

# 2003

**TAIWAN CELLULAR CORPORATION** 2003 ANNUAL REPORT



|                                      |   |  |
|--------------------------------------|---|--|
| <b>Spokesperson</b>                  | Name  | Hui Ming Cheng   |
|                                      | Title   | Chief Financial Officer                                      |
|                                      | Telephone   | (02) 6638-6888   |
|                                      | Email   | tccspokesman1@tcc.net.tw                                     |
| <b>Deputy Spokesperson</b>           | Name  | Josephine Juan   |
|                                      | Title   | Director   |
|                                      | Telephone   | (02) 6638-6888   |
|                                      | Email   | tccspokesman2@tcc.net.tw                                     |
| <b>Stock Title Transfer Agent</b>    | Name  | Fubon Securities Co., Ltd.                                   |
|                                      | Address   | 2F, No. 17, Syuchang St., Jhongjheng Dist., Taipei           |
|                                      | Telephone   | (02) 2361-1300   |
|                                      | Website   | <a href="http://www.fbs.com.tw">www.fbs.com.tw</a>           |
| <b>Independent Auditor</b>           | Deloitte & Touche   | Charles Yen, CPA, and Morris Yang, CPA                       |
|                                      | Address   | 12F, No. 156, Minsheng E. Rd., Sec. 3, Taipei                |
|                                      | Telephone   | (02) 2545-9988   |
|                                      | Website   | <a href="http://www.deloitte.com.tw">www.deloitte.com.tw</a> |
| <b>Listing of Foreign Securities</b> | None  |  |
| <b>TCC website</b>                   | <a href="http://www.tcc.net.tw">http://www.tcc.net.tw</a> |  |

# Table of Contents

|  |     |
|--|-----|
| <b>Letter to the Shareholders</b>                                | 1   |
| <b>Company Highlights</b>  | 3   |
| Company Profile  | 4   |
| Organization   | 6   |
| Capital and Shares   | 22  |
| Corporate Bond Issuance  | 25  |
| Preferred Share Issuance   | 27  |
| Depositary Receipt Issuance                                      | 27  |
| Employee Stock Options   | 27  |
| Mergers and Acquisitions   | 27  |
| <b>Operational Highlights</b>                                    | 29  |
| Business Activities  | 30  |
| Market and Revenue Overview                                      | 30  |
| Operating Results Review   | 32  |
| Business Development and Strategies                              | 32  |
| Employees  | 33  |
| Employee Safety and Sanitary Policy                              | 33  |
| Environmental Protection and Expenditure                         | 33  |
| Employee Relations   | 34  |
| Major Contracts  | 35  |
| Lawsuits and Non-litigious Matters                               | 36  |
| Major Asset Acquisitions and Disposals                           | 37  |
| <b>Financial Information</b>                                     | 39  |
| Condensed Financial Statements for the Past Five Years           | 40  |
| Financial Analysis for the Past Five Years                       | 42  |
| Supervisors' Report  | 43  |
| Independent Auditors' Report                                     | 47  |
| 2003 Consolidated Financial Statements                           | 96  |
| Affiliates' Financial Conditions and Impacts to TCC              | 150 |
| Financial Projections vs. Actual Results                         | 150 |
| <b>Financial Status, Operating Results &amp; Risk Management</b> | 151 |
| Financial Status   | 152 |
| Operating Performance  | 152 |
| Cash Flow Analysis   | 153 |
| Major Capital Expenditure and Source of Capital Analysis         | 154 |
| Investment Policy, Profitability Analysis and Improvement Plans  | 154 |
| Risk Management Analysis   | 154 |
| <b>Corporate Governance</b>                                      | 157 |
| <b>Special Notes</b>   | 159 |
| Affiliates   | 160 |
| Internal Control Execution Status                                | 163 |
| Dissenting Comments from Directors and Supervisors               | 163 |
| Private Placement of Marketable Securities                       | 163 |
| TCC Shares Held/Disposed by Subsidiaries                         | 164 |
| Major Resolutions in Shareholders' and Board Meetings            | 164 |
| Execution of Shareholders' Meeting Resolutions                   | 165 |
| Violation of Regulations and Internal Policies                   | 165 |



## Letter to the Shareholders

Dear Shareholders,

## Changes and challenges

In 2003 Taiwan Cellular Corporation ("TCC" or "the Company") was faced with the major challenge of operating in an increasingly competitive market. The Company focused on enhancing profitability by shifting its emphasis from rapid customer base expansion to the pursuit of a better customer mix.

## Marketing and sales

Despite a decrease of around 400,000 subscribers, TCC maintained its revenue at NT\$45 billion in 2003. This was mainly due to the sequential improvement in its ARPU (average revenue per user) during the second half of last year, as the Company laid stress on retaining and attracting more high-usage subscribers. Revenues were also bolstered by the Company's strategic marketing shift from a "single brand" approach (i.e., a single brand to cater to the general market) to "segmented marketing" (i.e., multiple brands to target different consumer segments). In line with this, the Company launched the TCC sub-brand, "My Mobile", in the fourth quarter of 2003. Sales were further supported by continuous product and service innovations by the Company's research and development team. As a result, revenue from mobile data and value-added services grew 24% from the previous year and made up 4.3% of total sales in 2003. Last year also saw the commercial launch of TCC's GPRS and WLAN dual-mode solutions, enabling the Company to increase its presence in the enterprise segment.

## Operating results

Thanks to effective cost and expense management, TCC's operating expense dropped 14% year-on-year, and EBITDA margin rose from 42.54% in 2002 to 44.58% in 2003. Its operating income of NT\$15.2 billion was up slightly from a year ago and achieved 97% of the Company's financial target for the year. On the non-operating front, investment income generated from 92%-owned TransAsia Telecom rose 15% year-on-year, aided by its expanding business scale. Net income came in at NT\$13.3 billion, or earnings per share of NT\$2.91 in 2003. With a healthy net operating cash inflow of NT\$20.6 billion, coupled with effective controls of capital expenditure, TCC managed to lower its gearing and raise the Company's capacity to pay cash dividend.

## Outlook

In 2004 TCC will continue to focus on raising its operating efficiency, enhancing customer loyalty, simplifying its investment structure, improving information transparency, and controlling costs. The Company looks forward to a continued rise in the mobile communications business, as recent market consolidation makes for a more rational competitive environment. Increasing advances in and take-up of mobile data services should serve as industry growth drivers. TCC plans to launch more varied and appealing services in line with developments in 3G technology, the introduction of more multimedia applications, including video streaming service, and other mobile data services, to further address the needs of our customers across different market segments.



Daniel Tsai  
Chairman



Harvey Chang  
President



## Company Highlights

- Company Profile
- Organization
- Capital and Shares
- Corporate Bond Issuance
- Preferred Share Issuance
- Depository Receipt Issuance
- Employee Stock Options
- Mergers and Acquisitions

## Company Profile

### 1. Date of Incorporation

February 25, 1997

### 2. Milestones

|           |      |   |
|-----------|------|---|
| May       | 1996 | Preparation for the Company's incorporation   |
| February  | 1997 | TCC established   |
| December  | 1997 | TCC becomes the first nationwide private operator to obtain a GSM1800 network operating license   |
| January   | 1998 | TCC formally launches its commercial service and mobile numbers with the "0935" prefix; TCC subscriber base surpasses 150,000   |
| May       | 1998 | TCC's subscriber base exceeds 500,000, making it one of the fastest growing mobile operators in the world   |
| November  | 1998 | TCC's active subscriber base surpasses one million, making it the fourth largest GSM 1800 mobile operator in the world and the biggest in Asia  |
| June      | 1999 | TCC passes and obtains DCS-1800 nationwide mobile phone system technical examination and certification  |
| August    | 1999 | TCC's net subscriber base surpasses two million, making it Taiwan's leading private operator and the world's fastest growing cellular operator  |
| December  | 1999 | TCC's net subscriber base surpasses 3 million   |
| March     | 2000 | Launch of TCC's e-WAP service   |
| May       | 2000 | TCC's net subscriber base hits 4 million, allowing it to surpass Chunghwa Telecom and become Taiwan's largest mobile operator   |
| September | 2000 | TCC starts trading on Taiwan's OTC Exchange   |
| December  | 2000 | TCC's net subscriber base surpasses 5 million   |
| June      | 2001 | TCC sets up operating affiliates, including Taiwan Teleservices & Technologies and Taiwan Elitec, and invested in Howin Technologies  |
| July      | 2001 | TCC acquires TransAsia Telecom, increasing the combined subscriber base to 6.42 million   |
| February  | 2002 | TCC acquires 3G license with the spectrum block C   |
| May       | 2002 | First to launch interactive SMS platform  |
| June      | 2002 | Launch of multimedia messaging service (MMS), making TCC the only mobile operator in the world to develop its own MMS platform  |
| August    | 2002 | TCC moves from the OTC exchange to the TSE mainboard  |
| October   | 2002 | TCC is included in "TAIWAN50 INDEX"   |
| November  | 2002 | TCC is included in MSCI INDEX   |
| July      | 2003 | Daniel Tsai elected as TCC Chairman with the aim of maximizing TCC's value by simplifying its investment structure, controlling cost, and increasing information transparency   |
| July      | 2003 | Launch of "800 music ring back tone" value-added service  |
| August    | 2003 | Introduction of 2.5G wireless video services  |
| September | 2003 | Introduction of "My Mobile" sub-brand to target the younger generation<br>First operator to offer a system for monitoring improper commercial short messages  |
| November  | 2003 | TCC offers Taiwan's first "Easy to Locate Baby" wireless system to enhance student safety   |
| December  | 2003 | Ranked No. 1 and No.2 by <i>Asiamoney</i> for Most Improved Corporate Governance and Most Improved Investor Relations, respectively<br>Ranked No. 3 by <i>The Asset</i> for Best in Corporate Governance<br>Introduction of "2-in-1 GPRS and WLAN dual-module" in cooperation with hot spot service providers |

**3. Status of mergers and acquisitions:**

None

**4. Changes in directors, supervisors, shareholders' holding in excess of 10% of outstanding shares or their transfer of a large number of shares:**

Please refer to page 10

**5. Changes in management control:**

Please refer to page 10

**6. Major items sufficient to influence shareholders' rights or the Company:**

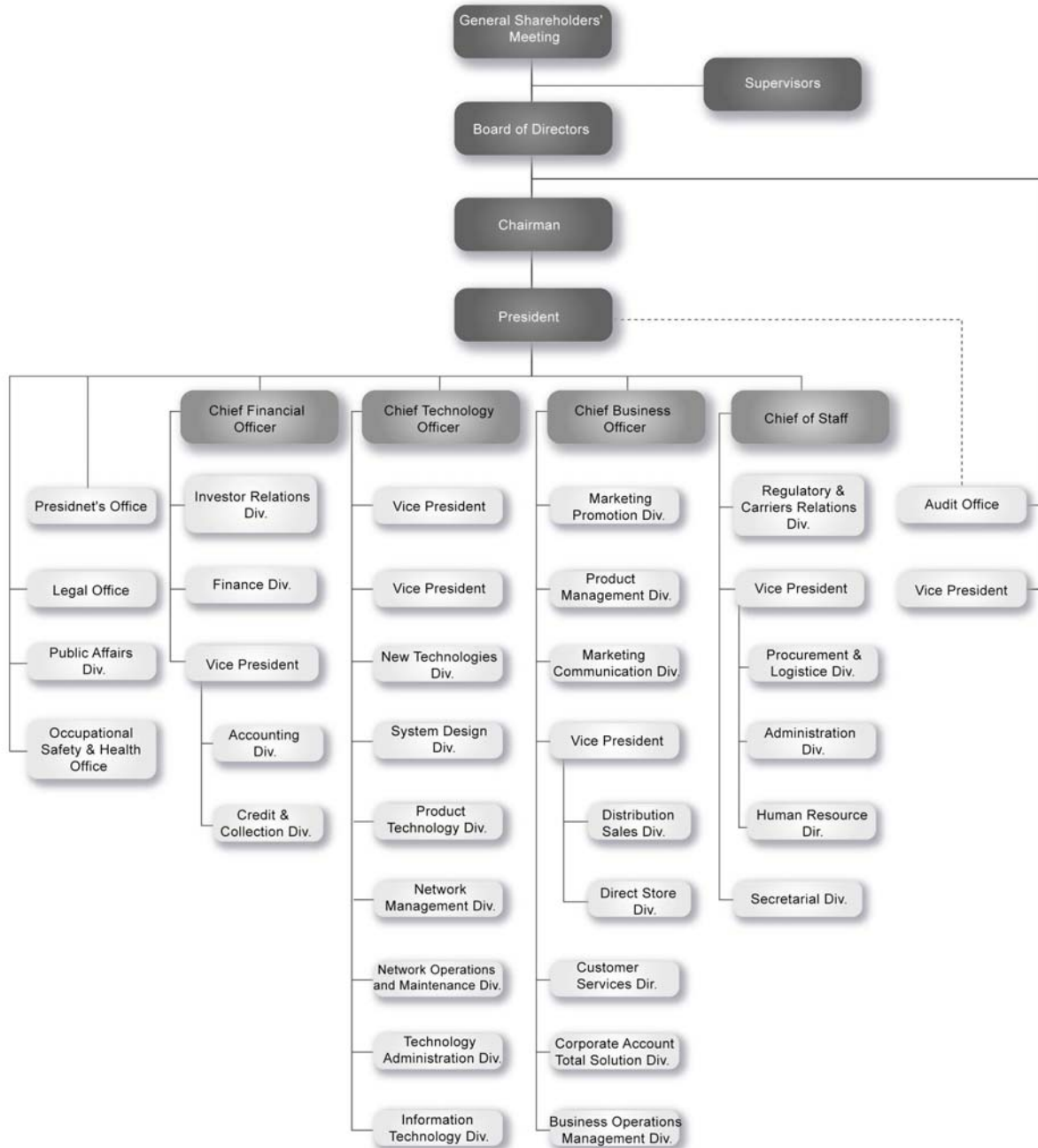
None



# Organization

## 1. Organization

(1) Organization Chart



(2) Division Responsibilities

| Division                |   | Scope of responsibilities  |
|-------------------------|---|--|
| President's Office      | President's Office                      | Cross-departmental issues  |
|                         | Legal Office                            | Legal counsel<br>Company litigation<br>Legal documents review  |
|                         | Public Affairs Div.                     | Build up corporate image<br>Media relations management<br>Organize corporate events<br>Crisis management<br>Corporate website content management   |
|                         | Occupational Safety & Health Office     | Occupational safety and health management  |
| Chief Financial Officer | Investor Relations Div.                 | Release timely information on company's operating & financial status, management strategy, and future business plans and development to investors<br>Serve as the communication medium between CEO/CFO and investors |
|                         | Finance Div.                            | Treasury management, including cashier and financing activities<br>Finance-related project evaluation, planning and execution  |
|                         | Accounting Div.                         | Accounting-related matters<br>Budget planning and implementation<br>Tax planning and execution   |
|                         | Credit & Collection Div.                | Billing and receivables collection<br>Credit check and risk management   |
| Chief Technical Officer | New Technologies Div.                   | Forward-looking analysis of technology, product structuring & platforms, network architecture, interoperability, industry trends and regulations   |
|                         | System Design Div.                      | Setting network standards to assure across 2G, 2.5G, and 3G interoperability<br>System design, planning and implementation guidance for core services  |
|                         | Product Technology Div.                 | Value-added solution development and implementation<br>Web and device development  |
|                         | Network Management Div.                 | All technical delivery systems and platforms examination and data analysis<br>System network trouble shooting  |
|                         | Network Operations and Maintenance Div. | O&M activities for construction, switching, transmission and radio base station networks   |
|                         | Technology Administration Div.          | Management and coordination of public affairs, asset management, system development, quality control, auditing and procurement   |
|                         | Information Technology Div.             | Installation and maintenance of office IT system and billing system<br>Other IT related projects   |

(Continued)

| Division               |   | Scope of responsibilities   |
|------------------------|---|---|
| Chief Business Officer | Marketing Promotion Div.  | Implement sales and marketing strategy<br>Set handset subsidy and fee schedule programs<br>Take charge of International roaming business<br>Design retention and usage enhancement programs<br>Collect and analyze marketing information<br>Draft website sales and marketing plans |
|                        | Product Management Div.   | Develop and manage profitability of all company products and services   |
|                        | Marketing Communication Div.  | Design and execute advertising and promotion strategies<br>Structure and implement strategies related to CIS, media advertising, promotion package design, etc.   |
|                        | Distribution Sales Div.   | Dealership and channel distribution management<br>Product distribution alliance with non-telecom industry channels  |
|                        | Direct Sales Div.   | Direct sales and customer service   |
|                        | Customer Services Div.  | Ensure customer satisfaction, activate mobile services, manage call center operations, and handle customer complaints   |
|                        | Corporate Account Total Solution Div.   | Enterprise customer sales and marketing<br>Development and promotion of integrated bundled solutions  |
|                        | Business Operations Management Div.   | Management of sales-related operations, resources and commissions   |
| Chief of Staff         | Regulatory & Carrier Relations Div.   | Regulatory matters, government relations, and inter-carrier relations   |
|                        | Procurement & Logistics Div.  | Formulate procurement policy<br>Handle procurement-related activities<br>Suppliers evaluation and management<br>Contract negotiation and signing  |
|                        | Administrative Div.   | Office machinery and equipment management<br>General and administrative affairs coordination  |
|                        | Human Resources Div.  | Staffing, compensation, training and employee relations coordination  |
|                        | Secretarial Division  | Corporate share registrar matters<br>Board of directors meeting organizing<br>Company chop management   |
| Audit Office           | Planning and evaluation of internal control policies and procedures for TCC and affiliates<br>Audit TCC and affiliated companies<br>Risk management |   |



## 2. Directors and Supervisors

As of March 29, 2004

| Title             | Name  | Date elected | Tenure (Year) | Shareholding when elected | Current shareholding      |                | Spouse/minor's shareholdings |       | Education and experience   | Current position(s) in other companies  | Managers who are spouse or consanguineous within two degrees |      |              | Compensation (NT\$000) |
|-------------------|---|--------------|---------------|---------------------------|---------------------------|----------------|------------------------------|-------|--|---|--|------|--------------|------------------------|
|                   |   |              |               | Shares / %                | Shares                    | %              | Shares                       | %     |  |   | Title  | Name | Relationship |                        |
| Chairman          | Daniel Tsai,<br>Representative of Fu-Chi Venture Corp.<br>(Note 1)            | 2003.7.10    | (Note 1)      | 3,422,406<br>0.090%       | 4,235,569<br>104,795,964* | 0.090<br>2.231 | 7,255,618                    | 0.154 | Graduate School of Law,<br>Georgetown University<br>Chairman, Fubon Insurance  | Vice Chairman and Co-CEO, Fubon Financial Holding Co.<br>Vice Chairman, TaipeiBank<br>Chairman, Fubon Land Development Co.<br>Chairman, Taiwan Fixed Network Co., Ltd.<br>Chairman, TransAsia Telecommunications Inc.   | -  | -    | -            | 13,640                 |
| Vice Chairman     | Richard Tsai,<br>Representative of Fu-Chi Venture Corp.<br>(Note 2)           | 2003.7.10    | (Note 2)      | 3,422,406<br>0.090%       | 4,235,569<br>104,795,964* | 0.090<br>2.231 | 7,995,965                    | 0.170 | MBA, Stern School, New York University<br>Chairman, Fubon Securities Co., Ltd.   | Chairman, Fubon Life Assurance<br>Chairman, Fubon Asset Management<br>Director, Taiwan Fixed Network  | -  | -    | -            | 13,640                 |
| Managing Director | Nita Ing,<br>Representative of Ching Shang Zhen Corp.<br>(Note 3)             | 2003.7.10    | (Note 3)      | 1,815,302<br>0.048%       | 2,246,617<br>7,362,232*   | 0.048<br>0.157 | -                            | -     | University of California, Los Angeles  | President, Continental Engineering Co., Ltd.<br>Director, Taiwan Synthetic Rubber Co., Ltd.<br>Chairman, Hao Ran Foundation<br>Chairman, Taiwan High Speed Rail Corp.<br>Chairman, Voice of Taipei Broadcasting Co., Ltd.<br>Director, Taiwan Fixed Network   | -  | -    | -            | 5,071                  |
| Director          | Harvey Chang<br>Representative of Kuo-Ki Investment Co., Ltd. (Note 4)        | 2002.4.26    | 3             | 182,190<br>0.005%         | 225,478<br>520,000*       | 0.005<br>0.011 | -                            | -     | MBA, Wharton School, University of Pennsylvania<br>SVP, Trust and Foreign Depts. of Chiao Tung Bank<br>Founding President of Grand Cathay Securities Corp.<br>President, China Development Corp.<br>Chairman, China Securities Investment Trust Corp.<br>SVP & CFO, Taiwan Semiconductor Manufacturing Co., Ltd. | President, TransAsia Telecommunications Inc.<br>President and Chief Business Officer, Taiwan Cellular Corp.<br>Supervisor, Taiwan Fixed Network Co., Ltd.<br>Director, Howin Technologies Corp.<br>Chairman, Taiwan Teleservices & Technologies Co., Ltd.<br>Chairman, Taiwan Elitec Corp.<br>Chairman, Taiwan Infotainment Co., Ltd. | -  | -    | -            | 13,010                 |
| Director          | Shi-Cheng Wang,<br>Representative of Kuo-Ta Investment Co., Ltd. (Note 4)     | 2002.4.26    | 3             | 1,254,209<br>0.033%       | 1,552,208<br>None*        | 0.033<br>-     | 28,120                       | 0.001 | Department of Accountancy,<br>National Chung Hsing University  | None  | -  | -    | -            | 12,273                 |
| Director          | Pieere Chen,<br>Representative of Kuo-Chung Investment Co., Ltd.              | 2002.4.26    | 3             | 4,682,292<br>0.124%       | 5,794,804<br>None*        | 0.123<br>-     | 2,833,741                    | 0.060 | Dept. of Engineering Science,<br>National Cheng Kung University<br>Chairman, Chillisin Electronics Corp.<br>CEO, Yageo Corp.   | Chairman, Global Testing Corp.<br>Head Advisor, Yageo Corp.<br>Director, Taiwan Fixed Network Co., Ltd.   | -  | -    | -            | 5,071                  |
| Director          | George Huang,<br>Representative of Taiwan Fixed Network Co., Ltd.<br>(Note 4) | 2002.4.26    | 3             | 727,499,000<br>19.225%    | 900,352,762<br>None*      | 19.165<br>-    | -                            | -     | Dept. of Communication<br>Engineering National Chiao Tung University<br>CFO, Acer Inc.   | Director, Acer Inc.<br>Director, Lottery Technology Services Corp.<br>Chairman, Mondex Taiwan Inc.<br>Chairman, CTS Digi-Tech Co.<br>Vice Chairman, TFN Investment Co., Ltd.<br>Vice Chairman, Taiwan Hong Yuan Investment Co., Ltd.<br>Vice Chairman, Taiwan Fixed Network Co., Ltd.   | -  | -    | -            | 10,671                 |
| Director          | Ray-Ying Fan,<br>Representative of Taiwan Fixed Network Co., Ltd.             | 2002.4.26    | 3             | 727,499,000<br>19.225%    | 900,352,762<br>30*        | 19.165<br>-    | -                            | -     | Mester of Science degree-Industrial Management, California Institute of Technology<br>President, Taiwan Cellular Corp.   | President, Taiwan Fixed Network Co., Ltd.<br>Chairman, Howin Technologies Corp.   | -  | -    | -            | 10,671                 |

(Continued)

| Title                | Name  | Date elected | Tenure (Year) | Shareholding when elected | Current shareholding |                | Spouse/minor's shareholdings |       | Education and experience  | Current position(s) in other companies   | Managers who are spouse or consanguineous within two degrees |      |              | Compensation (NT\$000) |
|----------------------|---|--------------|---------------|---------------------------|----------------------|----------------|------------------------------|-------|---|--|--|------|--------------|------------------------|
|                      |   |              |               | Shares / %                | Shares               | %              | Shares                       | %     |   |  | Title  | Name | Relationship |                        |
| Independent Director | Wen-Li Yeh (Note 5)   | 2003.6.25    | (Note 5)      | -                         | -                    | -              | -                            | -     | Dept. of Architecture, Chung-Yuan Christian University<br>Master's & Ph.D. Candidate, University of Paris<br>Graduate Studies, University of California, Berkeley<br>Planner, Council for Economic Planning and Development, Executive Yuan<br>Managing Director, United Pacific International Inc.<br>President, United Communications<br>Managing Director & Vice Chairman, United Advertising Co.<br>Chairman, Carat-United Media Services (Taiwan) Ltd. | Chairman, Aegis Media Group<br>Executive Director-Taiwan, Asatsu-DK Group Japan<br>Director, Federal Corp.   | -  | -    | -            | 180                    |
| Independent Director | Jack J.T. Huang (Note 5)  | 2003.6.25    | (Note 5)      | -                         | -                    | -              | -                            | -     | LL.B., National Taiwan University<br>LL.M., Northwestern University<br>S.J.D., Harvard University<br>Partner, Jones Day<br>Attorneys-at-Law<br>Coudert Brothers, New York<br>Lee and Li Attorneys-at-Law  | Director, Yulon Motor Co., Ltd.<br>Director, China Motor Corp.<br>Independent Director, World Peace Industrial Co.<br>Director, Systex Corp.   | -  | -    | -            | 180                    |
| Supervisor           | Victor Kung, Representative of Fu-Chi Venture Corp.                           | 2002.4.26    | 3             | 3,422,406<br>0.090%       | 4,235,569<br>None*   | 0.090<br>0.000 | 960                          | 0.000 | MA in Economics and MBA in Finance, New York University<br>EVP, Walden International Investment Group (WIIG)<br>Executive Director, Citicorp Capital Asia Ltd.<br>Director of Direct Investments, AIG Investment Corp.  | EVP & CFO, Fubon Financial Holding Co.<br>Director, Fubon Insurance<br>Supervisor, Fubon Life Assurance<br>Director, World Vision Taiwan<br>Director, Taipei Bank<br>Supervisor, Fubon Venture Capital   | -  | -    | -            | 13,640                 |
| Supervisor           | Tsung-Ming Chung<br>Representative of Taiwan Fixed Network Co., Ltd. (Note 4) | 2002.4.26    | 3             | 727,499,000<br>19.225%    | 900,352,762<br>None* | 19.165<br>-    | -                            | -     | MBA, National Chengchi University<br>BBA, National Taiwan University<br>CPA, ROC<br>CPA, Connecticut, USA<br>Partner, T.N. Soong & Co.<br>Instructor, Dept. of Accounting, National Chengchi University   | Vice Chairman, Arima Optoelectronics Corp.<br>Chairman & President, Dynapack Corp.<br>Director & Supervisor, Arima Computer Group<br>Independent Supervisor, Chroma Ate Inc.<br>Independent Supervisor, Polytronics Technology Corp.<br>Stationed Supervisor, Far Eastern Int'l Bank | -  | -    | -            | 10,671                 |
| Supervisor           | Robert Chou   | 2002.4.26    | 3             | -                         | -                    | -              | -                            | -     | Master in Accounting, National Chengchi University<br>CPA, BDO Taiwan Union & Co.   | None   | -  | -    | -            | 3,497                  |

\* Personal shareholding

Note 1: Daniel Tsai was elected as managing director and chairman at the board meeting and the ensuing managing directors' meeting on July 10, 2003.

Note 2: Richard Tsai was elected as managing director and vice chairman at the board meeting and the ensuing managing directors' meeting on July 10, 2003.

Note 3: Nita Ing was elected as managing director at the board meeting on July 10, 2003.

Note 4: Harvey Chang was appointed as Kuo-Ki Investment's representative on Oct. 17, 2003, Shi-Cheng Wang as Kuo-Ta's representative on June 6, 2003, and George Huang and Tsung-Ming Chung as Taiwan Fixed Network's representatives on June 10 and Oct. 21, 2003, respectively.

Note 5: Two independent directors were elected at the annual general shareholders' meeting on June 25, 2003.

(1) Independence Criteria of Directors and Supervisors

As of March 29, 2004

|                  | Over five years of experience in business, finance, legal and/or other areas related to the Company's business | Independence criteria (Notes) |   |   |   |   |   |   |
|------------------|--|-------------------------------|---|---|---|---|---|---|
|                  |  | 1                             | 2 | 3 | 4 | 5 | 6 | 7 |
| Daniel Tsai      | ✓  |                               |   |   |   | ✓ | ✓ |   |
| Richard Tsai     | ✓  |                               |   |   |   | ✓ | ✓ |   |
| Nita Ing         | ✓  |                               | ✓ | ✓ |   | ✓ | ✓ |   |
| Harvey Chang     | ✓  |                               | ✓ | ✓ |   |   | ✓ |   |
| Shi-Cheng Wang   | ✓  | ✓                             | ✓ | ✓ | ✓ | ✓ | ✓ |   |
| Pieere Chen      | ✓  |                               | ✓ | ✓ |   | ✓ | ✓ |   |
| George Huang     | ✓  |                               | ✓ | ✓ |   | ✓ | ✓ |   |
| Ray-Ying Fan     | ✓  |                               | ✓ | ✓ |   |   | ✓ |   |
| Wen-Li Yeh       | ✓  | ✓                             | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Jack J.T. Huang* | ✓  | ✓                             | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Victor Kung      | ✓  | ✓                             | ✓ | ✓ | ✓ | ✓ | ✓ |   |
| Tsung-Ming Chung | ✓  | ✓                             | ✓ | ✓ | ✓ | ✓ | ✓ |   |
| Robert Chou      | ✓  | ✓                             | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

"✓" denotes meeting the conditions specified above.

Criterion 1: Not an employee of the Company, nor a director, supervisor, or employee of the Company's affiliated companies.

Criterion 2: Not a shareholder directly or indirectly owning more than 1% of the Company's outstanding shares, nor one of the Company's top 10 individual shareholders.

Criterion 3: Not a spouse nor first- or second-degree relative to any person specified in Criteria 1 & 2.

Criterion 4: Not a director, supervisor, or employee of an entity that directly and/or indirectly holds more than 5% of the Company's shares, nor one of the Company's top five shareholders.

Criterion 5: Not a director, supervisor, manager or shareholder owning more than 5% of the outstanding shares of certain companies that have financial or business relationship with the Company.

Criterion 6: Not an owner, partner, director, supervisor, manager, and his/her spouse, of any sole proprietorship, partnership, company or institution, that has provided financial, commercial, legal consultation and other services to the Company or its affiliates within the past year.

Criterion 7: Not an institutional shareholder or its representative pursuant to Article 27 of the Company Law.

"\*" also act as independent director at another company

(2) Major Shareholders of TCC's Institutional Investors

As of March 29, 2004

| Institutional investors        | Major shareholders of TCC's institutional investors  |
|--------------------------------|--|
| Fu-Chi Venture Corp.           | Richard Tsai   |
| Ching Shang Zhen Corp.         | Dugan Co.  |
| Kuo-Ki Investment Co., Ltd.    | Daniel Tsai, Richard Tsai  |
| Kuo-Ta Investment Co., Ltd.    | Joseph Lee   |
| Kuo-Chung Investment Co., Ltd. | Yageo Corp.  |
| Taiwan Fixed Network Co., Ltd. | T&M Investment Co., Ltd., Taiwan Cellular Corp., Acer Inc., Continental Engineering Co., Ltd., Fubon Insurance Co., Ltd., BenQ Co., ASE Network Inc., EVA Airways Corp., Evergreen International Corp., China Development Industrial Bank Co., Ltd., |

| Company                           | Major shareholders  |
|-----------------------------------|---|
| Dugan Co.                         | Long Reign Holdings Inc.  |
| Yageo Corp.                       | Yageo Corp. GDR holders, Chen Mu Yun, Hsu Chang Investment Ltd., Chunghwa Post Co., Ltd., Supervisory Board for the Labor Pension Fund, etc.  |
| T&M Investment Co., Ltd.          | Taiwan Cellular Corp.   |
| Taiwan Cellular Corp.             | Taiwan Fixed Network, TFN Investment, Taiwan Hong Yuan Investment, Fubon Securities, Continental Engineering, Fubon Insurance, Chunghwa Post, Fubon Life, Daniel Tsai, Richard Tsai   |
| Acer Inc.                         | Acer Inc. GDR holders, Stan Shih, Hung Rouan Investment Corp., Management Committee of the National Stabilization Fund, Supervisory Committee for the Civil Servants' Pension Fund, Supervisory Board for the Labor Pension Fund, Chunghwa Post Co., Ltd., California Public employees Retirement System    |
| Continental Engineering Co., Ltd. | Wei Dar Investment Co., Ltd., Tina Ing  |
| Fubon Insurance Co., Ltd.         | Fubon Financial Holding Co.   |
| BenQ Co.                          | Acer Inc., Chunghwa Post Co., Ltd., Bureau of Labor Insurance, Supervisory Board for the Labor Pension Fund, Supervisory Board for the Civil Servants' Pension Fund, BenQ Inc. GDR holders, Management Committee of National Stabilization Fund, Stan Shih, Merrill Lynch Asset Management, K. Y. Lee, etc. |
| ASE Network Inc.                  | Advanced Semiconductor Engineering, Inc., Accton Technology Corp.   |
| EVA Airways Corp.                 | Evergreen Marine Corp., Evergreen International Corp.   |
| Evergreen International Corp.     | Chang Kuo Cheng, Chang Kuo Hua, Chang Kuo Ming, Chang Kuo Wei, Chang Shu Hua  |
| China Development Industrial Bank | China Development Financial Holding Corp.   |



3. Management Profile

As of March 29, 2004

| Title                                 | Name           | Effective date | Shareholding<br>Shares / % | Spouse/ minor's<br>shareholding<br>Shares / % | Education and experience  | Current position(s) in other companies  | Officers, directors or supervisors who are spouse or consanguineous within two degrees |            |              |
|---------------------------------------|----------------|----------------|----------------------------|---|---|---|--|------------|--------------|
|                                       |                |                |                            |   |   |   | Title  | Name       | Relationship |
| President and Chief Executive Officer | Harvey Chang   | 2003.09.08     | 520,000<br>0.011%          | -<br>-  | SVP, Trust Dept. and Foreign Dept., Chiao Tung Bank<br>Founding President, Grand Cathay Securities Corp.<br>President, China Development Corp.<br>Chairman, China Securities Investment Trust Corp.<br>SVP & CFO, Taiwan Semiconductor Mfg. Co., Ltd. | President, TransAsia Telecommunications Inc.<br>Supervisor, Taiwan Fixed Network Co., Ltd.<br>Director, Howin Technologies Corp.<br>Chairman, Taiwan Teleservices & Technologies Co., Ltd.<br>Chairman, Taiwan Elitec Corp.<br>Chairman, Taiwan Infotainment Co.  | -  | -          | -            |
| Chief Technical Officer               | David Clarke   | 2003.10.16     | -<br>-                     | -<br>-  | AT&T Wireless International<br>Vice President, Far Eastone Telecom<br>SBC International Co.   | Director, Howin Technologies Corp.<br>Director, Taiwan Elitec Corp.   | -  | -          | -            |
| Chief Financial Officer               | Hui-Ming Cheng | 2003.10.29     | -<br>-                     | -<br>-  | CFO, Winbond Elec. Corp.<br>Vice President, Chase Manhattan Bank, Taipei Branch<br>Director, China Development Industrial Bank  | Supervisor, Acme Elec. Corp.<br>Supervisor, Howin Technologies<br>Director, Lilontex Corp.<br>Managing Director, Walsin Lihwa<br>Supervisor, Taiwan Elitec Corp.<br>Supervisor, Taiwan Teleservices & Technologies Co., Ltd.<br>Director, Taiwan Tele-Shop Co., Ltd.<br>Supervisor, Taiwan Infotainment | -  | -          | -            |
| Chief of Staff                        | Vivien Hsu     | 2004.01.09     | -<br>-                     | -<br>-  | CFO, Cathay Financial Holding Co.<br>EVP & CFO, KG Telecom Co.<br>President & CEO, KGEx.com Co.<br>President & CEO, Lambda Net Co.<br>SVP, China Securities Investment Trust<br>Vice President, China Development Corp.                               | Chairman, Taiwan Tele-Shop Co., Ltd.<br>Director, Taiwan Teleservices & Technologies Co., Ltd.<br>Director, Taiwan Elitec Corp.<br>Director, Taiwan Infotainment Co., Ltd.  | -  | -          | -            |
| Vice President                        | Nan-Ren Huang  | 1998.11.05     | 49,707<br>0.001%           | 621,122<br>0.013%                             | Project Manager, China Engineering Consultant Co.<br>Program Engineer, United Technology Inc.   | Director and President, Howin Technologies Corp.<br>Director, Taiwan Infotainment Co., Ltd.   | -  | -          | -            |
| Vice President                        | Steve Wang     | 1999.06.15     | 1,159<br>0.000%            | 7,924<br>0.000%                               | Assistant Professor, Chinese University of Hong Kong<br>Vice President, Media Technology Corp.<br>Vice President, First International Telecom Co., Ltd.   | None  | -  | -          | -            |
| Vice President                        | Chung-Wen Lin  | 2000.03.01     | 928,663<br>0.020%          | 2,042<br>0.000%                               | Vice President, TXC Corp.   | None  | -  | -          | -            |
| Vice President                        | Lee-San Liu    | 2001.01.01     | 189,818<br>0.004%          | -<br>-  | Senior Engineer, Lucent Technologies Taiwan<br>Telecommunications Co., Ltd.<br>Vice President, Taiwan Fixed Network Co., Ltd.   | Director, Taiwan Tele-Shop Co., Ltd.  | -  | -          | -            |
| Vice President                        | Li-Fang Chou   | 2001.05.02     | 85,173<br>0.002%           | 41,600<br>0.001%                              | Manager, Auditing Department,<br>PricewaterhouseCoopers<br>Manager, Pacific Telecommunications Taiwan Co.,<br>Ltd.  | Supervisor, Taiwan Tele-Shop Co., Ltd.  | -  | -          | -            |
| Vice President                        | Alex Cheng     | 2002.04.25     | 970,547<br>0.021%          | -   | Assistant Manager, K-Concepts Communications<br>Consultants Co., Ltd.<br>Manager, Pacific Iridium Co., Ltd.   | None  | -  | -          | -            |
| Vice President                        | Juichi Tan     | 2002.04.25     | 36,339<br>0.001%           | 29,891<br>0.001%                              | Marketing Manager, Brand and Promotions, Ford<br>Motors Co., Ltd.   | Director, Taiwan Tele-Shop Co., Ltd.  | VP   | Techi Juan | Spouse       |
| Vice President                        | Techi Juan     | 2002.05.21     | 29,891<br>0.001            | 36,339<br>0.001%                              | Engineer, Lucent Technologies Telecommunications<br>Taiwan Co.<br>Technical Manager, Asia Pacific<br>Intellectual Property Association  | None  | VP   | Juichi Tan | Spouse       |
| Vice President                        | D.S. Chiou     | 2002.05.21     | 2,506<br>0.000%            | 5,608<br>0.000%                               | Project Manager, Siemens Telecommunication<br>Systems Ltd.  | President & Director, Taiwan Teleservices & Technologies Co., Ltd.<br>Director, Taiwan Infotainment Co., Ltd.   |  |            |              |
| Vice President                        | Hung-Tu Yen    | 2002.05.27     | -<br>-                     | 1<br>-  | Manager, Pacific Telecommunications Taiwan Co.<br>President, Taiwan Tele-Shop Co.   | Director, Taiwan Tele-Shop Co.  |  |            |              |

(Continued)

| Title          | Name        | Effective date | Shareholding<br>Shares / % | Spouse/ minor's<br>shareholding<br>Shares / % | Education and experience   | Current position(s) in other companies            | Officers, directors or supervisors who are spouse or consanguineous within two degrees |      |              |
|----------------|-------------|----------------|----------------------------|---|--|---|--|------|--------------|
|                |             |                |                            |   |  |   | Title  | Name | Relationship |
| Vice President | Eric Cheng  | 2002.05.27     | 317,857<br>0.007%          | -<br>-  | Senior Engineer, Lucent Technologies Taiwan Telecommunications Co., Ltd.   | President and Director, Taiwan Elittec Corp.      |  |      |              |
| Vice President | Jerry Chu   | 2003.12.01     | -<br>-                     | -<br>-  | Vice President, Corporate Banking, Citibank Taipei<br>Country Quality Director and Citiservice Head, Citibank Taipei<br>Senior Country Operations Officer, Global Transaction Services, Citibank Taipei<br>Director (Revenue Assurance, Customer Service, Financial Management, Business & Process Management), KG Telecom | None  |  |      |              |
| Vice President | Andrew Wong | 2003.12.01     | -<br>-                     | -<br>-  | Manager, Johnson, Bassin & Shaw<br>Manager, MCI Communications<br>Vice President, Far EasTone Telecommunications Co., Ltd.   | None  |  |      |              |
| Vice President | C.A. Chuang | 2003.12.01     | -<br>-                     | -<br>-  | Manager, Human Resources Dept., China Steel Corp.  | Vice President, TransAsia Telecommunications Inc. |  |      |              |
| Vice President | Sean Hsieh  | 2003.12.08     | -<br>-                     | -<br>-  | Account Supervisor, Bozell CCAA<br>Group Account Director, Series DMB&B Communications<br>Marketing & Sales Manager, PUMA North Asia Ltd., Taiwan Branch   | Vice President, TransAsia Telecommunications Inc. |  |      |              |
| Vice President | Egon Chen   | 2004.02.16     | -<br>-                     | -<br>-  | Project Manager, Siemens Telecommunication Systems Ltd.<br>Senior Director, Taiwan Fixed Network<br>Vice President, Howin Technologies   | None  |  |      |              |
| Vice President | Chien Chen  | 2004.02.16     | 747<br>0.000%              | -<br>-  | Manager, Siemens Telecommunication Systems Ltd.<br>Vice President, Taiwan Fixed Network<br>Vice President, Howin Technologies  | None  |  |      |              |
| Vice President | Ariel Hwang | 2004.03.01     | -<br>-                     | -<br>-  | Judge, Taiwan Taoyuan District Court<br>Judge, Taiwan Panchiao District Court<br>Judge, Taiwan Taipei District Court<br>Judge, Taiwan High Court   | None  |  |      |              |
| Vice President | James Yang  | 2004.03.08     | 429,504<br>0.009%          | 76,592<br>0.002%                              | Specialist, Chunghwa Telecom<br>Manager, Siemens Telecommunication Systems Ltd.<br>Sales Director, Best Way Telecom.   | President, Taiwan Tele-Shop Co., Ltd.             |  |      |              |

Note: Total compensation: NT\$447,976,000, including that paid to the former chairman and vice chairman as managers.

#### 4. Shareholdings Transferred or Pledged by Directors, Supervisors, Managers, and Major Shareholders The Own More Than 10% of Outstanding Shares

(1) Net changes in shareholdings of directors, supervisors, managers, and major shareholders

As of March 29, 2004; Unit: Shares

| Title                               | Name   | 2003                       |                              | 2004 (as of March 29)      |                              |
|-------------------------------------|--|----------------------------|------------------------------|----------------------------|------------------------------|
|                                     |  | Net change in shareholding | Net change in shares pledged | Net change in shareholding | Net change in shares pledged |
| Chairman                            | Daniel Tsai, Representative of Fu-Chi Venture Corp.                | 162,906                    | -                            | -                          | -                            |
| Vice Chairman                       | Richard Tsai, Representative of Fu-Chi Venture Corp.               | 162,906                    | -                            | -                          | -                            |
| Managing Director                   | Nita Ing, Representative of Ching Shang Zhen Co., Ltd.             | 86,408                     | -                            | -                          | -                            |
| Director                            | Harvey Chang, Representative of Kuo-Ki Investment Co., Ltd.        | 8,672                      | -                            | -                          | -                            |
| Director                            | Shi-Cheng Wang, Representative of Kuo-Ta Investment Co., Ltd.      | 59,700                     | -                            | -                          | -                            |
| Director                            | Pieere Chen, Representative of Kuo-Chung Investment Co., Ltd.      | 222,877                    | -                            | -                          | -                            |
| Director                            | George Huang, Representative of Taiwan Fixed Network Co., Ltd.     | 34,628,952                 | -                            | -                          | -                            |
| Director                            | Ray-Ying Fan, Representative of Taiwan Fixed Network Co., Ltd.     | 34,628,952                 | -                            | -                          | -                            |
| Independent Director                | Wen-Li Yeh   | -                          | -                            | -                          | -                            |
| Independent Director                | Jack J.T. Huang  | -                          | -                            | -                          | -                            |
| Supervisor                          | Victor Kung, Representative of Fu-Chi Venture Corp.                | 162,906                    | -                            | -                          | -                            |
| Supervisor                          | Tsung-Ming Chung, Representative of Taiwan Fixed Network Co., Ltd. | 34,628,952                 | -                            | -                          | -                            |
| Supervisor                          | Robert Chou  | -                          | -                            | -                          | -                            |
| President & Chief Executive Officer | Harvey Chang   | -                          | -                            | -                          | -                            |
| Chief Technical Officer             | David Clarke   | -                          | -                            | -                          | -                            |
| Chief Financial Officer             | Hui-Ming Cheng   | -                          | -                            | -                          | -                            |
| Chief of Staff                      | Vivien Hsu   | N A                        | N A                          | -                          | -                            |
| Vice President                      | Nan-Ren Huang  | 1,911                      | -                            | -                          | -                            |
| Vice President                      | Steve Wang   | 44                         | -                            | -                          | -                            |
| Vice President                      | Chung-Wen Lin  | 35,717                     | -                            | -                          | -                            |
| Vice President                      | Lee-San Liu  | 7,300                      | -                            | -                          | -                            |
| Vice President                      | Li-Fang Chou   | 3,275                      | -                            | -                          | -                            |
| Vice President                      | Alex Cheng   | 37,328                     | -                            | -                          | -                            |
| Vice President                      | Juichi Tan   | 1,397                      | -                            | -                          | -                            |
| Vice President                      | Techi Juan   | 1,149                      | -                            | -                          | -                            |
| Vice President                      | Deng-Song Chiou  | 96                         | -                            | -                          | -                            |
| Vice President                      | Hung-Tu Yen  | (95,163)                   | -                            | (783)                      | -                            |
| Vice President                      | Eric Cheng   | (14,000)                   | -                            | (198,000)                  | -                            |
| Vice President                      | Jerry Chu  | -                          | -                            | -                          | -                            |
| Vice President                      | Andrew Wong  | -                          | -                            | -                          | -                            |
| Vice President                      | C.A. Chuang  | -                          | -                            | -                          | -                            |
| Vice President                      | Sean Hsieh   | -                          | -                            | -                          | -                            |
| Vice President                      | Egon Chen  | N A                        | N A                          | -                          | -                            |
| Vice President                      | Chien Chen   | N A                        | N A                          | -                          | -                            |
| Vice President                      | Ariel Hwang  | N A                        | N A                          | -                          | -                            |
| Vice President                      | James Yang   | N A                        | N A                          | -                          | -                            |

Note: Managers are required to disclose shareholding information either from the time they joined the company or in accordance with reporting requirements; disclosure of Mr. Wen-Li Yeh and Mr. Jack J.T. Huang's shareholdings commenced from June 2003.

- (2) Shareholding transferred information: not applicable, as the buyers are not affiliated with the Company.
- (3) Share pledged information: None

## 5. Direct and Indirect Investments in Affiliated Companies

| Long-term investments    | Investment by TCC        |             | Direct & indirect investments by TCC's directors, supervisors, and management |             | Total investment         |             |
|--------------------------|--------------------------|-------------|---|-------------|--------------------------|-------------|
|                          | Investment amount (NT\$) | Holding (%) | Investment amount (NT\$)  | Holding (%) | Investment amount (NT\$) | Holding (%) |
| Tai Hung Investment Ltd. | 1,504,999,600            | 99.997      | 0   | 0.000       | 1,504,999,600            | 99.997      |
| Tai Fu Investment Ltd.   | 524,999,600              | 99.992      | 0   | 0.000       | 524,999,600              | 99.992      |
| Tai Hsuo Investment Ltd. | 329,999,600              | 99.988      | 0   | 0.000       | 329,999,600              | 99.988      |
| T.I. Investment Ltd.     | 604,960,000              | 99.993      | 0   | 0.000       | 604,960,000              | 99.993      |

| Long-term investments             | Investment by TCC |             | Direct & indirect investments by TCC's directors, supervisors, and management |             | Total investment |             |
|-----------------------------------|-------------------|-------------|---|-------------|------------------|-------------|
|                                   | Shares            | Holding (%) | Shares  | Holding (%) | Shares           | Holding (%) |
| Taiwan Taihsing Den Den Co., Ltd. | 44,299,274        | 99.998      | 0   | 0.000       | 44,299,274       | 99.998      |
| Taiwan Fixed Network Co., Ltd.    | 300,000,000       | 3.254       | 648,177,000   | 7.030       | 948,177,000      | 10.284      |
| T & M Investment Co., Ltd.        | 78,049,574        | 99.999      | 0   | 0.000       | 78,049,574       | 99.999      |
| TransAsia Telecommunications Inc. | 517,356,106       | 78.866      | 89,696,661  | 13.673      | 607,052,767      | 92.539      |
| Sunnet Co., Ltd.                  | 500,000           | 2.206       | 0   | 0.000       | 500,000          | 2.206       |
| WEB Point Co., Ltd.               | 1,500,000         | 3.759       | 0   | 0.000       | 1,500,000        | 3.759       |
| Taiwan Telecom (Aust) Pty Ltd.    | 4,800,000         | 60.000      | 3,200,000   | 40.000      | 8,000,000        | 100.000     |

## Capital and Shares

### 1. History of Capitalization

As of March 29, 2004

| Date       | Par Value (NT\$) | Authorized capital |                | Paid-in Capital |                | Remarks  |  |
|------------|------------------|--------------------|----------------|-----------------|----------------|--|--|
|            |                  | Shares             | Amount (NT\$)  | Shares          | Amount (NT\$)  | Source of capital (NT\$)   | Effective date & cert. no.                       |
| Sept. 2003 | 10               | 6,000,000,000      | 60,000,000,000 | 4,679,321,292   | 46,793,212,920 | Stock dividend from earnings: NT\$1,766,377,800                                  | 2003.07.15<br>Tai-Tsai-Cheng(-)<br>No. 920131760 |
| Feb. 2004  | 10               | 6,000,000,000      | 60,000,000,000 | 4,697,915,800   | 46,979,158,000 | Conversion of CB: NT\$205,045,080<br>Treasury stock cancellation: NT\$19,100,000 | N.A.   |

As of March 29, 2004

|              | Authorized Capital |                  |               | Remarks  |
|--------------|--------------------|------------------|---------------|--|
|              | Listed shares      | Un-issued shares | Total         |  |
| Common stock | 4,697,915,800      | 1,302,084,200    | 6,000,000,000 | Including 84,829,000 shares of treasury stock bought during Nov. 2002 through Jan. 2003. |

### 2. Shareholder Structure

As of August 23, 2003

|                     | Government agencies | Financial institutions | Other institutions | Individuals                        |             | Total         |
|---------------------|---------------------|------------------------|--------------------|------------------------------------|-------------|---------------|
|                     |                     |                        |                    | Foreign institutions & individuals |             |               |
| No. of shareholders | 5                   | 41                     | 283                | 73,407                             | 261         | 73,997        |
| Shareholding        | 10,851,507          | 554,339,018            | 2,333,428,044      | 1,193,213,466                      | 587,489,257 | 4,679,321,292 |
| Holding percentage  | 0.23%               | 11.85%                 | 49.87%             | 25.50%                             | 12.55%      | 100.00%       |

Note: Adding 20,504,508 shares converted from CB in 2004 and cancellation of 1,910,000 treasury stock, TCC's paid-in capital were 4,697,915,800 shares, as of March 29, 2004.

### 3. Shareholding Distribution

Par value: NT\$10/share

As of August 23, 2003

| Shareholding range  | Number of shareholders | Total shares owned | Holding percentage |
|---------------------|------------------------|--------------------|--------------------|
| 1 ~ 999             | 15,398                 | 5,535,212          | 0.118%             |
| 1,000 ~ 5,000       | 35,726                 | 82,126,898         | 1.755%             |
| 5,001 ~ 10,000      | 9,240                  | 62,405,449         | 1.334%             |
| 10,001 ~ 15,000     | 5,125                  | 58,874,909         | 1.258%             |
| 15,001 ~ 20,000     | 1,897                  | 32,031,805         | 0.685%             |
| 20,001 ~ 30,000     | 2,540                  | 59,500,141         | 1.272%             |
| 30,001 ~ 50,000     | 1,651                  | 61,712,584         | 1.319%             |
| 50,001 ~ 100,000    | 1,171                  | 75,876,447         | 1.622%             |
| 100,001 ~ 200,000   | 594                    | 76,992,131         | 1.645%             |
| 200,001 ~ 400,000   | 232                    | 62,001,296         | 1.325%             |
| 400,001 ~ 600,000   | 89                     | 42,656,145         | 0.912%             |
| 600,001 ~ 800,000   | 52                     | 35,688,220         | 0.763%             |
| 800,001 ~ 1,000,000 | 40                     | 35,665,713         | 0.762%             |
| 1,000,000 above     | 242                    | 3,988,254,342      | 85.230%            |
| Total               | 73,997                 | 4,679,321,292      | 100.000%           |

Note: Adding 20,504,508 shares converted from CB in 2004 and cancellation of 1,910,000 treasury stock, TCC's paid-in capital were 4,697,915,800 shares, as of March 29, 2004.

#### 4. Major Shareholders

As of August 23, 2003

| Name                                  | Total shares owned | Holding percentage |
|---------------------------------------|--------------------|--------------------|
| Taiwan Fixed Network Co., Ltd.        | 900,352,762        | 19.241%            |
| TFN Investment Co., Ltd.              | 467,821,463        | 9.998%             |
| Taiwan Hong Yuan Investment Co., Ltd. | 163,303,535        | 3.490%             |
| Fubon Securities Co., Ltd.            | 152,690,720        | 3.263%             |
| Continental Engineering Corp.         | 143,791,583        | 3.073%             |
| Fubon Insurance Co., Ltd.             | 133,204,191        | 2.847%             |
| Chunghwa Post Co., Ltd.               | 121,675,704        | 2.600%             |
| Fubon Life Assurance Co., Ltd.        | 107,152,734        | 2.290%             |
| Daniel Tsai                           | 104,795,964        | 2.240%             |
| Richard Tsai                          | 104,795,964        | 2.240%             |

#### 5. Share Price, Net Worth, Earnings, Dividends, and Related Information

Unit: NT\$, shares in thousand

|                               |   | 2002              | 2003      | As of<br>Feb. 29, 2004 |           |
|-------------------------------|---|-------------------|-----------|------------------------|-----------|
| Share price<br>(NT\$)         | High                                      | 46.60             | 32.20     | 34.00                  |           |
|                               | Low                                       | 26.20             | 22.40     | 29.50                  |           |
|                               | Average                                   | 37.35             | 27.08     | 31.85                  |           |
| Net worth per share<br>(NT\$) | Before earnings appropriation             | 14.56             | 15.01     | 15.76                  |           |
|                               | After earnings appropriation              | 11.98             | (Note 1)  | -                      |           |
| Earnings per share<br>(NT\$)  | Adjusted weighted avg. outstanding shares |                   | 4,671,526 | 4,592,006              | 4,612,582 |
|                               | Earnings per<br>share                     | Before adjustment | 3.33      | 2.91                   | 0.68      |
|                               |   | After adjustment  | 3.20      | (Note 1)               | -         |
| Dividends per share<br>(NT\$) | Cash dividends                            |                   | 2.0       | (Note 1)               | -         |
|                               | Stock dividends                           | Retained earnings | 0.4       | (Note 1)               | -         |
|                               |   | Capital surplus   | -         | -                      | -         |
|                               | Accumulated unpaid dividends              |                   | -         | -                      | -         |
| PE and dividend yield         | Price earnings<br>ratio (x)               | Before adjustment | 11.50     | 9.12                   | -         |
|                               |   | After adjustment  | 11.97     | (Note 1)               | -         |
|                               | Cash dividend yield (%)                   |                   | 5.22%     | -                      | -         |

Note 1: The appropriation amounts indicated above are based on resolutions passed at annual shareholders' meetings in the subsequent year. The appropriation amount for 2003 has not been approved yet.

Note 2: Price earnings ratio = Average closing price / earnings per share. Cash dividend yield = Cash dividend per share / Average closing price

#### 6. Dividend Policy

- (1) Dividend policy under Articles of Incorporation  
Stock dividend declared by the Company shall be no more than 80% of total dividend distributed that year, which shall take into account the Company's major capital expenditure plans in the year. The dividend payout proposed by the board of directors has to be approved at the annual shareholders' meeting.
- (2) Proposed dividend allocation for approval at the annual shareholders' meeting  
A cash dividend of NT\$2.4 per share

## 7. Impact of Stock Dividend Distribution on Business Performance & EPS

Not applicable: the board of directors proposes to distribute cash dividend only this year.

## 8. Bonus for Employees, Directors, and Supervisors

- (1) Information on bonus for employees, directors, and supervisors as stated in Articles of Incorporation:  
The Company's annual net income, after paying income taxes, making up any losses in the previous years, and appropriating 10% thereof as legal reserve, should be appropriated in the following order if there is any remainder:
  - (a) Dividends and bonuses to preferred stockholders;
  - (b) 0.5% as compensation to directors and supervisors;
  - (c) 1% to 3% as bonuses to employees; and
  - (d) Remainder thereafter, to be determined as dividends and bonuses to shareholders at the annual general meeting.

If bonuses to employees are stock bonuses, the recipients are to include qualifying employees of subsidiaries. The board of directors is empowered to decide the allocation of stock bonuses to employees.
- (2) Employee bonus proposal adopted by board of directors
  - (a) Employee bonus shall amount to NT\$369,913,000; compensation to directors and supervisors shall amount to NT\$1,652,000.
  - (b) Employee stock bonus as a percentage of retained earnings distributed: None
  - (c) Pro forma earnings per share with employee bonus and compensation to directors and supervisors:  
2003 EPS was NT\$2.91. If employee bonus and compensation to directors and supervisors were expensed, pro forma 2003 EPS would be NT\$2.81.
- (3) Earnings paid as employee bonus and compensation to directors and supervisors in the previous year:  
NT\$391,645,000 for employee bonuses and NT\$65,274,000 as compensation for directors and supervisors.

