



GIGASTORAGE CORPORATION

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

US\$20,000,000 Credit Enhanced Zero Coupon Convertible Bonds due 2012 **Supported by an irrevocable standby letter of credit issued by Hua Nan Commercial Bank, Ltd.**

Issue Price: 100 percent

The US\$20,000,000 Credit Enhanced Zero Coupon Convertible Bonds due 2012 (the "Bonds", which shall include any additional Bonds of up to US\$5,000,000 in aggregate principal amount, issued pursuant to an option granted to Mega Capital (Asia) Co., Ltd.) will be issued in registered form by Gigastorage Corporation (the "Company"). Unless previously redeemed, converted or repurchased and cancelled, the Bonds will be redeemed on September 7, 2012 at their principal amount.

The Bonds will have the benefit of an irrevocable standby letter of credit (the "Letter of Credit") issued by Hua Nan Commercial Bank, Ltd. providing for the payment of principal, premium (if any), and interest (if any) in respect of the Bonds upon failure by the Company to pay such amounts on the due date or upon the Bonds being declared due and payable on the occurrence of an Event of Default (as defined herein) pursuant to the Terms and Conditions of the Bonds. See the section on "The Letter of Credit".

The Company will, at the option of the holder of any Bond (the "Bondholder"), redeem such Bond on October 15, 2011, at its principal amount. The Bonds may be redeemed, in whole or in part, at the option of the Company at any time on or after April 15, 2010, at their principal amount, in certain circumstances relating to the then prevailing Closing Price of the Shares (as defined herein) relative to the Conversion Price. The Bonds may be redeemed, in whole but not in part, at any time, at the option of the Company at their principal amount, if more than 90 percent in principal amount of the Bonds has already been converted, redeemed or repurchased and cancelled. The Bonds may also be redeemed, in whole but not in part, at any time, at the option of the Company at their principal amount in the event of certain changes relating to taxation in the Republic of China (the "ROC" or "Taiwan"). See the section on "Terms and Conditions of the Bonds - Redemption, Repurchase and Cancellation".

The Bonds may be converted at any time on or after November 15, 2009, and prior to the close of business (at the place the Bond is deposited for conversion) on August 28, 2012, into common shares, par value NT\$10 per share, of the Company (the "Shares") unless previously redeemed, converted or repurchased and cancelled and except during a Closed Period (as defined herein).

Investing in the Bonds involves certain risks. See the section on "Risk Factors".

The Conversion Price will initially be NT\$15.8 per Share subject to adjustment in the manner provided herein and with a fixed rate of exchange applicable on conversion of the Bonds of NT\$32.376 = US\$1.00. See the section on "Terms and Conditions of the Bonds - Conversion." The Shares are listed on the Taiwan Stock Exchange ("TSE") with ticker number of 2406 and application will be made to list the Shares issued on conversion of the Bonds on the TSE. On October 12, 2009, the Closing Price of the Shares on the TSE was NT\$19.90 per Share.

No Application has been made to list the Bonds on any stock exchange.

The Bonds and the Shares to be issued 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, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act). The Bonds may not be offered, sold or delivered in the ROC.

Manager



Mega Capital (Asia) Co., Ltd.

The date of this Offering Circular is October 15, 2009

The Company, having made all reasonable inquiries, confirms that this Offering Circular contains all information with respect to the Company, 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 Offering Circular as a whole or any of such information or the expression of any such opinions or intentions misleading and that all reasonable inquiries have been made by the Company to verify the accuracy of such information and that this Offering Circular 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.

The distribution of this Offering Circular and the offering and sale of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Company and the Manager (as defined in "Subscription and Sale") 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 Offering Circular, see "Subscription and Sale". This Offering Circular does not constitute an offer of or an invitation by or on behalf of the Company, the Trustee (as defined in the terms and conditions of the Bonds), the Agents (as defined in the terms and conditions of the Bonds) or the 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 Offering Circular and any information or representation not contained herein must not be relied upon as having been authorized by the Company, the Trustee, the Agents or the Manager. Neither the delivery of this Offering Circular 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 Manager, the Trustee and the Agents make no representations or warranties (express or implied) as to the accuracy or completeness of the information contained herein and nothing contained in this Offering Circular is, or shall be relied upon, as a promise or representation, whether as to the past or the future. The Manager, the Trustee and the Agents have not independently verified any such information and assume no responsibility for its accuracy or completeness.

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 the Closing Date with a common depositary for, Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). Definitive Certificates will be issued to Bondholders only if either Euroclear or Clearstream, Luxembourg (or any other clearing system as shall have been designated by the Company and approved by the Trustee 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.

References to the "ROC" means the island of Taiwan and other areas under the effective control of the Republic of China.

The Company has prepared audited consolidated financial statements as at and for the three years ended December 31, 2006, 2007 and 2008 and the unaudited consolidated financial statements as at and for the six months ended June 30, 2008 and 2009 contained herein.

IN CONNECTION WITH THE ISSUE OF THE BONDS, MEGA CAPITAL (ASIA) CO., LTD., ON BEHALF OF THE PURCHASERS, MAY OVERALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS OR THE SHARES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD AFTER THE CLOSING DATE. HOWEVER, MEGA CAPITAL (ASIA) CO., LTD. IS UNDER NO OBLIGATION TO DO SO. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

ENFORCEABILITY OF FOREIGN JUDGMENTS IN THE ROC

The Company is a company limited by shares and incorporated under the ROC Company Law. Substantially all of the Company's directors and executive officers, its supervisors and certain other parties named herein are residents of the ROC and a substantial portion of the assets of the Company and such persons are located in the ROC. As a result, it may not be possible for investors to effect service of process upon the Company or such persons outside of the ROC, or to enforce against any of them judgments obtained in courts outside of the ROC. Any final judgment obtained against the Company or such person 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 will be enforced by the courts of the ROC without further review of the merits only if the court of the ROC in which enforcement is sought is satisfied that:

- (i) the court rendering the judgment has jurisdiction over the subject matter according to the laws of the ROC;
- (ii) the judgment is not contrary to the public order or good morals of the ROC;
- (iii) the judgment is a final judgment for which the period for appeal has expired or from which no appeal can be taken;
- (iv) 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
- (v) judgments of the courts of the ROC are recognized and enforceable in the court rendering the judgment on a reciprocal basis. Remittance out of the ROC of any amount recovered from enforcing a foreign judgment in the ROC is also subject to the Foreign Exchange Control Statute and regulations as described in "Foreign Investment and Exchange Controls in the ROC" herein.

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Except where the context otherwise requires, all references herein to the "**Company**" are to Gigastorage Corporation or Gigastorage Corporation and its subsidiaries, as the context requires. Unless otherwise specified or the context requires, references to "**US dollars**" and "**US\$**" are to the lawful currency of the United States of America, references to "**New Taiwan dollars**", "**NT dollars**", "**NT\$**" and "**\$**" are to the lawful currency of the ROC. Unless otherwise specified, where financial information in relation to the Company has been translated into US dollars, it has been so translated, for convenience only, at the rate of NT\$32.290 = US\$1.00 using the closing exchange rate on October 12, 2009. Such translation should not be construed as a representation that the amounts in question have been, could have been or could be converted into US dollars at that or any other rate.

Unless otherwise specified or the context requires, references in this Offering Circular to consolidated financial information as of and for the three years ended December 31, 2006, 2007 and 2008 refer to the Company's financial information derived from the audited consolidated financial statements included elsewhere herein, and references to financial information as of and for the six months ended June 30, 2008 and 2009 refer to the Company's financial information derived from the unaudited consolidated financial statements included elsewhere herein.

SUMMARY

The following summary is qualified in its entirety by the more detailed corporate information and financial statements appearing elsewhere herein.

Business of the Company

The Company is a manufacturer and vendor of optical storage media products, primarily DVD-Rs and CD-Rs. The Company is also a developer, manufacturer and vendor of raw materials and components for solar cell and electronics applications including such products as solar cell conductive pastes, and optical prism sheets, and coating material for PCBs.

The Company primarily sells its optical storage media products to spot market customers in Central and South America countries. The Company manufactures its optical storage media products (other than CD-Rs) and all of its other products at its production facilities in Hsinchu Industrial Park in Hsinchu, Taiwan. The Company manufactures its CD-Rs at a production facility in Thailand operated by its subsidiary Global Acetech Co., Ltd. The Company also through its subsidiary Giga Solar Material Corporation engages in the business of developing and selling of raw materials and components for solar cell, digital display and other electronics applications.

The consolidated net operating revenue of the Company increased by NT\$102 million from NT\$1,820 million (US\$52.36 million) for the year ended December 31, 2007, to approximately NT\$1,922 million (US\$59.52 million) for the year ended December 31, 2008. For the six months ended June 30, 2009, the Company recorded consolidated net operating revenue of NT\$952 million (US\$29.5 million), which is a slight decrease from the consolidated net operating revenue of NT\$955 million (US\$29.6 million) for the same period in 2008.

Corporate and Other Information

The Company was incorporated in 1997, under the ROC Company Law. The principal address of the Company is 3, Kung Yeh First Rd., Hsinchu Industrial Park, Hsinchu, Taiwan, R.O.C., and the Company's telephone number is +886-3-598-5510.

The Company's website address is: <http://www.gigastorage.com.tw>. The information on the Company's website is not part of this Offering Circular.

The Issue

Issuer:	Gigastorage Corporation
Issue:	US\$20,000,000 Credit Enhanced Zero Coupon Convertible Bonds due 2012
Issue of Additional Bonds:	The Company has granted an option to Mega Capital (Asia) Co., Ltd., which may be exercised in whole or in part, on one or more occasions, to subscribe for a further US\$5,000,000 aggregate principal amount of Bonds at any time up to and including November 30, 2009.
Issue Price:	100 percent
Closing Date:	October 15, 2009
Maturity Date:	September 7, 2012
Status:	The Bonds will be direct, unsecured and unsubordinated obligations of the Company and will rank pari passu without any preference or priority among themselves and shall at all times rank at least equally with all other present and future direct, unsecured and unsubordinated obligations of the Company.
Letter of Credit:	The Bonds will have the benefit of an irrevocable standby Letter of Credit issued by Hua Nan Commercial Bank, Ltd. (the "LOC Issuing Bank") providing for the payment of principal and premium in respect of the Bonds upon the failure by the Company to pay such amounts on the due date or upon the Bonds being declared due and payable on the occurrence of an Event of Default (as defined herein). See "The Letter of Credit".
Withholding Tax:	In the event that principal or interest (if any) payable on the Bonds to nonresidents is subject to a withholding tax in the ROC, the Company will pay such additional amounts as will result in the receipt by the Bondholders of the net amounts after such withholding or deduction being equal to the amounts which would otherwise have been receivable by them had no such withholding or deduction been required, except as provided in Condition 9. Such additional amounts will be accounted for by the Company directly to the relevant ROC authorities and will not be the responsibility of the LOC Issuing Bank and are not provided for by the Letter of Credit.
Conversion:	Subject to prior redemption and subject as otherwise provided herein, the Bonds are convertible at any time on or after November 15, 2009, and prior to the close of business (at the place at which the Bond is deposited for conversion) on August 28, 2012, except during any Closed Period, into Shares at a conversion price per Share (subject to adjustment as described herein) (the "Conversion Price") of NT\$15.8, determined on the basis of a fixed exchange rate of NT\$32.376 = US\$1.00 (the "Fixed Exchange Rate"). For a fuller description, see "Terms and Conditions of the Bonds - Conversion".
Negative Pledge:	The Company will not create or permit to subsist security for the benefit of holders of any International Investment Securities (as defined in the Terms and Conditions of the Bonds) or for any guarantee thereof without granting equivalent security in respect of the Bonds. See "Terms and Conditions of the Bonds - Negative Pledge".

Final Redemption:	Unless previously redeemed, converted or repurchased and cancelled in the circumstances referred to in "Terms and Conditions of the Bonds", the Bonds will be redeemed at their principal amount in US dollars on September 7, 2012. See "Terms and Conditions of the Bonds - Redemption, Repurchase and Cancellation - Redemption at Maturity".
Redemption at the Option of the Company:	The Company may redeem the Bonds, in whole or in part, on or after April 15, 2010, at their principal amount in US dollars, if the Closing Price of the Shares on the TSE translated into US dollars at the Prevailing Rate on each of the 30 consecutive Trading Days, is at least 130 percent of the Conversion Price of the Bonds then in effect, translated into US dollars at the Fixed Exchange Rate on each such Trading Day. The Company may redeem the Bonds, in whole but not in part, at any time, at their principal amount if more than 90 percent in principal amount of the Bonds has already been converted, redeemed or repurchased and cancelled. See "Terms and Conditions of the Bonds - Redemption, Repurchase and Cancellation - Redemption at the Option of the Company".
Redemption at the Option of the Bondholders:	The Company will, at the option of the holder of any Bond, redeem such Bond at their principal amount on October 15, 2011. See "Terms and Conditions of the Bonds - Redemption, Repurchase and Cancellation - Redemption at the Option of the Bondholders".
Tax Redemption	The Company may redeem the Bond at their principal amount, in whole but not in part, if, as a result of certain changes in ROC tax laws or regulations occurring after the Closing Date, the Company becomes obligated to pay additional tax amounts.
Form and Registration of the Bonds:	The Bonds will be issued in registered form in the denomination of US\$1,000 and integral multiples thereof and will be transferable in principal amounts of US\$1,000 or an integral multiple thereof. The Bonds will be represented by beneficial interests in the Global Certificate, which will be registered in the name of a nominee of, and shall be deposited on or about the Closing Date with a common depositary for Euroclear and Clearstream, Luxembourg. Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Except as described herein, definitive certificates for Bonds will not be issued in exchange for beneficial interests in the Global Certificate.
Governing law:	New York State law
Trustee:	The Bank of New York Mellon, acting through its London Branch
Listing:	No application will be made to list the Bonds on any stock exchange. The Shares are listed on the TSE and application will be made for the Shares issuable upon conversion of the Bonds to be listed on the TSE.
Use of Proceeds:	The net proceeds from the offering of the Bonds will be approximately US\$19,936,000 (assuming no exercise of the option for issue of additional Bonds). The net proceeds from the issue of the Bonds will be used for paying back long-term loans and for the procurement of raw materials with prices denominated in foreign currencies.

USE OF PROCEEDS

The net proceeds from the offering of the Bonds will be approximately US\$19,936,000 (assuming no exercise of the option for issue of additional Bonds). The net proceeds from the issue of the Bonds will be used for paying back long-term loans and for the procurement of raw materials with prices denominated in foreign currencies.

RISK FACTORS

Prior to making an investment decision, the potential investors should carefully consider the following risk factors, along with the other matters set out in this Offering Circular. 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 BUSINESS

Alternative technologies may reduce demand for the Company's optical storage media products.

The Company expects to continue to depend on the optical storage media business, particularly sales of DVD-Rs, as its main source of revenue for the foreseeable future. The Company's success in this business will depend in part of optical storage media products' ability to compete with alternative storage media product and technologies. Alternative data storage media in competition with the Company's products include high capacity hard drives, flash memory storage products, new optical storage media technologies, and high bandwidth wireless or internet-based storage services. The Company's existing and development-stage products may become obsolete as alternative data storage products become more mature and their prices continued to drop. There can be no assurance that the Company is able to keep pace with technological developments and its products will be able to compete with products that employ newer or more appealing technologies and that the Company. If one or more of the Company's key products become obsolete and the Company fails to timely introduce new competitive products, the Company's long-term operational results and financial condition will suffer as a result.

The Company derives a significant portion of its revenues from a small number of key customers.

During the first six months of 2009, the two largest customers of the Company accounted for 16.85% and 9.16%, respectively, of its consolidated net operating revenues. The Company does not have long-term sales contracts with its largest customers and there is no assurance that such customers will not cancel orders or that they will continue to place orders in the future or at the same levels as in the previous periods. A substantial reduction in sales to any of the Company's largest customers could have a material adverse effect on its results of operations and financial condition.

The Company relies on independent distributors to market and sell its products in many countries.

Sales of the Company's products in many areas, especially countries in the Central and South America, are made through local independent distributors. Many of the Company's distributors initially obtain and maintain foreign regulatory approval for sale of the Company's products in their respective countries. The Company does not have long-term contracts with many of its distributors, and these distributors may terminate their relationships with the Company on little or no notice. In addition, some of the Company's distributors are not required to purchase any minimum amount of products from the Company, may sell products that compete with the Company's products or devote more efforts to selling other's products, and may stop selling the Company's products at any time. If the Company loses any of the Company's major distributors, and the Company fail to timely retain skilled replacement distributors, or if the Company's distributors devote more effort to selling products other than the Company's, the Company's operations could be adversely affected. The Company have experienced turnover with some of the Company's distributors in the past that has adversely affected the Company's short-term financial results and similar occurrences could happen in the future.

Market competition may adversely affect the Company's financial performance.

The Company's optical storage media products compete with products from both local and foreign companies. Some of the Company's competitors and potential competitors have a number of significant advantages over it, including significantly greater financial, marketing, manufacturing and technological resources, broader product lines, greater brand name recognition and larger customer bases. In addition, some of the Company's competitors, including Ritek Corporation and Lead Date Inc., are also the Company's customers.

As a result of existing or increased competition, the Company could encounter significant pricing pressures. These pricing pressures could result in significantly lower average selling prices for the Company's products.

The Company may not be able to offset the effects of any price reductions with an increase in the number of the Company's customers, cost reductions, or otherwise. The Company cannot assure potential investors that the Company can successfully compete with any of its existing or future competitors, and failing to do so, its results of operations could suffer.

The Company's largest shareholder, Ritek Corporation, is a potential competitor of the Company.

Ritek Corporation, an optical disc manufacturer in Taiwan, acquired equity interests in the Company in February 2001 and became the Company's largest shareholder. As of April 21, 2009, Ritek Corporation held a 10.91% equity interest in the Company and remained as the Company's largest shareholder. Three of the Company's nine Directors are appointed by Ritek Corporation. Ritek Corporation holds sufficient shares in the capital of the Company to influence the Company's operations, management and policies. Ritek Corporation is currently among the top two storage media product manufacturers in Taiwan by production volume, and competes with the Company in the optical storage media market. Although the Company is currently targeting different types of customers in different geographical markets than Ritek Corporation, Ritek Corporation's interest in the Company may create conflicts of interest for directors or executive officers serving both companies, which may result in diversion of corporate opportunities which could otherwise benefit the Company, to Ritek Corporation.

ROC authorities investigated possible insider trading of the Shares in 2008.

In recent years, the ROC authorities have launched a number of investigations into alleged insider trading of the shares of public companies listed in Taiwan. On August 20, 2008, the district prosecutor's office in Hsinchu, Taiwan launched an investigation of possible insider trading of the Shares by some of the Company's directors, supervisors and management and their friends and relatives. As part of the investigation, the district prosecutor conducted a search of the Company's facilities and interviewed Company's management and employees. As of the date of this Offering Circular, the prosecutor has charged one of the Company's former supervisors (who resigned in March 2008) for insider trading and indicated that it will not bring charges against certain other directors, supervisors and management of the Company who were investigated. The Company believes that the case is closed except for the case involving the former supervisor. There can be no assurance that the authorities would not reopen the case in the future. Any investigation launched on insider trading of the Shares or prosecution in connection thereto could negatively depress the price of the Shares and disrupt the business of the Company.

The Company is vulnerable to intellectual property claims of others.

Similar to other optical storage media product manufacturers, the Company has occasionally received communications alleging that the Company's products or processes infringe intellectual property rights held by others. Koninklijke Philips Electronics N.V. ("Philips") has previously brought patent infringement legal actions against the Company in multiple jurisdictions including Taiwan, the Netherlands, Italy, Belgium and the United States, where Philips alleged the production and sale of the Company's CD-R and CD-RW products infringed its patents. The Company settled the patent dispute with Philips in September 2007 and relocated its production and sales of CD-R and CD-RWs to jurisdictions where the Company believes that it can avoid further patent dispute with Philips. However, there can be no assurance that Philips or others will not pursue additional legal action against the Company in the future.

If the Company's products or manufacturing processes are found to infringe such third party rights, the Company may be subject to significant liabilities and be required to change the Company's production processes or products. This could restrict the Company from making, using, selling or exporting some of its products, which could in turn materially and adversely affect its business and financial condition.

The Company is dependent on other's intellectual property.

The Company has entered into a joint license agreement with Philips which covered the patents owned by Philips, Sony Corporation and Taiyo Yudan in order to produce its CD-R products. In January 2001, the joint license agreement has been ruled by the ROC Fair Trade Commission as violating ROC Fair Trade Law. The Company have successfully renegotiated a license agreement with each of Sony Corporation and Taiyo Yudan, respectively, but failed to do so with Philips. The Company has settled a patent infringement dispute with Philips and currently does not have any license agreement with Philips.

The Company has also entered into a license agreement with Sony Corporation which covers patents owned by Sony Corporation for the Company's production of DVD-R products. The license agreements between the Company and each of Sony Corporation, Taiyo Yudan and other licensors contain customary termination provisions. Under these license agreements, the Company is required to make one-time and on-going royalty payments. In the future, the Company may need to obtain additional patent licenses or to renew existing license agreements. There can be no assurance that such licenses can be obtained or renewed by the Company on favorable or competitive terms. If the required licenses are not obtained or renewed, the Company's business and future operating results could be materially and adversely affected.

The Company's business is subject to legal, political and economic factors that are beyond the Company's control.

The Company operates its business primarily in Central and South America and the Asia Pacific countries, many of which are developing countries. Business operations in different legal jurisdictions, particularly developing countries, are subject to legal, political and economic uncertainties, including military repression, government interference with private contract rights, extreme fluctuations in currency exchange rates, high rates of inflation, exchange controls and other governmental actions and policy changes. Many countries in which the Company produce or sell the Company's products have a history of political and economic instability. This instability could result in the adoption of new policies, laws or regulations that might materially and adversely affect the Company's business and future operating results in the affected jurisdictions.

The Company may experience shortage of raw materials and its profit margin is highly dependent on cost of raw materials.

The Company depends on reliable supply of raw materials from third parties in its manufacturing process. In the past, global supply constraints and increased prices in key raw materials have affected the Company's production and profit margins. The Company does not have long-term supply contracts with many of its suppliers nor is it able to lock in prices of the raw materials and insure no shortage of raw materials. The Company has previously experience shortage in key raw materials in its manufacturing process and there can be no assurance that such shortage will not take place in the future. And because the Company is unable to pass on the increase in costs to its customers, the fluctuation in the market price of the raw materials will impact on the Company's gross margins and affect the results of its operations and financial condition.

The Company's diversification into new businesses or product lines may not be successful.

The Company's expansion into the solar cell and materials industries represents an expansion by the Company into a highly technical and complex business area in which the Company has had little business experience and in which the Company has had, until recently, little technical expertise. In addition to the costs that will be required to be incurred by the Company to expand into this business area, the Company expects to face intense competition in the solar cell and materials industries as other companies, including those with more relevant technological and managerial experience enter the market.

Within its optical storage media business, the Company has focused a certain amount of attention on the development of Blu-Ray and next-generation optical storage media technologies. The Company's diversification into new businesses will put pressure on its managerial, technical, financial, production, operational and other resources. To manage future growth, the Company must add production and distribution capacity, enhance financing controls and hire additional skilled personnel as well as manage relationships with a greater number of customers, suppliers, equipment vendors and other third parties. There can be no assurance that the Company will be able to successfully compete in these businesses or product areas and able to generate a positive return on its investments.

Internally prepared financial information published by the Company from time to time may be inaccurate and incomplete.

As required by the Taiwan Stock Exchange, the Company publishes by the end of January each year certain internally prepared unaudited unconsolidated information. The information the Company publish in response to this requirement will not be subject to the same review and scrutiny, including internal auditing procedures and review by independent auditors. Further, because this information is unaudited and unconsolidated, it may

vary from our audited consolidated ROC GAAP financial statements for the same period. Any such variance may be material and adverse. Further, the information the Company publishes in its unaudited semi-annual consolidated financial statements will not be subject to the same review and scrutiny as the Company's audited non-consolidated semi-annual or annual financial statements.

With respect to the Company's published unaudited consolidated financial statements, including the one as of and for the six months ended June 30, 2008 and 2009 included in this offering circular, the Company's auditors, Ernst & Young, indicated that they have applied limited procedures in accordance with professional standards for a review of such information in accordance with ROC Statement on Auditing Standards No. 36, "Review of Financial Statements". However, the auditors has stated that they did not audit and they do not express an opinion on such interim financial statements, and stated that the investments accounted for by the equity method and the share of the related income or losses were based on the investees' unreviewed financial statements for the same reporting periods as those of the Company. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

The Company's customers may cancel their orders, change production quantities, delay production, or simply default.

The Company typically sells its products in the spot market and does not generally obtain firm, long-term purchase commitments from its customers. Customers may cancel their orders, change production quantities or delay production for a number of reasons. Also, customers in a spot market, unlike established buyers as in an OEM market, tend to be less creditworthy and required longer payment terms. Cancellations, reductions, delays, or default by a significant customer or by a group of customers could seriously adversely affect the Company's results of operations.

The optical storage media products are subject to anti-dumping tariffs in various jurisdictions.

Many jurisdictions, including the European Commission and South Korea, have imposed anti-dumping tariffs on imports of optical storage media products from other jurisdictions. These tariffs will impact on where the Company may sale and manufacture optical storage media products. Although the Company has taken steps to mitigate the impact by moving its manufacturing facilities and target markets to areas not subject to these tariffs, there is no assurance that no new tariffs will be imposed in the future in areas that will impact the Company directly and affect its result of operations and financial conditions.

The Company's operating results vary significantly.

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

- the timing of customer orders;
- the volume of these orders relative to the Company's capacity;
- effective management of inventory levels;
- market acceptance of customers' new products;
- changes in demand for customers' products and product obsolescence;
- the timing of the Company's expenditure 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 the Company's product mix;
- changes in economic conditions; and
- local factors and events that may affect the Company's production volume, such as local holidays.

A significant portion of the Company's expenses of operations are relatively fixed in nature and planned expenditures are based in part on anticipated orders. Failure to adjust spending quickly enough to compensate for any revenue shortfalls may magnify the adverse impact of such revenue shortfalls on the Company's results of operations.

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

The operation of manufacturing 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 any significant operational problems, including but not limited to the above events, could materially and adversely affect the Company's operations and business.

The Company maintains insurance typical in the optical storage media manufacturing industry in Taiwan and in amounts that the Company believes to be adequate. Such insurance, however, may not provide adequate coverage in certain circumstances. 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 relies on key personnel.

The Company's success depends on its ability to attract and retain highly qualified management, engineering and technical personnel. The process of hiring employees with the combination of skills and attributes required to implement the Company's strategy can be competitive and time-consuming. The loss of services of key personnel, or the inability to attract additional key personnel, could have a material adverse effect on the Company's business.

Exchange rate fluctuations may have an adverse effect on the Company's financial performance.

In 2006, 2007 and 2008, the Company's consolidated net operating revenues derived from sales outside the ROC were approximately NT\$1,666 million, NT\$1,410 million and NT\$1,445 million (US\$44.75 million), respectively. These represented approximately 74.0%, 77.5% and 75.1%, respectively, of the Company's consolidated net operating revenues, and were settled mainly in US dollars. During the same periods, over half of the Company's raw materials purchases were settled in foreign currencies. Consequently, the Company is exposed to fluctuations in exchange rates, particularly between the US dollar and the NT dollar. There can be no assurance that future exchange rate fluctuations will result in net foreign exchange gains for the Company. The impact of future exchange rate fluctuations between these currencies on the Company's production costs, operating margins and net income cannot be accurately predicted. Although the impact of exchange rate fluctuations has, in the past, been partially mitigated through natural hedging by matching the currencies of the Company's sales revenue with the Company's cost structure, there can be no assurance that the Company will continue to be able to continue this policy and be able to offset any adverse impact of any exchange rate fluctuations in the future.

RISKS RELATED TO THE OWNERSHIP OF THE BONDS AND THE SHARES

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. Holders 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, except under limited circumstances, PRC persons are not permitted to convert the Bonds or to register as shareholders of the Company.

A liquid market for the Bonds and Shares may not develop.

There can be no assurance that an active trading market or a trading market for the Bonds will develop. The trading market for the Shares is the TSE on which the Shares were listed since March 1997.

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 is possible 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.

Converting Bondholders are required to appoint a local agent and a tax guarantor in the ROC.

When a Non-ROC Holder (as defined in "ROC Taxation of Non-Residents") exercises its conversion rights to receive Shares and register as a shareholder of the Company, such holders will be required to appoint an agent (a "Tax Guarantor") in the ROC. Such Tax Guarantor will be required to meet the qualifications set by the ROC Ministry of Finance (the "ROC MOF") and will act as the guarantor of such holder's tax payment obligations. Evidence of the appointment of a Tax Guarantor and the approval of such appointment is required as conditions to withdrawing such holder's profits derived from the sale of Shares from the holder's brokerage account. There can be no assurance that such holders will be able to appoint and obtain approval for a Tax Guarantor in a timely manner.

In addition, under current ROC law, such converting or withdrawing holder is required to appoint a local agent in the ROC to, among other things, open a securities trading account with a local securities brokerage firm and a bank account, remit funds and exercise a shareholder's rights. Further, such converting or withdrawing holder must appoint a local bank to act as custodian for confirmation and settlement of trades, safekeeping of securities and cash proceeds and reporting and declaration of information. Without satisfying these requirements, converting Bondholders that receive Shares or withdraw and hold Shares represented thereby will not be able to hold or otherwise transfer Shares on the TSE.

RISKS RELATING TO THE ROC

Risks relating to the ROC Securities Market.

The ROC securities markets are smaller and more volatile than the securities markets in the United States and in certain European and other countries. The TSE have experienced substantial fluctuations in the prices and volumes of sales of listed securities, and there are currently limits on the range of daily price movements on the TSE. In the past decade, the Taiwan Stock Exchange Index (the "TSE Index") peaked at 12,495.34 in February 1990 and subsequently fell to a low of 2,560.47 in October 1990. During the first nine months of 2009, the daily closing values of the Shares, which are listed on the TSE, ranged from NT\$3.92 per Share to NT\$16.75 per Share. On October 9, 2009, the TSE Index closed at 7,571.96 and the daily closing value of the Shares was NT\$19.51 per Share. The TSE has in the past experienced problems such as market manipulation, insider trading and payment defaults. The recurrence of these or similar problems could adversely affect the market price and liquidity of the securities of ROC companies, including the Shares, in both the domestic and the international markets.

The political status and international relations of the ROC may affect the Company and the Bonds.

The Company is incorporated in the ROC. The ROC has a unique international political status. The ROC, which was founded in 1912, governs Taiwan while the PRC, which was founded in 1949, has governed the Chinese mainland since it was founded. Although significant economic and cultural relations have been established during recent years between the ROC and the PRC, the PRC has refused to renounce the possibility that it may at some point use force to gain control over the ROC. Tense relations between the ROC and the PRC may also have an adverse effect on the ROC's economy and stock market, the Company's results of operation, and the market price and liquidity of the Shares and the Bonds. There can be no assurance that the present tensions will not worsen, which could have a significant adverse impact on the ROC's economy, Taiwan's stock market, the price of the Shares and the Company's results of operations and financial condition.

Foreign exchange approvals may be required.

Under existing ROC law, foreign exchange transactions must be reported to the Central Bank of China (the "CBC") on a payment-by-payment basis, including the conversion into foreign currencies of the net proceeds realized from sale of the Shares issued on conversion of the Bonds or any dividends relating to such Shares, or of any cash dividends or other cash distributions in respect of such Shares, as well as for inward remittances of subscription payments in connection with a rights issue. However, there can be no assurance that ROC law will continue to permit such transactions without regulatory approval. See "Foreign Investment and Exchange Controls in the ROC".

Financial reporting and accounting standards in the ROC differ from other countries.

The Company is subject to financial reporting requirements in the ROC that differ in significant respects from those applicable to companies in certain other countries, including the United States and the United Kingdom. In addition, the Company's financial statements are prepared in accordance with ROC GAAP, and are not intended to present the financial condition, results of operations and cash flows in accordance with accounting principals and practices generally accepted in countries and jurisdictions, including the United States, other than those in the ROC. ROC GAAP differs in certain material respects from US GAAP. See "Summary of Certain Significant Differences Between ROC GAAP and US GAAP". Potential investors should consult their own professional advisers for an understanding of such differences and how they might affect the financial information contained herein.

Future natural disasters and disruptive events may occur.

From time to time, the ROC experiences severe earthquakes and other natural disasters that may cause significant property damage and loss of life. The Company's operation and the operation of its customers, distributors and suppliers may be adversely affected in the event of future earthquake and natural disruptions. As such, no assurance can be given that any future natural disaster will not have a material adverse effect on the business, financial condition, results of operations and future prospects of the Company.

The Company faces risks related to health epidemics and other outbreaks that may disrupt its operations and have a material adverse effect on its business and results of operations.

The Company's business could be materially and adversely affected by the effects of H1N1 flu (swine flu), avian flu, severe acute respiratory syndrome or other epidemics or outbreaks. In April 2009, an outbreak of H1N1 flu first occurred in Mexico and quickly spread to other regions, including Taiwan. In the last decade, Taiwan has suffered health epidemics related to the outbreak of avian influenza and severe acute respiratory syndrome. These health epidemics could result in severe travel restrictions and closures that would restrict the Company's ability to ship its products. Potential outbreaks could also lead to temporary closure of the Company's manufacturing facilities, its suppliers' facilities and/or its end-user customers' facilities, leading to reduced production, delayed or cancelled orders, and decrease in demand for its products. Any prolonged occurrence or recurrence of H1N1 flu, avian flu, severe acute respiratory syndrome or other adverse public health developments in Taiwan may have a material adverse effect on the Company's business and operations.

CAPITALIZATION

The following table sets forth the Company unaudited consolidated short-term debt and capitalization as of June 30, 2009, and the capitalization as of that date as adjusted for the offering of the Bonds. The table below should be read in conjunction with the Company's unaudited consolidated financial statements as of June 30, 2009, including the notes to those statements, included elsewhere in this Offering Circular (assuming the exercise of the option for issue of additional Bonds in the aggregate principal amount of US\$5,000,000).

	As of June 30, 2009			
	Actual		As adjusted for this offering	
	NT\$	US\$ ⁽²⁾	NT\$	US\$ ⁽²⁾
	(in thousands, consolidated)			
Borrowings:				
Short-term debt				
Short-term bank loans	277,042	8,580	277,042	8,580
Notes payable	11,055	342	11,055	342
Current portion of long-term liabilities	101,268	3,136	101,268	3,136
Total short-term borrowings	<u>389,365</u>	<u>12,058</u>	<u>389,365</u>	<u>12,058</u>
Long-term debt (net of current portion)				
Long-term loans	234,995	7,278	234,995	7,278
Other long-term payable ⁽³⁾	419,679	12,997	419,679	12,997
Domestic convertible bonds payable ⁽⁴⁾	89,497	2,772	89,497	2,772
The Bonds being offered ⁽⁴⁾	-	-	807,250	25,000
Total long-term liabilities	<u>744,171</u>	<u>23,046</u>	<u>1,551,421</u>	<u>48,047</u>
Stockholders' equity:				
Common stock	2,948,904	91,326	2,948,904	91,326
Capital reserve	21,293	659	21,293	659
Retained earnings	(1,117,142)	(34,597)	(1,117,142)	(34,597)
Unrealized loss on mark value decline of long-term equity investments	(9,788)	(303)	(9,788)	(303)
Cumulative translation adjustments	14,405	446	14,405	446
Total stockholders' equity	<u>1,857,672</u>	<u>57,531</u>	<u>1,857,672</u>	<u>57,531</u>
Total capitalization ⁽¹⁾	<u>2,601,843</u>	<u>80,577</u>	<u>3,409,093</u>	<u>105,578</u>

- Notes: (1) Total capitalization is the sum of long-term liabilities and stockholders' equity.
- (2) Translations from NT dollars to US dollars and vice versa, for convenience of the reader, have been made at the exchange rate NT\$32.290 to US\$1.00, the closing exchange rate between NT dollar and US dollars on October 12, 2009.
- (3) The other long-term payable consists of amount due to Koninklijke Philips Electronics, N. V. pursuant to a settlement agreement on a patent dispute.
- (4) The Company issued domestic convertible bonds in the principal amount of NT\$97 million on August 31, 2008. As of June 30, 2009, there are domestic convertible bonds in the principal amount of NT\$97 million outstanding and the applicable conversion price is NT\$8.20. If all outstanding domestic convertible bonds were converted at the June 30, 2009 conversion price, an additional 11,829,268 common shares of the Company would be issued.
- (5) The Company has established a stock option plan in June 2003, under which the Company may grant stock options to its employees for their purchase of up to 10 million Shares. On June 30, 2009, the Company's employee stock options outstanding allow for the purchase of approximately 7.6 million Shares by the Company's employees at the exercise price of NT\$16.1 per Share. This employee stock option will expire on December 31, 2009.
- (6) On September 16, 2009, the Company reduced its capital by reducing its outstanding Shares to 3/5 of their original figure. This resulted in an increase in the conversion price and exercise price of the above mentioned convertible bonds and employee stock option to 5/3 of their original prices and a decrease in the numbers of Shares issuable by the Company for the convertible bonds and employee stock option to 3/5 of their original numbers.

Except as disclosed above, there has been no material change in the Company's total capitalization since June 30, 2009.

BUSINESS OF THE COMPANY

Introduction

The Company is a manufacturer and vendor of optical storage media products, primarily DVD-Rs and CD-Rs. The Company is also a developer, manufacturer and vendor of raw materials and components for solar cell and electronics applications including such products as solar cell conductive pastes, and optical prism sheets, and coating material for PCBs.

The Company primarily sells its optical storage media products to spot market customers in Central and South America countries. The Company manufactures its optical storage media products (other than CD-Rs) and all of its other products at its production facilities in Hsinchu Industrial Park in Hsinchu, Taiwan. The Company manufactures its CD-Rs at a production facility in Thailand operated by its subsidiary Global Acetech Co., Ltd. The Company also through its subsidiary Giga Solar Material Corporation engages in the business of developing and selling of raw materials and components for solar cell, digital display and other electronics applications.

The consolidated net operating revenue of the Company increased by NT\$102 million from NT\$1,820 million (US\$56.36 million) for the year ended December 31, 2007, to approximately NT\$1,922 million (US\$59.52 million) for the year ended December 31, 2008. For the six months ended June 30, 2009, the Company recorded consolidated net operating revenue of NT\$952 million (US\$29.48 million), which is a slight decrease from the consolidated net operating revenue of NT\$955 million (US\$29.58 million) for the same period in 2008.

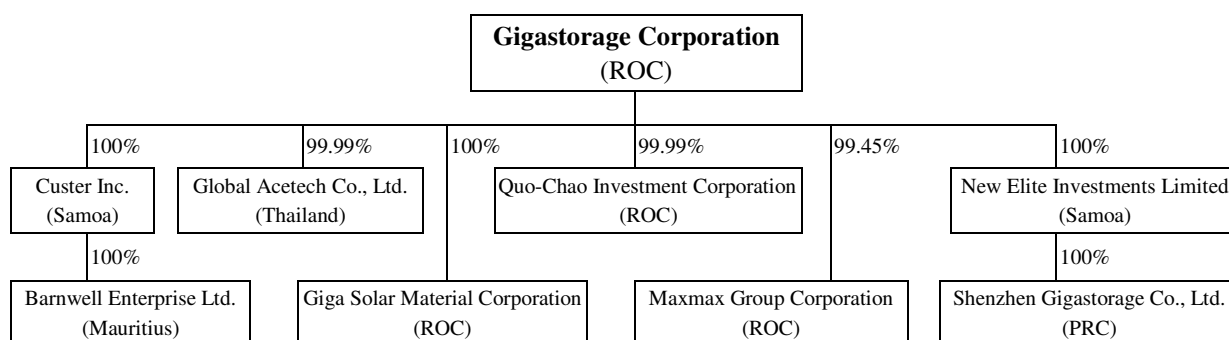
History and Organization of the Company

The Company was founded in March 1997 as manufacturer of CD-Rs. In 1999, the Company established a wholly-owned subsidiary in the United States to market its products in North America. In 2000, the Company became listed on the Taiwan Stock Exchange and began commercial production of DVD-Rs. In 2001, Ritek Corporation acquired 10% of the Company's stock. Since 2002, the Company has gradually transitioned its product focus towards DVD-Rs and its market focus to Central and South America. In 2006, the Company established Global Acetech Co., Ltd., its Thailand subsidiary and transferred its production of CD-Rs to Thailand. In 2007, the Company completed development and began sales of its photovoltaic material products. In September 2008, the Company spin-off its Solar Material Chemical Department to its wholly-owned subsidiary, Giga Solar Materials Corp., to continue development and manufacturing of photovoltaic materials and other raw materials for electronic applications.

The following sets forth the Company's scope of business as set out in Article 2 of the Company's Articles of Incorporation:

- Sale and purchase of read-only optical discs, recordable optical discs, rewritable optical discs, optical disc drive and their raw material, semi-finished product, parts and components;
- Research, development, manufacturing and sale of the above mentioned products and consulting service on manufacturing and assembly technology;
- Import and export of the above mentioned product manufacturing equipments and products;
- Provide agency service for foreign and domestic vendors regarding the above mentioned products and engage in quotation business;
- Information storage and process equipment manufacturing;
- Product design business;
- Medical instruments wholesale business;
- Medical instruments retail business;
- Other business items that are not prohibited or restricted by law, except those that are subject to special approval.

The following diagram sets forth the structure of the Company, its subsidiaries and major holdings, as of June 30, 2009:



Company Strategy

Continue to reduce manufacturing cost and increase manufacturing efficiency

The Company believes that its optical storage media business will continue to be its primary source of revenue in the near future. The Company intends to further leverage its extensive expertise in optical storage media product manufacturing process and raw materials to improve manufacturing efficiency and reduce cost and reaction time to meet customer demands and improve its overall competitiveness. The Company intends to utilize existing facilities and equipment for the manufacturing of new optical storage media products in order to improve utilization ratio and reduce capital expenditure. For further cost control, the Company expects to continue to work with its suppliers to jointly develop better and cheaper key raw materials for its optical storage media products.

Diversify into higher margin and higher growth business

The Company has applied its manufacturing expertise, research capability and know-how's in materials used in optical storage media products manufacturing to expend into material business. The material developed and introduced by the Company included solar paste, optical prism, coating material for PCBs, nano-metallic materials and raw material and components used in LCD/FPCs such as flexible copper clad laminate (FCCL) and brightness enhancement film (BEF). The Company is actively developing additional materials for use in solar energy, digital display and other high-tech sectors. The Company believes that this new line business in materials will become a major contributor to the Company's future growth.

Continue to focus on spot markets in selected jurisdictions for the sale of its optical storage media products

The Company intends to continue to focus on spot market for the sale of its optical storage media products where it can avoid direct competition with many of its competitors, many of which are larger with greater resources. The Company intends to focus its sale in selected areas including Central and South America countries and other emerging markets where it believes that it can more easily avoid intellectual property disputes and government interference in the form of high tariffs and anti-dumping regulations, which are often observed in this industry. Finally the Company intends to diversify its customer base by marketing its products in new overseas markets.

Competitive Strengths

The Company believes that the followings are its competitive strengths:

Low costs of production

The Company believes that cost reduction is key to survival in the optical storage media industry (DVD-R and CD-R) which is characterized by low profit margin and constant pricing pressure. The Company has substantial experience in improving manufacturing efficiencies and lowering the manufacturing costs of optical storage media. The Company also has relatively little depreciation expense as its facilities and equipment have largely exceeded their depreciation life, and the Company believes its existing facilities and equipment are sufficient to meet its manufacturing requirement in the foreseeable future without the need for significant capital expenditures.

Established reputation with distributors and consumers in targeted markets

The Company operates its business primarily in emerging markets in Central and South America and the Asia Pacific, generally through its relationships with local distributors and partners. The Company's established reputation for high product quality and fast turnaround time in these markets with the local distributors and partners allows it to, more easily, market its products and maintain its profit margin.

Strong research capability

The Company has developed strong research and development capability in the optical storage media products' manufacturing process. The Company has successfully applied that research capability to develop materials technologies for other sectors, including solar energy and LCD display. The Company believes that it can continue to build on its strong research capability to capture new growth opportunities.

Industry Description

The optical storage media industry is currently based on two primary types of media, DVD-R and CD-R.

DVD-R is a newer technology that, within the past decade, has matured and entered widespread adoption. The demand for DVD-Rs has steadily increased since its introduction. The Photonics Industry and Technology Development Association, or PIDA, estimates that the global demand for DVD-Rs in 2009 will reach 8.8 billion units, representing approximately 13% growth from 2008's 7.8 billion units. The global production of DVD-R media has remained relatively unchanged in recent years, however, despite the increase in demand, the market remain in a condition of over-supply. In addition the costs of raw materials (primarily petroleum-based materials) have fluctuated over the past few years, thus cause great uncertainty in the profitability of the DVD-R industry.

CD-R, although being a technology more than a decade older than DVD-R, has not been fully replaced by DVD-R. CD-Rs continue to be commonly used for certain applications, such as music storage, while DVD-Rs are being used for video storage. CD-Rs are also popular in developing countries because of their lower cost and widespread availability. The global demand for CD-Rs has steadily decreased since 2006, and will likely continue to decline. PIDA estimates the global demand for CD-Rs in 2009 will be 6.8 billion units, compared to 8.0 billion units in 2008 and 9.3 billion units in 2007.

The newest optical storage media standard, Blu-ray, is still in early adoption. The Blu-ray standard is technologically superior to both DVD-R or CD-R, and global production of Blu-ray media has increased in recent years while the costs have steadily decreased. However, Blu-ray media is still significantly more expensive than DVD-R and CD-R, and compatible hardware is less available. PIDA estimates the Blu-ray market in 2009 to be less than 2% of the DVD-R market.

Competition

The market for the Company's optical storage media products has been consistently competitive. The Company' avoids direct competition with many major suppliers of optical storage media products such as Moser Baer India Limited, and other ROC companies, including CMC Magnetics Corporation, Ritek Corporation and ProDisc Technology Inc. by focusing on spot market and target only in selected countries. The increased competition and downward price pressure in this industry have had the effect of driving a number of competitors out of the market as lower-cost producers consolidate their market share.

The Company's optical storage media business must also compete against companies that develop and market alternative technologies such as flash memory storage. Devices using flash memory storage, such as USB drives and portable media players, have traditionally been expensive and limited in storage capacity relative to optical storage media. In recent years, however, flash memory storage has steadily become cheaper and higher in capacity, and this trend will likely continue in the future.

Products of the Company

The key products of the Company include:

- **Optical storage media:** DVD-Rs / DVD-RWs / CD-Rs / CD-RWs
- **Photovoltaic materials:** Solar cell conductive pastes
- **Coated products and services:** Coatings for PCB manufacturing
- **Prism sheets:** Prism sheet for TFT LCD backlighting

The Company also engages in trading activities related to its optical storage media products, such as purchasing finished optical storage media products for resale to the Company's customers, and selling raw materials to other optical storage media product manufacturers. The revenues so generated are recorded as other operating revenues of the Company.

The table below sets out the Company's total net consolidated operating revenue by product category for the period indicated:

Products	Consolidated Net Operating Revenue for the year ended December 31,						Consolidated Net Operating Revenue for the first six months ended June 30, 2009	
	2006		2007		2008			
Optical storage media	2,019,717,086	89.66%	1,700,537,801	93.43%	1,667,718,023	86.75%	638,460,605	89.98%
Photovoltaic materials	0	0.00%	10,377,843	0.57%	127,191,660	6.62%	240,626,949	6.06%
Others ⁽¹⁾	232,859,914	10.34%	109,145,355	6.00%	127,502,317	6.63%	72,931,446	3.96%
Total:	<u>2,252,577,000</u>	<u>100%</u>	<u>1,820,061,000</u>	<u>100%</u>	<u>1,922,412,000</u>	<u>100%</u>	<u>952,019,000</u>	<u>100%</u>

Note: (1) Includes operating revenues from the trading of finished optical storage media products and raw materials for optical storage media products and the sale of coated products, prism sheets and other related products.

The table below sets out the Company's total gross profit by product category for the period indicated:

Products	Consolidated Gross Profit for the year ended December 31,						Consolidated Net Gross Profit for the first six months ended June 30, 2009	
	2006		2007		2008			
Optical storage media	9,009,809	100.00%	149,195,088	98.79%	357,676,034	89.69%	127,542,820	46.91%
Photovoltaic materials	0	0.00%	1,824,815	1.21%	41,127,823	10.31%	144,324,074	53.09%
Others	(4,991,809)	N/A	(84,261,904)	N/A	(177,922,857)	N/A	(51,253,893)	N/A
Total:	<u>4,018,000</u>	<u>100%</u>	<u>66,758,000</u>	<u>100%</u>	<u>220,881,000</u>	<u>100%</u>	<u>220,613,000</u>	<u>100%</u>

Optical Storage Media Products

DVD-Rs

The Company began commercial production of DVD-Rs in July 2000.

DVD-Rs are non-erasable recordable discs which are mainly used for high quality digital audio and video recording and high capacity data storage for computers. DVD-Rs have a standard size with a diameter of 8 or 12 centimeters and a thickness of 1.2 millimeters. A standard DVD-R disc can store up to approximately 4.7 gigabytes ("GB") of data. DVD-Rs are often used for video storage, data exchange applications and for long-term record storage/data archiving.

The basic manufacturing process for DVD-Rs consists of injecting a mould with substrate, substrate cooling, dye coating, edge cleaning, drying, sputtering, lacquering, ultraviolet curing and, subject to a quality check inspection at each stage, packaging and storing. The Company believes that the dye is the most critical raw material used in the production of DVD-Rs and therefore places particular emphasis in ensuring that its dyes are of high quality. The Company also developed its own in-house technology for designing and producing the dye used in the manufacture of DVD-Rs. Such expertise has in the past enabled the Company to reduce the production cost of DVD-Rs significantly, thereby enhancing the overall competitiveness of the Company's products. The Company currently sources certain key raw materials, including dyes and solvents for the manufacture of DVD-Rs, from local suppliers, which enables the Company to reduce unit production cost.

For raw materials which the Company sources from overseas countries such as Japan, it is able to reduce its unit production cost of DVD-Rs by applying its in-house dye technology to recycle the imported dye and solvents. The manufacturing process for DVD-R discs is similar to that for CD-Rs, with the major difference being that there is an additional binding process in the production of DVD-R discs, with higher density stamper, and with different dyes used.

CD-Rs

The Company began commercial production of CD-Rs in November 1997. Data may be recorded on a CD-R only once. CD-Rs are an older technology than DVD-Rs and have significantly less storage capacity. However, they remain popular for certain applications, such as digital audio recording, and for their lower cost and widespread compatibility. In the first half of 2009, the Company's DVD-R sales are approximately five times that of CD-R in terms of sales revenue and approximately 2.5 times in terms of units sold.

Photovoltaic Materials Products

Through its subsidiary, Giga Solar Materials Corp., the Company develops and produces solar cell conductive pastes, or solar pastes, a key component in the manufacturing of solar cells. The Company produces many types of solar pastes including aluminum paste, silver-aluminum paste and silver paste. The solar paste products require lengthy certification process which the Company has obtained from its customers.

The production process for solar pastes consists of, inspection of incoming raw materials, mixing raw materials through the Company's proprietary process, extract solar paste, and testing of finished product for quality control, followed by packaging and storage.

Coated Products and Services

The Company develops and produces coatings for routers and drills used in the production of printed circuit boards and ball grid arrays. The Company offers coating services for its customers' tools.

