

ARIMA OPTOELECTRONICS CORP.
Non-Consolidated Financial Statements
December 31, 2003 and 2002
(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
Arima Optoelectronics Corp.

We have audited the non-consolidated balance sheets of Arima Optoelectronics Corp. as of December 31, 2003 and 2002, and the related non-consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements supporting the Company's long-term equity investments in certain investees accounted for under the equity method stated at NT\$26,362 thousand and NT\$32,359 thousand as of December 31, 2003 and 2002, respectively, and the related investment losses of NT\$12,827 thousand and of NT\$2,721 thousand for the years ended December 31, 2003 and 2002, respectively. The financial statements of these companies were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts for these companies, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Arima Optoelectronics Corp. as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of China.

January 19, 2004

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

ARIMA OPTOELECTRONICS CORP.

Non-Consolidated Statements of Income

Years ended December 31, 2003 and 2002

(Expressed in thousands of New Taiwan dollars, except for earnings per share, which are expressed in New Taiwan dollars)

	2003		2002	
	Amount	%	Amount	%
Operating revenue (note 15):				
Sales	\$ 2,041,574	102	1,222,779	101
Less: sales returns and allowances	<u>30,848</u>	<u>2</u>	<u>15,154</u>	<u>1</u>
	2,010,726	100	1,207,625	100
Cost of sales	<u>1,487,630</u>	<u>74</u>	<u>949,701</u>	<u>79</u>
Gross profit	<u>523,096</u>	<u>26</u>	<u>257,924</u>	<u>21</u>
Operating expenses (notes 15 and 18):				
Selling	13,465	1	11,055	1
Administrative	52,412	2	35,803	2
Research and development	<u>73,775</u>	<u>4</u>	<u>81,437</u>	<u>7</u>
	<u>139,652</u>	<u>7</u>	<u>128,295</u>	<u>10</u>
Operating income	<u>383,444</u>	<u>19</u>	<u>129,629</u>	<u>11</u>
Non-operating income:				
Interest income	1,576	-	2,372	-
Foreign exchange gain, net	14,597	1	4,307	-
Gain from recovery in the value of inventory	2,500	-	-	-
Other	<u>11,731</u>	<u>-</u>	<u>7,639</u>	<u>1</u>
	<u>30,404</u>	<u>1</u>	<u>14,318</u>	<u>1</u>
Non-operating expenses and losses:				
Interest expenses	12,925	-	10,813	1
Investment loss (note 6)	33,397	2	26,828	3
Provision for inventory obsolescence and net realizable value	-	-	2,292	-
Other	<u>1,598</u>	<u>-</u>	<u>3,308</u>	<u>-</u>
	<u>47,920</u>	<u>2</u>	<u>43,241</u>	<u>4</u>
Income before income taxes	365,928	18	100,706	8
Income tax benefit (note 12)	<u>15,867</u>	<u>1</u>	<u>56,499</u>	<u>5</u>
Net income	<u>\$ 381,795</u>	<u>19</u>	<u>157,205</u>	<u>13</u>
	Before	After	Before	After
	income	income	income	income
	taxes	taxes	taxes	taxes
Primary earnings per share (note 13)	<u>\$ 2.76</u>	<u>2.88</u>	<u>0.77</u>	<u>1.20</u>
Diluted earnings per share (note 13)	<u>\$ 2.68</u>	<u>2.79</u>		

See accompanying notes to non-consolidated financial statements.

ARIMA OPTOELECTRONICS CORP.

Non-Consolidated Statements of Cash Flows

Years ended December 31, 2003 and 2002
(Expressed in thousands of New Taiwan dollars)

	2003	2002
Cash flows from operating activities:		
Net income	\$ 381,795	157,205
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and provision for sales returns and allowances	308,981	199,000
Investment loss under equity method	33,397	26,828
Provision (recovery) for inventory obsolescence and net realizable value	(2,500)	2,292
Increase in notes and accounts receivable	(92,849)	(218,477)
Decrease (increase) in inventories	(17,650)	28,277
Increase in prepaid expenses and other current assets	(22,279)	(18,622)
Increase in deferred income tax assets, net	(15,867)	(60,859)
Increase in notes and accounts payable	26,660	100,811
Increase in accrued expenses and other current liabilities	31,917	22,636
Other	<u>1,034</u>	<u>136</u>
Net cash provided by operating activities	<u>632,639</u>	<u>239,227</u>
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(429,267)	(550,764)
Proceeds from disposal of property, plant and equipment	-	1,225
Increase in long-term investments	(12,426)	(45,000)
Proceeds from disposal of long-term equity investments	264	-
Other	<u>(9,314)</u>	<u>(1,735)</u>
Net cash used in investing activities	<u>(450,743)</u>	<u>(596,274)</u>
Cash flows from financing activities:		
Issuance of common stock	-	22,500
Increase in long-term borrowings	162,375	110,622
Increase (decrease) in short-term borrowings	(66,358)	31,469
Payments of cash dividends and directors' and supervisors' remuneration	<u>(70,606)</u>	<u>-</u>
Net cash provided by financing activities	<u>25,411</u>	<u>164,591</u>
Net increase (decrease) in cash and cash equivalents	207,307	(192,456)
Cash and cash equivalents at beginning of year	<u>75,572</u>	<u>268,028</u>
Cash and cash equivalents at end of year	\$ <u>282,879</u>	\$ <u>75,572</u>
Supplementary disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ <u>12,846</u>	\$ <u>10,936</u>
Income taxes	\$ <u>4,170</u>	\$ <u>191</u>
Supplementary disclosures of non-cash financing activities:		
Current installments of long-term borrowings	\$ <u>215,318</u>	\$ <u>54,400</u>
Cash paid for acquisition of property, plant and equipment:		
Acquisition of property, plant and equipment	\$ 429,738	570,301
Increase in payable for purchase of property, plant and equipment	<u>(471)</u>	<u>(19,537)</u>
Cash paid	\$ <u>429,267</u>	\$ <u>550,764</u>

See accompanying notes to non-consolidated financial statements.

ARIMA OPTOELECTRONICS CORP.

