

CHUNGHWA PICTURE TUBES, LTD.
Financial Statements
For The Years Ended
December 31, 2003 and 2002
with
Report of Independent Auditors

Report of Independent Auditors

To the Board of Directors and Stockholders of
Chunghwa Picture Tubes, Ltd.

We have audited the accompanying balance sheets of Chunghwa Picture Tubes, Ltd. (the "Company") as of December 31, 2003 and 2002, and the related statements of operations, changes in stockholders' equity and cash flows for the 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. We did not audit the financial statements of certain equity-basis investees as of and for the year ended December 31, 2003, the investment balances accounted for under the equity method amounted \$802,197 thousand (0.70% of total assets) as of December 31, 2003 and related investment income of \$172,744 thousand (14.80% of income before income tax) recognized for the year then ended. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it related to the amounts included for such said investee, is based solely on the report of the other auditors.

We conducted our audits in accordance with "Rules Governing 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 report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred in the first paragraph present fairly, in all material respects, the financial position of Chunghwa Picture Tubes, Ltd. as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, in conformity with the "Guidelines Governing the Preparation of Financial Report by Securities Issuers" and accounting principles generally accepted in the Republic of China.

Diwan, Ernst & Young
Certified Public Accountants
Taipei, Taiwan
Republic of China
March 26, 2004

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 practices to audit such financial statements are those generally accepted and applied in the Republic of China.

CHUNGHWA PICTURE TUBES, LTD.
BALANCE SHEETS
DECEMBER 31, 2003 AND 2002
(Expressed in Thousands of New Taiwan Dollars)

ASSETS	December 31, 2003		December 31, 2002	
	Amount	%	Amount	%
CURRENT ASSETS:				
Cash and cash equivalents (Notes 2 and 4)	\$16,578,676	14.50	\$11,386,917	11.71
Marketable securities, net (Notes 2 and 4)	817,613	0.72	961,447	0.99
Notes receivable, net (Notes 2 and 4)	130,019	0.11	382,508	0.39
Accounts receivable, net				
Trade (Notes 2 and 4)	4,198,229	3.67	2,892,166	2.97
Others	335,745	0.29	257,254	0.26
Due from affiliates, net				
Trade (Notes 2, 4 and 5)	6,106,783	5.34	3,760,614	3.87
Others (Note 5)	23,596	0.02	8,786	0.01
Forward exchange contract receivable, net (Note 4)	-	-	4,566	0.01
Other financial assets (Note 4)	-	-	139,120	0.14
Inventories net (Notes 2 and 4)	4,365,919	3.82	4,906,786	5.05
Prepayments	85,047	0.07	64,653	0.07
Deferred tax assets, net (Notes 2 and 4)	-	-	311,674	0.32
Pledged time deposits-current (Note 6)	82,600	0.07	153,000	0.16
Total Current Assets	<u>32,724,227</u>	<u>28.61</u>	<u>25,229,491</u>	<u>25.95</u>
LONG-TERM INVESTMENTS: (Notes 2 and 4)				
Equity method	27,033,561	23.64	28,384,019	29.19
Cost method	679,583	0.59	606,675	0.63
Total long-term investment	<u>27,713,144</u>	<u>24.23</u>	<u>28,990,694</u>	<u>29.82</u>
PROPERTY, PLANT AND EQUIPMENT:				
(Notes 2, 4, 5 and 6)				
Land	2,934,338	2.57	2,562,814	2.64
Buildings	10,094,539	8.83	7,413,512	7.62
Machinery and equipment	46,418,432	40.59	30,915,221	31.80
Transportation equipment	314,714	0.27	314,278	0.32
Furniture and fixtures	429,253	0.37	264,401	0.27
Miscellaneous equipment	10,761,841	9.41	7,750,518	7.97
Revaluation increment	57,192	0.05	57,192	0.06
Total	<u>71,010,309</u>	<u>62.09</u>	<u>49,277,936</u>	<u>50.68</u>
Less: Accumulated depreciation	<u>(22,906,739)</u>	<u>(20.03)</u>	<u>(15,652,236)</u>	<u>(16.10)</u>
Add: Prepayments on equipments and				
Construction in progress	3,632,303	3.18	5,476,711	5.63
Property, plant and equipment-net	<u>51,735,873</u>	<u>45.24</u>	<u>39,102,411</u>	<u>40.21</u>
INTANGIBLE ASSETS:				
Deferred pension cost (Notes 2 and 4)	236,221	0.21	269,967	0.28
OTHER ASSETS:				
Refundable deposits	42,561	0.03	13,156	0.01
Deferred debit (Notes 2 and 4)	1,566,086	1.37	2,015,413	2.07
Pledged time deposits-non-current (Note 6)	58,850	0.05	-	-
Others, net (Notes 2, 4 and 5)	294,954	0.26	1,607,962	1.66
Total Other Assets	<u>1,962,451</u>	<u>1.71</u>	<u>3,636,531</u>	<u>3.74</u>
TOTAL ASSETS	<u>\$114,371,916</u>	<u>100.00</u>	<u>\$97,229,094</u>	<u>100.00</u>

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

CHUNGHWA PICTURE TUBES, LTD.
BALANCE SHEETS (CONTINUED)
AS OF DECEMBER 31, 2003 AND 2002
(Expressed in Thousands of New Taiwan Dollars)

Liabilities and Stockholders' Equity	December 31, 2003		December 31, 2002	
	Amount	%	Amount	%
CURRENT LIABILITIES:				
Short-term bank loans (Note 4)	\$1,147,710	1.00	\$268,772	0.28
Accounts payable				
Trade	7,774,638	6.80	4,468,224	4.60
Others	2,943,290	2.57	1,502,183	1.54
Due to affiliates (Note 5)				
Trade	1,154,926	1.01	3,361,242	3.46
Others	301,648	0.27	141,035	0.14
Accrued expenses	2,311,039	2.02	1,190,430	1.22
Current portion of long-term debt (Notes 4 and 6)	2,304,000	2.02	6,418,400	6.60
Current liabilities				
Due to affiliates (Note 5)	3,177	-	6,584	0.01
Other	114,423	0.10	67,848	0.07
Total Current Liabilities	<u>18,054,851</u>	<u>15.79</u>	<u>17,424,718</u>	<u>17.92</u>
LONG-TERM DEBT:				
Bonds payable-net of current portion (Notes 2 and 4)	4,424,387	3.87	7,944,481	8.17
Long-term bank loans-net of current portion (Notes 4 and 6)	21,704,192	18.98	13,086,281	13.46
Total Long-term Debt	<u>26,128,579</u>	<u>22.85</u>	<u>21,030,762</u>	<u>21.63</u>
RESERVE FOR INCREMENT TAX ON LAND				
REVALUATION (Notes 2 and 4)	<u>26,793</u>	<u>0.02</u>	<u>26,793</u>	<u>0.03</u>
OTHER LIABILITIES:				
Accrued pension liabilities (Notes 2 and 4)	1,538,766	1.34	1,347,085	1.38
Deferred tax liabilities, net (Notes 2 and 4)	627,210	0.55	1,672,322	1.72
Deferred gain on transactions with equity investee (Notes 2, 4 and 5)	1,347,841	1.18	1,542,222	1.59
Total Other Liabilities	<u>3,513,817</u>	<u>3.07</u>	<u>4,561,629</u>	<u>4.69</u>
Total Liabilities	<u>47,724,040</u>	<u>41.73</u>	<u>43,043,902</u>	<u>44.27</u>
STOCKHOLDERS' EQUITY:				
Capital				
Common stock (Note 4)	58,908,629	51.51	51,062,011	52.52
Capital reserves				
Additional paid-in capital (Note 4)	7,218,664	6.31	4,331,090	4.45
Additional paid-in convertible bonds (Note 4)	2,324,653	2.03	1,833,671	1.89
Reserve for assets revaluation (Note 4)	59,304	0.05	59,304	0.06
Treasury stock	744	-	-	-
Long-term investments (Note 4)	515,955	0.45	545,988	0.56
Retained earnings (Note 4)				
Legal reserve	-	-	942,597	0.97
Special reserve	-	-	1,981,158	2.04
Unappropriated retained earnings (accumulated deficits)	939,958	0.82	(3,562,883)	(3.66)
Adjusting items in stockholders' equity:				
Unrealized losses on long-term investments (Notes 2 and 4)	(3,197,632)	(2.79)	(3,399,247)	(3.50)
Foreign currency translation adjustments (Notes 2 and 4)	1,076,055	0.94	1,473,166	1.51
Excess of additional pension liability over unrecognized prior service cost (Note 4)	(158,711)	(0.14)	(41,920)	(0.04)
Treasury stock (Notes 2 and 4)	(1,039,743)	(0.91)	(1,039,743)	(1.07)
Total Stockholders' Equity	<u>66,647,876</u>	<u>58.27</u>	<u>54,185,192</u>	<u>55.73</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$114,371,916</u>	<u>100.00</u>	<u>\$97,229,094</u>	<u>100.00</u>

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

CHUNGHWA PICTURE TUBES, LTD.
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(Expressed in Thousands of New Taiwan Dollars Except Per Share Information)

	2003		2002	
	Amount	%	Amount	%
OPERATING REVENUES:				
NET SALES (Notes 2, 4 and 5)	\$47,486,833	100.00	\$40,434,845	100.00
OPERATING COSTS:				
COST OF GOODS SOLD (Notes 4 and 5)	(41,390,510)	(87.16)	(36,183,698)	(89.49)
GROSS PROFIT INCLUDED UNREALIZED INTERCOMPANY PROFIT	6,096,323	12.84	4,251,147	10.51
REALIZED INTERCOMPANY GAIN (Note 4)	288,376	0.60	141,208	0.35
UNREALIZED INTERCOMPANY GAIN (Notes 4 and 5)	(78,007)	(0.16)	(63,807)	(0.16)
NET GROSS PROFIT	6,306,692	13.28	4,328,548	10.70
OPERATING EXPENSES: (Note 5)				
Selling and marketing	(434,454)	(0.91)	(585,885)	(1.45)
General and administrative	(882,800)	(1.86)	(585,941)	(1.45)
Research and development	(2,952,786)	(6.22)	(2,076,906)	(5.13)
Total	(4,270,040)	(8.99)	(3,248,732)	(8.03)
OPERATING INCOME	2,036,652	4.29	1,079,816	2.67
NON-OPERATING INCOME:				
Interest income	35,210	0.07	47,104	0.12
Investment income recognized by equity method, net (Notes 2 and 4)	813,658	1.71	-	-
Gain on foreign currency exchange, net (Note 2)	179,803	0.38	-	-
Gain on disposal of property, plant and equipment, net (Notes 2, 4 and 5)	48,546	0.10	-	-
Reversal of provision for loss on decline in market value of inventory, net (Notes 2 and 4)	360,000	0.76	-	-
Gain on disposal and recovery on decline in market price of short-term investments-net	21,100	0.05	-	-
Others (Note 5)	192,171	0.41	293,427	0.73
Total	1,650,488	3.48	340,531	0.85
NON-OPERATING EXPENSES:				
Interest expenses (Notes 2 and 4)	(1,105,554)	(2.33)	(1,147,186)	(2.84)
Investment loss recognized by equity method, net (Notes 2 and 4)	-	-	(2,087,818)	(5.16)
Loss on disposal and decline in market price of short-term investment, net (Notes 2 and 4)	-	-	(9,042)	(0.02)
Loss on disposal of property, plant and equipment, net (Notes 2, 4 and 5)	-	-	(455,199)	(1.13)
Loss on decline in market value and obsolescence of inventory, net (Notes 2 and 4)	-	-	(41,000)	(0.10)
Loss on foreign currency exchange, net (Notes 2 and 4)	-	-	(659,141)	(1.63)
Loss on disposal of other assets (Notes 2 and 4)	(1,377,240)	(2.90)	(262,076)	(0.65)
Others	(37,272)	(0.08)	(12,365)	(0.03)
Total	(2,520,066)	(5.31)	(4,673,827)	(11.56)
INCOME (LOSS) BEFORE INCOME TAX	1,167,074	2.46	(3,253,480)	(8.04)
INCOME TAX EXPENSES (Notes 2 and 4)	(218,948)	(0.46)	(189,124)	(0.47)
NET INCOME (LOSS)	\$948,126	2.00	\$(3,442,604)	(8.51)
EARNINGS (LOSS) PER COMMON SHARE (Notes 2 and 4)				
BASIC (in dollars)	\$0.18		\$(0.74)	
DILUTED (in dollars)	\$0.16		\$(0.74)	

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

CHUNGHWA PICTURE TUBES, LTD.
 STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
 (Expressed in Thousands of New Taiwan Dollars)

	CAPITAL RESERVES					RETAINED EARNINGS					FOREIGN CURRENCY TRANSLATION ADJUSTMENTS	EXCESS OF ADDITIONAL PENSION LIABILITY OVER UNRECOGNIZED PRIOR SERVICE COST	TREASURY STOCK	TOTAL	
	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	ADDITION PAID-IN CONVERTIBLE BONDS	RESERVE FOR ASSETS REVALUATION	GAIN ON DISPOSAL OF ASSETS	TREASURY STOCK	LONG-TERM INVESTMENTS	LEGAL RESERVE	SPECIAL RESERVE	UNAPPROPRIATED EARNINGS (accumulated deficits)					UNREALIZED LOSSES ON LONG- TERM INVESTMENTS
Balance at January 1, 2002	\$43,752,748	\$361,490	\$25,146	\$59,304	\$79,286	\$-	\$545,988	\$5,016,594	\$2,166,660	\$(4,338,785)	\$(3,329,206)	\$1,358,143	\$(10,095)	\$(950,988)	\$44,736,285
Transfer of capital reserve, legal reserve and special reserve to offset accumulated deficits (Note 4)					(79,286)			(4,073,997)	(185,502)	4,338,785					(3,442,604)
Net loss for 2002										(3,442,604)					
Convertible bonds converted into common stock (Note 4)	1,309,263		1,808,525												3,117,788
Capital increase by cash in premium (Note 4)	6,000,000	3,969,600													9,969,600
Unrealized loss on long-term investment of overseas investee company-net of related tax effect (Notes 2 and 4)											(3,841)				(3,841)
Unrealized loss on long-term investment of investee company (Notes 2 and 4)											(66,200)				(66,200)
Recovery gain translation adjustments-net of related tax effect (Notes 2 and 4)												115,023			115,023
Excess of additional pension liabilities over unrecognized prior service cost (Note 4)													(31,825)		(31,825)
Acquisition of treasury stock (Notes 2 and 4)														(1,039,743)	(1,039,743)
Transfer of treasury stock (Note 4)										(120,279)				950,988	830,709
Balance at December 31, 2002	\$1,062,011	4,331,090	1,833,671	59,304	-	-	545,988	942,597	1,981,158	(3,562,883)	(3,399,247)	1,473,166	(41,920)	(1,039,743)	54,185,192
Transfer of capital reserve, legal reserve and special reserve to offset accumulated deficits (Note 4)		(639,128)						(942,597)	(1,981,158)	3,562,883					-
Net income for 2003										948,126					948,126
Convertible bonds converted into common stock (Note 4)	846,618		490,982												1,337,600
Capital increase by cash in premium (Note 4)	5,000,000	2,571,401													7,571,401
Issuance of GDS representing common shares by cash premium (Note 4)	2,000,000	955,301													2,955,301
Deferred tax arising from revaluation of land (Note 4)						(29,229)									(29,229)
Adjustment of unappropriated earnings arising from changes in ownership percentage in investees accounted for under the equity method (Note 4)							(804)			(8,168)					(8,972)
Recovery gain on long-term investment for overseas investee company-net of related tax effect (Notes 2 and 4)											128,707				128,707
Recovery gain on long-term investment for investee company											72,908				72,908
Foreign currency translation adjustments-net of related tax effect (Notes 2 and 4)												(397,111)			(397,111)
Excess of additional pension liabilities over unrecognized prior service cost (Note 4)													(116,791)		(116,791)
Acquisition of treasury stock (Notes 2 and 4)														(207,256)	(207,256)
Transfer of treasury stock (Note 4)						744								207,256	208,000
Balance at December 31, 2003	\$58,908,629	\$7,218,664	\$2,324,653	\$59,304	\$-	\$744	\$515,955	\$-	\$-	\$939,958	\$(3,197,632)	\$1,076,055	\$(158,711)	\$(1,039,743)	\$66,647,876

