High Tech Computer Corp.

Financial Statements for the
Years Ended December 31, 2002, 2003 and 2004 and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
High Tech Computer Corp.

We have audited the accompanying balance sheets of High Tech Computer Corp. (the "Company") as of December 31, 2002, 2003 and 2004, and the related statements of income, 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 the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of High Tech Computer Corp. as of December 31, 2002, 2003 and 2004, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

Our audits also comprehended the translation of the New Taiwan dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2. Such U.S. dollar amounts are presented solely for the convenience of readers.

March 22, 2005

<u>*Notice to Readers*</u>

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

For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail. Also, as stated in Note 2 to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

HIGH TECH COMPUTER CORP.

BALANCE SHEETS
DECEMBER 31, 2002, 2003 AND 2004
(In Thousands)

ASSETS	2002 NT$	2003 NT$	2004 NT$	2004 US$ (Note 2)
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 3)	$ 139,240	$ 4,773,077	$ 6,148,201	$ 193,888
Short-term investments (Notes 2 and 4)	-	30,573	-	-
Notes receivable, net (Notes 2 and 5)	48,266	35,736	71,756	2,263
Accounts receivable, net (Notes 2 and 5)	4,543,805	5,286,193	8,340,434	263,022
Accounts receivable from related parties, net (Notes 2 and 24)	72,828	114,848	78,213	2,467
Other current financial assets (Notes 6 and 24)	42,826	191,179	97,136	3,063
Inventories (Notes 2 and 7)	1,770,401	2,157,796	4,203,649	132,565
Prepayments (Notes 8 and 24)	91,797	410,844	244,828	7,722
Deferred income tax assets (Notes 2 and 21)	78,387	118,390	161,863	5,104
Total current assets	6,787,550	13,118,636	19,346,080	610,094
LONG-TERM INVESTMENTS (Notes 2 and 9)	88,169	111,187	352,000	11,101
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 10, 24 and 25)				
Cost				
Land	224,244	300,982	378,274	11,929
Buildings and structures	807,336	836,452	946,207	29,839
Machinery and equipment	1,322,588	1,771,743	2,268,523	71,540
Molding equipment	283,738	201,567	201,567	6,357
Computer equipment	118,138	132,141	154,988	4,888
Transportation equipment	1,315	1,315	1,315	41
Furniture and fixtures	87,102	97,283	101,080	3,188
Leasehold improvements	19,040	28,080	45,542	1,436
	2,863,501	3,369,563	4,097,496	129,218
Less accumulated depreciation	(753,179)	(1,203,346)	(1,704,469)	(53,752)
Prepayments on construction-in-progress and equipment-in-transit	178,165	67,788	125,915	3,971
Property, plant and equipment, net	2,288,487	2,234,005	2,518,942	79,437
OTHER ASSETS				
Refundable deposits	836	687	5,922	187
Deferred charges (Note 2)	267,954	233,612	186,211	5,872
Deferred bond issue costs (Notes 2 and 15)	-	33,630	17,675	557
Deferred tax assets (Notes 2 and 21)	107,382	130,414	60,827	1,918
Other (Notes 2 and 17)	-	-	7,663	242
Total other assets	376,172	398,343	278,298	8,776
TOTAL	$ 9,540,378	$ 15,862,171	$22,495,320,	$ 709,408