Prism Sheets

The Company develops and manufactures prism sheets for TFT-LCD display applications. The prism sheet is an optical film that adjusts the direction of the light from the backlight of a TFT-LCD display, allowing for a brighter and more uniform distribution of light across the display.

Raw Components and Materials

Raw materials accounted for 49.0%, 50.3% and 53.6%, on a non-consolidated basis, of the Company's total production costs in 2006, 2007 and 2008, respectively. In 2008, on a non-consolidated basis approximately 35% of the Company's raw materials were sourced outside the ROC, mainly consists of polycarbonates from Korea, Thailand and Japan.

The main raw materials for the optical storage media products are polycarbonates, dyes, targets, lacquers and oil ink. The Company generally sources its raw materials from suppliers in Taiwan, Korea, Thailand, and Japan. In recent years, the Company has been able to reduce the unit production cost of CD-Rs by utilizing its own in-house technique to produce dyes (a key component of recordable optical disk) as well as by using its in-house dye technology to recycle imported dyes and solvents.

The Company does not enter into long-term supply contracts for its raw materials for optical storage media products. However, the Company places orders on a monthly basis and provides rolling forecasts to suppliers for certain key raw materials such as polycarbonates, dye and silver. The Company generally maintains a raw material inventory of approximately one month's supply, as a safeguard against potential supply disruptions.

Payment terms are generally 30 to 120 days from the date of invoice. The Company does not consider itself to be materially reliant on any particular supplier for raw materials and has not experienced any significant disruption in supplies in the past. However, there have been shortages in the global supply of certain raw materials in the past. If the Company is unable to obtain sufficient raw materials or machinery from its suppliers in a timely manner, its production schedules could be delayed and it may lose business.'

The following table sets forth the top five suppliers of the Company based on the Company aggregate value purchases, on a consolidated basis, for the year ended December 31, 2008:

Top suppliers for Company's optical storage media products:

Suppliers	Product/Materials Supplied	Percentage*
Formosa Idemitsu Petrochemical Corporation	polycarbonates	18.64%
Ritek Corporation	polycarbonates, DVD+R	11.44%
Optodisc Technology Corporation	Stamper, DVD-R	9.86%
Thintech Materials Technology Co., Ltd.	sputtering target	3.11%
Mitsubishi Corporation (Taiwan) Ltd.	polycarbonates	2.84%

* Note: Percentage of all materials and components purchased by the Company.

Research and Development

The Company has dedicated its research and development efforts to improving product quality, lower production cost and develop new products that meet market demand. In addition to its in-house research and development activities, the Company also works with local raw material suppliers to develop and promote new raw materials for optical storage media products to improve the quality and reduce costs of such raw materials. Additionally, the Company engages in cooperative research efforts with the Bureau of Industry, Ministry of Economic Affairs and various universities in Taiwan to develop new technologies.

The Company has also made research and development efforts relating to a variety of materials technologies. Many of these research and development efforts have resulted in the Company's recent product lines, including its solar cell conductivity pastes and its prism sheets for TFT-LCD backlighting. The Company believes that continued materials research and development will be an important factor in the Company's future growth.

The Company intends to focus its future R&D effort on higher capacity optical media storage products such as Blu-ray disc, raw materials for LCDs and FPCs such as flexible copper clad laminate (FCCL) and brightness enhancement film (BEF), newer generation of coatings for routers and drills used in the production of printed circuit boards and ball grid arrays, and micro-lens optical film and other nano-metallic materials.

For year 2008, the research and development expenditures of the Company amounted to NT\$56.4 million (US\$1.75 million) or 3.1% of the Company's non-consolidated net operating revenues.

Production Facilities

The factory was established in October 1999 with a gross floor area of approximately 17,064 square meters. The land on which the factory was built is owned by the Company. In 2005, the Company expanded its factory by approximately 41,147 square meters to approximately 58,211 square meters. The land on which the factory expansion is made was built is owned by the Company.

The Company also operates a production facility in Thailand for the production of CD-Rs. The Thailand factory was established in 2006 with a gross floor area of approximately 8580 square meters.

The Company has been manufacturing DVD-Rs and CD-Rs at its factories in Taiwan and in Thailand nearing their production capacities in the past year.

Quality Control

Components and raw materials are subject to quality control inspection and testing according to the Company's specifications before they enter the production line. The quality requirement is particularly high for certain critical components and materials which directly determine the quality and performance of finished products. Such materials are either manufactured and supplied from within the Company or sourced from third party suppliers. In-process quality control procedures are implemented at each stage of the manufacturing processes. Different types of testing equipment are used to ensure compliance with different customers' quality requirements. Inspection of all finished recordable products is performed on a random sampling basis and concentrates on critical areas such as the reliability and compatibility check of the optical storage media products.

The Company has been certified as meeting the ISO 9001 quality standards for its factories in Taiwan in August 1999 and Thailand in December 2008 in respect of its manufacture of optical storage products.

Sales and Marketing

The sales department at the Company's headquarters in Hsinchu is responsible for the Company's sales and marketing activities. As of June 30, 2009, the Company had 14 personnel responsible for sales and marketing activities.

The majority of the Company's optical storage media products are sold to local private label manufacturers and retail distribution channels on a no-brand basis, with a small portion of its products under its own brand name "Cursor" and "Maxmax". Although the Company has established a large and diversified customer base located in around twenty countries, the Company's sales are concentrated in a relatively small number of key customers. During the first six months of 2009, the two largest customers of the Company accounted for 16.85% and 9.16%, respectively, of its consolidated net operating revenues.

For a majority of its sales, the Company does not typically enter into long-term purchase and sale agreements with its customers. Instead, for planning purposes, such customers typically supply the Company with non-binding rolling forecasts, which form the basis of purchase orders at a later point in time.

The following table sets forth the consolidated net operating revenues of the Company and percentage breakdown, categorized by geographic region to which its products were shipped, for the periods indicated.

	2006		2007		2008		First Half 2009	
Geographical Areas								
Taiwan	586,301,398	26.03%	409,637,935	22.51%	477,561,581	24.84%	232,123,702	24.38%
Asia (excluding Taiwan)	447,239,357	19.85%	317,871,233	17.46%	333,470,090	17.35%	199,154,843	20.92%
America	881,478,982	39.13%	999,467,017	54.91%	1,029,656,680	53.56%	487,005,148	51.15%
Europe	259,456,827	11.52%	15,077,871	0.83%	25,247,245	1.31%	5,493,859	0.58%
Others	78,100,435	3.47%	78,006,944	4.29%	56,476,404	2.94%	28,241,448	2.97%
Total:	2,252,577,000	100%	1,820,061,000	100%	1,922,412,000	100%	952,019,000	100%

Intellectual Properties

The Company owns various patents and trademarks. The Company has registered, among others, "Gigastorage" and "Cursor" as trademarks in Taiwan in the categories relating to optical storage media products. The Company holds a number of patents in the area relating to its manufacturing processes in the ROC.

The Company was involved in IP disputes with Philips in Taiwan, the Netherlands, Italy, Belgium and the United States with regard to CD-R patents, and settled those disputes in September 2007. The Company no longer manufactures or sells CD-Rs in jurisdictions where Philips has registered patents relating to CD-Rs.

The Company is required to pay royalties in respect of its CD-R products to Sony Corporation. Pursuant to an agreement between the Company and Sony Corporation dated April 4, 2003 for CD-R products, the Company pays Sony Corporation per-unit royalty fees that vary inversely with the number of units produced.

The Company is also required to pay license expenses to DVD Format Licensing Corp. in respect of the formats of DVD-R, DVD-ROM and DVD-RAM. The Company entered into a license agreement with Sony Corporation and makes per-unit royalty payments in respect of its DVD-R products.

In 2006, 2007 and 2008, on an unconsolidated basis, the Company incurred NT\$50.3 million, NT\$37.5 million and NT\$19.8 million (US\$0.613 million), respectively, in total royalty expenses.

Environmental Matters

The production process for the Company's products generates some liquid waste and other industrial wastes in various stages of the manufacturing process. The Company has installed different types of antipollution equipment for the treatment of liquid waste and equipment for the recycling of treated water in the Company's facilities. In September 2001, the Company's Giga I factory obtained an ISO 14001 certification on its environmental management system for its design and manufacture of CD-Rs. The Company, together with other companies located in an industrial area, receives assistance from the local environmental protection authorities for the disposal of industrial waste. For the last three years, the Company has not been subject to,

nor is it aware of, any material claims or legal actions involving non-compliance with environmental regulations other than the followings:

On August 9, 2007, the Company was fined NT\$120,000 by the Hsinchu Environmental Protection Bureau for violating waste disposal regulations (failure to report disposal of waste and change in waste disposal plans).

On November 11, 2008, the Company was fined NT\$10,000 by the Hsinchu Environmental Protection Bureau for improper disposal of dirty polypropylene dye containers.

On November 13, 2008, the Company was fined NT\$10,000 by the Hsinchu Environmental Protection Bureau for improper disposal of dirty polypropylene dye containers through hiring a third party with waste disposal permit.

The Company believes that it is in compliance in all material respects with applicable environmental laws and regulations.

Litigation and Regulatory Issues

The Company was in a CD-R patent infringement dispute with Koninklijke Philips Electronic N.V. ("Philips") where law suits were brought in Taiwan, United States, Netherlands, Italy, Belgium and the International Trade Commission. The lawsuits and disputes the Company has with Philips were settled pursuant to a settlement agreement on September 23, 2007. Under the settlement agreement, the Company agrees to pay compensation to Philips in installments.

The Company is involved in litigation in Taipei District Court where the Company, as the plaintiff, is suing an international freight forwarding and customhouse brokerage company for loosing the Company's merchandise.

The Company has made administrative appeals with Taiwan's National Tax Administration, challenging the Administration's tax deficiency assessment against the Company for its taxes paid for fiscal years 2001 through 2003. As of September 12, 2009, the National Tax Administration has determined that the Company owed back taxes and interest and fines in connection therewith, in the aggregate amount of approximately NT\$155 million (US\$4.80 million). The Company believes that the tax assessment lacks validity and estimates that the appeal process will take many years. There can be no assurance that the Company's appeals will be successful.

Other than the above, the Company is not involved in any, and is not aware of any pending or threatened, litigation or other proceedings the outcome of which the Company believes might, individually or taken as a whole, have a material adverse effect on the results of operations or financial condition of the Company.

Insurance

The Company maintains insurance policies with independent third parties in respect of buildings, vehicles and equipment and inventory located in its premises. The Company's current insurance coverage includes losses resulting from flood, fire, earthquake, and explosion of up to NT\$3 billion as of June 30, 2009. Insurance policies of the Company are generally renewed annually. Buildings and equipment, raw materials and inventory of finished products are insured for their net book value (plus the cost of shipping of replacement equipment). The Company considers its insurance coverage to be adequate and in accordance with industry norms in the ROC.

Employees

As of December 31, 2007 and 2008, the Company had approximately 424 and 403 employees, respectively. And as of June 30, 2009, the Company has 393 employees. The Company provides benefits to its employees, such as medical insurance and travel allowances. The Company provides ongoing training programs to its employees to ensure that they have the requisite skills to carry out their job responsibilities and also to improve the quality of its staff. As an incentive, the Company also pays employee bonuses in the form of cash or stock of at least 5% of the Company's net income after payment of taxes and contribution to legal and special reserves, such amounts being allocated to employees based on individual performance. The Company has established a stock option plan in June 2003, under which the Company may grant stock options to its employees for their purchase of up to 10 million Shares. On June 30, 2009, the Company's

employee stock options outstanding allow for the purchase of approximately 7.6 million Shares by the Company's employees at the exercise price of NT\$16.1 per share. This employee stock option will expire on December 31, 2009.

The Company has not experienced any strikes or labor disputes.

Subsidiaries and Investments

The following table sets forth certain information regarding principal subsidiaries and investments and the Company's shareholding as of June 30, 2009:

Name	Principal Activities	Location	Ownership Percentage*	Book Value (NT\$, thousands)
Custer Inc.	Optical storage media sales	Samoa	100%	-
Barnwell Enterprises Ltd	Optical storage media sales	Mauritius	100%	-
Quo-Chao Investment Corporation	Investment	ROC	99.99%	91,488
Maxmax Group Corporation	Optical storage media sales	ROC	99.45%	22,563
Giga Solar Materials Corp.	Photovoltaic materials	ROC	100%	189,868
New Elite Investments Limited	Investment	Samoa	100%	2,239
Shenzhen Gigastorage Co., Ltd.	Research and development	PRC	100%	2
Global Acetech Co., Ltd.	Optical storage media sales	Thailand	99.99%	266,750

Note: ownership percentage includes direct and indirect ownership.

Consolidated Subsidiaries

As of December 31, 2008, the Company had eight subsidiaries that required consolidation. Under ROC GAAP, an entity is deemed the Company's consolidated subsidiary if the Company directly or indirectly own more than 50% of its voting stock and are able to exercise control over its operations and financial policies.

MANAGEMENT

Directors

The Company's board of directors is elected by the shareholders in a shareholders' 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 with or without a reason by a resolution adopted at a shareholders' meeting. However, a director removed without a justifiable reason may be entitled to compensations for damages suffered. Normally, all board members are elected at the same time, except where one-third or more of the directors' seats 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 other position in the Company, shareholding percentages (as of April 21, 2009) and other significant position held:

Name	Other position with the Company	Shareholding percentage	Other significant positions held
Chao-Feng Chang	Chairman	0.03%	Chairman of U-TECH Media Corporation; Director of Giga Solar Materials Corporation, Quo Chao Investment Corporation, U-Tech Media Korea, U-Tech Investment Co., Ltd., Crystal Investment Overseas Ltd., and Jade Investment Ltd; Supervisor of BIONET Corporation
Chi-Jen Chen	President	0.97%	Chairman of Giga Solar Materials Corporation; Director of Quo Chao Investment Corporation, Maxmax Group Corporation, New Elite Investments Ltd, Global Acetech Co., Ltd.
Wei-Fen Yang ⁽¹⁾		10.91%	Vice CEO of Ritek Corporation; Director of Ritek Corporation, Giga Solar Materials Corporation, Tech Media Corporation, RiTdisplay Corporation, Prorit Corporation, Cashindo Corporation, Chung-Yuan Venture Capital Corporation, Ko Fu development Venture Capital Corporation, H&Q Taiwan Co., Ltd., Asia-wide International Ltd., ART Management Ltd., Ritek Global Media Co., Glory Years Investments Ltd., Best Channel International Ltd., and Magenta lane International.
Yen-Min Pan ⁽¹⁾		10.91%	Vice Vice President of Ritek Corporation; Director of Giga Solar Materials Corporation; Supervisor of U-Tech Media Corporation, Chung-Fu Investments Ltd., and Ko Fu development Venture Capital Corporation.
Chu-Fu Shih ⁽¹⁾		10.91%	Assist Vice President of Ritek Corporation; Director of Giga Solar Materials Corporation; Supervisor of U-Tech Media Corporation and Prorit Corporation.
Jih-Hsing Chen		0.29%	Chairman of Maxmax Group Corporation; Director of Giga Solar Materials Corporation and Quo Chao Investment Co., Ltd.
Ming-Shih Lee		0.17%	Director of Giga Solar Materials Corporation, Quo Chao Investment Corporation, and Toyota Petrol Station Co., Ltd.
Wen-Chih Chen		0.39%	Director of Giga Solar Materials Corporation, Quo Chao Investment Corporation, Zun Liy Tile Co., Ltd., and Fontal Technology Inc.; CEO of Dreamtek International Corporation and Chun Zao Investment Co. Ltd.
Chin-Yuan Hsieh		0.14%	Dean of College of Informatics, professor at Department of Information Technology; professor at the Institute of Information Technology and Applications in Kao Yuan University; Director of Giga Solar Materials Corporation.

Note: 1. Representative of Ritek Corporation

Supervisors

The Company currently has three supervisors, each serving a three-year term. Supervisors are typically elected at the time that directors are elected. Each supervisor is elected by the Company's shareholders and cannot concurrently serve as a director, management officer or other staff member. The ROC Company Law requires at least two supervisors be in office at all times for a company whose shares are issued to the public and that a supervisor's term of office be no more than three years.

Supervisors' duties and responsibilities include investigations of the Company's business condition, inspection of the Company's corporate records, verification and review of financial statements presented by the board of directors of the Company at the shareholders' meetings, convening of shareholders' meetings, representing the Company in negotiations with the directors involving interested transactions with the Company and notification to the board of directors acting in contravention of any applicable law or regulation or the Company's Articles of Incorporation.

The following table sets forth the name of each of the Company's current supervisors, his other significant position held and shareholding percentages as of April 21, 2009:

<u>Name</u>	<u>Shareholding Percentage</u>
Chen-Yu Huang	0.50%
Jenn-Sheng Liao	0.14%
Ching-Mei Tsai	0.04%

In accordance with the ROC law, each of the Company's directors and supervisors owe fiduciary duties to all shareholders.

In order to strengthen corporate governance of companies in Taiwan, effective from January 1, 2007, the amended ROC Securities and Exchange Law authorizes the ROC Financial Supervisory Commission, after considering the scale, shareholding structure and business nature of a public company, to require a public company to have at least two independent directors but in no case less than one-fifth of the total number of directors.

Executive Officers

The following table sets forth information relating to the Company's executive officers as of August 31, 2009:

<u>Name</u>	<u>Position</u>	<u>Years with the Company</u>
Chi-Jen Chen	President	12
Sheng-Ru Yang	Vice President	12
Lii-Chyuan Tsai	Vice President	7
Sheng-Chung Yang	Assistant Vice President	12
Sung-Hsiu Huang	Assistant Vice President	12
Ming_Jiunn, Tsay	Assistant Vice President	11
Chao-Chin Lee	Assistant Vice President	9
Chia-Hao Ou*	Assistant Vice President	9
Kao-Yuan Chung	Assistant Vice President	8

Note: Chia-Hao Ou resigned on October 5, 2009.

Biographies of Directors, Supervisors and Executive Officers

Mr. Chao-Feng Chang has served as the Company's Chairman since May 2001. Mr. Cheng is also the Chairman of U-Tech Media Corporation and a director of Giga Solar Materials Corporation, Quo Chao Investment Corporation, U-Tech Media Korea, U-Tech Investment Co., Ltd., Crystal Investment Overseas Ltd., and Jade Investment Ltd. Mr. Chen is also a supervisor of BIONET Corporation. Mr. Chang holds a doctoral degree in business administration from Nova Southeastern University.

Mr. Chi-Jen Chen has served as the Company's director since Oct 1999 and the Company's President since

July 1997. Mr. Chen is also the Chairman of Giga Solar Materials Corporation and a director of Quo Chao Investment Corporation, Maxmax Group Corporation, New Elite Investments Ltd, Global Acetech Co., Ltd. Before joining the Company, Mr. Chen served as the manager of the discs technology development project of the Material Research Laboratories of the Industrial Technology Research Institute. Mr. Chen holds a doctoral degree in material science and engineering from the National Tsing Hua University.

Ms. Wei-Fen Yang has served as the Company's director since May 2001. Ms. Yang is also the Vice CEO of Ritek Corporation and a director of Ritek Corporation, Giga Solar Materials Corporation, TECH Media Corporation, RiTdisplay Corporation, Prorit Corporation, Cashindo Corporation, Chung-Yuan Venture Capital Corporation, Ko Fu development Venture Capital Corporation, H&Q Taiwan Co., Ltd., Asia-wide International Ltd., ART Management Ltd., Ritek Global Media Co., Glory Years Investments Ltd., Best Channel International Ltd., and Magenta Lane International. Ms. Yang holds a degree in MBA from the National Cheng Chi University.

Ms. Yen-Min Pan has served as the Company's director since May 2001. He is also the Vice President of Ritek Corporation, a director of Giga Solar Materials Corporation and a supervisor of U-TECH Media Corporation, Chung-Fu Investments Ltd., and Ko Fu development Venture Capital Corporation. Mr. Pan holds a master's degree in economics from the Chinese Culture University.

Ms. Chu-Fu Shih has served as the Company's director since May 2001. Mr. Shih is also the Assist Vice President of Ritek Corporation and a director of Giga Solar Materials Corporation and a supervisor of U-Tech Media Corporation and Prorit Corporation. Mr. Shih holds a degree in accounting from Soochow University.

Mr. Jih-Hsing Chen has served as the Company's director since May 2001. Mr. Chen is also the Chairman of Maxmax Group Corporation and a director of Giga Solar Materials Corporation and Quo Chao Investment Co., Ltd. Mr. Chen holds a degree in chemical engineering from the Chinese Cultural University.

Mr. Ming-Shih Lee has served as the Company's director since May 2001. Mr. Lee is also a director of Giga Solar Materials Corporation, Quo Chao Investment Corporation, and Toyota Petrol Station Co., Ltd. Mr. Lee holds a degree in civil engineering from the Ming Chi Institute of Technology.

Mr. Wen-Chih Chen has served as the Company's Director since Jun 2007. Mr. Chen is also a director of Giga Solar Materials Corporation, Quo Chao Investment Corporation, Zun Liy Tile Co., Ltd., and Fontal Technology Inc. Mr. Chen is also the CEO of Dreamtek International Corporation and Chun Zao Investment Co., Ltd. Mr. Chen holds a degree in MBA from Chung Hua University.

Dr. Chin-Yuan Hsieh has served as the Company's director since Jun 2007. Dr. Hsieh was a Dean of the College of Informatics, a professor at the Department of Information Technology and a professor at the Institute of Information Technology and Applications at the Kao Yuan University, Kaohsiung, Taiwan. Dr. Hsieh is a director of Giga Solar Materials Corporation. Dr. Hsieh holds a doctoral degree in electrical and computer engineering from the University of Texas, USA.

Mr. Chen-Yu Huang has served as the Company's supervisor since Jun 2008. Ms. Huang holds a degree in physics from the National Cheng Kung University.

Mr. Jenn-Sheng Liao has served as the Company's supervisor since Jun 2007. Mr. Laio is a director of Giga Solar Materials Corporation and a mechanical engineer at Metal Industries Research & Development Centre. Mr. Liao holds a master's degree in mechanical engineering from Tennessee Technological University.

Ms. Ching-Mei Tsai has served as the Company's supervisor since Jun, 2007. Ms. Tsai is a director of Giga Solar Materials Corporation, and a supervisor for Gigastorage Corp. and Quo Chao Investment Corporation. Mr. Tsai currently works as director of Group Management Office at UniDisplay Inc. MR. Tsai holds a master degree from the National Tsing Hua University and is a Certified Public Accountant (CPA) and a Certified Internal Auditor (CIA).

Mr. Sheng-Ru Yang has served as the Company's Executive Vice President since May 1997. Before joining the Company, Mr. Yang served as a manager of the Technology Department of China Glaze Co., Ltd. Mr. Yang holds a doctoral degree in material science and engineering from the National Ching Hua University.

Mr. Lii-Chyuan Tsai has served as the Company's Executive Vice President since May 2003. Mr. Tsai is a director of Taimide Tech. Inc. and Makin Technology Corporation. Before joining the Company, Mr. Tsai

served as the co-manager of the optoelectric materials program at the Material Research Laboratories of the Industrial Technology Research Institute. Mr. Tsai holds a master's degree in chemical and engineering from the National Tsing Hua University.

Mr. Sheng-Chung Yang has served as the Company's Assist Vice President since August 2007. Mr. Yang is also the president of Maxmax Group Corporation. Before joining the Company, Mr. Yang served as the section chief of Taiwan Glass Company. Mr. Yang holds a degree in automatic control engineering from the Feng Chia University.

Mr. Sung-Hsiu Huang has served as the Company's Assist Vice President since August 2004. Before joining the Company, Mr. Huang served as the researcher in the optical recording media development project of the Material Research Laboratories of the Industrial Technology Research Institute. Mr. Huang is a PhD candidate in material science and engineering from the National Chiao-Tung University.

Mr. Ming-Jiunn, Tsay has served as the Company's Assist Vice President since August 2004. Mr. Tsay is also the president of Global Acetech Co., Ltd. Before joining the Company, Mr. Tsay served as an engineer at the discs technology development project of the Material Research Laboratories of the Industrial Technology Research Institute. Mr. Tsay holds a master's degree in material science and engineering from Tatung University.

Mr. Chao-Chin Lee has served as the Company's Assist Vice President of the Manufacturing Division since August 2004. Mr. Lee is also a director of Taimide Tech. Inc. and New Land Packing Corporation and a supervisor of Maxmax Group Corporation. Before joining the Company, Mr. Lee served as the manager of the Taishin Securities Co., Ltd. Mr. Lee holds a degree in public finance from the National Chung Hsing University.

Mr. Chia-Hao Ou has served as the Company's Assist Vice President of the Financial and Accounting Division since August 2004. Before joining the Company, Mr. Ou worked in the Accounting Division of Leosystem Inc. Mr. Ou holds a degree in accounting from the National Chung Hsing University.

Mr. Kao-Yuan Chung has served as the Company's Assist Vice President of the Manufacturing Division since August 2005. Mr. Chung is also the Chairman of Shenzhen Gigastorage Co., Ltd. Mr. Chung holds a degree in electronic and engineering from Feng Chia University.

Compensation of Directors, Supervisor and Executive Officers

During the year ended December 31, 2008, the Company paid its directors and supervisors compensation of approximately NT\$5.2 million in aggregate. During the same year, the Company paid to its executive officers (President Chi-Jen Chen, Vice-President Sheng-Ru Yang and Vice-President Lii-Chyuan Tsai) compensation of approximately NT\$6.6 million in aggregate.

Interests of Management in Certain Transactions

Some 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 the Company's affiliates. Unless otherwise disclosed in the Company's Financial Statement included herein, the Company conducts transactions with the above companies on an arms-length basis. See note 5 to the Company's consolidated financial statements for the years ended December 31, 2006, 2007 and 2008 and note 5 to the Company's consolidated financial statements for the six-months ended June 30, 2008 and 2009 included hereunder for description of related party transactions.

PRINCIPAL SHAREHOLDERS

The names and shareholdings of the shareholders of record of the Company as of April 21, 2009 who hold more than 1% the Company's Shares are as follows:

Name	Number of Shares held	Percentage of total outstanding Shares
Ritek Corporation	32,165,813	10.91%
Chi-Min Chen ⁽¹⁾	5,168,000	1.75%
Shu-Hui Li	4,135,000	1.40%

Note 1: Chi-Min Chen is the brother of the Company's President Chi-Jen Chen. On April 21, 2009, the President Chi-Jen Chen, his brother Chi-Ming Chen and sister Su-Hui Chen, collectively hold 10,783,742 Shares in the Company or 3.65% of total outstanding Shares.

RECENT DEVELOPMENTS AND OUTLOOK

The Company has prepared audited consolidated financial statements for the three years ended December 31, 2006, 2007 and 2008. The financial statements have been audited by Ernst & Young ("EY"), who conducted the audit of such financial statements in accordance with auditing standards generally accepted in the ROC. EY has also reviewed the consolidated financial statements for the six-month period ended June 30, 2008 and 2009. The review of such interim non-consolidated financial statements is substantially less in scope than an audit and is conducted in accordance with the review standards generally accepted in the ROC.

The following discussion and analysis has been made on the basis of the Company's audited consolidated financial statements as at and for the years ended December 31, 2006, 2007 and 2008 and the Company's unaudited consolidated financial statements as at and for the six month periods ended June 30, 2008 and 2009.

Results of Operations in 2008

The consolidated net sales of the Company increased by NT\$102.35 million, or 5.49%, from NT\$1,820 million (US\$56.37 million) for the year ended December 31, 2007, to NT\$1,922 million (US\$59.52 million) for the year ended December 31, 2008. The increase in net sales was primarily due to an increase in sales of solar paste products.

The gross profit of the Company increased by NT\$154.12 million, or 230.86%, from NT\$66.76 million (US\$2.07 million) for the year ended December 31, 2007, to NT\$220.88 million (US\$6.84 million) for the year ended December 31, 2008. The increase in gross profit was principally due to the higher profit margins of the solar paste products and lower market prices of certain raw material (polycarbonates).

The operating expenses of the Company decreased by NT\$1,045.19 million, or 79.97% from NT\$1,307 million (US\$40.48 million) for the year ended December 31, 2007, to NT\$261.86 million (US\$8.11 million) for the year ended December 31, 2008. The decrease in operating expenses is primarily due to the higher expenses in 2007 associated with the settlement with Philips. The consolidated operating loss of the Company decreased by NT\$1,199.31 million, from NT\$1,240 million (US\$38.40 million) for the year ended December 31, 2007, to NT\$40.98 million (US\$1.27 million) for the year ended December 31, 2008. The decrease in operating loss was primarily due to a decrease of the operating expenses.

The consolidated non-operating income and gains of the Company increased by NT\$0.82 million, or 1.88%, from NT\$43.57 million (US\$1.35 million) for the year ended December 31, 2007, to NT\$44.39 million (US\$1.37 million) for the year ended December 31, 2008.

The consolidated non-operating expenses and losses of the Company increased by NT\$4.48 million, or 3.28%, from NT\$136.53 million (US\$4.23 million) for the year ended December 31, 2007, to NT\$141.01 million (US\$4.37 million) for the year ended December 31, 2008.

The Company has consolidated loss before income tax of NT\$137.59 million (US\$4.26 million) in 2008 compared to the loss before income tax of NT\$1,333 million (US\$41.28 million) in 2007, and the net loss of the Company decreased by NT\$1,183 million, from NT\$1,340 million (US\$41.50 million) for the year ended December 31, 2007, to NT\$156.80 million (US\$4.86 million) for the year ended December 31, 2008. The decrease in net loss was primarily due to a decrease of operating loss.

Results of Operations in the first Six Months of 2009

For the six months ended June 30, 2009, the Company's consolidated net operating revenue decreased by 0.29% to NT\$952.02 million (US\$39.48 million) from NT\$954.79 million (US\$29.57 million) for the corresponding period in 2008. The net operating revenue includes a decrease was primarily due to a decrease in the Company's sales of optical products that was offset by an increase in sales of solar pastes. For the six months ended June 30, 2009, the Company's consolidated operating costs decreased by 13.84% to NT\$731.41 million (US\$22.65 million) from NT\$848.89 million (US\$26.29 million) for the corresponding period in 2008, mainly due to the higher profit margins of solar pastes and lower market prices of raw material (polycarbonates).

The consolidated gross profit of the Company for the six months ended June 30, 2009 increased by 108.30% to NT\$220.61 million (US\$6.83 million) from NT\$105.91 million (US\$3.28 million) for the corresponding period in 2008. This increase of gross profit is mainly attributable to the increased production of solar paste.

The consolidated operating income of the Company for the six months ended June 30, 2009 increased to NT\$109.34 million (US\$3.39 million) from a loss of NT\$15.45 million (US\$0.48 million) for the corresponding period in 2008. This increase in operating income is mainly attributable to an increase in sales of solar paste.

The consolidated non-operating income and gains of the Company for the six months ended June 30, 2009 decreased by 40.04% to NT\$20.41 million (US\$0.63 million) from NT\$34.04 million (US\$1.05 million) for the corresponding period in 2008.

The consolidated non-operating expenses and losses of the Company for the six months ended June 30, 2009 decreased by 33.39% to NT\$42.57 million (US\$1.32 million) from NT\$63.91 million (US\$1.98 million) for the corresponding period in 2008. This increase in non-operating loss is mainly attributable to a decrease in interest expense.

Principally as a result of these factors, the non-consolidated net income of the Company for the six months ended June 30, 2009 increased to NT\$66.24 million (US\$2.01 million) from a loss of NT\$45.32 million for the same period in 2008.

Financial Resources and Capital Expenditure

Net cash provided by consolidated operating activities was approximately NT\$433.79 million (US\$13.43 million), NT\$48.75 million (US\$1.51 million), and NT\$43.45 million (US\$1.35 million) in 2006, 2007 and 2008, respectively. Cash used in operating activities was NT\$195.58 million (US\$6.06 million) for the six months ended June 30, 2009. The Company's principal cash requirements during these periods are for its business operations as working capital.

The Company spent capital expenditure, in the form of acquisition of machinery, equipment and fixed assets of approximately NT\$57.21 million (US\$1.77 million), NT\$395.58 million (US\$12.25 million), and NT\$60.93 million (US\$1.89 million) in 2006, 2007 and 2008, respectively; and of NT\$54.87 million (US\$1.70 million) in the six months ended June 30, 2009.

The Company's primary sources of finance have been cash from operations and issuance of convertible bonds.

The Company requires a significant amount of working capital support, particularly as the Company's sales continue to increase. The Company's principal working capital requirements are the financing of its accounts receivable and inventories. The Company expects to meet its working capital, capital expenditure and investment requirements for 2009 from cash generated from operations, factoring and the proceeds from the offer of the Bonds.

From time to time, the Company reviews investment opportunities and may, when a suitable opportunity arises, make an investment. Future investments may be in the form of capital expenditures made directly or through subsidiaries, or acquisitions of, or investments in, other businesses or joint ventures with third parties. The Company intends only to invest in businesses and companies in line with and compliment the Company's core businesses.

DIVIDENDS

The Company has not issued cash and stock dividends on the Shares in the last three years. The form, frequency and amount of future cash or stock dividends on the Shares will depend upon the Company's earnings, cash flow, financial condition and other factors.

Under the ROC Company Law, except in certain limited circumstances, the Company is not permitted to distribute dividends or make other distributions to shareholders for any year in which the Company has losses. The ROC Company Law also requires that 10% of the Company's annual earnings, less prior years' losses, if any, and outstanding tax, be set aside as a legal reserve until the accumulated legal reserve equals the paid-in capital. The Company may set aside a special reserve in accordance with applicable laws and regulations. Based on the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior year's operating losses and then 10% of the remaining amount shall be set aside as legal reserve. The remainder shall be appropriated as (a) not more than 3% as remuneration to directors and supervisors; (b) not less than 5% as bonus to employees, and (c) as dividends to stockholders.

At each of the Company's annual ordinary shareholders' meeting, the board of directors submits to the shareholders for their approval any proposal for the distribution of a dividend or the making of any other distribution to shareholders from the Company's earnings (subject to compliance with the requirements mentioned above) for the preceding fiscal year. All shares outstanding and fully paid as of the relevant record date are entitled to share equally in any dividend distribution or distribution of capital reserve so approved.

MARKET PRICE INFORMATION

The Shares have been quoted and traded on the TSE since April 19, 2000. The table below sets forth, for the periods indicated, the high and low closing prices (as adjusted retroactively for issuance of new shares and consolidation of shares) and the average daily volume of trading activity on the TSE for the Shares and the high and low of the daily closing values of the TSE Index.

		Closing price per Share		Accumulated trading volume for the period	TSE Index	
		High	Low		High	Low
		(NT\$)				
2000		130.58	14.07	28,089	10,202.20	4,614.63
2001		54.12	15.52	235,223	6,104.24	3,446.26
2002		35.27	13.57	103,639	6,462.30	3,850.04
2003		32.40	9.82	198,868	6,142.32	4,139.50
2004		43.09	17.58	200,212	7,034.10	5,316.87
2005		20.42	8.05	81,936	6,575.53	5,632.97
2006		13.82	7.68	61,821	7,823.72	6,257.80
2007		27.83	9.93	191,129	9,809.88	7,344.56
2008		19.25	2.93	86,547	9,295.20	4,089.93
2009	January	3.92	4.83	908	4817.44	4164.19
	February	4.18	4.92	1,769	4607.97	4240.08
	March	4.92	7.33	6,005	5468.49	4328.05
	April	6.97	10.75	11,071	6071.06	5271.83
	May	9.10	13.18	13,342	6930.59	6256.29
	June	10.83	13.05	6,513	7084.83	6100.08
	July	11.22	13.65	9,313	7185.52	6433.69
	August	12.42	13.62	4,724	7138.94	6629.10
	September	13.38	16.75	5374	7558.88	6807.62

Source: Taiwan Stock Exchange

On October 9, 2009, the reported closing price of the Shares was NT\$19.15 per Share and the TSE Index closed at 7,571.96.

CHANGES IN ISSUED SHARE CAPITAL

The following table shows the increases in the issued share capital of the Company since incorporation:

Date of Issue	Type of Issue	Number of Shares Issued	Number of Shares Outstanding after Issue
March 1997	Incorporation	10,127,000	10,127,000
July 1997	Issuance of shares for cash	43,329,000	53,456,000
June 1998	Issuance of shares for cash	26,728,000	80,184,000
January 1999	Issuance of shares for cash	35,000,000	115,184,000
April 1999	Capitalization of retained earnings and employee stock bonus	11,611,800	126,795,800
June 1990	Issuance of shares for cash	13,204,200	140,000,000
April 2000	Capitalization of capital reserves and retained earnings and employee stock bonus	49,097,800	189,097,800
June 2000	Issuance of shares for cash	40,000,000	229,097,800
September 2001	Capitalization of capital reserves	22,909,780	252,007,580
February 2004	Issuance of shares for the conversion of convertible bonds	11,800,244	263,807,824
May 2004	Issuance of shares for the conversion of convertible bonds	7,902,921	271,710,745
August 2004	Issuance of shares for the conversion of convertible bonds	7,604,189	279,314,934
September 2004	Capitalization of retained earnings and employee stock bonus	13,033,000	292,347,934
November 2004	Issuance of shares for the conversion of convertible bonds	113,278	292,461,212
January 2006	Issuance of shares for the conversion of convertible bonds	1,859,237	294,320,449
October 2007	Capitalization of employee stock bonus	570,000	294,890,449
September 2009	Capital reduction	(117,956,180)	176,934,269

TERMS AND CONDITIONS OF THE BONDS

The following terms and conditions (except for the sentences in italics) will be endorsed on the Certificates issued in respect of the Bonds:

The issue of US\$20,000,000 Zero Coupon Convertible Bonds due 2012 (the "**Bonds**", which shall include any additional Bonds of up to US\$5,000,000 in aggregate principal amount, issued pursuant to an option as described in the below defined Indenture) of Gigastorage Corporation (the "**Company**") was authorized by a resolution of the board of directors of the Company adopted on June 19, 2009. The Bonds are constituted by an indenture (the "**Indenture**") dated as of October 15, 2009, and made between the Company and The Bank of New York Mellon, acting through its London Branch (the "**Trustee**", which term includes any successor trustee under the Indenture), as trustee for the holders of the Bonds. The Company has entered into a paying and conversion agency agreement (the "**Agency Agreement**") dated as of October 15, 2009 with the Trustee, The Bank of New York Mellon as the registrar (the "**Registrar**") and the Bank of New York Mellon, acting through its London Branch as the principal paying, transfer and conversion agent (the "**Paying Agent**," "**Transfer Agent**" and "**Conversion Agent**" as applicable, and collectively, the "**Principal Agent**", which expression shall, unless the context otherwise requires, include its successors). The Registrar, the Principal Agent, the Paying Agent, the Transfer Agent and the Conversion Agent are together referred to as the "**Agents**." The statements in these terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Indenture. Copies of the Indenture, the Agency Agreement and the Letter of Credit (as defined below) will be available for inspection by the Bondholders (as defined below) during normal business hours at the principal office of the Trustee, 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, the Agency Agreement and the Letter of Credit.

The owners shown in the records of Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") of book-entry interests in the Bonds are entitled to the benefit of, are bound by, and are deemed to have notices of, all the provisions of the Indenture and the Agency Agreement applicable to them.

1. Status and Letter of Credit

The Bonds constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Company and rank pari passu without any preference among themselves and (subject as aforesaid) with all other present and future unsubordinated and unsecured obligations of the Company.

The Bonds will have the benefit of an irrevocable standby letter of credit (the "**Letter of Credit**") issued by Hua Nan Commercial Bank, Ltd. (the "**LOC Issuing Bank**") in favor of the Trustee, on behalf of the Bondholders pursuant to an agreement dated October 12, 2009, between the Company and the LOC Issuing Bank. The Letter of Credit is intended to provide a source of funds for the principal, premium, interest (if any) and any other payment obligations of the Company (but which shall exclude the default interest and the put yield), under the Bonds upon the Company's failure to pay such amounts on the due date or upon the Bonds being declared due and payable on the occurrence of an Event of Default pursuant to the Indenture

The Letter of Credit is drawable by the Trustee as beneficiary under the Letter of Credit on behalf of the Bondholders, upon the presentation of a demand notice from the Trustee to the effect that (i) an Event of Default described in Condition 10 has occurred and the Trustee has given notice to the Company that the Bonds are immediately due and payable in accordance with Condition 10, or (ii) the Company has failed to pay the amount payable on the due date in respect of the Bonds being redeemed pursuant to Condition 8.

The stated amount of the Letter of Credit (the "**Stated Amount**") is US\$20,000,000 subject to increase and reduction as provided herein. The amount available for drawing under the Letter of Credit shall be increased by the principal amount of any additional Bonds, up to the amount of US\$5,000,000 issued pursuant to the terms of the Indenture. The amount available for drawing under the Letter of Credit shall be reduced (a) by the principal amount of any Bonds redeemed pursuant to the Indenture, (b) by

the principal amount of any Bonds converted into Shares, and (c) by the principal amount of any Bonds purchased and cancelled, in each case pursuant to the Indenture. The Principal Agent will notify the LOC Issuing Bank (a) every three calendar months following the date of issuance of this Standby Letter of Credit, provided that one or more Bonds have been redeemed, converted into Shares and/or repurchased by the Company and cancelled during such period, and (b) at any other times at the Principal Agent's sole discretion.

The Letter of Credit will expire at the close of business in the Republic of China ("**ROC**") on the earliest of (i) the date 30 days following the maturity of the Bonds, (ii) the date on which the final drawing under the Letter of Credit is honored and paid by the LOC Issuing Bank, (iii) the date on which the Stated Amount is reduced to zero, and (iv) the date on which the Letter of Credit is surrendered by the Trustee to the LOC Issuing Bank for cancellation.

Each drawing on the Letter of Credit will be payable in immediately available funds to the Trustee on the tenth Business Day following presentation in accordance with the terms of the Letter of Credit. "**Business Day**" for the purpose of this Condition 1 shall mean any day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are open for general business in Taipei, Hong Kong, London and New York City.

The Trustee shall not be responsible for the execution, legality, effectiveness, adequacy, genuineness, validity, enforceability or admissibility in evidence of the Letter of Credit or any other documents entered into in connection therewith or any other document or any obligations or rights created or purported to be created thereby or pursuant thereto, nor shall it be responsible or liable to any person because of any invalidity of any provision of the Letter of Credit or such documents or the unenforceability thereof, whether arising from statute, law or decisions of any court.

2. Form, Denomination and Title

(A) Form and Denomination

The Bonds will be issued in registered form, in denominations of US\$1,000 and integral multiples thereof. The Bonds will be offered, sold and will be transferable in principal amounts of US\$1,000 or an integral multiple thereof. The Bonds are not issuable in bearer form. A bond certificate (each a "**Certificate**") will be issued to each Bondholder in respect of its registered holding of Bonds. Each Bond and each Certificate will be serially numbered with an identifying number which will be recorded on the relevant Certificate and in the register of Bondholders which the Company will procure to be kept by the Registrar.

The Bonds will initially be represented by a global certificate (the "Global Certificate") deposited with The Bank of New York Mellon, acting through its London Branch, as common depositary for, and registered in the name of a nominee for, Euroclear and Clearstream, Luxembourg. The Bondholders will not be entitled to receive definitive physical certificates in denominations of US\$1,000 and integral multiples thereof in respect of their Bonds except in the limited circumstances described in the Global Certificate.

(B) Title

Title to the Bonds 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 Certificate 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 in the register of Bondholders.

3. Negative Pledge

So long as any of the Bonds remain outstanding (as defined in the Indenture), the Company shall not 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 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, or any security, guarantee, indemnity or other like obligation 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 of their issue which (a) either (i) are by their terms payable, or confer a right to receive payment, in any currency other than New Taiwan Dollars ("**NT dollars**" or "**NT\$**") or (ii) are denominated or payable in NT\$ and more than 50% of the aggregate principal amount thereof is initially distributed outside the ROC by or with the authorization of the issuer thereof and (b) 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.

4. Interest

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

5. Transfers of Bonds; Issue of Certificates

(A) Register

The Company will cause to be kept at the specified office of the Registrar and in accordance with the terms of the Agency Agreement a register on which shall be entered the names and addresses of the holders of the Bonds and the particulars of the Bonds held by them and of all transfers and payments of the Bonds (the "**Register**"). Each Bondholder shall be entitled to receive only one Certificate in respect of its entire holding of the Bonds.

(B) Transfers

Subject to Condition 5(E) below, a Bond may be transferred upon the surrender at the specified office of any Transfer Agent of the Certificate in respect of the Bond to be transferred, together with the 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 require. In the case of a transfer of only part of a holding of Bonds in respect of which a Certificate is issued, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor.

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

(C) Delivery of Certificates

Each new Certificate to be issued upon a transfer of Bonds shall be available for delivery within five business days upon receipt by the Transfer Agent at its specified office of the relevant Certificate and the Form of Transfer. Delivery of the new Certificates shall be made at the specified office of such Transfer Agent to whom the relevant 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 by uninsured post at the risk of the holder entitled to the new Certificate (but free of charge to the holder) to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery.

Where only part of a principal amount of the Bonds (being that of one or more Bonds) in respect of which a Certificate is issued is to be transferred, exchanged or converted, a new Certificate in

respect of the Bonds not so transferred or converted will, within five business days of delivery of the original Certificate to the Registrar or other relevant Agent, be made available for collection at the specified office of the Registrar or such other relevant Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder of the Bonds not so transferred or converted (but free of charge to the holder) to the address of such holder appearing on the Register.

For the purposes of this Condition 5(C), "**business day**" shall mean a day on which banks are open for general business in the city in which the specified office of the relevant Transfer Agent with whom a Certificate is deposited in connection with a transfer is located.

(D) Formalities Free of Charge

Registration of transfers of the Bonds will be effected without charge by or on behalf of the Company or any Paying Agent, but only upon (i) payment (or the giving of such indemnity as such Paying Agent may require) of any tax or other governmental charges, which may be imposed in relation to it and (ii) the relevant Transfer Agent being satisfied that the regulations concerning the transfer of the Bonds have been complied with.

(E) No Transfer Periods

No Bondholder may require the transfer of a Bond to be registered (i) during the period of 10 days ending on the due date for any payment of principal, interest (if any) and premium (if any) on the Bond; (ii) after such Bond has been selected for redemption pursuant to Condition 8(B); (iii) after the Conversion Notice (as defined in Condition 6(B)) and the Certificate in respect of such Bond have been deposited for conversion pursuant to Condition 6; or (iv) following exercise of the Bondholder's put option pursuant to Condition 8(C).

(F) 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 (free of charge) by the Registrar to any Bondholder who requests one.

6. Conversion

On exercise of the Conversion Right (as defined below), the converting Bondholder pursuant to the election made by such Bondholder will receive Shares. To convert a Bond into Shares, the Bondholder must deposit the Conversion Notice (as defined herein) and the Certificate in respect of that Bond with a Conversion Agent.

The Company shall, within five Trading Days (as defined in Condition 8(B) and subject to certain exceptions) after the Conversion Date (as defined in Condition 6(B)(ii)), issue and deliver the Shares converted from the Bond to the converting Bondholder or its designee, subject to the requirements relating to the conversion in the Agency Agreement being satisfied.

The Indenture provides, in summary, that the term "Shares" means, when used to refer to the Company's common shares, NT\$10 par value per share, but 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 (the "**Conversion Right**") during the Conversion Period (as defined below) to convert any Bond into the Company's common shares, NT\$10 par value per share (the "**Shares**"), credited as fully paid. Subject to and

upon compliance with the provisions of this Condition, the Conversion Right attaching to any Bond may be exercised, at the option of the holder thereof, at any time on or after November 15, 2009 and prior to the close of business (at the place where the Conversion Notice and the Certificate in respect of such Bond are deposited for conversion) on August 28, 2012 (or if such date shall not be a business day (as defined below), on the immediately preceding business day at such place), or, if such Bond shall have been called for redemption prior to August 28, 2012, then up to the close of business (at the place aforesaid) on the date seven business days prior to the date fixed for redemption thereof (or if such day shall not be a business day, on the immediately preceding business day) (the "**Conversion Period**"); provided, however, that the Conversion Right shall be suspended during any Closed Period and the Conversion Period shall not include any such Closed Period. "**Closed Period**" shall mean any period during which, under the laws and regulations of the ROC, the Company is required to close its shareholders' register, which period includes: the 60 day period prior to the date of the annual general meeting of shareholders ("**AGM**") of the Company; the 30 day period prior to an extraordinary shareholders' meeting of the Company; the five day period prior to the record date for determination of shareholders entitled to receive dividends, bonuses or other benefits; and the period from the third Trading Day prior to the date for reporting the record date for determination of shareholders entitled to receive annual dividend distributions or other benefits or rights to the Taiwan Stock Exchange ("**TSE**") to such record date. In case any amendments are made to the aforesaid laws and regulations, the conversion shall be construed in accordance with the prevailing laws and regulations. The Company shall procure that the Bondholders are given timely prior notice of any Closed Period in accordance with Condition 15.

In this Condition 6(A)(i), "**business day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for general business in New York and in the place where the Conversion Agent with whom the Certificate and the Conversion Notice are deposited is open for business.

Under current ROC law, regulation and policy, except under limited circumstances, PRC persons are not permitted to convert the Bonds or to register as a shareholder of the Company. Under current ROC law, "PRC person" means an individual holding a passport issued by the People's Republic of China ("PRC"), a resident of any area 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. Neither the Trustee nor the Agents are responsible for determining whether the Bondholders are PRC persons.

Under current ROC law, a non-ROC converting holder of the Bonds, before exercising his conversion right to convert the Bonds into Shares, is required to register with the TSE. Under current ROC law, a non-ROC converting holder of any Bond, when exercising its conversion right to convert its Bond into Shares, is also required to appoint a local agent in the ROC with such qualifications as are set by the ROC Financial Supervisory Commission. The local agent has the power, on behalf of and as agent for the converting holder open a securities trading account with a local brokerage firm and a NT dollar bank account, act as custodian for the securities, pay ROC withholding taxes, make confirmation or settlement, remit funds, exercise shareholders' rights, and perform such other matters as may be designated by the converting holder. In addition, such non-ROC converting Bondholder must also appoint a custodian bank to hold the securities for safekeeping, confirm and settle trades and report all relevant information. Without meeting these requirements, the converting holder 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 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 exchange rate of NT\$32.376 = US\$1.00 (the "**Fixed Exchange Rate**")) by the Conversion Price (as defined in Condition 6(A)(iii)) in effect on the Conversion Date (as defined in Condition 6(B)(ii)).

If a Certificate or 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 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 Certificate(s) were so deposited. Fractions of Shares will not be issued on 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 by operation of law or otherwise occurring after October 15, 2009, the Company will upon conversion of the Bonds pay in US 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 not issued as aforesaid if such sum exceeds US\$10. For the purpose of calculating the amount of such payment, the Company shall use the exchange rate referred to above 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\$15.8 per Share, but will be subject to adjustment in the manner provided in Conditions 6(C).

(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 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 Certificate in respect of such Bond and the Conversion Notice 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, 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 Certificate 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.

A Conversion Notice or a Certificate 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 that Agent between 9:00 a.m. and 3:00 p.m. on the next following business day.

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 the Closed Period which (if all other conditions of conversion have been fulfilled) will be the Conversion Date for such Bonds. Such Bondholders will not be registered as holders of Shares until the Conversion Date.

The Conversion Notice shall contain, *inter alia*, an appointment of a local agent by such converting Bondholder and an irrevocable instruction to convert the relevant Bond 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 the Trustee in writing of such written consent, such notification to be accompanied by the relevant Conversion Notice.

