

**CHUNGHWA PICTURE TUBES, LTD.
AND SUBSIDIARIES
Consolidated Financial Statements
For The Years Ended
December 31, 2003 and 2004
with
Report of Independent Auditors**

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Chunghwa Picture Tubes, Ltd. (the “Company”) and its subsidiaries as of December 31, 2003 and 2004, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years ended December 31, 2003 and 2004. These consolidated 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 Toppan Chunghwa Electronics Co., Ltd. and Makolin Electronics (M) Sdn. Bhd., equity investees accounted for under the equity method, as of and for the year ended December 31, 2003. 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. These aggregate investment balance of these investees amounted to \$905,662 thousand (0.64% of total assets) as of December 31, 2003, and related investment income recognized was \$145,928 thousand (10.06% of income before income tax and minority interests) for the year then ended.

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 in the first paragraph present fairly, in all material respects, the consolidated financial position of Chunghwa Picture Tubes, Ltd. and its subsidiaries as of December 31, 2003 and 2004, and the consolidated results of their operations and their cash flows for the years ended December 31, 2003 and 2004, in conformity with the “Guidelines Governing the Preparation of Financial Report by Securities Issuers” and accounting principles generally accepted in the Republic of China.

Diwan, Ernst & Young
Taipei, Taiwan
Republic of China
March 28, 2005

Notice to Readers

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

CHUNGHWA PICTURE TUBES, LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2003 AND 2004
(Expressed in Thousands of New Taiwan Dollars)

ASSETS	December 31,	
	2003	2004
CURRENT ASSETS:		
Cash and cash equivalents (Notes 2 and 4)	\$27,366,724	\$42,856,218
Marketable securities (Notes 2 and 4)	1,023,613	1,308,887
Notes receivable, net (Notes 2 and 4)	130,019	66,696
Accounts receivable, net (Notes 2 and 4)		
Trade	17,117,107	17,174,269
Others	535,123	1,437,738
Due from affiliates, net (Notes 2,4 and 5)		
Trade	4,717,293	3,104,306
Others	8,489	5,368
Inventories, net (Notes 2 and 4)	8,157,364	10,902,890
Prepayments	105,444	108,085
Deferred tax assets, net (Notes 2 and 4)	31,034	47,650
Pledged time deposits-current (Note 6)	82,600	2,391,357
Total Current Assets	<u>59,274,810</u>	<u>79,403,464</u>
LONG-TERM INVESTMENTS (Notes 2 and 4)		
Equity method	1,353,001	1,468,556
Cost method	2,895,877	3,142,687
Total long-term investment	<u>4,248,878</u>	<u>4,611,243</u>
PROPERTY, PLANT AND EQUIPMENT :		
(Notes 2, 4, 5 and 6)		
Land	3,323,601	3,399,357
Buildings	20,392,611	16,198,016
Machinery and equipment	73,746,687	74,624,624
Transportation equipment	469,297	468,193
Furniture and fixtures	606,934	786,439
Miscellaneous equipment	18,530,282	19,292,486
Revaluation increment	615,244	581,086
Total	117,684,656	115,350,201
Less: Accumulated depreciation	(46,230,527)	(50,243,933)
Add: Prepayments on equipments and Construction in progress	4,474,664	52,283,716
Property, plant and equipment, net	<u>75,928,793</u>	<u>117,389,984</u>
INTANGIBLE ASSETS:		
Land use rights (Note 2)	250,265	232,710
Deferred pension cost (Notes 2 and 4)	236,221	202,475
Total Intangible Assets	<u>486,486</u>	<u>435,185</u>
OTHER ASSETS:		
Refundable deposits	52,877	62,796
Deferred charges (Notes 2,4 and 5)	1,567,226	2,602,411
Long-term receivable-other	18,169	-
Pledged time deposits-non-current (Note 6)	58,850	35,000
Others, net (Notes 2 and 4)	294,954	306,861
Total Other Assets	<u>1,992,076</u>	<u>3,007,068</u>
TOTAL ASSETS	<u><u>\$141,931,043</u></u>	<u><u>\$204,846,944</u></u>

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

CHUNGHWA PICTURE TUBES, LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CONTINUED)
DECEMBER 31, 2003 AND 2004
(Expressed in Thousands of New Taiwan Dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31,	
	2003	2004
CURRENT LIABILITIES:		
Short-term bank loans (Note 4)	\$3,713,691	\$12,780,335
Accounts payable		
Trade	19,857,884	21,395,678
Others	3,764,066	10,630,576
Due to affiliates (Note 5)		
Trade	3,168,606	5,758,301
Others	257,697	1,587,092
Income tax payable (Notes 2 and 4)	179	64,860
Accrued expenses	2,987,180	2,990,090
Forward exchange contract payable, net (Notes 2 and 11)	-	26,891
Current portion of bonds payable (Notes 2 and 4)	4,424,387	7,092,242
Current portion of long-term bank loans (Notes 4, 5 and 6)	3,323,940	10,504,193
Other current liabilities	152,843	275,030
Total Current Liabilities	<u>41,650,473</u>	<u>73,105,288</u>
LONG-TERM DEBT:		
Bonds payable-net of current portion (Notes 2 and 4)	-	6,825,967
Long-term bank loans-net of current portion (Notes 4, 5 and 6)	30,186,693	26,462,902
Long-term payable	18,873	127,484
Total Long-term Debt	<u>30,205,566</u>	<u>33,416,353</u>
RESERVE FOR INCREMENT TAX ON LAND		
REVALUATION (Notes 2 and 4)	26,793	26,793
OTHER LIABILITIES:		
Accrued pension liabilities (Notes 2 and 4)	1,538,766	1,511,990
Deferred tax liabilities, net (Notes 2 and 4)	655,700	572,317
Minority interest	1,205,869	1,438,130
Total Other Liabilities	<u>3,400,335</u>	<u>3,522,437</u>
Total Liabilities	<u>75,283,167</u>	<u>110,070,871</u>
STOCKHOLDERS' EQUITY		
Capital		
Common stock (Note 4)	58,908,629	68,564,159
Capital reserve		
Additional paid in capital (Note 4)	7,228,907	14,626,171
Premium on bonds payable	2,324,653	3,927,694
Treasury stock (Notes 2 and 4)	744	744
Reserve for assets revaluation (Note 4)	565,016	565,016
Retained earnings		
Legal reserve (Note 4)	-	93,996
Special reserve (Note 4)	-	845,962
Unappropriated retained earnings (Note 4)	939,958	10,317,715
Other items in stockholder's equity:		
Unrealized losses on long-term investments (Notes 2 and 4)	(3,197,632)	(2,398,311)
Foreign currency translation adjustment (Notes 2 and 4)	1,076,055	(566,572)
Excess of additional pension liability over unrecognized prior service cost (Notes 2 and 4)	(158,711)	(160,758)
Treasury stock (Notes 2 and 4)	(1,039,743)	(1,039,743)
Total Stockholders' Equity	<u>66,647,876</u>	<u>94,776,073</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$141,931,043</u>	<u>\$204,846,944</u>

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

CHUNGHWA PICTURE TUBES, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2004
(Expressed in Thousands of New Taiwan Dollars Except Per Share Information)

	Years Ended December 31,	
	2003	2004
OPERATING REVENUES:		
NET SALES (Notes 2, 4 and 5)	\$88,970,518	\$117,102,219
OPERATING COSTS:		
COST OF GOODS SOLD (Notes 4 and 5)	(79,017,354)	(98,817,169)
GROSS PROFIT INCLUDED UNREALIZED INTERCOMPANY PROFIT	9,953,164	18,285,050
UNREALIZED INTERCOMPANY GAIN, NET	(1,532)	-
NET GROSS PROFIT	9,951,632	18,285,050
OPERATING EXPENSES (Notes 4 and 5):		
Selling and marketing	(1,119,950)	(1,580,272)
General and administrative	(1,548,000)	(1,984,798)
Research and development	(3,021,853)	(3,182,663)
Total	(5,689,803)	(6,747,733)
OPERATING INCOME	4,261,829	11,537,317
NON-OPERATING INCOME:		
Interest income	174,512	424,863
Investment income recognized by equity method, net (Notes 2 and 4)	151,280	206,480
Cash dividend from long-term investee accounted for under cost method (Note 2)	4,205	6,681
Gain on disposal of property, plant and equipment, net (Notes 2 and 5)	60,572	-
Gain on foreign currency exchange, net (Note 2)	542,746	197,482
Reversal of provision for loss on decline in market value of inventory, net (Notes 2 and 4)	360,000	-
Gain on disposal of marketable securities, net (Note 2)	21,100	30,311
Others	1,040,583	871,039
Total	2,354,998	1,736,856
NON-OPERATING EXPENSES:		
Interest expenses (Notes 2 and 4)	(1,358,155)	(1,115,406)
Loss on disposal of property, plant and equipment, net (Note 2)	-	(115,918)
Loss on decline in market value and obsolescence of inventory, net (Notes 2 and 4)	-	(181,000)
Loss on disposal of other assets (Notes 2 and 4)	(1,377,240)	(53,489)
Provision for loss on impairment in value of property, plant and equipment (Note 4)	(2,096,515)	-
Provision for diminution in value of long-term investment (Notes 2 and 4)	(217,346)	(370,667)
Others	(117,583)	(111,844)
Total non-operating expenses	(5,166,839)	(1,948,324)
INCOME BEFORE INCOME TAX AND MINORITY INTERESTS	1,449,988	11,325,849
INCOME TAX EXPENSES (Notes 2 and 4)	(289,792)	(547,638)
MINORITY INTERESTS	(212,070)	(456,328)
NET INCOME	\$948,126	\$10,321,883
EARNINGS PER SHARE AVAILABLE TO COMMON STOCKHOLDERS (Notes 2 and 4)		
BASIC (in dollars)	\$0.18	\$1.58
DILUTED (in dollars)	\$0.16	\$1.39

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

CHUNGHWA PICTURE TUBES, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2004
(Expressed in Thousands of New Taiwan Dollars)