LIABILITIES AND STOCKHOLDERS' EQUITY	2002 NT$	2003 NT$	2004 NT$	2004 US$ (Note 2)
CURRENT LIABILITIES				
Short-term borrowings (Note 11)	$ 381,185	$ -	$ -	$ -
Short-term commercial bills (Note 12)	99,694	-	-	-
Notes and accounts payable (Note 24)	3,803,461	4,947,233	7,946,451	250,598
Income tax payable (Notes 2 and 21)	94,904	146,325	94,154	2,969
Accrued expenses (Notes 13 and 24)	329,979	485,265	862,267	27,192
Payable for purchase of equipment	59,153	36,215	54,242	1,711
Current portion of bonds payable (Notes 2 and 15)	-	2,255,066	-	-
Current portion of long-term debts (Notes 16 and 25)	57,749	-	-	-
Other current liabilities (Note 14)	271,824	314,145	418,535	13,199
Total current liabilities	5,097,949	8,184,249	9,375,649	295,669
LONG-TERM LIABILITIES, NET OF CURRENT PORTION				
Long-term debts (Notes 16 and 25)	57,164	-	-	-
Bonds payable (Notes 2 and 15)	-	-	1,477,171	46,584
Total long-term liabilities	57,164	-	1,477,171	46,584
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 17)	19,835	32,144	-	-
Guarantee deposits received	-	30	273,078	8,611
Total other liabilities	19,835	32,174	273,078	8,611
Total liabilities	5,174,948	8,216,423	11,125,898	350,864
STOCKHOLDERS' EQUITY				
Capital stock (Note 18)				
Common stock	1,627,200	2,171,640	2,714,276	85,597
Capital collected in advance	-	-	48,838	1,540
Capital surplus (Note 18)				
Paid-in capital in excess of par value - common stock	832,812	2,529,667	3,064,356	96,637
Merger	-	-	25,972	819
Retained earnings (Note 19)				
Legal reserve	96,273	242,718	427,791	13,491
Special reserve	-	331	1,983	62
Accumulated earnings	1,809,476	2,703,375	5,105,339	161,001
Unrealized valuation loss on long-term investments (Notes 2 and 9)	(410)	(277)	(1,268)	(40)
Cumulative translation adjustments (Note 2)	79	(1,706)	(17,865)	(563)
Total stockholders' equity	4,365,430	7,645,748	11,369,422	358,544
TOTAL	$ 9,540,378	$ 15,862,171	$ 22,495,320	$ 709,408

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

HIGH TECH COMPUTER CORP.

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004
(In Thousands, Except Earnings Per Share)

	2002	2003	2004	
	NT$	NT$	NT$	US$ (Note 2)
REVENUES				
Gross sales	$20,124,468	$21,432,410	$35,808,714	$1,129,256
Less sales returns and discounts	(150,300)	(241,533)	(158,453)	(4,997)
NET SALES (Note 24)	19,974,168	21,190,877	35,650,261	1,124,259
OTHER REVENUES	670,148	630,728	746,905	23,554
Total revenues	20,644,316	21,821,605	36,397,166	1,147,813
COST OF REVENUES (Note 24)	17,041,738	17,938,644	28,493,144	898,553
GROSS PROFIT	3,602,578	3,882,961	7,904,022	249,260
UNREALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	-	(7,241)	(6,289)	(198)
REALIZED PROFIT RROM INTERCOMPANY TRANSACTIONS	-	-	7,241	228
REALIZED GROSS PROFIT	3,602,578	3,875,720	7,904,974	249,290
OPERATING EXPENSES (Note 24)				
Administrative and selling expenses	784,573	1,008,071	1,600,582	50,476
Research and development expenses	699,486	1,048,189	1,993,972	62,881
Total operating expenses	1,484,059	2,056,260	3,594,554	113,357
OPERATING INCOME	2,118,519	1,819,460	4,310,420	135,933
NONOPERATING INCOME AND GAINS				
Interest income	801	45,473	60,643	1,912
Investment gains on equity-method (Note 9)	6,020	-	-	-
Gain on sale of property, plant and equipment	-	380	10,950	345
Gain on sale of investments	642	874	13,584	428
Gain on physical inventories	1,993	-	11,078	349
Foreign exchange gain	-	92,465	108,247	3,415
Other	412,524	343,486	108,454	3,420
Total nonoperating income and gains	421,980	482,678	312,956	9,869

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HIGH TECH COMPUTER CORP.

