535	307,565	307,565
Accounts receivable - related parties .....	220,137	220,137	155,505	155,505
Other current assets .....	193,318	193,318	108,294	108,294
Long-term equity investments .....	1,870,580	1,843,008	1,524,641	1,486,902
Other non-current assets .....	67,582	67,582	87,311	87,311
<b>Liabilities:</b>				
Short-term borrowings .....	90,929	90,929	492,263	492,263
Short-term notes and bills payable .....	99,875	99,875	314,170	314,170
Notes payable .....	22,319	22,319	34,045	34,045
Accounts payable .....	318,758	318,758	208,574	208,574
Accounts payable - related parties .....	220,790	220,790	232,051	232,051
Accrued expenses .....	107,501	107,501	77,506	77,506
Income taxes payable .....	10,241	10,241	31,819	31,819
Long-term borrowings - current portion .....	300,000	300,000	21,574	21,574
Other current liabilities .....	14,550	14,550	44,770	44,770
Bonds payable .....	—	—	300,000	300,000
Guarantee deposits received .....	—	—	8,420	8,420

The methods and assumptions for estimating fair values of non-derivative financial instruments are as follows:

1. Short-term financial instruments, such as cash and cash equivalents, accounts receivable and payable, notes receivable and payable, short-term borrowings and commercial papers payable, accrued expenses and other current assets and liabilities, are stated at book value because of the short maturity of these instruments.
2. Short-term investments are valued at the market price, if available. If the information were not readily available, the Company would evaluate based on other financial information.
3. If the market value were available, long-term equity investments would be recorded at the market value. If it were not available, long-term equity investments would be recorded at the book value of invested companies on the balance sheet day.
4. The fair value of long-term borrowings is estimated by discounting future cash flows at the current loan rate of the market. The discount rate is determined by the long-term loan rate of similar loans such as similar maturity.
5. Other financial instruments-non-current and guarantee deposits received are estimated by discounting future cash flows at the current loan rate of the market. The discount rate is determined by the rate of similar cases such as similar maturity. If the maturity of the financial instruments did not exist or was less than one year, the instruments would not be discounted.

- (3) Non-derivative financial instruments with off-balance-sheet market price risk were as follows:

<b>Off-balance-sheet financial instruments</b>	<b>March 31, 2003</b>		<b>March 31, 2002</b>	
	<b>Book value</b>	<b>Fair market value</b>	<b>Book value</b>	<b>Fair market value</b>
Letters of credit .....	\$—	\$156,244	\$—	\$56,643
Endorsements .....	—	29,626	—	373,034

- (4) Non-derivative financial instruments with concentration of credit risk were as follows:

As of March 31, 2003 and 2002, the balance exceed 5% of the balance of notes receivable amounted to NT\$249.33 million and NT\$177.82 million, or 87% and 70%, respectively.

As of March 31, 2003 and 2002, the balance exceed 5% of the balance of accounts receivable amounted to 432.08 million and NT\$301.26 million, or 54% and 65%, respectively.

## 21. MERGER

For the purposes of complying government's policy, optimizing capital management, integrating vertically and enhancing business performance and competitiveness, the shareholders' meeting of the Company approved the merger with Viewquest Technologies Inc. The Company would be the surviving company while Viewquest Technologies Inc. the extinguished one. With the approval of SFC, the merger was effective from January 1, 2003. Viewquest Technologies Inc. assigned its major assets and liabilities to the Company by means of share transfer. In accordance of 12 terms listed in the declaratory statutes of October 18, 1996 No. 220 and 221, equity method was used to account for the merger. Under equity method, the value of shares of the Company being merged amounted to NT\$863.43 million was higher than newly issued shares amounted to NT\$777.865 million. Therefore the capital surplus-additional paid-in capital was debited for the difference, NT\$85,565 thousand.

Disclosure items related to the merger were as follows:

- (1) The profile of the merged company

Name of the Company	Viewquest Technologies Inc.
Established date	August 15, 1998
Capital	NT\$863.43 million
Shares issued	86.34 million shares
Business and operations	Image Input/Processing Device, including PC Camera (DVC) and Digital Still Camera (DSC)

- (2) The equity method and related information about stocks issuance

According to the agreement between the Company and Viewquest Technologies Inc., and the approval of shareholders' meeting, the surviving company issued new stocks to exchange 100% of the extinguished company's equity under the equity method on January 1, 2003.

