

**CHUNGHWA PICTURE TUBES, LTD.  
AND SUBSIDIARIES  
Consolidated Financial Statements  
For The Years Ended  
December 31, 2003 and 2002  
With  
Report of Independent Auditors**

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

**English Translation of a Report Originally Issued in Chinese**

**Report of Independent Auditors**

The Board of Directors and Stockholders,  
Chunghwa Picture Tubes, Ltd.

We have audited the accompanying consolidated balance sheets of Chunghwa Picture Tubes, Ltd. and its subsidiaries (collectively the “Company”) as of December 31, 2003 and 2002, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the certain equity-basis invested companies as of and for the year ended December 31, 2003, these investment balances accounted for under the equity method amounted to \$905,662 thousand (0.64% of total assets) as of December 31, 2003, and related investment income of \$145,928 thousand (10.06% of income before income tax and minority interest) 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Chunghwa Picture Tubes, Ltd. and its subsidiaries as of December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with the “Criteria Governing the Preparation of Financial Report by Securities Issuers” and accounting principles generally accepted in the Republic of China.

March 26, 2004  
Taipei, Taiwan  
Republic of China

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese  
**CHUNGHWA PICTURE TUBES, LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2003 AND 2002**  
(Expressed in Thousands of New Taiwan Dollars)

ASSETS	December 31, 2003		December 31, 2002	
	Amount	%	Amount	%
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents (Notes 2 and 4)	\$27,366,724	19.28	\$19,466,894	16.03
Short-term investments-net (Notes 2 and 4)	1,023,613	0.72	961,447	0.79
Notes receivable-net (Notes 2 and 4)	130,019	0.09	382,508	0.31
Accounts receivable-net (Notes 2 and 4)				
Trade	19,192,666	13.52	15,681,723	12.91
Others	535,123	0.38	260,626	0.21
Due from affiliates-net (Notes 2,4 and 5)				
Trade	2,641,734	1.86	1,726,292	1.42
Others	8,489	0.01	5,118	-
Forward exchange contract receivable-net (Note 4)	-	-	4,566	-
Other financial assets (Note 4)	-	-	139,120	0.11
Inventories-net (Notes 2 and 4)	8,157,364	5.75	8,698,057	7.16
Prepayments	105,444	0.07	98,127	0.08
Deferred tax assets-net (Notes 2 and 4)	31,034	0.02	323,253	0.27
Pledged time deposits-current (Note 6)	82,600	0.06	153,000	0.13
Total Current Assets	<u>59,274,810</u>	<u>41.76</u>	<u>47,900,731</u>	<u>39.42</u>
<b>LONG-TERM INVESTMENTS (Notes 2 and 4)</b>				
Equity method	1,353,001	0.95	1,262,702	1.04
Cost method	2,895,877	2.04	3,015,621	2.48
Total long-term investment	<u>4,248,878</u>	<u>2.99</u>	<u>4,278,323</u>	<u>3.52</u>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>				
(Notes 2, 4, 5 and 6)				
Land	3,323,601	2.34	2,960,463	2.44
Buildings	20,392,611	14.37	16,670,697	13.73
Machinery and equipment	73,746,687	51.96	57,428,426	47.28
Transportation equipment	314,714	0.22	314,278	0.26
Furniture and fixtures	429,253	0.30	264,401	0.22
Miscellaneous equipment	18,837,090	13.27	14,234,060	11.72
Revaluation increment	615,244	0.44	628,080	0.52
Total	<u>117,659,200</u>	<u>82.90</u>	<u>92,500,405</u>	<u>76.17</u>
Less: Accumulated depreciation	<u>(46,220,317)</u>	<u>(32.56)</u>	<u>(33,583,020)</u>	<u>(27.65)</u>
Add: Prepayments on equipments and construction in progress	4,474,664	3.15	6,091,807	5.02
Property, plant and equipment-net	<u>75,913,547</u>	<u>53.49</u>	<u>65,009,192</u>	<u>53.54</u>
<b>INTANGIBLE ASSETS:</b>				
Deferred pension cost (Notes 2 and 4)	236,221	0.17	269,967	0.22
Land use rights	250,265	0.18	269,076	0.22
Total intangible assets	<u>486,486</u>	<u>0.35</u>	<u>539,043</u>	<u>0.44</u>
<b>OTHER ASSETS:</b>				
Refundable deposits	52,877	0.04	23,556	0.02
Deferred charges (Notes 2, 4 and 5)	1,582,472	1.11	2,090,849	1.72
Long-term receivable	18,169	0.01	20,018	0.02
Deferred debit (Note 5)	-	-	1,532	-
Pledged time deposits-non-current (Note 6)	58,850	0.04	-	-
Others-net (Notes 2 and 4)	294,954	0.21	1,597,721	1.32
Total Other Assets	<u>2,007,322</u>	<u>1.41</u>	<u>3,733,676</u>	<u>3.08</u>
<b>TOTAL ASSETS</b>	<u><u>\$141,931,043</u></u>	<u><u>100.00</u></u>	<u><u>\$121,460,965</u></u>	<u><u>100.00</u></u>
(To be continued)				

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

(Continued)

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

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2003		December 31, 2002	
	Amount	%	Amount	%
<b>CURRENT LIABILITIES:</b>				
Short-term bank loans (Note 4)	\$3,713,691	2.62	\$890,728	0.73
Accounts payable				
Trade	19,857,884	13.99	13,225,644	10.89
Others	3,764,066	2.65	1,502,183	1.24
Due to affiliates (Note 5)				
Trade	3,168,606	2.23	4,623,475	3.81
Others	257,697	0.18	107,422	0.09
Income tax payable (Notes 2 and 4)	-	-	183	-
Accrued expenses	2,987,180	2.10	3,056,106	2.52
Current portion of long-term debt (Note 4)	3,323,940	2.34	8,999,596	7.41
Current liabilities				
Due to affiliates (Note 5)	797	-	3,084	-
Others	152,225	0.11	775,955	0.64
Total Current Liabilities	<u>37,226,086</u>	<u>26.22</u>	<u>33,184,376</u>	<u>27.33</u>
<b>LONG-TERM DEBT:</b>				
Bonds payable (Notes 2 and 4)	4,424,387	3.12	7,944,481	6.54
Long-term bank loans-net of current portion (Notes 4 and 6)	30,186,693	21.27	21,994,317	18.11
Long-term payable	18,873	0.01	19,388	0.02
Total Long-term Debt	<u>34,629,953</u>	<u>24.40</u>	<u>29,958,186</u>	<u>24.67</u>
<b>RESERVE FOR INCREMENT TAX ON LAND REVALUATION</b>	<u>26,793</u>	<u>0.02</u>	<u>26,793</u>	<u>0.02</u>
<b>OTHER LIABILITIES:</b>				
Accrued pension liabilities (Notes 2 and 4)	1,538,766	1.08	1,347,085	1.11
Deferred tax liabilities-net (Notes 2 and 4)	655,700	0.46	1,688,610	1.38
Minority interest	1,205,869	0.85	1,070,723	0.88
Total Other Liabilities	<u>3,400,335</u>	<u>2.39</u>	<u>4,106,418</u>	<u>3.37</u>
Total Liabilities	<u>75,283,167</u>	<u>53.03</u>	<u>67,275,773</u>	<u>55.39</u>
<b>STOCKHOLDERS' EQUITY:</b>				
Capital				
Common stock (Note 4)	58,908,629	41.51	51,062,011	42.04
Capital reserves				
Additional paid in capital	9,553,560	6.73	6,175,004	5.08
Reserve for assets revaluation	565,016	0.40	594,245	0.49
Treasury stock (Note 2)	744	-	-	-
Long-term investments (Note 2)	-	-	804	-
Retained earnings				
Legal reserve (Note 4)	-	-	942,597	0.78
Special reserve (Note 4)	-	-	1,981,158	1.63
Unappropriated retained earnings (accumulated deficits) (Note 4)	939,958	0.67	(3,562,883)	(2.93)
Adjusting items in stockholders' equity:				
Unrealized loss on long-term investments (Notes 2 and 4)	(3,197,632)	(2.25)	(3,399,247)	(2.80)
Cumulative translation adjustments (Notes 2 and 4)	1,076,055	0.75	1,473,166	1.21
Excess of additional pension liability over unrecognized prior service cost (Notes 2 and 4)	(158,711)	(0.11)	(41,920)	(0.03)
Treasury stock, at cost(Notes 2 and 4)	(1,039,743)	(0.73)	(1,039,743)	(0.86)
Total Stockholders' Equity	<u>66,647,876</u>	<u>46.97</u>	<u>54,185,192</u>	<u>44.61</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$141,931,043</u>	<u>100.00</u>	<u>\$121,460,965</u>	<u>100.00</u>

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

English Translation of Financial Statements Originally Issued in Chinese

CHUNGHWA PICTURE TUBES, LTD. AND SUBSIDIARIES

CONSOLIDATED 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)	\$88,970,518	100.00	\$77,014,170	100.00
OPERATING COSTS:				
COST OF GOODS SOLD (Notes 4 and 5)	(79,017,354)	(88.81)	(68,713,628)	(89.22)
GROSS PROFIT INCLUDED UNREALIZED INTERCOMPANY PROFIT	9,953,164	11.19	8,300,542	10.78
UNREALIZED INTERCOMPANY (PROFIT) LOSS-NET	(1,532)	-	249	-
NET GROSS PROFIT	9,951,632	11.19	8,300,791	10.78
OPERATING EXPENSES: (Notes 4 and 5)				
Selling and marketing	(1,119,950)	(1.26)	(1,198,125)	(1.56)
General and administrative	(1,548,000)	(1.74)	(1,250,143)	(1.62)
Research and development	(3,021,853)	(3.40)	(2,144,227)	(2.78)
Total	(5,689,803)	(6.40)	(4,592,495)	(5.96)
OPERATING INCOME	4,261,829	4.79	3,708,296	4.82
NON-OPERATING INCOME:				
Interest income	174,512	0.20	219,521	0.28
Investment income recognized by equity method (Notes 2 and 4)	151,280	0.17	197,797	0.26
Gain on disposal of property, plant and equipment-net (Note 2)	60,572	0.07	-	-
Gains on foreign currency exchange-net (Note 2)	542,746	0.61	-	-
Reversal of provision for loss on decline in market value of inventory-net (Notes 2 and 4)	360,000	0.40	-	-
Others	1,040,583	1.17	382,756	0.50
Total	2,329,693	2.62	800,074	1.04
NON-OPERATING EXPENSES AND LOSSES:				
Interest expenses	(1,358,155)	(1.53)	(1,568,492)	(2.04)
Loss on disposal and decline in market price of short-term investments-net (Notes 2 and 4)	(192,041)	(0.22)	(445,699)	(0.58)
Loss on disposal of property, plant and equipment-net (Note 2)	-	-	(457,480)	(0.59)
Loss on foreign currency exchange-net (Note 2)	-	-	(658,269)	(0.86)
Loss on decline in market value and obsolescence of inventory-net (Notes 2 and 4)	-	-	(41,829)	(0.05)
Loss on disposal of other assets (Notes 2 and 4)	(1,377,240)	(1.55)	(262,076)	(0.34)
Provision for loss on impairment in value of property, plant and equipment (Notes 2 and 4)	(2,096,515)	(2.36)	(3,232,963)	(4.20)
Others	(117,583)	(0.13)	(941,985)	(1.22)
Total	(5,141,534)	(5.79)	(7,608,793)	(9.88)
INCOME (LOSS) BEFORE INCOME TAX AND MINORITY INTERESTS	1,449,988	1.62	(3,100,423)	(4.02)
INCOME TAX EXPENSES (Notes 2 and 4)	(289,792)	(0.33)	(237,399)	(0.31)
MINORITY INTERESTS	(212,070)	(0.24)	(104,782)	(0.14)
NET INCOME (LOSS)	\$948,126	1.05	\$(3,442,604)	(4.47)
EARNINGS (LOSS) PER SHARE AVAILABLE TO COMMON STOCKHOLDERS				
(IN NTD)				
BASIC	\$0.18		\$(0.74)	
DILUTED	\$0.16		\$(0.74)	

