

CONFIDENTIAL INFORMATION MEMORANDUM

INFODISC TECHNOLOGY COMPANY LIMITED

Offer by Infodisc Technology Co., Ltd. of an aggregate principal amount of up to
U.S.\$110,000,000 Zero Coupon Convertible Bonds

This Information Memorandum (the “Memorandum”) relates to an offering (the “Offering”) by Infodisc Technology Co., Ltd. (the “Company”), a Taiwanese company, of an aggregate principal amount of up to U.S.\$110,000,000 Zero Coupon Convertible Bonds, as to an aggregate principal amount of U.S.\$60,000,000 due 2005 and as to an aggregate principal amount of U.S.\$50,000,000 (collectively, the “Bonds”) due 2007, all of the Bonds being convertible subject to conditions set out in a Trust Deed dated June 12, 2002 into common shares of the Company par value NT\$10 per share (the “Common Shares”). The Bonds will be offered outside of Taiwan, consistent with local law in jurisdictions in which offers are made. See the section of this Memorandum entitled “The Offering.”

PLEASE REFER TO “NOTICES TO INVESTORS” FOR IMPORTANT INFORMATION REGARDING THE OFFERING AND RESTRICTIONS ON THE MANNER IN WHICH THE OFFERING WILL BE MADE.

Aggregate Principal Amount of the Bonds: U.S.\$110 million (NT\$3,749.9 million)

On or prior to the closing of the Offering, the Company will have deposited a global certificate representing all of the Bonds with The Bank of New York as the Common Depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear System and Clearstream Banking, *societe anonyme*.

Lead Manager

FB GEMINI LIMITED

Co-Managers

**FUH-HWA SECURITIES (H.K.) CO., LTD.
TIS SECURITIES (HK) LIMITED**

This Information Memorandum is dated June 12, 2002

NOTICES TO INVESTORS

The Bonds offered hereby have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”), or any state securities laws, for offer or sale as part of their distribution and, subject to certain exemptions from registration, the Bonds may not be offered or sold in the United States. The sale, transfer or other disposition of any Bonds purchased pursuant to this Memorandum is substantially restricted by applicable U.S. federal and state securities laws. The Bonds offered hereby have not been recommended by any U.S. federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this Memorandum. Any representation to the contrary is a criminal offense in the United States.

The Bonds will not be sold to any U.S. person within the meaning of Regulation S of the Securities Act (“Regulation S”) and will only be sold to persons whose principal business address is located outside the United States. The Bondholders, if they in the future decide to resell, pledge or otherwise transfer such Bonds, agree that such Bonds may be offered, resold, pledged or otherwise transferred by them only in an offshore transaction meeting the requirements of Rule 903 or 904 of Regulation S or pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) (resales described above are hereinafter referred to as “Safe Harbor Resales”) or by a subsequent investor in a Safe Harbor Resale or pursuant to any other available exemption from the registration requirements under the Securities Act (provided that as a condition to the registration of transfer of any Bonds otherwise than in a Safe Harbor Resale, the Company may require delivery of any documents or other evidence (including, but not limited to, an opinion of counsel) that the Company, in its sole discretion, may deem necessary or appropriate to evidence compliance with such exemption), or pursuant to an effective registration statement under the Securities Act, and in each of such cases in accordance with any applicable securities laws of any state of the United States. The Bondholders will not offer, sell or deliver any of the Bonds in any jurisdiction except under circumstances that will result in compliance with the applicable laws thereof, and will take, at their own expense, whatever action is required to permit the resale of the Bonds in such jurisdiction.

Prior to the date six months after the issue of the Bonds, the Bondholders will not offer or sell any Bonds to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offer of Securities Regulations 1995. The Underwriter has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (“FSMA”)) received by it in connection with the issue or sale of any Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the company. The Underwriter has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

The Bondholders understand that the registrar for the Bonds will not be required to accept for registration of transfer any Bonds acquired by them, except upon presentation of evidence satisfactory to the Company that the foregoing restrictions on transfer have been complied with. The Bondholders acknowledge that the Company has relied upon the accuracy and completeness of their representations, undertakings, and agreements to and with the Company.

A copy of this Memorandum has not been registered with the Registrar of Companies in Hong Kong and, accordingly, except as mentioned below, no copy of this Memorandum may be issued, circulated or distributed in Hong Kong. However, a numbered copy of this Memorandum may be issued to a limited number of prospective applicants, whose ordinary business it is to buy or sell shares or debentures in Hong Kong in a manner which does not constitute an issue, circulation or distribution in Hong Kong of a prospectus for the purposes of the Hong Kong Companies Ordinance (Cap. 32 of the Laws of Hong Kong). An application for Bonds is not invited from any person in Hong Kong other than a person to whom a numbered copy of this Memorandum has been issued and, if made, will not be accepted. No person to whom a numbered copy of this Memorandum is issued may issue, circulate or distribute this Memorandum in Hong Kong or make or give a copy of this Memorandum to any other person, other than their legal, financial, tax or other appropriate advisers who are subject to a duty of confidentiality to such person.

This Memorandum is strictly for the confidential use of only those prospective investors considering an investment in the Bonds. In making an investment decision, prospective investors must rely on their own examination of the business, operations and prospects of the Company and the terms of the Offering, including the merits and risks involved. Prospective purchasers should be aware that they may be required to bear the financial risks of an investment in Bonds for an indefinite period of time and should be able to afford a total loss of their investment. Prospective investors should not construe the contents of this Memorandum or any other similar communication as investment, legal or tax advice. This Memorandum, the other documents delivered herewith and any such other materials, as well as the nature of an investment in the Bonds offered hereby, should be reviewed by each prospective investor with such investor's investment, tax, legal, accounting and other advisers. Prospective investors are urged to request any additional information they may consider necessary in making an informed investment decision.

The distribution of this Memorandum and the offering and sale of Bonds in certain jurisdictions may be restricted by law. The Company requires persons into whose possession this Memorandum comes to inform themselves about and to observe any such restrictions. This Memorandum constitutes an offer only to the offeree to whom this Memorandum is initially provided and does not constitute an offer to sell or a solicitation of an offer to purchase from anyone in any country, state or other jurisdiction in which such an offer or solicitation is not authorized and does not constitute an offer to sell or a solicitation of an offer to purchase from anyone to whom such an offer is not authorized or otherwise would be unlawful. Neither the Company nor FB Gemini Limited (the "Underwriter") is making any

representations to an offeree or a purchaser of the Bonds regarding the legality of an investment therein by such offeree or purchaser under appropriate securities or similar laws.

This Memorandum contains summary information about the Company and the offer and sale of Bonds being made hereby, but does not provide a complete description of the business, management and financial position of the Company or the Offering. Investors are advised and expected to carefully review this Memorandum prior to applying to purchase Bonds. This Memorandum is based on information furnished by the Company. The Company and FB Gemini Limited expressly disclaim any and all liability for the contents of or omissions from this Memorandum and for any other written or oral communication transmitted or made available to prospective purchasers of the Bonds. No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this Memorandum.; if made, such representation must not be relied upon. You must not rely on any unauthorized information or representatives. This Memorandum is an offer to sell only the Bonds offered hereby, and only under circumstances and in jurisdictions where it is lawful to do so. This Memorandum and the documents delivered or made available to prospective investors qualify and supersede any and all information, written or oral, relating to the Company previously disclosed to them, including any information memorandum dated prior to the date hereof.

The Company reserves the right, in its sole discretion and for any reason whatsoever, to modify, amend and/or withdraw all or a portion of the offering and/or to accept or reject in whole or in part any prospective investment in the Bonds offered hereby or to allot to any prospective investor less than the number of the Bonds such investor desires to purchase. The Company shall have no liability whatsoever to any offeree and/or purchaser in the event that any of the foregoing shall occur.

The disclosure of any of the data contained herein or supplied in connection herewith or the use hereof for any other purpose, except with the written consent of the Company, is prohibited. The information contained herein must be maintained as confidential and not disclosed to any person or used for any purpose other than evaluating the merits of the investment described herein unless and until the Company has consented otherwise in writing. This Memorandum may not be reproduced, in whole or in part. This Memorandum will be returned on request if the recipient does not purchase the Bonds offered hereby.

This Memorandum contains summaries, believed to be accurate, of certain terms of certain documents, but reference is made to the actual documents, copies of which will be made available by the Company upon request, for the complete information contained therein. All such summaries are qualified in their entirety by this reference.

The information contained in this Memorandum is current only as of its date. The delivery of this Memorandum at any time does not imply that the information herein is correct as of any time subsequent to its date or issue and the Company disclaims any obligation to advise any recipient of this Memorandum of any changes in such information after the date hereof.

The Offering can be withdrawn at any time before the closing and is specifically made subject to the terms described in this Memorandum.

The exchange rate of U.S.\$1.00=NT\$34.09, which is the intra-day exchange rate on June 4, 2002, as reported by Bloomberg, is used in this Memorandum for purposes of calculating the conversion price of the Bonds. Unless otherwise specified, this exchange rate is used in this Memorandum for purposes of providing certain financial information by reference to such currencies.

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INFORMATION MEMORANDUM SUMMARY

Introduction

The Company was incorporated on April 14, 1995 under the laws of Taiwan, the Republic of China as a company limited by shares. The securities of the Company were listed on the Taiwan Over-the-Counter Market on February 21, 2000 and subsequently transferred to the Taiwan Stock Exchange for trading on September 19, 2001.

THE OFFERING

The Issuer:	Infodisc Technology Company Limited, a company incorporated under the laws of the Republic of China;
Aggregate Principal Amount of the Bonds:	US\$110,000,000
Initial Conversion Price:	NT\$19
Restrictions on Resale:	Refer to the “Notice to Investors” section of this Memorandum
Underwriter:	FB Gemini Limited
Settlement of Bonds:	Through Euroclear System and Clearstream Banking, <i>societe anonyme</i> .
Voting Rights of the Common Shares:	The Common Shares which the Bonds will convert into will have ordinary voting rights of one vote per share on all matters to be voted on by shareholders of the Company generally. See “Description of Share Capital - Voting Rights.”

THE COMPANY

The Company and its subsidiaries (the “Group”) is one of the largest DVD replicators in the world. The Group produces and distributes pre-recorded DVD/CD discs and VHS videocassettes, as well as blank CD-R and CD-RW discs. The Company acquired Mediacy Mediacy Holdings Inc. (“Mediacy”) in January 2001, the third largest videocassette duplicator and one of the leading home video distribution, fulfillment and other post production logistics service providers in the United States. By combining the Company’s DVD production expertise and scale with Mediacy’s VHS production and expansive distribution network in the United States, the Company is poised to become a leading home video manufacturing and distribution company.

The Group replicates and distributes pre-recorded and blank audiovisual storage products such as pre-recorded DVDs (26% of total sales in 2001), pre-recorded VHS videocassettes (37%), audio CDs (12%), blank CD-Rs (11%), and blank CD-RWs (8%). The Company was founded in 1995 by a group of its current principal executives with an initial paid up capital of US\$1.83 million. The shareholding structure of the Company is diversified with existing directors and management holding approximately 20% of outstanding common shares.

The acquisition of Mediacy in January 2001 combined the Group’s core DVD production expertise and high volume scale with Mediacy’s VHS production and extensive distribution network in the United States. The Group has successfully transformed itself into a global solutions provider for audiovisual studios with diversified products. It is favorably positioned to capture business opportunities in the content preparation and delivery segments along the video value chain.

In the United States market, the Group is a comprehensive audiovisual storage product manufacturer and distribution service provider. The Group has production centers in El Paso, Texas and Juarez, Mexico, distribution centers in Nevada and Kentucky, and a customer center in California. With information technology systems that are interfaced with customers, the Group is able to take orders on line and deliver packaged home video products to over 90% of the United States population within 2 days.

Outside the United States market, the Group has major production and /or distribution centers in the key Asian and European markets. In addition to its large production base in Taiwan, the Group has a production facility in Korea to serve the Korean and Japanese markets. The Group also has a packaging center in Germany to service its clients in Europe.

With the evolution of optical media storage technology, the focus of the Company’s product mix is on pre-recorded DVDs, CD-Rs, CD-RWs, DVD-Rs, and DVD-RWs. In 2001, DVD sales constituted 26% of the Group total revenue and it is expected to increase to 47% by 2003. The Company believes that demand for pre-recorded DVDs will continue to rise with the increasing popularity and the decreasing price trend of DVD players.

Almost all of the Group’s videocassettes and a substantial majority of the Group’s DVDs are sold in the United States. Many of the Company’s customers are major movie studios or their contracting agents, including MGM Home Entertainment Inc. (“MGM”) (26% of 2001 total sales) and WEA Manufacturing Inc. (15%). Non-studio customers include direct marketing firms, religious organizations, software companies and marketing agencies. For its blank media business, Memorex Products Inc. (formerly known as Memtek Products Inc.) is the Group’s largest CD-R and CD-RW customer for the production of the Memorex brand blank optical storage media. In early 2002, the Group was awarded a 2-year (option to extend to 3-year) contract by MGM that guarantees a minimum purchase of 25 million discs a year in North America including the United States and Canada.

DESCRIPTION OF SHARE CAPITAL

Set forth below is a summary of information relating to the Company's share capital including brief summaries of the relevant provisions of the Company's articles of incorporation, the Republic of China Securities and Exchange Law and the Republic of China Company Law.

General

As of December 31, 2001, the Company's paid-in share capital was NT\$4,800,000,000, divided into 480,000,000 Common Shares, all of which are issued and outstanding and in registered form. The Company's authorized share capital is NT\$2,533,452,120, divided into 253,345,212 Common Shares. The Company's outstanding shares are held by public shareholders and other investors in Taiwan.

Dividends and Distributions

Subject to some exceptions noted below, the Company is not permitted to distribute dividends or make other distributions to shareholders in any year in which it does not record net income. The Company's articles of incorporation require that 10% of the Company's annual net income, less prior years' losses and corporate income tax, if any, be set aside as a legal reserve, and 20%, in the event that the after-tax net profit is below the paid-in capital, otherwise 40%, up to an amount not to exceed paid-in capital, if any, must be set aside as a special reserve. After such legal reserve and special reserve are established, the remaining portion of the net income may be distributed as dividends and bonuses, in the manner and amount resolved at the meeting of the Company's shareholders; provided, that (1) 1%-4% and up to 0.5% of the distributable earnings shall be distributed as employee bonuses and remuneration of directors and (2) no less than 60% of the distributable earnings shall be distributed as dividends, divided into up to 60% of stock dividend and up to 80% of cash dividend.

At each annual ordinary shareholders' meeting, the Company's 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 net income of the Company to the preceding fiscal year. All common shares outstanding and fully paid as of the relevant record date are entitled to share equally in any dividend or other distribution so approved. Dividends may be distributed in cash, in the form of shares or a combination of the two, as determined by the shareholders at the meeting.

The Company is not permitted to distribute dividends and bonuses if the Company does not generate profit. However, in that case, under the Republic of China Company Law, if (1) the legal reserve of the Company exceeds 50% of its paid-in capital or (2) the amount of such legal reserve and special reserve in any year exceeds 20% of net income, for the purpose of maintaining share price, the Company may use the excess amount to distribute dividends and bonuses. In addition, the Company is also permitted to make distributions to its shareholders of additional Common Shares by capitalizing reserves (including the legal reserve and any surplus reserve or capital surplus). However, amounts payable by capitalizing the Company's legal reserve are limited to 50% of the total accumulated legal reserve and this capitalization can only be effected when the accumulated legal reserve exceeds 50% of paid-in capital of the Company.

Changes in Share Capital

Under the Republic of China Company Law, any change in authorized share capital of the Company requires an amendment to its articles of incorporation, which in turn requires approval at the meeting of the Company's shareholders and filing a registration amendment with the Ministry of Economic Affairs.

Preemptive Rights

Under the Republic of China Company Law, when the Company issues new shares for cash, existing shareholders who are listed on the shareholders' register as of the record date have preemptive rights to subscribe for the new issue in proportion to their existing shareholdings, while the Company's employees, whether or not they are existing shareholders, have a similar right to subscribe for 10% to 15% of the new issue. Any new shares that remain unsubscribed at the expiration of the subscription period may be offered to the public or privately placed by the Company.

In addition, in accordance with the Republic of China Securities and Exchange Law, a public company that intends to offer new shares for cash must conduct a public offering of at least 10% of the shares to be sold. This percentage can be increased by a resolution passed at a shareholders' meeting, which would diminish the number of new shares subject to preemptive rights of existing shareholders.

