

**HIGH TECH COMPUTER CORP.**

**Financial Statements for the Years Ended  
December 31, 2001, 2002 and 2003 and  
Independent Auditors' Report**

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of  
High Tech Computer Corp.:

We have audited the accompanying balance sheets of High Tech Computer Corp. (the "Company") as of December 31, 2001, 2002 and 2003, and the related statements of operations, changes in stockholders' equity and cash flows for the years then ended (all expressed in New Taiwan dollars). 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 conducted our audits in accordance with auditing standards generally accepted in the Republic of China and "Guidelines for Certified Public Accountants' Examinations of and Reports on Financial Statements". Those standards and guidelines 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 provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of High Tech Computer Corp. as of December 31, 2001, 2002 and 2003, and the results of its operations and its cash flows for the years then ended, in conformity with "Regulations Governing the Preparation of Financial Statements of Public Companies" and accounting principles generally accepted in the Republic of China.

The Company maintains its accounts and expresses its financial statements in New Taiwan ("NT") dollars. The translation of the NT dollar financial statements as of and for the year ended December 31, 2003 into US dollars at NT\$33.97 to US\$1.00 was made solely for the convenience of the reader. The convenience translation should not be construed as representations that the NT dollar amounts have been, could have been or could in the future be, converted into US dollars at this or any other exchange rate.

Deloitte & Touche  
(T N Soong & Co and Deloitte & Touche (Taiwan) Established  
Deloitte & Touche Effective June 1, 2003)  
Taipei, Taiwan  
Republic of China

February 16, 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 in the Republic of China. Accordingly, the accompanying balance sheets of High Tech Computer Corp. and the related statements of operations, changes in stockholders' equity and cash flows as of and for the years ended December 31, 2001, 2002 and 2003 are not designed for those who are not informed about accounting principles, procedures and practices in the Republic of China. The standards, procedures and practices utilized in the Republic of China to audit such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China.*

# HIGH TECH COMPUTER CORP.

## BALANCE SHEETS

DECEMBER 31, 2001, 2002 AND 2003

(Expressed in Thousands of New Taiwan Dollars and United States Dollars)

ASSETS	2001	2002	2003		LIABILITIES AND STOCKHOLDERS' EQUITY	2001	2002	2003	
	NTD	NTD	NTD	USD		NTD	NTD	NTD	USD
<b>CURRENT ASSETS:</b>					<b>CURRENT LIABILITIES:</b>				
Cash and cash equivalents (Notes 2 and 3)	\$ 16,278	\$ 139,240	\$ 4,773,077	\$ 140,509	Short-term borrowings (Note 12)	\$ 1,179,348	\$ 381,185	\$ -	\$ -
Short-term investments (Notes 2 and 4)	-	-	30,573	900	Short-term commercial bills (Note 13)	448,549	99,694	-	-
Notes receivable, net (Notes 2 and 5)	815	48,266	35,736	1,052	Notes and accounts payable (Note 24)	1,717,553	3,803,461	4,947,233	145,635
Accounts receivable, net (Notes 2 and 5)	2,559,488	4,543,805	5,286,193	155,613	Income tax payable (Notes 2 and 21)	90,771	94,904	146,325	4,308
Accounts receivable from related parties, net (Notes 2 and 24)	3,385	72,828	114,848	3,381	Accrued expenses (Notes 14 and 24)	257,958	329,979	485,265	14,285
Other receivable (Note 6)	33,905	29,684	174,473	5,136	Payable for purchase of equipment	64,441	59,153	36,215	1,066
Other current financial assets (Note 7)	6,181	13,142	16,706	492	Current portion of bonds payable (Notes 2 and 16)	-	-	2,255,066	66,384
Inventories (Notes 2 and 8)	1,604,515	1,770,401	2,157,796	63,521	Current portion of long-term liabilities (Notes 17 and 25)	42,062	57,749	-	-
Prepayments (Notes 9 and 24)	144,438	91,797	410,844	12,094	Other current liabilities (Note 15)	76,904	271,824	314,145	9,248
Deferred income tax assets (Notes 2 and 21)	33,902	78,387	118,390	3,485					
Total current assets	4,402,907	6,787,550	13,118,636	386,183	Total current liabilities	3,877,586	5,097,949	8,184,249	240,926
LONG-TERM INVESTMENTS (Notes 2 and 10)	9,007	88,169	111,187	3,273	<b>LONG-TERM LIABILITIES:</b>				
<b>PROPERTY, PLANT AND EQUIPMENT, NET (Notes 2, 11, 24 and 25):</b>					Long-term debts (Notes 17 and 25)				
Cost:						85,407	57,164	-	-
Land	224,244	224,244	300,982	8,860	Long-term notes payable	2,231	-	-	-
Buildings and structures	760,049	807,336	836,452	24,623	Total long-term liabilities	87,638	57,164	-	-
Machinery and equipment	1,165,288	1,322,588	1,771,743	52,156	<b>OTHER LIABILITIES -</b>				
Molding equipment	174,420	283,738	201,567	5,933	Accrued pension cost (Notes 2 and 18)	12,675	19,835	32,144	946
Computer equipment	102,494	118,138	132,141	3,890	Guarantee deposits received	-	-	30	1
Transportation equipment	604	1,315	1,315	39	Total other liabilities	12,675	19,835	32,174	947
Furniture and fixtures	73,250	87,102	97,283	2,864	Total liabilities	3,977,899	5,174,948	8,216,423	241,873
Leasehold improvements	7,331	19,040	28,080	827	<b>STOCKHOLDERS' EQUITY:</b>				
Subtotal	2,507,680	2,863,501	3,369,563	99,192	Capital stock (Note 19) -				
Less accumulated depreciation	(392,689)	(753,179)	(1,203,346)	(35,424)	Common stock	1,276,000	1,627,200	2,171,640	63,928
Prepayments on construction-in-progress and equipment-in-transit	105,451	178,165	67,788	1,996	Capital surplus - additional paid-in capital - common stock (Note 19)	832,812	832,812	2,529,667	74,467
Property, plant and equipment, net	2,220,442	2,288,487	2,234,005	65,764	Retained earnings (Note 19):				
<b>OTHER ASSETS:</b>					Legal reserve	-	96,273	242,718	7,145
Refundable deposits	764	836	687	20	Special reserve	-	-	331	10
Deferred charges (Note 2)	314,828	267,954	233,612	6,877	Accumulated earnings	962,728	1,809,476	2,703,375	79,581
Deferred bond issuance cost (Notes 2 and 16)	-	-	33,630	990	Unrealized valuation loss on long-term investments	-	(410)	(277)	(8)
Deferred tax assets (Notes 2 and 21)	103,535	107,382	130,414	3,839	Cumulative translation adjustments (Note 2)	2,044	79	(1,706)	(50)
Total other assets	419,127	376,172	398,343	11,726	Total stockholders' equity	3,073,584	4,365,430	7,645,748	225,073
<b>TOTAL</b>	<b>\$7,051,483</b>	<b>\$9,540,378</b>	<b>\$15,862,171</b>	<b>\$466,946</b>	<b>TOTAL</b>	<b>\$7,051,483</b>	<b>\$9,540,378</b>	<b>\$15,862,171</b>	<b>\$466,946</b>

See notes to financial statements.

## HIGH TECH COMPUTER CORP.

### STATEMENTS OF OPERATIONS YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003 (Expressed in Thousands of New Taiwan Dollars and United States Dollars, Except Earnings Per Share)

	2001 NTD	2002 NTD	2003	
			NTD	USD
REVENUES:				
Gross sales (Note 24)	\$15,380,912	\$20,124,468	\$21,432,410	\$ 630,922
Less sales returns and discounts	(263,224)	(150,300)	(241,533)	(7,110)
NET SALES	15,117,688	19,974,168	21,190,877	623,812
OTHER REVENUES	432,675	670,148	630,728	18,567
Total revenues	15,550,363	20,644,316	21,821,605	642,379
COST OF REVENUES (Note 24)	13,429,918	17,041,738	17,938,644	528,073
GROSS PROFIT	2,120,445	3,602,578	3,882,961	114,306
UNREALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	-	-	(7,241)	(213)
REALIZED GROSS PROFIT	2,120,445	3,602,578	3,875,720	114,093
OPERATING EXPENSES (Note 24):				
Administrative and selling expenses	451,533	784,573	1,008,071	29,675
Research and development expenses	483,972	699,486	1,048,189	30,857
Total operating expenses	935,505	1,484,059	2,056,260	60,532
INCOME FROM OPERATIONS	1,184,940	2,118,519	1,819,460	53,561
NON-OPERATING INCOME:				
Interest income	3,084	801	45,473	1,339
Investment gains on equity-method (Note 10)	-	6,020	-	-
Gain on sale of property, plant and equipment	9,525	-	380	11
Gain on sale of investments	723	642	874	26
Gain on physical inventories	-	1,993	-	-
Foreign currency exchange gain	123,949	-	92,465	2,722
Other	118,662	412,524	343,486	10,111
Total non-operating income	255,943	421,980	482,678	14,209
NON-OPERATING EXPENSES:				
Interest expense	76,241	38,524	27,404	807
Investment losses on equity-method (Note 10)	12,694	-	16,202	477
Losses on disposal of property, plant and equipment	16,936	8,287	-	-
Losses on physical inventory	15,821	-	13,216	389
Foreign currency exchange loss	-	314,655	-	-
Provision for loss on decline in value of inventory	302,722	655,724	255,134	7,511
Other	26,218	15,280	30,337	893
Total non-operating expenses	450,632	1,032,470	342,293	10,077

(Continued)

## HIGH TECH COMPUTER CORP.

### STATEMENTS OF OPERATIONS YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003 (Expressed in Thousands of New Taiwan Dollars and United States Dollars, Except Earnings Per Share)

	2001	2002	2003	
	NTD	NTD	NTD	USD
INCOME BEFORE INCOME TAX	990,251	1,508,029	1,959,845	57,693
INCOME TAX EXPENSE (Notes 2 and 21)	<u>(27,523)</u>	<u>(43,575)</u>	<u>(109,113)</u>	<u>(3,212)</u>
NET INCOME	<u>\$ 962,728</u>	<u>\$ 1,464,454</u>	<u>\$ 1,850,732</u>	<u>\$ 54,481</u>
BASIC EARNINGS PER SHARE BEFORE INCOME TAX (Note 22)	<u>\$4.93</u>	<u>\$7.44</u>	<u>\$9.59</u>	<u>\$0.28</u>
BASIC EARNINGS PER SHARE AFTER INCOME TAX (Note 22)	<u>\$4.79</u>	<u>\$7.22</u>	<u>\$9.05</u>	<u>\$0.27</u>
DILUTED EARNINGS PER SHARE BEFORE INCOME TAX (Note 22)	<u>\$4.93</u>	<u>\$7.44</u>	<u>\$9.04</u>	<u>\$0.27</u>
DILUTED EARNINGS PER SHARE AFTER INCOME TAX (Note 22)	<u>\$4.79</u>	<u>\$7.22</u>	<u>\$8.52</u>	<u>\$0.25</u>

(Concluded)

See notes to financial statements.