The conversion ratio for Viewquest Technologies Inc. to the Company was 1.11 to 1. Hence, the increased share capital of the Company was NT\$777.865 million or 77.787 thousand shares with par value NT\$10.

- (3) Adjustments to adopt coherent accounting principles: None
- (4) Cost of the merger; type, quantity and volume of issued stocks for the merger: None
- (5) Adjustments of the surviving company and the consolidated company's net profits:

	<b>March 31, 2002</b>
Net income after tax of surviving company .....	\$82,352
Net income after tax of extinguished company .....	(41,116)
	<hr/>
Net income after tax of consolidated business entity .....	\$41,236
	<hr/> <hr/>

## 22. SIGNIFICANT AGENCY CONTRACTS

- (1) The Company signed the contract to act as an agent for Canon Hong Kong Co., Ltd. on March 31, 2003. The products consist of copy machine and facsimile machine. There are restriction terms including not to compete and sales area limit.
- (2) The Company signed the contract to act as an agent for Canon Inc.'s microcopy system from February 17, 2002 to February 16, 2003. The contract renewed every year automatically if no disagreement. There is not to compete covenant in the contract.
- (3) The Company signed the contract to act as Canon Singapore Pte. Ltd.'s agent in the Vietnam area from January 1, 2003 to December 31, 2003. Without the formal termination notices, the contract renewed every year automatically. There are restriction terms including not to compete and sales area limit.

## 23. ADDITIONAL DISCLOSURE ITEMS

- (1) Information related to significant transactions:

<b>Contents</b>	<b><u>Illustration</u></b>
Loans to others.....	Chart 1
Endorsement for others.....	Chart 2
Securities held as of March 31, 2003.....	Chart 3
Accumulated stock purchases or sales for the same stock of NT\$100 million or more than 20% of the Company's paid-in capital as of March 31, 2003.....	N/A
Real estate purchase reaching NT\$100 million or more than 20% of the Company's paid-in capital.....	N/A
Real estate disposals of NT\$100 million or more than 20% of the Company's paid-in capital.....	N/A
Purchases and sales with the related parties of NT\$100 million or more than 20% of the Company's paid-in capital.....	Chart 4
Receivables from the related parties of NT\$100 million or more than 20% of the Company's paid-in capital.....	Chart 5
Financial derivatives .....	See Note 20

1) Loans to others as of March 31, 2003 were as follows:

No.	Loan provider	Loan borrower	Trading entry	Largest amount in this period	Balance	Interest rate	Character	Business dealings amount	Reason	Allowance for bad debt		Upper limit on loan to individual company (see note)	Total limit amount
										Item	Value		
1	Ability Enterprise Co., Ltd.	Taishiba International Co., Ltd.	Receivables from the related parties (other current asset)	\$23,100	\$23,100	2..70	Trading	Sales \$160,022	—	Promissory note	\$50,000	\$160,022	40% of company's net value
2	Ability Enterprise Co., Ltd.	King Ability Enterprise Co., Ltd.	Receivables from the related parties (other current asset)	1,976	1,976	3.80	Trading	Sales \$4,209	—	Promissory note	2,000	4,209	\$1,595,171
3	Ability Enterprise Co., Ltd.	Yu-Ho Foods Co., Ltd.	Receivables from the related parties (other current asset)	15,000	—	5.15~5.35	Trading	Sales \$171,859	—	Promissory note	319,500	171,859	

*Note:* The Company's guidelines on loans to others: The upper limit of loans to every individual is 40% of the Company's net value or business dealings amount (purchase or sales which is higher). Total amount of the Company's loans to others should be under 40% of the Company's net value.

2) Endorsements of others as of March 31, 2003 were as follows:

No.	Guarantee issuer	Guaranteed company		Limit of endorsements to single company	The highest amount of endorsements this period	Balance of endorsements	Amount of endorsements assured by properties	Percentage of cumulated endorsements over net value in previous period	The upper limit on endorsements
		Company's name	Relationship						
0	Ability Enterprise Co., Ltd.	Ability Enterprise (BVI) Co., Ltd.	2	\$3,987,928	\$29,626	\$29,626	\$—	0.74%	\$7,975,856

*Note 1:* The Company's guidelines on endorsements to others: The upper limit of endorsements to every individual is 100% of the Company's net value. Total amount of the Company's endorsements to others should be under 200% of the Company's net value.