	CAPITAL RESERVE					RETAINED EARNINGS				UNREALIZED LOSSES ON LONG- TERM INVESTMENTS	FOREIGN CURRENCY TRANSLATION ADJUSTMENT	EXCESS OF ADDITIONAL PENSION LIABILITY OVER UNRECOGNIZED PRIOR SERVICE COST	TREASURY STOCK	TOTAL
	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	PREMIUM ON BONDS PAYABLE	TREASURY STOCK	RESERVE FOR ASSETS REVALUATION	LONG-TERM INVESTMENTS	LEGAL RESERVE	SPECIAL RESERVE	UNAPPROPRIATED EARNINGS (ACCUMULATED DEFICITS)					
Balance at January 1, 2003	\$51,062,011	\$4,341,333	\$1,833,671	\$-	\$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 (Note 4)		(639,128)					(942,597)	(1,981,158)	3,562,883					-
Net income for 2003									948,126					948,126
Convertible bonds converted into common stock (Notes 2 and 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 GDSs representing common shares by cash in premium	2,000,000	955,301												2,955,301
Recovery gain on long-term investment-net of related tax effect (Notes 2 and 4)										201,615				201,615
Foreign currency translation adjustment-net of related tax effect (Notes 2 and 4)											(397,111)			(397,111)
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)
Excess of additional pension liabilities over unrecognized prior service cost (Notes 2 and 4)												(116,791)		(116,791)
Transfer of treasury stock (Notes 2 and 4)				744										207,256
Acquisition of treasury stock (Notes 2 and 4)														(207,256)
Balance at December 31, 2003	58,908,629	7,228,907	2,324,653	744	565,016	-	-	-	939,958	(3,197,632)	1,076,055	(158,711)	(1,039,743)	66,647,876
Distribution of earnings in 2003														
Legal reserve							93,996		(93,996)					-
Special reserve								845,962	(845,962)					-
Net income for 2004									10,321,883					10,321,883
Convertible bonds converted into common stock (Notes 2 and 4)	2,613,000		1,603,041											4,216,041
Capital increase by cash in premium (Note 4)	7,000,000	7,383,016												14,383,016
Recovery gain on long-term investment-net of related tax effect (Notes 2 and 4)										799,321				799,321
Foreign currency translation adjustment-net of related tax effect (Notes 2 and 4)											(1,642,627)			(1,642,627)
Adjustment of unappropriated earnings arising from changes in ownership percentage in investees accounted for under the equity method (Note 2)									(4,168)					(4,168)
Excess of additional pension liabilities over unrecognized prior service cost (Notes 2 and 4)												4,335		4,335
Excess of additional pension liabilities over unrecognized prior service cost accounted for under the equity method												(6,382)		(6,382)
Issuance of common stock - exercise of stock option	42,530	14,248												56,778
Balance at December 31, 2004	\$68,564,159	\$14,626,171	\$3,927,694	\$744	\$565,016	\$-	\$93,996	\$845,962	\$10,317,715	\$(2,398,311)	\$(566,572)	\$(160,758)	\$(1,039,743)	\$94,776,073

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

CHUNGHWA PICTURE TUBES, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2004
(Expressed in Thousands of New Taiwan Dollars)

	Years Ended December 31,	
	2003	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$948,126	\$10,321,883
Minority interests	212,070	456,328
Total	<u>1,160,196</u>	<u>10,778,211</u>
Adjustments to reconcile net income to net cash provided by operating activities:		
Exchange rate effect (Note 2)	67,773	458,663
Depreciation (Note 2)	10,798,613	11,893,134
Provision for loss on impairment in value of property, plant and equipment (Note 4)	2,096,515	-
Amortization (Note 2)	937,507	740,416
Amortization of convertible bonds	-	(101,411)
Investment income recognized by equity method (Note 4)	(151,280)	(206,480)
Cash dividend received from long-term investee accounted for under equity method	48,000	68,163
Provision for diminution in value of long-term investment (Notes 2 and 4)	217,346	370,667
Transfer of property, plant and equipment to expense	193,270	201,397
(Gain) loss on disposal of property, plant and equipment (Note 2)	(60,572)	115,918
Loss on disposal of other assets (Notes 2 and 4)	1,377,240	53,489
Forfeited interest on convertible bonds (Note 2)	36,881	1,863
Change in operating assets and liabilities:		
Decrease in notes receivable	252,489	63,323
Increase in accounts receivable-trade	(1,435,384)	(57,162)
(Increase) decrease in due from affiliates-trade	(2,991,001)	1,612,987
Decrease in forward exchange contract receivable, net	4,566	-
Increase in accounts receivable-others	(274,497)	(902,615)
(Increase) decrease in inventories	540,693	(2,745,526)
Increase in prepayments	(7,317)	(2,641)
(Increase) decrease in deferred tax assets	292,219	(16,616)
Increase in accounts payable	6,632,240	1,537,794
(Decrease) increase in due to affiliates-trade	(1,454,869)	2,589,695
Increase in accounts payable-others	2,261,883	6,866,510
Decrease in accrued expenses	(129,032)	(85,756)
Increase in forward exchange contract payable	-	26,891
Increase (decrease) in income tax payable	(183)	64,681
Increase in accrued pension liabilities (Note 2)	323,924	248,997
Payments for pension	(155,182)	(149,026)
Decrease in deferred debits	1,532	-
Increase in compensation interest payable	86,578	71,357
Decrease in deferred tax liability	(943,809)	(270,452)
Net cash provided by operating activities	<u>19,726,339</u>	<u>33,226,471</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) decrease in pledged time deposits	11,550	(2,284,907)
(Increase) decrease in due from affiliates-others	(3,371)	3,121
Decrease in marketable securities	(62,166)	(285,274)
Decrease in other financial assets	139,120	-
Increase in deferred charges	(419,820)	(1,728,487)
Proceeds from disposal of property, plant and equipment	792,709	1,119,232
Proceeds from disposal of other assets	57,801	70,373
Additions to property, plant and equipment	(25,300,869)	(56,410,700)
Increase in refundable deposits	(29,321)	(9,919)
Decrease in long-term receivable-other	1,849	18,169
Net cash used in investing activities	<u>(24,812,518)</u>	<u>(59,508,392)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of bonds payable	-	14,885,985
Increase in short-term bank loans	2,822,963	9,066,644
Increase in due to affiliates-others	150,275	1,329,395
Redemption and discharge of bonds payable	(2,122,435)	(638,507)
Repayments of bonds payable	(2,500,000)	-
Increase in long-term bank loans	16,665,749	7,685,298
Repayments of long-term bank loans	(4,983,114)	(3,304,380)
Early redemption of long-term bank loans	(6,291,773)	-
Decrease in long-term deferred revenue	(515)	-
Increase (decrease) in other current liabilities	(626,017)	122,187
Increase in long-term payable	-	108,611
Increase (decrease) in investment of minority interest	27,858	(224,067)
Capital increase by cash in premium	10,526,702	14,383,016
Transfer of treasury stock	208,000	-
Acquisition of treasury stock	(207,256)	-
Proceeds from exercise of stock options	-	56,778
Net cash provided by financing activities	<u>13,670,437</u>	<u>43,470,960</u>
EXCHANGE RATE EFFECT	<u>(684,428)</u>	<u>(1,699,545)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	7,899,830	15,489,494
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	19,466,894	27,366,724
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$27,366,724</u>	<u>\$42,856,218</u>
SUPPLEMENT DISCLOSURES OF CASH FLOWS INFORMATION:		
Interest expenses paid (excluding interest capitalized)	<u>\$1,209,233</u>	<u>\$1,084,258</u>
Income tax paid	<u>\$928,375</u>	<u>\$269,156</u>
INVESTING AND FINANCING ACTIVITIES NOT AFFECTING CASH FLOWS:		
Current portion of long-term debt	\$7,748,327	\$17,596,435
Property, plant and equipment transferred to other assets held for sale	<u>\$122,033</u>	<u>\$135,769</u>
Conversion of convertible bonds into common stock	<u>\$1,337,600</u>	<u>\$4,216,041</u>

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

CHUNGHWA PICTURE TUBES, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the years ended December 31, 2003 and 2004

(Expressed in Thousands of New Taiwan Dollars Except Par Value, Shares or Stated Otherwise)

1. Description of Business

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

The Company has three directly or indirectly wholly-owned subsidiaries as follows:

Chunghwa Picture Tubes (Bermuda) Ltd., or CPT (Bermuda) and Chunghwa Picture Tubes (Labuan) Ltd., or CPT(Labuan)(which is 58.97% owned by Chunghwa P.T. (Bermuda) Ltd. and 41.03% owned by the Company) serve as investment holding companies for overseas operations of the Company.

Grand Cathay Optronics Co., Ltd., an operating company in Taiwan, is primarily engaged in the manufacture and sales of PDP modules.

CPT(Bermuda) has eleven direct or indirect wholly owned subsidiaries as follows:

Chunghwa Picture Tubes (Malaysia) Sdn. Bhd., or CPT(Malaysia), an operating company in Malaysia, is primarily engaged in the manufacture and sale of color cathode ray tubes. ("CCRT").

Chunghwa Picture Tubes (Kampar) Sdn. Bhd., or CPT(Kampar), an operating company in Malaysia, is primarily engaged in the manufacture and sale of electron guns.

Chunghwa Picture Tubes (UK) Ltd., or CPT(UK), an operating company in UK, is primarily engaged in the manufacture and sale of color cathode ray tubes. The subsidiary was dissolved in 2004.

Dalemont Investment Ltd., Daliat Investment Ltd., Bangalor Investment Ltd., Bensaline Investment Ltd., New Kingston Enterprises Limited and E-Union Development Ltd., incorporated in British Virgin Islands ("BVI"), serve as investment holding companies for overseas operations of the Company.

Chunghwa Picture Tubes (Wujiang) Ltd. (which is 65.00% owned by CPT (Bermuda) Ltd., 27.34% owned by CPT (Labuan) Ltd. and 7.66% owned by CPT (Kampar)), an operating company in People of Republic of China ("PRC"), is primarily engaged in the assembly final module of TFT-LCD.

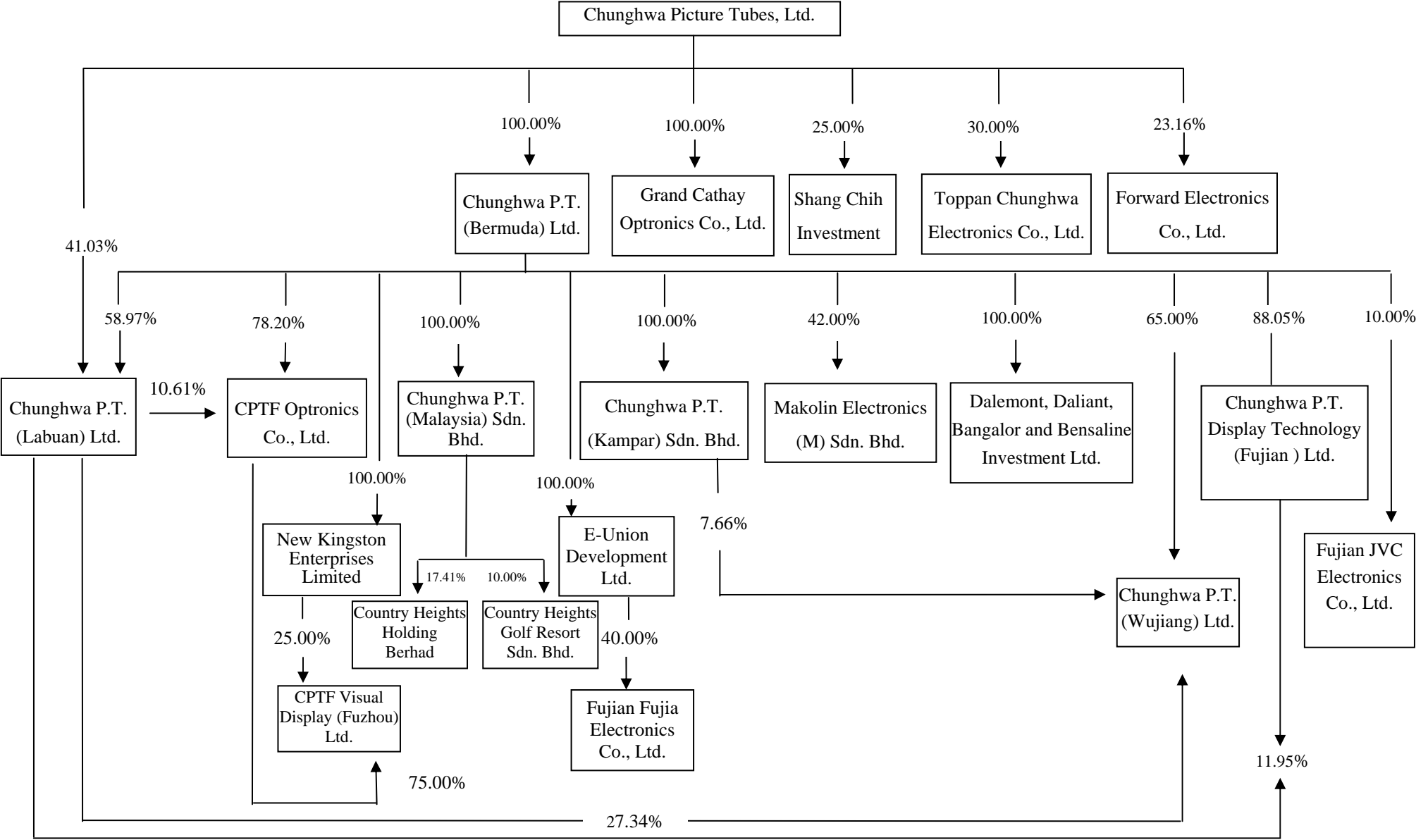
Chunghwa Picture Tubes Display Technology (Fujian) Ltd. (which is 88.05% owned by CPT (Bermuda) and 11.95% owned by CPT (Labuan)), an operating company in PRC, is primarily engaged in the assembly final module of TFT-LCD.