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

(Expressed in thousands of New Taiwan dollars unless otherwise specified)

(1) Organization

Arima Optoelectronics Corp. (the "Company") was incorporated on September 28, 1998. The major business activities of the Company are the manufacture and sale of LED wafers, LED chips, and laser diode ("LD") chips.

As of December 31, 2003, the number of employees in the Company was approximately 582.

(2) Summary of Significant Accounting Policies

The accompanying non-consolidated financial statements are prepared in accordance with accounting principles generally accepted in the ROC. These non-consolidated financial statements are not intended to present the financial position of the Company and the related non-consolidated results of operations and cash flows based on accounting principles and practices generally accepted in countries and jurisdictions other than the ROC. The financial statements of the Company's subsidiaries are not consolidated in the accompanying non-consolidated financial statements. The major accounting policies adopted in preparing the accompanying non-consolidated financial statements are summarized below.

(a) Foreign currency transactions and translation

The Company's functional currency is the New Taiwan dollar. The translation from the applicable foreign currency assets and liabilities to the New Taiwan dollar is performed using exchange rates in effect at the balance sheet date except for stockholders' equity, which is translated at historical exchange rates. Revenue and expense accounts are translated using average exchange rates during the year. Gains and losses resulting from such translations are recorded as a foreign currency translation adjustment, a separate component of stockholders' equity.

Foreign currency transactions are recorded at the exchange rates prevailing at the transaction dates. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated using the exchange rates prevailing on that date. The resulting exchange gains or losses from settlement of such transactions or translations of monetary assets and liabilities are reflected in the accompanying non-consolidated statements of income.

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ARIMA OPTOELECTRONICS CORP.**Notes to Non-Consolidated Financial Statements**

The Company's foreign exchange forward contracts committed to hedge foreign currency receivables and payables are recorded in New Taiwan dollars at the exchange rate on the date the contract is entered into. The difference between the current spot rate on the contract date and the forward rate is amortized as an exchange gain or loss over the term of the contract. The translation difference resulting from translation of foreign exchange forward contracts using the year-end exchange rate on the balance sheet date and on the date of settlement is recorded as non-operating income or losses in the accompanying non-consolidated statements of income.

(b) Cash equivalents

The Company considers all highly liquid investments, such as investments in commercial paper and government bonds with repurchase agreements, with maturity of three months or less to be cash equivalents.

(c) Inventories

Inventories are stated at the lower of cost or fair value. Cost is determined using the moving weighted-average method. The fair value of raw material is determined on the basis of replacement cost. Fair values of finished goods and work-in-process are determined on the basis of net realizable value.

(d) Long-term equity investments

Long-term equity investments in listed (or over-the-counter) companies in which the Company owns less than 20% of the investee's voting shares and is not able to exercise significant influence over the investee's operations and financial policies are accounted for using the lower-of-cost-or-market method. Unrealized investment loss is recorded as a reduction in stockholders' equity. Long-term equity investments in unlisted companies in which the Company owns less than 20% of the investee's voting shares are stated at cost. However, if there is evidence indicating that a decline in the value of an investment is other than temporary, then the carrying amount of the investment is reduced to reflect its net realizable value, and the difference between the cost and the carrying amount is recognized in the accompanying non-consolidated statements of income. Stock dividends are not recognized as income but as an increase in the number of shares held. Upon sale of long-term equity investments, cost of investment sold is determined using the weighted-average method.

Long-term equity investments in which the Company, directly or indirectly, owns 20% or more of the investee's voting shares, or less than 20% of the investee's voting shares but is able to exercise significant influence over the investee's operations and financial policies, are accounted for under the equity method. The difference between the acquisition cost and the net equity of the investee as of the acquisition date is deferred and amortized over five years using the straight-line method, and the amortization is recorded as investment income (loss) in the accompanying non-consolidated statements of income.

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ARIMA OPTOELECTRONICS CORP.

Notes to Non-Consolidated Financial Statements

Unrealized inter-company profits or losses resulting from transactions between the Company and its investees accounted for under the equity method or its subsidiaries are deferred. The profits or losses resulting from depreciated or amortized assets are recognized over the estimated economic lives of such assets. The profits or losses from other assets are recognized when realized.

The financial statements of foreign subsidiaries reported in foreign currencies are translated into New Taiwan dollars at the exchange rates prevailing on the balance sheet date, with the exception of stockholders' equity, which is translated at historical rates, and revenues, costs, and expenses, which are translated at the average exchange rates during the reporting period. Translation differences resulting from translation of the financial statements into New Taiwan dollars, net of income taxes, are recorded as foreign currency translation adjustment, a separate component of stockholders' equity. For long-term equity investments accounted for by the cost method, exchange losses resulting from translation at the exchange rate prevailing on the balance sheet date are also recorded as a foreign currency translation adjustment in stockholders' equity.

All the investees in which the Company, directly or indirectly, owns 50% or more of the investee's voting shares are the Company's subsidiaries. Consolidated financial statements should be prepared for the Company and its subsidiaries except for those subsidiaries whose total assets and revenue are less than 10% of those of the Company. But if the collective total of assets or revenue of such exempt subsidiaries exceeds 30% of that of the Company, the subsidiaries whose total assets or revenue exceeds 3% of the Company's total assets or revenue should still be included in the consolidated financial statements.

(e) Property, plant, equipment and leased assets

Property, plant and equipment are stated at acquisition cost. Maintenance and repair expenditures are recognized as current expenses, while significant additions, renewals, and improvements are capitalized and included in the cost of related assets and depreciated accordingly. Excluding land, depreciation of property, plant and equipment is provided over the estimated useful lives of the respective assets using the straight-line method less any salvage value as follows:

Machinery; research and development equipment	5 years
Office and other equipment	3~5 years
Leasehold improvements	5 years

(f) Deferred charges

Costs for acquisition of patent rights and computer software are deferred and amortized using the straight-line method over the shorter of their economic or legal lives. These deferred charges are classified as other assets after deduction of the related amortization.

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ARIMA OPTOELECTRONICS CORP.**Notes to Non-Consolidated Financial Statements****(g) Foreign currency options**

Foreign currency options are entered into for non-trading purposes and are not recorded as assets or liabilities at the contract date. Gains or losses resulting from execution of contracts are recognized as current income or expenses. Gains or losses resulting from translation with the market value offered by primary contracting financing institutions on the balance sheet date are recognized as non-operating income/loss. Premiums paid (or received) are recorded as current income or expenses upon the cash receipt or payment of the premium.

