

HIGH TECH COMPUTER CORP.

**Financial Statements for the Six-Month
Periods Ended June 30, 2002, 2003 and 2004 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of High Tech Computer Corp. (the "Company") as of June 30, 2002, 2003 and 2004, and the related statements of operations, changes in stockholders' equity and cash flows for the six-month periods 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 June 30, 2002, 2003 and 2004, and the results of its operations and its cash flows for the six-month periods 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 dollars financial statements as of and for the six-month period ended June 30, 2004 into US dollars at NT\$33.76 to US\$1.00 was solely for the convenience of the reader. The convenience translations 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
Taipei, Taiwan
Republic of China

August 25, 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 six-month periods ended June 30, 2002, 2003 and 2004 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

JUNE 30, 2002, 2003 AND 2004

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

ASSETS	2002	2003	2004		LIABILITIES AND STOCKHOLDERS' EQUITY	2002	2003	2004	
	NTD	NTD	NTD	USD		NTD	NTD	NTD	USD
CURRENT ASSETS:					CURRENT LIABILITIES:				
Cash and cash equivalents (Notes 2 and 3)	\$ 200,993	\$ 2,683,395	\$ 5,724,040	\$ 169,551	Short-term borrowings (Note 11)	\$ 997,535	\$ 4,619	\$ -	\$ -
Short-term investments (Notes 2 and 4)	-	34,605	1,125,640	33,342	Short-term commercial bills (Note 12)	39,940	-	-	-
Notes receivable, net (Notes 2 and 5)	14,155	12,129	172,599	5,113	Notes and accounts payable	2,614,978	2,529,812	4,943,712	146,437
Accounts receivable, net (Notes 2 and 5)	2,791,753	2,789,282	4,895,846	145,019	Notes and accounts payable due to related parties (Note 22)	30,266	39,085	22	1
Accounts receivable from related parties (Notes 2 and 22)	3,303	11,028	86,786	2,571	Income tax payable (Notes 2 and 19)	57,067	68,737	94,253	2,792
Other current financial assets (Notes 2, 6 and 22)	32,355	147,593	85,211	2,524	Accrued expenses (Notes 13 and 22)	247,427	285,325	427,049	12,650
Inventories (Notes 2 and 7)	1,956,330	1,726,862	2,240,565	66,367	Payable for purchase of equipment	41,741	6,257	50,248	1,488
Prepayments (Note 8)	181,197	277,224	412,149	12,208	Current portion of long-term liabilities (Notes 16 and 23)	52,215	-	-	-
Deferred income tax asset (Notes 2 and 19)	133,958	106,311	129,441	3,835	Other current liabilities (Notes 14 and 21)	443,194	681,926	1,094,344	32,415
Total current assets	5,314,044	7,788,429	14,872,277	440,530	Total current liabilities	4,524,363	3,615,761	6,609,628	195,783
LONG-TERM INVESTMENTS (Notes 2 and 9):					LONG-TERM LIABILITIES:				
Available for sale securities	1,971	1,561	2,358	70	Bonds payable (Notes 2 and 15)	-	2,288,803	2,180,050	64,575
Other long-term investments in equity securities	11,212	87,648	175,971	5,212	Long-term debts (Notes 16 and 23)	84,898	-	-	-
Total long-term investments	13,183	89,209	178,329	5,282	Long-term notes payable	2,231	-	-	-
PROPERTY, PLANT AND EQUIPMENT, NET (Notes 2, 10, 22 and 23):					Total long-term liabilities	87,129	2,288,803	2,180,050	64,575
Cost:					OTHER LIABILITIES:				
Land	224,244	224,244	301,111	8,919	Accrued pension cost (Note 2)	15,790	25,771	40,942	1,213
Buildings and structures	763,075	816,009	841,084	24,914	Guarantee deposits received	-	-	50,999	1,510
Machinery and equipment	1,236,402	1,680,738	1,837,632	54,432	Total other liabilities	15,790	25,771	91,941	2,723
Molding equipment	190,785	204,942	201,567	5,971	Total liabilities	4,627,282	5,930,335	8,881,619	263,081
Computer equipment	113,469	118,965	135,342	4,009	STOCKHOLDERS' EQUITY:				
Transportation equipment	604	1,315	1,315	39	Capital stock (Note 17):				
Furniture and fixtures	78,878	91,059	98,696	2,923	Common stock	1,627,200	1,627,200	2,187,313	64,790
Leasehold improvements	10,231	26,424	34,353	1,018	Stock dividend to be distributed (Note 17)	-	400,440	526,963	15,609
Subtotal	2,617,688	3,163,696	3,451,100	102,225	Capital surplus -				
Less accumulated depreciation	(563,510)	(966,671)	(1,446,033)	(42,833)	Additional paid-in capital - common stock (Note 17)	832,812	832,812	2,529,667	74,931
Prepayments on construction-in-progress and equipment-in-transit	195,011	167,187	93,462	2,768	Additional paid-in capital from merger (Note 17)	-	-	25,972	769
Property, plant and equipment, net	2,249,189	2,364,212	2,098,529	62,160	Retained earnings (Note 15):				
OTHER ASSETS:					Legal reserve	96,273	242,718	427,791	12,672
Refundable deposits	809	742	2,028	60	Special reserve	-	331	1,983	59
Deferred charges (Note 2)	295,492	245,120	206,794	6,126	Accumulated earnings	727,392	1,619,877	2,936,009	86,967
Deferred bond issuance costs (Note 2)	-	37,756	29,503	874	Unrealized valuation loss on long-term investments	-	(410)	(805)	(24)
Deferred tax asset (Notes 2 and 19)	38,818	127,422	129,225	3,827	Cumulative translation adjustments (Note 2)	576	(413)	173	5
Total other assets	335,119	411,040	367,550	10,887	Total stockholders' equity	3,284,253	4,722,555	8,635,066	255,778
TOTAL	\$ 7,911,535	\$ 10,652,890	\$ 17,516,685	\$ 518,859	TOTAL	\$ 7,911,535	\$ 10,652,890	\$ 17,516,685	\$ 518,859

See notes to financial statements.

HIGH TECH COMPUTER CORP.

STATEMENTS OF OPERATIONS SIX-MONTH PERIODS ENDED JUNE 30, 2002, 2003 AND 2004 (Expressed in Thousands of New Taiwan Dollars and United States Dollars, Except Earnings Per Share)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	
	NTD	NTD	NTD	USD
REVENUES (Note 22):				
Gross sales	\$8,910,743	\$8,934,233	\$14,649,519	\$ 433,931
Less sales returns and discounts	<u>(24,852)</u>	<u>(109,776)</u>	<u>(63,555)</u>	<u>(1,882)</u>
NET SALES	8,885,891	8,824,457	14,585,964	432,049
OTHER REVENUES	<u>418,283</u>	<u>271,190</u>	<u>395,529</u>	<u>11,716</u>
Total revenues	9,304,174	9,095,647	14,981,493	443,765
COST OF REVENUES (Note 22)	<u>7,910,465</u>	<u>7,357,097</u>	<u>11,627,376</u>	<u>344,413</u>
GROSS PROFIT	1,393,709	1,738,550	3,354,117	99,352
UNREALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	<u>-</u>	<u>-</u>	<u>(1,465)</u>	<u>(44)</u>
REALIZED GROSS PROFIT	<u>1,393,709</u>	<u>1,738,550</u>	<u>3,352,652</u>	<u>99,308</u>
OPERATING EXPENSES (Note 22):				
Administrative and selling expenses	320,160	456,800	567,985	16,824
Research and development expenses	<u>326,397</u>	<u>468,326</u>	<u>828,468</u>	<u>24,540</u>
Total operating expenses	<u>646,557</u>	<u>925,126</u>	<u>1,396,453</u>	<u>41,364</u>
INCOME FROM OPERATIONS	<u>747,152</u>	<u>813,424</u>	<u>1,956,199</u>	<u>57,944</u>
NON-OPERATING INCOME:				
Interest income	452	16,744	35,788	1,060
Investment gains on equity-method (Notes 2 and 9)	1,400	1,532	-	-
Gain on sale of property, plant and equipment	526	667	-	-
Gain on sale of investments	215	727	427	13
Foreign currency exchange gain	-	25,253	-	-
Rental revenue (Note 22)	-	-	101	3
Other	<u>259,526</u>	<u>113,737</u>	<u>41,491</u>	<u>1,229</u>
Total non-operating income	<u>262,119</u>	<u>158,660</u>	<u>77,807</u>	<u>2,305</u>
NON-OPERATING EXPENSES:				
Interest expense	23,067	14,335	10,925	324
Investment losses on equity-method (Notes 2 and 9)	-	-	1,133	34
Losses on disposal of property, plant and equipment	-	-	221	7
Losses on physical inventory	1,474	173	423	13
Foreign currency exchange loss	310,123	-	44,795	1,326
Provision for loss on decline in value of inventory	267,835	125,134	213,480	6,323
Other	<u>5,707</u>	<u>19,746</u>	<u>9,425</u>	<u>279</u>
Total non-operating expenses	<u>608,206</u>	<u>159,388</u>	<u>280,402</u>	<u>8,306</u>