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

English Translation of Financial Statements Originally Issued in Chinese  
 CHUNGHWA PICTURE TUBES, LTD. AND SUBSIDIARIES  
 CONSOLIDATED 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			UNREALIZED LOSS ON LONG- TERM INVESTMENTS	CUMULATIVE TRANSLATION ADJUSTMENTS	EXCESS OF ADDITIONAL PENSION LIABILITY OVER		TREASURY STOCK	TOTAL
	CAPITAL STOCK	ADDITIONAL PAID-IN CAPITAL	RESERVE FOR ASSETS REVALUATION	GAIN ON DISPOSAL OF ASSETS	TREASURY STOCK	LONG-TERM INVESTMENTS	LEGAL RESERVE	SPECIAL RESERVE	UNAPPROPRIATED EARNINGS (accumulated deficits)			UNRECOGNIZED PRIOR SERVICE COST	TREASURY STOCK		
Balance at January 1, 2002	\$43,752,748	\$396,879	\$594,245	\$79,286	\$-	\$804	\$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				(79,286)			(4,073,997)	(185,502)	4,338,785					-	
Net loss for 2002									(3,442,604)					(3,442,604)	
Convertible bonds converted into common stock	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 (Notes 2 and 4)										(70,041)				(70,041)	
Cumulative translation adjustments-net of tax (Notes 2 and 4)											115,023			115,023	
Excess of additional pension liabilities over unrecognized prior service cost (Note 4)												(31,825)		(31,825)	
Transfer of treasury stock (Note 4)									(120,279)				950,988	830,709	
Acquisition of Treasury Stock (Notes 2 and 4)													(1,039,743)	(1,039,743)	
Balance at December 31, 2002	51,062,011	6,175,004	594,245	-	-	804	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		(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 in premium	2,000,000	955,301												2,955,301	
Unrealized loss on long-term investment (Notes 2 and 4)										201,615				201,615	
Deferred tax arising from revaluation of land			(29,229)											(29,229)	
Adjustment of unappropriated earnings arising from changes in ownership percentage in investees accounted for under the equity method (Note 2)						(804)			(8,168)					(8,972)	
Cumulative translation adjustments-net of tax (Notes 2 and 4)											(397,111)			(397,111)	
Excess of additional pension liabilities over unrecognized prior service cost (Note 4)												(116,791)		(116,791)	
Transfer of treasury stock (Note 4)					744								207,256	208,000	
Acquisition of treasury stock (Notes 2 and 4)													(207,256)	(207,256)	
Balance at December 31, 2003	\$58,908,629	\$9,553,560	\$565,016	\$-	\$744	\$-	\$-	\$-	\$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 consolidated financial statements.

English Translation of Financial Statements Originally Issued in Chinese  
 CHUNGHWA PICTURE TUBES, LTD. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
 (Expressed in Thousands of New Taiwan Dollars)

	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$948,126	\$(3,442,604)
Minority interests	212,070	104,782
Total	1,160,196	(3,337,822)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Exchange rate effect	67,773	(3,782)
Depreciation (Note 2)(including provision for loss on impairment in value of property, plant and equipment amounting 2,096,515 and 3,232,963 in 2003 and 2002, respectively)	12,892,493	12,802,145
Amortization (Note 2)	940,142	527,528
Investment income recognized by equity method, net (Note 4)	(151,280)	(197,797)
Cash dividend received from long-term investee accounted for under equity method	48,000	87,993
Provision for diminution in value of investment in quoted shares	217,346	436,657
Transfer of property, plant and equipment to expense	193,270	209,792
Loss on disposal of property, plant and equipment (Note 2)	(60,572)	457,480
Loss on disposal of other assets	1,377,240	262,076
Forfeited interest on convertible bonds	36,881	7,677
Change in operating assets and liabilities:		
Decrease in notes receivable	252,489	387,068
Increase in accounts receivable-trade	(3,510,943)	(1,833,131)
Increase in due from affiliates-trade	(915,442)	(477,392)
(Increase) decrease in forward exchange contract receivable-net	4,566	(4,566)
Increase in accounts receivable-others	(274,497)	(208,507)
(Increase) decrease in inventories	540,693	(2,294,752)
Increase in prepayments	(7,317)	(25,593)
(Increase) decrease in deferred tax assets	292,219	(63,651)
Increase in accounts payable	6,632,240	1,149,654
Decrease in due to affiliates-trade	(1,454,869)	(451,370)
Increase (decrease) in accounts payable-others	2,261,883	(304,620)
Increase (decrease) in accrued expenses	(129,032)	132,263
Decrease in income tax payable	(183)	(56,073)
Increase in accrued pension liabilities (Note 2)	323,924	252,797
Payments for pension	(155,182)	(126,303)
Increase in compensation interest payable	86,578	161,433
(Increase) decrease in deferred debits	1,532	(249)
Increase (decrease) in deferred tax liability	(943,809)	313,440
Net cash provided by operating activities	19,726,339	7,802,395
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
(Increase) decrease in pledged time deposits	11,550	(38,100)
Increase in long-term investments	-	(23,217)
Increase in due from affiliates-others	(3,371)	(823)
Increase in short-term investments-net	(62,166)	(961,447)
(Increase) decrease in other financial assets	139,120	(139,120)
Increase in deferred charges	(419,820)	(701,520)
Proceeds from disposal of property, plant and equipment	850,510	822,232
Additions to property, plant and equipment	(25,300,869)	(10,689,378)
Increase in refundable deposits	(29,321)	(8,965)
(Increase) decrease in long-term receivable	1,849	(15,368)
Decrease in other assets-others	-	1,779,173
Net cash used in investing activities	(24,812,518)	(9,976,533)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Issuance of bonds payable	-	7,827,850
Increase (decrease) in short-term bank loans	2,822,963	(5,415,126)
Increase (decrease) in due to affiliates-others	150,275	(48,807)
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	16,665,749	7,595,795
Repayments of long-term bank loans	(11,274,887)	(7,450,200)
Decrease in long-term deferred revenue	(515)	(119,983)
Decrease in other current liabilities	(623,730)	(566,558)
Increase (decrease) in other current liabilities-due to affiliates	(2,287)	2,425
Increase in long-term payable	-	10,466
Investment of minority interest	27,858	565,614
Capital increase by cash in premium	10,526,702	9,969,600
Transfer of common stock	208,000	830,709
Acquisition of common stock	(207,256)	(1,039,743)
Net cash provided by financing activities	13,670,437	9,662,042
EXCHANGE RATE EFFECT	(684,428)	(933,005)
INCREASE IN CASH AND CASH EQUIVALENTS	7,899,830	6,554,899
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	19,466,894	12,911,995
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$27,366,724	\$19,466,894
<b>SUPPLEMENT DISCLOSURES OF CASH FLOWS INFORMATION:</b>		
Interest expenses paid (excluding interest capitalized)	\$1,209,233	\$1,515,673
Income tax paid	\$928,375	\$4,420
<b>INVESTING AND FINANCING ACTIVITIES NOT AFFECTING CASH FLOWS:</b>		
Current portion of long-term debt	\$3,323,940	\$8,999,596
Property, plant and equipment transferred to fixed assets held for sale	\$122,033	\$1,910,374
Conversion of convertible bonds into common shares	\$1,337,600	\$3,117,788
Fixed assets held for sale transfer to property, plant and equipment	\$-	\$942,004

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

English Translation of Financial Statements Originally Issued in Chinese

CHUNGHWA PICTURE TUBES, LTD. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

(Expressed in thousand of New Taiwan Dollars Except Par Value or Unless Stated Otherwise)

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

1. ORGANIZATION OPERATIONS AND PRINCIPLES OF CONSOLIDATION

- (1) Chunghwa Picture Tubes, Ltd. (“CPT”) was incorporated under the Company Law of the Republic of China (“ROC”) on May 4, 1971. The CPT was permitted to list its shares on the ROC Gre Tai Securities Market (“GTSM”; formerly known as Over – The – Counter Securities Exchange) on March 2, 2000 and began trading on the Taiwan Securities Exchange (“TSE”) on September 17, 2002. On October 3 2003, CPT listed its shares on the Luxembourg Stock Exchange (“LSE”) in the form of Global Depository Shares (GDSs).
- (2) The Company are one of the world’s leading manufactures of devices for PCs, notebooks, television and other electronics products.  
The principal products of Company consist of display devices that employ thin-film transistor liquid crystal display, or TFT-LCD, cathode ray tube, or CRT, and plasma display panel, or PDP, technologies.
- (3) The CPT has a number of subsidiaries and equity investments. The following table sets forth information as of December 31, 2003 regarding its principal subsidiaries of which are included in the consolidated financial statements.

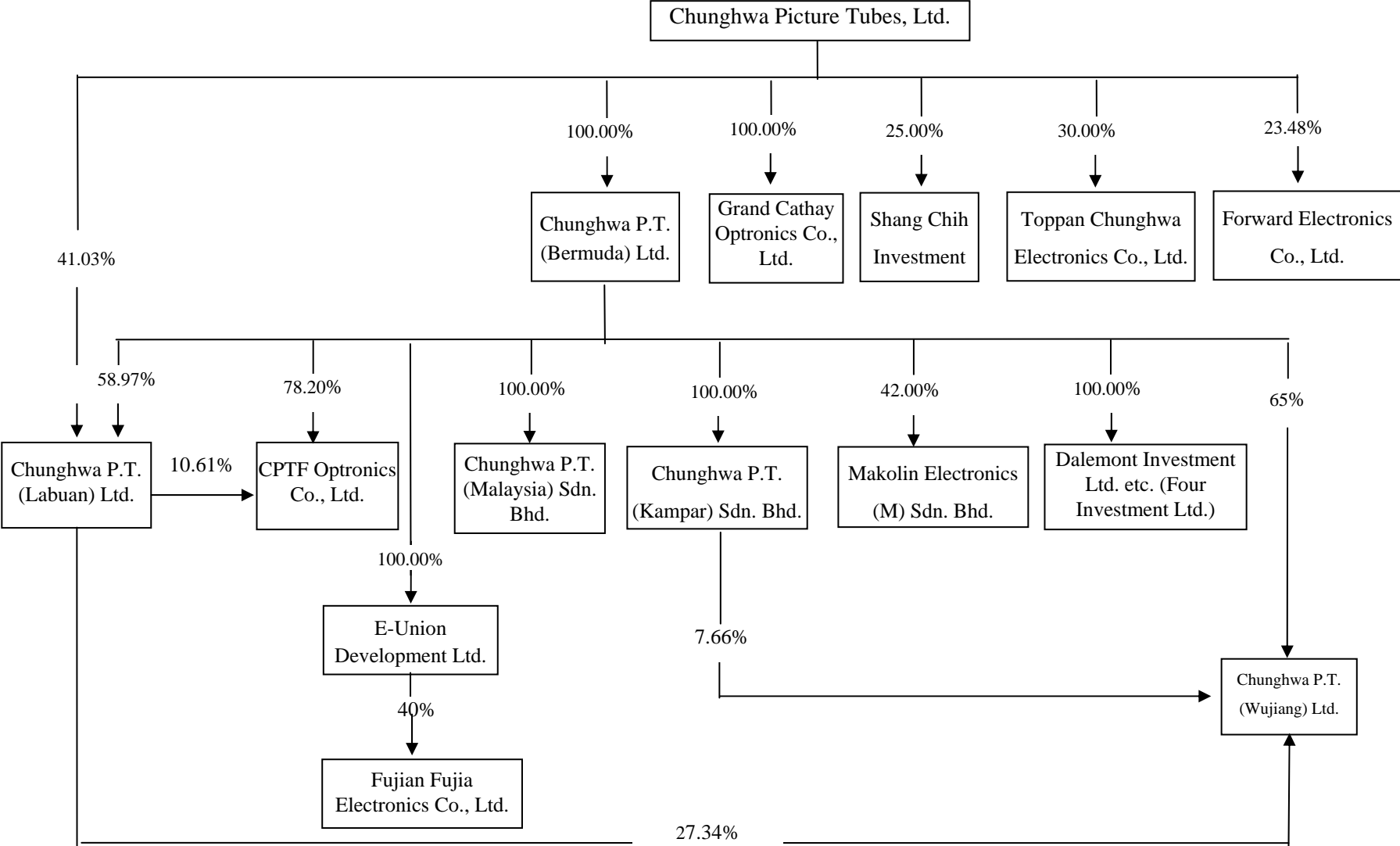
<u>Company’s Name</u>	<u>Business Activities</u>
Chunghwa P.T. (Bermuda) Ltd. and its Subsidiaries:	
Chunghwa P.T. (Bermuda) Ltd.	Investment holding
CPTF Optronics Co., Ltd.	Manufacture and sale of monochrome/color display tubes
Chunghwa P.T.(Wujiang) Ltd.	Manufacture and sale of TFT-LCD products
Chunghwa P.T. (Malaysia) Sdn. Bhd.	Manufacture and sale of color cathode ray tubes
Chunghwa P.T. (Kampar) Sdn. Bhd.	Manufacture and sale of color electron guns and