*Note 2:* Relationship between the financial guarantees issuer and the guaranteed company is as follows:

1. business partners
2. directly held 50% or more of the subsidiary equity
3. more than 50% of shareholder's equity being held by the parent company and the subsidiary companies
4. the parent company that holds other company's common shares over 50% directly or indirectly via the subsidiary companies
5. the affiliated companies mutually guaranteed due to the construction needs
6. companies guaranteed by shareholders according to percentage of equity held.

3) Securities held as of March 31, 2003 (number of shares and amounts are in thousands) were as follows:

		March 31, 2003						
Holding company	Security category and name	Relationship with the issuer	Recording entry	Shares	Cost	%	Fair market value	Note
Ability Enterprise Co., Ltd.	Asia Optical Co., Inc.	—	Short-term investments	37,620	\$4,149	—	\$6,334	—
Ability Enterprise Co., Ltd.	National Investment Trust Co., Ltd. Bond Fund	—	Short-term investments	64,575	10,000	—	10,000	—
Ability Enterprise Co., Ltd.	Capital Group Bond Fund	—	Short-term investments	1,441,774	20,000	—	20,078	—
Ability Enterprise Co., Ltd.	Taiwan International Securities Co., Ltd. Bond Fund	—	Short-term investments	4,120,834	55,000	—	55,154	—
Ability Enterprise Co., Ltd.	Jih Sun Bond Fund	—	Short-term investments	3,734,101	48,000	—	48,178	—
Ability Enterprise Co., Ltd.	Wan Hai Lines Ltd.	—	Long-term investment	161	3	—	5	—
Ability Enterprise Co., Ltd.	Ability International Investment Co., Ltd.	—	Long-term investment	19,899,400	210,315	99.99	160,169	—
Ability Enterprise Co., Ltd.	Taiwan Imaging Systems Inc.	Invested company measured by equity method	Long-term investment	1,865,000	22,606	93.25	22,618	—
Ability Enterprise Co., Ltd.	King Ability Enterprise Co., Ltd.	—	Long-term investment	234	2,400	19.50	2,542	—
Ability Enterprise Co., Ltd.	Avy Co., Ltd.	Invested company measured by equity method	Long-term investment	16,566,335	239,867	63.72	244,959	—
Ability Enterprise Co., Ltd.	Ability International Rent Co., Ltd.	Invested company measured by equity method	Long-term investment	899,000	10,265	44.95	10,337	—
Ability Enterprise Co., Ltd.	Canon Marketing (Taiwan) Co., Ltd.	Invested company measured by equity method	Long-term investment	4,104,693	35,057	48.87	25,221	—
Ability Enterprise Co., Ltd.	Abico Automation Co., Ltd.	Invested company measured by equity method	Long-term investment	480,000	2,342	48.00	1,902	—
Ability Enterprise Co., Ltd.	Abiconet International Co., Ltd.	Invested company measured by equity method	Long-term investment	2,000,000	20,348	40.00	20,348	—
Ability Enterprise Co., Ltd.	Taiwan Daijohs Co., Ltd.	Invested company measured by equity method	Long-term investment	1,395,000	6,756	39.86	5,607	—
Ability Enterprise Co., Ltd.	Area East Technology Corp. E-Ten Corp.	—	Long-term investment	1,000,000	10,075	15.36	10,075	—
Ability Enterprise Co., Ltd.		Ability Enterprise is one of the board directors in this company	Long-term investment	5,100,237	67,981	3.40	53,808	—