In this Condition 6(B)(i), "**business day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for general business in New York, and in the city of the Conversion Agent with whom the Certificate and the Conversion Notice are deposited.

- (ii) **Taxes and Expenses; Deposit Date and Conversion Date:** As a condition precedent to the exercise of its Conversion Right, together with the deposit of the Conversion Notice, the Bondholder must pay to the relevant taxing authority 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 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 on conversion of Bonds and all charges of the Conversion Agents in connection therewith. The date on which, in respect of any Bond, the relevant Certificate and the Conversion Notice (in duplicate) relating thereto, together with any certificates and other documents as may be required under applicable law evidencing payment of tax, are deposited with a Conversion Agent and the payments, if any, required to be paid by the Bondholder are made to the relevant taxing authority 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 and occurs during the Conversion Period. The Trustee and Agents are not under any obligation to calculate or determine whether a Bondholder is liable to pay tax including stamp, issue, registration and similar tax.
- (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 deposited for conversion shall cease (except rights arising under Condition 6(B)(iv)).
- (iv) **Delivery of Shares:** As of the Conversion Date, the Company will register the converting Bondholder (or its designee) 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, with limited exceptions, within five Trading Days after the Conversion Date, there be delivered to the local agent appointed by the converting Bondholder a certificate or certificates for the relevant Shares, 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.
- (v) **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, as soon as possible after the effective date of such adjustment of the Conversion Price, issue and deliver (to the local agent appointed by the converting Bondholder) such number of Shares as is equal to the excess of the number of Shares that would have been required to

be issued on 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 this 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).

(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 in the Indenture) 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 (including 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) and (v) 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) and (v) 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 (a) on conversion of convertible bonds, including the Bonds; (b) to the shareholders of a company which is to be merged into the Company as consideration for the merger; or (c) 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 and in respect of which written notice has been given to 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, in accordance with the formulae stipulated in the Indenture.

Any adjustment to the Conversion Price shall be rounded to the nearest U.S. Cent. Conversion Price adjustments due to dilutive events shall be limited to downward price adjustments.

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 otherwise would be required to be made will be carried forward and taken into account in determining any subsequent adjustment. Any adjustment will be notified promptly and in writing by the Company to the Trustee and 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 fully-paid Shares that cannot be assessed to pay debts of the Company in the event of its bankruptcy and liquidation.

The Trustee will not be under any duty to monitor whether any event or circumstance has happened or exists which may require an adjustment to the Conversion Price as described in (i) to (viii) above and will not be responsible to the Bondholders or the Company for any loss arising from any failure by it to do so.

(D) 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 and the Trustee (promptly and in writing) of such event in accordance with Condition 15 and the Company and such corporation, entity or person shall have executed a 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 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 Trustee shall be entitled to require the Company to procure such amendments to the Letter of Credit as is required to comply with applicable law. The Trustee shall be entitled to require from the Company such opinions, consents, documents and other matters at the expense of the Company in connection with the foregoing as it may consider appropriate. The above provisions of this Condition 6(D) will apply in the same way to any subsequent or further consolidations, amalgamations, mergers, sales or transfers.

(E) Company's Undertakings

- (i) 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.
- (ii) Maintain Listing: The Company will maintain a listing on the TSE for the Shares, including Shares, and obtain and maintain a listing for all the Shares issued on the exercise of the Conversion Right attached to the Bonds on the TSE.
- (iii) Notice of Conversion Price adjustment: The Company will give notice to the Trustee and the Bondholders in accordance with Condition 15 any adjustment in the Conversion Price of the Bonds in accordance with the terms set forth in the Indenture. Any such notice relating to a change in the Conversion Price shall set forth the event giving rise to the adjustment, the Conversion Price prior to such adjustment, the adjusted Conversion Price and the effective date of the adjustment.

7. Payments

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

Payment of principal, premium (if any) 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 US dollar cheque drawn on a bank in New York City mailed to the registered

address of the Bondholder if it does not have a registered account. Payments of principal, interest (if any) and premium (if any) will only be made after surrender of the relevant Certificate at the specified office of any Agent.

(B) Registered Accounts

A Bondholder's registered account means the US dollar account maintained by or on behalf of it with a bank in New York City details of which appear on the register of Bondholders at the close of business on the second business day (as defined below) 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 cheque, the cheque will be mailed, on the later of the due date for payment and the business day on which the relevant 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 Certificate (if applicable) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

(F) Business Days

In this Condition 7, the term "**business day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for general business in New York City and, in the case of the surrender of a Certificate, in London and in the place where the Certificate is surrendered.

(G) Partial Payments

If the amount of principal, interest (if any) and premium (if any) which is due on the Bonds is not paid in full (whether by the Company or pursuant to a drawing on the Letter of Credit), the Registrar will annotate the register of Bondholders with a record of the amount of principal and/or interest and/or premium, in fact paid.

(H) Rounding

When making payments to Bondholders, fractions of one U.S. cent will be rounded down to the nearest U.S. cent.

8. Redemption, Repurchase 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 US dollars on September 7, 2012.

(B) Redemption at the Option of the Company

- (i) On or at any time after April 15, 2010, the Company may, having given not less than 30 nor more than 60 days' notice to the Bondholders (which notice will be irrevocable), redeem all, or some only (being US\$1,000 in principal amount or an integral multiple thereof), of the Bonds at their principal amount if the Closing Price of the Shares translated into US dollars at the Prevailing Rate, as defined below, for each of the 30 consecutive Trading Days selected by the Company, the last of which occurs not more than 10 Trading Days prior to the date upon which notice of such redemption is given, is at least 130% of the Conversion Price then in effect, translated into US dollars at the Fixed Exchange Rate, on each such Trading Day. If there shall occur an event giving rise to a change in the Conversion Price during any such 30 consecutive Trading Day period, appropriate adjustment approved by two leading independent investment banks of international repute selected by the Company and acting as experts, 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 30 Trading Day period.
- (ii) The Company may, having given not less than 30 nor more than 60 days' notice to the Bondholders, redeem all of the Bonds at their principal amount if more than 90% of the Bonds have been previously converted, redeemed, or repurchased 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 Company shall, at least three business days before the latest date for the publication of the notice of redemption required to be given to Bondholders in accordance with Condition 15, give notice in writing of its intention to redeem all or any of the Bonds under this Condition 8(B) to the Principal Agent and the Trustee stating the date fixed for redemption, the manner in which redemption will be effected, the redemption amount and the last Deposit Date in the Conversion Period.

In this Condition 8(B), the term "**business day**" means a day on which commercial banks and foreign exchange markets are open for general business in both New York City and the city in which the specified office of the Principal Agent is located which shall initially be London.

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 as of such date, the average of the closing bid and offered prices of Shares for such day as furnished by a leading investment bank of international repute licensed to trade on the TSE selected by the Company for the purpose.

The "**Prevailing Rate**" for the translation of the Closing Prices shall be the arithmetic average of the closing rate for the purchase of US dollars with NT dollars quoted by Taipei Forex Inc. (or any replacement entity selected by the Company and approved in writing by the Trustee) at the close of business on each relevant day during the relevant 30 consecutive Trading Day period.

The term "**Trading Day**" means a day on which the TSE is open for business but does not include a day when (a) no such last transaction price or closing bid and offered prices are reported and (b) (if the Shares are not listed or admitted to trading on such exchange as of such date) no such closing bid and offered prices are furnished as aforesaid.

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists which may result in redemption pursuant to this Condition 8(B) and will not be responsible to Bondholders for any loss arising from any failure by it to do so. Neither the Trustee nor the Agents shall be under any duty to monitor, determine, calculate or verify any calculation

made pursuant to this Condition 8(B) and will not be responsible to Bondholders for any loss arising from any failure by it to do so.

(C) Redemption at the Option of Bondholders

The Company will, at the option of the holder of any Bond, redeem the Bonds held by that Bondholder on October 15, 2011 (the "**Put Date**") at their principal amount.

To exercise such option the holder must deposit the Certificate in respect of such Bond with any Paying Agent and a duly completed redemption notice in the form obtainable from any of the Paying Agents, not more than 60 nor less than 30 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 in writing to the Principal Agent no later than seven days prior to the Put Date. The Company shall give the Bondholders not less than 30 days, nor more than 45 days, notice of the commencement of the period for the deposit of Certificates for redemption pursuant to this paragraph (C) in accordance with Condition 15. The exercise of the Bondholders' option under this Condition 8(C) in respect of any Bonds then outstanding shall override any exercise of the Company's right under Condition 8(B) with respect to those Bonds, irrespective of the dates fixed for redemption under Condition 8(B) and 8(C) or the timing of the notices given by the Bondholders or the Company pursuant thereto.

(D) Redemption for Taxation Reasons

At any time, the Company may, having given not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 15 (which notice shall be irrevocable), redeem all of the Bonds at their principal amount if (i) the Company satisfies the Trustee 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(C) 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 October 15, 2009 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 publication 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 and an opinion addressed to the Trustee by an independent qualified tax advisor of recognized standing in the ROC 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 and opinion as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above, in which event it shall be conclusive and binding on the Bondholders. Neither the Trustee nor the Agents shall be under any duty to determine, calculate or verify the redemption amount payable under this Condition and will not be responsible to Bondholders for any loss arising from any failure by it to do so.

The Company shall, at least three business days (as defined in Condition 8(B)) before the latest date for the publication of the notice of redemption required to be given to Bondholders in accordance with Condition 15, give notice in writing of its intention to redeem all of the Bonds under this Condition 8(D) to the Principal Agent and the Trustee stating the date fixed for redemption, the manner in which redemption will be effected, the redemption amount and the last Deposit Date in the Conversion Period.

(E) Repurchase

The Company may at any time and from time to time purchase the Bonds in the open market or otherwise. The Bonds so purchased will forthwith be cancelled. If purchases by the Company are made by tender, the tender must be made to all Bondholders alike.

(F) Selection of Bonds

In the case of redemption of some only of the Bonds pursuant to Condition 8(B) 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.

(G) Cancellation

All Bonds, which are redeemed or converted or repurchased and surrendered to any Agent, will forthwith be cancelled. 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 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 all in accordance with Condition 15.

9. Taxation

- (A) All payments of principal, premium (if any) 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 (if any) or interest (if any) paid by it to the extent required so that the net amount of premium (if any) 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 (if any) is required, the Company will pay such additional amounts by way of principal, premium (if any) 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, premium (if any) or interest (if any) in respect of the Bond; or
 - (ii) if the Certificate in respect of such Bond 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 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 in 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 (as defined in the Indenture) of the Bondholders shall (but subject always to the Trustee being indemnified and/or provided with security 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) the Company fails to pay the principal of or interest (if any) or premium (if any) on any of the Bonds within seven business days (as defined in Condition 7(F)) 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 (if any) 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 of 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 paragraph (iii) have occurred and is continuing equals or exceeds US\$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 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; or
- (v) any person entitled to the benefit thereof shall institute appropriate legal proceedings to enforce any Encumbrance (as defined in Condition 3) upon the whole or any substantial part of the assets or revenues of the Company or any Principal Subsidiary; 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 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 or any of its Principal Subsidiaries for the winding-up or dissolution of the Company or any of its Principal Subsidiaries (except for the purpose of and followed by a solvent reconstruction, merger, consolidation, amalgamation or other similar arrangement the terms of which have previously been approved by an Extraordinary Resolution of the Bondholders); or
- (viii) 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 any of its Principal Subsidiaries; or
- (ix) 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; or
- (x) 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, (ii) ensure that those obligations are legally binding and enforceable and (iii) make the Bonds and the Indenture admissible in evidence in the courts of the ROC is not taken, fulfilled or done, and such case is incapable of remedy; or
- (xi) there shall have been a default in payment by the LOC Issuing Bank under the Letter of Credit; 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.

Upon any such notice being given to the Company, the Bonds will immediately become due and payable at 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.

For the purposes of Condition 10(iii) above, any indebtedness which is in a currency other than US dollars shall be translated into US dollars at the spot rate for the sale of US dollars against the purchase of the relevant currency quoted by any leading bank in the relevant market selected by the Trustee in its sole discretion 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 US dollars and relevant currencies. Any calculation or translation so made shall be conclusive and binding on the Company and the Bondholders without liability for any loss or liability occasioned thereby.

For the purpose of this Condition, "**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, and "**Principal Subsidiary**" means any Subsidiary (i) whose total revenues, as shown by the latest audited accounts (consolidated in the case of a company which itself has subsidiaries) of such Subsidiary at the time that the event of default occurs, are at least 10% of the total revenues of the Company and its consolidated Subsidiaries as shown by the latest audited consolidated accounts of the Company or (ii) whose gross assets, as shown by the latest audited accounts (consolidated in the case of a company which itself has subsidiaries) of such Subsidiary at the time that the event of default occurs are at least 10% of the gross assets of the Company and its consolidated Subsidiaries as shown by the latest audited consolidated accounts of the Company. The Company shall, on request by the Trustee, provide the Trustee with a certificate, signed by two directors of the Company, identifying as of the date of such certificate or such other date as stipulated by the Trustee, such Subsidiaries and Principal Subsidiaries and stating the amount of stock so held or revenue or assets, as the case may be. Such certificate would be accompanied by a report by the auditors of the Company addressed to the directors of the Company and the Trustee as to the proper extraction of the figures used by the Company in determining the Principal Subsidiaries of the Company and mathematical accuracy of the calculations. The Trustee shall be entitled to rely on such certificate without enquiry and shall not be liable for any loss or liability occasioned by such reliance or by any errors contained in such certificate. Neither the

Trustee, nor the Agents shall be required to take any steps to ascertain whether the Events of Default has occurred or may occur and shall be entitled to assume that no such event has occurred until they have received written notice to the contrary from the Company.

11. Prescription

Claims in respect of (a) principal and premium (if any) and (b) interest (if any) will become prescribed and become void after 10 years (in the case of (a)) and five 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 (if any) and interest (if any) with respect thereto and to enforce the provisions of the Indenture and, where appropriate, to enforce the Letter of Credit, 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 have been indemnified and/or been provided security 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 written 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 at any such meeting for passing 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 or the put right of the Bondholders under Condition 8(C), (ii) to reduce or cancel the amount of principal, premium (if any) 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 Conversion Right (except in accordance with Condition 6(B) and 13(B)), (v) to modify or release the Letter of Credit or (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 necessary quorum for passing an Extraordinary Resolution will be two or more persons holding or representing over two-thirds, or at any adjourned such meeting over one-third, in principal amount of the Bonds for the time being outstanding. 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.

(B) Modification of Conversion Right

Notwithstanding Conditions 13(A)(iv) and (v) above, the Trustee may (but shall not be in any way obligated to) agree, in writing, without the consent of the Bondholders, to any modification to or variation of the Conversion Right (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 materially prejudicial to the interests of the Bondholders. The Trustee's agreement may be subject to it being indemnified and/or secured to its satisfaction and to any other condition which the Trustee requires, including but not limited to obtaining, at the sole expense of the Company, (i) advice from or an opinion of an investment bank or legal or other expert and (ii) a certificate signed by two authorised officers of the Company. The Trustee shall be entitled to but shall not be obligated to rely on such advice or certificate. The Trustee shall not be liable for any loss or liability occasioned by any such modification or variation as aforesaid. Any such modification shall be binding on all Bondholders. The Company shall notify Bondholders of such modification in accordance with Condition 15.

(C) Other Modifications and Waivers

The Trustee may (but shall not be in any way be obligated to) agree, in writing, 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 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. The Trustee's agreement may be subject to it being indemnified and/or secured to its satisfaction and to any other condition which the Trustee requires, including but not limited to obtaining, at the sole expense of the Company, an opinion of an investment bank or legal or other expert. The Trustee shall be entitled to but shall not be obligated to rely on such advice. The Trustee shall not be liable for any loss or liability occasioned by any such modification or variation as aforesaid. Any such modification, waiver or authorization will be binding on the Bondholders and 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 (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, and no Bondholder shall be entitled to claim, from the Company or the Trustee, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Bondholders.

14. Replacement of Certificates

If any Certificate is mutilated, defaced or is alleged to be destroyed, stolen or lost, it may be replaced at the specified office of the Registrar or any other Agent upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Company and such Agent may require (which terms will require, inter alia, that if such Certificate is subsequently deposited for conversion into Shares there shall be paid to the Company and such Agent on demand such costs (equal to the principal, premium (if any) and interest (if any)) due on the relevant Bond at the Fixed Exchange Rate). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

15. Notices

All notices to Bondholders shall be validly given if 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 seventh day after being so mailed.

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

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 or secured to its satisfaction. In addition, the Trustee is entitled to enter into business transactions with the Company and any entity relating to the Company without accounting for any profit.

The Trustee may rely without liability to the Bondholders on any certificate prepared by the directors of the Company and accompanied by a certificate or report prepared by the auditors of the Company pursuant to the Conditions and/or the Indenture, whether or not addressed to the Trustee and whether or not the liability of the auditors of the Company in respect thereof is limited by a monetary cap or otherwise limited or excluded and shall be obliged to do so where the certificate or report is delivered pursuant to the obligation of the Company to procure such delivery under the Conditions; any such certificate or report shall be conclusive and binding on the Company, the Trustee and the Bondholders.

17. Agents

The names of the initial Agents and their specified offices are set out below. The Company reserves the right, subject to the provisions of the Agency Agreement, at any time to vary or terminate the appointment of Agents, provided that the Company will at all times maintain (i) a Principal Agent, (ii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000, and (iii) a Registrar which will maintain the register of Bondholders outside the United Kingdom. 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 by the Company, in writing, to the Bondholders and the Trustee in accordance with Condition 15.

18. Governing Law and Jurisdiction

(A) Governing Law

The offering and issue, management and disposal of the Bonds are governed by and shall be construed in accordance with the laws of the State of New York. The exercise of the Conversion Rights provided hereunder will be subject to the laws and regulations of the ROC and restrictions or limitations provided thereunder.

(B) Jurisdiction

The courts of the State of New York and of the United States of America sitting in the Borough of Manhattan are to have non-exclusive jurisdiction over any disputes, which may arise out of, or in connection with the Bonds, and accordingly any legal action or proceedings arising out of or in connection with the Bonds ("**Proceedings**") may be brought in such courts. The Company has in the Indenture irrevocably submitted to the non-exclusive jurisdiction of such courts.

(C) Agent for Service of Process

The Company has irrevocably appointed Law Debenture Corporate Services Inc. at 400 Madison Avenue, 4th Floor, New York, New York 10017, U.S.A. as its agent in New York to receive service of process in any Proceedings in New York based on any of the Bonds.

**PRINCIPAL PAYING AGENT,
TRANSFER AND CONVERSION AGENT**

The Bank of New York Mellon,
acting through its London Branch
One Canada Square
40th Floor
London E14 5AL
United Kingdom

REGISTRAR

The Bank of New York Mellon
101 Barclay Street
Floor 4-E
New York, New York 10286
USA

THE GLOBAL CERTIFICATE

The Global Certificate contains provisions, which apply to the Bonds in respect of which the Global Certificate is issued, some of which modify the effect of the terms and conditions of the Bonds (the "Conditions") set out in this Offering Circular. 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 US\$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 (but not to vote) 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 the holders of the Bonds while the Global Certificate is registered in the name of a nominee for a clearing system, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, (a) have regard to such information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of the Bonds and (b) consider such interests on the basis that such accountholders were the holders of the Bonds in respect of which the Global Certificate is issued.

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 a Conversion 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.

Payments

Payments of principal and any other amounts 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 or Clearstream, Luxembourg or the Alternative Clearing System (as defined below), notices to Bondholders may be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg or the Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the Conditions.

Put Options

The Bondholders' put options in Conditions 8(C) and 8(F) may be exercised by the holder of the Global Certificate giving notice to the Principal Agent of the principal amount of Bonds in respect of which the

relevant option is exercised and presenting the Global Certificate for endorsement or exercise within the time limits specified in Conditions 8(C) and 8(F).

Call Option

The call option exercisable by the Company in Conditions 8(B) and 8(D) may be exercised by the Company giving notice to the Bondholder within the time limits set out in and containing the information required by those Conditions and Condition 8(H). No drawing of the Bonds will be required under Condition 8(E) in the event that the Company exercises its redemption option in Condition 8(B) in respect of less than the aggregate principal amount of the Bonds in respect of which the Global Certificate is issued. Instead, there will be a pro rata allocation of the Bonds to be redeemed among the accounts of Euroclear and Clearstream, Luxembourg in accordance with the rules of those clearing systems.

Registration of Title

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 where either Euroclear or Clearstream, Luxembourg (or any alternative clearing system on behalf of which the Bonds evidenced by the Global Certificate may be held (the "**Alternative Clearing System**")) 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.

Transfers

Transfers of interests in the Bonds will be effected through the records of Euroclear and Clearstream, Luxembourg and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants.

Enforcement

For the purposes of enforcement of the provisions of the Indenture, 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.

Accountholders

For so long as any of the Bonds are represented by the Global Certificate and such Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Bonds (each an "**Accountholder**") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Bonds standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Bonds for all purposes (including for the purposes of any quorum requirements of, or in the right to demand a poll at, meetings of the Bondholders) other than with respect to the payment of principal and premium and interest (if any) on such Bonds, the right to which shall be vested, as against the Company and the Trustee, solely in the holder of the Global Certificate in accordance with and subject to its terms and the terms of the Indenture. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the holder of the Global Certificate.

THE LETTER OF CREDIT

Hua Nan Commercial Bank, Ltd. (the "LOC Issuing Bank") has committed to issue an irrevocable standby letter of credit (the "Letter of Credit") to the Trustee under the Indenture dated October 15, 2009, for the benefit of the Bondholders. The Letter of Credit authorizes the Trustee to draw on the LOC Issuing Bank, on demand, an amount not exceeding the stated amount of the Letter of Credit. The Letter of Credit will be issued on or prior to the Closing Date.

The stated amount of the Letter of Credit (the "Stated Amount") is US\$20,000,000, subject to reduction as provided therein. The amount available for drawing under the Letter of Credit shall be increased by the principal amount of any additional Bonds issued, up to the amount of US\$5,000,000 issued pursuant to the terms of the Indenture. The amount available for drawing under the Letter of Credit shall be reduced in proportion (a) by the principal amount of the Bonds that were redeemed, (b) by the principal amount of the Bonds that were converted into Shares, or (c) by the principal amount of the Bonds that were purchased and cancelled, in each case pursuant to the Indenture.

The Letter of Credit does not support the Company's obligations in respect of the Conversion Right under Condition 6.

The Letter of Credit will expire at the close of business in Taiwan on the earliest of (i) October 7, 2012, (ii) the date on which the final drawing under the Letter of Credit is honored and paid by the LOC Issuing Bank, (iii) the date on which the Stated Amount is reduced to zero, and (iv) the date on which the Letter of Credit is surrendered by the Trustee to the LOC Issuing Bank for cancellation.

The amount under the Letter of Credit is drawable by the Trustee as beneficiary under the Letter of Credit on behalf of the Bondholders, upon the presentation of, inter alia, a demand notice from the Trustee to the effect that (i) an acceleration of the Bonds pursuant to an Event of Default described in the Terms and Conditions of the Bonds has occurred, or (ii) the Company has failed to pay the amount on the due date in respect of the Bonds being redeemed pursuant to the Terms and Conditions of the Bonds.

Each drawing on the Letter of Credit will be payable in immediately available funds to the Trustee on the third Business Day following presentation in accordance with the terms of the Letter of Credit. "Business Day" in the Letter of Credit shall mean any day other than a Saturday or Sunday, on which commercial banks and foreign exchange markets are open for business in Taipei, Hong Kong, London and New York.

See "Terms and Conditions of the Bonds - Status and Letter of Credit".

In the event that the Company fails to pay on any due date pursuant to the Terms and Conditions of the Bonds, the Principal Agent shall immediately notify the Trustee of such failure to pay. The Trustee shall (to the extent it is entitled to do so and consistent with the terms of the Letter of Credit) as soon as practicable, and in any event within 30 days of notice of the Company's non-payment, make a drawing on the Letter of Credit in the amount of any payment due on the Bonds not paid by the Company.

The Letter of Credit is being delivered in the ROC and shall be subject to the Uniform Custom and Practice for Documentary Credits (2007 Revision), International Chamber of Commerce Publication No. 600 and governed by, construed and enforced in accordance with the laws of the State of New York.

DESCRIPTION OF THE LOC ISSUING BANK

The information provided below has been extracted from information made publicly available by the LOC Issuing Bank and has not been prepared or independently verified by the Company, the Manager or any of their respective affiliates or advisers in connection with the offering of the Bonds.

Hua Nan Commercial Bank, Ltd. (the "LOC Issuing Bank") was established in 1919 in Taiwan under Japanese governance with head office in Taipei, Taiwan and branches in Canton, Haiphong, Saigon, Rangoon, Singapore, Tokyo and other cities throughout Asia. In 1947, the governance of Taiwan was retroceded from Japan to the Republic of China. Also in 1947, the LOC Issuing Bank merged with Taiwan Trust Company, which became the Bank's newly-formed Trust Department. In 1998, the LOC Issuing Bank became privatized after a large number of its shares held by the Taiwanese government were sold. In 2001, the LOC Issuing Bank, together with EnTrust Securities Co., Ltd. became subsidiaries of Hua Nan Financial Holdings Co., Ltd. In 2001, the shares of Hua Nan Financial Holdings Co., Ltd. became listed on the Taiwan Stock Exchange.

The LOC Issuing Bank's business include conducting general banking operations, including deposit taking, extension of loans and credit, issuance of credit cards and bank cards, acting as a corporate trustee and engaging in bills finance.

In fiscal year 2008, the LOC Issuing Bank's non-consolidated gross income reached NT\$31.81 billion, a 12% reduction from the gross income of NT\$36.18 billion in fiscal 2007. The LOC Issuing Bank's non-consolidated net incomes for fiscal years of 2007 and 2008 were NT\$8.66 billion and NT\$9.98 billion, respectively. In the first six months of 2009, the Bank's non-consolidated gross income reached NT\$12.96 billion which was approximately 28% lower than the gross income of NT\$18.01 billion for the same period in 2008. In the first six months of 2009, the Bank's non-consolidated net income reached NT\$2.18 billion as compared to a net income of NT\$5.89 billion for the same period in 2008.

The Bank publishes audited financial statements annually and semi-annually. The Bank publishes reviewed financial statements quarterly.

As of this date, there has been no significant change in the Bank's financial, trading position or results of operations since December 31, 2008, and there has been no material adverse change in the LOC Issuing Bank's financial position or prospects since December 31, 2008.

The LOC Issuing Bank is not involved in or aware of any litigation or arbitration proceedings which may have, or have had during the past 12 months, a significant effect on the Bank's financial position.

The Bank is headquartered at 38, Sec. 1, Chung-King South Road, Taipei, Taiwan, R.O.C.

Selected Non-Consolidated Financial Information of the LOC Issuing Bank

The following table sets out summary financial information of the LOC Issuing Bank and extracted from its audited non-consolidated annual financial report for the year 2007 and 2008 and the audited non-consolidated financial statements for the first six months of 2008 and 2009.

I. Non-Consolidated Balance Sheet of the Bank for the periods indicated below

Hua Nan Commercial Bank, Ltd. BALANCE SHEETS DECEMBER 31, 2007 AND 2008 and JUNE 30, 2008 and 2009				
	as of December 31,		as of June 30,	
	2008	2007	2009	2008
ASSETS	(In Thousands of New Taiwan Dollars)			
Cash and cash equivalents	27,480,987	19,393,920	16,491,935	16,792,461
Due from the Central Bank and other banks	121,304,504	153,320,292	163,663,926	133,711,148
Financial assets at fair value through profit or loss, net	39,307,562	38,137,265	30,951,149	33,567,429
Bonds and bills purchased under resale agreements	6,141,391	777,627	3,074,908	5,813,406
Receivables, net	26,447,543	28,175,899	25,720,292	28,948,623
Discounts and loans, net	1,122,582,898	1,053,658,484	1,060,447,516	1,081,633,273
Available-for-sale financial assets, net	100,144,832	119,051,671	85,478,975	116,526,860
Held-to-maturity financial assets, net	186,745,664	170,956,258	245,922,566	146,541,353
Investments accounted for by equity method	221,932	180,575	190,931	201,811
Other financial assets, net	6,990,594	7,466,020	6,832,132	7,042,475
Property and equipment, net	23,911,370	23,310,331	23,722,232	24,025,227
Intangible assets	531,667	615,754	468,798	556,184
Other assets, net	16,232,464	14,215,257	10,468,775	10,287,075
TOTAL	1,678,043,408	1,629,259,353	1,673,434,135	1,605,647,325
LIABILITIES AND STOCKHOLDER'S EQUITY				
LIABILITIES				
Due to the Central Bank and other banks	51,736,738	89,175,648	51,199,157	81,395,196
Funds borrowed from Central Bank and other banks	-	-	-	242,840
Financial liabilities at fair value through profit or loss	47,985,400	40,708,966	45,430,749	50,061,885
Bonds and bills sold under repurchase agreements	33,345,144	35,545,809	14,481,644	29,615,302
Payables	42,749,262	42,216,875	28,420,826	37,704,040
Deposits and remittances	1,385,566,970	1,299,334,142	1,421,834,531	1,285,547,425
Bank debentures payable	29,800,000	34,900,000	23,300,000	33,600,000
Accrued pension liability	1,245,160	930,535	1,406,073	1,117,794
Other financial liabilities	749,916	708,884	709,142	677,558
Other liabilities	6,868,459	7,721,566	6,853,746	7,450,933
Total Liabilities	1,600,047,049	1,551,242,425	1,593,635,868	1,527,412,973
STOCKHOLDER'S EQUITY				
Common stock	37,809,000	37,809,000	37,809,000	37,809,000
Capital surplus	12,618,085	13,466,348	12,618,085	12,618,085
Legal reserve	14,054,026	11,203,870	17,049,156	14,054,026
Special reserve	1,084,234	-	6,131,638	1,084,234
Unappropriated earnings	11,749,240	10,533,978	3,940,878	7,655,872
Unrealized revaluation increments	6,910,441	6,158,742	6,875,077	6,910,441
Cumulative translation adjustments	(97,029)	(59,749)	(147,980)	(315,562)
Unrealized gains or losses on valuation of available-for-sale financial assets	(6,131,638)	(1,095,261)	(4,477,587)	(1,581,744)
Total stockholder's equity	77,996,359	78,016,928	79,798,267	78,234,352
TOTAL	1,678,043,408	1,629,259,353	1,673,434,135	1,605,647,325

II. Income Statement of the LOC Issuing Bank for the periods indicated below

Hua Nan Commercial Bank, Ltd.				
STATEMENTS OF INCOME				
YEAR ENDED DECEMBER 31, 2007 AND 2008 and SIX MONTHS ENDED JUNE 30, 2008 and 2009				
	Year ended December 31,		Six Months ended June 30,	
	2008	2007	2009	2008
	(In Thousands of New Taiwan Dollars)			
INTEREST INCOME	51,468,743	52,325,482	15,395,702	25,771,041
INTEREST EXPENSE	(25,919,327)	(26,944,763)	(7,086,906)	(13,030,425)
INTEREST INCOME, NET	25,549,416	25,380,719	8,308,796	12,740,616
NET INCOME (LOSS) EXCLUDING INTEREST INCOME				
Service fee income, net	4,302,697	5,602,937	1,746,182	2,397,595
Gains or losses on financial assets and liabilities at fair value through profit or loss	615,135	(373,214)	970,884	1,147,132
Income from investments accounted for by equity method	49,248	11,163	20,007	29,307
Realized gains or losses on available-for-sale financial assets	(235,887)	706,423	446,961	37,404
Foreign exchange gains, net	1,341,320	804,215	411,795	693,363
Impairment loss	(1,933,028)	(21,652)	(25,657)	-
Recovered bad debts and overdue accounts, net	1,459,831	2,925,715	566,552	645,011
Other non-interest income, net	663,788	1,142,864	515,856	322,331
GROSS INCOME	31,812,700	36,179,170	12,961,376	18,012,759
BAD-DEBT EXPENSES	(5,080,408)	(9,250,921)	(3,813,855)	(3,531,204)
OPERATING EXPENSES				
Personnel	(8,979,544)	(9,165,142)	(4,334,989)	(4,881,065)
Depreciation and amortization	(1,160,604)	(1,138,653)	(553,821)	(596,105)
Other general and administrative expenses	(4,410,612)	(4,516,898)	(1,883,944)	(2,134,787)
INCOME BEFORE INCOME TAX FROM CONTINUING OPERATIONS	12,181,532	12,107,556	2,374,767	6,869,598
INCOME TAX EXPENSE	(2,197,766)	(3,444,274)	(199,363)	(979,200)
NET INCOME	9,983,766	\$ 8,663,282	2,175,404	5,890,398

EXCHANGE RATES

Set forth below are the period-end spot exchange rates in effect between the NT dollar and the US dollar expressed in NT dollars per US dollar, for the period indicated.

Period-End		NT\$ per US\$1.00
2000		31.40
2001		32.99
2002		35.00
2003		34.75
2004		33.98
2005		31.92
2006		32.85
2007		32.44
2008		32.86
2009	January	33.80
	February	34.95
	March	33.92
	April	33.23
	May	32.65
	June	32.82
	July	32.82
	August	32.92
	September	32.20

Source: Taipei Foreign Exchange Market Development Foundation

The closing rate of exchange between the NT dollar and the US dollar on October 12, 2009 was NT\$32.290 = US\$1.00.

DESCRIPTION OF THE COMMON STOCK

The following is a summary of certain provisions of the Company's Articles of Incorporation (the "Articles"), the ROC Securities and Exchange Law (the "Securities and Exchange Law") and regulations promulgated thereunder and the Company Law of the ROC, all as currently in effect.

General

As of April 21, 2009, the Company's authorized share capital is NT\$3,880,000,000, consisting of 388,000,000 Shares with a par value of NT\$10 per Share. As of April 21, 2009, the Company's issued and paid-in capital was NT\$2,948,900,000, consisting of 294,890,000 common shares of the Company in registered form which were issued and fully paid for.

In August of 2008, the Company issued convertible bonds in the amount of NT\$97 million. As of June 30, 2009, the Company had outstanding convertible debt securities in the principal amount of NT\$97 million at the applicable conversion price of NT\$8.20. If all outstanding domestic convertible bonds were converted at the June 30, 2009 conversion price, an additional 11,829,268 common shares of the Company would be issued.

The Company has established a stock option plan in June 2003, under which the Company may grant stock options to its employees for their purchase of up to 10 million Shares. On June 30, 2009, the Company's employee stock options outstanding allow for the purchase of approximately 7.6 million Shares by the Company's employees at the exercise price of NT\$16.1 per Share. This employee stock option will expire on December 31, 2009.

On September 19, 2009, the Company reduced its capital by reducing its outstanding Shares to 3/5 of their original figure. This resulted in a proportional increase in the conversion price and exercise price of the above mentioned convertible bonds and employee stock option and a proportional decrease in the number of Shares issuable by the Company.

The Company Law provides that any change in the issued share capital of a company requires approval of the Board of Directors. In the event that the issuance of any new shares will result in any change in the authorized share capital of the Company, in accordance with the Company Law, the Company must amend the Articles and obtain shareholders' approval at a shareholders' meeting. The Company must also obtain the approval of, or submit a registration to, the FSC and the Ministry of Economic Affairs for the issuance of any new shares.

Dividends

Under the Company Law, except under certain limited circumstances, a ROC company is not permitted to distribute dividends or make any other distributions to shareholders at any time other than when it is generating net profits ("Earnings"). Before distributing a dividend or making any other distribution to shareholders from Earnings, a company must first apply such Earnings to its losses suffered in previous years, if any, pay all outstanding taxes and set aside the legal reserve referred to below.

Subject to compliance of the above requirements, following approval of the financial statements for the preceding fiscal year by the shareholders in an annual shareholders' meeting, dividends are, unless otherwise stipulated under that company's articles of incorporation, distributed in proportion to the number of shares owned by each shareholder as listed on the register of shareholders as at the relevant record date determined by the Board of Directors ("Annual Dividends"). Annual Dividends may be distributed either in cash or in the form of common stock or a combination thereof. The ratio between any cash dividend and stock dividend is proposed by the Board of Directors and is determined by the shareholders at a shareholders' meeting. The stock dividend of the Company is distributed to the shareholders by Taiwan Securities ("Share Registrar") while the cash dividend is distributed by paying agents appointed by the Company for the specific distribution to the shareholders listed on the Share Registrar. The Company did not distribute stock dividends nor cash dividends in the past two years.

The Company Law provides that a company is required to set aside a legal reserve in an amount equal to 10 percent of its Earnings (less losses, if any, of previous years and applicable income taxes) until such time as its legal reserve equals its paid-in capital. The Articles further provide that, after paying all taxes in accordance with ROC law, recovering any past losses, and deducting the legal reserve, special reserve (if any), any balance thereof may be distributed as follows: (i) not less than five percent for employee bonus (ii) not more than three percent for remuneration to the Directors and Supervisors; and (iii) along with the retained earnings

from previous years, dividends as proposed by the Board of Directors to shareholders and approved by the general shareholders' meeting.

Cash dividends which are unclaimed for a period of five years from the date of the relevant notice of distribution may no longer be claimed. Such unclaimed cash dividends will, upon expiry of such five-year period, become the Company's property. Stock dividends are not subject to any prescription period under ROC law. Stock dividends can be registered to the shareholders without the shareholders' consent and any uncollected physical share certificate representing the stock dividends will remain in the Company's safekeeping and continued to be claimable by the relevant shareholders.

Distribution of Additional Shares

In addition to dividends paid out of earnings of a company, the Company Law also permits a company to make distributions to shareholders in the form of additional shares from reserves (including its legal reserve referred to above, any special reserve and capital reserve). However, the capitalized portion payable out of a company's legal reserve is limited to 50 percent of the total accumulated legal reserve, and such capitalization can only be effected when and to the extent that the accumulated legal reserve exceeds 50 percent of the paid-in capital of such company. (For information as to ROC taxes on cash and stock dividends, see the section headed "Taxation - ROC Taxation of Non-Residents" below.)

Pre-emptive Rights and Issue of Additional Common Stock

The Company Law provides that between 10 percent and 15 percent of any new issue of shares of capital stock sold for cash must be offered first to the issuing company's employees. In addition, the Securities and Exchange Law and the relevant securities regulations require that, if a public company listed on the TSE or GTSM intends to offer new shares for cash, at least 10 percent of such issue must be offered to the public except under certain circumstances or when exempted by the FSC. This percentage can be increased by a resolution passed at a shareholders' meeting, thereby reducing the number of new shares subject to the pre-emptive rights of existing shareholders. Unless the percentage of shares to be offered to the public is increased by shareholders, existing shareholders who are listed on the shareholders' register as of the record date have a pre-emptive right to acquire the remaining 75 to 80 percent of the issue in proportion to their existing shareholdings. The shares not subscribed for by the employees and shareholders at the expiration of the period for the exercise of their rights may be freely offered by the Company (subject to ROC law) to the public or specified person through the arrangement of the Board of Directors. The Preemptive rights do not apply to shares issued upon conversion of convertible bonds or exercise of warrants or stock options.

Meetings of Shareholders

The ordinary meeting of shareholders of the Company is usually held in Hsinchu, Taiwan, as determined by the Board of Directors, within six months after the end of each calendar year. Extraordinary meetings of shareholders may be convened by resolution of the Board of Directors whenever they consider it necessary, and they must do so if requested in writing by shareholders holding not less than three percent of the paid-in capital who have held these shares for more than a year. Extraordinary meetings of shareholders may also be convened by a Supervisor of the Company when necessary. Notice in writing of ordinary and extraordinary shareholders' meetings stating the place, time and purpose thereof must be dispatched to each shareholder of the Company at least 30 days and 15 days, respectively, prior to the date set for the meeting.

The Company publishes notices of shareholder meetings, as well as notices with respect to dividends, rights issues and capital increases, on a newspaper with national circulation in the ROC or on <http://newmops.tse.com.tw>, the website designated by the FSC for public disclosure purposes.

Voting Rights

A holder of common stock has one vote for each share of common stock except for the following common stock which does not contain voting right: (i) shares of common stock held by the company itself, (ii) shares of common stock held by a company which is a subsidiary of the issuer of the common stock, provided that such issuer holds more than fifty percent of the voting shares or issued capital of such subsidiary, or (iii) shares of common stock of a controlling company or its subsidiary held by a company of which more than fifty percent of voting shares or issued capital of such holder is directly or indirectly held by such controlling company and such controlling company's subsidiary. With respect to election of Directors and Supervisor by shareholders, it is carried out on a cumulative voting basis.

Notwithstanding the above, in order to approve certain major corporate actions, including any amendment to the Articles (which is required for, *inter alia*, any increase in authorized share capital), the dissolution or amalgamation of a company, the entering into, amendment or termination of any contract for the lease of the Company's business in whole, or for entrusted business or for regular joint operation with third parties, the transfer of all or an important part of its business or its properties, the taking over of the whole of the business or properties of any other company which would have a significant impact on the acquiring company's operations, or the distribution of any stock dividend, the Company Law provides that a resolution has to be passed at a meeting of the shareholders with a quorum of holders of at least two-thirds of all issued and outstanding common stock at which the majority present vote in favor thereof. Alternatively, in the case of a public company, such as the Company, such a resolution may be approved by the holders of at least two-thirds of the common stock represented at a meeting of shareholders with a quorum of holders of at least a majority of issued and outstanding common stock.

A shareholder may be represented at a general meeting or an extraordinary meeting by proxy. A valid proxy form must be delivered to the Company at least five days prior to the date fixed for the ordinary or extraordinary meeting. Voting rights attaching to the shares exercised by proxy shall be subject to ROC proxy regulation.

Minority Shareholders' Right to Propose Shareholder Meeting Agenda

Under the Company Law, any holder of at least 1% of the outstanding shares of the Company may submit one proposal in writing containing no more than 300 words (Chinese characters) to the Company for discussion at the Company's annual general shareholders meeting. Such proposals must be delivered to the Company during a specific period of time prior to the day that is the start of the close period (i.e. 60 days) prior to the shareholders' meeting. The Company may decide the length of time for the submission of the proposal provided that the time period is at least 10 days.

Registration of Shareholders and Record Dates

The Company maintains the register of shareholders of the Company at its Share Registrar at its share registrar office in B1, 96, Chien-Kuo N. Rd., Section 1, Taipei, Taiwan and enters transfers of common stock in the register of shareholders upon presentation of the certificates in respect of the common stock transferred accompanied by other required documents.

As mentioned above, the record date for an Annual Dividend will be determined and announced by the Company. For the purpose of determining the shareholders of common stock entitled to Annual Dividends and other rights pertaining to the common stock, the Company Law provides that, for a public company, the register of shareholders is closed for a period of 60 days, 30 days and five days immediately before each date of ordinary shareholders' meeting, each extraordinary shareholders' meeting and the record date, respectively.

Annual Financial Statements

Under the Company Law, 10 days before the ordinary shareholders' meeting, the Company's annual audited financial statements must be available at the principal office of the Company for inspection by the shareholders.

Transfers of Common Stock

Under the Company Law, the transfer of common stock (in registered form) is effected by endorsement and delivery of share certificates. In order to assert shareholders' rights against the Company, the transferee must have his name and address registered on the Company's register of shareholders. Shareholders are required to register their respective specimen seal or chop with the Company. The settlement of trading of the common stock is normally carried out on the book-entry system maintained by Taiwan Depository & Clearing Corporation.

Acquisition by the Company of its own Common Stock

Except as permitted under the ROC Company Law and the ROC Securities and Exchange Law, the Company cannot acquire its own common stock and any common stock acquired by the Company must be (i) sold by the Company at the current market price within six months after its acquisition, or (ii) transferred to the Company's employees within three year after its acquisition (in the case of common stock acquired for the purpose of stock option plan), as the case may be.

Under the Securities and Exchange Law, a company whose shares are listed on the TSE or GTSM may, pursuant to a board resolution adopted by a majority consent at a meeting attended by more than two-thirds of the directors and pursuant to the procedures prescribed by the ROC FSC, purchase its shares on the TSE or GTSM or by a tender offer for the following purposes:

- for transfer of shares to its employees;
- for conversion into shares from bonds with warrants, preferred shares with warrants, convertible bonds, convertible preferred shares or certificates of warrants issued by the company; and
- for maintaining its credit and its shareholders' equity; provided that the shares so purchased shall be cancelled thereafter.

The total shares purchased by the company shall not exceed 10 percent of its total issued and outstanding shares. In addition, the total amount for purchase of the shares shall not exceed the aggregate amount of the retained earnings, the premium from stock issues and the realized portion of the capital reserve.

The shares purchased by the company shall not be pledged or hypothecated. In addition, the company may not exercise any shareholders' rights attaching to such shares. The Company's affiliates (as defined in Article 369-1 of the ROC Company Law), directors, supervisors, managers and their respective spouses and minor children and/or nominees are prohibited from selling the shares of the company held by them during the period in which the company purchases its shares.

Effective from November 2001 under the revised Company Law, a company's subsidiary may not acquire the shares of its parent company. This restriction does not affect any acquisition occurring prior to November 14, 2001.

Liquidation Rights

In the event of the liquidation of the Company, the assets remaining after payment of all debts, liquidation expenses, taxes and distributions to holders of preference shares, if any, will be distributed pro rata to the shareholders in accordance with the Company Law.

Notification to shareholders

Information concerning shareholders is published in the local newspapers and a notice is also sent to the shareholders according to the records maintained in the Company's share register. For shareholders holding less than 1000 shares of a company, an individual notice for shareholders is not required provided that public notice is published. The Company is responsible for the handling of any financial services with respect to the Company's Shares.

FOREIGN INVESTMENT AND EXCHANGE CONTROLS IN THE ROC

The information provided below has been extracted from various government and other publicly available publications that have not been prepared or independently verified by the Company, the Manager or any of their respective affiliates or advisers in connection with the offering of the Bonds.

Foreign Investment

Historically, foreign investment in the ROC securities markets has been restricted. Since 1983, the ROC government has periodically enacted legislation and adopted regulations to permit foreign investment in the ROC securities market.

Regulations Governing Investment in Securities By Overseas Chinese and Foreign Nationals (the "Regulations"), which was approved by the Executive Yuan on May 26, 1983 and has been amended from time to time, is one of the major regulations governing foreign investment in Taiwan.

Under the Regulations, foreign investors are classified as either "onshore foreign investors" or "offshore foreign investors" according to their respective geographical location. Both onshore and offshore foreign investors are allowed to invest in ROC securities after they register with the TSE. The Regulations further classify foreign investors into foreign institutional investors and foreign individual investors. "Foreign institutional investors" refer to those investors incorporated and registered in accordance with foreign laws outside of the ROC (i.e., offshore foreign institutional investors) or their branches set up and recognized within the ROC (i.e., onshore foreign institutional investors). Offshore foreign institutional investors were previously required to apply for an approval from the CBC, in addition to the registration with the TSE. However, the amendment to the Regulations on June 15, 2004 has abolished such requirement. Offshore overseas Chinese and foreign individual investors are subject to a maximum investment ceiling that will be separately determined by the FSC after consultation with the CBC. On the other hand, foreign institutional investors are not subject to any ceiling for investment in the ROC securities market.

Depository Receipts

In April 1992, the ROC Securities and Futures Commission (now the Securities and Futures Bureau under the Financial Supervisory Commission) (the "FSC") enacted regulations permitting ROC companies with securities listed on the TSE, with the prior approval of the FSC, to sponsor the issue and sale to foreign investors of depository receipts. Depository receipts represent deposited shares of ROC companies. In December 1994, the Ministry of Finance allowed companies whose shares are traded on the GTSM or listed on the TSE, upon approval of the FSC, to sponsor the issue and sale of depository receipts.

In the past, for depository receipts that represented new shares, three months after the issuance of the depository receipts, a holder of the depository receipts could request the depository to either cause the underlying shares to be sold in the ROC and to distribute the sale proceeds to the holder or to withdraw from the depository receipt facility the shares represented by the depository receipts and transfer the shares to the holder. For depository receipts that represent previously issued and existing shares, a holder of the depository receipts could, immediately after the issuance of the depository receipts, request the depository to either cause the underlying shares to be sold in the ROC and to distribute the sale proceeds to the holder or to withdraw from the depository receipt facility the shares represented by the depository receipts and transfer the shares to the holder. The Executive Yuan and the FSC amended the relevant regulations such that the three-month withdrawal restriction has been removed. Accordingly, a holder of depository receipts may now withdraw shares after the issuance of the depository receipts representing new shares to the extent permitted under the deposit agreement (in practice, typically four to seven business days thereafter).

Under existing laws and regulations relating to foreign exchange control, a depository or a holder of depository receipts may, without obtaining further approvals from the CBC or any other governmental authority or agency of the ROC, convert NT Dollars into other currencies, including US Dollars, in respect of the following: proceeds of the sale of shares represented by depository receipts, proceeds of the sale of shares received as stock dividends and deposited into the depository receipt facility and any cash dividends or cash distributions received. In addition, a depository, also without any of these approvals, may convert inward remittances of payments into NT Dollars for purchases of underlying shares for deposit into the depository receipt facility against the creation of additional depository receipts. A depository may be required to obtain foreign exchange approval from the CBC on a payment-by-payment basis for conversion from NT Dollars into other currencies relating to the sale of subscription rights for new shares. Proceeds from the sale of any

underlying shares by holders of depositary receipts withdrawn from the depositary receipt facility may be converted into other currencies without obtaining CBC approval. Proceeds from the sale of the underlying shares withdrawn from the depositary receipt facility may be used for reinvestment in the TSE or the GTSM, subject to registration with the TSE and, if applicable, subject to obtaining the approval from the CBC (if the holder of depositary receipts is a foreign company, that is, a company incorporated in a jurisdiction other than the ROC under the laws of such foreign jurisdiction).

Under current ROC laws, a non-ROC holder of depositary receipts, when withdrawing the depositary receipts, will be required to register with the TSE and appoint a local agent (with such qualifications as are set by the FSC) to open a securities trading account with a local brokerage firm, pay taxes, remit funds, exercise rights relating to the securities and perform such other matters as may be designated by such holder of depositary receipts on behalf of and as an agent for such holder of depositary receipts. Any such holder of depositary receipts is also required to appoint a custodian bank to hold the securities and any cash proceeds in safekeeping, to make confirmations, to settle trades and to report all relevant information. In addition, such holder of depositary receipts is required to appoint a tax guarantor for filing tax returns and making tax payments.

Overseas Corporate Bonds

Since 1989, the FSC and its predecessors have approved a series of overseas bonds issued by ROC companies listed on the TSE in offerings outside the ROC. Under current ROC law, such overseas corporate bonds can be (i) converted by bondholders into shares of ROC companies or (ii) subject to FSC approval, may be converted into depositary receipts issued by the same ROC company or by the issuing company of the exchange shares, in the case of exchangeable bonds. The relevant regulations also permit public issuing companies to issue corporate debt in offerings outside the ROC. Proceeds from the sale of the shares converted from overseas convertible bonds may be used for reinvestment in securities listed on the TSE or traded on the GTSM, subject to registration with the TSE.

Under current ROC law, a non-ROC converting bondholder, when exercising his conversion right to convert bonds into common shares, is required to register with the TSE and appoint a local agent (with such qualifications as are set by the FSC) to open a securities trading account with a local brokerage firm, pay ROC taxes, make confirmations and settlement, remit funds, exercise rights relating to the securities and perform such other matters as may be designated by such converting bondholder on behalf of and as agent for such converting bondholder. Also, any such converting bondholder is also required to appoint a custodian bank to hold the securities and any cash proceeds in safekeeping, to make confirmations, to settle trades and to report all relevant information. In addition, such converting bondholder is required to appoint a tax guarantor for filing tax returns and making tax payments.