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HIGH TECH COMPUTER June

STATEMENTS OF OPERATIONS SIX-MONTH PERIODS ENDED June 30, 2002, 2003 AND 2004 (Expressed in Thousands of New Taiwan Dollars and United States Dollars, Except Earnings Per Share)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	
	<u>June</u>	<u>June</u>	<u>June</u>	<u>June</u>
INCOME BEFORE INCOME TAX	401,065	812,696	1,753,604	51,943
INCOME TAX EXPENSE (Notes 2 and 19)	<u>(18,695)</u>	<u>(45,462)</u>	<u>(67,588)</u>	<u>(2,002)</u>
NET INCOME	<u>\$ 382,370</u>	<u>\$ 767,234</u>	<u>\$ 1,686,016</u>	<u>\$ 49,941</u>
BASIC EARNINGS PER SHARE BEFORE INCOME TAX (Note 20)	<u>\$1.57</u>	<u>\$3.18</u>	<u>\$6.47</u>	<u>\$0.19</u>
BASIC EARNINGS PER SHARE AFTER INCOME TAX (Note 20)	<u>\$1.50</u>	<u>\$3.00</u>	<u>\$6.22</u>	<u>\$0.18</u>
DILUTED EARNINGS PER SHARE BEFORE INCOME TAX (Note 20)	<u>\$1.57</u>	<u>\$3.09</u>	<u>\$6.15</u>	<u>\$0.18</u>
DILUTED EARNINGS PER SHARE AFTER INCOME TAX (Note 20)	<u>\$1.50</u>	<u>\$2.91</u>	<u>\$5.91</u>	<u>\$0.18</u>

(Concluded)

See notes to financial statements.

HIGH TECH COMPUTER June

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY SIX-MONTH PERIODS ENDED June 30, 2002, 2003 AND 2004 (Expressed in Thousands of New Taiwan Dollars and United States Dollars)

NTD	Capital Stock		Capital Surplus		Retained Earnings			Unrealized Valuation Loss on Long-Term Investments	Cumulative Translation Adjustments	Total
	Common Stock	Stock Dividend to be Distributed	Additional Paid-in Capital - Common Stock	Additional Paid-in Capital from Merger	Legal Reserve	Special Reserve	Accumulated Earnings			
BALANCE, JANUARY 1, 2002	\$ 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	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 the six-month period ended June 30, 2002							382,370			382,370
Cumulative translation adjustments									(1,468)	(1,468)
BALANCE, JUNE 30, 2002	<u>\$ 1,627,200</u>	<u>\$ -</u>	<u>\$ 832,812</u>	<u>\$ -</u>	<u>\$ 96,273</u>	<u>\$ -</u>	<u>\$ 727,392</u>	<u>\$ -</u>	<u>\$ 576</u>	<u>\$ 3,284,253</u>
BALANCE, JANUARY 1, 2003	\$ 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		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)
Net income for the six-month period ended June 30, 2003							767,234			767,234
Cumulative translation adjustments									(492)	(492)
BALANCE, JUNE 30, 2003	<u>\$ 1,627,200</u>	<u>\$ 400,440</u>	<u>\$ 832,812</u>	<u>\$ -</u>	<u>\$ 242,718</u>	<u>\$ 331</u>	<u>\$ 1,619,877</u>	<u>\$ (410)</u>	<u>\$ (413)</u>	<u>\$ 4,722,555</u>
BALANCE, JANUARY 1, 2004	\$ 2,171,640	\$ -	\$ 2,529,667	\$ -	\$ 242,718	\$ 331	\$ 2,703,375	\$ (277)	\$ (1,706)	\$ 7,645,748
Appropriation and distribution of 2003 net earnings:										
Legal reserve					185,073		(185,073)			-
Special reserve						1,652	(1,652)			-
Stock dividend		437,463					(437,463)			-
Transfer of employees bonuses to capital stock		89,500					(89,500)			-
Employees bonuses							(83,500)			(83,500)
Cash dividend							(656,194)			(656,194)
Merger with IA Style, Inc.	15,673			25,972						41,645
Net income for the six-month period ended June 30, 2004							1,686,016			1,686,016
Cumulative translation adjustments									1,879	1,879
Unrealized valuation loss on long-term investments								(528)		(528)
BALANCE, JUNE 30, 2004	<u>\$ 2,187,313</u>	<u>\$ 526,963</u>	<u>\$ 2,529,667</u>	<u>\$ 25,972</u>	<u>\$ 427,791</u>	<u>\$ 1,983</u>	<u>\$ 2,936,009</u>	<u>\$ (805)</u>	<u>\$ 173</u>	<u>\$ 8,635,066</u>

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HIGH TECH COMPUTER CORP.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY SIX-MONTH PERIODS ENDED JUNE 30, 2002, 2003 AND 2004 (Expressed in Thousands of New Taiwan Dollars and United States Dollars)

USD	Capital Stock		Capital Surplus		Retained Earnings			Unrealized Valuation Loss on Long-Term Investments	Cumulative Translation Adjustments	Total
	Common Stock	Stock Dividend to be Distributed	Additional Paid-in Capital - Common Stock	Additional Paid-in Capital from Merger	Legal Reserve	Special Reserve	Accumulated Earnings			
BALANCE, JANUARY 1, 2004	\$ 64,326	\$ -	\$ 74,931	\$ -	\$ 7,190	\$ 10	\$ 80,076	\$ (8)	\$ (51)	\$ 226,474
Appropriation and distribution of 2003 net earnings:										
Legal reserve					5,482		(5,482)			-
Special reserve						49	(49)			-
Stock dividend		12,958					(12,958)			-
Transfer of employees bonuses to capital stock		2,651					(2,651)			-
Employees bonuses							(2,473)			(2,473)
Cash dividend							(19,437)			(19,437)
Merger with IA Style, Inc.	464			769						1,233
Net income for the six-month period ended June 30, 2004							49,941			49,941
Cumulative translation adjustments									56	56
Unrealized valuation loss on long-term investments								(16)		(16)
BALANCE, JUNE 30, 2004	<u>\$ 64,790</u>	<u>\$ 15,609</u>	<u>\$ 74,931</u>	<u>\$ 769</u>	<u>\$ 12,672</u>	<u>\$ 59</u>	<u>\$ 86,967</u>	<u>\$ (24)</u>	<u>\$ 5</u>	<u>\$ 255,778</u>

(Concluded)

See notes to financial statements.

HIGH TECH COMPUTER CORP.