## 9. Buyback of Treasury Stock

As of March 29, 2004

| Share buyback                                      | 1 <sup>st</sup>         | 2 <sup>nd</sup>         |
|--|-------------------------|-------------------------|
| Purpose  | Transfer to employees   | Transfer to employees   |
| Buyback period                                     | 2000.12.27 ~ 2001.02.26 | 2002.11.21 ~ 2003.01.20 |
| Buyback price range                                | NT\$35.00 ~ NT\$90.00   | NT\$19.60 ~ NT\$44.70   |
| Total number of shares bought back                 | 1,910,000               | 84,829,000              |
| Buyback amount (NT\$)                              | 100,759,445             | 2,342,691,331 (Note1)   |
| Number of shares cancelled                         | 1,910,000               | 0                       |
| Accumulated buybacks (shares)                      | 0                       | 84,829,000              |
| As % of the Company's total issued shares (Note 2) | 0.00%                   | 1.806%                  |

Note 1: Actual disbursement amount was NT\$2,342,628,483, less discounts on transaction charges of NT\$62,848.

Note 2: Total issued shares are 4,697,915,800 , including 84,829,000 shares of treasury stock

# Corporate Bond Issuance

## 1. Corporate Bonds

As of March 29, 2004

| Issuance   | First Secured Corporate Bond   | First Unsecured Corporate Bond   |
|--|--|--|
| Issue date   | February 1, 2001   | December 13, 2002  |
| Denomination   | NT\$1,000,000  | NT\$5,000,000  |
| Issuance and listing                                     | Not applicable   | Not applicable   |
| Issue price  | 100%   | 100%   |
| Total amount   | NT\$3,000,000,000  | NT\$15,000,000,000   |
| Coupon   | 5.31% p.a.   | IA ~ IL: 2.60% p.a.<br>IIA ~ IIL: 5.21% p.a. minus floating rate but not lower than 0%<br>IIIA ~ IIIM: 2.80% p.a.<br>IVA ~ IVM: 5.75% p.a. minus floating rate but not lower than 0%<br>The floating rate is based on the US\$ 6-month LIBOR rate quoted on page 3750 of Hong Kong Bridge Telerate at 11 a.m. London time  |
| Term   | 5-year, 12 separate series: A~L, maturing from Feb. 1, 2006 to Feb. 16, 2006   | 5-year, maturing from Dec. 13, 2007 to Dec. 30, 2007<br>7-year, maturing from Dec. 13, 2009 to Dec. 31, 2009   |
| Guarantor  | Syndicated by ICBC and 15 other banks  | None   |
| Trustee  | Bank SinoPac, Trust Division   | Bank SinoPac, Trust Division   |
| Underwriter  | None   | None   |
| Legal counsel  | None   | None   |
| Auditor  | Arthur Lee, CPA, and Jason Hsia, CPA, Deloitte & Touche  | Peter Lin, CPA, and Morris Yang, CPA, Deloitte & Touche  |
| Repayment  | Repayment of half of the principal at the end of the 4 <sup>th</sup> year and the remaining half at the end of the 5 <sup>th</sup> year  | IA ~ IL: repayment of 50% of the principal at the end of 4 <sup>th</sup> year and the remaining 50% at the end of the 5 <sup>th</sup> year<br>IIA ~ IIL: repayment in full upon maturity<br>IIIA ~ IIIM: repayment of 50% of the principal at the end of 6 <sup>th</sup> year and the remaining 50% at the end of the 7 <sup>th</sup> year<br>IVA ~ IVM: repayment in full upon maturity |
| Outstanding balance                                      | NT\$3,000,000,000  | NT\$15,000,000,000   |
| Early repayment clause                                   | None   | None   |
| Covenants  | <ol style="list-style-type: none"> <li>During the effective period of the syndicated credit agreement, the current ratio at the end of each year must be maintained at greater than 100%.</li> <li>During the effective period of the syndicated credit agreement, the debt to equity ratio at the end of each year must be maintained at less than 100%.</li> <li>Long-term debt repayment ability must be maintained at 150% or higher than the rate in 2001.</li> </ol> | None   |
| Credit rating agency, rating date, company credit rating | Not applicable   | Taiwan Rating Co., Ltd, 2002.11.20, twAA-  |
| Ancillary rights   | Amount converted/exchanged into common shares, ADRs or other securities  | Not applicable   |
|  | Rules governing issuance or conversion (exchanged or subscription)   | Not applicable   |
| Dilution and other effects on shareholders' equity       | Not applicable   | Not applicable   |
| Custodian  | Not applicable   | Not applicable   |

(Continued)



As of March 29, 2004

| Issuance   |  | First Unsecured Convertible Bond  | Second Unsecured Convertible Bond  |
|--|--|---|--|
| Issue date   |  | August 25, 2001   | August 16, 2002  |
| Denomination   |  | NT\$100,000   | NT\$100,000  |
| Issuance and listing                                     |  | Not applicable  | Not applicable   |
| Issuing price  |  | 100%  | 100%   |
| Total amount   |  | NT\$10,000,000,000  | NT\$6,000,000,000  |
| Coupon   |  | Zero coupon   | Zero coupon  |
| Tenure   |  | 5-year, redemption date is Aug. 24, 2006  | 5-year, redemption date is Aug. 15, 2007   |
| Guarantor  |  | None  | None   |
| Trustee  |  | Bank SinoPac, Trust Division  | Bank SinoPac, Trust Division   |
| Underwriter  |  | Fubon Securities Co., Ltd.  | Fubon Securities Co., Ltd.   |
| Legal counsel  |  | Esq. Tsai-Sheng Lin   | Esq. Tsai-Sheng Lin  |
| Auditor  |  | Arthur Lee, CPA, and Jason Hsia, CPA, Deloitte & Touche   | Jason Hsia, CPA, and Morris Yang, CPA, Deloitte & Touche   |
| Repayment  |  | Except for early conversions to common shares pursuant to Articles 10 and 18 of the rule governing the issuance of convertible bonds, or redemptions by the Company pursuant to Article 18 of the rule, or bondholders selling the bond back to the issuing company pursuant to Article 19 of the rule, repayment is due in full by cash payment upon maturity.   | Except for early conversions to common shares pursuant to Articles 10 and 17 of the rule governing the issuance of convertible bonds, or redemptions by the Company pursuant to Article 17 of the rule, or bondholders selling the bond back to the issuing company pursuant to Article 18 of the rule, repayment of face value plus interest compensation is due in full by cash payment upon maturity.   |
| Outstanding balance                                      |  | NT\$5,593,100,000   | NT\$5,333,300,000  |
| Redemption or early repayment clause                     |  | After the third month of the issuance to 40 days before maturity, in the event the closing price of the Company's common share exceeds 50% of the current conversion price for 30 consecutive business days, and the convertible bonds' outstanding balance is lower than 10% of the total issuance amount, then the Company may opt for compulsory conversion or redemption to convert the bonds to entitlement certificates at the current conversion price or redeem the bonds in cash at par value from the bondholder. | After the third month of the issuance to 40 days before maturity, in the event the closing price of the Company's common share exceeds 50% of the current conversion price for 30 consecutive business days, and the convertible bonds' outstanding balance is lower than 10% of the total issuance amount, then the Company may opt for compulsory conversion or redemption to convert the bonds to common stocks at the current conversion price or redeem the bonds in cash at par value from the bondholder. |
| Covenants  |  | As per Articles 7 and 26 of the rule for issuance and conversion of this unsecured convertible bond.  | As per Articles 7 and 25 of the rule for issuance and conversion of this unsecured convertible bond.   |
| Credit rating agency, rating date, company credit rating |  | Not applicable  | Not applicable   |
| Ancillary Rights   | Amount converted/ exchanged into common shares, ADRs or other securities | NT\$4,406,900,000   | NT\$666,700,000  |
|  | Rules governing issuance or conversion (exchanged or subscription)       | As per Article 9 of the rule for conversion of this unsecured convertible bond.   | As per Article 9 of the rule for conversion of this unsecured convertible bond.  |
| Dilution and other effects on shareholders' equity       |  | As per Article 11 of the rule for issuance and conversion of this unsecured convertible bond.   | As per Article 11 of the rule for issuance and conversion of this unsecured convertible bond.  |
| Custodian  |  | Not applicable  | Not applicable   |

## 2. Convertible Bond Information

| Issuance  |         | First unsecured convertible bond |                     |                          | Second unsecured convertible bond |                     |                          |
|---|---------|----------------------------------|---------------------|--------------------------|-----------------------------------|---------------------|--------------------------|
|   |         | 2002                             | 2003                | 2004<br>(as of March 29) | 2002                              | 2003                | 2004<br>(as of March 29) |
| Market price<br>(denomination of<br>the bond)           | High    | 130.00                           | 127.80              | 130.00                   | 106.05                            | 119.90              | 128.80                   |
|   | Low     | 100.00                           | 109.05              | 120.00                   | 101.00                            | 104.40              | 115.25                   |
|   | Average | 117.46                           | 117.23              | 125.63                   | 102.93                            | 111.04              | 123.92                   |
| Conversion price (NT\$)                                 |         | 29.80                            | 25.20               | 25.20                    | 29.10                             | 26.60               | 26.60                    |
| Issue date and conversion<br>price (NT\$) on issue date |         | 2001.08.25<br>39.00              | 2001.08.25<br>39.00 | 2001.08.25<br>39.00      | 2002.08.16<br>41.20               | 2002.08.16<br>41.20 | 2002.08.16<br>41.20      |
| Method of conversion                                    |         | Issue new<br>shares              | Issue new<br>shares | Issue new<br>shares      | Issue new<br>shares               | Issue new<br>shares | Issue new<br>shares      |

### 3. Exchangeable Bond:

None

### 4. Shelf Registration Issuance:

None

### 5. Bond with Warrant:

None

## Preferred Shares Issuance

### 1. Preferred Shares:

None

### 2. Preferred Shares with Conversion Option:

None

## Depository Receipt Issuance:

None

## Employee Stock Options

### 1. Employee Stock Options:

None

### 2. Names of TCC managers and top ten TCC employees that have obtained employee stock options entitling them to buy more than NT\$30m worth of the Company's shares:

None

## Mergers and Acquisitions:

None





## Operational Highlights

- Business Activities
- Market and Revenue Overview
- Operating Results Review
- Business Development and Strategies
- Employees
- Employee Safety and Sanitary Policy
- Environmental Protection and Expenditure
- Employee Relations
- Major Contracts
- Lawsuits and Non-litigious Matters
- Major Asset Acquisitions and Disposals

## Business Activities

### 1. Business Scope

- (1) Major Business: Mobile phone communication services
- (2) Revenue Breakdown

Unit: NT\$'000

|                                   | 2003       |         | 2002       |         |
|-----------------------------------|------------|---------|------------|---------|
|                                   | Amount     | %       | Amount     | %       |
| Telecommunication service revenue | 44,926,991 | 99.85%  | 45,098,550 | 99.44%  |
| Other revenue                     | 68,799     | 0.15%   | 253,828    | 0.56%   |
| Total revenue                     | 44,995,790 | 100.00% | 45,352,378 | 100.00% |

- (3) Main Products and Services
  - (a) Basic telecommunication services, such as calling or receiving calls from local fixed-line DLD, IDD, mobile phone and pager users
  - (b) Value-added services, including voice mail, call forwarding, call waiting, conferencing, short messaging service and roaming.
  - (c) Mobile phone numbers with the following prefixes—0935、0939、0922、0920、0918、0952、0953、0958、0914 and 0961—and services, as categorized below:

| Type of service | Mobile Phone          | Phone Card           |
|-----------------|-----------------------|----------------------|
|                 | Postpaid subscription | Postpaid vouchers    |
|                 | Prepaid subscription  | Prepaid reload cards |

- (4) Product Development Plan
  - (a) Expand our range of value-added services by creating better and more user-friendly interface based on existing IVR (interactive voice response), SMS (short messaging services), GPRS and Internet platforms.
  - (b) Develop new services, such as location-based services, WLAN & GPRS dual-mode card, multimedia services and instant messaging.

## Market and Revenue Overview

### 1. Market Analysis

- (1) Major Market Area

TCC holds a GSM 1800 license and a 3G license to operate mobile phone services nationwide, covering Taiwan, Kinmen, Matsu and all the outlying islands.

- (2) Major Competitors and Market Share

Taiwan currently has four nationwide mobile phone service operators, two regional operators and one 3G operator. Following Far EasTone's acquisition of KGT in 2003, Taiwan's telecom market has become a virtual oligopoly with the top three players claiming 97% of the total market share.

Statistics released by the Ministry of Transportation and Communications (MoTC) showed that the total number of subscribers in Taiwan had reached 25,089,644 by the end of 2003, representing an annual growth rate of 5%. The combined revenue of all system operators also rose by 5% during the same period to NT\$189 billion. The following table shows each operator's subscriber number and market share:

| Operator     | TCC       | CHT       | Far EasTone | KGT       | Mobitai | TransAsia | Total      |
|--------------|-----------|-----------|-------------|-----------|---------|-----------|------------|
| Subscribers  | 5,810,861 | 8,267,060 | 4,431,217   | 3,679,220 | 709,988 | 2,200,298 | 25,089,644 |
| Market share | 23.2%     | 33.0%     | 17.7 %      | 14.6%     | 2.8%    | 8.8%      | 100%       |

Source: MoTC

### (3) Macroeconomics, Industry Development, Competition, and Growth Outlook

The Council for Economic Planning and Development (CEPD) forecasts better economic growth this year with gross domestic product expected to rise by 4.74%, higher than the 3.24% growth posted in 2003. The telecom service industry is likewise expected to see higher growth this year. Although Taiwan's mobile phone industry has reached a mature stage with SIM card penetration hitting a high 111% at the end of 2003, continuous product (mobile handset) innovation, development of new applications, improvements in service content and technology advancement should serve as future growth catalysts.

Positive and negative factors in the development of the telecommunications industry

Positive factors:

- The mobile phone has become a "must have" communication tool in daily life.
- The increasing availability of inexpensive, locally produced handsets could increase affordability and shorten the handset upgrade cycle.
- GPRS and 3G technologies should support the development of more appealing and advanced services.
- Market consolidation, as evidenced by TCC acquiring TransAsia Telecom and Far EasTone merging with KGT, has reduced price wars.

Negative factors:

- Limited subscriber growth potential as the 2G service market is saturated.
- New 3G entrants likely to increase market competition.
- Number portability is scheduled to be introduced at the start of 2005.
- Rising retention expense to enhance customer loyalty.

Powerful network coverage, all-inclusive after-sales service, plus innovative marketing strategies are all part and parcel of the company's excellent image. TCC, being a major mobile operator, gains leverage through economies of scale. These savings in turn, benefit the company's loyal subscribers through lower costs on intra-network calls. In addition to these, TCC has an extensive network of distribution channels with close to 400 company-owned and franchise stores nationwide, plus over 2,000 seats at the call center to provide 24-hour, round-the-clock client service. Looking ahead, TCC plans to further leverage off its strength to provide better value and enhance product/service differentiation. TCC is working on developing more value-added services, launching a wireless broadband network, and offering preferential packages to existing subscribers to ensure client loyalty and increase company revenue.

## 2. Main Applications of Major Products/Services

| Major Products and Services | Main Applications  |
|-----------------------------|--|
| Voice Transmission Service  | GSM1800 system voice transmission communications and interconnection with other operators' networks  |
| Data Transmission Service   | GSM1800 system data transmission communications and interconnection with other operators' networks   |
| GPRS Service                | GSM1800 system packet data transmission communications service                                       |
| Short Message Service       | GSM1800 system short message transmission service and interconnection with other operators' networks |

## 3. Raw Material Supply

TCC is a mobile service operator, not a manufacturer. Raw materials are not used.

#### 4. Top Customer and Supplier over the Past Two Years

(1) Top Supplier (over 10% of total operating costs)

Unit: NT\$'000

| 2003             |           |                  | 2002             |           |                  |
|------------------|-----------|------------------|------------------|-----------|------------------|
| Company          | Amount    | % of oper. costs | Company          | Amount    | % of oper. costs |
| Chunghwa Telecom | 4,796,834 | 26.87%           | Chunghwa Telecom | 4,532,443 | 27.65%           |

Note: The increase in 2003 was due to rising interconnection fees charged by CHT re longer minutes of usage.

(2) Top Customer (over 10% of total revenue)

Unit: NT\$'000

| 2003             |            |           | 2002             |            |           |
|------------------|------------|-----------|------------------|------------|-----------|
| Company          | Amount     | % revenue | Company          | Amount     | % revenue |
| Chunghwa Telecom | 10,517,742 | 23.37%    | Chunghwa Telecom | 12,013,972 | 26.49%    |

Note: The decrease in 2003 was due to the decline in fixed-to-mobile and mobile-to-fixed calls.

#### 5. Production Value & Volume for the Past Two Years: Not applicable

#### 6. Revenue for the Past Two Years:

Unit: NT\$'000

|                                   | 2003                  |            |          | 2002                  |            |          |
|-----------------------------------|-----------------------|------------|----------|-----------------------|------------|----------|
|                                   | Domestic              |            | Overseas | Domestic              |            | Overseas |
|                                   | Avg. # of subscribers | Amount     | Amount   | Avg. # of subscribers | Amount     | Amount   |
| Telecommunication Service Revenue | 6,457,257             | 44,926,991 | -        | 5,820,968             | 45,098,550 | -        |

Average number of subscribers = (sum of each month's average number) / 12

## Operating Results Review

Supported by a sequential improvement in ARPU (average revenue per user) during the second half of 2003, the Company's revenue was maintained at NT\$45bn, despite a decrease of 400,000 subscribers during the year. This was due to expansion of its marketing strategies from "single branding" to "segmented marketing" in order to attract more high-usage subscribers. During the last quarter of 2003, TCC launched the sub-brand "My Mobile" to cater to varied consumer groups. Meanwhile, mobile data and value-added services grew 24% from the previous year and made up 4.3% of total revenue in 2003, as a result of continuous product developments by our R&D team. Effective cost and expense management reduced operating expense by 14% YoY, with EBITDA margin rising from 42.54% in 2002 to 44.58% in 2003. With a healthy net operating cash inflow of NT\$20.6 billion, coupled with sound capital expenditure planning and control, TCC managed to lower its gearing and raise the Company's capacity to pay cash dividend.

## Business Development and Strategies

Operating efficiency and subscriber retention remain our key focuses. We anticipate a more rational competitive environment following recent market consolidation. We will also continue to launch more appealing services to address the needs of different market segments. We believe the development and take-up of mobile data service will be the industry's growth drivers. Additionally, the implementation of 3G technology, together with introductions of more multimedia applications including video streaming service, should propel data service growth in the longer term.

## Employees

| Year                     |            | 2002  | 2003  | 2004<br>(as of March 29) |
|--------------------------|------------|-------|-------|--------------------------|
| Number of employees      | Male       | 296   | 281   | 267                      |
|                          | Female     | 521   | 493   | 496                      |
|                          | Total      | 817   | 774   | 763                      |
| Average age              |            | 32.22 | 33.28 | 32.94                    |
| Average years of service |            | 2.47  | 3.04  | 3.11                     |
| Education level          | Ph.D.      | 4     | 3     | 3                        |
|                          | Master     | 117   | 133   | 137                      |
|                          | University | 372   | 340   | 336                      |
|                          | College    | 272   | 256   | 245                      |
|                          | Others     | 52    | 42    | 42                       |

## Employee Safety and Sanitary Policy

In order to fulfill the company's social responsibility of providing its employees with a safe, healthy and comfortable working environment, TCC endeavors to:

1. Abide by and comply with regulations related to environmental protection, safety and sanitation.
2. Be on constant lookout for potential hazards in the work environment in order to minimize accidents.
3. Promote health education, conduct physical examinations, and implement health management programs.
4. Promote and instill energy-saving consciousness to help reduce waste of resources.

## Environmental Protection and Expenditures

TCC takes extreme measures in ensuring that its mobile Base Transceiver Station (BTS) sites maintain safe levels of electro-magnetic waves. Strict adherence to international safety regulations and guidelines are observed in order to ensure public safety. TCC actively supports and participates in the research seminars, public benefit activities, and research plans organized by the Directorate General of Telecommunications (DGT), environmental protection units, and academic research authorities.

TCC further does not shirk from its responsibility to relieve the general public's concern over electro-magnetic waves from BTS sites, and actively seeks to improve the public's understanding of this issue. Actions TCC has taken and their results include:

1. Participated in the production of public information guides and television advertisements about electro-magnetic waves.
2. Cooperated with and assisted the Department of Health and Taipei Municipal Government in conducting health and leisure education and creating public education programs on electro-magnetic waves.
3. Participated in a seminar series on "The Required Legal Environment for 3G Telecommunications" organized by the National Tsinghua University's Institute of Law for Science and Technology.
4. Participated in conferences organized by environmental protection organizations, academic research institutions and the Directorate General of Telecommunications.
5. Implemented the following research plans:
  - (1) Assisted the Environmental Protection Administration in conducting surveys of the field levels of electro-magnetic waves. (Completed)
  - (2) Completed a research case study with the National Chiao Tung University on "Development of the measuring interface for field measurement test-mobile". (Completed)
  - (3) Helped the National Kaohsiung Institute of Marine Technology with its research into "Backward Radiation Reduction for Base-station Antenna". (Completed)
  - (4) Assisted the National Taipei Technology University in its "Investigation into Strategies of Cell Planning and Propagation Characteristics of Radio Channels for Mobile Communication System". (Completed)
  - (5) Assisted Da Yeh University in its research on the "Development of Multi-Beam Architecture Smart Antenna System for BTS". (Completed)
  - (6) Assisted Da Yeh University in its research on the "Development of Smart Antenna System for WCDMA BTS". (Ongoing)
  - (7) Assisted the National Taipei Technology University in its "Software Development for Cell Planning and Performance Evaluation in Indoor Communication Systems". (Ongoing)
6. Provided public electro-magnetic measuring services.



## Employee Relations

### 1. Benefits Policies and Implementation

- (1) All employees are entitled to labor insurance and national health insurance coverage.
- (2) Pursuant to the Company's Employees' Share Subscription Rules, TCC sets aside 10% to 15% of a rights issue for employee subscriptions. The Company also has an employee stock bonus plan.
- (3) TCC provides a number of benefits designed to raise employees' quality of life and promote physical and mental well-being, including insurance, company outings, and benefits for occasions such as weddings, festivals and funerals.
- (4) The Employee Welfare Committee was established in July 1998 to handle and implement employee benefits policies. The committee is responsible for:
  - (a) Fringe benefits: gifts for weddings or births, and condolences for funerals
  - (b) Educational grants: for the education of employees or their children
  - (c) Recreational and entertainment activities: lucky draws, club activities and outings
  - (d) Other benefits: group insurance coverage and gifts to mark major holidays

### 2. Employee Education and Training

In order to encourage employee development, TCC, in cooperation with the National Taiwan University, established "TCC University" which offers free education to help TCC employees gain new knowledge, hone their professional skills, and facilitate career planning. Each division also provides various kinds of on-the-job training and e-learning programs. Future plans include developing more programs to enhance employees' capabilities, thereby promoting mutual growth between TCC and its employees.

### 3. Retirement System and Implementation

- (1) TCC has specified Employee Retirement Rules.
- (2) TCC has set up a Labor Pension Supervisory Committee, which was approved by the Taipei Municipal Government in February 1998. The company has since May 1988 been allocating, on a monthly basis, retirement pension equivalent to 2% of the employees' monthly salaries.
- (3) In accordance with Issue No. 18 of the Financial Accounting Standards of the R.O.C., TCC retains the services of an actuary to assess and calculate the labor pension reserve and provide an accurate report.

### 4. Employee Behavior or Ethical Standards

Each employee is enjoined to adopt the TOPICS principle:

- (a) Team Player: Exercise team spirit by making the accomplishment of team goals the top priority.
- (b) Open Communication: Be proactive in communicating with colleagues to resolve differences and reach consensus.
- (c) Passion: Commit to the company's goals with passion and enthusiasm.
- (d) Integrity: Be fair, honest and upright.
- (e) Creativity: Think outside of the box and find ways to innovate.
- (f) Solution Driver: Aggressively seek for solutions to a problem.

## Major Contracts

| Nature                  | Counterpart   | Contract period   | Description   | Restriction clauses  |
|-------------------------|---|---|---|--|
| Sale & distribution     | Taiwan Tele-Shop Co., Ltd.                          | 2003.01.01~<br>2005.12.31                                     | TTS is authorized to distribute TCC's mobile phone services | Restriction on competition, unless otherwise agreed in writing |
|                         | Taiwan Tele-Shop Co., Ltd.                          | 2003.01.01~<br>2005.12.31                                     | TCC authorizes TTS to develop franchise system for TCC      | Restriction on competition, unless otherwise agreed in writing |
| Network interconnection | Chunghwa Telecom Co., Ltd.                          | 2001.03.01 ~<br>2001.12.31<br>(Under negotiation)<br>(Note 1) | Network interconnection contract                            | None for disclosure  |
|                         | Taiwan Fixed Network Co., Ltd.                      | 2001.04.27 ~<br>2002.04.26<br>(Under negotiation)<br>(Note 1) | Network interconnection contract                            | None for disclosure  |
|                         |   | 2003.04.08 ~<br>2004.04.07                                    | ISR   | None for disclosure  |
|                         | New Century InfoComm Tech Co., Ltd.                 | 2001.10.25 ~<br>2002.10.24<br>(Under negotiation)<br>(Note 1) | Network interconnection contract                            | None for disclosure  |
|                         | Eastern Broadband Telecom Co., Ltd.                 | 2001.10.25 ~<br>2002.10.24<br>(Under negotiation)<br>(Note 1) | Network interconnection contract                            | None for disclosure  |
|                         | TransAsia Telecommunications Inc.                   | 2001.07.12 ~<br>date  | Network roaming contract                                    | None   |
|                         |   | 2001.12.01 ~<br>2004.03.14                                    | Voice service contract                                      | None   |
|                         |   | 2000.08.16 ~<br>2004.03.14                                    | Short message service contract                              | None   |
|                         |   | 2004.03.15 ~<br>2005.03.14                                    | Voice and short message service contract                    | None for disclosure  |
|                         | Far EasTone Telecommunications Co., Ltd.            | 2001.12.01 ~<br>2004.02.09                                    | Voice service contract                                      | None   |
|                         |   | 2000.07.05 ~<br>2004.02.09                                    | Short message service contract                              | None   |
|                         |   | 2004.02.10 ~<br>2005.02.09                                    | Voice and short message service contract                    | None for disclosure  |
|                         | KG Telecommunications Co., Ltd.                     | 2001.12.01 ~<br>2004.02.29                                    | Voice service contract                                      | None   |
|                         |   | 2000.08.16 ~<br>2004.02.29                                    | Short message service contract                              | None   |
|                         |   | 2004.03.01~<br>2005.02.28                                     | Voice and short message service contract                    | None   |
|                         | Mobitai Communications                              | 2000.08.16 ~<br>2001.08.15<br>(Under negotiation)<br>(Note 2) | Short message service contract                              | None   |
|                         |   | 2001.12.01 ~<br>2002.11.30<br>(Under negotiation)<br>(Note 2) | Voice service contract                                      | None   |
|                         | Asia Pacific Broadband Wireless Communications Inc. | 2003.07.23 ~<br>2004.07.22                                    | Voice and short message service contract                    | None for disclosure  |
|                         | First International Telecom Corp.                   | 2003.02.27 ~<br>2004.02.08                                    | Voice and short message service contract                    | None for disclosure  |
|                         |   | 2004.02.09 ~<br>2005.02.08                                    |   |  |

(Continued)

| Nature                             | Counterpart  | Contract period  | Description  | Restriction clauses   |
|------------------------------------|--|--|--|---|
| System engineering                 | Howin Technologies Corp.                           | 2002.12.20 ~ date  | Phase I 3G system engineering & installation   | None for disclosure   |
|                                    |  | 2002.12.20 ~ date  | Phase VI GSM1800 systems engineering & installation  | None for disclosure   |
| Customer service and retention     | Taiwan Teleservices & Technologies Co., Ltd.       | 2003.01.01~2005.12.31  | Respond to customer inquiries and perform other after-sales services                                   | Confidentiality clause; restriction on competition, unless otherwise agreed in writing                          |
| Technology support and maintenance | Howin Technologies Corp.                           | 2003.01.01~2004.03.31  | Management and maintenance service for mobile phone network system                                     | None for disclosure   |
|                                    | Taiwan Elitec Corp.                                | 2003.01.01~2005.12.31  | Billing and printing services  | None for disclosure   |
|                                    |  | 2003.01.01~2005.12.31  | Support and maintenance services for GSMBS system, both software and hardware                          | None for disclosure   |
|                                    |  | 2003.01.01~2005.12.31  | General outsourcing contract   | Confidentiality clause; restriction on competition, unless otherwise agreed in writing                          |
| Syndicated loan                    | ICBC and 18 other banks                            | 1999.02.01~2006.07.23<br>(Outstanding has been fully repaid on 2003.09.05)   | Syndicated loan of NT\$10 billion  | Certain restrictions on debt ratios, current ratios, long-term solvency ratios                                  |
|                                    | ICBC, Industrial Bank of Taiwan and 14 other banks | 2000.12.15~2008.06.12  | NT\$3 billion guarantee and its subordinate debt, such as interest payable, etc.                       | Certain restrictions on debt ratios, current ratios, and long-term solvency ratios                              |
|                                    | ICBC, Industrial Bank of Taiwan and other 14 banks | 2000.12.15~2008.06.12  | Syndicated loan of NT\$7 billion   | Certain restrictions on debt ratios, current ratios, and long-term solvency ratios                              |
|                                    | ICBC, Industrial Bank of Taiwan and 18 other banks | 2003.06.26~2010.09.01  | Syndicated loan of NT\$12 billion to adjust financial structure and enrich working capital             | Certain restrictions on debt ratios, current ratios, and long-term solvency ratios                              |
|                                    | ICBC and 13 other banks                            | 1997.08.05 ~ 2004.12.05<br>(Outstanding has been fully repaid on 2003.12.12) | Revolving credit line to guarantee issuance of commercial paper amounting to NT\$6.6 billion           | Certain restrictions on debt ratios, current ratios, long-term solvency ratios, and times interest earned ratio |
|                                    | Citibank and 2 other banks                         | 2002.12.16 ~ 2004.01.25<br>(Outstanding has been fully repaid on 2003.3.25)  | Joint syndicated loan of NT\$20 billion with TransAsia Telecom (actual borrowings: NT\$6.8625 billion) | Certain restrictions on tangible assets, times interest earned ratio, and debt ratio.                           |

Note 1: When the network interconnection contract expires, should the two parties not be able to conclude their negotiations within three months after their commencement, the process shall be as follows:

- (1) If the two parties concur to continue their negotiations, the contract terms will be the same as the originally negotiated terms, until a new agreement is reached.
- (2) Either party can appeal to the Directorate General of Telecommunications for a ruling. Prior to the date of such a ruling, the contract terms shall be the same as those originally negotiated. Following the ruling, the new contract terms will be formed based on the ruling.

Note 2: Both parties should begin negotiations two months before contract expiration. If an agreement on new contract terms cannot be reached within this time, the previous contract is automatically extended till a new agreement is reached.

## Lawsuits and Non-litigious Matters

1. Summary of all material litigation, administrative proceedings and other non-litigious matters in which the Company was involved in the past two years up to the report's printing date, that may have significant impact on shareholders' equity or share price: None
2. Summary of all material litigation, administrative proceedings, and other non-litigious matters in which TCC directors, supervisors, president, management in control and shareholders holding over 10% of TCC shares were involved in the past two years up to the report's printing date, that may have significant impact on shareholders' equity or share price: None

3. Summary of all material litigation, administrative proceedings and other non-litigious matters in which TCC subsidiaries were involved in the past two years up to the report's printing date, that may have significant impact on shareholders' equity or share price:

- (1) Damage claim for rent and recovery of leased premises against TCC affiliate, TransAsia Telecom

TCC's affiliate, TransAsia Telecom (TAT) has a Base Transceiver Station located on the top floor of the building on No. 8, Yufong St., Gushan District, Kaohsiung City ("the Site"). The Site was originally leased from Mr. Hong Run Lien, who subsequently mortgaged the land and building to the Second Credit Cooperative of Kaohsiung (SCCK). The Site was foreclosed by SCCK on Feb. 13, 2003. With the completion of its ownership registration on Mar. 28, 2003, SCCK, as the new owner, filed a lawsuit against TAT, demanding removal of the BTS and payment of rental from the time SCCK took over ownership up to the time TAT completes removal of its BTS. Pursuant to Article 425 of the Civil Law, TAT declared that its original lease with Mr. Lien is still valid and binding. As such, TAT has the right to continue its lease of the Site. The court has suggested that the two parties settle the issue privately. The lawyers and representatives of both parties are currently negotiating the terms and conditions.

## Major Asset Acquisitions and Disposals

### 1. Acquisitions

- (1) Parent Company

As of March 29, 2003  
Unit: NT\$'000

| Asset                        | Date of acquisition | Purchase price | Seller | Relation | Status |
|------------------------------|---------------------|----------------|--------|----------|--------|
| Short-term investment: funds | 2003.01~2004.03     | 7,400,000      | Note 1 | Note 2   | -      |

Note 1: Including JF, ABN-AMRO, Fubon, Prudential, Allianz Dresdner, Invesco, etc.

Note 2: All are not related to TCC except for Fubon, which became a related party from June 9, 2003

- (2) Subsidiary

As of March 29, 2003  
Unit: NT\$'000

| Asset  | Date of Acquisition | Purchase price | Seller             | Relation  | Status      |
|--|---------------------|----------------|--------------------|-----------|-------------|
| TransAsia Telecom:<br>GSM900 system equipment and installation | 2003.04             | 470,000        | Howin Technologies | Affiliate | In Progress |
| TransAsia Telecom:<br>Short-term investment: funds             | 2003.01~2004.03     | 2,811,000      | Note 1             | Note 2    | -           |

Note 1: Yuanta, Capital, Prudential and Fubon Asset Management

Note 2: All are not related to TransAsia except for Fubon Asset Management

### 2. Disposals

- (1) Parent Company

As of March 29, 2003  
Unit: NT\$'000

| Name of property                        | Date of acquisition | Date of disposal | Costs      | Sales proceeds     | Gains (Losses) | Buyer        | Relation |
|---|---------------------|------------------|------------|--------------------|----------------|--------------|----------|
| Short-term investment: funds            | 2002.12~2004.01     | 2003.01~2004.02  | 13,800,000 | 13,837,616         | 37,616         | Note 1       | Note 2   |
| Short-term investment: Chunghwa Telecom | 2002.12             | 2004.01          | 4,313,887  | 4,706,638 (Note 3) | 364,515        | Stock market | None     |

Note 1: Including Fubon, Allianz Dresdner, Yuanta, JF, Prudential, ABN-AMRO, Invesco, Capital Investment Trust Corp., etc.

Note 2: All are not related to TCC except for Fubon Asset Management

Note 3: Excluding securities transaction tax and handling fee of NT\$28,236,000

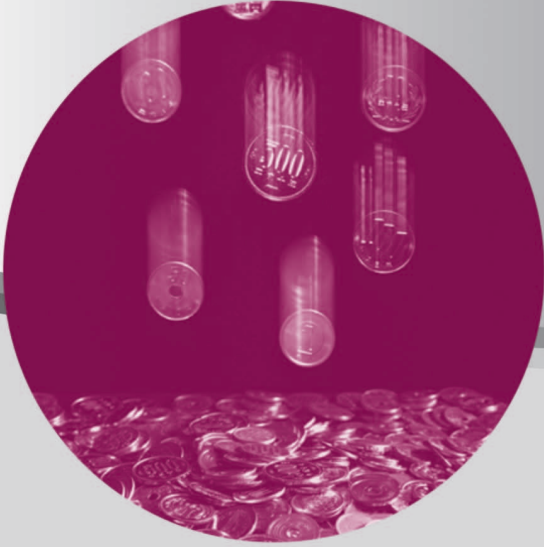
(2) Subsidiary

As of March 29, 2003  
Unit: NT\$'000

| Name of property   | Date of acquisition | Date of disposal    | Costs     | Sales proceeds | Gains (Losses) | Buyer        | Relation |
|--|---------------------|---------------------|-----------|----------------|----------------|--------------|----------|
| TransAsia Telecom:<br>Short-term investment:<br>funds            | 2002.09~<br>2004.03 | 2003.01~<br>2004.03 | 3,019,000 | 3,034,900      | 15,900         | Note 1       | Note 2   |
| TransAsia Telecom:<br>Short-term investment:<br>Chunghwa Telecom | 2002.12             | 2003.10~<br>2004.03 | 3,248,599 | 3,670,268      | 421,669        | Stock Market | None     |

Note 1: Including Prudential, Capital Investment Trust, Fubon Asset Management, etc.

Note 2: All are not related to TAT except for Fubon Asset Management



## Financial Information

Condensed Financial Statements for the Past Five Years

Financial Analysis for the Past Five Years

Supervisors' Report

Independent Auditors' Report

2003 Consolidated Financial Statements

Affiliates' Financial Conditions and Impacts to TCC

Financial Projections vs. Actual Results

## Condensed Financial Statements for the Past Five Years

### 1. Balance Sheet

Unit: NT\$'000

|  |                      | 1999                    | 2000       | 2001        | 2002        | 2003        |
|--|----------------------|-------------------------|------------|-------------|-------------|-------------|
| Current assets                                     |                      | 15,899,923              | 12,683,899 | 17,722,981  | 19,093,320  | 26,069,897  |
| Funds and long-term investments                    |                      | 1,219,905               | 3,509,866  | 22,094,573  | 45,304,537  | 26,768,421  |
| Fixed assets                                       |                      | 37,070,642              | 57,270,238 | 59,343,982  | 63,195,930  | 62,505,230  |
| Intangible assets                                  |                      | 1,589                   | 1,388      | 1,187       | 10,281,985  | 10,281,784  |
| Other assets                                       |                      | 1,703,468               | 2,401,996  | 6,255,839   | 5,075,948   | 4,693,947   |
| Total assets                                       |                      | 55,895,527              | 75,867,387 | 105,418,562 | 142,951,720 | 130,319,279 |
| Current liabilities                                | Before appropriation | 6,861,310               | 9,916,355  | 11,444,638  | 10,541,094  | 17,189,229  |
|  | After appropriation  | 7,523,795               | 10,435,752 | 19,459,663  | 19,829,902  | (Note 1)    |
| Long-term liabilities                              |                      | 16,521,313              | 16,852,421 | 28,129,827  | 64,244,807  | 43,808,584  |
| Other liabilities                                  |                      | 6,148,383               | 9,298,642  | 6,372,928   | 3,930,493   | 130,700     |
| Total liabilities                                  | Before appropriation | 29,531,006              | 36,067,418 | 45,947,393  | 78,716,394  | 61,128,513  |
|  | After appropriation  | 30,193,491              | 36,586,815 | 53,962,418  | 88,005,202  | (Note 1)    |
| Capital stock                                      |                      | 20,000,000              | 27,600,000 | 37,664,190  | 45,026,835  | 46,998,258  |
| Capital surplus                                    |                      | 58                      | 472        | 2,537,463   | 3,004,199   | 3,366,010   |
| Retained earnings                                  | Before appropriation | 6,364,463               | 12,240,628 | 19,367,013  | 19,038,605  | 21,317,020  |
|  | After appropriation  | (1,898,022)<br>(Note 2) | 2,621,231  | 4,165,879   | 7,983,419   | (Note 1)    |
| Unrealized valuation loss on long-term investments |                      | -                       | -          | -           | (317,007)   | -           |
| Translation adjustments                            |                      | -                       | 802        | 3,262       | 7,666       | 34,450      |
| Unrecognized net loss on pension costs             |                      | -                       | -          | -           | -           | -           |
| Total stockholders' equity                         | Before appropriation | 26,364,521              | 39,799,969 | 59,471,169  | 64,235,326  | 69,190,766  |
|  | After appropriation  | 25,702,036              | 39,280,572 | 51,456,144  | 54,946,518  | (Note 1)    |

Note 1: 2003 earnings appropriation proposal has yet to be approved in the shareholders' meeting.

Note 2: In accordance with *Consolidated Accounting Treatment for the Payment of Sales Commissions and Handset Subsidies by Mobile Telephone Operators*, issued on June 28, 2000 by the ROC Accounting Research and Development Foundation, an adjustment was made in the amount of NT\$3,416,684,000 as a deduction from total distributable earnings in FY1999, upon the distribution of earnings to shareholders in 2001.

Note 3: 1999-2003 financial information has been duly audited by independent auditors.

### 2. Income Statement

Unit: NT\$'000

|                        | 1999       | 2000       | 2001       | 2002       | 2003       |
|------------------------|------------|------------|------------|------------|------------|
| Revenue                | 26,798,428 | 45,185,889 | 48,811,979 | 45,352,378 | 44,995,790 |
| Gross profit           | 18,247,512 | 33,252,268 | 34,968,166 | 28,957,775 | 27,140,642 |
| Operating income       | 6,461,531  | 14,178,959 | 17,793,511 | 15,073,699 | 15,201,619 |
| Non-operating income   | 385,782    | 1,058,149  | 1,624,827  | 1,888,631  | 2,194,575  |
| Non-operating expenses | 648,454    | 742,909    | 1,387,840  | 1,552,683  | 2,929,394  |
| Pre-tax income         | 6,198,859  | 14,494,199 | 18,030,498 | 15,409,647 | 14,466,800 |
| Net income             | 6,016,491  | 14,153,772 | 16,750,472 | 14,937,320 | 13,344,447 |
| EPS (NT\$)             | 1.42       | 3.12       | 3.69       | 3.20       | 2.91       |

Note: 1999-2003 financial information has been duly audited by independent auditors.

### 3. Independent Auditors and Audit Opinions for the Past Five Years

| Year | Audit Firm        | Auditor's Name           | Opinion                      |
|------|-------------------|--------------------------|------------------------------|
| 1999 | Deloitte & Touche | Arthur Lee, Jason Hsia   | An unqualified opinion       |
| 2000 | Deloitte & Touche | Arthur Lee, Jason Hsia   | An unqualified opinion       |
| 2001 | Deloitte & Touche | Jason Hsia, Morris Yang  | Modified unqualified opinion |
| 2002 | Deloitte & Touche | Peter Lin, Morris Yang   | Modified unqualified opinion |
| 2003 | Deloitte & Touche | Charles Yen, Morris Yang | An unqualified opinion       |

#### Reasons for Changes of Auditors in the Past Five Years

Jason Hsia and Morris Yang were the assigned certified auditors for TCC in 2001. In 2002, regular job rotations within Deloitte & Touche resulted in the replacement of Jason Hsia with Peter Lin. In June 2003, Deloitte & Touche merged with T.N. Soong & Co. Accordingly, Deloitte & Touche, Taiwan, has been renamed as Deloitte Touche Tohmatsu (DTT) in Taiwan. Charles Yen and Morris Yang were then assigned as auditors to TCC.

### 4. Other non-audit fee paid to independent auditor

TCC paid a total amount of NT\$469,000 to Deloitte & Touche and its affiliates in 2003 for the following services:

- (1) English translation of 2002 annual report
- (2) Audit report on fixed assets valuation
- (3) Company registration
- (4) Filing of stock dividend distribution with the Securities and Futures Commission



## Financial Analysis for the Past Five Years

|                     |   | 1999              | 2000       | 2001       | 2002       | 2003       |        |
|---------------------|---|-------------------|------------|------------|------------|------------|--------|
| Financial structure | Debt-to-asset ratio                     | 52.83%            | 47.54%     | 43.59%     | 55.07%     | 46.91%     |        |
|                     | Long-term capital to fixed assets ratio | 115.69%           | 98.92%     | 147.62%    | 203.30%    | 180.78%    |        |
| Solvency            | Current ratio                           | 231.73%           | 127.91%    | 154.86%    | 181.13%    | 151.66%    |        |
|                     | Quick ratio                             | 198.03%           | 96.88%     | 145.93%    | 176.02%    | 147.86%    |        |
|                     | Interest cover (x)                      | 1,191.00%         | 1,508.36%  | 1,365.00%  | 1,558.41%  | 1,013.37%  |        |
| Operations          | Accounts receivable turnover (x)        | 6.19              | 6.31       | 5.64       | 6.29       | 7.57       |        |
|                     | Average collection days                 | 58.97             | 57.84      | 64.72      | 58.03      | 48.22      |        |
|                     | Accounts payable turnover (x)           | 29.46             | 18.62      | 12.46      | 11.63      | 12.16      |        |
|                     | Fixed asset turnover (x)                | 0.72              | 0.79       | 0.82       | 0.74       | 0.72       |        |
|                     | Total asset turnover (x)                | 0.48              | 0.60       | 0.46       | 0.37       | 0.33       |        |
| Profitability       | Return on assets (%)                    | 14.19%            | 22.13%     | 19.36%     | 12.67%     | 10.64%     |        |
|                     | Return on equity (%)                    | 26.95%            | 42.78%     | 33.75%     | 24.15%     | 20.00%     |        |
|                     | % of paid-in capital                    | Operating profit  | 32.31%     | 51.37%     | 47.24%     | 33.48%     | 32.35% |
|                     |   | Income before tax | 30.99%     | 52.52%     | 47.87%     | 34.22%     | 30.78% |
|                     | Net profit margin                       | 22.45%            | 31.32%     | 34.32%     | 32.94%     | 29.66%     |        |
|                     | EPS (NT\$)                              | 1.42              | 3.12       | 3.69       | 3.20       | 2.91       |        |
| Cash flow           | Cash flow ratio (%)                     | 111.07%           | 143.43%    | 207.22%    | 187.09%    | 120.10%    |        |
|                     | Cash flow adequacy ratio                | 23.39%            | 38.37%     | 66.20%     | 81.61%     | 108.79%    |        |
|                     | Cash reinvestment rate (%)              | 9.70%             | 20.39%     | 23.53%     | 9.45%      | 10.06%     |        |
| Leverage            | Operating leverage                      | 1.56              | 1.41       | 1.42       | 1.36       | 1.48       |        |
|                     | Financial leverage                      | 1.08              | 1.04       | 1.06       | 1.08       | 1.12       |        |
| Others              | EBITDA (NT\$'000)                       | 7,698,513         | 16,536,537 | 21,422,027 | 19,292,830 | 20,060,377 |        |
|                     | EBITDA margin (%)                       | 28.73%            | 36.60%     | 43.89%     | 42.54%     | 44.58%     |        |
|                     | ARPU (NT\$)                             | 1,084             | 910        | 749        | 651        | 582        |        |
|                     | MOU ('000)                              | 4,618,783         | 9,803,033  | 11,245,368 | 10,920,288 | 11,612,586 |        |

Notes: 1999-2003 financial information has been duly audited by independent auditors.

### Formulas for the above table:

#### Financial Structure

- Debt to Asset Ratio = Total Liabilities / Total Assets
- Long-term Capital to Fixed Assets Ratio = (Shareholders' Equity + Long-term Liabilities) / Net Fixed Assets

#### Solvency

- Current Ratio = Current Assets / Current Liabilities
- Quick Ratio = (Current Assets – Inventory – Prepaid Expenses) / Current Liabilities
- Interest Cover = Income before Interest and Tax / Interest Expenses

#### Operations

- Accounts Receivable Turnover = Net Revenue / Average Accounts Receivable
- Average Collection Days = 365 / AR Turnover Ratio
- Accounts Payable Turnover = COGS / Average Accounts Payable
- Fixed Assets Turnover = Net Revenue / Net Fixed Assets
- Total Assets Turnover = Net Revenue / Total Assets

#### Profitability

- Return on Assets = (Net Income + Interest Expenses \* (1 – Tax Rate)) / Average Assets
- Return on Equity = Net Income / Average Equity
- Net Margin = Net Income / Net Sales
- EPS = (Net Income – Preferred Stock Dividend) / Weighted Average Outstanding Shares

#### Cash Flow

- Cash Flow Ratio = Cash Flow from Operating Activities / Current Liabilities
- Cash Flow Adequacy Ratio = Net Cash Flow from Operating Activities of the Past 5 Years / (Capital Expenditures + Increases in Inventory + Cash Dividend) of the Past 5 Years
- Cash Reinvestment Rate = (Cash Flow from Operating Activities – Cash Dividends) / (Gross Fixed Assets + Long-term Investments + Other Assets + Working Capital)

#### Leverage

- Operating Leverage = (Net Revenue – Variable Operating Costs and Expenses) / Operating Income
- Financial Leverage = Operating Income / (Operating Income – Interest Expense)

#### Others

- EBITDA = Operating Income + Depreciation & Amortization
- EBITDA Margin = EBITDA/Net Revenue
- ARPU = Net Telecom Service Revenue / Average Number of Subscribers
- MOU = Outgoing & Incoming Minutes

## Supervisors' Report

March 29, 2004

The Board of Directors of Taiwan Cellular Corporation has submitted to the undersigned, the Company's 2003 business reports, financial statements and proposal for profit distribution. The CPAs of Deloitte & Touche were retained to audit the financial statements and have submitted a report relating thereto. We, the undersigned, having further examined said business reports, statements and proposal, attest to the correctness and accuracy of their contents. In accordance with Article 219 of the Company Law, we hereby submit this report.



Supervisor  
Victor Kung  
Fu-Chi Venture Corp.

## Supervisors' Report

March 29, 2004

The Board of Directors of Taiwan Cellular Corporation has submitted to the undersigned, the Company's 2003 business reports, financial statements and proposal for profit distribution. The CPAs of Deloitte & Touche were retained to audit the financial statements and have submitted a report relating thereto. We, the undersigned, having further examined said business reports, statements and proposal, attest to the correctness and accuracy of their contents. In accordance with Article 219 of the Company Law, we hereby submit this report.



Supervisor  
Tsung-Ming Chung  
Taiwan Fixed Network Co., Ltd.

## Supervisors' Report

March 29, 2004

The Board of Directors of Taiwan Cellular Corporation has submitted to the undersigned, the Company's 2003 business reports, financial statements and proposal for profit distribution. The CPAs of Deloitte & Touche were retained to audit the financial statements and have submitted a report relating thereto. We, the undersigned, having further examined said business reports, statements and proposal, attest to the correctness and accuracy of their contents. In accordance with Article 219 of the Company Law, we hereby submit this report.



Supervisor  
Robert Chou

## **Taiwan Cellular Corporation**

**Financial Statements for the Years Ended December 31,  
2003 and 2002  
Together with Independent Auditors' Report**

Readers are advised that the original version of these financial statements is in Chinese. This English translation is solely for the readers' convenience. If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail.

English Translation of a Report Originally Issued in Chinese**INDEPENDENT AUDITORS' REPORT**

January 19, 2004

The Board of Directors and Shareholders  
Taiwan Cellular Corporation

We have audited the accompanying balance sheets of Taiwan Cellular Corporation (the Corporation) as of December 31, 2003 and 2002, and the related statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. However, we did not audit the financial statements as of and for the year ended December 31, 2002 of a subsidiary, TransAsia Telecommunications Inc. ("TransAsia"), in which the Corporation has an investment accounted for by the equity method, as shown in Note 7. As of December 31, 2002, the carrying value of long-term investments in TransAsia amounted to \$12,600,436 thousand, which was 8.81% of total assets. For the year ended December 31, 2002, investment income on TransAsia totaled \$792,736 thousand, which was 5.14% of income before income tax. The amounts pertaining to the Corporation's investment in TransAsia were based on this subsidiary's financial statements as of and for the year ended December 31, 2002, which were audited by other auditors.

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

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Taiwan Cellular Corporation as of December 31, 2003 and 2002, and of the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and generally accepted accounting principles in the Republic of China.

As described in Note 3, the Corporation adopted SFAS No. 30, "Accounting for Treasury Stock," on January 1, 2002, which requires the Corporation to reclassify its common stocks held by its subsidiaries from short or long-term investments to treasury stock. The adoption of SFAS No. 30 resulted in a decrease in long-term investments and an increase in treasury stock by \$81,584 thousand each as of December 31, 2002, and an increase in net income by \$20,842 thousand for the year ended December 31, 2002.

We have also audited the accompanying significant account lists, provided for supplementary analysis, with the aforementioned procedure. In our opinion, those lists are consistent, in all material respects, with the financial statements referred to above.

We have also audited the consolidated balance sheets of the Corporation and its subsidiaries as of December 31, 2003 and 2002 and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the years then ended. We have expressed unqualified and modified unqualified opinions on those consolidated financial statements based on our audits and the report of other auditors, respectively.