Meetings of Shareholders

The Company is required by the Republic of China Company Law and its articles of incorporation to hold an ordinary meeting of its shareholders within six months following the end of each fiscal year. These meetings are generally held in Taipei, Taiwan. Extraordinary shareholders' meetings may be convened by resolution of the board of directors or by the board of directors upon the written request of any shareholder or shareholders who have held 3% or more of the outstanding common shares for more than one year. Extraordinary shareholders' meetings may also be convened by a supervisor. Notice in writing of meetings of shareholders, stating the place, time and agenda must be dispatched to each shareholder at least 20 days, in the case of ordinary meetings, and 10 days, in the case of extraordinary meetings, before the date set for each meeting. Except in certain circumstances described below, a majority of the holders of all issued and outstanding common shares present at a shareholders' meeting constitutes a quorum for meetings of shareholders.

Voting Rights

The Company's articles of incorporation provide that a holder of Common Shares has one vote for each Common Share, except that a holder of more than 3% of the total outstanding common shares will be discounted by 0.1% of that portion of the holding in excess of 3%. The Company's articles of incorporation also provide for cumulative voting for the election of directors and supervisors.

In general, a resolution can be adopted by the holders of at least a majority of the Common Shares represented at a shareholders' meeting at which the holders of a majority of all issued and outstanding common shares are present. Under the Republic of China Company Law, the approval by at least a majority of the Common Shares represented at a shareholders' meeting in which a quorum of at least two-thirds of all issued and outstanding Common Shares are represented is required for major corporate actions, including:

- amendment to the Company's articles of incorporation;
- transfer of the whole or substantial part of the Company's business or assets;
- execute, amend or terminate any contract that leases the Company's whole business, mandates the Company's operation to other persons, or operates frequently the business for the joint interest of the Company and other persons;
- taking over of the whole of the business or assets of any other company which would have a significant impact on the Company's operations and
- distribution of any stock dividend.

In case of a dissolution or amalgamation, approval by a majority of the Common Shares represented at a shareholders' meeting in which a quorum of at least three-fourths of all issued and outstanding Common Shares are represented is required. Alternatively, the Republic of China Company Law provides that in the case of a public company, such as the Company, a resolution may be adopted by the holders of at least two-thirds (or three-fourths in case of dissolution or amalgamation) of the common shares represented at a meeting of shareholders at which holders of at least a majority of issued and outstanding common shares are present.

A shareholder may be represented at an ordinary or extraordinary meeting by proxy if a valid proxy form is delivered to the Company five days before the commencement of the ordinary or extraordinary shareholders' meeting. Except for trust enterprises, where one person is appointed as proxy by two or more shareholders who together hold more than 3% of the total issued common shares, the votes of those shareholders in excess of 3% of the outstanding common shares shall not be counted.

Register of Shareholders and Record Dates

The Company maintains its register of shareholders at its offices in Taipei, Taiwan, and enters transfers of Common Shares in its register upon presentation of, among other documents, certificates representing the Common Shares transferred. Under the Republic of China Company Law, the Company may, by giving advance public notice, set a record date and close the register of shareholders for a specified period in order to determine the shareholders and pledgees that are entitled to rights pertaining to the common shares. The specified period required is as follows:

- ordinary shareholders' meeting - one month;
- extraordinary shareholders' meeting - fifteen days; and
- relevant record date for distribution of dividends, bonuses or other interests - five days.

Annual Financial Statements

At least ten days before the annual ordinary shareholders' meeting, the Company's annual financial statements must be available at its principal office in Taipei, Taiwan for inspection by the shareholders.

Transfer of Common Shares

The transfer of Common Shares in registered form is effected by endorsement and delivery of the related share certificates but, 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 file their respective specimen seals, also known as chops, with the Company. Chops are official stamps widely used in Taiwan by individuals and other entities to authenticate the execution of official and commercial documents.

Repurchase of Common Shares by the Company

With certain exceptions, the Company cannot acquire its own Common Shares. Under the Republic of China Company Law, any Common Shares so acquired must be sold at the current market price within six months after their acquisition by the Company.

In addition, under the Republic of China Securities and Exchange Law, as amended on June 30, 2000 by the Legislative Yuan, which became effective on July 11, 2000, a company whose shares are listed on the Taiwan Stock Exchange or the Over-the Counter Markets, such as the Company, 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 Republic of China Securities and Futures Commission, purchase its shares for the following purposes on the Taiwan Stock Exchange, or the Over-the-Counter Markets, or by a tender offer:

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

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

The shares purchased by a company pursuant to items (1) and (2) above shall be transferred to the intended transferees within three years after the repurchase, otherwise the same shall be cancelled. For the shares to be cancelled pursuant to item (3) above, a company must complete amendment registration for such cancellation within six months after the purchase.

The shares purchased by a company shall not be pledged or hypothecated. In addition, such company may not exercise any shareholders' rights attaching to these shares. Such company's affiliates (as defined in Article 369-1 of the Republic of China 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 purchase period of such shares reported by such company to the Republic of China Securities and Futures Commission.

Liquidation Rights

In the event of liquidation of the Company, the assets remaining after payment of all debts, liquidation expenses and taxes will be distributed pro rata to the shareholders in accordance with the relevant provisions of the Republic of China Company Law.

Significant Shareholders and Transfer Restrictions

The Republic of China Securities and Exchange Law currently requires that (1) each director, supervisor, manager or significant shareholder (*i.e.*, a shareholder who, together with his or her spouse, minor children or nominees, holds more than 10% of the shares of a public company) to report any change in that person's shareholding to the issuer of the shares or the Republic of China Securities and Futures Commission, and (2) each director, supervisor, manager or significant shareholder holding such common shares for more than a three month period to report his or her intent to transfer any shares traded on the Over-the-Counter Markets to the Republic of China Securities and Futures Commission at least three days before the intended transfer, unless the number of shares to be transferred is less than 10,000 shares.

In addition, the number of shares that can be sold or transferred on the Over-the-Counter Markets by any person subject to the restrictions described above on any given day may not exceed:

- 0.5% of the outstanding shares of a company, in case of such company with no more than 30 million outstanding shares; or
- 0.5% of 30 million shares plus 0.25% of the outstanding shares exceeding 30 million shares in the case of a company with more than 30 million outstanding shares; or
- in any case, 10% of the average trading volume (number of shares) on the Over-the-Counter Markets for the ten consecutive trading days preceding the reporting date on which day the director, supervisor, manager or substantial shareholder reports the intended share transfer to the Republic of China Securities and Futures Commission.

These restrictions do not apply to sales or transfers of the Bonds. However, these restrictions will apply to the sale of underlying Common Shares which are withdrawn if the withholding holder meets the above requirements.

Reporting Obligations of the Company

The Republic of China Securities and Exchange Law requires each director, supervisor, manager or significant shareholder to report any change in that person's shareholding to the Company before each fifth day of each month and the Company shall report the same to the Securities and Futures Commission before the fifteenth day of each month. Such persons are also required to report to the Company immediately the pledge of their Company shares and the Company shall report the same to the Securities and Futures Commission within five days from the pledge date. A person or a person who along with other persons acquires more than 10% of the issued and outstanding shares of the Company shall report to the Securities and Futures Commission, within ten days from the acquisition date, the acquisition purpose, funding sources and other information required by the Securities and Futures Commission.

TERMS AND CONDITIONS OF THE BONDS

The issue of an aggregate of up to U.S.\$110,000,000 principal amount of Zero Coupon Convertible Bonds, due 2005 as to the principal amount of up to U.S.\$60,000,000 (“**Tranche 1**”) and due 2007 as to the principal amount of up to U.S.\$50,000,000 (“**Tranche 2**”) (Tranche 1 and Tranche 2 collectively referred to as the “**Bonds**”) of INFODISC TECHNOLOGY COMPANY LIMITED (the “**Company**”) was authorised by a resolution of the board of directors of the Company adopted on April 11, 2002. The Bonds are issued pursuant to a Trust Deed (the “**Trust Deed**”) dated as of June 12, 2002 and made between the Company and The Bank of New York (the “**Trustee**”), which term includes any successor trustee under the Trust Deed for the holders of the Bonds (the “**Bondholders**”). The Company has also entered into a paying and conversion agency agreement (the “**Agency Agreement**”) dated as of June 12, 2002 with the Trustee, The Bank of New York as the registrar (the “**Registrar**”) and the principal paying, transfer and conversion agent (the “**Principal Agent**”) relating to the Bonds. The Registrar, the Principal Agent and any paying agents, conversion agents or transfer agents appointed under the Agency Agreement are together referred to as the “**Agents**”. The terms and conditions described in this section (“**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed. Copies of the Trust Deed and the Agency Agreement are available for inspection by the Bondholders during normal business hours at the principal office of the Trustee, being the date hereof at 101, Barclay Street, 21st Floor West, New York NY10286, U.S.A., and at the specified offices of each of the Agents. The Bondholders are entitled to the benefit of the Trust Deed and are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement.

1. Status

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

2. Form, Denomination and Title

(A) *Form and Denomination*

The Bonds will be issued in registered form, without coupons, in denominations of U.S.\$1,000 and integral multiples thereof. The Bonds will be offered and sold in principal amounts of U.S.\$1,000 or integral multiples thereof and will be transferable in principal amounts of U.S.\$1,000 or integral multiples thereof. The Bonds are not issueable in bearer form. The Bonds will initially be represented by two global certificates (the “**Global Certificates**”) for the principal amount of up to U.S.\$60,000,000 due 2005 and for the principal amount of up to U.S.\$50,000,000 due 2007 respectively deposited with The Bank of New York, as common depositary for, and registered in the name of a nominee for, Euroclear Bank S.A./N.V., as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”).

Owners of interests in the Bonds will not be entitled to receive definitive physical certificates (the “**Definitive Certificates**”) in respect of their Bonds except in the limited circumstances described in the Global Certificate. In the event that certificates do become

issueable, 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.

(B) *Title*

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

3. Negative Pledge

So long as any of the Bonds remain outstanding (as defined in the Trust Deed) or any amount is due under or in respect of any Bond or otherwise under the Trust Deed, the Company shall not, and shall ensure that none of its Principal Subsidiaries (as defined in Condition 10) will, create or permit to be outstanding any mortgage, charge, pledge, lien or other form of encumbrance (each an “**Encumbrance**”) upon the whole or any part of its, or, as the case may be, any such Principal Subsidiary’s, undertaking, property, assets or revenues, present or future, to secure for the benefit of the holders of any International Investment Securities (as hereinafter defined) (i) payment of any sum due in respect of any such International Investment Securities, (ii) any payment under any guarantee of any such International Investment Securities or (iii) any payment under any indemnity or other like obligation relating to any such International Investment Securities without in any such case at the same time according to the Bonds, either the same security as is granted to or is outstanding in respect of such International Investment Securities, guarantee, indemnity or other like obligation or such other security as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

As used herein, the term “**International Investment Securities**” means bonds, debentures, notes or investment securities of the Company or any other person evidencing indebtedness with a maturity of not less than one year from the date thereof which (a) either (i) are by their terms payable, or confer a right to receive payment, in any currency other than New Taiwan Dollars or (ii) are denominated or payable in New Taiwan Dollars and more than 50percent of the aggregate principal amount thereof is initially distributed outside Taiwan, the Republic of China (the “**ROC**”) by or with the authorisation 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. No Interest

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

5. Transfers of Bonds; Issue of Certificates

(A) *Transfers*

Subject to Condition 5(D) below, a Bond may be transferred upon the surrender at the specified office of any Transfer Agent of the individual Definitive Certificate in respect of the Bond to be transferred, together with the form of transfer endorsed thereon (if such Definitive Certificate has been issued) or, in the case of a Bond represented by the Global Certificate, delivery at such office of a form of transfer obtainable from any of the Transfer Agents (the “**Form of Transfer**”), duly completed and executed and any other evidence that such Transfer Agent may reasonably require. In the case of a transfer of only part of a holding of Bonds in respect of which a 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. The Form of Transfer is available at the specified office of the Transfer Agent.

(B) *Delivery of New Certificates*

Each new Certificate to be issued upon a transfer of Bonds shall be available for delivery 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, be mailed by uninsured post at the risk of the holder entitled to the new Certificate 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 and/or such insurance as it may specify.

(C) *Formalities Free of Charge*

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

(D) *Restricted Transfer Periods*

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

(E) *Regulations*

All transfers of Bonds and entries on the register of Bondholders will be made subject to the detailed regulations concerning transfer of Bonds (the “**Regulations**”) set forth in the Agency Agreement. The Regulations may be changed by the Company, with the prior

written approval of the Trustee and the Registrar. A copy of the Regulations will be mailed (at the Company's expense) by the Registrar to any Bondholder who asks for one and will also be available at the office of the Agent.

6. Conversion

(A) *Conversion Right*

(i) Conversion Period: Each Bondholder has the right during the Conversion Period (as hereinafter defined) to convert any Bond into Shares (defined below), credited as fully paid and non-assessable (the "**Conversion Right**"). 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 and as and to the extent provided herein, at any time on or after June 27, 2002 for Tranche 1 and 15 days from the closing date for Tranche 2 prior to the close of business (at the place where the Conversion Notice (as defined in Condition 6(B)) and the individual Definitive Certificate in respect of such Bond (if issued) are deposited for conversion) on June 12, 2007 for Tranche 1 and the fifth anniversary date of the issue of the Bonds under Tranche 2 for Tranche 2, or, if such date(s) shall not be a business day(s), on the immediately preceding business day at such place (but in no event thereafter), or, if such Bond shall have been called for redemption prior to that date, then up to the close of business (at the place aforesaid) on the date seven days prior to the date fixed for redemption thereof (or if such day shall not be a business day at such place on the immediately preceding business day at such place) (the "**Conversion Period**"); provided, however, that the Conversion Right during any Closed Period shall be suspended and the Conversion Period shall not include any such Closed Period. "**Closed Period**" shall mean any period during which under the laws of the ROC the Company shall close its shareholders register, which period includes 60 days prior to the date of the annual meeting of shareholders ("**AGM**"), 30 days prior to an extraordinary shareholders' meeting, the aggregate of 15 Trading Days and five days prior to a record date for determination of shareholders entitled to receive annual dividend distributions or other rights or benefits or such other periods determined by ROC law applicable from time to time. The Company shall procure that the Bondholders are given not less than 7 nor more than 60 days' prior notice of any Closed Period in accordance with the provisions of the Trust Deed.

In these conditions, and as provided more fully in the Trust Deed, the term "**Shares**" means, when used to refer to the class or classes of the Company's capital stock into which the Bonds are convertible and when used in certain other instances, only the Company's common shares, NT\$10 par value per share, but that when used elsewhere, including in Condition 6(C), such term also includes shares of any other class or classes of the share capital of the Company authorised after the date of the Trust Deed 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.

(ii) Number of Shares issueable on Conversion: The number of Shares to be issued upon conversion of any Bond will be determined by dividing the principal amount of the Bond (translated into NT Dollars at the fixed rate NT\$34.09 = U.S.\$1.00) by the Conversion Price (as hereinafter defined) in effect on the Conversion Date.

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 June 12, 2002, the Company will upon conversion of the Bonds pay in U.S. Dollars a sum equal to such portion of the principal amount of the Bond or Bonds converted as corresponds to any fraction of a Share not issued as aforesaid if such sum exceeds U.S.\$10. For the purpose of calculating the amount of such payment, the Company shall use the exchange rate referred to 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\$19 per Share (the “**Initial Conversion Price**”), which is equivalent to U.S.\$0.56 per Share based on a fixed exchange rate of NT\$34.09 = U.S.\$1.00, (the “**Fixed Exchange Rate**”) but will be subject to adjustment in the manner provided in Conditions 6(C) and 6(D).

(iv) **Revival on Default:** Notwithstanding the provisions of Condition 6(A)(i), if there shall be default in making payment in full in respect of any Bond which shall have been called for redemption prior to June 12, 2005 for Tranche 1 and the fifth anniversary of the date of the issue of the Bonds under Tranche 2, on the date fixed for redemption thereof, the Conversion Right attaching to such Bond will continue to be exercisable up to and including the close of business (at the place where the relevant individual definitive Certificate in respect of such Bond (if issued) and the Conversion Notice (as defined in Condition 6(B)) 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 his own expense between 9:00 am. and 3:00 p.m. (local time at the specified office referred to below) on any business day (as defined below) during the Conversion Period at the specified office of a Conversion Agent outside the ROC at which the individual Definitive Certificate in respect of a Bond (if issued) is presented for conversion, a notice of conversion (a “**Conversion Notice**”) in duplicate, duly completed and signed, in the then current form obtainable from the specified office of any Conversion Agent, together with the relevant individual Definitive Certificate (if issued) and any certificates and other documents as may be required under the law of the ROC or the jurisdiction in which such Conversion Agent is located and any amount to be paid by the Bondholder.