STATEMENTS OF CASH FLOWS

SIX-MONTH PERIODS ENDED JUNE 30, 2002, 2003 AND 2004

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

	2002	2003	2004	
	NTD	NTD	NTD	USD
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	\$ 382,370	\$ 767,234	\$ 1,686,016	\$ 49,941
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	170,847	218,849	248,073	7,348
Amortization	33,905	31,272	26,818	794
(Gain) loss on disposal of property, plant and equipment	(526)	(667)	221	7
Investment (gains) losses on equity-method	(1,400)	(1,532)	1,133	34
Loss on physical inventory	1,474	-	-	-
Foreign currency exchange gain from convertible bonds	-	(4,620)	(12,030)	(356)
Amortization of bonds issuance cost	-	3,507	4,127	122
Deferred income tax asset	(35,339)	(47,964)	(9,862)	(292)
Accrued pension cost	3,115	5,936	8,798	261
Changes in assets and liabilities provided (used) cash:				
Notes receivable	(13,340)	36,137	(136,800)	(4,052)
Accounts receivable	(232,183)	1,827,351	393,693	11,662
Accounts receivable from related parties	-	(11,028)	28,062	831
Other current financial assets	21,169	(104,767)	106,000	3,140
Inventories	(353,289)	43,539	(82,769)	(2,452)
Prepayments	(36,759)	(185,427)	(1,305)	(39)
Notes and accounts payable	913,328	(1,258,201)	3,092	91
Notes and accounts payable due to related parties	14,363	23,637	(6,591)	(195)
Income tax payable	(33,704)	(26,167)	(52,072)	(1,542)
Accrued expenses	(10,531)	(44,654)	(58,605)	(1,736)
Other current liabilities	40,553	(27,206)	60,478	1,791
Provision for redemption of convertible bonds	-	4,873	6,364	188
Net cash provided by operating activities	<u>864,053</u>	<u>1,250,102</u>	<u>2,212,841</u>	<u>65,546</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Short-term investment for non-trading purpose	-	(34,605)	(1,072,537)	(31,770)
Purchase of property, plant and equipment	(228,487)	(351,910)	(104,739)	(3,102)
Proceeds from sales of property, plant and equipment	676	2,650	5,954	176
Increase in long-term investments	(4,244)	-	(65,732)	(1,947)
(Increase) decrease in refundable deposits	(45)	94	(1,186)	(35)
Increase in deferred charges	(8,526)	(5,981)	-	-
Increase in deferred bond issuance costs	-	(41,263)	-	-
Increase in payable on forward exchange contracts	98,836	-	120	4
(Decrease) increase in option contracts payable	(61,841)	27,691	(14,513)	(430)
Increase in option contracts receivable	(13,438)	-	-	-
Cash from merger	-	-	14,791	438
Net cash used in investing activities	<u>(217,069)</u>	<u>(403,324)</u>	<u>(1,237,842)</u>	<u>(36,666)</u>

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HIGH TECH COMPUTER CORP.

STATEMENTS OF CASH FLOWS

SIX-MONTH PERIODS ENDED JUNE 30, 2002, 2003 AND 2004

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

	<u>2002</u>	<u>2003</u>	<u>2004</u>	
	NTD	NTD	NTD	USD
CASH FLOWS FROM FINANCING ACTIVITIES:				
Decrease in short-term borrowings	(181,813)	(376,566)	-	-
Net decrease in short-term commercial bills	(408,609)	(99,694)	-	-
Increase in other payable	118,509	-	-	-
Issued convertible bonds	-	2,288,550	-	-
Redeemed convertible bonds	-	-	(69,350)	(2,054)
Increase (decrease) in long-term debts	9,644	(114,913)	-	-
Increase in guarantee deposits received	-	-	50,969	1,510
Bonus to employees	-	-	(5,655)	(168)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash (used in) provided by financing activities	(462,269)	1,697,377	(24,036)	(712)
NET INCREASE IN CASH AND CASH EQUIVALENTS	184,715	2,544,155	950,963	28,168
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>16,278</u>	<u>139,240</u>	<u>4,773,077</u>	<u>141,383</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 200,993</u>	<u>\$ 2,683,395</u>	<u>\$ 5,724,040</u>	<u>\$ 169,551</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION -				
Cash paid during the period for:				
Interest (net of amounts capitalized)	<u>\$ 20,256</u>	<u>\$ 10,057</u>	<u>\$ -</u>	<u>\$ -</u>
Income tax	<u>\$ 87,708</u>	<u>\$ 119,593</u>	<u>\$ 129,522</u>	<u>\$ 3,837</u>
NON CASH INVESTING AND FINANCING ACTIVITIES:				
Transfer of long-term debts to current portion of long-term debts	<u>\$ 52,215</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Transfer of cost of property, plant and equipment to deferred charges	<u>\$ 6,043</u>	<u>\$ 2,457</u>	<u>\$ -</u>	<u>\$ -</u>
Transfer of retained earnings and bonus to employees to capital stock dividend to be distributed	<u>\$ 351,200</u>	<u>\$ 400,440</u>	<u>\$ 526,963</u>	<u>\$ 15,609</u>

(Continued)

HIGH TECH COMPUTER CORP.

STATEMENTS OF CASH FLOWS

SIX-MONTH PERIODS ENDED JUNE 30, 2002, 2003 AND 2004

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

	<u>2002</u>	<u>2003</u>	<u>2004</u>	
	NTD	NTD	NTD	USD
PURCHASE OF PROPERTY, PLANT AND EQUIPMENT:				
Cost of property, plant and equipment purchased	\$ 205,787	\$ 299,014	\$ 118,772	\$ 3,518
Decrease (increase) in payable for purchase of equipment	<u>22,700</u>	<u>52,896</u>	<u>(14,033)</u>	<u>(416)</u>
Cash paid for purchase of property, plant and equipment	<u>\$ 228,487</u>	<u>\$ 351,910</u>	<u>\$ 104,739</u>	<u>\$ 3,102</u>
CASH DIVIDEND, BONUS TO EMPLOYEES AND DIRECTORS' REMUNERATION:				
Appropriation of cash dividend, bonus to employees and directors' remuneration	\$ 170,233	\$ 409,617	\$ 739,694	\$ 21,910
Increase in payable for cash dividend, bonus to employees and directors' remuneration	<u>(170,233)</u>	<u>(409,617)</u>	<u>(734,039)</u>	<u>(21,742)</u>
Cash paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,655</u>	<u>\$ 168</u>
CASH FROM MERGER:				
Issue common stock	\$ -	\$ -	\$ 15,673	\$ 464
Additional paid-in capital	-	-	25,972	769
Net assets received except cash	<u>-</u>	<u>-</u>	<u>(26,854)</u>	<u>(795)</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,791</u>	<u>\$ 438</u>

(Concluded)

See notes to financial statements.

HIGH TECH COMPUTER CORP.

NOTES TO FINANCIAL STATEMENTS

SIX-MONTH PERIODS ENDED JUNE 30, 2002, 2003 AND 2004

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

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 2,166, 2,117 and 2,803 persons in its payroll at June 30, 2002, 2003 and 2004, respectively. In order to effect cooperation with other companies in 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) Dollar Amounts

The Company maintains its accounts and expresses its financial statements in New Taiwan (NT) dollars. The translation of the NT dollars financial statements as of and for the six-month period ended June 30, 2004 into US dollars is solely for the convenience of the reader using the average of buying and selling rate for cable transfers in NT dollars per US dollar as certified for customs purposes by the Bank of Taiwan as of June 30, 2004, which was NT\$33.76=US\$1.00 at that date. The convenience translations 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 is 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.

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 purchase back conditions, interest is calculated according to purchase back value and recognized as interest expense period by period. The direct and necessary expenses caused by issuing convertible bonds were recorded as deferred bond issuance costs and 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 exceeding value of bonds to stock face 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 ROC.

The Company has a pension plan covering all eligible employees in accordance with the Labor Standards Law of the Republic of China (“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 Company’s Pension Fund Administration Committee.

The pension fund balance was NT\$33,079, NT\$53,679 and NT\$78,647 at June 30, 2002, 2003 and 2004, respectively.

According to SFAS No. 23, “Interim Financial Reporting and Disclosures,” the interim financial statements are not required to follow the principles in the SFAS No. 18, i.e., the Company did not remeasure the minimum pension liability and pension cost for current interim period.

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;
- (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.

Stock-Based Employee Compensation Plans

When the grant date of stock-based employee compensation plans is on and after January 1, 2004, the Company shall adopt the related explanations of accounting for stock-based compensation issued by the Accounting Research and Development foundation of Republic of China. The fair value of option compensation is recorded initially as an asset. This asset is expensed ratably over the service period, which is generally the period over which the options vest.