Unless otherwise limited by the CBC, an ROC company may, without obtaining further approvals from the CBC or any other government authority of the ROC, convert NT Dollars to other non-ROC currencies, including US Dollars, for making payments in respect of redemption of the bonds or repayment of principal of and interest on the bonds. A non-ROC converting bondholder may, through its local agent and without obtaining prior approval from the CBC, convert into foreign currencies net proceeds realized from the sale of converted entitlement certificates, common shares or any stock dividends relating to such shares, or any cash dividend or other cash distribution in respect of such common shares.

Other Foreign Investment

In addition to investments permitted under the Regulations, foreign investors (other than foreign investors who have registered with the TSE for making investments in the ROC securities market) who wish to make direct investments in the shares of ROC companies are required to submit a Foreign Investment Approval application to the Investment Commission of the ROC Ministry of Economic Affairs or other government authority. The Investment Commission or such other government authority reviews each Foreign Investment Approval application and approves or disapproves each application after consultation with other governmental agencies (such as the CBC and the FSC).

Under current law, any non-ROC person possessing a Foreign Investment Approval may remit capital for the approved investment and is entitled to repatriate annual net profits, interest and cash dividends attributable to such investment. Dividends attributable to such investment may be repatriated upon submitting certain required documents to the remitting bank, and investment capital and capital gains attributable to such investment may be repatriated after approvals of the Investment Commission or other authorities have been obtained.

In addition to the general restriction against direct investment by non-ROC persons in securities of ROC companies, non-ROC persons (except in certain limited cases) are currently prohibited from investing in certain industries in the ROC pursuant to a Negative List, as amended by the Executive Yuan. The prohibition on foreign investment in the prohibited industries specified in the Negative List is absolute in the absence of specific exemption from the application of the Negative List. Pursuant to the Negative List, certain other industries are restricted so that non-ROC persons (except in certain limited cases) may invest in such industries only up to a specified level and with the specific approval of the relevant competent authority which is responsible for enforcing the relevant legislation which the Negative List is intended to implement.

Exchange Controls

The Foreign Exchange Control Statute and regulations provide that all foreign exchange transactions must be executed by banks designated to handle such business, by the Ministry of Finance and by the CBC. Current regulations favor trade-related foreign exchange transactions and Foreign Investment Approval investments. Consequently, foreign currency earned from exports of merchandise and services may now be retained and used freely by exporters, and all foreign currency needed for the importation of merchandise and services may be purchased freely from the designated foreign exchange banks.

Trade aside, ROC companies and resident individuals may, without foreign exchange approval, remit outside the ROC foreign currency of up to US\$50,000,000 (or its equivalent) and US\$5,000,000 (or its equivalent) respectively in each calendar year. In addition, ROC companies and resident individuals may, without foreign exchange approval, remit into the ROC foreign currency of up to US\$50,000,000 (or its equivalent) and US\$5,000,000 (or its equivalent) respectively in each calendar year. Furthermore, any remittance of foreign currency into the ROC by an ROC company or resident individual in a year will be offset by the amount remitted out of the ROC by the company or individual (as applicable) within its annual quota and will not use up its annual inward remittance quota to the extent of such offset. The above limits apply to remittances involving a conversion of NT Dollars to a foreign currency and vice versa. A requirement is also imposed on all enterprises to register medium- and long-term foreign debt with the CBC.

In addition, foreign persons, may, subject to certain requirements, but without foreign exchange approval of the CBC, remit outside and into the ROC foreign currencies of up to US\$100,000 (or its equivalent) for each remittance. The above limit applies to remittances involving a conversion of NT Dollars to a foreign currency and vice versa.

THE SECURITIES MARKET OF THE ROC

The information provided in this appendix has been extracted from various government and other publicly available publications that have not been prepared or independently verified by the Company, the Manager or any of their respective affiliates or advisers in connection with the offering of the Bonds. Where applicable, references to the Financial Supervisory Commission (the "FSC") in this section include its subordinate bureau, the ROC Securities and Futures Bureau and the ROC Securities and Exchange Commission, its predecessor.

In September 1960, the ROC government established the ROC Securities and Exchange Commission to supervise and control all aspects of the existing domestic securities market and the TSE began to take shape soon thereafter. In the 1970s and the early 1980s, the ROC government implemented a number of steps designed to upgrade the quality and importance of the ROC securities markets, such as encouraging listing on the TSE and establishing an over-the-counter securities exchange. In the mid-1980s, the ROC government began to revise its laws and regulations in a manner designed to facilitate the gradual internationalization of the ROC securities markets. In 1997, the ROC Securities and Exchange Commission was renamed the ROC Securities and Futures Commission. Effective July 1, 2004, the ROC Securities and Futures Commission has been renamed the ROC Securities and Futures Bureau and placed under the supervision of the FSC.

The Taiwan Stock Exchange

In 1961, the FSC, working together with private interests, established the TSE to provide a marketplace for securities trading. The TSE is a corporation owned by government-controlled and private banks and enterprises. The TSE is independent of entities transacting business through it, each of which pays a user's fee. Subject to limited exceptions, all transactions in listed securities by brokers, traders and integrated securities firms (firms which are permitted to combine the activities of brokerage, dealing and underwriting) must be made through the TSE.

The TSE commenced operations in 1962 and during the remainder of the 1960's grew at a slow pace, largely due to lack of experience among issuers and investors and unwillingness on the part of ROC businesses to offer their shares to the public. Since the early 1980's, the FSC and its predecessors became more active in encouraged new listings on the TSE and the number of listed companies grew from 119 in 1983 to 727 by October 9, 2009. As of October 9, 2009, the total market value of shares listed on the TSE was approximately NT\$19.40 trillion.

The instruments traded on the TSE have primarily been limited to common shares and bonds. However, recent legislative revisions and the present attitude of the FSC regarding liberalization of securities regulations have encouraged some innovation. In 1988, the Ministry of Finance permitted the issue of the ROC's first exchangeable bonds (such bonds being exchangeable at the option of the bondholders into shares of companies owned by the issuers). Since 1989, there have been offerings of domestic convertible bonds and convertible preferred shares. In addition, beneficiary units evidencing beneficiary interests in closed-end investment funds and bonds issued by super-national financial institutions are also listed on the TSE and traded on the GTSM (see below).

In the absence of special regulatory approval, only ROC companies are permitted to list their securities on the TSE. The FSC has promulgated regulations that would permit foreign issuers to list certain securities on the TSE. To date, only several foreign issuers have been approved to list their securities on the TSE in the form of depositary receipts. However, recent legislative changes have relaxed many restrictions for foreign issuers to list their securities in Taiwan and the number of foreign companies having their securities listed on the TSE is expected to begin to increase in the near future.

The TSE has established specific requirements for listing based on the number and distribution of a company's stockholders, years in existence, amount of capital, profitability and capital structure. For a ROC company to be listed, it must have been established for at least three fiscal years, have paid-in capital of at least NT\$600 million upon the application for listing and have at least 1,000 registered stockholders, including not fewer than 500 stockholders holding between 1,000 and 50,000 shares each. These 500 or more stockholders must together hold either at least 20% of the outstanding shares or at least 10 million shares. The company may not have an accumulated deficit for the previous fiscal year, and the pre-tax net income and the operating income of the company must meet any of the following requirements: (1) having exceeded 6% of paid-in capital for each of the previous two fiscal years or having exceeded 6% in average of the paid-in capital for the previous two fiscal years with the profitability of the most recent fiscal year being higher than that of the preceding fiscal year; or (2) having been no less than 3% of the paid-in capital for each of the previous five

fiscal years. However, certain special listing criteria apply to high-tech companies and key businesses engaging in national economic development.

The Greta Securities Market

The securities market in Taiwan was originated from the over-the-counter securities market since 1940s. However, the over-the-counter securities market was once abolished by the government in 1962. To complement the TSE, the over-the-counter securities market was resumed in October 1982 on the initiative of the FSC. In early 1988, the FSC promulgated regulations designed to encourage trading of unlisted securities of companies whose securities do not qualify for listing on the TSE. As trading volume on the over-the-counter market was minimal, the GTSM was established in November 1994 to take over the previous over-the-counter market. The GTSM is best described as a centralized market for companies with relatively small capitalization. The GTSM has instituted a computerized trading system in December 1994 to enhance the efficiency of trading. The GTSM has used the TSE method of trading as a model, and aims to reform GTSM trading to the point where few differences exist between the two market systems. Compared to the TSE, however, the GTSM is still in its infancy. As of October 9, 2009, the number of companies listed on the GTSM is 541 and, the total market value of shares listed on the GTSM was NT\$1.6 trillion.

The GTSM has established specific requirements for trading securities on the GTSM based on the history of a company, the number and distribution of a company's shareholders, amount of capital, profitability and capital structure. For a ROC company to have its shares traded on the GTSM, it must have been in existence for at least two full fiscal years, have a minimum paid-in capital of NT\$50 million and at least 300 registered shareholders each holding between 1,000 to 50,000 shares. Such shareholders must together hold in excess of either 10% of the outstanding shares or 5 million shares. The company must be recommended in writing by at least two securities firms. Each of the pre-tax net income of the company should not be less than NT\$4 million and must have (i) been not less than 4% of the paid-in capital for the previous fiscal year and there should be no accumulated deficit for the previous fiscal year, (ii) been not less than 3% of the paid-in capital for each of the previous two fiscal years or (iii) averaged not less than 3% of the paid-in capital for the previous two fiscal years with the profitability of the most recent fiscal year exceeding that of the preceding fiscal year. The directors and supervisors and the shareholders holding 10% or more of the outstanding shares of the company must deposit a certain portion of their shares with an institution designated by the GTSM. The company should have established a securities transfer office or stock affair agent at the place where the GTSM is situated. The Company's shares should have been traded on the Emerging Stock Market for not less than six months and shall be issued in the form of book-entry securities. A company may be exempt from the above two-year existence and profitability requirements, provided that the government authority issues an opinion confirming that the company is a high-tech company and its products have been successfully developed and have marketability.

The GTSM Index is a capitalization-weighted index, calculated on the basis of all stocks that have been listed for more than one month weighted according to the number of shares outstanding. Capitalization-weighting is a calculation technique that takes into account not only the movement in a stock's price, but also the weight of the stock. The weight of a company's stock is calculated from the market capitalization of that company's stock. A small movement in the price of a company with a large market capitalization can therefore move the index as easily as a large movement in the price of a company with a small market capitalization. The index was started with a base value of 100 on November 1, 1995.

Price Limits, Commissions, Transaction Tax and Other Matters

In order to reduce market volatility, the TSE has placed limits on block trading and on the range of daily price movements. A single buy order or sell order for a single security (to or from unspecified seller or buyer, i.e. non-paired trade) that involves 500 trading lots (500,000 shares) or more or at least NT\$15 million must be registered and executed in accordance with TSE block trade guidelines. A single buy order or sell order for a basket of stocks that involves at least five TSE listed stocks with a total value of at least NT\$15 million must also be registered and executed in accordance with TSE block trade guidelines. A single buy order or sell order for a single security (to or from specified seller or buyer, i.e. paired trade) that involves 1000 trading lots (1,000,000 shares) or more or at least NT\$30 million must be registered and executed in accordance with TSE block trade guidelines. A single buy order or sell order for a basket of stocks that involves at least five TSE listed stocks with a total value of at least NT\$15 million must also be registered and executed in accordance with TSE block trade guidelines if it is traded with unspecific buyer/seller. For paired trade, a single buy order or sell order for a basket of stocks that involves at least five TSE listed stocks with a total value of at least NT\$30 million must also be registered and executed in accordance with TSE block trade guideline.

Fluctuations in the price of securities traded on the TSE are subject to a limit of seven percent above and below the previous day's closing price (or reference price set by the TSE if the previous day's closing price is not available because of lack of trading activity) in the case of shares, convertible bonds and Taiwan Depositary Receipts and five percent in the case of bonds. Over the last few years, the limit on the price movements of shares has fluctuated, moving from five percent to three percent following the 1987 market crash, then back to five percent and finally, in October 1989, from five percent to the current level of seven percent. Starting from March 2005, the restriction concerning the daily price fluctuation limit does not apply to the first five trading days beginning from listing for the shares of newly listed companies, except for companies which had shares previously traded in the GTSM. The FSC has indicated that the limits on share price movements may be further relaxed or abolished entirely.

All shares have a par value of NT\$10 and trade in board lots of 1,000 shares. Although odd-lot trading may be conducted on the TSE, delays are occasionally experienced in respect of such trading.

Effective from July 1, 2001, the brokerage commission may be any rate not exceeding 0.1425 percent of the transaction price. A securities transaction tax, currently levied at the rate of 0.3 percent of the transaction price for shares is payable by the seller of securities and a tax at the rate of 0.1% of the transaction price is payable by the seller of debt securities other than government bonds. Such securities transaction taxes are withheld at the time of the transactions giving rise to such taxes. According to the amended Statute for Upgrading Industries effective as of February 1, 2002, no securities transaction tax will be imposed on the transfer of corporate bonds and financial debentures until December 31, 2009.

Regulations and Supervision

The ROC Securities and Futures Commission, the predecessor of the ROC Securities and Futures Bureau, was under the jurisdiction of the Ministry of Finance from 1981. The Securities and Futures Bureau is now a bureau under the FSC. The FSC has extensive regulatory authority over companies listed on the TSE, companies listed on the GTSM and unlisted public issuing companies generally. Such companies are generally required to obtain approval from, or register with, the FSC for all securities offerings. The FSC has promulgated regulations requiring, unless otherwise exempted, periodic reporting of financial and operating information by all public companies. In addition, the FSC is responsible for the establishment of standards for financial reporting and carries out licensing and supervision with respect to the other participants in the ROC securities market.

The FSC has responsibility for implementation of the Securities and Exchange Law and for overall administration of governmental policies in the ROC securities market. FSC has extensive regulatory authority over the offering, issue and trading of securities. In addition, the Securities and Exchange Law specifically empowers the FSC to promulgate rules under certain circumstances.

The Securities and Exchange Law prohibits market manipulation. It permits an issuer to recover certain short-swing trading profits made through purchases and sales (or sales and purchases) within six months by directors, managerial personnel, supervisors and shareholders holding more than 10% of the outstanding shares of the issuer. The Securities and Exchange Law prohibits trading by "insiders" based on non-public information that materially affects share price movements. Pursuant to the Securities and Exchange Law, the term "insiders" includes directors, supervisors, managers and shareholders holding more than 10% of the outstanding shares of the issuing company and their spouses, minor children and nominees, any person who has learned such information due to an occupational or controlling relationship with the issuing company and any person who has learned such information from any of the foregoing. Sanctions include prison terms. In addition, damages may be awarded to persons injured by the transaction. Notwithstanding these regulatory requirements, there have been recurring press reports on insider trading and manipulation of stock prices in the ROC.

The Securities and Exchange Law also imposes criminal liability on certified public accountants and lawyers who make false certifications in their examination and audit of an issuer's contracts, reports and other evidentiary documents that are related to securities transactions. The FSC regulations require that financial reports of listed companies be audited by accounting firms consisting of at least three certified public accountants and be signed by at least two certified public accountants.

The Securities and Exchange Law was amended in January 1988 to provide for, among other things, new regulations relating to public offerings of securities; measures to strengthen the capital structure of issuers; civil liability for material misstatements or omissions made by issuers; more stringent regulations of the

securities activities of officers, directors and major shareholders of issuers; regulations regarding tender offers; and a significant expansion of the prohibitions against insider trading, including the imposition of treble civil damages and criminal sanctions.

The Securities and Exchange Law was further amended on July 19, 2000. Such amendments included, among other provisions, allowing companies to hold treasury stock under certain situations and to provide for criminal liabilities on certain personnel of a company for directly or indirectly causing the company to conduct trading not in the ordinary business operation of the company and against the company's interest.

The FSC does not have criminal or civil enforcement powers under the Securities and Exchange Law. Criminal actions may be pursued by the district prosecutors upon the complaint of the FSC. Under ROC law, civil actions may only be brought by plaintiffs who assert that they have suffered damage. The FSC is directly empowered to curb abuses and violations of applicable laws and regulations only through administrative measures such as the issuance of warnings, temporary suspension of operation, imposition of administrative fines and revocation of licenses.

In addition to providing a market for securities trading, the TSE has primary responsibility for reviewing applications by ROC issuers to list securities on the TSE. In addition, the FSC reviews all securities offerings by listed companies. If issuers of listed securities violate relevant laws and regulations or encounter significant difficulties, the TSE may, with the approval of the FSC, delist securities of these issuers.

ROC TAXATION OF NON-RESIDENTS

Prospective investors should consult their own advisers concerning the tax consequences of an investment in Bonds or Shares:

The following is a summary under present law of the principal ROC tax consequences of the ownership and disposition of Bonds or Shares to a Non-Resident Individual or Non-Resident Entity that holds Bonds or Shares (each a "Non-ROC Holder"). As used in the preceding sentence, a "Non-Resident Individual" is a foreign national individual who owns Bonds or Shares and is not physically present in the ROC for 183 days or more during any calendar year and a "Non-Resident Entity" is a corporation or a non-corporate body that owns Bonds or Shares and is organized under the laws of a jurisdiction other than the ROC and has no fixed place of business or other permanent establishment in the ROC. Prospective purchasers of Bonds should consult their own tax advisers concerning the tax consequences of owning Bonds or Shares in the ROC and any other relevant-taxing jurisdiction to which they are subject.

Dividends on the Shares

Dividends (whether in cash or shares) declared by the Company out of retained earnings and paid out to holders of Shares are normally subject to ROC income tax collected by way of withholding at the time of distribution. The current rate of withholding for non-residents is 30% for a Non-Resident Individual and 25% for a Non-Resident Entity of the amount of the distribution in the case of cash dividends or the par value of the share distributed in the case of stock dividends. However, the rate of withholding is 20% if the Non-ROC Holder obtains foreign investment approval pursuant to the Statute for Foreigner's Investment or the Statute for Overseas Chinese's Investment. Distributions of stock dividends declared by the Company out of capital reserves are not subject to withholding tax. Because the issue of the Bonds has been approved by the relevant ROC competent authorities, for Non-ROC Holders, dividends on Bonds are subject to withholding tax of 20%. Under the ROC Income Tax law, a 10% retained earnings tax will be imposed on a company for its after-tax earnings generated after January 1, 1998, which are not distributed in the following year. The retained earnings tax so paid will further reduce the retained earnings available for future distribution. When the Company declares dividends out of those retained earnings, a maximum amount of up to 10% of the declared dividends will be credited against the 20% withholding tax imposed on the Non-ROC Holders.

Capital Gains

Under current ROC law, gains realized upon the sale or other disposition of securities is exempt from ROC income tax. The losses from disposition of securities likewise may not be used to offset income. This exemption will apply to sales of the Bonds.

Securities Transaction Tax

The ROC government imposes a securities transaction tax that will apply to sales of Shares. The transaction tax, which is payable by the seller, is generally levied on sales of shares at the rate of 0.3 percent of the sales proceeds. A transfer of Bonds, however, is not subject to this tax.

Estate Taxation and Gift Tax

ROC estate tax is payable on any property within the ROC of a deceased Non-Resident Individual, and ROC gift tax is payable on any property within the ROC donated by a Non-Resident Individual. Estate tax is currently imposed at rates ranging from two percent of the first NT\$670,000 to 50 percent of amounts in excess of NT\$111,320,000. Gift tax is imposed at rates ranging from four percent of the first NT\$670,000 donated to 50 percent of amounts donated in excess of NT\$50,090,000. Under ROC estate and gift tax laws, because the issuer is a ROC entity, the Shares will be deemed to be located in the ROC without regard to the location of the owner.

Tax Treaty

The ROC has entered into income tax treaties with Singapore, Australia, Indonesia, New Zealand, South Africa, Gambia, the Netherlands, Swaziland, Malaysia, Macedonia, Vietnam, United Kingdom, Senegal, Sweden, Belgium, and Denmark. The tax treaties may entitle residents of these countries to favorable tax rate on dividend and interest paid by ROC companies. Accordingly, a holder of Bonds or Shares who is

otherwise entitled to the benefit of a treaty should consult its own tax advisers concerning eligibility for benefit under the treaty with respect to the Bonds or the Shares.

SUMMARY OF CERTAIN SIGNIFICANT DIFFERENCES BETWEEN ROC GAAP AND US GAAP

The financial statements of the Company included elsewhere in the offering memorandum have been prepared in conformity with ROC GAAP, which differ in certain significant respects from US GAAP. A brief description of certain significant differences between ROC GAAP and US GAAP as they may apply to the Company are set out below. The regulatory organizations that promulgate ROC GAAP and US GAAP have projects ongoing that could have a significant impact on future comparisons such as the comparison below.

The summary is not intended to provide a comprehensive listing of all existing or future differences between ROC GAAP and US GAAP, including those specifically related to the Company or to the industries in which the Company operates. No attempt has been made to identify (a) future differences between ROC GAAP and US GAAP that may arise as a result of prescribed changes in accounting standards, or (b) disclosure, presentation or classification differences that would affect the manner in which transactions and events are reflected in our financial statements, or the financial statements of any of our subsidiaries, or the respective notes thereto. Further, had the Company undertaken to identify the differences specifically affecting the financial statements presented in this offering memorandum, other potentially significant differences may have come to the attention of the Company, which are not provided in the following summary. Accordingly, this summary is not intended to provide a complete description of all differences which may have a significant impact on the financial statements of the Company. US GAAP is generally more restrictive and comprehensive than ROC GAAP regarding the recognition and measurement of transactions, account classification and disclosure requirements.

The Company has not quantified the effects of the differences between ROC GAAP and US GAAP on its financial results or equity.

The following discussion refers to the historical practices of the Company in preparing financial statements in accordance with ROC GAAP. The management of the Company expects to follow comparable practices when preparing financial statements of the Company in the future.

Subject	ROC GAAP	US GAAP
1. Presentation of Unconsolidated Financial Statements	Under ROC GAAP requirements, nonconsolidated financial statements of a company are presented as the primary financial statements and consolidated financial statements as supplemental financial statements.	Under US GAAP, parent-company's consolidated financial statements are presented as the primary financial statements for any period.
2. Functional Currency	Under the ROC GAAP, the local currency of New Taiwan dollar is adopted as the functional currency of the Company only (excluding its offshore subsidiaries).	Under US GAAP, management must make an assessment of the functional currency of a company and its subsidiaries. Such assessment is based on the primary economic environment in which the company and/or its subsidiaries operate.
3. Inventories	Under ROC GAAP, inventories are stated at the lower of cost and market value after allowances for obsolete or slow-moving items and the inventory valuation loss is classified as non-operating expenses. Any write-down was made on a total-inventory basis. Market value represented either the replacement cost or the net realizable value. Effective January 1, 2009, when the newly revised SFAS No.10, "Accounting for Inventories" takes effect, inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made on an item-by-item basis, except where it may be appropriate to group similar or related items. Net realizable value is the estimated	Under US GAAP, inventories shall be stated at cost. However, if the utility of the inventory is impaired by damage, deterioration, obsolescence, changes in price levels, or other causes, a loss shall be reflected as a charge against the revenues of the period in which it occurs. The measurement of such loss shall be accomplished by applying the rule of pricing inventories at cost or market, whichever is lower and the resulting valuation loss is classified as cost of sales. After such loss is recognized, the reduced amount of the asset is accounted for as its new cost.

Subject	ROC GAAP	US GAAP
	selling price of inventories less all estimated costs of completion and necessary selling costs. Unallocated overheads are recognized as expenses in the period in which they are incurred, and abnormal cost, write-downs of inventories and any reversal of write-downs are recorded as cost of sales for the period.	
4. Accounting for Pensions	The requirement of amortization of unrecognized net transitional obligations under ROC SFAS No. 18 is different from US SFAS No. 87. Starting from July 1, 2005, employees are required to choose between the two pension plans available to them. For employees under defined contribution pension plans, pension costs are recorded based on the actual contributions made to employees' individual pension accounts. For employees under defined benefit pension plans, pension costs are recorded based on actuarial calculations.	In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans: amendment of FASB Statement No. 87", which requires an employer to recognize the over funded or under funded status of defined benefit and other postretirement plans as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through an adjustment to comprehensive income. This new pronouncement was effective for an entity with fiscal year ending after December 15, 2006.
5. Compensated Absences	ROC GAAP has no specific accounting practice regarding compensated absences.	Compensated absences must be accrued based on the liability for employees' rights to receive compensation for future absences when certain conditions are met.
6. Bonuses to Employees, Directors and Supervisors	According to ROC regulations and our articles of incorporation, a portion of distributable earnings should be appropriated as bonuses to employees, directors and supervisors. All of these appropriations, including stock bonuses, which are valued at par value of NT\$10, are charged against retained earnings under ROC GAAP, after such appropriations are formally approved by the shareholders in the following year. Effective January 1, 2008, the Interpretation 2007-052 "Accounting for Bonuses to Employees, Directors and Supervisors" was issued in March 2007 by the ARDF, which requires companies to record bonuses paid to employees, directors and supervisors as an expense in the period as incurred, rather than as an appropriation of earnings.	Under US GAAP, such bonuses and remuneration are charged against income. Shares issued as part of those bonuses are recorded at fair market value. However, since the amount and form of such bonuses are not finally determinable until the shareholders' meeting in the subsequent year, the total amount of such bonuses is initially accrued based on management's estimate of the value of the award. Any difference between the initially accrued amount and the fair market value of the bonuses upon the issuance of shares is recognized in the year of shareholder approval. As the incremental compensation is not deductible for tax purposes, no tax benefit is recognized.
7. Income Tax	ROC SFAS No. 22 "Accounting for Income Taxes" which was issued in June 1994 is substantially similar to U.S. GAAP. However, under ROC GAAP, the criteria for determining whether a valuation allowance is required are less restrictive as compared to U.S. GAAP. Under ROC GAAP, in accordance with ROC SFAS No. 22, there are no differences in the calculation of income tax provision and the same corporate income tax rate of 25% (or	Under US GAAP, a valuation allowance is provided on deferred tax assets to the extent that it is not "more likely than not" that such deferred tax assets will be realized. A change in tax rate or law requires an adjustment to such deferred tax assets and liabilities in the period of enactment, and is reported as a part of results of operations. Under US GAAP, tax provisions in interim quarterly financial statements are provided based on an estimated effective tax rate

Subject	ROC GAAP	US GAAP
	20% effective from January 1, 2010) is adopted for both periods between annual financial statements and interim quarterly financial statements. Under ROC GAAP, there is no corresponding standard or interpretation similar to FIN 48 in US GAAP, for determining uncertainty in income tax.	expected to be applicable to the full fiscal year. Such estimated effective tax rate takes into account all anticipated tax attributes for the full fiscal year. In June 2006, the FASB issued Interpretation No., ("FIN") 48, "Accounting for Uncertainty in Income Taxes-An Interpretation of FASB Statement No.109", which requires the recognition of the impact of a tax position in our financial statements if that position is more likely than not of being sustained on audit. This interpretation also prescribes measurement of a tax position taken or expected to be taken in a tax return and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.
8. Investment Tax Credits	Companies in the ROC generally record the benefits of investment tax credits in the year when the related acquired asset is placed in service.	Under U.S. GAAP, the benefit of the investment tax credit should reduce the basis in the long-lived asset acquired and should be reflected in net income over the productive life of the acquired long-lived asset.
9. Retained Earnings Tax	Companies in the ROC are subject to a 10% surtax on profits retained and earned after December 31, 1997. If the retained profits are distributed to the shareholders in the following fiscal year, no 10% surtax is due. Under ROC GAAP, income tax expense relating to the 10% surtax is recorded in the results of operations in the following fiscal year if the earnings are not distributed to the shareholders.	Under US GAAP, income tax expense relating to the 10% surtax is recorded in the results of operations in the year that the profits were earned. Any tax reduction upon shareholders' approval for distribution of earnings is recognized under US GAAP as a tax credit in the period of such approval.
10. Earnings Per Share	The stock bonus to employees is given retroactive effect in the computation of earnings per share.	The stock bonus to employees is given only prospective effect in the computation of earnings per share.
11. Stock Dividends	Stock dividends are recorded as a reduction to retained earnings for the par value of the stock issued, and a like amount is recorded to the capital stock account.	Under US GAAP, when the ratio of distribution is less than 25% of shares of the same class outstanding, stock dividends are generally recorded based on the fair value method, with the par value recorded in the capital stock account and the excess of fair value over the par value recorded as additional paid in capital. Distribution in excess of 25% is generally considered as stock split.
12. Proposed Dividends	Under ROC GAAP, dividends are charged against retained earnings when they are formally approved by stockholders.	Under US GAAP, dividends are charged against retained earnings when they are formally approved by the board of directors.
13. Employee Stock Options	There was no specific ROC accounting standard regarding employee stock option (or share-based payment transaction) until January 1, 2004 when the "Interpretation Rule" of the ROC Financial Accounting	Under US GAAP, as prescribed in US SFAS 123, compensation cost is recognized over the service period for employee stock options using the fair value based method of accounting or the intrinsic value based

Subject	ROC GAAP	US GAAP
	Standards Committee on employee stock option plans came into effect. This interpretation rule is similar in all respects to US SFAS 123 and APB Opinion No. 25. However, compliance with the "Interpretation Rule" is required for companies that issue stock options commencing from January 1, 2004 or those companies that issued stock options before January 1, 2004 but amend their stock option plan commencing from January 1, 2004. ROC SFAS No. 39, which stipulates the accounting for share-based payment, was effective for accounting period beginning January 1, 2008. ROC SFAS No. 39 requires that expenses related to share-based payment be recognized on the basis of fair value of equity instruments granted on the grant date. The use of intrinsic value is permitted only in rare cases in which the fair value of the equity instruments cannot be reliably measured.	method of accounting described in APB Opinion No. 25. Under the intrinsic value based method, compensation cost is measured as the difference between the fair value of the underlying shares at the grant date and exercise price, is amortized to expense over the requisite service period. However, under US SFAS 123 as revised in December 2004, employee stock options granted after the required effective date can only be accounted for using the fair value based method of accounting, the required effective date refers to the beginning of the first interim or annual reporting period that begins after January 1, 2006 for public entities that do not file as small business issuers.
14. Impairment of Long-Lives Assets and Long-Lived Assets to be Disposed	Under ROC SFAS No. 35 "Accounting for Assets Impairment" requires the Company to assess indicators for impairment for all its assets within the scope of SFAS No. 35 at each balance sheet date. If impairment indicators exist, the Company shall then compare the carrying amount with the recoverable amount of the assets or the cash-generating unit ("CGU") and write down the carrying amount to the recoverable amount where applicable. Recoverable amount is defined as the higher of fair values less costs to sell and the values in use. For previously recognized losses, the Company shall assess, at each balance sheet date, whether there is any indication that the impairment loss may no longer exist or may have decreased. If there is any such indication, the Company has to recalculate the recoverable amount of the asset. If the recoverable amount increases as a result of the increase in the estimated service potential of the assets, the Company shall reverse the impairment loss to the extent that the carrying amount after the reversal would not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the assets in prior years. Impairment loss (reversal) is classified as non-operating losses/ (income).	US Statement of Financial Accounting Standards No. 121 (US SFAS No.121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of," requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In assessing the recoverability, the entity estimates the future cash flows, un-discounted and without interest charges, expected to result from the use of the asset and its eventual disposal. If the sum of such expected future cash flows is less than the carrying amount of the asset, an impairment loss is recognized based on the difference between the carrying value and the discounted future cash flows value; otherwise it is not. US SFAS No. 121 also requires that long-lived assets to be disposed of be reported at the lower of carrying amount or fair value less cost to sell. In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supersedes SFAS No. 121. SFAS No.144 retains the fundamental provisions of SFAS No. 121 for recognition and measurement of the impairment of long-lived assets to be held and used and measurement of long-lived assets to be disposed of by sale. Among other matters, SFAS No. 144 addresses certain implementation issues related to SFAS

Subject	ROC GAAP	US GAAP
15. Comprehensive Income	Under ROC GAAP, there is no requirement to present comprehensive income.	No.121. Comprehensive income and its components (revenues, expenses, gains and losses) must be presented in a full set of financial statements under US GAAP. Comprehensive income includes all changes in shareholders' equity during a period, except those resulting from investments by or distributions to owners, including certain items not included in the current results of operations.
16. Convertible Bonds	When convertible bonds are issued, ROC GAAP records the entire instrument as a liability at an amount equal to the proceeds received and does not recognize or account for any beneficial or conversion feature embedded in the bonds prior to December 31, 2005. For convertible bonds issued after January 1, 2006, the components of compound financial instrument with an embedded derivative that is not clearly and closely related to the host contract are bifurcated on initial recognition. The liability component is measured first, and the difference between the proceeds of the bond issued and the fair value of the liability is accounted for as the equity component. The present value of the liability component is calculated using the market interest rate for similar debt without conversion options until the date before the conversion date. The liability component is subsequently measured at amortized cost, and changes in fair value of the equity component are not recognized while change in fair value of the call and put option are reported to the statement of operations.	Under US GAAP, the Company considered whether the convertible bonds contain the embedded derivative features using the guidance provided in U.S. SFAS No. 133. To the extent the embedded derivatives are determined to exist, the embedded derivatives are bifurcated and accounted for in accordance with U.S. SFAS No. 133. In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statement No. 133. This statement allows financial instrument that have embedded derivatives requiring bifurcation from the host to be accounted for as a whole, if the Company irrevocably elects to account for the whole instrument on a fair value basis. Subsequent changes in the fair value of the instrument would be recognized in earnings. The statement permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation.

SUBSCRIPTION AND SALE

Mega Capital (Asia) Co., Ltd. (the "Manager") has, pursuant to a Subscription Agreement dated September 29, 2009, agreed with the Company to subscribe and pay for the Bonds at the issue price of 100 percent of their principal amount less management and underwriting commission, selling concession and expenses in the amount of US\$64,000 on the Closing Date. The Subscription Agreement provides that the Company will indemnify the Manager against certain liabilities. In addition, the Company has agreed to reimburse certain expenses of the Manager in connection with the issue of the Bonds. The Subscription Agreement provides that the obligations of the Manager are subject to certain conditions precedent, and entitles the Manager to terminate it in certain circumstances prior to payment being made to the Company. The Manager or its affiliates may subscribe to a portion of the Bonds.

Issue of Additional Bonds

The Company has granted an option to Mega Capital (Asia) Co., Ltd., which may be exercised in whole or in part, on one or more occasions, to subscribe for a further US\$5,000,000 aggregate principal amount of Bonds at any time up to and including November 30, 2009.

Offers of Similar Securities

The Company has agreed in the Subscription Agreement that neither the Company, nor any person acting on its behalf, will issue, offer, sell, contract to sell or otherwise dispose of any Shares or securities of the same class as the Shares (other than pursuant to (i) employee benefits plans or distributions of dividends from retained earnings and capital reserve or employee bonuses in the form of Shares or (ii) conversion of the Bonds or of other convertible bonds issued prior to the date of the Subscription Agreement) or any securities convertible into, exchangeable for or which carry rights to subscribe or purchase Bonds, Shares, or securities of the same class as the Bonds, Shares or other instruments representing interests in Bonds, Shares or securities of the same class as the Bonds, Shares (other than the Bonds and other than as aforesaid), or announce plans or otherwise make public an intention to do any of the foregoing (other than as aforesaid), in any such case without the prior written consent of the Manager between the date hereof and the date which is 90 days after the Closing Date (both dates inclusive).

General

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 Offering Circular 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 Offering Circular nor any other offering material or advertisements in connection with the Bonds or 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 Bonds and the Shares to be issued upon conversion of the Bonds have not been and will not be registered under the U.S. Securities Act of 1933 (the "Securities Act"), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act ("Regulation S").

The Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Bonds or the Shares to be issued upon conversion of the Bonds as part of its distribution at any time within the United States.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), the Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the

"Relevant Implementation Date") it has not made and will not make an offer of Bonds to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Bonds which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Bonds to the public in that Relevant Member State at any time:

- (1) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- (2) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year, (ii) a total balance sheet of more than €43,000,000 and (iii) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- (3) in any other circumstances which do not require the publication by the Company of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression "an offer of Bonds to the public" in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

The ROC

The Bonds may not be offered, sold or delivered, directly or indirectly, in the ROC, as part of the distribution of the Bonds.

Hong Kong

The Manager has represented 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 to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong; and (2) it has not issued and will not 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) of Hong Kong and any rules made thereunder.

Singapore

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act 2001 (2002 Revised Edition) of Singapore (the "Securities and Futures Act"). Accordingly, the Bonds may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of such Bonds be circulated or distributed, whether directly or indirectly, to the public or any member of the public in Singapore other than (1) to an institutional investor or other person falling within Section 274 of the Securities and Futures Act, (2) 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 (3) otherwise than pursuant to, and in accordance with the conditions of, any other applicable provisions of the Securities and Futures Act.

Japan

The Manager has represented and agreed that the Bonds have not and will not be registered under the Securities and Exchange Law of Japan (the "Securities and Exchange Law") and that the Bonds, which it subscribes will be subscribed by it as principal. The Manager has also represented and agreed that, in connection with the initial offering of the Bonds, it will not directly or indirectly offer or sell any Bonds in Japan, or to, or for the benefit of any resident of Japan (which term as used herein means any person resident

in Japan, including any corporation or other entity organized under the laws of Japan), except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and other applicable laws and regulations of Japan.

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 97178376. The Company is located at 3, Kung Yeh First Rd., Hsinchu Industrial Park, Hsinchu, Taiwan, ROC.

Authorizations: The Company has obtained all necessary consents, approvals and authorizations in connection with the issue of the Bonds. The issue of the Bonds was authorized by a resolution of the Board of Directors of the Company passed on June 19, 2009.

Material Change: Except as disclosed in this Offering Circular, there has been no material adverse change in the financial position or prospects of the Company since June 30, 2009.

Litigation: Save as disclosed in the section "Business of the Company- Litigation", neither the Company nor any of its subsidiaries is involved in any litigation or arbitration proceedings which may have, or have had during the 12 months preceding the date of this Offering Circular, a significant effect on the financial position of the Company and its Subsidiaries, nor, so far as any of them is aware, are any such proceedings pending or threatened.

Independent Accountants: The Company's consolidated financial statements as at and for the years ended December 31, 2006, 2007, and 2008 included in this offering circular have been audited by Ernst & Young, independent auditors, as stated in their reports elsewhere herein, which reports express unqualified opinions on such financial statements.

With respect to the Company's unaudited consolidated financial statements as of and for the six months ended June 30, 2008 and 2009 included in this offering circular, Ernst & Young has reported that they have applied limited procedures in accordance with professional standards for a review of such information in accordance with ROC Statement on Auditing Standards No. 36, "Review of Financial Statements". Ernst & Young further states that they did not audit and they do not express an opinion on such interim financial statement, and that the investments accounted for by the equity method and the share of the related income or losses were based on the investees' unreviewed financial statements for the same reporting periods as those of the Company. Accordingly, the degree of reliance on the information on the Company's semi-annual consolidated financial statements should be restricted in light of the limited nature of the review procedures applied.

Financial Statements: The Company's annual financial statements as of and for the years ended December 31, 2006, 2007 and 2008 and its semi-annual financial statements as of and for the six-month periods ended June 30, 2008 and 2009 are prepared on a consolidated basis.

Indemnification of the Trustee: The Trustee is entitled under the Indenture to rely without liability to the Bondholders on any certificate prepared by the directors of the Company and accompanied by a certificate or report prepared by the auditors of the Company, whether or not addressed to the Trustee, and whether or not the same are subject to any limitation on the liability of the auditors of the Company and whether by reference to a monetary cap or otherwise limited or excluded.

Clearing Systems: The Bonds have been accepted for clearance through the facilities of Euroclear and Clearstream. Relevant trading information for the Bonds is set forth below:

Common Code	045572773
ISIN	XS0455727734

**GIGASTORAGE CORPORATION
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
WITH REPORT OF INDEPENDENT AUDITORS
FOR THE YEARS ENDED
DECEMBER 31, 2006, 2007 AND 2008**

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

REPORT OF INDEPENDENT AUDITORS

To Gigastorage Corporation

We have audited the accompanying consolidated balance sheets of Gigastorage Corporation and Subsidiaries (the “Company”) as of December 31, 2006, 2007 and 2008, the related consolidated statements of operations, changes in stockholders’ equity and cash flows for the years ended December 31, 2006, 2007 and 2008. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Global Acetech Co., Ltd. and Gigastorage Corporation USA (applied for dissolution on December 21, 2007, which was completed on December 26, 2007). The financial statements of Global Acetech Co., Ltd. and Gigastorage Corporation USA were audited by other auditors. Our opinion insofar as it relates to the Company’s total assets of approximately NT\$29,700 thousand, NT\$592,210 thousand and NT\$484,401 thousand as of December 31, 2006, 2007 and 2008, respectively, and the total revenues of approximately NT\$53,491 thousand, NT\$100,270 thousand and NT\$308,462 thousand for the years then ended is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gigastorage Corporation and Subsidiaries as of December 31, 2006, 2007 and 2008, and the results of their consolidated operations and their consolidated cash flows for the years ended December 31, 2006, 2007 and 2008, in conformity with requirements of the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

As described in Note 3 to the consolidated financial statements, effective from January 1, 2006, the Company has adopted the R.O.C. Statement of Financial Accounting Standards No. 34, “Financial Instruments: Recognition and Measurement” and No. 36, “Financial Instruments: Disclosure and Presentation”.

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As discussed in Note 7(3) and 4(12) to the consolidated financial statements, on September 14, 2007, the Board authorized the CEO of the Company to handle all royalty-related litigations arose in Taiwan, United States, Germany and Netherlands between Philips Electronics N.V. and the Company, after considering stockholders' interests and financial positions of the Company. The Company and Koninklijke Philips Electronics, N.V. first signed a memorandum on September 24, 2007, then an official settlement agreement was made on October 29, 2007. Consequently, the Company had accrued for the amount payable for the settlement as liabilities.

Ernst & Young
Taipei, Taiwan
Republic of China
March 9, 2009

Notice to Readers

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

GIGASTORAGE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2006, 2007 and 2008

(Expressed in Thousands of New Taiwan Dollars)

ASSETS	Note	As of December 31,			
		2006	2007	2008	2008
		NT\$	NT\$	NT\$	US\$
CURRENT ASSETS :					
Cash and cash equivalents	2, 4(1)	\$558,497	\$305,963	\$147,278	\$4,463
Financial assets at fair value through profit or loss - current	2, 4(2)	10,356	30,773	-	-
Notes receivable, net	2, 4(3)	7,604	10,053	1,904	58
Accounts receivable, net	2, 4(3)	574,423	419,508	487,640	14,777
Accounts receivable - related parties, net	2, 5	1,810	272	-	-
Other receivables		11,029	15,610	10,271	311
Inventories, net	2, 4(4)	194,666	159,675	232,752	7,053
Deferred income tax assets - current	2, 4(21)	34,506	55,061	46,266	1,402
Restricted banking accounts - current	6	11,940	9,068	23,761	720
Prepayments and other current assets	2, 4(24)	30,853	51,283	50,500	1,530
Total current assets		<u>1,435,684</u>	<u>1,057,266</u>	<u>1,000,372</u>	<u>30,314</u>
FUNDS AND INVESTMENTS:					
Available-for-sale financial assets - noncurrent	2, 4(5)	22,238	21,549	2,536	77
Financial assets carried at cost - noncurrent	2, 4(6), 6	361,225	358,814	319,476	9,681
Prepayment for long-term investments		<u>45,029</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total funds and investments		<u>428,492</u>	<u>380,363</u>	<u>322,012</u>	<u>9,758</u>
PROPERTY, PLANT AND EQUIPMENT :					
	2, 4(7), 4(24), 6				
Land		220,218	227,479	205,318	6,222
Buildings		870,253	875,602	787,670	23,869
Machinery and equipment		4,184,053	2,870,035	2,934,052	88,911
Research and development equipment		276,358	146,927	155,928	4,725
Transportation equipment		6,152	3,903	2,054	62
Furniture and fixtures		23,028	27,856	25,067	759
Miscellaneous equipment		<u>17,935</u>	<u>97,656</u>	<u>13,758</u>	<u>417</u>
Total cost		5,597,997	4,249,458	4,123,847	124,965
Less: Accumulated depreciation		(3,090,369)	(1,822,668)	(2,061,867)	(62,481)
Less: Accumulated impairment loss		(80,075)	(41,423)	(35,423)	(1,074)
Add: Prepayments on construction in progress		-	-	4,879	148
Add: Prepayments on equipment		<u>3,649</u>	<u>33,567</u>	<u>2,591</u>	<u>79</u>
Property, plant and equipment, net		<u>2,431,202</u>	<u>2,418,934</u>	<u>2,034,027</u>	<u>61,637</u>
INTANGIBLE ASSETS :					
Deferred pension cost	2, 4(13)	<u>733</u>	<u>733</u>	<u>1,480</u>	<u>45</u>
OTHER ASSETS :					
Idle assets, net	2, 4(7), 4(24), 6	-	42,398	-	-
Refundable deposits		6,106	4,614	128	4
Deferred assets	2, 4(24)	107,084	76,051	60,156	1,823
Deferred income tax assets - noncurrent	2, 4(21)	182,723	155,234	146,367	4,435
Restricted banking accounts - noncurrent	6	<u>11,000</u>	<u>11,000</u>	<u>8,349</u>	<u>253</u>
Total other assets		<u>306,913</u>	<u>289,297</u>	<u>215,000</u>	<u>6,515</u>
TOTAL ASSETS		<u><u>\$4,603,024</u></u>	<u><u>\$4,146,593</u></u>	<u><u>\$3,572,891</u></u>	<u><u>\$108,269</u></u>

The accompanying notes are an integral part of the consolidated financial statements.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

GIGASTORAGE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

December 31, 2006, 2007 and 2008

(Expressed in Thousands of New Taiwan Dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY	Note	As of December 31,			
		2006	2007	2008	2008
		NT\$	NT\$	NT\$	US\$
CURRENT LIABILITIES :					
Short-term loans	4(9), 6	\$100,000	\$191,389	\$319,181	\$9,672
Notes payable		17,414	5,470	12,215	370
Accounts payable		123,181	166,049	107,887	3,269
Accounts payable - related parties	5	2,001	664	39,168	1,187
Income tax payable	2	-	-	1,559	47
Accrued expenses	3, 10	139,496	136,778	79,349	2,404
Payable on equipment		3,502	16,576	7,709	234
Revenues in advance and other current liabilities		13,448	27,313	26,288	797
Current portion of long-term loans	4(10), 6	209,821	527,299	143,605	4,352
Current portion of other long-term payable	4(12), 7	-	78,953	179,842	5,450
Total current liabilities		608,863	1,150,491	916,803	27,782
LONG-TERM DEBTS :					
Financial liabilities at fair value through profit or loss - noncurrent	2, 4(11)	-	-	5,471	166
Bonds payable	2, 4(11)	-	-	87,853	2,662
Long-term loans	4(10), 6	807,734	391,657	272,034	8,243
Other long-term payable	4(12), 7	-	639,136	497,220	15,067
Total long-term liabilities		807,734	1,030,793	862,578	26,138
OTHER LIABILITIES :					
Accrued pension liabilities	2, 4(13)	8,071	8,208	9,276	281
Deposits-in		324	324	720	22
Total other liabilities		8,395	8,532	9,996	303
TOTAL LIABILITIES		1,424,992	2,189,816	1,789,377	54,223
STOCKHOLDERS' EQUITY :					
Capital :	4(14)				
Common stock		2,943,204	2,948,904	2,948,904	89,361
Capital reserve	4(14), 4(15)				
Additional paid-in capital		671,132	314,297	-	-
Long-term investments		16,076	16,076	16,076	487
Equity components of convertible bonds		-	-	5,217	158
Retained earnings :					
Accumulated deficits	4(18), 4(21)	(360,312)	(1,340,227)	(1,182,723)	(35,840)
Other items in stockholders' equity :					
Cumulative translation adjustment	2	(7,315)	27,343	7,176	217
Unrealized loss on financial instruments	2, 4(5)	(63,298)	(9,776)	(11,301)	(342)
Treasury stock	2, 4(19)	(21,605)	-	-	-
TOTAL EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF THE PARENT COMPANY		3,177,882	1,956,617	1,783,349	54,041
MINORITY INTERESTS		150	160	165	5
TOTAL STOCKHOLDERS' EQUITY		3,178,032	1,956,777	1,783,514	54,046
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		\$4,603,024	\$4,146,593	\$3,572,891	\$108,269

The accompanying notes are an integral part of the consolidated financial statements.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

GIGASTORAGE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

For The Years Ended December 31, 2006, 2007 and 2008

(Expressed in Thousands of New Taiwan Dollars Except Earnings Per Share Information)

	Note	For the Year Ended December 31,			
		2006	2007	2008	2008
		NT\$	NT\$	NT\$	US\$
OPERATING REVENUES		\$2,303,770	\$1,849,821	\$1,956,059	\$59,275
Less: Sales returns and discounts		(51,193)	(29,760)	(33,647)	(1,020)
Net operating revenues	2, 4(22), 5	2,252,577	1,820,061	1,922,412	58,255
OPERATING COSTS	4(23), 5	(2,248,559)	(1,753,303)	(1,701,531)	(51,562)
GROSS PROFIT		4,018	66,758	220,881	6,693
OPERATING EXPENSE	4(23), 5,7				
Sales and marketing expenses		(180,768)	(159,743)	(85,674)	(2,596)
General and administrative expenses		(132,611)	(1,061,962)	(114,508)	(3,470)
Research and development expenses		(71,521)	(85,342)	(61,676)	(1,869)
Total operating expenses		(384,900)	(1,307,047)	(261,858)	(7,935)
OPERATING LOSS		(380,882)	(1,240,289)	(40,977)	(1,242)
NON-OPERATING INCOME					
Interest income		5,842	4,647	1,720	52
Gain on disposal of property, plant and equipment	2	-	19,230	2,372	72
Gain on disposal of investments	2, 4(5)	-	876	-	-
Gain on foreign currency exchange	2	188	2,187	5,217	158
Gain on reversal of allowance for bad debts	2	-	-	279	9
Recovery on decline in market value and obsolescence of inventories	2, 4(4)	37,355	-	-	-
Gain on valuation of financial assets	2, 4(11)	7,881	-	-	-
Other income		15,206	16,634	34,806	1,055
Total non-operating income		66,472	43,574	44,394	1,346
NON-OPERATING EXPENSES					
Interest expenses	2	(40,087)	(45,112)	(67,760)	(2,053)
Other investment loss	2, 4(6)	-	(3,461)	(8,806)	(267)
Loss on disposal of property, plant and equipment	2	-	(7,874)	-	-
Loss on disposal of investments	2, 4(5)	-	-	(5,273)	(160)
Loss on decline in market value and obsolescence of inventories	2, 4(4)	-	(1,447)	(2,750)	(83)
Impairment loss	2, 4(5), 4(6), 4(24)	-	(65,211)	(30,000)	(909)
Loss on valuation of financial assets	2, 4(2)	(1,327)	(1,909)	(8,533)	(259)
Loss on valuation of financial liabilities	2, 4(11)	-	-	(445)	(13)
Others expenses	4(23)	(7,427)	(11,513)	(17,441)	(529)
Total non-operating expenses		(48,841)	(136,527)	(141,008)	(4,273)
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAX		(363,251)	(1,333,242)	(137,591)	(4,169)
INCOME TAX EXPENSES	2, 4(21)	12	(6,975)	(19,208)	(582)
NET LOSS FROM CONTINUING OPERATIONS		(363,239)	(1,340,217)	(156,799)	(4,751)
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES 3		2,931	-	-	-
CONSOLIDATED NET LOSS		\$(360,308)	\$(1,340,217)	\$(156,799)	\$(4,751)
ATTRIBUTABLE TO:					
Stockholders of the parent company		\$(360,312)	\$(1,340,202)	\$(156,793)	\$(4,751)
Minority interest		4	(15)	(6)	-
Consolidated net loss		\$(360,308)	\$(1,340,217)	\$(156,799)	\$(4,751)
EARNINGS (LOSS) PER SHARE AVAILABLE TO:	2, 3, 4(22)				
Net loss from continuing operations		\$(1.24)	\$(4.58)	\$(0.53)	\$(0.02)
Cumulative effect of changes in accounting principles		0.01	-	-	-
Consolidated net loss		(1.23)	(4.58)	(0.53)	(0.02)
Minority interest		-	-	-	-
Stockholders of the parent company		\$(1.23)	\$(4.58)	\$(0.53)	\$(0.02)