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 to convert have been fulfilled) will be the Conversion Date (as defined below) for such Bonds. Such Bondholders will not be registered as holders of Shares until the Conversion Date.

In this Condition 6(B)(i), “**business day**” means a day (other than a Saturday or Sunday) on which commercial banks are open for business in London and in the place where the Conversion Agent with whom the individual Definitive Certificate (if issued) and the Conversion Notice are deposited is open for business save that for the purpose of the preceding paragraph, “**business day**” means a day (other than a Saturday or Sunday) on

which commercial banks are open for business in Taiwan, ROC. **Trading Day** means a day when there is trading on the TSE.

(ii) Taxes and Expenses; Deposit Date and Conversion Date: As conditions precedent to conversion, together with the Conversion Notice, the Bondholder must pay to the relevant Conversion Agent all stamp, issue, registration, excise and similar taxes or duties or transfer costs (if any) arising on conversion in the country in which the Bond is deposited for conversion, or payable in any jurisdiction consequent upon the issue or delivery of Shares 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 as provided in the Trust Deed and Agency Agreement. The date on which any Certificate and the Conversion Notice (in duplicate) relating thereto, together with any certificates and other documents as may be required under applicable law or a relevant deposit agreement (if applicable), are deposited with a Conversion Agent and the payments, if any, required to be paid by the Bondholder are made is hereinafter referred to as the “**Deposit Date**”. The “**Conversion Date**” applicable to a Bond shall mean the next day following the Deposit Date, which day both is a Trading Day and occurs during the Conversion Period.

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

(iv) Delivery of Shares: On 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 within five Trading Days after the Conversion Date, there be delivered to the local agent appointed by the converting Bondholder (if Shares are to be received by the converting Bondholder), and/or to the relevant custodian, 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 Trust Deed and the relevant Conversion Date falls on a date when the relevant adjustment has not been reflected in the Conversion Price, the Company will, within 20 days after the effective date of such adjustment of the Conversion Price, issue and deliver (to the local agent appointed by the converting Bondholder) 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 Condition 6(B)(iv) to the Conversion Date shall be deemed to refer to the date upon which such retroactive adjustment becomes effective (disregarding the fact that it becomes effective retroactively). Fractions of Shares will not be issued and no cash adjustment will be made in respect thereof.

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

(C) *Adjustments to Conversion Price*

The Conversion Price will be subject to adjustment in the manner set forth in the Trust Deed upon the occurrence of certain events set out in the Trust Deed, 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 Trust Deed) or to subscribe for or purchase any securities convertible into or exchangeable for Shares at less than the then Current Market Price;
- (v) the distribution to the holders of Shares of evidences of indebtedness of the Company or of shares of capital stock of the Company (other than Shares) or of assets (other than regular periodic dividends in cash) or of rights or warrants to subscribe for or purchase shares or securities (other than those mentioned in (iv) above);
- (vi) the issue of securities (other than the Bonds, and those mentioned in (iv) above) convertible into or exchangeable for Shares at less than the then Current Market Price or of rights or warrants (other than those mentioned in (iv) above) to subscribe for or purchase Shares at less than the then Current Market Price or to subscribe for or purchase securities convertible into or exchangeable for Shares at less than the then Current Market Price;
- (vii) the issue of Shares (other than Shares issued on conversion of convertible bonds, including the Bonds, or in any of the circumstances described above but including Shares issued under any employee bonus or profit-sharing arrangements) at less than the then Current Market Price; and
- (viii) any other event or circumstance which would have in the determination of the Company or the Trustee an analogous effect to any of the events in (i) to (vii)

above including, but not limited to, issues of receipts or certificates entitling holders to receive securities,

in accordance with the formulas stipulated in the Trust Deed.

The Trustee will not be obliged to monitor whether any event has occurred which might fall within the events giving rise to adjustment to the Conversion Price as set out in the Trust Deed or (i) to (viii) above and, until it has actual knowledge by way of express notice in writing from the Company to the contrary, shall assume that none has; provided however, that even if the Trustee has actual knowledge of any event or circumstance which requires or may require an adjustment to the Conversion Price under the Trust Deed or pursuant to the Conditions, the Trustee shall not be liable to the Bondholders for any loss arising from the nature, extent or correctness of any adjustment of the Conversion Price made by the Company. The Trustee shall not be obliged to consider whether any adjustments of the Conversion Price is appropriate as a result of an event or circumstances in (viii) above unless it has been requested so to do in writing by a Bondholder and it has been indemnified to its satisfaction against any cost it may incur.

(D) *Conversion Price Reset*

If the average Closing Prices (as defined in Condition 8(B) below) (the “Average Closing Prices”) of the Share on the Taiwan Stock Exchange (the “TSE”) translated into U.S.\$ at the then Prevailing Rate (defined below) for the period of 20 Trading Days immediately prior to 12 March, 12 June, 12 September and 12 December respectively for Tranche 1 from 2002 until 2005 and on the date 3 months from the issue date of the Tranche 2 Bonds and on a date every three months thereafter until the maturity of the Tranche 2 Bonds (each of the above, a “Reset Date”) is less than the then prevailing Conversion Price in effect on the relevant Reset Date, then the Conversion Price shall be adjusted downward such that it is equivalent to the Average Closing Price (the “Adjusted Conversion Price”) in accordance with the following formula:

$$\text{Adjusted Conversion Price} = \frac{\text{Fixed Exchange Rate}}{\text{Prevailing Rate}} \times \text{Average Closing Price}$$

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

- (i) any adjustment to the Conversion Price pursuant to this Condition 6(D) shall be limited so that the Conversion Price adjusted in accordance with this Condition 6(D) shall not be less than 80 percent of the Initial Conversion Price (as adjusted to reflect any adjustments required under Condition 6(C) above, which may have occurred prior to the relevant Reset Date);
- (ii) the provisions of Condition 6(C) shall apply *mutatis mutandis* to this Condition 6(D) to ensure that appropriate adjustments shall be made to any Closing Price to reflect any adjustments made to the Conversion Price in accordance with Condition 6(C) during the period of calculation of the Adjusted Conversion Price; and
- (iii) for the avoidance of doubt any adjustments to the Conversion Price made pursuant to this Condition 6(D) shall only be downward adjustments.

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. at the close of business on each day of the 20 consecutive Trading Days preceding the relevant Reset Date. For the purpose of the formula in this Condition, the Prevailing Rate shall be expressed as the number of NT Dollars per U.S.\$1.00.

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

(E) *Alternative Conversion Price Reset*

On the date (the “**Alternative Reset Date**”) 30 days prior to each Put Date (as defined in Condition 8C below), the Company may, at its discretion, elect to choose an alternative Conversion Price equal to 90.9 percent of the lowest among the average Closing Prices for the 10, 15 and 20 Trading Days immediately preceding the Alternative Reset Date.

The alternative Conversion Price will be applicable during a period of 7 business days starting 4 business days after the Alternative Reset Date, and the Conversion Price will be applicable after the said period has expired.

(F) *Mergers; Disposals*

The Company will not merge, amalgamate or consolidate with or into any other corporation or entity (the Company not being the continuing entity) or sell or transfer all, or substantially all, of the assets of the Company, whether as a single transaction or a number of transactions, related or not, to any corporation, entity or person or to one or more members of any group under the common control of any corporation, entity or person unless the Company shall have notified the Bondholders of such event in accordance with Condition 15 and the Company and such corporation, entity or person shall have executed a trust deed supplemental to the Trust Deed 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 Trust Deed 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 Trust Deed. Such supplemental trust deed will provide for adjustments which will be as nearly equivalent as may be practicable to the adjustments provided for in the foregoing provisions to this Condition. The above provisions of this Condition 6(E) will apply in the same way to any subsequent consolidations, amalgamations, mergers, sales or transfers.

7. Payments

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

Payment of principal, premium (if any) and interest (if any) will be made by transfer to the registered account of the Bondholder or by U.S. Dollar check drawn on a bank in

New York City, mailed to the registered address of the Bondholder if it does not have a registered account provided that the Principal Agent shall have received the funds in full from the Company in accordance with the Agency Agreement. Payments of principal and premium (if any) will only be made after surrender of the relevant individual Definitive Certificate (if issued) at the specified office of any Agent.

(B) *Registered Accounts*

A Bondholder's registered account means the U.S. Dollar account maintained by or on behalf of it with a bank in 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 is not a business day, for value the first following day which is a business day) will be initiated and, where payment is to be made by check, the check will be mailed (at the risk and, if mailed at the request of the holder or otherwise then by ordinary uninsured mail, at the expense of the holder), 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 provided that the Principal Agent shall have received the relevant funds in full from the Company in accordance with the Agency Agreement.

(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 check mailed in accordance with this Condition arrives after the due date for payment.

(F) *Business Days*

In this Condition, "**business day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in New York City and London 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 and premium which is due on the Bonds is not paid in full, the Registrar will annotate the register of Bondholders with a record of the amount of principal and/or premium, in fact paid.

Distribution of payments with respect to the Global Certificates held through Euroclear or Clearstream, Luxembourg will be made to the holders holding through participants of Euroclear or Clearstream, Luxembourg, as the case may be, to the account of The Bank of New York, as common depositary for Euroclear and Clearstream, Luxembourg and will be credited by Euroclear or Clearstream, Luxembourg, as the case may be, to the cash accounts of the participants of Euroclear or Clearstream, Luxembourg, in accordance with the relevant system's rules and procedures, to the extent received by the common depositary. None of the Trustee, the Company or any Agent will be responsible for any payment or failure to make such payment by Euroclear or Clearstream.

8. Redemption, Purchase and Cancellation

(A) *Redemption at Maturity*

Unless previously redeemed, converted or purchased and cancelled as herein provided, the Company will redeem the Bonds issued under Tranche 1 at their principal amount in U.S. Dollars on 12 June, 2005 and the Bonds issued under Tranche 2 at their principal amount in U.S. Dollars on the fifth anniversary of their issue date. The Bonds may be redeemed in whole or in part prior to that date only as provided in paragraphs (B), (C) and (D) below (but without prejudice to Condition 10).

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

- (i) On or at any time after June 12, 2003 for Tranche 1, (being one year from the date of the issue of the Bonds under Tranche 1) and one year from the date of issue of the Bonds under Tranche 2 for Tranche 2, the Company may, having given not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Conditions 8(H) and 15 (which notice will be irrevocable), redeem all or from time to time some only of the Bonds at their principal amount if the Closing Price of the Shares translated into U.S. Dollars at the prevailing exchange rate of the Shares for each of the 30 consecutive Trading Days, the last of which occurs not more than 7 days prior to the date upon which notice of such redemption is published, is at least 140percent of the Conversion Price then in effect, translated into U.S. Dollars at the fixed exchange rate of NT\$34.09=U.S.\$1.00, on each such Trading Day. If there shall occur an event giving rise to a change in the Conversion Price during any such 30 Trading Day period, appropriate adjustments for the relevant days shall be made for the purpose of calculating the Closing Price for such days. If the Closing Price cannot be determined for one or more consecutive Trading Days, such day or days will be disregarded in the relevant calculation and will be deemed not to have existed when ascertaining such 30 Trading Day period.
- (ii) The Company may, having given not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Conditions 8(H) and 15 (which notice will be irrevocable), redeem all but not some only of the Bonds issued under Tranche 1 and Tranche 2 respectively at their principal amount if 90 percent of the Bonds so issued under either Tranche 1 or Tranche 2, as the case may be, have been previously redeemed, repurchased and cancelled, or converted. Upon the expiry of any such notice, the Company will be bound to redeem the Bonds to which such notice relates at the price aforesaid applicable at the date fixed for redemption.

The term “**Closing Price**” for any Trading Day means the last reported transaction price or, if no transaction takes place on such day, the average of the closing bid and offered prices of Shares for such day as furnished by a leading independent securities firm licensed to trade on the TSE or the stock market on which the Shares are then traded as selected from time to time by the Company for the purpose.

(C) *Redemption at the Option of Bondholders*

The Company will, at the option of the holder of any Bond, redeem the Bonds:

- (i) under Tranche 1 on June 12, 2003 and June 12, 2004 (being the dates 12 months and 24 months from the date of the issue of the Bonds under Tranche 1) at their aggregate principal amount.
- (ii) under Tranche 2 on the dates 18 months, 36 months and 48 months from the date of the issue of the Bonds under Tranche 2 at 102.25 percent, 104.50 percent and 106.00 percent of their aggregate principal amount.

Each such date mentioned in this Condition 8C shall each be referred to as a “**Put Date**”.

To exercise such option the holder must deposit the individual Definitive Certificate in respect of such Bond (if issued) with any Agent and a duly completed redemption notice in the form obtainable from any of the Agents, not more than 60 nor less than 30 days prior to each relevant Put Date. No Definitive Certificate so deposited may be withdrawn without the prior written consent of the Company. Not less than 30 nor more than 45 days’ notice of the commencement of the period for the deposit of individual Definitive Certificates for redemption (if issued) and the redemption notice pursuant to this paragraph (C) shall be given to the Bondholders by the Company in accordance with Condition 15. The exercise of the Bondholders’ option under this Condition 8(C) shall override any exercise of the Company’s right under Condition 8(B).

(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 Conditions 8(H) and 15 (which notice shall be irrevocable) redeem all but not some only 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 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 June 12, 2002 for Tranche 1 and the date of the issue of the Bonds under Tranche 2 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 stating that the obligation referred to in (i) above cannot be avoided by the Company taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedents set out in (ii) above, in which event it shall be

conclusive and binding on the Bondholders. Bonds in respect of which a notice of redemption has been given under Condition 8(B) and Condition 8(C) shall not be affected by any notice given subsequently under this Condition 8(D).

(E) *Purchase*

The Company may at any time and from time to time purchase Bonds in the open market or otherwise. Bonds so purchased may be held, resold or surrendered for cancellation.

(F) *Selection of Bonds*

In the case of redemption of some only of the Bonds pursuant to Condition 8(B)(i), where individual Definitive Certificates have been issued, the Bonds to be redeemed will be selected individually by lot by the Principal Agent, in such place as the Trustee shall approve and in such manner as the Trustee shall deem to be appropriate and fair not more than 60 days and not less than 25 days prior to the date fixed for redemption or in accordance with the rules of the relevant clearing system when the Bonds are represented by a Global Certificate.

(G) *Cancellation*

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

(H) *Redemption Notices*

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

9. Taxation

- (A) All payments of principal, premium (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 20percent, 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 20percent 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 in respect of the Bond; or
 - (ii) if the individual Definitive Certificate in respect of such Bond (if issued) is surrendered more than 30 days after the relevant date except to the extent that the holder would have been entitled to such additional amount on surrendering the relevant Certificate for payment on the last day of such 30 day period. For this purpose, the “**relevant date**” in relation to any Bond means (a) the due date for payment in respect thereof or (b) (if the full amount of the monies payable on such due date has not been received by the Trustee or the Principal Agent on or prior to such due date) the date on which notice is duly given to the Bondholders that such monies have been so received.
- (D) References in these Conditions to principal, premium or interest shall be deemed also to refer to any increased or additional amounts which may be payable in respect thereof under this Condition or any undertaking given in addition to or substitution for it under the Trust Deed.