Notice to Readers

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

## TAIWAN CELLULAR CORPORATION

## BALANCE SHEETS

DECEMBER 31, 2003 AND 2002

(In Thousands of New Taiwan Dollars, Except Par Value)

| ASSETS  | 2003           |      | 2002           |     | LIABILITIES AND SHAREHOLDERS' EQUITY  | 2003           |     | 2002           |     |
|---|----------------|------|----------------|-----|---|----------------|-----|----------------|-----|
|   | Amount         | %    | Amount         | %   |   | Amount         | %   | Amount         | %   |
| <b>CURRENT ASSETS</b>                                 |                |      |                |     | <b>CURRENT LIABILITIES</b>  |                |     |                |     |
| Cash and cash equivalents (Notes 2, 4 and 21)         | \$ 1,881,091   | 1    | \$ 6,997,114   | 5   | Short-term borrowings (Notes 12 and 22)   | \$ -           | -   | \$ 1,100,000   | 1   |
| Short-term investments (Notes 2 and 5)                | 17,545,007     | 13   | 6,058,481      | 4   | Short-term bills payable (Notes 13 and 22)                                      | -              | -   | 239,253        | -   |
| Notes receivables                                     | 7,512          | -    | 3,124          | -   | Notes payable   | 2,908          | -   | 14,083         | -   |
| Accounts receivable—third parties (Notes 2 and 6)     | 4,799,834      | 4    | 3,946,397      | 3   | Accounts payable (Note 21)  | 1,475,854      | 1   | 1,443,811      | 1   |
| Accounts receivable—related parties (Notes 2 and 21)  | 771,169        | 1    | 633,395        | 1   | Income tax payable (Notes 2 and 18)   | 936,220        | 1   | 299,304        | -   |
| Other receivables—third parties                       | 7,438          | -    | 270,554        | -   | Accrued expenses (Note 21)  | 1,989,272      | 2   | 1,884,787      | 1   |
| Other receivables—related parties (Note 21)           | 302,052        | -    | 243,771        | -   | Other payable—third parties   | 324,347        | -   | 1,032,882      | 1   |
| Prepayments   | 653,537        | 1    | 539,299        | -   | Other payable—related parties (Note 21)   | 429,957        | -   | 461,159        | -   |
| Deferred income tax assets (Notes 2 and 18)           | 91,984         | -    | 391,135        | -   | Advance receipts (Note 21)  | 1,421,463      | 1   | 1,466,862      | 1   |
| Other current assets (Notes 21 and 22)                | 10,273         | -    | 10,050         | -   | Current portion of long-term liabilities (Notes 14, 15 and 22)                  | 7,953,006      | 6   | 2,548,000      | 2   |
| Total current assets                                  | 26,069,897     | 20   | 19,093,320     | 13  | Guarantee deposits  | 2,546,171      | 2   | -              | -   |
|   |                |      |                |     | Other current liabilities (Note 21)   | 110,031        | -   | 50,953         | -   |
|   |                |      |                |     | Total current liabilities   | 17,189,229     | 13  | 10,541,094     | 7   |
| <b>LONG-TERM INVESTMENTS (Notes 2, 7 and 22)</b>      |                |      |                |     | <b>LONG-TERM LIABILITIES—Net of current portion</b>                             |                |     |                |     |
| Equity method   | 26,745,321     | 20   | 26,596,148     | 19  | Bonds payable (Notes 2, 14 and 22)  | 23,715,318     | 18  | 30,355,658     | 21  |
| Cost method   | 23,100         | -    | 18,708,389     | 13  | Long-term bank loans (Notes 15, 21 and 22)                                      | 20,093,266     | 16  | 33,889,149     | 24  |
| Total long-term investments                           | 26,768,421     | 20   | 45,304,537     | 32  | Total long-term liabilities   | 43,808,584     | 34  | 64,244,807     | 45  |
| <b>PROPERTY AND EQUIPMENT (Notes 2, 8, 21 and 22)</b> |                |      |                |     | <b>OTHER LIABILITIES</b>  |                |     |                |     |
| Cost  |                |      |                |     | Accrued pension cost (Notes 2 and 16)   | 44,097         | -   | 42,631         | -   |
| Land  | 2,941,193      | 2    | 3,009,266      | 2   | Guarantee deposits  | 34,986         | -   | 3,831,886      | 3   |
| Buildings   | 1,837,070      | 2    | 1,848,957      | 1   | Other   | 51,617         | -   | 55,976         | -   |
| Telecommunications equipment                          | 67,964,199     | 52   | 65,658,098     | 46  | Total other liabilities   | 130,700        | -   | 3,930,493      | 3   |
| Office equipment                                      | 207,502        | -    | 251,771        | -   | Total liabilities   | 61,128,513     | 47  | 78,716,394     | 55  |
| Leased assets   | 1,276,190      | 1    | 1,276,190      | 1   | <b>SHAREHOLDERS' EQUITY (Notes 2 and 17)</b>                                    |                |     |                |     |
| Miscellaneous equipment                               | 1,057,843      | 1    | 1,031,360      | 1   | Capital stock—\$10 par value  |                |     |                |     |
| Total cost  | 75,283,997     | 58   | 73,075,642     | 51  | Authorized: 6,000,000 thousand shares   |                |     |                |     |
| Less: Accumulated depreciation                        | (14,569,488)   | (11) | (10,487,186)   | (7) | Issued: 4,699,826 thousand shares in 2003 and 4,502,684 thousand shares in 2002 | 46,998,258     | 36  | 45,026,835     | 32  |
| Constructions in progress and advance payments        | 60,714,509     | 47   | 62,588,456     | 44  | Capital surplus—paid-in capital in excess of par value                          | 3,366,010      | 3   | 3,004,199      | 2   |
| Net property and equipment                            | 1,790,721      | 1    | 607,474        | -   | Retained earnings   |                |     |                |     |
|   |                |      |                |     | Legal reserve   | 5,505,955      | 4   | 4,018,683      | 3   |
|   |                |      |                |     | Special reserve   | 330,183        | -   | -              | -   |
|   |                |      |                |     | Unappropriated earnings   | 15,480,882     | 12  | 15,019,922     | 10  |
|   |                |      |                |     | Other adjustments of shareholders' equity                                       |                |     |                |     |
|   |                |      |                |     | Unrealized loss on long-term investments  | -              | -   | (317,007)      | -   |
|   |                |      |                |     | Cumulative translation adjustments  | 34,450         | -   | 7,666          | -   |
|   |                |      |                |     | Treasury stock  | (2,524,972)    | (2) | (2,524,972)    | (2) |
|   |                |      |                |     | Total shareholders' equity  | 69,190,766     | 53  | 64,235,326     | 45  |
| <b>INTANGIBLE ASSETS (Notes 2 and 9)</b>              |                |      |                |     | <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>                               | \$ 130,319,279 | 100 | \$ 142,951,720 | 100 |
| Non-operating assets (Notes 2, 10 and 22)             | 3,161,501      | 3    | 3,374,988      | 2   |   |                |     |                |     |
| Refundable deposits                                   | 258,143        | -    | 249,922        | -   |   |                |     |                |     |
| Deferred charges (Notes 2, 11 and 22)                 | 416,734        | -    | 676,083        | 1   |   |                |     |                |     |
| Deferred income tax assets (Notes 2 and 18)           | 749,980        | 1    | 611,393        | 1   |   |                |     |                |     |
| Other   | 107,589        | -    | 163,562        | -   |   |                |     |                |     |
| Total other assets                                    | 4,693,947      | 4    | 5,075,948      | 4   |   |                |     |                |     |
| <b>TOTAL ASSETS</b>                                   | \$ 130,319,279 | 100  | \$ 142,951,720 | 100 |   |                |     |                |     |

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

(With Deloitte &amp; Touche audit report dated January 19, 2004)

**TAIWAN CELLULAR CORPORATION**

**STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**  
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

|  | 2003                 |           | 2002                 |           |
|--|----------------------|-----------|----------------------|-----------|
|  | Amount               | %         | Amount               | %         |
| OPERATING REVENUES (Notes 2 and 21)  | \$ 44,995,790        | 100       | \$ 45,352,378        | 100       |
| OPERATING COSTS (Notes 2 and 21)   | <u>17,855,148</u>    | <u>40</u> | <u>16,394,603</u>    | <u>36</u> |
| GROSS PROFIT   | <u>27,140,642</u>    | <u>60</u> | <u>28,957,775</u>    | <u>64</u> |
| OPERATING EXPENSES (Notes 20 and 21)   |                      |           |                      |           |
| Marketing  | 8,351,607            | 18        | 10,021,932           | 22        |
| Administrative   | <u>3,587,416</u>     | <u>8</u>  | <u>3,862,144</u>     | <u>9</u>  |
| Total operating expenses   | <u>11,939,023</u>    | <u>26</u> | <u>13,884,076</u>    | <u>31</u> |
| OPERATING INCOME   | <u>15,201,619</u>    | <u>34</u> | <u>15,073,699</u>    | <u>33</u> |
| NON-OPERATING INCOME AND GAIN  |                      |           |                      |           |
| Investment income recognized by the equity method—net (Notes 2 and 7)                        | 1,283,481            | 3         | 971,174              | 2         |
| Rental income (Note 21)  | 305,161              | 1         | 298,096              | 1         |
| Gain on reversal of allowance for decline in market value of short-term investments (Note 2) | 91,819               | -         | -                    | -         |
| Gain on disposal of investments (Note 2)   | 44,837               | -         | 2,802                | -         |
| Interest income  | 40,015               | -         | 113,159              | -         |
| Gain on disposal of property and equipment (Note 2)  | 7,785                | -         | 5,490                | -         |
| Other  | <u>421,477</u>       | <u>1</u>  | <u>497,910</u>       | <u>1</u>  |
| Total non-operating income and gain  | <u>2,194,575</u>     | <u>5</u>  | <u>1,888,631</u>     | <u>4</u>  |
| NON-OPERATING EXPENSE AND LOSS   |                      |           |                      |           |
| Interest expenses (Notes 2 and 8)  | 1,583,889            | 4         | 1,056,603            | 2         |
| Provision for losses on idle assets (Notes 2 and 10)   | 895,127              | 2         | -                    | -         |
| Financial expenses   | 194,677              | -         | 132,302              | -         |
| Loss on disposal of property and equipment (Note 2)  | -                    | -         | 17,132               | -         |
| Realized loss on long-term investments (Note 2)  | 24,104               | -         | 123,027              | -         |
| Other  | <u>231,597</u>       | <u>1</u>  | <u>223,619</u>       | <u>1</u>  |
| Total non-operating expense and loss   | <u>2,929,394</u>     | <u>7</u>  | <u>1,552,683</u>     | <u>3</u>  |
| INCOME BEFORE INCOME TAX   | \$ 14,466,800        | 32        | \$ 15,409,647        | 34        |
| INCOME TAX EXPENSE (Notes 2 and 18)  | <u>1,122,353</u>     | <u>2</u>  | <u>472,327</u>       | <u>1</u>  |
| NET INCOME   | <u>\$ 13,344,447</u> | <u>30</u> | <u>\$ 14,937,320</u> | <u>33</u> |

(Continued)



|                              | 2003                    |                        | 2002                    |                        |
|------------------------------|-------------------------|------------------------|-------------------------|------------------------|
|                              | Before<br>Income<br>Tax | After<br>Income<br>Tax | Before<br>Income<br>Tax | After<br>Income<br>Tax |
| EARNINGS PER SHARE (Note 19) |                         |                        |                         |                        |
| Basic                        | \$ 3.15                 | \$ 2.91                | \$ 3.30                 | \$ 3.20                |
| Diluted                      | \$ 2.96                 | \$ 2.71                | \$ 3.16                 | \$ 3.04                |

The pro forma net income and earnings per share if Statement of Financial Accounting Standards No. 30, "Accounting for Treasury Stock," had not been adopted (Note 3) are as follows:

|                    | 2003                 |                     | 2002                 |                      |
|--------------------|----------------------|---------------------|----------------------|----------------------|
|                    | Before<br>Income Tax | After<br>Income Tax | Before<br>Income Tax | Before<br>Income Tax |
| NET INCOME         | \$ 14,473,373        | \$ 13,351,020       | \$ 15,388,805        | \$ 14,916,478        |
| EARNINGS PER SHARE |                      |                     |                      |                      |
| Basic              | \$ 3.15              | \$ 2.90             | \$ 3.29              | \$ 3.19              |
| Diluted            | \$ 2.96              | \$ 2.71             | \$ 3.15              | \$ 3.04              |

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

(With Deloitte & Touche audit report dated January 19, 2004)

(Concluded)

## TAIWAN CELLULAR CORPORATION

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(In Thousands of New Taiwan Dollars, Except Per Share Amounts)

|  | Capital Stock | Paid-in capital in excess of par value | Capital Disposal of property and equipment | Surplus     |                   |                 |                |              | Unrealized Loss on Long-term Investments | Cumulative Translation Adjustments | Treasury Stock | Total Shareholders' Equity |
|--|---------------|--|--|-------------|-------------------|-----------------|----------------|--------------|--|------------------------------------|----------------|----------------------------|
|  |               |  |  | Total       | Retained Earnings |                 |                | Total        |  |                                    |                |                            |
|  |               |  |  |             | Legal reserve     | Special reserve | Unappropriated |              |  |                                    |                |                            |
| BALANCE, JANUARY 1, 2002   | \$37,664,190  | \$2,536,991                            | \$ 472                                     | \$2,537,463 | \$ 2,344,105      | \$ -            | \$ 17,022,908  | \$19,367,013 | \$ -                                     | \$ 3,262                           | (\$ 100,759)   | \$59,471,169               |
| Appropriation of 2001 earnings   |               |  |  |             |                   |                 |                |              |  |                                    |                |                            |
| Legal reserve  | -             | -                                      | -  | -           | 1,674,578         | -               | ( 1,674,578)   | -            | -  | -                                  | -              | -                          |
| Remuneration to directors and supervisors  | -             | -                                      | -  | -           | -                 | -               | ( 75,356)      | ( 75,356)    | -  | -                                  | -              | ( 75,356)                  |
| Bonus to employees—cash  | -             | -                                      | -  | -           | -                 | -               | ( 753,560)     | ( 753,560)   | -  | -                                  | -              | ( 753,560)                 |
| Stock dividends—\$1.9 per share  | 7,186,109     | -                                      | -  | -           | -                 | -               | ( 7,186,109)   | ( 7,186,109) | -  | -                                  | -              | -                          |
| Cash dividends—\$1.9 per share   | -             | -                                      | -  | -           | -                 | -               | ( 7,186,109)   | ( 7,186,109) | -  | -                                  | -              | ( 7,186,109)               |
| Balance after appropriation  | 44,850,299    | 2,536,991                              | 472  | 2,537,463   | 4,018,683         | -               | 147,196        | 4,165,879    | -  | 3,262                              | ( 100,759)     | 51,456,144                 |
| Transfer of capital surplus arising from gain on disposal of properties to unappropriated earnings | -             | -                                      | ( 472)                                     | ( 472)      | -                 | -               | 472            | 472          | -  | -                                  | -              | -                          |
| Net income in 2002   | -             | -                                      | -  | -           | -                 | -               | 14,937,320     | 14,937,320   | -  | -                                  | -              | 14,937,320                 |
| Conversion of convertible bonds to capital stocks  | 176,536       | 467,208                                | -  | 467,208     | -                 | -               | -              | -            | -  | -                                  | -              | 643,744                    |
| Adjustments on change of equity in equity-method investments                                       | -             | -                                      | -  | -           | -                 | -               | ( 65,066)      | ( 65,066)    | -  | -                                  | -              | ( 65,066)                  |
| Translation adjustments  | -             | -                                      | -  | -           | -                 | -               | -              | -            | -  | 4,404                              | -              | 4,404                      |
| Unrealized loss on long-term investments   | -             | -                                      | -  | -           | -                 | -               | -              | -            | ( 317,007)                               | -                                  | -              | ( 317,007)                 |
| Buyback of issued shares—84,829 thousand shares  | -             | -                                      | -  | -           | -                 | -               | -              | -            | -  | -                                  | ( 2,342,629)   | ( 2,342,629)               |
| Outstanding shares held by subsidiaries, accounted for as treasury stocks                          | -             | -                                      | -  | -           | -                 | -               | -              | -            | -  | -                                  | ( 81,584)      | ( 81,584)                  |
| BALANCE, DECEMBER 31, 2002   | 45,026,835    | 3,004,199                              | -  | 3,004,199   | 4,018,683         | -               | 15,019,922     | 19,038,605   | ( 317,007)                               | 7,666                              | ( 2,524,972)   | 64,235,326                 |
| Appropriation of 2002 earnings   |               |  |  |             |                   |                 |                |              |  |                                    |                |                            |
| Legal reserve  | -             | -                                      | -  | -           | 1,487,272         | -               | ( 1,487,272)   | -            | -  | -                                  | -              | -                          |
| Special reserve  | -             | -                                      | -  | -           | -                 | 330,183         | ( 330,183)     | -            | -  | -                                  | -              | -                          |
| Remuneration to directors and supervisors  | -             | -                                      | -  | -           | -                 | -               | ( 65,274)      | ( 65,274)    | -  | -                                  | -              | ( 65,274)                  |
| Bonus to employees—cash  | -             | -                                      | -  | -           | -                 | -               | ( 391,645)     | ( 391,645)   | -  | -                                  | -              | ( 391,645)                 |
| Stock dividends—\$0.4 per share  | 1,766,378     | -                                      | -  | -           | -                 | -               | ( 1,766,378)   | ( 1,766,378) | -  | -                                  | -              | -                          |
| Cash dividends—\$2.0 per share   | -             | -                                      | -  | -           | -                 | -               | ( 8,831,889)   | ( 8,831,889) | -  | -                                  | -              | ( 8,831,889)               |
| Balance after appropriation  | 46,793,213    | 3,004,199                              | -  | 3,004,199   | 5,505,955         | 330,183         | 2,147,281      | 7,983,419    | ( 317,007)                               | 7,666                              | ( 2,524,972)   | 54,946,518                 |
| Prior period adjustments on long-term equity-method investments                                    | -             | -                                      | -  | -           | -                 | -               | ( 10,846)      | ( 10,846)    | -  | -                                  | -              | ( 10,846)                  |
| Net income in 2003   | -             | -                                      | -  | -           | -                 | -               | 13,344,447     | 13,344,447   | -  | -                                  | -              | 13,344,447                 |
| Conversion of convertible bonds to capital stocks  | 205,045       | 361,811                                | -  | 361,811     | -                 | -               | -              | -            | -  | -                                  | -              | 566,856                    |
| Translation adjustments  | -             | -                                      | -  | -           | -                 | -               | -              | -            | -  | 26,784                             | -              | 26,784                     |
| Unrealized loss on long-term investments   | -             | -                                      | -  | -           | -                 | -               | -              | -            | 317,007                                  | -                                  | -              | 317,007                    |
| BALANCE, DECEMBER 31, 2003   | \$46,998,258  | \$3,366,010                            | \$ -                                       | \$3,366,010 | \$ 5,505,955      | \$330,183       | \$ 15,480,882  | \$21,317,020 | \$ -                                     | \$ 34,450                          | (\$2,524,972)  | \$69,190,766               |

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

(With Deloitte &amp; Touche audit report dated January 19, 2004)

**TAIWAN CELLULAR CORPORATION**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(In Thousands of New Taiwan Dollars)**

|   | <u>2003</u>       | <u>2002</u>       |
|---|-------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                   |                   |
| Net income  | \$ 13,344,447     | \$ 14,937,320     |
| Adjustments to reconcile net income to net cash provided by operating activities:       |                   |                   |
| Depreciation  | 4,644,422         | 3,797,248         |
| Cash dividends received from cost-method investees                                      | 1,467,793         | -                 |
| Investment income recognized by the equity method—net                                   | ( 1,283,481 )     | ( 971,174 )       |
| Cash dividends received from equity-method investees                                    | 1,211,503         | 333,591           |
| Bad debts   | 1,021,700         | 1,097,158         |
| Provision for losses on idle assets   | 895,127           | -                 |
| Accrued interest compensation   | 479,522           | 347,052           |
| Amortization  | 214,336           | 421,883           |
| Deferred income taxes   | 160,564           | ( 56,905 )        |
| Provision (reversal of allowance) for decline in market value of short-term investments | ( 91,819 )        | 7,819             |
| Loss on disposal of property and equipment—net  | 16,319            | 11,642            |
| Gain on disposal of long-term investments   | ( 9,861 )         | -                 |
| Realized loss on long-term investments  | -                 | 123,027           |
| Gain from price recovery of inventories   | -                 | ( 468 )           |
| Changes in operating assets and liabilities   |                   |                   |
| Notes receivable  | ( 4,388 )         | ( 55,234 )        |
| Accounts receivable—third parties   | ( 1,820,294 )     | ( 530,040 )       |
| Accounts receivable—related parties   | ( 137,774 )       | 77,448            |
| Other receivable—third parties  | 145,919           | ( 251,043 )       |
| Other receivable—related parties  | 58,281            | ( 206,067 )       |
| Inventories   | -                 | 468               |
| Prepayments   | ( 114,238 )       | 368,650           |
| Other current assets  | ( 223 )           | 108               |
| Notes payable   | ( 11,175 )        | ( 31,845 )        |
| Accounts payable  | 32,043            | 257,437           |
| Income tax payable  | 636,916           | ( 537,192 )       |
| Accrued expenses  | 104,485           | ( 462,310 )       |
| Other payable—third parties   | ( 300,274 )       | 292,945           |
| Other payable—related parties   | ( 31,202 )        | 358,183           |
| Advance receipts  | ( 45,399 )        | 346,254           |
| Other current liabilities   | 59,078            | 41,731            |
| Accrued pension cost  | 1,466             | 3,262             |
|   | <u>20,643,793</u> | <u>19,720,948</u> |
| Net cash provided by operating activities   |                   |                   |

(Continued)

|  | 2003                  | 2002                  |
|--|-----------------------|-----------------------|
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                       |                       |
| Decrease (increase) in short-term investments  | 6,000,000             | ( 6,000,000 )         |
| Acquisition of property and equipment  | ( 4,744,019 )         | ( 9,805,844 )         |
| Decrease (increase) in deferred charges—net  | 117,273               | ( 81,838 )            |
| Proceeds from sale of long-term investments  | 88,400                | -                     |
| Proceeds from disposal of property and equipment   | \$ 14,309             | \$ 38,883             |
| Decrease (increase) in refundable deposits   | ( 8,221 )             | 971,947               |
| Decrease (increase) in other assets  | ( 274 )               | 1,088                 |
| Proceeds from disposal of non-operating assets   | -                     | 2,853                 |
| Increase in intangible assets  | -                     | ( 10,281,000 )        |
| Increase in long-term investments  | -                     | ( 23,154,660 )        |
| Increase in pledged time deposits  | -                     | ( 10,000 )            |
| Net cash provided by (used in) investing activities  | <u>1,467,468</u>      | <u>( 48,318,571 )</u> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                       |                       |
| Increase (decrease) in long-term loans   | ( 14,943,883 )        | 14,499,672            |
| Cash dividends paid  | ( 8,831,889 )         | ( 7,186,109 )         |
| Decrease in guarantee deposits received  | ( 1,250,729 )         | ( 2,442,528 )         |
| Increase (decrease) in short-term debts  | ( 1,100,000 )         | 1,100,000             |
| Buyback of issued shares   | ( 449,004 )           | ( 1,893,625 )         |
| Bonus to employees   | ( 347,252 )           | ( 967,302 )           |
| Increase (decrease) in short-term bills payable  | ( 239,253 )           | 239,253               |
| Remuneration to directors and supervisors  | ( 65,274 )            | ( 75,356 )            |
| Issuance of corporate bonds  | -                     | 21,000,000            |
| Net cash (used in) provided by financing activities  | <u>( 27,227,284 )</u> | <u>24,274,005</u>     |
| NET DECREASE IN CASH AND CASH EQUIVALENTS  | ( 5,116,023 )         | ( 4,323,618 )         |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR   | <u>6,997,114</u>      | <u>11,320,732</u>     |
| CASH AND CASH EQUIVALENTS, END OF YEAR   | <u>\$ 1,881,091</u>   | <u>\$ 6,997,114</u>   |
| <b>SUPPLEMENTAL INFORMATION</b>  |                       |                       |
| Interest paid—excluding interest capitalized   | <u>\$ 1,244,377</u>   | <u>\$ 672,639</u>     |
| Income tax paid  | <u>\$ 324,872</u>     | <u>\$ 1,066,424</u>   |
| <b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>   |                       |                       |
| Reclassification of long-term investments as short-term investments                                      | <u>\$ 17,394,707</u>  | <u>\$ -</u>           |
| Current portion of long-term liabilities   | <u>\$ 7,953,006</u>   | <u>\$ 2,548,000</u>   |
| Conversion of convertible bonds to capital stocks  | <u>\$ 544,900</u>     | <u>\$ 632,000</u>     |
| Transfer of the Corporation's shares held by its subsidiary from long-term investments to treasury stock | <u>\$ -</u>           | <u>\$ 81,584</u>      |
| <b>CASH PAID FOR ACQUISITION OF PROPERTY AND EQUIPMENT</b>   |                       |                       |
| Acquisition of property and equipment  | \$ 4,740,369          | \$ 8,282,373          |
| Add: Decrease in other payable   | <u>3,650</u>          | <u>1,523,471</u>      |
|  | <u>\$ 4,744,019</u>   | <u>\$ 9,805,844</u>   |
| <b>CASH PAID FOR BUYBACK OF ISSUED SHARES</b>  |                       |                       |
| Increase in treasury stock   | \$ -                  | \$ 2,342,629          |
| Less: Decrease (increase) in other payable   | <u>449,004</u>        | <u>( 449,004 )</u>    |
|  | <u>\$ 449,004</u>     | <u>\$ 1,893,625</u>   |

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

(With Deloitte & Touche audit report dated January 19, 2004)

(Concluded)

**TAIWAN CELLULAR CORPORATION****NOTES TO FINANCIAL STATEMENTS**

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

(Amounts in Thousands of New Taiwan Dollars, Except Per Share Amounts and Unless Specified Otherwise)

**1. ORGANIZATION AND BUSINESS**

Taiwan Cellular Corporation (the "Corporation") was incorporated in the Republic of China ("ROC") on February 25, 1997. The Corporation's shares had been traded on the R.O.C. Over-the-Counter Securities Exchange (known as GreTai Securities Market) since September 19, 2000. On August 26, 2002, the Corporation's shares were listed on the Taiwan Stock Exchange. The Corporation mainly engages in wireless communications services.

The Corporation's services are under the type I license (GSM 1800 for all sectors; "GSM" means "global system for mobile communications") issued by the Directorate General of Telecommunications (DGT) of the ROC. The license allows the Corporation to provide services for 15 years from 1997 as well as entails an annual license fee of 2% of total wireless communication service revenues.

As of December 31, 2003 and 2002, the Corporation had 774 and 817 employees, respectively.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements are presented in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and generally accepted accounting principles in the ROC. Significant accounting policies are summarized as follows:

**Current and Non-current Assets and Liabilities**

Current assets are those expected to be converted to cash, sold or consumed within one year. Current liabilities are obligations due within one year from the balance sheet date. All other assets and liabilities are classified as non-current.

**Cash Equivalents**

Government bonds acquired with resale rights and having maturities of up to three months from the date of purchase are classified as cash equivalents.

**Short-term Investments**

Short-term investments are carried at the lower of aggregate cost or market value. An allowance for loss is provided when the aggregate carrying value of the investments exceeds the total market value. Any recovery of the market value to the extent of the original carrying value is recognized as income. The costs of investments sold are determined by the weighted-average method.

**Allowance for Doubtful Receivables**

Allowance for doubtful receivables is provided on the basis of past experiences and an evaluation of the aging and collectibility of all receivables on the balance sheet date.

**Long-term Investments**

The long-term investments in which the Corporation exercises significant influence on the investees are accounted for by the equity method. The Corporation's proportionate share in the net income or net loss of investees is recognized as investment income or loss. On the acquisition date, the difference between the cost of investment and the investee's net value is amortized by the straight-line method over 20 years and also recognized as investment income or loss.

Gains or losses on transactions with investees over which the Corporation exercises significant influence are deferred and are realized through transactions with third parties. Gains or losses on depreciable or amortizable assets are recognized over the estimated useful lives of the assets.

Other long-term investments are accounted for by the cost method. Cash dividends received in the year of investment acquisition are accounted for as a reduction of the long-term investments and cash dividends received in subsequent years are recognized as investment revenue. If the accumulated cash dividends the investee distributed exceed the investee's accumulated earnings from the acquisition date to the year end of the received

thereafter distribution, the excess is recognized as a reduction to the carrying value of long-term investments. Stock dividends are recognized neither as an increase in long-term investments nor as investment income but are accounted for only as an increase in the number of shares held. The investments in listed stock are stated at the lower of cost or market value. An allowance for decline in value is provided when the carrying value of the investments with quoted market price exceeds the market value. Such provision for decline in value is charged to shareholders' equity, when the decline in value is considered temporary. The allowance for decline in value and the account shown in the stockholder's equity is adjusted for any recovery in the market value. If long-term investments in listed stocks are transferred to short-term investments, a loss is recognized if the market price of the long-term investments is below the book value of these investments, and the market price is used as the new cost basis. The carrying value of the investments in unlisted stocks are reduced to reflect an other than temporary decline in value, with the reduction charged to current income. The costs of investments sold are determined using the weighted-average method.

On January 1, 2002, the Corporation adopted Statement of Financial Accounting Standards ("SFAS") No. 30, "Accounting for Treasury Stock". SFAS No. 30 requires a parent company to reclassify its outstanding stocks held by its subsidiaries from short- or long-term investments to treasury stock. The reclassification is based on the carrying value recorded by the Corporation's subsidiaries as of January 1, 2002.

### **Property and Equipment and Assets Leased to Others**

Property and equipment and assets leased to others are stated at cost less accumulated depreciation. Significant additions, renewals, betterments, and interest expenses incurred during the construction period are capitalized. Maintenance and repairs are expensed in the year incurred. Property and equipment covered by agreements qualifying as capital leases are carried at the lower of the present value of future minimum rent payments or the market value of the property on the starting dates of the leases.

Depreciation is computed using the straight-line method over the following estimated service lives: buildings—50 years; telecommunications equipment—15 years; office equipment—3 to 5 years; leased assets—20 years; and miscellaneous equipment—5 years.

Upon sale or other disposal of property and equipment, the related cost and accumulated depreciation are removed from the accounts, and resulting gains or losses are credited or charged to non-operating income or losses in the year of disposal.

### **Intangible Assets**

Intangible assets, which consist of franchises and trademarks, are recorded at acquisition cost and amortized over their estimated economic lives.

### **Deferred Charges**

Deferred charges, which refer to interior decoration, and bond and bill issuance costs, are amortized by the straight-line method over three to seven years or the contract periods.

### **Idle Assets**

Idle assets, comprising equipment not currently used in operation, are stated at the lower of cost or net realizable value.

### **Pension Costs**

Pension costs are recognized on the basis of actuarial calculations. Unrecognized net transition obligation and unrecognized net gain or loss are amortized over 25 years and the average remaining service years of employees, respectively.

### **Bonds Payable**

Convertible bonds with redemption rights are classified as current or non-current according to redemption dates. The redemption price in excess of the face value of the bonds is amortized by the interest method from the issuance date through the due date and accounted for as accrued interest compensation. The accrued interest compensation is provided as a valuation account of convertible bonds. The issuance costs are recognized as deferred charges and amortized over 3 to 7 years.

When bondholders exercise their conversion rights, the face value of the bonds and the related accrued interest are both transferred to capital stock and capital surplus.

**Income Tax**

The inter-period allocation method is used for income tax. Deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused investments tax credits and net operating loss carryforwards. Valuation allowance is provided for assets that are more likely than not to be realized. Deferred tax assets or liabilities are classified as current or non-current according to the classification of related assets or liabilities for financial reports. But if a deferred tax asset or liability cannot be related to assets or liabilities in the financial statements, it is classified as current or non-current on the basis of the expected realization period.

Tax credits for certain purchases of equipment and technology, research and development expenditures and personnel training are recognized by the current method.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax expense.

Income taxes of 10% on unappropriated earnings are expensed in the year when the shareholders resolve the retention of the earnings.

**Treasury Stock**

The buyback of issued shares is accounted for by the cost method.

If treasury stocks are canceled, capital stocks and additional paid-in capital are proportionately adjusted. If the carrying value of treasury stocks exceeds the total balance of par value and additional paid-in capital, the excess is adjusted to capital surplus from treasury stock. If the balance of capital surplus from treasury stock is not sufficient to absorb such deficiency, the rest is recorded as a reduction of retained earnings. If the carrying value of treasury stocks is less than the total of par value and additional paid-in capital, the excess is credited to capital surplus from treasury stock.

**Derivative Financial Instruments**

The notional amounts of interest rate swap agreements are not recognized in the financial statements because these agreements do not require the settlement of these amounts initially. However, a memorandum entry is made for the transaction. The amounts receivable or payable under the agreements, which result from the differences in interest rates, are accrued as interest income or interest expense adjustments of the hedged objects on the balance sheet date and settlement dates.

**Foreign-currency Transactions**

Foreign-currency transactions are converted into New Taiwan dollars at rates of exchange in effect when the transactions occur. Gains or losses resulting from the application of different foreign exchange rates when foreign-currency receivables and payables are settled, are credited or charged to income on the settlement date. Foreign currency monetary assets and liabilities are converted at exchange rates prevailing at the balance sheet date. All exchange differences arising from conversion are included in the current income.

Long-term foreign-currency investments accounted for by the equity method are translated into New Taiwan dollars at the following exchange rates: (a) assets and liabilities—balance sheet date rate; (b) income and expense—average rate for the year; and (c) equity—historical rate. The difference resulting from the above translation is reported as cumulative translation adjustments under shareholders' equity.

**Revenue Recognition**

Revenues are recognized when the earnings process is completed or virtually completed, and earnings are realizable and measurable. Related costs of providing services are concurrently recognized as incurred.

Usage revenues from wireless services and value-added services, net of any applicable discount, are billed at predetermined rates and are recognized based on minutes of traffic processed. Other revenues are recognized as follows: (a) one-time subscriber connection fees are recognized in full when connection is activated; and (b) prepaid card services are recognized as income based upon customer usage.

**Promotion Expenses**

Commissions and cellular phone subsidy costs pertaining to the Corporation's promotion are recognized as marketing expenses on accrued basis in the year when the service is provided.

**Reclassification**

Certain accounts in the financial statements as of and for the year ended December 31, 2002 have been reclassified to conform to the presentation of financial statements as of and for the year ended December 31, 2003.

### 3. CHANGE IN ACCOUNTING PRINCIPLE

On January 1, 2002, the Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 30, "Accounting for Treasury Stock," which requires the Corporation to reclassify its common stocks held by its subsidiaries from short- or long-term investments to treasury stock. The adoption of SFAS No. 30 resulted in a decrease in long-term investments and an increase of treasury stock by \$81,584 thousand each as of December 31, 2002, and an increase in net income by \$20,842 thousand for the year ended December 31, 2002.

### 4. CASH AND CASH EQUIVALENTS

|                                     | December 31         |                     |
|-------------------------------------|---------------------|---------------------|
|                                     | 2003                | 2002                |
| Government bonds with resale rights | \$ 1,562,812        | \$ 698,740          |
| Checking and demand deposits        | 307,859             | 283,220             |
| Cash on hand                        | 7,905               | 8,944               |
| Revolving funds                     | 2,515               | 6,210               |
| Time deposits                       | -                   | 6,000,000           |
|                                     | <u>\$ 1,881,091</u> | <u>\$ 6,997,114</u> |

### 5. SHORT-TERM INVESTMENTS

|                            | December 31          |                     |
|----------------------------|----------------------|---------------------|
|                            | 2003                 | 2002                |
| Listed stocks              |                      |                     |
| Chunghwa Telecom Co., Ltd. | \$ 17,394,707        | \$ -                |
| Beneficiary certificates   |                      |                     |
| Closed-end funds           | 100,300              | 100,300             |
| Open-end funds             | 50,000               | 6,050,000           |
|                            | 17,545,007           | 6,150,300           |
| Less: Allowance for losses | -                    | ( 91,819 )          |
|                            | <u>\$ 17,545,007</u> | <u>\$ 6,058,481</u> |
| Market value               | <u>\$ 18,422,175</u> | <u>\$ 6,058,481</u> |

The bases of market values of each investment were as follows: (a) listed stocks and closed-end funds—the average closing prices in December; (b) open-end funds—the net asset values on the balance sheet date.

The investment in Chunghwa Telecom Co., Ltd. was transferred to short-term from long-term investments. Please see Note 7.

### 6. ACCOUNTS RECEIVABLE—THIRD PARTIES

|                                       | December 31         |                     |
|---------------------------------------|---------------------|---------------------|
|                                       | 2003                | 2002                |
| Accounts receivable                   | \$ 5,227,795        | \$ 4,676,166        |
| Less: Allowance for doubtful accounts | ( 427,961 )         | ( 729,769 )         |
|                                       | <u>\$ 4,799,834</u> | <u>\$ 3,946,397</u> |



## 7. LONG-TERM INVESTMENTS

|                                   | December 31          |                |                      |                |
|-----------------------------------|----------------------|----------------|----------------------|----------------|
|                                   | 2003                 |                | 2002                 |                |
|                                   | Carrying Value       | % of Ownership | Carrying Value       | % of Ownership |
| Equity method:                    |                      |                |                      |                |
| TransAsia Telecommunications Inc. | \$ 12,569,285        | 78.87          | \$ 12,600,436        | 78.87          |
| T & M Investment Co., Ltd.        | 6,370,748            | 99.99          | 6,335,518            | 99.99          |
| Taiwan Fixed Network Co., Ltd.    | 2,869,367            | 3.25           | 2,948,310            | 3.25           |
| Tai Hung Investments Ltd.         | 1,590,164            | 99.99          | 1,509,908            | 99.99          |
| Taihsing Den Den Co., Ltd.        | 1,526,803            | 99.99          | 1,494,043            | 99.99          |
| Tai Fu Investment Ltd.            | 782,688              | 99.99          | 674,351              | 99.99          |
| Tai Hsuo Investments Ltd.         | 499,488              | 99.99          | 410,513              | 99.99          |
| T.I. Investment Ltd.              | 432,540              | 99.99          | 529,119              | 99.99          |
| Taiwan Telecom (Aust) Pty Ltd.    | <u>104,238</u>       | 60.00          | <u>93,950</u>        | 60.00          |
|                                   | <u>26,745,321</u>    |                | <u>26,596,148</u>    |                |
| Cost method:                      |                      |                |                      |                |
| WEB Point Co., Ltd.               | 20,509               | 3.76           | 20,509               | 3.76           |
| Sunnet Co., Ltd.                  | 2,591                | 2.21           | 2,591                | 2.21           |
| Chunghwa Telecom Co., Ltd.        | -                    | -              | 18,862,500           | 3.89           |
| Digital United Inc.               | <u>-</u>             | -              | <u>78,539</u>        | 2.51           |
|                                   | 23,100               |                | 18,964,139           |                |
| Less: Allowance for losses        | <u>-</u>             |                | ( <u>255,750</u> )   |                |
|                                   | <u>23,100</u>        |                | <u>18,708,389</u>    |                |
| Total                             | <u>\$ 26,768,421</u> |                | <u>\$ 45,304,537</u> |                |

The Corporation's equity in Taiwan Fixed Network Co., Ltd. (TFN) is less than 20%, but the equity method is applied because of the Corporation's significant influence over TFN. In addition, because TFN also has investments in the Corporation, the investment income or loss is recognized by the treasury stock method.

On December 8, 2003, the Board of Directors decided to dispose of the Corporation's investment in Chunghwa Telecom Co., Ltd. As a result, this investment was transferred to short-term investments.

The carrying value of the investments accounted for by the equity method and the related investment income or losses were determined on the basis of the audited financial statements of the investees. The Corporation's investment income or losses were as follows:

|                                   | Years Ended December 31 |                   |
|-----------------------------------|-------------------------|-------------------|
|                                   | 2003                    | 2002              |
| TransAsia Telecommunications Inc. | \$ 911,486              | \$ 792,736        |
| T&M Investment Co., Ltd.          | 195,997                 | 156,170           |
| Tai Fu Investments Ltd.           | 108,337                 | 113,146           |
| T.I. Investment Ltd.              | ( 96,579 )              | ( 61,857 )        |
| Tai Hsuo Investments Ltd.         | 88,963                  | 60,009            |
| Tai Hung Investments Ltd.         | 80,157                  | ( 59,471 )        |
| Taihsing Den Den Co., Ltd.        | 33,419                  | ( 16,740 )        |
| Taiwan Fixed Network Co., Ltd.    | ( 22,891 )              | ( 12,326 )        |
| Taiwan Telecom (Aust) Pty Ltd.    | <u>( 15,408 )</u>       | <u>( 493 )</u>    |
|                                   | <u>\$ 1,283,481</u>     | <u>\$ 971,174</u> |

With the exception of TransAsia Telecommunications Inc. and Taihsing Den Den Co., Ltd., the total assets or total operating revenue of the subsidiaries were individually less than 10% or collectively less than 30% of the Corporation's total assets or operating revenues. Thus, only the accounts of TransAsia Telecommunications Inc. and Taihsing Den Den Co., Ltd. were included in the consolidated financial statements of the Corporation.

## 8. PROPERTY AND EQUIPMENT

Accumulated depreciation consisted of the following:

|                              | December 31          |                      |
|------------------------------|----------------------|----------------------|
|                              | 2003                 | 2002                 |
| Buildings                    | \$ 127,286           | \$ 88,978            |
| Telecommunications equipment | 13,850,042           | 9,980,453            |
| Office equipment             | 137,161              | 147,892              |
| Leased assets                | 101,032              | 37,222               |
| Miscellaneous equipment      | 353,967              | 232,641              |
|                              | <u>\$ 14,569,488</u> | <u>\$ 10,487,186</u> |

Depreciation expenses for the years ended December 31, 2003 and 2002 were \$4,561,066 thousand and \$3,716,234 thousand, respectively.

Interest expenses capitalized for the years ended December 31, 2003 and 2002 amounted to \$25,816 thousand and \$255,401 thousand, respectively, with interest rates ranging from 2.04% to 4.68% and from 1.20% to 5.88%, respectively.

## 9. INTANGIBLE ASSETS

|           | December 31          |                      |
|-----------|----------------------|----------------------|
|           | 2003                 | 2002                 |
| Franchise | \$ 10,281,000        | \$ 10,281,000        |
| Trademark | 784                  | 985                  |
|           | <u>\$ 10,281,784</u> | <u>\$ 10,281,985</u> |

Franchise refers to the bid payment for the third generation mobile telecommunications service—License C. As of December 31, 2003, the franchise operation license had not been issued. Nevertheless, even if the license has not been issued, the Corporation is allowed to start preparations to render 3G services.

## 10. NON-OPERATING ASSETS

|                                | December 31         |                     |
|--------------------------------|---------------------|---------------------|
|                                | 2003                | 2002                |
| Assets leased to others        | \$ 3,391,241        | \$ 3,584,844        |
| Idle assets                    | 1,336,268           | -                   |
|                                | 4,727,509           | 3,584,844           |
| Less: Accumulated depreciation | ( 670,881 )         | ( 209,856 )         |
|                                | 4,056,628           | 3,374,988           |
| Less: Allowance for losses     | ( 895,127 )         | -                   |
|                                | <u>\$ 3,161,501</u> | <u>\$ 3,374,988</u> |

## 11. DEFERRED CHARGES—NET

|                                 | December 31       |                   |
|---------------------------------|-------------------|-------------------|
|                                 | 2003              | 2002              |
| Interior decoration             | \$ 161,131        | \$ 173,737        |
| Bond issuance costs             | 68,719            | 105,298           |
| Subscriber identification cards | -                 | 92,263            |
| Other                           | 186,884           | 304,785           |
|                                 | <u>\$ 416,734</u> | <u>\$ 676,083</u> |

## 12. SHORT-TERM BORROWINGS

Short-term borrowings were credit borrowings (with interest rates ranging from 2.1% to 2.5%), which were payable by July 6, 2003.

### 13. SHORT-TERM BILLS PAYABLE

Short-term bills payable were commercial paper (with interest rate at 2.45%), which was payable by August 20, 2003.

### 14. BONDS PAYABLE

|  | December 31         |                      |                      |
|--|---------------------|----------------------|----------------------|
|  | 2003                |                      | 2002                 |
|  | Current             | Non-current          |                      |
| Domestic secured bonds                   | \$ -                | \$ 3,000,000         | \$ 3,000,000         |
| Domestic unsecured bonds                 | -                   | 15,000,000           | 15,000,000           |
| 1st domestic unsecured convertible bonds | 5,906,800           | -                    | 5,916,200            |
| 2nd domestic unsecured convertible bonds | -                   | 5,464,500            | 6,000,000            |
| Add: Accrued interest compensation       | <u>646,206</u>      | <u>250,818</u>       | <u>439,458</u>       |
|  | <u>\$ 6,553,006</u> | <u>\$ 23,715,318</u> | <u>\$ 30,355,658</u> |

#### a. Domestic secured bonds

On February 1, 2001, the Corporation issued five-year domestic secured bonds amounting to \$3,000,000 thousand, with each bond having a face value of \$1,000 thousand and interest at 5.31% annually. The bonds will be redeemed in the fourth and fifth years after the issuance date at \$1,500,000 thousand for each of those years.

The bond covenant requires the Corporation to maintain its year-end current ratio at above 100%, debt-to-equity ratio at below 100% and solvency ratio [(net income + depreciation + amortization + interest expense)/(long-term bank loan repayments + interest expense)] at above 150%.

#### b. Domestic unsecured bonds

On December 13, 2002, the Corporation issued domestic unsecured bonds amounting to \$15,000,000 thousand, with each bond having a face value of \$5,000 thousand. The bonds have four different types based on terms and dates. Types I and II both consist of A to L tranches. Types III and IV both consist of A to M tranches. Types I and II are five-year bonds and Types III and IV are seven-year bond. The interest rates and payment terms are as follows:

|          | Principle            | Rate        | Terms  |
|----------|----------------------|-------------|--|
| Type I   | \$ 2,500,000         | 2.60%       | Repayment of \$1,250,000 thousand each in the fourth and fifth years, interest payable annually  |
| Type II  | 2,500,000            | 5.21%-LIBOR | Repayment on maturity date, interest payable semiannually  |
| Type III | 5,000,000            | 2.80%       | Repayment of \$2,500,000 thousand each in the sixth and seventh years, interest payable annually |
| Type IV  | 5,000,000            | 5.75%-LIBOR | Repayment on maturity date, interest payable semiannually  |
|          | <u>\$ 15,000,000</u> |             |  |

#### c. 1st domestic convertible bonds

On August 25, 2001, the Corporation issued five-year domestic convertible bonds amounting to \$10,000,000 thousand, with each bond having a face value of \$100 thousand and 0% interest. Within the conversion period, starting from 3 months after issuance date to 10 days before maturity, the bondholders may ask for bond conversion into common stocks or entitlement certificates of the Corporation. Cash is paid for those bonds that cannot be converted into one share. The conversion price is subject to adjustment based on the prescribed formula. The conversion price has been NT\$25.2 per share since August 23, 2003. As of December 31, 2003, bonds amounting to \$4,093,200 thousand had been converted to 114,446 thousand common shares.

If the closing price of the Corporation's share is above 50% of the conversion price for 30 consecutive trading days of the Taiwan Stock Exchange from 3 months after bond issuance to 40 days before maturity, the

Corporation has the option to convert the bonds to entitlement certificates at conversion price or to redeem the bonds by cash based on the face value. If the total value of outstanding convertible bonds becomes less than 10% of the total principal, the Corporation also has the option—at any time—to convert the bonds to entitlement certificates at the conversion price or to redeem the bonds by cash based on the face value.

On the third year after the issuance date, the holders may redeem the bonds by cash based on the face value plus interest accrued, which is 113.3% of face value. A yield rate of 4.25% is implied. Upon maturity, the Corporation will redeem the bonds by cash based on the face value plus interest accrued, which is 124.62% of face value. A yield rate of 4.5% is implied.

#### d. 2nd domestic convertible bonds

On August 16, 2002, the Corporation issued five-year domestic convertible bonds amounting to \$6,000,000 thousand, with each bond having a face value of \$100 thousand and 0% interest. Within the conversion period from 3 months after issuance date to 10 days before maturity, the bondholders may have the bonds converted into common stocks of the Corporation. Cash is paid for those bonds that cannot be converted into one share. The conversion price is subject to adjustment based on the prescribed formula. The conversion price has been NT\$26.6 per share since August 23, 2003. As of December 31, 2003, bonds amounting \$535,500 thousand had been converted to 20,131 thousand common shares.

If the closing price of the Corporation's share is above 50% of the conversion price for 30 consecutive trading days of the Taiwan Stock Exchange from 3 months after bond issuance to 40 days before maturity, the Corporation has the option to convert the bonds to common stocks at conversion price or to redeem the bonds by cash based on the face value. If the total value of outstanding convertible bonds becomes less than 10% of the total principal, the Corporation also has the option—at any time—to convert the bonds to common stocks at the conversion price or to redeem the bonds by cash based on the face value.

On the third year after the issuance date, the holders may redeem the bonds by cash based on the face value plus interest accrued, which is 109.59% of face value. A yield rate of 3.1% is implied. Upon maturity, the Corporation will redeem the bonds by cash based on the face value plus interest accrued, which is 117.63% of face value. A yield rate of 3.3% is implied.

Future repayments of corporate bonds, excluding convertible bonds, are as follows:

| <u>Year</u> | <u>Amount</u>        |
|-------------|----------------------|
| 2004        | \$ -                 |
| 2005        | 1,500,000            |
| 2006        | 2,750,000            |
| 2007        | 3,750,000            |
| 2008        | 2,500,000            |
| From 2009   | <u>7,500,000</u>     |
|             | <u>\$ 18,000,000</u> |

## 15. LONG-TERM BANK LOANS

|                            | <u>December 31</u>   |                      |
|----------------------------|----------------------|----------------------|
|                            | <u>2003</u>          | <u>2002</u>          |
| Secured loans              | \$ 16,680,000        | \$ 12,562,500        |
| Unsecured loans            | 3,200,000            | 14,520,000           |
| Commercial paper           | 1,620,000            | 9,402,000            |
| Less: Unamortized discount | ( <u>6,734</u> )     | ( <u>47,351</u> )    |
|                            | 21,493,266           | 36,437,149           |
| Less: Current portion      | ( <u>1,400,000</u> ) | ( <u>2,548,000</u> ) |
|                            | <u>\$ 20,093,266</u> | <u>\$ 33,889,149</u> |

#### a. Secured loans

The secured loans had interest rates ranging from 1.4575% to 2.9334% and from 2.8594% to 4.004% as of December 31, 2003 and 2002, respectively. Interest is payable monthly and the payments are due in succession from June 12, 2008 to September 1, 2010. Starting December 12, 2003, the credit limit will be reduced by 10% every six months.

b. Unsecured loans

The unsecured loans had interest rates ranging from 1.3% to 3.5% and from 1.875% to 3.5% as of December 31, 2003 and 2002, respectively. Interest is payable monthly. Upon maturity, these loans are allowed to revolve within their credit limits, which will be due consecutively in 2005, 2006 and 2007.

c. Commercial paper

Commercial paper was issued at discount rates ranging from 0.67% to 2.20% and from 1.12% to 3.19% as of December 31, 2003 and 2002, respectively. The final maturity date of these loan is June 12, 2008. The related agreements require the Corporation to maintain its current ratio at above 100%, debt-to-equity ratio at below 100% and its long-term solvency ratio at above 150%.

## 16. PENSION PLAN

The Corporation has a pension plan for all regular employees, which provides benefits based on length of service and average basic pay of the six months before retirement.

The Corporation makes monthly contributions of amounts equal to 2% of salaries and wages to a pension fund, which is administered by the employees' pension fund committee and deposited in the committee's name in the Central Trust of China.

Pension information is summarized as follows:

a. Pension cost components

|                                   | Years Ended December 31 |                  |
|-----------------------------------|-------------------------|------------------|
|                                   | 2003                    | 2002             |
| Service cost                      | \$ 21,739               | \$ 18,077        |
| Interest cost                     | 2,506                   | 2,051            |
| Expected return on pension assets | ( 3,040 )               | ( 2,912 )        |
| Amortization                      | ( 1,829 )               | ( 1,973 )        |
|                                   | <u>\$ 19,376</u>        | <u>\$ 15,243</u> |

b. Reconciliation of the funded status of the plan and accrued pension liabilities

|  | December 31   |               |
|--|---------------|---------------|
|  | 2003          | 2002          |
| Benefit obligation                           |               |               |
| Vested                                       | ( \$ 433 )    | ( \$ 535 )    |
| Non-vested                                   | ( 57,539 )    | ( 39,615 )    |
| Accumulated                                  | ( 57,972 )    | ( 40,150 )    |
| Additional benefits based on future salaries | ( 34,815 )    | ( 31,565 )    |
| Projected benefit obligation                 | ( 92,787 )    | ( 71,715 )    |
| Fair value of plan assets                    | <u>93,746</u> | <u>80,652</u> |
| Funded status                                | 959           | 8,937         |
| Unrecognized net transition obligation       | 9,816         | 10,331        |
| Unrecognized net gain or loss                | ( 60,517 )    | ( 61,899 )    |
| Accrued pension liabilities                  | ( \$ 49,742 ) | ( \$ 42,631 ) |
| Vested benefits                              | ( \$ 433 )    | ( \$ 535 )    |

d. Actuarial assumptions

|  |      |      |
|--|------|------|
| Discount rate used in determining present values | 3.0% | 3.5% |
| Future salary increase rate                      | 2.5% | 3.0% |
| Expected rate of return on plan assets           | 3.0% | 3.5% |

## 17. SHAREHOLDERS' EQUITY

a. Capital surplus

Under the Company Law, capital surplus may only be used to offset a deficit. Capital surplus, however, generated from the excess of the issue price over the par value of capital stock, including the stock issued for new capital and the buyback of treasury stock, may be transferred to capital as stock dividends.

## b. Appropriation of earnings and dividend policy

The Corporation's Articles of Incorporation provide that a 10% legal reserve should be set aside from the annual net income less any accumulated deficit. The remainder, less special reserve based on relevant laws or regulations, should be distributed as follows:

- 1) Dividends and bonus to preferred shareholders
- 2) Remuneration to directors and supervisors—0.5%
- 3) Bonus to employees—1%-3%
- 4) Remainder, to be appropriated as dividends as determined in the shareholders' meeting.

The Corporation's dividend distribution is based on the availability of excess funds. That is, the Corporation first projects future capital needs through capital budgeting process and then provides for projected capital needs by using the retained earnings. Any remainder is available for dividend distribution. However, the amount of stock dividends should not be more than 80% of the total dividends to be distributed in a single year. The final amount, type and percentage of the dividends are subject to the approval by the Board of Directors and shareholders based on actual earnings and capital requirements of the Corporation in a particular year.

A regulation issued by the Securities and Futures Commission requires a special reserve equivalent to debit balance of any account in shareholders' equity (except for the balance of treasury stock). The reversal of the debit balance would be appropriated as earnings distribution.

The appropriation of earnings should be resolved by shareholders in the following year and given effect to financial statements of that year.

Under the Integrated Income Tax System that became effective on January 1, 1998, ROC resident shareholders are allowed a tax credit for the income tax paid by the Corporation on earnings generated on or after January 1, 1998. An imputation credit account (ICA) is maintained by the Corporation for such income tax and the tax credit allocated to each shareholder.

The appropriation of the 2002 and 2001 earnings and dividend per share was as follows:

|   | <u>Appropriation of Earnings</u> |                             | <u>Dividend Per Share (NT\$)</u> |                             |
|---|----------------------------------|-----------------------------|----------------------------------|-----------------------------|
|   | <u>For Fiscal Year 2002</u>      | <u>For Fiscal Year 2001</u> | <u>For Fiscal Year 2002</u>      | <u>For Fiscal Year 2001</u> |
| Legal reserve                             | \$ 1,487,272                     | \$ 1,674,578                |                                  |                             |
| Special reserve                           | 330,183                          | -                           |                                  |                             |
| Remuneration to directors and supervisors | 65,274                           | 75,356                      |                                  |                             |
| Bonus to employees—in cash                | 391,645                          | 753,560                     |                                  |                             |
| Cash dividends                            | 8,831,889                        | 7,186,109                   | \$ 2.0                           | \$ 1.9                      |
| Stock dividends                           | <u>1,766,378</u>                 | <u>7,186,109</u>            | 0.4                              | 1.9                         |
|   | <u>\$ 12,872,641</u>             | <u>\$ 16,875,712</u>        |                                  |                             |

In their meeting on June 25, 2003, the Corporation's shareholders approved the Board of Directors' proposal on the appropriation of earnings in 2002. The appropriation of bonus to employees and remuneration to directors and supervisors was as follows:

|   | <u>Amount</u>     |
|---|-------------------|
| Bonus to employees—in cash                        | \$ 391,645        |
| Remuneration to directors and supervisors—in cash | <u>65,274</u>     |
|   | <u>\$ 456,919</u> |

Had the above distribution been charged against the income of 2002, the basic earnings per share after income tax for the year ended December 31, 2002 would have decreased from NT\$3.20 to NT\$3.10.

As of January 19, 2004, the date of the accompanying auditor's report, the appropriation of earnings for 2003 has not been resolved by the Board of Directors. Information on the approved appropriation of the 2003 earnings is accessible online through the Market Observation Post System on the Web site of the Taiwan Stock Exchange.

c. Treasury stock

(Shares in Thousands)

| Purpose of Buyback  | Beginning Shares | Increase                 | Decrease | Ending Shares |
|---|------------------|--------------------------|----------|---------------|
| <u>2003</u>   |                  |                          |          |               |
| To be transferred to employees  | 86,739           | -                        | -        | 86,739        |
| Reclassification of the Corporation's stocks held by subsidiaries from short or long-term investments to treasury stock | 4,399            | 176<br>(stock dividends) | -        | 4,575         |
| <u>2002</u>   |                  |                          |          |               |
| To be transferred to employees  | 1,910            | 84,829                   | -        | 86,739        |
| Reclassification of the Corporation's stocks held by subsidiaries from short or long-term investments to treasury stock | -                | 4,399                    | -        | 4,399         |

The 1,910 thousand shares boughtback in 2002 were canceled on January 12, 2004, which resulted in a reduction of \$53,805 thousand in common stock, capital stock and retained earnings.

Under the Securities and Exchange Law, the buyback amount of treasury stocks should not exceed 10% of total issued shares, and the buyback cost should not exceed the sum of the retained earnings, additional paid-in capital in excess of par value and realized capital surplus. In addition, the Corporation should not use treasury stocks as collateral and should not exercise shareholders' rights on those stocks before their transfer.

As of December 31, 2003, the market value of the Corporation's outstanding shares held by its subsidiaries was \$134,581 thousand. The stocks held by a subsidiary as an investment are recorded as treasury stock, but the subsidiary has the same rights as those of other common shareholders.

## 18. INCOME TAX EXPENSE

- a. The reconciliation between income tax expense based on income before income tax at statutory tax rate and income tax expense was as follows:

|   | <u>Years Ended December 31</u> |                   |
|---|--------------------------------|-------------------|
|   | <u>2003</u>                    | <u>2002</u>       |
| Income tax expense computed based on income before income tax at statutory tax rate (25%) | \$ 3,616,690                   | \$ 3,852,402      |
| Add (deduct) tax effects of:  |                                |                   |
| Permanent differences   |                                |                   |
| Investment income from domestic investments accounted for by the equity method            | ( 348,987 )                    | ( 258,381 )       |
| Other   | ( 23,327 )                     | 48,131            |
| Temporary differences   | 253,298                        | 110,444           |
| Tax-exempt income   | ( 2,225,390 )                  | ( 2,902,405 )     |
| Income tax (10%) on unappropriated earnings   | 351,018                        | 208,266           |
| Investment tax credits  | ( 681,363 )                    | ( 529,228 )       |
| Income tax payable  | <u>\$ 941,939</u>              | <u>\$ 529,229</u> |

The balances of income taxes payable as of December 31, 2003 and 2002 were net of prepaid income taxes of \$5,719 thousand and \$229,925 thousand, respectively.

- b. Under the Article 8 of the Statute for Upgrading Industries (SUI) before the SUI amendment in 1999, the Corporation is considered an important technology based enterprise. Thus, the Corporation's net operating income generated from the following expansion of its equipment is exempt from income tax for five years during the period specified, as approved by the Ministry of Finance.

| Equipment Expansion Projects  | Tax-Exempt Period |
|---|-------------------|
| Switches, base transmission station (BTS) and related telecommunications equipment, acquired from December 16, 1997 to October 30, 1998 | 1999 to 2003      |
| Switches, BTS and related telecommunications equipment, acquired from July 31, 1999 to December 31, 1999                                | 2001 to 2005      |
| Switches, BTS and related telecommunications equipment, acquired from September 30, 2000 to September 30, 2001                          | 2002 to 2006      |

- c. The components of income tax expense were as follows:

|                            | <b>Years Ended December 31</b> |                   |
|----------------------------|--------------------------------|-------------------|
|                            | <b>2003</b>                    | <b>2002</b>       |
| Current income tax expense | \$ 941,939                     | \$ 529,229        |
| Deferred income tax        | 160,564                        | ( 56,905 )        |
| Prior year's adjustment    | <u>19,850</u>                  | <u>3</u>          |
| Income tax expense         | <u>\$ 1,122,353</u>            | <u>\$ 472,327</u> |

- d. Deferred income tax assets and liabilities as of December 31, 2003 and 2002 were as follows:

|                                     | <b>December 31</b> |                     |
|-------------------------------------|--------------------|---------------------|
|                                     | <b>2003</b>        | <b>2002</b>         |
| Provision for doubtful accounts     | \$ 775,561         | \$ 884,996          |
| Accrued interest compensation       | 224,256            | 109,865             |
| Provision for losses on idle assets | 223,782            | -                   |
| Accrued pension costs               | 11,024             | 10,143              |
| Investment tax credits              | -                  | 211,811             |
| Other                               | <u>47,201</u>      | <u>35,195</u>       |
|                                     | 1,281,824          | 1,252,010           |
| Less: Allowance for valuation       | ( <u>439,860</u> ) | ( <u>249,482</u> )  |
|                                     | <u>\$ 841,964</u>  | <u>\$ 1,002,528</u> |
| Deferred income tax assets          |                    |                     |
| Current                             | \$ 91,984          | \$ 391,135          |
| Non-current                         | <u>749,980</u>     | <u>611,393</u>      |
|                                     | <u>\$ 841,964</u>  | <u>\$ 1,002,528</u> |

- e. The unused investment tax credits as of December 31, 2003 are summarized as follows:

| <u>Statutes</u>                  | <u>Items</u>  | <u>Total<br/>Investment<br/>Tax Credits</u> | <u>Unused<br/>Investment<br/>Tax Credits</u> | <u>Year of<br/>Expiry</u> |
|----------------------------------|---|---|--|---------------------------|
| Statute for Upgrading Industries | Purchase of machinery and equipment, research and development expenditures and personnel training | \$ <u>3,395,596</u>                         | \$ <u>-</u>                                  | 2007                      |

- f. Integrated income tax information is as follows:

|  | <b>December 31</b> |                   |
|--|--------------------|-------------------|
|  | <b>2003</b>        | <b>2002</b>       |
| Balance of imputation credit account (ICA) | <u>\$ 334,287</u>  | <u>\$ 253,217</u> |

As of December 31, 2003, there were no unappropriated earnings generated before January 1, 1998. The expected ratio of the ICA balance to the balance of the unappropriated earnings as of December 31, 2003 was 2.16%. The actual ratio of the ICA balance on the dividend distribution date in 2003 to the balance of the unappropriated earnings as of December 31, 2002 was 7.02%.