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004
(In Thousands, Except Earnings Per Share)

	2002	2003	2004	
	NT$	NT$	NT$	US$ (Note 2)
NONOPERATING EXPENSES AND LOSSES				
Interest expense	$ 38,524	$ 27,404	$ 29,367	$ 926
Investment losses on equity-method (Note 9)	-	16,202	35,606	1,123
Losses on disposal of property, plant and equipment	8,287	-	12,151	383
Losses on physical inventory	-	13,216	-	-
Foreign exchange loss	314,655	-	-	-
Provision for loss on decline in value of inventory	655,724	255,134	543,516	17,140
Other	15,280	30,337	42,208	1,332
Total nonoperating expenses and losses	1,032,470	342,293	662,848	20,904
INCOME BEFORE INCOME TAX	1,508,029	1,959,845	3,960,528	124,898
INCOME TAX EXPENSE (Notes 2 and 21)	(43,575)	(109,113)	(105,182)	(3,317)
NET INCOME	$ 1,464,454	$ 1,850,732	$ 3,855,346	$ 121,581

	2002		2003		2004			
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax	Before Income Tax		After Income Tax	
	NT$	NT$	NT$	NT$	NT$	US$ (Note 2)	NT$	US$ (Note 2)
BASIC EARNINGS PER SHARE (Note 22)	$ 5.90	$ 5.73	$ 7.62	$ 7.20	$ 14.59	$ 0.46	$ 14.21	$ 0.45
DILUTED EARNINGS PER SHARE (Note 22)	$ 5.90	$ 5.73	$ 7.28	$ 6.87	$ 13.86	$ 0.44	$ 13.49	$ 0.43

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

HIGH TECH COMPUTER CORP.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004
(In Thousands)

	Capital Stock		Capital Surplus		Retained Earnings					
	Common Stock NT$	Capital Collected In Advance NT$	Additional Paid-in Capital - Common Stock NT$	Additional Paid-in Capital from Merger NT$	Legal Reserve NT$	Special Reserve NT$	Accumulated Earnings NT$	Unrealized Valuation Loss on Long-Term Investments NT$	Cumulative Translation Adjustments NT$	Total NT$
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 in 2002	-	-	-	-	-	-	1,464,454	-	-	1,464,454
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	(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	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 in 2003	-	-	-	-	-	-	1,850,732	-	-	1,850,732
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	(1,785)	(1,785)
Unrealized valuation loss on long-term investments	-	-	-	-	-	-	-	133		133
Issuance of Global Depositary Receipts	144,000	-	1,696,855	-	-	-	-	-	-	1,840,855
BALANCE, DECEMBER 31, 2003	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)
Net income in 2004	-	-	-	-	-	-	3,855,346	-	-	3,855,346
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	(16,159)	(16,159)
Unrealized valuation loss on long-term investments	-	-	-	-	-	-	-	(991)	-	(991)
Merger with IA Style, Inc.	15,673	-	-	25,972	-	-	-	-	-	41,645
Convertible bonds converted to common stocks	-	48,838	534,689	-	-	-	-	-	-	583,527
BALANCE, DECEMBER 31, 2004	$ 2,714,276	$ 48,838	$ 3,064,356	$ 25,972	$ 427,791	$ 1,983	$ 5,105,339	$ (1,268)	$ (17,865)	$ 11,369,422

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HIGH TECH COMPUTER CORP.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004
(In Thousands)