10. Events of Default

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

- (i) there is failure to pay the principal of or any premium on any of the Bonds within 15 business days 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 principal, premium (if any) or interest (if any) in respect of the Bonds) set out in the Bonds or the Trust Deed which default is incapable of remedy or, if in the opinion of the Trustee such default is capable of remedy but not in the opinion of the Trustee remedied within 30 days (or such longer time as the Trustee may consider appropriate in relation to the jurisdiction concerned) after written notice of such default shall have been given to the Company by the Trustee; or

- (iii) any other present or future indebtedness of the Company, or any of its Principal Subsidiaries, for or in respect of monies borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of an event of default (howsoever described), or any such indebtedness is not paid when due or, as the case may be, within any applicable grace period originally provided for, or the Company or any of its Principal Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee or indemnity or arrangement or obligation having a like or similar effect (howsoever described) for any monies borrowed or raised by any person, provided that the aggregate amount of the relevant indebtedness and guarantees in respect of which one or more events mentioned above in this paragraph (iii) have occurred and is continuing equals or exceeds U.S.\$12,000,000 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 (or such longer period as the Trustee may consider appropriate in relation to the jurisdiction concerned) of having been so levied, sued out, commenced or issued, unless the Company or such Principal Subsidiary is contesting such proceedings in good faith by appropriate proceedings; or
- (v) any person entitled to the benefit thereof shall institute appropriate legal proceedings to enforce any Encumbrance upon the whole or any substantial part of the assets or revenues of the Company or any Principal Subsidiary; 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 reorganisation, merger, consolidation, amalgamation or other similar arrangement the terms of which have previously been approved by the Trustee or an Extraordinary Resolution of the Bondholders) or receiver (or other similar official) in bankruptcy or insolvency of the Company or any of its Principal Subsidiaries or in respect of the whole or any substantial part of the undertakings, property, assets or revenues of the Company or any of its Principal Subsidiaries or the Company or any of its Principal Subsidiaries stops or suspends 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 are approved by the Trustee or 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 such longer period as the Trustee may consider appropriate in relation to the jurisdiction concerned); or
- (x) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, 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 Trust Deed, (ii) ensure that those obligations are legally binding and enforceable (subject to the qualifications set out in the legal opinion issued in connection therewith) and (iii) make the Bonds and the Trust Deed admissible in evidence in the courts of the ROC is not taken, fulfilled or done, and such case is incapable of remedy or, if in the opinion of the Trustee is capable of remedy, is not in the opinion of the Trustee remedied within such period (being not less than 30 days) as the Trustee may consider reasonable; or
- (xi) any event occurs which under the laws of the ROC has an analogous effect to any of the events referred to in the foregoing paragraphs.

For the purposes of Condition 10 (iii) above, any indebtedness which is in a currency other than U.S. Dollars shall be translated into NT Dollars at the spot rate for the sale of U.S. Dollars against the purchase of the relevant currency quoted by any leading bank in the relevant market selected by the Trustee in its absolute 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 U.S. Dollars and relevant currencies.

Upon any such notice being given to the Company, the Bonds will immediately become due and payable at 100 percent of their principal amount, and overdue interest on the amounts due, from the date on which such amounts first become due, shall be payable, to the extent permitted by law, at the rate of 4 percent per annum.

For the purpose of this Condition, “**Subsidiary**” means any corporation or other business entity more than 50percent 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 event of defaults occurs, are at least 10percent of the total revenues of the Company and its Subsidiaries as shown by the latest audited 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 are at least 10percent of the gross assets of the Company and its Subsidiaries as shown by the latest audited accounts of the Company.

A certificate of the auditors of the Company as to whether or not a Subsidiary is a Principal Subsidiary shall be conclusive and binding on all parties in the absence of manifest error.

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

11. Prescription

Claims in respect of (a) principal and premium (if any) and (b) interest (if any) will become unenforceable after 10 years in the case of principal, interest and premium (if any) 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) with respect thereto and to enforce the provisions of the Trust Deed, 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 25percent in principal amount of the Bonds then outstanding or so directed by an Extraordinary Resolution and (b) it shall have been indemnified and/or secured to its satisfaction. No Bondholder will be entitled to proceed directly against the Company, unless the Trustee, having become bound to do so, fails to do so and such failure shall have continued for a period of 60 days and no direction inconsistent with such written request or Extraordinary Resolution has been given to the Trustee during such 60-day period by holders of at least 25percent in principal amount of the Bonds then outstanding or, as the case may be, pursuant to a subsequent Extraordinary Resolution.

13. Meetings of Bondholders, Modification and Waiver

(A) Meetings

The Trust Deed 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 Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing over 50percent in principal amount of the Bonds for the time being outstanding or, at any such meeting which has been adjourned, two or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented unless the business of such meeting includes consideration of proposals, inter alia, (i) to modify the maturity date of the Bonds, (ii) to reduce or cancel the amount of principal, premium or interest (if any) payable in respect of the Bonds, (iii) to change the currency of payment of the Bonds, (iv) to modify or cancel the right to convert the Bonds into Shares (except in accordance with Condition 6(B) and 13(B)) or to modify the circumstances in which the Bonds may be redeemed or converted at the option of the Company or to shorten the Conversion Period, (v) to modify the provisions relating to the resetting of the Conversion Price, (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 Trust Deed provides that a written resolution signed by or on behalf of the holders of not less than 90percent 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 Condition 13(A)(iv) above, the Trustee may agree, without the consent of the Bondholders, to any modification to or variation of the Conversion Rights (including modification of and additions to the declarations and statements to be made by Bondholders in a Conversion Notice) which is in its opinion necessary or desirable to effect or facilitate conversion as contemplated in these Conditions and which is not materially prejudicial to the interests of the Bondholders. The Trustee's agreement may be subject to any condition which the Trustee requires; including, but not limited to, obtaining, at the sole expense of the Company, an opinion of a merchant or investment bank or legal or other expert. Any such modification shall be binding on all the Bondholders. The Company shall notify the Bondholders of such modification in accordance with Condition 15 as soon as practicable.

(C) *Other Modifications and Waivers*

The Trustee may (but shall not be in any way be obligated to) agree, without the consent of the Bondholders, to (i) any modification (except as mentioned above) of, or the waiver or authorisation of any breach or proposed breach of, the Terms and Conditions of the Bonds or the Trust Deed or Agency Agreement which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or (ii) any modification of the Terms and Conditions of the Bonds or the Trust Deed or Agency Agreement which, in the Trustee's opinion, is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provisions of law. In connection with such modification, waiver or authorisation, the Trustee may require (at the sole expense of the Company) a certificate from the Company certifying, and a legal opinion advising the Trustee, that the modification, waiver or authorisation is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provisions of law. Any such modification, waiver or authorisation will be binding on the Bondholders and, unless the Trustee agrees otherwise, any such modification will be notified by the Company to the Bondholders in accordance with Condition 15 as soon as practicable thereafter.

(D) *Exercise of Trustee's Functions*

In connection with the exercise of its functions, powers, trusts, authorities or discretions (including but not limited to those in relation to any proposed modification, authorisation or waiver) the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders. No Bondholder will 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, destroyed, stolen or lost, it may be replaced at the specified office of the Registrar upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Company or the Registrar may reasonably 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 on demand such costs at the fixed exchange rate of NT\$34.09 for each U.S.\$1.00 of the principal amount of such Bond). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

15. Notices

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

Any such notice shall be deemed to have been given on the seventh day after being so mailed. All costs and expenses incurred on such publication shall be borne by the Company.

16. Indemnification

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce payment unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Company, its Subsidiaries or any entity related to the Company without accounting for any profit generated therefrom.

17. Agents

The names of the initial Agents and Registrar and their specified offices are set out at the end of this document. The Company reserves the right, subject to the provisions of the Agency Agreement, at any time to vary or terminate the appointment of further or other Agents, provided that the Company will at all times maintain Agents having specified offices in London. 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 to the Bondholders and the Trustee.

18. Governing Law and Jurisdiction

(A) *Governing Law*

The Trust Deed and the Bonds are governed by and shall be construed in accordance with English law.

(B) *Jurisdiction*

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed or the Bonds and accordingly any legal action or

proceedings arising out of or in connection with the Trust Deed or the Bonds (“**Proceedings**”) may be brought in such courts. The Company has in the Trust Deed, for the benefit of the Trustee and the Bondholders, irrevocably submitted to the jurisdiction of such courts.

(C) *Agent for Service of Process*

The Company has irrevocably appointed Law Debenture Corporate Services Limited as its authorised agent for service of process in England in any Proceedings.

(D) *Third Party Rights*

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

THE SECURITIES MARKETS OF THE REPUBLIC OF CHINA

The information provided in this section has been extracted from various government and other publicly available publications which have not been prepared or independently verified by the Company, the Underwriter, the Depositary or any of their respective affiliates or advisors in connection with the Offering. References to the Republic of China Securities and Futures Commission (“SFC”) in this section include both the Republic of China Securities and Futures Commission and its predecessor, the Republic of China Securities and Exchange Commission.

In September 1960, the government established the Republic of China Securities and Exchange Commission to supervise and control all aspects of the domestic securities market and the Taiwan Stock Exchange was established soon thereafter. In the 1970s and the early 1980s, the government of the Republic of China implemented steps designed to upgrade the quality and importance of the Taiwan securities markets, such as encouraging listing on the Taiwan Stock Exchange and establishing an Over-the-Counter Markets (recently proposed to renamed as TAISDAQ). In the mid-1980s, the government revised its laws and regulations to facilitate the gradual internationalization of the Taiwan securities markets. In 1997, the Republic of China Securities and Exchange Commission was renamed the Republic of China Securities and Futures Commission.

The Taiwan Stock Exchange

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

The Taiwan Stock Exchange commenced operations in 1962 and during the remainder of the 1960s grew at a slow pace, largely due to lack of experience among issuers and investors and an unwillingness on the part of Taiwan business to offer their shares to the public. During the early 1980s, the SFC more actively encouraged new listings on the Taiwan Stock Exchange and the number of listed companies grew from 119 in 1983 to 531 by the end of 2000. As of December 31, 2000, the total market value of shares listed on the Taiwan Stock Exchange was approximately NT\$8,191 billion.

The SFC promulgated regulations that would permit foreign issuers to list their equity securities directly on the Taiwan Stock Exchange or through the use of depositary receipts on the Taiwan Stock Exchange. To date, only one foreign issuer has been approved to list its securities on the Taiwan Stock Exchange in the form of depositary receipts and supranational institutions, such as the Asian Development Bank, have been approved to list their debt instruments on the Taiwan Stock Exchange. The Taiwan Stock Exchange established specific requirements for listing based on the company’s number and distribution of shareholders, years in existence, capital, profitability and capital structure.

For a company to be listed on the Taiwan Stock Exchange, it must have been established for at least five fiscal years, have paid-in capital of at least NT\$600.00 million at the time of its application and have at least 1,000 registered shareholders, including not fewer than 500 shareholders between 1,000 and 50m000 shares each. These 500 shareholders 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 profit and operating levels 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 (2) having exceeded 6% in average of the paid-in capital for the previous two fiscal years with the profitability of the most recent fiscal year being superior than that of the preceding fiscal year or (3) having been no less than 3% of the paid-in capital for each of the previous five fiscal years. However, special listing criteria apply to high-tech companies and key business engaging in national economic development.

Taiwan Stock Exchange Index

The Taiwan Stock Exchange Index is comparable to the Standard and Poor's Index in the United States and the Nikkei Stock Average in Japan. It is calculated on the basis of a wide selection of listed shares weighted according to the number of shares outstanding. The Taiwan Stock Exchange Index is compiled using the "Paasche Formula" by dividing the market value by the base day's total market value for the index shares. The Taiwan Stock Exchange Index is the oldest and most widely quoted market index in Taiwan.

The weighing of stocks in the index is fixed as long as the number of shares outstanding remains constant. When the total number of shares outstanding changes, the weight of each stock is adjusted. Stock splits and stock dividends are adjusted automatically. Cash dividends are not included in the calculation. The following table sets forth, for the periods indicated, information relating to the Taiwan Stock Exchange Index.

Period	Number of Listed Companies at Period End	(NTS billions)	Trading Value		Index Period End
			Index High	Index Low	
1992	256	5,917.0	5,391.6	3,327.6	3,377.0
1993	285	9,070.5	6,070.5	3,135.5	6,070.5
1994	313	18,812.1	7,183.7	5,194.6	7,124.6
1995	347	10,151.5	7,051.4	4,503.3	5,173.7
1996	382	12,907.5	6,982.8	4,690.2	6,933.9
1997	404	31,241.1	10,116.8	6,820.3	8,187.2
1998	437	29,618.9	9,277.0	6,251.3	6,418.4
1999	462	29,292.5	8,608.9	5,475.0	8,448.8
2000	531	30,526.6	10,393.3	4,555.9	4,739.1
2001 (through February 15)	529	3,316.8	6,198.2	4,678.0	6,104.2

Source: Status of Securities Listed on Taiwan Stock Exchange

As indicated above, the performance of securities traded on the Taiwan Stock Exchange has in recent years been characterized by extreme price volatility

The Over-the-Counter Markets

To complement the Taiwan Stock Exchange, an Over-the-Counter Markets was established in September 1982 on the initiative of the SFC. In early 1988, the SFC promulgated regulations designed to encourage trading of unlisted securities of companies whose securities do not qualify

for listing on the Taiwan Stock Exchange. The Over-the-Counter Markets is currently limited to unlisted equity securities, bank and corporate bonds and debentures and government bonds. As of December 31, 2000, 3000 public companies had offered their equity securities on the Over-the-Counter Markets. The trading amount of all bonds in the Over-the-Counter Markets grew from approximately NT\$112.0 billion at the end of 1983 to NT\$52,178 billion on December 31, 1999, and as of December 31, 2000, the total trading amount of all bonds was NT\$68,420 billion.

For a company to trade its shares on the Over-the-Counter Markets, it must have been established for at least three fiscal years, have paid-in capital of at least NT100.0 million and have at least 300 registered shareholders, which must together hold either at least 10% of the outstanding shares or at least 5 million shares. The company may not have an accumulated deficit for the previous fiscal year and the pre-tax net profit and operating profit levels of the company must meet any of the following requirements: (1) having exceeded 4% of paid-in capital for the previous fiscal year or (2) having exceeded 2% in average of the paid-in capital for the previous two fiscal years with the profitability of the most recent fiscal year being superior than that of the preceding fiscal year or (3) having exceeded 2% of the paid-in capital for each of the previous two fiscal years. However, special listing criteria apply to high-tech companies and state-owned enterprises.

The Republic of China Over-the-Counter Securities Exchange ("ROSE") has developed the Over-the-Counter Weighted Average Stock Index since November 1, 1995. It is calculated on the basis of a wide selection of listed shares weighted according to the number of shares outstanding. The weighing of stocks in the index is fixed as long as the number of shares outstanding remains constant. The following table sets forth, for the periods indicated, information relating to the Over-the-Counter Weighted Average Stock Index.

Period	Number of Listed Companies at Period End	(NTS billions)	Trading Value		
			Index High	Index Low	Index Period End
1996	79	453.51	234.83	99.92	233.09
1997	114	2,310.66	343.99	210.22	245.05
1998	176	1,198.16	281.41	163.89	165.80
1999	264	1,899.92	207.18	138.99	207.18
2000	300	4,479.66	329.47	99.86	104.93
2001	309	382.63	151.69	102.65	149.52

(through February 15)

Source: Status of Securities Traded on Over-the-Counter Markets

Price Limits, Commissions, Transaction Tax and Other Matters

Fluctuations, in the price of securities traded on the Taiwan Stock Exchange or Over-the-Counter Securities Exchange are subject to a restriction of 7% above and below the previous day's closing price (or reference price set by the Taiwan Stock Exchange or the Over-the-Counter Markets if the previous day's closing price is not available because of lack of trading activity) in the case of equity securities and 5% in the case of debt securities. The price limit for movements below the previous day's closing price was temporary revised to 3.5% following the September 21, 1999 earthquake, but has since reverted to 7%. Following the presidential election of Taiwan, the price limit was again revised to 3.5% for five business days from March 20, 2000 to March 24, 2000. The price limit was again revised to 3.5% for a period from October 4, 2000 to

October 11, 2000 due to the resignation of the premier of the Republic of China. The price limit was also revised to 3.5% for the periods from October 20, 2000 to November 7, 2000 and from November 21, 2000 to December 31, 2000. The SFC announced that limitation on price fluctuation will be relaxed with a view towards eventually eliminating all share price fluctuation controls.

Brokerage commissions are set by the Taiwan Stock Exchange. The commission rate may be at any rate not exceeding 0.1425% of the transaction price for equity securities. However, lower rates can be charged to different clients by securities houses at their sole discretion provided that they report the rates to the Taiwan Stock Exchange. Effective from July 1, 2000, the brokerage commission may not exceed 0.14250% of the transaction price. A securities transaction tax, currently levied at the rate of 0.3% of the transaction price is payable by the seller of debt securities other than government bonds. The securities transaction taxes are withheld at the time of the transaction giving rise to the taxes. Sales of shares of companies listed on the Taiwan Stock Exchange or the Over-the-Counter Markets are currently sold in “round lots” of 1,000 shares. Investors who would like to sell less than 1,000 shares of a listed company occasionally experience delays in effecting these sales. Transactions that include 500 trading lots, that is 500,000 shares, or more must be registered and executed pursuant to Taiwan Stock Exchange or the Over-the-Counter Markets guidelines.