In addition, CPT (Bermuda) has two majority-owned and controlled subsidiaries:

CPTF Optronics Co., Ltd. (which is 78.20% owned by Chunghwa P.T. (Bermuda) Ltd. and 10.61% owned by Chunghwa P.T. (Labuan) Ltd.), an operating company in PRC, is primarily engaged in the manufacture and sale of color cathode ray tubes and electron guns.

CPTF Visual Display (Fuzhou) Ltd. (which is 75.00% owned by CPTF Optronics Co., Ltd. and 25.00% owned by New Kingston Enterprises Limited), an operating company in PRC, is primarily engaged in the manufacture and sale of PDP modules.

The following diagram presents the relationship and ownership percentage among the Company and subsidiaries as of December 31, 2004:



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Generally Accepted Accounting Principles

The consolidated financial statements have been prepared in accordance with “Guidelines Governing the Preparation of Financial Report by Securities Issuers” and accounting principles generally accepted in the Republic of China (collectively referred to as “ROC GAAP”). Certain amounts reported in previous years have been reclassified to conform to the 2004 presentation.

Principles of Consolidation

The consolidated financial statements include the account of the Company and all majority (direct and indirect) owned subsidiaries. Significant intercompany accounts and transactions have been eliminated. Minority interest in CPTF Optronics Co., Ltd. (11.19%) is presented as a separate line item in the consolidated financial statements.

Use of Estimates

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

Foreign Currency Transactions and Translation

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

The assets and liabilities of the foreign subsidiaries are translated into NT dollars, with the local currency of each foreign subsidiary as its functional currency, at exchange rates in effect at the balance sheet date. Revenue and expense accounts are translated using a weighted average exchange rate for the relevant period. Equity accounts are translated using a historical exchange rate, dividend is using the rate at the date declaration. Difference in translation is recorded as a component of stockholders’ equity.

Cash Equivalents

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

Marketable securities

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

Allowance for Doubtful Accounts

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

Account Receivable is derecognized while the risks and rewards of accounts receivable have been substantially transferred, including a loss of control over the accounts receivable.

Inventories

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

Long-term Investments

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

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

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

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

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

Stock dividends received are not treated as income. Instead, the number of shares held is increased. When

long-term investments are sold, the costs of investments sold are determined using the weighted-average method.

Property, Plant and Equipment & Assets held for Disposal

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

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

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

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

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

Buildings	5 - 60 years
Machinery and equipment	3 - 12 years
Transportation equipment	5-7 years
Furniture and fixtures	4-12 years
Miscellaneous equipment	5 - 10 years

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

Land use rights

Subsidiaries leased land from the government of the People's Republic of China ("PRC"). The land use rights are amortized over the lease term of 50 years from the commencement of the business operation.

Deferred charges

Deferred charges, including technology license fees, computer software, shadow mask, bond issuance costs, expense of syndication loan application and other charges, are recorded at cost and amortized using the straight-line method over the following useful lives:

- Technology license fees – 5 years or the term of the technology cooperation contract
- Computer software – 3 years
- Shadow mask – 3 years
- Bond issuance costs – the redemption period or over the period from issuance date to maturity date
- Expense of syndication loan application – the term of syndication loan
- Other charges – 3~5 years

Convertible Bonds

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

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

Convertible bonds are classified as current liability or long-term liability according to redemption clauses.

Pension and employee retirement plans

Funded defined benefit pension plans: Under these plans, the net pension cost is computed based on an actuarial valuation in accordance with the provision of ROC Statement of Financial Accounting Standards No. 18, which requires consideration of pension cost components such as employee service cost, interest cost, expected return on plan assets and amortization of net transition obligation. The unrecognized net transition obligation is amortized on the straight-line basis over the employees average remaining service period or 15 years.

Defined contribution pension plans: Under these plans, the only obligation is to make periodical contributions to pension funds maintained with local governments.

Treasury Stock

When treasury stock is purchased, it is recorded at cost of acquisition. When treasury stock is obtained through donation, it is recorded at market value. If the loss exceeds the capital reserve, the excess is charged to retained earnings. Treasury stock is shown as a deduction to stockholders' equity.

Income tax

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

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

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

Derivative financial instruments

Foreign currency forward exchange contracts:

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

Foreign currency option contracts:

Premiums and discounts on option contract are recorded at cost. The gains or losses arising from settlement of such options are recorded in the consolidated statement of operations on settlement date. The premiums paid or received for the call or put options are amortized using the straight-line method over the terms of contracts.

The carrying amount of outstanding call or put options at the balance sheet date is adjusted based on the rate of exchange prevailing at the balance sheet date with differences included in the consolidated statement of operations.

Interest rate swap contracts:

No accounting entry is prepared for interest rate swap contracts at the contract date. Upon the settlement of the contract, the actual amount received or paid is credited to or charged against current year income.

Earnings per common share

The Company presents basic earnings per share if a simple capital structure exists; or both basic earnings per share and diluted earnings per share if a complex capital structure exists. Basic earnings per share is equal to the net income attributable to common stock divided by the weighted-average number of common shares. When calculating diluted earnings per share, the numerator includes or adds back potential common stock dividends, interest and other conversion revenues (expenses). The denominator includes all potentially diluted common shares. The weighted-average outstanding shares shall be retroactively adjusted for capital increases arising from transfer of retained earnings, capital reserves and bonuses to employees.

Revenue recognition and allowance for sales discounts

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. Allowance for sales discounts is accrued in the period the sales occur.

Stock compensation

The Company accounted for employee stock options using the intrinsic value method of accounting in accordance with interpretations of ROC GAAP.

Under the intrinsic value method, deferred compensation for options granted to employees is equal to its intrinsic value determined as the difference between the exercise price of the option and the fair value of the underlying stock at the date of grant or amendment. The Company is required to disclose pro forma net income and earnings per share, if employee stock options are amended or options have been granted on or after January 1, 2004, assuming the fair value method had been used.

3. ACCOUNTING CHANGES

None.

4. DETAILS OF SIGNIFICANT ACCOUNTS BALANCES

(1) Cash and cash equivalents

	December 31,	
	2003	2004
Cash:		
Cash on hand	\$3,079	\$5,187
Cash in banks-checking and savings account	18,658,829	24,402,914
Cash in banks-time deposits	7,588,646	15,783,201
Cash equivalents:		
Government bonds with repurchase agreements	500,049	1,001,905
Short-term commercial papers	616,121	1,556,679
Bank acceptance	-	106,332
Total	<u>\$27,366,724</u>	<u>\$42,856,218</u>

(2) Marketable securities, net

	December 31,			
	2003		2004	
	Cost	Market value	Cost	Market value
Open-end mutual funds	<u>\$1,023,613</u>	<u>\$1,071,918</u>	<u>\$1,308,887</u>	<u>\$1,319,933</u>

The market value of open-end mutual funds is determined by their net asset value per unit at balance sheet

date.

(3) Receivable, net

	December 31,	
	2003	2004
Notes receivable	\$131,319	\$67,096
Less: Allowance for doubtful accounts	(1,300)	(400)
Net	\$130,019	\$66,696
Accounts receivable-trade	\$17,503,865	\$18,349,242
Less: Allowance for doubtful accounts	(386,758)	(517,351)
Allowance for sales discount	-	(657,622)
Net	\$17,117,107	\$17,174,269
Due from affiliates-trade	\$4,759,728	\$3,150,361
Less: Allowance for doubtful accounts	(42,435)	(46,055)
Net	\$4,717,293	\$3,104,306

(4) Inventories, net

	December 31,	
	2003	2004
Raw materials and supplies	\$4,868,191	\$5,995,118
Work in process	1,752,685	2,126,109
Finished goods	1,557,099	2,549,334
Raw materials in transit	89,389	523,329
Total	8,267,364	11,193,890
Less: Allowance for decline in market value and obsolescence	(110,000)	(291,000)
Net	\$8,157,364	\$10,902,890
Insurance coverage	\$7,745,566	\$8,214,417

(5) Long-term investments

Investee	December 31, 2003	Percentage of ownership or voting rights	December 31, 2004	Percentage of ownership or voting rights
<u>Listed Company:</u>				
<u>Lower of aggregate cost or market value</u>				
Country Heights Holding Berhad	\$2,231,208	17.41%	\$2,231,208	17.41%
Less: Allowance for loss on decline in market value of long-term investments	(1,180,833)		(860,713)	
Allowance for impairment loss on long-term investment	(654,003)		(1,024,670)	
Foreign currency translation	(54,479)		(131,800)	
Net	341,893		214,025	
Tatung Co., Ltd.	5,238,780	5.23%	5,238,780	5.25%
Less: Allowance for loss on decline in market value of long-term investments	(2,798,852)		(2,132,582)	
Foreign currency translation	(134,020)		(410,428)	

Net	<u>2,305,908</u>		<u>2,695,770</u>	
<u>Equity method</u>				
Forward Electronics Co., Ltd.	-		419,889	23.16%
Subtotal	<u>2,647,801</u>		<u>3,329,684</u>	

Unlisted Company:

Equity method

Shang Chin Investment Co., Ltd.	\$35,050	25.00%	\$47,348	25.00%
Forward Electronics Co., Ltd.	412,289	23.48%	-	-
Makolin Electronics (M) Sdn. Bhd. ("Makolin")	103,465	42.00%	92,798	42.00%
Toppan Chunghwa Electronics Co., Ltd. ("Toppan")	802,197	30.00%	908,521	30.00%
Fujian Fujia Electronics Co., Ltd. ("Fujian Fujia")	-	40.00%	-	40.00%

Cost method

Country Heights Golf Resort Sdn. Bhd.	185,425	10.00%	185,425	10.00%
Fujian JVC Electronics Co., Ltd.	70,014	10.00%	70,014	10.00%
Add: Foreign currency translation adjustment	<u>(7,363)</u>		<u>(22,547)</u>	
Subtotal	<u>1,601,077</u>		<u>1,281,559</u>	
Total	<u><u>\$4,248,878</u></u>		<u><u>\$4,611,243</u></u>	

- a. For the year ended December 31, 2003, the investment income recognized for Toppan and Makolin, audited by other auditors, aggregately amounted to \$145,928.
- b. Fujian Fujia reported a negative net equity in its financial statements as of December 31, 2003. Accordingly, the Company discontinued the equity method of accounting and limited the carrying amount of long-term investment to zero.
- c. 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 \$370,667 in 2003 and 2004, respectively.