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

CHUNGHWA PICTURE TUBES, LTD.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(Expressed in Thousands of New Taiwan Dollars)

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$948,126	\$(3,442,604)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Exchange rate effect (Note 2)	67,773	(3,782)
Depreciation (Note 2)	7,837,615	6,610,992
Amortization (Note 2)	867,204	507,520
Investment (income) loss recognized by equity method, net (Notes 2 and 4)	(813,658)	2,087,818
Cash dividend received from long-term investee accounted for under equity method (Note 4)	2,365,370	10,477
Unrealized gain on foreign currency exchange of long-term debt	(320,438)	(75,068)
Transfer of property, plant and equipment to expense	193,270	209,792
(Gain) loss on disposal of property, plant and equipment, net (Notes 2 and 4)	(48,546)	455,199
Loss on disposal of other assets	1,377,240	262,076
Loss (Recovery) on decline in market value and obsolescence of inventory, net (Note 2)	(360,000)	41,000
Forfeited interest on convertible bonds	36,881	7,677
Change in operating assets and liabilities:		
Decrease in notes receivable	252,489	387,068
Decrease (increase) in accounts receivable-trade	(1,306,063)	623,924
Increase in due from affiliates-trade	(2,346,169)	(1,101,848)
Increase in accounts receivable-others	(78,491)	(215,834)
(Increase) decrease in forward exchange contract receivable, net	4,566	(4,566)
(Increase) decrease in inventories	900,867	(1,262,805)
Increase in prepayments	(20,394)	(25,085)
(Increase) decrease in deferred tax assets	311,674	(61,599)
Increase (decrease) in accounts payable	3,306,414	(2,843,638)
Decrease in due to affiliates-trade	(2,206,316)	(752,205)
Increase (decrease) in accrued expenses	1,060,503	(366,370)
Decrease in income tax payable	-	(49,260)
Decrease in deferred gain on transaction with equity investee	(210,369)	(77,401)
Increase (decrease) in accounts payable-others	1,441,107	(301,117)
Increase in accrued pension liabilities	323,924	252,797
Payments for pension	(155,182)	(126,303)
Increase in compensation interest payable	86,578	161,433
Increase (decrease) in deferred tax liability	(956,011)	299,983
Net cash provided by operating activities	<u>12,559,964</u>	<u>1,208,271</u>

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

CHUNGHWA PICTURE TUBES, LTD.
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(Expressed in Thousands of New Taiwan Dollars)

	2003	2002
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) decrease in pledged time deposits	11,550	(38,100)
(Increase) decrease in due from affiliates-others	(14,810)	11,255
Decrease (increase) in other financial assets	139,120	(139,120)
(Increase) decrease in marketable securities, net	143,834	(961,447)
Increase in long-term investments	(596,960)	-
Increase in deferred charges	(417,877)	(685,252)
Proceeds from disposal of property, plant and equipment	763,992	540,284
Additions to property, plant and equipment	(21,428,037)	(6,485,613)
Increase in refundable deposits	(29,405)	(9,909)
Decrease in other assets-other	-	1,779,173
Net cash used in investing activities	<u>(21,428,593)</u>	<u>(5,988,729)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of bonds payable	-	7,827,850
Increase (decrease) in short-term bank loans	878,938	(3,775,488)
Increase (decrease) in due to affiliates-others	160,613	(57,062)
Redemption and discharge of bonds payable	(2,122,435)	-
Repayments of bonds payable	(2,500,000)	(2,500,000)
Increase in long-term bank loans	12,518,970	1,615,410
Repayments of long-term bank loans	(3,898,489)	(2,506,875)
Early redemption of long-term bank loans	(1,480,050)	-
Increase in other current liabilities	46,575	29,640
Decrease in other current liabilities-due to affiliates	(3,407)	(23,795)
Capital increase by cash in premium	10,526,702	9,969,600
Transfer of treasury stock	208,000	830,709
Acquisition of treasury stock	(207,256)	(1,039,743)
Net cash provided by financing activities	<u>14,128,161</u>	<u>10,370,246</u>
EXCHANGE RATE EFFECT	<u>(67,773)</u>	<u>3,782</u>
INCREASE IN CASH AND CASH EQUIVALENTS	5,191,759	5,593,570
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	11,386,917	5,793,347
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$16,578,676</u>	<u>\$11,386,917</u>
SUPPLEMENT DISCLOSURES OF CASH FLOWS INFORMATION:		
Interest expense paid (excluding amount capitalized)	<u>\$974,148</u>	<u>\$1,095,614</u>
Income tax paid	<u>\$865,806</u>	<u>\$4,420</u>
INVESTING AND FINANCING ACTIVITIES NOT AFFECTING CASH FLOWS:		
Current portion of long-term debt	<u>\$2,304,000</u>	<u>\$6,418,400</u>
Other assets transfer to property, plant and equipment	<u>\$-</u>	<u>\$942,004</u>
Property, plant and equipment transfer to fixed assets held for disposal	<u>\$122,033</u>	<u>\$1,920,615</u>
Conversion of convertible bonds into common shares	<u>\$1,337,600</u>	<u>\$3,117,788</u>

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

CHUNGHWA PICTURE TUBES, LTD.
NOTES TO FINANCIAL STATEMENTS

As of and for the years ended DECEMBER 31, 2003 and 2002

(Expressed in Thousands of New Taiwan Dollars and Except par value, shares or stated otherwise)

1. Description of Business

(1) Chungghwa Picture Tubes, Ltd. (the "Company") was incorporated under the Company Law of the Republic of China (the "ROC") on May 4, 1971. The main activities of the Company include the design, manufacture, sale, installation, maintenance service, import, export and agency service of cathode ray tubes ("CRT"), electron guns, deflection yokes, super twisted nematic liquid crystal display ("STN"), thin film transistor liquid crystal displays ("TFT-LCD"), plasma display panel ("PDP"), color filter ("CF") and related materials, parts and components.

(2) As of December 31, 2003 and 2002, the Company employed 5,390 and 4,966 employees, respectively

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Generally Accepted Accounting Principles

The financial statements have been prepared in accordance with "Guidelines governing the preparation of financial report by securities issuers" and accounting principles generally accepted in the Republic of China (collectively referred to as "ROC GAAP"). Certain amounts reported in previous years have been reclassified to confirm to the 2003 presentation.

Use of Estimates

The preparation of the financial statements in conformity with ROC GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and accompanying notes. Actual results could differ materially from those estimates.

Foreign Currency Transactions and Translation

The Company maintains its accounting records in New Taiwan dollars ("NT dollars" or "NT\$"), the national currency of the ROC. Transactions denominated in foreign currencies are recorded in NT dollars using the exchange rates in effect at the date of the transactions. Assets and liabilities denominated in foreign currencies are translated into NT dollars using the exchange rates in effect at the balance sheet date. Foreign exchange gains or losses are included in the statements of operations.

The assets and liabilities of the foreign subsidiaries are translated into NT dollars, with the local currency of each foreign subsidiary as its functional currency, at exchange rates in effect at the balance sheet date. Revenue and expense accounts are translated using a weighted average exchange rate for the relevant period. Translation gains and losses are deferred and recorded as a component of shareholders' equity.

Cash Equivalents

The Company considers all highly liquid investments that are readily convertible to cash with insignificant interest rate risk with an original maturity period of three months or less when purchased to be cash equivalents.

Marketable securities

Marketable securities are recorded at cost when acquired and are stated at the lower of aggregate cost or market value at the balance sheet date. The amount by which aggregate cost exceeds market value is reported as non-operating expenses in the accompanying statements of operations. Subsequent recoveries in market value are recognized as a gain to the extent that the market value does not exceed the original aggregate cost of the investment.

Allowance for Doubtful Accounts

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

Inventories

Inventories are recorded at cost when acquired and are stated at the lower of aggregate cost or market value. Cost is determined using the weighted-average method. Market value of work-in-process and finished goods is determined on the basis of net realizable value. Market value of raw materials is determined on the basis of replacement cost.

Long-term Investments

Investments in which the Company owns 20% or more of the voting shares of investees, or under 20% but is able to exercise significant influence over the investee's operational decisions, are accounted for under the equity method. When there is a difference between the investment cost and the share of net assets of equity investees upon acquisition and the difference is arising from depreciable assets or goodwill, then the excess is amortized over a period of 5 years. If the difference is arising from under-valuation of land, then the excess of the market value over carrying amount of the land is charged to profit and loss account upon the revaluation or disposal of such land. Dividends received or receivable from equity investees are credited to investment cost.

The Company discontinues the equity method of accounting when the Company's share in the losses of an investee accumulates to the cost of investment unless the Company guarantees obligations of the investee, or is otherwise committed to providing further financial support for the investee.

When the Company subscribes to additional shares of an investee at a percentage different from its existing equity interest, the resulting difference between the carrying amount of the investment and the amount of the Company's proportionate share in the investee's net equity is recorded as an adjustment to capital reserve. If the capital reserve is not sufficient, then the excess will be charged to retained earnings.

If an equity investee records an addition in capital reserve, the Company will proportionately share the amount and increase its investments and capital reserve accordingly.

Investments in which the Company owns less than 20% of the voting shares of investees are stated at cost except for investments in listed companies, which are stated at lower of aggregate cost or market value, with unrealized loss and subsequent recovery, net of related tax effect, recorded as a separate component of stockholders' equity. However, permanent diminution in the value of an investee is recognized in the statements of operations. Cash dividends received from an investee under the cost method is recorded as non-operating income.

Stock dividends received are not treated as income. Instead, the number of shares held is increased. When long-term investments are sold, the costs of investments sold are determined using the weighted-average method.

Property, Plant and Equipment & Assets held for Disposal

Property, plant and equipment are stated at cost plus revaluation increment.

Major renewals and improvements are capitalized, while ordinary maintenances and repairs are expensed as incurred.

Gains or losses from sale or disposal of property, plant and equipment are recorded as non-operating income or expenses.

Fixed assets held for disposal are classified as other assets and stated at the lower of net realizable value or net book value.

Depreciation is provided by using the straight-line method over the following estimated useful lives:

Buildings	5 - 60 years
Machinery and equipment	3 - 10 years
Transportation equipment	5 years
Furniture and fixtures	5 years
Miscellaneous equipment	5 - 10 years

Interest incurred on loans used to finance the construction of property, plant and equipment is capitalized and depreciated accordingly.

Deferred charges

Deferred charges, including technical license fees, computer software, bond issuance costs and other charges, are recorded at cost and amortized over 3~7 years using the straight-line method.

Convertible Bonds

The excess of the stated redemption price of the convertible bonds over its par value is recognized as interest expense and interest payable using the interest method during the redemption period. If the bondholders do not exercise the redemption option by the expiry date, the Company should amortize the interest premium, which has been recognized as a liability, over the period from the option expiration to the maturity date of the bonds as a decrease of interest expense.

When the bondholders exercise their conversion rights, the carrying value of the bonds and related interest payable are transferred to common stock and capital reserve (book value approach). However, if the conversion is an induced conversion, the amount that the market value of the securities given exceeds the market value of the securities, which should be issued according to the original conversion terms, should be recognized as an expense.

Bond issuance costs are recorded as deferred charges and are amortized over the redemption period.

Pension and employee retirement plans

The Company has a funded defined benefit pension plan covering all regular employees. The net pension cost is computed based on an actuarial valuation in accordance with the provision of R.O.C. Statement of Financial Accounting Standards No. 18, which requires consideration of pension cost components such as service cost, interest cost, expected return on plan assets and amortization of net transition obligation. The unrecognized net transition obligation is amortized on the straight-line basis over the employees average remaining service period or 15 years.

Treasury Stock

When treasury stock is purchased, it is recorded at cost of acquisition. When treasury stock is obtained through donation, it is recorded at market value. Gain or loss from selling treasury stock is treated as an adjustment to capital reserve using the weighted average method. If the loss exceeds the capital reserve, the excess is charged to retained earnings. Treasury stock is shown as a deduction to stockholders' equity.

Income tax

The Company adopted interperiod and intraperiod income tax allocation. Tax effects on taxable temporary differences are recognized as deferred tax liabilities. Tax effects on deductible temporary differences, operating loss carryforwards and investment tax credits are recognized as deferred tax assets. Valuation allowance is provided based on the expected realization of the deferred tax assets. A deferred tax asset or liability should, according to the classification of its related asset or liability, be classified as current or non-current. However, if a deferred tax asset or liability is not directly related to an asset or liability, then the classification is based on the expected realization date of such deferred income tax asset or liability. The income tax expense or benefit for unrealized losses or gains that are not included in net income for the period, but are reported directly in the stockholders' equity section, should be adjusted directly in stockholders' equity.

Any tax credits arising from purchases of machinery, equipment and technology, research and development expenditures, and personnel training are recognized in the year that such purchases, expenditures and training occur.

Undistributed earnings generated after 1997 are subject to a 10% retained earning tax (10% tax) in compliance with the Income Tax Law of R.O.C. The 10% tax is recorded as income tax expense at the time stockholders resolve that the Company's earnings shall be retained.

Derivative financial instruments

Foreign currency forward exchange contracts:

Foreign currency forward exchange contracts entered into to hedge currency fluctuations risks are recorded at the spot rate at the date of inception. The premium or discount of the forward exchange contract is amortized over the life of the contract. Gains or losses on these contracts resulting from actual settlement are charged or credited to statement of operations on the year of settlement. At the balance sheet date, the receivables and payables of the foreign currency forward exchange contracts are offset and the resulting balance are recorded as either assets as liabilities. The difference between the spot rate at the date of inception and the spot rate at balance sheet date is reflected in statement of operations.

Foreign currency option contracts:

The notional/principal or contract amounts of the foreign currency option contracts entered into for hedging purposes are not recognized as either assets or liabilities at the contract dates. The gains or losses arising from settlement of such options are recorded in the statement of operations in the year of settlement. The premiums paid or received for the call or put options are amortized using the straight-line method over the terms of contracts.

Earnings (loss) per common share

The Company presents basic earnings per share if a simple capital structure exists; or both basic earnings per share and diluted earnings per share if a complex capital structure exists. Basic earnings per share is equal to the net income (loss) attributable to common stock divided by the weighted-average number of common shares. When calculating diluted earnings per share, the numerator includes or adds back potential common stock dividends, interest and other conversion revenues (expenses). The denominator includes all potentially dilutive common shares.