(h) Retirement plan

The Company has established an employee noncontributory defined benefit retirement plan (“the Plan”) covering full-time employees in the ROC. In accordance with the Plan, employees are eligible for retirement or are required to retire after meeting certain age or service requirements. Payments of retirement benefits are based on the years of service and salary when the employee retires. Each employee earns two months of salary for each of the first fifteen years of service, and one month of salary for each year of service thereafter. The maximum retirement benefit is forty-five months of salary.

The Company contributes 2% of salaries and wages to a pension fund maintained with the Central Trust of China on a monthly basis. Retirement benefits are paid to eligible participants on a lump-sum basis upon retirement.

The Company carries out an actuarial valuation of pension liability on the balance sheet date. If the accumulated benefit obligation exceeds the fair value of the retirement plan’s assets, a minimum pension liability will be recognized in the balance sheet. Net periodic pension costs are recognized based on the actuarial report and include service costs, amortization of unrecognized prior service costs, amortization of unrecognized transition benefit obligations, and amortization of unrecognized pension gains or losses, which are amortized over 18 years using the straight-line method.

(i) Revenue recognition

Sales revenues are recognized upon delivery of inventory and transfer of inventory risk. Provision for sales returns and allowances is estimated according to the possibility of occurrence based on past experience and is recognized as a deduction from sales revenue in the period the goods are sold.

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ARIMA OPTOELECTRONICS CORP.**Notes to Non-Consolidated Financial Statements****(j) Income taxes**

Income taxes are accounted for under the asset and liability method. Deferred income tax is determined based on differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect during the years in which the differences are expected to reverse. The income tax effects resulting from taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects resulting from deductible temporary differences and income tax credits are recognized as deferred income tax assets. The realization of the deferred income tax assets is evaluated, and if it is considered more likely than not that the asset will not be realized, a valuation allowance is recognized accordingly.

Classification of the deferred income tax assets or liabilities as current or non-current is based on the classification of the related asset or liability. If a deferred income tax asset or liability is not directly related to a specific asset or liability, then the classification is based on the expected realization date of such deferred income tax asset or liability.

Investment tax credits are accounted for using the flow-through method. Therefore, deductible income taxes resulting from expenditures for research and development and professional training are recognized in the year in which these expenditures occur.

According to the ROC Income tax Law, the Company's undistributed income, if any, earned after December 31, 1997, is subject to an additional 10% retained earnings tax. The surtax is charged to income tax expense after the appropriation of earnings is approved by the stockholders in the following year.

(k) Primary earnings per common share

Primary earnings per common share are computed based on net income divided by the weighted-average number of common shares outstanding during the period. The effect on earnings per share from the increase in stock through the issuance of stock dividends from unappropriated earnings, capital surplus, and employees' bonuses is computed retroactively.

The employee stock options issued by the Company are potential common shares. Both primary net income per share and fully diluted net income per share shall be disclosed if there is a dilution effect from the potential common stock. For the purpose of calculating diluted earnings per share, the potential common shares should be deemed to have been converted into common stock at the beginning of the period, and the effect on net income attributable to additional common shares outstanding should be considered accordingly.

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ARIMA OPTOELECTRONICS CORP.

Notes to Non-Consolidated Financial Statements

(3) Cash and Cash Equivalents

	December 31, 2003	December 31, 2002
Cash on hand and cash in banks	\$ 112,157	47,677
Time deposits	-	20,895
Commercial paper and government bonds acquired under repurchase agreements	<u>170,722</u>	<u>7,000</u>
	<u>\$ 282,879</u>	<u>75,572</u>

(4) Notes and Accounts Receivable

	December 31, 2003	December 31, 2002
Notes receivable	\$ 92,282	44,973
Accounts receivable	<u>340,553</u>	<u>295,013</u>
	432,835	339,986
Less: allowance for doubtful accounts	(382)	-
provision for sales returns and discounts	<u>(5,806)</u>	<u>-</u>
	<u>\$ 426,647</u>	<u>339,986</u>

(5) Inventories

	December 31, 2003	December 31, 2002
Finished goods	\$ 88,677	98,504
Work in process	146,941	131,607
Raw materials	<u>64,858</u>	<u>53,140</u>
	300,476	283,251
Less: provision for inventory obsolescence	<u>(25,000)</u>	<u>(27,500)</u>
	<u>\$ 275,476</u>	<u>255,751</u>
Insurance coverage for inventories	<u>\$ 209,500</u>	<u>284,549</u>

(6) Long-term Equity Investments

	December 31, 2003		December 31, 2002	
	Percentage of Ownership	Amount	Percentage of Ownership	Amount
Equity method:				
Arima Optoelectronics (UK) Ltd.	100.00%	26,362	100.00%	32,359
Alliance Epitaxy Inc.	55.00%	<u>52,045</u>	55.00%	<u>72,615</u>
		78,407		104,974
Cost method:				
Arima Communication Corp.	1.18%	<u>52,510</u>	1.20%	<u>45,000</u>
		<u>\$ 130,917</u>		<u>149,974</u>

(Continued)

ARIMA OPTOELECTRONICS CORP.

Notes to Non-Consolidated Financial Statements

Investment losses from long-term equity investments accounted for under the equity method for the years ended December 31, 2003 and 2002, amounted to \$33,397 and \$26,828, respectively. Such investment losses were accounted for based on the audited financial statements of the non-consolidated subsidiaries.

(7) Property, Plant and Equipment

As of December 31, 2003 and 2002, the insurance coverage on property, plant and equipment was \$1,728,082 and \$1,360,117, respectively.

(8) Short-term Borrowings

	December 31, 2003	December 31, 2002
Loans under usance letters of credit (L/C)	\$ <u>-</u>	<u>66,358</u>
Unused credit lines	\$ <u>401,027</u>	<u>423,395</u>
Annual interest rates	0.30%~0.61%	0.61%~0.87%

The details of pledged assets are disclosed in note 16.