	parts
Chunghwa P.T. (UK) Ltd.	Manufacture and sale of color cathode ray tubes
Dalemont Investment Ltd.	Investment holding
Daliant Investment Ltd.	Investment holding
Bangalor Investment Ltd.	Investment holding
Bensaline Investment Ltd.	Investment holding
E-Union Development Limited	Investment holding
Chunghwa P.T. (Labuan) Ltd.	Investment holding
Grand Cathay Optronics Co., Ltd.	Manufacture and sale of PDP Set

The consolidated financial statements include the accounts of CPT and the aforementioned subsidiaries, hereinafter, referred to collectively as the “Company”.

Minority interest in CPTF Optronics Ltd. (11.19%) is presented as a separate line item in the consolidated financial statements.

The following diagram presents information regarding the relationship and ownership percentage among CPT and subsidiaries (the “Company”) as of December 31, 2003:



- (4) As of December 31, 2003 and 2002, the CPT and subsidiaries employed 18,454 and 18,889 employees, respectively.
- (5) There are no subsidiaries of which the financial statements are not included in the consolidated financial statements of the Company.
- (6) The accounting periods of the subsidiaries are the same as those of the CPT.
- (7) There are no specific risk factors associated with the business operations of foreign subsidiaries.
- (8) There has been no change in the reporting entity of the consolidated financial statements.
- (9) There is no restriction regarding the distribution of earnings from the subsidiaries.
- (10) Other significant items: None.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements were prepared in conformity with the Criteria Governing the Preparation of Financial Reports by Securities Issuers (“Criteria”) and generally accepted accounting principles in the Republic of China. (“ROC GAAP”)

The significant accounting policies are summarized as follows:

### (1) Basis of Consolidation

- ① CPT consolidates the accounted certain majority owned (50% or more) subsidiaries in accordance with accounting principles generally accepted in the Republic of China. Pursuant to ROC GAAP, if the total assets and operating revenues of a subsidiary are less than 10% of the total assets and operating revenues of the CPT, the subsidiary’s financial statements may, at the option of the CPT, not be consolidated. When the total combined assets or operating revenues of all such unconsolidated subsidiaries equal to or exceed 30% of the CPT’s total assets or operating revenues, then all such unconsolidated subsidiary with total assets or operating revenues up to 3%, including 3%, of the CPT’s total assets or operating revenues has to be included in the consolidation. Such subsidiaries are included in the consolidated financial statements until the percentage of the combined total assets or operating revenues for all such unconsolidated subsidiaries decreases to 20%, including 20%, of the CPT’s total assets

or operating revenues.

- ② The difference between the acquisition cost of investment in subsidiaries and the net worth of the subsidiaries being consolidated is amortized over 5 years.

(2) Translation of Foreign Currency Financial statements

- ① In the preparation of the consolidated financial statements, the financial statements of the foreign subsidiaries have been translated from their respective currencies to New Taiwan dollars as follows:

- (a) all assets and liabilities at exchange rates approximating those prevailing at the respective balance sheet dates;
- (b) all stockholders' equity accounts at historical exchange rates, except that retained earnings are brought forward from last year;
- (c) dividend income at exchange rate prevailing at the declaration date; and
- (d) profit and loss items at average exchange rates for the financial year;

The gains or losses, net of tax, resulting from the translation, are recorded in a separate component of stockholders' equity and be reported as part of the gains or losses upon sale or liquidation of subsidiaries.

- ② The exchange rates used in the translation of foreign subsidiaries' financial statements are as follows:

	Rate at balance sheet date		Average rate for the year	
	12.31.2003	12.31.2003	2003	2002
United States dollars	33.998	34.78	34.4131	34.5687

(3) Foreign currency transactions

Foreign currency transactions are recorded in New Taiwan dollars at the exchange rate prevailing at the transaction dates. The resulting exchange gains or losses from settlement of such transactions are reflected in the accompanying consolidated statements of operations. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate prevailing on that date. The resulting exchange gains or losses are credited to or charged against the current income.

For translation of foreign currency financial statements of subsidiaries, please see Note 2 (2)

above.

(4) 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.

(5) Short-term Investments

Short-term investments, which consist primarily of marketable securities such as publicly listed trading equity securities and open-end bond mutual funds, 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.

(6) Allowance for Doubtful Accounts

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

(7) Inventories

Inventories are recorded at cost when acquired and are stated at the lower of 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. An allowance for loss on decline in market value and obsolescence is provided, when necessary.

(8) Long-term Investments

Investments in which the Company owns 20% or more of the voting shares of investees, or investments in which the Company owns less than 20% of the investee's voting shares but the Company is able to exercise significant influence over the investee's operational decisions, are accounted for by the equity method. When there is difference between the investment cost and the share of net assets of equity investees upon acquisition, if 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 carrying value over market value of land is charged to profit upon the revaluation of or

the disposal of such land. When dividends are received or receivable from the investees, such amounts are credited to investment cost.

When the Company subscribes to additional investee shares at a percentage different from its existing equity interest, the resulting difference between the carrying amount of investment in equity investee and the amount of the Company proportionate share in the investee net equity is recorded as an adjustment to capital reserves. If the capital reserves is not sufficient, then the excess will be charged to retained earnings. If the investees have new addition of capital reserves, the Company will take the proportionate share and record it in its owned investments account and capital reserves account.

Unrealized intercompany gains and losses resulting from transactions between the CPT and investee are eliminated accounted for under the equity method. The profits or losses from sales of depreciable assets between the investee and the CPT is amortized and intercompany transactions is recognized when realized.

Investments in which the Company owns less than 20% of the voting shares of investees and the Company does not have significant influence over the investee's operational decisions are stated at cost except for investments in publicly listed trading companies, which are stated at lower of aggregate cost or market value, with unrealized loss, net of tax, recorded as a separate component of stockholders' equity. If the Company receives cash dividends from the investees, the amount received will be treated as non-operating income. If there is permanent diminution in value of investment, then the Company will recognize it as non-operating loss.

When the Company receives stock dividends from the investees, no accounting entry is considered necessary. When long-term investment is sold, the costs of investments sold are determined using the weighted-average method.

(9) Property, Plant and Equipment & Assets held for disposal

- a. Property, plant and equipment are stated at cost plus revaluation increment.
- b. Major renewals and improvements are capitalized, while ordinary maintenances and repairs are expensed as incurred.
- c. Gains or Losses from impairment or disposal of property, plant and equipment are recorded as non-operating income or expenses.
- d. Fixed assets held for sale are classified as other assets and stated at a value equal to the

lower of net realizable value or net book value. When the asset has no net realizable value, the net book value of the assets is written off.

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

	<u>The CPT and subsidiaries</u>
Buildings	3-60 Years
Machinery and equipment	3-12 Years
Transportation equipment	5-7 Years
Furniture and fixtures	4-12 Years
Miscellaneous equipment	5-10 Years

Additional depreciation is provided on the remaining salvage value of fully depreciated property, plant and equipment that are still in use over their remaining estimated economic lives.

- f. Interest expenses incurred in the period when such fixed assets are in construction or installation are capitalized.

(10) Land use rights

Land use rights are amortized over the period of the lease term of 50 years starting from the commencement of operation.

(11) Deferred charges

Deferred charges, including technical cooperation fees, purchase software license, expenses for extension of electricity wiring and bond issue cost etc., are recorded at cost and amortized over 3~10 years using straight-line method.

(12) Convertible Bonds

- a. When convertible bonds are redeemed before the expiry date of redemption period, the excess of the stated redemption price over the par value is recognized as interest expense and interest payable using the interest method during the redemption period. If the holder of convertible bonds does not exercise the put option by the expiry date, the Company should amortize the interest premium, which has been recognized as a liability, over the period from the put option's expiration to the maturity date by using the interest method.

- b. The book value approach is adopted when an investor exercises his/her conversion rights, where the bonds payable and related interest payable are transferred to common stock and capital reserves and there is no gain or loss resulted from such conversion.
- c. The related issuance costs for convertible bonds are recorded as deferred charges and are amortized over the period from its issuance date to the expiry date of the put option.

(13) Pension and employee retirement plans

- a. The CPT's pension plan is defined benefit plan. At each balance sheet date, it obtains the professional actuarial report from which it extracts related information of pension assets and liabilities for disclosure purpose. In addition, it also relies on the professional actuarial report to record the net pension cost in the statement of operation. The unrecognized net transition obligation is amortized over 15 years using the straight-line method.
- b. The pension plan of Chunghwa P.T. (Malaysia) Sdn. Bhd. and Chunghwa P.T. (Kampar) Sdn. Bhd. is both defined contribution plan. The subsidiaries are required to make contributions to the pension fund as administered by the local governments. When employees retire, they are paid directly by the local governments.
- c. According to the retirement law of People's Republic of China ("PRC"), CPTF Optronics Co., Ltd. and Chunghwa P.T. (Wujiang) Ltd. are required to make monthly contribution, based on employees' position, to government of PRC designated accounts which are administered by the government labor department of PRC. The government of PRC also designated pension funds are separated from the subsidiaries and any surplus or deficits in the pension funds has no effect on these subsidiaries.
- d. Chunghwa P.T. (UK) Ltd. has established a defined contribution retirement plan, a fixed percentage of total employee salaries and wages is contributed to a specific employees' account. There are no further pension liabilities.