The weighted-average outstanding shares shall be retroactively adjusted for capital increases arising from transfer of retained earnings, capital reserves and bonuses to employees.

Revenue recognition

The Company recognizes revenue when the earnings process is complete, as evidenced by an agreement with the customer, transfer of title and acceptance, if applicable, as well as fixed pricing and probable collectibility.

3. ACCOUNTING CHANGES

None.

4. DETAILS OF SIGNIFICANT ACCOUNTS BALANCES

(1) Cash and cash equivalents

	December 31,	
	2003	2002
Cash on hand	\$1,195	\$692
Cash in banks-checking and savings account	15,461,311	9,790,809
Cash equivalents:		
ROC Government bonds with repurchase agreements	500,049	269,953
Short-term commercial papers	616,121	1,325,463
Total	<u>\$16,578,676</u>	<u>\$11,386,917</u>

(2) Marketable securities, net

	December 31,			
	2003		2002	
	Cost	Market value	Cost	Market value
Open-end mutual funds	\$817,613	\$865,918	\$865,731	\$848,220
Listed equity securities	-	-	114,133	113,227
Total	817,613	<u>\$865,918</u>	979,864	<u>\$961,447</u>
Less: Allowance for decline in market value	-		(18,417)	
Net	<u>\$817,613</u>		<u>\$961,447</u>	

- a. The market value of listed equity securities is determined by the average closing price during the last month of the fiscal year.
- b. The market value for open-end mutual funds is determined by their net asset value per unit at balance sheet date.

(3) Receivable, net

	December 31,	
	2003	2002
Notes receivable	\$131,319	\$386,508
Less: Allowance for doubtful accounts	(1,300)	(4,000)
Net	<u>\$130,019</u>	<u>\$382,508</u>
Accounts receivable-trade	\$4,384,729	\$3,783,166
Less: Allowance for doubtful accounts	(186,500)	(891,000)
Net	<u>\$4,198,229</u>	<u>\$2,892,166</u>
Due from affiliates-trade	\$6,109,283	\$3,778,614
Less: Allowance for doubtful accounts	(2,500)	(18,000)
Net	<u>\$6,106,783</u>	<u>\$3,760,614</u>

(4) Other financial assets

	December 31,	
	2003	2002
Credit linked notes-overseas convertible bonds	\$-	\$139,120

(5) Inventories, net

	December 31,	
	2003	2002
Raw materials and supplies	\$2,392,335	\$2,332,798
Work in process	1,314,957	2,002,614
Finished goods	768,627	1,038,135
Raw materials in transit	-	3,239
Total	4,475,919	5,376,786
Less: Allowance for market value decline or obsolescence	(110,000)	(470,000)
Net	\$4,365,919	\$4,906,786
Insurance coverage	\$4,443,152	\$3,222,687

(6) Long-term investmentsDecember 31, 2003

Investee	December 31,			
	2003 Amount	Percentage of ownership or voting right	2002 Amount	Percentage of ownership or voting right
<u>Equity Method</u>				
<u>Nonpublic equity securities:</u>				
Chunghwa Picture Tubes (Bermuda) Ltd. (“CPT Bermuda”)	\$24,834,339	100.00%	\$26,865,510	100.00%
Chunghwa Picture Tubes (Labuan) Ltd. (“CPT Labuan”)	929,686	41.03%	1,089,422	100.00%
Shang Chih Investment Co., Ltd. (“SC Investment”)	35,050	25.00%	31,157	25.00%
Forward Electronics Co., Ltd. (“Forward”)	412,289	23.48%	397,930	24.22%
Grand Cathay Optronics Co., Ltd.	20,000	100.00%	-	-
Toppan Chunghwa Electronics Co., Ltd. (“Toppan”)	802,197	30.00%	-	-
Sub-total	27,033,561		28,384,019	
<u>Cost Method</u>				
<u>Listed equity securities:</u>				
Tatung Co., Ltd. (“Tatung”)	1,531,059	1.87%	1,531,059	1.87%
Less : Allowance for loss on long-term investment	(851,476)		(924,384)	
Net	679,583		606,675	
Total	\$27,731,144		\$28,990,694	

a. Details of changes in long-term investments

	C.P.T. Bermuda	C.P.T. Labuan	S.C. Investment	Forward	Toppan	Grand Catbay Co., Ltd.
Banlance at January 1, 2002	\$29,057,707	\$870,639	\$35,040	\$372,216	\$-	\$-
Investment income recognized by equity method for the year ended December 31, 2002	(2,317,624)	212,560	(3,883)	21,129	-	-
Adjustment of unappropriated earnings arising from changes in ownership percentage in investees accounted for under the equity method	(10,209)	10,209	-	-	-	-
Unrealized loss on long-term investments of oversea subsidiaries accounted for under equity method	(5,123)	-	-	-	-	-
Foreign currency translation adjustments	151,236	(3,986)	-	4,585	-	-
Cash divided received from long-term investee accounted for under equity method	(10,477)	-	-	-	-	-
Balance at December 31, 2002	<u>\$26,865,510</u>	<u>\$1,089,422</u>	<u>\$31,157</u>	<u>\$397,930</u>	<u>\$-</u>	<u>\$-</u>
Balance at January 1, 2003	\$26,865,510	\$1,089,422	\$31,157	\$397,930	\$-	\$-
Additions to long-term investments	-	-	-	-	576,960	20,000
Investment income recognized by equity method for the year ended December 31, 2003	195,481	364,618	3,893	24,429	225,237	-
Additions to capital reserved in investee accounted for under the equity method	(29,229)	-	-	-	-	-
Unrealized recovery on long-term investments of oversea subsidiaries accounted for under equity method	171,610	-	-	-	-	-
Adjustment of unappropriated earnings arising from changes in ownership percentage in investees accounted for under the equity method	498,620	(498,620)	-	(8,972)	-	-
Foreign currency translation adjustments	(502,283)	(25,734)	-	(1,098)	-	-
Cash divided received from long-term investee accounted for under equity method	(2,365,370)	-	-	-	-	-
Balance at December 31, 2003	<u>\$24,834,339</u>	<u>\$929,686</u>	<u>\$35,050</u>	<u>\$412,289</u>	<u>\$802,197</u>	<u>\$20,000</u>
Investment costs	<u>\$3,779,727</u>	<u>\$211,536</u>	<u>\$25,000</u>	<u>\$382,500</u>	<u>\$576,960</u>	<u>\$20,000</u>

- b. In 2003, the Company invested in Grand Cathay Optronics Co., Ltd. The authorized capital and paid-in capital of Grand Cathay Optronics Co., Ltd. was \$20,000 consisting of 2,000,000 shares, each at par value of \$10.
- c. The board of directors of the Company resolved to acquire Toppan Chunghwa Electronics Co., Ltd. from Chunghwa Picture Tubes (Bermuda) Ltd. for organization restructure. Due to the transaction was organization restructure, the Company's held cost were the same as carrying amount of CPT Bermuda.
- d. The Company indirectly invested, through several intermediary investment companies, CPTF Optronics Co., Ltd. (the former Chunghwa P.T. (Fuzhou) Ltd.), Chunghwa P.T. (Wujiang) Ltd., Fujian Fujia Electronics Co., Ltd. and Fujian JVC Electronics Co., Ltd. in Pelple of Republic of China ("PRC"). The aforementioned investments have been approved by the Foreign Investment of Affairs of Ministry of Economic (MOE), R.O.C.
- e. The income tax expense or benefit resulted from adjustments of long-term investment that are not included in the statements of operations of the period is reported directly in stockholders' equity section as follows:

① The movements of unrealized loss on long-term investments are as follows:

	Overseas subsidiaries of the		The Company	
	Company			
	Stock of Tatung	Stock of other listed company	Stock of Tatung	Total
Balance at January 1, 2002	\$1,959,440	\$1,335,256	\$858,184	\$4,152,880
Increase (Recovery) for the year ended December 31, 2002	119,033	(113,910)	66,200	71,323
Less: related tax effect	(519,619)	(305,337)	-	(824,956)
Net	<u>\$1,558,854</u>	<u>\$916,009</u>	<u>\$924,384</u>	<u>\$3,399,247</u>
Balance at January 1, 2003	\$2,078,473	\$1,221,346	\$924,384	\$4,224,203
Recovery for the year ended December 31, 2003	(131,097)	(40,513)	(72,908)	(244,518)
Less: related tax effect	(486,844)	(295,209)	-	(782,053)
Net	<u>\$1,460,532</u>	<u>\$885,624</u>	<u>\$851,476</u>	<u>\$3,197,632</u>

② The movements of foreign currency translation adjustments are as follows:

	Overseas Subsidiaries of the		The Company	
	Company		Forward	
	Chunghwa P.T. (Bermuda) Ltd.	Chunghwa P.T. (Labuan) Ltd.	Electronics Co., Ltd.	Total
Balance at January 1, 2002	\$1,630,840	\$180,017	\$-	\$1,810,857
Decrease (Recovery) for the year ended December 31, 2002	151,236	(3,986)	4,585	151,835
Less: related tax benefit	(445,519)	(44,007)	-	(489,526)
Net	<u>\$1,336,557</u>	<u>\$132,024</u>	<u>\$4,585</u>	<u>\$1,473,166</u>
Balance at January 1, 2003	\$1,782,076	\$176,031	\$4,585	\$1,962,692
Recovery for the year ended December 31, 2003	(502,283)	(25,734)	(1,098)	(529,115)
Less: related tax effect	(319,948)	(37,574)	-	(357,522)
Net	<u>\$959,845</u>	<u>\$112,723</u>	<u>\$3,487</u>	<u>\$1,076,055</u>

(7) Property, Plant and Equipment

- a. The Company, in accordance with related regulations of ROC, revalued its property, plant and equipment in 1978, 1979, and 1981. As a result, totally \$88,005 was added to total assets and \$59,304 (net of reserve for increment tax on land revaluation of \$28,701) was credited to capital reserve. As of December 31, 2003, the revalued assets amounted to \$57,192.
- b. The insurance coverage over property, plant and equipment as of December 31, 2003 and 2002 amounted to \$48,465,638 and \$59,173,889, respectively.
- c. Interest expense (before deducting capitalized amounts of \$1,244,470 and \$1,230,331 in 2003 and 2002, respectively) for the years ended December 31, 2003 and 2002 was \$1,105,544 and \$1,147,186, respectively. The interest rates of capitalized interest for the years ended December 31, 2003 and 2002, were 3.036%-3.924% and 3.42%-4.584%, respectively.

(8) Deferred charges

	December 31,	
	2003	2002
Technical license fees (CRT modes)	\$-	\$159,415
Technical license fees (TFT-LCD modes)	563,044	714,995
Technical license fees (PDP modules)	821,292	914,902
Bond issuance cost	98,802	156,060
Others	82,948	70,041
Total	<u>\$1,566,086</u>	<u>\$2,015,413</u>

(9) Other assets-other

	December 31,	
	2003	2002
Land		
Padeh, Taoyuan, Taiwan, ROC	\$247,992	\$247,992
Yangmei, Taoyuan, Taiwan, ROC	36,292	36,292
Assets held for disposal	10,670	1,585,754
Less: allowance for loss on valuation	-	(262,076)
Total	<u>\$294,954</u>	<u>\$1,607,962</u>

- a. As of December 31, 2003, due to legal restriction of ROC, the Company had not been able to register as the legal owner of certain farm lands (3.150323 hectares) purchased by the Company. Accordingly, such lands were temporarily held in trust by third parties. However, in order to protect the Company's interest, the Company has kept control of the sellers' chop, land purchase agreement and the title deeds.
- b. Since late 2000, in order to implement the overall production plan, the Company has begun to relocate some of its production equipment to CPTF Optronics Co., Ltd. or sell them. Such equipment was reclassified to other assets held for disposal and stated at the lower of net realizable value or carrying amount.

(10) Short-term bank loans

Items	December 31,	
	2003	2002
Usance L/C loan	<u>\$1,147,710</u>	<u>\$268,772</u>
Interest rates	<u>0.43%-1.8879%</u>	<u>0.45%-5.00%</u>

(11) Bonds payable

	December 31,	
	2003	2002
Zero Convertible Bonds, issued in 2002 and due 2007	\$581,366	\$2,782,400
Add: Compensation interest payable	61,996	141,555
Subtotal	<u>643,362</u>	<u>2,923,955</u>
Euro Convertible Bonds, issued in 2002 and due 2007 at 0.25%	3,636,766	4,999,625
Add: Compensation interest payable	144,259	20,901
Subtotal	<u>3,781,025</u>	<u>5,020,526</u>
Unsecured R.O.C. domestic bonds payable at 8.1%	-	2,500,000
Total	<u>4,424,387</u>	<u>10,444,481</u>
Less: current portion of bonds payable	-	(2,500,000)
Net	<u>\$4,424,387</u>	<u>\$7,944,481</u>

The significant terms of the Euro Convertible bonds are as follows:

	Zero Convertible Bonds in 2002 and due 2007	Euro Convertible Bonds in 2002 and due 2007
· Amount	US\$80,000	US\$143,750
· Period	5 years (2002.2.1 to 2007.2.1)	5 years (2002.11.19 to 2007.11.19)
· Place of trading	Europe, Asia and Luxembourg Stock Exchange	Europe, Asia and Luxembourg Stock Exchange
· Coupon rate	-	0.25%
· Conversion period	Bondholders may convert the bonds to the Company's common shares during a period that is 30 days after the issuance and 30 days before maturity of the bonds. The number of common shares (or the number of the certificates) received by the bondholders is determined by dividing the principle amount over conversion price. No cash payment will be made for fractional share. (The exchange rate is fixed at \$35.076 to US\$1)	Bondholders may convert the bonds to the Company's common shares during a period that is 30 days after the issuance and 30 days before maturity of the bonds. The number of common shares received by the bondholders is determined by dividing the principle amount over conversion price. No cash payment will be made for fractional share. (The exchange rate is fixed at \$34.57 to US\$1)
· Conversion price and adjustment	The conversion price is \$45 per share and will be adjusted if number of the Company's common stocks changes after the issuance of the bonds. As of December 31, 2003, the conversion price was adjusted to \$34.61 per share.	The conversion price is \$15.53 per share and will be adjusted if number of the Company's common stocks changes after the issuance of the bonds. As of December 31, 2003, the conversion price was adjusted to \$15.36 per share.
· The Company's redemption rights	1) After 2 years of issuance of bonds, the Company may redeem the bonds at 100% of the unpaid principle amount outstanding if the closing price of the Company's common stock on Taiwan Stock Exchange ("TSE") equals to 130% or above of the conversion price in effect on each trading day for a period of 20 consecutive trading days, or the bonds not yet converted or bought back amounted to US\$5,000 or below.	1) After 2 years of issuance of bonds, the Company may redeem the bonds at 100% of the unpaid principle amount outstanding if the closing price of the Company's common stock on TSE equals to 125% or above of the conversion price in effect on each trading day for a period of 20 consecutive trading days, or the bonds not yet converted or bought back amounted to US\$5,000 or below.