# HIGH TECH COMPUTER CORP.

## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003

(Expressed in Thousands of New Taiwan Dollars and United States Dollars)

NTD	Common Stock	Capital Surplus - Additional Paid-in Capital - Common Stock	Retained Earnings		Accumulated Earnings (Deficit)	Unrealized Valuation Loss on Long-Term Investments	Cumulative Translation Adjustments	Total
			Legal Reserve	Special Reserve				
BALANCE, JANUARY 1, 2001	\$ 1,250,000	\$ 750,000	\$ -	\$ -	\$ (316,288)	\$ -	\$ (22)	\$ 1,683,690
Transfer of capital surplus to recover accumulated deficit		(316,288)			316,288			-
Issuance of common stock	26,000	399,100						425,100
Net income for 2001					962,728			962,728
Cumulative translation adjustments							2,066	2,066
BALANCE, DECEMBER 31, 2001	1,276,000	832,812	-	-	962,728	-	2,044	3,073,584
Appropriation and distribution of 2001 net earnings:								
Legal reserve			96,273		(96,273)			-
Stock dividend issued	255,200				(255,200)			-
Transfer of employees bonuses to capital stock	96,000				(96,000)			-
Employees bonuses					(33,968)			(33,968)
Cash dividend					(127,600)			(127,600)
Directors' remuneration					(8,665)			(8,665)
Net income for 2002					1,464,454			1,464,454
Cumulative translation adjustments							(1,965)	(1,965)
Unrealized valuation loss on long-term investments						(410)		(410)
BALANCE, DECEMBER 31, 2002	1,627,200	832,812	96,273	-	1,809,476	(410)	79	4,365,430
Appropriation and distribution of 2002 net earnings:								
Legal reserve			146,445		(146,445)			-
Special reserve				331	(331)			-
Stock dividend issued	325,440				(325,440)			-
Transfer of employees bonuses to capital stock	75,000				(75,000)			-
Employees bonuses					(71,000)			(71,000)
Cash dividend					(325,440)			(325,440)
Directors' remuneration					(13,177)			(13,177)
Issuance of Global Depositary Receipts	144,000	1,696,855						1,840,855
Net income for 2003					1,850,732			1,850,732
Cumulative translation adjustments						133		133
Unrealized valuation loss on long-term investments							(1,785)	(1,785)
BALANCE, DECEMBER 31, 2003	<u>\$ 2,171,640</u>	<u>\$ 2,529,667</u>	<u>\$ 242,718</u>	<u>\$ 331</u>	<u>\$ 2,703,375</u>	<u>\$ (277)</u>	<u>\$ (1,706)</u>	<u>\$ 7,645,748</u>
<b>USD</b>								
BALANCE, JANUARY 1, 2003	\$ 47,901	\$ 24,516	\$ 2,834	\$ -	\$ 53,267	\$ (12)	\$ 2	\$ 128,508
Appropriation and distribution of 2002 net earnings:								
Legal reserve			4,311		(4,311)			-
Special reserve				10	(10)			-
Stock dividend issued	9,580				(9,580)			-
Transfer of employees bonuses to capital stock	2,208				(2,208)			-
Employees bonuses					(2,090)			(2,090)
Cash dividend					(9,580)			(9,580)
Directors' remuneration					(388)			(388)
Issuance of Global Depositary Receipts	4,239	49,951						54,190
Net income for 2003					54,481			54,481
Cumulative translation adjustments						4		4
Unrealized valuation loss on long-term investments							(52)	(52)
BALANCE, DECEMBER 31, 2003	<u>\$ 63,928</u>	<u>\$ 74,467</u>	<u>\$ 7,145</u>	<u>\$ 10</u>	<u>\$ 79,581</u>	<u>\$ (8)</u>	<u>\$ (50)</u>	<u>\$ 225,073</u>

See notes to financial statements.

# HIGH TECH COMPUTER CORP.

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003

(Expressed in Thousands of New Taiwan Dollars and United States Dollars)

	2001 NTD	2002 NTD	2003	
			NTD	USD
<b>CASH FLOWS FROM OPERATING</b>				
<b>ACTIVITIES:</b>				
Net income	\$ 962,728	\$ 1,464,454	\$ 1,850,732	\$ 54,481
Depreciation	272,275	378,795	465,281	13,697
Amortization	32,247	68,095	61,335	1,806
Loss (gain) on disposal of property, plant and equipment	7,411	8,287	(380)	(11)
Investment losses (gains) on equity-method	12,694	(6,020)	16,202	477
Foreign currency exchange gain from convertible bonds	-	-	(46,530)	(1,370)
Amortization of bonds issuance cost	-	-	7,633	225
Deferred income tax asset	(63,563)	(48,332)	(63,035)	(1,856)
Accrued pension cost	(304)	7,160	12,309	362
Changes in assets and liabilities provided (used) cash:				
Short-term investment	-	-	(30,573)	(900)
Notes receivable	131	(47,451)	12,530	369
Accounts receivable	(1,096,351)	(1,984,317)	(742,388)	(21,854)
Accounts receivable from related parties	17,055	(69,443)	(42,020)	(1,237)
Other receivable	(32,702)	4,221	(144,789)	(4,262)
Other current financial assets	1,225	(6,961)	(3,564)	(105)
Inventories	(208,228)	(165,886)	(387,395)	(11,404)
Prepayments	40,871	52,641	(319,047)	(9,392)
Notes and accounts payable	348,854	2,085,908	1,143,772	33,670
Income tax payable	90,771	4,133	51,421	1,514
Accrued expenses	124,164	72,021	155,286	4,571
Other current liabilities	(50,976)	225,303	22,701	668
Long-term notes payable	2,231	(2,231)	-	-
Provision for redemption of convertible bonds	-	-	13,046	384
Net cash provided by operating activities	<u>460,533</u>	<u>2,040,377</u>	<u>2,032,527</u>	<u>59,833</u>
<b>CASH FLOWS FROM INVESTING</b>				
<b>ACTIVITIES:</b>				
Purchase of property, plant and equipment	(1,466,973)	(467,671)	(445,308)	(13,109)
Proceeds from sales of property, plant and equipment	12,393	1,213	9,494	280
Increase in long-term investments	(6,538)	(75,517)	(40,872)	(1,203)
Decrease (increase) in refundable deposits	7,006	(72)	149	4
Decrease in pledged time certificates of deposit	32,526	-	-	-
Increase in deferred bond issuance costs	-	-	(41,263)	(1,215)
Increase in deferred charges	(307,359)	(15,178)	(24,536)	(722)
Decrease in receivable on forward exchange contracts	89	-	-	-
Increase (decrease) in option contracts payable	61,007	(39,048)	788	23
Net cash used in investing activities	<u>(1,667,849)</u>	<u>(596,273)</u>	<u>(541,548)</u>	<u>(15,942)</u>

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# HIGH TECH COMPUTER CORP.

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003

(Expressed in Thousands of New Taiwan Dollars and United States Dollars)

	<u>2001</u> NTD	<u>2002</u> NTD	<u>2003</u>	
			NTD	USD
<b>CASH FLOWS FROM FINANCING</b>				
<b>ACTIVITIES:</b>				
Increase (decrease) in short-term borrowings	788,198	(798,163)	(381,185)	(11,221)
Net increase (decrease) in short-term commercial bills	205,885	(348,855)	(99,694)	(2,935)
Decrease in long-term debts	(426,486)	(12,556)	(114,913)	(3,383)
(Decrease) increase in guarantee deposits received	(315)	-	30	1
Issuance of convertible bonds	-	-	2,288,550	67,370
Issuance of Global Depositary Receipts	-	-	1,840,855	54,190
Issuance of common stock	425,100	-	-	-
Cash dividend	-	(127,600)	(325,440)	(9,580)
Bonus to employees	-	(33,968)	(65,345)	(1,923)
	<u>992,382</u>	<u>(1,321,142)</u>	<u>3,142,858</u>	<u>92,519</u>
Net cash provided by (used in) financing activities				
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(214,934)	122,962	4,633,837	136,410
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>231,212</u>	<u>16,278</u>	<u>139,240</u>	<u>4,099</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 16,278</u>	<u>\$ 139,240</u>	<u>\$ 4,773,077</u>	<u>\$ 140,509</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION -</b>				
<b>Cash paid during the year for:</b>				
Interest (net of amounts capitalized) (Note 11)	<u>\$ 79,306</u>	<u>\$ 37,729</u>	<u>\$ 14,956</u>	<u>\$ 440</u>
Income tax	<u>\$ 316</u>	<u>\$ 87,743</u>	<u>\$ 120,728</u>	<u>\$ 3,554</u>
<b>NON CASH INVESTING AND FINANCING ACTIVITIES:</b>				
Transfer of long-term debts to current portion of long-term debts	<u>\$ 42,062</u>	<u>\$ 57,749</u>	<u>\$ -</u>	<u>\$ -</u>
Transfer of cost of property, plant and equipment to deferred charges	<u>\$ -</u>	<u>\$ 6,043</u>	<u>\$ 2,457</u>	<u>\$ 72</u>

(Continued)



# HIGH TECH COMPUTER CORP.

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003

(Expressed in Thousands of New Taiwan Dollars and United States Dollars)

	<u>2001</u> NTD	<u>2002</u> NTD	<u>2003</u> NTD	USD
PURCHASE OF PROPERTY, PLANT AND EQUIPMENT:				
Cost of property, plant and equipment purchased	\$ 1,507,405	\$ 462,383	\$ 422,370	\$ 12,434
(Increase) decrease in payable for purchase of equipment	<u>(40,432)</u>	<u>5,288</u>	<u>22,938</u>	<u>675</u>
Cash paid for purchase of property, plant and equipment	<u>\$ 1,466,973</u>	<u>\$ 467,671</u>	<u>\$ 445,308</u>	<u>\$ 13,109</u>
BONUS TO EMPLOYEES AND DIRECTORS' REMUNERATION:				
Appropriation of bonus to employees and directors' remuneration	\$ -	\$ 42,633	\$ 84,177	\$ 2,478
Bonus to employees and directors' remuneration, beginning of year	-	-	8,665	255
Bonus to employees and directors' remuneration, end of year	<u>-</u>	<u>(8,665)</u>	<u>(27,497)</u>	<u>(810)</u>
Cash paid	<u>\$ -</u>	<u>\$ 33,968</u>	<u>\$ 65,345</u>	<u>\$ 1,923</u>

(Concluded)

See notes to financial statements.