(9) Long-term Borrowings

Bank	Repayment period	December 31, 2003	December 31, 2002
Chiao-Tung Bank	Sep. 2000~Sep. 2005	\$ 53,600	108,000
Chiao-Tung Bank	Jun. 2002~Jun. 2006	350,000	212,202
Chiao-Tung Bank	Mar.2003~Mar.2007	<u>78,976</u>	<u>-</u>
		482,576	320,202
Less: current installment		<u>(215,318)</u>	<u>(54,400)</u>
		\$ <u>267,258</u>	<u>265,802</u>
Annual interest rates		2.87%~4.10%	3.37%~4.41%

(a) The details of pledged assets are disclosed in note 16.

(b) In March, 2003, the Company entered into a long-term loan agreement with a total credit line of \$130,000 with Chiao-Tung Bank for purchasing machinery and equipment. As of December 31, 2003, \$78,976 of the credit line was used. According to the agreement, the Company promises that its current ratio will remain over 100% and its liabilities ratio (liabilities / equities) will be under 150% within the loan repayment period calculated based on the Company's annual audited financial statements.

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ARIMA OPTOELECTRONICS CORP.

Notes to Non-Consolidated Financial Statements

(c) As of December 31, 2003, long-term borrowings that will become due during the next three years and thereafter were as follows:

Period	Amount
2004.01.01~2004.12.31	\$ 215,318
2005.01.01~2005.12.31	152,719
2006.01.01~2006.12.31	<u>114,539</u>
	<u>\$ 482,576</u>

(10) Retirement Plan

The Company carried out an actuarial valuation of its pension plan on December 31, 2003 and 2002. According to the actuarial reports, the reconciliation of the plan's funded status and accrued pension liability was as follows:

	December 31, 2003	December 31, 2002
Benefit obligations:		
Vested benefit obligation	\$ -	-
Non-vested benefit obligation	<u>(9,349)</u>	<u>(5,253)</u>
Accumulated benefit obligation	(9,349)	(5,253)
Additional benefits based on future salaries	<u>(10,352)</u>	<u>(4,621)</u>
Projected benefit obligation	(19,701)	(9,874)
Fair value of plan assets	<u>8,713</u>	<u>4,941</u>
Funded status	(10,988)	(4,933)
Unrecognized pension loss	9,341	4,020
Net unrecognized transition benefit obligation	565	605
Minimum pension liability	-	(4)
Accrued pension liability	<u>\$ (1,082)</u>	<u>(312)</u>

The net pension cost in 2003 and 2002 consisted of the following:

	2003	2002
Service cost	\$ 3,999	2,491
Interest cost	395	243
Actual return on plan assets	(225)	(85)
Net amortization and deferral	<u>152</u>	<u>(23)</u>
Net pension cost	<u>\$ 4,321</u>	<u>2,626</u>

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ARIMA OPTOELECTRONICS CORP.

Notes to Non-Consolidated Financial Statements

Actuarial assumptions were as follows:

	2003	2002
Discount rate	3.00%	4.00%
Rate of increase in future compensation levels	5.00%	4.50%
Expected long-term rate of return on plan assets	3.00%	4.00%

As of December 31, 2003 and 2002, the vested benefits for retirement amounted to \$0.

(11) Stockholders' Equity

(a) Common stock and capital increase

Based on a resolution of the annual stockholders' meeting held on June 25, 2002, the Company decided to reserve \$60,000 of its authorized capital for issuing employee stock options and convertible bonds. The Company decided to increase the above-mentioned capital reservation common stock to \$100,000 based on a resolution of the special stockholders' meeting held on July 2, 2003.

The Company increased its capital by cash injection from issuing of 1,250 shares of common stock at \$18 per share based on a resolution of the directors' meeting held on August 16, 2002. The registration procedures of the cash injection were completed with the authorities.

As of December 31, 2003 and 2002, the Company's authorized common stock, at a par value of \$10 (New Taiwan dollars) per share, totaled \$2,000,000. Total common stock issued and outstanding amounted to \$1,325,000.

(b) Employee stock options

The Company was authorized by the Securities and Futures Commission ("SFC") to issue employee stock options of 6,000 and 4,000 units on August 29, 2002, and July 14, 2003, respectively. According to the option plan, each unit could be converted into 1,000 common shares. The Company issued 3,960 units, 2,040 units, and 4,000 units on January 8, March 28, and July 21, 2003, respectively. As of December 31, 2003, none of the above issued units had been exercised yet.

The primary terms and conditions are as follows:

Exercise price: The exercise price of the three issuances of options are NT\$12, NT\$12, and NT\$15 per share, respectively.

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ARIMA OPTOELECTRONICS CORP.**Notes to Non-Consolidated Financial Statements**

- (i) Exercise period: The options are exercisable at the rates below after two years from the grant date: 50% of the options are exercisable after two years from the grant date and 75% after three years from the grant date; the options can be fully exercised after four years from the grant date. The term of the employee stock options is 5 years, and the rights of the options shall not be transferable, with the exception of inherited options.
- (ii) Procedure for fulfilling obligation: The Company fulfills its obligation by issuing new common stock.
- (iii) Procedure for exercising stock option: The Company would issue new common stock according to the employee stock option plan. The Company would apply for the authorization and registration of the new stock issuance from the government authorities at least once a quarter.

(c) Capital surplus

Pursuant to the ROC Company Law, the capital surplus can only be used to offset a deficit, and only the capital surplus resulting from premium on issuance of capital stock and earnings from granted assets received can be used to increase common stock. Issuance of stock dividends from capital surplus that were derived from paid-in capital in excess of par value can be made only once a year, and cannot be made in the same year that such cash subscription is received. Additionally, the amount of the new stock issued from capital surplus should not exceed 10% of the Company's paid-in capital.

(d) Distribution of earnings and dividend policy

According to the Company's articles of incorporation, 10% of annual net income after tax is to be set aside as legal reserve after offsetting prior years' deficits, if any. Also a special reserve should be retained when necessary. Dividends equal to 5% of the paid-in capital should then be distributed thereafter. The remaining balance, if any, should be distributed as follows:

- (i) 3% or less as remuneration to directors and supervisors.
- (ii) 5% or more as employees' bonuses.
- (iii) The distribution of remaining earnings is determined by the board of directors and approved by the stockholders at their annual meeting.