March 31, 2003

Holding company	Security category and name	Relationship with the issuer	Recording entry	Shares	Cost	%	Fair market value	Note
Ability Enterprise Co., Ltd.	Xander International Corp.	—	Long-term investment	260,800	8,202	0.38	3,891	
Ability Enterprise Co., Ltd.	Power World Fund, Inc.	—	Long-term investment	2,500,000	\$25,000	2.84	\$23,370	
Ability Enterprise Co., Ltd.	Jung Shing Wire Co., Ltd	—	Long-term investment	367,558	2,781	0.34	6,447	
Ability Enterprise Co., Ltd.	Shin Kong Financial Holding Co., Ltd.	Ability Enterprise is one of the board directors in this company	Long-term investment	559,701	10,565	0.02	5,200	
Ability Enterprise Co., Ltd.	Taiwan Ohara Optical Co., Ltd.	Ability Enterprise is one of the board directors in this company	Long-term investment	280,000	14,000	7.00	29,442	
Ability Enterprise Co., Ltd.	Taiwan Video & Monitor Corp.	—	Long-term investment	1,282,000	15,063	1.28	16,336	
Ability Enterprise Co., Ltd.	CC&C Technologies, Inc.	Ability Enterprise is one of the board directors in this company	Long-term investment	500,000	7,200	1.00	4,652	
Ability Enterprise Co., Ltd.	Vivavr Technology Co., Ltd	Ability Enterprise is one of the board directors in this company	Long-term investment	291,000	3,546	2.08	2,257	
Ability Enterprise Co., Ltd.	Cathay Financial Holding Co., Ltd.	—	Long-term investment	183,333	11,045	—	6,968	
Ability Enterprise Co., Ltd.	Breeze Digi Tal Technology Co., Ltd.	Ability Enterprise is one of the board directors in this company	Long-term investment	490,000	4,900	9.80	2,224	
Ability Enterprise Co., Ltd.	Presto Computer turn-up Network Inc.	Ability Enterprise is one of the board directors in this company	Long-term investment	700,000	3,663	9.33	2,353	
Ability Enterprise Co., Ltd.	Featron Computer Co., Ltd.	—	Long-term investment	289,700	—	2.09	—	
Ability Enterprise Co., Ltd.	Minton Optic Industry Co., Ltd.	—	Long-term investment	2,622,000	68,400	4.91	39,317	
Ability Enterprise Co., Ltd.	Daid Image Corporation	—	Long-term investment	1,500,000	22,500	5.00	18,989	
Ability Enterprise Co., Ltd.	Chiabon Venture Capital Co., Ltd.	—	Long-term investment	10,000,000	100,000	10.00	99,438	
Ability Enterprise Co., Ltd.	General Plastic Industrial Co., Ltd.	—	Long-term investment	400,000	22,400	0.66	15,200	
Ability Enterprise Co., Ltd.	Elite Advanced Laser Corporation	—	Long-term investment	1,500,000	15,000	3.03	12,492	

4) Purchases and sales with the related party of NT\$100 million or more than 20% of the Company's capital as March 31, 2003:

Purchaser (Supplier)	Trading party	Relationship	Purchases (Sales)			Trading situation			Reason			Account receivable (payable)		
			Amount	Percentage of related account %	Period	Unit price	Period	Balance	Percentage of related account %	Note				
Ability Enterprise Co., Ltd.	Yu-Ho Foods Co., Ltd.	Chairman is the Company's supervisor	Sales	\$171,859	13	One to Six months	—	—	Notes receivable \$196,865 Accounts receivable \$77,805	69	—	9	—	
Ability Enterprise Co., Ltd.	Viewquest Technologies (BVI) Inc.	Invested company measured by equity method	Purchase	587,023	50	Based on agreement	—	—	Accounts payable \$159,679	30	—	—	—	
Ability Enterprise Co., Ltd.	Taishiba International Co., Ltd.	The Company's chairman is one of the Taishiba's board director	Sales	160,022	12	Based on agreement	—	—	Accounts receivable \$124,736	16	—	—	—	

5) Receivables from the related parties reaching NT\$100 million or more than 20% of the Company's paid-in capital

Company	Trading party	Relationship	Receivable from the related parties		Receivable due from the related parties		Post-period collected amount	Allowance for bad debt
			Amount	Turnover	Amount	Process		
Ability Enterprise Co., Ltd.	Yu-Ho Foods Co., Ltd.	The board chairman is the Company's supervisor	\$274,670	\$2.50	\$—	\$—	\$16,336	\$2,358
Ability Enterprise Co., Ltd.	Taishiba International Co., Ltd.	The Company's chairman is one of the Taishiba's board director	124,736	5.13	—	—	—	—

(2) Information on the Company's invested companies:

Contents	Illustration
Invested companies' profiles.....	Chart 1
Loan to others.....	Chart 2
Endorsements to others.....	Chart 3
Securities held on March 31, 2003 .....	Chart 4
Accumulated stock purchases or sales for the same stock reaching NT\$100 million or more than 20% of paid-in capital .....	N/A
The amount of purchasing real assets reaching NT\$100 million or more than 20% of paid-in capital .....	N/A
The amount of selling real assets reaching NT\$100 million or more than 20% of paid-in capital.....	N/A
Purchases and sales with the related parties reaching NT\$100 million or more than 20% of paid-in capital.....	Chart 5
Accounts receivable with related parties reaching NT\$100 million or more than 20% of paid-in capital.....	Chart 6
Financial derivatives .....	N/A