Regulations and Supervision

The SFC has been under the jurisdiction of the Ministry of Finance since 1981. The SFC has extensive regulatory authority over companies listed on the Taiwan Stock Exchange and unlisted public issuing companies generally, including Taiwanese companies whose capital exceed the currently specified minimum amount of NT\$500 million. These companies are generally required to obtained approval from, or register with, the SFC for all securities offerings. The SFC has promulgated regulations requiring, unless otherwise exempted, periodic reporting of financial and operating information by all public companies. In addition, the SFC is responsible for the establishment of standards for financial reporting and carries out licensing and supervision with respect to the other participants in the Taiwan securities market.

The SFC has responsibility for implementing the Republic of China Securities and Exchange Law and for overall administration of governmental policies in the Taiwan securities market. It has extensive regulatory authority over the offering, issue and trading of securities. In addition, the Republic of China Securities and Exchange Law specifically empowers the SFC to promulgate rules under specified circumstances.

The Republic of China Securities and Exchange Law prohibits market manipulation. It also permits an issuer to recover certain short-term trading profits made through purchases and sales within six months by directors, managerial personnel, supervisors as well as spouses, minor children and nominees of the foregoing person and shareholders of the issuer together with their spouses, minor children and nominees holding 10% or more of the issuer’s outstanding shares. The Republic of China Securities and Exchange Law prohibits trading by “insiders” based on non-public information that materially affects share price movements. According to the Republic of China Securities and Exchange Laws, the term “insiders” includes directors, supervisors, managers as well as spouses, minor children and nominees of the foregoing persons and shareholders of the issuing company together with their spouses, minor children and nominees holding 10% or more of the issuer’s outstanding shares, any person who has learned the information due to an occupational or controlling relationship with the issuing company and any person who has learned the information from any of the foregoing. Sanctions may 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 manipulating of stock prices in Taiwan.

The Republic of China Securities and Exchange Law imposes criminal liability on certified public accountants and lawyers making false certifications in their examination and audit of an issuer's contracts, reports and other evidentiary documents that are related to securities transactions. The SFC requires 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 accounts.

The Republic China Securities and Exchange Law was amended in January 1988 to provide for, among other things:

- new regulations relating to public offerings of securities;
- measures to strengthen the capital structure of issuers;
- civil liability for material misstatements or omissions made by issuers;
- more stringent regulation of the securities activities of officers, directors and major shareholders of issuers;
- regulations regarding tender offers; and
- significant expansion of the prohibitions against insider trading, including the imposition of treble civil damages and criminal sanctions.

The Republic of China Securities and Exchange Law was amended in May 1997 to provide for, among other things, the qualifications of personnel at securities firms.

The Republic of China Securities and Exchange Law was recently amended on June 30, 2000 to provide for, among other things, new regulations relating to (1) treasury stock; (2) discretionary trading by securities investment consulting enterprises or securities investment trust enterprises on behalf of their customers; (3) increasing the amount of corporate bonds public companies may issue; (4) more stringent regulation for insider trading; and (5) permission for companies to issue uncertificated securities.

The SFC does not have criminal or civil enforcement powers under the Republic of China Securities and Exchange Law. Criminal actions may be pursued only by the district prosecutors located in the district where the defendant is domiciled or where the violation occurred. Under Republic of China law, civil actions may only be brought by plaintiffs who assert that they have suffered damages. The SFC 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 Taiwan Stock Exchange has primary responsibility for reviewing applications by Taiwanese issuers to list securities on the Taiwan Stock Exchange, and the Over-the-Counter Markets has responsibility for reviewing applications by Taiwanese issuers to trade their securities on the Over-the-Counter Markets. The SFC also reviews all securities offerings by listed companies. If issuers of listed securities violate relevant laws and regulations or encounter significant difficulties, the Taiwan Stock Exchange or the Over-the-Counter Markets may, with the approval of the SFC, delist securities of these issuers.

REPUBLIC OF CHINA TAXATION

Republic of China Taxation

The discussion in this section describes the principal Republic of China tax consequences of the ownership and disposition of Bonds representing Common Shares, and of Common Shares. It applies to you only if you are:

- an individual who is not a citizen of the Republic of China, who owns Bonds and who is not physically present in Taiwan for 183 days or more during any calendar year, or
- a corporation or a non-corporate body that is organized under the laws of a jurisdiction other than the Republic of China for profit-making purposes and has no fixed place of business or other permanent establishment in Taiwan.

You should also consult your tax advisors concerning the Republic of China tax consequences of owning Bonds.

This section does not describe the tax consequences of owning and disposing of Bonds or Common Shares under the laws of any jurisdiction other than Taiwan. Prospective investors should consult their own tax advisors for advice under such other laws relevant to them.

Dividends

Dividends declared by the Company out of its retained earnings and distributed to you are subject to Republic of China withholding tax, currently at the rate of 40%, on the amount of the distribution in the case of cash dividends, or on the par value of the common shares in the case of stock dividends. However, a 10% Republic of China retained earnings tax paid by the Company on its undistributed after-tax earnings, if any, would provide a credit up to 10% of the gross amount of any dividends declared out of such earnings that would reduce the 20% Republic of China tax imposed on these distributions.

Share dividends paid by the Company out of its capital reserves may be subject to the Republic of China withholding tax.

Capital gains

Gains from the sale of property in the Republic of China are generally subject to Republic of China income tax. However, under current Republic of China law, capital gains on securities transactions (including the sale of common shares) are exempt from income tax.

Sale of GDRs are regarded as transactions relating to property located outside the Republic of China and thus any gains derived therefrom are currently not subject to Republic of China income tax.

Subscription rights

Distributions of statutory subscription rights for common shares in compliance with Republic of China law are not subject to any Republic of China tax. Proceeds derived from sales of statutory subscription right evidenced by securities are exempted from income tax but are subject to securities transaction tax at the rate of 0.3% of the gross amount received. Proceeds derived from

sales of statutory subscription rights which are not evidenced by securities are subject to capital gains tax at the rate of:

- 35% of the gross amount received if you are a natural person; or
- 25% of the gross amount received if you are an entity that is not a natural person.

Subject to compliance with Republic of China law, the Company, in its sole discretion, can determine whether statutory subscription rights shall be evidenced by issuance of securities.

Securities transaction tax

A securities transaction tax, at the rate of 0.3% of the gross amount received, payable by the seller will be withheld upon a sale of common shares in Taiwan. Transfer of Bonds will not be subject to Republic of China securities transaction tax. However, the sale of any Common Shares withdrawn from the deposit facility will be subject to securities transaction tax.

Estate and gift tax

Republic of China estate tax is payable on any property within Taiwan of a deceased who is a non-resident individual, and Republic of China gift tax is payable on any property within Taiwan donated by any such person. Estate tax is currently payable at rates ranging from 2% of the first NT\$600,000 to 50% of amounts over NT\$100,000,000. Gift tax is payable at rates ranging from 4% of the first NT\$600,000 to 50% of amounts over NT\$45,000,000. Under Republic of China estate and gift tax law, common shares issued by Taiwan companies are deemed located in Taiwan regardless of the location of the owner. It is not clear whether the Bonds will be regarded as property located in Taiwan under Republic of China estate and gift tax law.

Tax treaty

The Republic of China does not have an income tax treaty with the United States. On the other hand, the Republic of China has income tax treaties with Indonesia, Singapore, South Africa, Australia, Vietnam, New Zealand, Malaysia, Macedonia, Switzerland and Gambia, which may limit the rate of Republic of China withholding tax on dividends paid with respect to common shares in Taiwan companies. It is unclear whether if you hold Bonds, you will be considered to hold common shares for the purposes of these treaties. Accordingly, if you may otherwise be entitled to the benefits of the relevant income tax treaty, you should consult your tax advisors concerning your eligibility for the benefits with respect to the Bonds.

**APPENDIX ONE: FINANCIAL STATEMENTS OF THE COMPANY AS AT
DECEMBER 31, 2001**

INFODISC TECHNOLOGY CO., LTD.
AND SUBSIDIARIES
FINANCIAL STATEMENTS
WITH
REPORT OF INDEPENDENT AUDITORS
DECEMBER 31, 2001 AND 2000

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.

INFODISC TECHNOLOGY CO., LTD. AND SUBSIDIARIES

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English Translation of a Report Originally Issued in Chinese

Report of Independent Auditors

The Board of Directors and Shareholders
Infodisc Technology Co., Ltd. and subsidiaries

We have audited the accompanying balance sheets of Infodisc Technology Co., Ltd. and subsidiaries as of December 31, 2001 and 2000, and the related statements of income, changes in shareholders' equity and cash flows for years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of the subsidiaries, Infodisc Technology Korea Ltd. Infodisc Technology GmbH Ltd. and Infodisc Global Holding Inc. and Subsidiaries were audited by other auditors. Our opinion insofar as it related to their total assets are \$1,873,870, \$177,747, \$6,028,847 and \$347,517, \$549,926, \$0 thousands as of December 31, 2001 and 2000, and their related operating income of such subsidiaries are \$170,530, \$383,434, \$2,324,259 and \$0, \$789,534, \$0 thousands for the years then ended, which are included in the financial statements are solely based on the reports of the other auditors. Besides, Infodisc Technology Co., Ltd. and Subsidiaries' equity investees, Hua Shuen Venture Capital Ltd. Infodisc Technology USA and Digital Information Systems Corp. were audited by other auditors. Our opinion insofar as it related to the amounts included for such said investees, is based on the reports of the other auditors. As of December 31, 2001 and 2000, the balance of long-term investments was \$256,790 thousand and \$247,392 thousand. The total investment loss was \$58,638 thousand and \$40,308 thousand for years ended December 31, 2001 and 2000.

We conducted our audits in accordance with "Regulations for Auditing and Certification of Financial Statements by Certified Public Accountants" and auditing standards generally accepted in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits 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 financial statements referred to above present fairly, in all material respects, the financial position of Infodisc Technology Co., Ltd. and subsidiaries as of December 31, 2001 and 2000, and the results of its operations and its cash flows for years then ended, in conformity with "Guidelines for Preparation of Financial Reports by Securities Issuers" and accounting principles general accepted in the Republic of China.

As stated in the financial statements of Infodisc Technology Co., subsidiaries Ltd., the Company had operating loss in 2001, as of December 31, 2001, the current liabilities of the Company in the amount of \$4,814,772 thousand was \$2,245,303 thousand higher than its current assets in the amount of \$2,569,469 thousand. And its current liability to current asset ratio was only 36.52%.

February 25, 2002
Taipei, Taiwan
Republic of China

Notice to Readers

The accompanying financial statements are intended only to present the financial position and results of 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 practice to audit such financial statements are those generally accepted and applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese
INFODISC TECHNOLOGY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2001 and 2000
(Expressed in Thousands of New Taiwan Dollars)

ASSETS	Notes	2001	2000	LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2001	2000
CURRENT ASSETS				CURRENT LIABILITIES			
Cash and cash equivalents	2 and 4	\$290,603	\$1,756,762	Short-term loans	10 and 24	\$1,828,310	\$840,702
Short-term investments-net	2 and 5	-	130,259	Short-term bills payable-net	11	139,492	333,319
Notes receivable-net	2 and 6	49,487	38,030	Notes payable		29,468	66,590
Accounts receivable-net	2 and 6	969,466	1,782,924	Accounts payable		1,116,440	477,049
Due from related parties	2, 6 and 23	2,222	53,445	Due to related parties	23	-	995
Inventories-net	2 and 7	453,551	402,335	Income tax payable	2 and 20	48,769	121,314
Prepaid expenses		115,927	30,083	Accrued expenses	25 and 28	531,330	322,705
Other current assets	2 and 22	77,050	72,120	Payables for equipment purchased		40,753	77,012
Deferred income tax assets	2 and 20	29,389	44,278	Current portion of long-term loans payables	13 and 24	535,075	412,683
Restricted cash and cash equivalents	24	257,608	186,882	Current portion of capital lease liabilities	12	315,539	47,646
Total Current Assets		<u>2,245,303</u>	<u>4,497,118</u>	Other current liabilities		229,596	9,520
				Total Current Liabilities		<u>4,814,772</u>	<u>2,709,535</u>
LONG-TERM INVESTMENTS-NET	2,8,23,24 and 25	<u>561,086</u>	<u>619,188</u>				
				LONG-TERM LIABILITIES			
PROPERTY, PLANT AND EQUIPMENT-NET	2,3,9,23,24 and 25			Long-term loans payable	13 and 24	1,322,931	1,340,177
Land		41,974	410,974	Capital lease liabilities	12	498,995	-
Buildings		1,619,480	1,228,049	Long-term Liabilities		<u>1,821,926</u>	<u>1,340,177</u>
Machinery and equipment		5,845,184	4,329,270				
Transportation equipment		16,127	12,360	OTHER LIABILITIES			
Furniture and fixtures		145,169	29,944	Other payables	2 and 14	1,747,500	-
Leased equipment		1,138,160	46,922	Accrued pension liabilities		3,182	3,276
Miscellaneous equipment		67,414	42,326	Other payables-related parties		704,603	-
Sub-total		<u>8,873,508</u>	<u>6,099,845</u>	Deferred crudities		150,162	542
Less: Accumulated depreciation		(1,332,288)	(802,698)	Minority interest		137,423	-
Prepayments for land		-	800,784	Others	2	15,942	9,176
Construction-in-progress		299,984	309,129	Total Other Liabilities		<u>2,758,812</u>	<u>12,994</u>
Prepayments for equipment		40,356	1,134,381				
Net		<u>7,881,560</u>	<u>7,541,441</u>	Total Liabilities		<u>9,395,510</u>	<u>4,062,706</u>
INTANGIBLE GOODWILL		<u>4,067,103</u>	<u>-</u>				
				SHAREHOLDERS' EQUITY			
OTHER ASSETS				Capital stock	15	2,533,452	1,627,846
Refundable deposits		126,571	6,769	Capital reserve	16		
Deferred charges	2	302,154	88,137	Additional paid-in capital		7,013,560	7,111,231
Other receivables-related parties	23	640,261	496,200	Gain on disposal of assets		2,722	2,722
Deferred income tax assets	2 and 20	755,820	264,532	Donated assets		36,119	8,614
Non-operating assets	2 and 9	975,030	328,614	Retained earnings			
Other assets		43,629	51,187	Legal reserve	17	139,395	36,759
Total Other Assets		<u>2,843,465</u>	<u>1,235,439</u>	Unappropriate earnings	18	(1,217,528)	1,035,571
				Cumulative translation adjustments	2	64,287	7,727
				Total Shareholders' Equity		<u>8,572,007</u>	<u>9,830,470</u>
TOTAL ASSETS		<u><u>\$13,531,414</u></u>	<u><u>\$13,893,186</u></u>	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u><u>\$17,967,517</u></u>	<u><u>\$13,893,176</u></u>

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

English Translation of Financial Statements Originally Issued in Chinese
INFODISC TECHNOLOGY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
For the Years Ended December 31, 2001 and 2000
(Expressed in Thousands of New Taiwan Dollars Except for Earnings Per Share)

	Notes	2001	2000
OPERATING REVENUE			
Sales	19 and 23	\$4,759,894	\$3,972,779
Less: Sales return and allowance		(82,132)	(83,593)
Net sales		4,677,762	3,889,186
OPERATING COST			
Cost of goods sold	23	4,591,346	2,609,893
OPERATING PROFIT		86,416	1,279,293
Less: Unrealized intercompany profit	2	-	(542)
Add: Realized intercompany profit	2	542	452
GROSS PROFIT		86,958	1,279,203
OPERATING EXPENSES			
Selling expenses		359,115	65,262
Administrative expenses		1,166,094	289,471
Research and development expenses		34,464	39,169
Total Operating Expenses		1,559,673	393,902
OPERATING INCOME (LOSS)		(1,472,715)	885,301
NON-OPERATING INCOME			
Interest income	23	64,468	78,883
Gain on disposal of property, plant and equipment	2 and 23	1,519	562
Gain on disposal of short-term investments		1,219	-
Gain on disposal of long-term investments		1,854	431
Foreign exchange gain	2	280,621	217,597
Gain from recovery of inventory		7,722	-
Others	23	176,638	27,207
Total Non-Operating Income		534,041	324,680
NON-OPERATING EXPENSES			
Interest expenses		446,261	134,172
Investment loss	2 and 8	58,638	40,308
Loss on disposal of property, plant and equipment	2	3,110	239
Loss on valuation of inventory		30,607	7,722
Others	7 and 26	87,430	9,074
Total Non-Operating Expenses		626,046	191,515
INCOME (LOSS) BEFORE INCOME TAX		(1,564,720)	1,018,466
INCOME TAX BENEFIT	2 and 20	421,345	22,701
INCOME BEFORE MINORITY INTERESTS		(1,143,375)	1,041,167
MINORITY INTEREST LOSS		71,516	-
REACQUISITION INCOME		-	14,389
NET INCOME (LOSS)		\$(1,071,859)	\$1,055,556
EARNINGS PER SHARE	21		
INCOME (LOSS) BEFORE INCOME TAX		\$(6.17)	\$4.99
INCOME TAX BENEFIT		1.66	0.11
REACQUISITION INCOME		(0.28)	-
NET INCOME (LOSS)		-	0.07
NET INCOME (LOSS)		\$(4.79)	\$5.17