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.

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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Therefore, actual results could differ from those estimates.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2002, 2003 and 2004 consisted of the following:

	<u>2002</u> NTD	<u>2003</u> NTD	<u>2004</u>	
			NTD	USD
Cash on hand	\$ 492	\$ 543	\$ 793	\$ 23
Cash in banks	200,501	1,077,300	3,009,690	89,150
Time certificates of deposit	-	389,971	1,253,200	37,121
Cash equivalents	<u>-</u>	<u>1,215,581</u>	<u>1,460,357</u>	<u>43,257</u>
Total	<u>\$200,993</u>	<u>\$2,683,395</u>	<u>\$5,724,040</u>	<u>\$169,551</u>

At June 30, 2004, interest rates on time certificates of deposit and cash equivalents ranged from 0.95%~1.35% and 2.15%~2.40%, respectively. At June 30, 2003, interest rates on time certificates of deposit and cash equivalents ranged from 1.94%~3.50% and 2.25%~2.80%, respectively.

4. SHORT-TERM INVESTMENTS

Short-term investments at June 30, 2002, 2003 and 2004 consisted of the following:

	<u>2002</u> NTD	<u>2003</u> NTD	<u>2004</u>	
			NTD	USD
Mutual fund investments	\$ -	\$ -	\$ 1,125,640	\$ 33,342
Repurchase corporate bonds	<u>-</u>	<u>34,605</u>	<u>-</u>	<u>-</u>
Short-term investments	<u>\$ -</u>	<u>\$ 34,605</u>	<u>\$ 1,125,640</u>	<u>\$ 33,342</u>

At June 30, 2003, interest rate on repurchase corporate bonds was 4.2%.

5. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable at June 30, 2002, 2003 and 2004 were as follows:

	<u>2002</u> NTD	<u>2003</u> NTD	<u>2004</u>	
			NTD	USD
Notes receivable	\$ 14,155	\$ 12,129	\$ 172,599	\$ 5,113
Accounts receivable	2,807,924	2,793,483	4,901,708	145,193
Less allowance for doubtful accounts	<u>(16,171)</u>	<u>(4,201)</u>	<u>(5,862)</u>	<u>(174)</u>
Notes and accounts receivable, net	<u>\$2,805,908</u>	<u>\$2,801,411</u>	<u>\$5,068,445</u>	<u>\$150,132</u>

6. OTHER CURRENT FINANCIAL ASSETS

Other current financial assets at June 30, 2002, 2003 and 2004 consisted of the following:

	<u>2002</u> NTD	<u>2003</u> NTD	<u>2004</u>	
			NTD	USD
Income tax refunds receivable	\$ 316	\$ -	\$ -	\$ -
Value-added tax refunds receivable	6,775	10,784	11,271	334
Other receivable	11,611	135,228	71,142	2,107
Interest receivable	-	1,519	2,521	75
Receivable in option contract net	13,438	-	-	-
Others	<u>215</u>	<u>62</u>	<u>277</u>	<u>8</u>
Total	<u>\$32,355</u>	<u>\$147,593</u>	<u>\$85,211</u>	<u>\$2,524</u>

7. INVENTORIES

Inventories at June 30, 2002, 2003 and 2004 consisted of the following:

	<u>2002</u> NTD	<u>2003</u> NTD	<u>2004</u>	
			NTD	USD
Finished goods	\$ 126,504	\$ 145,562	\$ 151,292	\$ 4,481
Work-in-process	962,786	430,343	776,648	23,005
Raw materials	<u>1,227,944</u>	<u>1,252,123</u>	<u>1,487,771</u>	<u>44,069</u>
Subtotal	2,317,234	1,828,028	2,415,711	71,555
Less valuation allowance	<u>(360,904)</u>	<u>(101,166)</u>	<u>(175,146)</u>	<u>(5,188)</u>
Inventories	<u>\$1,956,330</u>	<u>\$1,726,862</u>	<u>\$2,240,565</u>	<u>\$66,367</u>

Insurance coverage for the inventories at June 30, 2002, 2003 and 2004 amounted to NT\$2,300,000, NT\$2,080,000 and NT\$2,500,000, respectively.

8. PREPAYMENTS

Prepayments at June 30, 2002, 2003 and 2004 consisted of the following:

	<u>2002</u>	<u>2003</u>	<u>2004</u>	
	NTD	NTD	NTD	USD
Prepayments for royalty (Note 25)	\$ 144,560	\$ 185,701	\$ 319,180	\$ 9,454
Prepayments for material purchases	31,366	37	2,934	87
Others	<u>5,271</u>	<u>91,486</u>	<u>90,035</u>	<u>2,667</u>
Total	<u>\$ 181,197</u>	<u>\$ 277,224</u>	<u>\$ 412,149</u>	<u>\$ 12,208</u>

9. LONG-TERM INVESTMENTS

Long-term investments at June 30, 2002, 2003 and 2004 consisted of the following:

	<u>2002</u>		<u>2003</u>		<u>2004</u>				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.	\$ 6,349	100	\$ 83,593	100	\$ 201,493	\$ 5,968	\$ 171,931	\$ 5,092	100
Auto Hi-Tech Computer Corp.	4,073	20	4,055	20	4,000	119	4,040	120	20
Prepayments for long-term investments -									
H.T.C. (B.V.I.) Corp.	790	-	-		-	-	-	-	-
Under LCM method -									
VIA Technologies, Inc.	1,971	-	1,561		1,971	58	1,166	35	-
Under the cost method -									
Answer Online, Inc.	-	-	-	-	1,192	35	1,192	35	2
Total	<u>\$ 13,183</u>		<u>\$ 89,209</u>		<u>\$ 208,656</u>	<u>\$ 6,180</u>	<u>\$ 178,329</u>	<u>\$ 5,282</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. In the second quarter of 2004, the Company increased such investments to NT\$201,493 (US\$5,946).

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.

In March 2004, the Company merged with IA Style, Inc. and acquired a 2% ownership interest in Answer Online, Inc.

Equity in net gain (loss) of affiliates amounted to NT\$1,400, NT\$1,532 and NT\$(1,133) for the six-month periods ended June 30, 2002, 2003 and 2004, respectively.

10. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at June 30, 2002, 2003 and 2004 consisted of the following:

	2002		2003		2004	
	Carrying Value	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NTD	NTD	NTD	NTD	NTD	USD
Land	\$ 224,244	\$ 224,244	\$ 301,111	\$ -	\$ 301,111	\$ 8,919
Buildings and structures	702,574	697,799	841,084	178,069	663,015	19,639
Machinery and equipment	922,860	1,114,391	1,837,632	901,821	935,811	27,720
Molding equipment	72,866	42,587	201,567	193,564	8,003	237
Computer equipment	70,949	50,483	135,342	93,866	41,476	1,229
Transportation equipment	378	869	1,315	665	650	19
Furniture and fixtures	53,449	48,816	98,696	60,676	38,020	1,126
Leasehold improvements	6,858	17,836	34,353	17,372	16,981	503
Prepayments on land	-	76,580	-	-	-	-
Prepayments on equipment-in-transit	195,011	90,607	93,462	-	93,462	2,768
Total	<u>\$2,249,189</u>	<u>\$2,364,212</u>	<u>\$3,544,562</u>	<u>\$1,446,033</u>	<u>\$2,098,529</u>	<u>\$ 62,160</u>

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

Interest expense before capitalization related to the construction of factory and office building in June 2002 amounted to NT\$25,012, interest capitalized for construction of factory and office building in the second quarter of 2002 amounted to NT\$1,945, interest rate of interest capitalized is 2.28%~3.24%.

Insurance coverage for property, plant and equipment, excluding land, at June 30, 2002, 2003 and 2004 amounted to NT\$1,866,154, NT\$1,947,240 and NT\$1,717,500, respectively. See Note 23 for the details on property, plant and equipment pledged as collateral for short-term borrowings and long-term debts.