(14) Treasury Stock

When treasury stock is purchased, it is recorded at cost. When treasury stock is obtained through donation, it is recorded at market value. Gain or loss of selling treasury stock is treated as an adjustment to capital reserves. If the loss exceeds capital reserves, the excess

is charged to retained earnings. Treasury stock is shown as a deduction to stockholders' equity.

(15) 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 for deferred tax assets will be set up their possibility of realizability. 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 asset or liability cannot be related to an asset or liability in the financial statement, then it should be classified as current or non-current based on the expected length of time before it is recovered. The income tax expense (benefit) for unrealized gains or losses that are not included in net income for the period, but are reported directly in the stockholders' equity section should be debited or credited directly to stockholders' equity item.

Any tax credits arising from purchases of machinery, equipment and technology, research and development expenditures, and personnel training are recognized using the current method.

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 on undistributed earnings is recorded as income tax expense in the year of shareholder approval.

(16) Derivative financial instruments

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

(17) Earnings (loss) per common share

Earnings (loss) per share ("EPS") of common stock is computed by dividing net income (loss) for common stockholders by the weighted average number of common shares outstanding during the period on basic and diluted basis.

The Company's potentially dilutive securities include potential common shares related to the Company's convertible bonds and employee stock options. Only basic EPS will be disclosed if there is no dilutive effect of convertible bonds and employee stock options. If a potential dilutive effect from the convertible bonds and employee stock options exist upon conversion of those bonds and exercise options to common stock, both Basic EPS and Diluted EPS will be disclosed.

Whenever there are capital increases arising from transfer of retained earnings, capital reserves and bonuses to employees, the weighted-average outstanding shares are adjusted retroactively.

(18) 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	\$3,079	\$2,578
Cash in banks-checking and saving account	18,658,829	12,658,181
Cash in banks-time deposits	7,588,646	5,210,719
Cash equivalents:		
ROC Government bonds acquired under repurchase agreement	616,121	269,953
Short term commercial papers	500,049	1,325,463
Total	<u>\$27,366,724</u>	<u>\$19,466,894</u>

(2) Short-term investments

	December 31,			
	2003		2002	
	Cost	Market value	Cost	Market value
Open-end bond mutual funds	\$1,023,613	\$1,071,918	\$865,731	\$848,220
Publicly listed trading equity securities	-	-	114,133	113,227
Total	1,023,613	<u>\$1,071,918</u>	979,864	<u>\$961,447</u>
Less: Allowance for decline in market value	-		(18,417)	
Net	<u>\$1,023,613</u>		<u>\$961,447</u>	

- a. The market value of publicly listed trading equity securities is determined by the average closing price during the last month of the fiscal year.
- b. The market value for open-end bond mutual funds is determined by their net value 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	\$19,619,359	\$16,884,476
Less: Allowance for doubtful accounts	(426,693)	(1,202,753)
Net	<u>\$19,192,666</u>	<u>\$15,681,723</u>
Due from affiliates-trade	\$2,644,234	\$1,744,292
Less: Allowance for doubtful accounts	(2,500)	(18,000)
Net	<u>\$2,641,734</u>	<u>\$1,726,292</u>

(4) Other financial assets

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

The Company's investments in credit-linked notes (CLN) –overseas convertible bonds swaps were purchased from Yuanta Asset Management Limited (Yuanta) of R.O.C. According to the swap contracts, the Company is entitled to receive interest income from Yuanta. About the risk of Credit-linked notes we describe above, please see Note 10.

(5) Inventories

	December 31,	
	2003	2002
Raw materials and supplies	\$4,868,191	\$3,837,423
Work in process	1,752,685	2,699,670
Finished goods	1,557,099	2,138,876
Raw materials in transit	89,389	492,088
Total	8,267,364	9,168,057
Less: Allowance for the decline in market value or obsolescence of inventory	(110,000)	(470,000)
Net	\$8,157,364	\$8,698,057
Insurance coverage on inventories	\$7,745,566	\$5,656,905

(6) Long-term investments

a. Details of long-term investments are as follows:

Investee	December 31,		Percentage of ownership or voting rights		Valuation method
	2003	2002	2003	2002	
<u>Listed Company:</u>					
Country Heights Holding Berhad	\$1,577,205	\$1,794,551	17.41%	17.41%	Lower of cost or market value
Less: Allowance for loss on long-term investments	(1,180,833)	(1,221,345)			
Add: Foreign currency translation adjustment	(54,479)	(17,138)			
Net	341,893	556,068			
Tatung Co., Ltd.	5,238,780	5,238,780	5.23%	5.23%	Lower of cost or market value
Less: Allowance for loss on long-term investments	(2,798,852)	(3,002,857)			

Add: Foreign currency translation adjustment	<u>(134,020)</u>	<u>(30,152)</u>
Net	<u>2,305,908</u>	<u>2,205,771</u>
Subtotal	<u>2,647,801</u>	<u>2,761,839</u>

Unlisted Company:

Shang Chin Investment Co., Ltd.	35,050	31,157	25.00%	25.00%	Equity method
Forward Electronics Co., Ltd.	412,289	397,930	23.48%	24.22%	Equity method
Makolin Electronics (M) Sdn. Bhd.	103,465	132,947	42.00%	42.00%	Equity method
Toppan Chunghwa Electronics Co., Ltd.	802,197	677,451	30.00%	30.00%	Equity method
Fujian Fujia Electronics Co., Ltd.	-	23,217	40.00%	40.00%	Equity method
Country Heights Golf Resort Sdn.Bhd.	185,425	185,425	10.00%	10.00%	Cost method
Fujian JVC Electronics Co., Ltd.	70,014	70,014	10.00%	10.00%	Cost method
Add: Foreign currency translation adjustment	<u>(7,363)</u>	<u>(1,657)</u>			
Subtotal	<u>1,601,077</u>	<u>1,516,484</u>			
Total	<u>\$4,248,878</u>	<u>\$4,278,323</u>			

- b. We did not audit the financial statements of the certain equity-basis invested companies- Toppan Chunghwa Electronics Co., Ltd. and Makolin Electronics (M) Sdn. Bhd. As of and for the year ended December 31, 2003, these investment balances accounted for under the equity method amounted to \$905,662 thousand as of December 31, 2003 and related investment income of \$145,928 thousand recognized for the year then ended.
- c. The E-union Developments Ltd. limited its carrying amount of long-term investment accounted for under equity method-Fujian Fujia Electronics Co., Ltd. equal to zero as of December 31, 2003 after recognized accumulated investment loss for 2003 from the investee has exceeded carrying amount of the investment.
- d. On October 8, 2003, the stockholders meeting of CPTF Optronics Co., Ltd. resolved to investment in CPTF Visual Display (Fuzhou) Ltd.
- e. Chunghwa P.T. (Malaysia) made a provision for permanent diminution in value of long-term investments in Country Heights Holding Berhad totaling \$217,346 and \$436,657 in 2003 and 2002, respectively.
- f. The CPT indirectly invested, through several intermediary investment companies incorporated in Bermuda, Labuan and other countries, wholly-owned subsidiaries of CPT, CPTF Optronics Co., Ltd. (formerly known as Chunghwa P.T. (Fuzhou) Ltd.), Chunghwa P.T. (Wujiang) Ltd., Fujian Fujia Electronics Co., Ltd. and Fujian JVC Electronics Co., Ltd. in PRC. The above investment has been approved by the Foreign Investment of Affairs of Ministry of Economic (MOE), R.O.C.

- g. 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:

	Subsidiary of the Company		CPT	
	Stock of Tatung Co.	Stock of Country Heights Holding Berhad	Stock of Tatung Co.	Total
Balance at January 1, 2002	\$1,959,440	\$1,335,256	\$858,184	\$4,152,880
Increase (Recovery) in the 2002	119,033	(113,910)	66,200	71,323
Balance at December 31, 2002	2,078,473	1,221,346	924,384	4,224,203
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 in 2003	(131,097)	(40,513)	(72,908)	(244,518)
Balance at December 31, 2003	1,947,376	1,180,833	851,476	3,979,685
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 cumulative translation adjustments are as follows:

	Subsidiaries of the Company		CPT	
	Chunghwa P.T. (Bermuda) Ltd.	Chunghwa P.T. (Labuan) Ltd.	Forward Electronics Co., Ltd.	Total
Balance at January 1, 2002	\$1,630,840	\$180,017	\$-	\$1,810,857
Increase (decrease) in 2002	151,236	(3,986)	4,585	151,835
Balance at December 31, 2002	1,782,076	176,031	4,585	1,962,692
Less: related tax effect	(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
Decrease in 2003	(502,283)	(25,734)	(1,098)	(529,115)

Balance at December 31,2003	1,279,793	150,297	3,487	1,433,577
Less: related tax effect	(319,948)	(37,574)	-	(357,522)
Net	\$959,845	\$112,723	\$3,487	\$1,076,055

(7) Property, plant and equipment

- a. According to the government's regulation on asset revaluation, the CPT revalued its property, plant and equipment in 1978, 1979, and 1981. As a result \$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 reserves. As of December 31, 2003, the revalued assets amounted to \$57,192.
- b. In accordance with government regulations in Malaysia, Chunghwa P.T. (Malaysia) revalued its land with a revaluation increase of \$930,865 (USD27,380), which was added to total asset and credited to capital reserves.
- c. The insurance coverage on property, plant and equipment at December 31, 2003 and 2002 was \$74,084,916 and \$81,860,915, respectively.
- d. CPTF Optronics Co., Ltd. and Chunghwa P.T. (UK) Ltd. made a provision for impairment loss on property, plant and equipment totaling \$2,096,515 and \$3,232,963 in 2003 and 2002, respectively.
- e. Interest expense (before deducting capitalized amounts of \$156,432 and \$129,378 in 2003 and 2002, respectively) for the years ended December 31, 2003 and 2002 was \$1,514,587 and \$1,697,870, respectively. The interest rates of capitalized interest for the years ended December 31, 2003 and 2002, were 1.80%~3.924% and 3.24%~4.584%, respectively.

(8) Deferred charges

	December 31,	
	2003	2002
Technical cooperation fee (CRT modes)	\$-	\$159,415
Technical cooperation fee (TFT-LCD modes)	563,044	714,995
Technical cooperation fee (PDP modes)	821,292	914,902
Water pipes installation fee etc.	16,386	75,436
Expense of bonds issue	98,802	156,060
Others	82,948	70,041
Total	<u>\$1,582,472</u>	<u>\$2,090,849</u>

(9) Other assets – other

	December 31,	
	2003	2002
Land		
Padeh, Taoyuan, Taiwan, R.O.C	\$247,992	\$247,992
Yangmei, Taoyuan, Taiwan, R.O.C	36,292	36,292

Assets held for sale	10,670	1,575,513
Less: allowance for loss on valuation	-	(262,076)
Total	<u>\$294,954</u>	<u>\$1,597,721</u>

- a. As of December 31, 2003, due to legal restriction of R.O.C, the CPT had not been able to register as the legal owner of certain part (3.150323 hectares) of the farm lands as purchased by the CPT. Accordingly, such lands were temporarily held in trust by third parties. However, in order to protect the CPT's interest, it 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 CPT began to relocate some of its production equipments to CPTF Optronics Co., Ltd. or decided to sell them. Such equipments were recorded as other assets held for sale at the lower of net realizable value and carrying value on the book. CPT made a written off and recorded loss on disposal of other assets totaling \$1,377,240 for the year ended December 31, 2003.