# **HIGH TECH COMPUTER CORP.**

## **NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2001, 2002 AND 2003**

**[Amounts are Expressed (unless Otherwise Stated) in Thousands of New Taiwan Dollars and United States Dollars, Except Per Share Data]**

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### **1. ORGANIZATION AND OPERATIONS**

High Tech Computer Corp. (the "Company") was incorporated on May 15, 1997, under the Company Law of the Republic of China, to engage in the design, manufacture and sale of smart handheld devices. In 1998, the Company's common stock was initially publicly offered and in March 2002, listed on the Taiwan Stock Exchange. On November 19, 2003, the Company issued global depository receipts in Luxemburg Stock Exchange. The Company has 2,220 and 2,365 persons in its payroll at December 31, 2002 and 2003, respectively. In order to effect cooperation with the same trade, lower the operating cost and expense, and enhance the ability of competition and research and development, the Board of Directors proposed the acquisition of IA Style, Inc. on October 31, 2003. The effective merger date was March 1, 2004.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Translations into United States ("US") Dollars**

The Company maintains its accounts and expresses its financial statements in NT dollars. The translation of the NT dollar financial statements as of and for the year ended December 31, 2003 into US dollars is solely for the convenience of the reader using the noon buying rate for cable transfers in NT dollars per US dollar as certified for customs purposes by the Bank of Taiwan as of December 31, 2003, which was NT\$33.97 to US\$1.00 at that date. The convenience translation should not be construed as representations that the NT dollar amounts have been, could have been or could in the future be, converted into US dollars at this or any other exchange rate.

#### **Distinction between Current and Non-Current Assets and Liabilities**

Current assets are those resources that are reasonably expected to be realized in cash, sold, or consumed (prepaid items) during the normal operating cycle of a business or one year, whichever is longer. Current liabilities are obligations reasonably expected to require the use of current assets or the creation of other current liabilities. Obligations for items that have entered the operating cycle should be classified as current liabilities. Assets or liabilities which were excluded from current assets or current liabilities should be classified as non-current assets or non-current liabilities.

#### **Cash Equivalents**

For purpose of reporting cash flows, cash equivalents consist primarily of bankers' acceptance, commercial paper and repurchase corporate bonds, which are highly liquid investments with a maturity of three months or less at the date of acquisition.

### **Short-Term Investments**

Short-term investments include investments in marketable equity securities and mutual funds, which are carried at the lower of cost or market. The net change on the investment valuation allowance used in the determination of net income is the result of changes in the difference between aggregate costs and market values of investments still held at the respective period end. The cost of investments sold is determined using the moving average method. Stock dividends received are not recognized as income; instead, they are reflected as an increase in the number of shares held in the investee.

### **Allowance for Doubtful Accounts**

Allowance for doubtful accounts is generally provided for notes and accounts receivable due from unrelated and related parties based on management's evaluation of the collectibility of individual accounts, past loss experience, and other pertinent factors.

### **Inventories**

Inventories are stated at the lower of cost or market ("LCM"). Cost is determined using the moving average method. Market value is based on replacement cost, except for finished goods which are valued based on net realizable values. The LCM method is applied to each inventory category.

### **Property, Plant and Equipment**

Property, plant and equipment are stated at cost less accumulated depreciation. Interest incurred in connection with the purchase or construction of property, plant and equipment is capitalized. Major renewals and betterments are capitalized, while maintenance and repairs are expensed in the period incurred.

Depreciation is provided on a straight-line basis over the estimated service lives of the assets plus one additional year for salvage value.

### **Long-Term Investments**

Investments in companies in which the Company's ownership interest is 20% or more, except where the Company cannot exercise significant influence, are accounted for based on the equity method of accounting. Payment in excess of the proportionate net book value, at the time of investment, of the investee accounted for under the equity method is amortized over five years. All other long-term investments are valued at cost except for investments in listed companies, which are stated at the lower of cost or market value. The cost of an investment sold is determined using the weighted-average method.

In accordance with SFAS No. 7 and "Regulations Governing the Preparation of Financial Statements of Public Companies", entities in which the Company's ownership interest is more than 50%, are required to have their financial statements consolidated with that of the Company if their total assets and total sales, individually, are more than 10% of that of the Company and, in the aggregate are more than 30% of that of the Company.

### **Deferred Charges**

Deferred charges consist of telephone installation charges, computer software and deferred license fees. Installation charges and computer software are amortized on a straight-line basis over three years, and deferred license fees are amortized over ten years.

## **Bonds Payable**

Bonds were issued at face value and recorded as bonds payable. Each month interest expense is booked at face value multiplied by the stated interest rate. For bonds with repurchase conditions, interest is calculated according to purchase back value and recognized as interest expense period by period. The direct and necessary expenses of issuing convertible bonds were recorded as issuance expenses and are amortized over the period from issuance date to maturity date. When a conversion is requested by a holder of convertible bonds, unamortized issuance expenses, interest payable and recognized interest expense is written off with convertible bonds payable. The value of the bonds exceeding the stock par value is recognized as capital surplus.

## **Employee Retirement Plan**

The Company adopted Statement of Financial Accounting Standards (“SFAS”) No. 18, “Accounting for Pensions,” issued by the Accounting Research and Development Foundation of the Republic of China (“ROC”).

The Company has a pension plan covering all eligible employees in accordance with the Labor Standards Law of the ROC. Subsequently, the contributions to the plan are made by the Company based on 2% of employee salaries and wages. The funds are deposited with the Central Trust of China, a government-designated custodian of pension funds, and are managed by the Pension Fund Administration Committee.

The pension fund balance is \$23,519, \$41,062 and \$65,119 at December 31, 2001, 2002 and 2003, respectively.

## **Revenue Recognition**

Revenues are recognized from sales of inventories upon shipment, net of estimated returns, provided that collection is determined to be probable and no significant obligations remain. Product revenues from customers are subject to agreements allowing for limited rights of returns.

Allowance for sales returns is generally based on historical rates of returns, inventory levels in the channel and other pertinent factors. Actual results differ from these estimates.

## **Income Tax**

The Company adopted the provisions of SFAS No. 22, “Accounting for Income Tax”, which require an asset and liability approach to financial accounting and reporting for income tax. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense or benefit is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Adjustment of prior years’ income tax is added to current income tax expense in the year the adjustment is made.

Under the Amended Income Tax Law of the ROC, the 25% regular corporate income tax and the 20% separate income tax on interest income from short-term investments remain and a 10% additional income tax is levied on distributable earnings earned in 1998 onward that remain undistributed in the following year. Beginning from 1998, every enterprise (except branch, partnership, and not-for-profit organization) is required to maintain an Imputation Credit Account (“ICA”) to keep track of all its income taxes paid and income tax credits received, collectively called Imputation Credit (“IC”), and the allocation of IC to shareholders. When the earnings are distributed as cash or stock dividends to:

- (a) resident individual shareholders (“RIS”), the RIS include the dividend income in their taxable income and claim an IC issued by the enterprise as deduction from their income tax payable;
- (b) non-resident individual or non-resident corporate shareholders (“NRS”), the NRS exclude the dividend income from their taxable income and do not claim an IC; dividends paid to NRS are subject to 20% withholding tax which can be offset by the 10% additional income tax paid on undistributed earnings; and
- (c) resident corporate shareholders (“RCS”), the RCS exclude the dividend income from their taxable income and do not claim the IC as deduction from income tax payable; the IC received is added to the RCS’ own ICA until the IC is allocated to RIS or NRS when the earnings are finally distributed to RIS or NRS.

#### **Use of Estimates**

To present the financial statements in accordance with accounting principles generally accepted in the Republic of China, the Company’s management should evaluate the amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. In addition, the evaluation of revenues and expenses should also be done for the periods covered.

#### **Foreign Currency Transactions**

Foreign currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses caused by different foreign exchange rates applied when cash in foreign currency is actually converted into New Taiwan dollars, or when the foreign currency receivables or payables are settled, are credited or charged against income in the period of actual conversion or settlement. Balances of assets and liabilities denominated in foreign currencies are translated at the balance sheet date exchange rate and any resulting gains or losses are credited to or charged against current income.

#### **Derivative Financial Instruments**

Forward exchange contracts that are designated and effective as a hedge of net foreign asset or liability positions are recorded at the contract date exchange rate. The premium or discount on the forward contract, which is the difference between the forward rate and the spot rate on the contract date multiplied by the principal amount of foreign currency, is separately accounted for and amortized to current income over the term of the contract. At year-end, existing forward exchange contracts are restated at the year-end exchange rates, and resulting gains or losses are credited or charged to current income. At closing dates of forward exchange contracts, the difference between the forward rate and the spot rate is credited or charged to current income. Receivables or payables from forward exchange contracts are shown on the accompanying balance sheets in net balance.

Premiums received on short positions or paid on long positions of foreign exchange option contracts, which are treated as non-trading and trading activities for financial reporting purposes, are included in other current liabilities or other current assets. Gain or loss from the execution of the foreign currency option contracts are credited to or charged against current income. The option contract is measured at the balance sheet date using the market value, and any gain or loss is credited to or charged against current income.

### Non-Derivative Financial Instruments

The recognition and valuation of non-derivative financial assets and liabilities and their related income or expenses are in accordance with the Company's accounting policies described herein and accounting principles generally accepted in the Republic of China.