	2) The Company may redeem the bonds at 100% of the unpaid principle amount outstanding if there is a change in legislation, resulting in an increase in tax liabilities of the Company.	2) The Company may redeem the bonds at 100% of the unpaid principle amount outstanding if there is a change in legislation, resulting in an increase in tax liabilities of the Company.
· Bondholders' option rights	1) After the issuance of 2 years and 3 years, the bondholders have the right to require the Company to redeem the bonds at a price equal to 109% and 100%, respectively.	1) After the issuance of 14 months and 3 years, the bondholders have the right to require the Company to repurchase the bonds at a price equal to 103.84% and 110.19%, respectively.
	2) The bondholders may demand the Company to redeem the bonds if trading of the Company's shares is restricted on the TSE.	2) The bondholders may demand the Company to redeem the bonds if trading of the Company's shares is restricted on the TSE.
· Converting status Converting status	The Company discharged the bonds amounted to USD62,900 thousand.	Bond amount to USD36,780 thousand was converted by bondholders' into 84,661,771 common shares.

To obtain funds for long-term working capital needs and to improve financial structures, the Company issued unsecured ROC domestic bonds of \$5,000,000 with a term of five year in 1998. The bonds bear an annual coupon interest rate at 8.1% calculated semiannually. The interests are paid once a year. The principal of the bonds shall be repaid in two equal annual installments on December 16, 2002 and December 16, 2003, respectively. As of December 31, 2003, all bonds were repaid.

(12) Long-term bank loans

	December 31,	
	2003	2002
Secured	\$24,008,192	\$17,004,681
Less: current portion	(2,304,000)	(3,918,400)
Net	<u>\$21,704,192</u>	<u>\$13,086,281</u>
Interest rates	<u>0.6131%-2.5423%</u>	<u>2.3026%-6.7918%</u>

- a. Certain of the Company's loan agreements require the Company to maintain (1) a current ratio higher than 100%; (2) debt to equity ratio under 100% or 125%; (3) interest coverage over 1.2; and (4) tangible equity more than NT\$35 billion or NT\$40 billion.
- b. The long-term bank loans were jointly guaranteed by the President of the Company. In addition, these loans are secured by the mortgage of the Company's land, building, machinery and equipment.

(13) Accrued pension liability and deferred pension cost

- a. Effective from October 1996, as required by the ROC Labor Standard Law, the Company makes monthly contributions to a pension fund at certain percentage of salaries paid. The pension fund is administered by the employee committee and deposited, in the committee's name, with Central Trust of China, a ROC government entity.
- b. The details of net periodic pension cost for the years ended December 31, 2003 and 2002 are as follows:

	<u>2003</u>	<u>2002</u>
Employee service cost	\$146,121	\$134,104
Interest cost	80,124	90,265
Expected return on plan assets	(12,370)	(12,883)
Amortization of net transition obligation	33,746	33,746
Amortization of prior service cost	66,634	-
Amortization of actuarial gain or loss	9,669	7,565
Total	<u>\$323,924</u>	<u>\$252,797</u>

- c. The funded status as of December 31, 2003 and 2002:

	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>
Pension obligation		
Vested	\$101,480	\$42,825
Non-Vested	1,854,564	1,647,184
Accumulated benefit obligation	1,956,044	1,690,009
Additional benefits based on future salaries	229,619	313,096
Projected benefit obligation	2,185,663	2,003,105
Fair value of plan assets	(323,506)	(309,259)
Funded status	1,862,157	1,693,846
Unamortized net transition obligation	(236,221)	(269,967)
Unrealized loss on pension assets	(388,330)	(355,016)
Deferred pension cost	236,221	269,967
Excess of additional pension liability over unrecognized prior service cost	158,711	41,920
Accrued pension liability	1,632,538	1,380,750
Less: current portion	(93,772)	(33,665)
Long-term portion-net of current portion	<u>\$1,538,766</u>	<u>\$1,347,085</u>

- d. The major actuarial assumptions are as follows:

	2003	2002
Discount rate	4.00%	5.00%
Rate of increase in future compensation levels	1.00%	1.50%
Expected long-term rate of return on plan assets	4.00%	5.00%

For the years ended December 31, 2003 and 2002, vested benefits amounted to \$108,654, \$47,159, respectively.

(14) Deferred gain on transaction with equity investee

- A. As of December 31, 2003 and 2002, the balances of deferred gain on transaction with equity investee were as follows:

	Transaction item			Total
	Inventories	Fixed assets	Stock	
Balance at January 1, 2002	\$650,934	\$33,504	\$942,055	\$1,626,493
Increase in unrealized gain (loss)	63,807	(1,276)	-	62,531
Amortized and realized	(141,208)	(5,594)	-	(146,802)
Balance at December 31, 2002	573,533	26,634	942,055	1,542,222
Increase in unrealized gain	78,007	21,786	-	99,793
Amortized and realized	(288,376)	(5,798)	-	(294,174)
Balance at December 31, 2003	\$363,164	\$42,622	\$942,055	\$1,347,841

- B. The Company sold its marketable securities through stock exchange to its subsidiaries with a gain of \$942,055. The unrealized gain resulted from such transaction was deferred.

(15) Capital

- a. The authorized and issued capital of the Company at January 1, 2002 were \$62,000,000 and \$43,752,748, respectively, divided into 6,200,000,000 shares and 4,375,274,840 shares, respectively, each at par value of \$10. Six hundred million shares and four hundred million shares out of the above total authorized shares were reserved for future conversion bonds and issue upon exercise of stock options, respectively.
- b. On April 10, 2002, the Company issued 130,926,293 shares for the conversion of the Company's convertible bonds due in 2006.
- c. On May 14, 2002, the Company was authorized by Securities and Future Burea ("SFB"; the former SFC) to issue stock options. The maximum number of options to be granted was 400,000,000 units, with each unit representing one common share of stock. Settlement upon the exercise of the stock options will be made through the issuance of new shares of the Company. The life of options is five years. Each optionee may exercise their options in accordance with certain schedules as prescribed by the plan starting from two years after the grant.

Detailed information relevant to the stock options plan is disclosed as follows:

Date of grant	Total number of options granted (in thousands)	Exercise price (in dollars)
September 5, 2002	100,308	\$13.35
January 2, 2003	165,710	\$11.90

- d. On May 31, 2002, the Company's stockholders resolved to increase the authorized capital to \$64,100,000, divided into 6,410,000,000 shares, each at par value of \$10. Four hundred million shares out of the above total authorized capital were reserved for further issuance upon exercise of stock options. In addition, it was resolved that the cumulative gain on asset disposals prior to year 2000 in the amount of \$79,286, together with legal reserve of \$4,073,997 and special reserve of \$185,502, were used to offset accumulated deficits.
- e. On September 5, 2002, the Company completed a local offering of 600,000,000 shares, each at an offering price of \$16.75.
- f. On June 6, 2003, the Company's stockholders resolved to increase the authorized capital to \$85,000,000, divided into 8,500,000,000 shares, each at par value of \$10. Six hundred million shares out of the above total authorized capital were reserved for further issuance upon exercise of stock options. The stockholders also resolved that additional paid-in capital of \$639,128, together with legal reserve of \$942,597 and special reserve of \$1,981,158, were used to offset accumulated deficits.

On October 2, 2003, the Company completed a local offering of 500,000,000 shares, each at an offering price of \$15.3. Another 200,000,000 shares were issued for GDS offering purposes. These 200,000,000 shares together with the 300,000,000 existing shares held by the Company's major stockholder, Tatung Co., Ltd., were utilized for 20,000 thousand units of GDS (each unit representing 25 common shares) listed on the Luxembourg Stock Exchange.

On December 15, 2003, the Board of Directors resolved to increase the capital by 700,000,000 shares by a local offering at a premium price of \$20.6 per share. The effective date of the issuance will be May 6, 2004.

- g. As of December 31, 2003, the Company issued 84,661,771 shares for the conversion of the Company's convertible bonds due in 2007.

(16) Capital Reserve

According to the ROC Company Law, additional paid-in capital and capital reserve can only be used for offsetting accumulated deficits or distribution of stock dividends. The Company cannot use additional paid-in capital or capital reserve to offset accumulated deficits unless the legal reserve is insufficient for offsetting such deficits.

(17) Legal Reserve

According to the Company Law in the ROC, the Company must retain at least 10% of its annual earnings as legal reserve until such reserve equals the amount of capital. 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 can be used to offset deficit.

(18) Special reserve

In accordance with the ROC SFB regulations, a special reserve must be provided for unrealized losses on long-term investments, excess of additional pension liability over unrecognized prior service cost, and foreign currency translation adjustment that are accounted for as deductions to stockholders' equity. Once the aforementioned deductions to stockholders' equity are reversed, the related reserve can be reversed to distributable earnings.

(19) Distributions of earnings

Pursuant to the Company's Articles of Incorporation, current year's earnings before tax, if any, shall be distributed in the following order:

- (a) payment of all taxes;
- (b) offset prior years' operation losses;
- (c) set aside 10% of the remaining amount after deducting (a) and (b) as legal reserve;
- (d) set aside special reserve in accordance with regulation prescribed by the ROC's SFB or reverse special reserve previously provided; and
- (e) after deduction items (a), (b), (c) and (d) from current year's earnings, any portion of the remaining amount is allocated as follows: 5%-7% as employees' bonus, and 93%-95% as distributable earnings.

The information regarding 2002 and 2001 the proposal of earnings distribution (or makeup accumulated deficits) and resolution of stockholders' meeting will be posted on the website of "Market observation post system" (mops. tse.com.tw) of TSE.

(20) Treasury stock

- a. The Company purchased its own shares from open market. The purpose and ending balance of treasury stock were as follows:

Unit: thousand shares

Purpose	Number of Shares Bought Back			
	Beginning	Addition	Disposal	Ending
<u>2003</u>				
Future issuance to employees as bonuses	53,412	16,000	16,000	53,412
<u>2002</u>				
Future issuance to employees as bonuses	35,051	53,412	35,051	53,412

- b. Pursuant to the resolution of the Board of Directors meeting of the Company in 2000 and 2002, the Company has repurchased its common stock totally 104,463 thousand shares (amount \$2,197,987), of which 51,051 thousand shares (amount \$1,158,244) have been transferred to employees.
- c. According to Stock Exchange Regulations in the ROC, the Company does not possess voting rights or rights to receive dividends for holding such treasury stock. The treasury stock should be transferred to employees within three years after the purchase. If treasury stock is not transferred after three years, it will be treated as not issued and the Company is required to report to the Government of ROC to change the capital status.

(21) Personnel, depreciation and amortization expenses

	2003			2002		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
Personnel expenses:						
Salaries	\$2,875,751	\$647,629	\$3,523,380	\$2,449,149	\$776,188	\$3,225,337
Staff labor/health insurance	169,511	38,691	208,202	159,178	43,389	202,567
Pension	267,955	55,969	323,924	192,082	60,715	252,797
Depreciation	7,662,607	175,008	7,837,615	6,380,760	230,232	6,610,992
Amortization	2,193	865,011	867,204	1,120	506,400	507,520

(22) Operating Revenue

	<u>2003</u>	<u>2002</u>
CPT and CDT	\$202,827	\$4,016,120
TFT-LCD	42,119,647	32,225,758
STN-LCD	462,288	367,089
PDP	2,408,504	105,219
Others	2,293,567	3,720,659
	<u>\$47,486,833</u>	<u>\$40,434,845</u>

(23) Income tax

- a. The ROC income tax authorities have assessed the income tax returns of the Company through 1999.
- b. There is no taxation charge on the profit of the Company and certain operating subsidiaries due to the following reasons:
- ① The Company is entitled to an income tax exemption for a period of five consecutive years for the income generated by sales of its TFT-LCD and 17 inches color display tubes.

The following are details of the Company's effective tax exemption periods:

<u>Tax exemption products</u>	<u>Tax exemption period</u>
TFT-LCD and 17 inches color display tubes	2000~2004
TFT-LCD	2002~2006

- ② The Company obtained the approval letter for claiming tax exemption in respect of setting its headquarter in Taiwan.
- c. The provision for income tax expenses consists of the following:

	<u>2003</u>	<u>2002</u>
Income tax-current	\$-	\$-
Income tax-deferred	2,052,967	737,597
Unrealized loss on long-term investments of overseas investee company	42,902	(1,280)
Foreign currency translation adjustment	(132,004)	36,812
Valuation allowances	(1,319,529)	(1,011,513)
Prior year adjustment	(863,284)	49,260
Income tax expenses	<u>\$(218,948)</u>	<u>\$(189,124)</u>

h. The integrated income tax information were as follows:

	December 31,	
	2003	2002
Imputation credit account (ICA)	\$61,639	\$53,673

The actual or expected creditable ratio for earnings distribution to ROC resident stockholders in 2003 and 2002 are 6.03% and 0%, respectively.

i. Unappropriated earnings (accumulated deficits) as of December 31, 2003 and 2002 as follows:

	December 31,	
	2003	2002
Unappropriated earnings (accumulated deficits)	\$939,958	\$(3,562,883)

j. As of December 31, 2003, the amount of unused investment tax credit arising from purchase of machinery for the automation of production and pollution control, expenditure for research development and training personnel and estimated tax losses can be carried forward in the future are summarized as follows:

Investment tax credits item	Investment tax credits	unused investment tax credits	Expiration Year
Investment tax credits in production equipment	\$1,496,593	\$1,496,593	2007
	198,558	198,558	2006
	2,121,532	2,121,532	2005
	<u>\$3,816,683</u>	<u>\$3,816,683</u>	
Investment tax credits in research and development expenditure, employee training expenditure	361,834	361,834	2007
	508,712	508,712	2006
	317,989	317,989	2005
	323,565	224,358	2004
	<u>\$1,512,100</u>	<u>\$1,412,893</u>	
Tax loss carryforward	\$192,798	\$192,798	2008
	94,509	94,509	2007
	1,315,238	1,315,238	2006
	<u>\$1,602,545</u>	<u>\$1,602,545</u>	

(24) Earnings (loss) per common share

The following table sets forth the computation of the Company's basic and diluted earnings (loss) per share:

	<u>2003</u>	<u>2002</u>
Numerator:		
Net income (loss) available to common stockholders	<u>\$948,126</u>	<u>\$(3,442,604)</u>
Net income available to common stockholders and diluted potential common shares	<u>\$955,028</u>	<u>\$(3,442,604)</u>
		Shares (Unit: thousands)
	<u>2003</u>	<u>2002</u>
Denominator:		
Denominator for basic income (loss) per share-weighted average share (in thousands)	<u>5,241,023</u>	<u>4,670,537</u>
Denominator for diluted income per share-weighted average share (in thousands)	<u>5,765,123</u>	<u>4,670,537</u>
Basic earnings (loss) per share	<u>\$0.18</u>	<u>\$(0.74)</u>
Diluted earnings (loss) per share	<u>\$0.16</u>	<u>\$(0.74)</u>

Since the Company recorded a loss from continuing operations for 2002, the diluted loss per share is the same as basic, as any potentially dilutive securities would be antidilutive to continuing operations.