(10) Short-term bank loans

Items	December 31,		Collateral
	2003	2002	
Usance L/C loan	\$1,147,710	\$268,772	None
Credit loan	2,565,981	621,956	"
Total	<u>\$3,713,691</u>	<u>\$890,728</u>	
Interest rates	<u>0.43%~1.8879%</u>	<u>0.45%~5.00%</u>	

(11) Bonds payable

	December 31,	
	2003	2002
Zero Euro 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 bonds payable at 8.1%	-	2,500,000
Total	4,424,387	10,444,481
Less: current portion of bonds payable	-	<u>(2,500,000)</u>

Net	<u>\$4,424,387</u>	<u>\$7,944,481</u>
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The significant terms of the Euro convertible bonds are as follows:

	Issued in 2002 and due 2007 at zero	Issued in 2002 and due 2007 at 0.25%
Amount	USD80,000 thousand	USD143,750 thousand
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 Luxemburg Stock Exchange	Europe, Asia and Luxemburg Stock Exchange
Coupon rate	-	0.25%
Conversion period	Bondholders may convert the bonds to the CPT's common shares 30 days after the issuance or 30 days before maturity of the bonds. The number of common shares (or the number of the certificates) received 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 USD1)	Bondholders may convert the bonds to the CPT's common shares 30 days after the issuance or 30 days before maturity of the bonds. The number of common shares received 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 USD1)

Conversion price and adjustment	The conversion price is \$45 per share and will be adjusted if number of the CPT's common stocks changes after the issuance of the bonds. As of December 31, 2003, the conversion price is \$34.61 per share.	The conversion price is \$15.53 per share and will be adjusted if number of the CPT's common stocks changes after the issuance of the bonds. As of December 31, 2003, the conversion price is \$15.36 per share.
Company's redemption rights	<p>① After 2 years of issuance of bonds, the CPT may redeem the bonds at 100% of the unpaid principle amount outstanding if the closing price of the CPT's common stock on 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 USD5,000 thousand or below.</p> <p>② The CPT 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 CPT.</p>	<p>① After 2 years of issuance of bonds, the CPT may redeem the bonds at 100% of the unpaid principle amount outstanding if the closing price of the CPT'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 USD5,000 thousand or below.</p> <p>② The CPT 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 CPT.</p>

Bondholders' option rights	<p>① After the issuance of 2 years and 3 years, the bondholders have the right to require the CPT to repurchase the bonds at a price equal to 109% and 100%, respectively.</p> <p>② The bondholders may demand the CPT to redeem the bonds if trading of the CPT's shares are restricted on the GTSM or TSE.</p>	<p>① After the issuance of 14 months and 3 years, the bondholders have the right to require the CPT to repurchase the bonds at a price equal to 103.84% and 110.19%, respectively.</p> <p>② The bondholders may demand the CPT to redeem the bonds if trading of the CPT's shares are restricted on the GTSM or TSE.</p>
Converting status	The CPT discharged the bonds amounted to USD62,900 thousand.	Bond amount to USD36,780 thousand was converted by bondholders' into 84,661,771 preference shares.

To obtain funds for long-term working capital needs and to improve financial structures, the CPT issued unsecured R.O.C 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 has been be repaid in two equal annual installments on December 16, 2003 and December 16, 2002, respectively.

(12) Long-term bank loans

	December 31,	
	2003	2002
Long-term secured loan	\$9,332,451	\$18,100,870
Long-term unsecured loan	24,178,182	10,393,043
Total	33,510,633	28,493,913
Less: Current portion	(3,323,940)	(6,499,596)
Net	<u>\$30,186,693</u>	<u>\$21,994,317</u>
Interest rate	<u>0.6131%~2.5423%</u>	<u>2.3026%~6.7918%</u>

① The long-term bank loans are to be repaid in NT\$ or foreign currency quarterly, or semiannually, or upon maturity before February 2010. In accordance with the loan agreements, the Company is required to maintain certain financial ratio covenants.

- ② The long-term bank loans are 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.
- ③ As of December 31, 2003 and 2002, the amounts of long-term bank loans are as follows, respectively:

	<u>Unsecured loan</u>	<u>Secured loan</u>
<u>2003.12.31</u>		
United States dollars	274,500,000	114,000,000
 <u>2002.12.31</u>		
United States dollars	236,000,000	82,220,671
Renminbi	520,000,000	145,000,000

(13) Accrued pension liability and deferred pension cost

Defined benefit plan

- a. The CPT has a funded defined benefit pension plan covering all regular employees. Effective from October 1996, as required by the Labor Standard Law of R.O.C, the CPT makes monthly contributions to the pension fund at the rate of certain percentage of base salaries as approved by the government of R.O.C. The pension fund is administered by the employee committee and deposited in the committee's name, with Central Trust of China, a government entity of R.O.C.
- b. The CPT based on annual actuarial report to provide for its pension liability. Regarding unrecognized transitional obligation, it has been amortized over 15 years using the straight-line method.
- c. The details of net pension cost 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)
Recognition of net transition assets	33,746	33,746
Amortization of prior service cost	66,634	-
Recognition of actuarial gain or loss	9,669	7,565
Total	<u>\$323,924</u>	<u>\$252,797</u>

- d. The following is a reconciliation between the fund status and amounts recognized in the balance sheet:

December 31,

	<u>2003</u>	<u>2002</u>
Pension benefit 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>

e. The major actuarial assumptions associated with pension plans are as follows:

	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>
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 year ended December 31, 2003 and 2002, vested benefits under defined benefit pension plan of the CPT totaling \$108,654 and \$47,159.

#### Defined contribution plan

Certain overseas subsidiaries' pension plan is defined contribution plan. They are required by the local regulations to make monthly contribution to the local government and those contributions are charged to current income.

#### (14) Capital

a. The authorized capital of the CPT on January 1, 2002 was \$62,000,000 with number of shares at 6,200,000,000 shares and par value at \$10 dollar. Six billion shares out of the total authorized capital were reserved for further issuance upon conversion of the convertible bonds. Four billion shares out of the total authorized capital were reserved for further issuance upon conversion of employee stock options. The total issued

capital was \$43,752,748 as of January 1, 2002.

- b. According to the terms of the Indenture governing the CPT's convertible bonds due 2006 at 0.5%, the shares issued for the conversion of these bonds on April 10, 2002 amounted to 130,926,293 shares. After the conversion, the total issued capital increased to \$45,062,011.
- c. On May 14, 2002, the CPT was authorized by the relevant government authorities of ROC to issue employee stock option plan (the "2002 plan"). The maximum number of options to be granted under the plan 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 by the CPT. The grant period for options is five years and an optionee may exercise his/her options in accordance with certain schedules as prescribed by the plan starting from two years after the grant.

Detailed information relevant to the 2002 plan is disclosed as follows:

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

- d. On May 31, 2002, the stockholders of the CPT resolved that the cumulative gain on asset disposals prior to 2000 \$79,286, together with legal reserve \$4,073,997 and special reserve \$185,502 were used to offset accumulated deficits. In addition, the CPT resolved to increase the authorized capital to \$64,100,000, divided into 6,410,000,000 shares at par value of \$10 dollar. Four billion shares out of the above total authorized capital were reserved for further issuance upon conversion of employee stock options. The Directors resolved to increase capital by cash in the form of 600 million shares R.O.C right issues and 300 million shares for Global Depository Shares (GDSs). On September 5, 2002, the 600 million shares of ROC right issues were completed at a premium price of \$16.75 dollar per share. However, due to economic downturn, the issuance of 300 million shares in the form of GDSs was cancelled. The above R.O.C right issues and cancellation of GDSs issuance were all approved by the Government of R.O.C. As of December 31, 2002, the total issued capital amounted to \$51,062,011.
- e. On June 6, 2003, the stockholders of the CPT 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. In addition, the CPT resolved to increase the

authorized capital to \$85,000,000, divided into 8,500,000,000 shares at par value of \$10 dollar. Six billion shares out of the above total authorized capital were reserved for further issuance upon conversion of employee stock options. The stockholders of the CPT also resolved to increase capital by issuing 700,000,000 new shares by cash in one-time or installments, and authorized Board of Directors to select from in the form of issuing new shares.

The Directors resolved to increase capital by cash in the form of 500 million shares R.O.C rights issued at a premium price of \$15.3 dollar per share and issued 200 million shares together with the 300 million existing outstanding shares as held by the CPT's major stockholder, Tatung Co., Ltd., was made by means of offering of GDSs. As a result, total GDSs issued was 20,000 thousand units (each unit representing 25 common shares). Such increase of capital has been approved by the Government of ROC and shares of stock were listed on the Luxembourg Stock Exchange in the form of GDSs on October 3, 2003.

On December 15, 2003, the Directors also resolved to increase capital by cash using in the form of 700 million shares ROC right offering at a premium price of \$20.6 dollar per share.

The right issue will be planed to complete on May 6, 2004.

- f. According to the terms of the Indenture governing the CPT's convertible bonds due 2007 at 0.25%, the shares issued for the conversion of these bonds into common stock were 84,661,771 shares in 2003. After the conversion, the total issued capital increased to \$58,908,629 as of December 31, 2003.
- g. The stockholders of CPTF Optronics Co., Ltd. resolved to increase capital and additional paid in capital by transfer from unappropriate earnings of RMB353,133,416 for RMB353,282,760 and RMB149,344 as of December 31, 2002, repectively.

Chunghwa Picture (Wujiang) Ltd. was increase capital by cash with USD33,000,000 and USD6,000,000 in 2003 and 2002, respectively.

#### (15) Capital Reserves

Capital reserves, including additional paid-in capital, donation receipt and other miscellaneous items resulted from applying generally accepted accounting principles in ROC, can be used to offset a deficit except for the capital reserves arising from the application of the equity method of accounting on long-term investments. Distribution of cash dividends using capital reserves is not allowed.

(16) Legal Reserve

According to the Company Law in the ROC, the CPT 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.

(17) Special reserve

In accordance with certain regulations of the ROC government, a special reserve must be provided for unrealized losses on long-term investments, excess of additional pension liability over unrecognized prior service cost, and cumulative translation adjustment that are accounted for as deductions to stockholders' equity. The reserve amount (except for the recorded cost of treasury stock) must be equal to the amount of the aforementioned deductions to stockholders' equity. Once the aforementioned deductions to stockholders' equity are reversed, the related reserve can be reversed to distributable earnings.

(18) Distributions of earnings

① Pursuant to the CPT'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 government or reverse special reserve previously provided;

(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.

② Pursuant to the PRC Law of Corporation, income after tax of CPTF Optronics' Co., Ltd. and Chunghwa Picture Tubes (Wujiang) Ltd., as determined under accounting principles

generally accepted in the PRC (“PRC GAAP”), shall be used to offset prior years’ losses, then appropriated at 10% as legal reserve and 5% as special reserve for employees’ welfare. The remaining, if any, shall be distributed and appropriated upon the resolution of shareholders’ meeting.

(19) Treasury stock

- a. The CPT purchased its own shares from open market of R.O.C in order to transfer to its employees. The ending balance of treasury stocks were as follows:

Unit: thousand shares

Number of Shares Bought Back			
Beginning	Addition	Disposal	Ending
<u>2003</u>			
53,412	16,000	16,000	53,412
<u>2002</u>			
35,051	53,412	35,051	53,412

- b. Pursuant to the resolution of the Board of Directors’ meeting of CPT held in 2000 and 2002, respectively, total treasury stocks purchased by the CPT as of December 31, 2003 were 104,463 thousand shares (amount \$2,197,987). Out of such treasury stocks, 51,051 thousand shares (amount \$1,158,244) were transferred to employees and the remaining 53,412 thousand shares (amount \$1,039,743) have not yet been transferred.
- c. According to Stock Exchange Regulations in the ROC, the CPT does not possess voting rights or rights to receive dividends for holding such treasury stocks. The treasury stocks 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 CPT is required to report to the Government of ROC to change the capital status.