11. SHORT-TERM BORROWINGS

Short-term borrowings at June 30, 2002, 2003 and 2004 were comprised of the following:

	2002		2003		2004	
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount
	(Fixed)	NTD	(Fixed)	NTD	(Fixed)	NTD USD
Material procurement loans	0.59%~2.25%	\$ 119	-	\$ -	\$ -	\$ -
Unsecured loans	0.90%~2.80%	997,416	0.90%	4,619	-	-
Total		<u>\$ 997,535</u>		<u>\$ 4,619</u>	<u>\$ -</u>	<u>\$ -</u>

See Note 23 for the details on property, plant and equipment pledged as collateral for short-term borrowings and long-term debts.

12. SHORT-TERM COMMERCIAL BILLS

Short-term commercial bills at June 30, 2002, 2003 and 2004 were comprised of the following:

	2002		2003		2004		
	Interest Rate (Fixed)	Amount NTD	Interest Rate (Fixed)	Amount NTD	Interest Rate (Fixed)	Amount NTD USD	
Commercial paper	2.50%	\$ 40,000	-	\$ -		\$ -	\$ -
Less discount		(60)		-		-	-
Net		<u>\$ 39,940</u>		<u>\$ -</u>		<u>\$ -</u>	<u>\$ -</u>

13. ACCRUED EXPENSES

Accrued expenses at June 30, 2002, 2003 and 2004 consisted of the following:

	2002	2003	2004	
	NTD	NTD	NTD	USD
Salaries & bonuses	\$ 128,020	\$ 150,057	\$ 184,333	\$ 5,460
Insurance	10,482	24,181	22,256	659
Interest	2,674	3	-	-
Professional fees	3,329	8,468	6,898	205
Research materials	-	11,335	36,655	1,086
Exportation	5,936	12,500	30,203	895
Others	96,986	78,781	146,704	4,345
Total	<u>\$247,427</u>	<u>\$285,325</u>	<u>\$427,049</u>	<u>\$12,650</u>

14. OTHER CURRENT LIABILITIES

Other current liabilities at June 30, 2002, 2003 and 2004 consisted of the following:

	2002	2003	2004	
	NTD	NTD	NTD	USD
Advance receipts	\$ 30,662	\$ 30,881	\$ 35,252	\$ 1,044
Reserve for warranty expenses	-	130,144	244,422	7,240
Receipts for custody	22,884	39,674	24,336	721
Payable on forward contracts, net (see Note 21)	98,836	-	120	4
Payable on option contracts (see Note 21)	-	50,484	9,068	269
Cash dividend payable	127,600	325,440	656,194	19,437
Employee bonus payable	33,968	71,000	83,500	2,473
Directors' remuneration	8,665	21,842	21,842	647
Other payable	118,509	-	-	-
Other	2,070	12,461	19,610	580
Total	<u>\$443,194</u>	<u>\$681,926</u>	<u>\$1,094,344</u>	<u>\$32,415</u>

15. BONDS PAYABLE

A summary of bonds payable at June 30, 2002, 2003 and 2004 is as follows:

	<u>2002</u>	<u>2003</u>	<u>2004</u>	
	NTD	NTD	NTD	USD
On January 29, 2003, the Company issued Zero Coupon Convertible Bonds of US\$66 million. The bonds will mature on January 29, 2008. The issue price is 100% and the par value is US\$1 thousand.	\$ -	\$ 2,288,550	\$ 2,219,200	\$ 65,735
Add (less):				
Reserve for redemption of Convertible Bonds	-	4,873	19,410	575
Allowance for foreign currency exchange loss	-	(4,620)	(58,560)	(1,735)
Total	<u>\$ -</u>	<u>\$ 2,288,803</u>	<u>\$ 2,180,050</u>	<u>\$ 64,575</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. 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 and must be requested before March 29, 2004. In April 2004 some of the bondholders had requested the Company to redeem the US\$2,000 bonds. As a result, the Company's outstanding bonds payable was US\$64,000 at June 30, 2004.

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 corporate bonds into convertible bond certification 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 the convertible bond certification form and other related documents to the agency. The conversion is effective while the documents are sent to the agency and cannot be countermanded.

The initial conversion price was \$205.32 per share at the time of issuance. Upon the distribution of stock dividends and the issuance of addition common shares, the conversion price will be adjusted. The conversion price was \$162.06 per share at June 30, 2004 (after the stockholders' approving the transfer of retained earnings in 2003 to capital stock, the conversion price will be adjusted from \$162.06 per share to \$127.95 at August 18, 2004).

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, the "fixed exchange rate") by the conversion price in effect on the conversion date.

16. LONG-TERM DEBTS

A summary of long-term debts at June 30, 2002, 2003 and 2004 was as follows:

	<u>2002</u> NTD	<u>2003</u> NTD	<u>2004</u>	
			NTD	USD
Secured loan from First Commercial Bank for purchase of automatic machinery. The total borrowing was NT\$130,900. Principal and interest payments were counted monthly under annuity method. The Company repaid the loan on February 13, 2003.	\$106,512	\$ -	\$ -	\$ -
Secured loan from First Commercial Bank for purchase of automatic machinery. The total borrowing is JPY108,900 thousand, and the interest rate is at 1.154% (floating) on December 31, 2002. Principal payments are due in 30 equal quarterly installments commencing on October 15, 2002. The Company repaid the loan on June 30, 2003.	<u>30,601</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	137,113	-	-	-
Less current portion of long-term liabilities	<u>(52,215)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Long-term debts	<u>\$ 84,898</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Note 23 for collateral on long-term debts.

17. STOCKHOLDERS' EQUITY

The Company's outstanding common stock at January 1, 2002 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 employees bonuses amounting to NT\$96,000 to capital stock. As a result, the Company's outstanding common stock at June 30, 2002 and 2003 was increased to NT\$1,627,200, divided into 162,720,000 common shares at NT\$10 par value each.

In June 2003, the stockholders approved the transfer of retained earnings amounting to NT\$325,440 and employees bonuses amounting to NT\$75,000 to capital stock. On November 19, 2003, the Company issued 14,400 thousand shares of its common stock in Global Depository Receipts at NT\$131.1 per share in Luxemburg Stock Exchange, and the Company issued 1,567.3 thousand shares to merge IA Style, Inc. at March 1, 2004.

In June 2004, the stockholders approved the transfer of retained earnings amounting to NT\$437,463 and employees bonuses amounting to NT\$89,500 to capital stock. The amounts to be distributed were accounted for as "stock dividend to be distributed" temporarily. As a result, the Company's outstanding capital stock at June 30, 2004 was NT\$2,187,313, divided into 218,731 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 option 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 June 30, 2004, 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 at June 30, 2004. The rest 4,000,000 units of the employee stock options to employees had expired on December 25, 2003.

Global Depository Receipts

The Company issued 14,400 thousand shares of its common stock divided into 3,600 thousand units of Global Depository Receipts. The Company's stockholders including Via Technologies, Inc., offered 12,878.4 thousand shares of its common stock, divided into 3,219.6 thousand units of Global Depository 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.

The holders of these GDRs have requested the Company to redeem the GDRs and receive the common stock at June 30, 2004, the GDRs redeemed were 5,629.2 thousand units amounted 22,516.6 thousand shares common stock, and the outstanding GDRs represent 4,761.8 thousand shares of common stock and account 2.18% of the Company's common stock.

Capital Surplus

The capital surplus - additional paid-in capital - common stock was NT\$832,812 at June 30, 2002 and 2003. In November 2003, NT\$1,696,855 of the additional paid-in capital from the issuance of Global Depository Receipts were accounted for as "capital surplus".

As a result, the capital surplus - additional paid-in capital at June 30, 2004 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.

The capital surplus-additional paid-in capital-merger was NT\$25,972 at March 1, 2004, date of merger.

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.

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 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 dividends could be paid by cash or issuing new stocks, but the cash dividends could not be more than 95% of total dividends.

If the Company recognized the employees bonuses NT\$146,000 and directors' remuneration NT\$13,177 as expenses of 2002, the pro forma earnings per share for the year ended December 31, 2002 would be NT\$8.02. (The original earnings per share is NT\$9.00.)