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

English Translation of Financial Statements Originally Issued in Chinese
INFODISC TECHNOLOGY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2001 and 2000
(Expressed in Thousands of New Taiwan Dollars)

Description	Capital stock	Capital reserve	Retained earnings		Cumulative translation adjustments	Total
			Legal reserve	Unappropriate earnings		
Balance as of January 1, 2000	\$828,644	\$1,205,266	\$16,012	\$219,109	\$(1,734)	\$2,267,297
Capital increase in cash and premium	450,000	6,075,000				6,525,000
Distribution of earnings for 1999						
Legal reserve			20,747	(20,747)		-
Bonus for board of directors				(5,675)		(5,675)
Bonus for employees transferred to increase capital stock	9,458			(9,458)		-
Unappropriated earnings transferred to increase capital stock	174,015			(174,015)		-
Donated assets		7,609				7,609
Capital reserve transferred to increase capital stock	165,729	(165,729)				-
Gain on disposal of property, plant and equipment -transfer as capital reserve		421		(421)		-
Cumulative translation adjustments					9,461	9,461
Net income in 2000				1,026,778		1,026,778
Balance as of December 31, 2000	1,627,846	7,122,567	36,759	1,035,571	7,727	9,830,470
Capital increase in cash and premium						-
Distribution of earnings for 2000						
Legal reserve			102,636	(102,636)		-
Bonus for employees transferred to increase capital stock	91,683			(91,683)		-
Unappropriated earnings transferred to increase capital stock	716,252			(797,645)		(81,393)
Donated assets		27,505		(27,505)		-
Capital reserve transferred to increase capital stock	97,671	(97,671)				-
Adjustment of capital reserve and retained earnings accounted for under equity method				(161,771)		(161,771)
Cumulative translation adjustments					56,560	56,560
Net loss in 2001				(1,071,859)		(1,071,859)
Balance as of December 31, 2001	\$2,533,452	\$7,052,401	\$139,395	\$(1,217,528)	\$64,287	\$8,572,007

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

English Translation of Financial Statements Originally Issued in Chinese

INFODISC TECHNOLOGY CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2001 and 2000

(Expressed in Thousands of New Taiwan Dollars)

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$(1,071,859)	\$1,026,778
Minority Interest	(71,516)	-
Reacquisition Income	-	14,389
Adjustments to reconcile net income to net cash:		
Depreciation	1,005,494	554,372
Amortization	329,754	27,587
Investment loss- equity method	58,638	40,308
Gain on disposal of short-term investments	(8,406)	(50,557)
Gain on disposal of long-term investments	(1,854)	(431)
Loss on disposal of property, plant and equipment	3,110	239
Gain on disposal of property, plant and equipment	(1,519)	(562)
Net changes in operating assets and liabilities:		
Notes receivable-net	(11,457)	(6,865)
Accounts receivable-net	813,458	(1,233,124)
Due from related parties	51,223	(18,564)
Inventories-net	(51,196)	(216,541)
Prepaid expenses	(85,844)	(11,260)
Other current assets	(4,930)	(58,401)
Deferred income tax assets	(476,399)	(143,236)
Notes payable	(37,122)	(48,838)
Accounts payable	639,391	434,895
Due to related parties	(995)	(10,104)
Accrued expenses	208,625	205,869
Income tax payable	(72,545)	99,918
Other payables-related parties	704,603	-
Other current liabilities	220,076	18,246
Accrued pension liabilities	(94)	860
Deferred credits	47,043	90
Net cash provided by operating activities	<u>2,185,679</u>	<u>625,068</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in restricted cash and cash equivalents	(70,726)	(55,134)
Proceeds from disposal of short-term investments	2,088,245	9,606,972
Increase in short-term investments	(1,949,580)	(9,686,674)
Increase in long-term investments	(646,416)	(328,614)
Proceeds from disposal of long-term investments	(87,645)	(623,541)
Purchases of property, plant and equipment	98,754	21,281
Proceeds from disposal of property, plant and equipment	(4,890,415)	(4,415,028)
Increase in Goodwill	3,288,114	2,334,432
Increase in refundable deposits	(4,357,611)	-
Increase in deferred charges	(119,802)	(2,416)
Increase in other receivables-related parties	(254,793)	(1,657)
Increase in non-operating assets	(144,061)	(496,200)
(Increase) Decrease in other assets	7,528	(17,173)
Increase in others	6,766	-
Net cash used in investing activities	<u>(7,031,642)</u>	<u>(3,663,752)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease in short-term bills payable	(193,827)	204,740
Increase (Decrease) in short-term loans	987,608	(321,419)
Increase in capital lease liabilities	766,888	22,425
Increase (Decrease) in long-term loans payable	105,147	376,610
Increase in other payables	1,747,500	-
Capital increase in cash and premium	47,881	6,525,000
Cash dividends	(81,393)	-
Bonus for board of directors	-	1,934
Net cash provided by financing activities	<u>3,379,804</u>	<u>6,809,290</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(1,466,159)</u>	<u>1,670,608</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	<u>1,756,762</u>	<u>86,154</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u><u>\$290,603</u></u>	<u><u>\$1,756,762</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid during the year	<u>\$449,900</u>	<u>\$270,565</u>
Income tax paid during the year	<u><u>\$115,522</u></u>	<u><u>\$18,926</u></u>

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

English Translation of Financial Statements Originally Issued in Chinese

INFODISC TECHNOLOGY CO., LTD.
NOTES TO FINANCIAL STATEMENTS

December 31, 2001 and 2000

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

1. ORGANIZATION AND OPERATIONS

Infodisc Technology Co., Ltd. ("the Company"), located in Taiwan, was incorporated under the laws of the Republic of China ("R.O.C.") on April 14, 1995. The Company is principally engaged in multi-media operations including manufacturing, researching, designing, developing, importing, exporting, programming, and selling read-only-memory discs (DVD, CD-Audio, CD-Video, CD-ROM, etc.), rewritable discs, and other peripheral products, equipment, and systems. The Company was successfully listed in the market of the R.O.C. Over-The-Counter Securities Exchange on February 21, 2000, and also in the market of the Taiwan Stock Exchange Corporation on September 19, 2001.

2. SUMMARY OF CONSOLIDATION PRINCIPLES

(1) Parent Company: Infodisc Technology Co., Ltd.

(2) The Company's consolidated financial statements include the following subsidiaries:

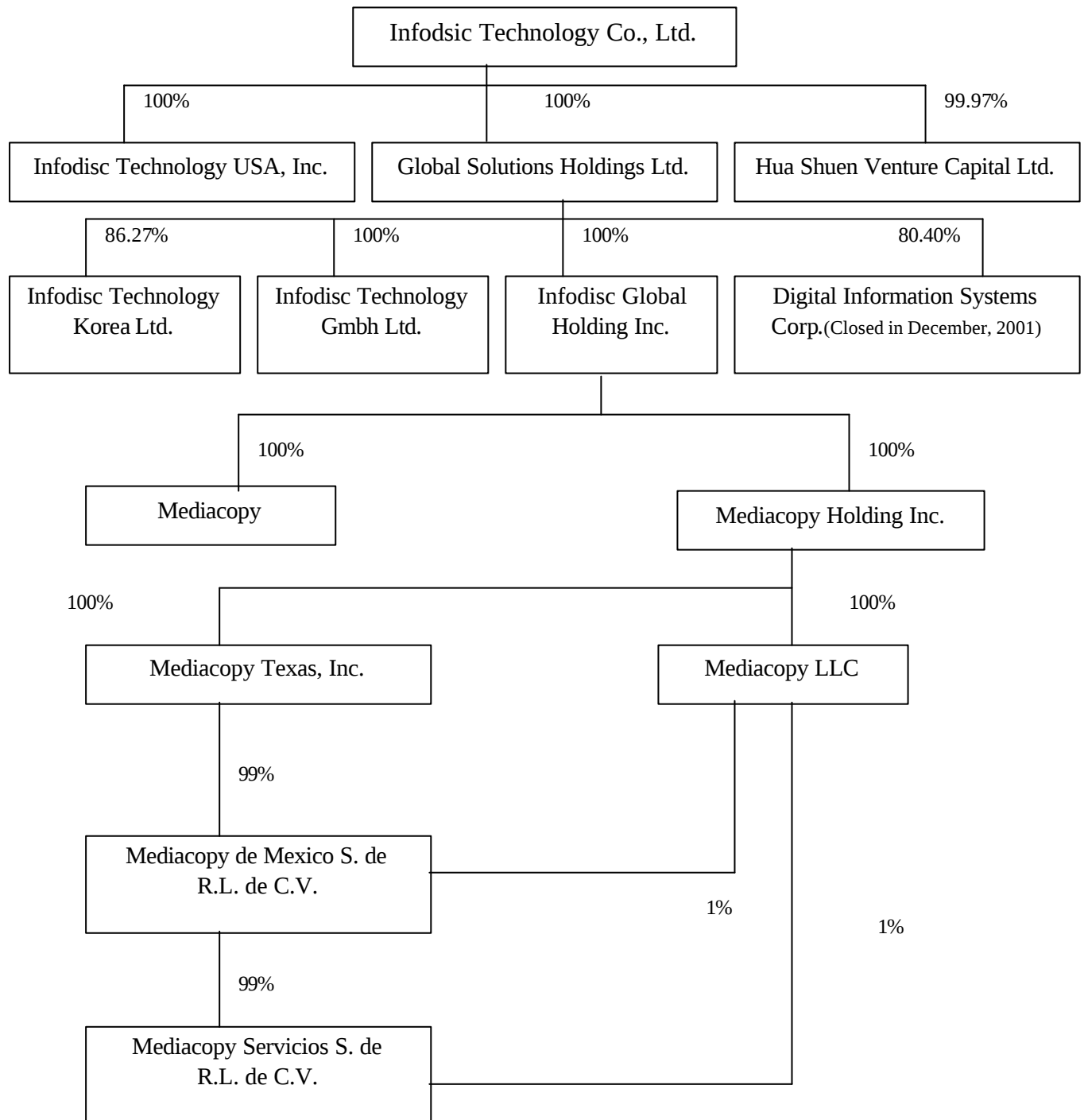
Name of the subsidiary	Relationships	% of holding interest		Business in nature
		2001	2000	
Global Solutions Holdings Ltd. (GSHL)	The Company's equity investee	100%	100%	Holding Company
Infodisc Technology GmbH Ltd.	GSHL's equity investee	100%	100%	Producing read-only memory discs
Infodisc Technology Korea Ltd.	GSHL's equity investee	86.27%	100%	Producing read-only memory discs
Infodisc Global Holding Inc. and Subsidiaries	GSHL's equity investee	100%	-	Holding Company Producing read-only-memory discs

Infodisc Global Holding Inc. and subsidiaries which are 100% held by Global Solutions Holdings Ltd. include Mediacy Mediacy Holding Inc., Mediacy Texas, Inc., Mediacy LLC, Mediacy de Mexico S. de R.L. de C.V. and Mediacy Servicios. S. de R.L. de C.V..

(3) Non-consolidated subsidiaries include the following:

Name of the subsidiaries	% of holding interests		Reasons for not consolidating
	2001.12.31	2000.12.31	
Infodisc Technology USA Inc.	100%	100%	The total assets and/or operating income does not exceed 10% of those of the Company
HuaShuen Venture Capital Ltd.	99.97%	99.97%	"
Digital Information Systems Corp.	-	80.40%	"

(4) The Company's "Group Chart" as of December 31, 2001 is described as follows:



(5) No adjustment has been made to reconcile the different accounting periods adopted by the Company and its subsidiaries. There is no unexpected risk on the operations of offshore subsidiaries.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparing consolidated financial statements

Consolidated financial statements are prepared if the Company owns more than 50% of the investee company's shares. However, the financial statements of any subsidiary in which shareholders' equity is negative, or either the "total assets" or "operating revenue" for the current year are less than 10% of those of the Company are not included in the consolidated financial statements. If either the combined "total assets" or "operating revenue" of those subsidiaries, which are not included in the consolidated financial statements, exceed 30% of those of the Company, any of these subsidiaries in which its "total assets" and "operating revenues" exceed 3% of those of the Company are still needed to be included in the consolidated financial statements.

Translation of foreign currency transactions

The Company's accounts are maintained in New Taiwan dollars, Korean Wons, German Marks and US dollars. Transactions arising in foreign currencies other than forward exchange contracts during the year are converted into New Taiwan dollars at exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at year-end are translated into New Taiwan dollars at year-end exchange rates. Foreign exchange gains or losses are included in the results of operations for the current period. Other translation differences resulting from foreign long-term equity investments are classified as translation adjustments and deducted from stockholders' equity.

The foreign currency amounts on hedging forward exchange contracts are translated into New Taiwan dollars using the spot rate at the deal date of the contract. Any differences between the spot rate at the date of the contract and rate provided by the contract are amortized over the life of the contract. Gains or losses on outstanding contracts at the balance sheet date are recorded in the current year income statement based on the spot exchange rate of the particular currency at the balance sheet date.

The Company's equity investees use the local currency as the functional currency. The financial statement translation from the applicable foreign currencies to New Taiwan dollars is performed for assets and liabilities accounts using current exchange rates in effect at the balance sheet date except for the shareholders' equity which are translated at historical rates, and for revenues and expenses accounts using a weight average exchange rate during the period. The gains or losses, resulting from the translation, are recorded in a separate component of shareholders' equity.

The financial statements of foreign subsidiaries and investees are translated into New Taiwan dollars, using the spot rate as of each financial statements date for asset and

liability accounts, average exchange rate for profit and loss accounts and historical exchange rates for equity accounts. The cumulative translation effects for subsidiaries and investees using functional currencies other than the New Taiwan dollars are included in the cumulative translation adjustment in shareholders' equity.

Cash and cash equivalents

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

Short-term investments

Short-term investments are recorded at cost. Cost is determined using the weighted-average method during the year and valued at the lower of cost or market value at year end.

Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on estimated collectibility of notes receivable, accounts receivable, and due from related parties.

Inventories

Inventories are stated at the lower of cost or market value. Cost is determined by the weighted-average method. The market value for raw materials and supplies are determined based on current replacement cost while finished goods are determined based on net realizable value.

Long-term investments

Long-term investments are valued by equity method or cost method in accordance with generally accepted accounting principle. Investment income or loss from investing in either listed or unlisted companies is accounted for under equity method provided that the Company owns over 20% of the outstanding shares of the listed or unlisted companies. Dividends issued by the investee company are deemed as recovery of the long-term investment. If the investee company is listed and the Company owns less than 20% of the outstanding shares and has no significant influence on operational decisions of the listed company's, such investment is accounted for by the lower of cost or market value method. The unrealized loss resulting from the decline in market value of such investment is deducted from shareholders' equity. The Company's investment in a company which is not listed is accounted for under the cost method.

Unrealized intercompany gains and losses are eliminated under the equity method. Profit from sales of depreciable assets between the investee and the Company is amortized and recognized based on the assets' economic service lives. Profit from other types of intercompany transactions is recognized when realized. When the Company's proportional interest in an equity investee changes when the latter issues additional shares, the effect of the change in the Company's holding ratio in the long-term investment is adjusted first to capital reserve. If the capital reserve account is insufficient, the effect is included in retained earnings.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Expenditures for maintenance and repairs are charged against operating income. Improvements that materially extend the useful life of the assets are capitalized. When assets are retired or disposed of, their cost and related accumulated depreciation are removed from the fixed assets account. Gain on asset disposal is credited to current income. Such gain, net of applicable income tax, is transferred to capital reserve in the year of disposal. Loss on asset disposal is charged against current income.