(20) Personnel, depreciation and amortization expenses

	2003			2002		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
Personnel expenses:						
Salaries	4,410,271	748,171	5,158,442	4,327,453	931,837	5,259,290
Staff health insurance	185,858	52,976	238,834	180,803	66,801	247,604

Pension	417,108	112,730	529,838	289,295	65,539	354,834
Depreciation	10,499,235	296,743	10,795,978	9,250,287	318,895	9,569,182
Amortization	62,164	877,978	940,142	15,305	512,223	527,528

(21) Operating Revenue

	<u>2003</u>	<u>2002</u>
CPT and CDT	\$34,885,397	\$41,663,689
TFT-LCD	50,723,669	33,250,738
STN-LCD	462,288	367,089
PDP	2,408,504	105,219
Others	490,660	1,627,435
	<u>\$88,970,518</u>	<u>\$77,014,170</u>

(22) Income tax

- a. The ROC income tax authorities have assessed the income tax returns of the CPT through 1999.
- b. There is no taxation charge on the profit on the CPT and certain operating subsidiaries due to following:
  - ① The CPT is entitled to an income tax exemption for a period of five consecutive year for the income generated by sales of its TFT-LCD and 17 inches color display tubes. Following are details of the CPT's effective tax exemption from income tax 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 In September 2003, the CPT obtained the approval letter for claiming tax exemption in respect of setting its headquarter in Taiwan.
- ③ Chunghwa Picture Tubes (Malaysia) Sdn. Bhd. has been granted a tax holiday of five years starting from July 1, 1996 under the Promotion of Investments Act, 1986 of Malaysia for the production of color cathode ray tubes. The pioneer status has expired on June 30, 2001. Subsequently, the Chunghwa Picture Tubes (Malaysia) Sdn. Bhd. was granted extension of pioneer status for the period from July 1, 2001

to June 30, 2006.

The extension of the pioneer status granted to the Chunghwa Picture Tubes (Malaysia) is subject to fulfillment of certain conditions as below:

- (i) research and development expenses incurred must be at least 1% of the annual gross sales; and
  - (ii) the ratio of the workforce with a Degree or Diploma in Science and Technical with at least 5 years relevant working experience, must comprise at least 7% of the total workforce.
- ④ CPTF Optronics Co., Ltd. and Chunghwa Picture Tubes (Wujiang) Ltd. could be exempted from income tax in the first two profit making years, net of previous years losses, and allowed a 50% reduction in the next three years.

c. The provision for income tax expenses consisted of:

	2003	2002
Income tax-current	\$(74,092)	\$(19,714)
Income tax-deferred	2,060,220	726,192
Unrealized losses on long-term investments of overseas investee company	42,902	(1,280)
Cumulative translation adjustment	(132,004)	36,812
Increase in valuation allowance	(1,319,529)	(1,011,513)
Prior year adjustment	(863,284)	49,260
Others	(4,005)	(17,156)
Income tax expenses	<u><u>\$(289,792)</u></u>	<u><u>\$(237,399)</u></u>

d. Significant components of the Company's deferred tax assets and liabilities at fiscal year-ends were as follows:

Components	December 31,	
	2003	2002
Deferred tax assets:		
Allowance for bad debts	\$9,018	\$208,379
Employees' welfare fund	1,836	5,475
Deferred pension expense	238,400	198,028
Unrealized loss on decline in market value or obsolescence of inventory	27,500	117,500

Unrealized intercompany losses	101,446	150,041
Unrealized loss on long-term investments of overseas investee company	782,053	824,955
Unrealized loss on foreign exchange-net	58,507	61,890
Loss on valuation of property, plant and equipment	-	65,519
Investment tax credit deferred to future years	5,229,576	4,595,698
Operating loss carryforwards	1,602,545	1,366,752
Compensation interest payable	53,467	40,358
Deferred tax assets resulted from consolidated subsidiaries	31,034	11,579
Others	9,687	15,718
Valuation allowance	(5,881,278)	(4,561,749)
	<u>\$2,263,791</u>	<u>\$3,100,143</u>

Deferred tax liabilities:

Overseas investment income accounted for under equity method	\$(2,502,445)	\$(3,959,686)
Cumulative translation adjustment	(357,522)	(489,526)
Deferred income tax liabilities resulted from consolidated subsidiaries	(28,490)	(16,288)
	<u>\$(2,888,457)</u>	<u>\$(4,465,500)</u>

December 31,

	2003	2002
e. Deferred tax assets-current	\$351,733	\$1,656,991
Valuation allowance-current	(320,699)	(1,333,738)
Net deferred tax assets-current	<u>\$31,034</u>	<u>\$323,253</u>
f. Deferred tax assets-non-current	\$7,793,336	\$6,004,901
Valuation allowance-non-current	(5,560,579)	(3,228,011)
Net deferred tax assets-non-current	2,232,757	2,776,890
Deferred tax liabilities-non-current	(2,888,457)	(4,465,500)
Net deferred tax liabilities-non-current	<u>\$(655,700)</u>	<u>\$(1,688,610)</u>

The Company considered all evidence and determined that a valuation allowance was required as of December 31, 2003 and 2002, for certain investment tax credit and net

operating loss carryforwards that would likely expire to their utilization.

- g. The integrated income tax information as follows:

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

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

- h. The information of the ending balance of accumulated earnings (deficits) as follows:

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

- i. 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 operating losses can be carried forward in the future are summarized as follows:

Year of expiration	Tax investment credit	Tax operating loss carryforward
2004	\$224,358	\$-
2005	2,439,521	-
2006	707,270	1,315,238
2007	1,858,427	94,509
2008	-	192,798
Total	\$5,229,576	\$1,602,545

(23) Earnings (Loss) per share

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

	2003	2002
Numerator:		
Net income (loss) available to common stockholders	\$948,126	\$(3,442,604)

Net income available to common stockholders and diluted potential common shares	<u>\$955,028</u>	<u>\$(3,442,604)</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.

(24) Technical cooperation agreement

	<u>The term of the contract</u>	<u>Content</u>
<u>CRT</u>		
Hitachi	August 2002   March 2006	<ol style="list-style-type: none"> <li>1. The Company is required to pay fees for using the technologies by installment.</li> <li>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.</li> </ol>
<u>TFT-LCD</u>		
Advanced Display Inc. (ADI)	April 1997   July 2006	<ol style="list-style-type: none"> <li>1. The Company is required to pay fees for using the technologies by installment.</li> <li>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.</li> <li>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</li> </ol>

designated by ADI.

Sharp Corporation	January 2002   December 2006	<ol style="list-style-type: none"><li>1. The Company is required to pay fees for using the technologies by one time.</li><li>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.</li></ol>
Hitachi	January 2003   December 2010	<ol style="list-style-type: none"><li>1. The Company is required to pay fees for using the technologies by installment.</li><li>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.</li></ol>
<u>PDP</u>		
Mitsubishi Electric Corporation	October 1999   September 2006	<ol style="list-style-type: none"><li>1. The Company is required to pay fees for using the technologies by installment.</li><li>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.</li></ol>

The CPT 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 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 using technologies. The Company is obtained the patent after pay fees for using the technologies.

The Company, Mitsubishi Electric Corporation and Advanced Display Inc. provided 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
Forward Electronics Co., Ltd.	An investee accounted for using equity method
Toppan Chunghwa Electronics Co., Ltd.	An investee accounted for using equity method
Tatung Chungai 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. (formerly known as Tatung Coatings Co., Ltd.)	Subsidiary of Tatung Co., Ltd.
Shang Chih International Express Co., Ltd. (formerly knows as 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.
Tatung Information Technology (Jiang Su) Co., Ltd.	Subsidiary of subsidiary of Tatung Co., Ltd.
TIS Net Technology Inc.	Subsidiary of subsidiary of Tatung Co., Ltd.
Makolin Electronics (M) Sdn. Bhd.	The Company's affiliated company accounted for using equity method
Fujian Fujia Electronics Co., Ltd.	The Company's affiliated company accounted for using equity method
Tatung Telecom Corporation	An investee of Tatung Co., Ltd. accounted for using equity method
Tokyo Toshiba Corporation	The major stockholder of Tatung Co., Ltd.
Tatung University	The major stockholder of Tatung Co., Ltd.

Suzhou Forward Electronics Technology Co., Ltd.	Subsidiary of subsidiary of Forward Electronics Co., Ltd.
Fuzhou Development Zone Yuen-Yeou Enterprise Co., Ltd.	Supervisors of the CPTF Optronics Co., Ltd. is its chairman.
Champion Engineering Fuzhou Corp.	Supervisors of the CPTF Optronics Co., Ltd. is its chairman.
CPTF Visual Display (Fuzhou) Ltd.	An investee of CPTF Optronics Co., Ltd. accounted for using equity method
Lin, Cheng-Heng	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.	\$2,260,975	2.54	\$5,469,723	7.10
Tatung (Thailand) Co., Ltd.	1,556,701	1.75	845,977	1.10
Tatung Information Technology (Jiang Su) Co., Ltd.	3,101,683	3.49	381,406	0.50
Others	104,392	0.11	43,952	0.05
Total	<u>\$7,023,751</u>	<u>7.89</u>	<u>\$6,741,058</u>	<u>8.75</u>

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	D/A 150 days O/A 150 days	Cash payment with 30 to 60 days D/A with 75 days L/C with 30 to 45 days	D/A 150 days O/A 150 days	Cash payment with 30 to 60 days D/A with 75 days L/C with 30 to 45 days
R.O.C 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 60 days

## B. Purchases

Name of Related Parties	2003		2002	
	Amount	Percentage of account	Amount	Percentage of account
Tatung Information Technology (Jiang Su) Co., Ltd.	\$-	-	\$597,373	1.04
Makolin Electronics (M) Sdn. Bhd.	191,528	0.37	408,907	0.71
Tatung Co. of America, Inc. and Tatung Electronics (Singapore) Pte Ltd.	43,812	0.08	54,860	0.10
Forward Electronics Co., Ltd.	929,820	1.77	679,597	1.18
Suzhou Forward Electronics Technology Co., Ltd.	249,630	0.48	-	-
Fuzhou Development Zone Yuen-Yeou Enterprise Co., Ltd.	579,191	1.10	-	-
Others	23,106	0.04	46,518	0.08
Total	\$2,017,087	3.84	\$1,787,255	3.11

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
R.O.C	60 to 90 days after QC	30 to 150 days after QC	30 to 60 days after QC	30 to 120 days after QC
Domestic				

## C. Fixed asset purchase

Name of Related Parties	2003		2002	
	Amount	Percentage of account	Amount	Percentage of account
Tatung Co., Ltd.	\$699,108	2.76	\$228,175	2.13
Tatung System Technology Inc.	66,467	0.26	18,379	0.17
Tatung Information Technology (Jiang Su) Co., Ltd.	-	-	9,576	0.09
Makolin Electronics (M) Sdn. Bhd.	112,880	0.45	-	-
Shang Chih International Express Co., Ltd.	27,260	0.11	-	-
Others	27,631	0.11	16,052	0.15
Total	\$933,346	3.69	\$272,182	2.54

D. Fixed assets disposal

<u>Name of Related Parties</u>	<u>Selling Price</u>	<u>Book Value</u>	<u>Loss on disposal of property, plant and equipment</u>
<u>2003</u>			
Tatung Co., Ltd.	\$350	\$3,723	\$(3,373)
<u>2002</u>			
Tatung Co., Ltd.	\$-	\$-	\$-

E. Expenditure

<u>Name of Related Parties</u>	<u>2003</u>		<u>2002</u>	
	<u>Amount</u>	<u>Percentage of account</u>	<u>Amount</u>	<u>Percentage of account</u>
Tatung Co. of Japan, Inc.	\$18,233	0.08	\$25,967	0.13
Tatung Co., Ltd.	21,269	0.09	9,043	0.04
Toppan Chunghwa Electronics Co., Ltd.	31,365	0.13	43,425	0.22
Tokyo Toshiba Corporation	-	-	22,035	0.11
Tatung Telecom Corporation	-	-	2,407	0.01
Tatung System Technology Inc.	18,218	0.08	6,556	0.03
Others	18,787	0.08	8,284	0.04
Total	\$107,872	0.46	\$117,717	0.58

- a. The above expenses were incurred in connection with the purchase of materials, products or services from related parties.
- b. The Company purchased certain raw materials and components from Japan areas through the Tatung Co. of Japan, Inc. ("TOJ") which charges commission on such services. The total raw material purchased from TOJ amounted to \$6,616,247 and \$8,717,484 for the years ended on December 31, 2003 and 2002, respectively. The commission charged, included in the aforementioned purchase amount, amounted to \$18,233 and \$25,967 for the corresponding periods, respectively.