(6) Property, Plant and Equipment

- a. The Company, in accordance with related regulations of ROC, revalued its property, plant and equipment in 1978, 1979, and 1981. As a result, a total of \$88,005 was added to total assets and \$59,304 (net of reserve for incremental tax on land revaluation of \$28,701 was credited to capital reserve). As of December 31, 2004, the revalued assets amounted to \$57,192.
- b. In accordance with related regulations in Malaysia, Chunghwa P.T. (Malaysia) revalued its land with a

revaluation increase of \$837,887, which was added to total assets and credited to capital reserve.

- c. The insurance coverage over property, plant and equipment as of December 31, 2003 and 2004 amounted to \$74,084,916 and \$109,747,092, respectively.
- d. Chunghwa P.T. (UK) Ltd. provided impairment loss for property, plant and equipment totaling \$2,096,515 in 2003.
- e. Interest expense (before deducting capitalized amounts of \$156,432 and \$25,798 in 2003 and 2004, respectively) for the years ended December 31, 2003 and 2004 was \$1,514,587 and \$1,141,204, respectively. The interest rates of capitalized interest for the years ended December 31, 2003 and 2004 ranged from 1.80% to 3.924% and 0.41% to 5.75%, respectively.

(7) Deferred charges

	December 31,	
	2003	2004
Technology license fees (TFT-LCD modes)	\$563,044	\$602,992
Technology license fees (PDP modes)	821,292	602,281
Bond issuance cost	98,802	211,878
Shadow mask	-	912,424
Others	84,088	272,836
Total	\$1,567,226	\$2,602,411

(8) Other assets-other

	December 31,	
	2003	2004
Land		
Padeh, Taoyuan, Taiwan, ROC	\$247,992	\$247,992
Yangmei, Taoyuan, Taiwan, ROC	36,292	36,292
Lungtan, Taoyuan, Taiwan, ROC	-	22,577
Assets held for disposal	10,670	-
Total	\$294,954	\$306,861

- a. As of December 31, 2004, due to legal restriction of ROC, the Company had not been able to register as the legal owner of certain farmlands (3.400323 hectares) purchased by the Company. Accordingly, such lands were temporarily held in trust by third parties. However, in order to protect the Company's interest, the Company has kept control of the sellers' chop, land purchase agreement and the title deeds.
- b. Since late 2000, in order to implement the overall production plan, the Company has begun to relocate some of its production equipment to CPTF Optronics Co., Ltd. or sell them. Such equipment was reclassified to other assets held for disposal and stated at the lower of net realizable value or carrying amount.

(9) Short-term bank loans

Items	December 31,		Collateral
	2003	2004	
Usance L/C loan	\$1,147,710	\$7,898,870	-
Unsecured loan	2,565,981	4,881,465	-
Total	<u>\$3,713,691</u>	<u>\$12,780,335</u>	
Interest rates	<u>0.43%-1.8879%</u>	<u>0.41%~5.75%</u>	

(10) Bonds payable

	December 31,	
	2003	2004
Zero Coupon Convertible Bonds, issued in 2002 and due 2007	\$581,366	\$-
Add: Compensation interest payable	61,996	-
Subtotal	<u>643,362</u>	<u>-</u>
Convertible Bonds, issued in 2002 and due 2007 at 0.25%	3,636,766	1,198,483
Add: Compensation interest payable	144,259	88,089
Subtotal	<u>3,781,025</u>	<u>1,286,572</u>
Credit Enhanced Zero Coupon Convertible Bonds, issued in 2004 and due 2005	-	5,719,207
Add: Premium	-	86,463
Subtotal	<u>-</u>	<u>5,805,670</u>
Credit Enhanced Zero Coupon Convertible Bonds, issued in 2004 and due 2007	-	6,814,279
Add: Compensation interest payable	-	11,688
Subtotal	<u>-</u>	<u>6,825,967</u>
Less: Current portion of bonds payable	<u>(4,424,387)</u>	<u>(7,092,242)</u>
Bonds payable-net of current portion	<u>\$-</u>	<u>\$6,825,967</u>

The significant terms of the Convertible Bonds are as follows:

	Zero Coupon Convertible Bonds, issued in 2002 and due 2007	Convertible Bonds, issued in 2002 and due 2007 at 0.25%	Credit Enhanced Zero Coupon Convertible Bonds, issued in 2004 and due 2005	Credit Enhanced Zero Coupon Convertible Bonds, issued in 2004 and due 2007
· Amount	US\$80 million	US\$143.75 million	US\$230 million	US\$213.5 million

· Issue price	100%	100%	103%	100%
· Period	5 years (2002.2.1 to 2007.2.1)	5 years (2002.11.19 to 2007.11.19)	22 months (2004.1.13 to 2005.11.13)	30 months (2004.12.8 to 2007.6.8)
	Zero Coupon Convertible Bonds, issued in 2002 and due 2007	Convertible Bonds, issued in 2002 and due 2007 at 0.25%	Credit Enhanced Zero Coupon Convertible Bonds, issued in 2004 and due 2005	Credit Enhanced Zero Coupon Convertible Bonds, issued in 2004 and due 2007
· Place of trading	Luxembourg Stock Exchange	Luxembourg Stock Exchange	Luxembourg Stock Exchange	Singapore Stock Exchange
· Coupon rate	-	0.25%	-	-
· Conversion period	Bondholders may convert the bonds to the Company's common shares during a period 30 days after the issuance and 30 days before the maturity. The number of common shares (or the number of the certificates) received by the bondholders is determined by dividing the principal amount over conversion price. No cash payment will be made for fractional shares. (The exchange rate is fixed at \$35.076 to US\$1)	Bondholders may convert the bonds to the Company's common shares during a period 30 days after the issuance and 30 days before the maturity. The number of common shares received by the bondholders is determined by dividing the principal amount over conversion price. No cash payment will be made for fractional shares. (The exchange rate is fixed at \$34.57 to US\$1)	Bondholders may convert the bonds to the Company's common shares during a period 30 days after the issuance and 30 days before the maturity. The number of common shares received by the bondholders is determined by dividing the principal amount over conversion price. No cash payment will be made for fractional shares. (The exchange rate is fixed at \$33.83 to US\$1)	Bondholders may convert the bonds to the Company's common shares during a period 30 days after the issuance and 30 days before the maturity. The number of common shares received by the bondholders is determined by dividing the principal amount over conversion price. No cash payment will be made for fractional shares. (The exchange rate is fixed at \$32.371 to US\$1)

· Conversion price and adjustment	The conversion price is \$45 per share and will be adjusted if number of the Company's common stock changes after the issuance of the bonds.	The conversion price is \$15.53 per share and will be adjusted if number of the Company's common stock changes after the issuance of the bonds. As of December 31, 2004 the conversion price was adjusted to \$13.44 per share.	The conversion price is \$16.46 per share and will be adjusted if number of the Company's common stock changes after the issuance of the bonds. As of December 31, 2004 the conversion price was adjusted to \$16.21 per share.	The conversion price is \$20.25 per share and will be adjusted if number of the Company's common stock changes after the issuance of the bonds.
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	Zero Coupon Convertible Bonds, issued in 2002 and due 2007	Convertible Bonds, issued in 2002 and due 2007 at 0.25%	Credit Enhanced Zero Coupon Convertible Bonds, issued in 2004 and due 2005	Credit Enhanced Zero Coupon Convertible Bonds, issued in 2004 and due 2007
· Company's redemption rights	① After 2 years of the issuance of the bonds, the Company may redeem the bonds at 100% of the unpaid principal amount outstanding if the closing price of the Company's common stock on Taiwan Stock Exchange ("TSE") is equal to 130% or above of the conversion price in effect on each trading day for a period of 20 consecutive trading days, or the bonds not yet converted or bought back amounted to US\$5,000 thousand or below.	① After 2 years of the issuance of the bonds, the Company may redeem the bonds at 100% of the unpaid principal amount outstanding if the closing price of the Company's common stock on TSE is equal to 125% or above of the conversion price in effect on each trading day for a period of 20 consecutive trading days, or the bonds not yet converted or bought back amounted to US\$5,000 thousand or below.	① After six months of the issuance of the bonds, the Company may redeem the bonds at 100% of the unpaid principal amount outstanding if the closing price of the Company's common stock on TSE is equal to 120% 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 less than 10% of the aggregate principal amount originally issued.	① After 1 year of the issuance of the bonds, the Company may redeem the bonds at 100% of the unpaid principal amount outstanding if the closing price of the Company's common stock on TSE is equal 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 less than 10% of the aggregate principal amount originally issued.