(25) Technical cooperation agreement

	<u>The term of the contract</u>	<u>Content</u>
<u>TFT-LCD</u>		
Hitachi	January 2003 December 2010	<ol style="list-style-type: none">1. The Company is required to pay licensing fees for using the technologies by installment.2. The Company is required to pay royalty fees based on certain percentage of net sales of the related products for continuing use of exclusive technology.
Advanced Display Inc. (ADI)	April 1997 July 2006	<ol style="list-style-type: none">1. The Company is required to pay licensing fees for using the technologies by installment.2. The Company is required to pay royalty fees

based on certain percentage of net sales of the related products for continuing use of exclusive technology.

3. ADI has the right to purchase not more than 15% of the total products from the Company at 90% of average selling price. The Company bears the shipping costs of the products to locations designated by ADI.

Sharp Corporation	January 2002	1. The Company is required to pay licensing fees for using the technologies by one time. 2. The Company is required to pay royalty fees based on certain percentage of net sales of the related products for continuing use of exclusive technology.
	December 2006	

PDP

Mitsubishi Electric Corporation	October 1999	1. The Company is required to pay licensing fees for using the technologies by installment. 2. The Company is required to pay royalty fees based on certain percentage of net sales of the related products for continuing use of exclusive technology.
	September 2006	

The Company along with five other companies of the same industry have signed an Agreement for Joint Ownership of Patent Right with Industrial Technology Research Institute (ITRI). According to the Agreement, ITRI agrees to share the ownership of TFT-LCD and related patent with the contracting parties for seven years. ITRI will become the sole owner of the TFT-LCD patent right upon expiry of the agreement. The cost of the patent is amortized over the term of the patent agreement.

The Company, Mitsubishi Electric Corporation and Advanced Display Inc. (a subsidiary of Mitsubishi Electric Corporation) have signed an Agreement for Joint Ownership of TFT-LCD's Patent right and technologies. The Company obtained the patent after paying fees for using the technologies. The Company, Mitsubishi Electric Corporation and Advanced Display Inc. agreed that these parties shall have no right to grant a license under any patent right to any third party without the prior written consent of the other joint owner of patent right.

5. RELATED PARTY TRANSACTIONS

- (1) Related parties and relationship:

Related parties	Relationship
Tatung Co., Ltd.	The Company's major stockholder and represented on the Company's board of directors
Forward Electronic Co., Ltd.	An investee accounted for under equity method
Toppan Chunghwa Electronics Co., Ltd.	An investee accounted for under equity method
Tatung Chugai Precious Metals Co., Ltd.	Subsidiary of Tatung Co., Ltd.
Tatung Atherton Co.	Subsidiary of Tatung Co., Ltd.
Taiwan Telecommunication Industry Co., Ltd.	Subsidiary of Tatung Co., Ltd.
Tatung-FDK Co., Ltd.	Subsidiary of Tatung Co., Ltd.
Tatung Fine Chemical Co., Ltd. (the former Tatung Coatings Co., Ltd.)	Subsidiary of Tatung Co., Ltd.
Shang Chih International Express Co., Ltd. (the former Shang Chih Container Terminal Co., Ltd.)	Subsidiary of Tatung Co., Ltd.
Tatung OTIS Elevator Co., Ltd.	Subsidiary of Tatung Co., Ltd.
Tatung-Fanuc Robotics Company	Subsidiary of Tatung Co., Ltd.
Tatung Co. of Japan, Inc.	Subsidiary of Tatung Co., Ltd.
Tatung (U.K.) Ltd.	Subsidiary of Tatung Co., Ltd.
Tatung (Thailand) Co., Ltd.	Subsidiary of Tatung Co., Ltd.
Tatung Co. of America, Inc.	Subsidiary of Tatung Co., Ltd.
Tatung Consumer Products (Taiwan) Co., Ltd.	Subsidiary of Tatung Co., Ltd.
Kuender Company Co., Ltd.	Subsidiary of Tatung Co., Ltd.
Tatung Okuma Co., Ltd.	Subsidiary of Tatung Co., Ltd.
Tatung Electronics (Singapore) Pte Ltd.	Subsidiary of Tatung Co., Ltd.
Tatung System Technology Inc.	Subsidiary of Tatung Co., Ltd.
Chunghwa P.T. (Bermuda) Ltd.	A wholly owned subsidiary of the Company
CPTF Optronics Co., Ltd.	A subsidiary of the Company's subsidiary
Chunghwa P.T. (Wujiang) Ltd.	A subsidiary of the Company's subsidiary
Chunghwa P.T. (Malaysia) Sdn. Bhd.	A subsidiary of the Company's subsidiary
Chunghwa P.T. (U.K.) Ltd.	A subsidiary of the Company's subsidiary
Chunghwa P.T. (Kampar) Sdn. Bhd.	A subsidiary of the Company's subsidiary
Chunghwa P.T. (Labuan) Ltd.	A subsidiary of the Company's subsidiary
Dalemont Investment Ltd.	A subsidiary of the Company's subsidiary
Daliant Investment Ltd.	A subsidiary of the Company's subsidiary
Bangalor Investment Ltd.	A subsidiary of the Company's subsidiary
Bensaline Investment Ltd.	A subsidiary of the Company's subsidiary
Makolin Electronics (M) Sdn. Bhd.	The Company's affiliated Company accounted for under equity method
Fujian Fujia Electronics Co., Ltd.	The Company's affiliated company accounted for under equity method
Tokyo Toshiba Corporation	The stockholder of Tatung Co., Ltd.
Tatung University	The stockholder of Tatung Co., Ltd.
Tatung Information Technology (Jiang Su) Co., Ltd.	Subsidiary of subsidiary of Tatung Co., Ltd.
Tatung Telecom Corporation	An investee of Tatung Co., Ltd. accounted for under equity method
TISNet Technology Inc.	Subsidiary of subsidiary of Tatung Co., Ltd.
Lin, Chieng-Hon	The Chairman of board of directors and president of the Company (Position held since April 8, 2003)
Lin, Cheng-Yuan	Former Chairman of board of directors and president of the Company

(2) Significant transactions with related parties:

a. Operating Revenue

Name of Related Parties	2003		2002	
	Amount	Percentage of account	Amount	Percentage of account
Tatung Co., Ltd.	\$540,965	1.14	\$3,019,088	7.46
Tatung (Thailand) Co., Ltd.	1,556,701	3.28	845,977	2.09
Chunghwa P.T. (Labuan) Ltd.	21,873,128	46.06	14,329,469	35.44
Chunghwa P.T. (Kampar) Sdn. Bhd.	325,605	0.69	661,839	1.64
Others	224,134	0.47	160,851	0.40
Total	\$24,520,533	51.64	\$19,017,224	47.03

There are no significant differences between prices sold to related parties and prices sold to ordinary customers. The comparison of collection terms between related parties and ordinary customers are as follows:

Region	2003		2002	
	Related parties	Ordinary customers	Related parties	Ordinary customers
Overseas	Cash payment with 60 to 120 days	Cash payment with 30 to 60 days D/A with 75 days L/C with 30 to 45 days	Cash payment with 45 to 120 days	Cash payment with 30 to 60 days D/A with 75 days L/C with 30 to 45 days
ROC Domestic	Cash payment with 30 to 60 days	Cash payment with 30 to 60 days	Cash payment with 30 to 60 days	Cash payment with 30 to 90 days

b. Purchases

Name of Related Parties	2003		2002	
	Amount	Percentage of account	Amount	Percentage of account
Chunghwa P.T. (Labuan) Ltd.	\$3,021,435	10.98	\$68,869	0.26
Forward Electronics Co., Ltd	186,706	0.68	679,597	2.56
Others	11,268	0.04	97,651	0.37
Total	\$3,219,409	11.70	\$846,117	3.19

There are no significant differences between prices of inventory purchased from related parties and prices of inventory purchased from ordinary suppliers. The comparison of terms of payment between related

parties and ordinary suppliers are summarized as follows:

Region	2003		2002	
	Related parties	Ordinary suppliers	Related parties	Ordinary suppliers
Overseas	T/T 30 to 180 days	L/C, T/T 30 to 180 days	T/T 30 to 180 days	L/C, T/T 30 to 180 days
ROC Domestic	30 to 90 days after QC	30 to 150 days after QC	30 to 60 days after QC	30 to 120 days after QC

The operating revenues and purchases referred to above did not include the components sold to Chunghwa P.T. (Labuan) Ltd. for further process and then purchased back by the company. The resulting decrease of operating revenue and cost of purchase amounted to \$6,416,172 and \$148,744 for the years ended on December 31, 2003 and 2002, respectively.

c. Acquisition of long-term investment

The Company acquired the stock of Toppan Chunghwa Electronics Co., Ltd. from Chunghwa Picture Tubes (Bermuda) Ltd. for approximately \$576,960 in 2003.

d. Fixed asset addition

Name of Related Parties	2003		2002	
	Amount	Percentage of account	Amount	Percentage of account
Tatung Co., Ltd.	\$699,108	3.26	\$228,175	3.52
Tatung System Technology Inc.	60,778	0.28	18,379	0.28
Shang chih International Express Co., Ltd.	27,260	0.13	-	-
Others	18,015	0.08	19,150	0.29
Total	\$805,161	3.75	\$265,704	4.09

e. Fixed assets disposal

Name of Related Parties	2003			2002		
	Selling price	Carrying amount	Gain (Loss) on sale of fixed assets	Selling price	Carrying amount	Loss on sale of fixed assets
Chunghwa P.T. (Labuan) Ltd.	\$713,853	\$699,309	\$14,544	\$2,359,906	\$2,362,663	\$(2,757)
Chunghwa P.T. (Malaysia) Sdn. Bhd.	9,352	9,352	-	66,285	64,804	1,481
Chunghwa P.T. (Kampar) Sdn. Bhd.	23,609	16,367	7,242	-	-	-
Total	\$746,814	\$725,028	\$21,786	\$2,426,191	\$2,427,467	\$(1,276)
Tatung Co., Ltd.	\$350	\$3,723	\$(3,373)	\$-	\$-	\$-

f. Expenditures

Name of Related Parties	2003		2002	
	Amount	Percentage of account	Amount	Percentage of account
Tatung Co. of Japan, Inc.	\$8,757	0.06	\$18,811	0.14
Tatung Co., Ltd.	21,269	0.13	9,043	0.07
Toppan Chunghwa Electronics Co., Ltd	31,365	0.19	43,425	0.34
Tokyo Toshiba Corporation	-	-	22,035	0.17
Tatung System Technology Inc.	18,218	0.11	6,556	0.05
Others	18,787	0.12	11,319	0.09
Total	\$98,396	0.61	\$111,189	0.86

- (1) The above expenditure incurred in connection with the purchases of materials, products or services from related parties.
- (2) See Note 4.(24) for content of technical cooperation agreement between the Company and Tokyo Toshiba Co.
- (3) The Company purchased certain raw material and components from Japan through Tatung Co. of Japan, Inc. which charges the Company commission on such services. The total raw material purchased through Tatung Co., of Japan, Inc. amounted to \$ 3,445,316 and \$6,332,162 for the years ended on December 31, 2003 and 2002, respectively. The commission charged, included in the aforementioned purchase amount, amounted to \$8,757 and \$18,811 for the corresponding periods, respectively.

g. Non-operating income-others

Name of Related parties	2003		2002	
	Amount	Percentage of account	Amount	Percentage of account
Chunghwa P.T. (Malaysia) Sdn. Bhd.	\$1,372	0.71	\$2,317	0.79
Chunghwa P.T. (Labuan) Ltd.	3,995	2.08	495	0.17
Chunghwa P.T. (Kampar) Sdn. Bhd.	1,607	0.84	4,534	1.54
Tatung Co., Ltd.	1,883	0.98	1,133	0.39
Others	244	0.13	23	0.01
Total	\$9,101	4.74	\$8,502	2.90

h. Due from affiliates-trade, net

Name of Related Parties	December 31, 2003		December 31, 2002	
	Amount	Percentage of account	Amount	Percentage of account
Tatung Co., Ltd.	\$100,938	1.65	\$127,393	3.37
Tatung (Thailand) Ltd.	58,824	0.96	601,199	15.91
Chunghwa P.T. (Labuan) Ltd.	5,869,805	96.08	2,964,232	78.45
Others	79,716	1.31	85,790	2.27
Total	6,109,283	100.00	3,778,614	100.00
Less: Allowance for doubtful accounts	(2,500)	(0.04)	(18,000)	(0.48)
Net	\$6,106,783	99.96	\$3,760,614	99.52

i. Due from affiliates – others

Name of Related Parties	December 31, 2003		December 31, 2002	
	Amount	Percentage of account	Amount	Percentage of account
Chunghwa P.T. (Bermuda) Ltd.	\$17,100	72.47	\$2,579	29.35
Toppan Chunghwa Electronics Co., Ltd.	4,990	21.15	4,998	56.89
Chunghwa P.T. (Labuan) Ltd.	1,204	5.10	1,204	13.70
Others	302	1.28	5	0.06
Total	\$23,596	100.00	\$8,786	100.00

j. Due to affiliates - Trade

Name of Related Parties	December 31, 2003		December 31, 2002	
	Amount	Percentage of account	Amount	Percentage of account
Tatung Co. of Japan, Inc.	\$1,075,219	93.10	\$3,186,216	94.79
Chunghwa P.T. (Labuan) Sdn. Bhd.	398	0.03	43,866	1.31
Others	79,309	6.87	131,160	3.90
Total	\$1,154,926	100.00	\$3,361,242	100.00

k. Due to affiliates-others

Name of Related Parties	December 31, 2003		December 31, 2002	
	Amount	Percentage of account	Amount	Percentage of account
Tatung Co., Ltd.	\$70,109	23.24	\$12,759	9.05
Chunghwa P.T. (Malaysia) Sdn. Bhd.	79,445	26.34	67,722	48.02
Tatung System Technology Inc.	-	-	7,278	5.16
Tatung Co. of Japan, Inc.	147,503	48.90	17,768	12.60
Tokyo Toshiba Corporation	-	-	34,089	24.17
Others	4,591	1.52	1,419	1.00
Total	\$301,648	100.00	\$141,035	100.00

l. Other current liabilities

Name of Related Parties	December 31, 2003		December 31, 2002	
	Amount	Percentage	Amount	Percentage
		of account		of account
Chunghwa P.T. (Labuan) Ltd.	\$2,124	66.86	\$3,496	53.10
Chunghwa P.T. (U.K.) Ltd.	249	7.84	-	-
Tatung Co., Ltd.	138	4.34	2,426	36.85
Tatung Co. of America, Inc.	266	8.37	266	4.04
Tatung (Thailand) Ltd.	393	12.37	393	5.97
Others	7	0.22	3	0.04
Total	\$3,177	100.00	\$6,584	100.00

m. Deferred gain on transaction with equity investee

Name of Related Parties	December 31, 2003		December 31, 2002	
	Amount	Percentage	Amount	Percentage
		of account		of account
Chunghwa P.T. (U.K.) Ltd.	\$-	-	\$117,690	7.63
Chunghwa P.T. (Malaysia) Sdn. Bhd.	158,701	12.31	187,599	12.16
Chunghwa P.T. (Labuan) Ltd.	238,447	17.69	289,097	18.75
Chunghwa P.T. (Bermuda) and Dalemont Investments Sdn. Bhd..	942,055	69.90	942,055	61.09
Chunghwa P.T. (Kampar) Sdn. Bhd..	8,638	0.10	7,313	0.47
Forward Electronic Co., Ltd.	-	-	(1,532)	(0.10)
Total	\$1,347,841	100.00	\$1,542,222	100.00

n. Guarantees

The amount of guarantees that the Company provided for related parties as of December 31, 2003 and 2002 are as follows:

Name of Related Parties	December 31,			
	2003		2002	
	Amount		Amount	
Chunghwa P.T. (Bermuda) Ltd.	USD	70,000 Thousands	USD	28,500 Thousands
Chunghwa P.T. (U.K.) Ltd.	USD	5,000 Thousands	USD	5,000 Thousands
Chunghwa P.T. (U.K.) Ltd.	GBP	800 Thousands	GBP	8,000 Thousands
CPTF Optronics Co., Ltd.	USD	13,000 Thousands	USD	10,000 Thousands
Chunghwa P.T. (Labuan) Ltd.	USD	60,000 Thousands	USD	214,000 Thousands
Toppan Chunghwa Electronics Co., Ltd.	NT	330,000 Thousands	NTD	333,000 Thousands
	D			
Markolin Electronics (M) Sdn. Bhd.		-	RM	6,839

- o. The Company leased portions its plants to Toppan Chunghwa Electronics Co., Ltd. that generated rental revenue of \$14,541 and \$13,674 for the years ended December 31, 2003 and 2002, respectively. The related receivables (recorded in due from affiliates-others) were \$4,990 and \$4,998 as of December 31, 2003 and 2002, respectively. In addition, the Company charged Toppan Chunghwa Electronics Co., Ltd. managements fees of \$47,590 and \$42,144, for the years ended December 31, 2003 and 2002, respectively, which were recorded as a deduction of expenditure.