In accordance with the Company's articles of incorporation, at least 60% of the earnings should be distributed by issuing stock dividends first then cash dividends. However, at least 30% of the total dividends distributed should be distributed as cash dividends if the Company's capital expenditures could be fully covered through a cash injection in the future.

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ARIMA OPTOELECTRONICS CORP.

Notes to Non-Consolidated Financial Statements

Pursuant to the ROC Company Law, the legal reserve shall only be used to offset an accumulated deficit, except that one-half of the legal reserve may be used to increase capital based on the resolution of the stockholders' meeting when it reaches 50% of paid-in capital.

According to SFC regulations, when there is a reduction in stockholders' equity during the year, an amount equal to the reduction should be appropriated as special reserve within retained earnings, which should be approved by the stockholders' meeting. The special reserve will be available for dividend distribution only after the related stockholders' equity reduction has been reversed by the approval of the stockholders' meeting.

Employees' bonuses and directors' and supervisors' remuneration appropriated from the distributable retained earnings of 2002 were as follows:

	Amount
Employees' bonuses – cash	\$ 3,630
Directors' and supervisors' remuneration	<u>726</u>
	<u>\$ 4,356</u>

If the above distribution were recorded as expenses in 2002, the pro forma primary earnings per share (after income taxes) of 2002 would be \$1.16 New Taiwan dollars.

The distribution of earnings for year 2003 is subject to the decision of the board of directors and the approval of the stockholders' meeting. According to ROC SFC regulation, the related information about earnings distribution can be queried in the Market Observation Post System after the above meetings are held by the Company.

(12) Income Taxes

- (a) The Company's purchase of machinery through proceeds from common stock issuances met the prescribed criteria under the "Statute for Upgrading Industries". Following are the details of the Company's tax exemptions approved by the Ministry of Finance:

Year of capital injection	Tax exemption period	Tax exemption chosen	Date authorized
1998	January 1, 2003 ~ December 31, 2007	Tax exemption on the Company's income taxes for five years	December 2001
1999	-	Stockholders' investment tax credit	January 2002
2000	-	Stockholders' investment tax credit	The investment plan is not completed yet.

(Continued)

ARIMA OPTOELECTRONICS CORP.

Notes to Non-Consolidated Financial Statements

- (b) The Company is subject to a maximum income tax rate of 25%. Income tax benefit for 2003 and 2002 was as follows:

	2003	2002
Current income tax expense	\$ -	4,360
Deferred income tax benefit:		
Decrease (increase) in investment tax credits	21,455	(75,812)
Decrease in loss carryforward	-	22,232
Valuation allowance adjustments	(34,332)	(7,174)
Other	(2,990)	(105)
Income tax benefit	\$ <u>(15,867)</u>	<u>(56,499)</u>

- (c) The differences between expected income tax expense based on the statutory income tax rate and the actual income tax expense (benefit) as reported in the accompanying financial statements in 2003 and 2002 are summarized as follows:

	2003	2002
Expected income tax expense	\$ 91,757	25,166
Tax exemption	(9,641)	-
Increase in investment tax credits	(49,512)	(82,310)
Prior years' investment tax credit adjustments	(19,283)	2,139
Valuation allowance adjustments	(34,332)	(7,174)
Other	5,144	5,680
Income tax benefit	\$ <u>(15,867)</u>	<u>(56,499)</u>

The above-mentioned investment tax credit adjustments in 2003 of \$19,283 were mainly due to the under-estimation resulting from the increase in the deductible rate from 10% to 13% for the purpose of purchasing machinery from overseas.

(Continued)

ARIMA OPTOELECTRONICS CORP.

Notes to Non-Consolidated Financial Statements

- (d) The components of deferred income tax assets (liabilities) as of December 31, 2003 and 2002, were as follows:

	December 31, 2003	December 31, 2002
Deferred income tax assets:		
Provision for inventory obsolescence and net realizable value	\$ 6,250	6,875
Investment tax credits	180,276	201,731
Other	<u>4,661</u>	<u>1,430</u>
	191,187	210,036
Less: valuation allowance for deferred income tax assets	<u>(28,678)</u>	<u>(63,011)</u>
	<u>162,509</u>	<u>147,025</u>
Deferred income tax liabilities:		
Foreign currency translation adjustments	925	417
Unrealized foreign exchange gain	<u>-</u>	<u>385</u>
	<u>925</u>	<u>802</u>
Net deferred income tax assets	<u>\$ 161,584</u>	<u>146,223</u>
Deferred income tax assets – current, net	\$ 82,555	36,838
Deferred income tax assets – non-current, net	<u>79,029</u>	<u>109,385</u>
Net deferred income tax assets	<u>\$ 161,584</u>	<u>146,223</u>

- (e) Information about integrated income tax system

Beginning in 1998, the integrated income tax system was implemented in the ROC. Under the new tax system, the income tax paid at the corporate level can be used to offset the ROC resident stockholders' individual income tax. The Company was required to establish an Imputation Credit Account ("ICA") to maintain a record of the corporate income taxes paid and imputation credit that can be allocated to each stockholder. The credit available to the ROC resident stockholders is calculated by multiplying the dividend by the creditable ratio. The creditable ratio is calculated by dividing the balance of the ICA by earnings retained since January 1, 1998.

Non-resident stockholders are not eligible for the imputation credit. However, the 10% income surtax paid at the corporate level can be used to offset the dividend withholding tax paid by the non-resident stockholders at the time that dividends are distributed.

(Continued)

ARIMA OPTOELECTRONICS CORP.