The accompanying notes are an integral part of the consolidated financial statements.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

GIGASTORAGE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For The Years Ended December 31, 2006, 2007 and 2008

(Expressed in Thousands of New Taiwan Dollars)

Item	Common Stock	Capital Reserve			Equity Components of Convertible Bonds	Earnings		Cumulative Translation Adjustment	Unrealized Loss on Financial Instruments	Treasury Stock	Equity Attributable to Stockholders of the Parent	Minority Interests	Total
		Additional Paid-in Capital	Long-term Investments			Accumulated Deficits							
Balance as of January 1, 2006	\$ 2,943,204	\$ 1,145,946	\$ 16,076	\$ 156,190	\$ (631,004)	\$ (7,976)	\$ (64,810)	\$ -	\$ -	\$ -	\$ 3,557,626	\$ 146	\$ 3,557,772
Offsetting accumulated deficits by APIC	-	(474,814)	-	(156,190)	631,004	-	-	-	-	-	-	-	-
Changes in unrealized loss on financial instruments	-	-	-	-	-	-	1,512	-	-	-	1,512	-	1,512
Changes in cumulative translation adjustment	-	-	-	-	-	-	661	-	-	-	661	-	661
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	(21,605)	(21,605)	-	(21,605)
Net loss attributable to stockholders of parent in 2006	-	-	-	-	-	-	-	-	-	-	(360,312)	-	(360,312)
Changes in minority interests	-	-	-	-	-	-	-	-	-	-	-	4	4
Balance as of December 31, 2006	2,943,204	671,132	16,076	-	(360,312)	(7,315)	(63,298)	(21,605)	-	-	3,177,882	150	3,178,032
Offsetting accumulated deficits by APIC	-	(360,312)	-	-	360,312	-	-	-	-	-	-	-	-
Changes in unrealized loss on financial instruments	-	-	-	-	-	-	53,522	-	-	-	53,522	-	53,522
Changes in cumulative translation adjustment	-	-	-	-	-	-	-	34,658	-	-	34,658	-	34,658
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	(11,920)	(11,920)	-	(11,920)
Sales of treasury stock	-	-	-	-	-	(25)	-	-	-	33,525	33,500	-	33,500
Exercise of employee stock options	5,700	3,477	-	-	-	(1,340,202)	-	-	-	-	9,177	-	9,177
Net loss attributable to stockholders of parent in 2007	-	-	-	-	-	-	-	-	-	-	(1,340,202)	-	(1,340,202)
Changes in minority interests	-	-	-	-	-	-	-	-	-	-	-	10	10
Balance as of December 31, 2007	2,948,904	314,297	16,076	-	(1,340,227)	27,343	(9,776)	-	-	-	1,956,617	160	1,956,777
Offsetting accumulated deficits by APIC	-	(314,297)	-	-	314,297	-	-	-	-	-	-	-	-
Changes in unrealized loss on financial instruments	-	-	-	-	-	-	(1,525)	-	-	-	(1,525)	-	(1,525)
Changes in cumulative translation adjustment	-	-	-	-	-	-	(20,167)	-	-	-	(20,167)	-	(20,167)
Equity components of convertible bonds	-	-	-	5,217	-	-	-	-	-	-	5,217	-	5,217
Net loss attributable to stockholders of parent in 2008	-	-	-	-	-	-	-	-	-	-	(156,793)	-	(156,793)
Changes in minority interests	-	-	-	-	-	-	-	-	-	-	-	5	5
Balance as of December 31, 2008	2,948,904	-	16,076	5,217	(1,182,723)	7,176	(11,301)	-	-	-	1,783,349	165	1,783,514
Balance as of December 31, 2008 (in US\$)	89,361	-	487	158	(35,840)	217	(342)	-	-	-	54,041	5	54,046

The accompanying notes are an integral part of the consolidated financial statements.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

GIGASTORAGE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For The Years Ended December 31, 2006, 2007 and 2008

(Expressed in Thousands of New Taiwan Dollars)

	For the Year Ended December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
CASH FLOWS FROM OPERATING ACTIVITIES:				
Consolidated net loss	\$(360,308)	\$(1,340,217)	\$(156,799)	\$(4,751)
Adjustments to reconcile consolidated net loss to net cash provided by operating activities:				
Cumulative effect of changes in accounting principles	(2,931)	-	-	-
Depreciation	457,628	361,827	300,904	9,118
Amortization	79,093	60,365	44,933	1,362
(Recovery) loss on decline in market value and obsolescence of inventories	(37,355)	1,447	2,750	83
Changes on deferred income tax assets and liabilities	33	6,934	17,662	535
Other investment loss	-	3,461	8,806	267
Loss (gain) on disposal of property, plant and equipment, net	299	(11,354)	(2,464)	(75)
Gain on disposal of deferred assets	(241)	-	-	-
(Gain) loss on disposal of investments	-	(876)	5,273	160
Impairment loss	-	65,211	30,000	909
Amortization of discount on bonds payable	-	-	1,096	33
(Gain) loss on valuation of financial assets	(7,881)	-	445	13
Loss on redemption of convertible bonds	1,758	-	-	-
Decrease (increase) in financial assets at fair value through profit or loss	93,799	(19,541)	30,773	933
(Increase) decrease in notes and accounts receivable	(68,642)	152,466	(59,983)	(1,818)
Decrease in accounts receivable - related parties	2,432	1,538	272	8
Decrease (increase) in inventories	299,035	33,544	(75,827)	(2,298)
(Increase) decrease in prepayments and other current assets	(1,151)	(20,430)	783	24
(Increase) decrease in other receivable	(5,856)	(4,581)	5,339	162
Foreign exchange rate adjustment in reserve for redemption of bonds payable	(5,593)	-	-	-
Foreign exchange rate adjustment in bonds payable	(4,973)	-	-	-
(Decrease) increase in notes and accounts payable	(18,101)	30,924	(51,417)	(1,558)
(Decrease) increase in accounts payable - related parties	(403)	(1,337)	38,504	1,167
(Decrease) increase in income tax payable	(85)	-	1,559	47
Increase (decrease) in accrued expenses	8,798	(2,718)	(57,429)	(1,740)
Increase (decrease) in revenues in advance and other current liabilities	4,624	13,865	(1,025)	(31)
(Decrease) increase in accrued pension liabilities	(194)	137	321	10
Increase (decrease) in other long-term payable	-	718,089	(41,027)	(1,243)
Net cash provided by operating activities	433,785	48,754	43,449	1,317
CASH FLOWS FROM INVESTING ACTIVITIES :				
Decrease (increase) in restricted banking accounts	10,681	2,872	(12,042)	(365)
Increase in long-term investments accounted for using the equity method	-	45,029	-	-
Increase in financial assets measured at cost	-	(6,000)	-	-
Proceeds from disposal of available-for-sale financial assets	9,097	-	12,747	386
Increase in prepayment for long-term investment	(45,029)	-	-	-
Acquisition of property, plant and equipment	(57,209)	(395,581)	(60,929)	(1,846)
Proceeds from disposal of financial assets measured at cost	-	4,950	-	-
Proceeds from disposal of property, plant and equipment	27	17,052	117,181	3,551
Increase in deferred assets	(35,940)	(29,332)	(29,038)	(880)
Proceeds from disposal of deferred assets	400	-	-	-
Decrease in refundable deposits	(3,660)	1,492	4,486	136
Net cash (used in) provided by investing activities	(121,633)	(359,518)	32,405	982

(Continued)

English Translation of Consolidated Financial Statements Originally Issued in Chinese

GIGASTORAGE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

For The Years Ended December 31, 2006, 2007 and 2008

(Expressed in Thousands of New Taiwan Dollars)

	For the Year Ended December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
CASH FLOWS FROM FINANCING ACTIVITIES :				
Increase in short-term loans	\$100,000	\$91,389	\$127,792	\$3,873
Redemption of 1st foreign convertible bonds	(78,924)	-	-	-
Redemption of 2nd foreign convertible bonds	(288,951)	-	-	-
Decrease in long-term loans	(288,557)	(98,599)	(503,317)	(15,252)
Increase in bonds payable	-	-	97,000	2,939
Increase in deposits-in	324	-	396	12
Cash received from employees' stock options exercised	-	9,177	-	-
Sales of treasury stock	-	33,500	-	-
Purchase of treasury stock	(21,605)	(11,920)	-	-
Increase in minority interests	-	25	11	-
Net cash (used in) provided by financing activities	(577,713)	23,572	(278,118)	(8,428)
EFFECT OF CHANGES IN EXCHANGE RATES	661	34,658	43,579	1,320
NET DECREASE IN CASH AND CASH EQUIVALENT	(264,900)	(252,534)	(158,685)	(4,809)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	823,397	558,497	305,963	9,272
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$558,497	\$305,963	\$147,278	\$4,463
 SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION :				
Income tax paid	\$97	\$15	\$-	\$-
Interest expenses paid	\$41,126	\$42,319	\$67,054	\$2,032
 Investing activities partially affecting cash flows :				
Acquisition of property, plant and equipment	\$54,177	\$408,655	\$52,062	\$1,578
Add: payables on equipment at the beginning of period	\$6,534	3,502	16,576	502
Less: payables on equipment at end of period	(3,502)	(16,576)	(7,709)	(234)
Cash paid for acquiring property, plant and equipment	\$57,209	\$395,581	\$60,929	\$1,846
 INVESTING AND FINANCING ACTIVITIES NOT AFFECTING CASH FLOWS :				
Capital reserve used to cover accumulated deficits	\$631,004	\$360,312	\$314,297	9,524
Current portion of long-term loans	\$209,821	\$527,299	\$143,605	4,352
Current portion of other long-term payable	\$-	\$78,953	\$179,842	5,450
Cumulative translation adjustment	\$661	\$34,658	\$(20,167)	(611)
Change in unrealized loss on financial instruments	\$1,512	\$53,522	\$(1,525)	(46)
Reclassified fixed assets to idle assets	\$-	\$42,398	\$-	-

The accompanying notes are an integral part of the consolidated financial statements.

GIGASTORAGE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2006, 2007 and 2008

(Expressed in Thousands of New Taiwan Dollars unless Otherwise Stated)

1. HISTORY AND ORGANIZATION

Gigastorage Corporation was incorporated under the Company Law in the Republic of China (the “R.O.C.”) on March 26, 1997 and commenced operation on December 1, 1997. Gigastorage Corporation is mainly engaged in the business of researching, manufacturing, and selling of read-only, write-able, and erasable optical disks; consulting services on the related technology; import and export of production equipments, spare parts, raw materials, semi-finished goods, and finished goods; bidding and agency services for foreign and local products; and manufacturing of information storage and handling equipment.

Gigastorage Corporation’s stocks became publicly listed on the Taiwan Stock Exchange (“TWSE”) on April 29, 2000 which was permitted by SFC on January 19, 2000.

Gigastorage Corporation set September 30, 2008 as its spin-off effective date and divided the Solar Material Chemical Department to the Company’s subsidiary - Giga Solar Materials Corporation (previously Medwell Technology Corporation).

As of December 31, 2006, 2007 and 2008, Gigastorage Corporation and the consolidated entities had 514, 587 and 552 employees in total, respectively. (Gigastorage and the consolidated entities are hereinafter referred to as “the Company” or “Gigastorage”).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Guidelines Governing the Preparation of Financial Report by Securities Issuers and accounting principles generally accepted in the Republic of China. Summary of significant accounting policies is as follows:

General Descriptions of the Consolidated Entities

Investees in which Gigastorage, directly or indirectly holds more than 50% of voting common stocks or less than 50% of voting common stocks but has substantial control, are accounted for under equity method and consolidated in the Company’s consolidated financial statements. Consolidated subsidiaries are summarized as below:

Name of Investor	Name of Investee	Business Nature	Percentage of Ownership (%)		
			As of December 31,		
			2006	2007	2008
Gigastorage	Gigastorage Corporation USA (Note 1)	Selling of CD-R and CD-RW products	100.00	-	-
Gigastorage	CUSTER INC.	Selling of CD-R and CD-RW products	100.00	100.00	100.00
Gigastorage	NEW ELITE INVESTMENTS LIMITED	Investment holding	100.00	100.00	100.00
Gigastorage	Quo-Chao Investments Corporation	Investment holding	99.99	99.99	99.99
Gigastorage	Maxmax Group Corporation	Selling of CD-R and CD-RW products	99.45	99.45	99.45
Gigastorage	GLOBAL ACETECH CO., LTD.	Selling of CD-R and CD-RW products	99.99	99.99	99.99
Gigastorage	Giga Solar Materials Corporation (Note 2)	Precise chemicals and industrial plastics	-	-	100.00
CUSTER INC.	BARNWELL	Selling of CD-R and CD-RW products	100.00	100.00	100.00
NEW ELITE INVESTMENTS LIMITED	Shenzhen Gigastorage Co., Ltd. (Note 3)	Other professional design service and management service	100.00	-	100.00
Quo-Chao Investments Corporation	Giga Solar Materials Corporation (Note 2)	Precise chemicals and industrial plastics	100.00	100.00	-

Note 1: Gigastorage Corporation USA applied for dissolution on December 21, 2007. The dissolution process was completed on December 26, 2007.

Note 2: Gigastorage acquired 100 thousand shares of common stock of Giga Solar Materials Corporation from the subsidiary, Quo-Chao Investments Corporation, on August 21, 2008. After the transaction, Gigastorage holds 100% voting rights of Giga Solar Materials Corporation.

Note 3: Shenzhen Gigastorage Co., Ltd. applied for dissolution on October 23, 2007 and went into liquidation. Except for the revenues and expenses up until the liquidation date, the results of Shenzhen Gigastorage Co., Ltd. were not consolidated in the Company's consolidated financial statements for the year 2007. However, Shenzhen Gigastorage Co., Ltd. subsequently applied to cancel the liquidation on May 22, 2008 and its revenues and expenses since then have been included in the consolidated financial statements.

All subsidiaries of Gigastorage have been included as consolidated entities in the consolidated financial statements.

Convenience Translation into US Dollars

Translations of amounts from New Taiwan dollars (“NT dollars” or “NT\$”) into United States dollars (“US dollars” or “US\$”) for the reader’s convenience were calculated at the rate of US\$1.00 to NT\$33. No representation is made that the NT\$ amounts could have been, or could be, converted into United States dollars at such rate.

Principles of Consolidation

- (1) The consolidated financial statements were prepared in accordance with R.O.C. Statement of Financial Accounting Standard (SFAS) No. 7. The transactions between the consolidated entities were appropriately eliminated in the consolidated financial statements.
- (2) Investees in which the Company holds more than 50% of voting rights, including those that are currently exercisable or convertible, are accounted for under the equity method and shall be consolidated. An entity shall also be consolidated when the Company has:
 - A. Power over more than half of the voting rights of the investee by virtue of an agreement with other investors;
 - B. As permitted by law, or by contractual agreements, the power to govern the financial, operating and personnel policies of the investee;
 - C. Authority to appoint or discharge more than half members of board of directors (or equivalent governing body), by whom the investee is controlled;
 - D. The Company leads and controls more than half of the members of the board of directors (or equivalents), and control of the investee is by that board or body;
 - E. Power to control over the investee due to other reasons.
- (3) If the acquisition cost is greater or less than the proportionate book value of the investee, it is accounted for in accordance with the R.O.C. SFAS No. 25 “Business Combinations - Accounting Treatment under the Purchased Method”. Effective from January 1, 2006, pursuant to the newly revised R.O.C. SFAS No. 25, investment premiums, representing goodwill, is no longer amortized, and is assessed for impairment at least on an annual basis; while investment discounts continue to be amortized over the remaining period. In some cases, the fair value will exceed the investment cost. That excess, if generated after December 31, 2005, shall be allocated as a pro rata reduction of the amounts that otherwise would have been assigned to all of the acquired non-current assets. If any excess remains after reducing to zero the amounts that otherwise would have been assigned to those assets, that remaining excess shall be recognized as an extraordinary gain.

Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, and so near their maturity that they present insignificant risk of changes in value from fluctuations in interest rates. Commercial papers, negotiable certificates of deposit, and bank acceptances with original maturities of three months or less from the date of investment are considered cash equivalents.

Foreign Currency Transactions and Translation of Financial Statements in Foreign Currency

- (1) Gigastorage maintains its accounting records in New Taiwan dollars ("NT Dollars" or "NT\$"). Transactions denominated in foreign currencies are recorded in NT Dollars using the exchange rates in effect at the dates of the transactions. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Exchange differences arising from the settlements of the monetary assets and liabilities, and on the translation of monetary assets and liabilities are included in earnings for the period. Exchange differences arising from the translation of non-monetary assets and liabilities carried at fair value are included in earnings for the period except for differences arising from the translation of non-monetary assets and liabilities of which gains and losses are recognized directly in equity. For such non-monetary assets and liabilities, any exchange component of that gain or loss is recognized directly in equity. Non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction. Foreign exchange gains and losses are included in the statements of operations.
- (2) The assets and liabilities of the foreign subsidiaries are translated into NT Dollars, with the local currency of each foreign subsidiary as its functional currency, at the exchange rates in effect at the balance sheet date. Stockholders' equity accounts should be translated at the historical rates except for the beginning balance of the retained earnings, which is carried by the translated amount of the last period. Dividends are translated at the spot rate of the declared date. Revenue and expense accounts are translated using a weighted average exchange rate for the relevant period. Translation gains and losses are included as a component of stockholders' equity. The accumulated exchange gains or losses resulting from the translation are recorded as cumulative translation adjustments under stockholders' equity.

Financial Assets and Financial Liabilities

- (1) Financial asset or liability is recognized on the balance sheet when the Company becomes a party to the contractual provisions of the financial instrument contract. A regular way purchase or sale of financial assets are recognized using either trade date accounting on equity instruments or settlement date accounting on debt securities, beneficiary certificates and derivatives.
- (2) Upon initial recognition, financial assets or financial liabilities are measured at fair value, plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability.
- (3) Financial assets or financial liabilities are classified as follows:
 - A. Financial assets or financial liabilities at fair value through profit or loss

Financial assets or financial liabilities at fair value through profit or loss include financial assets or liabilities held for trading and financial assets and liabilities designated upon initial recognition as at fair value through profit or loss. Such assets or liabilities are subsequently measured at fair value and changes in fair value are recognized in profit or loss.

B. Financial assets carried at cost

These are not measured at fair value because their fair value cannot be reliably measured, they are either holdings in unquoted equity instruments or emerging stocks which the Company does not have significant influence over or derivative assets that are linked to and must be settled by delivery of the abovementioned unquoted equity instruments. When objective evidence of impairment of such unquoted equity instrument exists, an impairment loss is recognized. Such impairment loss shall not be reversed in subsequent periods.

C. Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets or loans and receivables. When available-for-sale financial assets are subsequently measured at fair value, the changes in fair value are recognized as a separate component of stockholders' equity. The accumulated gains or losses previously charged to stockholders' equity are recognized in profit or loss when the financial asset is derecognized from the balance sheet.

If there is objective evidence which indicates that such financial asset is impaired, an impairment loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognized impairment loss for equity securities is reversed to the extent of the decrease and recorded as an adjustment to stockholders' equity; for debt securities, the amount of the decrease is recognized in profit or loss, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

The fair values for listed equity securities or close-ended funds are based on closing prices at the balance sheet date, while the fair values for open-ended funds on net value at the balance sheet date. When a quotation of the financial instrument as a whole from an active market does not exist, and only the quotation from an active market for the component of that financial instrument is available, then the market price of such component shall be considered to determine the fair value of the financial instruments.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided based on the aging analysis and the results of the Company's evaluation of collectability of the outstanding notes and accounts receivable.

Inventories

Inventories are recorded at cost when acquired and stated at the lower of aggregate cost, based on the weighted average method, or market value at the balance sheet date. The market values of raw materials are determined on the basis of replacement cost while work in process and finished goods are determined on net realizable value. The allowance for decline in market value and obsolescence of inventories is provided when necessary.

Property, Plant and Equipment

(1) Property, plant and equipment are stated at cost. Significant improvements and replacements are capitalized

and depreciated over their estimated useful lives while repairs and maintenance are expensed as incurred. Interest incurred on loans used to finance the construction of property, plant and equipment is capitalized and depreciated accordingly. When property, plant and equipment are disposed of, their original cost, accumulated depreciation and accumulated impairment are written off and related gains or losses are included as non-operating income or expenses.

- (2) Depreciation is provided by using the straight-line method over the following estimated useful lives. If the property, plant and equipment are still in use beyond their original estimated useful lives, the original residual value is further depreciated over their newly estimated useful lives.

Buildings	9 - 55 Years
Machinery and equipment	2 – 10 Years
Research and development equipment	3 - 10 Years
Transportation equipment	5 Years
Furniture and fixtures	3 - 5 Years
Miscellaneous equipment	5 Years

Deferred Assets

Deferred assets, including molds, spare parts and tools are amortized using the straight-line method over 3 to 5 years.

Capital Expenditures vs. Operating Expenditure

If the expenditure increases the future service potential of the plant assets and the purchase price exceeds a certain monetary threshold, then the expenditure is capitalized, while other expenditure not meeting the aforementioned criteria are expensed as incurred.

Revenue Recognition

The Company recognized revenue when the following conditions are met:

- (1) When persuasive evidence of an arrangement exists;
- (2) The product or service has been delivered;
- (3) The seller's price to the buyer is fixed or determinable and
- (4) Collectability is reasonably assured.

Convertible Bonds

- A. The cost of issuing convertible bonds is recorded under liability or equity component in proportion to the original cost spent on each component.
- B. Convertible bonds are evaluated to determine whether it contains both a liability and an equity component. The fair value of the liability component is measured first, at the fair value of a similar liability that does not have an associated equity conversion feature, and the fair value of the equity component is determined

as a residual.

C. The liability component is subsequently measured at amortized cost and embedded derivative instrument is measured at fair value, while the equity component will not be re-measured after initial recognition.

D. Conversion of convertible bonds is accounted for using the face value method. Under this method, the carrying amount of convertible bonds is transferred to common stock and capital reserve accounts. No conversion gain or loss can be recognized.

Pension

- (1) According to the R.O.C. Labor Standards Law (“LSL”), Gigastorage and the subsidiaries, Maxmax Group Corporation and Giga Solar Materials Corporation, have their respectively defined benefit plans and have been making monthly contributions based on a fixed percent of their employees’ monthly wages. All regular employees are entitled to defined benefit pension plans that are managed by their respective independently administered pension fund committees. Fund assets are deposited under their respective committees’ names and hence, not associated with the Company. Therefore, fund assets are not to be consolidated in the Company’s financial statements.
- (2) The R.O.C. Labor Pension Act (“LPA”), which adopts a defined contribution plan, became effective on July 1, 2005. Employees eligible for the LSL, a defined benefit plan, were allowed to elect to either the pension calculation under the LPA or continue to be subject to the pension calculation under the LSL. Those employees that elected to be subject to LPA will have their seniority achieved under the LSL retained upon election of LPA, and domestic companies will make monthly contributions of no less than 6% of these employees’ monthly wages to the employees’ individual pension accounts.
- (3) The accounting for the Company’s pension liability is computed in accordance with R.O.C. SFAS No.18, “Accounting for Pension”. Net pension costs of the defined benefit plan are recorded based on an independent actuarial valuation. The unrecognized net transition obligation is amortized on the straight-line basis over the employees’ average remaining service period or 15 years. The Company recognizes expenses from the defined contribution pension plan in the period in which the contribution becomes due.
- (4) Foreign subsidiaries which have defined contribution pension plans make monthly contributions to pension funds in accordance with the relevant local law and regulations. The monthly contribution is recorded as an expense in the month in which the contribution becomes due.

Income Tax

- (1) The Company adopted an inter-period and intra-period income tax allocation method to recognize income tax. Tax effects on taxable temporary differences are recognized as deferred tax liabilities. Tax effects on deductible temporary differences, operating loss carryforward and investment tax credits are recognized as deferred tax assets. Valuation allowance is provided based on the expected realizability of the deferred tax

assets. A deferred tax asset or liability should be classified as current or non-current according to the classification of its related asset or liability. However, if a deferred tax asset or liability is not directly related to an asset or a liability, then the classification is based on the expected realization date of such deferred income tax asset or liability.

- (2) According to R.O.C. SFAS No.12 “Accounting for Income Tax Credits”, the Company recognizes the tax credits arising from purchases of machinery, equipment and technology, research and development expenditures, employee training, and certain equity investments in the period when such purchases, expenditures, training or investments occur.
- (3) Undistributed earnings generated after 1997 are subject to a 10% additional retained earnings tax (10% additional tax) in compliance with the R.O.C. Income Tax Act. The 10% additional tax is recorded as income tax expense in the year in which stockholders have resolved that the domestic companies’ earnings shall be retained.
- (4) The R.O.C. Income Basic Tax Act (IBTA) has been effective since January 1, 2006. The IBTA is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the R.O.C. Income Tax Act is below the minimum amount prescribed under the IBTA. The impact of the IBTA has been considered in domestic companies’ income tax for the current reporting period, and in determining the realizability of deferred income tax assets.

Earnings (Loss) Per Share

Earnings (loss) per share is computed in accordance with R.O.C. SFAS No. 24 “Earnings Per Share”. The Company presents basic earnings (loss) per share and diluted earnings (loss) per share information. Basic earnings (loss) per share is computed by dividing the net income (loss) by the weighted-average number of common stock outstanding during the current reporting period. When calculating diluted earnings (loss) per share, the numerator includes or adds back potential common stock dividends, interest and other conversion revenues (expenses). The denominator includes all potentially dilutive common stock.

Employee Stock Option Plan

The Company used the intrinsic value method to recognize compensation cost for its employee stock options issued between January 1, 2004 and December 31, 2007, in accordance with R.O.C. Accounting Research and Development Foundation interpretation Nos. 92-070~072. For options granted on or after January 1, 2008, the Company recognizes compensation cost using the fair value method in accordance with R.O.C. SFAS No. 39 “Accounting for Share-Based Payment”.

Derivative Financial Instruments

The Company initially recognized derivative as either financial assets (when the fair value is positive) or financial liabilities (when the fair value is negative) and subsequently remeasured those instruments at fair value.

Derivatives that are not qualified for hedge accounting are accounted for as financial assets or liabilities held for trading with changes in fair value recognized in profit or loss.

Asset Impairment

Pursuant to R.O.C. SFAS No. 35 “Impairment of Assets”, the Company assesses indicators of impairment for all its assets (except for goodwill) within the scope of the standard at each balance sheet date. If there is indication of impairment, the Company compares the asset’s carrying amount with its recoverable amount and writes down the carrying amount to the recoverable amount where applicable. For previously recognized impairment losses, the Company assesses at each balance sheet date whether there is any indication that the impairment loss no longer exists or may have diminished. If there is any such indication, the Company recalculates the recoverable amount of the asset, and if the recoverable amount has increased as a result of the increase in the estimated service potential of the asset, the Company reverses the impairment loss so that the resulting carrying amount of the asset does not exceed the amount (net of amortization or depreciation) that would otherwise result had no impairment loss been recognized for the asset in prior years.

Treasury Stock

- (1) Treasury stock transactions are accounted for under the cost method.
- (2) When treasury stock is sold for more than its acquisition cost, the difference is credited to capital reserve-treasury stock transaction. If treasury stock is sold for less than its acquisition cost, the difference is charged to the same capital reserve account to the extent that the capital reserve account is reduced to zero. If the balance of the capital reserve is insufficient, any further reduction shall be charged to retained earnings instead.
- (3) When treasury stock is cancelled, the treasury stock account is credited and all capital account balances related to the treasury shares, including capital reserve-additional paid in capital and common stock, are debited on a pro-rata basis. Any difference, if it is in credit balance, is recorded in capital reserve-treasury stock transaction; if it is in debit balance, is charged to the same capital reserve account to the extent that the capital reserve account is reduced to zero. If the balance of the capital reserve is insufficient, any further reduction shall be charged to retained earnings instead.

Employee Bonuses and Remunerations Paid to Directors and Supervisors

In accordance with R.O.C. Accounting Research and Development Foundation interpretation No. 96-052 “Accounting for Employee Bonuses and Remunerations to Directors and Supervisors”, effective from January 1, 2008, employee bonuses and remunerations paid to directors and supervisors are charged to expense at fair value and are no longer accounted for as an appropriation of retained earnings.

3. REASONS AND EFFECTS FOR CHANGES IN ACCOUNTING POLICIES

- (1) Effective from January 1, 2006, the Company adopted R.O.C. SFAS No. 34 “Financial Instruments: Recognition and Measurement” (SFAS No.34) and No. 36 “Financial Instruments: Disclosure and

Presentation” (SFAS No.36).

The Company had appropriately classified financial assets and liabilities and remeasured them in fair value upon the initial adoption of R.O.C. SFAS No.34 and 36. The adjustments made to the carrying amounts of the financial instruments classified as financial assets or financial liabilities at fair value through profit or loss were recorded as the cumulative effect of changes in accounting policies. The adjustments made to the carrying amounts of those classified as available-for-sale financial assets were recognized as adjustments to stockholders’ equity.

The effect of adopting R.O.C. SFAS No.34 and No.36 is summarized as follows:

	Post-tax effect	
	Recognized as cumulative effect of change in accounting policies	Recognized as a separate component of stockholders’ equity
Financial assets at fair value through profit or loss - current	\$2,931	\$-
Available-for-sale financial assets - non-current	-	851
	<u>\$2,931</u>	<u>\$851</u>

The adoption of R.O.C. SFAS No.34 and No.36 increased cumulative effect of changes in accounting policies by NT\$2,931 thousand, thereby increased basic earnings per share on a consolidated basis by NT\$0.01 for the year ended December 31, 2006.

- (2) Effective from January 1, 2008, the Company adopted R.O.C. SFAS No. 39 “Accounting for Share-Based Payment” to account for share-based payments. This change in accounting policies had no effect on consolidated net loss or basic earnings per share on a consolidated basis for the year ended December 31, 2008.
- (3) Effective from January 1, 2008, the Company adopted the newly released R.O.C. Accounting Research and Development Foundation interpretation No. 96-052 to account for employees’ bonuses and remunerations paid to directors and supervisors. The adoption increased the Company’s consolidated net loss by NT\$221 thousand and had no effect on basic earnings per share on a consolidated basis for the year ended December 31, 2008.

4. CONTENTS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Cash on hand	\$347	\$182	\$509	\$16
Checking and savings account	322,150	276,781	139,769	4,235
Time deposits	236,000	29,000	<u>7,000</u>	<u>212</u>

Total	\$558,497	\$305,963	\$147,278	\$4,463
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(2) Financial assets at fair value through profit or loss - current

	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
<u>Financial assets held for trading</u>				
Listed stocks	\$-	\$40,075	\$-	\$-
Short selling of listed stocks	(25)	-	-	-
Interest rate swaps	(14)	34	-	-
Subtotal	(39)	40,109	-	-
Adjustment for change in value	176	(9,336)	-	-
Total financial assets held for trading	137	30,773	-	-
<u>Financial assets designated as at fair value through profit or loss</u>				
Corporate bonds	10,138	-	-	-
Adjustment for change in value	81	-	-	-
Total financial assets designated as at fair value through profit or loss	10,219	-	-	-
Total	\$10,356	\$30,773	\$-	\$-

The Company entered into forward contracts and interest rate swaps and options with financial institutions in 2006, 2007 and 2008. The purpose of entering into forward contracts and interest rate swaps is to hedge exchange rate fluctuation risk resulting from assets denominated in foreign currency and interest rate fluctuation risk resulting from loans. However, these derivatives do not meet the hedge accounting criteria; therefore they are not accounted for using hedge accounting. As of December 31, 2006, 2007 and 2008, outstanding contracts were as follows:

	As of December 31,							
	2006		2007		2008		2008	
	NT\$		NT\$		NT\$		US\$	
Item	Book value	Notional amount	Book value	Notional amount	Book value	Notional amount	Book value	Notional amount
Interest rate swaps	\$(50)	\$150,000	\$578	\$150,000	\$-	\$-	\$-	\$-

Upon settlements, valuation (losses) gains on forward contracts amounting to NT\$(881) thousand, NT\$(754) thousand and NT\$304 thousand were recorded for the years ended December 31, 2006, 2007 and 2008, respectively; valuation gains on options were NT\$1,426 thousand, NT\$0 thousand and NT\$0 thousand for the years ended December 31, 2006, 2007 and 2008, respectively; valuation (losses) gains on interest rate swaps were NT\$(482) thousand, NT\$859 thousand and NT\$448 thousand for the years ended December 31, 2006, 2007 and 2008, respectively. Please refer to Note 10 to the financial statements for the disclosures of relative risks information for financial assets and liabilities at fair value through profit or loss.

(3) Notes receivable and accounts receivable, net

	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Notes receivable	\$7,604	\$10,053	\$1,904	\$58
Less: Allowance for doubtful accounts	-	-	-	-
Net	<u>\$7,604</u>	<u>\$10,053</u>	<u>\$1,904</u>	<u>\$58</u>

	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Accounts receivable	\$748,689	\$624,629	\$602,352	\$18,253
Less: Allowance for doubtful accounts	(166,599)	(204,774)	(114,612)	(3,473)
Less: Allowance for sales returns and discounts	(7,667)	(347)	(100)	(3)
Net	<u>\$574,423</u>	<u>\$419,508</u>	<u>\$487,640</u>	<u>\$14,777</u>

(4) Inventories, net

	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Raw materials	\$74,170	\$105,364	\$120,692	\$3,658
Work in process	93,798	60,415	81,083	2,457
Finished goods	62,826	37,613	53,071	1,608
Raw materials in transit	7,610	1,468	25,841	783
Total	238,404	204,860	280,687	8,506
Less: Allowance for decline in market value and obsolescence	(43,738)	(45,185)	(47,935)	(1,453)
Net	<u>\$194,666</u>	<u>\$159,675</u>	<u>\$232,752</u>	<u>\$7,053</u>

(5) Available-for-sale financial assets - non-current

	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Listed stocks				
Lead Data Inc.	\$17,779	\$13,328	\$13,328	\$404

International Branding Marketing Inc.	-	-	511	15
Ritek Corporation	67,759	17,999	-	-
Subtotal	85,538	31,327	13,839	419
Adjustment for changes in fair value	(63,300)	(9,778)	(11,303)	(342)
Total	\$22,238	\$21,549	\$2,536	\$77

The Company recognized an impairment loss of NT\$54,211 thousand to its available-for-sale investment - Ritek Corporation under non-operating expenses in 2007. In addition, above mentioned available-for-sale investment was fully disposed in 2008 with loss on disposal in the amount of NT\$5,228 thousand.

(6) Financial assets carried at cost - non-current

	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Unlisted stocks – common stock				
Taimide Technology Inc.	\$200,817	\$200,817	\$200,796	\$6,085
New Land Packing Corporation (Note)	55,910	55,910	55,910	1,694
Prorit Corporation	47,307	47,307	37,307	1,131
Makin Technology Corporation	28,531	34,531	14,531	440
Infomax Optical Technology Corporation	14,560	14,560	7,287	221
Prosperity Venture Capital Corporation	8,100	3,645	3,645	110
Subtotal	355,225	356,770	319,476	9,681
Listed stock through private placement				
International Branding Marketing Inc.	6,000	2,044	-	-
Total	\$361,225	\$358,814	\$319,476	\$9,681

Note: New Land Transportation Co., Ltd. changed its name into New Land Packing Corporation.

- ① In August 2005, the Company invested NT\$6,000 thousand for 600,000 shares through private placement in International Branding Marketing Inc., representing 2.17% of ownership interest. Pursuant to the R.O.C. Securities and Exchange Act, such shares through private placement should not be transferred within three years since the date of acquisition. In 2008, such investments were reclassified to available-for-sale financial assets - non-current from financial assets carried at cost - non-current.

International Branding Marketing Inc. carried out a capital reduction to offset its accumulated deficits in March 2007, which represented approximately 65.94% of its outstanding shares. The Company recognized an investment loss of NT\$3,956 thousand classified under non-operating expense - other investment loss in 2007.

International Branding Marketing Inc. carried out a capital reduction to offset its accumulated deficits in September 2008, which represented approximately 75% of its outstanding shares. The Company

recognized an investment loss of NT\$1,533 thousand classified under non-operating expense - other investment loss in 2008.

- ② The Company sold its shares of ID Interactive Co., Ltd. at price of NT\$9,062 thousand with a loss of NT\$9,583 thousand classified under non-operating expense - loss on disposal of investments in 2006.
- ③ As resolved during the stockholders' meeting in May 2007, Prosperity Venture Capital Corporation carried out a capital reduction of 55% of its original capital stock issued. The Company received capital return of NT\$4,950 thousand and recognized a gain on disposal of investment of NT\$495 thousand under non-operating expense - other investment loss in 2007.
- ④ Infomax Optical Technology Corporation carried out a capital reduction to offset its accumulated deficits in April 2008, which represented approximately 49.95% of its outstanding shares. The Company recognized an investment loss of NT\$7,273 thousand classified under non-operating expense - other investment loss in 2008.
- ⑤ In 2008, the Company determined its financial assets carried at cost - Prorit Corporation and Makin Technology Corporation were impaired and recognized an impairment loss of NT\$10,000 thousand and NT\$20,000 thousand, respectively.

(7) Property, plant and equipment

- ① No interest was capitalized for the years ended December 31, 2006, 2007 and 2008, respectively.
- ② The Company reclassified some fixed assets to idle assets in December 2007. The details were as follows:

Items	As of December 31, 2007			
	Cost	Accumulated Depreciation	Accumulated Impairment	Net
	NT\$	NT\$	NT\$	NT\$
Land	\$12,929	\$-	\$-	\$12,929
Buildings	57,323	(24,236)	(4,000)	29,087
Machinery and equipment	37,021	(35,639)	(1,000)	382
Total	\$107,273	\$(59,875)	\$(5,000)	\$42,398

- ③ All idle assets had been disposed as of December 31, 2008.
- ④ Refer to Note 4(24) of consolidated financial statements for impairment on property, plant, equipment and idle assets.

- ⑤ Refer to Note 6 of consolidated financial statements for property, plant, equipment and idle assets pledged as collateral.

(8) Over due accounts receivable, net

	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Over due accounts receivable	\$57,032	\$57,854	\$57,907	\$1,755
Less: allowance for doubtful accounts	(57,032)	(57,854)	(57,907)	(1,755)
Net	\$-	\$-	\$-	\$-

(9) Short-term bank loans

Items	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Unsecured loans	\$100,000	\$170,000	\$282,167	\$8,550
Secured loans	-	21,389	37,014	1,122
Total	\$100,000	\$191,389	\$319,181	\$9,672

- ① The Company's unused short-term loans of credits amounted to NT\$183,688 thousand, NT\$65,056 thousand and NT\$83,386 thousand as of December 31, 2006, 2007 and 2008, respectively.

- ② The short-term loans interest rates ranged from 2.00%~2.10%, 2.65%~6.25% and 1.54%~10.444% as of December 31, 2006, 2007 and 2008, respectively.

- ③ Refer to Note 6 to consolidated financial statements for assets pledged as collaterals.

(10) Long-term loans

Lender	Nature	Maturity day	As of December 31,				Redemption method
			2006	2007	2008	2008	
			NT\$	NT\$	NT\$	US\$	
Land Bank	Secured	Jun. 5, 2012	\$122,220	\$99,997	\$77,774	\$2,357	Repayable monthly from Jul. 5, 2003 in 108 installments with interest paid monthly

Land Bank	Secured	Dec. 31, 2008	6,000	2,880	-	-	Repayable monthly from Jan. 2004 in 60 installments with interest paid monthly
Land Bank	Secured	Dec. 31, 2008	16,550	7,944	-	-	Repayable monthly from Jan. 2005 in 48 installments with interest paid monthly
Land Bank	Secured	Dec. 31, 2008	18,989	9,114	-	-	Repayable monthly from Feb. 28, 2005 in 47 installments with interest paid monthly
Land Bank	Secured	Sep. 7, 2012	-	24,756	19,451	590	Repayable monthly from Nov. 5, 2007 in 59 installments with interest paid monthly
Land Bank	Secured	Sep. 7, 2012	-	-	21,334	646	Repayable monthly from Feb. 5, 2008 in 56 installments with interest paid monthly
Land Bank	Secured	Sep. 7, 2012	-	-	5,232	159	Repayable monthly from Jul. 5, 2008 in 51 installments with interest paid monthly
Land Bank	Secured	Sep. 7, 2012	-	-	9,120	276	Repayable monthly from Jan. 5, 2009 in 45 installments with interest paid monthly
Mega International Commercial Bank	Secured	Feb. 25, 2015	200,000	200,000	172,400	5,224	Repayable quarterly from Feb. 25, 2008 in 29 installments with interest paid monthly (Note)
Mega International Commercial Bank	Secured	Aug. 20, 2009	58,300	37,100	15,900	482	Repayable quarterly from Nov. 20, 2004 in 20 installments with interest paid monthly
Ta Chong Bank	Secured	Feb. 11, 2007	1,667	-	-	-	Repayable monthly from Mar. 31, 2004 in 36 installments with interest paid monthly
Ta Chong Bank	Secured	Feb. 11, 2007	7,742	-	-	-	Repayable monthly from Aug. 11, 2004 in 31 installments with interest paid monthly

(Continued)

Lender	Nature	Maturity day	As of December 31,				Redemption method
			2006	2007	2008	2008	
			NT\$	NT\$	NT\$	US\$	
Chin Fon Bank	Secured	Jan. 15, 2009	\$16,875	\$9,375	\$1,875	\$57	Repayable quarterly from Apr. 15, 2005 in 16 installments with interest paid monthly
Chin Fon Bank	Secured	Jan. 15, 2009	34,313	19,063	3,813	116	Repayable quarterly from Apr. 15, 2005 in 16 installments with

							interest paid monthly
Chin Fon Bank	Unsecured	Apr. 15, 2009	60,000	36,000	-	-	Repayable quarterly from Jan. 15, 2007 in 10 installments with interest paid monthly
Chin Fon Bank	Secured	Jun. 28, 2010	-	20,000	12,000	364	Repayable quarterly from Mar. 28, 2008 in 10 installments with interest paid monthly
Bank of Pan Hsin	Secured	Apr. 1, 2007	9,833	-	-	-	Repayable quarterly from Jul. 1, 2004 in 12 installments with interest paid monthly
HSBC	Secured	May 17, 2007	6,944	-	-	-	Repayable monthly from Jun. 17, 2004 in 36 installments with interest paid monthly
HSBC	Secured	May 17, 2007	8,939	-	-	-	Repayable monthly from Sep. 17, 2004 in 33 installments with interest paid monthly
HSBC	Secured	May 17, 2007	4,922	-	-	-	Repayable monthly from Oct. 18, 2004 in 32 installments with interest paid monthly
HSBC	Secured	Dec. 1, 2008	20,000	10,000	-	-	Repayable monthly from Jan. 17, 2006 in 36 installments with interest paid monthly
HSBC	Secured	Aug. 31, 2009	45,833	29,167	12,500	378	Repayable monthly from Oct. 31, 2006 in 36 installments with interest paid monthly
China Development Industrial Bank	Secured	Jun. 30, 2008	8,077	-	-	-	Repayable quarterly from Jun. 30, 2005 in 13 installments with interest paid monthly
China Development Industrial Bank	Secured	Jun. 30, 2008	24,231	-	-	-	Repayable quarterly from Jun. 30, 2005 in 13 installments with interest paid monthly
China Development Industrial Bank	Unsecured	Jun. 30, 2007	5,000	-	-	-	Repayable quarterly from Jun. 30, 2005 in 9 installments with interest paid monthly

(Continued)

Lender	Nature	Maturity day	As of December 31,				Redemption method
			2006	2007	2008	2008	
			NT\$	NT\$	NT\$	US\$	
China Development Industrial Bank	Unsecured	Jun. 30, 2007	\$15,000	\$-	\$-	\$-	Repayable quarterly from Jun. 30, 2005 in 9 installments with interest paid monthly
China Development	Unsecured	Aug. 10, 2008	300,000	300,000	-	-	Repayable in full amount on Aug.

Industrial Bank							10, 2009 with interest paid quarterly (fully prepaid in June 2008)
Export-Import Bank of R.O.C.	Secured	Sep. 21, 2011	14,220	14,220	10,665	323	Repayable semi-annually from Mar. 21, 2008 in 8 installments with interest paid quarterly
Export-Import Bank of R.O.C.	Secured	Sep. 21, 2011	-	21,973	16,480	499	Repayable semi-annually from Mar. 21, 2008 in 8 installments with interest paid quarterly
Export-Import Bank of R.O.C.	Secured	Sep. 21, 2011	-	1,807	1,355	41	Repayable semi-annually from Mar. 21, 2008 in 8 installments with interest paid quarterly
Chang Hwa Bank	Secured	Nov. 26, 2016	11,900	10,700	9,500	288	Repayable monthly from Nov. 26, 2001 in 150 installments with interest paid monthly
CHAILEASE Finance (BVI)	Secured	Oct. 31, 2009	-	64,860	26,240	795	Repayable quarterly from Jan. 31, 2008 in 8 installments with interest paid monthly
Total			1,017,555	918,956	415,639	12,595	
Less: Current portion			(209,821)	(527,299)	(143,605)	(4,352)	
Net			<u>\$807,734</u>	<u>\$391,657</u>	<u>\$272,034</u>	<u>\$8,243</u>	

Note: Gigastorage entered into a long-term loan contract with Mega International Commercial Bank, which stated that during the contract period, each half-year or year-end current ratio must maintain at a level of more than 130% and liability ratio must be lower than 80% from February 25, 2005 to February 25, 2015. If Gigastorage failed to meet the condition mentioned above, the penalty should be paid monthly at 0.25% of the annual interest rate; and if the liability ratio exceeds 150%, Mega International Commercial Bank will impose the interest rate at two-year time deposit floating interest rate plus 2.5%. Mega International Commercial Bank also reserves the right to request immediate full repayments of the loans.

On June 5, 2008, Gigastorage and Mega International Commercial Bank signed amendments of long-term loan contract and removed all debt covenants mentioned above.

- ① The long-term loans interest rates ranged from 2.5497%~4.225%, 3.1532%~6.29% and 3%~6.32% as of December 31, 2006, 2007 and 2008, respectively.
- ② Refer to Note 6 to consolidated financial statements for assets pledged as collaterals.

(11) Bonds payable

①

	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Convertible bonds payable	\$-	\$-	\$97,000	\$2,939
Less: discounts on bonds payable	-	-	(9,147)	(277)
Total	-	-	87,853	2,662
Less: Current portion	-	-	-	-
Net	\$-	\$-	\$87,853	\$2,662

- ② On August 31, 2008, Gigastorage issued domestic convertible bonds through private placements. The terms and conditions of the bonds were as follows:

A. Par value: NT\$100 thousand

B. Issue price: 100%

C. Total issue amount: 97,000 thousand

D. Coupon interest rate: 0%

E. Duration: three years (August 31, 2008~ August 31, 2011)

F. Redemption method: Gigastorage will redeem the bonds by cash on the maturity date, excluding exercise of conversion right or repurchase of bonds.

G. Redemption price at maturity or call price at the option of Gigastorage:

(A) Gigastorage will redeem the bonds at par value on the maturity, excluding early redemption, repurchase of bonds, or exercise of conversion right.

(B) Called by the issuer (Gigastorage) prior to maturity:

- After the bonds have been outstanding for more than one year, Gigastorage may redeem in whole or in part of the bonds at the call price determined by a 2% of annual yield rate if the closing prices of Gigastorage's common share in the TWSE for 20 consecutive trading days are at least 180% of the conversion price.
- Gigastorage may also have the right to redeem all, but not in part, of the outstanding debenture at the call price determined by a 2% of annual yield rate if more than 90% of the bonds has been converted, redeemed or called.

H. Redemption at the option of the bondholders:

The bonds are redeemable at 104% and 106% of par at the option of the bondholders, in whole or in part, on August 31, 2010 and August 31, 2011, respectively.

I. Conversion:

(A) Bondholders have the right to request Gigastorage to convert their bonds into common shares from 30 days after the bonds issuance date to 10 days before the maturity date.

(B) Conversion price: The conversion price was NT\$8.20 per share at the issue date

(C) Conversion price adjustment: When Gigastorage's issued shares increase (include but not limited to capital rise by cash, stock dividends or employee bonuses disbursed in stocks), the conversion price will be adjusted, except for exercises of securities with conversion right or option to convert into common shares.

For issuance of new shares due to acquisition or repurchase of treasury stocks, conversion price will not be adjusted.

- ③ There was no exercise of right of conversion as of December 31, 2008.
- ④ In accordance with R.O.C. SFAS No. 36, the Company records related conversion right and obligation separately as equity and liabilities. Equity components of convertible bonds are recorded under equity; and liabilities components include embedded derivatives and non-derivative financial liabilities. The embedded derivatives were measured at fair value which amounted to NT\$5,471 thousand as of December 31, 2008; the non-derivative financial liabilities - bonds payable was measured at cost net of amortization which amounted to NT\$87,853 thousand as of December 31, 2008.
- ⑤ The Company adopted R.O.C. SFAS No. 34 "Accounting for Financial Instruments" and No. 36 "Financial Instruments: Disclosure and Presentation" and recognized amortization expense for discounts on bonds payable of NT\$1,096 thousand and loss on valuation of financial liability of NT\$445 thousand under interest expenses and loss on valuation of financial liability, respectively, for the year ended December 31, 2008.

(12) Other long-term payable

	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Other long-term payable	\$-	\$718,089	\$677,062	\$20,517
Less: Current portion	-	(78,953)	(179,842)	(5,450)
Total	\$-	\$639,136	\$497,220	\$15,067

The above other long-term payable are results of Gigastorage entering into a settlement with Koninklijke Philips Electronics, N. V. (Philips).

(13) Pension

① Defined Benefit Plans

A. The pension fund in a fiduciary account in Bank of Taiwan amounted to NT\$21,847 thousand, NT\$22,594 thousand and NT\$22,057 thousand as of December 31, 2006, 2007 and 2008, respectively. The total pension expenses amounted to NT\$371 thousand, NT\$335 thousand and NT\$656 thousand for the years ended December 31, 2006, 2007 and 2008, respectively.