If the Company recognized the employees bonuses NT\$173,000 as expenses of 2003, the pro forma earnings per share for the year ended 2003 would be NT\$8.21. (The original earnings per share is NT\$9.05.)

18. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Function Expense Item	Six-Month Periods Ended June 30								
	2002			2003			2004		
	Operating Cost	Operating Expenses	Total	Operating Cost	Operating Expenses	Total	Operating Cost	Operating Expenses	Total
Personnel expense:									
Salary	\$280,4	\$207,3	\$487,7	\$270,9	\$287,8	\$558,8	\$320,1	\$383,9	\$704,0
Insurance	16,5	12,7	29,2	19,0	18,3	37,3	21,2	25,3	46,6
Pension cost	9,7	6,4	16,2	8,8	8,9	17,8	10,0	11,3	21,4
Other	13,9	10,5	24,4	22,0	15,1	37,2	17,1	16,1	33,2
Depreciation	140,9	29,8	170,8	167,7	51,0	218,8	169,0	79,0	248,0
Amortization	2,8	31,0	33,9	2,8	28,4	31,2	1,8	24,9	26,8

19. 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 additional revenue from sales of pocket PC and smart phones 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 additional revenue from sales of pocket PC (wireless) and smart phones (wireless) for five consecutive years commencing on January 1, 2002 under the Statute for Upgrading Industries.

In addition to those two permission, the Company is exempt from paying the Company Income Tax on Win CE products for five consecutive years commencing on January 1, 2003.

Income tax payable at June 30, 2002, 2003 and 2004 was computed as follows:

	2002	2003	2004	
	NTD	NTD	NTD	USD
Income before income tax	\$ 401,065	\$ 812,696	\$ 1,753,604	\$ 51,943
Add:				
Unrealized pension cost	3,115	5,936	8,798	261
Provision for loss on decline in value of inventory	267,835	125,134	213,480	6,323
Investment losses on equity-method	-	-	1,133	34
Unrealized foreign currency exchange loss, net	127,351	64,375	50,693	1,502
Unrealized reserve for warranty expense	-	-	55,211	1,635
Unrealized royalty	-	289,437	-	-
Unrealized depreciation	-	-	389	11
Others	-	9,447	6,383	189
Less:				
Realized reserve for warranty expense	-	(19,623)	-	-
Gain on disposal of investments	(215)	(518)	(427)	(13)
Realized royalty	-	-	(14,058)	(416)
Realized depreciation	(10,756)	(7,032)	-	-
Realized loss on disposal of inventory	(7,420)	(159,985)	(160,840)	(4,764)
Investment gains on equity method	(1,400)	(1,532)	-	-
Others	(14,461)	-	-	-

	2002	2003	2004	
	NTD	NTD	NTD	USD
Total income	765,114	1,118,335	1,914,366	56,705
Less income exempt from tax	(445,101)	(575,127)	(1,086,280)	(32,176)
Prior year loss carryforwards - consolidation IA Style, Inc.	-	-	(465)	(14)
Taxable income	320,013	543,208	827,621	24,515
Tax rate	×25%	25%	×25%	25%
Subtotal	80,003	135,802	206,905	6,129
Income tax credit	(10)	(10)	(10)	-
Estimated income tax provision	79,993	135,792	206,895	6,129
Unappropriated earnings (additional 10% income tax)	34,234	101,489	64,862	1,921
Less investment research and development tax credits	(57,113)	(167,733)	(175,692)	(5,204)
Current income tax expense	57,114	69,548	96,065	2,846
Less prepaid and withheld income tax	(47)	(811)	(1,812)	(54)
Income tax payable	<u>\$ 57,067</u>	<u>\$ 68,737</u>	<u>\$ 94,253</u>	<u>\$ 2,792</u>

The tax effects of deductible temporary differences and loss and tax credit carryforwards that gave rise to deferred tax assets as of June 30, 2002, 2003 and 2004 consisted of the following:

	2002	2003	2004	
	NTD	NTD	NTD	USD
Temporary differences:				
Unrealized pension cost	\$ 3,947	\$ 7,001	\$ 10,793	\$ 320
Capitalized expenditure subject to tax limitation	11,982	17,389	31,267	926
Provision for loss on decline in value of inventory	90,226	25,291	43,786	1,297
Unrealized depreciation	1,811	4,232	7,696	228
Unrealized foreign currency exchange loss	35,453	11,230	-	-
Unrealized reserve for warranty expense	-	32,536	61,106	1,810
Unrealized royalty	-	72,359	161,062	4,771
Other	7,719	1,225	10,417	308
Tax credit carryforwards	<u>335,713</u>	<u>248,044</u>	<u>532,924</u>	<u>15,786</u>
Total deferred tax asset	486,851	419,307	859,051	25,446
Less valuation allowance	(314,075)	(185,574)	(593,965)	(17,594)
Total deferred tax asset, net	172,776	233,733	265,086	7,852
Deferred tax liability - Unrealized foreign currency exchange gain, net	-	-	(6,420)	(190)
Less current portion	<u>172,776</u> <u>(133,958)</u>	<u>233,733</u> <u>(106,311)</u>	<u>258,666</u> <u>(129,441)</u>	<u>7,662</u> <u>(3,834)</u>
Deferred tax assets, noncurrent	<u>\$ 38,818</u>	<u>\$ 127,422</u>	<u>\$ 129,225</u>	<u>\$ 3,828</u>

Details of the tax credit carryforwards:

Year Occur	Period of Validity	2002	2003	2004	
		NTD	NTD	NTD	USD
1999	1999~2003	\$ 49,092	\$ -	\$ -	\$ -
2000	2000~2004	79,780	79,670	39,750	1,177
2001	2001~2005	155,563	155,229	155,447	4,605
2002	2002~2006	51,278	13,145	54,941	1,627
2003	2003~2007	-	-	179,230	5,309
2004	2004~2008	-	-	103,556	3,068
		<u>\$335,713</u>	<u>\$248,044</u>	<u>\$532,924</u>	<u>\$15,786</u>

According to the Income Tax Law of ROC, the investment research and development tax credits can be carried forward for four years. The total credits used in each year can not 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 four years, based on the Company's financial forecasts.

The income tax expense (benefit) for the six-month periods ended June 30, 2002, 2003 and 2004 consisted of the following:

	2002	2003	2004	
	NTD	NTD	NTD	USD
Current income tax expense	\$ 57,113	\$ 69,548	\$ 96,065	\$ 2,845
Increase in deferred income tax assets	(35,339)	(47,964)	(9,862)	(292)
(Under) over estimation of prior year's income tax	<u>(3,079)</u>	<u>23,878</u>	<u>(18,615)</u>	<u>(551)</u>
Income tax expense	<u>\$ 18,695</u>	<u>\$ 45,462</u>	<u>\$ 67,588</u>	<u>\$ 2,002</u>

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

	2002	2003	2004	
	NTD	NTD	NTD	USD
Balance of imputation credit account	\$ 31,600	\$ 71,242	\$ 94,538	\$ 2,800
Unappropriated earnings attributed to 1998 and years after	727,392	1,619,877	2,936,009	86,967
Expected creditable ratio (including income tax payable)	12.19%	8.64%	6.43%	6.43%

20. 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 255,460,000, 255,460,000 and 270,905,000 for the six-month periods ended June 30, 2002, 2003 and 2004, respectively. Earnings per share for the six-month periods ended June 30, 2002 and 2003 were calculated after giving retroactive effect of the stock dividend distribution in 2004.