	Capital Stock		Capital Surplus		Retained Earnings					
	Common Stock	Capital Collected In Advance	Additional Paid-in Capital - Common Stock	Additional Paid-in Capital from Merger	Legal Reserve	Special Reserve	Accumulated Earnings	Unrealized Valuation Loss on Long-Term Investments	Cumulative Translation Adjustments	Total
	US$	US$	US$	US$	US$	US$	US$	US$	US$	US$
BALANCE, JANUARY 1, 2004	$ 68,485	$ -	$ 79,775	$ -	$ 7,655	$ 10	$ 85,253	$ (9)	$ (54)	$ 241,115
Appropriation and distribution of 2003 net earnings										
Legal reserve	-	-	-	-	5,836	-	(5,836)	-	-	-
Special reserve	-	-	-	-	-	52	(52)	-	-	-
Stock dividend	13,796	-	-	-	-	-	(13,796)	-	-	-
Transfer of employees bonuses to capital stock	2,822	-	-	-	-	-	(2,822)	-	-	-
Employees bonuses	-	-	-	-	-	-	(2,633)	-	-	(2,633)
Cash dividend	-	-	-	-	-	-	(20,694)	-	-	(20,694)
Net income in 2004	-	-	-	-	-	-	121,581	-	-	121,581
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	(509)	(509)
Unrealized valuation loss on long-term investments	-	-	-	-	-	-	-	(31)	-	(31)
Merger with IA Style, Inc.	494	-	-	819	-	-	-	-	-	1,313
Convertible bonds converted to common stocks	-	1,540	16,862	-	-	-	-	-	-	18,402
BALANCE, DECEMBER 31, 2004	$ 85,597	$ 1,540	$ 96,637	$ 819	$ 13,491	$ 62	$ 161,001	$ (40)	$ (563)	$ 358,544

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

HIGH TECH COMPUTER CORP.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004
(In Thousands)

	2002	2003	2004	
	NT$	NT$	NT$	US$ (Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$1,464,454	$1,850,732	$3,855,346	$ 121,581
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation	378,795	465,281	516,948	16,302
Amortization	68,095	61,335	47,031	1,483
Gain on disposal of short-term investments	(642)	(874)	(13,584)	(428)
Loss (gain) on disposal of property, plant and equipment	8,287	(380)	1,201	38
Investment (gains) losses under the equity-method	(6,020)	16,202	35,606	1,123
Provision for redemption of convertible bonds	-	13,046	12,978	409
Foreign currency exchange gains from convertible bonds	-	(46,530)	(137,996)	(4,352)
Amortization of bond issue costs	-	7,633	15,955	503
Deferred income tax asset	(48,332)	(63,035)	26,114	824
Accrued pension costs	7,160	12,309	(39,807)	(1,255)
Net changes in operating assets and liabilities				
Notes receivable	(47,451)	12,530	(35,957)	(1,134)
Accounts receivable	(1,984,317)	(742,388)	(3,050,895)	(96,212)
Accounts receivable from related parties	(69,443)	(42,020)	36,635	1,155
Other current financial assets	(2,740)	(148,353)	95,169	3,001
Inventories	(165,886)	(387,395)	(2,045,853)	(64,518)
Prepayments	52,641	(319,047)	166,016	5,235
Notes and accounts payable	2,085,908	1,143,772	2,999,218	94,583
Income tax payable	4,133	51,421	(52,171)	(1,645)
Accrued expenses	72,021	155,286	376,613	11,877
Other current liabilities	225,303	22,701	129,050	4,070
Long-term notes payable	(2,231)	-	-	-
Net cash provided by operating activities	2,039,735	2,062,226	2,937,617	92,640
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of short-term investments	(796,000)	(1,019,995)	(2,448,020)	(77,200)
Proceeds from sales of short-term investments	796,642	990,296	2,514,707	79,303
Purchase of property, plant and equipment	(467,671)	(445,308)	(795,370)	(25,083)
Proceeds from sales of property, plant and equipment	1,213	9,494	10,681	337
Increase in long-term investments	(75,517)	(40,872)	(292,377)	(9,220)
(Increase) decrease in refundable deposits	(72)	149	(5,080)	(160)
Increase in deferred bond issue costs	-	(41,263)	-	
Increase in deferred charges	(15,178)	(24,536)	-	
Increase in receivable on forward exchange contracts	-	-	(359)	(11)
(Decrease) increase in option contracts payable	(39,048)	788	(24,316)	(767)
Cash from merger	-	-	14,791	466
Net cash used in investing activities	(595,631)	(571,247)	(1,025,343)	(32,335)

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HIGH TECH COMPUTER CORP.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004
(In Thousands)