B. The components of net pension cost are as follows:

	For the year ended December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Service cost	\$613	\$1,015	\$960	\$29
Interest cost	709	714	994	30
Expected return on plan assets	(725)	(601)	(677)	(20)
Amortization and deferred	(640)	(80)	162	5
Over (under) accrual	414	(713)	(783)	(24)
Net pension cost	<u>\$371</u>	<u>\$335</u>	<u>\$656</u>	<u>\$20</u>

C. The reconciliation statements of funding status of the pension plan are as follow:

	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Benefit obligation				
Vested benefit obligation	\$78	\$-	\$-	\$-
Non-vested benefit obligation	19,899	23,066	20,715	628
Accumulated benefit obligation	19,977	23,066	20,715	628
Effect of future salary increases	5,976	9,024	11,232	340
Projected benefit obligation	25,953	32,090	31,947	968
Fair value of plan assets	(21,847)	(22,594)	(22,057)	(668)
Funded status	4,106	9,496	9,890	300
Unrecognized net transition obligation	(1,071)	(995)	(918)	(28)
Unrecognized loss (gain)	3,857	(758)	1,036	31
Accrued pension cost per actuarial report	6,892	7,743	10,008	303
Additional pension liability	974	849	763	23
Accrued expense	416	-	-	-
Under accrual	(211)	(384)	(1,495)	(45)

Accrued pension liability	\$8,071	\$8,208	\$9,276	\$281
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D. The major actuarial assumptions are as follows:

	As of December 31,		
	2006	2007	2008
Discount rate	2.75%	3.00%	2.50%
Rate of increase in future compensation levels	1.5%~2.00%	2.00%	2.00%
Expected long-term rate of return on plan assets	2.75%	3.00%	2.50%

- ② The Company adopted defined contribution pension plans and made periodical contributions to pension funds in accordance with related statutory regulations and laws. Pension expenses amounted to NT\$10,712 thousand, NT\$10,896 thousand and NT\$9,519 thousand for the years ended December 31, 2006, 2007 and 2008, respectively.

(14) Common stock

Gigastorage had 500,000 thousand common shares authorized to be issued (including 20,000 thousand shares reserved for exercise of employee stock options), and 294,320 thousand shares were issued as of January 1, 2006, each at a par value of NT\$10.

On April 28, 2003, the board of directors of Gigastorage approved the issuance of stock options with 10,000 thousand units, with each unit entitling an optionee to subscribe to 1 share of Gigastorage's common stock and optionees may exercise the options in accordance with certain schedules as prescribed by the plan starting from 2 years from the issuance date. The contractual life of the option is 6 years, and unused options are expired at the maturity date. The issuance was submitted to the Securities and Futures Bureau (SFB) for approval and became effective since June 23, 2003, and 6,000 thousand and 4,000 thousand units were issued on July 8, 2003 and December 30, 2003, respectively. Please refer to Note 11 for information on employee stock options.

Among the employee stock options issued 570 thousand shares were exercised as of December 31, 2008 (additional paid in capital of NT\$3,477 thousand was recorded due to exercise of these options). The issuance process through the authority had been completed.

Gigastorage had 500,000 thousand common shares authorized to be issued (including 20,000 thousand shares reserved for exercise of employee stock options), and 294,890 thousand shares were issued as of December 31 2008, each at a par value of NT\$10.

(15) Capital reserve

	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Additional paid-in capital	\$671,132	\$314,297	\$-	\$-

Long-term equity investment	16,076	16,076	16,076	487
Equity components of convertible bonds	-	-	5,217	158
Total	<u>\$687,208</u>	<u>\$330,373</u>	<u>\$21,293</u>	<u>\$645</u>

According to the R.O.C. Company Act, capital reserve shall be exclusively used to cover accumulated deficits when the legal reserve is insufficient to cover the deficits, or used in distribution of stock dividends (additional paid-in capital and donated income only).

Gigastorage's stockholders resolved to offset accumulated deficits by using capital reserve of NT\$631,004 thousand, NT\$360,312 thousand and NT\$314,297 thousand on June 15, 2006, June 13, 2007 and June 13, 2008, respectively.

(16) Legal reserve

According to the R.O.C. Company Act, 10% of Gigastorage's net income, after deducting previous years' losses, if any, is appropriated for legal reserve prior to any distribution to the extent that such reserve is equal to Gigastorage's paid-in capital. When the legal reserve is accumulated to 50% or more of its paid-in capital, the excess on 50% of paid-in capital may be distributed to Gigastorage's stockholders through an issuance of additional common shares.

(17) Special reserve

In accordance with the R.O.C. Securities and Futures Bureau ("SFB") regulations, a special reserve must be provided for unrealized loss on available-for-sale financial assets, excess of additional pension liability over unrecognized prior service cost and cumulative translation adjustment and unrealized loss for cash flow hedge that are accounted for as deductions to stockholders' equity. Once the aforementioned deductions to stockholders' equity are reversed, the related reserve may be allocated to distributable earnings.

(18) Earnings distribution

Pursuant to the R.O.C. Company Act and Gigastorage's Articles of Incorporation, current year's earnings before tax, if any, shall be distributed in the following order:

- ① Pay all taxes;
- ② Make up prior years' operation losses;
- ③ Set aside 10% of the remaining amount after deducting ① and ② as legal reserve;
- ④ Set aside special reserve in accordance with local regulation or reverse special reserve previously provided;
- ⑤ Stockholder's dividend distribution is to be proposed by the board of directors and approved at the Gigastorage's stockholders' meeting;
- ⑥ After deduction of items①,②, ③ and ④ from current year's earnings, the remaining is allocated as follows: no less than 2% may be allocated as directors' and supervisors' remuneration; no less than 5% as employees' bonuses.

The policy of dividend distribution should consider factors such as the industry's future outlook, long-term financial planning, sustainable management and development. Gigastorage determines the Company's annual

demand of funding through the future capital budget. Stockholders' dividends may be distributed in the form of shares or cash, or a combination of both, and cash dividends to be distributed may not be higher than 50% of total dividends to be distributed.

No distribution could be made in 2007 due to the fact that Gigastorage had accumulated deficits.

Information related to the distributions of employee's bonuses and remuneration for directors' and supervisors' service, recommended by the board of directors and then approved by the stockholders' annual meeting, is accessible on the Website of TWSE from the "Market Observation Post System."

(19) Treasury stock

- ① On November 15, 2006, the Gigastorage's board of directors approved to repurchase its own shares from market for the purpose of transferring shares to employees. Changes in treasury stock during the years ended December 31, 2006, 2007 and 2008 are as follows:

(In thousands of shares)

Purpose	Beginning	Increase	Decrease	Ending
For the year ended December 31, 2006				
For transfer to employees	-	3,452	-	3,452
For the year ended December 31, 2007				
For transfer to employees	3,452	1,548	5,000	-

For the year ended December 31, 2008

(NA)

- ② According to the R.O.C. Securities and Exchange Act, total shares of treasury stock shall not exceed 10% of the Gigastorage's issued stock, and the total purchase amount shall not exceed the sum of the retained earnings, additional paid-in capital, and realized capital reserve.
- ③ In compliance with R.O.C. Securities and Exchange Act, treasury stock should not be pledged, nor should it be entitled to voting rights or receiving dividends. Treasury stock shall be transferred to employees within three years from the date repurchased.

(20) Earnings per share

Gigastorage's capital structure is a complex structure; and therefore both basic earnings per share and diluted earnings per share need to be calculated. When calculating the potential common shares, the effect of employees' stock options and convertible bonds is considered. However, these potential common shares were not included in the computation of diluted loss per share due to their anti-dilutive effect and thereby the basic loss per share is equal to diluted loss per share:

(In shares)

Contents	For the year ended December 31,		
	2006	2007	2008
Shares outstanding at beginning (treasury stock repurchased was deducted)	294,060,026	290,868,449	294,890,449
Weighted-average numbers of treasury stock transfer to employees	-	1,238,855	-
Exercise of employee stock options	-	279,534	-
Weighted-average numbers of shares outstanding	<u>294,060,026</u>	<u>292,386,838</u>	<u>294,890,449</u>

	Amount (numerator)			Earnings per share	
	(In thousand of NTD)			(In NTD)	
			Shares		
	Before tax	After tax	(Denominator)	Before tax	After tax
<u>For the year ended December 31, 2006</u>					
Net loss attributable to parent company's stockholders:					
Basic earnings per share					
Loss on continuing operations	\$ (363,255)	\$ (363,243)	<u>294,060,026</u>	\$ (1.24)	\$ (1.24)
Cumulative effect of changes in accounting policies	<u>2,931</u>	<u>2,931</u>	<u>294,060,026</u>	<u>0.01</u>	<u>0.01</u>
Net loss	<u>\$ (360,324)</u>	<u>\$ (360,312)</u>	<u>294,060,026</u>	<u>\$ (1.23)</u>	<u>\$ (1.23)</u>
Net income attributable to minority interests:					
Basic earnings per share					
Loss on continuing operations	\$ 4	\$ 4	<u>294,060,026</u>	\$ -	\$ -
Cumulative effect of changes in accounting policies	<u>-</u>	<u>-</u>	<u>294,060,026</u>	<u>-</u>	<u>-</u>
Net loss	<u>\$ 4</u>	<u>\$ 4</u>	<u>294,060,026</u>	<u>\$ -</u>	<u>\$ -</u>

	Amount (Numerator) (In thousand of NTD)			Earnings per share (In NTD)	
	Before tax	After tax	Shares (Denominator)	Before tax	After tax
<u>For the year ended December 31, 2007</u>					
Net loss attributable to parent company's stockholders:					
Basic earnings per share					
Net loss	<u>\$ (1,333,227)</u>	<u>\$ (1,340,202)</u>	<u>292,386,838</u>	<u>\$ (4.56)</u>	<u>\$ (4.58)</u>
Net income attributable to minority interests:					
Basic earnings per share					
Net loss	\$ (15)	\$ (15)	292,386,838	\$ -	\$ -

	Amount (Numerator)			Earnings per share	
	(In thousand of NTD)			(In NTD)	
			Shares		
	Before tax	After tax	(Denominator)	Before tax	After tax
<u>For the year ended December 31, 2008</u>					
Net loss attributable to parent company's stockholders:					
Basic earnings per share					
Net loss	<u>\$ (137,585)</u>	<u>\$ (156,793)</u>	<u>294,890,449</u>	<u>\$ (0.47)</u>	<u>\$ (0.53)</u>
Net income attributable to minority interests:					
Basic earnings per share					
Net loss	\$ (6)	\$ (6)	294,890,449	\$ -	\$ -

(21) Income tax

- ① Gigastorage and its subsidiaries have filed their respective business income tax returns separately; they could not file tax returns on a consolidated basis. Income tax returns of Gigastorage and its subsidiary companies - Maxmax Group Corporation, Quo-Chao Investments Corporation and Giga Solar Materials Corporation for all fiscal years up to 2006 have already been assessed by the tax authority.
- ② Pursuant to the “Statute for Upgrading Industries”, Gigastorage was entitled to an income tax exemption period for five consecutive years commencing from January 1, 2005.
- ③ Gigastorage and its domestic subsidiaries’ available investment tax credits as of December 31, 2008 were as follows:

Year incurred	Item	Unused amount	Expiration year
		NT\$	
2005	Investment in equipment for automation of production	\$5,299	2009
	R&D expenditure	17,168	
2006	Investment in equipment for automation of production	2,657	2010
	R&D expenditure	9,925	
	Investment in newly emerging, important and strategic industries	2,118	
2007	Investment in equipment for automation of production	1,207	2011
	R&D expenditure	25,317	
	Investment in newly emerging, important and strategic industries	16,302	
2008(Estimated)	Investment in equipment for automation of production	1,104	2012
	R&D expenditure	<u>5,637</u>	
Total		<u>\$86,734</u>	

Unused tax credits available to reduce future taxable income have been included in deferred income tax assets.

- ④ As of December 31, 2008, Gigastorage and its domestic subsidiaries' unutilized tax credits arising from the accumulated losses were as follow:

Year incurred	Accumulated losses	Unutilized accumulated loss	Expiration year
	NT\$	NT\$	
2004	\$133,440	\$133,440	2014
2005	632,275	632,275	2015
2006	355,021	355,021	2016
2007	848,764	848,764	2017
2008 (Estimated)	100,665	100,665	2018
Total	<u>\$2,070,165</u>	<u>\$2,070,165</u>	

Tax effect of above unutilized accumulated losses has been included in deferred income tax assets.

- ⑤ Deferred tax liabilities and assets are as follows:

	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
(A) Total deferred tax liabilities	<u>\$1,361</u>	<u>\$33</u>	<u>\$1,608</u>	<u>\$48</u>
(B) Total deferred tax assets	<u>\$728,125</u>	<u>\$911,878</u>	<u>\$852,018</u>	<u>\$25,819</u>
(C) Valuation allowance	<u>\$509,535</u>	<u>\$701,550</u>	<u>\$657,777</u>	<u>\$19,933</u>

- (D) Temporary differences that generated deferred tax assets or liabilities:

	As of December 31,							
	2006		2007		2008		2008	
	Amount	Tax effect	Amount	Tax effect	Amount	Tax effect	Amount	Tax effect
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	US\$	US\$
Unrealized bad debt expense	\$217,564	\$54,391	\$258,758	\$64,689	\$169,156	\$42,289	\$5,126	\$1,282
Unrealized inventory provision	\$43,685	\$10,921	\$45,185	\$11,296	\$47,636	\$11,909	\$1,444	\$361
Unrealized long-term investment loss	\$406,270	\$101,568	\$27,445	\$6,861	\$78,504	\$19,626	\$2,378	\$595
Unrealized foreign exchange gain	\$(352)	\$(88)	\$(132)	\$(33)	\$(6,001)	\$(1,501)	\$(182)	\$(45)
Unrealized foreign exchange loss	\$998	\$250	\$4,179	\$1,045	\$1,766	\$441	\$54	\$13

Unrealized loss on asset impairment	\$36,148	\$9,037	\$13,090	\$3,273	\$9,463	\$2,366	\$287	\$72
Unrealized sales discounts	\$7,667	\$1,917	\$347	\$87	\$100	\$25	\$3	\$1
Unrealized inter-company loss	\$(4,830)	\$(1,208)	\$240	\$60	\$(430)	\$(107)	\$(13)	\$(3)
Unpaid expenses	\$-	\$-	\$718,089	\$179,522	\$677,062	\$169,266	\$20,517	\$5,129
Others	\$46,083	\$11,522	\$8,596	\$2,149	\$7,282	\$1,821	\$221	\$55
Loss carry forwards	\$1,405,977	\$351,494	\$2,010,604	\$502,652	\$2,070,165	\$517,541	\$62,732	\$15,683
Investment tax credits		\$187,025		\$140,244		\$86,734		\$2,628

(E)

	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Deferred income tax assets - current	\$193,127	\$188,248	\$106,959	\$3,241
Valuation allowance - current	(157,260)	(133,154)	(59,085)	(1,791)
Deferred income tax assets - current, net	35,867	55,094	47,874	1,450
Deferred income tax liabilities - current	(1,361)	(33)	(1,608)	(48)
Net deferred income tax assets - current	\$34,506	\$55,061	\$46,266	\$1,402

(F)

	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Deferred income tax assets - non-current	\$534,998	\$723,630	\$745,059	\$22,577
Valuation allowance - non - current	(352,275)	(568,396)	(598,692)	(18,142)
Deferred income tax assets - non-current, net	182,723	155,234	146,367	4,435
Deferred income tax liabilities - non-current	-	-	-	-
Net deferred income tax assets - non-current	\$182,723	\$155,234	\$146,367	\$4,435

- ⑥ Reconciliation between the income tax expense and the income tax calculated on pre-tax financial income basis is as follows:

	For the year ended December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Tax on pre-tax income at statutory tax rate	\$(89,961)	\$(333,301)	\$(32,058)	\$(971)

Permanent difference	(22,842)	6,242	9,271	281
Change in valuation allowance	69,483	193,391	(43,773)	(1,327)
Investment tax credits	(9,642)	(16,145)	(6,604)	(200)
Others	(910)	110,884	33,671	1,020
Prior year income tax adjustment	53,860	45,904	58,701	1,779
Income tax (benefit) expense	<u>\$(12)</u>	<u>\$6,975</u>	<u>\$19,208</u>	<u>\$582</u>

⑦ Information related to Gigastorage's imputation Credit Account:

	As of December 31,			
	2006	2007	2008	
	NT\$	NT\$	NT\$	US\$
Imputation credit account (ICA)	<u>\$1,628</u>	<u>\$1,990</u>	<u>\$1,990</u>	<u>\$60</u>

	For the year ended December 31,		
	2006 (Actual)	2007 (Actual)	2008 Expected
Creditable ratio	<u>-</u>	<u>-</u>	<u>-</u>

⑧ Information related to undistributed retained earnings:

	As of December 31,			
	2006	2007	2008	
	NT\$	NT\$	NT\$	US\$
After 1998	<u>\$(360,312)</u>	<u>\$(1,340,227)</u>	<u>\$(1,182,723)</u>	<u>\$(35,840)</u>

(22) Net operating revenue

	For the year ended December 31,			
	2006	2007	2008	
	NT\$	NT\$	NT\$	US\$
Optical products	\$2,017,271	\$1,621,909	\$1,514,900	\$45,906
Conductive pastes for solar cells	-	10,339	174,546	5,289
Other	235,306	187,813	232,966	7,060
Net Operating Revenue	<u>\$2,252,577</u>	<u>\$1,820,061</u>	<u>\$1,922,412</u>	<u>\$58,255</u>

(23) Personnel, depreciation and amortization expenses

For the year ended December 31,								
2006			2007			2008		
Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total

	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
Personnel expenses:									
Salaries	\$159,508	\$78,719	\$238,227	\$162,160	\$91,082	\$253,242	\$150,874	\$65,464	\$216,338
Insurance	12,563	5,613	18,176	11,794	6,739	18,533	11,282	5,097	16,379
Pension	7,225	3,858	11,083	6,901	4,330	11,231	6,431	3,744	10,175
Others	6,502	2,698	9,200	7,102	3,361	10,463	4,586	2,491	7,077
Depreciation (Note1)	425,508	32,120	457,628	329,598	31,899	361,497	274,301	25,246	299,547
Amortization (Note 2)	66,653	9,971	76,624	51,772	6,543	58,315	37,164	6,694	43,858

Note 1: The depreciation expenses listed above did not include depreciation of idle assets, which were accounted as non-operating expenses - other losses in the amount of NT\$330 thousand and NT\$1,357 thousand for the years ended December 31, 2007 and 2008, respectively.

Note 2: The amortization expenses listed above did not include amortization of deferred bond issuance cost and long-term loans securitization expenses, which was accounted as non-operating expenses - other losses in the amount of NT\$2,469 thousand, NT\$2,050 thousand and NT\$1,075 thousand for the years ended December 31, 2006, 2007 and 2008, respectively.

(24) Impairment loss

- ① On October 1, 2004, the Company adopted the R.O.C. SFAS No.35, "Accounting for Assets impairment". As of December 31, 2006, 2007 and 2008, the accumulated impairment losses are as follows:

	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Land	\$18,019	\$18,019	\$18,019	\$546
Buildings	-	6,000	-	-
Machinery and equipment	57,416	12,764	12,764	387
Other equipment	4,640	4,640	4,640	141
Idle assets	-	5,000	-	-
Deferred assets	1,314	1,314	1,314	40
Spare parts (recorded under prepayments and other current assets)	520	520	520	15
Goodwill	1,030	1,030	1,030	31
Total	\$82,939	\$49,287	\$38,287	\$1,160

- ② The Company disposed of machinery which had accumulated impairment losses in 2007 and, accordingly, accumulated impairment losses were decreased by NT\$44,652 thousand.

- ③ The Company determined the recoverable amount of land and buildings based on its fair value less costs to sell. The recoverable amount of land and buildings was assessed to be less than its book value and therefore Company recognized the difference in amount of NT\$11,000 thousand as an impairment loss in 2007.
- ④ The Company disposed of land, buildings and idle assets which had accumulated impairment losses in 2008 and, accordingly, accumulated impairment losses were decreased by NT\$11,000 thousand.

5. **RELATED PARTY TRANSACTIONS**

Name and relationship:

Name of related party	Relationship with the Company
Ritek Corporation	Gigastorage's director and the major stockholder
Prorit Corporation	Related party in substance
Jiaher Paper Co., Ltd.	Gigastorage's supervisor (resigned on Mar. 25, 2008)
International Branding Marketing Inc.	Gigastorage's supervisor (discharged on May 28, 2008)
U-TECH Media Corporation	Gigastorage's chairman is U-TECH Media's chairman
Chao-Feng Chang and other 9 people	Gigastorage's directors
Ching-Mei Tsai and other 3 people	Gigastorage's supervisors
Chao-Feng Chang and other 10 people	Gigastorage's key management personnel
Chi-Jen Chen	Gigastorage's director and general manager
	Maxmax's director
Hung Mai Corporation	Maxmax's chairman is Hung Mai's chairman

Significant transactions with related parties:

① Purchases

Name of Related party	For the year ended December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Ritek Corporation	\$1,954	\$397	\$163,782	\$4,963
Prorit Corporation	2 530	158	139	4
Hung Mai Corporation	-	76	115	4
Jiaher Paper Co., Ltd.	605	-	-	-
Total	\$5,089	\$631	\$164,036	\$4,971

The prices for the above purchases from related parties were based on negotiation. The margins therefore were not fixed.

② Operating revenues

Name of Related party	For the year ended December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Ritek Corporation	\$-	\$259	\$61	\$2
U-TECH Media Corporation	-	150	-	-
International Branding Marketing Inc.	6,700	-	-	-
Total	\$6,700	\$409	\$61	\$2

The prices for the above operating revenues from related parties were based on negotiation. The margins therefore were not fixed.

- ③ The Company purchased machinery and equipment from U-TECH Media Corporation for NT\$1,560 thousand in 2006.
- ④ The subsidiary - Giga Solar Materials Corporation engaged Ritek Corporation to perform a series of testing in 2008, and related testing expense amounted to NT\$ 14 thousand.
- ⑤ The office rental of the subsidiary - Maxmax Group Corporation paid to Mr. Chi-Jen Chen were NT\$ 180 thousand annually for the years ended December 31, 2006, 2007 and 2008.

Receivable and payables resulting from the above transactions were as follows:

① Accounts receivable - related parties

Name of Related party	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Ritek Corporation	\$1,810	\$272	\$-	\$-

② Other receivable –related parties – non-current, net

Name of Related party	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Hung Mai Corporation	\$2,832	\$2,832	\$2,540	\$77
Less: Allowance for doubtful accounts	(2,832)	(2,832)	(2,540)	(77)
Net	\$-	\$-	\$-	\$-

Credit terms with Ritek Corporation are month end 90 days that are similar to those with other domestic customers.

③ Accounts payable - related parties

Name of Related party	Payment terms	As of December 31,			
		2006	2007	2008	2008
		NT\$	NT\$	NT\$	US\$
Ritek Corporation	Month end 30-120 days	\$477	\$100	\$38,924	\$1,180
Hung Mai Corporation	Month end 30 -60 days	438	390	91	3
Prorit Corporation	Month end 45-120 days	858	99	78	2
Jiaher Paper Co., Ltd.	Month end 120 days	153	-	-	-
Chi-Jen Chen	Monthly paid	75	75	75	2
Total		<u>\$2,001</u>	<u>\$664</u>	<u>\$39,168</u>	<u>\$1,187</u>

Payment terms to related parties were similar to those to third-party vendors.

Key management personnel compensation disclosure

Item	For the year ended December 31,			
	2006	2007	2008 (Estimated)	2008 (Estimated)
	NT\$	NT\$	NT\$	US\$
Salary, compensation, allowance, income from professional practice and bonus	\$19,695	\$19,161	\$19,198	\$582

Please refer to Annual Report for related information of key management personnel compensation.

6. ASSETS PLEDGED OR MORTGAGED

As of December 31, 2006, 2007 and 2008, the following assets were mortgaged to several banks, customs and government agencies as collaterals for bank loans, credit facilities and other purposes:

Accounts	Purpose	Party to which asset(s) was pledged	As of December 31,			
			2006	2007	2008	2008
			NT\$	NT\$	NT\$	US\$
Land (including idle assets)	collateral for bank loans	Mega International Commercial Bank, Land Bank, Chang Hwa Bank, China Development Industrial Bank and Export-Import Bank of R.O.C.	\$220,218	\$240,408	\$205,318	\$6,222
Buildings (including idle assets)	collateral for bank loans	Mega International Commercial Bank, Land Bank, Chang Hwa Bank, China Development Industrial Bank and Export-Import Bank of R.O.C.	456,622	506,142	421,342	12,768
Machinery and research equipment	collateral for bank loans	Mega International Commercial Bank, Land Bank, Ta Chong Bank, Bank of Pan Hsin, Chin Fon Bank, HSBC and Export-Import Bank of R.O.C.	970,341	496,540	597,974	18,120

Accounts	Purpose	Party to which asset(s) was pledged	As of December 31,			
			2006	2007	2008	2008
			NT\$	NT\$	NT\$	US\$
Furniture and fixtures	collateral for bank loans	Land Bank	-	-	284	9
Miscellaneous equipment	collateral for bank loans	Land Bank	-	-	454	14
Financial assets carried at cost - non-current	(Note)	(Note)	6,000	2,044	-	-
Pledged time deposits - current	collateral for subsidies applied, letters of credit and power	Land Bank, Taiwan Cooperative Bank, e-Life Mall Corp., and Ayudhya	22,940	9,068	23,761	720
Pledged time deposits - non-current	Customs duty guarantee	Land Bank and the Custom	-	11,000	8,349	253
Total			<u>\$1,676,121</u>	<u>\$1,265,202</u>	<u>\$1,257,482</u>	<u>\$38,106</u>

Note: Please refer to Note 4(6) to consolidated financial statements.

7. COMMITMENTS AND CONTINGENCIES

As of December 31, 2008, the following commitments and contingencies were not reflected in the Company's consolidated financial statements:

- ① Unused letters of credit of the Company were approximately NT\$21,119 thousand as of December 31, 2008.
- ② Gigastorage reported to Fair Trade Commission (FTC) that Philips violated the R.O.C. Fair Trade Law by imposing certain clauses in the exclusive agreements between Gigastorage and Philips. On April 26, 2006, FTC concluded that Philips violated the R.O.C. Fair Trade Law No 24 on some of the matters. Consequently Philips received a fine in the amount of NT\$ 6 million and a request to rectify its action immediately. On May 25, 2006, Gigastorage filed an appeal to FTC for those matters that FTC previously concluded that there was no violation. FTC dismissed the appeal on November 20, 2006, and Gigastorage filed an administrative appeal to Taipei High Administrative Court on January 23, 2007. After that, Gigastorage and Philips reached a settlement, and Gigastorage withdrew the administrative appeal on November 5, 2007.

According the legal advice received by Gigastorage, although Philips in defending the aforementioned case had not applied to have Gigabyte discontinued the manufacturing and selling of certain CD-R products under the exclusive agreements, in order to secure the rights of future production, Gigastorage should appeal to the Ministry of Economic Affairs (MOEA). On July 26, 2004, Gigastorage received approval from MOEA to continue the manufacturing products covered by Philips' five patents (No.33559, No.29646, No.40996, No.34345 and No.41954) under a mutual agreement between Philips and Gigastorage until the patents expire.

A further condition is that the products must be for the supply of domestic market only. Since then, Philips appealed to MOEA for revocation of the agreement, which was denied by MOEA. After that, Philips had filed an administrative appeal to Taipei High Administrative Court, which is still pending. In addition, Philips filed a petition to MOEA to revoke the performance of these patents in May 2006; Gigastorage also filed a petition to MOEA in April 2007, in order to revoke the performance of these patents from May 31, 2007. MOEA revoked the performance of these patents on May 31, 2007, and therefore Philips had filed an administrative appeal. On March 13, 2008, Taipei High Administrative Court reversed MOEA's administrative sanction, MOEA did not appeal further and the case was closed.

8. SIGNIFICANT DISASTER LOSS

NONE.

9. SIGNIFICANT SUBSEQUENT EVENTS

NONE.

10. FINANCIAL INSTRUMENTS

① Fair value of financial instruments

	As of December 31, 2006	
	Book value	Fair value
	NT\$	NT\$
<u>Non-derivative</u>		
<u>Financial assets</u>		
Cash and cash equivalents	\$558,497	\$558,497
Financial assets at fair value through profit or loss - current	10,406	10,406
Notes and accounts receivable, net (including related parties)	583,837	583,837
Other receivables	11,029	11,029
Available-for-sale financial assets - non-current	22,238	22,238
Financial assets carried at cost - non-current	361,225	-
Long-term investment under the equity method	45,029	-
Refundable deposits	6,106	6,106
Restricted banking accounts	22,940	22,940
<u>Financial liabilities</u>		
Short-term loans	100,000	100,000
Notes and accounts payables (including related parties)	142,596	142,596
Accrued expenses	139,496	139,496
Payable on equipment	3,502	3,502
Long-term loans (including current portion)	1,017,555	1,017,555
Deposits-in	324	324
<u>Derivative</u>		
<u>Financial liabilities</u>		

Interest rate swaps	50	50
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As of December 31, 2007		
	Book value	Fair value
	NT\$	NT\$
<u>Non-derivative</u>		
<u>Financial assets</u>		
Cash and cash equivalents	\$305,963	\$305,963
Financial assets at fair value through profit or loss - current	30,195	30,195
Notes and accounts receivables, net (including related parties)	429,833	429,833
Other receivables (including related parties)	15,610	15,610
Available-for-sale financial assets - non-current	21,549	21,549
Financial assets carried at cost - non-current	358,814	-
Refundable deposits	4,614	4,614
Restricted banking accounts	20,068	20,068
<u>Financial liabilities:</u>		
Short-term loans	191,389	191,389
Notes and accounts payables (including related parties)	172,183	172,183
Accrued expenses	136,778	136,778
Payable on equipment	16,576	16,576
Long-term loans (including current portion)	918,956	918,956
Other long-term payable (including current portion)	718,089	718,089
Deposits-in	324	324
<u>Derivative</u>		
<u>Financial assets</u>		
Interest rate swaps	578	578

As of December 31, 2008				
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
<u>Non-derivative</u>				
<u>Financial assets:</u>				
Cash and cash equivalents	\$147,278	\$4,463	\$147,278	\$4,463
Notes and accounts receivables, net (including related parties)	489,544	14,835	489,544	14,835
Other receivable (including related parties)	10,271	311	10,271	311
Available-for-sale financial assets - non-current	2,536	77	2,273	69
Financial assets carried at cost - non-current	319,476	9,681	-	-
Refundable deposits	128	4	128	4
Restricted banking accounts	32,110	973	32,110	97
<u>Financial liabilities:</u>				
Short-term loans	319,181	9,672	319,181	9,672
Notes and accounts payables (including related parties)	159,179	4,823	159,179	4,823
Accrued expenses	79,349	2,404	79,349	2,404
Other payable (including related parties)	91	3	91	3
Payable on equipment	7,709	234	7,709	234
Bonds payable	87,853	2,662	86,757	2,629
Long-term loans (including current portion)	415,639	12,595	415,639	12,595
Other long-term payable (including current portion)	677,062	20,517	677,062	20,517
Deposit-in	720	22	720	22

Derivative

Financial liabilities:

Call or put options embedded in bonds payable	5,471	166	5,471	166
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A. The methods and assumptions used by the Company to determine the above fair value of financial instruments are as follows:

- a. The book value of short-term financial instruments, such as cash and cash equivalents, notes and accounts receivables (including related parties), other receivables (including related parties), short-term loans, notes and accounts payables (including related parties), other payable (including related parties), accrued expenses and payable on equipment, approximate their fair value because of short maturity of these instruments.
- b. The fair values of refundable deposits, restricted banking account, and deposits-in are based on their book values because the estimated future cash receipts or payments are similar to the book value.
- c. The fair values of non-derivative financial assets at fair value through profit or loss and available-for-sale financial assets are based on their quoted market price.
- d. The fair values of financial assets measured at cost and prepayment for long-term investments are unable to be estimated since there is no active market in trading those unlisted investments.
- e. The fair values of bonds payable and embedded call or put options are determined by using a valuation technique.
- f. The fair value of long-term loans bearing floating interest rates approximates their book value, as the floating interest rates should be similar to the market rates..
- g. The fair value of other long-term payable is determined using discounted cash flow analysis.

B. The fair value of financial assets and liabilities held by the Company based on quoted price from active market and on valuation techniques is shown as follows:

	As of December 31, 2006	
	On quoted price	On valuation technique
	NT\$	NT\$
<u>Non-derivative</u>		
<u>Financial assets</u>		
Cash and cash equivalents	\$558,497	\$-
Financial assets at fair value through profit or loss - current	10,406	-
Notes and accounts receivable, net (including related parties)	-	583,837
Other receivables (including related parties)	-	11,029
Available-for-sale financial assets - non-current	22,238	-
Refundable deposits	-	6,106
Restricted banking accounts	22,940	-

Financial liabilities

Short-term loans	-	100,000
Notes and accounts payables (including related parties)	-	142,596
Accrued expenses	-	139,496
Payable on equipment	-	3,502
Long-term loans (including current portion)	-	1,017,555
Deposits-in	-	324

DerivativeFinancial liabilities

Interest rate swap contracts	-	50
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As of December 31, 2007

	On quoted price	On valuation technique
	NT\$	NT\$

Non-derivativeFinancial assets

Cash and cash equivalents	\$305,963	\$-
Financial assets at fair value through profit or loss - current	30,195	-
Notes and accounts receivables, net (including related parties)	-	429,833
Other receivables (including related parties)	-	15,610
Available-for-sale financial assets - non-current	21,549	-
Refundable deposits	-	4,614
Restricted banking accounts	20,068	-

Financial liabilities:

Short-term loans	-	191,389
Notes and accounts payables (including related parties)	-	172,183
Accrued expenses	-	136,778
Payable on equipment	-	16,576
Long-term loans (including current portion)	-	918,956
Other long-term payable (including current portion)	-	718,089
Deposits-in	-	324

DerivativeFinancial assets

Interest rate swap contracts	-	578
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As of December 31, 2008

	On quoted price		On valuation technique	
	NT\$	US\$	NT\$	US\$

Non-derivativeFinancial assets:

Cash and cash equivalents	\$147,278	\$4,463	\$-	\$-
Notes and accounts receivables, net (including related parties)	-	-	489,544	14,835
Other receivable (including related parties)	-	-	10,271	311
Available-for-sale financial assets - non-current	2,273	69	-	-
Refundable deposits	-	-	128	4
Restricted banking accounts	32,110	97	-	-

Financial liabilities:

Short-term loans	-	-	319,181	9,672
Notes and accounts payables (including related parties)	-	-	159,179	4,823
Accrued expenses	-	-	79,349	2,404
Other payable (including related parties)	-	-	91	3
Payable on equipment	-	-	7,709	234
Bonds payable	-	-	86,757	2,629
Long-term loans (including current portion)	-	-	415,639	12,595
Other long-term payable (including current portion)	-	-	677,062	20,517
Deposits-in	-	-	720	22
<u>Derivative</u>				
<u>Financial liabilities:</u>				
Call or put options embedded in bonds payable	-	-	5,471	166

C. For the years ended December 31, 2006, 2007 and 2008, the total change in fair value estimated by using valuation techniques and recognized in the consolidated statements of operations were a loss of NT\$36 thousand, a gain of NT\$544 thousand and a loss of NT\$543 thousand, respectively.

- ② As of December 31, 2006, 2007 and 2008, financial assets with fixed interest rates and fair value exposed to interest rate risk were NT\$11,300 thousand, NT\$0 thousand and NT\$0 thousand while financial liabilities with fixed interest rates and fair value exposed to interest rate risk were NT\$100,000 thousand, NT\$879,478 thousand and NT\$809,915 thousand, respectively. Financial assets with floating interest rates and exposed to cash flow risk were NT\$247,640 thousand, NT\$49,068 thousand and NT\$39,110 thousand, respectively, while financial liabilities with floating interest rates and exposed to cash flow risk were NT\$1,017,555 thousand, NT\$948,956 thousand and NT\$689,820 thousand, respectively.
- ③ For the years ended December 31, 2006, 2007 and 2008, total interest revenue and total interest expense for financial assets or liabilities that are not at fair value through profit or loss were as follows:

Item	For the year ended December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Interest revenue	\$5,842	\$4,647	\$1,720	\$52
Interest expense	40,087	45,112	67,760	2,053

- ④ The Company's unrealized gains in stockholders' equity for the changes in fair value of available-for-sale financial assets, which were transferred from equity and recognized in profit or loss, were NT\$0, NT\$54,211 thousand and NT\$4,113 thousand, for the years ended December 31, 2006, 2007 and 2008, respectively. As of December 31, 2006, 2007 and 2008, the Company recognized impairment loss on financial assets in the amount of NT\$ 0, NT\$54,211 thousand and NT\$4,113 thousand, respectively. The unrealized gain recognized in stockholders' equity for the changes in fair value of financial instruments was as follows:

	From Gigastorage	From Subsidiaries	Total
	NT\$	NT\$	NT\$

For the year ended December 31, 2006

Addition	\$-	\$2,972	\$2,972
Reduction	(1,460)	-	(1,460)
Net	<u>\$(1,460)</u>	<u>\$2,972</u>	<u>\$1,512</u>

	From Gigastorage	From Subsidiaries	Total
	NT\$	NT\$	NT\$

For the year ended December 31, 2007

Addition	\$2,272	\$-	\$2,272
Recycled to statements of operations	(39,367)	(14,844)	(54,211)
Reduction	-	(1,583)	(1,583)
Net	<u>\$(37,095)</u>	<u>\$(16,427)</u>	<u>\$(53,522)</u>

	From Gigastorage		From Subsidiaries		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$

For the year ended December 31, 2008

Addition	\$-	\$-	\$6,313	\$191	\$6,313	\$191
Recycled to statements of operations	(4,113)	(125)	-	-	(4,113)	(125)
Reduction	(675)	(20)	-	-	(675)	(20)
Net	<u>\$(4,788)</u>	<u>\$(145)</u>	<u>\$6,313</u>	<u>\$191</u>	<u>\$1,525</u>	<u>\$46</u>

⑤ Information of financial risks

The Company held certain non-derivative financial instruments, including cash and cash equivalents, financial assets at fair value through profit or loss, short-term loans, long-term loans and bonds payable. The Company held the financial instruments to meet operating cash needs, and held other financial instruments such as notes and accounts receivables, notes and accounts payables, available-for-sale financial assets, and financial assets carried at cost.

The Company entered into forward contracts and interest rate swaps and options with financial institutions. The purpose of entering into forward contracts and interest rate swaps is to hedge exchange rate fluctuation risk resulting from assets denominated in foreign currency and interest rate fluctuation risk resulting from loans. However, the derivatives do not meet the hedge accounting criteria, and therefore they are not accounted for using hedge accounting.

Major risks of financial instruments were summarized as follows:

A. Market value risk

- The fair value of the listed companies' stock held by the Company will fluctuate under the influence of related market factors.
- The Company is exposed to currency risk for the purchases or sales activities which are not denominated in functional currency. Market value risk for forward contracts is insignificant due to the

fact that the purpose of the contracts is hedging. The Company will recognize the total change in the fair value of derivative financial instrument in the consolidated statements of operations, if the derivatives do not meet the criteria for hedging accounting .

- c. The Company therefore held certain interest rate swaps to hedge interest rate fluctuation risks resulted from the underlying loans. The Company will recognize the total change in fair value of derivative financial instrument in the consolidated statement of income or loss, if the derivatives do not meet the criteria for hedging accounting. Market value risk is insignificant due to stability in interest rates.

B. Credit risk

- a. The Company only trades with established and creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.
- b. With respect to credit risk arising from the other financial assets comprised of cash and cash equivalents, and certain derivative instruments, the Company's exposure to credit risk arising from the default of counter-parties is limited to the carrying amount of these instruments.
- c. Because the Company trades only with established third parties, it will not request for collateral to be provided by third parties.

C. Liquidity risk

- a. The Company has sufficient operating capital to meet cash needs upon settlement of derivatives . Therefore, the liquid risk is low.
- b. Except for financial assets carried at cost that may have significant liquidity risks resulted from lack of an active market, the equity securities held by the Company are traded in active markets and can be sold promptly at the prices close to its fair values.

D. Cash flow risk due to fluctuations in interest rate

The Company's main financial instruments exposed to cash flow risk are the investment in time deposits and long-term loans with floating interest rate. However there is no significant impact due to the short maturity of those time deposits. The cash flow risk due to fluctuations in interest rate from time deposits is minimal. Cash outflows for interest payment would be increased by NT\$ 9,789 thousand, NT\$8,083 thousand and NT\$4,418 thousand if market interest rate increased by 1% with bank loan bearing floating interest rate for the years ended December 31, 2006, 2007 and 2008, respectively

- ⑥ Refer to consolidated financial statement note 4(11) ④ and ⑤ for embedded derivative instrument in convertible bonds.

11. OTHERS

① Employee stock options

- A. Detailed information relevant to the employee stock options as of December 31, 2008 was disclosed as follows:

Grant Date	Options granted (Units)	Options outstanding (Units)	Shares Exercisable (Shares)
Jul. 8, 2003	6,000,000	4,692,000	4,692,000
Dec. 30, 2003	4,000,000	3,877,000	3,877,000

The exercise prices shall be adjusted when Gigastorage's common shares change in accordance with the terms of employee stock options plan.

- B. A summary of units and weighted average price, and related information for the years ended December 31, 2006, 2007 and 2008 was as follows:

	2006		2007		2008		
	Weighted- average exercise price		Weighted- average exercise price		Weighted- average exercise price		Weighted- average exercise price
	Option (in unit)	per shares (in NT dollar)	Option (in unit)	per shares (in NT dollar)	Option (in unit)	per shares (in NT dollar)	per shares (in US dollar)
Outstanding							
At beginning of period	9,676,000	\$16.10	9,676,000	\$16.10	9,106,000	\$16.10	\$0.49
Granted	-	-	-	-	-	-	-
Exercised	-	-	570,000	16.10	-	-	-
Expired	-	-	-	-	537,000	16.10	0.49
At end of period	<u>9,676,000</u>	16.10	<u>9,106,000</u>	16.10	<u>8,569,000</u>	16.10	0.49
Exercisable							
At end of period	<u>9,676,000</u>	16.10	<u>9,106,000</u>	16.10	<u>8,569,000</u>	16.10	0.49

C. Information with respect to the outstanding options as of December 31, 2008 was as follows:

			Outstanding		Exercisable	
			Weighted- average remaining contractual life	Weighted- average exercise price	Weighted- average exercise price	
Authorized grant date	Exercise price (in NT dollar)	Option (in unit)	(in year)	(in NT dollar)	Option (in unit)	(in NT dollar)
92.06.23	<u>\$16.10</u>	8,569,000	0.74	<u>\$16.10</u>	8,569,000	<u>\$16.10</u>

The Company used the intrinsic value method to recognize compensation costs for its employee stock options issued before January 1, 2007. Pro-forma information on net income (loss) and earnings (loss) share using the fair value method was as follows:

	For the year ended December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Attributable to stockholders of the parent company				
Net loss as reported	\$(360,312)	\$(1,340,202)	\$(156,793)	\$(4,751)
Pro-forma net loss	(374,004)	\$(1,342,999)	\$(156,793)	\$(4,751)
Basic earnings per share (in dollars)				
Net loss as reported	\$(1.23)	\$(4.59)	\$(0.53)	\$(0.02)
Pro-forma earnings per share	\$(1.27)	\$(4.58)	\$(0.53)	\$(0.02)
Attributable to minority interests				
Net income (loss) as reported	\$4	\$(15)	\$(6)	\$-
Pro-forma net loss	\$4	\$(15)	\$(6)	\$-
Basic earnings per share (in dollars)				
Net loss as reported	\$-	\$-	\$-	\$-
Pro-forma earnings per share	\$-	\$-	\$-	\$-

The fair value of these options was calculated at the grant date using the Black-Scholes option pricing model with the following weighted-average assumptions for the years ended:

Item	Issued on 07.08.2003	Issued on 12.30.2003
Expected dividend yields	-%	-%
Volatility factors of the expected market price	63.0616%	68.0348%
Risk-free interest rate	2.3719%	2.3719%
Weighted-average expected life	6 years	6 years

② Certain comparative amounts have been reclassified to conform to the current year's presentation.

③ Inter-company relationships and significant inter-company transactions are as follows:

For the year ended December 31, 2006

No. (Note 1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			
				Account	Amount (in thousands)	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
0	Gigastorage Corporation	Maxmax Group Corporation	1	Operating revenue	\$161,171	On negotiation	7.15%
				Purchase	1,061	On negotiation	0.05%
				Accounts receivable	66,129	Month end 180 days	1.44%
		Gigastorage Corporation USA	1	Operating revenue	49,805	On negotiation	2.21%
				Accounts receivable	32,934	Month end 75-150 days	0.72%
				Other receivable	83,774	Month end 75-150 days	1.82%
		Giga Solar Materials Corporation	1	Operating revenue	2,113	On negotiation	0.09%
				Accounts receivable	1,328	Month end 90 days	0.03%
		NEW ELITE INVESTMENTS LIMITED	1	Commission	4,027	By the contract	0.18%
		Shenzhen Gigastorage Co., Ltd.	3	Commission	4,027	By the contract	0.18%
1	NEW ELITE INVESTMENTS LIMITED						

For the year ended December 31, 2007

No. (Note 1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			
				Account	Amount (in thousand)	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
0	Gigastorage Corporation	Maxmax Group Corporation	1	Operating revenue	\$67,212	On negotiation.	3.63%
				Purchase	292	On negotiation	0.02%
				Accounts receivable	13,832	Month end 180 days	0.33%
				Limit of Endorsement/Guarantee	20,000	-	-
		GLOBAL ACETECH CO., LTD.	1	Operating revenue	88,922	On negotiation	4.81%
				Purchase	30,011	On negotiation.	1.62%
				Accounts receivable	88,610	Month end 90 days	2.14%
				Other receivable	153,558	Month end 90 days	3.70%
				Accounts payable	5,908	Month end 120 days	0.14%
				Limit of Endorsement/Guarantee	THB45,000	-	-
				Operating revenue	2,254	On negotiation	0.12%
				Other receivable	567	Month end 90 days	0.01%
				Accounts receivable	1,207	Month end 90 days	0.03%
				Operating revenue	4,016	On negotiation	0.22%
				Limit of Endorsement/Guarantee	USD2,000	-	-
1	GLOBAL ACETECH CO., LTD.	Maxmax Group Corporation	3	Operating revenue	292	On negotiation	0.02%
2	NEW ELITE INVESTMENTS LIMITED	GLOBAL ACETECH CO., LTD.	3	Other receivable	62,590	(Note 4)	1.51%

For the year ended December 31, 2008

No. (Note 1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			
				Account	Amount (in thousand)	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
0	Gigastorage Corporation	Maxmax Group Corporation	1	Operating revenue	\$35,728	On negotiation	1.83%
				Purchase	3,499	On negotiation	0.18%
				Accounts receivable	15,998	Month end 180 days	0.45%
				Accounts payable	3,499	Month end 120 days	0.10%
				Limit of Endorsement/Guarantee	20,000	-	-
		GLOBAL ACETECH CO., LTD.	1	Operating revenue	167,580	On negotiation	8.57%
				Purchase	80,525	On negotiation	4.12%
				Accounts receivable	51,231	Month end 90 days	1.43%
				Other receivable	54,735	Month end 90 days	1.53%
				Other payable	5,208	Month end 120 days	0.15%
				Limit of Endorsement/Guarantee	THB45,000	-	-

(Continued)

No. (Note 1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			
				Account	Amount (in thousand)	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
0	Gigastorage Corporation	Giga Solar Materials Corporation	1	Operating revenue	\$299	On negotiation	0.02%
				Purchase	46,843	On negotiation	2.39%
				Rent revenues	659	On negotiation	0.03%
				Other receivable	9,610	Month end 90 days	0.27%
				Accounts receivable	6,195	Month end 90 days	0.17%
				Accounts payable	19,626	Month end 120 days	0.55%
				Other payable	17,001	Month end 120 days	0.48%
				Commission	643	On negotiation	0.03%
1	GLOBAL ACETECH CO., LTD.	Maxmax Group Corporation	3	Other payable	73	Month end 30 days	-
				Limit of Endorsement/Guarantee	USD2,000	-	-
				Operating revenue	9,990	On negotiation	0.51%
2	NEW ELITE INVESTMENTS LIMITED	GLOBAL ACETECH CO., LTD.		Accounts receivable	9,990	Month end 120 days	0.28%
				Other receivable	25,590	(Note 4)	0.72%

Note 1: Gigastorage and subsidiaries are coded as follows:

1. Gigastorage is coded "0".
2. The subsidiaries are coded consecutively beginning from "1" in the order presented in the table above.

Note 2: Transactions are categorized as follows:

1. The holding company to subsidiary.
2. Subsidiary to holding company.
3. Subsidiary to subsidiary.

Note 3: The percentage with respect to the consolidated assets/liabilities for transactions of balance sheet items is based on each item's balance at period-end. For profit or loss items, cumulative balance is used as basis.

Note 4: NEW ELITE INVESTMENTS LIMITED's other receivables to GLOBAL ACETECH CO., LTD. were financing provided to affiliations for short term operating needs. The interest rates were 5.39% and 6.743% for the years ended 2007 and 2008, respectively.

11. ADDITIONAL DISCLOSURES

① Significant transaction information

A. Financing provided to others for the year ended December 31, 2008: None

B. Endorsement/Guarantee provided to others for the year ended December 31, 2008: None

C. Securities held as of December 31, 2008:

Holding company	Type of securities	Name of securities	Relationship	Financial Statement Account	Units (in thousand)/ bonds/ shares (thousand)	Book value (NT\$)	Percentage of ownership	Market value/ Net assets value (NT\$)	Remark
Gigastorage	stock	AvanSense Technology Inc.	-	Long-term investments accounted for under the equity method	1,300,000	\$-	43.33%	\$-	(Note)
		Taimide Technology Inc.	-	Financial assets carried at cost - non-current	11,190,683	123,441	12.38%	8.63	-
		New Land Packing Corporation	-	Financial assets carried at cost - non-current	1,612,600	55,910	14.82%	15.23	-
		Infomax Optical Technology Corporation	-	Financial assets carried at cost - non-current	520,518	7,287	1.27%	10.32	-
		Prorit Corporation	Related party	Financial assets carried at cost - non-current	3,942,205	37,307	1.26%	8.66	-
		Prosperity Venture Capital Corporation	-	Financial assets carried at cost - non-current	405,000	3,645	1.10%	5.70	-
		Makin Technology Corporation	-	Financial assets carried at cost - non-current	3,120,000	14,531	16.37%	4.51	-
		International Branding Marketing Inc.	-	Available-for-sale financial assets, non-current	130,664	511	0.38%	1.90	-
		Lead Data Inc.	-	Available-for-sale financial assets - non-current	1,049,400	2,025	0.24%	2.00	-
		Taimide Technology Inc.	-	Financial assets carried at cost - non-current	4,134,954	39,906	4.57%	8.63	-
Quo-Chao Investments Corporation	stock								

D. Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$100 million or 20 percent of the capital stock for the year ended December 31, 2008: None

E. Acquisition of individual real estate with amount exceeding the lower of NT\$100 million or 20 percent of the capital stock for the year ended December 31, 2008: None

F. Disposal of individual real estate with amount exceeding the lower of NT\$100 million or 20 percent of the capital stock for the year ended December 31, 2008:.

Names of properties	Transaction date	Date of original acquisition	Book value (NT\$)	Transaction amount (NT\$)	Status of proceeds collection (NT\$)	Gain (Loss) from disposal (NT\$)	Counter-party	Relationship	Reason of disposal	Price reference	Other commitments
Land, building and machinery equipment	2008.03.26	1997.12~2002.11	\$104,064	\$106,500	\$106,500	\$2,436	Millennium Communication Co., Ltd.	-	Disposal of old building	On negotiation	-

G.