1) Invested companies' profiles as of March 31, 2003 were as follows:

Investor	Invested company	Invested company's address	Business	Original investment amount		March 31, 2003		Invested company's year 2002 gain/loss recognition	Note
				March 31, 2003	March 31, 2002	Percentage (%)	Book value		
Ability Enterprise Co., Ltd.	Ability Enterprise (BVI) Co., Ltd.	3rd Floor, Omar Hodge Building, Wickhams Cay I, P O Box 362, Road Town, Tortola British Virgin Islands	A holding company	\$247,504	\$247,504	100.00	\$686,653	\$135,517	Subsidiary company
Ability Enterprise Co., Ltd.	Ability International Investment Co., Ltd.	12th Fl., No.147 Fu-Hsing N.RD. Taipei, Taiwan, R.O.C.	General investment	198,994	198,994	99.99	210,315	(3,266)	(3,266) Subsidiary company
Ability Enterprise Co., Ltd.	Taiwan Imaging Systems Inc.	10th Fl., No.147 Fu-Hsing N.RD. Taipei, Taiwan, R.O.C.	Disk products	17,850	17,850	93.25	22,607	(1,209)	(1,127) Subsidiary company

Investor	Invested company	Invested company's address	Business	Original investment amount		March 31, 2003		Invested company's year 2002 gain/loss recognition	Note	
				March 31, 2003	March 31, 2002	Shares	Percentage (%)			Book value
Ability Enterprise Co., Ltd.	Avy Co., Ltd.	No.56, Sec. 2, Ya-Tarn RD., Tantzou, Taichung Hsien, Taiwan, R.O.C.	Electron Optics	\$287,591	\$155,164	16,566,335	63.72	\$239,867	\$8,738	\$6,814 Subsidiary company
Ability Enterprise Co., Ltd.	Ability International Rent Co., Ltd.	6th Fl., No.147 Fu-Hsing N.RD. Taipei, Taiwan, R.O.C.	Leases	8,990	8,990	899,000	44.95	10,265	116	61 Subsidiary company
Ability Enterprise Co., Ltd.	Abico International Holding Co. Ltd	Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands	A holding company	39,602	—	—	100.00	147,495	(401)	(401)Subsidiary
Ability Enterprise Co., Ltd.	Viewquest Technologies International Inc.	46716 Lakeview Blvd. Fremont.CA 94538	Sale of equipments about computer, camera and electron optics	50,729	50,729	—	100.00	—	(2,283)	(2,283)Subsidiary
Ability Enterprise Co., Ltd.	Viewquest Technologies (BVI) Inc.	The premises of Commonwealth Trust Limited, Sealight House, Tortola, British Virgin Islands	Production and sale of equipments about computer, camera and electron optics	213,972	213,972	—	100.00	105,198	(27,223)	(27,223)Subsidiary
Ability Enterprise Co., Ltd.	Canon Marketing (Taiwan) Co., Ltd.	12th Fl., No.147 Fu-Hsing N.RD. Taipei, Taiwan, R.O.C.	Sale of copy machines	61,145	61,145	4,104,693	48.87	35,057	—	— Note 1

Investor	Invested company	Invested company's address	Business	Original investment amount		March 31, 2003		Invested company's year 2002 income	Invested company's year 2002 gain/loss recognition	Note
				March 31, 2003	March 31, 2002	Shares	Percentage (%)			
Ability Enterprise Co., Ltd.	Abico Automation Co., Ltd.	12th Fl., No.101 Fu-Hsing N.RD. Taipei, Taiwan, R.O.C.	Automation system	\$2,880	\$2,880	480,000	48.00	\$2,342	\$—	Note 1
Ability Enterprise Co., Ltd.	Abiconet International Co., Ltd	7th Fl., No.178 Sec. Nan King E.RD. Taipei, Taiwan, R.O.C.	Wholesale of machinery equipments	20,000	20,000	2,000,000	40.00	20,348	—	Note 1
Ability Enterprise Co., Ltd.	Taiwan Daihohs Co., Ltd.	2nd Fl., No.15 Lane 101, Sec.2, Xinsheng N.RD. Taipei, Taiwan, R.O.C.	Retail of foods and beverages	13,950	13,950	1,395,000	39.86	6,756	—	Note 1
Ability Enterprise Co., Ltd.	Guang Dong United Optical Instrument Co., Ltd	Xiao-Bian the Second Industry Zone, Chang-An Town, Dongguan City, Guangdong Province China.	Production, design and sale of camera	28,097	28,097	—	22.85	33,890	—	Note 1

*Note 1:* The recognition of investment revenues were deferred for one year.