### 3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 2001, 2002 and 2003 consisted of the following:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	
	NTD	NTD	NTD	USD
Cash on hand	\$ 492	\$ 492	\$ 542	\$ 16
Cash in banks	15,786	138,748	2,484,602	73,141
Time certificates of deposit	-	-	728,909	21,458
Cash equivalents	-	-	<u>1,559,024</u>	<u>45,894</u>
Total	<u>\$16,278</u>	<u>\$139,240</u>	<u>\$4,773,077</u>	<u>\$140,509</u>

At December 31, 2003 interest rate on cash equivalents - repurchase corporation bonds range from 1.80%~2.30%; time certificates of deposit range from 1.98%~3.55%.

### 4. SHORT-TERM INVESTMENTS

Short-term investments at December 31, 2001, 2002 and 2003 consisted of the following:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	
	NTD	NTD	NTD	USD
Marketable equity securities	<u>\$ -</u>	<u>\$ -</u>	<u>\$30,573</u>	<u>\$900</u>

At December 31, 2003, the interest rate on repurchase corporate bonds is 2.70%.

### 5. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable at December 31, 2001, 2002 and 2003 were as follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	
	NTD	NTD	NTD	USD
Notes receivable	\$ 815	\$ 48,266	\$ 35,736	\$ 1,052
Accounts receivable	2,592,343	4,547,804	5,291,026	155,756
Less allowance for doubtful accounts	(4,320)	(3,999)	(4,833)	(143)
Less allowance for sales returns	<u>(28,535)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Accounts receivable, net	<u>\$2,560,303</u>	<u>\$4,592,071</u>	<u>\$5,321,929</u>	<u>\$156,665</u>

## 6. OTHER RECEIVABLES

Other receivables at December 31, 2001, 2002 and 2003 consisted of the following:

	2001	2002	2003	
	NTD	NTD	NTD	USD
Other receivable for damages	\$ -	\$ 13,422	\$ 121,436	\$ 3,575
Other receivable for technology	27,851	2,180	22,673	667
Other receivable for global value-added tax	-	9,080	8,826	260
Others	<u>6,054</u>	<u>5,002</u>	<u>21,538</u>	<u>634</u>
	<u>\$33,905</u>	<u>\$29,684</u>	<u>\$174,473</u>	<u>\$5,136</u>

## 7. OTHER CURRENT FINANCIAL ASSETS

Other current financial assets at December 31, 2001, 2002 and 2003 consisted of the following:

	2001	2002	2003	
	NTD	NTD	NTD	USD
Income tax refunds receivable (Note 21)	\$ 1,070	\$ -	\$ -	\$ -
Value-added tax refunds receivable	3,305	10,581	9,473	279
Interest receivable	-	-	2,085	61
Others	<u>1,806</u>	<u>2,561</u>	<u>5,148</u>	<u>152</u>
Total	<u>\$6,181</u>	<u>\$13,142</u>	<u>\$16,706</u>	<u>\$492</u>

## 8. INVENTORIES

Inventories at December 31, 2001, 2002 and 2003 consisted of the following:

	2001	2002	2003	
	NTD	NTD	NTD	USD
Finished goods	\$ 173,375	\$ 148,375	\$ 189,863	\$ 5,589
Work-in-process	601,174	683,110	818,458	24,094
Raw materials	<u>930,456</u>	<u>1,074,933</u>	<u>1,271,980</u>	<u>37,444</u>
Subtotal	1,705,005	1,906,418	2,280,301	67,127
Less valuation allowance	<u>(100,490)</u>	<u>(136,017)</u>	<u>(122,505)</u>	<u>(3,606)</u>
Inventories	<u>\$1,604,515</u>	<u>\$1,770,401</u>	<u>\$2,157,796</u>	<u>\$63,521</u>

Insurance coverage for the inventories at December 31, 2001, 2002 and 2003 amounted to NT\$2,000,000, NT\$2,150,000 and NT\$2,305,000, respectively.

## 9. PREPAYMENTS

Prepayments at December 31, 2001, 2002 and 2003 consisted of the following:

	2001	2002	2003	
	NTD	NTD	NTD	USD
Prepayments for royalty (Note 28)	\$ 123,316	\$ 69,668	\$ 305,113	\$ 8,982
Prepayments for material purchases	11,969	1,484	3,435	101
Others	<u>9,153</u>	<u>20,645</u>	<u>102,296</u>	<u>3,011</u>
Total	<u>\$ 144,438</u>	<u>\$ 91,797</u>	<u>\$ 410,844</u>	<u>\$ 12,094</u>

## 10. LONG-TERM INVESTMENTS

Long-term investments at December 31, 2001, 2002 and 2003 consisted of the following:

	2001		2002		2003				Ownership Percentage
	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage	Original Cost		Carrying Value		
	NTD		NTD		NTD	USD	NTD	USD	
Under the equity method:									
H.T.C. (B.V.I.) Corp.	\$ 2,963	100	\$ 12,908	100	\$ 94,889	\$ 2,793	\$ 64,568	\$ 1,901	100
Auto Hi-Tech Computer Corp.	4,073	20	4,070	20	4,000	118	4,053	119	20
Prepayments for long-term investments -									
H.T.C. (B.V.I.) Corp.	-	-	69,630		40,872	1,203	40,872	1,203	-
Under LCM method -									
VIA Technologies, Inc.	<u>1,971</u>	-	<u>1,561</u>		<u>1,971</u>	<u>58</u>	<u>1,694</u>	<u>50</u>	-
Total	<u>\$ 9,007</u>		<u>\$ 88,169</u>		<u>\$ 141,732</u>	<u>\$ 4,172</u>	<u>\$ 111,187</u>	<u>\$ 3,273</u>	

In September 2000, the Company invested NT\$12,834 and acquired a 100% ownership interest in H.T.C. (B.V.I.) Corp., and accounted for such investment under the equity method. At the end of December 2003, the Company increased such investment to NT\$135,761, including an amount of NT\$40,872 which was recorded as a prepayment for H.T.C. (B.V.I.) Corp., because the registration process was not finished.

In December 2000, the Company invested NT\$4,000 and acquired a 20% ownership interest in Auto Hi-Tech Computer Corp., and accounted for such investment under the equity method.

Financial statements of equity affiliates were examined by independent auditors. Equity in net loss or gain of affiliates amounted to NT\$(12,694) NT\$6,020 and NT\$(16,202) for the years ended December 31, 2001, 2002 and 2003, respectively.

In June 2001, due to the intention of holding shares of VIA Technologies, Inc. over a long period of time, the Company reclassified it from short-term investments to long-term investments.

H.T.C. (B.V.I.) Corp., in which the Company's ownership interest is more than 50%, had not consolidated its financial statements with that of the Company because its total assets and total sales, individually, are less than 10% of that of the Company.



## 11. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at December 31, 2001, 2002 and 2003 consisted of the following:

	2001		2002		2003	
	Carrying Value	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NTD	NTD	NTD	NTD	NTD	USD
Land	\$ 224,244	\$ 224,244	\$ 300,982	\$ -	\$ 300,982	\$ 8,860
Buildings and structures	725,666	718,163	836,452	147,970	688,482	20,267
Machinery and equipment	958,746	895,185	1,771,743	730,179	1,041,564	30,661
Molding equipment	72,486	141,145	201,567	179,981	21,586	636
Computer equipment	73,093	63,043	132,141	80,790	51,351	1,512
Transportation equipment	428	979	1,315	555	760	22
Furniture and fixtures	55,273	53,466	97,283	51,215	46,068	1,356
Leasehold improvements	5,055	14,097	28,080	12,656	15,424	454
Prepayments on construction-in-progress and equipment-in-transit	105,451	178,165	67,788	-	67,788	1,996
Total	<u>\$2,220,442</u>	<u>\$2,288,487</u>	<u>\$3,437,351</u>	<u>\$1,203,346</u>	<u>\$2,234,005</u>	<u>\$ 65,764</u>

In April 2003, the Company acquired a parcel of land from Goodyear (Taiwan) Co., to be used as a construction site for a factory and office building for NT\$75,000.

Insurance coverage for property, plant and equipment, excluding land, at December 31, 2001, 2002 and 2003 amounted to NT\$1,937,789, NT\$1,761,300 and NT\$1,904,180, respectively.

Interest capitalized for construction of factory and office building and machinery and equipment in 2001 and 2002 amounted to NT\$17,717 and NT\$1,945, respectively.

See Note 25 for the details on property, plant and equipment pledged as collateral for short-term borrowings and long-term debts.

## 12. SHORT-TERM BORROWINGS

Short-term borrowings at December 31, 2001, 2002 and 2003 were comprised of the following:

	2001		2002		2003		
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	
	(Fixed)	NTD	(Fixed)	NTD	(Fixed)	NTD	USD
Material procurement loans	0.89~2.25%	\$ 73,096	-	\$ -	-	\$ -	\$ -
Unsecured loans	0.90%~3.40%	1,106,252	0.90%~1.85%	381,185	-	-	-
Total		<u>\$1,179,348</u>		<u>\$ 381,185</u>		<u>\$ -</u>	<u>\$ -</u>

### 13. SHORT-TERM COMMERCIAL BILLS

Short-term commercial bills at December 31, 2001, 2002 and 2003 were comprised of the following:

	2001		2002		2003		
	Interest Rate (Fixed)	Amount NTD	Interest Rate (Fixed)	Amount NTD	Interest Rate (Fixed)	Amount NTD	USD
Commercial paper	2.30%~3.30%	\$ 448,900	1.80%	\$ 100,000	-	\$ -	\$ -
Less discount		<u>(351)</u>		<u>(306)</u>	-	<u>-</u>	<u>-</u>
Net		<u>\$ 448,549</u>		<u>\$ 99,694</u>		<u>\$ -</u>	<u>\$ -</u>

### 14. ACCRUED EXPENSES

Accrued expenses at December 31, 2001, 2002 and 2003 consisted of the following:

	2001	2002	2003	
	NTD	NTD	NTD	USD
Salaries & bonuses	\$ 169,474	\$ 191,326	\$ 222,408	\$ 6,547
Insurance	10,499	17,402	17,782	524
Interest	154	904	-	-
Professional fees	5,694	6,573	97,369	2,866
Royalties (see Note 28)	-	8,336	13,874	408
Others	<u>72,137</u>	<u>105,438</u>	<u>133,832</u>	<u>3,940</u>
Total	<u>\$ 257,958</u>	<u>\$ 329,979</u>	<u>\$ 485,265</u>	<u>\$ 14,285</u>