Related party transactions for purchases and sales amounts exceeding the lower of NT\$100 million or 20 percent of capital stock for the year ended December 31, 2008:

Company name	Related Party	Relationship	Transactions			Details of non-arm's length transaction		Notes and accounts receivable (payable)		Remark
			Purchase (Sales)	Amount (NT\$)	Percentage of total purchases (sales)	Term	Unit price	Term	Balance (NT\$)	
Gigastorage	Ritek Corporation	Related party	Purchase	\$163,782	11.44%	Month end 30~120 days	-	-	\$38,924	24.45%
										-

H. Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20 percent of capital stock as of December 31, 2008: None

I. The derivatives transaction for the year ended December 31, 2008: refer to financial statement Note 4(2) and 10

② Related information of investees

The Company has the significant influence or substantial control to the following investees:

Investor Company	Name of the investee	Address	Main Business and product	Original investment amount (NT\$)		December 31, 2008			Net income (loss) of the investee (NT\$)	Investment income (loss) recognized (NT\$)
				December 31, 2008	January 1, 2008	Units shares	Percent	Book value (NT\$)		
Gigastorage	AvanSense Technology Inc.	HsinChu Country	Operating and selling of medical equipment	\$13,000	\$13,000	1,300,000	43.33%	\$-	\$-	\$-

③ Investment in Mainland China

Shenzhen Gigastorage Co., Ltd. applied for dissolution on October 23, 2007 and went into liquidation. Except for the revenues and expenses up until the liquidation date, the results of Shenzhen Gigastorage Co., Ltd. were not consolidated in the Company's consolidated financial statements for the year 2007. However, Shenzhen Gigastorage Co., Ltd. subsequently applied to cancel the liquidation on May 22, 2008 and its revenues and expenses since then have been included in the consolidated financial statements.

A. Status of the investment:

Investee Company	Main business product	Total Amount of Paid-in Capital (in USD)	Method of investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2008 (in USD)	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2008 (in USD)	Percentage of Ownership	Investment income (loss) recognized (in USD)	Carrying Value as of December 31, 2008 (in USD) (Note 4)	Accumulated Inward Remittance of Earnings as of December 31, 2008 (in USD)
					Outflow (in USD)	Inflow (in USD)					
Shenzhen Gigastorage	Note 2	\$170,000	Through the investing	\$170,000	\$-	\$-	\$170,000	100%	\$(26,720)	\$(4,652)	\$-

f. The transactions might have significant effect on current income or financial condition for the year ended December 31, 2008: None.

13. SEGMENT FINANCIAL STATEMENT

① Major customers (individual customer accounting for at least 10% of net operating revenue):

For the year ended December 31,							
2006		2007		2008			
Amount	Percentage	Amount	Percentage	Amount	Amount	Percentage	
NT\$		NT\$		NT\$	US\$		
A Co., Ltd.	(Note) -	\$249,410	13.70%	\$324,962	\$9,847	16.90%	
B Co., Ltd.	(Note) -	(Note)	-	249,830	7,571	13.00%	
C Co., Ltd.	\$300,968 13.36%	(Note)	-	(Note)	-	-	
	\$300,968 13.36%	\$249,410	13.70%	\$574,792	\$17,418	29.90%	

Note: The net sale was not at least 10% of net operating revenue for the years ended December 31, 2006, 2007 and 2008; therefore, disclosure is not required.

② Export sales: (individual geographic region accounting for at least 10% of net operating revenue)

For the year ended December 31,				
	2006	2007	2008	
	NT\$	NT\$	NT\$	US\$
AMERICA	\$881,099	\$998,404	\$1,057,804	\$32,055
ASIA (excluding Taiwan)	446,420	285,094	492,889	14,936
Europe	259,345	(Note)	(Note)	-
TOTAL	\$1,586,864	\$1,283,498	\$1,550,693	\$46,991

Note: The net sale was not at least 10% of net operating revenue for the years ended December 31, 2006, 2007 and 2008; therefore, disclosure is not required.

③ Regional information:

Export sales to unaffiliated customers is less than 10% of the total sales amount on the consolidated statements of operations and identifiable assets of foreign business unit is also less than 10% of the total assets on the consolidated balance sheet, therefore disclosure is not required.

For the year ended December 31, 2007					
	Taiwan	Asia	Oversea	Adjustments and elimination	Consolidated
	NT\$	NT\$	NT\$	NT\$	NT\$
Revenue from customers other than consolidating subsidiaries	\$1,745,879	\$69,967	\$4,215	\$-	\$1,820,061
Revenue from consolidating subsidiaries	162,696	30,303	-	(192,999)	-
Total revenue	\$1,908,575	\$100,270	\$4,215	\$(192,999)	\$1,820,061
Gross profit	\$(1,194,321)	\$(27,440)	\$(193)	\$(18,335)	\$(1,240,289)
Non-operating income and expense					(92,953)
Net income (loss) before income tax					\$(1,333,242)
Identifiable assets	\$3,175,901	\$586,302	\$4,027	\$-	\$3,766,230
Investment					380,363
Total assets					\$4,146,593
Depreciation expense	\$350,847	\$10,522	\$128		\$361,497
Capital expenditure	\$154,265	\$270,648	\$-		\$424,913

	For the year ended December 31, 2008				
	Taiwan	Asia	Oversea	Adjustments and elimination	Consolidated
	NT\$	NT\$	NT\$	NT\$	NT\$
Revenue from customers other than consolidating subsidiaries	\$1,703,804	\$218,608	\$-	\$-	\$1,922,412
Revenue from consolidating subsidiaries	253,949	89,854	-	(343,803)	-
Total revenue	<u>\$1,957,753</u>	<u>\$308,462</u>	<u>\$-</u>	<u>\$(343,803)</u>	<u>\$1,922,412</u>
Gross profit	<u>\$16,470</u>	<u>\$(61,512)</u>	<u>\$(1,568)</u>	<u>\$5,633</u>	<u>\$(40,977)</u>
Non-operating income and expense					(96,614)
Net income (loss) before income tax					<u>\$(137,591)</u>
Identifiable assets	<u>\$3,741,168</u>	<u>\$484,401</u>	<u>\$28,905</u>	<u>\$(1,003,595)</u>	<u>\$3,250,879</u>
Investment					<u>322,012</u>
Total assets					<u>\$3,572,891</u>
Depreciation expense	<u>\$261,405</u>	<u>\$38,142</u>	<u>\$-</u>		<u>\$299,547</u>
Capital expenditure	<u>\$85,169</u>	<u>\$4,798</u>	<u>\$-</u>		<u>\$89,967</u>

④ Industrial information:

The key products of the consolidated entity are: Optical Read Only Memory, CD-R, CD-RW, design, development, manufacturing and Sales of CD-ROM. The operating revenue, net income and identifiable assets of this segment represent more than 90% of their respective balance, therefore disclosure is not made.

**GIGASTORAGE CORPORATION
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
WITH REPORT OF INDEPENDENT AUDITORS
AS OF AND FOR THE SIX-MONTH PERIODS ENDED
JUNE 30, 2008 AND 2009**

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

REVIEW REPORT OF INDEPENDENT AUDITORS

To Gigastorage Corporation

We have reviewed the accompanying consolidated balance sheets of Gigastorage Corporation and Subsidiaries (the “Company”) as of June 30, 2008 and 2009, the related consolidated statements of operations, changes in stockholders’ equity and cash flows for the six-month periods ended June 30, 2008 and 2009. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to issue the review report based on our reviews.

Except for the statement in the next paragraph, we conducted our reviews in accordance with the Statements of Auditing Standards No. 36, “Review of Financial Statements” of the Republic of China. A review is limited primarily to applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

For the six-month periods ended June 30, 2008 and 2009, the financial statements of Gigastorage Corporation’s consolidated subsidiaries, as listed in Note 2 to the consolidated financial statements, were not reviewed by independent auditors. As of June 30, 2008 and 2009, the un-reviewed aggregate total assets of Gigastorage Corporation’s subsidiaries amounted to NT\$670,036 thousand and NT\$907,327 thousand, representing 18.55% and 25.62% of consolidated total assets, respectively; and un-reviewed aggregate liabilities of Gigastorage Corporation’s subsidiaries amounted to NT\$305,397 thousand and NT\$171,915 thousand, representing 17.69% and 10.54% of consolidated total liabilities, respectively. For the six-month periods ended June 30, 2008 and 2009, the un-reviewed aggregate net sales of Gigastorage Corporation’s subsidiaries amounted to NT\$218,642 thousand and NT\$396,033 thousand, representing 22.90% and 41.60% of the consolidated net sales, respectively. Besides, the significant inter-company transactions between Gigastorage Corporation and its subsidiaries in Note 11(3) to the consolidated financial statements, related information of spin-off and investment in Mainland China in Note 12 to the consolidated financial statements, provided by Gigastorage Corporation’s consolidated subsidiaries, were not reviewed.

Based on our reviews, except for the effects of the statement in the preceding paragraph, if any, as might have been determined to be necessary had the financial statements of Gigastorage Corporation’s consolidated subsidiaries, related information of spin-off and investment in Mainland China in Note 12 to the consolidated financial statements, been reviewed, we are not aware of any material modifications or adjustments that should have been made to the consolidated financial statements referred to above in order for them to be in conformity with requirements of the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

(CONTINUED)

(CONTINUED)

As described in Note 3(3) to the consolidated financial statements, effective January 1, 2009, the Company has adopted the amendment of Statement of Financial Accounting Standards No. 10, “Accounting for Inventories” of the Republic of China.

Ernst & Young
Taipei, Taiwan
Republic of China
August 11, 2009

Notice to Readers

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

GIGASTORAGE CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS

June 30, 2008 and 2009

(Expressed in Thousands of New Taiwan Dollars)

		As of June 30,		
ASSETS	Note	2008	2009	2009
		NT\$	NT\$	US\$
CURRENT ASSETS :				
Cash and cash equivalents	2, 4(1)	\$122,439	\$252,646	\$7,656
Financial assets at fair value through profit or loss - current	2, 4(2)	164	-	-
Notes receivable, net	2, 4(3)	9,137	5,675	172
Accounts receivable, net	2, 4(3)	417,610	498,363	15,102
Accounts receivable - related parties, net	2, 5	64	-	-
Other receivables		10,577	12,730	386
Inventories, net	2, 3, 4(4)	203,059	221,543	6,713
Deferred income tax assets - current	2, 4(20)	67,304	53,632	1,625
Restricted banking accounts - current	6	14,254	20,659	626
Prepayments and other current assets	2, 4(23)	43,379	69,786	2,115
Total current assets		887,987	1,135,034	34,395
FUNDS AND INVESTMENTS:				
Financial assets at fair value through profit or loss - noncurrent	2, 4(11)	-	415	12
Available-for-sale financial assets - noncurrent	2, 4(5)	4,470	4,049	123
Financial assets carried at cost - noncurrent	2, 4(6), 6	351,519	307,690	9,324
Total funds and investments		355,989	312,154	9,459
PROPERTY, PLANT AND EQUIPMENT :				
	2, 4(7), 4(23), 6			
Land		204,904	205,791	6,236
Buildings		786,340	787,806	23,873
Machinery and equipment		2,842,310	2,904,950	88,029
Research and development equipment		168,692	151,671	4,596
Transportation equipment		3,090	1,984	60
Furniture and fixtures		24,728	25,166	763
Miscellaneous equipment		84,359	13,759	417
Total cost		4,114,423	4,091,127	123,974
Less: Accumulated depreciation		(1,926,262)	(2,177,274)	(65,978)
Less: Accumulated impairment loss		(35,423)	(35,423)	(1,074)
Add: Prepayments on construction in progress		-	37,976	1,151
Add: Prepayments on equipment		1,012	3,033	92
Property, plant and equipment, net		2,153,750	1,919,439	58,165
INTANGIBLE ASSETS :				
Deferred pension cost	2	733	1,480	45
OTHER ASSETS :				
Refundable deposits		232	401	12
Deferred assets	2, 4(23)	63,968	36,148	1,095
Deferred income tax assets - noncurrent	2, 4(20)	142,991	130,509	3,955
Restricted banking accounts - noncurrent	6	6,000	6,000	182
Total other assets		213,191	173,058	5,244
TOTAL ASSETS		\$3,611,650	\$3,541,165	\$107,308

The accompanying notes are an integral part of the consolidated financial statements.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

GIGASTORAGE CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS (CONTINUED)

June 30, 2008 and 2009

(Expressed in Thousands of New Taiwan Dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY	Note	As of June 30,		
		2008	2009	2009
		NT\$	NT\$	US\$
CURRENT LIABILITIES :				
Short-term loans	4(9), 6	\$220,930	\$277,042	\$8,395
Notes payable		9,399	11,055	335
Accounts payable		133,761	119,586	3,624
Accounts payable - related parties	5	11,066	8,826	267
Income tax payable		-	12,442	377
Accrued expenses		94,219	73,068	2,214
Other payable - related parties	5	-	33	1
Payable on equipment		5,103	6,544	198
Revenues in advance and other current liabilities		16,946	41,210	1,249
Current portion of long-term loans	4(10), 6	201,925	101,268	3,069
Current portion of other long-term payable	4(12), 7	118,961	225,927	6,847
Total current liabilities		812,310	877,001	26,576
LONG-TERM DEBTS :				
Bonds payable	2, 4(11)	-	89,497	2,712
Long-term loans	4(10), 6	330,556	234,995	7,121
Other long-term payable	4(12), 7	530,703	419,679	12,718
Long-term payable - related parties	5	44,000	-	-
Total long-term liabilities		905,259	744,171	22,551
OTHER LIABILITIES :				
Accrued pension liabilities	2, 4(13)	8,395	9,425	285
Deposits-in		324	720	22
Total other liabilities		8,719	10,145	307
TOTAL LIABILITIES		1,726,288	1,631,317	49,434
STOCKHOLDERS' EQUITY :				
Capital :	4(14)			
Common stock		2,948,904	2,948,904	89,361
Capital reserve	4(14), 4(15)			
Long-term investments		16,076	16,076	487
Equity components of convertible bonds		-	5,217	158
Retained earnings :				
Accumulated deficits	4(18), 4(20)	(1,071,250)	(1,117,142)	(33,853)
Other items in stockholders' equity :				
Cumulative translation adjustment	2	319	14,405	437
Unrealized loss on financial instruments	2, 4(5)	(8,856)	(9,788)	(297)
TOTAL EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF THE PARENT COMPANY		1,885,193	1,857,672	56,293
MINORITY INTERESTS		169	52,176	1,581
TOTAL STOCKHOLDERS' EQUITY		1,885,362	1,909,848	57,874
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		\$3,611,650	\$3,541,165	\$107,308

The accompanying notes are an integral part of the consolidated financial statements.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

GIGASTORAGE CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

For The Six-Month Periods Ended June 30, 2008 and 2009

(Expressed in Thousands of New Taiwan Dollars Except Earnings Per Share Information)

	Note	For the Six-Month Period Ended June 30,		
		2008	2009	2009
		NT\$	NT\$	US\$
OPERATING REVENUES		\$971,418	\$956,225	\$28,977
Less: Sales returns and discounts		(16,624)	(4,206)	(128)
Net operating revenues	2, 4(21), 5	954,794	952,019	28,849
OPERATING COSTS	3, 4(22), 5	(848,889)	(731,406)	(22,164)
GROSS PROFIT		105,905	220,613	6,685
OPERATING EXPENSE	4(22), 5			
Sales and marketing expenses		(35,403)	(43,399)	(1,315)
General and administrative expenses		(49,698)	(40,631)	(1,231)
Research and development expenses		(36,250)	(27,246)	(826)
Total operating expenses		(121,351)	(111,276)	(3,372)
OPERATING PROFIT (LOSS)		(15,446)	109,337	3,313
NON-OPERATING INCOME				
Interest income		4,695	351	11
Gain on disposal of property, plant and equipment	2	2,458	826	25
Gain on foreign currency exchange	2	4,418	2,268	69
Gain on reversal of allowance for bad debts	2	10,905	-	-
Gain on valuation of financial liabilities	2, 4(11)	-	5,886	178
Other income		11,561	11,074	336
Total non-operating income		34,037	20,405	619
NON-OPERATING EXPENSES				
Interest expenses	2	(39,830)	(26,872)	(814)
Other investment loss	4(6)	(7,273)	(11,786)	(357)
Loss on disposal of investments	2, 4(5), 4(6)	(5,273)	-	-
Loss on valuation of financial assets	2	(8,534)	-	-
Others expenses	4(22)	(3,002)	(3,908)	(119)
Total non-operating expenses		(63,912)	(42,566)	(1,290)
INCOME (LOSS) BEFORE INCOME TAX		(45,321)	87,176	2,642
INCOME TAX EXPENSES	2, 4(20)	-	(20,940)	(635)
CONSOLIDATED NET INCOME (LOSS)		<u>\$(45,321)</u>	<u>\$66,236</u>	<u>\$2,007</u>
ATTRIBUTABLE TO:				
Stockholders of the parent company		\$(45,320)	\$65,581	\$1,987
Minority interest		(1)	655	20
Consolidated net loss		<u>\$(45,321)</u>	<u>\$66,236</u>	<u>\$2,007</u>
EARNINGS (LOSS) PER SHARE AVAILABLE TO:	2, 4(19)			
Basic				
Consolidated net income (loss)		\$(0.26)	\$0.37	\$0.01
Minority interest		-	-	-
Stockholders of the parent company		<u>\$(0.26)</u>	<u>\$0.37</u>	<u>\$0.01</u>
Diluted				
Consolidated net income (loss)		\$(0.26)	\$0.33	\$0.01
Minority interest		-	-	-
Stockholders of the parent company		<u>\$(0.26)</u>	<u>\$0.33</u>	<u>\$0.01</u>

The accompanying notes are an integral part of the consolidated financial statements.

GIGASTORAGE CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For The Six-Month Periods Ended June 30, 2008 and 2009

(Expressed in Thousands of New Taiwan Dollars)

Item	Common Stock	Capital Reserve			Retained Earnings	Cumulative Translation Adjustment	Unrealized Loss on Financial Instruments	Equity Attributable to Stockholders of the Parent	Minority Interests	Total
		Additional Paid-in Capital	Long-term Investments	Equity Components of Convertible Bonds						
Balance as of January 1, 2008	\$ 2,948,904	\$ 314,297	\$ 16,076	\$ -	\$ (1,340,227)	\$ 27,343	\$ (9,776)	\$ 1,956,617	\$ 160	\$ 1,956,777
Offsetting accumulated deficits by APIC	-	(314,297)	-	-	314,297	-	-	-	-	-
Changes in unrealized loss on financial instruments	-	-	-	-	-	-	920	920	-	920
Changes in cumulative translation adjustment	-	-	-	-	-	(27,024)	-	(27,024)	-	(27,024)
Net loss attributable to stockholders of parent in the first half of 2008	-	-	-	-	(45,320)	-	-	(45,320)	-	(45,320)
Changes in minority interests	-	-	-	-	-	-	-	-	9	9
Balance as of June 30, 2008	\$ 2,948,904	\$ -	\$ 16,076	\$ -	\$ (1,071,250)	\$ 319	\$ (8,856)	\$ 1,885,193	\$ 169	\$ 1,885,362
Balance as of January 1, 2009	\$ 2,948,904	\$ -	\$ 16,076	\$ 5,217	\$ (1,182,723)	\$ 7,176	\$ (11,301)	\$ 1,783,349	\$ 165	\$ 1,783,514
Changes in unrealized loss on financial instruments	-	-	-	-	-	-	1,513	1,513	-	1,513
Changes in cumulative translation adjustment	-	-	-	-	-	7,229	-	7,229	-	7,229
Net income attributable to stockholders of parent in the first half of 2009	-	-	-	-	65,581	-	-	65,581	-	65,581
Changes in minority interests	-	-	-	-	-	-	-	-	52,011	52,011
Balance as of June 30, 2009	\$ 2,948,904	\$ -	\$ 16,076	\$ 5,217	\$ (1,117,142)	\$ 14,405	\$ (9,788)	\$ 1,857,672	\$ 52,176	\$ 1,909,848
Balance as of June 30, 2009 (in US\$)	\$ 89,361	\$ -	\$ 487	\$ 158	\$ (33,853)	\$ 437	\$ (297)	\$ 56,293	\$ 1,581	\$ 57,874

The accompanying notes are an integral part of the consolidated financial statements.

GIGASTORAGE CORPORATION AND SUBSIDIARIES
 UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
 For The Six-Month Periods Ended June 30, 2008 and 2009
 (Expressed in Thousands of New Taiwan Dollars)

	For the Six-Month Period Ended June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
CASH FLOWS FROM OPERATING ACTIVITIES:			
Consolidated net income (loss)	\$(45,321)	\$66,236	\$2,007
Adjustments to reconcile consolidated net loss to net cash provided by (used in) operating activities:			
Depreciation	151,205	151,437	4,589
Amortization	23,668	19,241	583
Recovery on decline in market value and obsolescence of inventories	(2,100)	(19,719)	(598)
Changes on deferred income tax assets and liabilities	-	8,492	257
Gain on disposal of property, plant and equipment, net	(2,441)	(786)	(24)
Loss on disposal of investments	5,273	-	-
Other investment loss	7,273	11,786	357
Amortization of discount on bonds payable	-	1,644	50
Gain on valuation of financial liabilities	-	(5,886)	(178)
Decrease in financial assets at fair value through profit or loss - current	30,591	-	-
Decrease (increase) in notes and accounts receivable	2,814	(14,494)	(439)
Decrease in accounts receivable - related parties	208	-	-
(Increase) decrease in inventories	(41,284)	30,928	937
Decrease (increase) in prepayments and other current assets	7,904	(19,286)	(584)
Increase in other receivables	(2,842)	(2,459)	(75)
(Decrease) increase in notes and accounts payable	(28,359)	10,539	319
Increase (decrease) in accounts payable - related parties	10,402	(30,342)	(919)
Increase in income tax payable	-	10,883	330
Decrease in accrued expenses	(42,559)	(6,281)	(190)
Increase in other payable - related parties	-	33	1
(Decrease) increase in revenues in advance and other current liabilities	(10,367)	14,922	452
Increase in accrued pension liabilities	187	149	5
Decrease in other long-term payable	(68,425)	(31,456)	(953)
Net cash provided by (used in) operating activities	(4,173)	195,581	5,927
CASH FLOWS FROM INVESTING ACTIVITIES :			
Decrease (increase) in restricted banking accounts	(186)	5,451	165
Proceeds from disposal of available-for-sale financial assets	12,766	-	-
Acquisition of property, plant and equipment	(31,655)	(54,874)	(1,663)
Proceeds from disposal of property, plant and equipment	114,564	40,216	1,219
Increase in deferred assets	(11,585)	(4,653)	(141)
Decrease (increase) in refundable deposits	4,382	(273)	(8)
Net cash provided by (used in) investing activities	88,286	(14,133)	(428)

(Continued)

English Translation of Consolidated Financial Statements Originally Issued in Chinese
GIGASTORAGE CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
For The Six-Month Periods Ended June 30, 2008 and 2009
(Expressed in Thousands of New Taiwan Dollars)

	For the Six-Month Period Ended June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
CASH FLOWS FROM FINANCING ACTIVITIES :			
Increase (decrease) in short-term loans	\$29,541	\$(42,139)	\$(1,277)
Decrease in long-term loans	(386,475)	(79,376)	(2,405)
Increase in long-term payable - related parties	44,000	-	-
Increase in minority interests	10	51,356	1,556
Net cash used in financing activities	(312,924)	(70,159)	(2,126)
EFFECT OF CHANGES IN EXCHANGE RATES	45,287	(5,921)	(180)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENT	(183,524)	105,368	3,193
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	305,963	147,278	4,463
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$122,439</u>	<u>\$252,646</u>	<u>\$7,656</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION :			
Income tax paid	<u>\$-</u>	<u>\$1,565</u>	<u>\$47</u>
Interest expenses paid	<u>\$39,830</u>	<u>\$25,841</u>	<u>\$783</u>
Investing activities partially affecting cash flows :			
Acquisition of property, plant and equipment	\$20,182	\$53,709	\$1,627
Add: payables on equipment at the beginning of period	16,576	7,709	234
Less: payables on equipment at end of period	(5,103)	(6,544)	(198)
Cash paid for acquiring property, plant and equipment	<u>\$31,655</u>	<u>\$54,874</u>	<u>\$1,663</u>
Disposal of property, plant and equipment	\$106,689	\$40,216	\$1,219
Add: receivables on equipment at the beginning of period	7,875	-	-
Less: receivables on equipment at end of period	-	-	-
Cash received from acquiring property, plant and equipment	<u>\$114,564</u>	<u>\$40,216</u>	<u>\$1,219</u>
INVESTING AND FINANCING ACTIVITIES NOT AFFECTING CASH FLOWS :			
Capital reserve used to cover accumulated deficits	<u>\$314,297</u>	<u>\$-</u>	<u>\$-</u>
Current portion of long-term loans	<u>\$201,925</u>	<u>\$101,268</u>	<u>\$3,069</u>
Current portion of other long-term payable	<u>\$118,961</u>	<u>\$225,927</u>	<u>\$6,846</u>
Cumulative translation adjustment	<u>\$(27,024)</u>	<u>\$7,229</u>	<u>\$219</u>
Change in unrealized loss on financial instruments	<u>\$920</u>	<u>\$1,513</u>	<u>\$46</u>

The accompanying notes are an integral part of the consolidated financial statements.

GIGASTORAGE CORPORATION AND SUBSIDIARIES
NOTES TO REVIEWED CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Periods Ended June 30, 2008 and 2009

(Expressed in Thousands of New Taiwan Dollars unless Otherwise Stated)

1. HISTORY AND ORGANIZATION

Gigastorage Corporation was incorporated under the Company Law in the Republic of China (the “R.O.C.”) on March 26, 1997 and commenced operation on December 1, 1997. Gigastorage Corporation is mainly engaged in the business of researching, manufacturing, and selling of read-only, write-able, and erasable optical disks; consulting services on the related technology; import and export of production equipments, spare parts, raw materials, semi-finished goods, and finished goods; bidding and agency services for foreign and local products; and manufacturing of information storage and handling equipment.

Gigastorage Corporation’s stocks became publicly listed on the Taiwan Stock Exchange (“TWSE”) on April 29, 2000 which was permitted by SFC on January 19, 2000.

In September, 2008, Gigastorage Corporation transferred the Solar Material Chemical Department to the Company’s subsidiary - Giga Solar Materials Corporation (previously Medwell Technology Corporation).

As of June 30, 2008 and 2009, Gigastorage Corporation and the consolidated entities had 561 and 565 employees in total, respectively. (Gigastorage and the consolidated entities are hereinafter referred to as “the Company” or “Gigastorage”.)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Guidelines Governing the Preparation of Financial Report by Securities Issuers and accounting principles generally accepted in the Republic of China. Summary of significant accounting policies is as follows:

General Descriptions of the Consolidated Entities

Investees in which Gigastorage, directly or indirectly holds more than 50% of voting common stocks or less than 50% of voting common stocks but has substantial control, are accounted for under equity method and consolidated in the Company’s consolidated financial statements. Consolidated subsidiaries are summarized as below:

Name of Investor	Name of Investee	Business Nature	Percentage of Ownership (%)	
			As of June 30,	
			2008	2009
Gigastorage	CUSTER INC.	Selling of CD-R and CD-RW products	100.00	100.00
Gigastorage	NEW ELITE INVESTMENTS LIMITED	Investment holding	100.00	100.00
Gigastorage	Quo-Chao Investments Corporation	Investment holding	99.99	99.99
Gigastorage	Maxmax Group Corporation	Selling of CD-R and CD-RW products	99.45	99.45
Gigastorage	GLOBAL ACETECH CO., LTD.	Selling of CD-R and CD-RW products	99.99	99.99
Gigastorage	Giga Solar Materials Corporation (Note)	Precise chemicals and industrial plastics	100.00	100.00
CUSTER INC.	BARNWELL	Selling of CD-R and CD-RW products	100.00	100.00
NEW ELITE INVESTMENTS LIMITED	Shenzhen Gigastorage Co., Ltd.	Other professional design service and management service	100.00	100.00

Note: Gigastorage acquired 100 thousand shares of common stock of Giga Solar Materials Corporation from the subsidiary, Quo-Chao Investments Corporation, on August 21, 2008. After the transaction, Gigastorage holds 100% voting rights of Giga Solar Materials Corporation.

All subsidiaries of Gigastorage have been included as consolidated entities in the consolidated financial statements.

Convenience Translation into US Dollars

Translations of amounts from New Taiwan dollars (“NT dollars” or “NT\$”) into United States dollars (“US dollars” or “US\$”) for the reader’s convenience were calculated at the rate of US\$1.00 to NT\$33. No representation is made that the NT\$ amounts could have been, or could be, converted into United States dollars at such rate.

Principles of Consolidation

- (1) The consolidated financial statements were prepared in accordance with R.O.C. Statement of Financial Accounting Standard (SFAS) No. 7. The transactions between the consolidated entities were appropriately eliminated in the consolidated financial statements.
- (2) Investees in which the Company holds more than 50% of voting rights, including those that are currently exercisable or

convertible, are accounted for under the equity method and shall be consolidated. An entity shall also be consolidated when the Company has:

- A. Power over more than half of the voting rights of the investee by virtue of an agreement with other investors;
 - B. As permitted by law, or by contractual agreements, the power to govern the financial, operating and personnel policies of the investee;
 - C. Authority to appoint or discharge more than half members of board of directors (or equivalent governing body), by whom the investee is controlled;
 - D. The Company leads and controls more than half of the members of the board of directors (or equivalents), and control of the investee is by that board or body;
 - E. Power to control over the investee due to other reasons.
- (3) If the acquisition cost is greater or less than the proportionate book value of the investee, it is accounted for in accordance with the R.O.C. SFAS No. 25 "Business Combinations - Accounting Treatment under the Purchased Method". Effective from January 1, 2006, pursuant to the newly revised R.O.C. SFAS No. 25, investment premiums, representing goodwill, is no longer amortized, and is assessed for impairment at least on an annual basis; while investment discounts continue to be amortized over the remaining period. In some cases, the fair value will exceed the investment cost. That excess, if generated after December 31, 2005, shall be allocated as a pro rata reduction of the amounts that otherwise would have been assigned to all of the acquired non-current assets. If any excess remains after reducing to zero the amounts that otherwise would have been assigned to those assets, that remaining excess shall be recognized as an extraordinary gain.

Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, and so near their maturity that they present insignificant risk of changes in value from fluctuations in interest rates. Commercial papers, negotiable certificates of deposit, and bank acceptances with original maturities of three months or less from the date of investment are considered cash equivalents.

Foreign Currency Transactions and Translation of Financial Statements in Foreign Currency

- (1) Gigastorage maintains its accounting records in New Taiwan dollars ("NT Dollars" or "NT\$"). Transactions denominated in foreign currencies are recorded in NT Dollars using the exchange rates in effect at the dates of the transactions. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Exchange differences arising from the settlements of the monetary assets and liabilities, and on the translation of monetary assets and liabilities are included in earnings for the period. Exchange differences arising from the translation of non-monetary assets and liabilities carried at fair value are included in earnings for the period except for differences arising from the translation of non-monetary assets and liabilities of which gains and losses are recognized directly in equity. For such non-monetary assets and liabilities, any exchange component of that gain or loss is recognized directly in equity. Non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined. Non-monetary assets and

liabilities that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction. Foreign exchange gains and losses are included in the statements of operations.

- (2) The assets and liabilities of the foreign subsidiaries are translated into NT Dollars, with the local currency of each foreign subsidiary as its functional currency, at the exchange rates in effect at the balance sheet date. Stockholders' equity accounts should be translated at the historical rates except for the beginning balance of the retained earnings, which is carried by the translated amount of the last period. Dividends are translated at the spot rate of the declared date. Revenue and expense accounts are translated using a weighted average exchange rate for the relevant period. Translation gains and losses are included as a component of stockholders' equity. The accumulated exchange gains or losses resulting from the translation are recorded as cumulative translation adjustments under stockholders' equity.

Financial Assets and Financial Liabilities

- (1) Financial asset or liability is recognized on the balance sheet when the Company becomes a party to the contractual provisions of the financial instrument contract. A regular way purchase or sale of financial assets are recognized using either trade date accounting on equity instruments or settlement date accounting on debt securities, beneficiary certificates and derivatives.
- (2) Upon initial recognition, financial assets or financial liabilities are measured at fair value, plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability.

- (3) Financial assets or financial liabilities are classified as follows:

A. Financial assets or financial liabilities at fair value through profit or loss

Financial assets or financial liabilities at fair value through profit or loss include financial assets or liabilities held for trading and financial assets and liabilities designated upon initial recognition as at fair value through profit or loss. Such assets or liabilities are subsequently measured at fair value and changes in fair value are recognized in profit or loss.

B. Financial assets carried at cost

These are not measured at fair value because their fair value cannot be reliably measured, they are either holdings in unquoted equity instruments or emerging stocks which the Company does not have significant influence over or derivative assets that are linked to and must be settled by delivery of the abovementioned unquoted equity instruments. When objective evidence of impairment of such unquoted equity instrument exists, an impairment loss is recognized. Such impairment loss shall not be reversed in subsequent periods.

C. Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity financial

assets or loans and receivables. When available-for-sale financial assets are subsequently measured at fair value, the changes in fair value are recognized as a separate component of stockholders' equity. The accumulated gains or losses previously charged to stockholders' equity are recognized in profit or loss when the financial asset is derecognized from the balance sheet.

If there is objective evidence which indicates that such financial asset is impaired, an impairment loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognized impairment loss for equity securities is reversed to the extent of the decrease and recorded as an adjustment to stockholders' equity; for debt securities, the amount of the decrease is recognized in profit or loss, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

The fair values for listed equity securities or close-ended funds are based on closing prices at the balance sheet date, while the fair values for open-ended funds on net value at the balance sheet date. When a quotation of the financial instrument as a whole from an active market does not exist, and only the quotation from an active market for the component of that financial instrument is available, then the market price of such component shall be considered to determine the fair value of the financial instruments.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided based on the aging analysis and the results of the Company's evaluation of collectability of the outstanding notes and accounts receivable.

Inventories

Inventories are recorded at cost when acquired and stated at the lower of aggregate cost, based on the weighted average method, or market value at the balance sheet date. The market values of raw materials are determined on the basis of replacement cost while work in process and finished goods are determined on net realizable value. The allowance for decline in market value and obsolescence of inventories is provided when necessary.

Effective January 1, 2009, inventories are valued at the lower of cost and net realizable value item by item. The costs of inventories are necessary expenditures and charges for bringing the inventory to the salable and useable condition and location using the weighted average cost formula. Fixed costs must be allocated on the basis of the normal capacity of the production equipment. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Property, Plant and Equipment

- (1) Property, plant and equipment are stated at cost. Significant improvements and replacements are capitalized and depreciated over their estimated useful lives while repairs and maintenance are expensed as incurred. Interest incurred on loans used to finance the construction of property, plant and equipment is capitalized and depreciated accordingly. When property, plant and equipment are disposed of, their original cost, accumulated depreciation and accumulated impairment are written off and related gains or losses are included as non-operating income or expenses.

- (2) Depreciation is provided by using the straight-line method over the following estimated useful lives. If the property, plant and equipment are still in use beyond their original estimated useful lives, the original residual value is further depreciated over their newly estimated useful lives.

Buildings	9 - 55 Years
Machinery and equipment	2 – 10 Years
Research and development equipment	3 - 10 Years
Transportation equipment	5 Years
Furniture and fixtures	3 - 5 Years
Miscellaneous equipment	5 Years

Deferred Assets

Deferred assets, including molds, spare parts and tools are amortized using the straight-line method over 3 to 5 years.

Capital Expenditures vs. Operating Expenditure

If the expenditure increases the future service potential of the plant assets and the purchase price exceeds a certain monetary threshold, then the expenditure is capitalized, while other expenditure not meeting the aforementioned criteria are expensed as incurred.

Revenue Recognition

The Company recognized revenue when the following conditions are met:

- (1) When persuasive evidence of an arrangement exists;
- (2) The product or service has been delivered;
- (3) The seller's price to the buyer is fixed or determinable and
- (4) Collectability is reasonably assured.

Convertible Bonds

- (1) The cost of issuing convertible bonds is recorded under liability or equity component in proportion to the original cost spent on each component.
- (2) Convertible bonds are evaluated to determine whether it contains both a liability and an equity component. The fair value of the liability component is measured first, at the fair value of a similar liability that does not have an associated equity conversion feature, and the fair value of the equity component is determined as a residual.
- (3) The liability component is subsequently measured at amortized cost and embedded derivative instrument is measured at fair value, while the equity component will not be re-measured after initial recognition.

- (4) Conversion of convertible bonds is accounted for using the face value method. Under this method, the carrying amount of convertible bonds is transferred to common stock and capital reserve accounts. No conversion gain or loss can be recognized.

Pension

- (1) According to the R.O.C. Labor Standards Law (“LSL”), Gigastorage and the subsidiaries, Maxmax Group Corporation and Giga Solar Materials Corporation, have their respectively defined benefit plans and have been making monthly contributions based on a fixed percent of their employees’ monthly wages. All regular employees are entitled to defined benefit pension plans that are managed by their respective independently administered pension fund committees. Fund assets are deposited under their respective committees’ names and hence, not associated with the Company. Therefore, fund assets are not to be consolidated in the Company’s financial statements.
- (2) The R.O.C. Labor Pension Act (“LPA”), which adopts a defined contribution plan, became effective on July 1, 2005. Employees eligible for the LSL, a defined benefit plan, were allowed to elect to either the pension calculation under the LPA or continue to be subject to the pension calculation under the LSL. Those employees that elected to be subject to LPA will have their seniority achieved under the LSL retained upon election of LPA, and domestic companies will make monthly contributions of no less than 6% of these employees’ monthly wages to the employees’ individual pension accounts.
- (3) The accounting for the Company’s pension liability is computed in accordance with R.O.C. SFAS No.18, “Accounting for Pension”. Net pension costs of the defined benefit plan are recorded based on an independent actuarial valuation. The unrecognized net transition obligation is amortized on the straight-line basis over the employees’ average remaining service period or 15 years. The Company recognizes expenses from the defined contribution pension plan in the period in which the contribution becomes due.
- (4) Foreign subsidiaries which have defined contribution pension plans make monthly contributions to pension funds in accordance with the relevant local law and regulations. The monthly contribution is recorded as an expense in the month in which the contribution becomes due.

Income Tax

- (1) The Company adopted an inter-period and intra-period income tax allocation method to recognize income tax. Tax effects on taxable temporary differences are recognized as deferred tax liabilities. Tax effects on deductible temporary differences, operating loss carryforward and investment tax credits are recognized as deferred tax assets. Valuation allowance is provided based on the expected realizability of the deferred tax assets. A deferred tax asset or liability should be classified as current or non-current according to the classification of its related asset or liability. However, if a deferred tax asset or liability is not directly related to an asset or a liability, then the classification is based on the expected realization date of such deferred income tax asset or liability.
- (2) According to R.O.C. SFAS No.12 “Accounting for Income Tax Credits”, the Company recognizes the tax

credits arising from purchases of machinery, equipment and technology, research and development expenditures, employee training, and certain equity investments in the period when such purchases, expenditures, training or investments occur.

- (3) Undistributed earnings generated after 1997 are subject to a 10% additional retained earnings tax (10% additional tax) in compliance with the R.O.C. Income Tax Act. The 10% additional tax is recorded as income tax expense in the year in which stockholders have resolved that the domestic companies' earnings shall be retained.
- (4) The R.O.C. Income Basic Tax Act (IBTA) has been effective since January 1, 2006. The IBTA is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the R.O.C. Income Tax Act is below the minimum amount prescribed under the IBTA. The impact of the IBTA has been considered in domestic companies' income tax for the current reporting period, and in determining the realizability of deferred income tax assets.
- (5) The statutory income tax rate applicable for Gigastorage and domestic subsidiaries is 25%. Pursuant to recent amendment of R.O.C. Income Tax Act announced on May 27, the statutory income tax rate will be changed to 20%, effective from January 1, 2010.

Earnings (Loss) Per Share

Earnings (loss) per share is computed in accordance with R.O.C. SFAS No. 24 "Earnings Per Share". The Company presents basic earnings (loss) per share and diluted earnings (loss) per share information. Basic earnings (loss) per share is computed by dividing the net income (loss) by the weighted-average number of common stock outstanding during the current reporting period. When calculating diluted earnings (loss) per share, the numerator includes or adds back potential common stock dividends, interest and other conversion revenues (expenses). The denominator includes all potentially dilutive common stock.

Employee Stock Option Plan

The Company used the intrinsic value method to recognize compensation cost for its employee stock options issued between January 1, 2004 and December 31, 2007, in accordance with R.O.C. Accounting Research and Development Foundation interpretation Nos. 92-070~072. For options granted on or after January 1, 2008, the Company recognizes compensation cost using the fair value method in accordance with R.O.C. SFAS No. 39 "Accounting for Share-Based Payment".

Derivative Financial Instruments

The Company initially recognized derivative as either financial assets (when the fair value is positive) or financial liabilities (when the fair value is negative) and subsequently remeasured those instruments at fair value.

Derivatives that are not qualified for hedge accounting are accounted for as financial assets or liabilities held for trading with changes in fair value recognized in profit or loss.

Asset Impairment

Pursuant to R.O.C. SFAS No. 35 “Impairment of Assets”, the Company assesses indicators of impairment for all its assets (except for goodwill) within the scope of the standard at each balance sheet date. If there is indication of impairment, the Company compares the asset’s carrying amount with its recoverable amount and writes down the carrying amount to the recoverable amount where applicable. For previously recognized impairment losses, the Company assesses at each balance sheet date whether there is any indication that the impairment loss no longer exists or may have diminished. If there is any such indication, the Company recalculates the recoverable amount of the asset, and if the recoverable amount has increased as a result of the increase in the estimated service potential of the asset, the Company reverses the impairment loss so that the resulting carrying amount of the asset does not exceed the amount (net of amortization or depreciation) that would otherwise result had no impairment loss been recognized for the asset in prior years.

Treasury Stock

- (1) Treasury stock transactions are accounted for under the cost method.
- (2) When treasury stock is sold for more than its acquisition cost, the difference is credited to capital reserve-treasury stock transaction. If treasury stock is sold for less than its acquisition cost, the difference is charged to the same capital reserve account to the extent that the capital reserve account is reduced to zero. If the balance of the capital reserve is insufficient, any further reduction shall be charged to retained earnings instead.
- (3) When treasury stock is cancelled, the treasury stock account is credited and all capital account balances related to the treasury shares, including capital reserve-additional paid in capital and common stock, are debited on a pro-rata basis. Any difference, if it is in credit balance, is recorded in capital reserve-treasury stock transaction; if it is in debit balance, is charged to the same capital reserve account to the extent that the capital reserve account is reduced to zero. If the balance of the capital reserve is insufficient, any further reduction shall be charged to retained earnings instead.

Employee Bonuses and Remunerations Paid to Directors and Supervisors

In accordance with R.O.C. Accounting Research and Development Foundation interpretation No. 96-052 “Accounting for Employee Bonuses and Remunerations to Directors and Supervisors”, effective from January 1, 2008, employee bonuses and remunerations paid to directors and supervisors are charged to expense at fair value and are no longer accounted for as an appropriation of retained earnings.

3. REASONS AND EFFECTS FOR CHANGES IN ACCOUNTING POLICIES

- (1) Effective from January 1, 2008, the Company adopted R.O.C. SFAS No. 39 “Accounting for Share-Based Payment” to account for share-based payments. This change in accounting policies had no effect on

consolidated net loss or basic earnings per share on a consolidated basis for the six-month period ended June 30, 2008.

(2) Effective from January 1, 2008, the Company adopted the newly released R.O.C. Accounting Research and Development Foundation interpretation No. 96-052 to account for employees' bonuses and remunerations paid to directors and supervisors. This change in accounting policies had no effect on consolidated net loss or basic earnings per share on a consolidated basis for the six-month period ended June 30, 2008.

(3) Effective from January 1, 2009, the Company adopted the newly revised R.O.C. SFAS No.10, "Accounting for Inventories". The main revisions are:

- A. inventories are valued at the lower of cost and net realizable value item by item;
- B. unallocated overheads resulted from low production or idle capacity are recognized as costs of goods sold in the period in which they are incurred; and
- C. abnormal amounts of production costs, and loss on decline in the market value of inventories (or gains on recovery in market value of inventories) are recognized as cost of goods sold.

This change in accounting policies had no significant effect on consolidated net income or basic earnings per share on a consolidated basis for the six-month period ended June 30, 2009. The non-operating income of NT\$6,009 thousand and the non-operating expenses of NT\$1,150 thousand for the six-month period ended June 30, 2008 was also reclassified to cost of goods sold.

(4) Pursuant to the amendment of R.O.C. Income Tax Act, the statutory income tax rate applicable for Gigastorage and domestic subsidiaries will change from 25% to 20%, effective from January 1, 2010. This change in accounting policies had no effect on consolidated net income or basic earnings per share on a consolidated basis for the six-month period ended June 30, 2009.

4. CONTENTS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Cash on hand	\$468	\$498	\$15
Checking and savings account	95,971	242,588	7,351
Time deposits	26,000	9,560	290
Total	\$122,439	\$252,646	\$7,656

(2) Financial assets at fair value through profit or loss - current

The Company entered into forward contracts and interest rate swaps and options with financial institutions. The purpose of entering into forward contracts and interest rate swaps is to hedge exchange rate fluctuation risk resulting from assets denominated in foreign currency and interest rate fluctuation risk resulting from

loans. However, these derivatives do not meet the hedge accounting criteria; therefore they are not accounted for using hedge accounting. As of June 30, 2008 and 2009, outstanding contracts were as follows:

Item	As of June 30,					
	2008		2009		2009	
	NT\$		NT\$		US\$	
	Book value	Notional amount	Book value	Notional amount	Book value	Notional amount
Interest rate swaps	\$164	\$150,000	\$-	\$-	\$-	\$-

Upon settlements, valuation gains on forward contracts amounting to NT\$304 thousand and NT\$0 thousand were recorded for the six-month periods ended June 30, 2008 and 2009, respectively; valuation gains on interest rate swaps were NT\$447 thousand and NT\$0 thousand for the six-month periods ended June 30, 2008 and 2009, respectively. Please refer to Note 10 to the financial statements for the disclosures of relative risks information for financial assets and liabilities at fair value through profit or loss.

(3) Notes receivable and accounts receivable, net

	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Notes receivable	\$9,137	\$5,675	\$172
Less: Allowance for doubtful accounts	-	-	-
Net	\$9,137	\$5,675	\$172

	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Accounts receivable	\$614,722	\$624,275	\$18,918
Less: Allowance for doubtful accounts	(196,509)	(125,912)	(3,816)
Less: Allowance for sales returns and discounts	(603)	-	-
Net	\$417,610	\$498,363	\$15,102

(4) Inventories, net

	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Raw materials	\$119,481	\$98,078	\$2,972
Work in process	59,842	117,068	3,547
Finished goods	41,926	22,056	668
Raw materials in transit	24,895	12,764	387

Total	246,144	249,966	7,574
Less: Allowance for decline in market value and obsolescence	(43,085)	(28,423)	(861)
Net	<u>\$203,059</u>	<u>\$221,543</u>	<u>\$6,713</u>

The following items were included in the Company's costs of goods sold:

	For the six-month period ended June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Gain on sale of scrap and wastes	\$(3,909)	\$(1,698)	\$(51)
Recovery on decline in market value and obsolescence of inventories	(2,100)	(19,719)	(598)
Loss on physical inventory	1,150	-	-

(5) Available-for-sale financial assets - non-current

	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Listed stocks			
Lead Data Inc.	\$13,328	\$13,328	\$404
International Branding Marketing Inc.	-	511	15
Subtotal	13,328	13,839	419
Adjustment for changes in fair value	(8,858)	(9,790)	(296)
Total	<u>\$4,470</u>	<u>\$4,049</u>	<u>\$123</u>

The available-for-sale investment - Ritek Corporation was fully disposed with loss on disposal in the amount of NT\$5,228 thousand for the six-month period ended June 30, 2008.

(6) Financial assets carried at cost - non-current

	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Unlisted stocks – common stock			
Taimide Technology Inc.	\$200,795	\$200,796	\$6,085
New Land Packing Corporation	55,910	55,910	1,694
Prorit Corporation	47,307	37,307	1,131
Infomax Optical Technology Corporation	7,287	7,287	221
Prosperity Venture Capital Corporation	3,645	3,645	110
Makin Technology Corporation	34,531	2,745	83
Subtotal	349,475	307,690	9,324
Listed stock through private placement			

International Branding Marketing Inc.	2,044	-	-
Total	<u>\$351,519</u>	<u>\$307,690</u>	<u>\$9,324</u>

- ① In August 2005, the Company invested NT\$6,000 thousand for 600,000 shares through private placement in International Branding Marketing Inc., representing 2.17% of ownership interest. Pursuant to the R.O.C. Securities and Exchange Act, such shares through private placement should not be transferred within three years since the date of acquisition. In 2008, such investments were reclassified to available-for-sale financial assets - non-current from financial assets carried at cost - non-current.
- ② Infomax Optical Technology Corporation carried out a capital reduction to offset its accumulated deficits in April 2008, which represented approximately 49.95% of its outstanding shares. The Company recognized an investment loss of NT\$7,273 thousand classified under non-operating expense - other investment loss for the six-month ended June 30, 2008.
- ③ Makin Technology Corporation carried out a capital reduction to offset its accumulated deficits in June 2009, which represented approximately 75% of its outstanding shares. The Company recognized an investment loss of NT\$11,786 thousand classified under non-operating expense - other investment loss for the six-month ended June 30, 2009.
- ④ The Company sold its shares of Taimide Technology Inc. at price of NT\$7,676 thousand with a loss of NT\$45 thousand classified under non-operating expense - loss on disposal of investments for the six-month ended June 30, 2008.

(7) Property, plant and equipment

- ① No interest was capitalized for the six-month periods ended June 30, 2008 and 2009, respectively.
- ② Refer to Note 4(23) of consolidated financial statements for impairment on property, plant and equipment.
- ③ Refer to Note 6 of consolidated financial statements for property, plant and equipment pledged as collateral.

(8) Over due accounts receivable, net

	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Over due accounts receivable	\$57,669	\$57,907	\$1,755
Less: allowance for doubtful accounts	(57,669)	(57,907)	(1,755)
Net	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>

(9) Short-term bank loans

	As of June 30,		
Items	2008	2009	2009
	NT\$	NT\$	US\$

Unsecured loans	\$197,330	\$239,276	\$7,251
Secured loans	23,600	37,766	1,144
Total	<u>\$220,930</u>	<u>\$277,042</u>	<u>\$8,395</u>

- ① The Company's unused short-term loans of credits amounted to NT\$220,308 thousand and NT\$163,491 thousand as of June 30, 2008 and 2009, respectively.
- ② The short-term loans interest rates ranged from 1.58%~6.25% and 1.75%~6.45% as of June 30, 2008 and 2009, respectively.
- ③ Refer to Note 6 to consolidated financial statements for assets pledged as collaterals.