F. Due from affiliates-Trade

Name of Related Parties	December 31,			
	2003		2002	
	Amount	Percentage of account	Amount	Percentage of account
Tatung Co., Ltd.	\$100,938	3.82	\$489,257	28.05
Tatung (Thailand) Co., Ltd.	58,884	2.23	1,044,214	59.87
Tatung Information Technology (Jiang Su) Co., Ltd.	2,474,583	93.58	179,911	10.31
Fujian Fujia Electronics Co., Ltd.	8,401	0.32	21,698	1.24
Others	1,428	0.05	9,212	0.53
Total	2,644,234	100.00	1,744,292	100.00
Less: Allowance for doubtful accounts	(2,500)	(0.09)	(18,000)	(1.03)
Net	\$2,641,734	99.91	\$1,726,292	98.97

G. Due from affiliates - others

Name of Related Parties	December 31,			
	2003		2002	
	Amount	Percentage of account	Amount	Percentage of account
Toppan Chunghwa Electronics Co., Ltd.	\$4,990	58.78	\$4,998	97.66
CPTF Visual Display (Fuzhou) Ltd.	3,339	39.33	-	-
Others	160	1.89	120	2.34
Total	\$8,489	100.00	\$5,118	100.00

H. Deferred debits

Forward Electronics Co., Ltd.	\$-	-	\$1,532	100.00
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I. Due to affiliates - Trade

Tatung Co., Ltd.	\$37,798	1.19	\$59,360	1.28
Tatung Co. of Japan, Inc.	2,606,463	82.26	4,462,854	96.53
Makolin Electronics (M) Sdn. Bhd.	45,976	1.45	36,839	0.80
Forward Electronics Co., Ltd.	121,766	3.84	20,125	0.44
Suzhou Forward Electronics Technology Co., Ltd.	211,420	6.67	-	-
Fuzhou Development Zone Yuen-Yeou Enterprise Co., Ltd.	90,890	2.87	-	-
Others	54,293	1.72	44,297	0.95

Total	<u>\$3,168,606</u>	<u>100.00</u>	<u>\$4,623,475</u>	<u>100.00</u>
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J. Due to affiliates-others

Tatung Co. of Japan, Inc.	\$166,900	64.77	\$50,111	46.65
Tatung System Technology Inc.	2,748	1.07	7,278	6.78
Tokyo Toshiba Corporation	-	-	34,089	31.73
Tatung Co., Ltd.	70,109	27.20	12,759	11.88
Others	17,940	6.96	3,185	2.96
Total	<u>\$257,697</u>	<u>100.00</u>	<u>\$107,422</u>	<u>100.00</u>

K. Other current liabilities

Tatung Co., Ltd.	\$138	17.31	\$2,426	78.66
Tatung Co. of America, Inc.	266	33.38	266	8.63
Tatung (Thailand) Co., Ltd.	393	49.31	392	12.71
Total	<u>\$797</u>	<u>100.00</u>	<u>\$3,084</u>	<u>100.00</u>

L. Guarantee

The amounts of CPT and subsidiaries provided guarantee to related parties were as follows:

Name of Related Parties	December 31,	
	2003	2002
Makolin Electronics (M) Sdn. Bhd.	-	RM6,839 thousand
Toppan Chunghwa Electronics Co., Ltd.	\$330,000	\$330,000

M. All bank loans of CPT and subsidiaries were guaranteed by Mr. Lin, Cheng-Hung.

N. The CPT leased portions of its plants to Toppan Chunghwa Electronics Co., Ltd. with generated rental revenue \$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 CPT charged Toppan Chunghwa Electronics Co., Ltd. management fees of \$47,590 and \$42,144 for the years ended December 31, 2003 and 2002, respectively, recorded as a deduction of production and operating expenses.

6. ASSETS PLEDGED OR MORTGAGED

As of December 31, 2003 and 2002, the following assets have been mortgaged to the several banks, customs and tax authority as collateral for bank loans, credit facilities and other purpose:

<u>Book Value</u>
<u>December 31,</u>

Accounts	Creditors	2003	2002
Land use rights	Banks overseas	\$-	\$126,263
Building (carrying amount)	"	-	535,041
Machinery and equipment (carrying amount)	Bank of Taiwan(Note)	14,892,635	19,691,619
Building (carrying amount)	" (Note)	2,239,127	2,215,012
Machinery and equipment (carrying amount)	Chiao Tung Bank	18,931,353	-
Pledged time deposit	General Office of the Customs-Taipei, R.O.C	125,000	153,000
Pledged time deposit	General Office of the Customs-Keelung, R.O.C	12,600	-
Pledged time deposit	Hua Nan Commercial Bank, Ltd.	3,850	-
Long-term investment -Tatung Co., Ltd.	Tax Authorities-R.O.C	-	297,995
		\$36,204,565	\$23,018,930

(Note): The Company has applied the cancellation of the loan, while the cancellation of the corresponding pledges has not been done yet.

## 7. COMMITMENTS AND CONTINGENT LIABILITIES

A. The unused letters of credit were list below:

	CPT	CPTF Optronics Co., Ltd.
USD	4,526 thousand	76 thousand
JPY	828,300 thousand	-
CHF	459 thousand	-

B. Besides the disclosure in Note 5 (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 CPT filed applications with ROC Securities and Futures commission (ROC SFC) to 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 CPT 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 CPT redeem the convertible bonds from the holders as follow:

Item	Common shares of conversions or redemption	Amount (in thousands)
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. FAIR VALUES OF FINANCIAL INSTRUMENTS

### A. Derivative Financial Instruments:

#### (1) Option Contracts

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

The CPT's derivative financial instruments are entered into mainly for hedging purposes. The purpose of holding forward exchange contracts and foreign currency option contracts is to hedge exchange rate fluctuation risks. The CPT's hedging strategy is to mitigate most of its market price risk. Derivative financial instruments selected for hedging purposes are anti-correlated with the fluctuation of the market value of derivatives hedged. Derivatives are evaluated periodically.

- ② Contract amount of notional amount:

Financial instrument	December 31,	
	2003	2002
	Contract amount or notional amount	Contract amount or notional amount
Forward foreign currency exchange contract	-	USD76,000
Purchased foreign currency options- hedging (Buy NT\$/Sell USD)	-	USD300,000

Purchased foreign currency options- hedging (Buy JP¥/Sell USD)	USD1,409,516	USD383,000
Purchased foreign currency options- hedging (Buy USD/Sell GBP)	GBP17,600	-
Purchased foreign currency options- hedging (Buy USD/Sell JP¥)	USD194,047	-

### ③ Transaction Risk

#### 1) Credit risk relating to derivative instruments:

Credit risk represents the accounting loss that would be recognized at the reporting date if the counter parties failed to perform. The CPT entered into the above derivative contracts with major international foreign banks or reputable local banks. The likelihood of default by the counter parties 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. In order to mitigate the risk, the CPT has entered into foreign currency option contracts. As the CPT'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 amount and term of future cash demand:

Liquidity risk is the risk of being unable to settle the derivative contracts on schedule. In order to mitigate the risk, the CPT has entered into foreign currency option contracts. The CPT's working capital is enough for the needs of cash upon the settlement of contracts, when there is cash inflows or cash outflows. As such, there is no significant liquidity risk for the related cash flows.

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

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

(2) Disclosures of risks for investments in credit-linked notes(CLN):

① Contract Amount:

As of December 31, 2003, the amount of credit-linked notes was zero.

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

1) Credit Risk:

Default from the issuers of underlying overseas convertible bonds might cause the value of investment reduced to zero. The CPT 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) 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.

3) Liquidity Risk:

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

4) Presentation of investments in credit-linked notes in the financial statements:

The CPT received interest income of approximately \$3,930 from investments in credit-linked notes for the year ended December 31, 2003.

(3) Fair value of financial instruments:

	December 31,			
	2003		2002	
	Carrying value	Fair value	Carrying value	Fair value
Non-derivative				
Financial assets:				

Cash and cash equivalents	\$27,366,724	\$27,366,724	\$19,466,894	\$19,466,894
Receivables, net	22,508,031	22,508,031	18,056,267	18,056,267
Long-term investments	4,248,878	4,248,878	4,278,323	4,278,323
Refundable deposits	52,877	52,877	23,556	23,556
Pledged time deposits	141,450	141,450	153,000	153,000
Short-term investments	1,023,613	1,071,918	961,447	961,477
Deferred charges	1,582,472	1,582,472	2,090,849	2,090,849
<u>Financial liabilities:</u>				
Short-term bank loans	3,713,691	3,713,691	890,728	890,728
Payables	30,035,433	30,035,433	22,515,013	22,515,013
Other current liabilities	153,022	153,022	779,039	779,039
Bonds payable (including current portion)	4,424,387	4,424,387	10,444,481	10,444,481
Long-term debt (including current portion)	33,529,506	33,529,506	28,513,301	28,513,301

Derivatives	December 31,			
	2003		2002	
	Carrying value	Fair value	Carrying value	Fair value
Hedging:				
Foreign exchange forwards	\$-	\$-	\$4,566	\$4,566
Purchased foreign currency options-hedging	55,583,143	55,583,143	24,582,665	24,582,665

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

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

Short-term investments 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 beyond one-year approximate carrying

amounts as the long-term bank loan with bear interest at variable rates. The fair value of bonds payable is determined based on the sum of the carrying value of the bonds payable and accrued interest payable.

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

## B. Others

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 suits will not a significant impact on its operations.