2) Loans to others as of March 31, 2003 were as follows:

No.	Loan provider	Loan borrower	Trading entry	Upper limit on loans to individual	Maximum balance amount in this period	Interest rate	Reason	Allowance for bad debt	Collateral		Business dealings amount	The upper limit (Note)
									Name	Value		
0	Avy Co., Ltd.	Gold Market Investments Ltd.	Short-term loans	\$42,326	\$41,823	4.0-6.0	Operation needs	—	Promissory note	\$41,823	\$6,635	\$153,780

*Note:* The Company's guidelines on loans to others: The upper limit of loans to every individual is 40% of the Company's net value or business dealings amount (purchase or sales which is higher). Total amount of the Company's loans to others should be under 40% of the Company's net value.

3) Endorsements to others as of March 31, 2003 were as follows:

No.	Endorsements issuer	Company's name	Relationship	Upper limit endorsements to individual (Note)	Maximum amount of endorsements	Amount of endorsements of March 31, 2003	Amount of endorsements assured by properties	The percentage of endorsements over net value of recent financial statement	The highest limited amount of endorsements (Note)
0	Avy Co., Ltd.	Avy Co., Ltd. (BVI)	Investee under equity method	\$384,450	\$8,000	\$8,000	\$—	2.08	\$768,900

*Note:* The Company's guidelines on endorsements for others: The upper limit of endorsements to every individual is 100% of the Company's net value. Total amount of the Company's endorsements for others should be under 200% of the Company's net value.

4) Securities held as of March 31, 2003 were as follows (number of shares and amounts are in thousands):

							December 31, 2003		
Holding company	Category and name of security	Relationship with the issuer	Recording entry	Shares	Cost	%	Fair market value	Note	
Ability International Investment Co., Ltd	CC&C Technology Co., Ltd.	—	Long-term investment	1,000,000	\$7,990	2	\$7,990	—	
Ability International Investment Co., Ltd	Fubon Financial Holding Co., Ltd.	—	Long-term investment	1,331,754	51,688	0.01	35,461	—	
Ability International Investment Co., Ltd	E-Ten Information Systems Co., Ltd.	—	Long-term investment	866,482	45,208	0.58	9,145	—	
Ability International Investment Co., Ltd	Nien Hsing Tex Tile Co., Ltd.	—	Short-term investment	300,000	8,716	0.05	9,400	—	
Ability International Investment Co., Ltd	Acer Computer Co., Ltd	—	Short-term investment	440,584	22,482	0.02	13,832	—	
Ability International Investment Co., Ltd	Teco Electric & Machinery Co., Ltd.	—	Short-term investment	1,150,000	17,075	0.06	12,611	—	
Ability International Investment Co., Ltd	Jung Shing Wire Co., Ltd.	—	Long-term investment	1,804,000	29,496	1.80	31,639	—	
Ability International Investment Co., Ltd	Ability International Rent Co., Ltd.	—	Long-term investment	1,000	10	0.05	10	—	
Ability International Investment Co., Ltd	Datd Image Corporation	—	Long-term investment	500,000	7,500	1.39	7,500	—	
Ability International Investment Co., Ltd	Mitac Technology Corporation	—	Short-term investment	220,000	10,215	0.10	4,939	—	
Ability International Investment Co., Ltd	Apex Biotechnology Corp.	—	Short-term investment	131,000	10,915	1.88	5,304	—	
Ability International Investment Co., Ltd	Fubon Bond Fund	—	Short-term investment	915,910.28	10,000	—	10,185	—	
Avy Co., Ltd.	The Progress Business Management Consultants Corp.	—	Long-term investment	100,000	1,000	20.00	1,000	—	

5) Purchases and sales with the invested companies or related parties reaching NT\$100 million or more than 20% of paid-in capital:

Purchaser (Supplier)	Trading party	Relationship	Purchase (Sale)		Detail		Reasons for unique terms	Notes, accounts receivable (payable)		
			Amount	Percentage of related account %	Period	Percentage of related account %		Balance	Note	
Viewquest Technology (BVI) Inc.	Ability Enterprise Co., Ltd.	Parent company	Sale	\$587,023	\$90	Agreement	—	Account receivable	48	—
								\$159,679		

6) Receivables from the invested companies or related parties reaching NT\$100 million or more than 20% of the Company's paid-in capital:

Company on book	Trading party	Relationship	Balance	Turnover rate	Receivable due from the related parties		Post-period collected amount	Allowance for bed debt
					Amount	Process		
Viewquest Technologies (BVI) Inc.	Ability Enterprise Co., Ltd.	Parent company	Accounts receivables \$159,679	10.34	\$—	\$—	\$—	\$—

(3) Disclosure of information on indirect investments in Mainland China

- 1) The name of invested company, main operation, paid-in capital, investment method, cash inflow and outflow, percentage of ownership, investment income (loss), book value and remittance of investment income to Taiwan as of March 31, 2003 were as follows:

Name of Invested company in China	Main operation	Paid-in capital	Investment method	Cash flow from Taiwan since January 1, 2003		Cash flow from Taiwan as of March 31, 2003		Direct/indirect percentage of ownership	Investment income (loss) as of March 31, 2003	Book value	Cash remittance of investment income to Taiwan as of March 31, 2003
				Cash outflow	Cash inflow	Amount	Taiwan as of March 31, 2003				
Guangdong United Optical Instrument Co., Ltd.	Production, design, sale of cameras	HK\$30,200,000	Acquired from Ability Enterprise Co., Ltd.	\$28,097	\$—	\$—	\$28,097	22.85%	\$—	\$33,890	\$2,653
Dongguan Guang Tong Business Machines Co., Ltd.	Sale of main board, MCU board and I/O board in digital cameras	US\$2,060,290	Investment in the Mainland China via the invested company	22,079	—	—	22,079	34.68%	—	52,775	—
Dongguan Yorkey Optical Machinery Components Ltd.	Photo copier encrustation, camera encrustation, fax encrustation, plastic encrustation, sale of optics	US\$8,030,647	Investment in the Mainland China via the invested company	90,597	—	—	90,597	45.00%	—	188,629	—
Avy Precision Metal Product (Suzhou) Co., Ltd.	Operation in parts of computer machine, parts, camera and other parts	US\$2,000,000	Investment in the Mainland China via the invested company	40,011	—	—	40,011	63.72%	—	24,889	—
Dong Guan Cheng Guang Precision Hardware Co., Ltd.	Operation in parts of computer machine, parts, camera and other parts	RMB9,459,806	Investment in the Mainland China via the invested company	23,548	—	—	23,548	40.95%	—	22,483	—
Dong Guan Shin-Ei Yorkey Business Machine Co., Ltd.	Produce and sell copy machine and components	RMB7,229,394	Acquired from Yorkey Investment Ltd.	13,335	—	—	13,335	25%	—	17,497	—

2) Investment limit in the Mainland China area for the three-month period ended March 31, 2003.

Ending balance of cumulative investment amount from Taiwan to the Mainland China area	Invested amount approved by Investment Commission	Investment quota in the Mainland China area regulated by Investment Commission (net value* 40%)
HK\$6,900 thousand US\$4,575 thousand (Convert to NT\$153,707 thousand)	HK\$6,900 thousand US\$4,575 thousand (Convert to NT\$153,707 thousand)	NT\$1,595,171 thousand

3) The following are information related to investment in Mainland China that would influence financial statements including significant transactions with invested companies in the Mainland China directly or indirectly via the invested companies, price, terms of payment, unrealized gain or loss and others.

- (a) The price and percentage of purchase and related payables as of March 31, 2003: NA
- (b) The price and percentage of sale and related receivables as of March 31, 2003: NA.
- (c) The price of property transaction and related gain (lose) on disposal of properties: NA.
- (d) The purposes and balances of notes payable endorsement, guarantee or collateral as of March 31, 2003: NA.
- (e) The highest balance, ending balance, interest rates and current interest rate in financing: NA.
- (f) Other significant transactions to the acknowledgement of current net income or loss or financial position such as providing or receiving services: NA.

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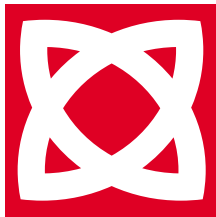
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**ABICO**