The tax credits allocable to shareholders are based on the ICA balance on the dividend distribution date. Thus, the tax deductible ratio for the distribution of 2003 earnings may differ from the actual ratio.

- g. Income tax returns through 1998 had been examined and cleared by the tax authorities.



## 19. EARNINGS PER SHARE

The numerators and denominators used in calculating earnings per share (EPS) were as follows:

|  | Amounts (Numerator)  |                     | Shares<br>(Denominator)<br>(Thousands) | EPS                     |                        |
|--|----------------------|---------------------|--|-------------------------|------------------------|
|  | Before<br>Income Tax | After<br>Income Tax |  | Before<br>Income<br>Tax | After<br>Income<br>Tax |
| <u>For the year ended December 31, 2003</u>  |                      |                     |  |                         |                        |
| Weighted-average number of outstanding shares  |                      |                     | 4,683,320                              |                         |                        |
| Less: Buyback of issued shares   |                      |                     | ( 86,739)                              |                         |                        |
| Outstanding shares held by subsidiaries,<br>recognized as treasury stocks                                    |                      |                     | ( 4,575)                               |                         |                        |
| Basic EPS  |                      |                     |  |                         |                        |
| Income of common shareholders  | \$ 14,466,800        | \$ 13,344,447       | 4,592,006                              | \$ 3.15                 | \$ 2.91                |
| Add: Effect of potentially dilutive convertible bonds  |                      |                     |  |                         |                        |
| 1st convertible bonds (4.5%)   | 282,560              | 211,920             | 234,693                                |                         |                        |
| 2nd convertible bonds (3.3%)   | 196,962              | 147,721             | 221,642                                |                         |                        |
| Diluted EPS  |                      |                     |  |                         |                        |
| Income of common shareholders with dilutive<br>effect of potential common stocks                             | \$ 14,946,322        | \$ 13,704,088       | 5,048,341                              | \$ 2.96                 | \$ 2.71                |
| <u>For the year ended December 31, 2002</u>  |                      |                     |  |                         |                        |
| Weighted-average number of outstanding shares  |                      |                     | 4,501,796                              |                         |                        |
| Less: Buyback of issued shares   |                      |                     | ( 5,545)                               |                         |                        |
| Outstanding shares held by subsidiaries,<br>recognized as treasury stocks                                    |                      |                     | ( 4,399)                               |                         |                        |
| Add: Number of shares retroactively adjusted for<br>issuance of stock dividends<br>(record date: 2003/08/23) |                      |                     | 179,674                                |                         |                        |
| Basic EPS  |                      |                     |  |                         |                        |
| Income of common shareholders  | \$ 15,409,647        | \$ 14,937,320       | 4,671,526                              | \$ 3.30                 | \$ 3.20                |
| Add: Effect of potentially dilutive convertible<br>bonds (*)   |                      |                     |  |                         |                        |
| 1st convertible bonds (4.5%)   | 272,174              | 204,131             | 235,821                                |                         |                        |
| 2nd convertible bonds (3.3%)   | 74,878               | 56,158              | 85,282                                 |                         |                        |
| Diluted EPS  |                      |                     |  |                         |                        |
| Income of common shareholders with dilutive<br>effect of potential common stocks                             | \$ 15,756,699        | \$ 15,197,609       | 4,992,629                              | \$ 3.16                 | \$ 3.04                |

\* Effect on stock dividends has been adjusted retroactively.

The retroactive adjustment resulted in decrease in the basic and diluted EPS after income tax for the year ended December 31, 2002 from NT\$3.33 to NT\$3.20 and from NT\$3.20 to NT\$3.04, respectively.

## 20. LABOR COSTS, DEPRECIATION AND AMORTIZATION EXPENSES

|                               | Years Ended December 31            |  |              |                                    |  |              |
|-------------------------------|------------------------------------|--|--------------|------------------------------------|--|--------------|
|                               | 2003                               |  |              | 2002                               |  |              |
|                               | Classified as<br>Operating<br>Cost | Classified as<br>Operating<br>Expenses | Total        | Classified as<br>Operating<br>Cost | Classified as<br>Operating<br>Expenses | Total        |
| Labor cost                    |                                    |  |              |                                    |  |              |
| Salary                        | \$ 27,372                          | \$ 856,310                             | \$ 883,682   | \$ 23,013                          | \$ 912,429                             | \$ 935,442   |
| Labor and health<br>insurance | 1,328                              | 40,971                                 | 42,299       | 877                                | 36,218                                 | 37,095       |
| Pension                       | 491                                | 15,171                                 | 15,662       | 378                                | 14,865                                 | 15,243       |
| Other                         | 2,160                              | 86,060                                 | 88,220       | 1,575                              | 64,413                                 | 65,988       |
| Subtotal                      | 31,351                             | 998,512                                | 1,029,863    | 25,843                             | 1,027,925                              | 1,053,768    |
| Depreciation                  | 4,253,434                          | 307,632                                | 4,561,066    | 3,482,614                          | 233,620                                | 3,716,234    |
| Amortization                  | 12,450                             | 130,011                                | 142,461      | 231,203                            | 115,742                                | 346,945      |
|                               | \$ 4,297,235                       | \$ 1,436,155                           | \$ 5,733,390 | \$ 3,739,660                       | \$ 1,377,287                           | \$ 5,116,947 |

## 21. RELATED-PARTY TRANSACTIONS

- a. The related parties and their relationships with the Corporation are as follows:

| Related Party                                       | Relationship with the Corporation  |
|---|--|
| Taihsing Den Den Co., Ltd.                          | Subsidiary   |
| TransAsia Telecommunications Inc. (TAT)             | Subsidiary   |
| T.I. Investments Ltd.                               | Subsidiary   |
| Tai Hsuo Investment Ltd.                            | Subsidiary   |
| Tai Fu Investment Ltd.                              | Subsidiary   |
| Tai Hung Investment Ltd.                            | Subsidiary   |
| T & M Investment Co., Ltd.                          | Subsidiary   |
| Taiwan Telecom (Aust) Pty Ltd.                      | Subsidiary   |
| Taiwan Tele-Shop Co., Ltd. (TTS)                    | Subsidiary   |
| Taiwan Teleservices & Technologies Co., Ltd. (TT&T) | Subsidiary   |
| Taiwan Elitec Corporation (TEC)                     | Subsidiary   |
| Taiwan Infotainment Co., Ltd. (TIC)                 | Subsidiary   |
| Supreme-Tech (Aust) Pty Ltd.                        | Subsidiary   |
| TransAsia Information Network Co., Ltd.             | Subsidiary (merged with TAT on December 9, 2003)                             |
| Taiwan Fixed Network Co., Ltd. (TFN)                | Equity-method investee   |
| The Tele-World Shop Pte Ltd.                        | Indirect investee under Corporation's control                                |
| Technology World Services Inc.                      | Indirect investee under Corporation's control (dissolved on July 9, 2003)    |
| GTE PCS International Incorporated                  | A director of the Corporation (until June 26, 2002)                          |
| Pacific Telecommunications Taiwan Co, Ltd.          | Same chairman (dissolved on February 15, 2003)                               |
| Chung-Shing Telecommunications Co., Ltd.            | Same chairman (dissolved on January 15, 2003)                                |
| Capital Telecommunications Co., Ltd.                | Same chairman (dissolved on January 15, 2003)                                |
| Pacific Electric Wire & Cable Co., Ltd.             | Same chairman (until June 9, 2003)   |
| Chung Hsing Constructions Co., Ltd.                 | Same chairman (since June 9, 2003)   |
| Fubon Land Development Co., Ltd.                    | Same chairman (since June 9, 2003)   |
| Giya Mobile Telecom Co., Ltd.                       | Affiliate (dissolved on July 1, 2003)  |
| Taiwan Technologies Services Inc.                   | Affiliate (dissolved on July 1, 2003)  |
| Taiwan Info Power Co., Ltd.                         | Affiliate (dissolved on July 1, 2002)  |
| Howin Technologies Co., Ltd. (HTC)                  | Affiliate  |
| Taiwan Index Co., Ltd.                              | Affiliate  |
| CTS Digi-Tech Co., Ltd.                             | Affiliate  |
| TCC Foundation                                      | Over one third of the Foundation's authorized fund came from the Corporation |
| Fubon Financial Holding Co., Ltd.                   | Related party in substance (since June 9, 2003)                              |
| Fubon Commercial Bank Co., Ltd. (FCB)               | Related party in substance (since June 9, 2003)                              |
| Fubon Securities Co., Ltd.                          | Related party in substance (since June 9, 2003)                              |
| Fubon Insurance Co., Ltd. (Fubon Ins.)              | Related party in substance (since June 9, 2003)                              |
| TaipeiBank Co., Ltd. (TaipeiBank)                   | Related party in substance (since June 9, 2003)                              |
| Fubon Securities Investment Trust Co., Ltd.         | Related party in substance (since June 9, 2003)                              |
| Fubon Life Assurance Co., Ltd.                      | Related party in substance (since June 9, 2003)                              |

- b. Major transactions with related parties are summarized below:

Unless specified otherwise, the related-party transactions were conducted at arm's length.

- 1) Operating revenues

|      | Years Ended December 31 |                  |                     |                  |
|------|-------------------------|------------------|---------------------|------------------|
|      | 2003                    |                  | 2002                |                  |
|      | Amount                  | % of Total Sales | Amount              | % of Total Sales |
| TAT  | \$ 1,590,353            | 4                | \$ 1,326,081        | 3                |
| TFN  | 1,262,221               | 3                | 810,248             | 2                |
| TT&T | 25,826                  | -                | 28,003              | -                |
| HTC  | 21,228                  | -                | 23,579              | -                |
|      | <u>\$ 2,899,628</u>     |                  | <u>\$ 2,187,911</u> |                  |

The average collection period for notes and accounts receivable was approximately two months.

2) Operating costs

|     | Years Ended December 31 |                     |                     |                     |
|-----|-------------------------|---------------------|---------------------|---------------------|
|     | 2003                    |                     | 2002                |                     |
|     | Amount                  | % of Operating Cost | Amount              | % of Operating Cost |
| HTC | \$ 800,000              | 4                   | \$ 829,869          | 5                   |
| TAT | 602,013                 | 3                   | 587,002             | 4                   |
| TFN | <u>457,291</u>          | 3                   | <u>110,566</u>      | 1                   |
|     | <u>\$ 1,859,304</u>     |                     | <u>\$ 1,527,437</u> |                     |

Operating costs pertained to telecommunications and maintenance services. The average payment period for notes and accounts payable was approximately two months.

3) Property transactions

a) Acquisition of property and equipment

| Year Ended December 31, 2003 |  |                     |
|------------------------------|--|---------------------|
|                              | Description                                  | Amount              |
| HTC                          | Telecommunications equipment                 | \$ 4,670,000        |
| TEC                          | Office equipment and miscellaneous equipment | <u>25,123</u>       |
|                              |  | <u>\$ 4,695,123</u> |
| Year Ended December 31, 2002 |  |                     |
|                              | Description                                  | Amount              |
| HTC                          | Telecommunications and related equipment     | \$ 4,802,958        |
|                              | Miscellaneous equipment                      | 417,311             |
| TFN                          | Leased assets*                               | 1,276,190           |
| TEC                          | Telecommunications equipment                 | 122,113             |
|                              | Office equipment                             | 18,538              |
|                              | Deferred charges                             | <u>12,010</u>       |
|                              |  | <u>\$ 6,649,120</u> |

\* In 2002, the Corporation entered into a capital lease agreement with TFN to use TFN's dual-path line for 20 years, accounted for as leased assets. The lease payable had been fully paid.

Except for the Corporation's lease of TFN's assets, which was based on market prices as agreed to by both parties, the above acquisitions were made at arm's length.

b) Disposal of property and equipment

| Year Ended December 31, 2002 |                  |                  |              |
|------------------------------|------------------|------------------|--------------|
|                              | Description      | Amount           | Gain         |
| TFN                          | Office equipment | \$ 16,211        | \$ 34        |
|                              | Deferred charges | <u>12,331</u>    | <u>-</u>     |
|                              |                  | <u>\$ 28,542</u> | <u>\$ 34</u> |

- 4) Operating lease  
 a) Rental expense

|             |                                 | Years Ended December 31 |           |
|-------------|---------------------------------|-------------------------|-----------|
| Description |                                 | 2003                    | 2002      |
| TTS         | Signboards of franchised stores | \$ 20,781               | \$ 20,524 |

- b) Rental income

|                        |   | Years Ended December 31 |                   |
|------------------------|---|-------------------------|-------------------|
| Leased Sites/Equipment |   | 2003                    | 2002              |
| TT&T                   | Tang-Cherng and Tai-Chung offices and telecommunications equipment    | \$ 168,558              | \$ 172,500        |
| TFN                    | Kee-lung road, Tai-Chung, Chung-Ho and Tang-Cherng offices, BTS, etc. | 45,138                  | 45,540            |
| TTS                    | Operating sites   | 29,889                  | 15,081            |
| TEC                    | Tang-Cherng offices and telecommunications equipment, etc.            | 24,074                  | 24,660            |
| HTC                    | Tang-Cherng, Tai-Chung and Chung-Ho offices                           | 17,231                  | 23,377            |
| TIC                    | Kee-lung Road, Tang-Cherng and Tun Hua S. Road offices                | 9,189                   | 10,020            |
|                        |   | <u>\$ 294,079</u>       | <u>\$ 291,178</u> |

The above lease transactions were based on market price and payments were made and collected monthly.

- 5) Guarantee provided

The Corporation provided TransAsia with loan guarantee amounting to \$4,500,000 thousand.

- 6) Cash in banks and bank loans

|  |  | December 31       |    |                   |    |
|--|--|-------------------|----|-------------------|----|
|  |  | 2003              |    | 2002              |    |
|  |  | Amount            | %  | Amount            | %  |
| a) Checking and demand deposits                                |  |                   |    |                   |    |
| FCB  |  | \$ 70,985         | 4  | \$ 68,457         | 1  |
| TaipeiBank   |  | <u>30,955</u>     | 2  | <u>403,068</u>    | 6  |
|  |  | <u>\$ 101,940</u> |    | <u>\$ 471,525</u> |    |
| b) Pledged time deposits (recorded under other current assets) |  |                   |    |                   |    |
| FCB  |  | <u>\$ 10,000</u>  | 97 | <u>\$ 10,000</u>  | 99 |
| c) Bank loans  |  |                   |    |                   |    |
| TaipeiBank   |  | <u>\$ -</u>       | -  | <u>\$ 860,000</u> | 3  |

- 7) Receivables and payables

|                      |  | December 31       |   |                   |   |
|----------------------|--|-------------------|---|-------------------|---|
|                      |  | 2003              |   | 2002              |   |
|                      |  | Amount            | % | Amount            | % |
| Accounts receivable: |  |                   |   |                   |   |
| TTS*                 |  | \$ 444,479        | 8 | \$ 392,471        | 9 |
| TAT                  |  | 240,443           | 4 | 178,682           | 4 |
| TFN                  |  | 78,217            | 1 | 46,423            | 1 |
| Other                |  | <u>8,030</u>      | - | <u>15,819</u>     | - |
|                      |  | <u>\$ 771,169</u> |   | <u>\$ 633,395</u> |   |

\* Accounts receivable primarily consisted of the telecommunications service charges collected by TTS from customers for TCC.

|  | December 31         |    |                                |                     |
|--|---------------------|----|--------------------------------|---------------------|
|  | 2003                |    | 2002                           |                     |
|  | Amount              | %  | Amount                         | %                   |
| Other receivables:                                       |                     |    |                                |                     |
| TAT  | \$ 273,504          | 88 | \$ 163,717                     | 32                  |
| HTC  | 14,823              | 5  | 70,828                         | 14                  |
| Other  | <u>13,725</u>       | 4  | <u>9,226</u>                   | 2                   |
|  | <u>\$ 302,052</u>   |    | <u>\$ 243,771</u>              |                     |
| Accounts payables:                                       |                     |    |                                |                     |
| TAT  | <u>\$ 100,336</u>   | 7  | <u>\$ 14,669</u>               | 1                   |
| Accrued expenses:  |                     |    |                                |                     |
| TTS  | \$ 707,163          | 36 | \$ 448,502                     | 24                  |
| HTC  | 221,526             | 11 | 7,431                          | -                   |
| TT&T   | 102,793             | 5  | 114,848                        | 6                   |
| TEC  | 74,892              | 4  | 102,883                        | 5                   |
| TFN  | 37,406              | 2  | 26,624                         | 1                   |
| TIC  | <u>721</u>          | -  | <u>50,000</u>                  | 3                   |
|  | <u>\$ 1,144,501</u> |    | <u>\$ 750,288</u>              |                     |
| Other payables:  |                     |    |                                |                     |
| TFN  | \$ 413,741          | 55 | \$ 421,199                     | 28                  |
| TTS  | 15,922              | 2  | 25,530                         | 2                   |
| TAT  | -                   | -  | 10,920                         | 1                   |
| Other  | <u>294</u>          | -  | <u>3,510</u>                   | -                   |
|  | <u>\$ 429,957</u>   |    | <u>\$ 461,159</u>              |                     |
| Advance receipts   |                     |    |                                |                     |
| TAT  | <u>\$ 72,776</u>    | 5  | <u>\$ 79,039</u>               | 5                   |
| Other current liabilities—collections for the following: |                     |    |                                |                     |
| TFN  | \$ 32,694           | 30 | \$ -                           | -                   |
| FCB  | 15,490              | 14 | 22,222                         | 44                  |
| TAT  | <u>11,981</u>       | 11 | <u>-</u>                       | -                   |
|  | <u>\$ 60,165</u>    |    | <u>\$ 22,222</u>               |                     |
|  |                     |    | <b>Years Ended December 31</b> |                     |
|  |                     |    | <b>2003</b>                    | <b>2002</b>         |
| 8) Commission expenses (including handset subsidy, etc.) |                     |    |                                |                     |
| TTS  |                     |    | \$ 4,293,263                   | \$ 5,765,586        |
| HTC  |                     |    | <u>75,903</u>                  | <u>9,138</u>        |
|  |                     |    | <u>\$ 4,369,166</u>            | <u>\$ 5,774,724</u> |
| 9) Professional service fees                             |                     |    |                                |                     |
| TT&T   |                     |    | \$ 1,256,564                   | \$ 1,240,975        |
| TEC  |                     |    | 252,722                        | 237,734             |
| TFN  |                     |    | <u>32,000</u>                  | <u>28,500</u>       |
|  |                     |    | <u>\$ 1,541,286</u>            | <u>\$ 1,507,209</u> |
| 10) Service charges                                      |                     |    |                                |                     |
| TTS  |                     |    | \$ 261,839                     | \$ 267,232          |
| TT&T   |                     |    | <u>28,976</u>                  | <u>22,172</u>       |
|  |                     |    | <u>\$ 290,815</u>              | <u>\$ 289,404</u>   |
| 11) Insurance expenses                                   |                     |    |                                |                     |
| Fubon Ins.   |                     |    | <u>\$ 182,082</u>              | <u>\$ 140,008</u>   |
| 12) Donation   |                     |    |                                |                     |
| TCC Foundation   |                     |    | <u>\$ 36,850</u>               | <u>\$ 35,850</u>    |

|   | <u>Years Ended December 31</u> |             |
|---|--------------------------------|-------------|
|   | <u>2003</u>                    | <u>2002</u> |
| 13) Repair and maintenance expenses   |                                |             |
| TEC   | \$ 93,390                      | \$ 79,950   |
| 14) Printing expenses for bills and advertisements  |                                |             |
| TEC   | \$ 216,595                     | \$ 242,419  |
| 15) Telecommunications service expenses   |                                |             |
| TFN   | \$ 13,225                      | \$ 11,052   |
| 16) Other   |                                |             |
| a) TTS entered into an agreement with the Corporation to act as a consignee for the Corporation in selling mobile phones and related products. The total value of such products and services that TTS received from the Corporation for the years ended December 31, 2003 and 2002 amounted to \$2,662,463 thousand and \$2,393,171 thousand, respectively. |                                |             |
| b) As of December 31, 2003 and 2002, the Corporation had commercial draft of \$1,000,000 thousand from TTS as guarantee deposits for the consignment sales agreement.   |                                |             |
| c) HTC entered into an agreement to provide the Corporation with GSM-1800 network maintenance. As of December 31, 2003 and 2002, the Corporation had received performance guarantee deposits of \$630,000 thousand and \$1,160,000 thousand, respectively, from HTC.  |                                |             |
| d) The Corporation purchased handsets for business purposes from TTS, accounted for as office supplies and other accounts. These purchases amounted to \$16,548 thousand and \$18,073 thousand for the years ended 2003 and 2002.   |                                |             |

## 22. ASSETS PLEDGED

The assets pledged as collaterals for bank loans were as follows:

|  | <u>December 31</u>   |                      |
|--|----------------------|----------------------|
|  | <u>2003</u>          | <u>2002</u>          |
| Fixed assets—net carrying value            | \$ 34,382,258        | \$ 34,848,925        |
| Assets leased to others—net carrying value | 290,441              | 614,603              |
| Time deposits                              | 10,000               | 10,000               |
| Deferred charges—net carrying value        | 1,721                | 4,671                |
| Long-term investments                      | -                    | 18,606,750           |
|  | <u>\$ 34,684,420</u> | <u>\$ 54,084,949</u> |

## 23. COMMITMENTS

- a. To increase its network capacity and quality and to provide more extensive services, the Corporation entered into system equipment purchase and installation agreements with Howin Technologies Co., Ltd. in December 2002 for \$1,300,000 thousand and \$1,200,000 thousand, respectively. As of December 31, 2003, the unpaid balances for the purchase and installation agreements were \$1,170,000 thousand and \$1,080,000 thousand, respectively.
- b. To provide services for third generation (3G) mobile telecommunications and advanced and complete wireless broadband data transmission, the Corporation entered into 3G network equipment purchase and installation contracts with Howin Technologies Co., Ltd. in December 2002 for \$2,000,000 thousand and \$1,800,000 thousand, respectively. As of December 31, 2003, the unpaid balances for the purchase and installation contracts were \$1,200,000 thousand and \$1,080,000 thousand, respectively.
- c. As of December 31, 2003, future minimum rental payments for major operating lease agreements are summarized as follows:

|      | <u>Amount</u> |
|------|---------------|
| 2004 | \$ 4,907      |
| 2005 | 5,054         |
| 2006 | 5,206         |
| 2007 | 2,641         |

## 24. SUBSEQUENT EVENTS

On January 12, 2004, the Corporation entrusted to Deutsche Bank the sale of 93,000 thousand shares of Chunghwa Telecom Co., Ltd. in the form of American Depositary Receipts. The average selling price per share was approximately NT\$50.68, and the gains on this sale amounted to \$364,515 thousand.

## 25. FINANCIAL INSTRUMENT TRANSACTIONS

|  | <u>December 31</u>    |                   |                       |                   |
|--|-----------------------|-------------------|-----------------------|-------------------|
|  | <u>2003</u>           |                   | <u>2002</u>           |                   |
|  | <u>Carrying Value</u> | <u>Fair Value</u> | <u>Carrying Value</u> | <u>Fair Value</u> |
| <u>Non-derivative financial instruments</u>      |                       |                   |                       |                   |
| Financial assets                                 |                       |                   |                       |                   |
| Financial assets—fair value                      |                       |                   |                       |                   |
| approximating to carrying value                  | \$ 8,037,239          | \$ 8,037,239      | \$ 12,354,277         | \$ 12,354,277     |
| Short-term investments                           | 17,545,007            | 18,422,175        | 6,058,481             | 6,058,481         |
| Long-term investments—with quoted market price   | -                     | -                 | 18,606,750            | 18,606,750        |
| Financial liabilities                            |                       |                   |                       |                   |
| Financial liabilities—fair value                 |                       |                   |                       |                   |
| approximating to carrying value                  | 6,570,352             | 6,570,352         | 9,787,693             | 9,787,693         |
| Bonds payable (including current portion)        | 29,371,300            | 31,478,286        | 29,916,200            | 31,037,085        |
| Long-term bank loans (including current portion) | 21,493,266            | 21,493,266        | 36,437,149            | 36,437,149        |
| <u>Derivative financial instruments</u>          |                       |                   |                       |                   |
| Interest rate swap contracts                     | -                     | 16,535            | -                     | 84,988            |

Fair values of financial instruments were determined as follows:

- a. Short-term financial instruments (other than short-term investments)—the carrying value reported in the balance sheets approximates the fair value of these assets, including cash and cash equivalents, receivables, interest receivable and payable, pledged time deposits, short-term borrowings, short-term bills payable, notes and accounts payable because of the short maturities of these instruments;
- b. Short-term investments—based on market quotations;
- c. Long-term investments with quoted market prices—based on the average closing price in December;
- d. Refundable deposits and guarantee deposits—based on their carrying amounts;
- e. Bonds payable—based on the over-the-counter quotation;
- f. Long-term bank loans—based on the discounted present value of expected cash flows. Since the Corporation's long-term loans had floating interest rates, their fair value was equivalent to book value.
- g. Interest rate swap contracts—based on the evaluation result provided by banks.

The fair values shown above did not include the fair values of certain financial instruments and all nonfinancial instruments. Thus, the aggregate fair values presented did not represent the underlying fair value of the Corporation.

## 26. ADDITIONAL DISCLOSURES

Following were the additional disclosures required by the Securities and Futures Commission for the Corporation and its investees:

According to the principle on materiality, only item a. to d. should be disclosed, if (a) investees' individual total assets or total operating revenues are less than 10% of those of the Corporation) or (b) the investees' personnel, finance or operation is directly or indirectly controlled by the Corporation.

- a. Financing provided: None
- b. Endorsement/guarantee provided: Table 1 (attached)
- c. Marketable securities held: Table 2 (attached)
- d. Marketable securities acquired and disposed of at costs or prices of at least \$100 million or 20% of the paid-in capital: Table 3 (attached)
- e. Acquisition of individual real estate at costs of at least \$100 million or 20% of the paid-in capital: None
- f. Disposal of individual real estate at prices of at least \$100 million or 20% of the paid-in capital: None
- g. Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 4 (attached)
- h. Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 5 (attached)
- i. Names, locations, and related information of investees on which the Corporation exercised significant influence: Table 6 (attached)
- j. Derivative transactions

The Corporation entered into interest rate swap (IRS) contracts in December 2002 to hedge fluctuation on floating interest rates of bonds, which are settled semiannually. The related information is as follows:

- 1) Contract amount and credit risk

| <u>Financial Instrument</u>  | <u>Terms</u>   | <u>Contract Amount</u> | <u>Credit Risk</u> |
|------------------------------|--|------------------------|--------------------|
| Interest rate swap contracts | Floating interest rate in exchange for fixed interest rates of 2.25% and 2.45% | \$ 4,500,000           | -                  |
|                              | Floating interest rate in exchange for fixed interest rate of 2.45%            | 3,000,000              | -                  |

The Corporation entered into IRS contracts to hedge interest rate fluctuations. For the year ended December 31, 2003, the gain on the IRS contracts was \$148,118 thousand, recorded as a deduction from interest expense.

- 2) Market risk

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 and cash flow risk and uncertainty of future cash demand

The Corporation entered into IRS transactions to hedge cash flow risks. Because the IRS contracts are settled at net amounts, the expected cash demand is insignificant. The Corporation has sufficient operating capital to meet cash demand.

- 4) The purpose of derivative financial instruments held or issued and the strategies to meet the purpose

The Corporation uses IRS contracts to hedge fluctuation on its liabilities with floating interest rates. The overall purpose of these contracts is to hedge the Corporation's exposure to cash flow risks. The Corporation uses interest rate swaps to hedge interest rate fluctuation risk and periodically evaluates the effectiveness of the hedging instruments.



- k. Investment in Mainland China: None

**27. SEGMENT INFORMATION**

- a. Industry information

The Corporation is primarily a wireless communication service provider.

- b. Geographic information

The Corporation has no revenue from overseas operations.

- c. Export sales

None.

- d. Customers with revenues exceeding 10% of the total revenues are as follows:

| <u>Company</u>             | <u>2003</u>   |                                   | <u>2002</u>   |                                   |
|----------------------------|---------------|-----------------------------------|---------------|-----------------------------------|
|                            | <u>Amount</u> | <u>% of Net Operating Revenue</u> | <u>Amount</u> | <u>% of Net Operating Revenue</u> |
| Chunghwa Telecom Co., Ltd. | \$ 10,517,742 | 23                                | \$ 12,013,972 | 26                                |



TABLE 1

TAIWAN CELLULAR CORPORATION

ENDORSEMENT/GUARANTEE PROVIDED  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(Amounts in Thousands of New Taiwan Dollars)

| No. | Endorsement/<br>Guarantee Provider | Counter-party                     |                               | Limits on Each<br>Counter-party's<br>Endorsement/<br>Guarantee Amount (Note) | Maximum<br>Balance for the Period | Ending Balance | Value of Collateral | Ratio of Accumulated<br>Amount of Collateral to Net<br>Equity shown in the Latest<br>Financial Statements | Maximum<br>Collateral/Guarantee<br>Amounts Allowable<br>(Note) |
|-----|------------------------------------|-----------------------------------|-------------------------------|--|-----------------------------------|----------------|---------------------|---|--|
|     |                                    | Name                              | Nature of Relationship (Note) |  |                                   |                |                     |   |  |
| 0   | TCC                                | TransAsia Telecommunications Inc. | Subsidiary                    | \$ 12,298,372  | \$ 4,500,000                      | \$ -           | \$ -                | -   | \$ 69,190,766  |

Note: Under the Regulation No. 12 of the "Procedures for Endorsement/Guarantee and Lending of Funds," the Corporation limits the endorsement/guarantee amount for each subsidiary within the net value of the Corporation, and the endorsement/guarantee amount for each counter-party should not exceed the amount of the Corporation's investment in the counter party.

## TAIWAN CELLULAR CORPORATION AND SUBSIDIARIES

## MARKETABLE SECURITIES HELD

DECEMBER 31, 2003

(Amounts in Thousands of New Taiwan Dollars)

| Held Company Name             | Marketable Securities                               | Relationship with the Company                 | Financial Statement Account | December 31, 2003  |                |                         |  | Note   |
|-------------------------------|---|---|-----------------------------|--------------------|----------------|-------------------------|--|--------|
|                               |   |   |                             | Shares (Thousands) | Carrying Value | Percentage of Ownership | Market Value or Net Asset Value (Note 1) |        |
| TCC                           | <u>Beneficiary certificates</u>                     |   |                             |                    |                |                         |  |        |
|                               | Fubon OTC Mutual Funds                              | -   | Short-term investments      | 10,000             | \$ 100,300     | -                       | \$ 40,800                                | Note 3 |
|                               | International Golden Dragon Mutual Funds            | -   | Short-term investments      | 5,000              | 50,000         | -                       | 26,250                                   | Note 2 |
|                               | <u>Stocks</u>                                       |   |                             |                    |                |                         |  |        |
|                               | Taihsing Den Den Co., Ltd.                          | Subsidiary                                    | Long-term investments       | 44,299             | 1,526,803      | 99.99                   | 1,673,977                                |        |
|                               | Taiwan Fixed Network Co., Ltd.                      | Equity-method investee                        | Long-term investments       | 300,000            | 2,869,367      | 3.25                    | 3,081,155                                |        |
|                               | T & M Investment Co., Ltd.                          | Subsidiary                                    | Long-term investments       | 78,050             | 6,370,748      | 99.99                   | 5,732,820                                |        |
|                               | TransAsia Telecommunications Inc.                   | Subsidiary                                    | Long-term investments       | 517,356            | 12,569,285     | 78.87                   | 6,967,162                                |        |
|                               | Taiwan Telecom (Aust) Pty Ltd.                      | Subsidiary                                    | Long-term investments       | 4,800              | 104,238        | 60.00                   | 104,238                                  |        |
|                               | Sunnet Co., Ltd.                                    | -   | Long-term investments       | 500                | 2,591          | 2.21                    | -  | Note 5 |
|                               | WEB Point Co., Ltd.                                 | -   | Long-term investments       | 1,500              | 20,509         | 3.76                    | 10,298                                   |        |
|                               | Chunghwa Telecom Co., Ltd.                          | -   | Short-term investments      | 375,000            | 17,394,707     | 3.89                    | 18,355,125                               | Note 3 |
|                               | <u>Subscription certificate</u>                     |   |                             |                    |                |                         |  |        |
|                               | Tai Hung Investment Ltd.                            | Subsidiary                                    | Long-term investments       | -                  | 1,590,164      | 99.99                   | 2,087,086                                |        |
|                               | Tai Fu Investment Ltd.                              | Subsidiary                                    | Long-term investments       | -                  | 782,688        | 99.99                   | 783,175                                  |        |
|                               | Tai Hsuo Investment Ltd.                            | Subsidiary                                    | Long-term investments       | -                  | 499,488        | 99.99                   | 539,547                                  |        |
|                               | T.I. Investment Ltd.                                | Subsidiary                                    | Long-term investments       | -                  | 432,540        | 99.99                   | 432,540                                  |        |
| T & M Investment Co., Ltd.    | <u>Stocks</u>                                       |   |                             |                    |                |                         |  |        |
|                               | TransAsia Telecommunications Inc.                   | Subsidiary                                    | Long-term investments       | 88,239             | 1,429,233      | 13.45                   | 1,188,288                                |        |
|                               | Taiwan Fixed Network Co., Ltd.                      | Equity-method investee                        | Long-term investments       | 600,000            | 3,992,375      | 6.51                    | 6,162,310                                |        |
|                               | Parawin Venture Capital Corp.                       | -   | Long-term investments       | 3,000              | 30,000         | 3.00                    | 29,520                                   |        |
| Taihsing Den Den Co., Ltd.    | <u>Stocks</u>                                       |   |                             |                    |                |                         |  |        |
|                               | Taiwan Tele-Shop Co., Ltd.                          | Subsidiary                                    | Long-term investments       | 95,536             | 1,463,589      | 50.02                   | 1,268,826                                |        |
|                               | Arcoa Communication Co., Ltd.                       | -   | Long-term investments       | 5,225              | 50,000         | 3.89                    | -  | Note 5 |
|                               | Taiwan Index Co., Ltd.                              | Affiliate                                     | Long-term investments       | 5,000              | 47,501         | 20.00                   | 46,131                                   |        |
| Taiwan Tele-Shop Co., Ltd.    | <u>Beneficiary certificates</u>                     |   |                             |                    |                |                         |  |        |
|                               | Prudential Well Pool Bond Fund                      | -   | Short-term investments      | 16,820             | 200,000        | -                       | 202,587                                  | Note 2 |
|                               | ABN AMRO Select Bond Fund                           | -   | Short-term investments      | 5,526              | 60,000         | -                       | 60,153                                   | Note 2 |
|                               | JF (Taiwan) First Bond Fund                         | -   | Short-term investments      | 4,099              | 60,000         | -                       | 60,080                                   | Note 2 |
|                               | NITC Bond Fund                                      | -   | Short-term investments      | 699                | 110,042        | -                       | 110,271                                  | Note 2 |
|                               | President James Bond Fund                           | -   | Short-term investments      | 8,122              | 120,000        | -                       | 120,339                                  | Note 2 |
|                               | Shinkong Chi-Shin Fund                              | -   | Short-term investments      | 4,377              | 60,068         | -                       | 60,229                                   | Note 2 |
|                               | Shinkong Chi-Shun Fund                              | -   | Short-term investments      | 12,798             | 180,117        | -                       | 180,540                                  | Note 2 |
|                               | Capital Cash Reserves Fund                          | -   | Short-term investments      | 8,054              | 90,000         | -                       | 90,206                                   | Note 2 |
|                               | International The Incerement Fund                   | -   | Short-term investments      | 10,290             | 150,000        | -                       | 150,200                                  | Note 2 |
|                               | <u>Stocks</u>                                       |   |                             |                    |                |                         |  |        |
|                               | Taiwan Cellular Corporation                         | Parent company                                | Short-term investments      | 4,575              | 163,109        | -                       | 134,581                                  |        |
|                               | The Tele-World Shop Pte Ltd.                        | Indirect investee under Corporation's control | Long-term investments       | 3,000              | 95,372         | 100.00                  | 95,372                                   |        |
|                               | Taiwan Fixed Network Co., Ltd.                      | Equity-method investee                        | Long-term investments       | 7,000              | 67,012         | 0.08                    | 71,894                                   |        |
| Transportation High Tech Inc. | -   | Long-term investments                         | 1,200                       | 6,772              | 12.00          | -                       | Note 5                                   |        |
| Taiwan Index Co., Ltd.        | <u>Beneficiary certificates</u>                     |   |                             |                    |                |                         |  |        |
|                               | Prudential Well Pool Fund                           | -   | Short-term investments      | 2,543              | 30,000         | -                       | 30,634                                   | Note 2 |
|                               | ABN AMRO Bond Fund                                  | -   | Short-term investments      | 2,815              | 40,000         | -                       | 40,730                                   | Note 2 |
|                               | The First Global Investment Trust Wan Tai Bond Fund | -   | Short-term investments      | 2,273              | 30,000         | -                       | 30,554                                   | Note 2 |
| Tai Hung Investment Ltd.      | <u>Stocks</u>                                       |   |                             |                    |                |                         |  |        |
|                               | Howin Technologies Holding Ltd.                     | Affiliate                                     | Long-term investments       | 150,000            | 1,715,547      | 25.00                   | 1,802,177                                |        |

(Continued)

| Held Company Name                            | Marketable Securities                               | Relationship with the Company | Financial Statement Account | December 31, 2003  |                |                         |  | Note   |
|--|---|-------------------------------|-----------------------------|--------------------|----------------|-------------------------|--|--------|
|  |   |                               |                             | Shares (Thousands) | Carrying Value | Percentage of Ownership | Market Value or Net Asset Value (Note 1) |        |
| Howin Technologies Co., Ltd.                 | <u>Beneficiary certificates</u>                     |                               |                             |                    |                |                         |  |        |
|  | ABN AMRO Kwang Hua Bond Fund                        | -                             | Short-term investments      | 5,171              | \$ 74,200      | -                       | \$ 74,828                                | Note 2 |
|  | Fubon Ju-I III Fund                                 | -                             | Short-term investments      | 38,650             | 449,484        | -                       | 453,478                                  | Note 2 |
|  | Capital Cash Reserves Fund                          | -                             | Short-term investments      | 13,377             | 147,826        | -                       | 149,808                                  | Note 2 |
|  | Dresdner Bond Dam Fund                              | -                             | Short-term investments      | 3,340              | 36,875         | -                       | 37,034                                   | Note 2 |
|  | Polaris De-Li Fund                                  | -                             | Short-term investments      | 9,404              | 135,712        | -                       | 136,399                                  | Note 2 |
|  | The First Global Investment Trust Wan Tai Bond Fund | -                             | Short-term investments      | 1,171              | 15,664         | -                       | 15,731                                   | Note 2 |
|  | <u>Stocks</u>                                       |                               |                             |                    |                |                         |  |        |
|  | Chunghwa Telecom Co., Ltd.                          | -                             | Short-term investments      | 8,600              | 398,919        | 0.09                    | 420,944                                  | Note 3 |
|  | Taiwan Cellular Corporation                         | Parent company                | Short-term investments      | 13,017             | 403,532        | 0.28                    | 382,930                                  | Note 3 |
|  | Taiwan Fixed Network Co., Ltd.                      | Equity-method investee        | Long-term investments       | 4,000              | 16,800         | 0.04                    | 37,878                                   |        |
|  | Great Taipei Broadband Co., Ltd.                    | -                             | Long-term investments       | 5,000              | 50,000         | 3.33                    | 46,752                                   |        |
|  | Transportation High Tech Inc.                       | -                             | Long-term investments       | 1,200              | 6,772          | 12.00                   | -  | Note 5 |
|  | Taiwan Elitec Corporation                           | Subsidiary                    | Long-term investments       | 10,000             | 126,298        | 20.00                   | 144,041                                  |        |
|  | Taiwan Teleservices & Technologies Co., Ltd.        | Subsidiary                    | Long-term investments       | 16,000             | 200,364        | 20.00                   | 203,051                                  |        |
|  | Taiwan Index Co., Ltd.                              | Affiliate                     | Long-term investments       | 5,000              | 48,305         | 20.00                   | 46,131                                   |        |
|  | Taiwan Infotainment Co., Ltd.                       | Subsidiary                    | Long-term investments       | 25,000             | 178,245        | 25.00                   | 178,245                                  |        |
|  | e-Post Inc.   | -                             | Long-term investments       | 794                | 3,767          | 31.75                   | 3,767                                    |        |
|  | Reach & Range Inc.                                  | Affiliate                     | Long-term investments       | 6,002              | 53,973         | 54.56                   | 49,113                                   |        |
| Reach & Range Inc.                           | <u>Beneficiary certificates</u>                     |                               |                             |                    |                |                         |  |        |
|  | JF (Taiwan) Bond Fund                               | -                             | Short-term investments      | 415                | 6,000          | -                       | 6,081                                    | Note 2 |
|  | Fubon Ju-I III Fund                                 | -                             | Short-term investments      | 604                | 7,051          | -                       | 7,058                                    | Note 2 |
|  | Capital Cash Reserves Fund                          | -                             | Short-term investments      | 1,361              | 15,000         | -                       | 15,244                                   | Note 2 |
|  | Capital Safe Income Fund                            | -                             | Short-term investments      | 142                | 2,000          | -                       | 2,009                                    | Note 2 |
|  | UBS Taiwan Bond Fund                                | -                             | Short-term investments      | 71                 | 1,000          | -                       | 1,015                                    | Note 2 |
|  | UBS Soaring Eagle Bond Fund                         | -                             | Short-term investments      | 485                | 5,000          | -                       | 5,063                                    | Note 2 |
|  | NITC Taiwan Bond Fund                               | -                             | Short-term investments      | 375                | 5,000          | -                       | 5,057                                    | Note 2 |
| T.I. Investments Ltd.                        | <u>Stocks</u>                                       |                               |                             |                    |                |                         |  |        |
|  | Taiwan Infotainment Co., Ltd.                       | Subsidiary                    | Long-term investments       | 60,000             | 427,788        | 60.00                   | 427,788                                  |        |
| Tai Fu Investment Ltd.                       | <u>Stocks</u>                                       |                               |                             |                    |                |                         |  |        |
| Taiwan Teleservices & Technologies Co., Ltd. | Subsidiary  | Long-term investments         | 52,000                      | 651,186            | 65.00          | 659,916                 |  |        |
| Taiwan Teleservices & Technologies Co., Ltd. | <u>Beneficiary certificates</u>                     |                               |                             |                    |                |                         |  |        |
|  | Prudential Well Pool Fund                           | -                             | Short-term investments      | 8,514              | 100,825        | -                       | 102,546                                  | Note 2 |
|  | Capital Cash Reserves Fund                          | -                             | Short-term investments      | 8,191              | 90,000         | -                       | 91,733                                   | Note 2 |
|  | Fubon Ju-I III Fund                                 | -                             | Short-term investments      | 4,368              | 50,422         | -                       | 51,243                                   | Note 2 |
|  | International The Incerement Fund                   | -                             | Short-term investments      | 6,218              | 90,000         | -                       | 90,757                                   | Note 2 |
|  | President James Bond Fund                           | -                             | Short-term investments      | 2,035              | 30,000         | -                       | 30,157                                   | Note 2 |
| Tai Hsuo Investment Ltd.                     | <u>Stocks</u>                                       |                               |                             |                    |                |                         |  |        |
|  | Taiwan Elitec Corporation                           | Subsidiary                    | Long-term investments       | 32,500             | 458,634        | 65.00                   | 468,134                                  |        |
| Taiwan Elitec Corporation                    | <u>Beneficiary certificates</u>                     |                               |                             |                    |                |                         |  |        |
|  | Capital Cash Reserves Fund                          | -                             | Short-term investments      | 13,767             | 151,099        | -                       | 154,184                                  | Note 2 |
|  | Prudential Well Pool Bond Fund                      | -                             | Short-term investments      | 13,870             | 165,580        | -                       | 167,053                                  | Note 2 |
|  | <u>Stocks</u>                                       |                               |                             |                    |                |                         |  |        |
|  | Taiwan Fixed Network Co., Ltd.                      | Equity-method investee        | Long-term investments       | 10,000             | 40,454         | 0.11                    | 102,705                                  |        |
| TransAsia Telecommunications Inc.            | <u>Stocks</u>                                       |                               |                             |                    |                |                         |  |        |
|  | Howin Technologies Co., Ltd.                        | Affiliate                     | Long-term investments       | 15,000             | 164,192        | 2.50                    | 180,218                                  |        |
|  | Chunghwa Telecom Co., Ltd                           | -                             | Short-term investments      | 60,000             | 2,783,113      | 0.62                    | 2,936,820                                | Note 3 |
| Taiwan Telecom (Aust) Pty Ltd.               | <u>Stocks</u>                                       |                               |                             |                    |                |                         |  |        |
| Supreme-Tech (Aust) Pty Ltd.                 | Subsidiary  | Long-term investments         | -                           | -                  | 100.00         | -                       |  |        |

(Continued)

| Held Company Name                     | Marketable Securities                               | Relationship with the Company | Financial Statement Account | December 31, 2003  |                |                         |  | Note   |
|---------------------------------------|---|-------------------------------|-----------------------------|--------------------|----------------|-------------------------|--|--------|
|                                       |   |                               |                             | Shares (Thousands) | Carrying Value | Percentage of Ownership | Market Value or Net Asset Value (Note 1) |        |
| Taiwan Fixed Network Co., Ltd.        | <u>Beneficiary certificates</u>                     |                               |                             |                    |                |                         |  |        |
|                                       | Fubon Ju-I II Fund                                  | -                             | Short-term investments      | 17,930             | \$ 250,000     | -                       | \$ 250,185                               | Note 2 |
|                                       | Fubon Ju-I III Fund                                 | -                             | Short-term investments      | 8,984              | 104,735        | -                       | 105,408                                  | Note 2 |
|                                       | The First Global Investment Trust Wan Tai Bond Fund | -                             | Short-term investments      | 16,661             | 223,511        | -                       | 223,923                                  | Note 2 |
|                                       | International The Incerement Fund                   | -                             | Short-term investments      | 54,741             | 792,000        | -                       | 799,028                                  | Note 2 |
|                                       | Capital Cash Reserves Fund                          | -                             | Short-term investments      | 4,532              | 50,000         | -                       | 50,755                                   | Note 2 |
|                                       | ABN AMRO Income Fund                                | -                             | Short-term investments      | 2,655              | 40,000         | -                       | 40,056                                   | Note 2 |
|                                       | ABN AMRO Select Bond Fund                           | -                             | Short-term investments      | 5,518              | 60,000         | -                       | 60,066                                   | Note 2 |
|                                       | Prudential Well Pool Fund                           | -                             | Short-term investments      | 78,124             | 933,835        | -                       | 940,961                                  | Note 2 |
|                                       | President James Bond Fund                           | -                             | Short-term investments      | 81,809             | 1,206,500      | -                       | 1,212,176                                | Note 2 |
|                                       | NITC Bond Fund                                      | -                             | Short-term investments      | 6,965              | 1,094,690      | -                       | 1,098,845                                | Note 2 |
|                                       | <u>Stocks</u>                                       |                               |                             |                    |                |                         |  |        |
|                                       | Howin Technologies Co., Ltd.                        | Affiliate                     | Long-term investments       | 399,999            | 3,764,407      | 66.67                   | 4,806,045                                |        |
|                                       | Taiwan Cellular Corporation                         | Parent company                | Long-term investments       | 900,353            | 31,087,128     | 19.52                   | 26,488,378                               |        |
|                                       | TFN Investment Co., Ltd.                            | Affiliate                     | Long-term investments       | 2,000,000          | 20,717,219     | 100.00                  | 20,740,695                               |        |
|                                       | Taiwan Hong-Yuan Investment Co., Ltd.               | Affiliate                     | Long-term investments       | 1,000,000          | 10,314,915     | 100.00                  | 10,325,584                               |        |
|                                       | Taiwan Telecom (Aust) Pty Ltd.                      | Subsidiary                    | Long-term investments       | 3,200              | 69,492         | 40.00                   | 69,492                                   |        |
|                                       | TFN US Ltd.   | Affiliate                     | Long-term investments       | 430                | 14,110         | 100.00                  | 14,110                                   |        |
|                                       | TFN HK Ltd.   | Affiliate                     | Long-term investments       | 1,299              | 5,091          | 99.99                   | 5,091                                    |        |
|                                       | Taiwan High-Speed Rail Corp.                        | -                             | Long-term investments       | 276,600            | 2,766,000      | 5.53                    | 2,643,909                                |        |
| <u>Bonds</u>                          |   |                               |                             |                    |                |                         |  |        |
| TCC 1st domestic convertible bond     | Parent company                                      | Short-term investments        | 15,690 units                | 1,569,000          | -              | 1,867,581               | Note 4                                   |        |
| TFN Investment Co., Ltd.              | <u>Beneficiary certificates</u>                     |                               |                             |                    |                |                         |  |        |
|                                       | Fubon Ju-I III Fund                                 | -                             | Short-term investments      | 8,759              | 101,182        | -                       | 102,764                                  | Note 2 |
|                                       | Prudential Well Pool Fund                           | -                             | Short-term investments      | 13,479             | 160,000        | -                       | 162,343                                  | Note 2 |
|                                       | Capital Cash Reserves Fund                          | -                             | Short-term investments      | 9,122              | 100,000        | -                       | 102,158                                  | Note 2 |
|                                       | NITC Bond Fund                                      | -                             | Short-term investments      | 1,271              | 200,027        | -                       | 200,568                                  | Note 2 |
|                                       | President James Bond Fund                           | -                             | Short-term investments      | 13,567             | 200,000        | -                       | 201,017                                  | Note 2 |
|                                       | Fubon Ju-I II Fund                                  | -                             | Short-term investments      | 17,928             | 250,000        | -                       | 250,152                                  | Note 2 |
|                                       | <u>Stocks</u>                                       |                               |                             |                    |                |                         |  |        |
|                                       | Taiwan Cellular Corporation                         | Parent company                | Long-term investments       | 467,821            | 16,337,890     | 10.14                   | 13,763,307                               | Note 3 |
|                                       | Fubon Financial Holding Co., Ltd.                   | Related party in substance    | Short-term investments      | 53,293             | 1,440,677      | 0.64                    | 1,724,557                                | Note 3 |
|                                       | Chunghwa Telecom Co., Ltd.                          | -                             | Short-term investments      | 33,000             | 1,530,734      | 0.34                    | 1,615,350                                | Note 3 |
|                                       | Taiwan Index Co., Ltd.                              | Affiliate                     | Long-term investments       | 6,250              | 57,664         | 25.00                   | 57,663                                   |        |
|                                       | Great Taipei Broadband Co., Ltd.                    | -                             | Long-term investments       | 5,000              | 50,000         | 3.33                    | 46,752                                   |        |
| CTS Digi-Tech Co., Ltd.               | Affiliate   | Long-term investments         | 6,000                       | 59,389             | 60.00          | 59,388                  |  |        |
| Taiwan Hong-Yuan Investment Co., Ltd. | <u>Beneficiary certificates</u>                     |                               |                             |                    |                |                         |  |        |
|                                       | Capital Cash Reserves Fund                          | -                             | Short-term investments      | 17,061             | 187,000        | -                       | 191,074                                  | Note 2 |
|                                       | Fubon Ju-I III Fund                                 | -                             | Short-term investments      | 3,859              | 45,045         | -                       | 45,284                                   | Note 2 |
|                                       | International The Incerement Fund                   | -                             | Short-term investments      | 6,877              | 100,000        | -                       | 100,385                                  | Note 2 |
|                                       | President James Bond Fund                           | -                             | Short-term investments      | 8,822              | 130,007        | -                       | 130,721                                  | Note 2 |
|                                       | Fubon Ju-I II Fund                                  | -                             | Short-term investments      | 10,757             | 150,000        | -                       | 150,091                                  | Note 2 |
|                                       | <u>Stocks</u>                                       |                               |                             |                    |                |                         |  |        |
|                                       | Taiwan Cellular Corporation                         | Parent company                | Long-term investments       | 163,304            | 5,114,755      | 3.54                    | 4,804,390                                | Note 3 |
|                                       | Fubon Financial Holding Co., Ltd.                   | Related party in substance    | Short-term investments      | 36,646             | 917,955        | 0.44                    | 1,185,862                                | Note 3 |
|                                       | Chunghwa Telecom Co., Ltd.                          | -                             | Short-term investments      | 42,000             | 1,948,204      | 0.44                    | 2,055,900                                | Note 3 |
|                                       | <u>Preferred stock</u>                              |                               |                             |                    |                |                         |  |        |
|                                       | Taiwan High-Speed Rail Corp.                        | -                             | Long-term investments       | 50,000             | 500,000        | -                       | -  |        |
|                                       | <u>Bonds</u>  |                               |                             |                    |                |                         |  |        |
| TCC 2nd domestic convertible bond     | Parent company                                      | Short-term investments        | 10,028 units                | 1,002,800          | -              | 1,154,123               | Note 4                                   |        |

(Concluded)

Note 1: Based on the net asset value of the latest financial statements, unless specified otherwise.

Note 2: Based on the net asset value of the fund as of December 31, 2003.

Note 3: Based on the average closing price in December 2003.

Note 4: Based on the OTC average closing price in December 2003.

Note 5: As of January 19, 2004, the date of the accompanying auditor's report, the net values of these investees were unavailable.