(10) Long-term loans

Lender	Nature	Maturity day	As of June 30			Redemption method
			2008	2009	2009	
			NT\$	NT\$	US\$	
Land Bank	Secured	Jun. 5, 2012	\$88,886	\$66,663	\$2,020	Repayable monthly from Jul. 5, 2003 in 108 installments with interest paid monthly
Land Bank	Secured	Dec. 31, 2008	1,440	-	-	Repayable monthly from Jan. 2004 in 60 installments with interest paid monthly
Land Bank	Secured	Dec. 31, 2008	3,972	-	-	Repayable monthly from Jan. 2005 in 48 installments with interest paid monthly
Land Bank	Secured	Dec. 31, 2008	4,557	-	-	Repayable monthly from Feb. 28, 2005 in 47 installments with interest paid monthly
Land Bank	Secured	Sep. 7, 2012	22,103	16,798	509	Repayable monthly from Nov. 5, 2007 in 59 installments with interest paid monthly
Land Bank	Secured	Sep. 7, 2012	24,179	18,489	560	Repayable monthly from Feb. 5, 2008 in 56 installments with interest paid monthly
Land Bank	Secured	Sep. 7, 2012	5,930	4,534	138	Repayable monthly from Jul. 5, 2008 in 51 installments with interest paid monthly
Land Bank	Secured	Sep. 7, 2012	-	7,930	240	Repayable monthly from Jan. 5, 2009 in 45 installments with interest paid monthly

Mega International Commercial Bank	Secured	Feb. 25, 2015	186,192	158,608	4,806	Repayable quarterly from Feb. 25, 2008 in 29 installments with interest paid monthly (Note)
Mega International Commercial Bank	Secured	Aug. 20, 2009	26,500	5,300	161	Repayable quarterly from Nov. 20, 2004 in 20 installments with interest paid monthly
Chin Fon Bank	Secured	Jan. 15, 2009	5,625	-	-	Repayable quarterly from Apr. 15, 2005 in 16 installments with interest paid monthly
Chin Fon Bank	Secured	Jan. 15, 2009	11,438	-	-	Repayable quarterly from Apr. 15, 2005 in 16 installments with interest paid monthly
Chin Fon Bank	Unsecured	Apr. 15, 2009	24,000	-	-	Repayable quarterly from Jan. 15, 2007 in 10 installments with interest paid monthly
Chin Fon Bank	Secured	Jun. 28, 2010	16,000	8,000	243	Repayable quarterly from Mar. 28, 2008 in 10 installments with interest paid monthly
HSBC	Secured	Dec. 1, 2008	5,000	-	-	Repayable monthly from Jan. 17, 2006 in 36 installments with interest paid monthly
HSBC	Secured	Aug. 31, 2009	20,833	4,167	126	Repayable monthly from Oct. 31, 2006 in 36 installments with interest paid monthly
Export-Import Bank of R.O.C.	Secured	Sep. 21, 2011	12,443	8,888	269	Repayable semi-annually from Mar. 21, 2008 in 8 installments with interest paid quarterly
Export-Import Bank of R.O.C.	Secured	Sep. 21, 2011	19,226	13,733	416	Repayable semi-annually from Mar. 21, 2008 in 8 installments with interest paid quarterly
Export-Import Bank of R.O.C.	Secured	Sep. 21, 2011	1,581	1,129	34	Repayable semi-annually from Mar. 21, 2008 in 8 installments with interest paid quarterly
Chang Hwa Bank	Secured	Nov. 26, 2016	10,100	8,900	270	Repayable monthly from Nov. 26, 2001 in 150 installments with interest paid monthly
CHAILEASE Finance (BVI)	Secured	Oct. 31, 2009	42,476	13,124	398	Repayable quarterly from Jan. 31, 2008 in 8 installments with interest paid monthly

Total	532,481	336,263	10,190
Less: Current portion	(201,925)	(101,268)	(3,069)
Net	\$330,556	\$234,995	\$7,121

Note: Gigastorage entered into a long-term loan contract with Mega International Commercial Bank, which stated that during the contract period, each half-year or year-end current ratio must maintain at a level of more than 130% and liability ratio must be lower than 80% from February 25, 2005 to February 25, 2015. If Gigastorage failed to meet the condition mentioned above, the penalty should be paid monthly at 0.25% of the annual interest rate; and if the liability ratio exceeds 150%, Mega International Commercial Bank will impose the interest rate at two-year time deposit floating interest rate plus 2.5%. Mega International Commercial Bank also reserves the right to request immediate full repayments of the loans.

On June 5, 2008, Gigastorage and Mega International Commercial Bank signed amendments of long-term loan contract and removed all debt covenants mentioned above.

- ① The long-term loans interest rates ranged from 3.2228%~6.3610% and 2.3800%~5.6790% as of June 30, 2008 and 2009, respectively.
- ② Refer to Note 6 to consolidated financial statements for assets pledged as collaterals.

(11) Bonds payable

①

	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Convertible bonds payable	\$-	\$97,000	\$2,939
Less: discounts on bonds payable	-	(7,503)	(227)
Total	-	89,497	2,712
Less: Current portion	-	-	-
Net	\$-	\$89,497	\$2,712

- ② On August 31, 2008, Gigastorage issued domestic convertible bonds through private placements. The terms and conditions of the bonds were as follows:

A. Par value: NT\$100 thousand

B. Issue price: 100%

C. Total issue amount: 97,000 thousand

D. Coupon interest rate: 0%

E. Duration: three years (August 31, 2008~ August 31, 2011)

F. Redemption method: Gigastorage will redeem the bonds by cash on the maturity date, excluding exercise of conversion right or repurchase of bonds.

G. Redemption price at maturity or call price at the option of Gigastorage:

(A) Gigastorage will redeem the bonds at par value on the maturity, excluding early redemption, repurchase of bonds, or exercise of conversion right.

(B) Called by the issuer (Gigastorage) prior to maturity:

a. After the bonds have been outstanding for more than one year, Gigastorage may redeem in whole or in part of the bonds at the call price determined by a 2% of annual yield rate if the closing prices of Gigastorage's common share in the TWSE for 20 consecutive trading days are at least 180% of the conversion price.

b. Gigastorage may also have the right to redeem all, but not in part, of the outstanding debenture at the call price determined by a 2% of annual yield rate if more than 90% of the bonds has been converted, redeemed or called.

H. Redemption at the option of the bondholders:

The bonds are redeemable at 104% and 106% of par at the option of the bondholders, in whole or in part, on August 31, 2010 and August 31, 2011, respectively.

I. Conversion:

(A) Bondholders have the right to request Gigastorage to convert their bonds into common shares from 30 days after the bonds issuance date to 10 days before the maturity date.

(B) Conversion price: The conversion price was NT\$8.20 per share at the issue date

(C) Conversion price adjustment: When Gigastorage's issued shares increase (include but not limited to capital rise by cash, stock dividends or employee bonuses disbursed in stocks), the conversion price will be adjusted, except for exercises of securities with conversion right or option to convert into common shares.

For issuance of new shares due to acquisition or repurchase of treasury stocks, conversion price will not be adjusted.

③ There was no exercise of right of conversion as of June 30, 2009.

④ In accordance with R.O.C. SFAS No. 36, the Company records related conversion right and obligation separately as equity and liabilities. Equity components of convertible bonds are recorded under equity;

and liabilities components include embedded derivatives and non-derivative financial liabilities. The embedded derivatives were measured at fair value which amounted to NT\$415 thousand as of June 30, 2009; the non-derivative financial liabilities - bonds payable was measured at cost net of amortization which amounted to NT\$89,497 thousand as of June 30, 2009.

- ⑤ The Company adopted R.O.C. SFAS No. 34 “Accounting for Financial Instruments” and No. 36 “Financial Instruments: Disclosure and Presentation” and recognized amortization expense for discounts on bonds payable of NT\$1,644 thousand and loss on valuation of financial liability of NT\$5,886 thousand under interest expenses and loss on valuation of financial liability, respectively, for the six-month period ended June 30, 2009.

(12) Other long-term payable

	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Other long-term payable	\$649,664	\$645,606	\$19,565
Less: Current portion	(118,961)	(225,927)	(6,847)
Total	<u>\$530,703</u>	<u>\$419,679</u>	<u>\$12,718</u>

The above other long-term payable are results of Gigastorage entering into a settlement with Koninklijke Philips Electronics, N. V. (Philips).

(13) Pension

Defined Benefit Plans

The pension fund in a fiduciary account in Bank of Taiwan amounted to NT\$21,817 thousand and NT\$22,812 thousand as of June 30, 2008 and 2009, respectively. The total pension expenses amounted to NT\$5,097 thousand and NT\$4,629 thousand (including pension contributions in accordance with Labor Pension Act in the amount of NT\$4,814 thousand and NT\$4,235 thousand) for the six-month periods ended June 30, 2008 and 2009, respectively.

(14) Common stock

Gigastorage had 500,000 thousand common shares authorized to be issued (including 20,000 thousand shares reserved for exercise of employee stock options), and 294,890 thousand shares were issued as of January 1, 2008, each at a par value of NT\$10.

On April 28, 2003, the board of directors of Gigastorage approved the issuance of stock options with 10,000 thousand units, with each unit entitling an optionee to subscribe to 1 share of Gigastorage’s common stock and optionees may exercise the options in accordance with certain schedules as prescribed by the plan starting from 2 years from the issuance date. The contractual life of the option is 6 years, and unused options are expired at the maturity date. The issuance was submitted to the Securities and Futures Bureau (SFB) for approval and

became effective since June 23, 2003, and 6,000 thousand and 4,000 thousand units were issued on July 8, 2003 and December 30, 2003, respectively. Please refer to Note 11(1) for information on employee stock options.

Among the employee stock options issued 570 thousand shares were exercised as of June 30, 2009 (additional paid in capital of NT\$3,477 thousand was recorded due to exercise of these options). The issuance process through the authority had been completed.

Gigastorage had 500,000 thousand common shares authorized to be issued (including 20,000 thousand shares reserved for exercise of employee stock options), and 294,890 thousand shares were issued as of June 30 2009, each at a par value of NT\$10.

In accordance with the resolution made during the stockholders' meeting on June 19, 2009, Gigastorage carried out a capital reduction of NT\$1,179,561 thousand, which represented 117,956 thousand shares or 40% of its outstanding shares, for the purpose of improving the financial structure. The effective date of capital reduction was July 23, 2009 and the transaction was submitted and approved by the competent authority.

(15) Capital reserve

	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Long-term equity investment	\$16,076	\$16,076	487
Equity components of convertible bonds	-	5,217	158
Total	\$16,076	\$21,293	\$645

According to the R.O.C. Company Act, capital reserve shall be exclusively used to cover accumulated deficits when the legal reserve is insufficient to cover the deficits, or used in distribution of stock dividends (additional paid-in capital and donated income only).

Gigastorage's stockholders resolved to offset accumulated deficits by using capital reserve of NT\$314,297 thousand on June 13, 2008.

(16) Legal reserve

According to the R.O.C. Company Act, 10% of Gigastorage's net income, after deducting previous years' losses, if any, is appropriated for legal reserve prior to any distribution to the extent that such reserve is equal to Gigastorage's paid-in capital. When the legal reserve is accumulated to 50% or more of its paid-in capital, the excess on 50% of paid-in capital may be distributed to Gigastorage's stockholders through an issuance of additional common shares.

(17) Special reserve

In accordance with the R.O.C. Securities and Futures Bureau ("SFB") regulations, a special reserve must be

provided for unrealized loss on available-for-sale financial assets, excess of additional pension liability over unrecognized prior service cost and cumulative translation adjustment and unrealized loss for cash flow hedge that are accounted for as deductions to stockholders' equity. Once the aforementioned deductions to stockholders' equity are reversed, the related reserve may be allocated to distributable earnings.

(18) Earnings distribution

Pursuant to the R.O.C. Company Act and Gigastorage's Articles of Incorporation, current year's earnings before tax, if any, shall be distributed in the following order:

- ① Pay all taxes;
- ② Make up prior years' operation losses;
- ③ Set aside 10% of the remaining amount after deducting ① and ② as legal reserve;
- ④ Set aside special reserve in accordance with local regulation or reverse special reserve previously provided;
- ⑤ Stockholder's dividend distribution is to be proposed by the board of directors and approved at the Gigastorage's stockholders' meeting;
- ⑥ After deduction of items①,②, ③ and ④ from current year's earnings, the remaining is allocated as follows: no less than 2% may be allocated as directors' and supervisors' remuneration; no less than 5% as employees' bonuses.

The policy of dividend distribution should consider factors such as the industry's future outlook, long-term financial planning, sustainable management and development. Gigastorage determines the Company's annual demand of funding through the future capital budget. Stockholders' dividends may be distributed in the form of shares or cash, or a combination of both, and cash dividends to be distributed may not be higher than 50% of total dividends to be distributed.

The amended Gigastorage's Articles of Incorporation was approved by stockholders during the stockholders' meeting on June 19, 2009. Under Gigastorage's Articles of Incorporation, current year's earnings before tax, if any, shall be distributed in the following order:

- ① Pay all taxes;
- ② Make up prior years' operation losses;
- ③ Set aside 10% of the remaining amount after deducting ① and ② as legal reserve;
- ④ Set aside special reserve in accordance with local regulation or reverse special reserve previously provided;
- ⑤ Stockholder's dividend distribution is to be proposed by the board of directors and approved at the Gigastorage's stockholders' meeting. After deduction of items①,②, ③ and ④ from current year's earnings, the remaining is allocated together with the prior years' unappropriated earnings as follows:
 - A. no higher than 3% as directors' and supervisors' remuneration;
 - B. no less than 5% as employees' bonuses. If employees' bonuses will be settled through issuance of new shares of Gigastorage, employees of Gigastorage's subsidiaries, meeting certain requirements determined by the board of directors, are also eligible for the employees' bonuses;
 - C. the remaining as stockholders' dividends.

The policy of dividend distribution should consider factors such as the Company's operating development needs, capital planning, and satisfying stockholders' demands for cash. Stockholders' dividends may be distributed in the form of stocks or cash, or a combination of both, and cash dividends to be distributed may not be less than 10% of total dividends to be distributed. However Gigastorage may adjust distribution ratio taking into account current year's operations and funding conditions.

No distribution could be made in 2008 due to the fact that Gigastorage had accumulated deficits.

Information related to the distributions of employee's bonuses and remuneration for directors' and supervisors' service, recommended by the board of directors and then approved by the stockholders' annual meeting, is accessible on the Website of TWSE from the "Market Observation Post System."

(19) Earnings per share

Gigastorage's capital structure is a complex structure; and therefore both basic earnings per share and diluted earnings per share need to be calculated as follows:

(In shares)

Contents	For the six-month period ended June 30,	
	2008	2009
Shares outstanding at beginning	294,890,449	294,890,449
The effect of a capital reduction	(117,956,180)	(117,956,180)
Weighted average number of shares for basic earnings per share	176,934,269	176,934,269
Potential shares:		
The effect of dilutive convertible bonds (assuming fully converted)	-	11,829,268
Weighted average number of shares for diluted earning per share	176,934,269	188,763,537

	Amount (Numerator)			Earnings per share	
	(In thousand of NTD)			(In NTD)	
			Shares		
	Before tax	After tax	(Denominator)	Before tax	After tax
<u>For the six-month period ended June 30, 2008</u>					
Net loss attributable to parent company's stockholders:					
Basic earnings per share					
Net loss	\$(45,320)	\$(45,320)	176,934,269	\$(0.26)	\$(0.26)

Net income attributable to minority interests:

Basic earnings per share

Net loss	<u>\$ (1)</u>	<u>\$ (1)</u>	<u>176,934,269</u>	<u>\$ -</u>	<u>\$ -</u>
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Amount (Numerator)

Earnings per share

(In thousand of NTD)

(In NTD)

Shares

Before tax

After tax

(Denominator)

Before tax

After tax

For the six-month period ended June 30, 2009

Net income attributable to parent company's stockholders:

Basic earnings per share

Net income	\$86,521	\$65,581	176,934,269	<u>\$0.49</u>	<u>\$0.37</u>
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The effect of potential shares:

Convertible bonds	<u>(4,243)</u>	<u>(3,182)</u>	<u>11,829,268</u>
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Diluted earnings per share	<u>\$82,278</u>	<u>\$62,399</u>	<u>188,763,537</u>	<u>\$0.44</u>	<u>\$0.33</u>
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Net income attributable to minority interests:

Basic earnings per share

Net income	\$655	\$655	176,934,269	<u>\$ -</u>	<u>\$ -</u>
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The effect of potential shares:

Convertible bonds	<u>-</u>	<u>-</u>	<u>11,829,268</u>
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Diluted earnings per share	<u>\$655</u>	<u>\$655</u>	<u>188,763,537</u>	<u>\$ -</u>	<u>\$ -</u>
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(20) Income tax

- ① Gigastorage and its subsidiaries have filed their respective business income tax returns separately; they could not file tax returns on a consolidated basis. Income tax returns of Gigastorage and its subsidiary companies - Maxmax Group Corporation, Quo-Chao Investments Corporation and Giga Solar Materials Corporation for all fiscal years up to 2007 have already been assessed by the tax authority.
- ② Pursuant to the "Statute for Upgrading Industries", Gigastorage was entitled to an income tax exemption period for five consecutive years commencing from January 1, 2005.
- ③ Gigastorage and its domestic subsidiaries' available investment tax credits as of June 30, 2009 were as

follows:

Year incurred	Item	Unused amount	Expiration year
		NT\$	
2005	Investment in equipment for automation of production	\$5,299	2009
	R&D expenditure	17,168	
2006	Investment in equipment for automation of production	2,657	2010
	R&D expenditure	9,925	
	Investment in newly emerging, important and strategic industries	2,118	
2007	Investment in equipment for automation of production	1,207	2011
	R&D expenditure	7,281	
	Investment in newly emerging, important and strategic industries	16,302	
2008	Investment in equipment for automation of production	967	2012
	R&D expenditure	16,423	
2009(Estimated)	R&D expenditure	1,849	2013
Total		<u>\$81,196</u>	

Unused tax credits available to reduce future taxable income have been included in deferred income tax assets.

- ④ As of June 30, 2009, Gigastorage and its domestic subsidiaries' unutilized tax credits arising from the accumulated losses were as follows:

Year incurred	Accumulated losses	Unutilized accumulated loss	Expiration year
	NT\$	NT\$	
2004	\$133,440	\$132,927	2014
2005	632,275	632,275	2015
2006	355,021	355,021	2016
2007	809,951	809,951	2017
2008	130,122	130,122	2018
2009 (Estimated)	41,683	41,683	2019
Total	<u>\$2,102,492</u>	<u>\$2,101,979</u>	

Tax effect of above unutilized accumulated losses has been included in deferred income tax assets.

- ⑤ Deferred tax liabilities and assets are as follows:

	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
(A) Total deferred tax liabilities	<u>\$133</u>	<u>\$516</u>	<u>\$16</u>
(B) Total deferred tax assets	<u>\$945,534</u>	<u>\$702,214</u>	<u>\$21,279</u>

(C) Valuation allowance	\$735,106	\$517,557	\$15,683
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(D) Temporary differences that generated deferred tax assets or liabilities:

	As of June 30,					
	2008		2009		2009	
	Amount	Tax effect	Amount	Tax effect	Amount	Tax effect
	NT\$	NT\$	NT\$	NT\$	US\$	US\$
Unrealized bad debt expense	\$247,794	\$61,948	\$180,894	\$36,179	\$5,482	\$1,096
Unrealized inventory provision	\$43,085	\$10,771	\$27,916	\$5,583	\$846	\$169
Unrealized long-term investment loss	\$44,251	\$11,063	\$88,013	\$17,602	\$2,667	\$533
Unrealized foreign exchange gain	\$(260)	\$(65)	\$(2,578)	\$(516)	\$(78)	\$(16)
Unrealized foreign exchange loss	\$17,256	\$4,314	\$6,065	\$1,213	\$184	\$37
Unrealized loss on asset impairment	\$242	\$61	\$9,463	\$2,366	\$287	\$72
Unrealized sales discounts	\$603	\$151	\$100	\$20	\$3	\$1
Unrealized inter-company (loss) gain	\$(270)	\$(68)	\$1,231	\$246	\$37	\$7
Unpaid expenses	\$649,664	\$162,416	\$645,606	\$135,983	\$19,564	\$4,121
Others	\$7,982	\$1,996	\$7,147	\$1,430	\$217	\$43
Loss carry forwards	\$2,065,577	\$516,394	\$2,101,979	\$420,396	\$63,696	\$12,739
Investment tax credits		\$176,420		\$81,196		\$2,461

(E)

	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Deferred income tax assets - current	\$197,914	\$106,073	\$3,214
Valuation allowance - current	(130,477)	(51,925)	(1,573)
Deferred income tax assets - current, net	67,437	54,148	1,641
Deferred income tax liabilities - current	(133)	(516)	(16)
Net deferred income tax assets - current	\$67,304	\$53,632	\$1,625

(F)

	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Deferred income tax assets - non-current	\$747,620	\$596,141	\$18,065
Valuation allowance - non - current	(604,629)	(465,632)	(14,110)
Deferred income tax assets - non-current, net	142,991	130,509	3,955
Deferred income tax liabilities - non-current	-	-	-

Net deferred income tax assets - non-current	\$142,991	\$130,509	\$3,955
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- ⑥ Reconciliation between the income tax expense and the income tax calculated on pre-tax financial income basis is as follows:

	For the six-month period ended June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Tax on pre-tax income at statutory tax rate	\$(11,330)	\$41,260	\$1,250
10% income tax on undistributed earnings	-	10	-
Permanent difference	3,679	(20,297)	(615)
Change in valuation allowance	33,245	(132,346)	(4,010)
Investment tax credits	(3,878)	(14,132)	(428)
Change in deferred tax assets and liabilities resulting from the change of statutory tax rate	-	138,486	4,197
Prior year income tax adjustment	(21,945)	7,959	241
Others	229	-	-
Income tax (benefit) expense	\$-	\$20,940	\$635

- ⑦ Information related to Gigastorage's Imputation Credit Account:

	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Imputation credit account (ICA)	\$1,990	\$1,990	\$60

	For the year ended December 31,	
	2008 (Actual)	2009 Expected
	-	-
Creditable ratio	-	-

- ⑧ Information related to undistributed retained earnings:

	As of June 30,		
	2008	2009	
	NT\$	NT\$	US\$
After 1998	\$(1,071,250)	\$(1,117,142)	\$(33,853)

(21) Net operating revenue

	For the six-month period ended June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Optical products	\$746,540	\$515,837	\$15,632
Conductive pastes for solar cells	57,629	240,217	7,279
Other	150,625	195,965	5,938
Net Operating Revenue	<u>\$954,794</u>	<u>\$952,019</u>	<u>\$28,849</u>

(22) Personnel, depreciation and amortization expenses

	For the six-month period ended June 30,					
	2008			2009		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
Personnel expenses:						
Salaries	\$79,678	\$35,539	\$115,217	\$67,057	\$56,086	\$123,143
Insurance	5,299	2,697	7,996	5,685	1,670	7,355
Pension	3,141	1,956	5,097	3,054	1,575	4,629
Others	4,233	1,557	5,790	2,131	1,161	3,292
Depreciation (Note1)	136,933	12,915	149,848	138,586	12,851	151,437
Amortization (Note 2)	19,095	3,548	22,643	17,141	2,100	19,241

Note 1: The depreciation expenses listed above did not include depreciation of idle assets, which were recorded as non-operating expenses - other losses in the amount of NT\$1,357 thousand for the six-month period ended June 30, 2008.

Note 2: The amortization expenses listed above did not include amortization of deferred bond issuance cost and long-term loans securitization expenses, which was recorded as non-operating expenses - other losses in the amount of NT\$1,025 thousand for the six-month period ended June 30, 2008.

(23) Impairment loss

On October 1, 2004, the Company adopted the R.O.C. SFAS No.35, "Accounting for Assets impairment".

As of June 30, 2008 and 2009, the accumulated impairment losses are as follows:

	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Land	\$18,019	\$18,019	\$546
Machinery and equipment	12,764	12,764	387
Other equipment	4,640	4,640	141
Deferred assets	1,314	1,314	40
Spare parts (recorded under prepayments and other current assets)	520	520	15
Goodwill	1,030	1,030	31
Total	<u>\$38,287</u>	<u>\$38,287</u>	<u>\$1,160</u>

5. RELATED PARTY TRANSACTIONS

Name and relationship:

Name of related party	Relationship with the Company
Ritek Corporation	Gigastorage's director and the major stockholder
Prorit Corporation	Related party in substance
U-TECH Media Corporation	Gigastorage's chairman is U-TECH Media's chairman
Chi-Jen Chen	Gigastorage's director and general manager
	Maxmax's director
Chi-Ming Chen	The immediate or second degree families of Chi-Jen Chen
Su-Hwei Chen	The immediate or second degree families of Chi-Jen Chen
Hung Mai Corporation	Maxmax's chairman is Hung Mai's chairman

Significant transactions with related parties:

① Purchases

Name of Related party	For the six-month period ended June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Ritek Corporation	\$60,202	\$56,923	\$1,725
Hung Mai Corporation	57	58	2
Prorit Corporation	61	-	-
Total	<u>\$60,320</u>	<u>\$56,981</u>	<u>\$1,727</u>

The prices for the above purchases from related parties were based on negotiation. The margins therefore were not fixed.

② Operating revenues

Name of Related party	For the six-month period ended June 30,		
	2008	2009	2009
Ritek Corporation	\$61	\$-	\$-

The prices for the above operating revenues from related parties were based on negotiation. The margins therefore were not fixed.

- ③ The office rental of the subsidiary - Maxmax Group Corporation paid to Mr. Chi-Jen Chen were NT\$90 thousand annually for the six-month periods ended June 30, 2008 and 2009.

Receivable and payables resulting from the above transactions as follows:

① Accounts receivable - related parties

Name of Related party	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Ritek Corporation	\$64	\$-	\$-

② Other receivable –related parties – non-current, net

Name of Related party	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Hung Mai Corporation	\$2,600	\$2,479	\$75
Less: Allowance for doubtful accounts	(2,600)	(2,479)	(75)
Net	\$-	\$-	\$-

Credit terms with Ritek Corporation are month end 90 days that are similar to those with other domestic customers.

③ Accounts payable - related parties

Name of Related party	Payment terms	As of June 30,		
		2008	2009	2009
		NT\$	NT\$	US\$
Ritek Corporation	Month end 30-120 days	\$11,005	\$8,661	\$262
Chi-Jen Chen	Monthly paid	-	165	5
Prorit Corporation	Month end 45-120 days	61	-	-
Total		\$11,066	\$8,826	\$267

Payment terms to related parties were similar to those to third-party vendors.

④ Other payable –related parties – non-current

Name of Related party	As of June 30,		
	2008	2009	2009
Hung Mai Corporation	\$-	\$33	\$1

Financing provided to the Company is as follows:

Long-term payable – related parties

Name of related party	Highest running balance during the period	Balance at the end of the period	Range of interest rates	Interest expenses
<u>For the six-month period ended June 30, 2008</u>				
Chi-Jen Chen	\$20,000	\$20,000	3%	\$27
Chi-Ming Chen	14,000	14,000	3%	82
Su-Hwei Chen	10,000	10,000	3%	38
Total		<u>\$44,000</u>		<u>\$147</u>

For the six-month period ended June 30, 2009

None

6. ASSETS PLEDGED OR MORTGAGED

As of June 30, 2008 and 2009, the following assets were mortgaged to several banks, customs and government agencies as collaterals for bank loans, credit facilities and other purposes:

Accounts	Purpose	Party to which asset(s) was pledged	As of June 30,		
			2008	2009	2009
			NT\$	NT\$	US\$
Land	collateral for bank loans	Mega International Commercial Bank, Land Bank, Chang Hwa Bank, China Development Industrial Bank and Export-Import Bank of R.O.C.	\$204,904	\$205,384	\$6,224
Buildings	collateral for bank loans	Mega International Commercial Bank, Land Bank, Chang Hwa Bank, China Development Industrial Bank and Export-Import Bank of R.O.C.	421,135	413,230	12,522
Machinery and research equipment	collateral for bank loans	Mega International Commercial Bank, Land Bank, Ta Chong Bank, Bank of Pan Hsin, Chin Fon Bank, HSBC and Export-Import Bank of R.O.C., Sinopac Leasing Corp.	504,700	775,240	23,492
Furniture and fixtures	collateral for bank loans	Land Bank	-	290	9

Accounts	Purpose	Party to which asset(s) was pledged	As of June 30,		
			2008	2009	2009
			NT\$	NT\$	US\$
Miscellaneous equipment	collateral for bank loans	Land Bank and Mega International Commercial Bank	497	411	12
Financial assets carried at cost - non-current	(Note)	(Note)	2,044	-	-
Pledged time deposits - current	collateral for subsidies applied, letters of credit and power	Land Bank, Taiwan Cooperative Bank, e-Life Mall Corp., and Ayudhya	14,254	20,659	626
Pledged time deposits - non-current	Customs duty guarantee	Land Bank and the Customs	6,000	6,000	182
Total			<u>\$1,153,534</u>	<u>\$1,421,214</u>	<u>\$43,067</u>

Note: Please refer to Note 4(6) to consolidated financial statements.

7. **COMMITMENTS AND CONTINGENCIES**

As of June 30, 2009, the following commitments and contingencies were not reflected in the Company's consolidated financial statements:

- ① Unused letters of credit of the Company were approximately NT\$69,668 thousand as of June 30, 2009.
- ② Gigastorage entered into the following patent contracts:

Counterparty	Related product	Year the contract was entered into	Valid period	Payment method of royalties
Sony	Optical disks	June, 2009	5 years	Amount calculated based on the quantity of sales and paid quarterly.
Industrial Technology Research Institute.	Ultra hard coated router and drill	November, 2005	20 years	Amount calculated based on the quantity of sales and paid annually.

8. **SIGNIFICANT DISASTER LOSS**

NONE.

9. **SIGNIFICANT SUBSEQUENT EVENTS**

NONE.

10. **FINANCIAL INSTRUMENTS**

- ① Fair value of financial instruments

As of June 30, 2008	
Book value	Fair value
NT\$	NT\$

Non-derivativeFinancial assets

Cash and cash equivalents	\$122,439	\$122,439
Notes and accounts receivable, net (including related parties)	426,811	426,811
Other receivables (including related parties)	10,577	10,577
Available-for-sale financial assets - non-current	4,470	4,470
Financial assets carried at cost - non-current	351,519	-
Refundable deposits	232	232
Restricted banking accounts	20,254	20,254

Financial liabilities

Short-term loans	220,930	220,930
Notes and accounts payables (including related parties)	154,226	154,226
Accrued expenses	94,219	94,219
Other payable (including related parties)	-	-
Payable on equipment	5,103	5,103
Long-term loans (including current portion)	532,481	532,481
Other long-term payable (including current portion)	649,664	649,664
Long-term payable - related parties	44,000	44,000
Deposits-in	324	324

DerivativeFinancial liabilities

Interest rate swaps	164	164
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As of June 30, 2009

Book value		Fair value	
NT\$	US\$	NT\$	US\$

Non-derivativeFinancial assets:

Cash and cash equivalents	\$252,646	\$7,656	\$252,646	\$7,656
Notes and accounts receivables, net (including related parties)	504,038	15,274	504,038	15,274
Other receivable (including related parties)	12,730	386	12,730	386
Available-for-sale financial assets - non-current	4,049	123	4,049	123
Financial assets carried at cost - non-current	307,690	9,324	-	-
Refundable deposits	401	12	401	12
Restricted banking accounts	26,659	808	-	-

Financial liabilities:

Short-term loans	277,042	8,395	277,042	8,395
Notes and accounts payables (including related parties)	139,467	4,226	139,467	4,226
Accrued expenses	73,068	2,214	73,068	2,214
Other payable (including related parties)	33	1	33	1
Payable on equipment	6,544	198	6,544	198

Bonds payable	89,497	2,712	90,889	2,754
Long-term loans (including current portion)	336,263	10,190	336,263	10,190
Other long-term payable (including current portion)	645,606	19,565	645,606	19,565
Deposit-in	720	22	720	22

Derivative

Financial liabilities:

Call or put options embedded in bonds payable	415	12	415	12
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A. The methods and assumptions used by the Company to determine the above fair value of financial instruments are as follows:

- a. The book value of short-term financial instruments, such as cash and cash equivalents, notes and accounts receivables (including related parties), other receivables (including related parties), short-term loans, notes and accounts payables (including related parties), other payable (including related parties), accrued expenses and payable on equipment, approximate their fair value because of short maturity of these instruments.
- b. The fair values of refundable deposits, restricted banking account, and deposits-in are based on their book values because the estimated future cash receipts or payments are similar to the book value.
- c. The fair values of non-derivative financial assets at fair value through profit or loss and available-for-sale financial assets are based on their quoted market price.
- d. The fair values of financial assets measured at cost and prepayment for long-term investments are unable to be estimated since there is no active market in trading those unlisted investments.
- e. The fair values of bonds payable and embedded call or put options are determined by using a valuation technique.
- f. The fair value of long-term loans bearing floating interest rates approximates their book value, as the floating interest rates should be similar to the market rates..
- g. The fair value of other long-term payable is determined using discounted cash flow analysis.

B. The fair value of financial assets and liabilities held by the Company based on quoted price from active market and on valuation techniques is shown as follows:

As of June 30, 2008	
On quoted price	On valuation technique
NT\$	NT\$

Non-derivativeFinancial assets

Cash and cash equivalents	\$122,439	\$-
Notes and accounts receivable, net (including related parties)	-	426,811
Other receivables (including related parties)	-	10,577
Available-for-sale financial assets - non-current	4,470	-
Refundable deposits	-	232
Restricted banking accounts	20,254	-

Financial liabilities

Short-term loans	-	220,930
Notes and accounts payables (including related parties)	-	154,226
Accrued expenses	-	94,219
Other payable (including related parties)	-	-
Payable on equipment	-	5,103
Long-term loans (including current portion)	-	532,481
Other long-term payable (including current portion)	-	649,664
Long-term payable - related parties	-	44,000
Deposits-in	-	324

DerivativeFinancial liabilities

Interest rate swaps	-	164
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As of June 30, 2009

On quoted price		On valuation technique	
NT\$	US\$	NT\$	US\$

Non-derivativeFinancial assets:

Cash and cash equivalents	\$252,646	\$7,656	\$-	\$-
Notes and accounts receivables, net (including related parties)	-	-	504,038	15,274
Other receivable (including related parties)	-	-	12,730	386
Available-for-sale financial assets - non-current	4,049	123	-	-
Refundable deposits	-	-	401	12
Restricted banking accounts	26,659	808	-	-

Financial liabilities:

Short-term loans	-	-	277,042	8,395
Notes and accounts payables (including related parties)	-	-	139,467	4,226
Accrued expenses	-	-	73,068	2,214

Other payable (including related parties)	-	-	33	1
Payable on equipment	-	-	6,544	198
Bonds payable	-	-	90,889	2,754
Long-term loans (including current portion)	-	-	336,263	10,190
Other long-term payable (including current portion)	-	-	645,606	19,565
Deposit-in	-	-	720	22

Derivative

Financial liabilities:

Call or put options embedded in bonds payable	-	-	415	12
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C. For the six-month periods ended June 30, 2008 and 2009, the total changes in fair value estimated by using valuation techniques and recognized in the consolidated statements of operations were a gain of NT\$126 thousand and of NT\$5,886 thousand, respectively.

- ② As of June 30, 2008 and 2009, financial assets with fixed interest rates and fair value exposed to interest rate risk were NT\$0 thousand and NT\$0 thousand while financial liabilities with fixed interest rates and fair value exposed to interest rate risk were NT\$840,587 thousand and NT\$751,603 thousand, respectively. Financial assets with floating interest rates and exposed to cash flow risk were NT\$46,254 thousand and NT\$36,219 thousand, respectively, while financial liabilities with floating interest rates and exposed to cash flow risk were NT\$606,488 thousand and NT\$596,805 thousand, respectively.
- ③ For the six-month periods ended June 30, 2008 and 2009, total interest revenue and total interest expense for financial assets or liabilities that are not at fair value through profit or loss were as follows:

Item	For the six-month period ended June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Interest revenue	\$4,695	\$351	\$11
Interest expense	39,830	26,872	815

- ④ The Company's unrealized gains in stockholders' equity for the changes in fair value of available-for-sale financial assets, which were transferred from equity and recognized in profit or loss, were NT\$4,113 thousand and NT\$0 thousand, for the six-month periods ended June 30, 2008 and 2009, respectively. For the six-month periods ended June 30, 2008 and 2009, the Company recognized impairment loss on financial assets in the amount of NT\$0 thousand and NT\$0 thousand, respectively. The unrealized loss recognized in stockholders' equity for the changes in fair value of financial instruments was as follows:

	From Gigastorage	From Subsidiaries	Total
	NT\$	NT\$	NT\$
<u>For the six-month period ended June 30, 2008</u>			
Addition	\$4,788	\$-	\$4,788

Reduction	-	(3,868)	(3,868)
Net	<u>\$4,788</u>	<u>\$(3,868)</u>	<u>\$920</u>
	From Gigastorage	From Subsidiaries	Total
	NT\$	NT\$	NT\$
<u>For the six-month period ended June 30, 2009</u>			
Addition	\$-	\$1,574	\$1,574
Reduction	(61)	-	(61)
Net	<u>\$(61)</u>	<u>\$1,574</u>	<u>\$1,513</u>

⑤ Information of financial risks

The Company held certain non-derivative financial instruments, including cash and cash equivalents, financial assets at fair value through profit or loss, short-term loans, long-term loans and bonds payable. The Company held the financial instruments to meet operating cash needs, and held other financial instruments such as notes and accounts receivables, notes and accounts payables, available-for-sale financial assets, and financial assets carried at cost.

The Company entered into forward contracts and interest rate swaps and options with financial institutions. The purpose of entering into forward contracts and interest rate swaps is to hedge exchange rate fluctuation risk resulting from assets denominated in foreign currency and interest rate fluctuation risk resulting from loans. However, the derivatives do not meet the hedge accounting criteria, and therefore they are not accounted for using hedge accounting.

Major risks of financial instruments were summarized as follows:

A. Market value risk

- The fair value of the listed companies' stock held by the Company will fluctuate under the influence of related market factors.
- The Company is exposed to currency risk for the purchases or sales activities which are not denominated in functional currency. Market value risk for forward contracts is insignificant due to the fact that the purpose of the contracts is hedging. The Company will recognize the total change in the fair value of derivative financial instrument in the consolidated statements of operations, if the derivatives do not meet the criteria for hedging accounting.
- The Company therefore held certain interest rate swaps to hedge interest rate fluctuation risks resulted from the underlying loans. The Company will recognize the total change in fair value of derivative financial instrument in the consolidated statement of income or loss, if the derivatives do not meet the criteria for hedging accounting. Market value risk is insignificant due to stability in interest rates.

B. Credit risk

- The Company only trades with established and creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In

addition, receivable balances are monitored on an ongoing basis.

- b. With respect to credit risk arising from the other financial assets comprised of cash and cash equivalents, and certain derivative instruments, the Company's exposure to credit risk arising from the default of counter-parties is limited to the carrying amount of these instruments.
- c. Because the Company trades only with established third parties, it will not request for collateral to be provided by third parties.

C. Liquidity risk

- a. The Company has sufficient operating capital to meet cash needs upon settlement of derivatives . Therefore, the liquid risk is low.
- b. Except for financial assets carried at cost that may have significant liquidity risks resulted from lack of an active market, the equity securities held by the Company are traded in active markets and can be sold promptly at the prices close to its fair values.

D. Cash flow risk due to fluctuations in interest rate

The Company's main financial instruments exposed to cash flow risk are the investment in time deposits and long-term loans with floating interest rate. However there is no significant impact due to the short maturity of those time deposits. The cash flow risk due to fluctuations in interest rate from time deposits is minimal. Cash outflows for interest payment would be increased by NT\$6,138 thousand and NT\$3,991thousand if market interest rate increased by 1% with bank loan bearing floating interest rate for the six-month periods ended June 30, 2008 and 2009, respectively

- ⑥ Refer to consolidated financial statement note 4(11) ④ and ⑤ for embedded derivative instrument in convertible bonds.

11. OTHERS

(1) Employee stock options

- ① Detailed information relevant to the employee stock options as of June 30, 2009 was disclosed as follows:

Grant Date	Options granted (Units)	Options outstanding (Units)	Shares Exercisable (Shares)
Jul. 8, 2003	6,000,000	4,081,000	4,081,000
Dec. 30, 2003	4,000,000	3,481,000	3,481,000

The exercise prices shall be adjusted when Gigastorage's common shares change in accordance with the terms of employee stock options plan.

- ② A summary of units and weighted average price, and related information for the six-month periods ended June 30, 2008 and 2009 was as follows:

	2008		2009		
	Option (in unit)	Weighted- average exercise price per shares (in NT dollar)	Option (in unit)	Weighted- average exercise price per shares (in NT dollar)	Weighted- average exercise price per shares (in US dollar)
Outstanding					
At beginning of period	9,106,000	\$16.10	8,569,000	\$16.10	\$0.49
Granted	-	-	-	-	-
Exercised	-	-	-	-	-
Expired	-	16.10	1,007,000	16.10	0.49
At end of period	<u>9,106,000</u>	16.10	<u>7,562,000</u>	16.10	0.49
Exercisable					
At end of period	<u>9,106,000</u>	16.10	<u>7,562,000</u>	16.10	0.49

③ Information with respect to the outstanding options as of June 30, 2009 was as follows:

		Outstanding			Exercisable	
Authorized grant date	Exercise price (in NT dollar)	Option (in unit)	Weighted- average remaining contractual life (in year)	Weighted- average exercise price (in NT dollar)	Option (in unit)	Weighted- average exercise price (in NT dollar)
92.06.23	<u>\$16.10</u>	7,562,000	0.50	<u>\$16.10</u>	7,562,000	<u>\$16.10</u>

(2) Certain comparative amounts have been reclassified to conform to the current year's presentation.

(3) Inter-company relationships and significant inter-company transactions are as follows:

For the six-month period ended June 30, 2008

No. (Note 1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			
				Account	Amount (in thousands)	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
0	Gigastorage Corporation	Maxmax Group Corporation	1	Operating revenue	\$10,968	On negotiation	1.15%
				Accounts receivable	8,049	Month end 180 days	0.225%
				Limit of Endorsement/Guarantee	20,000	-	-
		GLOBAL ACETECH CO., LTD.	1	Operating revenue	117,666	On negotiation	12.32%
				Purchase	52,470	On negotiation	5.50%
				Accounts receivable	127,111	Month end 90 days	3.52%
				Other receivable	3,775	Month end 90 days	0.10%
				Accounts payable	9,939	Month end 120 days	0.28%
				Limit of Endorsement/Guarantee	THB45,000	-	-
				Accounts receivable	87	Month end 90 days	-
				Other receivable	567	Month end 90 days	0.02%
				Limit of Endorsement/Guarantee	USD2,000	-	-
1	NEW ELITE INVESTMENTS LIMITED	GLOBAL ACETECH CO., LTD.	3	Other receivable	41,293	(Note 4)	1.14%

For the six-month period ended June 30, 2009

No. (Note 1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction				
				Account	Amount (in thousand)	Terms	Percentage of consolidated operating revenue or total assets (Note 3)	
0	Gigastorage Corporation	Maxmax Group Corporation	1	Operating revenue	\$16,258	On negotiation	1.71%	
				Purchase	6,554	On negotiation	0.69%	
				Accounts receivable	10,450	Month end 180 days	0.30%	
				Accounts payable	417	Month end 120 days	0.01%	
				Limit of Endorsement/Guarantee	20,000	-	-	
				Operating revenue	58,044	On negotiation	6.10%	
0		Gigastorage Corporation	Gigastorage Corporation	1	Purchase	27,622	On negotiation	2.90%
					Accounts receivable	57,161	Month end 90 days	1.61%
					Other receivable	93,334	Month end 90 days	2.64%
					Limit of Endorsement/Guarantee	THB45,000	-	-
					Operating revenue	39,239	On negotiation	4.12%
					Purchase	541	On negotiation	0.06%
0	Gigastorage Corporation		Giga Solar Materials Corporation	1	Rent revenues	1,315	On negotiation	0.14%
					Other receivable	452	Month end 90 days	0.01%
					Other payable	2,141	Month end 120 days	0.06%
					Limit of Endorsement/Guarantee	70,000	-	-

(Continued)

No. (Note 1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			
				Account	Amount (in thousand)	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
0	Gigastorage Corporation	NEW ELITE INVESTMENTS LIMITED	1	Commission	444	On negotiation	0.05%
				Limit of Endorsement/Guarantee	USD2,000	-	-
1	GLOBAL ACETECH CO., LTD.	Maxmax Group Corporation	3	Operating revenue	14,928	On negotiation	1.57%
				Accounts receivable	6,953	Month end 120 days	0.20%
2	NEW ELITE INVESTMENTS LIMITED	GLOBAL ACETECH CO., LTD.	3	Other receivable	12,948	(Note 4)	0.37%

Note 1: Gigastorage and subsidiaries are coded as follows:

1. Gigastorage is coded "0".
2. The subsidiaries are coded consecutively beginning from "1" in the order presented in the table above.

Note 2: Transactions are categorized as follows:

1. The holding company to subsidiary.
2. Subsidiary to holding company.
3. Subsidiary to subsidiary.

Note 3: The percentage with respect to the consolidated assets/liabilities for transactions of balance sheet items is based on each item's balance at period-end. For profit or loss items, cumulative balance is used as basis.

Note 4: NEW ELITE INVESTMENTS LIMITED's other receivables to GLOBAL ACETECH CO., LTD. were financing provided to affiliations for short term operating needs. The interest rates were 6.743% and 6.450% for the six-month periods ended 2008 and 2009, respectively.

12. ADDITIONAL DISCLOSURES

(1) Significant transaction information

- ① Financing provided to others for the six-month period ended June 30, 2009: None.
- ② Endorsement/Guarantee provided to others for the six-month period ended June 30, 2009: None.
- ③ Securities held as of June 30, 2009:

Holding company	Type of securities	Name of securities	Relationship	Financial Statement Account	Shares	Book value (NT\$)	Percentage of ownership	Market value/ Net assets value (NT\$)	Remark
Gigastorage	stock	AvanSense Technology Inc.	-	Long-term investments accounted for under the equity method	1,300,000	\$-	43.33%	\$-	-
		Taimide Technology Inc.	-	Financial assets carried at cost - non-current	11,190,683	123,441	12.38%	8.57	-
		New Land Packing Corporation	-	Financial assets carried at cost - non-current	1,773,860	55,910	14.82%	14.35	-
		Infomax Optical Technology Corporation	-	Financial assets carried at cost - non-current	520,518	7,287	1.27%	8.00	-
		Prorit Corporation	Related party	Financial assets carried at cost - non-current	3,942,205	37,307	1.26%	7.43	-
		Prosperity Venture Capital Corporation	-	Financial assets carried at cost - non-current	405,000	3,645	1.10%	9.86	-
		Makin Technology Corporation	-	Financial assets carried at cost - non-current	780,000	2,745	16.37%	3.52	-
		International Branding Marketing Inc.	-	Available-for-sale financial assets, non-current	130,664	450	0.38%	3.44	-
		Lead Data Inc.	-	Available-for-sale financial assets - non-current	1,049,400	3,599	0.24%	3.43	-
		Taimide Technology Inc.	-	Financial assets carried at cost - non-current	4,134,954	39,906	4.57%	8.57	-
Quo-Chao Investments Corporation	stock								

- ④ Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$100 million or 20 percent of the capital stock for the six-month period ended June 30, 2009: None.
- ⑤ Acquisition of individual real estate with amount exceeding the lower of NT\$100 million or 20 percent of the capital stock for the six-month period ended June 30, 2009: None.
- ⑥ Disposal of individual real estate with amount exceeding the lower of NT\$100 million or 20 percent of the capital stock for the six-month period ended June 30, 2009: None.
- ⑦ Related party transactions for purchases and sales amounts exceeding the lower of NT\$100 million or 20 percent of capital stock for the six-month period ended June 30, 2009: None.
- ⑧ Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20 percent of capital stock as of June 30, 2009: None.
- ⑨ The derivatives transaction for the six-month period ended June 30, 2009: refer to financial statement Note 4(2) and 10

(2) Related information of investees

The Company has the significant influence or substantial control to the following investees:

Investor Company	Name of the investee	Address	Main Business and product	Original investment amount (NT\$)		June 30, 2009			Net income (loss) of the investee (NT\$)	Investment income (loss) recognized (NT\$)
				June 30, 2009	January 1, 2009	Units shares	Percent	Book value (NT\$)		
Gigastorage	AvanSense Technology Inc.	HsinChu Country	Operating and selling of medical equipment	\$13,000	\$13,000	1,300,000	43.33%	\$-	\$-	\$-

(3) Investment in Mainland China

① Status of the investment:

Investee Company	Main business product	Total Amount of Paid-in Capital (in USD)	Method of investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2009 (in USD)	Investment Flows		Accumulated Outflow of Investment from Taiwan as of June 30, 2009 (in USD)	Percentage of Ownership	Investment income (loss) recognized (in USD)	Carrying Value as of June 30, 2009 (in USD) (Note 4)	Accumulated Inward Remittance of Earnings as of June 30, 2009 (in USD)
					Outflow (in USD)	Inflow (in USD)					
Shenzhen Gigastorage Co., Ltd.	Note 2	\$170,000	Through the investing company in third country (Note 3)	\$170,000	\$-	\$-	\$170,000	100%	\$(2,614)	\$1,984	\$-
Accumulated Investment in Mainland China as of June 30, 2008 (in USD)				Investment Amounts Authorized by Investment Commission, MOEA (in USD)				Upper Limit on Investment (in NT\$)			
\$170,000				\$200,000				\$1,114,603 (Note 1)			

Note 1: Proceed in according to Directions Governing the Review and Supervision of Investment in Mainland China issued by Investment Commission, MOEA.

Note 2: Major business are other professional design service (association, packing design), management and consulting (management and consulting for manufacturing and sales)

Note 3: Due to the fact that the size of the company is too small, carrying value is calculated based on the un-audited financial statements for the same period using the equity method.

② The significant transactions with investees in Mainland China:

- A. Purchase amount and percentage related to year end accrued expense amount and percentage for the six-month period ended June 30, 2009: None.
- B. Sales amount and percentage related to year end account receivable amount and percentage for the six-month period ended June 30, 2009: None.
- C. Acquisition and disposal of assets and related income (loss) for the six-month period ended June 30, 2009: None.
- D. Endorsement/Guarantee provided to others as of June 30, 2009: None.
- E. Financing provided to others for the six-month period ended June 30, 2009: None.
- F. The transactions might have significant effect on current income or financial condition for the six-month period ended June 30, 2009: None.

HEAD OFFICE OF THE COMPANY

Gigastorage Corporation
3, Kung Yeh First Rd.
Hsinchu Industrial Park
Hsinchu, Taiwan
ROC

TRUSTEE

The Bank of New York Mellon, acting through its London Branch
One Canada Square
40th Floor
London E14 5AL
United Kingdom

**PRINCIPAL PAYING, TRANSFER AND
CONVERSION AGENT**

**The Bank of New York Mellon, acting through its
London Branch**
One Canada Square
40th Floor
London E14 5AL
United Kingdom

REGISTRAR

The Bank of New York Mellon
101 Barclay Street
Floor 4-E
New York, New York 10286
USA

LEGAL ADVISERS

To the Trustee

Mallesons Stephen Jaques
37th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

To the Manager

LCS & PARTNERS
5th Floor
No. 8, Sec. 5, Sinyi Road
Taipei, Taiwan
ROC

To the Company

Lin & Associates
Suite 1, 6th Floor, No. 77 Section 1
Chung Ching South Road
Taipei, Taiwan
ROC

AUDITORS

Ernst & Young
7F., No. 419, Sec. 2, Gongdao 5th Rd.
Hsinchu City, Taiwan
ROC