### 15. OTHER CURRENT LIABILITIES

Other current liabilities at December 31, 2001, 2002 and 2003 consisted of the following:

	2001	2002	2003	
	NTD	NTD	NTD	USD
Advance receipts	\$ 6,280	\$ 20,907	\$ 37,854	\$ 1,114
Deferred credits - profit from intercompany transactions	-	-	7,241	213
Reserve for warranty expenses	-	149,767	189,211	5,570
Receipts for custody	2,200	67,827	16,300	480
Option on forward contracts, net (see Note 23)	61,841	22,793	23,581	694
Employee bonus payable	-	-	5,655	167
Directors' remuneration	-	8,665	21,842	643
Other	<u>6,583</u>	<u>1,865</u>	<u>12,461</u>	<u>367</u>
Total	<u>\$ 76,904</u>	<u>\$ 271,824</u>	<u>\$ 314,145</u>	<u>\$ 9,248</u>

## 16. BONDS PAYABLE

A summary of bonds payable at December 31, 2001, 2002 and 2003 is as follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	
	NTD	NTD	NTD	USD
On January 29, 2003, the Company issued Zero Coupon Convertible Bonds of US\$66,000. The bonds will mature on January 29, 2008. The issue price is 100% and the par value is US\$1,000.	\$ -	\$ -	\$ 2,288,550	\$ 67,370
Add:				
Reserve for redemption of Convertible Bonds	-	-	13,046	384
Allowance for foreign currency exchange loss	-	-	(46,530)	(1,370)
Less current portion of bonds payable	<u>-</u>	<u>-</u>	<u>(2,255,066)</u>	<u>(66,384)</u>
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

On January 29, 2003, the Company issued Zero Coupon Convertible Bonds of US\$66,000 (the Bonds) due 2008. Unless previously redeemed, repurchased and cancelled, or converted as herein provided, the Company shall redeem the Bonds at their accreted principal amount in US dollars on January 29, 2008. The issue price is 100% and the par value is US\$1,000. The Company intended to use the net proceeds of the offering for the import of raw materials and input components. Such overseas raw materials and input components will be used for the production of smart handheld devices.

According to the terms of such bonds, a bondholder has the right to request the Company to redeem the bonds on April 29, 2004 at their accreted principal amount. The redeemable bonds were recorded as current portion of bonds payable.

### Terms and Conditions of Bonds

The conversion rights of bonds are exercisable by the bondholders at any time on or after one month from the date of issuance, February 28, 2003, and twenty days prior to the maturity date, January 9, 2008.

A bondholder has the right to request the Company to redeem the bonds on April 29, 2004 (Holders' Put Date) at their accreted principal amount.

The accreted principal amount of a bond is the principal amount of the Bond plus a premium that shall provide the holder of the Bonds on a relevant redemption date a compound yield of 0.5% per annum (accrued from the issue date and computed on semi-annual bond equivalent basis).

After three years from issuance date, January 29, 2006, if the closing price of the shares, for a period of 30 consecutive trading days, the last of which occurs not more than five trading days prior to the date upon which notice of such redemption is given, is at least 130% of the conversion price. The Company has the option to call redemption of the bonds and calculate the redemption price at their accreted principal amount.

If the balance not converted is less than US\$3,300 (5% of the issuing amount), then the

Company has the option to redeem the Bonds in whole, at their accreted principal amount.

### Provisions for Conversion Rights

A bondholder has the right to convert the Bonds into shares of the Company.

*Conversion period:* Except during suspended period of transferring ownership, the bondholders may request to convert the bonds into shares after February 28, 2003 and prior to the close of business on January 9, 2008.

*The conversion process:* When the bondholders request to convert the bonds into shares, they should fill out and deliver the convertible bond certification form and other related documents to the conversion agent. The conversion is effective while the documents are sent to the conversion agent and cannot be countermanded.

The number of shares issuable upon conversion of any bond shall be determined by dividing the principal amount of the Bonds (translated into New Taiwan dollars at a fixed exchange rate of NT\$34.658 to US\$1.00) by the conversion price in effect on the conversion date.

The initial conversion price was \$205.32 per share at the time of issuance. Upon the distribution of stock dividends and the issuance of additional common shares, the conversion price will be adjusted. The conversion price was \$162.06 per share at December 31, 2003.

## 17. LONG-TERM DEBTS

A summary of long-term debts at December 31, 2001, 2002 and 2003 was as follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	
	NTD	NTD	NTD	USD
Secured loan from First Commercial Bank for purchase of automatic machinery. The total borrowing is NT\$130,900. Principal and interest payments were calculated monthly under annuity method. The Company repaid the loan in February 2003.	\$ 127,469	\$ 85,132	\$ -	\$ -
Secured loan from First Commercial Bank for purchase of automatic machinery. The total borrowing is JP¥108,900 thousand. Principal payments are due in 30 equal quarterly installments commencing on October 15, 2002. The Company repaid the loan in June 2003.	-	29,781	-	-
Subtotal	127,469	114,913	-	-
Less current portion of long-term liabilities	<u>(42,062)</u>	<u>(57,749)</u>	-	-
Long-term debts	<u>\$ 85,407</u>	<u>\$ 57,164</u>	<u>\$ -</u>	<u>\$ -</u>

See Note 25 for collateral of long-term debts.

## 18. EMPLOYEE BENEFIT PLAN

The Company has a defined benefit pension plan covering all eligible employees. The benefits are based primarily on an employee's years of service and average compensation for the one-month period prior to retirement.

According to the Statements of Financial Accounting Standards ("SFAS") No. 18, "Accounting for Pensions," issued by the Accounting Research and Development Foundation of the ROC, pension cost should be calculated by the actuarial method and the related disclosure is as follows:

The composition of net pension cost in 2001, 2002 and 2003 were as follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	
	NTD	NTD	NTD	USD
Service cost	\$12,411	\$22,654	\$32,743	\$ 964
Interest cost	1,311	2,422	3,571	105
Projected return of plan assets	(805)	(1,468)	(1,900)	(56)
Amortization of unrecognized net transition obligation, net	77	77	77	3
Amortization of net pension benefit	<u>-</u>	<u>372</u>	<u>1,134</u>	<u>33</u>
Net pension cost	<u>\$12,994</u>	<u>\$24,057</u>	<u>\$35,625</u>	<u>\$1,049</u>

The reconciliation between pension fund status and accrued pension liabilities at December 31, 2001, 2002 and 2003 were as follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	
	NTD	NTD	NTD	USD
Actuarial present value of benefit obligation:				
Vested benefits	\$ 262	\$ 167	\$ 564	\$ 17
Nonvested benefits	<u>21,114</u>	<u>39,988</u>	<u>60,218</u>	<u>1,773</u>
Accumulated benefit obligation	21,376	40,155	60,782	1,790
Additional benefit at future salaries	<u>29,860</u>	<u>55,080</u>	<u>72,949</u>	<u>2,147</u>
Projected benefit obligation	51,236	95,235	133,731	3,937
Plan assets at fair value	<u>(24,165)</u>	<u>(41,803)</u>	<u>(65,873)</u>	<u>(1,939)</u>
Projected benefit obligation in excess of plan assets	27,071	53,432	67,858	1,998
Unrecognized transition obligation, net	(1,465)	(1,388)	(1,311)	(39)
Unrecognized pension benefit	<u>(12,931)</u>	<u>(32,209)</u>	<u>(34,403)</u>	<u>(1,013)</u>
Accrued pension cost	<u>\$ 12,675</u>	<u>\$ 19,835</u>	<u>\$ 32,144</u>	<u>\$ 946</u>

Assumptions used in determining the actuarial present value of the projected benefit obligation were as follows:

	2001	2002	2003
Weighted-average discount rate	4.75%	3.75%	3.25%
Assumed rate of increase in future compensation	5.00%	5.00%	4.75%
Expected long-term rate of return on plan assets	4.75%	3.75%	3.25%

The vested benefits as of December 31, 2001, 2002 and 2003 all amounted to NT\$0.

## 19. STOCKHOLDERS' EQUITY

### Capital Stock

The Company's outstanding common stock at January 1, 2001 amounted to NT\$1,250,000, divided into 125,000,000 shares at NT\$10 par value each. In June of 2001, the Company issued 2,600,000 shares of NT\$10 par value common stock at NT\$163.5 per share through cash subscription; NT\$399,100 of the additional paid-in capital from the issuance of such common stock were accounted for as "capital surplus". The Company's outstanding common stock at December 31, 2001 amounted to NT\$1,276,000, divided into 127,600,000 shares at NT\$10 par value each.

In June 2002, the stockholders approved the transfer of retained earnings amounting to NT\$255,200 and employee bonuses amounting to NT\$96,000 to capital stock. As a result, the Company's outstanding common stock at December 31, 2002 was increased to NT\$1,627,200, divided into 162,720,000 common shares at NT\$10 par value each.

On November 19, 2003, the Company issued 14,400 thousand shares of its common stock of Global Depository Receipts at NT\$131.1 per share in Luxemburg Stock Exchange. As a result, the Company's outstanding capital stock at December 31, 2003 was NT\$2,171,640, divided into 217,164 thousand shares at \$10 par value each.

At December 11, 2002 meeting, the Board of Directors of the Company resolved to issue employee stock options in accordance with Securities and Exchange Law Article 28.3 within the quantity of 7,000,000 units. Each individual employee stock option represents the right to purchase one newly issued common share of the Company. The exercise price is the closing price of the Company's common shares on the employee stock options' issuance date or the share's par value, whichever is higher. The option holders can exercise the right up to 35% of the granted options units no earlier than two years from the grant date. After three years from the grant date the holders can exercise the right up to 70% of the granted option units. After four years from the grant date, the option holders are eligible to exercise all the options owned. The options expire after five years. At December 31, 2003, the Company has issued 3,000,000 units of the employee stock options to employees. At July 2003, the Company transferred retained earnings amounting to NT\$325,440 and employee bonuses amounting to NT\$75,000 to capital stock. After giving effect to that transfer, 3,738,270 units of the employee stock options were outstanding.