## TAIWAN CELLULAR CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION  
OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(Amounts in Thousands of New Taiwan Dollars)

| Company Name                                 | Marketable Securities Type and Name                 | Financial Statement Account | Counter-party | Nature of Relationship | Beginning Balance  |            | Acquisition        |            | Disposal           |              |                       |                         | Ending Balance        |         |  |
|--|---|-----------------------------|---------------|------------------------|--------------------|------------|--------------------|------------|--------------------|--------------|-----------------------|-------------------------|-----------------------|---------|--|
|  |   |                             |               |                        | Shares (Thousands) | Amount     | Shares (Thousands) | Amount     | Shares (Thousands) | Amount       | Carrying Value        | Gain (Loss) on Disposal | Shares (Thousands)    | Amount  |  |
| The Corporation                              | <u>Beneficiary certificates</u>                     |                             |               |                        |                    |            |                    |            |                    |              |                       |                         |                       |         |  |
|  | The First Global Investment Trust Wan Tai Bond Fund | Short-term investments      | -             | -                      | 68,092             | \$ 900,000 | 7,495              | \$ 100,000 | 75,587             | \$ 1,003,670 | \$ 1,000,000          | \$ 3,670                | -                     | \$ -    |  |
|  | ABN AMRO Bond Fund                                  | Short-term investments      | -             | -                      | 21,090             | 300,000    | 62,926             | 900,000    | 84,016             | 1,202,943    | 1,200,000             | 2,943                   | -                     | -       |  |
|  | ABN AMRO Select Bond Fund                           | Short-term investments      | -             | -                      | 18,693             | 200,000    | 65,016             | 700,000    | 83,709             | 902,032      | 900,000               | 2,032                   | -                     | -       |  |
|  | Fubon Ju-I Fund                                     | Short-term investments      | -             | -                      | -                  | -          | 33,234             | 500,000    | 33,234             | 501,718      | 500,000               | 1,718                   | -                     | -       |  |
|  | Fubon Ju-I III Fund                                 | Short-term investments      | -             | -                      | 78,131             | 900,000    | 17,169             | 200,000    | 95,300             | 1,108,543    | 1,100,000             | 8,543                   | -                     | -       |  |
|  | Fubon Ju-I II Fund                                  | Short-term investments      | -             | -                      | 72,914             | 1,000,000  | -                  | -          | 72,914             | 1,000,627    | 1,000,000             | 627                     | -                     | -       |  |
|  | The GP ROC Bond Fund                                | Short-term investments      | -             | -                      | 63,904             | 900,000    | 14,074             | 200,000    | 77,978             | 1,103,609    | 1,100,000             | 3,609                   | -                     | -       |  |
|  | Prudential Well Pool Fund                           | Short-term investments      | -             | -                      | 67,695             | 800,000    | 50,415             | 600,000    | 118,110            | 1,404,934    | 1,400,000             | 4,934                   | -                     | -       |  |
|  | Dresdner Dam Bond Fund                              | Short-term investments      | -             | -                      | 27,518             | 300,000    | 36,468             | 400,000    | 63,986             | 701,906      | 700,000               | 1,906                   | -                     | -       |  |
|  | JF (Taiwan) First Bond Fund                         | Short-term investments      | -             | -                      | 22,549             | 300,000    | 37,459             | 500,000    | 60,008             | 801,817      | 800,000               | 1,817                   | -                     | -       |  |
|  | JF (Taiwan) Bond Fund                               | Short-term investments      | -             | -                      | 13,863             | 200,000    | 20,707             | 300,000    | 34,570             | 501,364      | 500,000               | 1,364                   | -                     | -       |  |
|  | Capital Cash Reserves Fund                          | Short-term investments      | -             | -                      | 18,252             | 200,000    | 9,105              | 100,000    | 27,357             | 301,568      | 300,000               | 1,568                   | -                     | -       |  |
| Shinkong Chi-Shun Fund                       | Short-term investments                              | -                           | -             | -                      | -                  | 7,145      | 100,000            | 7,145      | 100,245            | 100,000      | 245                   | -                       | -                     |         |  |
| Howin Technologies Co., Ltd.                 | <u>Beneficiary certificates</u>                     |                             |               |                        |                    |            |                    |            |                    |              |                       |                         |                       |         |  |
|  | The First Global Investment Trust Wan Tai Bond Fund | Short-term investments      | -             | -                      | 18,918             | 250,057    | 26,246             | 350,000    | 43,993             | 585,641      | 584,393               | 1,248                   | 1,171                 | 15,664  |  |
|  | JF (Taiwan) First Bond Fund                         | Short-term investments      | -             | -                      | 33,013             | 439,412    | -                  | -          | 33,013             | 439,832      | 439,412               | 420                     | -                     | -       |  |
|  | Prudential Well Pool Fund                           | Short-term investments      | -             | -                      | 41,405             | 489,319    | 118,117            | 1,404,400  | 159,522            | 1,898,933    | 1,893,719             | 5,214                   | -                     | -       |  |
|  | ABN AMRO Kwang Hua Bond Fund                        | Short-term investments      | -             | -                      | 15,382             | 218,962    | 56,738             | 813,500    | 66,949             | 959,756      | 958,262               | 1,494                   | 5,171                 | 74,200  |  |
|  | Fubon Ju-I III Fund                                 | Short-term investments      | -             | -                      | 39,152             | 451,302    | 128,843            | 1,495,800  | 129,345            | 1,499,826    | 1,497,618             | 2,208                   | 38,650                | 449,484 |  |
|  | The GP ROC Bond Fund                                | Short-term investments      | -             | -                      | 7,102              | 100,021    | 24,673             | 350,000    | 31,775             | 450,843      | 450,021               | 822                     | -                     | -       |  |
|  | Capital Cash Reserves Fund                          | Short-term investments      | -             | -                      | 16,384             | 179,671    | 13,391             | 148,000    | 16,398             | 180,500      | 179,845               | 655                     | 13,377                | 147,826 |  |
|  | Polaris De-Li Fund                                  | Short-term investments      | -             | -                      | -                  | -          | 65,601             | 943,914    | 56,197             | 809,866      | 808,202               | 1,664                   | 9,404                 | 135,712 |  |
|  | NITC Bond Fund                                      | Short-term investments      | -             | -                      | -                  | -          | 1,274              | 200,000    | 1,274              | 200,327      | 200,000               | 327                     | -                     | -       |  |
|  | Barits Bond Fund                                    | Short-term investments      | -             | -                      | -                  | -          | 17,197             | 200,000    | 17,197             | 200,683      | 200,000               | 683                     | -                     | -       |  |
|  | Dresdner Dam Bond Fund                              | Short-term investments      | -             | -                      | -                  | -          | 18,118             | 200,000    | 14,778             | 163,660      | 163,125               | 535                     | 3,340                 | 36,875  |  |
|  | Shinkong Chi-Shin Fund                              | Short-term investments      | -             | -                      | -                  | -          | 14,607             | 200,000    | 14,607             | 200,940      | 200,000               | 940                     | -                     | -       |  |
|  | <u>Stocks</u>                                       |                             |               |                        |                    |            |                    |            |                    |              |                       |                         |                       |         |  |
| Chunghwa Telecom Co., Ltd.                   | Short-term investments                              | -                           | -             | 50,000                 | 2,515,000          | -          | -                  | 41,400     | 2,068,423          | 2,116,081    | ( 13,997)<br>(Note 1) | 8,600                   | 398,919               |         |  |
| Taiwan Teleservices & Technologies Co., Ltd. | <u>Beneficiary certificates</u>                     |                             |               |                        |                    |            |                    |            |                    |              |                       |                         |                       |         |  |
| Prudential Well Pool Fund                    | Short-term investments                              | -                           | -             | 6,770                  | 80,000             | 9,274      | 110,000            | 7,530      | 90,000             | 89,175       | 825                   | 8,514                   | 100,825               |         |  |
| Taiwan Elitec Corporation                    | <u>Beneficiary certificates</u>                     |                             |               |                        |                    |            |                    |            |                    |              |                       |                         |                       |         |  |
|  | Capital Cash Reserves Fund                          | Short-term investments      | -             | -                      | 9,155              | 100,000    | 9,115              | 100,500    | 4,503              | 50,000       | 49,401                | 599                     | 13,767                | 151,099 |  |
|  | Prudential Well Pool Fund                           | Short-term investments      | -             | -                      | 8,475              | 100,000    | 16,269             | 194,500    | 10,874             | 130,000      | 128,920               | 1,080                   | 13,870                | 165,580 |  |
| Fubon Ju-I III Fund                          | Short-term investments                              | -                           | -             | -                      | -                  | 11,640     | 135,000            | 11,640     | 135,609            | 135,000      | 609                   | -                       | -                     |         |  |
| TransAsia Telecommunications Inc.            | <u>Beneficiary certificates</u>                     |                             |               |                        |                    |            |                    |            |                    |              |                       |                         |                       |         |  |
|  | Prudential Well Pool Fund                           | Short-term investments      | -             | -                      | 30,465             | 359,000    | 13,453             | 160,000    | 43,918             | 524,130      | 519,000               | 5,130                   | -                     | -       |  |
|  | The First Global Investment Trust Wan Tai Bond Fund | Short-term investments      | -             | -                      | 11,384             | 150,000    | 4,497              | 60,000     | 15,881             | 211,353      | 210,000               | 1,353                   | -                     | -       |  |
|  | Capital Cash Reserves Fund                          | Short-term investments      | -             | -                      | 20,105             | 220,000    | 13,791             | 152,000    | 33,896             | 375,698      | 372,000               | 3,698                   | -                     | -       |  |
|  | Fubon Ju-I III Fund                                 | Short-term investments      | -             | -                      | 29,483             | 339,000    | 25,762             | 299,000    | 55,245             | 642,223      | 638,000               | 4,223                   | -                     | -       |  |
|  | Fubon Millennium Dragon Fund                        | Short-term investments      | -             | -                      | -                  | -          | 44,422             | 500,000    | 44,422             | 500,435      | 500,000               | 435                     | -                     | -       |  |
| <u>Stocks</u>                                |   |                             |               |                        |                    |            |                    |            |                    |              |                       |                         |                       |         |  |
| Chunghwa Telecom Co., Ltd.                   | Short-term investments                              | -                           | -             | 75,000                 | 3,772,500          | -          | -                  | 15,000     | 776,829            | 695,850      | 80,979                | 60,000                  | 2,783,113<br>(Note 2) |         |  |

(Continued)

| Company Name                          | Marketable Securities Type and Name                            | Financial Statement Account | Counter-party | Nature of Relationship | Beginning Balance  |              | Acquisition        |           | Disposal           |              |                |                         | Ending Balance     |              |
|---------------------------------------|--|-----------------------------|---------------|------------------------|--------------------|--------------|--------------------|-----------|--------------------|--------------|----------------|-------------------------|--------------------|--------------|
|                                       |  |                             |               |                        | Shares (Thousands) | Amount       | Shares (Thousands) | Amount    | Shares (Thousands) | Amount       | Carrying Value | Gain (Loss) on Disposal | Shares (Thousands) | Amount       |
| Taiwan Fixed Network Co., Ltd.        | <u>Bonds</u><br>TCC 1st domestic convertible bond              | Short-term investments      | -             | -                      | 30,690 units       | \$ 3,069,000 | -                  | \$ -      | 15,000 units       | \$ 1,762,500 | \$ 1,500,000   | \$ 262,500              | 15,690 units       | \$ 1,569,000 |
|                                       | <u>Beneficiary certificates</u><br>Fubon Ju-I II Fund          | Short-term investments      | -             | -                      | -                  | -            | 17,930             | 250,000   | -                  | -            | -              | -                       | 17,930             | 250,000      |
|                                       | Fubon Ju-I III Fund  | Short-term investments      | -             | -                      | -                  | -            | 103,129            | 1,200,000 | 94,145             | 1,100,073    | 1,095,265      | 4,808                   | 8,984              | 104,735      |
|                                       | The Wan Tai Securities Investment Trust Fund                   | Short-term investments      | -             | -                      | -                  | -            | 109,962            | 1,468,000 | 93,301             | 1,250,071    | 1,244,489      | 5,582                   | 16,661             | 223,511      |
|                                       | International The Incerement Fund                              | Short-term investments      | -             | -                      | -                  | -            | 54,741             | 792,000   | -                  | -            | -              | -                       | 54,741             | 792,000      |
|                                       | ABN AMRO Bond Fund   | Short-term investments      | -             | -                      | -                  | -            | 69,662             | 1,000,000 | 69,662             | 1,003,776    | 1,000,000      | 3,776                   | -                  | -            |
|                                       | ABN AMRO Select Bond Fund                                      | Short-term investments      | -             | -                      | -                  | -            | 51,854             | 560,000   | 46,336             | 502,712      | 500,000        | 2,712                   | 5,518              | 60,000       |
|                                       | JF (Taiwan) Bond Fund  | Short-term investments      | -             | -                      | -                  | -            | 41,350             | 600,000   | 41,350             | 603,041      | 600,000        | 3,041                   | -                  | -            |
|                                       | Prudential Well Pool Fund                                      | Short-term investments      | -             | -                      | -                  | -            | 143,529            | 1,714,000 | 65,405             | 785,000      | 780,165        | 4,835                   | 78,124             | 933,835      |
|                                       | President James Bond Fund                                      | Short-term investments      | -             | -                      | -                  | -            | 81,809             | 1,206,500 | -                  | -            | -              | -                       | 81,809             | 1,206,500    |
|                                       | NITC Bond Fund   | Short-term investments      | -             | -                      | -                  | -            | 13,004             | 2,043,000 | 6,039              | 950,137      | 948,310        | 1,827                   | 6,965              | 1,094,690    |
| TFN Investment Co., Ltd.              | <u>Beneficiary certificates</u><br>Fubon Ju-I III Fund         | Short-term investments      | -             | -                      | 17,359             | 200,000      | 4,282              | 50,000    | 12,882             | 150,506      | 148,818        | 1,688                   | 8,759              | 101,182      |
|                                       | NITC Bond Fund   | Short-term investments      | -             | -                      | -                  | -            | 1,908              | 300,000   | 637                | 100,000      | 99,973         | 27                      | 1,271              | 200,027      |
|                                       | President James Bond Fund                                      | Short-term investments      | -             | -                      | -                  | -            | 13,567             | 200,000   | -                  | -            | -              | -                       | 13,567             | 200,000      |
|                                       | Fubon Ju-I II Fund   | Short-term investments      | -             | -                      | -                  | -            | 17,928             | 250,000   | -                  | -            | -              | -                       | 17,928             | 250,000      |
| Taiwan Hong-Yuan Investment Co., Ltd. | <u>Beneficiary certificates</u><br>Fubon Ju-I III Fund         | Short-term investments      | -             | -                      | 17,359             | 200,000      | 8,568              | 100,000   | 22,068             | 255,424      | 254,955        | 469                     | 3,859              | 45,045       |
|                                       | International The Incerement Fund                              | Short-term investments      | -             | -                      | -                  | -            | 6,877              | 100,000   | -                  | -            | -              | -                       | 6,877              | 100,000      |
|                                       | Fubon Ju-I II Fund   | Short-term investments      | -             | -                      | -                  | -            | 10,757             | 150,000   | -                  | -            | -              | -                       | 10,757             | 150,000      |
|                                       | President James Bond Fund                                      | Short-term investments      | -             | -                      | -                  | -            | 9,500              | 140,000   | 678                | 10,000       | 9,993          | 7                       | 8,822              | 130,007      |
|                                       | <u>Preferred stocks</u><br>Taiwan High-Speed Railway Co., Ltd. | Long-term investments       | -             | -                      | -                  | -            | 50,000             | 500,000   | -                  | -            | -              | -                       | 50,000             | 500,000      |
| Taiwan Tele-Shop Co., Ltd.            | <u>Beneficiary certificates</u><br>ABN AMRO Bond Fund          | Short-term investments      | -             | -                      | 8,436              | 120,000      | -                  | -         | 8,436              | 121,764      | 120,000        | 1,764                   | -                  | -            |
|                                       | JF (Taiwan) First Bond Fund                                    | Short-term investments      | -             | -                      | 9,022              | 120,000      | -                  | -         | 9,022              | 121,781      | 120,000        | 1,781                   | -                  | -            |
|                                       | International The Incerement Fund                              | Short-term investments      | -             | -                      | -                  | -            | 10,290             | 150,000   | -                  | -            | -              | -                       | 10,290             | 150,000      |
|                                       | President James Bond Fund                                      | Short-term investments      | -             | -                      | -                  | -            | 8,122              | 120,000   | -                  | -            | -              | -                       | 8,122              | 120,000      |
|                                       | Shinkong Chi-Shun Fund   | Short-term investments      | -             | -                      | -                  | -            | 16,342             | 230,000   | 3,544              | 50,000       | 49,883         | 117                     | 12,798             | 180,117      |
|                                       | NITC Bond Fund   | Short-term investments      | -             | -                      | -                  | -            | 826                | 130,000   | 127                | 20,000       | 19,958         | 42                      | 699                | 110,042      |
|                                       | Shinkong Chi-Shin Fund   | Short-term investments      | -             | -                      | -                  | -            | 8,744              | 120,000   | 4,367              | 60,000       | 59,932         | 68                      | 4,377              | 60,068       |

Note 1: Net of cash dividends of \$33,661 thousand.

Note 2: Net of cash dividends of \$293,537 thousand distributed by the investee.

TABLE 4



TAIWAN CELLULAR CORPORATION AND SUBSIDIARIES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
 FOR THE YEAR ENDED DECEMBER 31, 2003  
 (Amounts in Thousands of New Taiwan Dollars)

| Company Name                      | Related Party                     | Nature of Relationship | Transaction Details |                 |            |                            | Abnormal Transaction |               | Notes/Accounts Receivable (Payable) |            | Note |
|-----------------------------------|-----------------------------------|------------------------|---------------------|-----------------|------------|----------------------------|----------------------|---------------|-------------------------------------|------------|------|
|                                   |                                   |                        | Purchase/Sale       | Amount          | % to Total | Payment Terms              | Unit Price           | Payment Terms | Ending Balance                      | % to Total |      |
| TCC                               | Taiwan Fixed Network Co., Ltd.    | Equity-method investee | Sale                | ( \$1,262,221 ) | ( 3 )      | Based on contract terms    | -                    | -             | \$ 78,217                           | 1          |      |
|                                   |                                   |                        | Purchase            | 457,291         | 3          | Based on contract terms    | -                    | -             | -                                   | -          |      |
|                                   | TransAsia Telecommunications Inc. | Subsidiary             | Sale                | ( 1,590,353 )   | ( 4 )      | Based on contract terms    | -                    | -             | 240,443                             | 4          |      |
|                                   |                                   |                        | Purchase            | 602,013         | 3          | Based on contract terms    | -                    | -             | ( 100,336 )                         | ( 7 )      |      |
| TransAsia Telecommunications Inc. | Taiwan Cellular Corporation       | Parent company         | Purchase            | 1,615,175       | 28         | 1-2 months after invoicing | -                    | -             | ( 435,051 )                         | ( 49 )     |      |
|                                   |                                   |                        | Sale                | ( 601,348 )     | ( 5 )      | 1-2 months after invoicing | -                    | -             | 35,207                              | 3          |      |

TABLE 5

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
 DECEMBER 31, 2003  
 (Amount in Thousands of New Taiwan Dollars)

| Company Name | Related Party   | Nature of Relationship   | Ending Balance      | Turnover Rate | Overdue                       |              | Amount Received in Subsequent Period | Allowance for Bad Debts |           |
|--------------|---|--------------------------|---------------------|---------------|-------------------------------|--------------|--------------------------------------|-------------------------|-----------|
|              |   |                          |                     |               | Amount                        | Action Taken |                                      |                         |           |
| TCC          | Taiwan Tele-Shop Co., Ltd.<br>TransAsia Telecommunications Inc. | Subsidiary<br>Subsidiary | Accounts receivable | \$ 444,479    | Not applicable (Note)<br>7.59 | \$ -<br>-    | -                                    | \$ -<br>-               | \$ -<br>- |
|              |   |                          | Accounts receivable | 240,443       |                               |              |                                      |                         |           |
|              |   |                          | Other receivables   | 273,504       |                               |              |                                      |                         |           |

Note: Telecommunications service revenue collected on behalf of the Corporation.

## TAIWAN CELLULAR CORPORATION AND SUBSIDIARIES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES  
SIGNIFICANT INFLUENCE  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(Amounts in Thousands of New Taiwan Dollars)

| Investor                     | Investee  | Location                       | Main Businesses and Products   | Original Investment Amount |                      | Balance as of December 31, 2003 |                         |                       | Net Income (Loss) of the Investee | Investment Gain (Loss) | Note |
|------------------------------|---|--------------------------------|--|----------------------------|----------------------|---------------------------------|-------------------------|-----------------------|-----------------------------------|------------------------|------|
|                              |   |                                |  | December 31, 2003          | December 31, 2002    | Shares (Thousands)              | Percentage of Ownership | Carrying Value        |                                   |                        |      |
| TCC                          | Taiwan Fixed Network Co., Ltd.                                      | Taipei, Taiwan                 | Type-I telecommunication services-integrated fixed line and type-II telecommunication service  | \$ 3,000,000               | \$ 3,000,000         | 300,000                         | 3.25                    | \$ 2,869,367          | \$ 1,913,147                      | ( \$ 22,891 )          |      |
|                              | Taihsing Den Den Co., Ltd.  | Taipei, Taiwan                 | Telecommunication equipment retailing and wholesale  | 1,419,994                  | 1,419,994            | 44,299                          | 99.99                   | 1,526,803             | 85,069                            | 33,419                 |      |
|                              | Tai Hung Investment Ltd.  | Taipei, Taiwan                 | Investment   | 1,505,000                  | 1,505,000            | -                               | 99.99                   | 1,590,164             | 243,300                           | 80,157                 |      |
|                              | Tai Fu Investment Ltd.  | Taipei, Taiwan                 | Investment   | 525,000                    | 525,000              | -                               | 99.99                   | 782,688               | 108,322                           | 108,337                |      |
|                              | Tai Hsuo Investment Ltd.  | Taipei, Taiwan                 | Investment   | 330,000                    | 330,000              | -                               | 99.99                   | 499,488               | 119,986                           | 88,963                 |      |
|                              | T.I. Investments Ltd.   | Taipei, Taiwan                 | Investment   | 604,960                    | 604,960              | -                               | 99.99                   | 432,540               | ( 96,585 )                        | ( 96,579 )             |      |
|                              | T & M Investment Co., Ltd.  | Taipei, Taiwan                 | Investment   | 6,208,218                  | 6,208,218            | 78,050                          | 99.99                   | 6,370,748             | 237,883                           | 195,997                |      |
|                              | TransAsia Telecommunications Inc.<br>Taiwan Telecom (Aust) Pty Ltd. | Kaohsiung, Taiwan<br>Australia | Wireless service provider<br>Telecommunication related R&D   | 12,298,372<br>92,160       | 12,298,372<br>92,160 | 517,356<br>4,800                | 78.87<br>60.00          | 12,569,285<br>104,238 | 1,765,517<br>( 25,516 )           | 911,486<br>( 15,408 )  |      |
| T & M Investment Co., Ltd.   | TransAsia Telecommunications Inc.                                   | Kaohsiung, Taiwan              | Wireless service provider  | 879,521                    | 879,521              | 88,239                          | 13.45                   | 1,429,233             | 1,765,517                         | NA                     |      |
|                              | Taiwan Fixed Network Co., Ltd.                                      | Taipei, Taiwan                 | Type-1 Telecommunication services-integrated fixed line and type-II telecommunication services   | 4,080,000                  | 4,080,000            | 600,000                         | 6.51                    | 3,992,375             | 1,913,147                         | NA                     |      |
| Taihsing Den Den Co., Ltd.   | Taiwan Tele-Shop Co., Ltd.  | Taipei, Taiwan                 | Telecommunication equipment retailing and wholesale, and mobile service distribution   | 1,232,628                  | 1,232,628            | 95,536                          | 50.02                   | 1,463,589             | 392,587                           | NA                     |      |
|                              | Taiwan Index Co., Ltd.  | Taipei, Taiwan                 | Installation of computer equipment, communication engineering, and software  | 50,000                     | 50,000               | 5,000                           | 20.00                   | 47,501                | 10,009                            | NA                     |      |
| Taiwan Tele-Shop Co., Ltd.   | The Tele-World Shop Pte Ltd.  | Singapore                      | Telecommunication equipment sales and fixed-line service   | 54,541                     | 54,541               | 3,000                           | 100.00                  | 95,372                | ( 9,523 )                         | NA                     |      |
|                              | Taiwan Fixed Network Co., Ltd.                                      | Taipei, Taiwan                 | Type-I telecommunication services-integrated fixed line and type-II telecommunication service  | 70,000                     | 70,000               | 7,000                           | 0.08                    | 67,012                | 1,913,147                         | NA                     |      |
| Tai Hung Investment Ltd.     | Howin Technologies Co., Ltd.  | Taipei, Taiwan                 | Communication engineering, type-II telecommunications service, imports of radio frequency equipment, and installation of electronic appliances | 1,500,000                  | 1,500,000            | 150,000                         | 25.00                   | 1,715,547             | 1,011,048                         | NA                     |      |
| Howin Technologies Co., Ltd. | e-Post Inc.   | Taipei, Taiwan                 | Sales of computer software, information provider   | 94,922                     | \$ 94,922            | 794                             | 31.75                   | 3,767                 | ( 3,272 )                         | NA                     |      |
|                              | Taiwan Elitec Corporation   | Taipei, Taiwan                 | Software solution provider, data processing services   | 100,000                    | 100,000              | 10,000                          | 20.00                   | 126,298               | 202,983                           | NA                     |      |
|                              | Taiwan Teleservices & Technologies Co., Ltd.                        | Taipei, Taiwan                 | Call center service  | 160,000                    | 160,000              | 16,000                          | 20.00                   | 200,364               | 186,540                           | NA                     |      |
|                              | Taiwan Infotainment Co., Ltd.                                       | Taipei, Taiwan                 | Data processing, supply of electronic information, and advertising services  | 250,000                    | 250,000              | 25,000                          | 25.00                   | 178,245               | ( 160,777 )                       | NA                     |      |
|                              | Taiwan Index Co., Ltd.  | Taipei, Taiwan                 | Installation of computer equipment, communication engineering, and software  | 50,000                     | 50,000               | 5,000                           | 20.00                   | 48,305                | 10,009                            | NA                     |      |
|                              | Reach & Range Inc.  | Taipei, Taiwan                 | Sale and servicing of system equipment for value-added services, and computer software   | 63,590                     | 63,590               | 6,002                           | 54.56                   | 53,973                | 1,920                             | NA                     |      |

(Continued)

| Investor                              | Investee                                     | Location       | Main Businesses and Products   | Original Investment Amount |                   | Balance as of December 31, 2003 |                         |                | Net Income (Loss) of the Investee | Investment Gain (Loss) | Note                                |
|---------------------------------------|--|----------------|--|----------------------------|-------------------|---------------------------------|-------------------------|----------------|-----------------------------------|------------------------|-------------------------------------|
|                                       |  |                |  | December 31, 2003          | December 31, 2002 | Shares (Thousands)              | Percentage of Ownership | Carrying Value |                                   |                        |                                     |
| T.I. Investments Ltd.                 | Taiwan Infotainment Co., Ltd.                | Taipei, Taiwan | Data processing, supply of electronic information, and advertising services  | \$ 600,000                 | \$ 600,000        | 60,000                          | 60.00                   | \$ 427,788     | ( \$ 160,777 )                    | NA                     |                                     |
| Tai Fu Investment Ltd.                | Taiwan Teleservices & Technologies Co., Ltd. | Taipei, Taiwan | Call center service  | 520,000                    | 520,000           | 52,000                          | 65.00                   | 651,186        | 186,540                           | NA                     |                                     |
| Tai Hsuo Investment Ltd.              | Taiwan Elitec Corporation                    | Taipei, Taiwan | Software solution provider, data processing services   | 325,000                    | 325,000           | 32,500                          | 65.00                   | 458,634        | 202,983                           | NA                     |                                     |
| Taiwan Elitec Corporation             | Taiwan Fixed Network Co., Ltd.               | Taipei, Taiwan | Type-I telecommunication services-integrated fixed line and type-II telecommunication service  | 40,000                     | 40,000            | 10,000                          | 0.11                    | 40,454         | 1,913,147                         | NA                     |                                     |
| TransAsia Telecommunications Inc.     | Trans Asia Information Network Co., Ltd.     | Taipei, Taiwan | Type II telecommunication service, PC equipment installation, software and electronic information service provider                             | -                          | 29,940            | -                               | -                       | -              | 519                               | NA                     | Merged with TAT on December 9, 2003 |
|                                       | Howin Technologies Co., Ltd.                 | Taipei, Taiwan | Communication engineering, type-II telecommunications service, imports of radio frequency equipment, and installation of electronic appliances | 150,000                    | 150,000           | 15,000                          | 2.50                    | 164,192        | 1,011,048                         | NA                     |                                     |
| Taiwan Telecom (Aust) Pty Ltd.        | Supreme-Tech (Aust) Pty Ltd.                 | Australia      | Development and research on telecommunication technique  | -                          | -                 | -                               | 100.00                  | -              | -                                 | NA                     |                                     |
| Taiwan Fixed Network Co., Ltd.        | Howin Technologies Co., Ltd.                 | Taipei, Taiwan | Communication engineering, type-II telecommunications service, imports of radio frequency equipment, and installation of electronic appliances | 3,999,999                  | 3,999,999         | 399,999                         | 66.67                   | 3,764,407      | 1,011,048                         | NA                     |                                     |
|                                       | Taiwan Cellular Corporation                  | Taipei, Taiwan | Cellular phone services  | 29,633,009                 | 29,633,009        | 900,353                         | 19.52                   | 31,087,128     | 13,344,447                        | NA                     |                                     |
|                                       | TFN Investment Co., Ltd.                     | Taipei, Taiwan | Investment   | 20,000,000                 | 20,000,000        | 2,000,000                       | 100.00                  | 20,717,219     | 745,292                           | NA                     |                                     |
|                                       | Taiwan Hong-Yuan Investment Co., Ltd.        | Taipei, Taiwan | Investment   | 10,000,000                 | 10,000,000        | 1,000,000                       | 100.00                  | 10,314,915     | 338,673                           | NA                     |                                     |
|                                       | Taiwan Telecom (Aust) Pty Ltd.               | Australia      | Telecommunication related R&D  | 61,440                     | 61,440            | 3,200                           | 40.00                   | 69,492         | ( 25,710 )                        | NA                     |                                     |
|                                       | TFN US Ltd.                                  | US             | Telecommunication business   | 14,950                     | -                 | 430                             | 100.00                  | 14,110         | ( 502 )                           | NA                     |                                     |
|                                       | TFN HK Ltd.                                  | Hong Kong      | Telecommunication business   | 5,816                      | -                 | 1,299                           | 99.99                   | 5,091          | ( 564 )                           | NA                     |                                     |
| TFN Investment Co., Ltd.              | Taiwan Cellular Corporation                  | Taipei, Taiwan | Cellular phone services  | 16,346,290                 | 16,346,290        | 467,821                         | 10.14                   | 16,337,890     | 13,344,447                        | NA                     |                                     |
|                                       | Taiwan Index Co., Ltd.                       | Taipei, Taiwan | Installation of computer equipment, communication engineering, and software  | 62,500                     | 62,500            | 6,250                           | 25.00                   | 57,664         | 10,009                            | NA                     |                                     |
|                                       | CTS Digi-Tech Co., Ltd.                      | Taipei, Taiwan | Software retailing and service provider  | 60,000                     | -                 | 6,000                           | 60.00                   | 59,389         | 183                               | NA                     |                                     |
| Taiwan Hong Yuan Investment Co., Ltd. | Taiwan Cellular Corporation                  | Taipei, Taiwan | Cellular phone services  | 5,003,812                  | 5,003,812         | 163,304                         | 3.54                    | 5,114,755      | 13,344,447                        | NA                     |                                     |

## **Taiwan Cellular Corporation and Subsidiaries**

**Consolidated Financial Statements for the Years Ended  
December 31, 2003 and 2002  
Together with Independent Auditors' Report**

Readers are advised that the original version of these financial statements is in Chinese. This English translation is solely for the readers' convenience. If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail.

English Translation of Report Originally Issued in Chinese**INDEPENDENT AUDITORS' REPORT**

January 19, 2004

The Board of Directors and Shareholders  
Taiwan Cellular Corporation

We have audited the accompanying consolidated balance sheets of Taiwan Cellular Corporation (the "Corporation") and subsidiaries as of December 31, 2003 and 2002 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. However, the financial statements as of and for the year ended December 31, 2002 of a subsidiary, TransAsia Telecommunications Inc. ("TransAsia"), had been audited by other auditors. Based on this subsidiary's financial statements, as of December 31, 2002, the carrying value of TransAsia's total assets amounted to \$14,984,180 thousand, which was 9.76% of total consolidated assets. For the year ended December 31, 2002, TransAsia's total operating revenues totaled \$9,671,085 thousand, which was 16.83% of total consolidated operating revenues.

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

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation and subsidiaries as of December 31, 2003 and 2002 and of the results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and generally accepted accounting principles in the Republic of China.

As described in Note 3, the Corporation and subsidiaries adopted SFAS No. 30, "Accounting for Treasury Stock," on January 1, 2002, which requires the Corporation to reclassify its common stocks held by its subsidiaries from short- or long-term investments to treasury stock. The adoption of SFAS No. 30 resulted in decreases in treasury stock and in minority interests by NT\$81,525 thousand each as of December 31, 2002, and increases of NT\$20,842 thousand in consolidated net income and NT\$20,618 thousand in income from minority interests for the year ended December 31, 2002.

Notice to Readers

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

## TAIWAN CELLULAR CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2003 AND 2002

(In Thousands of New Taiwan Dollars, Except Par Value)

| ASSETS   | 2003                 |            | 2002                 |            | LIABILITIES AND SHAREHOLDERS' EQUITY  | 2003                 |            | 2002                 |            |
|--|----------------------|------------|----------------------|------------|---|----------------------|------------|----------------------|------------|
|  | Amount               | %          | Amount               | %          |   | Amount               | %          | Amount               | %          |
| <b>CURRENT ASSETS</b>                                  |                      |            |                      |            | <b>CURRENT LIABILITIES</b>  |                      |            |                      |            |
| Cash and cash equivalents (Notes 2, 5 and 23)          | 3,981,382            | 3          | \$ 10,229,803        | 7          | Short-term borrowings (Notes 14 and 24)   | \$ -                 | -          | \$ 1,100,000         | 1          |
| Short-term investments (Notes 2 and 6)                 | 21,358,347           | 16         | 7,486,481            | 5          | Short-term bills payable (Notes 15 and 24)                                      | -                    | -          | 239,253              | -          |
| Notes receivables (Note 2)                             | 20,680               | -          | 19,096               | -          | Notes payable   | 5,635                | -          | 16,103               | -          |
| Accounts receivable—third parties (Notes 2 and 7)      | 5,955,401            | 4          | 5,213,756            | 3          | Accounts payable (Note 23)  | 2,605,049            | 2          | 3,078,947            | 2          |
| Accounts receivable—related parties (Notes 2 and 23)   | 104,768              | -          | 66,448               | -          | Income tax payable (Notes 2 and 20)   | 1,116,060            | 1          | 408,553              | -          |
| Other receivables—third parties                        | 46,055               | -          | 416,063              | -          | Accrued expenses (Note 21)  | 1,399,369            | 1          | 2,310,328            | 1          |
| Other receivables—related parties (Note 23)            | 45,202               | -          | 119,910              | -          | Other payable—third parties   | 817,905              | 1          | 1,201,604            | 1          |
| Inventories (Notes 2 and 8)                            | 590,918              | 1          | 922,873              | 1          | Other payable—related parties (Note 23)   | 731,571              | -          | 911,401              | 1          |
| Prepayments  | 544,081              | -          | 570,460              | 1          | Advance receipts (Note 23)  | 1,376,236            | 1          | 1,627,222            | 1          |
| Deferred income tax assets (Notes 2 and 20)            | 231,040              | -          | 457,113              | -          | Current portion of long-term liabilities (Notes 16, 17 and 24)                  | 7,953,006            | 6          | 2,671,076            | 2          |
| Other current assets (Notes 23 and 24)                 | 31,800               | -          | 273,035              | -          | Guarantee deposits  | 2,631,522            | 2          | -                    | -          |
| Total current assets                                   | 32,909,674           | 24         | 25,775,038           | 17         | Other current liabilities (Note 23)   | 372,095              | -          | 252,045              | -          |
|  |                      |            |                      |            | Total current liabilities   | 19,008,448           | 14         | 13,816,532           | 9          |
| <b>LONG-TERM INVESTMENTS (Notes 2 and 9)</b>           |                      |            |                      |            | <b>LONG-TERM LIABILITIES—Net of current portion</b>                             |                      |            |                      |            |
| Equity method  | 12,985,292           | 10         | 12,915,027           | 8          | Bonds payable (Notes 2, 16 and 24)  | 23,715,318           | 17         | 30,355,658           | 20         |
| Cost method  | 79,872               | -          | 22,563,958           | 15         | Long-term bank loans (Notes 17, 23 and 24)                                      | 21,293,266           | 16         | 37,784,728           | 24         |
| Total long-term investments                            | 13,065,164           | 10         | 35,478,985           | 23         | Total long-term liabilities   | 45,008,584           | 33         | 68,140,386           | 44         |
| <b>PROPERTY AND EQUIPMENT (Notes 2, 10, 23 and 24)</b> |                      |            |                      |            | <b>OTHER LIABILITIES</b>  |                      |            |                      |            |
| Cost   |                      |            |                      |            | Accrued pension cost (Notes 2 and 18)   | 70,327               | -          | 60,197               | -          |
| Land   | 3,050,162            | 2          | 3,106,637            | 2          | Guarantee deposits  | 201,137              | -          | 4,194,508            | 3          |
| Buildings  | 2,081,167            | 2          | 1,975,442            | 1          | Minority interests  | 3,017,779            | 2          | 2,864,620            | 2          |
| Telecommunication equipment                            | 77,565,617           | 57         | 74,242,374           | 49         | Other (Notes 2 and 20)  | 57,610               | -          | 159,996              | -          |
| Office equipment                                       | 552,604              | -          | 278,147              | -          | Total other liabilities   | 3,346,853            | 2          | 7,279,321            | 5          |
| Leased assets  | 1,276,190            | 1          | 1,276,190            | 1          | Total liabilities   | 67,363,885           | 49         | 89,236,239           | 58         |
| Miscellaneous equipment                                | 1,150,747            | 1          | 1,381,024            | 1          | <b>SHAREHOLDERS' EQUITY (Notes 2 and 19)</b>                                    |                      |            |                      |            |
| Total cost   | 85,676,487           | 63         | 82,259,814           | 54         | Capital stock—\$10 par value  |                      |            |                      |            |
| Less: Accumulated depreciation                         | (18,454,271)         | (14)       | (13,391,090)         | (9)        | Authorized: 6,000,000 thousand shares   |                      |            |                      |            |
|  | 67,222,216           | 49         | 68,868,724           | 45         | Issued: 4,699,826 thousand shares in 2003 and 4,502,684 thousand shares in 2002 | 46,998,258           | 34         | 45,026,835           | 29         |
| Construction in progress and advance payments          | 1,927,584            | 2          | 1,165,944            | -          | Capital surplus—paid-in capital in excess of par value                          | 3,366,010            | 3          | 3,004,199            | 2          |
| Net property and equipment                             | 69,149,800           | 51         | 70,034,668           | 45         | Retained earnings   |                      |            |                      |            |
| INTANGIBLE ASSETS (Notes 2 and 11)                     | 10,281,784           | 7          | 10,281,985           | 7          | Legal reserve   | 5,505,955            | 4          | 4,018,683            | 3          |
| <b>OTHER ASSETS</b>                                    |                      |            |                      |            | Special reserve   | 330,183              | -          | -                    | -          |
| Non-operating assets (Notes 2, 12 and 24)              | 3,175,633            | 2          | 3,525,211            | 2          | Unappropriated earnings   | 15,480,882           | 12         | 15,019,922           | 10         |
| Refundable deposits                                    | 289,245              | -          | 281,108              | -          | Other adjustments of shareholders' equity                                       |                      |            |                      |            |
| Deferred charges (Notes 2, 13 and 24)                  | 700,866              | 1          | 821,219              | 1          | Unrealized loss on long-term investments  | -                    | -          | (317,007)            | -          |
| Deferred income tax assets (Notes 2 and 20)            | 908,656              | 1          | 738,792              | 1          | Cumulative translation adjustments  | 34,450               | -          | 7,666                | -          |
| Consolidated debits                                    | 5,958,119            | 4          | 6,361,403            | 4          | Treasury stock  | (2,524,972)          | (2)        | (2,524,972)          | (2)        |
| Other  | 115,710              | -          | 173,156              | -          | Total shareholders' equity  | 69,190,766           | 51         | 64,235,326           | 42         |
| Total other assets                                     | 11,148,229           | 8          | 11,900,889           | 8          | <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>                               | <b>\$136,554,651</b> | <b>100</b> | <b>\$153,471,565</b> | <b>100</b> |
| <b>TOTAL ASSETS</b>                                    | <b>\$136,554,651</b> | <b>100</b> | <b>\$153,471,565</b> | <b>100</b> |   |                      |            |                      |            |

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

(With Deloitte &amp; Touche report dated January 19, 2004)

**TAIWAN CELLULAR CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

|  | 2003              |            | 2002              |            |
|--|-------------------|------------|-------------------|------------|
|  | Amount            | %          | Amount            | %          |
| <b>OPERATING REVENUES (Notes 2 and 23)</b>   |                   |            |                   |            |
| Sales revenue  | \$ 6,240,721      | 10         | \$ 5,461,630      | 9          |
| Less: Sales return and allowances  | <u>673,410</u>    | <u>1</u>   | <u>800,355</u>    | <u>1</u>   |
| Net sales  | 5,567,311         | 9          | 4,661,275         | 8          |
| Mobile phone service revenues  | 54,034,460        | 90         | 52,622,928        | 92         |
| Other  | <u>273,902</u>    | <u>1</u>   | <u>182,994</u>    | <u>-</u>   |
| Total operating revenues   | <u>59,875,673</u> | <u>100</u> | <u>57,467,197</u> | <u>100</u> |
| <b>OPERATING COSTS (Notes 2 and 23)</b>  |                   |            |                   |            |
| Cost of goods sold   | 9,187,332         | 15         | 9,910,563         | 17         |
| Mobile phone service costs   | <u>20,945,095</u> | <u>35</u>  | <u>19,051,439</u> | <u>33</u>  |
| Total operating costs  | <u>30,132,427</u> | <u>50</u>  | <u>28,962,002</u> | <u>50</u>  |
| REALIZED GAINS ON AFFILIATES   | <u>-</u>          | <u>-</u>   | <u>708</u>        | <u>-</u>   |
| GROSS PROFIT   | <u>29,743,246</u> | <u>50</u>  | <u>28,505,903</u> | <u>50</u>  |
| <b>OPERATING EXPENSES (Notes 2, 22 and 23)</b>   |                   |            |                   |            |
| Marketing  | 7,422,657         | 13         | 7,533,240         | 13         |
| Administrative   | <u>5,426,014</u>  | <u>9</u>   | <u>4,848,982</u>  | <u>9</u>   |
| Total operating expenses   | <u>12,848,671</u> | <u>22</u>  | <u>12,382,222</u> | <u>22</u>  |
| OPERATING INCOME   | <u>16,894,575</u> | <u>28</u>  | <u>16,123,181</u> | <u>28</u>  |
| <b>NON-OPERATING INCOME AND GAIN</b>   |                   |            |                   |            |
| Investment income recognized by the equity Method  |                   |            |                   |            |
| — net (Notes 2 and 9)  | 337,620           | 1          | 197,099           | 1          |
| Rental income (Note 23)  | 294,941           | 1          | 312,836           | 1          |
| Gain on disposal of investments (Note 2)   | 146,959           | -          | 11,470            | -          |
| Gain on reversal of allowance for decline in market value of short-term investments (Note 2) | 91,819            | -          | -                 | -          |
| Interest income  | 58,962            | -          | 170,059           | -          |
| Gain from price recovery of inventories  | 22,892            | -          | 120,053           | -          |
| Gain on disposal of property and equipment (Note 2)  | 7,785             | -          | 8,773             | -          |
| Other  | <u>537,357</u>    | <u>1</u>   | <u>666,379</u>    | <u>1</u>   |
| Total non-operating income and gain  | <u>1,498,335</u>  | <u>3</u>   | <u>1,486,669</u>  | <u>3</u>   |

(Continued)

|  | 2003                 |           | 2002                 |           |
|--|----------------------|-----------|----------------------|-----------|
|  | Amount               | %         | Amount               | %         |
| <b>NON-OPERATING EXPENSE AND LOSS</b>                |                      |           |                      |           |
| Interest expenses (Notes 2 and 10)                   | \$ 1,661,439         | 3         | \$ 1,077,278         | 2         |
| Provision for losses on idle assets (Notes 2 and 12) | 909,848              | 2         | -                    | -         |
| Financial expenses                                   | 194,724              | -         | 132,520              | -         |
| Realized loss on long-term investments (Note 2)      | 28,700               | -         | 123,027              | -         |
| Loss on disposal of property and equipment (Note 2)  | 26,603               | -         | 21,625               | -         |
| Other  | <u>497,852</u>       | <u>1</u>  | <u>328,938</u>       | <u>1</u>  |
| Total non-operating expense and loss                 | <u>3,319,166</u>     | <u>6</u>  | <u>1,683,388</u>     | <u>3</u>  |
| INCOME BEFORE INCOME TAX                             | 15,073,744           | 25        | \$ 15,926,962        | 28        |
| INCOME TAX EXPENSE (Notes 2 and 20)                  | <u>1,216,161</u>     | <u>2</u>  | <u>561,953</u>       | <u>1</u>  |
| INCOME BEFORE MINORITY INTERESTS                     | 13,857,583           | 23        | 15,365,009           | 27        |
| INCOME FROM MINORITY INTERESTS                       | <u>513,136</u>       | <u>1</u>  | <u>427,689</u>       | <u>1</u>  |
| CONSOLIDATED NET INCOME                              | <u>\$ 13,344,447</u> | <u>22</u> | <u>\$ 14,937,320</u> | <u>26</u> |

|                                     | 2003                    |                        | 2002                    |                        |
|-------------------------------------|-------------------------|------------------------|-------------------------|------------------------|
|                                     | Before<br>Income<br>Tax | After<br>Income<br>Tax | Before<br>Income<br>Tax | After<br>Income<br>Tax |
| <b>EARNINGS PER SHARE (Note 21)</b> |                         |                        |                         |                        |
| Basic                               | <u>\$ 3.15</u>          | <u>\$ 2.91</u>         | <u>\$ 3.30</u>          | <u>\$ 3.20</u>         |
| Diluted                             | <u>\$ 2.96</u>          | <u>\$ 2.71</u>         | <u>\$ 3.16</u>          | <u>\$ 3.04</u>         |

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

(With Deloitte & Touche report dated January 19, 2004)

(Concluded)



## TAIWAN CELLULAR CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**  
(In Thousands of New Taiwan Dollars, Except Per Share Amounts)

|  | Capital Surplus |  |   |              | Retained Earnings |                    |                |               | Unrealized<br>Loss on<br>Long-term<br>Investments | Cumulative<br>Translation<br>Adjustments | Treasury<br>Stock | Total<br>Shareholders'<br>Equity |
|--|-----------------|--|---|--------------|-------------------|--------------------|----------------|---------------|---|--|-------------------|----------------------------------|
|  | Capital Stock   | Paid-in capital<br>in excess of<br>par value | Disposal of<br>property<br>and<br>Equipment | Total        | Legal reserve     | Special<br>reserve | Unappropriated | Total         |   |  |                   |                                  |
|  |                 |  |   |              |                   |                    |                |               |   |  |                   |                                  |
| BALANCE, JANUARY 1, 2002   | \$ 37,664,190   | \$ 2,536,991                                 | \$ 472                                      | \$ 2,537,463 | \$ 2,344,105      | \$ -               | \$ 17,022,908  | \$ 19,367,013 | \$ -  | \$ 3,262                                 | ( \$ 263,868 )    | \$ 59,308,060                    |
| Appropriation of 2001 earnings   |                 |  |   |              |                   |                    |                |               |   |  |                   |                                  |
| Legal reserve  | -               | -  | -   | -            | 1,674,578         | -                  | ( 1,674,578 )  | -             | -   | -  | -                 | -                                |
| Remuneration to directors and supervisors  | -               | -  | -   | -            | -                 | -                  | ( 75,356 )     | ( 75,356 )    | -   | -  | -                 | ( 75,356 )                       |
| Bonus to employees—cash  | -               | -  | -   | -            | -                 | -                  | ( 753,560 )    | ( 753,560 )   | -   | -  | -                 | ( 753,560 )                      |
| Stock dividends—\$1.9 per share  | 7,186,109       | -  | -   | -            | -                 | -                  | ( 7,186,109 )  | ( 7,186,109 ) | -   | -  | -                 | -                                |
| Cash dividends—\$1.9 per share   | -               | -  | -   | -            | -                 | -                  | ( 7,186,109 )  | ( 7,186,109 ) | -   | -  | -                 | ( 7,186,109 )                    |
| Balance after appropriation  | 44,850,299      | 2,536,991                                    | 472   | 2,537,463    | 4,018,683         | -                  | 147,196        | 4,165,879     | -   | 3,262                                    | ( 263,868 )       | 51,293,035                       |
| Transfer of capital surplus arising from gain on disposal of properties to unappropriated earnings | -               | -  | ( 472 )                                     | ( 472 )      | -                 | -                  | 472            | 472           | -   | -  | -                 | -                                |
| Consolidated net income in 2002  | -               | -  | -   | -            | -                 | -                  | 14,937,320     | 14,937,320    | -   | -  | -                 | 14,937,320                       |
| Conversion of convertible bonds to capital stocks  | 176,536         | 467,208                                      | -   | 467,208      | -                 | -                  | -              | -             | -   | -  | -                 | 643,744                          |
| Adjustments on change of equity in equity-method investments                                       | -               | -  | -   | -            | -                 | -                  | ( 65,066 )     | ( 65,066 )    | -   | -  | -                 | ( 65,066 )                       |
| Translation adjustments  | -               | -  | -   | -            | -                 | -                  | -              | -             | -   | 4,404                                    | -                 | 4,404                            |
| Unrealized loss on long-term investments   | -               | -  | -   | -            | -                 | -                  | -              | -             | ( 317,007 )                                       | -  | -                 | ( 317,007 )                      |
| Buyback of issued shares—84,829 thousand shares  | -               | -  | -   | -            | -                 | -                  | -              | -             | -   | -  | ( 2,342,629 )     | ( 2,342,629 )                    |
| Outstanding shares held by subsidiaries, accounted for as treasury stocks                          | -               | -  | -   | -            | -                 | -                  | -              | -             | -   | -  | 81,525            | 81,525                           |
| BALANCE, DECEMBER 31, 2002   | 45,026,835      | 3,004,199                                    | -   | 3,004,199    | 4,018,683         | -                  | 15,019,922     | 19,038,605    | ( 317,007 )                                       | 7,666                                    | ( 2,524,972 )     | 64,235,326                       |
| Appropriation of 2002 earnings   |                 |  |   |              |                   |                    |                |               |   |  |                   |                                  |
| Legal reserve  | -               | -  | -   | -            | 1,487,272         | -                  | ( 1,487,272 )  | -             | -   | -  | -                 | -                                |
| Special reserve  | -               | -  | -   | -            | -                 | 330,183            | ( 330,183 )    | -             | -   | -  | -                 | -                                |
| Remuneration to directors and supervisors  | -               | -  | -   | -            | -                 | -                  | ( 65,274 )     | ( 65,274 )    | -   | -  | -                 | ( 65,274 )                       |
| Bonus to employees—cash  | -               | -  | -   | -            | -                 | -                  | ( 391,645 )    | ( 391,645 )   | -   | -  | -                 | ( 391,645 )                      |
| Stock dividends—\$0.4 per share  | 1,766,378       | -  | -   | -            | -                 | -                  | ( 1,766,378 )  | ( 1,766,378 ) | -   | -  | -                 | -                                |
| Cash dividends—\$2 per share   | -               | -  | -   | -            | -                 | -                  | ( 8,831,889 )  | ( 8,831,889 ) | -   | -  | -                 | ( 8,831,889 )                    |
| Balance after appropriation  | 46,793,213      | 3,004,199                                    | -   | 3,004,199    | 5,505,955         | 330,183            | 2,147,281      | 7,983,419     | ( 317,007 )                                       | 7,666                                    | ( 2,524,972 )     | 54,946,518                       |
| Prior period adjustments on long-term equity-method investments                                    | -               | -  | -   | -            | -                 | -                  | ( 10,846 )     | ( 10,846 )    | -   | -  | -                 | ( 10,846 )                       |
| Consolidated net income in 2003  | -               | -  | -   | -            | -                 | -                  | 13,344,447     | 13,344,447    | -   | -  | -                 | 13,344,447                       |
| Conversion of convertible bonds to capital stocks  | 205,045         | 361,811                                      | -   | 361,811      | -                 | -                  | -              | -             | -   | -  | -                 | 566,856                          |
| Translation adjustments  | -               | -  | -   | -            | -                 | -                  | -              | -             | -   | 26,784                                   | -                 | 26,784                           |
| Unrealized loss on long-term investments   | -               | -  | -   | -            | -                 | -                  | -              | -             | 317,007   | -  | -                 | 317,007                          |
| BALANCE, DECEMBER 31, 2003   | \$ 46,998,258   | \$ 3,366,010                                 | \$ -  | \$ 3,366,010 | \$ 5,505,955      | \$ 330,183         | \$ 15,480,882  | \$ 21,317,020 | \$ -  | \$ 34,450                                | ( \$ 2,524,972 )  | \$ 69,190,766                    |

The accompanying notes are an integral part of the consolidated financial statements.  
(With Deloitte & Touche report dated January 19, 2004)

**TAIWAN CELLULAR CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(In Thousands of New Taiwan Dollars)**

|   | <u>2003</u>       | <u>2002</u>           |
|---|-------------------|-----------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                   |                       |
| Net income  | \$ 13,344,447     | \$ 14,937,320         |
| Adjustments to reconcile net income to net cash provided by operating activities:       |                   |                       |
| Depreciation  | 5,653,025         | 4,723,078             |
| Cash dividends received from cost-method investees                                      | 1,761,330         | -                     |
| Bad debts   | 1,648,696         | 1,350,886             |
| Provision for losses on idle assets   | 909,848           | -                     |
| Income from minority interests  | 513,136           | 427,689               |
| Accrued interest compensation   | 479,522           | 347,052               |
| Amortization of consolidated debits   | 403,284           | 403,295               |
| Amortization  | 401,234           | 603,490               |
| Investment income recognized by the equity method—net                                   | ( 337,620 )       | ( 197,099 )           |
| Cash dividends received from equity-method investees                                    | 250,870           | 58,127                |
| Provision (reversal of allowance) for decline in market value of short-term investments | ( 91,819 )        | 7,819                 |
| Deferred income taxes   | 50,698            | ( 112,485 )           |
| Realized loss on long-term investments  | 28,700            | 123,027               |
| Gain from price recovery of inventories   | ( 22,892 )        | ( 120,053 )           |
| Loss on disposal of property and equipment—net  | 18,818            | 12,852                |
| Gain on disposal of long-term investments   | ( 9,861 )         | -                     |
| Provision (reversal of allowance) for losses on obsolete transmission stations          | 1,891             | ( 10,092 )            |
| Realized gains on affiliates  | -                 | ( 708 )               |
| Changes in operating assets and liabilities   |                   |                       |
| Notes receivable  | ( 1,584 )         | ( 45,451 )            |
| Accounts receivable   | ( 2,372,111 )     | ( 1,072,116 )         |
| Other receivable  | 464,169           | ( 319,310 )           |
| Inventories   | 354,847           | 560,558               |
| Prepayments   | 25,781            | 412,147               |
| Other current assets  | 241,275           | ( 2,423 )             |
| Notes payable   | ( 10,468 )        | ( 41,603 )            |
| Accounts payable  | ( 473,898 )       | 995,392               |
| Income tax payable  | 707,493           | ( 470,749 )           |
| Accrued expenses  | ( 910,959 )       | ( 219,397 )           |
| Other payable   | 217,574           | 544,987               |
| Advance receipts  | ( 342,878 )       | ( 109,927 )           |
| Other current liabilities   | 119,984           | ( 25,925 )            |
| Accrued pension cost  | 10,130            | 5,777                 |
| Net cash provided by operating activities   | <u>23,032,662</u> | <u>22,766,158</u>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                   |                       |
| Decrease (increase) in short-term investments   | 7,113,622         | ( 7,428,000 )         |
| Acquisition of property and equipment   | ( 5,823,160 )     | ( 10,800,217 )        |
| Increase in deferred charges—net  | ( 202,922 )       | ( 176,593 )           |
| Proceeds from sale of long-term investments   | 88,400            | -                     |
| Proceeds from liquidation and capital reduction of long-term investments                | 51,285            | -                     |
| Proceeds from disposal of property and equipment  | 18,944            | 75,165                |
| Proceeds from merging Trans Asia Information Network Co., Ltd.                          | 8,399             | -                     |
| Decrease (increase) in refundable deposits  | ( 8,137 )         | 974,218               |
| Increase in other assets  | ( 274 )           | 322                   |
| Increase in long-term investments   | ( 60 )            | ( 26,932,646 )        |
| Increase in intangible assets   | -                 | ( 10,281,000 )        |
| Increase in pledged time deposits   | -                 | ( 270,000 )           |
| Proceeds from disposal of non-operating assets  | -                 | 2,853                 |
| Net cash provided by (used in) investing activities                                     | <u>1,246,097</u>  | <u>( 54,835,898 )</u> |

(Continued)

|   | 2003                       | 2002                        |
|---|----------------------------|-----------------------------|
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                         |                            |                             |
| Increase (decrease) in long-term loans                              | ( \$ 17,762,538 )          | \$ 18,149,096               |
| Cash dividends paid   | ( 8,831,889 )              | ( 7,186,109 )               |
| Decrease in guarantee deposits received                             | ( 1,361,849 )              | ( 2,795,844 )               |
| Increase (decrease) in short-term debts                             | ( 1,100,000 )              | 746,807                     |
| Buyback of issued shares  | ( 449,004 )                | ( 1,893,625 )               |
| Dividend payout to minority interests from subsidiaries             | ( 358,879 )                | ( 105,683 )                 |
| Bonus to employees  | ( 347,252 )                | ( 967,302 )                 |
| Increase (decrease) in short-term bills payable                     | ( 239,253 )                | 239,253                     |
| Remuneration to directors and supervisors                           | ( 65,274 )                 | ( 75,356 )                  |
| Increase (decrease) in minority interests                           | ( 11,242 )                 | 22,252                      |
| Issuance of corporate bonds   | -                          | 21,000,000                  |
| Increase (decrease) in other liabilities                            | -                          | 66,247                      |
| Cash subscription by subsidiaries                                   | -                          | 3,215                       |
|   | <u>( 30,527,180 )</u>      | <u>27,202,951</u>           |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>                    | <b>( 6,248,421 )</b>       | <b>( 4,866,789 )</b>        |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>                 | <b><u>10,229,803</u></b>   | <b><u>15,096,592</u></b>    |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>                       | <b><u>\$ 3,981,382</u></b> | <b><u>\$ 10,229,803</u></b> |
| <b>SUPPLEMENTAL INFORMATION</b>                                     |                            |                             |
| Interest paid—excluding interest capitalized                        | <u>\$ 1,323,484</u>        | <u>\$ 692,619</u>           |
| Income tax paid   | <u>\$ 457,872</u>          | <u>\$ 1,145,188</u>         |
| <b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>                  |                            |                             |
| Reclassification of long-term investments as short-term investments | <u>\$ 20,873,670</u>       | <u>\$ -</u>                 |
| Current portion of long-term liabilities                            | <u>\$ 7,953,006</u>        | <u>\$ 2,671,076</u>         |
| Conversion of convertible bonds to capital stocks                   | <u>\$ 544,900</u>          | <u>\$ 632,000</u>           |
| <b>CASH PAID FOR ACQUISITION OF PROPERTY AND EQUIPMENT</b>          |                            |                             |
| Acquisition of property and equipment                               | \$ 5,446,667               | \$ 9,466,037                |
| Add: Decrease in other payable                                      | 376,493                    | 1,320,364                   |
| Decrease in notes payable   | -                          | 13,816                      |
|   | <u>\$ 5,823,160</u>        | <u>\$ 10,800,217</u>        |
| <b>CASH PAID FOR BUYBACK OF ISSUED SHARES</b>                       |                            |                             |
| Increase in treasury stock  | \$ -                       | \$ 2,342,629                |
| Less: Decrease (increase) in other payable                          | <u>449,004</u>             | <u>( 449,004 )</u>          |
|   | <u>\$ 449,004</u>          | <u>\$ 1,893,625</u>         |

**SUPPLEMENT AND DISCLOSURE OF ACQUIRED SUBSIDIARY:**

The Corporation's subsidiary—TranAsia Telecommunications Inc. merged with its subsidiary—Trans Asia Information Network Co., Ltd. on December 9, 2003. The book values of assets and liabilities on December 9, 2003 were as follows:

|   |                  |
|---|------------------|
| Short-term investments  | \$ 20,000        |
| Account receivable  | 233              |
| Other current assets  | 40               |
| Property and equipment  | <u>1,515</u>     |
| Assets acquired from Trans Asia Information Network Co., Ltd.   | <u>\$ 21,788</u> |
| Income tax payable  | \$ 14            |
| Other current liabilities                                       | <u>68</u>        |
| Assumed liabilities of Trans Asia Information Network Co., Ltd. | <u>\$ 82</u>     |

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

(With Deloitte & Touche report dated January 19, 2004)

(Concluded)

## TAIWAN CELLULAR CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

(Amounts in Thousands of New Taiwan Dollars, Except Per Share Amounts and Unless Specified Otherwise)

#### 1. ORGANIZATION AND BUSINESS

Taiwan Cellular Corporation (the "Corporation") was incorporated in the Republic of China ("ROC") on February 25, 1997. The Corporation's shares had been traded on the R.O.C. Over-the-Counter Securities Exchange (known as GreTai Securities Market) since September 19, 2000. On August 26, 2002, the Corporation's shares were listed on the Taiwan Stock Exchange. The Corporation mainly engages in wireless communication services.