6. ASSETS PLEDGED OR MORTGAGED

As of December 2003 and 2002, the following assets were mortgaged to several banks, customs and government agencies as collateral for bank loans, credit facilities and other purposes:

Accounts	Creditors	Carrying amount	
		December 31, 2003	December 31, 2002
Machinery and equipment	Chiao Tung Bank	\$18,931,353	\$-
Building (Note)	Bank of Taiwan	2,239,127	2,215,012
Machinery and equipment (Note)	Bank of Taiwan	14,892,635	19,691,619
Pledged time deposit	General Office of the Customs-Keelung, ROC	12,600	-
Pledged time deposit	General Office of the Custom-Taipei, ROC	125,000	153,000
Pledged time deposit	Hna Nan Commercial Bank, Ltd.	3,850	-
Long-term Investment-Tatung Co., Ltd.	Tax authority of Taipei	-	297,995
		<u>\$36,204,565</u>	<u>\$22,357,626</u>

Note: The related loan has been fully repaid as of December 31, 2003. However, the mortgage has not been cancelled yet.

7. **COMMITMENTS AND CONTINGENCIES**

A. The unused letters of credit as of December 31, 2003 were list below:

	<u>The Company</u>
USD	4,526 thousand
JPY	828,300 thousand
CHF	459 thousand

B. Besides the disclosure in Note 5 (2)L, the promissory notes issued for bank loans amounted to \$27,099,810 as of December 31, 2003.

8. **SIGNIFICANT DISASTER LOSS**

NONE.

9. **SIGNIFICANT SUBSEQUENT EVENT**

(1) In December 2003, the Company filed applications with SFB engage an offering of up to USD250 million principal amount of convertible bonds (the “Bonds”). On February 3, 2004, The Bonds have been approved by the relevant authority of ROC.

(2) On January 7, 2004, the Company were offering USD236,900 thousands of Credit Enhanced Zero Coupon Convertible Bonds due November 2005 at an initial conversion price of \$16.46 dollar per share.

(3) The Chunghwa P.T. (Bermuda), together with CPTF optronics Co., Ltd, invested in Fuzhou Vision Display Ltd. in mainland China on January 7, 2004.

(4) As of March 26, 2004, the details information of bondholders converted into common shares or the Company redeem the convertible bonds from the holders as follow:

<u>Item</u>	<u>Common shares of conversions or redemption</u>	<u>Amount (in thousands)</u>
Zero Euro convertible bonds, issued in 2002 and due 2007	-	USD 17,100
Euro convertible bonds, issued in 2002 and due 2007 at 0.25%	133,913,671	USD 59,500
Credit Enhanced Zero Coupon Convertible Bonds, issued in 2004 and due 2005	91,377,905	USD 44,460

10. SEGMENT INFORMATION

(1) Industrial information

The related information for 2003 and 2002 are as follows.

2003

	<u>CRT</u>	<u>TFT-LCD</u>	<u>Other</u>	<u>Total</u>
Total revenues	\$-	\$42,142,089	\$5,344,744	\$47,486,833
Gross profit (loss)	\$-	\$7,315,626	\$(1,219,303)	\$6,096,323
Realized intercompany profit				210,369
R&D				(2,952,786)
SG&A				(1,317,254)
Interest income				35,210
Investment income recognized by equity method, net				813,658
Other income				801,620
Interest expenses				(1,105,554)
Other expenses				(1,414,512)
Gain before income tax				\$1,167,074
Identifiable assets:				
Property, plant and equipment (net)	\$-	\$39,869,002	\$8,875,341	\$48,744,343
Inventory (net)	\$-	\$3,352,080	\$1,013,839	\$4,365,919
Depreciation expenses	\$-	\$6,659,116	\$1,178,499	\$7,837,615
Capital expenditure	\$-	\$20,304,755	\$1,123,282	\$21,428,037

2002

	<u>CRT</u>	<u>TFT-LCD</u>	<u>Other</u>	<u>Total</u>
Total revenues	\$6,053,529	\$32,281,573	\$2,099,743	\$40,434,845
Gross profit (loss)	\$33,817	\$4,845,799	\$(628,469)	\$4,251,147
Realized intercompany profit				77,401
R&D				(2,076,906)
SG&A				(1,171,826)
Interest income				47,104
Investment loss recognized by equity method, net				(2,087,818)
Other income				293,427
Interest expenses				(1,147,186)
Other expenses				(1,438,823)
Loss before income tax				\$(3,253,480)
Identifiable assets:				
Property, plant and equipment (net)	\$1,022,511	\$27,017,766	\$8,442,128	\$36,482,405
Inventory (net)	\$488,669	\$3,660,739	\$757,378	\$4,906,786
Depreciation expenses	\$612,470	\$5,264,157	\$734,365	\$6,610,992
Capital expenditure	\$380,064	\$5,032,242	\$1,073,307	\$6,485,613

(2) Regional information

NONE.

(3) Export sales

Export sales by region for 2001, 2002 and 2003 are as follows, respectively:

	<u>2003</u>	<u>2002</u>
AMERICA	\$313,684	\$219,176
EUROPE	338,005	1,436,521
SOUTHEAST ASIA	37,886,865	28,320,558
OTHERS	114,040	33,885
Total	<u>\$38,652,594</u>	<u>\$30,010,140</u>

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

<u>Customer Name</u>	<u>2003</u>		<u>2002</u>	
	<u>Sales</u>	<u>Percentage</u>	<u>Sales</u>	<u>Percentage</u>
A Co., Ltd.	\$21,873,128	46.06%	\$14,329,469	35.44%
B Co., Ltd.	4,785,270	10.08%	4,056,264	10.03%

11. FAIR VALUES OF FINANCIAL INSTRUMENTS

A. The relevant information on the derivative financial instruments is as follows:

- (1) Types of derivative financial instruments, purpose of holding the derivative financial instruments, and the strategy for achieving the hedging purpose:

The Company holds derivative financial instruments for hedging purposes. The purpose of holding foreign currency forward exchange contracts and foreign currency option contracts is to hedge the exchange rate fluctuation risks (hedging against accounts payable in Japanese Yen and British Pound or accounts receivable in US dollars and British Pound). The Company's hedging strategy is to mitigate most of its market price risk. Derivative financial instruments selected for hedging purposes are highly negatively correlated with the fluctuation in the fair value of the hedged items. Derivatives are evaluated periodically.

(2) Details of contract amount or notional amount:

	December 31,	
	2003	2002
Financial instruments	Contract amount or notional amount	Contract amount or notional amount
Foreign currency forward exchange contract	-	US\$76,000
Foreign currency options (Buy NT\$/Sell US\$)	-	US\$300,000
Foreign currency options (Buy JP¥/Sell US\$)	US\$1,409,516	US\$383,000
Foreign currency options (Buy USD/Sell GBP)	GBP17,600	-
Foreign currency options (Buy USD/Sell JP¥)	USD194,047	-

(3) Transaction risk:

① Credit risk relating to derivative financial instruments:

Credit risk represents the risk of loss that would be recognized at reporting date if counterparties failed to perform. The Company entered into the above derivative contracts with major international foreign banks or reputable local banks. The likelihood of default by the counterparties is considered remote.

② Market price risk relating to derivative instruments:

Market price risk represents the accounting loss that would be recognized at the reporting date for the derivative financial instruments due to the changes in foreign exchange rates. As the Company's derivative financial instruments are for hedging purposes, the gains or losses due to changes in foreign exchange rates will be offset by the hedged items. As a result, market price risk is considered minimal.

③ Liquidity risk, cash flow risk and the uncertainty of future cash needs:

Liquidity risk is the risk of being unable to settle the derivative contracts on schedule. The Company's working capital is sufficient for the needs of cash upon the settlement of contracts, when there are cash inflows or cash outflows. As such, there is no significant liquidity risk for the related cash flows. Furthermore, the exchange rates of the forward exchange contract are fixed at the inception, so there is no significant cash flow risk.

(4) Presentation of derivative instruments in the financial statements:

① Foreign currency forward exchange contracts:

Receivable and payable resulting from the forward contracts that are not settled at reporting date are netted off. The net amount is recorded as other current assets or other current liabilities.

The details of foreign currency forward exchange contracts balance as of December 31, 2002 are as follows:

	<u>December 31, 2002</u>
Foreign currency forward exchange contracts-receivable	\$2,647,491
Foreign currency forward exchange contracts-payable	(2,643,280)
Unamortized discount	<u>355</u>
Foreign currency forward exchange contracts-receivable, net	<u><u>\$4,566</u></u>

② Foreign currency option contracts:

The notional amount of the foreign currency option contracts entered into for hedging purpose is not recognized as either assets or liabilities at the contract dates. The premium paid and received for these contract were nil as of December 31, 2003.

B. The Company held credit-linked notes (CLN) for the earnings of interest income. The details of risks for investments in CLN disclosed as follows:

(1) Contract amount:

<u>Underlying investment</u>	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>
Credit-linked notes with AT & T'S overseas convertible bonds	\$-	USD2,000 thousands
Credit-linked notes with GMAC'S overseas convertible bonds	-	USD2,000 thousands

(2) Transaction risks relating to investments in credit-linked notes:

① Credit risk:

Default from the issuers of underlying overseas convertible bonds might reduce the value of investment to zero. The Company reduced the credit risk to a minimum level by selecting the underlying overseas convertible bonds whose issuers are standing in good financial position and are willing to provide financial information to the public.

② Liquidity risk:

Liquidity risk means that the Company is unable to have the credit-linked notes redeemed before their maturity. Since the maturity period of the Company's CLN investments were within one year, it is expected that the liquidity risk is reduced to a minimum level.

③ Market risk:

There is no market risk for the underlying investment except for the fluctuations in the exchange rate of US Dollar to NT Dollar.

④ Presentation in the financial statements:

The Company received interest income of approximately \$3,930 and \$161 from the investment in credit-linked notes for the years ended December 31, 2003 and 2002, respectively.

C. Fair value of financial instruments:

(1) Non-derivative

Financial assets	December 31, 2003		December 31, 2002	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	\$16,578,676	\$16,578,676	\$11,386,917	\$11,386,917
Receivables, net	10,794,372	10,794,372	7,301,328	7,301,328
Long-term investments	27,713,144	27,713,144	28,990,694	28,990,694
Refundable deposits	42,561	42,516	13,156	13,156
Pledged time deposits	141,450	141,450	153,000	153,000
Marketable securities	817,613	865,918	961,447	961,447
Deferred Charges	1,566,086	1,566,086	2,015,413	2,015,413
Financial liabilities				
Short-term bank loans	\$1,147,710	\$1,147,710	\$268,772	\$268,772
Payables	14,485,541	14,485,541	10,663,114	10,663,114
Other current liabilities	117,600	117,600	74,432	74,432
Bonds payable (including current portion)	4,424,387	4,424,387	10,444,481	10,444,481
Long-term bank loans (including current portion)	24,008,192	24,008,192	17,004,681	17,004,681

(2) Derivatives

Financial assets				
Forward exchange contract-receivable, net	\$-	\$-	\$4,566	\$4,566
Other financial assets-CLN	\$-	\$-	\$139,120	\$139,120
Foreign currency option contracts	\$-	\$55,583,143	\$-	\$24,582,665

The methods and assumptions used to measure the fair value of financial instruments are as follows:

The carrying amounts of cash and cash equivalents, receivables, refundable deposits, pledged time deposits, deferred charges, short-term bank loans, payables and other current liabilities approximate fair values because of short maturity of these instruments.

Marketable securities and long-term investments are measured based on quoted market prices for these instruments. If market prices are unavailable, fair values are measured based on financial or other information.

The fair values of long-term bank loans due within a year approximate carrying amounts as the long-term bank loans bear interest at variable rates. The fair values of the non-current portion of bonds payable bank loans are determined based on the sum of the carrying value of the bonds payable and bank loans and accrued interest payable.

The fair value of individual forward foreign currency exchange contracts is determined using the exchange rates listed by bank. The fair value of option contracts is determined based on the market price provided by bank.

12. **Litigation**

L.G. Philips LCD. Co., Ltd. (LGP) filed suit for patent infringement against the Company. The suit alleges that certain TFT-LCD products currently utilized by the Company infringe patents registered by LGP in the Taiwan and U.S. At the date of this report, due to the nature of the litigation, the Company cannot predict the ultimate outcome of the lawsuit. The Company believes that the suit will not have a significant impact on the Company's operations.

13. **ADDITIONAL DISCLOSURE ITEMS**

Following are the additional disclosures for the Company and affiliates pursuant to SFB requirements:

- a. Loans to third parties attributed to financial activities as of and for the year ended December 31, 2003: Please see attachment-1.
- b. The endorsements and guarantees provided by the Company to third parties as of and for the year ended December 31, 2003: Please see attachment-2.
- c. The ending balance of marketable securities held by the Company as of December 31, 2003: Please see attachment-3
- d. The cumulative buying, selling or the ending balance of one specific security exceeding the lower of \$100 million or 20 percent of the capital stock for the year 2003: Please see attachment-4.
- e. Acquisition of long-term equity investment or real estate with an amount exceeding the lower of \$100 million or 20 percent of the Company's capital stock for the year 2003: Please see attachment-5.

- f. Disposal of long-term equity investment or real estate with an amount exceeding the lower of \$100 million or 20 percent of the Company's capital stock for the year 2003: None.
- g. Related party transactions for purchases and sales amounts exceeding the lower of \$100 million or 20 percent of the Company's capital stock for the year 2003: Please see attachment-6.
- h. Receivables from related parties exceeding the lower of \$100 million or 20 percent of the Company's capital stock as of December 31, 2003: Please see attachment-7.
- i. The Company and investee companies entered into derivative financial instruments as of December 31, 2003 : None. Please see Note (11).
- j. Related information on investee companies as of December 31, 2003: Please see attachment-8.