## 11. SEGMENT INFORMATION

### (1) Industrial information

The related information are as follows:

#### 2003

	<u>CRT</u>	<u>TFT-LCD</u>	<u>Other</u>	<u>Total</u>
Total revenues	\$34,885,397	\$50,723,669	\$3,361,452	\$88,970,518
Gross profit (loss)	\$3,141,869	\$7,858,929	\$(1,047,634)	\$9,953,164
Unrealized intercompany profit-net				(1,532)
R&D				(3,021,853)
SG&A				(2,667,950)
Interest income				174,512
Investment loss				(44,966)
Other income				2,008,106
Interest expenses				(1,358,155)
Other expenses				(3,591,338)
Loss before income tax				<u>\$1,449,988</u>
Identifiable assets:				
Property, plant and equipment	\$20,551,441	\$42,785,282	\$8,637,979	\$71,974,702
Inventory	\$2,943,915	\$4,268,633	\$944,816	\$8,157,364
Depreciation expenses	\$2,849,320	\$6,874,874	\$1,071,784	\$10,795,978
Capital expenditure	\$1,858,725	\$22,337,564	\$1,104,580	\$25,300,869

#### 2002

	CRT	TFT-LCD	Other	Total
Total revenues	\$41,663,689	\$33,250,738	\$2,099,743	\$77,014,170
Gross profit (loss)	\$3,344,478	\$5,584,533	\$(628,469)	\$8,300,542
Unrealized intercompany profit-net				249
R&D				(2,144,227)
SG&A				(2,448,268)
Interest income				219,521
Investment loss				(247,902)
Other income				382,756
Interest expenses				(1,568,492)
Other expenses				(5,594,602)
Loss before income tax				\$(3,100,423)
Identifiable assets:				
Property, plant and equipment	\$24,813,884	\$28,164,637	\$8,442,128	\$61,420,649
Inventory	\$3,402,680	\$4,537,999	\$757,378	\$8,698,057
Depreciation expenses	\$3,506,129	\$5,328,688	\$734,365	\$9,569,182
Capital expenditure	\$3,476,905	\$6,139,166	\$1,073,307	\$10,689,378

## (2) Regional information

Item	2003				2002			
	Taiwan	Overseas	Adjustment		Taiwan	Overseas	Adjustment	
			and eliminate	Total			and eliminate	Total
Revenue from customers	\$25,184,933	\$63,785,585	\$-	\$88,970,518	\$25,293,382	\$51,720,788	\$-	\$77,014,170
other than consolidating subsidiaries								
Revenue from consolidating subsidiaries	22,301,900	38,358,009	(60,659,909)	-	15,141,463	17,310,882	(32,452,345)	-
Total revenue	47,486,833	102,143,594	(60,659,909)	88,970,518	40,434,845	69,031,670	(32,452,345)	77,014,170
Net gross profit less R&D	3,353,906	3,354,951	220,922	6,929,779	2,251,642	3,891,205	13,717	6,156,564
Interest income				174,512				219,521
Investment loss				(44,966)				(247,902)
Other income				2,008,106				382,756
SG&A				(2,667,950)				(2,448,268)
Interest expense				(1,358,155)				(1,568,492)
Other expense				(3,591,338)				(5,594,602)
Net income (loss) before income tax				1,449,988				(3,100,423)
Identifiable assets (Land)	53,110,262	27,751,717	(729,913)	80,132,066	41,389,191	29,723,345	(993,830)	70,118,706

and revaluation surplus excluded)		
Long-term investment	4,248,878	4,278,323
Other assets (land and revaluation surplus included)	57,550,099	47,063,936
Total assets	141,931,043	121,460,965

(3) Export sales

Total export sales for are as follows:

	2003	2002
AMERICA	\$458,958	\$1,474,695
EUROPE	971,698	2,134,675
SOUTHEAST ASIA	6,428,258	18,094,110
OTHERS	70,463,320	39,999,400
TOTAL	<u>\$78,322,234</u>	<u>\$61,702,880</u>

(4) Major customers (10% or more than 10% of revenue derived from net operating revenue) are as follows:

Customer Name	2003		2002	
	Sales	Percentage	Sales	Percentage
A Co., Ltd.	\$11,642,173	13.09%	\$10,218,119	13.27%
B Co., Ltd.	6,874,870	7.73%	9,313,037	12.09%
C Co., Ltd.	14,804,171	16.64%	11,879,931	15.43%
D Co., Ltd.	9,233,314	10.38%	7,510,865	9.75%

## Attachment 1

## 1. The endorsements and guarantees provided by the company:

(Amount in thousand NTD)

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 endorsors (Note 2)
0	Chunghwa P.T. Co., Ltd. and its subsidiaries	Makolin Electronics (M) Sdn Bhd	The Company's affiliated companies	\$27,092,596	\$62,591 (RM6,839)	\$62,591 (RM6,839)	N/A	0.12%	\$43,348,154
		Toppan Chunghwa Electronics Co., Ltd.	"	"	330,000	330,000	"	0.61%	"

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, 2001.

## Attachment 2

## 2. Marketable securities held as of December 31, 2002 :

(Amounts in Thousand NTD, unless otherwise specified)

Holding Company	Investee Companies	Relationship	Account	December 31, 2001				Note	
				Number of Shares	Carrying Value	% of ownership	Market value or net asset value (per share)		
Chunghwa P.T. Co., Ltd.	國內上市(櫃)公司股票	-	Long-term investments	290,000.00	\$19,668	-	\$67.0600		
	統振(股)公司	-	"	627,000.00	19,677	-	30.8900		
	南亞塑膠(股)公司	-	"	480,000.00	19,516	-	42.6220		
	明基電通(股)公司	-	"	350,000.00	17,049	-	47.8400		
	毅嘉科技(股)公司	-	"	526,000.00	14,504	-	26.2300		
	建國工程(股)公司	-	"	100,000.00	11,241	-	110.8600		
	創惟科技(股)公司	-	"	500,000.00	6,376	-	12.3840		
	李長榮化學工業(股)公司	-	"	272,000.00	6,102	-	22.5500		
	第一商業銀行(股)公司	-	"		114,133				
	小 計								
	受益憑證				3,637,527.60	50,366	-	13.8472	
	群益安穩收益基金	-	"		4,592,928.70	50,365	-	10.9666	
	群益安信基金	-	"		13,991,887.30	145,000	-	10.3860	
	永昌麒麟債券基金	-	"		4,027,094.30	50,000	-	12.4450	
	復華債券基金	-	"		19,960,079.80	200,000	-	9.1100	
	中央國際交銀高科技基金	-	"		30,000,000.00	300,000	-	10.0000	
	富鼎亞美基金	-	"		6,958,250.50	70,000	-	10.0900	
	盛華6666基金	-	"			865,731			
	小 計								
	海外可轉換公司債連結之票據					69,560	-	-	
	美國電話電報(AT&T)公司債 連結之票據	-	"			69,560	-	-	
	通用汽車信貸(GMAC)公司債 連結之票據	-	"			139,120			
	小 計					1,118,984			
	合 計					(18,417)			
	減：備抵短期投資跌價損失					\$1,100,567			
	淨 額								

## Attachment 3

## 3. Marketable securities held as of December 31, 2002 :

(Amounts in Thousand NTD, unless otherwise specified)

Holding Company	Investee Companies	Relationship	Account	December 31, 2002				Note	
				Number of Shares	Carrying Value	% of ownership	Market value or net asset value (per share)		
Chunghwa P.T. Co., Ltd. and its subsidiaries	Tatung Co., Ltd. -common stock	The Company's parent company	Long-term investments	220,331,178	\$4,700,398	5.23%	\$7.7045	The shares have been placed with the Tax Authority as security for payment of income tax liability. (Please see Note 6)	
			Less: allowance for loss on long-term investments		(3,002,857)				
			Net		1,697,541				
	Makolin Electronics (M) Sdn. Bhd.-common stock	The Company's affiliated compaines	"	10,814,068	132,947	42.00%	12.29		
			"	48,000,000	677,451	30.00%	14.11		
	Country Heights Holding Berhad-common stock	The Company's investee company	Long-term investments	48,000,000	1,777,413 (RM194,208)	17.41%	\$10.0673 (RM1.1)		
			Less: allowance for loss on long-term investments		(1,221,345)				
			Net		556,068				
	Country Heights Golf Resort Sdn. Bhd.	"	Long-term investments	5,000,000	184,222 (RM20,129)	10.00%	36.84		
			Shang Chih Investment Co., Ltd.	The Company's affiliated company	Long-term investments	3,000,000	31,157		25.00%
Shang Chih Investment Co., Ltd.	Tatung Co., Ltd. -common stock	The Company's parent company	Forward Electronics Co., Ltd.	"	"	15,500,000	397,930	24.22%	25.67
			Short-term investments	17,301,085	210,660	0.41%	7.7045		
			Less: allowance for loss on short-term invesments		(77,442)				
			Net		133,218				

## Attachment 5

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

(Amount in thousand NTD)

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. and its subsidiaries	Tatung Co., Ltd.	The Company's parent company	Sales	\$(5,469,723)	(7.10%)				\$489,257	2.75%	
	Tatung (Shanghai) Co., Ltd.	Investee of Tatung Co., Ltd.	"	(381,406)	(0.50%)				179,911	1.01%	
	Tatung Shanghai Co., Ltd.	investee of Tatung Co., Ltd.	Purchase	597,373	1.04%				-	-	
	Tatung (Thailand) Co., Ltd.	Subsidiary of Tatung Co., Ltd.	Sales	(845,977)	(1.10%)				1,044,214	5.87%	
	Tatung Co., of Japan Inc.	Subsidiary of Tatung Co., Ltd.	-	-	-				(4,462,854)	(25.00%)	
	Forward Electronics Co., Ltd.	Investee	Purchase	679,597	1.18%				20,125	0.11%	
	Makolin Electronics (M) Sdn. Bhd.	The Company's affiliated company	"	408,907	0.71%				36,839	0.21%	

## Attachment 6

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

(Amount in thousand NTD)

Name of Company	Transaction Party	Relationship	Ending balance	Turnover Ratio	Overdue		Amounts received subsequent to December 31, 2002	Allowance for bad debts
					Amount	Settlement Arrangement		
Chunghwa P.T. Co., Ltd. and its subsidiaries	Tatung Co., Ltd.	The Company's parent company	\$487,257	-	-	-	\$-	\$-
	Tatung (Thailand) Co., Ltd.	Subsidiary of Tatung Co., Ltd.	1,044,214	-	-	-	-	-
	Tatung (Shanghai) Co., Ltd.	Investee of Tatung Co., Ltd.	179,911	-	-	-	-	-

## Attachment 7

## 7.Details of investee companies:

(Amount in thousand NTD)

Investor	Investee	Place of Incorporation	Principal Activities	Original Investment Cost		Shareholdings at December 31, 2002			Net income (loss) of the investee for the year ended December 31, 2002	Income (loss) accounted for the year ended December 31, 2002	Note
				December 31, 2002	December 31, 2001	No. of shares	%	Carrying Value			
Chunghwa P.T. Co., Ltd. and its subsidiaries	Makolin Electronics (M) Sdn. Bhd.	Lot 181723, Kawasan Perindustrian Taman Bandar Baru, 31900 Kampar Perak Darul Ridzuan, Malaysia	DY manufacturing and marketing	\$569,752 (US\$20,722)	\$569,752 (US\$20,722)	10,814,068	42.00%	\$132,947 (RM14,528)	\$14,744 (RM162)	\$6,193 (RM681)	-
	Toppan Chunghwa Electronics Co., Ltd.	Taipei, Taiwan	Manufacture and sale of photo mask	498,852 (US\$15,615)	498,852 (US\$15,615)	48,000,000	30.00%	677,451 (USD19,478)	494,847	148,454	-
	Shang Chih Investment Co., Ltd.	Taipei, Taiwan	Investment	25,000	25,000	3,000,000	25.00%	31,157	(15,533)	(3,883)	-
	Forward Electronics Co., Ltd.	"	Keyboard manufacturing	382,500	382,500	15,500,000	24.22%	397,930	103,555	21,129	-
	Fujian Fujia Electronics Co., Ltd.	Fujian	Manufacture and sale of projectors and LCD Modules	25,060 (US\$724,925)	-	6,000,000	40.00%	23,150 (RMB5,525)	(1,983) (RMB475)	(1,983) (RMB475)	-