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|---|---|---|--|
| <p>② The Company may redeem the bonds at 100% of the unpaid principal amount outstanding if there is a change in legislation, resulting in an increase in tax liabilities of the Company.</p> <p>③ The bonds will mature on February 1, 2007 at 100% of their principal amount.</p> | <p>② The Company may redeem the bonds at 100% of the unpaid principal amount outstanding if there is a change in legislation, resulting in an increase in tax liabilities of the Company.</p> <p>③ The bonds will mature on November 19, 2007 at 117.59% of their principal amount.</p> | <p>② The Company may redeem the bonds at 100% of the unpaid principal amount outstanding if there is a change in legislation, resulting in an increase in tax liabilities of the Company.</p> <p>③ The bonds will mature on November 13, 2005 at 100% of their principal amount .</p> | <p>② The Company may redeem the bonds at 100% of the unpaid principal amount outstanding if there is a change in legislation, resulting in an increase in tax liabilities of the Company.</p> <p>③ The bonds will mature on June 8, 2007 at 105.36% of their principal amount.</p> |
|---|---|---|--|

Zero Convertible Bonds, issued in 2002 and due 2007	Convertible Bonds, issued in 2002 and due 2007 at 0.25%	Credit Enhanced Zero Coupon Convertible Bonds, issued in 2004 and due 2005	Credit Enhanced Zero Coupon Convertible Bonds, issued in 2004 and due 2007
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· Bondholders'
option rights

- | | | | |
|--|--|--|---|
| <p>① On the second and the third anniversary of the bonds, the bondholders have the right to require the Company to redeem the bonds at a price equal to 109% and 100% of the principal amount, respectively.</p> <p>② The bondholders may demand the Company to redeem the bonds if trading of the Company's shares is restricted on the TSE.</p> | <p>① On January 19, 2004 and the third anniversary of the bonds, the bondholders have the right to require the Company to redeem the bonds at a price equal to 103.84% and 110.19% of the principal amount, respectively.</p> <p>② The bondholders may demand the Company to redeem the bonds if trading of the Company's shares is restricted on the TSE.</p> | <p>① On the first anniversary of the bonds, the bondholders have the right to require the Company to redeem the bonds at a price equal to 100% of the principal amount.</p> <p>② The bondholders may demand the Company to redeem the bonds if trading of the Company's shares is restricted on the TSE.</p> | <p>None.</p> <p>① The bondholders may demand the Company to redeem the bonds if trading of the Company's shares is restricted on the TSE.</p> |
|--|--|--|---|

· Converting status	All bonds have been repurchased as of December 31, 2004.	A total of US\$106,200 thousand of the bonds have been converted as of December 31, 2004, resulting in the issuance of 241,331,525 shares.	A total of US\$50,810 thousand of the bonds have been converted as of December 31, 2004, resulting in the issuance of 104,630,234 shares.	None.
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During the credit enhanced zero coupon convertible bonds repayment period, the Company is required to comply with the current ratio, debt to equity ratio, time interest tangible assets ratio and other financial ratios with certain restrictions as specified in the agreements.

(11) Long-term bank loans

	December 31,	
	2003	2004
Unsecured	\$9,332,451	\$11,811,392
Secured	24,178,182	25,155,703
Total	33,510,633	36,967,095
Less: current portion	(3,323,940)	(10,504,193)
Net	\$30,186,693	\$26,462,902
Interest rates	0.6131%-2.5423%	1.7918%~3.61625%

- Certain of the Company's loan agreements require the Company to maintain (1) current ratio higher than 100%; (2) debt to equity ratio under 125% or 150%; (3) interest coverage over 1.15 or 1.2; and (4) tangible equity more than \$35 billion, \$40 billion or \$60 billion.
- The long-term bank loans are to be repaid in NT\$ or foreign currency quarterly, or semiannually, or upon maturity before February 2010.
- Some of the long-term bank loans were jointly guaranteed by the President of the Company. In addition, these loans are secured by the mortgage of the Company's land use rights, building, machinery and equipment.
- As of December 31, 2004 and 2003, long-term bank loans denominated in currencies are as follows:

	(Unit: dollars)	
	Unsecured loan	Secured loan
<u>2004.12.31</u>		
USD	344,000,000	129,000,000
RMB	122,000,000	-
JPY	200,000,000	-
NTD	300,000,000	21,038,410,000
<u>2003.12.31</u>		
USD	274,500,000	114,000,000
NTD	-	20,302,410,000

(12) Accrued pension liability and deferred pension cost

Funded defined benefit pension plan:

- a. The Company has a funded defined benefit pension plan covering all regular employees effective from October 1996; as required by the ROC Labor Standard Law, the Company makes monthly contributions to a pension fund at certain percentage of salaries paid. The pension fund is administered by the employee committee and deposited, in the committee's name, with Central Trust of China, a ROC government entity.
- b. The details of net periodic pension cost for the years ended December 31, 2003 and 2004 are as follows:

	<u>2003</u>	<u>2004</u>
Employee service cost	\$146,121	\$158,087
Interest cost	80,124	54,642
Expected return on plan assets	(12,370)	(8,088)
Amortization of net transition obligation	33,746	33,746
Amortization of prior service cost	66,634	-
Amortization of actuarial gain or loss	9,669	10,610
Total	<u>\$323,924</u>	<u>\$248,997</u>

- c. The funded status as of December 31, 2003 and 2004:

	<u>December 31,</u>	
	<u>2003</u>	<u>2004</u>
Pension obligation		
Vested	\$101,480	\$216,800
Non-Vested	1,854,564	1,915,577
Accumulated benefit obligation	1,956,044	2,132,377
Additional benefits based on future salaries	229,619	526,017
Projected benefit obligation	2,185,663	2,658,394
Fair value of plan assets	(323,506)	(437,950)
Funded status	1,862,157	2,220,444
Unamortized net transition obligation	(236,221)	(202,475)
Unrealized loss on pension assets	(388,330)	(680,394)
Deferred pension cost	236,221	202,475
Excess of additional pension liability over unrecognized prior service cost	<u>158,711</u>	<u>154,376</u>
Accrued pension liability	1,632,538	1,694,426
Less: current portion	<u>(93,772)</u>	<u>(182,436)</u>
Long-term portion-net of current portion	<u>\$1,538,766</u>	<u>\$1,511,990</u>

- d. The major actuarial assumptions are as follows:

	December 31,	
	2003	2004
Discount rate	4.00%	2.50%
Rate of increase in future compensation levels	1.00%	0.50%
Expected long-term rate of return on plan assets	4.00%	2.50%

For the years ended December 31, 2003 and 2004, vested benefits amounted to \$108,654 and \$232,052, respectively.

Defined contribution pension plans:

The Company's subsidiaries have various defined contribution pension plans. Under these plans, the only obligation the subsidiaries have to make is a periodical contribution to pension funds maintained with local governments.

(13) Capital

- a. The authorized and issued capital of the Company at January 1, 2003 was \$64,100,000 and \$51,062,011 (including 400 million shares reserved for future exercise of stock options), divided into 6,200,000,000 shares and 4,375,274,840 shares, respectively, each at a par value of \$10.
- b. On June 6, 2003, the Company's stockholders resolved to increase the authorized capital to \$85,000,000, divided into 8,500,000,000 shares (including 600 hundred million shares reserved for future issuance upon exercise of stock options), each at a par value of \$10. Stockholders also resolved to offset accumulated deficits by using additional paid-in capital of \$639,128, together with legal reserve of \$942,597 and special reserve of \$1,981,158.

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

- c. As of December 31, 2003, the Company issued 84,661,771 shares for the conversion of the Company's convertible bonds due 2007. Total outstanding shares increased to \$58,908,629 after the conversion.
- d. On December 15, 2003, the Board of Directors resolved to increase the capital by 700,000,000 shares by a local offering at a premium price of \$20.6 per share. The effective date of the issuance was May 6, 2004.
- e. On June 16, 2004, the Company's stockholders resolved to increase the authorized capital to \$99,700,000, divided into 9,970,000,000 shares (including 600 million shares reserved for further exercise of stock options), each at a par value of \$10. In addition, it was resolved that no earnings of 2003 could be

distributed except for the appropriation of legal reserve and special reserve.

- f. On December 22, 2004, the Board of Directors resolved to increase the capital by issuing GDSs for up to 700,000 thousand shares. Such plan was approved by the authorities on March 24, 2005.
- g. In 2004, the Company issued 156,669,754 shares and 104,630,234 shares for the conversion of the Company's convertible bonds due 2007 and 2005, respectively. Total outstanding shares increased to \$68,521,629 after the conversion.
- h. In 2004, total stock options exercised were 4,253,000 shares, each at \$13.35 of exercise price. Total issued common stock after exercise was \$68,564,159.

(14) Stock compensation

The Company has two stock option plans (2002 plan and 2004 plan). These stock options provide for the granting of options to qualified employees of the Company or any of its domestic or foreign subsidiaries for the purchase of the Company's common shares at the market price of the grant date. Stock options expire in five years from the date granted and vest over service periods that range from two to four years. The Company is authorized to grant options for up to 400,000 thousand shares and 233,982 thousand shares under the 2002 plan and 2004 plan, respectively.

- a. A summary of the Company's stock option activity and the related information for the years ended December 31, 2003 and 2004 were described as shown below:

	2003		2004			
	2002 plan		2002 plan		2004 plan	
	Options (in thousand shares)	Weighted-Average Exercise Price (in dollars)	Options (in thousand shares)	Weighted-Average Exercise Price (in dollars)	Options (in thousand shares)	Weighted-Average Exercise Price (in dollars)
Outstanding-beginning of year	97,596	\$13.35	218,041	\$12.45	-	\$-
Granted	165,710	11.90	-	-	186,170	16.11
Exercised	-	-	(4,253)	13.35	-	-
Forfeited	(45,265)	12.36	(15,721)	12.35	(7,125)	16.69
Outstanding-end of year	<u>218,041</u>	12.45	<u>198,067</u>	12.44	<u>179,045</u>	16.09

- b. Information with respect to the outstanding options of the Company's as of December 31, 2004 is as follows:

Date of	Range of Exercise Price	Outstanding options at balance sheet date			Options Exercise	
		Options (in thousand shares)	Weighted- Average Remaining Contractual	Weighted- Average Exercise Price	Number of Exercisable Options (in	Weighted- Average Exercise Price

	Approval	(in dollars)		Life (in years)	(in dollars)	thousands)	(in dollars)
2002 plan	May 14, 2002	\$11.90-\$13.35	198,067	1.75	\$12.44	37,098	\$13.35
2004 plan	April 29, 2004	\$14.55-\$17.10	179,045	3.40	16.09	-	-

- c. Pro forma net income and earnings per share are disclosed below as if the Company had accounted for its employee stock options under the fair value method.

	2004
Net income as reported (in thousands)	\$10,321,883
Pro forma net income (in thousands)	\$10,107,849
Basic earnings per share as reported (in dollars)	\$1.58
Pro forma basic earnings per share (in dollars)	\$1.55
Diluted earnings per share as reported (in dollars)	\$1.39
Pro forma diluted earnings per share (in dollars)	\$1.36

The fair value of these options was calculated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for the year ended December 31, 2004:

	2004
Dividend yield:	-
Risk-free interest rate:	1%
Expected volatility:	50.32% and 48.03%
Expected life:	5 years

Compensation cost recognized for the year ended December 31, 2004 was nil. Had the Company used the fair value method to account for its stock options, compensation cost would have been \$214,034.

(15) Capital Reserve

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

(16) Legal Reserve

According to the Company Law in the ROC, the Company must retain at least 10% of its annual earnings as legal reserve until such reserve equals the amount of capital. Once the legal reserve equals one-half of the paid-in capital, 50% of the reserve may be transferred to common stock. The legal reserve can be used to offset deficit.

(17) Special reserve

In accordance with the ROC Securities Future Bureau (SFB) regulations, a special reserve must be provided

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

(18) Distributions of earnings

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

- (a) payment of all taxes;
- (b) offset of prior years' operation losses;
- (c) set aside 10% of the remaining amount after deducting (a) and (b) as legal reserve;
- (d) set aside special reserve in accordance with regulation prescribed by the ROC's Securities Future Bureau (SFB) or reverse special reserve previously provided; and
- (e) after deduction of items (a), (b), (c) and (d) from current year's earnings, the remaining is allocated as follows: 5%-10% as employees' bonus, and 90%-95% as distributable earnings.