## **Global Depositary Receipts**

The Company issued 14,400 thousand shares of its common stock divided into 3,600,000 units of Global Depositary Receipts. The Company's stockholders including Via Technologies, Inc., offered 12,878.4 thousand shares of its common stock, divided into 3,219,600 units of Global Depositary Receipts. Therefore, there are 6,819.6 thousand units of GDRs in the aggregate in this offering. Each GDR represents four common shares and issued at NT\$131.1 per share. NT\$1,696,855 of the additional paid-in capital from the issuance of such common stock were accounted for as "capital surplus". This cash subscription was finished and registered on November 19, 2003.

The holders of these GDRs have same rights and obligation with the stockholders of the Company. However, the distribution of the offering and sales of GDRs and the shares represented thereby in certain jurisdictions may be restricted by law. The GDRs offered hereby and the shares represented thereby are not transferable except in accordance with the restrictions described in the GDRs offering circular and related laws applied in Taiwan. The holders should through the depositary's custodian in Taiwan exercise these rights as follows:

- a. to exercise voting right,
- b. trading the shares, and
- c. being entitled to receive dividends and participate new cash subscription.

## **Capital Surplus**

The capital surplus - additional paid-in capital - common stock was NT\$832,812 at January 1, 2003. In November 2003, NT\$1,696,855 of the additional paid-in capital from the issuance of Global Depositary Receipts were accounted for as "capital surplus".

As a result, the capital surplus - additional paid-in capital at December 31, 2003 amounted to NT\$2,529,667. According to Company Law, the Company could transfer the capital surplus to common stock, when there is no accumulated deficit.

## **Appropriation of Retained Earnings and Dividend Policy**

According to the Company Law of the ROC and the Company's Articles of Incorporation, 10% of the Company's annual earnings, after paying tax and offsetting deficit, if any, shall first be appropriated to legal reserve until such reserve equals the amount of common stock. The remaining balance shall be appropriated 1% as bonuses to directors and supervisors, and no less than 5% as bonuses to employees.

In 2001, the Company transferred NT\$316,288 of capital surplus to cover accumulated deficit.

The appropriation of retained earnings should be proposed by the board of directors and approved by the stockholders in their annual meeting.

The Company engages in a technology and capital-intensive industry and is in the development stage of industry cycle. Under the consideration of the current environment around the Company and the characteristics of industry development, the long-term interests of stockholders, maintaining the operating efficiency, and meeting its capital expenditure budget and the financial goals, the Company considers the current operating status and capital expenditure budget of next year to determine the dividends to be paid. The cash dividends could not be in excess of 95% of total dividends paid.

If the Company recognized the employee bonuses of NT\$146,000 and directors' remuneration of NT\$13,177 as expenses of 2002, the pro forma earnings per share for the year ended 2002

would be NT\$8.02. (The original earnings per share was NT\$9.00.)

The 2003 appropriation of retained earnings was not proposed by the Board of Directors. About the information of the 2003 appropriation of retained earnings proposed by the Board of Directors and approved by stockholders in their annual meeting, please check with the Market Observation Post System of Taiwan Stock Exchange.

## 20. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Expense Item	Function	Years Ended December 31					
		2002			2003		
		Operating Cost	Operating Expenses	Total	Operating Cost	Operating Expenses	Total
Personnel expense:							
Salary		573,454	450,192	1,023,646	584,061	607,481	1,191,542
Insurance		35,925	29,366	65,291	38,963	39,457	78,420
Pension cost		13,945	10,112	24,057	17,977	17,648	35,625
Other		36,631	27,143	63,774	37,188	39,315	76,503
Depreciation		310,919	67,876	387,795	342,591	122,690	465,281
Amortization		5,590	62,505	68,095	5,537	55,798	61,335

## 21. INCOME TAX

The income tax returns for the years through 2000 have been examined and approved by the tax authority.

The Company is exempt from paying corporation income tax on revenue from sales of pocket PCs and Smartphones for five consecutive years commencing on April 26, 2001 under the Statute for Upgrading Industries.

The Company is exempt from paying corporation income tax on revenue from sales of pocket PCs (wireless) and Smartphones (wireless) for five consecutive years commencing on January 1, 2002 under the Statute for Upgrading Industries.

In addition, the Company is exempt from paying the corporation income tax on Win CE products for five consecutive years commencing on January 1, 2003.



Income tax payable at December 31, 2001, 2002 and 2003 was computed as follows:

	2001	2002	2003	
	NTD	NTD	NTD	USD
Income before income tax	\$ 990,251	\$ 1,508,029	\$ 1,959,845	\$ 57,693
Add:				
Unrealized pension cost	-	9,392	12,309	362
Provision for loss on decline in value of inventory	2,949	35,527	-	-
Unrealized royalties	-	-	211,330	6,221
Investment losses on equity-method	12,694	-	16,202	477
Capitalized expense	-	-	6,177	182
Excess meal allowance	15,431	-	-	-
Unrealized foreign currency exchange loss, net	40,336	-	-	-
Unrealized reserve for warranty expense	-	139,274	39,444	1,161
Unrealized depreciation	18,000	-	6,434	189
Unrealized profit from intercompany transactions	-	-	7,241	213
Others	28,585	858	26,060	767
Less:				
Gain on disposal of investments	(723)	(642)	(518)	(15)
Realized reserve for warranty expense	(44,266)	-	-	-
Unrealized foreign currency exchange gain, net	-	(33,914)	(56,921)	(1,675)
Investment gains on equity method	-	(6,020)	-	-
Realized provision for loss on decline in value of inventory	-	-	(13,512)	(398)
Realized depreciation	-	(6,968)	-	-
Total income	1,063,257	1,645,536	2,214,091	65,177
Less income exempt from tax	(83,230)	(782,694)	(1,046,375)	(30,803)
Prior year loss carryforwards	(233,843)	-	-	-
Taxable income	746,184	862,842	1,167,716	34,374
Tax rate	×25%	×25%	×25%	×25%
Subtotal	186,546	215,710	291,929	8,594
Income tax credit	(10)	(10)	(10)	-
Estimated income tax provision	186,536	215,700	291,919	8,594
Unappropriated earnings additional 10% income tax	9,057	34,234	102,807	3,026
Less investment research and development tax credits	(104,507)	(154,948)	(246,455)	(7,255)
Current income tax expense	91,086	94,986	148,271	4,365
Less prepaid and withheld income tax	(315)	(82)	-	-
Income tax receivable, beginning of year	-	-	(1,946)	(57)
Income tax payable, end of year	\$ 90,771	\$ 94,904	\$ 146,325	\$ 4,308

The tax effects of deductible temporary differences and loss and tax credit carryforwards that gave rise to deferred tax assets as of December 31, 2001, 2002 and 2003 consisted of the following:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	
	NTD	NTD	NTD	USD
Temporary differences:				
Unrealized pension cost	\$ 3,169	\$ 5,517	\$ 8,594	\$ 253
Unrealized depreciation	7,695	5,990	7,599	224
Provision for loss on decline in value of inventory	25,122	34,004	30,626	902
Unrealized royalties	-	-	164,577	4,845
Unrealized investment losses	4,595	-	-	-
Unrealized foreign currency exchange loss	3,615	-	-	-
Unrealized reserve for warranty expense	-	34,818	47,303	1,392
Other	9,150	15,843	26,137	769
Tax credit carryforwards	<u>237,157</u>	<u>337,355</u>	<u>287,362</u>	<u>8,459</u>
Total deferred tax asset	290,503	433,527	572,198	16,844
Less valuation allowance	<u>(153,066)</u>	<u>(242,895)</u>	<u>(304,300)</u>	<u>(8,958)</u>
Total deferred tax asset, net	137,437	190,632	267,898	7,886
Deferred tax liability - Unrealized foreign currency exchange gain, net	<u>-</u>	<u>(4,863)</u>	<u>(19,094)</u>	<u>(562)</u>
Less current portion	<u>137,437</u> <u>(33,902)</u>	<u>185,769</u> <u>(78,387)</u>	<u>248,804</u> <u>(118,390)</u>	<u>7,324</u> <u>(3,485)</u>
Deferred tax assets, noncurrent	<u>\$ 103,535</u>	<u>\$ 107,382</u>	<u>\$ 130,414</u>	<u>\$ 3,839</u>

Details of the tax credit carryforwards:

Year Occur	Period of Validity	<u>2001</u>	<u>2002</u>	<u>2003</u>	
		NTD	NTD	NTD	USD
1999	1999~2003	\$ -	49,092	\$ -	\$ -
2000	2000~2004	99,509	79,780	77,615	2,285
2001	2001~2005	137,648	155,563	155,230	4,569
2002	2002~2006	-	52,920	54,517	1,605
2003	2003~2007	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>\$ 237,157</u>	<u>\$ 337,355</u>	<u>\$ 287,362</u>	<u>\$ 8,459</u>

According to the Income Tax Law of ROC, the investment research and development tax credits can be carried forward for five years. The total credits used in each year cannot be over half of estimated income tax provision, except for the last year.

Valuation allowance is based on management's evaluation of the amount of tax credits that can be carried forward for five years, based on the Company's financial forecasts.

The income tax expense for the years ended December 31, 2001, 2002 and 2003 consisted of the following:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	
	NTD	NTD	NTD	USD
Current income tax expense	\$ 91,086	\$ 94,986	\$ 148,271	\$ 4,365
Increase in deferred income tax assets	(63,563)	(48,332)	(63,035)	(1,856)
Under (over) estimation of prior year's income tax	<u>-</u>	<u>(3,079)</u>	<u>23,877</u>	<u>703</u>
Income tax expense	<u>\$ 27,523</u>	<u>\$ 43,575</u>	<u>\$ 109,113</u>	<u>\$ 3,212</u>

The related information for the integrated income tax system is disclosed as follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	
	NTD	NTD	NTD	USD
Balance of imputation credit account	\$ 340	\$ 88,093	\$ 72,855	\$ 2,145
Unappropriated earnings attributed to 1998 and years after	962,728	1,809,476	2,703,375	79,581
Expected creditable ratio (including income tax payable)	9.46%	10.11%	8.11%	8.11%

## 22. EARNINGS PER SHARE

Before tax and after tax earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding during each year. The weighted average number of shares used in the calculation of earnings per share was 161,158,000, 162,720,000 and 204,640,000 in 2001, 2002 and 2003, respectively. Earnings per share for the years ended December 31, 2001 and 2002 were calculated after giving retroactive effect to the stock dividend distribution in 2003.