Due to an amendment to the Company Law in Republic of China, gain from disposal of asset will be no longer transferred to capital reserve since 2001.

Leased assets are recorded at the lower of the present value of purchase price at the end of lease plus rental payments during the lease, or the fair value of the lease asset at the inception of the lease.

Depreciation in the Company is provided on the straight-line basis over the following useful lives:

Buildings	3 to 55 years
Machinery and equipment	5 to 10 years
Transportation equipment	5 years
Furniture and fixtures	5 years
Miscellaneous equipment	5 years
Leased equipment	6 years

Property, plant and equipment for non-operation use has reclassified to other assets, and are stated at net realizable value.

Depreciation of Infodisc Technology GmbH Ltd. is provided on the straight-line basis over the following useful lives:

Machinery and equipment	4 to 10 years
Furniture and fixtures	4 to 10 years
Miscellaneous equipment	4 to 10 years

Depreciation of Infodisc Technology Korea Ltd. is provided on the straight-line basis over the following useful lives:

Buildings	50 years
Machinery and equipment	7 years
Furniture and fixtures	5 years
Transportation equipment	5 years

Depreciation of Infodisc Technology Global Holding Inc. and Subsidiaries is provided on the straight-line basis over the following useful lives:

Machinery and equipment	7 to 10 years
Furniture and fixtures	5 to 7 years
Transportation equipment	5 to 7 years
Leasehold improvements	5 to 10 years

Deferred charges

Deferred charges, including leasehold improvements, computer software, designing charges, stumper, royalty, and copyright, are amortized by the straight-line method over five years except for copyrights which are amortized over 5 to 10 years and royalties which are amortized over 5 to 15 years.

Deferred charges of Infodisc Technology Korea Ltd. and Infodisc Technology GmbH consist of computer software, are amortized by the straight-line method over five years.

Goodwill

Goodwill derives from Infodisc Global Holdings Ltd's acquisition of Mediacopy and is amortized over 15 years.

Deferred credits – unrealized profit of intercompany transactions

The recognition of profits derived from sales of inventories and depreciated assets to the Company's investee companies which are accounted for under equity method will be deferred until the period in which the goods are sold to outsiders.

Pension plan

The Company established a pension fund for its employees. The Company makes monthly contributions to the pension fund at 2% of its total monthly salaries and wages as required by the Labor Standards Laws. The Fund is administrated by the Employees Retirement Fund Committee. Assets of the funds are deposited in the name of the Committee. The percentage of contribution has been reported to and approved by the Labor Bureau of the Taipei City Government.

Effective from 1997, the Company adopted, on a prospective basis, R.O.C. Statement of Financial Accounting Standards No. 18 "Accounting for Pensions". This Statement requires that the accumulated pension obligation and the pension expense be determined on an actuarial basis.

Accrued pension liabilities of Infodisc Technology Korea Ltd. represent the amount employees and directors with more than one year of service are entitled to receive based on their length of service and rate of pay as of the balance sheet date.

Income tax

The Company adopted R.O.C. Statement of Financial Accounting Standards No. 22 "Accounting for Income Tax". This Statement requires the inter-period as well as intra-period income tax allocation. Under this Statement, the tax effects of taxable temporary differences are recognized as deferred income tax liabilities while those of deductible temporary differences, net operating loss, and investment tax credits are recognized as deferred tax assets. A valuation allowance is provided for deferred tax assets to the extent that it is more likely than not that the tax benefits will be realized.

In addition, the Company's unappropriated earnings is subject to income tax at 10%, which will be recorded as income tax expense at the year that resolution to distribute earnings is made by the shareholders' meeting.

Global Solutions Holdings Ltd. was incorporated in British Virgin Island, where is a tax free region, no income tax expense (revenue) applying.

The tax income (loss) of Infodisc Technology GmbH Ltd. was estimated at 36.8% of the whole year's taxable income.

The tax income (loss) of Infodisc Technology Korea Ltd. was estimated at 30% of the whole year's taxable income.

The tax income (loss) of Infodisc Global Holding Inc. and Subsidiaries was estimated at 35% of the whole year's taxable income.

4. THE REASONS AND EFFECT OF CHANGE IN ACCOUNTING

According to the Company Law, gain or loss on disposal of property, plant and equipment was treated as other income or loss in the current period, and such gain, after tax, was reclassified into additional paid-in capital. As a result of amendments to the Company Law in Republic of China in 2001, the reclassification is no longer required for disposals made in and after 2001. This change in accounting has no effect on "Net Loss for year 2001", however, it decreased "Capital Reserve" at \$29,921 thousand and increased "Retained Earnings" at \$29,921 thousand.

5. CASH AND CASH EQUIVALENTS

(1) Cash and cash equivalents consist of the following:

	December 31, 2001	December 31, 2000
Cash on hand	\$280	\$317
Cash in bank	290,314	1,756,445
Government Bonds	9	-
Total	<u>\$290,603</u>	<u>\$1,756,762</u>

- (2) Time deposits, which were restricted for use, were transferred to the appropriate account. Please refer to Note 24 for “assets pledged as collateral”.

5. SHORT-TERM INVESTMENTS

Short-term investments consist of the following:

	December 31, 2000	
	Cost	Market Value
Unsecured convertible bonds	\$53,000	\$53,421
Debenture fund	77,259	77,376
Total	130,259	\$130,797
Less: Allowance for loss on decline in market value	-	
Net	\$130,259	

6. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

Notes receivable and accounts receivable consist of the following:

	December 31, 2001	December 31, 2000
Notes receivable	\$49,487	\$38,030
Less: Allowance for doubtful accounts	-	-
Notes receivable – net	\$49,487	\$38,030
Accounts receivable	\$952,765	\$1,819,101
Less: Allowance for doubtful accounts	(67,706)	(36,177)
Accounts receivable – net	885,059	1,782,924
Accounts receivable under pledge	109,412	-
Less: Loans secured by accounts receivable	(25,005)	-
Accounts receivable under pledge – net	84,407	-
Accounts receivable – net	\$967,466	\$1,782,924

As of December 31, 2001 and 2000, accounts receivable in the amount of \$109,412 thousand and \$0 thousand were pledged for borrowings.

The Company’s accounts receivables from Twentieth Century Fox Inc. (“Twentieth Century”) in the amount of \$177,795 thousand was written off since the Twentieth Century had suffered financial difficulties and the Company considered the possibilities of collection was remote. The copyrights and issuance right of Twentieth Century were pledged as the collateral of accounts receivables.

	December 31, 2001	December 31, 2000
Due from related parties	\$4,109	\$56,667
Less: Allowance for doubtful accounts	(1,887)	(3,222)
Due from related parties	\$2,222	\$53,445

7. INVENTORIES

(1) Inventories consist of the following:

	December 31, 2001	December 31, 2000
Raw materials	\$264,607	\$328,554
Supplies	2,995	7,595
Work in Process	50,026	374
Finished goods	122,566	77,769
Products	448	-
Raw material in transit	-	641
Inventories in transit	45,041	-
Sub-total	487,704	414,933
Less: Allowance for loss on obsolescence and decline in market value	(34,153)	(12,578)
Inventories – net	<u>\$453,551</u>	<u>\$402,355</u>

(2) The Company's insurance amount for inventories was \$54,000 thousand and \$103,000 thousand as of December 31, 2001 and 2000, respectively.

(3) The Company was suffered from flood that lead to damaged on inventories in the amount of \$19,928 thousand on September 17, 2001 due to a Typhoon. This damage has been recognized as other loss.

8. LONG-TERM INVESTMENTS

(1) Long-term investments consist of the following:

As of December 31, 2001

Investee Companies	Percentage of Ownership	Basis of Valuation	Amount
Infodisc Technology USA, Inc.	100%	Equity Method	\$69,298
Hua Shuen Venture Capital Ltd.	99.97%	Equity Method	187,492
Integrated Memory Technology, Inc.	0.94%	Cost Method	6,156
Pan-Pacific Venture Capital Co., Ltd.	12.50%	Cost Method	165,000
Taiwan Fixed Network Corporation	0.05%	Cost Method	50,000
Aetas Technology Inc.	5.50%	Cost Method	33,140
Champion Consulting Corporation	12.50%	Cost Method	50,000
Total			<u>\$561,086</u>

As of December 31, 2000

Investee Companies	Percentage of Ownership	Basis of Valuation	Amount
Infodisc Technology USA, Inc.	100%	Equity Method	\$42,274
Hua Shuen Venture Capital Ltd.	99.97%	Equity Method	200,339
Integrated Memory Technology, Inc.	0.94%	Cost Method	6,156
Pan-Pacific Venture Capital Co., Ltd.	12.50%	Cost Method	165,000
Taiwan Fixed Network Corporation	0.05%	Cost Method	50,000
Aetas Technology Inc.	5.50%	Cost Method	33,140
Champion Consulting Corporation	12.50%	Cost Method	50,000
Formosa Epitaxy Inc.	6.00%	Cost Method	67,500
Digital Information Systems Corp.	80.40%	Equity Method	4,779
Total			<u>\$619,188</u>

- (2) The long-term investment income (loss) under equity method recognized by the Company based on the audited financial statements of the investee companies are as follows:

	2001	2000
Infodisc Technology USA, Inc.	\$(34,531)	\$(50,942)
Digital Information Systems Corp.	(6,985)	10,235
Hua Shuen Venture Capital Ltd.	(17,122)	399
Total	<u>\$(58,638)</u>	<u>\$(40,308)</u>

The financial statements of Infodisc Technology USA, Inc. and Hua Shuen Venture Capital Ltd. were audited by other auditors.

- (3) Infodisc Technology USA, Inc., Hua Shuen Venture Capital Ltd. was not included for consolidation, due to that neither its total assets or operating revenue exceeds 10% of those of the Company.

- (4) Please refer to Note 24 for “assets pledged as collateral”.

9. PROPERTY, PLANT AND EQUIPMENT

- (1) The Company's insurance amount for property, plant and equipment was \$4,648,000 thousand and \$5,240,342 thousand as of December 31, 2001 and 2000, respectively.
- (2) The interest capitalized in 2001 and 2000 were \$48,087 thousand and \$110,432 thousand, respectively.

(3) As of December 31, 2001, land and prepayments for land for non-operating use in the amount of \$898,932 thousand and \$76,098 thousand, respectively were transferred to other assets.

(4) As of December 31, 2000, machinery and equipment prepared to be sold in the amount \$328,614 thousand was transferred to other assets.

(5) Please refer to Note 24 for “ assets pledged as collateral”.

10. SHORT-TERM LOANS

(1) Short-term loans consist of the following:

Description	December 31, 2001	December 31, 2000
Secured loans	\$1,012,091	\$335,000
Unsecured loans	558,276	60,000
L/C financing	21,185	200,544
Usance L/C financing	236,758	245,158
Total	<u>\$1,828,310</u>	<u>\$840,702</u>
Yield rate	1.00%-8.25%	1.158%-9.25%

(2) Please refer to Note 24 for “assets pledged as collateral”.

11. SHORT-TERM BILLS PAYABLE

Short-term bills payable consist of the following:

Description	December 31, 2001	December 31, 2000
Commercial papers	\$140,000	\$340,000
Less: Commercial papers discount	(508)	(6,681)
Short-term bills payable – net	<u>\$139,492</u>	<u>\$333,319</u>
Yield rate	2.70%-3.50%	4.90%-6.35%
Period	11-179 days	90-180 days

12. CAPITAL LEASE OBLIGATIONS

(1) Liabilities under capital leases consist of the following:

Description	December 31, 2001	December 31, 2000
Obligation under capital leases	\$814,534	\$47,646

Less: current portion	(315,539)	(47,646)
Liabilities under capital leases	\$498,995	\$-

- (2) As of December 31, 2001, rental payments (including interest expenses and tax expenses) during the lease terms in the future are summarized as follows:

Year 2002	\$395,347
Year 2003	351,990
Year 2004	215,573
Total	\$962,910

13. LONG-TERM LOANS PAYABLE

- (1) Long-term loans payable consist of the following:

Creditors	December 31, 2001	December 31, 2000
Taiwan Cooperative Bank	\$656,783	\$880,765
Chiao Tung Bank, Commercial Bank of China, and Chinatrust Commercial Bank (syndicated loans)	473,260	570,180
CitiBank	-	21,795
Hua Nan Commercial Bank	282,050	154,350
Land Bank of Taiwan	172,234	65,520
Bank of Panhsin	36,850	60,250
Ministry of Economic Affairs	10,107	-
Rabobank Singapore Branch	58,368	-
Five Star Real Estate	3,291	-
Otari Corporation	15,576	-
United Capital	22,940	-
Pacific Financial	52,425	-
Bank of the West	2,989	-
Shihhan Bank	64,713	-
Korea Exchange Bank	6,420	-
Total	1,858,006	1,752,860
Less: Current portion	(535,075)	(412,683)
Long-term loans payable	\$1,322,931	\$1,340,177
Yield rate	6.34%-9.75%	6.615%-8.39%
Period	May 1996-May 2012	May 1996-May 2012

(2) Please refer to Note 24 for “assets pledged as collateral”.

14. PENSION PLAN

(1) The Company has adopted Statement of Financial Accounting Standards No. 18 “Accounting for Pensions”. The net pension cost for 2001 and 2000 are follows:

	2001	2000
Service cost	\$2,897	\$5,831
Interest cost	936	849
Estimated return on plan assets	(711)	(357)
Net amortization and deferral	156	299
Net pension cost	<u>\$3,278</u>	<u>\$6,622</u>

(2) The funding status and accrued pension liability as of December 31, 2001 and 2000 were reconciled as follows:

	December 31, 2001	December 31, 2000
Vested benefit obligations	\$-	\$-
Non-vested benefit obligations	(7,100)	(4,398)
Accumulated benefit obligations	(7,100)	(4,398)
Additional benefits based on future salaries	(7,501)	(11,201)
Projected benefit obligations	(14,601)	(15,599)
Fair value of plan assets	16,942	11,851
Funded status	2,341	(3,748)
Unrecognized net transition obligation	2,602	2,838
Unrecognized pension(gain) or loss	(6,406)	(2,366)
Provision for pension during the period	-	-
Accrued pension liabilities	<u>\$(1,463)</u>	<u>\$(3,276)</u>

As of December 31, 2001 and 2000, the amount of reserve for pension deposited in Central Trust of China were \$16,942 thousand and \$11,851 thousand, respectively.

The funding status of Infodisc Technology Korea Ltd. is stated as follows:

	December 31, 2001
Fair value of plan assets at beginning	\$-
Funding Status	1,813
Payment during this year	(94)
Fair value of plan assets at ending	<u>\$1,719</u>

(3) The main assumptions for determining the actuarial present value are as follows:

	2001	2000
Discount rate	4.50%	6.00%

Rate of increase in future compensation level	3.00%	5.00%
Expected rate of return on plan assets	4.50%	6.00%

15. CAPITAL STOCK

As of January 1, 2000, the Company's authorized and issued capital stock was \$1,000,000 thousand and \$828,644 thousand divided into 100,000,000 shares and 82,864,436 shares at \$10 par value.

Based on the resolution of the shareholders' meeting on April 19, 2000, the Company issued 45,000,000 new shares with premium \$145 per share, and the total capital increased in the amount of \$6,525,000 thousand. In addition, the Company also issued 34,920,154 new shares from the capitalization of retained earnings of \$174,015 thousand, employees' bonus of \$9,458 thousand, and capital reserve of \$165,729 thousand, which was expressed under provision for increase in capital temporarily. The effective date was on July 12, 2000. The authorized capital after increase was \$2,800,000 thousand, of which \$1,627,846 thousand were issued and outstanding, divided into 162,784,590 shares at \$10 par value. The above increase in capital has been approved by the Ministry of Finance.

Based on the resolution of the shareholders' meeting on May 30, 2001, the Company issued 90,560,622 new shares from the capitalization of retained earnings of \$716,252 thousand, employee's bonus of \$91,683 thousand, and capital reserve of \$97,671 thousand, which was expressed under provision for increase in capital temporarily. The effective date was on September 17, 2001. The authorized capital after increase was \$4,800,000 thousand, of which \$2,533,452 thousand were issued and outstanding, divided into 253,345,212 shares at \$10 par value. The above increase in capital has been approved by the Ministry of Finance.

16. CAPITAL RESERVE

According to the Company Law, the capital reserve can only be used to offset against losses and/or to increase capital. No cash dividend can be declared from the capital reserve.