The convertible bonds and employee stock options have diluted effect to the 2004 and 2003 earnings per share. The related information is as follows:

	2004				
	Numerators		Denominator (Thousand) Shares	Earnings Per Share	
	Income before Income Tax	Income after Income Tax		Income before Income Tax	Income after Income Tax
	NTD	NTD	NTD	NTD	
Basic earnings per share	\$1,753,604	\$1,686,016	270,905	\$ 6.47	\$ 6.22
Zero coupon convertible bonds	6,364	4,773	13,694		
Employee stock options	-	-	1,443		
Diluted earnings per share	<u>\$1,759,968</u>	<u>\$1,690,789</u>	<u>286,042</u>	<u>\$ 6.15</u>	<u>\$ 5.91</u>
	2003				
	Numerators		Denominator (Thousand) Shares	Earnings Per Share	
	Income before Income Tax	Income after Income Tax		Income before Income Tax	Income after Income Tax
	NTD	NTD	NTD	NTD	
Basic earnings per share	\$ 812,696	\$ 767,234	255,460	\$ 3.18	\$ 3.00
0% convertible bonds	4,873	3,655	9,288		
Employee stock options	-	-	186		
Diluted earnings per share	<u>\$ 817,569</u>	<u>\$ 770,889</u>	<u>264,934</u>	<u>\$ 3.09</u>	<u>\$ 2.91</u>
	2002				
	Numerators		Denominator (Thousand) Shares	Earnings Per Share	
	Income before Income Tax	Income after Income Tax		Income before Income Tax	Income after Income Tax
	NTD	NTD	NTD	NTD	
Basic earnings per share	\$ 401,065	\$ 382,370	255,460	\$ 1.57	\$ 1.50
Zero coupon convertible bonds	-	-	-		
Diluted earnings per share	<u>\$ 401,065</u>	<u>\$ 382,370</u>	<u>255,460</u>	<u>\$ 1.57</u>	<u>\$ 1.50</u>

21. 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

Forward Exchange Contracts

	June 30					
	2002		2003		2004	
	Contract Amount	Credit Risk	Contract Amount	Credit Risk	Contract Amount	Credit Risk
Forward exchange contracts	<u>US\$ 28,000</u>	<u>-</u>	<u>US\$ -</u>	<u>-</u>	<u>US\$ 6,000</u>	<u>-</u>

Foreign Currency Option Contracts

June 30, 2002						
Buy/Sell	Trade Date	Expiry Date	Call/Put	Contract Amount	Strike Rate	Credit Risk
Buy	2002.03.20~ 2002.06.28	2002.07.23~ 2003.03.21	USD/JPY	US\$ 40,000	126.35~131.50	-
Buy	2002.04.02~ 2002.06.28	2002.07.03~ 2003.06.22	JPY/USD	US\$ 111,000	128.00~133.15	-
Sell	2002.02.07~ 2002.06.28	2002.07.23~ 2003.03.21	JPY/USD	US\$ 92,750	126.00~135.00	-
Sell	2002.02.07~ 2002.06.28	2002.07.01~ 2003.06.30	USD/JPY	US\$ 76,800	128.00~142.00	-
Sell	2002.09.27~ 2002.06.01	2002.08.20~ 2003.06.03	USD/NTD	US\$ 66,280	33.55~37.00	-
June 30, 2003						
Buy	2003.02.14~ 2003.05.13	2003.07.03~ 2003.11.13	USD/EUR	US\$ 12,223	1.1~1.143	-
Sell	2003.02.14~ 2003.05.13	2003.07.03~ 2003.05.04	EUR/USD	US\$ 46,238	1.1~1.15	-
June 30, 2004						
Buy	2004.02.09	2004.09.28~ 2005.01.31	USD/EUR	US\$ 11,500	1.15	-
Buy	2004.02.09~ 2004.03.29	2004.07.08~ 2005.03.29	USD/NTD	US\$ 34,000	33.15~33.60	-
Sell	2004.02.06~ 2004.03.29	2004.07.08~ 2005.03.31	NTD/USD	US\$ 48,000	33.26~33.625	-

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

The transactions in forward exchange contracts and foreign currency options are measured at the balance sheet date using the market value. As of June 30, 2002, 2003 and 2004, the Company recorded unrealized foreign exchange losses of NT\$85,398, NT\$50,484 and NT\$9,188 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 gain of NT\$6,132~NT\$32,946, assuming an exchange rate, based on foreign currency exchange rate forecasts, at NT\$33.63~NT\$33.77 to US\$1 and US\$1 to EUR1.21~1.27 for the third quarter 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 maturity date, no liquidity risk is considered.

Purpose and Category of Financial Instrument Held

The Company held derivative financial instruments for non-trading activity purposes 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 June 30, 2002, 2003 and 2004, the net balance recorded in other current liabilities was NT\$85,398, NT\$50,484 and NT\$9,188, respectively. Loss generated from transactions of derivative financial instruments for the six-month periods ended June 30, 2002, 2003 and 2004, amounted to NT\$236,483, NT\$56,113 and NT\$13,956, respectively.

Fair Value of Financial Instruments

Derivative Financial Instruments

	June 30							
	2002		2003		2004			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NTD	NTD	NTD	NTD	NTD	USD	NTD	USD
Assets -								
Foreign currency option contracts	\$ 13,438	\$ 13,438	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Liabilities:								
Foreign currency option contracts	98,836	98,836	-	-	9,068	269	9,068	269
Forward exchange contracts	-	-	50,484	50,484	120	4	120	4

The fair value of derivative financial instruments is the estimated amount 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

	June 30							
	2002		2003		2004			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NTD	NTD	NTD	NTD	NTD	USD	NTD	USD
Assets:								
Cash and cash equivalents	\$ 200,993	\$ 200,993	\$ 2,683,395	\$ 2,683,395	\$ 5,724,040	\$ 169,551	\$ 5,724,040	\$ 169,551
Short-term investments	-	-	34,605	34,605	1,125,640	33,342	1,125,640	33,342
Receivables	2,809,211	2,809,211	2,812,439	2,812,439	5,155,231	152,703	5,155,231	152,703
Other current financial assets	32,335	32,335	147,593	147,593	85,211	2,524	85,211	2,524
Long-term investments	13,183	13,824	89,209	89,340	178,329	5,282	178,329	5,282
Other financial assets	809	793	742	727	2,028	60	2,009	60
Liabilities:								
Short-term borrowings and commercial bills	1,037,475	1,037,475	4,619	4,619	-	-	-	-
Payables	2,645,244	2,645,244	2,568,897	2,568,897	4,943,734	146,438	4,943,734	146,438
Current portion of long-term debts	52,215	52,215	-	-	-	-	-	-
Income tax payable	57,067	57,067	68,737	68,737	94,253	2,792	94,253	2,792
Accrued expenses	247,427	247,427	285,325	285,325	427,049	12,650	427,049	12,650
Payable for purchase of equipment	41,741	41,741	6,257	6,257	50,248	1,488	50,248	1,488
Other current financial liabilities	313,696	313,696	600,561	600,561	1,041,319	30,845	1,041,319	30,845
Long-term debts	84,898	84,898	-	-	-	-	-	-
Long-term notes payable	2,231	2,231	-	-	-	-	-	-
Bonds payable	-	-	2,288,803	2,288,803	2,180,050	64,575	2,180,050	64,575
Guarantee deposits received	-	-	-	-	50,999	1,510	50,519	1,496

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:

The carrying amount approximated the fair value because of the short maturities of such instruments, including cash and cash equivalents, receivable, other current financial assets, payables, income tax payable, accrued expenses, payable for purchase of equipment, short-term borrowings and commercial bills and other current financial liabilities.

Securities, short-term and long-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 bonds payable, long-term debts, including current portion, are estimated based on their rates that are comparable to current rates of long-term debts with same terms and maturities.