The convertible bonds and employee stock options have dilutive effect on the 2003 earnings per share. The related information is as follows:

	<u>Numerators</u>		<u>Denominator</u>	<u>Earnings Per Share</u>	
	<u>Income before Income Tax</u>	<u>Income after Income Tax</u>	(Thousand) Shares	<u>Income before Income Tax</u>	<u>Income after Income Tax</u>
	NTD	NTD		NTD	NTD
Basic earnings per share	\$ 1,959,845	\$ 1,850,732	204,460	<u>\$ 9.59</u>	<u>\$ 9.05</u>
Zero coupon convertible bonds	13,046	9,785	12,945		
Employee stock options	<u>-</u>	<u>-</u>	<u>876</u>		
Diluted earnings per share	<u>\$ 1,972,891</u>	<u>\$ 1,860,517</u>	<u>218,281</u>	<u>\$ 9.04</u>	<u>\$ 8.52</u>

## 23. FINANCIAL INSTRUMENTS

In accordance with the Approval Documents (85) Tai-Tsai-Tseng (6) No. 00263 of Securities and Futures Commission of ROC and Statement of Financial Accounting Standards No. 27 “Disclosure of Financial Instruments”, the Company discloses related information as follows:

### Amount of Contract and Credit Risk

#### *Foreign Currency Option Contracts*

December 31, 2001						
Buy/Sell	Trade Date	Expiry Date	Call/Put	Contract Amount	Strike Rate	Credit Risk
Buy	2001.08.23~ 2001.11.21	2002.01.07~ 2002.02.25	NTD/USD	US\$19,340	34.4~34.5	-
Buy	2001.11.29~ 2001.12.20	2002.05.16~ 2002.06.13	USD/JPY	US\$ 3,350	121	-
Sell	2001.03.07~ 2001.12.26	2002.02.04~ 2002.09.30	USD/NTD	US\$30,300	34.51~37	-
Sell	2001.09.21~ 2001.12.13	2002.03.22~ 2002.06.13	USD/JPY	US\$24,800	116.5~122	-
Sell	2001.12.29	2002.06.13	JPY/USD	US\$ 2,000	121	-
December 31, 2002						
Buy/Sell	Trade Date	Expiry Date	Call/Put	Contract Amount	Strike Rate	Credit Risk
Buy	2002.05.31	2003.01.31~ 2003.06.02	JPY/USD	US\$25,000	131	-
Sell	2002.05.21~ 2002.12.04	2003.01.31~ 2003.06.04	JPY/USD	US\$24,800	126~134.5	-
Sell	2002.05.30~ 2002.06.01	2003.05.30~ 2003.06.03	USD/NTD	US\$60,000	34.5	-
December 31, 2003						
Buy/Sell	Trade Date	Expiry Date	Call/Put	Contract Amount	Strike Rate	Credit Risk
Sell	2003.05.02	2004.01.02~ 2004.05.04	EUR/USD	US\$7,762.5	1.15	-

The Company only deals with banks with good credit, which is based on banks' reputation and the Company's past experience with them. Moreover, the Company has established a series of control procedures for transactions of derivative financial instruments. No credit risks are expected.

#### *Market Risk*

Forward exchange contracts and foreign currency option are measured at the balance sheet date using the market value. As of December 31, 2003, the Company recorded unrealized forward exchange losses of NT\$23,581 in these contracts.

***Liquidity Risk, Cash Flow Risk and the Amount, Timing and Uncertainty of Future Cash Requirements Risk***

The Company's forward exchange contracts and foreign currency options will cause a loss of NT\$2,302~NT\$0 assuming an exchange rate at NT\$33.30~NT\$34.00 to US\$1 and EUR1 to US\$1.14~US\$1.35 for the year of 2004. Because the Company has sufficient working capital to settle those contracts, no future cash requirements risk exist. Meanwhile, because the Company would not intend to sell foreign currency options before their maturity dates, no liquidity risk is expected.

***Purpose and Category of Financial Instrument Held***

The Company held derivative financial instruments for non-trading activity purpose in an attempt to reduce the effect of foreign exchange fluctuation.

***Disclosures of Derivative Instruments in the Financial Statements***

The receivables and payables generated from foreign currency option and forward exchange contracts shall be offset, and the net balance will be included in other current assets or other current liabilities. As of December 31, 2003, the net balance recorded in other current liabilities was NT\$23,581. Gains (loss) generated from transactions of derivative financial instruments for the years ended December 31, 2001, 2002 and 2003, amounted to NT\$7,321, NT\$(354,766) and NT\$(89,254), respectively.

**Fair Value of Financial Instruments**

***Derivative Financial Instruments***

	2001		2002		2003			
	Carrying	Fair	Carrying	Fair	Carrying		Fair	
	Amount	Value	Amount	Value	Amount		Value	
	NTD	NTD	NTD	NTD	NTD	USD	NTD	USD
Liabilities -								
Foreign currency option contracts	\$ 61,841	\$ 61,841	\$ 22,793	\$ 22,793	\$ 23,581	\$ 694	\$ 23,581	\$ 694

The fair value of derivative financial instruments is the estimated amounts that the Company would receive or pay if contracts are closed at the balance sheet date. The Company obtained quotes from banks to estimate the fair value.

***Non-Derivative Financial Instruments***

	2001		2002		2003			
	Carrying	Fair	Carrying	Fair	Carrying		Fair	
	Amount	Value	Amount	Value	Amount		Value	
	NTD	NTD	NTD	NTD	NTD	USD	NTD	USD
Assets:								
Cash and cash equivalents	\$ 16,278	\$ 16,278	\$ 139,240	\$ 139,240	\$ 4,773,077	\$ 140,509	\$ 4,773,077	\$ 140,509
Short-term investments	-	-	-	-	30,573	900	30,573	900
Receivables	2,563,688	2,563,688	4,664,899	4,664,899	5,436,777	160,046	5,436,777	160,046
Other receivable	33,905	33,905	29,684	29,684	174,473	5,136	174,473	5,136
Other current financial assets	6,181	6,181	13,142	13,142	16,706	492	16,706	492
Long-term investments	9,007	9,702	88,169	88,169	111,187	3,273	111,187	3,273
Other financial assets	764	728	836	820	687	20	674	20
Liabilities:								
Short-term borrowings	1,627,897	1,627,897	480,879	480,879	-	-	-	-
Payables	1,717,553	1,717,553	3,803,461	3,803,461	4,947,233	145,635	4,947,233	145,635
Income tax payable	90,771	90,771	94,904	94,904	146,325	4,308	146,325	4,308
Accrued expense	257,958	257,958	329,979	329,979	485,265	14,285	485,265	14,285
Payable for purchase of equipment	64,441	64,441	59,153	59,153	36,215	1,066	36,215	1,066
Current portion of bonds payable	-	-	-	-	2,255,066	66,384	2,255,066	66,384
Current portion of long-term debts	42,062	42,062	57,749	57,749	-	-	-	-
Other current financial liabilities	8,783	8,783	228,124	228,124	233,008	6,859	233,008	6,859
Long-term debts	85,407	85,407	57,164	57,164	-	-	-	-
Long-term notes payable	2,231	2,126	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	30	1	29	1

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

For instruments with short maturities, including cash and cash equivalents, receivable, other current financial assets, payables, short-term borrowings and other current financial liabilities, the carrying amount approximated the fair value because of the short maturities of such instruments.

The fair value of long-term investment and short-term investments are measured based on quoted market prices for these instruments. If the securities do not have market prices, fair value is measured based on financial or other information.

The fair value of other financial assets and other financial liabilities are based on the discounted value of the future cash flows expected to be received. The discount rate is based on the average interest rate of time deposits in banks.

The fair value of long-term debts, including current portion, are estimated based on their rates that are comparable to current rates of long-term debts with the same terms and maturities.

## 24. RELATED PARTY TRANSACTIONS

The names and relationships of related parties are as follows:

Related Party	Relationship with the Company
First International Computer, Inc. ("FIC")	Chairperson is one of the immediate family members of the Company's chairperson
VIA Technologies, Inc.	Chairperson is the Company's chairperson
Chander Electronics Corp.	Chairperson is the Company's chairperson
Everex System	Chairperson is the Company's chairperson
FIC Europe B.V.	An entity related to the Company
Xander International (HK) Ltd.	A subsidiary of Xander International Corp.
Leo Systems, Inc.	An entity related to the Company
HTEK Inc. (original QTEK Inc.)	A subsidiary of H.T.C. (B.V.I.) Corp.
HTC USA Inc.	A subsidiary of H.T.C. (B.V.I.) Corp.
H.T.C. (B.V.I.) Corp.	A subsidiary of the Company
HTC Europe Co., Ltd.	A subsidiary of H.T.C. (B.V.I.) Corp.
High Tech Computer Corp. (Suzhou)	A subsidiary of H.T.C. (B.V.I.) Corp.

Major transactions with related parties are summarized below:

### Purchases of Inventories and Services

Related Party	Years Ended December 31					
	2001		2002		2003	
	Amount NTD	% of Total Net Purchases	Amount NTD	% of Total Net Purchases	Amount NTD	USD Purchases
Chander Electronics Corp.	\$ 26,188	-	\$ 227,836	1	\$ 124,038	\$ 3,651
Others	765	-	-	-	-	-
Total	<u>\$ 26,953</u>	<u>-</u>	<u>\$ 227,836</u>	<u>1</u>	<u>\$ 124,038</u>	<u>\$ 3,651</u>

Terms of payment and purchasing prices for both related and unrelated parties are similar.

### Sales and Services Provided

Related Party	Years Ended December 31						
	2001		2002		2003		
	Amount NTD	% of Total Revenues	Amount NTD	% of Total Revenues	Amount NTD	Amount USD	
FIC Europe B.V.	\$ -	-	\$ 97,118	1	\$ 142,396	\$ 4,192	1
H.T.C. (B.V.I.) Corp.	-	-	-	-	64,206	1,890	-
HTC USA Inc.	-	-	-	-	39,849	1,173	-
Leo Systems, Inc.	97,703	1	10,484	-	1,619	48	-
Others	423	-	498	-	566	16	-
Total	<u>\$ 98,126</u>	<u>1</u>	<u>\$ 108,100</u>	<u>1</u>	<u>\$ 248,636</u>	<u>\$ 7,319</u>	<u>1</u>

Selling prices and terms of payment for both related and unrelated parties are similar.