The Corporation's services are under the type I license (GSM 1800 for all sectors; "GSM" means "global system for mobile communications") issued by the Directorate General of Telecommunication (DGT) of the ROC. The license allows the Corporation to provide services for 15 years from 1997 as well as entails an annual license fee of 2% of total wireless communication service revenues.

The subsidiaries included in the consolidated financial statements are as follows:

- a. TransAsia Telecommunications Inc. (TAT) was incorporated in the ROC on July 8, 1997. As of December 31, 2003, the Corporation's direct holding in TAT was 78.87%. T&M Investment Co., Ltd., a subsidiary of the Corporation, held 13.45%. TAT mainly engages in wireless communications services, sale and repair of Telecommunication equipment etc.
- b. Taihsing Den Den Co., Ltd. (TDD) (99.99% owned) was incorporated in the ROC on August 20, 1997. TDD mainly retails of Telecommunication equipment.
- c. Taiwan Tele-Shop Co., Ltd. (TTS) was incorporated in the ROC on August 28, 1998. As of December 31, 2003, TTS was one of the subsidiaries of Taihsing Den Den, which had 50.02% holding interest in TTS. TTS mainly wholesales and retails of Telecommunication equipment.

As of December 31, 2003 and 2002, the Corporation and subsidiaries had 1,442 and 1,482 employees, respectively.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are presented in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and generally accepted accounting principles in the ROC. Significant accounting policies are summarized as follows:

##### **Basis of Consolidated Financial Statements**

The consolidated financial statements include the accounts of the Corporation and its direct and indirect subsidiaries with individual assets or operating revenue at least 10% of the unconsolidated assets or operating revenues of the Corporation. In the case that individual subsidiary's assets or operating revenue is less than 10% of the Corporation's respective assets and operating revenue but the combined assets and operating revenue of these subsidiaries make up more than 30% of the Corporation's non-consolidated assets or operating revenue, a subsidiary with individual assets or operating revenue exceeding 3% of the Corporation's respective non-consolidated assets or operating revenue should be included into the consolidated financial statements until the combined assets or operating revenue of the subsidiaries not included in the consolidated statement represent less than 20% of the Corporation's respective non-consolidated assets or operating revenue. All significant intercompany accounts and transactions have been eliminated in the consolidation.

##### **Current and Non-current Assets and Liabilities**

Current assets are those expected to be converted to cash, sold or consumed within one year. Current liabilities are obligations due within one year from the balance sheet date. All other assets and liabilities are classified as non-current.

##### **Cash Equivalents**

Short-term bills having maturities of up to three months from the date of purchase are classified as cash equivalents.

### Short-term Investments

Short-term investments are carried at the lower of aggregate cost or market value. An allowance for loss is provided when the aggregate carrying value of the investments exceeds the total market value. Any recovery of the market value to the extent of the original carrying value is recognized as income. The costs of investments sold are determined by the weighted-average method.

### Allowance for Doubtful Receivables

Allowance for doubtful receivables is provided on the basis of past experiences and an evaluation of the aging and collectibility of all receivables on the balance sheet date.

### Inventories

Inventories are stated at the lower of moving average cost or market, which refers to replacement cost or net realizable value.

### Long-term Investments

The long-term investments in which the Corporation exercises significant influence on the investees are accounted for by the equity method. The Corporation's proportionate share in the net income or net loss of investees is recognized as investment income or loss. On the acquisition date, the difference between the cost of investment and the investee's net value is amortized by the straight-line method over 5 to 20 years and also recognized as investment income or loss.

Gains or losses on transactions with investees over which the Corporation exercises significant influence are deferred and are realized through transactions with third parties. Gains or losses on depreciable or amortizable assets are recognized over the estimated useful lives of the assets.

Other long-term investments are accounted for by the cost method. Cash dividends received in the year of investment acquisition are accounted for as a reduction of the long-term investments and cash dividends received in subsequent years are recognized as investment revenue. If the accumulated cash dividends the investee distributed exceed the investee's accumulated earnings from the acquisition date to the year end of the received thereafter distribution, the excess is recognized as a reduction to the carrying value of long-term investments. Stock dividends are recognized neither as an increase in long-term investments nor as investment income but are accounted for only as an increase in the number of shares held. The investments in listed stock are stated at the lower of cost or market value. An allowance for decline in value is provided when the carrying value of the investments with quoted market price exceeds the market value. Such provision for decline in value is charged to shareholders' equity, when the decline in value is considered temporary. The allowance for decline in value and the account shown in the shareholder's equity is adjusted for any recovery in the market value. If long-term investments in listed stocks are transferred to short-term investments, a loss is recognized if the market price of the long-term investments is below the book value of these investments, and the market price is used as the new cost basis. The carrying value of the investments in unlisted stocks are reduced to reflect an other than temporary decline in value, with the reduction charged to current income. The costs of investments sold are determined using the weighted-average method.

On January 1, 2002, the Corporation adopted Statement of Financial Accounting Standards ("SFAS") No. 30, "Accounting for Treasury Stock". SFAS No. 30 requires a parent company to reclassify its outstanding stocks held by its subsidiaries from short- or long-term investments to treasury stock. The reclassification is based on the carrying value recorded by the Corporation's subsidiaries as of January 1, 2002.

### Property and Equipment and Assets Leased to Others

Property and equipment and assets leased to others are stated at cost less accumulated depreciation. Significant additions, renewals, betterments, and interest expenses incurred during the construction period are capitalized. Maintenance and repairs are expensed in the year incurred. Property and equipment covered by agreements qualifying as capital leases are carried at the lower of the present value of future minimum rent payments or the market value of the property on the starting dates of the leases.

Depreciation is computed using the straight-line method over the following estimated service lives: buildings—50 to 55 years; Telecommunication equipment—5 to 15 years; office equipment—3 to 6 years; leased assets—20 years; leasehold improvements—2 to 10 years; and miscellaneous equipment—3 to 5 years.

Upon sale or other disposal of property and equipment, the related cost and accumulated depreciation are removed from the accounts, and resulting gains or losses are credited or charged to non-operating income or losses in the year of disposal.

**Intangible Assets**

Intangible assets, which consist of franchises and trademarks, are recorded at acquisition cost and amortized over their estimated economic lives.

**Deferred Charges**

Deferred charges, which refer to computer software, interior decoration, and bond and bill issuance costs, are amortized by the straight-line method over three to seven years or the contract periods.

**Idle Assets**

Idle assets, comprising equipment not currently used in operation, are stated at the lower of cost or net realizable value.

**Pension Costs**

Pension costs are recognized on the basis of actuarial calculations. Unrecognized net transition obligation and unrecognized net gain or loss are amortized over 25 to 28 years and the average remaining service years of employees, respectively.

**Bonds Payable**

Convertible bonds with redemption rights are classified as current or non-current according to redemption dates. The redemption price in excess of the face value of the bonds is amortized by the interest method from the issuance date through the due date and accounted for as accrued interest compensation. The accrued interest compensation is provided as a valuation account of convertible bonds. The issuance costs are recognized as deferred charges and amortized over 3 to 7 years.

When bondholders exercise their conversion rights, the face value of the bonds and the related accrued interest are both transferred to capital stock and capital surplus.

**Income Tax**

The inter-period allocation method is used for income tax. Deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused investments tax credits and net operating loss carryforwards. Valuation allowance is provided for assets that are more likely than not to be realized. Deferred tax assets or liabilities are classified as current or non-current according to the classification of related assets or liabilities for financial reports. But if a deferred tax asset or liability cannot be related to assets or liabilities in the financial statements, it is classified as current or non-current on the basis of the expected realization period.

Tax credits for certain purchases of equipment and technology, research and development expenditures and personnel training are recognized by the current method.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax expense.

Income taxes of 10% on unappropriated earnings are expensed in the year when the shareholders resolve the retention of the earnings.

**Treasury Stock**

The buyback of issued shares is accounted for by the cost method.

If treasury stocks are canceled, capital stocks and additional paid-in capital are proportionately adjusted. If the carrying value of treasury stocks exceeds the total balance of par value and additional paid-in capital, the excess is adjusted to capital surplus from treasury stock. If the balance of capital surplus from treasury stock is not sufficient to absorb such deficiency, the rest is recorded as a reduction of retained earnings. If the carrying value of treasury stocks is less than the total of par value and additional paid-in capital, the excess is credited to capital surplus from treasury stock.

**Derivative Financial Instruments**

The contract amounts of interest rate swap agreements are not recognized in the financial statements because these agreements do not require the settlement of these amounts initially. However, a memorandum entry is made for the transaction. The amounts receivable or payable under the agreements, which result from the differences in interest rates, are accrued as interest income or interest expense adjustments of the hedged objects on the balance sheet date and settlement dates.

### Foreign-currency Transactions

Foreign-currency transactions are converted into New Taiwan dollars at rates of exchange in effect when the transactions occur. Gains or losses resulting from the application of different foreign exchange rates when foreign-currency receivables and payables are settled, are credited or charged to income on the settlement date. Foreign currency monetary assets and liabilities are converted at exchange rates prevailing at the balance sheet date. All exchange differences arising from conversion are included in the current income.

Long-term foreign-currency investments accounted for by the equity method are translated into New Taiwan dollars at the following exchange rates: (a) assets and liabilities—balance sheet date rate; (b) income and expense—average rate for the year; and (c) equity—historical rate. The difference resulting from the above translation is reported as cumulative translation adjustments under shareholders' equity.

### Revenue Recognition

Revenues are recognized when the earnings process is completed or virtually completed, and earnings are realizable and measurable. Related costs of providing services are concurrently recognized as incurred.

Usage revenues from wireless services and value-added services, net of any applicable discount, are billed at predetermined rates and are recognized based on minutes of traffic processed. Other revenues are recognized as follows: (a) one-time subscriber connection fees are recognized in full when connection is activated; and (b) prepaid card services are recognized as income based upon customer usage.

Sales revenues are stated at the fair values of settled prices (after consideration of business discount and volume discount) between the Corporation and the buyers. However, receivables from sales maturing within one year or less may not be valued at fair value according to the imputed interest rate when the discrepancy between their fair value and value at maturity is small, and they are frequently traded.

### Promotion Expenses

Commissions and cellular phone subsidy costs pertaining to the Corporation's promotion are recognized as marketing expenses on accrued basis in the year when the service is provided.

### Reclassification

Certain accounts in the financial statements as of and for the year ended December 31, 2002 have been reclassified to conform to the presentation of financial statements as of and for the year ended December 31, 2003.

## 3. CHANGE IN ACCOUNTING PRINCIPLE

On January 1, 2002, the Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 30, "Accounting for Treasury Stock," which requires the Corporation to reclassify its common stocks held by its subsidiaries from short- or long-term investments to treasury stock, and treats others as get-backs of minority interests of subsidiaries and deducts from minority interests of consolidated financial statements. The adoption of SFAS No. 30 resulted in (a) decreases in minority interests and in treasury stock by \$81,525 thousand each as of December 31, 2002 and (b) increases by \$20,842 thousand in consolidated net income and by \$20,618 thousand in income from minority interests for the year ended December 31, 2002.

**4. RECONCILED ACCOUNTS BASED ON ELIMINATION OF SIGNIFICANT TRANSACTIONS BETWEEN THE CORPORATION AND SUBSIDIARIES**

| <u>Company Name</u>                 | <u>Reconciled Account</u>           | <u>Amount</u>       | <u>Counter Party</u> |             |
|-------------------------------------|-------------------------------------|---------------------|----------------------|-------------|
| Corporation                         | Accounts receivable                 | \$ 443,965          | TTS                  |             |
|                                     | Accounts receivable                 | 240,443             | TAT                  |             |
|                                     | Other receivables                   | 273,485             | TAT                  |             |
|                                     | Other receivables                   | 1,306               | TTS                  |             |
|                                     | Notes payable                       | 1,100               | TTS                  |             |
|                                     | Accounts payable                    | 100,336             | TAT                  |             |
|                                     | Accrued expenses                    | 707,062             | TTS                  |             |
|                                     | Other payable                       | 15,922              | TTS                  |             |
|                                     | Advance receipts                    | 262,702             | TTS                  |             |
|                                     | Advance receipts                    | 72,776              | TAT                  |             |
|                                     | Other current liabilities           | 11,981              | TAT                  |             |
|                                     | Other current liabilities           | 2                   | TTS                  |             |
|                                     | Other liabilities                   | 4,623               | TTS                  |             |
|                                     | Operating revenues                  | 1,590,353           | TAT                  |             |
|                                     | Operating costs                     | 601,348             | TAT                  |             |
|                                     | Marketing expenses                  | 3,983,847           | TTS                  |             |
|                                     | Administrative expenses             | 18,827              | TTS                  |             |
|                                     | Rental income                       | 29,889              | TTS                  |             |
|                                     | Rental income                       | 1,155               | TAT                  |             |
|                                     | Non-operating income and gain—other | 81                  | TTS                  |             |
| TAT                                 | Accounts receivables                | 35,207              | Corporation          |             |
|                                     | Prepayments                         | 23                  | Corporation          |             |
|                                     | Deferred charges                    | 72,753              | Corporation          |             |
|                                     | Accounts payable                    | 435,051             | Corporation          |             |
|                                     | Other payable                       | 1,767               | Corporation          |             |
|                                     | Other payable                       | 1,739               | TTS                  |             |
|                                     | Other current liabilities           | 3,877               | TTS                  |             |
|                                     | Operating revenues                  | 601,348             | Corporation          |             |
|                                     | Operating costs                     | 1,585,291           | Corporation          |             |
|                                     | Marketing expenses                  | 89,843              | TTS                  |             |
|                                     | Marketing expenses                  | 6,217               | Corporation          |             |
|                                     | TTS                                 | Accounts receivable | 722,210              | Corporation |
|                                     |                                     | Accounts receivable | 1,739                | TAT         |
| Other receivables                   |                                     | 1,874               | Corporation          |             |
| Inventories                         |                                     | 262,702             | Corporation          |             |
| Refundable deposits                 |                                     | 3,877               | TAT                  |             |
| Accounts payable                    |                                     | 323,259             | Corporation          |             |
| Accrued expenses                    |                                     | 177                 | Corporation          |             |
| Other payable                       |                                     | 121,833             | Corporation          |             |
| Advance receipts                    |                                     | 4,623               | Corporation          |             |
| Operating revenues                  |                                     | 5,365,960           | Corporation          |             |
| Operating revenues                  |                                     | 89,843              | TAT                  |             |
| Operating costs                     |                                     | 1,397,831           | Corporation          |             |
| Marketing expenses                  |                                     | 6,368               | Corporation          |             |
| Administrative expenses             | 23,658                              | Corporation         |                      |             |
| Rental income                       | 20,781                              | Corporation         |                      |             |
| Non-operating income and gain—other | 13,708                              | Corporation         |                      |             |



**5. CASH AND CASH EQUIVALENTS**

|                                     | December 31         |                      |
|-------------------------------------|---------------------|----------------------|
|                                     | 2003                | 2002                 |
| Government bonds with resale rights | \$ 1,562,812        | \$ 698,740           |
| Commercial paper                    | 1,105,108           | 2,158,074            |
| Checking and demand deposits        | 1,019,392           | 1,102,284            |
| Time deposits                       | 275,000             | 6,245,000            |
| Cash on hand                        | 12,496              | 14,247               |
| Revolving funds                     | 6,574               | 11,458               |
|                                     | <u>\$ 3,981,382</u> | <u>\$ 10,229,803</u> |

**6. SHORT-TERM INVESTMENTS**

|                            | December 31          |                     |
|----------------------------|----------------------|---------------------|
|                            | 2003                 | 2002                |
| Listed stocks              |                      |                     |
| Chunghwa Telecom Co., Ltd. | \$ 20,177,820        | \$ -                |
| Beneficiary certificates   |                      |                     |
| Open-end funds             | 1,080,227            | 7,478,000           |
| Closed-end funds           | 100,300              | 100,300             |
|                            | <u>21,358,347</u>    | <u>7,578,300</u>    |
| Less: Allowance for losses | -                    | ( 91,819 )          |
|                            | <u>\$ 21,358,347</u> | <u>\$ 7,486,481</u> |
| Market value               | <u>\$ 22,393,600</u> | <u>\$ 7,489,602</u> |

The bases of market values of each investment were as follows: (a) listed stocks and closed-end funds—the average closing prices in December; (b) open-end funds—the net asset values on the balance sheet date.

The investment in Chunghwa Telecom Co., Ltd. was transferred to short-term from long-term investments. Please see Note 9.

**7. ACCOUNTS RECEIVABLE—THIRD PARTIES**

|                                       | December 31         |                     |
|---------------------------------------|---------------------|---------------------|
|                                       | 2003                | 2002                |
| Accounts receivable                   | \$ 6,593,731        | \$ 5,988,364        |
| Less: Allowance for doubtful accounts | ( 638,330 )         | ( 774,608 )         |
|                                       | <u>\$ 5,955,401</u> | <u>\$ 5,213,756</u> |

**8. INVENTORIES**

|                            | December 31       |                   |
|----------------------------|-------------------|-------------------|
|                            | 2003              | 2002              |
| Commodities                | \$ 709,589        | \$ 1,067,181      |
| Materials                  | 14,068            | 11,322            |
| Less: Allowance for losses | ( 132,739 )       | ( 155,630 )       |
|                            | <u>\$ 590,918</u> | <u>\$ 922,873</u> |

## 9. LONG-TERM INVESTMENTS

|  | December 31          |                |                      |                |
|--|----------------------|----------------|----------------------|----------------|
|  | 2003                 |                | 2002                 |                |
|  | Carrying Value       | % of Ownership | Carrying Value       | % of Ownership |
| Equity method:                           |                      |                |                      |                |
| T&M Investment Co., Ltd.                 | \$ 6,370,748         | 99.99          | \$ 6,335,518         | 99.99          |
| Taiwan Fixed Network Co., Ltd.           | 2,936,379            | 3.33           | 3,017,162            | 3.33           |
| Tai Hung Investment Ltd.                 | 1,590,164            | 99.99          | 1,509,908            | 99.99          |
| Tai Fu Investment Ltd.                   | 782,688              | 99.99          | 674,351              | 99.99          |
| Tai Hsuo Investment Ltd.                 | 499,488              | 99.99          | 410,513              | 99.99          |
| T.I. Investment Ltd.                     | 432,540              | 99.99          | 529,119              | 99.99          |
| Howin Technologies Co., Ltd.             | 126,174              | 2.50           | 138,369              | 2.50           |
| Taiwan Telecom (Aust) Pty Ltd.           | 104,238              | 60.00          | 93,950               | 60.00          |
| The Tele-World Shop Pte., Ltd.           | 95,372               | 100.00         | 106,259              | 100.00         |
| Taiwan Index Co., Ltd.                   | 47,501               | 20.00          | 45,913               | 20.00          |
| Trans Asia Information Network Co., Ltd. | -                    | -              | 29,529               | 99.80          |
| Taiwan Technologies Service Inc.         | -                    | -              | 21,768               | 17.18          |
| Giya Mobile Telecom Co., Ltd.            | -                    | -              | <u>2,668</u>         | 17.63          |
|  | <u>12,985,292</u>    |                | <u>12,915,027</u>    |                |
| Cost method:                             |                      |                |                      |                |
| Arcoa Communication Co., Ltd.            | 50,000               | 3.89           | 50,000               | 3.91           |
| WEB Point Co., Ltd.                      | 20,509               | 3.76           | 20,509               | 3.76           |
| Transportation High Tech Inc.            | 6,772                | 12.00          | 30,000               | 12.00          |
| Sunnet Co., Ltd.                         | 2,591                | 2.21           | 2,591                | 2.21           |
| Chunghwa Telecom Co., Ltd.               | -                    | -              | 22,635,000           | 4.66           |
| Digital United Co., Inc.                 | -                    | -              | 78,539               | 2.51           |
| Mobile InfoComm Co., Ltd.                | -                    | -              | <u>54,219</u>        | 18.27          |
|  | <u>79,872</u>        |                | <u>22,870,858</u>    |                |
| Less: Allowance for losses               | -                    |                | ( <u>306,900</u> )   |                |
|  | <u>79,872</u>        |                | <u>22,563,958</u>    |                |
| Total                                    | <u>\$ 13,065,164</u> |                | <u>\$ 35,478,985</u> |                |

The Corporation's holding in Taiwan Fixed Network Co., Ltd. (TFN) and Howin Technologies Co., Ltd. (HTC) is less than 20%, but the equity method is applied because of the Corporation's significant influence over TFN and HTC. In addition, because TFN also has investments in the Corporation, the investment income or loss is recognized by the treasury stock method.

To integrate enterprise resources for enhanced operating efficiency, the Board of Directors of TransAsia Telecommunications Inc. (TAT) decided to merge with its subsidiary, Trans Asia Information Network Co., Ltd. (the "Trans Asia Info"), on December 4, 2003. The surviving company was TAT. Trans Asia Info was incorporated in February 2000, and it mainly engaged in type-II telecommunication service. The record date of the merger was December 9, 2003. TAT acquired all the rights and assets, and assumed all obligations and liabilities, of Trans Asia Info. Because Trans Asia Info was a wholly owned subsidiary of TAT, no new stock was issued from this merger.

On June 13, 2003, Taiwan Technologies Service Inc. (TTSI) and Giya Mobile Telecom Co., Ltd. (GMTC) were dissolved under resolutions passed at their respective shareholders' meetings. The date of dissolution was July 1, 2003. As of December 31, 2003, both of these two companies had completed their liquidation process, and cash received from the liquidation was \$20,387 thousand (from TTSI) and \$2,238 thousand (from GMTC).

The Board of Directors of TCC and TAT decided to dispose of their investments in Chunghwa Telecom Co., Ltd. on December 8, 2003 and October 21, 2003, respectively. As a result, these investments were transferred to short-term investments.

The carrying value of the investments accounted for by the equity method and the related investment income or losses were determined on the basis of the audited financial statements of the investees. The Corporation and subsidiaries' investment income or losses were as follows:

|  | Years Ended December 31 |                   |
|--|-------------------------|-------------------|
|  | 2003                    | 2002              |
| T&M Investment Co., Ltd.                 | \$ 195,997              | \$ 156,170        |
| Tai Fu Investments Ltd.                  | 108,337                 | 113,146           |
| T.I. Investment Ltd.                     | ( 96,579 )              | ( 61,857 )        |
| Tai Hsuo Investments Ltd.                | 88,963                  | 60,009            |
| Tai Hung Investments Ltd.                | 80,157                  | ( 59,471 )        |
| Taiwan Fixed Network Co., Ltd.           | ( 23,425 )              | ( 12,557 )        |
| Taiwan Telecom (Aust) Pty Ltd.           | ( 15,408 )              | ( 493 )           |
| The Tele-World Shop Pte., Ltd.           | ( 9,523 )               | 3,424             |
| Howin Technologies Co., Ltd.             | 8,805                   | 1,572             |
| Taiwan Index Co., Ltd.                   | 1,588                   | ( 4,087 )         |
| Taiwan Technologies Service Inc.         | ( 1,381 )               | 690               |
| Trans Asia Information Network Co., Ltd. | 519                     | ( 270 )           |
| Giya Mobile Telecom Co., Ltd.            | ( 430 )                 | ( 122 )           |
| Taiwan Info Power Co., Ltd.              | -                       | 945               |
|  | <u>\$ 337,620</u>       | <u>\$ 197,099</u> |

## 10. PROPERTY AND EQUIPMENT

Accumulated depreciation consisted of the following:

|                             | December 31          |                      |
|-----------------------------|----------------------|----------------------|
|                             | 2003                 | 2002                 |
| Buildings                   | \$ 141,766           | \$ 96,036            |
| Telecommunication equipment | 17,479,271           | 12,700,907           |
| Office equipment            | 334,367              | 157,582              |
| Leased assets               | 101,032              | 37,222               |
| Miscellaneous equipment     | 397,835              | 399,343              |
|                             | <u>\$ 18,454,271</u> | <u>\$ 13,391,090</u> |

Depreciation expenses for the years ended December 31, 2003 and 2002 were \$5,569,669 thousand and \$4,637,668 thousand, respectively.

Interest expenses capitalized for the years ended December 31, 2003 and 2002 amounted to \$25,816 thousand and \$255,401 thousand, respectively, with interest rates ranging from 2.04% to 4.68% and from 1.20% to 5.88%, respectively.

## 11. INTANGIBLE ASSETS

|           | December 31          |                      |
|-----------|----------------------|----------------------|
|           | 2003                 | 2002                 |
| Franchise | \$ 10,281,000        | \$ 10,281,000        |
| Trademark | 784                  | 985                  |
|           | <u>\$ 10,281,784</u> | <u>\$ 10,281,985</u> |

Franchise refers to the bid payment for the third generation mobile telecommunication service—License C. As of December 31, 2003, the franchise operation license had not been issued. Nevertheless, even if the license has not been issued, the Corporation is allowed to start preparations to render 3G services.

## 12. NON-OPERATING ASSETS

|                                | December 31         |                     |
|--------------------------------|---------------------|---------------------|
|                                | 2003                | 2002                |
| Assets leased to others        | \$ 3,405,499        | \$ 3,728,063        |
| Idle assets                    | 1,380,687           | 16,677              |
|                                | 4,786,186           | 3,744,740           |
| Less: Accumulated depreciation | ( 700,705 )         | ( 219,529 )         |
|                                | 4,085,481           | 3,525,211           |
| Less: Allowance for losses     | ( 909,848 )         | -                   |
|                                | <u>\$ 3,175,633</u> | <u>\$ 3,525,211</u> |

### 13. DEFERRED CHARGES—NET

|                                 | December 31       |                   |
|---------------------------------|-------------------|-------------------|
|                                 | 2003              | 2002              |
| Computer software               | \$ 227,305        | \$ 89,961         |
| Interior decoration             | 161,131           | 173,737           |
| Bond issuance costs             | 68,719            | 105,298           |
| Subscriber identification cards | -                 | 92,263            |
| Other                           | 243,711           | 359,960           |
|                                 | <u>\$ 700,866</u> | <u>\$ 821,219</u> |

### 14. SHORT-TERM BORROWINGS

Short-term borrowings were credit borrowings (with interest rates ranging from 2.1% to 2.5%), which were payable by July 6, 2003.

### 15. SHORT-TERM BILLS PAYABLE

Short-term bills payable were commercial paper (with interest rate at 2.45%), which was payable by August 20, 2003.

### 16. BONDS PAYABLE

|  | December 31         |                      |                      |
|--|---------------------|----------------------|----------------------|
|  | 2003                |                      | 2002                 |
|  | Current             | Non-current          |                      |
| Domestic secured bonds                   | \$ -                | \$ 3,000,000         | \$ 3,000,000         |
| Domestic unsecured bonds                 | -                   | 15,000,000           | 15,000,000           |
| 1st domestic unsecured convertible bonds | 5,906,800           | -                    | 5,916,200            |
| 2nd domestic unsecured convertible bonds | -                   | 5,464,500            | 6,000,000            |
| Add: Accrued interest compensation       | 646,206             | 250,818              | 439,458              |
|  | <u>\$ 6,553,006</u> | <u>\$ 23,715,318</u> | <u>\$ 30,355,658</u> |

a. Domestic secured bonds

On February 1, 2001, the Corporation issued five-year domestic secured bonds amounting to \$3,000,000 thousand, with each bond having a face value of \$1,000 thousand and interest at 5.31% annually. The bonds will be redeemed in the fourth and fifth years after the issuance date at \$1,500,000 thousand for each of those years.

The bond covenant requires the Corporation to maintain its year-end current ratio at above 100%, debt-to-equity ratio at below 100% and solvency ratio [(net income + depreciation + amortization + interest expense) / (long-term bank loan repayments + interest expense)] at above 150%.

b. Domestic unsecured bonds

On December 13, 2002, the Corporation issued domestic unsecured bonds amounting to \$15,000,000 thousand, with each bond having a face value of \$5,000 thousand. The bonds have four different types based on terms and dates. Types I and II both consist of A to L tranches. Types III and IV both consist of A to M tranches. Types I and II are five-year bonds and Types III and IV are seven-year bond. The interest rates and payment terms are as follows:

|          | <u>Principle</u>     | <u>Rate</u> | <u>Terms</u>   |
|----------|----------------------|-------------|--|
| Type I   | \$ 2,500,000         | 2.6%        | Repayment of \$1,250,000 thousand each in the fourth and fifth years, interest payable annually  |
| Type II  | 2,500,000            | 5.21%-LIBOR | Repayment on maturity date, interest payable semiannually  |
| Type III | 5,000,000            | 2.8%        | Repayment of \$2,500,000 thousand each in the sixth and seventh years, interest payable annually |
| Type IV  | 5,000,000            | 5.75%-LIBOR | Repayment on maturity date, interest payable semiannually  |
|          | <u>\$ 15,000,000</u> |             |  |

c. 1st domestic convertible bonds

On August 25, 2001, the Corporation issued five-year domestic convertible bonds amounting to \$10,000,000 thousand, with each bond having a face value of \$100 thousand and 0% interest. Within the conversion period, starting from 3 months after issuance date to 10 days before maturity, the bondholders may ask for bond conversion into common stocks or entitlement certificates of the Corporation. Cash is paid for those bonds that cannot be converted into one share. The conversion price is subject to adjustment based on the prescribed formula. The conversion price has been NT\$25.2 per share since August 23, 2003. As of December 31, 2003, bonds amounting to \$4,093,200 thousand had been converted to 114,446 thousand common shares.

If the closing price of the Corporation's share is above 50% of the conversion price for 30 consecutive trading days of the Taiwan Stock Exchange from 3 months after bond issuance to 40 days before maturity, the Corporation has the option to convert the bonds to entitlement certificates at conversion price or to redeem the bonds by cash based on the face value. If the total value of outstanding convertible bonds becomes less than 10% of the total principal, the Corporation also has the option—at any time—to convert the bonds to entitlement certificates at the conversion price or to redeem the bonds by cash based on the face value.

On the third year after the issuance date, the holders may redeem the bonds by cash based on the face value plus interest accrued, which is 113.3% of face value. A yield rate of 4.25% is implied. Upon maturity, the Corporation will redeem the bonds by cash based on the face value plus interest accrued, which is 124.62% of face value. A yield rate of 4.5% is implied.

d. 2nd domestic convertible bonds

On August 16, 2002, the Corporation issued five-year domestic convertible bonds amounting to \$6,000,000 thousand, with each bond having a face value of \$100 thousand and 0% interest. Within the conversion period from 3 months after issuance date to 10 days before maturity, the bondholders may have the bonds converted into common stocks of the Corporation. Cash is paid for those bonds that cannot be converted into one share. The conversion price is subject to adjustment based on the prescribed formula. The conversion price has been NT\$26.6 per share since August 23, 2003. As of December 31, 2003, bonds amounting \$535,500 thousand had been converted to 20,131 thousand common shares.

If the closing price of the Corporation's share is above 50% of the conversion price for 30 consecutive trading days of the Taiwan Stock Exchange from 3 months after bond issuance to 40 days before maturity, the Corporation has the option to convert the bonds to common stocks at conversion price or to redeem the bonds by cash based on the face value. If the total value of outstanding convertible bonds becomes less than 10% of the total principal, the Corporation also has the option—at any time—to convert the bonds to common stocks at the conversion price or to redeem the bonds by cash based on the face value.

On the third year after the issuance date, the holders may redeem the bonds by cash based on the face value plus interest accrued, which is 109.59% of face value. A yield rate of 3.1% is implied. Upon maturity, the Corporation will redeem the bonds by cash based on the face value plus interest accrued, which is 117.63% of face value. A yield rate of 3.3% is implied.

Future repayments of corporate bonds, excluding convertible bonds, are as follows:

| <u>Year</u> | <u>Amount</u>        |
|-------------|----------------------|
| 2004        | \$ -                 |
| 2005        | 1,500,000            |
| 2006        | 2,750,000            |
| 2007        | 3,750,000            |
| 2008        | 2,500,000            |
| From 2009   | <u>7,500,000</u>     |
|             | <u>\$ 18,000,000</u> |

## 17. LONG-TERM BANK LOANS

|                            | December 31          |                      |
|----------------------------|----------------------|----------------------|
|                            | 2003                 | 2002                 |
| Secured loans              | \$ 17,280,000        | \$ 16,581,155        |
| Unsecured loans            | 3,200,000            | 14,520,000           |
| Commercial paper           | 2,220,000            | 9,402,000            |
| Less: Unamortized discount | ( 6,734 )            | ( 47,351 )           |
|                            | 22,693,266           | 40,455,804           |
| Less: Current portion      | ( 1,400,000 )        | ( 2,671,076 )        |
|                            | <u>\$ 21,293,266</u> | <u>\$ 37,784,728</u> |

a. Secured loans

The secured loans had interest rates ranging from 1.4575% to 2.9334% and from 2.8594% to 4.004% as of December 31, 2003 and 2002, respectively. Interest is payable monthly and the payments are due in succession from June, July 2008 to September 2010. Starting December 12, 2003, the credit limit will be reduced by 10% every six months.

b. Unsecured loans

The unsecured loans had interest rates ranging from 1.3% to 3.5% and from 1.875% to 3.5% as of December 31, 2003 and 2002, respectively. Interest is payable monthly. Upon maturity, these loans are allowed to revolve within their credit limits, which will be due consecutively in 2005, 2006 and 2007.

c. Commercial paper

Commercial paper was issued at discount rates ranging from 0.67% to 2.2% and from 1.12% to 3.19% as of December 31, 2003 and 2002, respectively. The final maturity date of these loan is July 10, 2008.

d. The related agreements require the Corporation and subsidiaries to maintain its current ratio at above 100%, debt-to-equity ratio at below 100%, interest coverage ratio at above 400%, and long-term solvency ratio at above 150%.

## 18. PENSION PLAN

The Corporation and subsidiaries have a pension plan for all regular employees, which provides benefits based on length of service and average basic pay of the six months before retirement.

The Corporation and subsidiaries make monthly contributions of amounts equal to 2% (TranAsia Telecommunication Inc., equal to 2.7%) of salaries and wages to a pension fund, which is administered by the employees' pension fund committee and deposited in the committee's name in the Central Trust of China.

Pension information is summarized as follows:

a. Pension cost components

|                                   | Years Ended December 31 |                  |
|-----------------------------------|-------------------------|------------------|
|                                   | 2003                    | 2002             |
| Service cost                      | \$ 39,719               | \$ 29,129        |
| Interest cost                     | 5,065                   | 3,953            |
| Expected return on pension assets | ( 4,910 )               | ( 4,744 )        |
| Amortization                      | ( 1,585 )               | ( 2,187 )        |
|                                   | <u>\$ 38,289</u>        | <u>\$ 26,151</u> |

## b. Reconciliation of the funded status of the plan and accrued pension liabilities

|  | December 31   |               |
|--|---------------|---------------|
|  | 2003          | 2002          |
| Benefit obligation                               |               |               |
| Vested   | ( \$ 433 )    | ( \$ 535 )    |
| Non-vested                                       | ( 101,525 )   | ( 71,481 )    |
| Accumulated                                      | ( 101,958 )   | ( 72,016 )    |
| Additional benefits based on future salaries     | ( 67,960 )    | ( 63,230 )    |
| Projected benefit obligation                     | ( 169,918 )   | ( 135,246 )   |
| Fair value of plan assets                        | 148,081       | 124,077       |
| Funded status                                    | ( 21,837 )    | ( 11,169 )    |
| Unrecognized net transition obligation           | 14,018        | 14,739        |
| Unrecognized net gain or loss                    | ( 68,153 )    | ( 62,616 )    |
| Other  | -             | ( 1,151 )     |
| Accrued pension liabilities                      | ( \$ 75,972 ) | ( \$ 60,197 ) |
| c. Vested benefits                               | ( \$ 433 )    | ( \$ 535 )    |
| d. Actuarial assumptions                         |               |               |
| Discount rate used in determining present values | 3.0%-3.5%     | 3.5%-4.0%     |
| Future salary increase rate                      | 2.5%-3.0%     | 3.0%-4.0%     |
| Expected rate of return on plan assets           | 3.0%-3.5%     | 3.5%-4.0%     |

**19. SHAREHOLDERS' EQUITY**

## a. Capital surplus

Under the Company Law, capital surplus may only be used to offset a deficit. Capital surplus, however, generated from the excess of the issue price over the par value of capital stock, including the stock issued for new capital and the buyback of treasury stock, may be transferred to capital as stock dividends.

## b. Appropriation of earnings and dividend policy

The Corporation's Articles of Incorporation provide that a 10% legal reserve should be set aside from the annual net income less any accumulated deficit. The remainder, less special reserve based on relevant laws or regulations, should be distributed as follows:

- 1) Dividends and bonus to preferred shareholders
- 2) Remuneration to directors and supervisors—0.5%
- 3) Bonus to employees—1%-3%
- 4) Remainder, to be appropriated as dividends as determined in the shareholders' meeting.

The Corporation's dividend distribution is based on the availability of excess funds. That is, the Corporation first projects future capital needs through capital budgeting process and then provides for projected capital needs by using the retained earnings. Any remainder is available for dividend distribution. However, the amount of stock dividends should not be more than 80% of the total dividends to be distributed in a single year. The final amount, type and percentage of the dividends are subject to the approval by the Board of Directors and shareholders based on actual earnings and capital requirements of the Corporation in a particular year.

A regulation issued by the Securities and Futures Commission requires a special reserve equivalent to debit balance of any account in shareholders' equity (except for the balance of treasury stock). The reversal of the debit balance would be appropriated as earnings distribution.

The appropriation of earnings should be resolved by shareholders in the following year and given effect to financial statements of that year.

Under the Integrated Income Tax System that became effective on January 1, 1998, ROC resident shareholders are allowed a tax credit for the income tax paid by the Corporation on earnings generated on or after January 1, 1998. An imputation credit account (ICA) is maintained by the Corporation for such income tax and the tax credit allocated to each shareholder.

The appropriation of the 2002 and 2001 earnings and dividend per share was as follows:

|   | <u>Appropriation of Earnings</u> |                             | <u>Dividend Per Share (NT\$)</u> |                             |
|---|----------------------------------|-----------------------------|----------------------------------|-----------------------------|
|   | <u>For Fiscal Year 2002</u>      | <u>For Fiscal Year 2001</u> | <u>For Fiscal Year 2002</u>      | <u>For Fiscal Year 2001</u> |
| Legal reserve                             | \$ 1,487,272                     | \$ 1,674,578                |                                  |                             |
| Special reserve                           | 330,183                          | -                           |                                  |                             |
| Remuneration to directors and supervisors | 65,274                           | 75,356                      |                                  |                             |
| Bonus to employees—in cash                | 391,645                          | 753,560                     |                                  |                             |
| Cash dividends                            | 8,831,889                        | 7,186,109                   | \$ 2.0                           | \$ 1.9                      |
| Stock dividends                           | <u>1,766,378</u>                 | <u>7,186,109</u>            | 0.4                              | 1.9                         |
|   | <u>\$ 12,872,641</u>             | <u>\$ 16,875,712</u>        |                                  |                             |

In their meeting on June 25, 2003, the Corporation's shareholders approved the Board of Directors' proposal on the appropriation of earnings in 2002. The appropriation of bonus to employees and remuneration to directors and supervisors was as follows:

|   | <u>Amount</u>     |
|---|-------------------|
| Bonus to employees—in cash                        | \$ 391,645        |
| Remuneration to directors and supervisors—in cash | <u>65,274</u>     |
|   | <u>\$ 456,919</u> |

Had the above distribution been charged against the income of 2002, the basic earnings per share after income tax for the year ended December 31, 2002 would have decreased from NT\$3.20 to NT\$3.10.

As of January 19, 2004, the date of the accompanying auditor's report, the appropriation of earnings for 2003 has not been resolved by the Board of Directors. Information on the approved appropriation of the 2003 earnings is accessible online through the Market Observation Post System on the Web site of the Taiwan Stock Exchange.

c. Treasury stock

(Shares in Thousands)

| <u>Purpose of Buyback</u>   | <u>Beginning Shares</u> | <u>Increase</u>          | <u>Decrease</u> | <u>Ending Shares</u> |
|---|-------------------------|--------------------------|-----------------|----------------------|
| <u>2003</u>   |                         |                          |                 |                      |
| To be transferred to employees  | 86,739                  | -                        | -               | 86,739               |
| Reclassification of the Corporation's stocks held by subsidiaries from short or long-term investments to treasury stock | 4,399                   | 176<br>(stock dividends) | -               | 4,575                |
| <u>2002</u>   |                         |                          |                 |                      |
| To be transferred to employees  | 1,910                   | 84,829                   | -               | 86,739               |
| Reclassification of the Corporation's stocks held by subsidiaries from short or long-term investments to treasury stock | -                       | 4,399                    | -               | 4,399                |

The 1,910 thousand shares boughtback in 2002 were canceled on January 12, 2004, which resulted in a reduction of \$53,805 thousand in common stock, capital stock and retained earnings.

Under the Securities and Exchange Law, the buyback amount of treasury stocks should not exceed 10% of total issued shares, and the buyback cost should not exceed the sum of the retained earnings, additional paid-in capital in excess of par value and realized capital surplus. In addition, the Corporation should not use treasury stocks as collateral and should not exercise shareholders' rights on those stocks before their transfer.

As of December 31, 2003, the market value of the Corporation's outstanding shares held by its subsidiaries was \$134,581 thousand. The stocks held by a subsidiary as an investment are recorded as treasury stock, but the subsidiary has the same rights as those of other common shareholders.



## 20. INCOME TAX EXPENSE

- a. The reconciliation between income tax expense based on income before income tax at statutory tax rate and income tax expense was as follows:

|   | <u>Years Ended December 31</u> |                   |
|---|--------------------------------|-------------------|
|   | <u>2003</u>                    | <u>2002</u>       |
| Income tax expense computed based on income before income tax at statutory tax rate (25%) | \$ 4,202,948                   | \$ 4,296,355      |
| Add (deduct) tax effects of:  |                                |                   |
| Permanent differences   |                                |                   |
| Investment income from domestic investments accounted for by the equity method            | ( 378,652 )                    | ( 258,381 )       |
| Other   | ( 43,771 )                     | 89,932            |
| Temporary differences   | 394,010                        | 81,629            |
| Tax-exempt income   | ( 2,605,424 )                  | ( 3,219,060 )     |
| Income tax (10%) on unappropriated earnings   | 373,775                        | 254,949           |
| Investment tax credits  | ( 793,389 )                    | ( 578,746 )       |
| Income tax payable  | <u>\$ 1,149,497</u>            | <u>\$ 666,678</u> |

- b. Under the Article 8 of the Statue for Upgrading Industries (SUI) before the SUI amendment in 1999, the Corporation is considered an important technology based enterprise. Thus, the Corporation's net operating income generated from the following expansion of its equipment is exempt from income tax for five years during the period specified, as approved by the Ministry of Finance.

| <u>Equipment Expansion Projects</u>  | <u>Tax-Exempt Period</u> |
|--|--------------------------|
| Switches, base transmission station (BTS) and related telecommunication equipment, acquired from December 16, 1997 to October 30, 1998 | 1999 to 2003             |
| Switches, BTS and related telecommunication equipment, acquired from July 31, 1999 to December 31, 1999                                | 2001 to 2005             |
| Switches, BTS and related telecommunication equipment, acquired from September 30, 2000 to September 30, 2001                          | 2002 to 2006             |

Under the Article 8 of the Statue for Upgrading Industries (SUI) before the SUI amendment in 1999, TAT is also considered an important technology based enterprise. Thus, TAT's net operating income generated from the expansion of its equipment is exempt from income tax for five years from January 1, 2001, as approved by the Ministry of Finance.

- c. The components of income tax expense were as follows:

|  | <u>Years Ended December 31</u> |                   |
|--|--------------------------------|-------------------|
|  | <u>2003</u>                    | <u>2002</u>       |
| Current income tax expense                   | \$ 1,149,497                   | \$ 666,678        |
| Deferred income tax                          | 50,698                         | ( 112,485 )       |
| Prior year's adjustment                      | 14,372                         | 5,784             |
| Tax on interest income from short-term bills | <u>1,594</u>                   | <u>1,976</u>      |
| Income tax expense                           | <u>\$ 1,216,161</u>            | <u>\$ 561,953</u> |

d. Deferred income tax assets and liabilities as of December 31, 2003 and 2002 were as follows:

|   | <u>December 31</u>  |                     |
|---|---------------------|---------------------|
|   | <u>2003</u>         | <u>2002</u>         |
| Provision for doubtful accounts   | \$ 883,709          | \$ 1,016,992        |
| Accrued interest compensation   | 224,256             | 109,865             |
| Provision for losses on idle assets   | 223,782             | -                   |
| Investment tax credits  | 195,424             | 336,578             |
| Provision for market price decline on inventories                             | 30,840              | 34,769              |
| Accrued pension costs   | 15,523              | 12,689              |
| Investment income from foreign investments accounted for by the equity method | ( 7,215 )           | ( 10,221 )          |
| Other   | <u>51,902</u>       | <u>( 62,635 )</u>   |
|   | 1,618,221           | 1,438,037           |
| Less: Allowance for valuation   | <u>( 480,481 )</u>  | <u>( 249,599 )</u>  |
|   | <u>\$ 1,137,740</u> | <u>\$ 1,188,438</u> |
| Deferred income tax assets  |                     |                     |
| Current   | \$ 231,040          | \$ 457,113          |
| Non-current   | <u>908,656</u>      | <u>738,792</u>      |
|   | 1,139,696           | 1,195,905           |
| Deferred income tax liabilities   |                     |                     |
| Non-current   | <u>( 1,956 )</u>    | <u>( 7,467 )</u>    |
|   | <u>\$ 1,137,740</u> | <u>\$ 1,188,438</u> |

e. The unused investment tax credits as of December 31, 2003 are summarized as follows:

| <u>Statutes</u>                  | <u>Items</u>  | <u>Total Investment Tax Credits</u> | <u>Unused Investment Tax Credits</u> | <u>Year of Expiry</u> |
|----------------------------------|---|-------------------------------------|--------------------------------------|-----------------------|
| Statute for Upgrading Industries | Purchase of machinery and equipment, research and development expenditures and personnel training | <u>\$4,133,051</u>                  | <u>\$ 195,424</u>                    | 2007                  |

f. Integrated income tax information is as follows:

|  | <u>December 31</u> |                   |
|--|--------------------|-------------------|
|  | <u>2003</u>        | <u>2002</u>       |
| Balance of imputation credit account (ICA) |                    |                   |
| Corporation                                | \$ 334,287         | \$ 253,217        |
| TAT  | <u>\$ 1,057</u>    | <u>\$ 7,574</u>   |
| TDD  | <u>\$ 197,822</u>  | <u>\$ 114,447</u> |
| TTS  | <u>\$ 100,332</u>  | <u>\$ 137,339</u> |

As of December 31, 2003, there were no unappropriated earnings generated before January 1, 1998. The expected ratio of the ICA balance to the balance of the unappropriated earnings as of December 31, 2003 and the actual ratio of the ICA balance on the dividend distribution date in 2003 to the balance of the unappropriated earnings as of December 31, 2002 were as follows:

|             | <u>2003 (Expected)</u> | <u>2002 (Actual)</u> |
|-------------|------------------------|----------------------|
| Corporation | 2.16%                  | 7.02%                |
| TAT         | 0.06%                  | 11.11%               |
| TDD         | 40.10%                 | 48.15%               |
| TTS         | 25.30%                 | 34.25%               |

The tax credits allocable to shareholders are based on the ICA balance on the dividend distribution date. Thus, the tax deductible ratio for the distribution of 2003 earnings may differ from the actual ratio.

g. The years that income tax returns had been examined and cleared by the tax authorities were as follows:

|             | <u>Year of Examination</u> |
|-------------|----------------------------|
| Corporation | 1998                       |
| TAT         | 2000                       |
| TDD         | 2001                       |
| TTS         | 2001                       |

## 21. EARNINGS PER SHARE

The numerators and denominators used in calculating earnings per share (EPS) were as follows:

|   | <u>Amounts (Numerator)</u>   |                             | <u>Shares<br/>(Denominator)<br/>(Thousands)</u> | <u>EPS</u>                       |                                 |
|---|------------------------------|-----------------------------|---|----------------------------------|---------------------------------|
|   | <u>Before<br/>Income Tax</u> | <u>After<br/>Income Tax</u> |   | <u>Before<br/>Income<br/>Tax</u> | <u>After<br/>Income<br/>Tax</u> |
| <u>For the year ended December 31, 2003</u>   |                              |                             |   |                                  |                                 |
| Weighted-average number of outstanding shares   |                              |                             | 4,683,320                                       |                                  |                                 |
| Less: Buyback of issued shares  |                              |                             | ( 86,739)                                       |                                  |                                 |
| Outstanding shares held by subsidiaries,<br>recognized as treasury stocks                                 |                              |                             | ( <u>4,575</u> )                                |                                  |                                 |
| Basic EPS   |                              |                             |   |                                  |                                 |
| Income of common shareholders   | \$ 14,466,800                | \$ 13,344,447               | 4,592,006                                       | <u>\$ 3.15</u>                   | <u>\$ 2.91</u>                  |
| Add: Effect of potentially dilutive convertible bonds   |                              |                             |   |                                  |                                 |
| 1st convertible bonds (4.5%)  | 282,560                      | 211,920                     | 234,693   |                                  |                                 |
| 2nd convertible bonds (3.3%)  | <u>196,962</u>               | <u>147,721</u>              | <u>221,642</u>                                  |                                  |                                 |
| Diluted EPS   |                              |                             |   |                                  |                                 |
| Income of common shareholders with dilutive<br>effect of potential common stocks                          | <u>\$ 14,946,322</u>         | <u>\$ 13,704,088</u>        | <u>5,048,341</u>                                | <u>\$ 2.96</u>                   | <u>\$ 2.71</u>                  |
| <u>For the year ended December 31, 2002</u>   |                              |                             |   |                                  |                                 |
| Weighted-average number of outstanding shares   |                              |                             | 4,501,796                                       |                                  |                                 |
| Less: Buyback of issued shares  |                              |                             | ( 5,545)  |                                  |                                 |
| Outstanding shares held by subsidiaries,<br>recognized as treasury stocks                                 |                              |                             | ( <u>4,399</u> )                                |                                  |                                 |
|   |                              |                             | 4,491,852                                       |                                  |                                 |
| Add: Number of shares retroactively adjusted for<br>issuance of stock dividends (record date: 2003/08/23) |                              |                             | <u>179,674</u>                                  |                                  |                                 |
| Basic EPS   |                              |                             |   |                                  |                                 |
| Income of common shareholders   | \$ 15,409,647                | \$ 14,937,320               | 4,671,526                                       | <u>\$ 3.30</u>                   | <u>\$ 3.20</u>                  |
| Add: Effect of potentially dilutive convertible<br>bonds (*)  |                              |                             |   |                                  |                                 |
| 1st convertible bonds (4.5%)  | 272,174                      | 204,131                     | 235,821   |                                  |                                 |
| 2nd convertible bonds (3.3%)  | <u>74,878</u>                | <u>56,158</u>               | <u>85,282</u>                                   |                                  |                                 |
| Diluted EPS   |                              |                             |   |                                  |                                 |
| Income of common shareholders with dilutive<br>effect of potential common stocks                          | <u>\$ 15,756,699</u>         | <u>\$ 15,197,609</u>        | <u>4,992,629</u>                                | <u>\$ 3.16</u>                   | <u>\$ 3.04</u>                  |

\* Effect on stock dividends has been adjusted retroactively.

The retroactive adjustment resulted in decrease in the basic and diluted EPS after income tax for the year ended December 31, 2002 from NT\$3.33 to NT\$3.20 and from NT\$3.20 to NT\$3.04, respectively.

## 22. LABOR COSTS, DEPRECIATION AND AMORTIZATION EXPENSES

|                               | Years Ended December 31            |  |                     |                                    |  |                     |
|-------------------------------|------------------------------------|--|---------------------|------------------------------------|--|---------------------|
|                               | 2003                               |  |                     | 2002                               |  |                     |
|                               | Classified as<br>Operating<br>Cost | Classified as<br>Operating<br>Expenses | Total               | Classified as<br>Operating<br>Cost | Classified as<br>Operating<br>Expenses | Total               |
| Labor cost                    |                                    |  |                     |                                    |  |                     |
| Salary                        | \$ 95,721                          | \$ 1,400,738                           | \$ 1,496,459        | \$ 93,070                          | \$ 1,382,607                           | \$ 1,475,677        |
| Labor and health<br>insurance | 5,881                              | 74,166                                 | 80,047              | 5,711                              | 66,356                                 | 72,067              |
| Pension                       | 2,006                              | 32,964                                 | 34,970              | 1,535                              | 25,767                                 | 27,302              |
| Other                         | 5,714                              | 103,581                                | 109,295             | 5,637                              | 80,681                                 | 86,318              |
| Subtotal                      | 109,322                            | 1,611,449                              | 1,720,771           | 105,953                            | 1,555,411                              | 1,661,364           |
| Depreciation                  | 5,194,045                          | 375,624                                | 5,569,669           | 4,345,784                          | 291,884                                | 4,637,668           |
| Amortization                  | 96,695                             | 633,922                                | 730,617             | 344,537                            | 586,043                                | 930,580             |
|                               | <u>\$ 5,400,062</u>                | <u>\$ 2,620,995</u>                    | <u>\$ 8,021,057</u> | <u>\$ 4,796,274</u>                | <u>\$ 2,433,338</u>                    | <u>\$ 7,229,612</u> |

## 23. RELATED-PARTY TRANSACTIONS

- a. The related parties and their relationships with the Corporation and subsidiaries are as follows:

| Related Party                                       | Relationship with the Corporation   |
|---|---|
| T.I. Investments Ltd.                               | Subsidiary  |
| Tai Hsuo Investment Ltd.                            | Subsidiary  |
| Tai Fu Investment Ltd.                              | Subsidiary  |
| Tai Hung Investment Ltd.                            | Subsidiary  |
| T & M Investment Co., Ltd.                          | Subsidiary  |
| Taiwan Telecom (Aust) Pty Ltd.                      | Subsidiary  |
| Taiwan Teleservices & Technologies Co., Ltd. (TT&T) | Subsidiary  |
| Taiwan Elitec Corporation (TEC)                     | Subsidiary  |
| Taiwan Infotainment Co., Ltd. (TIC)                 | Subsidiary  |
| Supreme-Tech (Aust) Pty Ltd.                        | Subsidiary  |
| Trans Asia Information Network Co., Ltd.            | Subsidiary (merged with TAT on December 9, 2003)                                |
| Taiwan Fixed Network Co., Ltd. (TFN)                | Equity-method investee  |
| The Tele-World Shop Pte Ltd.                        | Indirect investee under Corporation's control                                   |
| Technology World Services Inc.                      | Indirect investee under Corporation's control<br>(dissolved on July 9, 2003)    |
| GTE PCS International Incorporated                  | A director of the Corporation (until June 26, 2002)                             |
| Pacific Telecommunications Taiwan Co, Ltd.          | Same chairman (dissolved on February 15, 2003)                                  |
| Chung-Shing Telecommunications Co., Ltd.            | Same chairman (dissolved on January 15, 2003)                                   |
| Capital Telecommunications Co., Ltd.                | Same chairman (dissolved on January 15, 2003)                                   |
| Pacific Electric Wire & Cable Co., Ltd.             | Same chairman (until June 9, 2003)  |
| Fubon Land Development Co., Ltd.                    | Same chairman (since June 9, 2003)  |
| Chung Hsing Constructions Co., Ltd.                 | Same chairman (since June 9, 2003)  |
| Giya Mobile Telecom Co., Ltd. (GMTC)                | Affiliate (dissolved on July 1, 2003)   |
| Taiwan Technologies Services Inc. (TTSI)            | Affiliate (dissolved on July 1, 2003)   |
| Taiwan Info Power Co., Ltd. (TIP)                   | Affiliate (dissolved on July 1, 2002)   |
| Howin Technologies Co., Ltd. (HTC)                  | Affiliate   |
| Taiwan Index Co., Ltd.                              | Affiliate   |
| CTS Digi-Tech Co., Ltd.                             | Affiliate   |
| Reach & Range Inc. (R&R)                            | Affiliate   |
| TCC Foundation                                      | Over one third of the Foundation's authorized fund<br>came from the Corporation |
| Fubon Financial Holding Co., Ltd.                   | Related party in substance (since June 9, 2003)                                 |
| Fubon Commercial Bank Co., Ltd. (FCB)               | Related party in substance (since June 9, 2003)                                 |
| Fubon Securities Co., Ltd.                          | Related party in substance (since June 9, 2003)                                 |
| Fubon Insurance Co., Ltd. (Fubon Ins.)              | Related party in substance (since June 9, 2003)                                 |
| TaipeiBank Co., Ltd. (TaipeiBank)                   | Related party in substance (since June 9, 2003)                                 |
| Fubon Securities Investment Trust Co., Ltd.         | Related party in substance (since June 9, 2003)                                 |
| Fubon Life Assurance Co., Ltd.                      | Related party in substance (since June 9, 2003)                                 |

- b. Major transactions with related parties are summarized below:

Unless specified otherwise, the related-party transactions were conducted at arm's length.

1) Operating revenues

|       | Years Ended December 31 |                  |                   |                  |
|-------|-------------------------|------------------|-------------------|------------------|
|       | 2003                    |                  | 2002              |                  |
|       | Amount                  | % of Total Sales | Amount            | % of Total Sales |
| TFN   | \$ 1,315,936            | 2                | \$ 857,456        | 1                |
| TT&T  | 25,826                  | -                | 44,570            | -                |
| HTC   | 21,228                  | -                | 37,980            | -                |
| R&R   | -                       | -                | 43,047            | -                |
| Total | <u>\$ 1,362,990</u>     |                  | <u>\$ 983,053</u> |                  |

The average collection period for notes and accounts receivable was approximately two months.