Notes to Non-Consolidated Financial Statements

Information related to the ICA as of December 31, 2003 and 2002, is summarized as follows:

	December 31, 2003	December 31, 2002
Unappropriated retained earnings:		
Earned after January 1, 1998	\$ <u>413,737</u>	<u>113,943</u>
Imputation credit account balance	\$ <u>2,342</u>	<u>3,991</u>
	2003 (expected)	2002 (actual)
Creditable ratio for earnings distribution to ROC resident stockholders	<u>0.57%</u>	<u>7.33%</u>

- (f) According to the "Statute for Upgrading Industries", the purchase of automatic machinery and equipment for production, expenditure for research and development and training of professional personnel, and investment in qualified industries specified by the government entitle the Company to tax credits. As of December 31, 2003, the Company's remaining investment tax credits and their related expiration year were as follows:

Year occurred	Aggregated income tax credit	Unused investment tax credits	Expiration year
1989 (as reported)	\$ 50,940	-	2003
2000 (as assessed)	31,598	31,598	2004
2001 (as assessed)	41,362	41,362	2005
2002 (as reported)	101,625	57,804	2006
2003 (as estimated)	<u>49,512</u>	<u>49,512</u>	2007
	\$ <u>275,037</u>	<u>180,276</u>	

The aforementioned tax credits from purchases of machinery for automation of production are recognized based on the amount approved by the Industrial Development Bureau of the Ministry of Economic Affairs before December 31, 2003. The tax credits from research and development costs and professional training expenses are recognized based on the Company's estimations. ROC income tax regulations stipulate that investment tax credits can be used to offset up to 50% of a company's income tax liability, and any unused balance can be carried forward for the following four years, subject to the same percentage limitation for each year except for the last year, in which it will expire.

- (g) The Company's income tax returns have been examined and assessed by the tax authorities through 2001, except for 1999.

(Continued)

ARIMA OPTOELECTRONICS CORP.

Notes to Non-Consolidated Financial Statements

(13) Primary Earnings per Common Share

The employees' stock options have a dilution effect. The primary and diluted earnings per common share in 2003 and 2002 are computed as follows:

	2003		2002	
	Before income taxes	After income taxes	Before income taxes	After income taxes
Net income	\$ <u>365,928</u>	<u>381,795</u>	<u>100,706</u>	<u>157,205</u>
Weighted-average number of common shares outstanding during the year (thousand shares)	<u>132,500</u>	<u>132,500</u>	<u>131,438</u>	<u>131,438</u>
Weighted-average number of common shares outstanding during the year for computing diluted earnings per common share (thousand shares)	<u>136,724</u>	<u>136,724</u>	<u>-</u>	<u>-</u>
Primary earnings per common share	\$ <u>2.76</u>	<u>2.88</u>	<u>0.77</u>	<u>1.20</u>
Diluted earnings per common share	\$ <u>2.68</u>	<u>2.79</u>		

(14) Financial Instruments

(a) Derivatives

The purpose for the Company to enter into derivative contracts is to hedge existing foreign currency risk, and not for trading purposes.

(i) Option transactions

<u>Financial instruments</u>	December 31, 2003				
	<u>Nominal amount</u> US\$	<u>Contract dates</u>	<u>Expiration dates</u>	<u>Exercise price</u>	<u>Fair value</u> NT\$
Options sold	7,000	July 17, to December 17, 2003	January 16, to July 15, 2004	108.0~115.8 (JPY/US\$)	(5,131)

The Company did not have any derivative financial instruments as of December 31, 2002. Unrealized exchange loss resulting from the above option transactions was \$5,131 and was recorded as non-operating expenses.

(Continued)

ARIMA OPTOELECTRONICS CORP.**Notes to Non-Consolidated Financial Statements****(ii) Credit risk**

The amount of credit risk equals the aggregate amount of contracts with a positive fair value. The amount of the credit risk is a potential loss of the Company if the counterpart involved in that transaction defaults. Since the Company's derivative financial instrument agreements are entered into with financial institutions with good credit ratings, management does not believe that there is significant credit risk from these transactions.

(iv) Market risk

The purpose of the foreign currency options and the forward exchange contracts is to hedge the exchange risk of the foreign currency assets. Therefore, the gains or losses resulting from changes in exchange rates will be offset by those from the hedged item. Management believes that the related market risk is not significant.

(v) Cash requirements of derivative financial instruments

The Company enters into the aforementioned transactions only with reputable, creditworthy international financial institutions. The Company usually enters into transactions with several different financial institutions in order to minimize financial risk. The Company believes that the risk that the financial institutions will default on these contracts is relatively low. Even in the unlikely event that these institutions defaulted on their contracts, management does not believe the loss would have a material effect on the financial statements.

(vi) Purpose of using derivative instruments

The derivatives held by the Company are not for trading. The Company's options and forward exchange contracts are intended to hedge the risk of changes in foreign currency exchange rates. The Company's hedging strategy is intended to hedge most of the market risk. The Company uses those derivative instruments which are highly correlated with those items being hedged to function as hedging instruments, and they are evaluated periodically.

(vii) Presentation of derivatives in financial statements

For forward contracts payable and receivable resulting from forward exchange contracts that offset each other, the net balance is recorded in other current assets or liabilities.

(Continued)

ARIMA OPTOELECTRONICS CORP.

Notes to Non-Consolidated Financial Statements

(b) Non-derivative financial instruments

As of December 31, 2003 and 2002, the carrying amounts of non-derivative financial instruments approximated fair values except for those as shown below.

The fair values of long-term equity investments in listed (OTC) stocks are based on the market price. However, the fair value is not practicable if the stock is not publicly traded. As of December 31, 2003 and 2002, the carrying amount and original cost of investments in unlisted stocks were as follows:

	December 31, 2003		December 31, 2002	
	Carrying amount	Original cost	Carrying amount	Original cost
Long-term equity investments	\$ <u>130,917</u>	<u>209,276</u>	<u>149,974</u>	<u>196,970</u>

(c) Credit risk related to non-derivative instruments

The Company's major potential credit risk is derived from accounts receivable. The aggregation of sales to the Company's major customers exceeding 10% of the Company's total sales accounted for 62% and 65% of the total net sales in 2003 and 2002, respectively. The related accounts receivable from these customers accounted for 34% and 60% of the total accounts receivable as of December 31, 2003 and 2002, respectively. In order to reduce the credit risk, the Company assesses the financial status of the customers and the possibility of collection of receivables in order to estimate an adequate allowance for doubtful accounts on a regular basis. The customers have a good credit and profit record. The Company believes that the credit risk related to these accounts receivable is minor.

(15) Related-party Transactions

(a) Names and relationship

Name of related party	Relationship with the Company
Arima Computer Corp. (Arima)	The Company is Arima's investee
Arima Computer (Jiang Su) Corp. (Arima Jiang Su)	Arima's subsidiary
Alliance Epitaxy Inc. (Alliance)	The Company's subsidiary
Arima Optoelectronic (U.K.) Ltd. (AUK)	The Company's subsidiary
Stephen Lee	The Company's chairman

(Continued)

ARIMA OPTOELECTRONICS CORP.