	2004 NT$	2003 NT$	2004 NT$	2004 US$ (Note 2)
CASH FLOWS FROM FINANCING ACTIVITIES				
Decrease in short-term borrowings	$ (798,163)	$ (381,185)	$ -	$ -
Decrease in short-term commercial bills	(348,855)	(99,694)	-	-
Decrease in long-term debts	(12,556)	(114,913)	-	-
Increase in guarantee deposits received	-	30	273,048	8,611
Issued convertible bonds	-	2,288,550	-	-
Redemption of convertible bonds	-	-	(69,350)	(2,187)
Issuance of Global Depositary Receipts	-	1,840,855	-	-
Cash dividend	(127,600)	(325,440)	(656,194)	(20,694)
Bonus to employees	(33,968)	(65,345)	(84,654)	(2,670)
Net cash (used in) provided by financing activities	(1,321,142)	3,142,858	(537,150)	(16,940)
NET INCREASE IN CASH AND CASH EQUIVALENTS	122,962	4,633,837	1,375,124	43,365
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	16,278	139,240	4,773,077	150,523
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 139,240	$4,773,077	$6,148,201	$ 193,888
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Cash paid during the year for				
Interest (net of amounts capitalized)	$ 37,729	$ 14,956	$ 414	$ 13
Income tax	$ 87,743	$ 120,728	$ 131,239	$ 4,139
NONCASH INVESTING AND FINANCING ACTIVITIES				
Transfer of long-term debts to current portion of long-term debts	$ 57,749	$ -	$ -	$ -
Transfer of cost of property, plant and equipment to deferred charges	$ 6,043	$ 2,457	$ -	$ -
Transfer of convertible bonds to common stock and additional paid-in capital	$ -	$ -	$ 583,527	$ 18,402
PURCHASE OF PROPERTY, PLANT AND EQUIPMENT				
Cost of property, plant and equipment purchased	$ 462,383	$ 422,370	$ 813,397	$ 25,651
Decrease (increase) in payable for purchase of equipment	5,288	22,938	(18,027)	(568)
Cash paid for purchase of property, plant and equipment	$ 467,671	$ 445,308	$ 795,370	$ 25,083

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HIGH TECH COMPUTER CORP.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004
(In Thousands)

	2004	2003	2004	
	NT$	NT$	NT$	US$ (Note 2)
BONUS TO EMPLOYEES AND DIRECTORS' REMUNERATION				
Appropriation of cash dividend, bonus to employees and directors' remuneration	$ 42,633	$ 84,177	$ 83,500	$ 2,634
Bonus paid to employees and directors' remuneration, beginning of year	-	8,665	27,497	867
Bonus paid to employees and directors' remuneration, end of year	(8,665)	(27,497)	(26,343)	(831)
Cash paid	$ 33,968	$ 65,345	$ 84,654	$ 2,670
CASH FROM MERGER				
Issuance of common stock	$ -	$ -	$ 15,673	$ 494
Additional paid-in capital	-	-	25,972	819
Net assets received, except cash	-	-	(26,854)	(847)
Cash from merger	$ -	$ -	$ 14,791	$ 466

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

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 design, manufacture and sell smart handheld devices. In 1998, the Company had an initial public offering and, in March 2002, the Company's stock was listed on the Taiwan Stock Exchange. On November 19, 2003, the Company started trading Global Depositary Receipts on the Luxembourg Stock Exchange.

The Company had 2,220, 2,365 and 3,265 persons in its payroll as of December 31, 2002, 2003 and 2004, respectively.

To effect cooperation with other companies in the same trade, lower operating costs and expenses, and enhance competitiveness as well as research and development capabilities, the Board of Directors proposed the acquisition of IA Style, Inc. on October 31, 2003. The effective merger date was March 1, 2004. (Note 28 has more information on this merger.)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China (ROC). In preparing financial statements in conformity with these guidelines and principles, the Company is required to make certain estimates and assumptions that could affect the amounts of allowance for doubtful accounts, allowance for inventory devaluation, property depreciation, pension, accrued litigation loss, accrued loss on long-term construction contracts, and warranty. Actual results could differ from these estimates.

For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail. However, the accompany financial statements do not include English translation of the additional footnote disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau (SFB, formerly the "Securities and Futures Commission" before July 1, 2004) for their oversight purposes.