The Company is engaged in high-tech industry and the cycle of high-tech industry is experiencing the stage of growth. In order to expand scale and improve its strength to compete with other major companies in the world, the Company adopts a policy of residual dividends. The Company shall base its budget on capital expenditures and the demands of the fund, taking into account the balance of retained earnings, to determine dividends or bonuses provided; however, cash dividends shall not be less than 10% of the sum of the stock dividend and cash dividend.

The information relating to 2003 proposed earnings distribution (or makeup of accumulated deficits of 2002 and 2001) and resolution of stockholders' meeting is accessible on the website of "Market observation post system" (mops. tse.com.tw) of TSE.

Pursuant to CPTF Optronics Co. Ltd's Article of Incorporation and the PRC Law of Corporation, income after tax, as determined under accounting principles generally accepted in the PRC ("PRC GAAP"), shall be used to offset prior years' losses, and 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 Company repurchased its own shares from open market. The purpose and ending balance of treasury stock were as follows:

Purpose	Number of Shares Repurchased			
	Beginning	Addition	Disposal	Ending
	in thousands of shares			
<u>2003</u>				
Future issuance to employees as bonuses	53,412	16,000	16,000	53,412
<u>2004</u>				
Future issuance to employees as bonuses	53,412	-	-	53,412

- b. Pursuant to the resolution of the Board of Directors meeting of the Company in 2000 and 2002, the Company has repurchased its common stock totaling 104,463 thousand shares (\$2,197,987 in the amount), of which 51,051 thousand shares (\$1,158,244 in the amount) have been transferred to employees as of December 31, 2004.
- c. According to Stock Exchange Regulations in the ROC, the Company does not possess voting rights or rights to receive dividends for holding such treasury stock. The treasury stock should be transferred to employees within three years after the repurchase. If treasury stock is not transferred after the required three-year period, it will be treated as if not issued and the Company is required to report to the Government of ROC to change the capital status.

(20) Operating revenue

	2003	2004
TFT-LCD	\$50,723,669	\$73,774,362
CPT and CDT	34,885,397	39,958,974
PDP	2,419,177	2,440,983
STN-LCD	462,758	856,688
Others	479,517	71,212
	<u>\$88,970,518</u>	<u>\$117,102,219</u>

(21) Personnel, depreciation and amortization expenses

	2003			2004		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
Personnel expenses:						
Salaries	\$4,410,271	\$748,171	\$5,158,442	\$5,987,172	\$942,112	\$6,929,284
Staff labor/health insurance	185,858	52,976	238,834	232,737	46,897	279,634

Pension	417,108	112,730	529,838	224,730	44,933	269,663
Depreciation	10,501,870	296,743	10,798,613	11,601,835	291,299	11,893,134
Amortization	59,529	877,978	937,507	13,265	727,151	740,416

(22) Income tax

a. The ROC income tax authorities have assessed the income tax returns of the Company through 2002 except for 2000 and 2001.

b. There is no taxation charge on the profit of the Company and certain operating subsidiaries due to the following:

- ① The Company is entitled to an income tax exemption for a period of five consecutive years for the income generated by sales of its TFT-LCD and 17 inches color display tubes (“CDT”).

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

Tax exemption products	Tax exemption period
TFT-LCD and 17 inches color display tubes	2000~2004
TFT-LCD	2002~2006
TFT-LCD	2004~2008

- ② The Company obtained the approval letter for claiming tax exemption in respect of setting its headquarters in Taiwan.

- ③ Chunghwa Picture Tubes (Malaysia) Sdn. Bhd. has been granted a tax holiday of five years starting July 1, 1996 under the Promotion of Investments Act, 1986 of Malaysia for the production of color cathode ray tubes (“CCRT”). The pioneer status expired on June 30, 2001. Subsequently, Chunghwa Picture Tubes (Malaysia) Sdn. Bhd. was granted an extension of pioneer status for the period from July 1, 2001 to June 30, 2006.

- ④ CPTF Optronics Co., Ltd.、Chunghwa Picture Tubes (Wujiang) Ltd.、CPT Display technology (Fujian) Ltd. and CPTF Visual Display (Fuzhou) Ltd. are 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 consists of the following:

	2003	2004
Income tax-current	\$(74,092)	\$(309,682)
Income tax – deferred		
Net change in deferred income tax assets (liabilities):		
Investment tax credits	633,878	423,239
Operating loss carryforward	235,793	(25,686)
Temporary differences	1,094,194	319,431
Valuation allowances	(1,319,529)	(964,546)
Prior year adjustment	(863,284)	-

Others	3,248	9,606
Income tax expenses	<u>\$(289,792)</u>	<u>\$(547,638)</u>

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

Components	December 31,	
	2003	2004
Deferred tax assets:		
Allowance for bad debts	\$9,018	\$65,488
Employees' welfare fund	1,836	520
Deferred pension expense	238,400	263,443
Unrealized loss on foreign currency exchange, net	58,507	27,444
Unrealized loss on decline in market value and obsolescence of inventory	27,500	72,750
Unrealized intercompany losses	101,446	83,528
Unrealized loss on long-term investments of overseas investee company	782,053	594,984
Investment tax credits	5,229,576	5,652,815
Operating loss carryforwards	1,602,545	1,576,859
Compensation interest payable	53,467	133,965
Deferred tax assets resulting from consolidated subsidiaries	31,034	20,206
Allowance for sales discounts	-	164,405
Foreign currency translation adjustment	-	187,995
Others	9,687	7,750
Valuation allowance	<u>(5,881,278)</u>	<u>(6,845,824)</u>
	<u>\$2,263,791</u>	<u>\$2,006,328</u>

Components	December 31,	
	2003	2004
Deferred tax liabilities:		
Overseas investment income accounted for under equity method	\$(2,502,445)	\$(2,502,445)
Foreign currency translation adjustment	(357,522)	-
Deferred tax liabilities resulting from consolidated subsidiaries	<u>(28,490)</u>	<u>(28,550)</u>
	<u>\$(2,888,457)</u>	<u>\$(2,530,995)</u>

	December 31,	
	2003	2004
e. Deferred tax assets-current	\$351,733	\$2,790,334
Valuation allowance-current	<u>(320,699)</u>	<u>(2,742,684)</u>
Deferred tax assets-net-current	<u>\$31,034</u>	<u>\$47,650</u>

	December 31,	
	2003	2004
f. Deferred tax assets-non-current	\$7,793,336	\$6,061,818
Valuation allowance-non-current	<u>(5,560,579)</u>	<u>(4,103,140)</u>
Deferred tax assets-net-non-current	<u>2,232,757</u>	<u>1,958,678</u>

Deferred tax liabilities-non-current	(2,888,457)	(2,530,995)
Net deferred tax liabilities-non-current	<u>\$(655,700)</u>	<u>\$(572,317)</u>

- g. Details of unused investment tax credits and tax operating loss carryforwards of the Company are as follows:

Regulation	Investment tax credit item	Investment tax credit	Unused investment tax credit	Expiration year
Statute for Upgrading Industries	Investment tax credit in	\$112,327	\$112,327	2008
	production equipment	1,496,593	1,496,593	2007
		198,558	198,558	2006
		<u>2,121,532</u>	<u>2,121,532</u>	2005
		<u>\$3,929,010</u>	<u>\$3,929,010</u>	
Statute for Upgrading Industries	Investment tax credit in	\$365,867	\$365,867	2008
	research and	531,237	531,237	2007
	development expenditure,	508,712	508,712	2006
	employee training	317,989	317,989	2005
	expenditure	<u>\$1,723,805</u>	<u>\$1,723,805</u>	
Income Tax Law	Tax loss carryforward	\$167,112	\$167,112	2008
		94,509	94,509	2007
		<u>1,315,238</u>	<u>1,315,238</u>	2006
		<u>\$1,576,859</u>	<u>\$1,576,859</u>	

- h. The integrated income tax information of the Company is as follows:

	December 31,	
	2003	2004
Imputation credit account (ICA)	<u>\$57,071</u>	<u>\$3,171</u>

The actual or expected creditable ratios for earnings distribution to ROC resident stockholders in 2003 and 2004 are 6.07% and 0.03%, respectively.

- i. Unappropriated earnings as of December 31, 2003 and 2004 are as follows:

	December 31,	
	2003	2004
Unappropriated earnings	<u>\$939,958</u>	<u>\$10,317,715</u>

(23) Earnings per common share

The following table sets forth the computation of the Company's basic and diluted earnings per common

share:

	Amounts	
	2003	2004
Numerator:		
Net income available to common stockholders	\$948,126	\$10,321,883
Net income available to common stockholders and diluted potential common shares	\$955,028	\$10,325,111
	Shares	
	2003	2004
Denominator:		
Denominator for basic income per share-weighted average share (in thousands)	5,241,023	6,513,734
Denominator for diluted income per share-weighted average share (in thousands)	5,765,123	7,430,671
	Amounts	
	2003	2004
Basic earnings per common share (in dollars)	\$0.18	\$1.58
Diluted earnings per common share (in dollars)	\$0.16	\$1.39

(24) Technical cooperation agreement

	The term of the contract	Content
<u>CRT</u>		
Tokyo Toshiba Co.	July 2000— July 2005	CPT Malaysia is required to pay royalty fees based on a certain percentage of net sales of the related products for continuing use of exclusive technology.
Mitsubishi Electric Corporation	April 1997— March 2007	<ol style="list-style-type: none"> The Company is required to pay licensing fees for using the technologies by installment. The Company is required to pay royalty fees based on a certain percentage of net sales of the related products for continuing use of exclusive technology.
Hitachi	April 2001— March 2006	CPT Malaysia is required to pay royalty fees based on a certain percentage of net sales of the related products for continuing use of exclusive technology.
Hitachi	August 2002— March 2006	CPTF Optronics Co., Ltd. is required to pay royalty fees based on a certain percentage of net sales of the related products for continuing use of exclusive technology.

Hitachi Display Ltd.	January 2004 – December 2009	CPT Malaysia is required to pay royalty fees based on a certain percentage of net sales of the related products for continuing use of exclusive technology.
<u>TFT-LCD</u>		
Hitachi	January 2003 – December 2010	<ol style="list-style-type: none"> 1. The Company is required to pay licensing fees for using the technologies by installment. 2. The Company is required to pay royalty fees based on a certain percentage of net sales of the related products for continuing use of exclusive technology.
Advanced Display Inc. (ADI)	April 1997 – July 2006	<ol style="list-style-type: none"> 1. The Company is required to pay licensing fees for using the technologies by installment. 2. The Company is required to pay royalty fees based on a certain percentage of net sales of the related products for continuing use of exclusive technology. 3. ADI has the right to purchase not more than 15% of the total products from the Company at 90% of the average selling price. The Company bears the shipping costs of the products to locations designated by ADI.
	The term of the contract	Content
Sharp Corporation	January 2002 – December 2006	<ol style="list-style-type: none"> 1. The Company is required to pay licensing fees for using the technologies by one time. 2. The Company is required to pay royalty fees based on a certain percentage of net sales of the related products for continuing use of exclusive technology.
Semiconductor Energy Laboratory Co., Ltd. (SEL)	January 2004 – December 2008	<ol style="list-style-type: none"> 1. The Company is required to pay fees for using the technologies by installment. 2. The Company is required to pay royalty fees based on a certain percentage of net sales of the related products for continuing use of exclusive technology.
<u>PDP</u>		
Mitsubishi Electric	October 1999 –	<ol style="list-style-type: none"> 1. The Company is required to pay licensing fees

2. The Company is required to pay royalty fees based on a certain percentage of net sales of the related products for continuing use of exclusive technology.