2) Operating costs

|       | Years Ended December 31 |                     |                     |                     |
|-------|-------------------------|---------------------|---------------------|---------------------|
|       | 2003                    |                     | 2002                |                     |
|       | Amount                  | % of Operating Cost | Amount              | % of Operating Cost |
| HTC   | \$ 1,130,031            | 4                   | \$ 1,118,808        | 4                   |
| TFN   | 465,969                 | -                   | 112,302             | -                   |
| Total | <u>\$ 1,596,000</u>     |                     | <u>\$ 1,231,110</u> |                     |

Operating costs pertained to telecommunication and maintenance services. The average payment period for notes and accounts payable was approximately two months.

3) Property transactions

a) Acquisition of property and equipment

| Year Ended December 31, 2003 |   |                     |
|------------------------------|---|---------------------|
|                              | Description                             | Amount              |
| HTC                          | Telecommunication and related equipment | \$ 5,436,593        |
| TEC                          | Deferred charges                        | 87,554              |
|                              | Office equipment                        | 32,751              |
|                              | Miscellaneous equipment                 | 32,330              |
|                              |   | <u>\$ 5,589,228</u> |
| Year Ended December 31, 2002 |   |                     |
|                              | Description                             | Amount              |
| HTC                          | Telecommunication and related equipment | \$ 5,635,597        |
|                              | Miscellaneous equipment                 | 417,311             |
| TFN                          | Leased assets*                          | 1,276,190           |
| TEC                          | Construction in progress                | 168,713             |
|                              | Telecommunication equipment             | 122,113             |
|                              | Miscellaneous equipment                 | 27,767              |
|                              | Office equipment                        | 26,166              |
|                              | Deferred charges                        | 24,479              |
|                              |   | <u>\$ 7,698,336</u> |

\* In 2002, the Corporation entered into a capital lease agreement with TFN to use TFN's dual-path line for 20 years, accounted for as leased assets. The lease payable had been fully paid.

Except for the Corporation's lease of TFN's assets, which was based on market prices as agreed to by both parties, the above acquisitions were made at arm's length.

b) Disposal of property and equipment

| Year Ended December 31, 2002 |                         |                  |          |
|------------------------------|-------------------------|------------------|----------|
|                              | Description             | Amount           | Gain     |
| HTC                          | Miscellaneous equipment | \$ 20,009        | \$ 2,181 |
| TFN                          | Office equipment        | 16,211           | 34       |
|                              | Deferred charges        | 12,331           | -        |
|                              |                         | <u>\$ 48,551</u> |          |

c) Acquisition of long-term investments

| Year Ended December 31, 2002 |             |        |                  |
|------------------------------|-------------|--------|------------------|
|                              | Description | Amount |                  |
| TTSI                         | TIP         | \$     | 16,416           |
| GMTC                         | TIP         |        | 16,416           |
|                              |             |        | <u>\$ 32,832</u> |

4) Operating lease

Rental income

| Years Ended December 31 |   |                   |                   |
|-------------------------|---|-------------------|-------------------|
|                         | Leased Sites/Equipment  | 2003              | 2002              |
| TT&T                    | Tang-Cherng and Tai-Chung offices and telecommunication equipment     | \$ 168,558        | \$ 172,500        |
| TFN                     | Kee-lung road, Tai-Chung, Chung-Ho and Tang-Cherng offices, BTS, etc. | 45,138            | 45,540            |
|                         | Signboards hanging rent   | 20,781            | 20,524            |
| TEC                     | Tang-Cherng offices and telecommunication equipment, etc.             | 24,074            | 24,660            |
| HTC                     | Tang-Cherng, Tai-Chung and Chung-Ho offices                           | 17,231            | 23,377            |
| TIC                     | Kee-lung Road, Tang-Cherng and Tun Hua S. Road offices                | 9,189             | 10,020            |
|                         |   | <u>\$ 284,971</u> | <u>\$ 296,621</u> |

The above lease transactions were based on market price and payments were made and collected monthly.

5) Cash in banks and bank loans

|  | December 31       |    |                   |   |
|--|-------------------|----|-------------------|---|
|  | 2003              |    | 2002              |   |
|  | Amount            | %  | Amount            | % |
| a) Checking and demand deposits                                |                   |    |                   |   |
| FCB  | \$ 232,701        | 6  | \$ 169,659        | 2 |
| TaipeiBank   | <u>30,955</u>     | 1  | <u>403,068</u>    | 4 |
|  | <u>\$ 263,656</u> |    | <u>\$ 572,727</u> |   |
| b) Pledged time deposits (recorded under other current assets) |                   |    |                   |   |
| FCB  | <u>\$ 10,000</u>  | 31 | <u>\$ 10,000</u>  | 4 |
| c) Bank loans  |                   |    |                   |   |
| TaipeiBank   | <u>\$ -</u>       | -  | <u>\$ 860,000</u> | 2 |

## 6) Receivables and payables

|  | December 31       |    |                   |    |
|--|-------------------|----|-------------------|----|
|  | 2003              |    | 2002              |    |
|  | Amount            | %  | Amount            | %  |
| Accounts receivable:                                     |                   |    |                   |    |
| TFN  | \$ 89,761         | 1  | \$ 48,054         | 1  |
| Other  | <u>15,007</u>     | -  | <u>18,394</u>     | -  |
|  | <u>\$ 104,768</u> |    | <u>\$ 66,448</u>  |    |
| Other receivables:                                       |                   |    |                   |    |
| HTC  | \$ 21,851         | 24 | \$ 82,726         | 15 |
| TFN  | 12,256            | 13 | 12,241            | 2  |
| R&R  | 306               | -  | 16,297            | 3  |
| Other  | <u>10,789</u>     | 12 | <u>8,646</u>      | 2  |
|  | <u>\$ 45,202</u>  |    | <u>\$ 119,910</u> |    |
| Other payable:   |                   |    |                   |    |
| TFN  | \$ 455,378        | 29 | \$ 435,950        | 21 |
| HTC  | 160,679           | 10 | 416,568           | 20 |
| TEC  | 70,398            | 5  | 39,973            | 2  |
| TT&T   | 32,207            | 2  | 16,853            | 1  |
| TIC  | 10,249            | 1  | -                 | -  |
| Other  | <u>2,660</u>      | -  | <u>2,057</u>      | -  |
|  | <u>\$ 731,571</u> |    | <u>\$ 911,401</u> |    |
| Accrued expenses:  |                   |    |                   |    |
| HTC  | \$ 221,526        | 16 | \$ -              | -  |
| TT&T   | 102,793           | 7  | 114,848           | 5  |
| TEC  | 76,240            | 5  | 102,883           | 4  |
| TFN  | 37,406            | 3  | 26,624            | 1  |
| TIC  | <u>721</u>        | -  | <u>50,000</u>     | 2  |
|  | <u>\$ 438,686</u> |    | <u>\$ 294,355</u> |    |
| Other current liabilities—collections for the following: |                   |    |                   |    |
| TFN  | \$ 32,694         | 9  | \$ -              | -  |
| FCB  | <u>15,490</u>     | 4  | <u>22,222</u>     | 9  |
|  | <u>\$ 48,184</u>  |    | <u>\$ 22,222</u>  |    |

|  | Years Ended December 31 |                     |
|--|-------------------------|---------------------|
|  | 2003                    | 2002                |
| 7) Commission expenses (including handset subsidy, etc.) |                         |                     |
| HTC  | \$ 75,903               | \$ 9,138            |
| R&R  | 12,342                  | -                   |
| TFN  | <u>2,183</u>            | <u>26,384</u>       |
|  | <u>\$ 90,428</u>        | <u>\$ 35,522</u>    |
| 8) Professional service fees                             |                         |                     |
| TT&T   | \$ 1,439,647            | \$ 1,399,195        |
| TEC  | 346,068                 | 304,230             |
| TFN  | <u>33,200</u>           | <u>29,500</u>       |
|  | <u>\$ 1,818,915</u>     | <u>\$ 1,732,925</u> |
| 9) Service charges                                       |                         |                     |
| TT&T   | <u>\$ 28,976</u>        | <u>\$ 22,172</u>    |
| 10) Donation   |                         |                     |
| TCC Foundation   | <u>\$ 36,850</u>        | <u>\$ 35,850</u>    |

|   | <u>Years Ended December 31</u> |             |
|---|--------------------------------|-------------|
|   | <u>2003</u>                    | <u>2002</u> |
| 11) Insurance expenses  |                                |             |
| Fubon Ins.  | \$ 206,468                     | \$ 153,600  |
| 12) Repair and maintenance expenses   |                                |             |
| TEC   | \$ 120,765                     | \$ 79,950   |
| 13) Printing expenses for bills and advertisements  |                                |             |
| TEC   | \$ 276,243                     | \$ 293,024  |
| 14) Telecommunication service expenses  |                                |             |
| TFN   | \$ 43,737                      | \$ 33,137   |
| 15) Other   |                                |             |
| a) HTC entered into an agreement to provide the Corporation with GSM-1800 network maintenance. As of December 31, 2003 and 2002, the Corporation had received performance guarantee deposits of \$630,000 thousand and \$1,160,000 thousand, respectively, from HTC.  |                                |             |
| b) R&R entered into an agreement with TAT to act as a consignee for TAT in selling mobile phones and related products. The total value of such products and services that R&R received from TAT for the years ended December 31, 2003 and 2002 amounted to \$44,395 thousand and \$46,404 thousand, respectively. |                                |             |
| c) HTC entered into an agreement to buy for and build system network equipment of TAT. As of December 31, 2003 and 2002, TAT had received performance guarantee deposits of \$185,773 thousand and \$138,773 thousand, respectively, from HTC.  |                                |             |

## 24. ASSETS PLEDGED

The assets pledged as collaterals for bank loans were as follows:

|  | <u>December 31</u>   |                      |
|--|----------------------|----------------------|
|  | <u>2003</u>          | <u>2002</u>          |
| Fixed assets—net carrying value            | \$ 37,792,910        | \$ 35,440,090        |
| Assets leased to others—net carrying value | 290,441              | 614,603              |
| Time deposits                              | 10,000               | 270,000              |
| Deferred charges—net carrying value        | 1,721                | 4,671                |
| Long-term investments                      | -                    | 22,328,100           |
|  | <u>\$ 38,095,072</u> | <u>\$ 58,657,464</u> |

## 25. COMMITMENTS

- a. To increase its network capacity and quality and to provide more extensive services, the Corporation entered into system equipment purchase and installation agreements with Howin Technologies Co., Ltd. in December 2002 for \$1,300,000 thousand and \$1,200,000 thousand, respectively. As of December 31, 2003, the unpaid balances for the purchase and installation agreements were \$1,170,000 thousand and \$1,080,000 thousand, respectively.
- b. To provide services for third generation mobile (3G) telecommunication and advanced and complete wireless broadband data transmission, the Corporation entered into 3G network equipment purchase and installation contracts with Howin Technologies Co., Ltd. in December 2002 for \$2,000,000 thousand and \$1,800,000 thousand, respectively. As of December 31, 2003, the unpaid balances for the purchase and installation contracts were \$1,200,000 thousand and \$1,080,000 thousand, respectively.
- c. TAT entered into telecommunication equipment installation agreements with Ericsson Taiwan Ltd. As of December 31, 2003, the construction in progress amounted to \$26,011 thousand.



- d. In 2003, TAT entered into fraud management system, billing system maintenance and upgrade contracts with Taiwan Elitec Corporation for \$25,500 thousand. As of December 31, 2003, the unpaid balance for the contracts was \$18,500 thousand.
- e. TAT entered into telecommunication equipment purchase and installation contracts with Howin Technologies Co., Ltd. in 2002 for \$470,000 thousand. As of December 31, 2003, the unpaid balance for the purchase and installation contract was \$329,000 thousand.
- f. As of December 31, 2003, the outstanding letters of credit issued by TTS for purchasing handsets amounted to \$265,419 thousand.
- g. As of December 31, 2003, future minimum rental payments for major operating lease agreements are summarized as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| 2004        | \$ 28,426     |
| 2005        | 25,095        |
| 2006        | 23,073        |
| 2007        | 12,344        |
| 2008        | 1,366         |

## 26. SUBSEQUENT EVENTS

On January 12, 2004, the Corporation and TAT entrusted to Deutsche Bank the sale of 122,428 thousand shares of Chunghwa Telecom Co., Ltd. in the form of American Depositary Receipts. The average selling price per share was approximately NT\$50.68, and the gains on this sale amounted to \$481,716 thousand.

## 27. FINANCIAL INSTRUMENT TRANSACTIONS

|  | <u>December 31</u>    |                   |                       |                   |
|--|-----------------------|-------------------|-----------------------|-------------------|
|  | <u>2003</u>           |                   | <u>2002</u>           |                   |
|  | <u>Carrying Value</u> | <u>Fair Value</u> | <u>Carrying Value</u> | <u>Fair Value</u> |
| <u>Non-derivative financial instruments</u>      |                       |                   |                       |                   |
| Financial assets                                 |                       |                   |                       |                   |
| Financial assets—fair value                      |                       |                   |                       |                   |
| approximating to carrying value                  | \$ 10,452,733         | \$ 10,452,733     | \$ 16,616,184         | \$ 16,616,184     |
| Short-term investments                           | 21,358,347            | 22,393,600        | 7,486,481             | 7,489,602         |
| Long-term investments—with quoted market price   |                       |                   |                       |                   |
| Chunghwa Telecom Co., Ltd.                       | -                     | -                 | 22,328,100            | 22,328,100        |
| Financial liabilities                            |                       |                   |                       |                   |
| Financial liabilities—fair value                 |                       |                   |                       |                   |
| approximating to carrying value                  | 8,130,063             | 8,130,063         | 12,826,285            | 12,826,285        |
| Bonds payable (including current portion)        | 29,371,300            | 31,478,286        | 29,916,200            | 31,037,085        |
| Long-term bank loans (including current portion) | 22,693,266            | 22,693,266        | 40,455,804            | 40,455,804        |
| <u>Derivative financial instruments</u>          |                       |                   |                       |                   |
| Interest rate swap contracts                     | -                     | 16,535            | -                     | 84,988            |

Fair values of financial instruments were determined as follows:

- a. Short-term financial instruments (other than short-term investments)—the carrying value reported in the balance sheets approximates the fair value of these assets, including cash and cash equivalents, receivables, interest receivable and payable, pledged time deposits, short-term borrowings, short-term bills payable, notes and accounts payable because of the short maturities of these instruments;

- b. Short-term investments—based on market quotations;
- c. Long-term investments with quoted market prices—based on the average closing price in December;
- d. Refundable deposits and guarantee deposits—based on their carrying amounts;
- e. Bonds payable—based on the over-the-counter quotation;
- f. Long-term bank loans—based on the discounted present value of expected cash flows. Since the Corporation's long-term loans had floating interest rates, their fair value was equivalent to book value.
- g. Interest rate swap contracts—based on the evaluation result provided by banks.

The fair values shown above did not include the fair values of certain financial instruments and all nonfinancial instruments. Thus, the aggregate fair values presented did not represent the underlying fair value of the Corporation and its subsidiaries.

## 28. ADDITIONAL DISCLOSURES

Following were the additional disclosures required by the Securities and Futures Commission for the Corporation and its investees:

According to the principle on materiality, only item a. to d. should be disclosed, if (a) investees' individual total assets or total operating revenues are less than 10% of those of the Corporation) or (b) the investees' personnel, finance or operation is directly or indirectly controlled by the Corporation.

- a. Financing provided: None
- b. Endorsement/guarantee provided: Table 1 (attached)
- c. Marketable securities held: Table 2 (attached)
- d. Marketable securities acquired and disposed of at costs or prices of at least \$100 million or 20% of the paid-in capital: Table 3 (attached)
- e. Acquisition of individual real estate at costs of at least \$100 million or 20% of the paid-in capital: None
- f. Disposal of individual real estate at prices of at least \$100 million or 20% of the paid-in capital: None
- g. Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 4 (attached)
- h. Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 5 (attached)
- i. Names, locations, and related information of investees on which the Corporation exercised significant influence: Table 6 (attached)
- j. Derivative transactions

The Corporation entered into interest rate swap (IRS) contracts in December 2002 to hedge fluctuation on floating interest rates of bonds, which are settled semiannually. The related information is as follows:

1) Contract amount and credit risk

| <u>Financial Instrument</u>  | <u>Terms</u>   | <u>Contract Amount</u> | <u>Credit Risk</u> |
|------------------------------|--|------------------------|--------------------|
| Interest rate swap contracts | Floating interest rate in exchange for fixed interest rates of 2.25% and 2.45% | \$ 4,500,000           | -                  |
|                              | Floating interest rate in exchange for fixed interest rate of 2.45%            | 3,000,000              | -                  |

The Corporation entered into IRS contracts to hedge interest rate fluctuations. For the year ended December 31, 2003, the gain on the IRS contracts was \$148,118 thousand, recorded as a deduction from interest expense.

## 2) Market risk

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 and cash flow risk and uncertainty of future cash demand

The Corporation entered into IRS transactions to hedge cash flow risks. Because the IRS contracts are settled at net amounts, the expected cash demand is insignificant. The Corporation has sufficient operating capital to meet cash demand.

## 4) The purpose of derivative financial instruments held or issued and the strategies to meet the purpose

The Corporation uses IRS contracts to hedge fluctuation on its liabilities with floating interest rates. The overall purpose of these contracts is to hedge the Corporation's exposure to cash flow risks. The Corporation uses interest rate swaps to hedge interest rate fluctuation risk and periodically evaluates the effectiveness of the hedging instruments.

k. Investment in Mainland China: None

## 29. SEGMENT INFORMATION

## a. Industry information

The Corporation and its subsidiaries primarily engage in the wireless communications service and wholesale and retailing of Telecommunication equipment, so the industry segments are classified into the telecommunication segment and sale segment. Under Statement of Financial Accounting Standards (SFAS) No. 20, "Disclosure of Segment Financial Information," industry information need not be disclosed because the net income (loss) on the sale segment was less than 10% of the total segment income (loss).

## b. Geographic information

The Corporation and subsidiaries have no revenue from overseas operations.

## c. Export sales

None.

## d. Customers with revenues exceeding 10% of the total revenues are as follows:

| Company                    | 2003          |                            | 2002          |                            |
|----------------------------|---------------|----------------------------|---------------|----------------------------|
|                            | Amount        | % of Net Operating Revenue | Amount        | % of Net Operating Revenue |
| Chunghwa Telecom Co., Ltd. | \$ 12,795,935 | 21                         | \$ 14,325,025 | 25                         |

## TAIWAN CELLULAR CORPORATION AND SUBSIDIARIES

ENDORSEMENT/GUARANTEE PROVIDED  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(Amounts in Thousands of New Taiwan Dollars)

| No. | Endorsement/<br>Guarantee Provider | Counter-party                     |                               | Limits on Each<br>Counter-party's<br>Endorsement/<br>Guarantee Amount<br>(Note) | Maximum<br>Balance for the Period | Ending Balance | Value of Collateral | Ratio of Accumulated Amount<br>of Collateral to Net Equity<br>shown in the Latest Financial<br>Statements | Maximum<br>Collateral/Guarantee<br>Amounts Allowable<br>(Note) |
|-----|------------------------------------|-----------------------------------|-------------------------------|---|-----------------------------------|----------------|---------------------|---|--|
|     |                                    | Name                              | Nature of Relationship (Note) |   |                                   |                |                     |   |  |
| 0   | TCC                                | TransAsia Telecommunications Inc. | Subsidiary                    | \$ 12,298,372   | \$ 4,500,000                      | \$ -           | \$ -                | -   | \$ 69,190,766  |

Note: Under the Regulation No. 12 of the "Procedures for Endorsement/Guarantee and Lending of Funds," the Corporation limits the endorsement/guarantee amount for each subsidiary within the net value of the Corporation, and the endorsement/guarantee amount for each counter-party should not exceed the amount of the Corporation's investment in the counter party.

## TAIWAN CELLULAR CORPORATION AND SUBSIDIARIES

## MARKETABLE SECURITIES HELD

DECEMBER 31, 2003

(Amounts in Thousands of New Taiwan Dollars)

| Held Company Name               | Marketable Securities                               | Relationship with the Company                 | Financial Statement Account | December 31, 2003  |                |                         |  | Note   |
|---------------------------------|---|---|-----------------------------|--------------------|----------------|-------------------------|--|--------|
|                                 |   |   |                             | Shares (Thousands) | Carrying Value | Percentage of Ownership | Market Value or Net Asset Value (Note 1) |        |
| TCC                             | <u>Beneficiary certificates</u>                     |   |                             |                    |                |                         |  |        |
|                                 | Fubon OTC Mutual Funds                              | -   | Short-term investments      | 10,000             | \$ 100,300     | -                       | \$ 40,800                                | Note 3 |
|                                 | International Golden Dragon Mutual Funds            | -   | Short-term investments      | 5,000              | 50,000         | -                       | 26,250                                   | Note 2 |
|                                 | <u>Stocks</u>                                       |   |                             |                    |                |                         |  |        |
|                                 | Taihsing Den Den Co., Ltd.                          | Subsidiary                                    | Long-term investments       | 44,299             | 1,526,803      | 99.99                   | 1,673,977                                | Note 6 |
|                                 | Taiwan Fixed Network Co., Ltd.                      | Equity-method investee                        | Long-term investments       | 300,000            | 2,869,367      | 3.25                    | 3,081,155                                |        |
|                                 | T & M Investment Co., Ltd.                          | Subsidiary                                    | Long-term investments       | 78,050             | 6,370,748      | 99.99                   | 5,732,820                                |        |
|                                 | TransAsia Telecommunications Inc.                   | Subsidiary                                    | Long-term investments       | 517,356            | 12,569,285     | 78.87                   | 6,967,162                                | Note 6 |
|                                 | Taiwan Telecom (Aust) Pty Ltd.                      | Subsidiary                                    | Long-term investments       | 4,800              | 104,238        | 60.00                   | 104,238                                  |        |
|                                 | Sunnet Co., Ltd.                                    | -   | Long-term investments       | 500                | 2,591          | 2.21                    | -  | Note 5 |
|                                 | WEB Point Co., Ltd.                                 | -   | Long-term investments       | 1,500              | 20,509         | 3.76                    | 10,298                                   |        |
|                                 | Chunghwa Telecom Co., Ltd.                          | -   | Short-term investments      | 375,000            | 17,394,707     | 3.89                    | 18,355,125                               | Note 3 |
|                                 | <u>Subscription certificate</u>                     |   |                             |                    |                |                         |  |        |
|                                 | Tai Hung Investment Ltd.                            | Subsidiary                                    | Long-term investments       | -                  | 1,590,164      | 99.99                   | 2,087,086                                |        |
|                                 | Tai Fu Investment Ltd.                              | Subsidiary                                    | Long-term investments       | -                  | 782,688        | 99.99                   | 783,175                                  |        |
|                                 | Tai Hsuo Investment Ltd.                            | Subsidiary                                    | Long-term investments       | -                  | 499,488        | 99.99                   | 539,547                                  |        |
|                                 | T.I. Investment Ltd.                                | Subsidiary                                    | Long-term investments       | -                  | 432,540        | 99.99                   | 432,540                                  |        |
| T & M Investment Co., Ltd.      | <u>Stocks</u>                                       |   |                             |                    |                |                         |  |        |
|                                 | TransAsia Telecommunications Inc.                   | Subsidiary                                    | Long-term investments       | 88,239             | 1,429,233      | 13.45                   | 1,188,288                                |        |
|                                 | Taiwan Fixed Network Co., Ltd.                      | Equity-method investee                        | Long-term investments       | 600,000            | 3,992,375      | 6.51                    | 6,162,310                                |        |
|                                 | Parawin Venture Capital Corp.                       | -   | Long-term investments       | 3,000              | 30,000         | 3.00                    | 29,520                                   |        |
| Taihsing Den Den Co., Ltd.      | <u>Stocks</u>                                       |   |                             |                    |                |                         |  |        |
|                                 | Taiwan Tele-Shop Co., Ltd.                          | Subsidiary                                    | Long-term investments       | 95,536             | 1,463,589      | 50.02                   | 1,268,826                                | Note 6 |
|                                 | Arcoa Communication Co., Ltd.                       | -   | Long-term investments       | 5,225              | 50,000         | 3.89                    | -  | Note 5 |
|                                 | Taiwan Index Co., Ltd.                              | Affiliate                                     | Long-term investments       | 5,000              | 47,501         | 20.00                   | 46,131                                   |        |
| Taiwan Tele-Shop Co., Ltd.      | <u>Beneficiary certificates</u>                     |   |                             |                    |                |                         |  |        |
|                                 | Prudential Well Pool Bond Fund                      | -   | Short-term investments      | 16,820             | 200,000        | -                       | 202,587                                  | Note 2 |
|                                 | ABN AMRO Select Bond Fund                           | -   | Short-term investments      | 5,526              | 60,000         | -                       | 60,153                                   | Note 2 |
|                                 | JF (Taiwan) First Bond Fund                         | -   | Short-term investments      | 4,099              | 60,000         | -                       | 60,080                                   | Note 2 |
|                                 | NITC Bond Fund                                      | -   | Short-term investments      | 699                | 110,042        | -                       | 110,271                                  | Note 2 |
|                                 | President James Bond Fund                           | -   | Short-term investments      | 8,122              | 120,000        | -                       | 120,339                                  | Note 2 |
|                                 | Shinkong Chi-Shin Fund                              | -   | Short-term investments      | 4,377              | 60,068         | -                       | 60,229                                   | Note 2 |
|                                 | Shinkong Chi-Shun Fund                              | -   | Short-term investments      | 12,798             | 180,117        | -                       | 180,540                                  | Note 2 |
|                                 | Capital Cash Reserves Fund                          | -   | Short-term investments      | 8,054              | 90,000         | -                       | 90,206                                   | Note 2 |
|                                 | International The Increment Fund                    | -   | Short-term investments      | 10,290             | 150,000        | -                       | 150,200                                  | Note 2 |
|                                 | <u>Stocks</u>                                       |   |                             |                    |                |                         |  |        |
|                                 | Taiwan Cellular Corporation                         | Parent company                                | Short-term investments      | 4,575              | 163,109        | -                       | 134,581                                  | Note 6 |
|                                 | The Tele-World Shop Pte Ltd.                        | Indirect investee under Corporation's control | Long-term investments       | 3,000              | 95,372         | 100.00                  | 95,372                                   |        |
|                                 | Taiwan Fixed Network Co., Ltd.                      | Equity-method investee                        | Long-term investments       | 7,000              | 67,012         | 0.08                    | 71,894                                   |        |
| Transportation High Tech Inc.   | -   | Long-term investments                         | 1,200                       | 6,772              | 12.00          | -                       | Note 5                                   |        |
| Taiwan Index Co., Ltd.          | <u>Beneficiary certificates</u>                     |   |                             |                    |                |                         |  |        |
|                                 | Prudential Well Pool Fund                           | -   | Short-term investments      | 2,543              | 30,000         | -                       | 30,634                                   | Note 2 |
|                                 | ABN AMRO Bond Fund                                  | -   | Short-term investments      | 2,815              | 40,000         | -                       | 40,730                                   | Note 2 |
|                                 | The First Global Investment Trust Wan Tai Bond Fund | -   | Short-term investments      | 2,273              | 30,000         | -                       | 30,554                                   | Note 2 |
| Tai Hung Investment Ltd.        | <u>Stocks</u>                                       |   |                             |                    |                |                         |  |        |
| Howin Technologies Holding Ltd. | Affiliate   | Long-term investments                         | 150,000                     | 1,715,547          | 25.00          | 1,802,177               |  |        |

(Continued)

| Held Company Name                            | Marketable Securities                               | Relationship with the Company | Financial Statement Account | December 31, 2003  |                |                         |  | Note   |
|--|---|-------------------------------|-----------------------------|--------------------|----------------|-------------------------|--|--------|
|  |   |                               |                             | Shares (Thousands) | Carrying Value | Percentage of Ownership | Market Value or Net Asset Value (Note 1) |        |
| Howin Technologies Co., Ltd.                 | <u>Beneficiary certificates</u>                     |                               |                             |                    |                |                         |  |        |
|  | ABN AMRO Kwang Hua Bond Fund                        | -                             | Short-term investments      | 5,171              | \$ 74,200      | -                       | \$ 74,828                                | Note 2 |
|  | Fubon Ju-I III Fund                                 | -                             | Short-term investments      | 38,650             | 449,484        | -                       | 453,478                                  | Note 2 |
|  | Capital Cash Reserves Fund                          | -                             | Short-term investments      | 13,377             | 147,826        | -                       | 149,808                                  | Note 2 |
|  | Dresdner Bond Dam Fund                              | -                             | Short-term investments      | 3,340              | 36,875         | -                       | 37,034                                   | Note 2 |
|  | Polaris De-Li Fund                                  | -                             | Short-term investments      | 9,404              | 135,712        | -                       | 136,399                                  | Note 2 |
|  | The First Global Investment Trust Wan Tai Bond Fund | -                             | Short-term investments      | 1,171              | 15,664         | -                       | 15,731                                   | Note 2 |
|  | <u>Stocks</u>                                       |                               |                             |                    |                |                         |  |        |
|  | Chunghwa Telecom Co., Ltd.                          | -                             | Short-term investments      | 8,600              | 398,919        | 0.09                    | 420,944                                  | Note 3 |
|  | Taiwan Cellular Corporation                         | Parent company                | Short-term investments      | 13,017             | 403,532        | 0.28                    | 382,930                                  | Note 3 |
|  | Taiwan Fixed network Co., Ltd.                      | Equity-method investee        | Long-term investments       | 4,000              | 16,800         | 0.04                    | 37,878                                   |        |
|  | Great Taipei Broadband Co., Ltd.                    | -                             | Long-term investments       | 5,000              | 50,000         | 3.33                    | 46,752                                   |        |
|  | Transportation High Tech Inc.                       | -                             | Long-term investments       | 1,200              | 6,772          | 12.00                   | -  | Note 5 |
|  | Taiwan Elitec Corporation                           | Subsidiary                    | Long-term investments       | 10,000             | 126,298        | 20.00                   | 144,041                                  |        |
|  | Taiwan Teleservices & Technologies Co., Ltd.        | Subsidiary                    | Long-term investments       | 16,000             | 200,364        | 20.00                   | 203,051                                  |        |
|  | Taiwan Index Co., Ltd.                              | Affiliate                     | Long-term investments       | 5,000              | 48,305         | 20.00                   | 46,131                                   |        |
|  | Taiwan Infotainment Co., Ltd.                       | Subsidiary                    | Long-term investments       | 25,000             | 178,245        | 25.00                   | 178,245                                  |        |
|  | e-Post Inc.   | -                             | Long-term investments       | 794                | 3,767          | 31.75                   | 3,767                                    |        |
|  | Reach & Range Inc.                                  | Affiliate                     | Long-term investments       | 6,002              | 53,973         | 54.56                   | 49,113                                   |        |
| Reach & Range Inc.                           | <u>Beneficiary certificates</u>                     |                               |                             |                    |                |                         |  |        |
|  | JF (Taiwan) Bond Fund                               | -                             | Short-term investments      | 415                | 6,000          | -                       | 6,081                                    | Note 2 |
|  | Fubon Ju-I III Fund                                 | -                             | Short-term investments      | 604                | 7,051          | -                       | 7,058                                    | Note 2 |
|  | Capital Cash Reserves Fund                          | -                             | Short-term investments      | 1,361              | 15,000         | -                       | 15,244                                   | Note 2 |
|  | Capital Safe Income Fund                            | -                             | Short-term investments      | 142                | 2,000          | -                       | 2,009                                    | Note 2 |
|  | UBS Taiwan Bond Fund                                | -                             | Short-term investments      | 71                 | 1,000          | -                       | 1,015                                    | Note 2 |
|  | UBS Soaring Eagle Bond Fund                         | -                             | Short-term investments      | 485                | 5,000          | -                       | 5,063                                    | Note 2 |
|  | NITC Taiwan Bond Fund                               | -                             | Short-term investments      | 375                | 5,000          | -                       | 5,057                                    | Note 2 |
| T.I. Investments Ltd.                        | <u>Stocks</u>                                       |                               |                             |                    |                |                         |  |        |
|  | Taiwan Infotainment Co., Ltd.                       | Subsidiary                    | Long-term investments       | 60,000             | 427,788        | 60.00                   | 427,788                                  |        |
| Tai Fu Investment Ltd.                       | <u>Stocks</u>                                       |                               |                             |                    |                |                         |  |        |
|  | Taiwan Teleservices & Technologies Co., Ltd.        | Subsidiary                    | Long-term investments       | 52,000             | 651,186        | 65.00                   | 659,916                                  |        |
| Taiwan Teleservices & Technologies Co., Ltd. | <u>Beneficiary certificates</u>                     |                               |                             |                    |                |                         |  |        |
|  | Prudential Well Pool Fund                           | -                             | Short-term investments      | 8,514              | 100,825        | -                       | 102,546                                  | Note 2 |
|  | Capital Cash Reserves Fund                          | -                             | Short-term investments      | 8,191              | 90,000         | -                       | 91,733                                   | Note 2 |
|  | Fubon Ju-I III Fund                                 | -                             | Short-term investments      | 4,368              | 50,422         | -                       | 51,243                                   | Note 2 |
|  | International The Increment Fund                    | -                             | Short-term investments      | 6,218              | 90,000         | -                       | 90,757                                   | Note 2 |
|  | President James Bond Fund                           | -                             | Short-term investments      | 2,035              | 30,000         | -                       | 30,157                                   | Note 2 |
| Tai Hsuo Investment Ltd.                     | <u>Stocks</u>                                       |                               |                             |                    |                |                         |  |        |
|  | Taiwan Elitec Corporation                           | Subsidiary                    | Long-term investments       | 32,500             | 458,634        | 65.00                   | 468,134                                  |        |
| Taiwan Elitec Corporation                    | <u>Beneficiary certificates</u>                     |                               |                             |                    |                |                         |  |        |
|  | Capital Cash Reserves Fund                          | -                             | Short-term investments      | 13,767             | 151,099        | -                       | 154,184                                  | Note 2 |
|  | Prudential Well Pool Bond Fund                      | -                             | Short-term investments      | 13,870             | 165,580        | -                       | 167,053                                  | Note 2 |
|  | <u>Stocks</u>                                       |                               |                             |                    |                |                         |  |        |
| Taiwan Fixed Network Co., Ltd.               | Equity-method investee                              | Long-term investments         | 10,000                      | 40,454             | 0.11           | 102,705                 |  |        |
| TransAsia Telecommunications Inc.            | <u>Stocks</u>                                       |                               |                             |                    |                |                         |  |        |
|  | Howin Technologies Co., Ltd.                        | Affiliate                     | Long-term investments       | 15,000             | 164,192        | 2.50                    | 180,218                                  |        |
|  | Chunghwa Telecom Co., Ltd.                          | -                             | Short-term investments      | 60,000             | 2,783,113      | 0.62                    | 2,936,820                                | Note 3 |
| Taiwan Telecom (Aust) Pty Ltd.               | <u>Stocks</u>                                       |                               |                             |                    |                |                         |  |        |
|  | Supreme-Tech (Aust) Pty Ltd.                        | Subsidiary                    | Long-term investments       | -                  | -              | 100.00                  | -  |        |
| Taiwan Fixed Network Co., Ltd.               | <u>Beneficiary certificates</u>                     |                               |                             |                    |                |                         |  |        |
|  | Fubon Ju-I II Fund                                  | -                             | Short-term investments      | 17,930             | 250,000        | -                       | 250,185                                  | Note 2 |

(Continued)

| Held Company Name                     | Marketable Securities                               | Relationship with the Company | Financial Statement Account | December 31, 2003  |                |                         |  | Note   |
|---------------------------------------|---|-------------------------------|-----------------------------|--------------------|----------------|-------------------------|--|--------|
|                                       |   |                               |                             | Shares (Thousands) | Carrying Value | Percentage of Ownership | Market Value or Net Asset Value (Note 1) |        |
|                                       | Fubon Ju-I III Fund                                 | -                             | Short-term investments      | 8,984              | \$ 104,735     | -                       | \$ 105,408                               | Note 2 |
|                                       | The First Global Investment Trust Wan Tai Bond Fund | -                             | Short-term investments      | 16,661             | 223,511        | -                       | 223,923                                  | Note 2 |
|                                       | International The Increment Fund                    | -                             | Short-term investments      | 54,741             | 792,000        | -                       | 799,028                                  | Note 2 |
|                                       | Capital Cash Reserves Fund                          | -                             | Short-term investments      | 4,532              | 50,000         | -                       | 50,755                                   | Note 2 |
|                                       | ABN AMRO Income Fund                                | -                             | Short-term investments      | 2,655              | 40,000         | -                       | 40,056                                   | Note 2 |
|                                       | ABN AMRO Select Bond Fund                           | -                             | Short-term investments      | 5,518              | 60,000         | -                       | 60,066                                   | Note 2 |
|                                       | Prudential Well Pool Fund                           | -                             | Short-term investments      | 78,124             | 933,835        | -                       | 940,961                                  | Note 2 |
|                                       | President James Bond Fund                           | -                             | Short-term investments      | 81,809             | 1,206,500      | -                       | 1,212,176                                | Note 2 |
|                                       | NITC Bond Fund                                      | -                             | Short-term investments      | 6,965              | 1,094,690      | -                       | 1,098,845                                | Note 2 |
|                                       | <u>Stocks</u>                                       |                               |                             |                    |                |                         |  |        |
|                                       | Howin Technologies Co., Ltd.                        | Affiliate                     | Long-term investments       | 399,999            | 3,764,407      | 66.67                   | 4,806,045                                |        |
|                                       | Taiwan Cellular Corporation                         | Parent company                | Long-term investments       | 900,353            | 31,087,128     | 19.52                   | 26,488,378                               |        |
|                                       | TFN Investment Co., Ltd.                            | Affiliate                     | Long-term investments       | 2,000,000          | 20,717,219     | 100.00                  | 20,740,695                               |        |
|                                       | Taiwan Hong-Yuan Investment Co., Ltd.               | Affiliate                     | Long-term investments       | 1,000,000          | 10,314,915     | 100.00                  | 10,325,584                               |        |
|                                       | Taiwan Telecom (Aust) Pty Ltd.                      | Subsidiary                    | Long-term investments       | 3,200              | 69,492         | 40.00                   | 69,492                                   |        |
|                                       | TFN US Ltd.   | Affiliate                     | Long-term investments       | 430                | 14,110         | 100.00                  | 14,110                                   |        |
|                                       | TFN HK Ltd.   | Affiliate                     | Long-term investments       | 1,299              | 5,091          | 99.99                   | 5,091                                    |        |
|                                       | Taiwan High-Speed Rail Corp.                        | -                             | Long-term investments       | 276,600            | 2,766,000      | 5.53                    | 2,643,909                                |        |
|                                       | <u>Bonds</u>  |                               |                             |                    |                |                         |  |        |
|                                       | TCC 1st domestic convertible bond                   | Parent company                | Short-term investments      | 15,690 units       | 1,569,000      | -                       | 1,867,581                                | Note 4 |
| TFN Investment Co., Ltd.              | <u>Beneficiary certificates</u>                     |                               |                             |                    |                |                         |  |        |
|                                       | Fubon Ju-I III Fund                                 | -                             | Short-term investments      | 8,759              | 101,182        | -                       | 102,764                                  | Note 2 |
|                                       | Prudential Well Pool Fund                           | -                             | Short-term investments      | 13,479             | 160,000        | -                       | 162,343                                  | Note 2 |
|                                       | Capital Cash Reserves Fund                          | -                             | Short-term investments      | 9,122              | 100,000        | -                       | 102,158                                  | Note 2 |
|                                       | NITC Bond Fund                                      | -                             | Short-term investments      | 1,271              | 200,027        | -                       | 200,568                                  | Note 2 |
|                                       | President James Bond Fund                           | -                             | Short-term investments      | 13,567             | 200,000        | -                       | 201,017                                  | Note 2 |
|                                       | Fubon Ju-I II Fund                                  | -                             | Short-term investments      | 17,928             | 250,000        | -                       | 250,152                                  | Note 2 |
|                                       | <u>Stocks</u>                                       |                               |                             |                    |                |                         |  |        |
|                                       | Taiwan Cellular Corporation                         | Parent company                | Long-term investments       | 467,821            | 16,337,890     | 10.14                   | 13,763,307                               | Note 3 |
|                                       | Fubon Financial Holding Co., Ltd.                   | Related party in substance    | Short-term investments      | 53,293             | 1,440,677      | 0.64                    | 1,724,557                                | Note 3 |
|                                       | Chunghwa Telecom Co., Ltd.                          | -                             | Short-term investments      | 33,000             | 1,530,734      | 0.34                    | 1,615,350                                | Note 3 |
|                                       | Taiwan Index Co., Ltd.                              | Affiliate                     | Long-term investments       | 6,250              | 57,664         | 25.00                   | 57,663                                   |        |
|                                       | Great Taipei Broadband Co., Ltd.                    | -                             | Long-term investments       | 5,000              | 50,000         | 3.33                    | 46,752                                   |        |
|                                       | CTS Digi-Tech Co., Ltd.                             | Affiliate                     | Long-term investments       | 6,000              | 59,389         | 60.00                   | 59,388                                   |        |
| Taiwan Hong-Yuan Investment Co., Ltd. | <u>Beneficiary certificates</u>                     |                               |                             |                    |                |                         |  |        |
|                                       | Capital Cash Reserves Fund                          | -                             | Short-term investments      | 17,061             | 187,000        | -                       | 191,074                                  | Note 2 |
|                                       | Fubon Ju-I III Fund                                 | -                             | Short-term investments      | 3,859              | 45,045         | -                       | 45,284                                   | Note 2 |
|                                       | International The Increment Fund                    | -                             | Short-term investments      | 6,877              | 100,000        | -                       | 100,385                                  | Note 2 |
|                                       | President James Bond Fund                           | -                             | Short-term investments      | 8,822              | 130,007        | -                       | 130,721                                  | Note 2 |
|                                       | Fubon Ju-I II Fund                                  | -                             | Short-term investments      | 10,757             | 150,000        | -                       | 150,091                                  | Note 2 |
|                                       | <u>Stocks</u>                                       |                               |                             |                    |                |                         |  |        |
|                                       | Taiwan Cellular Corporation                         | Parent company                | Long-term investments       | 163,304            | 5,114,755      | 3.54                    | 4,804,390                                | Note 3 |
|                                       | Fubon Financial Holding Co., Ltd.                   | Related party in substance    | Short-term investments      | 36,646             | 917,955        | 0.44                    | 1,185,862                                | Note 3 |
|                                       | Chunghwa Telecom Co., Ltd.                          | -                             | Short-term investments      | 42,000             | 1,948,204      | 0.44                    | 2,055,900                                | Note 3 |
|                                       | <u>Preferred stock</u>                              |                               |                             |                    |                |                         |  |        |
|                                       | Taiwan High-Speed Rail Corp.                        | -                             | Long-term investments       | 50,000             | 500,000        | -                       | -  |        |
|                                       | <u>Bonds</u>  |                               |                             |                    |                |                         |  |        |
|                                       | TCC 2nd domestic convertible bond                   | Parent company                | Short-term investments      | 10,028 units       | 1,002,800      | -                       | 1,154,123                                | Note 4 |

Note 1: Based on the net asset value of the latest financial statements, unless specified otherwise.

Note 2: Based on the net asset value of the fund as of December 31, 2003.

Note 3: Based on the average closing price in December 2003.

Note 4: Based on the OTC average closing price in December 2003.

Note 5: As of January 19, 2004, the date of the accompanying auditor's report, the net values of these investees were unavailable.

Note 6: The transactions between the Corporation and subsidiaries had been reconciled.



## TAIWAN CELLULAR CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION  
OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(Amounts in Thousands of New Taiwan Dollars)

| Company Name                      | Marketable Securities Type and Name          | Financial Statement Account     | Counter-party | Nature of Relationship | Beginning Balance  |            | Acquisition        |            | Disposal           |              |                |                         | Ending Balance     |         |  |
|-----------------------------------|--|---------------------------------|---------------|------------------------|--------------------|------------|--------------------|------------|--------------------|--------------|----------------|-------------------------|--------------------|---------|--|
|                                   |  |                                 |               |                        | Shares (Thousands) | Amount     | Shares (Thousands) | Amount     | Shares (Thousands) | Amount       | Carrying Value | Gain (Loss) on Disposal | Shares (Thousands) | Amount  |  |
| The Corporation                   | <u>Beneficiary certificates</u>              |                                 |               |                        |                    |            |                    |            |                    |              |                |                         |                    |         |  |
|                                   | The First Global Investment Trust            | Short-term investments          | -             | -                      | 68,092             | \$ 900,000 | 7,495              | \$ 100,000 | 75,587             | \$ 1,003,670 | \$ 1,000,000   | \$ 3,670                | -                  | \$ -    |  |
|                                   | Wan Tai Bond Fund                            |                                 |               |                        |                    |            |                    |            |                    |              |                |                         |                    |         |  |
|                                   | ABN AMRO Bond Fund                           | Short-term investments          | -             | -                      | 21,090             | 300,000    | 62,926             | 900,000    | 84,016             | 1,202,943    | 1,200,000      | 2,943                   | -                  | -       |  |
|                                   | ABN AMRO Select Bond Fund                    | Short-term investments          | -             | -                      | 18,693             | 200,000    | 65,016             | 700,000    | 83,709             | 902,032      | 900,000        | 2,032                   | -                  | -       |  |
|                                   | Fubon Ju-I Fund                              | Short-term investments          | -             | -                      | -                  | -          | 33,234             | 500,000    | 33,234             | 501,718      | 500,000        | 1,718                   | -                  | -       |  |
|                                   | Fubon Ju-I III Fund                          | Short-term investments          | -             | -                      | 78,131             | 900,000    | 17,169             | 200,000    | 95,300             | 1,108,543    | 1,100,000      | 8,543                   | -                  | -       |  |
|                                   | Fubon Ju-I II Fund                           | Short-term investments          | -             | -                      | 72,914             | 1,000,000  | -                  | -          | 72,914             | 1,000,627    | 1,000,000      | 627                     | -                  | -       |  |
|                                   | The GP ROC Bond Fund                         | Short-term investments          | -             | -                      | 63,904             | 900,000    | 14,074             | 200,000    | 77,978             | 1,103,609    | 1,100,000      | 3,609                   | -                  | -       |  |
|                                   | Prudential Well Pool Fund                    | Short-term investments          | -             | -                      | 67,695             | 800,000    | 50,415             | 600,000    | 118,110            | 1,404,934    | 1,400,000      | 4,934                   | -                  | -       |  |
|                                   | Dresdner Dam Bond Fund                       | Short-term investments          | -             | -                      | 27,518             | 300,000    | 36,468             | 400,000    | 63,986             | 701,906      | 700,000        | 1,906                   | -                  | -       |  |
|                                   | JF (Taiwan) First Bond Fund                  | Short-term investments          | -             | -                      | 22,549             | 300,000    | 37,459             | 500,000    | 60,008             | 801,817      | 800,000        | 1,817                   | -                  | -       |  |
|                                   | JF (Taiwan) Bond Fund                        | Short-term investments          | -             | -                      | 13,863             | 200,000    | 20,707             | 300,000    | 34,570             | 501,364      | 500,000        | 1,364                   | -                  | -       |  |
|                                   | Capital Cash Reserves Fund                   | Short-term investments          | -             | -                      | 18,252             | 200,000    | 9,105              | 100,000    | 27,357             | 301,568      | 300,000        | 1,568                   | -                  | -       |  |
| Shinkong Chi-Shun Fund            | Short-term investments                       | -                               | -             | -                      | -                  | 7,145      | 100,000            | 7,145      | 100,245            | 100,000      | 245            | -                       | -                  |         |  |
| Howin Technologies Co., Ltd.      | <u>Beneficiary certificates</u>              |                                 |               |                        |                    |            |                    |            |                    |              |                |                         |                    |         |  |
|                                   | The First Global Investment Trust            | Short-term investments          | -             | -                      | 18,918             | 250,057    | 26,246             | 350,000    | 43,993             | 585,641      | 584,393        | 1,248                   | 1,171              | 15,664  |  |
|                                   | Wan Tai Bond Fund                            |                                 |               |                        |                    |            |                    |            |                    |              |                |                         |                    |         |  |
|                                   | JF (Taiwan) First Bond Fund                  | Short-term investments          | -             | -                      | 33,013             | 439,412    | -                  | -          | 33,013             | 439,832      | 439,412        | 420                     | -                  | -       |  |
|                                   | Prudential Well Pool Fund                    | Short-term investments          | -             | -                      | 41,405             | 489,319    | 118,117            | 1,404,400  | 159,522            | 1,898,933    | 1,893,719      | 5,214                   | -                  | -       |  |
|                                   | ABN AMRO Kwang Hua Bond Fund                 | Short-term investments          | -             | -                      | 15,382             | 218,962    | 56,738             | 813,500    | 66,949             | 959,756      | 958,262        | 1,494                   | 5,171              | 74,200  |  |
|                                   | Fubon Ju-I III Fund                          | Short-term investments          | -             | -                      | 39,152             | 451,302    | 128,843            | 1,495,800  | 129,345            | 1,499,826    | 1,497,618      | 2,208                   | 38,650             | 449,484 |  |
|                                   | The GP ROC Bond Fund                         | Short-term investments          | -             | -                      | 7,102              | 100,021    | 24,673             | 350,000    | 31,775             | 450,843      | 450,021        | 822                     | -                  | -       |  |
|                                   | Capital Cash Reserves Fund                   | Short-term investments          | -             | -                      | 16,384             | 179,671    | 13,391             | 148,000    | 16,398             | 180,500      | 179,845        | 655                     | 13,377             | 147,826 |  |
|                                   | Polaris De-Li Fund                           | Short-term investments          | -             | -                      | -                  | -          | 65,601             | 943,914    | 56,197             | 809,866      | 808,202        | 1,664                   | 9,404              | 135,712 |  |
|                                   | NITC Bond Fund                               | Short-term investments          | -             | -                      | -                  | -          | 1,274              | 200,000    | 1,274              | 200,327      | 200,000        | 327                     | -                  | -       |  |
|                                   | Barits Bond Fund                             | Short-term investments          | -             | -                      | -                  | -          | 17,197             | 200,000    | 17,197             | 200,683      | 200,000        | 683                     | -                  | -       |  |
|                                   | Dresdner Dam Bond Fund                       | Short-term investments          | -             | -                      | -                  | -          | 18,118             | 200,000    | 14,778             | 163,660      | 163,125        | 535                     | 3,340              | 36,875  |  |
|                                   | Shinkong Chi-Shin Fund                       | Short-term investments          | -             | -                      | -                  | -          | 14,607             | 200,000    | 14,607             | 200,940      | 200,000        | 940                     | -                  | -       |  |
|                                   | <u>Stocks</u>                                |                                 |               |                        |                    |            |                    |            |                    |              |                |                         |                    |         |  |
|                                   | Chunghwa Telecom Co., Ltd.                   | Short-term investments          | -             | -                      | 50,000             | 2,515,000  | -                  | -          | 41,400             | 2,068,423    | 2,116,081      | ( 13,997)               | 8,600              | 398,919 |  |
|                                   |  |                                 |               |                        |                    |            |                    |            |                    |              |                | (Note 1)                |                    |         |  |
|                                   | Taiwan Teleservices & Technologies Co., Ltd. | <u>Beneficiary certificates</u> |               |                        |                    |            |                    |            |                    |              |                |                         |                    |         |  |
|                                   | Prudential Well Pool Fund                    | Short-term investments          | -             | -                      | 6,770              | 80,000     | 9,274              | 110,000    | 7,530              | 90,000       | 89,175         | 825                     | 8,514              | 100,825 |  |
| Taiwan Elitec Corporation         | <u>Beneficiary certificates</u>              |                                 |               |                        |                    |            |                    |            |                    |              |                |                         |                    |         |  |
|                                   | Capital Cash Reserves Fund                   | Short-term investments          | -             | -                      | 9,155              | 100,000    | 9,115              | 100,500    | 4,503              | 50,000       | 49,401         | 599                     | 13,767             | 151,099 |  |
|                                   | Prudential Well Pool Fund                    | Short-term investments          | -             | -                      | 8,475              | 100,000    | 16,269             | 194,500    | 10,874             | 130,000      | 128,920        | 1,080                   | 13,870             | 165,580 |  |
| Fubon Ju-I III Fund               | Short-term investments                       | -                               | -             | -                      | -                  | 11,640     | 135,000            | 11,640     | 135,609            | 135,000      | 609            | -                       | -                  |         |  |
| TransAsia Telecommunications Inc. | <u>Beneficiary certificates</u>              |                                 |               |                        |                    |            |                    |            |                    |              |                |                         |                    |         |  |
|                                   | Prudential Well Pool Fund                    | Short-term investments          | -             | -                      | 30,465             | 359,000    | 13,453             | 160,000    | 43,918             | 524,130      | 519,000        | 5,130                   | -                  | -       |  |
|                                   | The First Global Investment Trust            | Short-term investments          | -             | -                      | 11,384             | 150,000    | 4,497              | 60,000     | 15,881             | 211,353      | 210,000        | 1,353                   | -                  | -       |  |
| Wan Tai Bond Fund                 |  |                                 |               |                        |                    |            |                    |            |                    |              |                |                         |                    |         |  |

(Continued)



| Company Name                          | Marketable Securities Type and Name          | Financial Statement Account | Counter-party | Nature of Relationship | Beginning Balance  |            | Acquisition        |            | Disposal           |            |                |                         | Ending Balance     |                         |
|---------------------------------------|--|-----------------------------|---------------|------------------------|--------------------|------------|--------------------|------------|--------------------|------------|----------------|-------------------------|--------------------|-------------------------|
|                                       |  |                             |               |                        | Shares (Thousands) | Amount     | Shares (Thousands) | Amount     | Shares (Thousands) | Amount     | Carrying Value | Gain (Loss) on Disposal | Shares (Thousands) | Amount                  |
|                                       | Capital Cash Reserves Fund                   | Short-term investments      | -             | -                      | 20,105             | \$ 220,000 | 13,791             | \$ 152,000 | 33,896             | \$ 375,698 | \$ 372,000     | \$ 3,698                | -                  | \$ -                    |
|                                       | Fubon Ju-I III Fund                          | Short-term investments      | -             | -                      | 29,483             | 339,000    | 25,762             | 299,000    | 55,245             | 642,223    | 638,000        | 4,223                   | -                  | -                       |
|                                       | Fubon Millennium Dragon Fund                 | Short-term investments      | -             | -                      | -                  | -          | 44,422             | 500,000    | 44,422             | 500,435    | 500,000        | 435                     | -                  | -                       |
|                                       | <u>Stocks</u>                                |                             |               |                        |                    |            |                    |            |                    |            |                |                         |                    |                         |
|                                       | Chunghwa Telecom Co., Ltd.                   | Short-term investments      | -             | -                      | 75,000             | 3,772,500  | -                  | -          | 15,000             | 776,829    | 695,850        | 80,979                  | 60,000             | \$2,783,113<br>(Note 2) |
|                                       | <u>Bonds</u>                                 |                             |               |                        |                    |            |                    |            |                    |            |                |                         |                    |                         |
| Taiwan Fixed Network Co., Ltd.        | TCC 1st domestic convertible bond            | Short-term investments      | -             | -                      | 30,690 units       | 3,069,000  | -                  | -          | 15,000 units       | 1,762,500  | 1,500,000      | 262,500                 | 15,690 units       | 1,569,000               |
|                                       | <u>Beneficiary certificates</u>              |                             |               |                        |                    |            |                    |            |                    |            |                |                         |                    |                         |
|                                       | Fubon Ju-I II Fund                           | Short-term investments      | -             | -                      | -                  | -          | 17,930             | 250,000    | -                  | -          | -              | -                       | 17,930             | 250,000                 |
|                                       | Fubon Ju-I III Fund                          | Short-term investments      | -             | -                      | -                  | -          | 103,129            | 1,200,000  | 94,145             | 1,100,073  | 1,095,265      | 4,808                   | 8,984              | 104,735                 |
|                                       | The Wan Tai Securities Investment Trust Fund | Short-term investments      | -             | -                      | -                  | -          | 109,962            | 1,468,000  | 93,301             | 1,250,071  | 1,244,489      | 5,582                   | 16,661             | 223,511                 |
|                                       | International The Incerement Fund            | Short-term investments      | -             | -                      | -                  | -          | 54,741             | 792,000    | -                  | -          | -              | -                       | 54,741             | 792,000                 |
|                                       | ABN AMRO Bond Fund                           | Short-term investments      | -             | -                      | -                  | -          | 69,662             | 1,000,000  | 69,662             | 1,003,776  | 1,000,000      | 3,776                   | -                  | -                       |
|                                       | ABN AMRO Select Bond Fund                    | Short-term investments      | -             | -                      | -                  | -          | 51,854             | 560,000    | 46,336             | 502,712    | 500,000        | 2,712                   | 5,518              | 60,000                  |
|                                       | JF (Taiwan) Bond Fund                        | Short-term investments      | -             | -                      | -                  | -          | 41,350             | 600,000    | 41,350             | 603,041    | 600,000        | 3,041                   | -                  | -                       |
|                                       | Prudential Well Pool Fund                    | Short-term investments      | -             | -                      | -                  | -          | 143,529            | 1,714,000  | 65,405             | 785,000    | 780,165        | 4,835                   | 78,124             | 933,835                 |
|                                       | President James Bond Fund                    | Short-term investments      | -             | -                      | -                  | -          | 81,809             | 1,206,500  | -                  | -          | -              | -                       | 81,809             | 1,206,500               |
|                                       | NITC Bond Fund                               | Short-term investments      | -             | -                      | -                  | -          | 13,004             | 2,043,000  | 6,039              | 950,137    | 948,310        | 1,827                   | 6,965              | 1,094,690               |
| TFN Investment Co., Ltd.              | <u>Beneficiary certificates</u>              |                             |               |                        |                    |            |                    |            |                    |            |                |                         |                    |                         |
|                                       | Fubon Ju-I III Fund                          | Short-term investments      | -             | -                      | 17,359             | 200,000    | 4,282              | 50,000     | 12,882             | 150,506    | 148,818        | 1,688                   | 8,759              | 101,182                 |
|                                       | NITC Bond Fund                               | Short-term investments      | -             | -                      | -                  | -          | 1,908              | 300,000    | 637                | 100,000    | 99,973         | 27                      | 1,271              | 200,027                 |
|                                       | President James Bond Fund                    | Short-term investments      | -             | -                      | -                  | -          | 13,567             | 200,000    | -                  | -          | -              | -                       | 13,567             | 200,000                 |
|                                       | Fubon Ju-I II Fund                           | Short-term investments      | -             | -                      | -                  | -          | 17,928             | 250,000    | -                  | -          | -              | -                       | 17,928             | 250,000                 |
| Taiwan Hong-Yuan Investment Co., Ltd. | <u>Beneficiary certificates</u>              |                             |               |                        |                    |            |                    |            |                    |            |                |                         |                    |                         |
|                                       | Fubon Ju-I III Fund                          | Short-term investments      | -             | -                      | 17,359             | 200,000    | 8,568              | 100,000    | 22,068             | 255,424    | 254,955        | 469                     | 3,859              | 45,045                  |
|                                       | International The Incerement Fund            | Short-term investments      | -             | -                      | -                  | -          | 6,877              | 100,000    | -                  | -          | -              | -                       | 6,877              | 100,000                 |
|                                       | Fubon Ju-I II Fund                           | Short-term investments      | -             | -                      | -                  | -          | 10,757             | 150,000    | -                  | -          | -              | -                       | 10,757             | 150,000                 |
|                                       | President James Bond Fund                    | Short-term investments      | -             | -                      | -                  | -          | 9,500              | 140,000    | 678                | 10,000     | 9,993          | 7                       | 8,822              | 130,007                 |
|                                       | <u>Preferred stocks</u>                      |                             |               |                        |                    |            |                    |            |                    |            |                |                         |                    |                         |
| Taiwan Tele-Shop Co., Ltd.            | Taiwan High-Speed Railway Co., Ltd.          | Long-term investments       | -             | -                      | -                  | -          | 50,000             | 500,000    | -                  | -          | -              | -                       | 50,000             | 500,000                 |
|                                       | <u>Beneficiary certificates</u>              |                             |               |                        |                    |            |                    |            |                    |            |                |                         |                    |                         |
|                                       | ABN AMRO Bond Fund                           | Short-term investments      | -             | -                      | 8,436              | 120,000    | -                  | -          | 8,436              | 121,764    | 120,000        | 1,764                   | -                  | -                       |
|                                       | JF (Taiwan) First Bond Fund                  | Short-term investments      | -             | -                      | 9,022              | 120,000    | -                  | -          | 9,022              | 121,781    | 120,000        | 1,781                   | -                  | -                       |
|                                       | International The Incerement Fund            | Short-term investments      | -             | -                      | -                  | -          | 10,290             | 150,000    | -                  | -          | -              | -                       | 10,290             | 150,000                 |
|                                       | President James Bond Fund                    | Short-term investments      | -             | -                      | -                  | -          | 8,122              | 120,000    | -                  | -          | -              | -                       | 8,122              | 120,000                 |
|                                       | Shinkong Chi-Shun Fund                       | Short-term investments      | -             | -                      | -                  | -          | 16,342             | 230,000    | 3,544              | 50,000     | 49,883         | 117                     | 12,798             | 180,117                 |
|                                       | NITC Bond Fund                               | Short-term investments      | -             | -                      | -                  | -          | 826                | 130,000    | 127                | 20,000     | 19,958         | 42                      | 699                | 110,042                 |
|                                       | Shinkong Chi-Shin Fund                       | Short-term investments      | -             | -                      | -                  | -          | 8,744              | 120,000    | 4,367              | 60,000     | 59,932         | 68                      | 4,377              | 60,068                  |

Note 1: Net of cash dividends of \$33,661 thousand.