The Company's significant accounting policies are summarized as follows:

Translations into United States (US) Dollars

The financial statements are stated in New Taiwan dollars. The translations of the 2004 New Taiwan dollar amounts into U.S. dollar amounts are included solely for the convenience of readers, using the noon buying rate of NT$31.71 to US$1.00 certified by the Bank of Taiwan for customs purposes on December 31, 2004. The convenience translations should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other exchange rate.

Current/Noncurrent Assets and Liabilities

Current assets are unrestricted cash and cash equivalents and other assets to be realized in cash, sold, or consumed (prepaid items) during the normal operating cycle or one year, whichever is longer. Current liabilities are obligations to be paid or settled within one year or the normal operating cycle. All other assets or liabilities are classified as noncurrent.

Cash Equivalents

Cash equivalents are primarily bankers' acceptance, commercial paper and repurchased corporate bonds, which are highly liquid investments with a maturity of three months or less from the date of acquisition.

Short-Term Investments

Short-term investments include 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 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 the basis of management's evaluation of the collectibility of individual notes and accounts receivable, past loss experience, and other pertinent factors.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the moving average method. Market value is based on replacement costs of raw materials and work-in-process and on net realizable values of finished goods.

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 by the equity method of accounting. The difference between investment acquisition cost and the Company's equity in an investee's net assets when an investment is acquired or when the equity method is first adopted, 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.

For both equity-method and cost-method investments, the cost of an investment sold is determined using the weighted-average method.

Under Statement of Financial Accounting Standards No. 7 and the Guidelines Governing the Preparation of Financial Statements by Securities Issuers, financial statements of subsidiaries should be consolidated with those of the Company if either of their total assets and total sales individually reach 10% of those of the Company ("10% rule"). For subsidiaries that do not meet the 10% rule, their total assets and their total sales will be summed up to determine if either sum reaches 30% of those of the Company ("30% subsidiary"). A 30% subsidiary will be consolidated only if its total assets or total sales reaches 3% of those of the Company.

Deferred Charges

Deferred charges consist of telephone installation charges, computer software costs and deferred license fees. Installation charges and computer software are amortized on a straight-line basis over 3 years, and deferred license fees are amortized over 10 years.

Bonds Payable

Bonds were issued at face value and recorded as bonds payable. Each month's interest expense is booked at face value multiplied by the stated interest rate. For bonds sold under repurchase agreements, interest is calculated according to the repurchase value and recognized as interest expense by period. The direct and necessary expenses of issuing convertible bonds are recorded as issuance expenses and amortized over the period from issuance date to the maturity date. When a bondholder requests conversion of convertible bonds, unamortized issue costs, interest expense that is accreted to the date of conversion but need not be paid, recognized interest premium, and the par value of the bonds are written off. The common stock exchange certificate (capital stock) should be valued at the carrying amount net of the amounts written off, and the difference of this net amount from the par value of the common stock exchange certificate is recognized as additional paid-in capital.

Employee Retirement Plan

The Company adopted Statement of Financial Accounting Standards 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. After 2004, the Company changes contributions to the plan at amounts from 2% to 8% of employees' salaries and wages. The funds are deposited in the Central Trust of China, a government-designated custodian of pension funds, and are managed by the Pension Fund Administration Committee.

The pension fund balances were NT$41,062 thousand, NT$65,119 thousand and NT$173,525 thousand as of December 31, 2002, 2003 and 2004, respectively.

Stock-Based Employee Compensation Plans

When the grant date of stock-based employee compensation plans is on or after January 1, 2004, the Company will apply the accounting guidelines 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 or when the earnings process is complete and sales are realizable. Allowances for sales returns are accounted for as a deduction from gross sales, and the related costs are deducted from cost of sales as they are incurred. Sales agreements set certain limits on 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 Statement of Financial Accounting Standards No. 22, "Accounting for Income Taxes," which requires 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 provided for deferred tax assets that are not certain 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 since 1998 that remain undistributed in the following year. Starting on January 1, 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 stockholders. Thus, these procedures are followed when earnings are distributed as cash or stock dividends:

(a) For resident individual stockholders (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) For nonresident individual or nonresident corporate stockholders (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) For resident corporate stockholders (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's own ICA until the IC is allocated to RIS or NRS when the earnings are finally distributed to RIS or NRS.