The Company, along with other companies in ROC of the same industry, has signed an Agreement for Joint Ownership of Patent Rights with Industrial Technology Research Institute (ITRI). According to the Agreement, ITRI agrees to share the ownership of TFT-LCD and related patents with the contracting parties for seven years. ITRI will become the sole owner of the TFT-LCD patent rights upon the expiry of the Agreement. The cost of the patents is amortized over the term of the 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 rights and technologies. The Company obtained the patents after paying fees for using the technologies. The Company, Mitsubishi Electric Corporation and Advanced Display Inc. (referred to as "joint owners") all agreed that no any joint owner can have the rights to grant a license under any patent rights to any third party without the prior written consent of the other joint owners.

5. RELATED PARTY TRANSACTIONS

(1) Related parties and relationship:

<u>Related parties</u>	<u>Relationship</u>
Tatung Co., Ltd.	The Company's major stockholder and represented on the Company's board of directors
Forward Electronics Co., Ltd.	An investee accounted for under equity method
Toppan Chunghwa Electronics Co., Ltd.	An investee accounted for under 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.	Subsidiary of Tatung Co., Ltd.
Shang Chih International Express 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 under equity method
Fujian Fujia Electronics Co., Ltd.	The Company's affiliated company accounted for under equity method
Tatung Telecom Corporation	An investee of Tatung Co., Ltd. accounted for under equity method
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.	A supervisor of the CPTF Optronics Co., Ltd. is its Chairman. (position held since January 1, 2003)
Champion Engineering Fuzhou Corp.	A supervisor of the CPTF Optronics Co., Ltd. is its Chairman. (position held since January 1, 2003)
Jean Co., Ltd.	Chairman is one of the immediate family members of the Company's chairman (position held since October 1, 2003)
Jeffrey Investment Ltd.	Subsidiary of Jean Co., Ltd.
K-tronics, Inc.	Subsidiary of subsidiary Jean Co., Ltd.
Jean (M) Sdn. Bhd., Malaysia	Subsidiary of Jean Co., Ltd.
Lin, Chieng-Hon	Chairman of Board of Directors and President of the Company.

(2) Significant Transactions with Related Parties:

a. Operating Revenue

Name of Related Parties	2003		2004	
	Amount	%	Amount	%
Tatung Co., Ltd.	\$2,260,975	2.54	\$245,371	0.21
Tatung (Thailand) Co., Ltd.	1,556,701	1.75	62,506	0.05
Tatung Information Technology (Jiang Su) Co., Ltd.	3,101,683	3.48	8,720,973	7.45
K-tronics, Inc.	8,362,656	9.40	6,126,533	5.23
Jeffrey Investment Ltd.	15,425	0.02	1,627,984	1.39
Jean Co., Ltd.	1,123,773	1.26	114,988	0.10
Others	104,392	0.12	51,370	0.04
Total	\$16,525,605	18.57	\$16,949,725	14.47

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

Region	2003		2004	
	Related parties	Ordinary customers	Related parties	Ordinary customers
Overseas	D/A 150 days	Cash payment with 30 to 60 days	O/A 90-120 days	Cash payment with 30 to 65 days
	O/A 150 days	D/A with 75 days L/C with 30 to 45 days		D/A with 75 days L/C with 30 to 60 days At sight payment
ROC Domestic	Cash payment with 30 to 60 days	Cash payment with 30 to 60 days	O/A 90-120 days	Cash payment with 30 to 60 days At sight payment

b. Purchases

Name of Related Parties	2003		2004	
	Amount	%	Amount	%
Makolin Electronics (M) Sdn. Bhd.	\$191,528	0.37	\$279,968	0.40
Tatung Co. of America, Inc. and Tatung Electronics (Singapore) Pte Ltd.	43,812	0.08	102,665	0.15
Fuzhou Development Zone Yuen-Yeou Enterprise Co., Ltd.	579,191	1.10	598,589	0.86
Forward Electronics Co., Ltd	929,820	1.77	306,189	0.44
Suzhou Forward Electronics Technology Co., Ltd.	249,630	0.48	691,914	1.00
Others	23,106	0.04	19,194	0.03
Total	\$2,017,087	3.84	\$1,998,519	2.88

There are no significant differences between purchase prices from related parties and from ordinary suppliers. The comparison of terms of payment between related parties and ordinary suppliers is summarized as follows:

Region	2003		2004	
	Related parties	Ordinary suppliers	Related parties	Ordinary suppliers
Overseas	T/T 30 to 180 days	L/C, T/T 30 to 180 days	T/T 30 to 180 days	L/C, T/T 30 to 180 days
ROC Domestic	60 to 90 days after QC	30 to 150 days after QC	30 to 90 days after QC	30 to 150 days after QC

c. Fixed asset addition

Name of Related Parties	2003		2004	
	Amount	%	Amount	%
Tatung Co., Ltd.	\$699,108	2.76	\$525,604	0.93
Makolin Electronics (M) Sdn. Bhd.	112,880	0.45	-	-
Tatung System Technology Inc.	66,467	0.26	75,053	0.13
Shang chih International Express Co., Ltd.	27,260	0.11	29,334	0.05
Tatung OTIS Elevator Co., Ltd.	14,714	0.06	32,154	0.06
Others	12,917	0.05	28,590	0.05
Total	\$933,346	3.69	\$690,735	1.22

d. Fixed asset disposal

Name of Related Parties	2003			2004		
	Selling price	Carrying amount	Loss on sale of fixed asset	Selling price	Carrying amount	Loss on sale of fixed asset
Tatung Co., Ltd.	\$350	\$3,723	\$(3,373)	\$790	\$790	\$-

e. Expenditures

Name of Related Parties	2003		2004	
	Amount	%	Amount	%
Tatung Co. of Japan, Inc.	\$18,233	0.08	\$15,635	0.06
Tatung Co., Ltd.	21,269	0.09	51,340	0.19
Toppan Chunghwa Electronics Co., Ltd.	31,365	0.13	14,910	0.06
Tatung System Technology Inc.	18,218	0.08	12,129	0.05
Others	18,787	0.08	8,704	0.03
Total	\$107,872	0.46	\$102,718	0.39

- (1) The above expenditure incurred in connection with the purchase of materials, products or services from related parties.
- (2) The Company and subsidiaries purchased certain raw material, components and equipment from Japan through Tatung Co. of Japan, Inc., which charges the Company commissions for such services. The total raw material and equipment purchased through Tatung Co. of Japan, Inc. amounted to \$6,616,247 and \$10,547,226 for the years ended on December 31, 2003 and 2004, respectively. The commission charged, included in the aforementioned purchase amount, amounted to \$18,233 and \$15,635 for the corresponding periods, respectively.

f. Non-operating income-Others

Name of Related Parties	2003		2004	
	Amount	%	Amount	%
Tatung Co., Ltd.	\$1,883	0.18	\$2,768	0.47
Others	244	0.02	136	0.02
Total	\$2,127	0.20	\$2,904	0.49

December 31,

2003	2004
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Name of Related Parties	Amount	%	Amount	%
g. <u>Due from affiliates-Trade, net</u>				
Tatung Co., Ltd.	\$100,938	2.12	\$79,886	2.54
Tatung (Thailand) Ltd.	58,884	1.24	2,939	0.09
Tatung Information Technology (Jiang Su) Co., Ltd.	2,474,583	51.99	1,912,706	60.71
K-tronics, Inc.	2,113,063	44.39	84,600	2.69
Jeffrey Investment Ltd.	-	-	1,032,211	32.77
Others	12,260	0.26	38,019	1.20
Total	4,759,728	100.00	3,150,361	100.00
Less: Allowance for doubtful accounts	(42,435)		(46,055)	
Net	\$4,717,293		\$3,104,306	

h. <u>Due from affiliates – Others</u>				
Toppan Chunghwa Electronics Co., Ltd.	\$4,990	58.78	\$4,291	79.94
Tatung Co. of Japan, Inc.	-	-	1,077	20.06
Others	3,499	41.22	-	-
Total	\$8,489	100.00	\$5,368	100.00

i. <u>Due to affiliates - Trade</u>				
Tatung Co. of Japan, Inc.	\$2,606,463	82.26	\$5,256,997	91.29
Suzhou Forward Electronics Technology Co., Ltd.	211,420	6.67	106,227	1.85
Fuzhou Development Zone Yuen-Yeou Enterprise Co., Ltd.	90,890	2.87	223,676	3.89
Forward Electronics Co., Ltd.	121,766	3.84	59,536	1.03
Others	138,067	4.36	111,865	1.94
Total	\$3,168,606	100.00	\$5,758,301	100.00

Name of Related Parties	December 31,			
	2003		2004	
	Amount	%	Amount	%
j. <u>Due to affiliates-Others</u>				
Tatung Co., Ltd.	\$70,109	27.20	\$256,408	16.16
Tatung Co. of Japan, Inc.	166,900	64.77	1,272,411	80.17
Others	20,688	8.03	58,273	3.67
Total	\$257,697	100.00	\$1,587,092	100.00

k. <u>Other current liabilities</u>				
Fujian Fujia Electronics Co., Ltd.	\$-	-	\$650	0.24
Tatung Co. of America, Inc.	266	0.17	300	0.11
Tatung (Thailand) Ltd.	393	0.26	393	0.14
Jean Co., Ltd.	540	0.35	3,552	1.29

Others	243	0.16	624	0.23
Total	<u>\$1,442</u>	<u>0.94</u>	<u>\$5,519</u>	<u>2.01</u>

1. Guarantees

The amount of guarantees that the Company provided for related parties as of December 31, 2003 and 2004 are as follows:

Name of Related Parties	December 31,		Purpose
	2003	2004	
Toppan Chunghwa Electronics Co., Ltd.	<u>\$330,000</u>	<u>\$330,000</u>	Working Capital

m. The Company leased portions of its plants to Toppan Chunghwa Electronics Co., Ltd. that generated rental revenue of \$14,541 and \$16,979 for the years ended December 31, 2003 and 2004, respectively. The related receivables (recorded in due from affiliates-others) were \$4,990 and \$4,291 as of December 31, 2003 and 2004, respectively. In addition, the Company charged Toppan Chunghwa Electronics Co., Ltd. managements fees of \$47,590 and \$31,685 for the years ended December 31, 2003 and 2004, respectively, which were recorded as a deduction of expenditure.

n. In order to integrate education-industry for research and development, the Company contributed a donation of about two hundreds of million to Tatung University.