Attachment 1

Loans to third parties:

(Amounts in Thousands, unless otherwise specified)

No.	Names of lending company	Name of the borrowers	Accounts name	Maximum Outstanding amount	Ending balance (Note 3)	Interest rates	The nature for lending	Transaction amount	The reason for lending	Allowance for bad debts	Collateral		Limitation on amount of loan (Note 1)	Upper limit of loan amount (Note 2)
											Item	Value		
1	Chunghwa P.T. (Bermuda) Ltd.	Chunghwa P.T. (U.K.) Ltd.	Due from affiliates	\$484,186 (GBP8,000)	\$484,186 (GBP8,000)	None	Short-term loans for operations	\$-	working capital	\$-	None	\$12,765,503	\$20,424,804	

Note 1: Not exceeding 25% of the issued capital of the Company.

Note 2: Not exceeding 40% of the issued capital of the Company.

Note 3: Transaction settled in terms of foreign-currencies are recorded in NTD at the exchange rates on December 31, 2003.

Attachment 2

The endorsements and guarantees provided by the company:

(Amount in Thousands, unless otherwise specified)

No.	Name of endorser	Name of Endorsee	Relationship	Upper limit for one endorser (Note 1)	Maximum guarantee amount (Note 3)	Ending balance (Note 3)	Assets Secured	The ratio of accumulated guarantee amount to net worth for the company	Upper limit for all endorsers (Note 2)
0	Chunghwa P.T. Co., Ltd.	Chunghwa P.T. (UK) Ltd.	A subsidiary of the Company's subsidiary	\$33,323,938	\$169,990 (USD5,000)	\$169,990 (USD5,000)	N/A	0.26%	\$53,318,301
		Chunghwa P.T. (U.K.) Ltd.	A subsidiary of the Company's subsidiary	"	484,186 (GBP8,000)	48,419 (GBP800)	"	0.07%	"
		CPTF Optronics Co., Ltd.	A subsidiary of the Company's subsidiary	"	441,974 (USD13,000)	441,974 (USD13,000)	"	0.66%	"
		Chunghwa P.T. (Bermuda) Ltd.	A wholly owned subsidiary of the Company	"	3,212,811 (USD94,500)	2,379,860 (USD70,000)	"	3.57%	"
		Chunghwa P.T. (Malaysia) Sdn. Bhd.	A subsidiary of the Company's subsidiary	"	7,275,572 (USD214,000)	2,039,880 (USD60,000)	"	3.06%	"
		Toppan Chunghwa Electronics Co., Ltd.	An investee accounted for under equity method	"	330,000	330,000	"	0.50%	"
		Makolin Electronics (M) Sdn. Bhd.	The Company's affiliated companies	"	61,180 (RM6,839)	-	"	-	"
1	Chunghwa P.T. (Bermuda) Ltd.	CPTF Optronics Co., Ltd.	A wholly owned subsidiary of the Company	"	968,943 (USD28,500)	135,992 (USD4,000)	N/A	0.20%	"
		Chunghwa P.T. (Wujiang) Ltd.	A wholly owned subsidiary of the Company	"	2,243,868 (USD66,000)	2,243,868 (USD66,000)	"	3.37%	"
2	Chunghwa P.T. (Labuan) Ltd.	CPTF Optronics Co., Ltd.	Subsidiary of Chunghwa P.T. (Bermuda) Ltd.	"	5,065,702 (USD149,000)	2,039,880 (USD60,000)	N/A	3.06%	"
3	Chunghwa P.T. (Wujiang) Ltgd.	CPTF Optronics Co., Ltd.	Subsidiary of Chunghwa P.T. (Bermuda) Ltd.	"	1,053,938 (USD31,000)	1,053,938 (USD31,000)	N/A	1.58%	"

Note 1: Cannot exceed 50% of the net worth of the Company.

Note 2: Cannot exceed 80% of the net worth of the Company.

Note 3: Transaction settled in terms of foreign-currencies are recorded in NTD at the exchange rates on December 31, 2003.

Attachment 3

Marketable Securities held as of December 31, 2003 :

(Amount in Thousands, unless otherwise specified)

Holding Company	Investee Companies	Relationship	Account	December 31, 2003				Note
				Number of Shares	Carrying amount	% of ownership	Market value or net asset value (per share)	
Chunghwa P.T. Co. Ltd.	Huanan Flamingo Balance Fund	marketable securities	"	10,000,000.00	\$100,000	-	\$10.0086	
	Entrust KIRIN Bond Fund	"	"	10,157,862.20	105,273	-	10.6039	
	Fuh-hwa Bond Fund	"	"	4,027,094.30	50,000	-	12.7214	
	Mega Hi-Tech Fund	"	"	3,188,059.80	31,944	-	9.6500	
	Fuh-hwa Yu-Li Fund	"	"	1,470,066.80	17,017	-	11.7962	
	Fuh-hwa Heirloom Balance Fund	"	"	4,068,630.70	48,844	-	12.2984	
	Grand Cathay Stable-Bond Fund	"	"	2,706,776.20	30,000	-	11.8600	
	Sheng Hua 1699 Bond Fund	"	"	2,686,476.06	31,468	-	11.8937	
	Jih Sun Bond Fund	"	"	7,660,819.17	99,000	-	13.0902	
	Mega Diamond Bond Fund	"	"	5,431,680.43	59,067	-	11.0144	
	Shinkong Competitiveness Fund	"	"	2,357,602.61	40,000	-	20.0000	
	Shinkong Champion Fund of Funds	"	"	1,000,000.00	10,000	-	10.1000	
	Fgit win-win Balanced Fund	"	"	975,566.00	10,000	-	10.6200	
	Grand Cathay Balance 2 Fund	"	"	9,490,509.50	95,000	-	13.2000	
	Sheng Hua 0566 Global Balance Fund	"	"	2,000,000.00	20,000	-	10.1400	
Sheng Hua 6666 Balance Fund	"	"	1,942,483.10	20,000	-	10.7236		
Fgit Global Fixed Income Fund	"	"	5,000,000.00	50,000	-	10.1169		
	Total				\$817,613			
Chunghwa P.T. (Wujiang) Ltd.	GF JuFu Fund	"	"	-	\$206,000 (RMB50,150)	-	-	

Attachment 3-1

Marketable Securities held as of December 31, 2003 :

(Amount in Thousands, unless otherwise specified)

Holding Company	Investee Companies	Relationship	Account	December 31, 2003				Note
				Number of Shares	Carrying amount	% of ownership	Market value or net asset value (per share)	
Chunghwa P.T. Co. Ltd.	Tatung Co., Ltd. -common stock	The Company's major stockholder and represented on the Company's board of directors	Long-term investments Less: allowance for loss on long-term investments Net	78,742,938	\$1,531,059 <u>(851,476)</u> 679,583	1.87%	\$8.6304	
	Chunghwa P.T. (Bermuda) Ltd. -common stock	A wholly owned subsidiary of the Company	Long-term investments Less: allowance for loss on long-term investments Net	131,900,000	27,962,548 <u>(3,128,209)</u> 24,834,339	100.00%	212.00	
	Chunghwa P.T. (Labuan) Ltd. -common stock	A wholly owned subsidiary of the Company	Long-term investments	8,000,000	929,686	41.03%	93.32	
	Shang Chih Investment Co., Ltd.- common stock	An investee accounted for under equity method	"	3,000,000	35,050	25.00%	11.68	
	Forward Electronics Co., Ltd.- common stock	An investee accounted for under equity method	"	19,375,000	412,289	23.48%	21.28	
	Toppan Chunghwa Electronics Co., Ltd. -common stock	An investee accounted for under equity method	"	54,000,000	802,197	30.00%	14.86	
	Grand Cathay Optronics Co., Ltd.- common stock	A wholly owned subsidiary of the company	"	2,000,000	20,000	100.00%	10.00	

Attachment 3-2

Marketable Securities held as of December 31, 2003:

(Amount in Thousands, unless otherwise specified)

Holding Company	Investee Companies	Relationship	Account	December 31, 2003				Note
				Number of Shares	Carrying amount	% of ownership	Market value or net asset value (per share)	
Chunghwa P.T. (Bermuda) Ltd.	Tatung Co., Ltd.-common stock	The Chunghwa P.T. Co., Ltd. major stockholder and reprinted on the Chunghwa P.T. Co., Ltd. board of directors	Long-term investments Less: allowance for loss on long-term investments Net	26,220,388	\$586,922 (USD19,736) <u>(360,630)</u> 226,292	0.62%	\$8.6304	
	Chunghwa P.T. (Labuan) Ltd.	A wholly owned subsidiary of the company	Long-term investments	11,500,000	890,025 (USD26,179)	58.97%	93.32	
	Chunghwa P.T. (Malaysia) Sdn Bhd-common stock	A wholly owned subsidiary of the company	"	600,000,000	6,851,046 (RMB765,848)	100.00%	11.42	
	Chunghwa P.T. (Kampar) Sdn Bhd-common stock	A wholly owned subsidiary of the company	"	181,700,000	1,862,307 (RM208,179)	100.00%	10.25	
	Chunghwa P.T. (UK) Ltd.-common stock	A wholly owned subsidiary of the company	"	205,627,627	483,459 (GBP7,988)	100.00%	2.35	
	CPTF Optronics Co., Ltd.	A wholly owned subsidiary of the company	"	1,682,574,660	8,452,914 (RM2,056,670)	78.20%	5.02	
	Dalemont Investment Ltd.-common stock	A wholly owned subsidiary of the company	"	28,000,000	214,527 (USD6,310)	100.00%	7.66	
	Daliant Investment Ltd.-common stock	A wholly owned subsidiary of the company	"	28,000,000	215,683 (USD6,344)	100.00%	7.70	
	Banglor Invesment Ltd.-common stock	A wholly owned subsidiary of the company	"	28,000,000	217,417 (USD6,395)	100.00%	7.76	
	Bensaline Invesment Ltd.-common stock	A wholly owned subsidiary of the company	"	28,000,000	216,159 (USD6,358)	100.00%	7.72	
	Makolin Electronics (M) Sdn Bhd-common stock	An investee accounted for under equity method	"	10,814,068	103,465 (RM11,566)	42.00%	9.57	
Toppan Chunghwa Electronics Co., Ltd.-common stock	Subsidiary of Chunghwa P.T. (Bermuda) Ltd.	"	228,287,943	1,146,872 (RMB279,044)	10.61%	5.02		

Attachment 3-3

Marketable Securities held as of December 31, 2003:

(Amount in Thousands, unless otherwise specified)

Holding Company	Investee Companies	Relationship	Account	December 31, 2003				Note
				Number of Shares	Carrying amount	% of ownership	Market value or net asset value (per share)	
Dalemount Investment Ltd.	Tatung Co., Ltd -common stock	The Chungghwa P.T. Co., Ltd. major stockholder and repressed on the Chungghwa P.T. Co., Ltd. board of directors	Long-term investments	28,732,228	\$643,148 (USD20,646)	0.68%	\$8.6304	
Daliant Investment Ltd.	Tatung Co., Ltd -common stock	"	"	28,865,010	646,120 (USD20,629)	0.69%	8.6304	
Banglor Investment Ltd.	Tatung Co., Ltd -common stock	"	"	29,022,034	649,635 (USD20,433)	0.69%	8.6304	
Bensaline Investment Ltd.	Tatung Co., Ltd -common stock	"	"	28,748,580	643,514 (USD20,530)	0.68%	8.6304	
			Less: allowance for loss on long-term investments		2,582,417 <u>(1,586,746)</u>			
			Net	<u>115,367,852</u>	<u>995,671</u>			
Chungghwa P.T. (Malaysia) Sdn Bhd	Country Heights Holding Berhad-common stock	The company's investee company	Long-term investments	48,000,000	1,522,726 (RM170,219)	17.41%	10.1086 (RM1.13)	
			Less: allowance for loss on long-term investments		<u>(1,180,833)</u>			
			Net		<u>341,893</u>			
"	Country Heights Golf Resort SDN BHD -common stock	"	Long-term investments	5,000,000	180,080 (USD20,130)	10.00%	36.0160 (RM4.026)	

Attachment 4

Details of securities bought or sold for amount exceeding NT\$100 million or 20% of the company's capital stock :
(Amount in Thousands, unless otherwise specified)

Company Name	Name of Securities Bought or Sold	Account	Name of third Party	Relationship	Beginning balance		Addition		Disposal				Ending balance		
					No. of shares	Amount	No. of shares	Amount	No. of shares	Selling price	Carrying amount	Gain/Loss from disposal	No. of shares	Amount	
Chunghwa P.T. Co., Ltd.	Toppa Chunghwa Electronics Co., Ltd.	Long-term investments	-	An investee accounted for under equity method	\$-	\$-	54,000,000.00	\$576,960	-	-	-	-	54,000,000.00	\$802,197	
	Fgit Duo Li-2 Bond Fund	marketable securities	-	-	-	-	50,336,939.60	\$700,000	50,336,939.60	\$701,974	\$700,000	\$1,974	\$-	\$-	
	Grand Cothay Bond Fund	"	-	-	-	-	47,011,624.00	579,539	47,011,624.00	581,266	579,539	1,727	-	-	
	Shinkong Chi-Shin Fund	"	-	-	-	-	10,920,766.20	150,000	10,920,766.20	150,220	150,000	220	-	-	
	Truswell Premier Fund	"	-	-	-	-	28,622,611.90	301,797	28,622,611.90	303,417	301,797	1,620	-	-	
	Invesco Aggressive Income Fund	"	-	-	-	-	48,952,904.28	530,088	48,952,904.28	532,453	530,088	2,365	-	-	
	Huanan Flamingo Balance Fund	"	-	-	-	-	10,000,000.00	100,000	-	-	-	-	10,000,000.00	100,000	
	Mega Hi-Tech Fund	"	-	-	-	19,960,079.80	200,000	-	-	16,772,020.00	146,006	168,056	(22,050)	3,188,059.80	31,944
	Truswell Asian American Fund	"	-	-	-	30,000,000.00	300,000	-	-	30,000,000.00	301,797	300,000	1,797	-	-
	Shinkong Chi-Shin Fund	"	-	-	-	-	-	17,755,681.82	250,000	17,755,681.82	250,371	250,000	371	-	-
	NT\$ High Yield Fund	"	-	-	-	-	-	15,689,939.45	250,000	15,689,939.45	250,127	250,000	127	-	-
	Fgit Flobal Fixed income Fund	"	-	-	-	-	-	10,000,000.00	100,000	5,000,000.00	50,673	50,000	673	5,000,000.00	50,000
	Credit linked notes-overseas conertible bonds	Other financial assets	-	-	-	-	-	-	236,201	-	237,904	236,201	1,703	-	-
Chunghwa-P.T. (Bermuda) Ltd.	Toppa Chunghwa Electronics Co., Ltd.	Long-term investments	Chunghwa P.T. Co., Ltd.	Parent Company	54,000,000.00	683,934	-	-	54,000,000.00	576,960	-	106,974	-	-	
Chunghwa P.T. (Wujiang) Ltd.		marketable securities	-	-	-	-	-	206,000	-	-	-	-	-	206,000	
								(RMB50,150)						(RMB50,150)	