Notes to Non-Consolidated Financial Statements

(b) Significant transactions with related parties

(i) Sales, and notes and accounts receivable

Net sales to related parties for the years ended December 31, 2003 and 2002, were as follows:

	2003		2002	
	Amount	% of net sales	Amount	% of net sales
Arima	\$ -	-	2,400	-
Alliance	-	-	100	-
Arima Jiang Su	43,407	2	-	-
	<u>\$ 43,407</u>	<u>2</u>	<u>2,500</u>	<u>-</u>

The selling prices and credit terms for Arima, Alliance and Arima Jiang Su are not materially different from those unrelated customers. Notes and accounts receivable as of December 31, 2003 and 2002, resulting from the above transactions were \$26,735 and \$0, respectively.

(ii) Operating leases

1. The Company leased a portion of Arima's Da-Hsieh factory. The rental was collected on a monthly basis and was negotiated based on local market price. The deposits to Arima were \$1,000. The related rental expenses for the years ended December 31, 2003 and 2002, were \$13,645 and \$13,627, respectively. Rental payable as of December 31, 2003 and 2002, resulting from the above transactions were \$2,746 and \$1,568, respectively.
2. The Company leased MOCVD machinery for the manufacture of LED wafers from Alliance beginning April 2003. The rental was determined based on the actual production and the depreciation of that machinery, and related utility and insurance expenses. Total rental expenses for the year ended December 31, 2003, were \$4,534, and rental expense payable as of December 31, 2003, was \$3,888.

(iii) Research and development expense

The Company assigned AUK to perform the research and development of LED technology from 2000. Related research expenses amounted to \$13,655 and \$21,366 for the years ended December 31, 2002 and 2003, respectively. Related payables as of December 31, 2003 and 2002, resulting from the above transactions were \$257 and \$2,461, respectively.

(Continued)

ARIMA OPTOELECTRONICS CORP.

Notes to Non-Consolidated Financial Statements

(iv) Service expenses and income

1. The Company assigned Arima to provide legal consulting and stock transfer agent services to the Company. Related expenses amounted to \$2,096 and \$885 for the years ended December 31, 2002 and 2003, respectively. Related payables as of December 31, 2003 and 2002, resulting from the above transactions were \$1,208 and \$885, respectively.
2. Alliance assigned the Company to provide accounting management, factory inspection services, etc., to the Company. Related income amounted to \$882 and \$532 for the years ended December 31, 2002 and 2003, respectively. Related receivables as of December 31, 2003 and 2002, resulting from the above transactions were \$221 and \$532, respectively, and were recorded as other current financial assets.

(v) Loans to related parties

The Company provided interest-free loans to Alliance in order to meet Alliance's working capital requirements and repayment of bank loans. The information for 2003 and 2002 was as follows:

Related party	Balances in 2003		Balances in 2002	
	Highest	Ending	Highest	Ending
Alliance	<u>\$ 10,000</u>	<u>10,000</u>	<u>-</u>	<u>-</u>

(vi) Other

Pursuant to the resolution of the board of directors' meeting, a director of the Company shall receive risk premiums amounting to 0.2% of annual average liabilities of the amounts endorsed by the director in case of securing loans for the Company. In 2003 and 2002, related risk premiums payable to the Company's chairman, Stephen Lee, amounted to \$773 and \$546, respectively. As of December 31, 2003 and 2002, \$61 and \$50, respectively, were still unpaid.

(16) Pledged Assets

Assets	Subject	December 31, 2003	December 31, 2002
Property, plant and equipment	Long-term borrowings	\$ 654,949	426,490
Other assets – pledged time deposits	Guarantees for foreign labor and tariff deposits	<u>1,935</u>	<u>1,901</u>
		<u>\$ 656,884</u>	<u>428,391</u>

(Continued)

ARIMA OPTOELECTRONICS CORP.

Notes to Non-Consolidated Financial Statements

(17) Commitments and Contingencies

(a) Commitments

- (i) Guarantee notes submitted as collateral for long-term and short-term loans amounted to \$1,508,045 and \$905,000, as of December 31, 2003 and 2002, respectively.
- (ii) The Company entered into operating lease contracts for the office premises at the Da-Hsieh factory with Arima, which will expire on February 29, 2004. The future minimum lease payments amounted to \$7,780 as of December 31, 2003.
- (iii) As of December 31, 2003 and 2002, the Company's unused letters of credit for the purchase of materials and machinery amounted to approximately \$124,072 and \$142,670, respectively. The fair value of these letters of credit is similar to their contract value.
- (iv) The Company entered into several agreements for the purchase of materials and machinery. As of December 31, 2003 and 2002, the unexpired contractual obligations related to these contracts amounted to \$80,472 and \$52,997, respectively.

(18) Reclassifications

- (a) Certain amounts in the non-consolidated financial statements as of December 31, 2002, have been reclassified to conform with the 2003 presentation. Such reclassifications have no significant influence on the accompanying non-consolidated financial statements.
- (b) Employee expense, depreciation, and amortization for the years ended December 31, 2003 and 2002, were as follows:

	2003			2002		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employee expense						
Salaries and wages	163,777	49,102	212,879	100,675	34,735	135,410
Labor and health insurance	13,782	3,086	16,868	8,643	2,442	11,085
Pension expense	3,840	481	4,321	2,262	364	2,626
Other	24,077	2,033	26,110	15,166	2,027	17,193
Depreciation	289,899	7,829	297,728	189,954	5,944	195,898
Amortization	2,504	2,560	5,064	1,839	1,681	3,520

(Continued)

ARIMA OPTOELECTRONICS CORP.

Notes to Non-Consolidated Financial Statements

(19) Segment Information

(a) Industry information

The Company is engaged solely in the manufacture and sale of LED wafers, LED chips, and LD chips.

(b) Geographic information

The Company has no foreign operating branches. Therefore, it does not need to disclose geographic information.