6. ASSETS PLEDGED OR MORTGAGED

As of December 31, 2003 and 2004, the following assets were mortgaged to several banks, customs and government agencies as collateral for bank loans, credit facilities and other purposes:

Accounts	Creditors	Carrying amount	
		December 31,	
		2003	2004
Building	Chiao Tung Bank	\$-	\$2,012,125
Machinery and equipment	Chiao Tung Bank	18,931,353	15,991,060
Building	Bank of Taiwan	2,239,127	1,498,253
Machinery and equipment	Bank of Taiwan	14,892,635	9,256,676
Pledged time deposit	General office of the customs-Keelung, ROC	12,600	12,679
Pledged time deposit	General office of the custom-Taipei, ROC	125,000	171,255
Pledged time deposit	Hua Nan Commercial Bank	3,850	3,850
Pledged time deposit	Chiao Tung Bank	-	1,542,885
Pledged time deposit	Bank of Taiwan	-	310,073

Convertible Bonds, issued in 2002 and due 2007 at 0.25%

385,825

USD150

10. SEGMENT INFORMATION

(1) Industrial information

The related information for 2003 and 2004 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				(1,532)
R&D				(3,021,853)
SG&A				(2,667,950)
Interest income				174,512
Investment income recognized by equity method, net				151,280
Other income				2,029,206
Interest expenses				(1,358,155)
Other expenses				(3,808,684)
Income before income tax				\$1,449,988
Identifiable assets:				
Property, plant and equipment, net	\$20,566,687	\$42,785,282	\$8,637,979	\$71,989,948
Inventory, net	\$2,943,915	\$4,268,633	\$944,816	\$8,157,364
Depreciation expenses	\$2,851,955	\$6,874,874	\$1,071,784	\$10,798,613
Capital expenditure	\$1,858,725	\$22,337,564	\$1,104,580	\$25,300,869

2004

	<u>CRT</u>	<u>TFT-LCD</u>	<u>Other</u>	<u>Total</u>
Total revenues	\$39,958,974	\$73,774,362	\$3,368,883	\$117,102,219
Gross profit (loss)	\$7,012,975	\$12,576,116	\$(1,304,041)	\$18,285,050
Unrealized intercompany loss				-
R&D				(3,182,663)
SG&A				(3,565,070)
Interest income				424,863
Investment income recognized by equity method, net				206,480
Other income				1,105,513
Interest expenses				(1,115,406)
Other expenses				(832,918)
Income before income tax				\$11,325,849
Identifiable assets:				
Property, plant and equipment, net	\$16,894,432	\$89,110,514	\$7,404,595	\$113,409,541
Inventory, net	\$2,511,293	\$8,003,260	\$388,337	\$10,902,890

Depreciation expenses	<u>\$2,535,787</u>	<u>\$8,106,766</u>	<u>\$1,250,581</u>	<u>\$11,893,134</u>
Capital expenditure	<u>\$464,203</u>	<u>\$55,324,197</u>	<u>\$622,300</u>	<u>\$56,410,700</u>

(2) Regional information

Item	2003				2004			
	Taiwan	Overseas	Adjustment and eliminate	Total	Taiwan	Overseas	Adjustment and eliminate	Total
Revenue from customers other than consolidating subsidiaries	\$25,184,933	\$63,785,585	\$-	\$88,970,518	\$75,098,456	\$42,003,763	\$-	\$117,102,219
Revenue from consolidating subsidiaries	22,301,900	38,358,009	(60,659,909)	-	46,944,509	64,656,004	(111,600,513)	-
Total revenue	<u>\$47,486,833</u>	<u>\$102,143,594</u>	<u>\$ (60,659,909)</u>	<u>\$88,970,518</u>	<u>\$122,042,965</u>	<u>\$106,659,767</u>	<u>\$(111,600,513)</u>	<u>\$117,102,219</u>
Net gross profit less R&D	\$3,353,906	\$3,354,951	\$220,922	\$6,929,779	\$7,719,723	\$7,301,796	\$80,868	\$15,102,387
Interest income				174,512				424,863
Investment income recognized by equity income, net				151,280				206,480
Other income				2,029,206				1,105,513
SG&A				(2,667,950)				(3,565,070)
Interest expense				(1,358,155)				(1,115,406)
Other expense				(3,808,684)				(832,918)
Income before income tax				<u>\$1,449,988</u>				<u>\$11,325,849</u>
Identifiable assets (land and revaluation surplus excluded)	\$53,110,262	\$27,766,963	\$(729,913)	\$80,147,312	\$99,588,442	\$25,301,483	\$(577,494)	\$124,312,431
Long-term investments				4,248,878				4,611,243
Other assets (land and revaluation surplus included)				<u>57,534,853</u>				<u>75,923,270</u>
Total assets				<u>\$141,931,043</u>				<u>\$204,846,944</u>

(3) Export sales

Export sales by region for 2003 and 2004 are as follow:

	2003	2004
AMERICA	\$458,958	\$1,515,434
EUROPE	971,698	1,228,062
SOUTHEAST ASIA	70,898,872	100,184,215
OTHERS	5,992,706	6,173,777
Total	<u>\$78,322,234</u>	<u>\$109,101,488</u>

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

Customer Name	2003		2004	
	Sales	Percentage	Sales	Percentage
A Co., Ltd.	\$11,642,173	13.09%	\$20,305,029	17.34%
B Co., Ltd.	14,804,171	16.64%	24,196,049	20.66%
C Co., Ltd.	9,233,314	10.38%	6,082,674	5.19%

11. Derivative

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

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

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

(2) Details of contract amount or notional amount:

Financial instruments	December 31,	
	2003	2004
	Contract amount or notional amount (in thousands)	Contract amount or notional amount (in thousands)
a. Foreign currency forward exchange contract:		
Buy USD Sell JPY	-	USD 28,000
b. European style foreign currency options:		
<u>Buy</u>		
NTD Call / USD Put	-	USD 10,000
JPY Call / USD Put	USD346,000	USD 175,000
USD Call / JPY Put	-	USD 13,000
USD Call / GBP Put	GBP 8,000	-
<u>Sell</u>		
JPY Call / USD Put	-	USD 173,500
USD Call / JPY Put	USD1,013,550	USD 885,100
USD Call / GBP Put	-	GBP 8,000
USD Call / NTD Put	-	USD20,000
GBP Call / USD Put	GBP9,600	GBP 8,000

c. Interest rate swap transactions

Outstanding IRS contracts as of December 31, 2004 were as follows:

Maturity period	Notional Amounts	Payable on Fixed Interest Rate	Receivables	Fair Value
			on Floating Interest Rate	
2009.4~2009.6	\$11,000,000	0.90%-1.65%	0.96%-1.077%	\$(44,112)

The Company did not engage in any IRS transactions in 2003.

(3) Transaction risk:

① Credit risk relating to derivative financial instruments:

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

② Market price risk relating to derivative instruments:

Foreign currency forward exchange contracts and foreign currency option contracts:

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

Interest rate swap contracts:

The IRS contracts are used to hedge interest rate fluctuation on its liabilities with floating interest rates. Since the interest receivable and payable are settled at net amounts on the settlement date, the market risk is immaterial.

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

Foreign currency forward exchange contracts and foreign currency option contracts:

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

Interest rate swap contracts:

There is no significant liquidity risk or cash flow risk involved in the interest rate swap contract as the Company has taken into consideration the future cost of capital before entering into such contract.

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

① Foreign currency forward exchange contracts:

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

The details of foreign currency forward exchange contracts as of December 31, 2004 are as follows:

	December 31, 2004
Foreign currency forward exchange contracts-receivable	\$893,676
Foreign currency forward exchange contracts-payable	(917,162)
Unamortized premium	(3,405)
Foreign currency forward exchange contracts-payable, net	<u><u>\$(26,891)</u></u>

② Foreign currency option contracts:

The unrealized foreign currency loss for these contracts was \$81,182 for the year ended December 31, 2004.

③ Interest rate swap contracts:

Interest revenue and expense on these interest rate swap contracts for the year ended December 31, 2004 were \$1,104 and \$16,027, respectively.

Accounting policy: Please see Note 2.

B. Fair value of financial instruments:

	December 31, 2003	
	Carrying amount	Fair value
Non-derivative		
Financial assets		
Cash and cash equivalents	\$27,366,724	\$27,366,724
Marketable securities	1,023,613	1,071,918
Receivables, net	21,964,419	21,964,419
Long-term investments, net	4,248,878	3,791,976
Refundable deposits	52,877	52,877
Pledged time deposits	141,450	141,450
Deferred Charges	1,567,226	1,567,226
Financial liabilities		
Short-term bank loans	3,713,691	3,713,691
Payables	30,035,612	30,035,612
Other current liabilities	152,843	152,843
Bonds payable (including current portion)	4,424,387	4,661,988
Long-term bank loans (including current portion)	33,510,633	33,510,633
Derivatives		
Foreign currency options	-	251,329

Non-derivative	December 31, 2004	
	Carrying amount	Fair value
<u>Financial assets</u>		
Cash and cash equivalents	\$42,856,218	42,856,218
Marketable securities	1,308,887	1,319,933
Receivables, net	20,345,271	20,345,271
Long-term investments, net	4,611,243	4,138,040
Refundable deposits	62,796	62,796
Pledged time deposits	2,426,357	2,426,357
Deferred Charges	2,602,411	2,602,411
<u>Financial liabilities</u>		
Short-term bank loans	12,780,335	12,780,335
Payables	42,426,597	42,426,597
Other current liabilities	275,030	275,030
Bonds payable (including current portion)	13,918,209	14,416,588
Long-term bank loans (including current portion)	36,967,095	36,967,095
<u>Derivatives</u>		
Foreign currency forward exchange contracts-payable, net	(26,891)	(26,891)
Foreign currency options contracts, net	(81,182)	(81,182)
Interest rate swap contracts	-	(44,112)

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

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

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

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

The fair value of derivative financial instruments represents the estimated net receivable or payable amount if those contracts are terminated at the balance sheet date.

12. Others

- (1) 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 Taiwan and U.S. As of the date of this report, due to the nature of the litigation, the Company cannot predict the ultimate outcome of the lawsuit. The Company believes that the suit will not have a significant impact on the Company's operations.
- (2) In 2004, the Company entered into accounts receivable factoring agreements in the amount of USD26,646 thousand, without recourse, with China Trust Commercial bank. Under the agreement, the Company bear the risk arising from business dispute in connection with the receivable factored. As of December 31, 2004, USD22,649 thousand has been paid to the Company and the remaining USD3,997 thousand has been reserved for future business dispute. Accordingly, the Company derecognized USD22,649 thousand and reclassified USD3,997 thousand to other receivable. The Company also issued a promissory note in the amount of \$5,000,000 to the bank as the security of future business dispute. Related information with respect to the promissory note is as follows:

<u>Bank</u>	<u>Credit line</u>	<u>Prepaid proceeds</u>	<u>The range of interest rate of prepayment</u>
Chinatrust Commercial Bank	<u>\$5,000,000</u>	<u>\$722,902</u>	2M Libor+40bps

- (3) In September 2004, the liquidation of CPTUK was completed. The Company recognized a disposal gain of \$277,772, which was classified as non-operating income.