In addition, the Company may apply to capitalize the capital reserve from premium on capital stock, for only once a year, following the year of issuance, and the amount should not exceed the prescribed limits.

Capital reserves consist of the following:

Description	December 31, 2001	December 31, 2000
Additional paid-in capital	\$7,013,560	\$7,111,231
Gain on disposal of property, plant and equipment	2,722	2,722
Donated assets	36,119	8,614
Total	<u>\$7,052,401</u>	<u>\$7,122,567</u>

17. LEGAL RESERVE

The Company Law stipulates that companies must retain at least 10% of their annual earnings, as defined in the Law, until such retention equals the amount of paid-in capital. This retention is accounted as a legal reserve upon approval at the shareholders' meeting.

Once the legal reserve equals one-half of the paid-in capital, 50% of the reserve may be transferred to common stock. The legal reserve cannot be distributed as cash dividends to shareholders; however, it can be used at any time to replenish deficit.

18. DISTRIBUTION OF EARNINGS

As provided by the Company's Articles of Incorporation, annual net income after making up prior years' losses, if any, shall be distributed as follows:

- (1) To appropriate 5% to 10% as employees' bonus;
- (2) To appropriate 3% as directors' and supervisors' bonuses;
- (3) After the distribution of earnings, the remained earnings if any, may be appropriated pursuant to a resolution adopted in a shareholders' meeting.

19. OPERATING REVENUE - NET

Description	2001	2000
CD	\$569,016	\$423,711
CD-R	525,107	246,059
CD-RW	375,816	185,606
DVD	1,217,841	3,003,859
VHS	1,724,834	-
Other	347,280	113,544
Total	<u>4,759,894</u>	<u>3,972,779</u>
Less: Sales returns and allowances	<u>(82,132)</u>	<u>(83,593)</u>
Net Sales	<u>\$4,677,762</u>	<u>\$3,889,186</u>

20. INCOME TAX AND DEFERRED INCOME TAX

(1) Deferred income tax liabilities and assets as of December 31, 2001 and 2000 are as follows:

	December 31, 2001	December 31, 2000
Total deferred income tax assets	\$1,025,282	\$331,970
Total valuation allowance	\$(201,366)	\$-
Total deferred income tax liabilities	\$38,707	\$23,160
Temporary differences:		
Unrealized exchange loss	\$12,518	\$13,780
Unrealized loss on provision for inventory loss	12,246	12,578
Allowance for doubtful accounts	232,296	22,343
Unrealized intercompany profit	115	542
Investment loss under equity method	1,286,881	124,566
Investment income under equity method	(10,525)	(10,525)
Unrealized exchange gain	(127,940)	(82,115)
Others	532,047	1,340
Investment tax credits	218,014	288,183
Loss carry forward	679,328	-
Deferred income tax assets-current	\$62,433	\$64,807
Valuation allowance	-	-
Deferred income tax assets-current (net)	62,433	64,807
Deferred income tax liabilities-current	(33,044)	(20,529)
Net deferred income tax assets/ (liabilities)-current	\$29,389	\$44,278
Deferred income tax assets-noncurrent	\$962,849	\$267,163
Valuation allowance	(201,366)	-
Deferred income tax assets-noncurrent (net)	761,484	267,163
Deferred income tax liabilities-noncurrent	(5,663)	(2,631)
Net deferred income tax assets/ (liabilities)-noncurrent	\$755,821	\$264,532
	2001	2000
Income tax payable	\$48,769	\$100,907
Tax prepayment and withholding tax	1,923	1,106
Increase in deferred income tax assets	(491,946)	(162,970)
Increase in deferred income tax liabilities	15,547	19,734
Underestimation (overestimation) of prior year	4,362	(1,500)
Income tax benefit	\$(432,345)	\$(42,723)

- (2) The Company's income tax returns for the years of 1999 and before were assessed and approved by the Tax Authority.
- (3) As of December 31, 2001, the Company applied for tax deduction of \$218,014 thousand for purchasing the pollution preventive equipment, automatic production equipment, and research and development expenditure.
- (4) As of December 31, 2001 and 2000, the information of shareholders' deductible income tax account was as follows:

	2001	2000
Shareholders' deductible income tax account balance	\$3,911	\$3,921
Unappropriated earnings in 1997 and before	-	863
Unappropriated earnings after 1998	-	1,034,708
The estimated (actual) deductible tax rate	-	10.42%

21. EARNINGS PER SHARE

Weighted average number of shares:

	December 31, 2001	December 31, 2000
Outstanding shares, beginning of year	162,784,590	82,864,436
Add: First issuance of common stock		
In 2000: 45,000,000 shares * 173/365	-	13,351,648
Add: Issuance of dividend stock		
In 2000: 82,864,436 shares * 42.14%	-	34,920,154
In 2001: 162,784,590 shares * 55.63%	90,560,622	72,951,089
Weighted average number of shares	253,345,212	204,087,327
Income (Loss) before income tax	\$(1,227,206)	\$984,055
Income tax benefits	155,347	42,723
Net income (loss)	\$(1,071,859)	\$1,026,778
Earnings per share: (NT dollars)		
Income (Loss) before income tax	\$(4.84)	\$4.82
Income tax benefit	0.61	0.21
Net income (loss)	\$(4.23)	\$5.03

22. INFORMATION ON DERIVATIVE TRANSACTIONS

As of December 31, 2000, the Company had the following outstanding forward exchange contracts:

Types	Principal Amount December 31, 2000
Foreign Exchange Forward	US\$11,000

(1) Credit risk

Credit risk represents the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Because the banks, with which the Company has entered into the above contracts are well known in the world, there is no significant credit risk with respect to the above transaction.

(2) Market price risk

The Company enters into derivative transactions to reduce foreign exchange exposures. The profits or losses derived from the fluctuation of exchange rates offset with those derived from hedged accounts. Therefore, the market price risk has minimal effect to the Company.

(3) Liquidity risk, cash flow risk and uncertainty of future cash flow

The amounts of the forward foreign exchange contracts is US\$11,000 thousand as of December 31, 2000. The Company engages in these transactions in order to mitigate the probable fluctuations of foreign exchanges when foreign payables are settled. The working capital of the Company is sufficient to meet its future cash flow requirements.

(4) As of December 31, 2000, the receivables and payables resulting from the forward exchange contracts are as follows:

	December 31, 2000
Forward exchange contract payable	\$(364,387)
Forward exchange contract receivable-foreign currency	363,330
Deferred unrealized Exchange loss	1,115
Premium on forward exchange contract	(7)
Net	<u>\$51</u>

23. RELATED PARTY TRANSACTIONS

Names and relationships of related parties:

Names of the related parties	Relationships
Infodisc Technology USA, Inc.(“ITUSA”)	The Company’ s equity investee
Hua Shuen Venture Capital Ltd.(“HSVCL”)	The Company’ s equity investee
Digital Information Systems Corp.(“DISC”)	GSHL’ s equity investee
Mediacopy Texas, Inc.(“Mediacopy”)	Affiliated Company

Significant related party transactions:

(1) Sales:

Name of the related parties	2001	2000
ITUSA	\$25,306	\$27,063

The selling condition to the related parties are the same with non-related-party customers, except that the collection term is 60 days longer.

(2) Purchases:

Name of the related parties	2001	2000
ITUSA	\$-	\$50,721

The purchasing condition and payment term to the related parties are the same with non-related-party customer.

(3) Due from related parties:

Name of the related parties	December 31, 2001	December 31, 2000
DISC	\$-	\$305
ITUSA	4,109	25,970
Mediacopy	1,436	30,392
Total	\$4,109	\$56,667

(4) Other receivables- financing activities with related parties:

a. Loans to related parties:

December 31, 2001

Name of the related Parties	Maximum balance during the year	Balance at year end	Interest receivable of the year
ITUSA	\$640,262	\$581,507	\$39,544

The Company lent \$581,507 thousand to ITUSA and the borrower shall pay the loan with the interest accrued thereon to the Company on the same date after 5 years from the disbursement day and pay interest at the rate of six (4.75%) percent per annum.

December 31, 2000

Name of the related Party	Maximum balance during the year	Balance at year End	Interest receivable of the year
ITUSA	\$496,200	\$496,200	\$-

The company lent \$496,200 thousand dollars to GSHL and the borrower shall pay the loan with the interest accrued thereon to the Company on the same date after 5

years from the disbursement day and pay interest at the rate of six (6%) percent per annum.

b. Payments on behalf of related parties:

Name of related parties	December 31, 2001
ITUSA	\$19,210

The Company paid off the expenses related to organization costs and purchase of machineries and materials on behalf of those related parties.

(5) Due to related parties:

Name of the related parties	December 31, 2001	December 31, 2000
ITUSA	\$-	\$995

The account is the amount the Company should pay because ITUSA processed and packed for it.

(6) Other payables-related parties:

a. Loans to related parties:

December 31, 2001

Name of the related Parties	Maximum balance during the year	Balance at year end	Interest receivable of the year
ITUSA	\$524,250	\$524,250	\$44,866

ITUSA lends 524,250 thousand to Infodisc Global Holding and the borrower should pay interest at the rate of 4.75% per annum.

b. Payments on behalf of related parties:

Name of related parties	December 31, 2001
ITUSA	\$135,487

The amount is which ITUSA paid on behalf of related parties.

(7) The Company purchased materials on behalf of ITUSA in 2001 and 2000, in the amount of \$1,300 thousand and \$80,592 thousand. The Company also purchased materials on behalf of ITGL in the amount of \$8,176 thousand in year 2000.

(8) The Company sold shares of Formosa Epitaxy Inc., Ampire Co., Ltd and Auden Technology Mfg, Co., Ltd. to Hua Shuen Venture Capital Ltd. in 2001 and 2000. The proceeds from these disposals were \$69,354 thousand and \$21,281 thousand, and the gains from the disposals were \$1,854 thousand and \$431 thousand, respectively.

- (9) As of December 31, 2001 and December 31, 2000, the Company has provided ITUSA, IGHI, ITKL and Mediacy copy guarantee in the amount of \$0 and \$967,200 thousand.

24. ASSETS PLEDGED AS COLLATERAL

1. As of December 31, 2001 and 2000, the following assets are pledged as collateral:

Descriptions	December 31 2001	December 31 2000
Land, building and equipment	\$2,843,657	\$3,843,495
Restricted cash and cash equivalents	215,422	186,882
Long-term investment	200,000	-
Total	<u>\$3,259,079</u>	<u>\$4,030,377</u>

2. Infodisc Global Holding Inc. acquire Mediacy copy on January 2001. The payment was agreed to be settled in installments. To ensure their rights, the former shareholders of Mediacy copy required that the shares of Mediacy copy should be pledged as collateral for unsettled installments until IGHI settles all the installments.

25. COMMITMENTS AND CONTINGENT LIABILITIES

- (1) As of December 31, 2001 and 2000, the Company has the following unused L/Cs (all expressed in thousands):

Currency types	December 31, 2001	December 31, 2000
JPY	\$11,245	\$28,000
USD	719	51
CHF	86	-
DM	-	2,874
NTD	-	60,003
EU	632	-
GBP	20	2,188

- (2) As of December 31, 2001 and 2000, the Company has the following standby L/Cs (all expressed in thousands):

Currency types	December 31, 2001	December 31, 2000
US\$	\$5,900	\$32,700

- (3) As of December 31, 2001, the Company has applied for a "dominant new product development plan" to the Industrial Commission Bureau of the Ministry of Economics Affairs. In order to obtain the subsidy, the First Commercial Bank offered the Company a performance bond in the amount of \$21,000 thousand.
- (4) As of December 31, 2001, the Company has provided its stocks of Taiwan Fixed Network Corporation in the shares of 5,000,000 to Pacific Financial Enterprises

Corporation (B.V.I) as a collateral to guarantee secured loan of Mediacopy in the amount of US\$2,000 thousand. The term is from March 30, 2001 to April 3, 2003.

- (5) As of December 31, 2001, the Company has outstanding contracts amounting to \$2,953,039 thousand in equipment purchasing and building construction. The Company has paid \$1,815,959 thousand through December 31, 2001.
- (6) On February 16, 2001, Koninklijke Philips Electronice N.V. ("Philips") declared unilaterally termination to authorization of the Company's rights to produce DVD ROM Disk and DVD Video Disk on February 16, 2001 and announced that the products produced by the Company are unauthorized. The two companies are still under negotiation.
- (7) As of December 31, 2001 and 2000, the Company has issued promissory notes in the amount of \$2,301,233 thousand and \$2,425,525 thousand for the purpose of securing bank loans and leasing equipment.
- (8) As of December 31, 2001, the Company has provided guarantees to IGHI, ITKL, and Mediacopy in the amount of \$1,618,500 thousand, \$426,765 thousand and \$382,853 thousand, respectively.
- (9) To strive for globalization, Infodisc Technology Co., Ltd. has invested US\$1,000,000 thousand to acquire Mediacopy in the name of its investee company, Infodisc Global Holding Inc. (IGHI) on January 2, 2001. The payment was agreed to be settled in four installments, January 2001, June 2001, January 2002, and June 2002. The shares of Mediacopy, as agreed, were fully transferred to IGHI after the first installment made on January 2, 2001.

To ensure their rights, the former shareholders of Mediacopy required that the shares of Mediacopy should be pledged as collateral for the unsettled installments and entrusted to a legal counsel until IGHI settles all the installments. On January and June 2001, the installments were paid punctually, whereas the installments which will due on January and June 2002 are extended to February 2003, based on the negotiation with the former shareholder of Mediacopy.

26. SIGNIFICANT DAMAGED LOSS

The Company was suffered from flood that lead to damaged on inventory in the amount of \$19,928 thousand on September 17, 2001 due to a Typhoon. This damage has been recognized as other loss.

27. SIGNIFICANT SUBSEQUENT EVENT

None.

28. TECHNICAL COOPERATION AGREEMENT

- (1) The Company has entered into a technical-cooperation agreement with Philips for CD-Audio, CD-ROM and CD-Video manufacturing. The contract period is from September 1, 1997 to September 1, 2007.
- (2) The Company has entered into an authorization and manufacturing agreement with WAMO Manufacturing, Inc. for DVD manufacturing. The contract period is from July 4, 1998 to July 3, 2002.
- (3) The Company has entered into a technical-cooperation agreement with Philips of CD-RW manufacturing in July 2001. The contract period is from July 16, 2001 to July 16, 2006.
- (4) The Company has accrued royalty payable to Philips amounting to \$71,934 thousand and to WAMO Manufacturing, Inc. amounting to \$12,640 thousand as of December 31, 2001.

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

Non-derivative financial instruments:

Non-derivative Financial Instruments	December 31, 2001	
	Book Value	Fair Value
Assets:		
Cash and cash equivalents	\$290,603	\$290,603
Short-term investments	-	-
Receivables-net	1,021,175	1,021,175
Restricted cash and cash equivalents	257,608	257,068
Long-term investments	561,086	561,086
Liabilities:		
Short-term loans	1,828,310	1,828,310
Short-term bills payable	139,492	139,492
Payables	1,461,447	1,461,447
Current portion of long-term loans payable	535,075	535,075
Long-term loans payable	1,322,931	-
Capital lease liabilities	498,995	-
Non-derivative Financial Instruments	December 31, 2000	
	Book Value	Fair Value
Assets:		
Cash and cash equivalents	\$1,756,762	\$1,726,762
Short-term investments	130,259	130,797

Receivables-net	1,874,399	1,874,399
Restricted cash and cash equivalents	186,882	186,882
Long-term investments	619,188	619,188
Liabilities:		
Short-term loans	840,702	840,702
Short-term bills payable	333,319	333,319
Payables	592,280	592,280
Current portion of long-term loans payable	412,683	412,683
Long-term loans payable	1,340,177	-

Derivative Financial Instruments	December 31, 2000	
	Book Value	Fair Value
Foreign Exchange Contract	\$51	\$51

Note: The market prices of the Company's long-term equity investment are not available. The methods and assumptions used to estimate the fair value of financial instruments are as follows:

- (1) The fair value of the Company's short-term financial instruments is based on the book value of those instruments at the reporting date due to the short maturity of those instruments.
- (2) The fair value of the Company's marketable securities is based on market prices at reporting date if market prices are available. The fair value of Company's marketable securities is based on financial or any other information if market prices are not available.
- (3) The fair value of the Company's long-term borrowings is estimated using the book value of the loan at the reporting date.

30. COMPARATIVE FIGURES

Certain comparative figures in 2000 have been reclassified to conform with current year presentation.