(c) Export sales

Export sales to geographic areas generating over 10% of the total revenue in the 2003 and 2002 statements of income are summarized as follows:

	2003	2002
Asia	\$ 1,490,892	942,417
Americas	225	105
Europe	<u>1,099</u>	<u>-</u>
	\$ <u>1,492,216</u>	<u>942,522</u>

(d) Major customer information

Sales to individual customers representing greater than 10% of the total sales for the years ended December 31, 2003 and 2002, are summarized as follows:

Customer Name	2003		2002	
	Amount	% of net sales	Amount	% of net sales
Customer A	\$ 935,646	47	426,702	35
Customer B	<u>294,586</u>	<u>15</u>	<u>355,362</u>	<u>30</u>
	\$ <u>1,230,232</u>	<u>62</u>	<u>782,064</u>	<u>65</u>

ARIMA OPTOELECTRONICS CORP.

Non-Consolidated Balance Sheets

December 31, 2003 and 2002

(Expressed in thousands of New Taiwan dollars)

Assets	2003		2002		Liabilities and Stockholders' Equity	2003		2002	
	Amount	%	Amount	%		Amount	%	Amount	%
Current assets:					Current liabilities:				
Cash and cash equivalents (note 3)	\$ 282,879	11	75,572	3	Short-term borrowings (note 8)	\$ -	-	66,358	3
Notes and accounts receivable, net (notes 4 and 15)	426,647	16	339,986	15	Notes and accounts payable	173,432	7	146,772	7
Other current financial assets (note 15)	22,332	1	12,636	1	Payables for purchase of property and equipment	26,021	1	25,550	1
Inventories (note 5)	275,476	10	255,751	11	Current installments of long-term borrowings (note 9)	215,318	8	54,400	2
Prepaid expenses and other current assets (notes 12 and 16)	<u>113,255</u>	<u>4</u>	<u>54,955</u>	<u>3</u>	Accrued expenses and other current liabilities (note 15)	<u>94,035</u>	<u>4</u>	<u>62,117</u>	<u>3</u>
	<u>1,120,589</u>	<u>42</u>	<u>738,900</u>	<u>33</u>		<u>508,806</u>	<u>20</u>	<u>355,197</u>	<u>16</u>
Long-term equity investments (note 6):					Long-term liabilities (note 9)	<u>267,258</u>	<u>10</u>	<u>265,802</u>	<u>12</u>
Long-term investment under equity method	78,407	3	104,974	5	Accrued pension liability (note 10)	<u>1,082</u>	<u>-</u>	<u>312</u>	<u>-</u>
Long-term investment under cost method	<u>52,510</u>	<u>2</u>	<u>45,000</u>	<u>2</u>	Total liabilities	<u>777,146</u>	<u>30</u>	<u>621,311</u>	<u>28</u>
	<u>130,917</u>	<u>5</u>	<u>149,974</u>	<u>7</u>	Common stock (note 11)	<u>1,325,000</u>	<u>49</u>	<u>1,325,000</u>	<u>60</u>
Property, plant and equipment (notes 7, 16 and 17):					Capital surplus – paid-in capital in excess of par value (note 11)	<u>166,250</u>	<u>6</u>	<u>166,250</u>	<u>7</u>
Machinery	1,858,009	69	1,442,266	64	Retained earnings (note 11):				
Research and development equipment	28,058	1	11,744	1	Legal reserve	11,995	-	600	-
Office equipment	11,520	-	8,645	-	Unappropriated earnings	<u>413,737</u>	<u>15</u>	<u>113,943</u>	<u>5</u>
Leasehold improvements	82,828	3	59,400	3		<u>425,732</u>	<u>15</u>	<u>114,543</u>	<u>5</u>
Other	<u>88,900</u>	<u>3</u>	<u>85,604</u>	<u>4</u>	Other adjusting items in stockholders' equity:				
	2,069,315	76	1,607,659	72	Foreign currency translation adjustment	<u>2,776</u>	<u>-</u>	<u>1,251</u>	<u>-</u>
Less: accumulated depreciation	(727,746)	(27)	(430,018)	(19)	Total stockholders' equity	<u>1,919,758</u>	<u>70</u>	<u>1,607,044</u>	<u>72</u>
Construction in progress and prepayments for purchase of property and equipment	<u>10,585</u>	<u>-</u>	<u>45,089</u>	<u>2</u>	Commitments and contingent liabilities (note 17)	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>1,352,154</u>	<u>49</u>	<u>1,222,730</u>	<u>55</u>					
Other assets and refundable deposits (notes 12 and 15)	<u>93,244</u>	<u>4</u>	<u>116,751</u>	<u>5</u>					
					Total liabilities and stockholders' equity	<u>\$ 2,696,904</u>	<u>100</u>	<u>2,228,355</u>	<u>100</u>
Total assets	<u>\$ 2,696,904</u>	<u>100</u>	<u>2,228,355</u>	<u>100</u>					

See accompanying notes to non-consolidated financial statements.

ARIMA OPTOELECTRONICS CORP.

Non-Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2003 and 2002
(Expressed in thousands of New Taiwan dollars)

	Common stock	Capital surplus	Retained earnings Legal reserve	Unappropriated earnings	Foreign currency translation adjustment	Total
Balance at January 1, 2002	\$ 1,312,500	156,250	600	(43,262)	(911)	1,425,177
Cash injection	12,500	10,000	-	-	-	22,500
Net income	-	-	-	157,205	-	157,205
Foreign currency translation adjustment	-	-	-	-	2,162	2,162
Balance at December 31, 2002	<u>1,325,000</u>	<u>166,250</u>	<u>600</u>	<u>113,943</u>	<u>1,251</u>	<u>1,607,044</u>
Appropriation:						
Legal reserve	-	-	11,395	(11,395)	-	-
Cash dividends	-	-	-	(66,250)	-	(66,250)
Employees' bonuses and directors' and supervisors' remuneration	-	-	-	(4,356)	-	(4,356)
Net income	-	-	-	381,795	-	381,795
Foreign currency translation adjustment	-	-	-	-	1,525	1,525
Balance at December 31, 2003	<u>\$ 1,325,000</u>	<u>166,250</u>	<u>11,995</u>	<u>413,737</u>	<u>2,776</u>	<u>1,919,758</u>

See accompanying notes to non-consolidated financial statements.