22. RELATED PARTY TRANSACTIONS

The names and relationships of related parties are as follows:

Related Party	Relationship with the Company
VIA Technologies, Inc.	Chairperson is the Company's chairperson
Chander Electronics Corp.	Chairperson is the Company's chairperson
H.T.C. (B.V.I.) Corp.	A subsidiary of 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.
HTC Europe Co., Ltd.	A subsidiary of H.T.C. (B.V.I.) Corp.
Conserve Network Netherlands B.V.	An entity related to the Company
Leo Systems, Inc.	An entity related to the Company

Major transactions with related parties are summarized below:

Purchases of Inventories and Services

Related Party	Six-Month Periods Ended June 30						
	2002		2003		2004		
	Amount NTD	% of Total Net Purchases	Amount NTD	% of Total Net Purchases	Amount NTD	Amount USD	
Chander Electronics Corp.	\$ 169,779	2	\$ 77,303	1	\$ 4,628	\$ 137	-
Conserve Network Netherlands B.V.	-	-	351	-	-	-	-
Total	<u>\$ 169,779</u>	<u>2</u>	<u>\$ 77,654</u>	<u>1</u>	<u>\$ 4,628</u>	<u>\$ 137</u>	<u>-</u>

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

Sales and Services Provided

Related Party	Six-Month Periods Ended June 30						
	2002		2003		2004		
	Amount NTD	% of Total Revenues	Amount NTD	% of Total Revenues	Amount NTD	USD	% of Total Revenues
Conserve Network Netherlands B.V.	\$ 25,858	-	\$ 78,002	1	\$ 109,308	\$ 3,238	1
HTC USA Inc.	-	-	-	-	57,001	1,688	-
Leo Systems, Inc.	4,131	-	1,511	-	3,146	93	-
Others	320	-	216	-	538	16	-
Total	<u>\$ 30,309</u>	<u>-</u>	<u>\$ 79,729</u>	<u>1</u>	<u>\$ 169,993</u>	<u>\$ 5,035</u>	<u>1</u>

Selling prices and terms of payment for both related and unrelated parties are similar except for HTC USA Inc.

Notes and Accounts Receivable

Related Party	June 30						
	2002		2003		2004		
	Amount NTD	% of Total Notes and Accounts Receivable	Amount NTD	% of Total Notes and Accounts Receivable	Amount NTD	USD	% of Total Notes and Accounts Receivable
Accounts receivable:							
HTC USA Inc.	\$ -	-	\$ -	-	\$ 75,386	\$ 2,233	2
Conserve Network Netherlands B.V.	995	-	11,022	-	11,335	336	-
Leo Systems, Inc.	2,251	-	6	-	65	2	-
Others	57	-	-	-	-	-	-
Total	<u>\$ 3,303</u>	<u>-</u>	<u>\$ 11,028</u>	<u>-</u>	<u>\$ 86,786</u>	<u>\$ 2,571</u>	<u>2</u>

Notes and Accounts Payable

Related Party	June 30						
	2002		2003		2004		
	Amount NTD	% of Total Notes and Accounts Payable	Amount NTD	% of Total Notes and Accounts Payable	Amount NTD	USD	% of Total Notes and Accounts Payable
Chander Electronics Corp.	\$ 30,266	1	\$ 38,727	2	\$ 22	\$ 1	-
Others	-	-	358	-	-	-	-
Total	<u>\$ 30,266</u>	<u>1</u>	<u>\$ 39,085</u>	<u>2</u>	<u>\$ 22</u>	<u>\$ 1</u>	<u>-</u>

Other Receivable

Related Party	June 30						
	2002		2003		2004		
	Amount NTD	% of Total Other Receivable	Amount NTD	% of Total Other Receivable	Amount NTD	USD	% of Total Other Receivable
HTC Europe Co., Ltd.	\$ -	-	\$ -	-	\$ 5,136	\$ 152	7
H.T.C. (B.V.I.) Corp.	-	-	-	-	3,416	101	5
HTC USA Inc.	-	-	-	-	4,229	125	6
Total	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ 12,781</u>	<u>\$ 378</u>	<u>18</u>

Prepaid Expenses

Related Party	June 30					
	2002		2003		2004	
	Amount NTD	% of Total Prepayment	Amount NTD	% of Total Prepayment	Amount NTD	% of Total Prepayment USD
HTEK Inc.	\$ -	-	\$ -	-	\$ 8,437	\$ 250 2

Accrued Expenses

Related Party	June 30					
	2002		2003		2004	
	Amount NTD	% of Total Other Receivable	Amount NTD	% of Total Other Receivable	Amount NTD	% of Total Other Receivable USD
VIA Technologies, Inc.	\$ 2,446	1	\$ 1,418	-	\$ 525	\$ 16 -
Others	562	-	-	-	-	-
Total	\$ 3,008	1	\$ 1,418	-	\$ 525	\$ 16 -

Service Warranty Expense

Related Party	Six-Month Periods Ended June 30					
	2002		2003		2004	
	Amount NTD	% of Warranty Expenses	Amount NTD	% of Warranty Expenses	Amount NTD	% of Warranty Expenses USD
Conserve Network Netherlands B.V.	\$ 12,280	13	\$ 53,050	26	\$ 59,261	\$ 1,755 28
HTC Europe Co., Ltd.	-	-	-	-	9,260	275 4
HTC USA Inc.	-	-	-	-	5,074	150 4
Total	\$ 12,280	13	\$ 53,050	26	\$ 73,595	\$ 2,180 34

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

Leasing - Lessee

Operating Expense - Rental Expense

Related Party	Six-Month Periods Ended June 30					
	2002		2003		2004	
	Amount NTD	% of Rental Expense	Amount NTD	% of Rental Expense	Amount NTD	% of Rental Expense USD
VIA Technologies, Inc.	\$ 5,292	76	\$ 7,782	77	\$ 7,530	\$ 223 71

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

Administrative and Selling Expenses – Professional Fees

Related Party	Six-Month Periods Ended June 30					
	2002		2003		2004	
	Amount NTD	% of Total Professional Fees	Amount NTD	% of Total Professional Fees	Amount NTD	% of Total Professional Fees USD
HTEK, Inc.	\$ -	-	\$ -	-	\$ 8,728	\$ 259 24

Leasing - Lessor

Non-Operating Revenue - Rental Revenue

Related Party	Six-Month Periods Ended June 30					
	2002		2003		2004	
	Amount NTD	% of Rental Revenue	Amount NTD	% of Rental Revenue	Amount NTD	% of Rental Revenue USD
VIA Technologies, Inc.	\$ -	-	\$ -	-	\$ 60	\$ 2 60
Chander Electronics Corp.	-	-	-	-	41	1 40
Total	\$ -	-	\$ -	-	\$ 101	\$ 3 100

Property Transaction

In the second quarter of 2004 the Company sold machinery and equipment to H.T.C. (B.V.I.) Corp., Inc. and HTC USA Inc. in the amount of NT\$2,106 and NT\$430, respectively. In the first quarter of 2004, the Company sold computer equipment to HTC Europe Co., Ltd. in the amount of NT\$20.

23. PLEDGED ASSETS

At June 30, 2002, 2003 and 2004, the following assets were pledged to secure short-term borrowings and long-term debts:

	2002	2003	2004	
	NTD	NTD	NTD	USD
Machinery and equipment	\$314,564	\$149,850	\$ -	\$ -

24. COMMITMENTS AND CONTINGENCIES

As of June 30, 2004, outstanding unused letters of credit not reflected in the accompanying financial statements amounted to US\$527 thousand, JPY882 thousand and EUR79.85 thousand.

25. SIGNIFICANT CONTRACT

Patent Agreement

For enhancing the quality of the products and manufacturing technologies, the Company has patent agreements with Texas Instruments France, Microsoft QUALCOMM Incorporated, Ericsson Mobile Platform AB and Telefonaktiebolaget LM Ericsson as follows:

Contractor	Contract period	Description
Texas Instruments France	January 14, 2000 to January 14, 2005	Authorization in using GSM system software. Payment for the royalty is within the schedule of agreement.
Microsoft	December 1, 2000 to October 31, 2004	Authorization in using embedded operating system. 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, the Company shall make royalty payment pursuant to the provisions of the agreement.
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, the Company shall make royalty payment pursuant to the provisions of the agreement.

Contractor	Contract period	Description
Nokia Corporation	January 2003 to December 2009	(a) Authorization in using wireless technology, like GSM. (b) In consideration of the license of Nokia patents, the Company shall make 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, the Company 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, the Company 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, the Company shall make royalty payment pursuant to the provisions of the agreement.

26. OTHER EVENTS

In order to effect cooperation with other companies in 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 basis of merger ratio:
 - (i) the current market condition and future vision ;
 - (ii) equity per share.
- (c) The influence on 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.
- (d) If the effective merger date was January 1, 2004, the pro forma information of six-month period ended June 30, 2004 is as follows:

	NTD	USD
Revenues	\$ 14,982,998	\$ 443,809
Net income	1,677,304	49,683
Basic earnings per share after income tax	6.18	0.18

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