Note 2: Net of cash dividends of \$293,537 thousand distributed by the investee

## TAIWAN CELLULAR CORPORATION AND SUBSIDIARIES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20%  
OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(Amounts in Thousands of New Taiwan Dollars)

| Company Name                      | Related Party                     | Nature of Relationship | Transaction       |                  | Details    |                            | Abnormal Transaction |               | Notes/Accounts Receivable (Payable) |            | Note |
|-----------------------------------|-----------------------------------|------------------------|-------------------|------------------|------------|----------------------------|----------------------|---------------|-------------------------------------|------------|------|
|                                   |                                   |                        | Purchase/<br>Sale | Amount           | % to Total | Payment Terms              | Unit Price           | Payment Terms | Ending Balance                      | % to Total |      |
| TCC                               | Taiwan Fixed Network Co., Ltd.    | Equity-method investee | Sale              | ( \$ 1,262,221 ) | ( 3 )      | Based on contract terms    | -                    | -             | \$ 78,217                           | 1          |      |
|                                   |                                   |                        | Purchase          | 457,291          | 3          | Based on contract terms    | -                    | -             | -                                   | -          |      |
|                                   | TransAsia Telecommunications Inc. | Subsidiary             | Sale              | ( 1,590,353 )    | ( 4 )      | Based on contract terms    | -                    | -             | 240,443                             | 4          | Note |
|                                   |                                   |                        | Purchase          | 602,013          | 3          | Based on contract terms    | -                    | -             | ( 100,336 )                         | ( 7 )      | Note |
| TransAsia Telecommunications Inc. | Taiwan Cellular Corporation       | Parent company         | Purchase          | 1,615,175        | 28         | 1-2 months after invoicing | -                    | -             | ( 435,051 )                         | ( 49 )     | Note |
|                                   |                                   |                        | Sale              | ( 601,348 )      | ( 5 )      | 1-2 months after invoicing | -                    | -             | 35,207                              | 3          | Note |

Note: The transactions between the Corporation and subsidiaries had been reconciled

## TAIWAN CELLULAR CORPORATION AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
 DECEMBER 31, 2003  
 (Amount in Thousands of New Taiwan Dollars)

| Company Name | Related Party                     | Nature of Relationship | Ending Balance                             | Turnover Rate          | Overdue |              | Amount Received in Subsequent Period | Allowance for Bad Debts |
|--------------|-----------------------------------|------------------------|--|------------------------|---------|--------------|--------------------------------------|-------------------------|
|              |                                   |                        |  |                        | Amount  | Action Taken |                                      |                         |
| TCC          | Taiwan Tele-Shop Co., Ltd.        | Subsidiary             | Accounts receivable \$ 444,479<br>(Note 2) | Not applicable (Note1) | \$ -    | -            | \$ -                                 | \$ -                    |
|              | TransAsia Telecommunications Inc. | Subsidiary             | Accounts receivable 240,443<br>(Note 2)    | 7.59                   | -       | -            | -                                    | -                       |
|              |                                   |                        | Other receivables 273,504<br>(Note 2)      |                        |         |              |                                      |                         |

Note 1: Telecommunication service revenue collected on behalf of the Corporation.

Note 2: The transactions between the Corporation and subsidiaries had been reconciled.

## TAIWAN CELLULAR CORPORATION AND SUBSIDIARIES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE FOR THE YEAR ENDED DECEMBER 31, 2003  
(Amounts in Thousands of New Taiwan Dollars)

| Investor                     | Investee                                     | Location          | Main Businesses and Products  | Original Investment Amount |                   | Balance as of December 31, 2003 |                         |                | Net Income (Loss) of the Investee | Investment Gain (Loss) | Note |
|------------------------------|--|-------------------|---|----------------------------|-------------------|---------------------------------|-------------------------|----------------|-----------------------------------|------------------------|------|
|                              |  |                   |   | December 31, 2003          | December 31, 2002 | Shares (Thousands)              | Percentage of Ownership | Carrying Value |                                   |                        |      |
| TCC                          | Taiwan Fixed Network Co., Ltd.               | Taipei, Taiwan    | Type-I telecommunication services-integrated fixed line and type-II telecommunication service   | \$ 3,000,000               | \$ 3,000,000      | 300,000                         | 3.25                    | \$ 2,869,367   | \$ 1,913,147                      | ( \$ 22,891 )          |      |
|                              | Taihsing Den Den Co., Ltd.                   | Taipei, Taiwan    | Telecommunication equipment retailing and wholesale   | 1,419,994                  | 1,419,994         | 44,299                          | 99.99                   | 1,526,803      | 85,069                            | 33,419                 | Note |
|                              | Tai Hung Investment Ltd.                     | Taipei, Taiwan    | Investment  | 1,505,000                  | 1,505,000         | -                               | 99.99                   | 1,590,164      | 243,300                           | 80,157                 |      |
|                              | Tai Fu Investment Ltd.                       | Taipei, Taiwan    | Investment  | 525,000                    | 525,000           | -                               | 99.99                   | 782,688        | 108,322                           | 108,337                |      |
|                              | Tai Hsuo Investment Ltd.                     | Taipei, Taiwan    | Investment  | 330,000                    | 330,000           | -                               | 99.99                   | 499,488        | 119,986                           | 88,963                 |      |
|                              | T.I. Investments Ltd.                        | Taipei, Taiwan    | Investment  | 604,960                    | 604,960           | -                               | 99.99                   | 432,540        | ( 96,585 )                        | ( 96,579 )             |      |
|                              | T & M Investment Co., Ltd.                   | Taipei, Taiwan    | Investment  | 6,208,218                  | 6,208,218         | 78,050                          | 99.99                   | 6,370,748      | 237,883                           | 195,997                |      |
|                              | TransAsia Telecommunications Inc.            | Kaohsiung, Taiwan | Wireless service provider   | 12,298,372                 | 12,298,372        | 517,356                         | 78.87                   | 12,569,285     | 1,765,517                         | 911,486                | Note |
|                              | Taiwan Telecom (Aust) Pty Ltd.               | Australia         | Telecommunication related R&D   | 92,160                     | 92,160            | 4,800                           | 60.00                   | 104,238        | ( 25,516 )                        | ( 15,408 )             |      |
| T & M Investment Co., Ltd.   | Trans Asia Telecommunications Inc.           | Kaohsiung, Taiwan | Wireless service provider   | 879,521                    | 879,521           | 88,239                          | 13.45                   | 1,429,233      | 1,765,517                         | NA                     |      |
|                              | Taiwan Fixed Network Co., Ltd.               | Taipei, Taiwan    | Type-1 telecommunication services-integrated fixed line and type-II telecommunication services  | 4,080,000                  | 4,080,000         | 600,000                         | 6.51                    | 3,992,375      | 1,913,147                         | NA                     |      |
| Taihsing Den Den Co., Ltd.   | Taiwan Tele-Shop Co., Ltd.                   | Taipei, Taiwan    | Telecommunication equipment retailing and wholesale, and mobile service distribution  | 1,232,628                  | 1,232,628         | 95,536                          | 50.02                   | 1,463,589      | 392,587                           | NA                     | Note |
|                              | Taiwan Index Co., Ltd.                       | Taipei, Taiwan    | Installation of computer equipment, communication engineering, and software   | 50,000                     | 50,000            | 5,000                           | 20.00                   | 47,501         | 10,009                            | NA                     |      |
| Taiwan Tele-Shop Co., Ltd.   | The Tele-World Shop Pte Ltd.                 | Singapore         | Telecommunication equipment sales and fixed-line service  | 54,541                     | 54,541            | 3,000                           | 100.00                  | 95,372         | ( 9,523 )                         | NA                     |      |
|                              | Taiwan Fixed Network Co., Ltd.               | Taipei, Taiwan    | Type-I telecommunication services-integrated fixed line and type-II telecommunication service   | 70,000                     | 70,000            | 7,000                           | 0.08                    | 67,012         | 1,913,147                         | NA                     |      |
| Tai Hung Investment Ltd.     | Howin Technologies Co., Ltd.                 | Taipei, Taiwan    | Communication engineering, type-II Telecommunication service, imports of radio frequency equipment, and installation of electronic appliances | 1,500,000                  | 1,500,000         | 150,000                         | 25.00                   | 1,715,547      | 1,011,048                         | NA                     |      |
| Howin Technologies Co., Ltd. | e-Post Inc.                                  | Taipei, Taiwan    | Sales of computer software, information provider  | 94,922                     | \$ 94,922         | 794                             | 31.75                   | 3,767          | ( 3,272 )                         | NA                     |      |
|                              | Taiwan Elitec Corporation                    | Taipei, Taiwan    | Software solution provider, data processing services  | 100,000                    | 100,000           | 10,000                          | 20.00                   | 126,298        | 202,983                           | NA                     |      |
|                              | Taiwan Teleservices & Technologies Co., Ltd. | Taipei, Taiwan    | Call center service   | 160,000                    | 160,000           | 16,000                          | 20.00                   | 200,364        | 186,540                           | NA                     |      |
|                              | Taiwan Infotainment Co., Ltd.                | Taipei, Taiwan    | Data processing, supply of electronic information, and advertising services   | 250,000                    | 250,000           | 25,000                          | 25.00                   | 178,245        | ( 160,777 )                       | NA                     |      |
|                              | Taiwan Index Co., Ltd.                       | Taipei, Taiwan    | Installation of computer equipment, communication engineering, and software   | 50,000                     | 50,000            | 5,000                           | 20.00                   | 48,305         | 10,009                            | NA                     |      |
|                              | Reach & Range Inc.                           | Taipei, Taiwan    | Sale and servicing of system equipment for value-added services, and computer software  | 63,590                     | 63,590            | 6,002                           | 54.56                   | 53,973         | 1,920                             | NA                     |      |

(Continued)

| Investor                              | Investee                                     | Location       | Main Businesses and Products  | Original Investment Amount |                   | Balance as of December 31, 2003 |                         |                | Net Income (Loss) of the Investee | Investment Gain (Loss) | Note                                |
|---------------------------------------|--|----------------|---|----------------------------|-------------------|---------------------------------|-------------------------|----------------|-----------------------------------|------------------------|-------------------------------------|
|                                       |  |                |   | December 31, 2003          | December 31, 2002 | Shares (Thousands)              | Percentage of Ownership | Carrying Value |                                   |                        |                                     |
| T.I. Investments Ltd.                 | Taiwan Infotainment Co., Ltd.                | Taipei, Taiwan | Data processing, supply of electronic information, and advertising services   | \$ 600,000                 | \$ 600,000        | 60,000                          | 60.00                   | \$ 427,788     | ( \$ 160,777 )                    | NA                     |                                     |
| Tai Fu Investment Ltd.                | Taiwan Teleservices & Technologies Co., Ltd. | Taipei, Taiwan | Call center service   | 520,000                    | 520,000           | 52,000                          | 65.00                   | 651,186        | 186,540                           | NA                     |                                     |
| Tai Hsuo Investment Ltd.              | Taiwan Elitec Corporation                    | Taipei, Taiwan | Software solution provider, data processing services  | 325,000                    | 325,000           | 32,500                          | 65.00                   | 458,634        | 202,983                           | NA                     |                                     |
| Taiwan Elitec Corporation             | Taiwan Fixed Network Co., Ltd.               | Taipei, Taiwan | Type-I telecommunication services-integrated fixed line and type-II telecommunication service   | 40,000                     | 40,000            | 10,000                          | 0.11                    | 40,454         | 1,913,147                         | NA                     |                                     |
| TransAsia Telecommunications Inc.     | Trans Asia Information Network Co., Ltd.     | Taipei, Taiwan | Type II telecommunication service, PC equipment installation, software and electronic information service provider                            | -                          | 29,940            | -                               | -                       | -              | 519                               | NA                     | Merged with TAT on December 9, 2003 |
|                                       | Howin Technologies Co., Ltd.                 | Taipei, Taiwan | Communication engineering, type-II telecommunication service, imports of radio frequency equipment, and installation of electronic appliances | 150,000                    | 150,000           | 15,000                          | 2.50                    | 164,192        | 1,011,048                         | NA                     |                                     |
| Taiwan Telecom (Aust) Pty Ltd.        | Supreme-Tech (Aust) Pty Ltd.                 | Australia      | Development and research on telecommunication technique   | -                          | -                 | -                               | 100.00                  | -              | -                                 | NA                     |                                     |
| Taiwan Fixed Network Co., Ltd.        | Howin Technologies Co., Ltd.                 | Taipei, Taiwan | Communication engineering, type-II telecommunication service, imports of radio frequency equipment, and installation of electronic appliances | 3,999,999                  | 3,999,999         | 399,999                         | 66.67                   | 3,764,407      | 1,011,048                         | NA                     |                                     |
|                                       | Taiwan Cellular Corporation                  | Taipei, Taiwan | Cellular phone services   | 29,633,009                 | 29,633,009        | 900,353                         | 19.52                   | 31,087,128     | 13,344,447                        | NA                     |                                     |
|                                       | TFN Investment Co., Ltd.                     | Taipei, Taiwan | Investment  | 20,000,000                 | 20,000,000        | 2,000,000                       | 100.00                  | 20,717,219     | 745,292                           | NA                     |                                     |
|                                       | Taiwan Hong-Yuan Investment Co., Ltd.        | Taipei, Taiwan | Investment  | 10,000,000                 | 10,000,000        | 1,000,000                       | 100.00                  | 10,314,915     | 338,673                           | NA                     |                                     |
|                                       | Taiwan Telecom (Aust) Pty Ltd.               | Australia      | Telecommunication related R&D   | 61,440                     | 61,440            | 3,200                           | 40.00                   | 69,492         | ( 25,710 )                        | NA                     |                                     |
|                                       | TFN US Ltd.                                  | US             | Telecommunication business  | 14,950                     | -                 | 430                             | 100.00                  | 14,110         | ( 502 )                           | NA                     |                                     |
|                                       | TFN HK Ltd.                                  | Hong Kong      | Telecommunication business  | 5,816                      | -                 | 1,299                           | 99.99                   | 5,091          | ( 564 )                           | NA                     |                                     |
| TFN Investment Co., Ltd.              | Taiwan Cellular Corporation                  | Taipei, Taiwan | Cellular phone services   | 16,346,290                 | 16,346,290        | 467,821                         | 10.14                   | 16,337,890     | 13,344,447                        | NA                     |                                     |
|                                       | Taiwan Index Co., Ltd.                       | Taipei, Taiwan | Installation of computer equipment, communication engineering, and software   | 62,500                     | 62,500            | 6,250                           | 25.00                   | 57,664         | 10,009                            | NA                     |                                     |
|                                       | CTS Digi-Tech Co., Ltd.                      | Taipei, Taiwan | Software retailing and service provider   | 60,000                     | -                 | 6,000                           | 60.00                   | 59,389         | 183                               | NA                     |                                     |
| Taiwan Hong Yuan Investment Co., Ltd. | Taiwan Cellular Corporation                  | Taipei, Taiwan | Cellular phone services   | 5,003,812                  | 5,003,812         | 163,304                         | 3.54                    | 5,114,755      | 13,344,447                        | NA                     |                                     |

(Concluded)

Note: The transactions between the Corporation and subsidiaries had been reconciled.

## Affiliates' Financial Conditions and Impacts to TCC:

None

### 2003 Financial Projections vs. Actual Results

#### 1. Financial forecast versus actual in the past year:

(NT\$'000)

|                       | 2003 Forecast<br>(reviewed by CPA) | 2003 Financial Statements as audited by CPA |          |
|-----------------------|------------------------------------|---|----------|
|                       | Amount                             | Amount                                      | Achieved |
| Revenue               | 50,502,029                         | 44,995,790                                  | 89.10%   |
| Operating Cost        | 19,186,762                         | 17,855,148                                  | 93.06%   |
| Gross Profit          | 31,315,267                         | 27,140,642                                  | 86.67%   |
| Operating Expense     | 15,679,476                         | 11,939,023                                  | 76.14%   |
| Operating Income      | 15,635,791                         | 15,201,619                                  | 97.22%   |
| Non-Operating Income  | 3,232,885                          | 2,194,575                                   | 67.88%   |
| Non-operating expense | 2,084,065                          | 2,929,394                                   | 140.56%  |
| Pre-tax Income        | 16,784,611                         | 14,466,800                                  | 86.19%   |
| Net Income after Tax  | 15,416,600                         | 13,344,447                                  | 86.56%   |

Note: TCC did not revise the original financial forecast for 2003

#### 2. Variance Analysis

The company's thrust at improving ARPU was offset by a declining subscriber base. Thus, only 89% of forecast revenue was achieved. Nonetheless, effective cost and expense controls brought down operating expense substantially, thereby allowing operating income to post a 97% achievement rate. Pre-tax income came in lower than expected due to: 1) write-off of idle assets; and 2) change in accounting treatment of cash dividends received from Chunghwa Telecom.



## **Financial Status, Operating Results & Risk Management**

Financial Status

Operating Performance

Cash Flow Analysis

Major Capital Expenditure and Source of Capital Analysis

Investment Policy, Profitability Analysis and Improvement Plans

Risk Management Analysis

## Financial Status

2003 versus 2002

Unit: NT\$'000

|                            | 2003        | 2002        | YoY change   |         |
|----------------------------|-------------|-------------|--------------|---------|
|                            |             |             | Amount       | %       |
| Current assets             | 26,069,897  | 19,093,320  | 6,976,577    | 36.54   |
| Fixed assets               | 62,505,230  | 63,195,930  | (690,700)    | (1.09)  |
| Other assets               | 4,693,947   | 5,075,948   | (382,001)    | (7.53)  |
| Total assets               | 130,319,279 | 142,951,720 | (12,632,441) | (8.84)  |
| Current liabilities        | 17,189,229  | 10,541,094  | 6,648,135    | 63.07   |
| Long-term liabilities      | 43,808,584  | 64,244,807  | (20,436,223) | (31.81) |
| Total liabilities          | 61,128,513  | 78,716,394  | (17,587,881) | (22.34) |
| Paid-in capital            | 46,998,258  | 45,026,835  | 1,971,423    | 4.38    |
| Capital surplus            | 3,366,010   | 3,004,199   | 361,811      | 12.04   |
| Retained earnings          | 21,317,020  | 19,038,605  | 2,278,415    | 11.97   |
| Total shareholders' equity | 69,190,766  | 64,235,326  | 4,955,440    | 7.71    |

1. Current assets increased mainly due to the transfer of CHT shares from long-term investment to short-term investment.
2. Current liabilities increased as: (1) TCC transferred all subscriber's deposits to from other liabilities to current liabilities, since the company will automatically refund these deposits or deduct these against monthly subscriptions starting January, 2004; and (2) part of the issued convertible bonds will be redeemable by Aug. 25, 2004.
3. Long- term liabilities decreased due to repayment of bank loans in 2003.

## Operating Performance Analysis

2003 versus 2002

Unit: NT\$'000

|                       | 2003         | 2002         | YoY change  |      |
|-----------------------|--------------|--------------|-------------|------|
|                       |              |              | Amount      | %    |
| Revenue               | 44,995,790   | 45,352,378   | (356,588)   | (1)  |
| Operating cost        | (17,855,148) | (16,394,603) | 1,460,545   | 9    |
| Gross profit          | 27,140,642   | 28,957,775   | (1,817,133) | (6)  |
| Operating expense     | (11,939,023) | (13,884,076) | (1,945,053) | (14) |
| Operating income      | 15,201,619   | 15,073,699   | 127,920     | 1    |
| Non-operating income  | 2,194,575    | 1,888,631    | 305,944     | 16   |
| Non-operating expense | (2,929,394)  | (1,552,683)  | 1,376,711   | 89   |
| Income before tax     | 14,466,800   | 15,409,647   | (942,847)   | (6)  |
| Income tax            | (1,122,353)  | (472,327)    | 650,026     | 138  |
| Net income            | 13,344,447   | 14,937,320   | (1,592,873) | (11) |

1. Non-operating expense increased due to: (1) more telecom equipment delivery and installation projects being completed, resulting in higher interest expenses which were otherwise capitalized; (2) new corporate bond issuances in August and December of 2002 also contributed to higher interest expenses in 2003; and (3) recognition of "provision for losses on idle assets".
2. Income tax expense increased significantly due to the decrease in tax-exempt income and investment tax credits in 2003.



## Cash Flow Analysis

### 1. 2003 Cash Flow

Unit: NT\$'000

| Cash balance, beginning of the year (1) | Forecast net cash inflow from operations (2) | Total cash outflow from investing and financing activities (3) | Cash balance, end of the year (1)+(2)-(3) | Source of funding for negative cash balance |                                       |
|---|--|--|---|---|---------------------------------------|
|   |  |  |   | Cash inflow from investing activities       | Cash inflow from financing activities |
| 6,997,114                               | 20,643,793                                   | 31,979,798   | (4,339,891)                               | 6,219,982                                   | -                                     |

- Investment activities had a net cash inflow in 2003 due to the disposal of bond funds.
- Financing activities had a net cash outflow due to repayment of short-term and long-term bank loans.

### 2. Sources of Funding for Negative Cash Balance and Liquidity Analysis

- The negative cash balance had been covered by the disposal of short-term investments.
- Liquidity analysis for 2002 and 2003

|                            | 2003   | 2002   | % change |
|----------------------------|--------|--------|----------|
| Cash flow ratio (%)        | 120.10 | 187.09 | (35.81)  |
| Cash flow adequacy ratio   | 108.79 | 81.61  | 33.31    |
| Cash reinvestment rate (%) | 10.06  | 9.45   | 6.46     |

- The cash flow ratio decreased due to increased current liabilities resulting from retiring convertible bonds and deposit refunds to subscribers.
- The cash flow adequacy ratio increased since the average cash inflow from operating activities for the past five years is higher than that in 2002.

### 3. 2004 Cash Flow Analysis

Unit: NT\$'000

| Cash balance, beginning of the year (1) | Forecast net cash inflow from operating activities (2) | Total cash outflow from investing and financing activities (3) | Cash balance end of the year (1)+(2)-(3) | Source of funding for negative cash balance |                                       |
|---|--|--|--|---|---------------------------------------|
|   |  |  |  | Cash inflow from investing activities       | Cash inflow from financing activities |
| 1,881,091                               | 20,789,314   | 30,329,507   | (7,659,102)                              | 9,214,824-                                  | -                                     |

- Projected increase in cash inflow from operating activities is due to revenue and net profit growth.
- Projected cash outflow from investing activities is mainly for capital expenditure.
- Projected cash outflow from financing activities is mainly for repayment of long-term and short-term debts.
- The negative cash balance will be covered by disposal of short-term investments.

## Major Capital Expenditure and Source of Capital Analysis

### 1. Major Capital Expenditure Plan and Source of Funding

Unit: NT\$'000

| Item                      | Actual / projected source of funds                         | Actual / projected completion date | Total capital requirement | 2000 (actual) | 2001 (actual) | 2002 (actual) | 2003 (est.) | 2004 (est.) | 2005 (est.) |
|---------------------------|--|------------------------------------|---------------------------|---------------|---------------|---------------|-------------|-------------|-------------|
| Land & building           | Internally generated funds                                 | Dec. 2001                          | 2,177,867                 |               | 2,177,867     |               |             |             |             |
| GSM1800 network expansion | Internally generated funds, bank loans and corporate bonds | June 2002                          | 13,130,287                | 5,359,030     | 3,593,488     | 4,177,769     |             |             |             |
| GSM1800 network expansion | Convertible bonds and bank loans                           | Apr. 2003                          | 11,600,000                |               | 3,480,000     | 5,220,000     | 2,900,000   |             |             |
| GSM1800 network expansion | Internally generated funds and bank loans                  | Sept. 2004                         | 2,500,000                 |               |               |               | 250,000     | 2,250,000   |             |
| 3G network expansion      | Internally generated funds and bank loans                  | Sept. 2004                         | 3,800,000                 |               |               |               | 1,520,000   | 2,280,000   |             |
| 2G & 3G network expansion | Internally generated funds and bank loans                  | June 2005                          | 2,793,392 (Est.)          |               |               |               |             | 1,229,093   | 1,564,299   |

### 2. Potential Benefits in terms of Sales and Gross Profit Contributions

Unit: NT\$'000

| Year | Item              | Mobile service revenue | Gross profit |
|------|-------------------|------------------------|--------------|
| 2004 | Network expansion | 14,400,000             | 9,928,000    |

## Investment Policy, Profitability Analysis and Improvement Plans

Investments made during 2003 did not exceed 5% of the Company's paid-in capital.

## Risk Management Analysis

### 1. Impact of Fluctuations in Interest Rates, Exchange Rates and Inflation on the Company's Earnings

- (1) Declining interest rates have been bringing down TCC's borrowing costs. TCC has pegged the floating interest rate for the company's first unsecured corporate bond with total value of NT\$15 billion at 2.25% and 2.45% through interest rate swap agreements upon issuance. All other issued corporate bonds have fixed interest rates, making TCC's interest expense risks relatively low. As for bank loans with floating rates, interest expense is estimated to increase by approximately NT\$53,750,000 per annum for every 0.25% increase in interest rate. The impact of this on TCC's annual revenue is minimal.

- (2) TCC provides mobile service only in Taiwan. All revenues and operating costs including interconnection charges and leased-line expenses are denominated in NT dollar. Capital expenditures and contractor reimbursements are also denominated in NT dollar. Thus, exchange rate losses, if there are any, are normally borne by the contractors.
- (3) Inflation had minimal impact on the company's operating performances in the past years.

## 2. Investment Policy and Reasons for Gains & Losses for High-Risk/High-Leverage Financial Products, Derivatives, Loans to Others, and Guarantees of Debts

- (1) TCC's NT\$4.5bn debt guarantee for TransAsia Telecom ceased as of August 2003, in accordance with the "Procedures for making loans to others and debt guarantees". The Company currently has no existing debt guarantees.
- (2) NT\$7.5bn of the Company's NT\$15bn corporate bonds issued in December 2002 are inverse floater notes, hedged by interest rate swap contracts.
- (3) The Company did not engage in high-risk and high-leverage financial investment activities, nor did it lend to others.

## 3. Development of R&D Projects

Major projects completed in 2003 include Content Billing, MMS Interoperability across different operators' networks, character & ring tone download, music ring back tone, WAP push platform, GPRS & WLAN Integrated services, and personal home zone billing.

## 4. Impact of Major Policy and Regulatory Changes

- (1) "Rules Governing Mobile Communications Business", revised June 18, 2003  
Elimination of the stipulation "self-owned capital at no less than 50% of total paid-in capital".  
Impact: Affords TCC more flexibility in financial planning.
- (2) "Rules Governing Type II Telecommunications Business-MVNO", revised August 12, 2003  
Starting September 1, 2003, Type II telecom companies can apply for a Mobile Virtual Network Operator (MVNO) license, enabling them to provide "mobile resale and value-added services" through leased capacity from mobile phone operators.  
Impact: As the market is nearing saturation, the new MVNOs face a lot of stiff competition and are likely to incur higher costs such as handset subsidies as a tool to attract new customers. They are likely to take time in building up their brand image as well. As such, the negative impact of this new rule on TCC is expected to be slight.
- (3) "Regulations Governing Number Portability (MNP)", promulgated on November 24, 2003  
This rule enables subscribers to port their numbers by paying a porting charge. Porting time takes at least five days.  
Impact: To minimize the impact of this new rule, TCC is increasing its efforts to strengthen its client retention program, enhance its services to achieve total subscriber satisfaction, and closely monitor the setup of third-party managed MNP database.

## 5. Financial Impact of Technology Change

As the 3G launches by network operators have failed to attract a significant number of subscribers and supply of satisfactory 3G handsets is limited, TCC will continue to focus on 2.5G technology and utilize the CRM (Customer Relationship Management) tool to develop new services, placing emphasis on multimedia services, raising system capacity utilization, and increasing ARPU.

## **6. Impact of Corporate Image Change**

TCC made major adjustments to its shareholders' structure and management team in 2003. TCC's new management team fully understands the importance of controlling risks through good corporate governance and is currently developing a corporate governance structure with emphases on: (1) providing timely and transparent interaction between shareholders and the Company, (2) monitoring directors' business conduct, (3) establishing guidelines for the board, (4) holding regular board meetings, and (5) setting a remuneration system for directors and key staff.

TCC has set up a Corporate Governance Committee and an Audit Committee under its Board of Directors. TCC follows appropriate disclosure measures to ensure fair and timely distribution of key operation and financial information, board resolutions, and messages from the chief executive officer, so as to enhance shareholder and public recognition as well as to minimize operating risks.



## **Corporate Governance**

**1. Current Practice**

| Item  | Current practice   |
|---|--|
| Shareholding structure and shareholders' equity                                   |  |
| 1) Handling of shareholders' suggestions and disputes                             | The spokesperson, secretarial division, and legal division handle related issues.  |
| 2) Identification of major shareholders and investors with controlling interests  | The secretarial division can provide a list of shareholders.   |
| 3) Risk control mechanisms and firewalls between the company and its subsidiaries | Rules pertaining to transaction activities within the Group and a system monitoring its subsidiaries have been established.                        |
| Board of directors and its responsibilities                                       |  |
| 1) Independent director   | The BoD includes two independent directors.  |
| 2) Periodical review of CPA's independency  | The audit committee conducts periodic reviews.   |
| Supervisors and their responsibilities  |  |
| 1) Independent supervisor   | The company has one independent supervisor.  |
| 2) Communication between supervisor and TCC's employee & shareholders             | Have communicated upon request.  |
| Communication channels with shareholders  | The spokesperson serves as the main communication channel between the Company and the shareholders.  |
| Information disclosure  |  |
| 1) Disclosure of financial, operation and corporate governance information        | 1) Disclosure of financial-related information is posted periodically in the Company's website.  |
| 2) Other ways of disclosing information   | 2) The Company has established its English website, designated personnel to gather and disclose company information, and appointed a spokesperson. |
| Audit committee's function and status   | The audit committee under the board of directors meets once every quarter.   |

**2. Other Information:**

- (1) Training program for directors and supervisors: Please refer to Corporate Governance Section in the Market Observation Post System
- (2) Board meeting attendance record of directors and supervisors: Please refer to Corporate Governance Section in the Market Observation Post System
- (3) Directors adhere to Company rules to avoid conflict of interest
- (4) The Company has purchased liability insurance for its directors and supervisors.
- (5) The company places much value on social responsibility.



## Special Notes

Affiliates

Internal Control Execution Status

Dissenting Comments from Directors and Supervisors

Private Placement of Marketable Securities

TCC Shares Held/Disposed by Subsidiaries

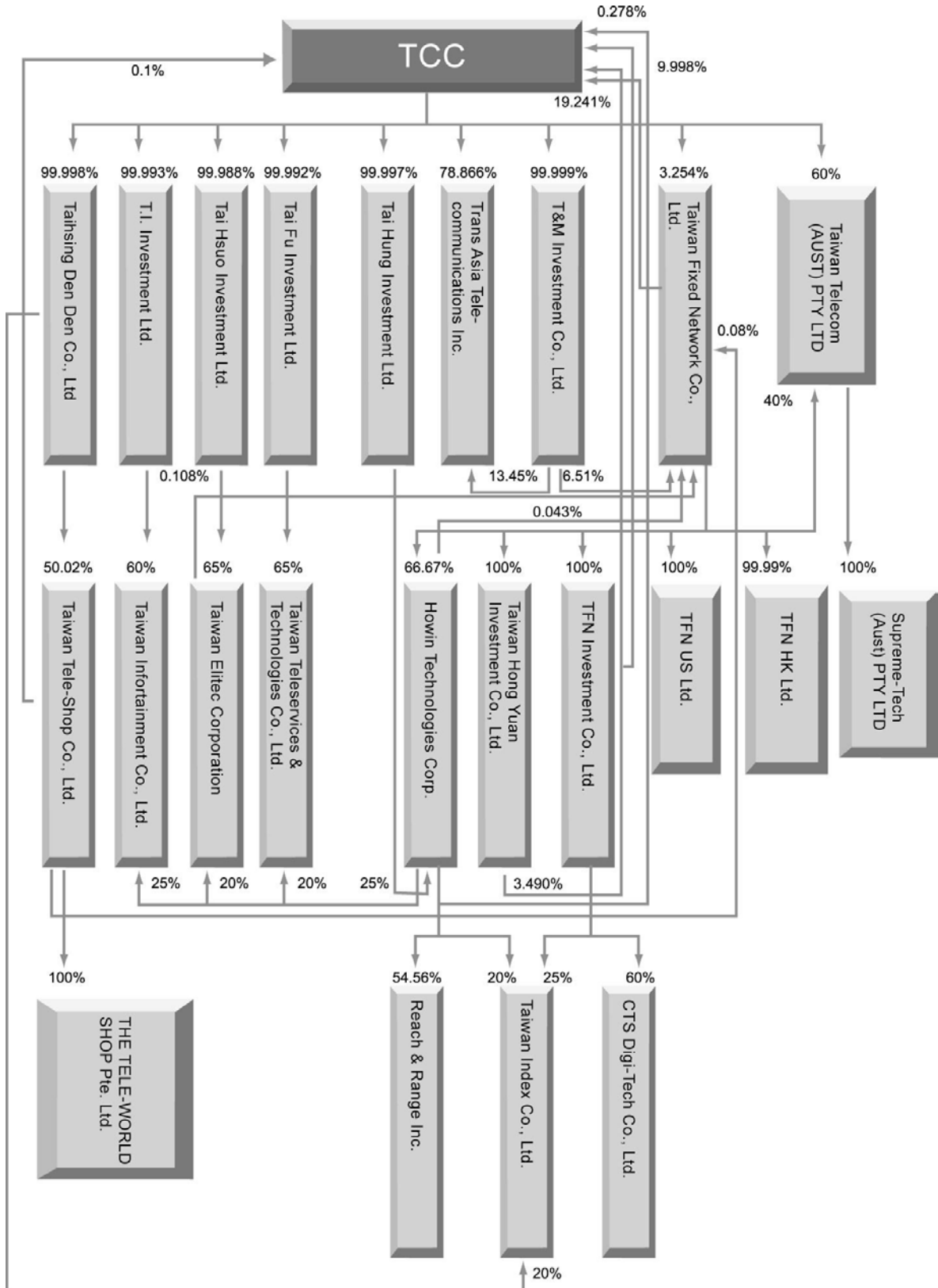
Major Resolutions in Shareholders' and Board Meetings

Execution of Shareholders' Meeting Resolutions

Violation of Regulations and Internal Policies

# Affiliates

## 1. Investment Holding Structure





## 2. Affiliates' Profile

Unit: NT\$'000

| Name   | Date of incorporation | Address  | Paid-in capital    | Main business   |
|--|-----------------------|--|--------------------|---|
| Taihsing Den Den Co., Ltd.                   | 1997.08.20            | 13F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City                                   | 443,000            | Telecommunication equipment retail & wholesale  |
| Taiwan Tele-Shop Co., Ltd.                   | 1998.08.28            | 3F, No.206, Sec. 2, Dunhua S. Rd., Taipei City                                     | 1,910,000          | Telecommunication equipment retail & wholesale, mobile service distribution   |
| The Tele-World Shop Pte. Ltd.                | 1999.12.27            | 10 Anson Rd. #17-04 International Plaza, Singapore 077903                          | S\$3,000 (Note)    | Telecommunication equipment sales and fixed-line service  |
| T&M Investment Co., Ltd.                     | 1999.03.15            | 13F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City                                   | 780,500            | Investment  |
| TransAsia Telecommunications Inc.            | 1997.07.08            | 6F-1, No.91, Jhongshan 2nd Rd., Cianjhen Dist., Kaohsiung City                     | 6,559,956          | Wireless service provider   |
| T. I. Investment Ltd.                        | 2001.08.03            | 13F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City                                   | 605,000            | Investment  |
| Taiwan Infotainment Co., Ltd.                | 2001.09.05            | 15F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City                                   | 1,000,000          | Directory business  |
| Tai Hsuo Investment Ltd.                     | 2001.05.16            | 13F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City                                   | 330,040            | Investment  |
| Taiwan Elitec Corp.                          | 2001.06.05            | 14F, No.172-1, Jilung Rd., Sec. 2, Taipei City                                     | 500,000            | Software solution provider, data processing services  |
| Tai Fu Investment Ltd.                       | 2001.05.16            | 13F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City                                   | 525,040            | Investment  |
| Taiwan Teleservices & Technologies Co., Ltd. | 2001.06.05            | 10F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City                                   | 800,000            | Call center service   |
| Tai Hung Investment Ltd.                     | 2001.05.16            | 13F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City                                   | 1,505,040          | Investment  |
| Taiwan Fixed Network Co., Ltd.               | 2000.05.31            | 9F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City                                    | 92,200,000         | Type- I telecommunication services-integrated fixed line and type-II telecommunication service  |
| TFN Investment Co., Ltd.                     | 2001.12.20            | 9F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City                                    | 20,000,000         | Investment  |
| CTS Digi-Tech Co., Ltd.                      | 2002.10.04            | 9F., No.102, Guangfu S. Rd., Taipei City   | 100,000            | Software retail and service provider  |
| Howin Technologies Corp.                     | 2000.11.10            | 8F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City                                    | 6,000,000          | Communications engineering, type-II telecommunication service, import of radio frequency equipment, installation of electronic appliances |
| Reach & Range Inc.                           | 1995.12.04            | 5F, No.139, Jhengjhou Rd., Taipei City   | 110,000            | Sale and service of system equipment used in value-added services, computer software  |
| Taiwan Index Co., Ltd.                       | 2000.08.11            | 6F, No.172-1, Jilung Rd., Sec. 2, Taipei City                                      | 250,000            | Installation of computer equipment, communications engineering, software  |
| Taiwan Hong Yuan Investment Ltd.             | 2002.05.16            | 9F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City                                    | 10,000,000         | Investment  |
| TFN US Ltd.                                  | 2003.04.17            | 433 California Street, Suite 810, San Francisco, California 94104                  | US\$430,000 (Note) | International Simple Resale   |
| TFN HK LIMITED                               | 2003.05.14            | Unit 507, 5/F, Tower 1, Silvercord, 30 Canton Rd., Tsimshatsui, Kowloon, Hong Kong | HK\$1,300 (Note)   | International Simple Resale   |
| Taiwan Telecom (AUST) PTY LTD                | 2002.06.28            | Level 16, Fields House, 1 Alfred Street, Sydney NSW 2002 Australia                 | AU\$8,000 (Note)   | Telecommunications-related R&D  |
| Supreme-Tech (Aust) Pty Ltd.                 | 2003.01.18            | Level 16, Fields House, 1 Alfred Street, Sydney NSW 2000 Australia                 | AU\$2 (Note)       | Telecommunications-related service  |

Note: Above figures are based on exchange rates as of Dec. 31, 2003: NT\$19.98 per Singapore dollar, NT\$33.978 per US dollar, NT\$25.51 per Australian dollar, and NT\$4.346 per Hong Kong dollar.

### 3. Affiliates' Operating Highlights

Unit: NT\$'000

| Company Name                                 | Paid-in capital | Total assets | Total liabilities | Net worth  | Operating revenue | Operating income | Net income | EPS (NT\$) |
|--|-----------------|--------------|-------------------|------------|-------------------|------------------|------------|------------|
| Taihsing Den Den Co., Ltd.                   | 443,000         | 1,686,651    | 12,647            | 1,674,004  | -                 | (7,932)          | 85,069     | 1.92       |
| Taiwan Tele-Shop Co., Ltd.                   | 1,910,000       | 4,363,068    | 1,826,363         | 2,536,705  | 11,024,479        | 445,742          | 392,587    | 2.06       |
| The Tele-World Shop Pte., Ltd.               | 59,940          | 102,465      | 7,093             | 95,372     | 179,125           | (21,888)         | (9,638)    | NA         |
| T&M Investments Co., Ltd.                    | 780,500         | 5,741,955    | 9,104             | 5,732,851  | 248,688           | 245,502          | 237,883    | 3.05       |
| TransAsia Telecommunications Inc.            | 6,559,956       | 12,092,174   | 3,257,973         | 8,834,201  | 11,513,112        | 1,630,211        | 1,765,517  | 2.69       |
| T. I. Investment Ltd.                        | 605,000         | 432,631      | 62                | 432,569    | 51                | (96,576)         | (96,585)   | NA         |
| Taiwan Infotainment Co., Ltd.                | 1,000,000       | 764,986      | 52,007            | 712,979    | 64,540            | (166,124)        | (160,777)  | (1.61)     |
| Tai Hsuo Investment Ltd.                     | 330,040         | 541,161      | 1,549             | 539,612    | 121,930           | 121,769          | 119,986    | NA         |
| Taiwan Elitech Corp.                         | 500,000         | 1,185,446    | 465,240           | 720,206    | 2,143,400         | 296,647          | 202,983    | 4.06       |
| Tai Fu Investment Ltd.                       | 525,040         | 785,976      | 2,741             | 783,235    | 111,654           | 111,493          | 108,322    | NA         |
| Taiwan Teleservices & Technologies Co., Ltd. | 800,000         | 1,425,120    | 409,865           | 1,015,255  | 2,069,302         | 252,078          | 186,540    | 2.33       |
| Tai Hung Investment Ltd.                     | 1,505,040       | 2,100,507    | 13,365            | 2,087,142  | 258,103           | 257,764          | 243,300    | NA         |
| Taiwan Fixed Network Co., Ltd.               | 92,200,000      | 99,146,104   | 4,451,939         | 94,694,165 | 8,203,438         | (1,261,193)      | 1,913,147  | 0.21       |
| TFN Investment Co., Ltd.                     | 20,000,000      | 20,802,737   | 62,042            | 20,740,695 | 827,019           | 805,431          | 745,292    | 0.37       |
| CTS Digi-Tech Co., Ltd.                      | 100,000         | 105,980      | 6,998             | 98,982     | 20,251            | (575)            | 183        | 0.02       |
| Howin Technologies Corp.                     | 6,000,000       | 11,408,451   | 4,199,745         | 7,208,706  | 13,094,952        | 1,361,570        | 1,011,048  | 1.69       |
| Reach & Range Inc.                           | 110,000         | 132,765      | 42,749            | 90,016     | 233,946           | 2,395            | 1,920      | 0.17       |
| Taiwan Index Co., Ltd.                       | 250,000         | 348,660      | 118,004           | 230,656    | 192,373           | 7,396            | 10,009     | 0.40       |
| Taiwan Hong Yuan Investment Co., Ltd.        | 10,000,000      | 10,334,060   | 8,476             | 10,325,584 | 347,454           | 346,359          | 338,673    | 0.34       |
| TFN US LTD.                                  | 14,611          | 14,585       | 475               | 14,110     | -                 | (536)            | (502)      | NA         |
| TFN HK LIMITED                               | 5,650           | 5,658        | 567               | 5,091      | -                 | (573)            | (564)      | NA         |
| Taiwan Telecom (Aust) Pty. Ltd.              | 204,080         | 181,307      | 7,577             | 173,730    | -                 | (31,438)         | (25,516)   | NA         |
| Supreme-Tech (Aust) Pty Ltd.                 | -               | -            | -                 | -          | -                 | -                | -          | NA         |

## Internal Control Execution Status

### 1. Declaration on the Evaluation of Internal Control System

February 6, 2004

Based on the evaluation of its internal control system in 2003, TCC, herein referred to as "the Company", declared the following:

- (1) The Company's board of directors and management understand the responsibilities of developing, implementing, and maintaining an internal control system and such a system has been established to assure a) operating efficiency (including profitability, performance, and safeguarding of assets), b) reliability of financial reports, and c) compliance with relevant regulations.
- (2) Due to its limitations, the system can only reasonably assure the accomplishment of the aforementioned three main objectives. However, the Company will make immediate corrections should any flaws be detected.
- (3) The Company evaluates the effectiveness of the system's design and implementation in accordance with the "Governing Rules of Establishing an Internal Control System for a Public Company" as set forth by the Securities and Futures Commission (SFC). These stipulate that five key areas of the internal control system are to be examined: a) environmental controls, b) risk management, c) operational controls, d) information and communication, and e) supervision. Details on each area of examination can be found in the Governing Rules.
- (4) We have examined the effectiveness of design and execution of the Company's internal control system in accordance with the aforementioned rules.
- (5) The examination results suggest that the Company's internal control system, including affiliate supervisions, has effectively assured a) operating efficiency (including profitability, performance, and safeguarding of assets), b) reliability of financial reports, and c) compliance with relevant regulations during the assessment period.
- (6) The declaration is included in the annual report and is available to the general public. If it contains any false representation or omits any material content, the Company is in violation of Article 20, Article 32, Article 171, and Article 174 of the Securities and Exchange Law.
- (7) This declaration was approved by the board of directors meeting on February 6, 2004, with nine directors in attendance.



Daniel Tsai  
Chairman



Harvey Chang  
President

### 2. Audit Report issued by CPA related to Internal Control System:

The company does not retain the services of a CPA for this purpose.

### Dissenting Comments from Directors and Supervisors:

None

### Private Placement of Marketable Securities:

None

## TCC Shares Held / Disposed by Subsidiaries

Unit: NT\$'000; share: %

| Subsidiary                 | Paid-in capital (NT\$'000) | Source of funds            | % Owned by TCC | Transaction date                         | Share increase | Value (NT\$'000) | Gains (losses) | Share pledges | Subsidiary debts guaranteed by TCC | Loans to subsidiaries |
|----------------------------|----------------------------|----------------------------|----------------|--|----------------|------------------|----------------|---------------|------------------------------------|-----------------------|
| Taiwan Tele-Shop Co., Ltd. | 1,910,000                  | Internally generated funds | 50.02%         | Purchase 10/2000 - 12/2000               | 2,800,000      | 163,109          | -              |               |                                    |                       |
|                            |                            |                            |                | Stock dividend 5/15/2001                 | 896,616        | -                | -              |               |                                    |                       |
|                            |                            |                            |                | Stock dividend 9/28/2002                 | 702,357        | -                | -              |               |                                    |                       |
|                            |                            |                            |                | Stock dividend 8/23/2003                 | 175,958        | -                |                |               |                                    |                       |
|                            |                            |                            |                | Balance as of the report's printing date | 4,574,931      | 163,109          | -              | None          | None                               | None                  |

Note: TCC acquired 50.02% of Taiwan Tele-Shop through Taihsing Den Den Co., Ltd.

## Major Resolutions in Shareholders' and Board Meetings

### 1. Major resolutions in the 2003 shareholders' meeting:

Matters approved and discussed:

- (1) Business report and financial report for 2002
- (2) 2002 earnings appropriation proposal
- (3) 2002 stock dividend proposal
- (4) Amendments to the Company's Articles of Incorporation
- (5) Amendments to the "Procedures for Acquisition or Disposal of Assets"
- (6) "Operating procedures for loan and endorsement guarantee" proposal
- (7) "Waiver of non-competition responsibility" for directors

Election of board directors:

Mr. Wen-Li Yeh and Mr. Jack J.T. Huang were elected as independent directors.

### 2. Major resolutions in board meetings from 2002 to present:

- (1) Holding of the 2003 general shareholders' meeting
- (2) Change in shareholders' meeting venue and additional convening subjects
- (3) Proposed distribution of 2002 profits
- (4) Release of 2003 financial forecast reviewed by auditors
- (5) Election of two independent directors
- (6) Mr. Daniel Tsai elected as the Acting Chairman of TCC
- (7) Mr. Daniel Tsai elected as the Chairman of TCC
- (8) Establishment of a "Corporate Governance Committee" under the Board of Directors
- (9) Appointment of new President/CEO
- (10) Establishment of an "Audit Committee" under the Board of Directors
- (11) Disposal of Chunghwa Telecom (CHT) shareholdings
- (12) Appointment of a new chief auditor
- (13) Issuance of shares in the company's first and second unsecured convertible bonds
- (14) Cancellation of treasury shares
- (15) Holding of the 2004 general shareholders' meeting
- (16) Proposed distribution of 2003 profits

The above information is posted on <http://mops.tse.com.tw>.

## Execution of Shareholders' Meeting Resolutions

Resolutions made in the 2003 general shareholders' meeting have all been duly executed.

## Violation of Regulations and Internal Policies

### 1. Violation of Regulations:

Article 73 of "Regulations Governing Mobile Communication Business" states that operators shall verify and register pre-paid subscriber information and keep files for future reference. An official letter from the Ministry of Transportation and Communications dated Jan. 13, 2004, stated that the company has violated this regulation, as well as Article 63 of the Telecommunications Act, and thus, ordered a fine of NT\$300,000.

### 2. Violation of Internal Policies:

None

### 3. Improvement:

To prevent the rampant illegal use of third-party names, TCC improved its verification process for collective applications, where more than five pre-paid card numbers can be registered under one subscriber's name. TCC utilized the Household Registration Office's Lost ID Card Records as one of its main sources of reference.

|  | Address  | Telephone      |
|--|--|----------------|
| Head Office  | 13F-1, No. 172-1, Jilung Rd., Sec. 2, Daan Dist., Taipei                                     | (02) 6638-6888 |
| Taipei Bade Service Center                           | No. 34, Bade Rd., Sec. 3, Songshan Dist., Taipei   | (02) 6606-0935 |
| Taipei Jhongsiao East Service Center                 | No. 659~663, Jhongsiao E. Rd., Sec. 5, Sinyi Dist., Taipei                                   | (02) 6636-0935 |
| Taipei Wunlin Service Center                         | No. 676, Wunlin Rd., Shihlin Dist., Taipei   | (02) 6611-0935 |
| Taipei Daan Service Center                           | No. 172-3, Jilung Rd., Sec. 2, Daan Dist., Taipei  | (02) 6636-0920 |
| Taipei Hengyang Service Center                       | No. 7, Hengyang Rd., Jhongjheng Dist., Taipei  | (02) 6632-0935 |
| Neihu Kwangtien Service Center                       | No. 498, Rueiguang Rd., Neihu Dist., Taipei  | (02) 6600-0939 |
| Jilung Yiyi Service Center                           | No. 72, Yiyi Rd., Jhongjheng Dist., Jilung City  | (02) 2425-8838 |
| Lodong Shindong Service Center                       | No. 150, Shindong Rd., Lodong Cheng, Ilan County   | (03) 956-2221  |
| Hualian Jhongjheng Service Center                    | No. 46, Sanmin Road, Hualian City, Hualian County  | (03) 835-1655  |
| Panchiao Service Center                              | No. 33, Minzu Rd., Panchiao City, Taipei County  | (02) 8964-8111 |
| Tomson Service Center                                | 1F-2, No. 2, Lane 609, Chongsin Rd., Sec. 5, Sanchong City, Taipei County                    | (02) 6635-0935 |
| Yongho Fuho Service Center                           | No.137, Fuho Rd., Yongho City, Taipei County   | (02) 6628-0935 |
| Taoyuan Chenggong Service Center                     | 1F/2F, No. 86, Sec. 2, Chenggong Rd., Taoyuan City, Taoyuan County                           | (03) 260-0935  |
| CKS International Airport Terminal I Service Center  | No. 15, Hangjhan S. Rd., Puxin Village, Dayuan Township, Taoyuan County (3F, Departure Hall) | (03) 393-1505  |
| CKS International Airport Terminal II Service Center | No. 9, Hangjhan S. Rd., Dayuan Township, Taoyuan County                                      | (03) 383-3207  |
| Jhongli Huanbei Service Center                       | No. 542, Huanbei Rd., Jhongli City, Taoyuan County   | (03) 433-2313  |
| Hsinchu Jhongjheng Service Center                    | No. 9-11, Jhongjheng Rd., Hsinchu City   | (03) 524-5232  |
| Jhunan Boai Service Center                           | No. 148, Boai St., Jhunan Township, Miaoli County  | (037) 465-358  |
| Taichung Jhonggang Service Center                    | No. 7, Sec. 2, Jhonggang Rd., Situn Dist., Taichung City                                     | (04) 3600-0935 |
| Taichung Wunsin Service Center                       | 1F/2F, No. 151, Sec. 4, Wunsin Rd, Beitun Dist., Taichung City                               | (04) 3602-0935 |
| Fongyuan Jhongjheng Service Center                   | No. 448, Jhongjheng Rd., Fongyuan City, Taichung County                                      | (04) 606-0935  |
| Changhua Jhongjheng Service Center                   | No. 1, Sec. 1, Jhongjheng Rd., Changhua City, Changhua County                                | (04) 700-0935  |
| Douliou Jhengbei Service Center                      | No. 10-12, Jhengbei Rd., Douliou City, Yunlin County   | (05) 535-0935  |
| Chiayi Linsen Service Center                         | No. 185, Linsen W. Rd., Chiayi City  | (05) 310-0935  |
| Tainan Jhonghua East Service Center                  | No. 48, Jhonghua E. Rd., Sec. 3, Eastern Dist., Tainan City                                  | (06) 600-0935  |
| Tainan Minsheng Service Center                       | 1F, No. 279, Minsheng Road, Sec. 2, Western Dist., Tainan City                               | (06) 228-0299  |
| Kaohsiung Linsen Service Center                      | No. 243-1, Linsen 1st Rd., Sinsing Dist., Kaohsiung City                                     | (07) 969-0935  |
| Kaohsiung Mincyuan Service Center                    | No. 1, Mincyuan 1st Rd., Lingya Dist., Kaohsiung City  | (07) 965-0935  |
| Kaohsiung Fongshan Service Center                    | No. 148-1~3, Jhongshan Rd., Fongshan City, Kaohsiung County                                  | (07) 742-8689  |
| Pingtung Fusing Service Center                       | 1F, No. 586-3, Zihyou Road, Pingtung City, Pingtung County                                   | (08) 810-0935  |
| Taichung Service Center                              | 18F, No. 185, Jhonggang Rd., Sec. 1, Western Dist., Taichung City                            | (04) 2324-1999 |
| Kaohsiung Service Center                             | 27F, No. 6, Mincyuan 2nd Rd., Cianjheng Dist., Kaohsiung City                                | (07) 337-8900  |



**TAIWAN CELLULAR  
CORPORATION**

**TCC**

15F, No. 172-1, Sec. 2, Ji-Lung Rd., Taipei 106, Taiwan, R.O.C.  
<http://www.tcc.net.tw>