### Notes and Accounts Receivable

Related Party	December 31						
	2001		2002		2003		
	Amount NTD	% of Total Notes and Accounts Receivable	Amount NTD	% of Total Notes and Accounts Receivable	Amount NTD	Amount USD	
Accounts receivable:							
H.T.C. (B.V.I.) Corp.	\$ -	-	\$ -	-	\$ 64,206	\$ 1,890	1
HTC USA Inc.	-	-	-	-	39,849	1,173	1
FIC Europe B.V.	-	-	72,613	2	10,416	307	-
Leo Systems, Inc.	3,385	-	86	-	105	3	-
Others	-	-	129	-	272	8	-
Total	<u>\$ 3,385</u>	<u>-</u>	<u>\$ 72,828</u>	<u>2</u>	<u>\$ 114,848</u>	<u>\$ 3,381</u>	<u>2</u>

### Notes and Accounts Payable

Related Party	December 31						
	2001		2002		2003		
	Amount NTD	% of Total Notes and Accounts Payable	Amount NTD	% of Total Notes and Accounts Payable	Amount NTD	Amount USD	
Chander Electronics Corp.	\$ 14,722	1	\$ 18,558	-	\$ 6,613	\$ 195	-
Leo Systems, Inc.	1,181	-	-	-	-	-	-
Total	<u>\$ 15,903</u>	<u>1</u>	<u>\$ 18,558</u>	<u>-</u>	<u>\$ 6,613</u>	<u>\$ 195</u>	<u>-</u>

### Prepaid Expenses

Related Party	December 31						
	2001		2002		2003		
	Amount NTD	% of Total Prepaymen t	Amount NTD	% of Total Prepaymen t	Amount NTD	Amount USD	
HTC USA Inc.	\$ -	-	\$ -	-	\$ 22,180	\$ 653	5

## Other Receivable

	December 31						
	2001		2002		2003		
	Amount	% of Total	Amount	% of Total	% of Total		
NTD	Other	NTD	Other	Amount	Other	Other	
Related Party		Receivable		Receivable	NTD	USD	Receivable
H.T.C. (B.V.I.) Corp.	\$ -	-	\$ -	-	\$ 3,342	\$ 101	2

## Accrued Expenses

	December 31						
	2001		2002		2003		
	Amount	% of Total	Amount	% of Total	% of Total		
Related Party	NTD	Accrued	NTD	Accrued	Amount	Accrued	Accrued
		Expenses		Expenses	NTD	USD	Expenses
VIA Technologies Inc.	\$ 2,034	1	\$ 2,467	1	\$ 5,945	\$ 175	1
Others	135	-	146	-	-	-	-
Total	\$ 2,169	1	\$ 2,613	1	\$ 5,945	\$ 175	1

## Service Warranty Expense

	Years Ended December 31						
	2001		2002		2003		
	Amount	% of	Amount	% of	% of		
Related Party	NTD	Warranty	NTD	Warranty	Amount	Warranty	Warranty
		Expenses		Expenses	NTD	USD	Expenses
FIC Europe B.V.	\$ 94,218	48	\$ 31,567	19	\$ 126,029	\$ 3,710	59
HTC USA Inc.	-	-	-	-	21,048	620	10
Total	\$ 94,218	48	\$ 31,567	19	\$ 147,077	\$ 4,330	69

Service warranty expense resulted from authorizing the above related party to provide after sales service.

## Expenses

	Years Ended December 31						
	2001		2002		2003		
	Amount	% of Total	Amount	% of Total	% of Total		
Related Party	NTD	Operating	NTD	Operating	Amount	Operating	Operating
		Expenses		Expenses	NTD	USD	Expenses
HTEK, Inc.	\$ -	-	\$ 5,093	-	\$ 14,581	\$ 429	12
Others	499	-	146	-	-	-	-
Total	\$ 499	-	\$ 5,239	-	\$ 14,581	\$ 429	12



## Leasing - Lessee

### *Operating Expense - Rental Expense*

Related Party	Years Ended December 31						
	2001		2002		2003		
	Amount	% of Rental	Amount	% of Rental	Amount		% of Rental
	Expense	Expense	Expense	NTD	USD	Expense	
	NTD		NTD				
VIA Technologies, Inc.	\$ 11,478	51	\$ 10,951	74	\$ 15,060	\$ 443	78

The Company leases offices owned by VIA Technologies, Inc., and the rental payment was determined based on the prevailing rates in the surrounding area.

## Property Transaction

In 2001, the Company acquired computer equipment from Leo Systems, Inc. in the amount of NT\$177. In 2003, the Company acquired computer equipment from Leo Systems, Inc. in the amount of NT\$264. In 2003, the Company sold furniture and fixtures to H.T.C. (B.V.I.) Corp. and HTC USA Inc. in the amount of NT\$3,342 and NT\$109.

## 25. PLEDGED ASSETS

At December 31, 2001, 2002 and 2003, the following assets were pledged to secure short-term borrowings and long-term debts:

	2001	2002	2003	
	NTD	NTD	NTD	USD
Machinery and equipment	<u>\$408,423</u>	<u>\$ 169,660</u>	<u>\$ -</u>	<u>\$ -</u>

## 26. COMMITMENTS AND CONTINGENCIES

As of December 31, 2003, outstanding unused letters of credit not reflected in the accompanying financial statements amounted to US\$453 and EUR122.

## 27. SUBSEQUENT EVENTS

In order to effect cooperation with the same trade, lower the operating cost and expense, and enhance the ability of competition and research and development, the Board of Directors proposed the acquisition of IA System, Inc. on October 31, 2003. The effective merger date was March 1, 2004.

The related information is as follows:

- (a) The content of this merger contract:  
The Company issued 1,567,347 new shares at NT\$10 par value each to acquire IA system Inc. One share of the Company represents 5.423177 shares of IA System Inc.

- (b) The principle of merger ratio:
  - (i) the current market condition and future vision ;
  - (ii) equity per share.
- (c) The influence of the Company's financial status and stockholders' equity:
 

The Company could lower the operating cost and expense and enhance the ability of competition and research and development.

## 28. SIGNIFICANT CONTRACT

### Patent Agreement

For enhancing the quality of the products and manufacturing technologies, the Company had patent agreements with Texas Instruments, France, Microsoft and QUALCOMM Incorporated as follows:

Contractor	Contract period	Description
Texas Instruments France	January 14, 2000 to January 14, 2005	(a) Authorization in using GSM system software. (b) In consideration of the license of Texas Instruments France patents, HTC shall make royalty payment pursuant to the provisions of the agreement.
Microsoft	December 1, 2000 to October 31, 2004	(a) Authorization in using embedded operating system. (b) Quarterly prepayment for the royalty.
QUALCOMM Incorporated	December 20, 2000 to the following dates: (a) if the Company shall commit any material breach of any covenant, and shall have failed to remedy such breach within 30 days after written notice thereof by QUALCOMM. (b) any time when the Company is not using any of QUALCOMM's Intellectual Property, the Company may terminate this agreement upon 60 days' prior written notice to QUALCOMM.	(a) Authorization in using CDMA technology to manufacture and sell units. (b) The up-front license fee was paid within six months from the effective date of the agreement and was recorded in deferred charges, amortized on a straight-line basis over ten years. Royalty is paid quarterly according to units sold.
Ericsson Mobile Platform AB	April 2003 to March 2011	(a) Authorization in using EDGE reference design license and support agreement. (b) In consideration of the license of Ericsson Mobile Platform AB patents, HTC shall make royalty payment pursuant to the provisions of the agreement.

<b>Contractor</b>	<b>Contract period</b>	<b>Description</b>
Telefonaktiebolaget LM Ericsson	April 2003 to March 2011	(a) Authorization in using platform patent license agreement. (b) In consideration of the license of Telefonaktiebolaget LM Ericsson patents, HTC shall make royalty payment pursuant to the provisions of the agreement.
Nokia Corporation	January 2003 to December 2009	(a) Authorization in using wireless technology, like GSM. (b) In consideration of the license of Nokia patents, HTC shall make running royalty payments to Nokia pursuant to the provisions of the agreement.
Inter Digital Technology Corporation	December 31, 2003 to December 31, 2008	(a) Authorization in using TDMA and CDMA technology. (b) In consideration of the license of Inter Digital Technology Corporation patents, HTC shall make royalty payment pursuant to the provisions of the agreement.
KONINKLIJKE PHILIPS ELECTRONICS N.V.	January 5, 2004 to the expired date of these patents	(a) GSM/DCS 1800/1900 Patent License (b) In consideration of the license of KONINKLIJKE PHILIPS ELECTRONICS N.V. patents, HTC shall make royalty payment pursuant to the provisions of the agreement.
MOTOROLA, Inc.	December 23, 2003 to the latest date of the following dates: (a) the expired date of these patents (b) March 6, 2005	(a) TDMA, NARROWBAND CDMA, WIDEBAND CDMA or TD/CDMA Standards patent license or technology. (b) In consideration of the license of MOTOROLA, Inc. patents, HTC shall make royalty payment pursuant to the provisions of the agreement.

## 29. SEGMENT INFORMATION

### Financial Information by Industry Types

The principal business of the Company is the manufacture and sale of smart handheld devices. Because the Company's business is concentrated, there is no need to disclose financial information by industry types.

### Foreign Operations

The Company does not have any foreign operations.

### Export Sales

Export sales for the years ended December 31, 2001, 2002 and 2003 are as follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	
	NTD	NTD	NTD	USD
Asia	\$ 42,406	\$ 795,966	\$ 4,811,947	\$ 141,653
America	13,556,593	14,620,116	6,022,178	177,279
Europe	-	-	9,806,308	288,676
Others	<u>668,045</u>	<u>4,214,841</u>	<u>773,588</u>	<u>22,773</u>
Total	<u>\$ 14,267,044</u>	<u>\$ 19,630,923</u>	<u>\$ 21,414,021</u>	<u>\$ 630,381</u>

### Dominant Customers Information

Sales to a major customer for the years ended December 31, 2001, 2002 and 2003 amounted to NT\$13,379,576, NT\$13,344,835 and NT\$12,438,356, respectively.

## 30. RECLASSIFICATION

For the presentation of the financial statements at December 31, 2003, some accounts on the financial statements at December 31, 2001 and 2002 were reclassified.

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