Attachment 5

Acquisition of real estate with an amount exceeding NT\$100 million or 20% of the Company's capital stock:

(Amount in Thousands, unless otherwise specified)

Name of Company	Name of the properties	Purchase Date	Purchase Amount	Payment Term	Seller	Relationship	Details of Former Purchase				Basis of price determination	Purpose of acquisition	Other commitments
							Owner	Relationship	Date of Transfer	Amount			
Chunghwa P.T. Co., Ltd.	Land	2003	\$162,195	Payment in installments	Chan-hung -kuan Chan-yu-lin etc.	-	(Not applicable)	By reference to appraisal report and decided by Board of Directors	For operating	-	

Attachment 6

Purchase or sales with related parties amounting to more than 100 million or 20% of the issued capital:

(Amount in Thousands, unless otherwise specified)

Name of Company	Buyer or Seller	Relationship	Transaction Details				Special conditions		Notes and accounts receivable or (Notes and accounts payable)		Note
			Nature	Amount	%	Credit Term	Unit Price	Credit Term	Ending Balance	%	
Chunghwa P.T. Co., Ltd.	Tatung Co., Ltd.	The Company's major stockholder and represented on the company's board of directors	Sales	\$540,965	1.14%				\$100,938	0.97%	
	Chunghwa P.T. (Kampar) Sdn Bhd.	A wholly owned subsidiary of the Company	"	(325,605)	(0.69%)		(Please see Note 5)		33,279	0.32%	
	Chunghwa P.T. (Labuan) Ltd.	A wholly owned subsidiary of the Company	"	(21,873,128)	(46.06%)				5,869,305	56.25%	
	"	A wholly owned subsidiary of the Company	Purchase	3,021,435	10.98%				(398)	0.00%	
	Tatung (Thailand) Co., L	Subsidiary of Tatung Co., Ltd.	"	(1,556,701)	(3.28%)				58,824	0.56%	
	Tatung Co. of Japan Inc. (Note 1)	Subsidiary of Tatung Co., Ltd.	-	-	-				(1,075,219)	(12.04%)	
	Forward Electronics Co., Ltd.	Investee accounted for under equity method	Purchase	186,706	0.68%				(11,395)	(0.13%)	

Attachment 6-1

Purchase or sales with related parties amounting to more than 100 million or 20% of the issued capital:

(Amount in Thousands, unless otherwise specified)

Name of Company	Buyer or Seller	Relationship	Transaction Details				Special conditions		Notes and accounts receivable or (Notes and accounts payable)		Note
			Nature	Amount	%	Credit Term	Unit Price	Credit Term	Ending Balance	%	
Chunghwa P.T. (Kampar) Sdn. Bhd.	Chunghwa P.T. Co., Ltd.	The Company's parent company	Purchase	\$325,605 (RM35,959)	45.62%	30 days	-	-	\$(33,279) (RM3,720)	(23.05%)	Net Purchase: \$713,752 (RM78,825) Net Sales: \$1,118,597 (RM123,535) Notes & accounts receivable (including Due from affiliated): \$481,994 (RM53,880) Accounts payable (including due to affiliated): \$144,348 (RM16,136)
	Chunghwa P.T. (Malaysia) Sdn. Bhd.	Subsidiary of Chunghwa P.T. (Bermuda) Ltd.	Sales	(1,028,646) (RM113,601)	(91.96%)	150 days	-	-	443,420 (RM49,568)	92.00%	
CPTF Optronics Co., Ltd.	Chunghwa P.T. (Labuan) Ltd.	The Company's parent company	Purchase	959,367 (RMB230,202)	5.40%	30 days	-	-	(222,803) (RMB54,210)	(3.78%)	Net purchase: \$17,751,912 (RMB4,259,607) Net Sales: \$23,462,267 (RMB5,629,818) Notes & accounts receivable (including Due from affiliated): \$6,647,806 (RMB1,617,471) Accounts Payable (including Due to affiliated): \$5,894,944 (RMB1,434,293)
	"	"	Sales	(7,524,296) (RMB1,805,470)	(32.07%)	30 days	-	-	1,903,518 (RMB463,143)	28.63%	
	Tatung Co. of Japan Inc. (Note)	Subsidiary of Tatung Co., Ltd.	-	-	-	-	-	-	(611,940) (RMB148,891)	10.38%	
	Tatung Information Technology (Jiang Su) Co., Ltd.	Investee of Tatung Co., Ltd.	Sales	(121,537) (RMB29,163)	(0.52%)	-	-	-	22,108 (RMB5,379)	0.33%	
	Fuzhou Development Zone Yuen-Yeou Enterprise Co., Ltd.	The Chairman is one of the supervisors of the Company	Purchase	579,191 (RMB138,978)	3.27%	-	-	-	(90,890) (RMB22,114)	(1.54%)	

Attachment 6-2

Purchase or sales with related parties amounting to more than 100 million or 20% of the issued capital:
(Amount in Thousands, unless otherwise specified)

Name of Company	Buyer or Seller	Relationship	Transaction Details				Special conditions		Notes and accounts receivable or (Notes and accounts payable)		Note
			Nature	Amount	%	Credit Term	Unit Price	Credit Term	Ending Balance	%	
Chunghwa P.T. (Labuan) Ltd.	CPTF Optronics Co., Ltd.	Subsidiary of Chunghwa P.T. (Bermuda) Ltd.	Purchase	\$7,524,296 (USD218,646)	17.67%	30 days	-	-	\$(1,903,518) (USD55,989)	(14.31%)	Net Purchase: \$42,573,203 (USD1,237,122) Net Sales: \$41,787,449 (USD1,214,289) Notes & accounts receivable (including Due from affiliated): \$10,679,984 (USD314,136) Accounts payable (including Due to affiliated): \$13,297,600 (USD391,131)
	CPTF Optronics Co., Ltd.	Subsidiary of Chunghwa P.T. (Bermuda) Ltd.	Sales	(959,367) (USD27,878)	(2.30%)	"	-	-	222,803 (USD6,553)	2.09%	
	Chunghwa P.T. Co., Ltd.	The Company's parent company	Purchase	21,873,128 (USD635,605)	51.38%	"	-	-	(5,869,805) (US172,651)	44.14%	
	Chunghwa P.T. Co., Ltd.	The Company's parent company	Sales	(3,021,435) (USD87,799)	(7.23%)	"	-	-	398 (USD12)	-	
	Chunghwa P.T. (Wujiang) Ltd.	Subsidiary of Chunghwa P.T. (Bermuda) Ltd.	Purchase	(25,070,113) (USD782,505)	(60.00%)	"	-	-	8,987,090 (USD264,342)	84.15%	
	Chunghwa P.T. (Wujiang) Ltd.	Subsidiary of Chunghwa P.T. (Bermuda) Ltd.	Sales	13,155,797 (RM382,290)	30.90%	"	-	-	(5,150,722) (USD151,501)	(38.73%)	
	Tatung Co., Ltd.	Parent Company of the Chunghwa P.T. Co., Ltd.	Sales	(1,404,020) (USD40,799)	(3.36%)	"	-	-	-	-	
Chunghwa P.T. (Malaysia) Sdn Bhd.	Chunghwa P.T. (Kampar) Sdn. Bhd.	Subsidiary of Chunghwa P.T. (Bermuda) Ltd.	Purchase	1,028,646 (RM13,601)	13.46%	60 days	-	-	(443,420) (RM49,568)	18.86%	Net purchase: \$7,642,462 (RM844,014) Accounts Payable (including Due to affiliated): \$2,350,787 (RM262,784) Net Sales: \$10,929,971 (RM1,207,078)
	Tatung Co., Ltd.	Parent company of the Chunghwa P.T. Co., Ltd.	Sales	(315,962) (RM34,894)	2.89%	"	-	-	-	-	
	Tatung Co., of Japan Inc.	Subsidiary of Tatung Co., Ltd.	-	-	-	-	-	-	204,468 (RM22,857)	8.70%	
	Makolin Electronics (M) Sdn. Bhd.	The Company's affiliated companies	Purchase	(191,528) (RM21,152)	2.51%	60 days	-	-	(45,976) (RM5,139)	1.96%	

Attachment 6-3

Purchase or sales with related parties amounting to more than 100 million or 20% of the issued capital:

(Amount in Thousands, unless otherwise specified)

Name of Company	Buyer or Seller	Relationship	Transaction Details				Special conditions		Notes and accounts receivable or (Notes and accounts payable)		Note
			Nature	Amount	%	Credit Term	Unit Price	Credit Term	Ending Balance	%	
Chunghwa P.T. (Wujiang) Ltd.	Chunghwa P.T. (Labuan) Ltd.	The Company's parent company	Sales	\$(13,155,797) (RMB3,156,760)	(35.46%)	30 days	(Not applicable)		\$5,150,722 (RMB1,253,217)	35.65%	Net Sales: \$37,097,943 (RMB8,901,726) Notes & accounts receivable (including Due from affiliated): \$14,449,613 (RMB3,515,721) Net Purchase: \$35,953,281 (RMB8,627,062) Net Purchase: \$35,953,281 (RMB8,627,062) Accounts Payable: \$15,047,495 (RMB3,661,191)
	"	"	-	-	-	-	(Not applicable)	(666,878) (RMB162,257)	(4.43%)		
	Tatung Co. of Japan Inc. (Note)	Subsidiary of Tatung Co., Ltd.	Purchase	25,070,113 (RMB6,015,624)	69.73%	30 days	(Not applicable)	(8,987,090) (RMB2,186,640)	(59.72%)		
	Tatung Information Technology (Jiang Su) Co., Ltd.	Investee of Tatuag Co., Ltd.	Sales	(2,942,213) (RMB705,990)	(7.93%)	-	(Not applicable)	2,419,652 (RMB588,723)	16.75%		
	Forward Electronic Co., Ltd.	Investee of Chunghwa P.T. Co., Ltd.	Purchase	743,114 (RMB178,312)	2.07%	30 days	(Not applicable)	(110,371) (RMB26,854)	(0.73%)		
Suzhou Forward Electronics Technology	Director subsidiary of Forward Electronics Co.,	Purchase	249,630 (RMB59,899)	0.69%	30 days	(Not applicable)	(211,420) (RMB51,440)	(1.41%)			

Attachment 7

Receivable from related parties exceeding NT\$100 million or 20% of the Company's capital stock:

(Amount in Thousands, unless otherwise specified)

Name of Company	Transaction Party	Relationship	Ending balance	Turnover Ratio	Overdue		Amounts received subsequent to December 31, 2003	Allowance for bad debts
					Amount	Settlement Arrangement		
Chunghwa P.T. Co., Ltd.	Chunghwa P.T. (Labuan) Ltd.	A subsidiary of the Company	\$5,869,805	-	-	-	\$1,510,029	\$550
	Tatung Co., Ltd.	The Company's major stockholder and represented on the Company's board of directors	100,938	-	-	-	71,173	1,009

Attachment 7-1

Receivable from related parties exceeding NT\$100 million or 20% of the capital stock:

(Amount in Thousands, unless otherwise specified)

Name of Company	Transaction Party	Relationship	Ending balance	Turnover Ratio	Overdue		Amounts received subsequent to December 31, 2003	Allowance for bad debts
					Amount	Settlement Arrangement		
Chunghwa P.T. (Kampar) Sdn. Bhd.	Chunghwa P.T. (Malaysia) Sdn. Bhd.	Subsidiary of Chunghwa P.T. (Bermuda) Ltd.	\$443,420 (RM49,568)	-	\$-	-	\$-	\$-
Chunghwa P.T. (Labuan) Ltd.	CPTF Optronics Co., Ltd.	Subsidiary of Chunghwa P.T. (Bermuda) Ltd.	222,803 (USD6,553)	-	-	-	-	-
	Chunghwa P.T. (Wujiang) Ltd.	Subsidiary of Chunghwa P.T. (Bermuda) Ltd.	8,987,090 (USD264,342)	-	-	-	-	-
CPTF Optronics Co., Ltd.	Chunghwa P.T. (Labuan) Ltd.	The Company's major stockholder and respensented on the Company's board of derectors	1,903,518 (RMB463,143)	-	-	-	-	-
Chunghwa P.T. (Wujiang) Ltd.	Chunghwa P.T. (Labuan) Ltd.	The Company's major stockholder and respensented on the Company's board of derectors	5,150,722 (RM1,253,217)	-	-	-	-	-
	Tatung Information Technology (Jiang Su) Co., Ltd.	The Company's major stockholder and respensented on the Company's board of derectors	2,419,652 (RM588,723)	-	-	-	-	-

Attachment 8

Details of investee companies:

(Amount in Thousands, unless otherwise specified)

Investor	Investee	Place of Incorporation	Principal Activities	Original Investment Cost		Shareholdings at December 31, 2003			Net income (loss) of the investee for the year ended December 31, 2003	Income (loss) accounted for the year ended December 31, 2003	Note
				December 31, 2003	December 31, 2002	No. of shares	%	Carrying amount			
Chunghwa P.T. Co., Ltd.	Chunghwa P.T. (Bermuda) Ltd.	Calendon House, 2 Church Street, Hamilton HM11, Bermuda	Investment	\$3,779,727	\$3,779,727	131,900,000	100.00%	\$24,834,339	\$192,784 (USD5,602)	\$195,481	The Company's subsidiary
	Chunghwa P.T. (Labuan) Ltd.	Lot 2&3, Level 3, wisma Lazenda Jalan Kemajuan, 87000 Labuan, F.T. Labuan, Malaysia.	"	211,536	211,536	8,000,000	41.03%	929,686	366,254 (USD10,643)	364,618	The Company's subsidiary
	Shang Chih Investment Co., Ltd.	Taipei, Taiwan	"	25,000	25,000	3,000,000	25.00%	35,050	15,570	3,893	An investee accounted for under equity method
	Forward Electronics Co., Ltd.	Taipei, Taiwan	Backlight for LCD	382,500	382,500	19,375,000	23.48%	412,289	122,697	24,429	An investee accounted for under equity method
	Toppan Chunghwa Electronics Co., Ltd.	Taoyuan, Taiwan	Manufacture and sale of photo mask	576,960	-	54,000,000	30.00%	802,197	585,815	225,237	An investee accounted for under equity method
	Grand Cathay Optronics Co., Ltd.	Taoyuan, Taiwan	Fabricate PDP set	20,000	-	2,000,000	100.00%	20,000	-	-	The Company's subsidiary

Attachment 8-1

Details of investee companies:

(Amount in Thousands, unless otherwise specified)

Investor	Investee	Place of Incorporation	Principal Activities	Original Investment Cost		Shareholdings at December 31, 2003			Net income (loss) of the investee for the year ended December 31, 2003	Income (loss) accounted for the year ended December 31, 2003	Note
				December 31, 2003	December 31, 2002	No. of shares	%	Carrying amount			
Chunghwa P.T. (Bermuda) Ltd.	Makolin Electronics Sdn. Bhd.	Lot 181723, Kawasan Perindustrial, Taman Bandar Baru, 31900 Kampar Perak Darul Ridzuan, Malaysia	DY manufacturing and marketing	\$569,752 (USD20,722)	\$569,752 (USD20,722)	10,814,068	42.00%	\$103,465 (USD11,566)	\$(63,837) (RM7,050)	\$(26,816) (RM2,961)	The Company's affiliated companies