Foreign-Currency Transactions

Foreign-currency transactions (except derivative transactions) are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses caused by applying prevailing exchange rates when cash in foreign currency is converted into New Taiwan dollars or when foreign-currency receivables or payables are settled, are credited or charged against income in the period of actual conversion or settlement. On the balance sheet date, balances of foreign-currency assets and liabilities are translated at the balance sheet date exchange rates, and any resulting gains or losses are credited or charged to current income.

Derivative Financial Instruments

Forward exchange contracts used to hedge net foreign-currency 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 foreign-currency amount, is amortized over the term of the contract. On the balance sheet dates, the gains or losses on the contracts, computed by multiplying the foreign-currency amounts of the contracts by the differences between the spot rates on the contract starting dates and the spot rates on the balance sheet dates (or the spot rate last used to measure a gain or loss on that contract for an earlier period), are recognized as income. Also, the receivables and payables related to the forward contracts are netted out, and the resulting amount is presented as an asset or liability.

Premiums received on short positions or paid on long positions of currency option contracts, which are used for nontrading and trading purposes, are included in other current liabilities or other current assets. Gain or loss from the exercise of the currency options are credited or charged to current income. Options not exercised as of the balance sheet dates are marked to market, and the resulting gains or losses are recognized either as assets or liabilities.

Nonderivative Financial Instruments

The recognition and valuation of nonderivative 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.

Mergers

The acquisition of IA Style, Inc. effective March 1, 2004, was accounted for using the Statement of Financial Accounting Standards No. 25, "Business Combinations - Accounting Treatment under the Purchase Method," and measured at the fair value of the business acquired. Accounting for the net assets of the acquired entity on the balance sheet was to increase additional paid-in capital from merger (credit) or decrease retained earnings (debit).

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2002, 2003 and 2004 were as follows:

	2002	2003	2004	
	NT$	NT$	NT$	US$ (Note 2)
Cash on hand	$ 492	$ 542	$ 793	$ 25
Cash in banks	138,748	2,484,602	2,954,408	93,169
Time certificates of deposit	-	728,909	3,193,000	100,694
Cash equivalents	-	1,559,024	-	-
	$ 139,240	$ 4,773,077	$ 6,148,201	$ 193,888

As of December 31, 2004, interest rates on time certificates of deposit ranged from 0.70% to 1.155%

As of December 31, 2003, interest rate for cash equivalents - repurchase corporation bonds ranged from 1.80% to 2.30%, and for time certificates of deposit, from 1.98% to 3.55%.

4. SHORT-TERM INVESTMENTS

Short-term investments as of December 31, 2002, 2003 and 2004 were as follows:

	2002	2003	2004	
	NT$	NT$	NT$	US$ (Note 2)
Marketable equity securities	$ -	$ 30,573	$ -	$ -

As of December 31, 2003, the interest rate on repurchase corporate bonds was 2.70%.

5. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable as of December 31, 2002, 2003 and 2004 were as follows:

	2002	2003	2004	
	NT$	NT$	NT$	US$ (Note 2)
Notes receivable	$ 48,266	$ 35,736	$ 71,756	$ 2,263
Accounts receivable	4,547,804	5,291,026	8,347,407	263,242
Less allowance for doubtful accounts	(3,999)	(4,833)	(6,973)	(220)
	$ 4,592,071	$ 5,321,929	$ 8,412,190	$ 265,285

6. OTHER CURRENT FINANCIAL ASSETS

Other current financial assets at December 31, 2002, 2003 and 2004 consisted of the following:

	2002	2003	2004	
	NT$	NT$	NT$	US$ (Note 2)
Other receivable	$ 29,684	$ 174,473	$ 45,574	$ 1,437
Receivable in option contract net	-	-	1,094	34
Value-added tax refunds receivable	10,581	9,473	47,715	1,505
Interest receivable	-	2,085	1,515	48
Others	2,561	5,148	1,238	39
	$ 42,826	$ 191,179	$ 97,136	$ 3,063

7. INVENTORIES

Inventories as of December 31, 2002, 2003 and 2004 were as follows:

	2002	2003	2004	
	NT$	NT$	NT$	US$ (Note 2)
Finished goods	$ 148,375	$ 189,863	$ 647,329	$ 20,414
Work-in-process	683,110	818,458	1,218,137	38,415
Raw materials	1,074,933	1,271,980	2,684,955	84,672
	1,906,418	2,280,301	4,550,421	143,501
Less valuation allowance	(136,017)	(122,505)	(346,772)	(10,936)
	$ 1,770,401	$ 2,157,796	$ 4,203,649	$ 132,565

Insurance for the inventories as of December 31, 2002, 2003 and 2004 amounted to NT$2,150,000 thousand, NT$2,305,000 thousand and NT$4,300,000 thousand, respectively.

8. PREPAYMENTS

Prepayments as of December 31, 2002, 2003 and 2004 were as follows:

	2002	2003	2004	
	NT$	NT$	NT$	US$ (Note 2)
Prepayments for royalty (Note 27)	$ 69,668	$ 305,113	$ 142,789	$ 4,503
Prepayments for materials purchases	1,484	3,435	563	18
Others	20,645	102,296	101,476	3,201
	$ 91,797	$ 410,844	$ 244,828	$ 7,722

9. LONG-TERM INVESTMENTS

Long-term investments as of December 31, 2002, 2003 and 2004 were as follows:

	2002		2003		2004				
	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage	Original Cost		Carrying Value		Ownership Percentage
	NT$		NT$		NT$	US$ (Note 2)	NT$	US$ (Note 2)	
Equity method									
H.T.C. (B.V.I.) Corp.	$ 12,908	100.00	$ 64,568	100.00	$ 428,137	$13,502	$ 345,793	$10,905	100.00
Auto Hi-Tech Computer Corp.	4,070	20.00	4,053	20.00	4,000	126	4,312	136	20.00
Prepayments for long-term investments									
H.T.C. (B.V.I.) Corp.	69,630	-	40,872	-	-	-	-	-	-
LCM method									
VIA Technologies, Inc.	1,561	-	1,694	-	1,971	62	703	22	-
Cost method									
Answer Online, Inc.	-	-	-	-	1,192	38	1,192	38	1.82
	$ 88,169		$ 111,187		$ 435,300	$13,728	$ 352,000	$11,101	

In September 2000, the Company acquired 100% equity interest in H.T.C (B.V.I.) Corp. for NT$12,834 thousand and accounted for this investment by the equity method. As of December 31, 2004, the Company had increased this investment to NT$428,137 thousand (US$12,746 thousand).

In December 2000, the Company acquired 20% equity interest in Auto Hi-Tech Computer Corp. for NT$4,000 thousand and accounted for this investment by the equity method. In October 6, 2004, Auto Hi-Tech Computer Corp. commenced to liquidate; however had not completed the procedure by the end of 2004.

In March 2004, the Company merged with IA Style, Inc. (Note 1) and acquired 1.82% equity interest in Answer Online, Inc. as a result of the merger.

On its equity-method investments, the Company had a gain of NT$6,020 thousand in 2002; a loss of NT$16,202 thousand in 2003; and a loss of NT$35,606 thousand in 2004.

The financial statements of equity-method investees had been examined by the Company's independent auditors.

The financial statements of H.T.C. (B.V.I.) Corp., a Company subsidiary, were not consolidated with those of the Company because neither its total assets nor total sales reached 10% of those of the Company.

10. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of December 31, 2002, 2003 and 2004 were as follows:

	2002	2003	2004			
	Carrying Value	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NT$	NT$	NT$	NT$	NT$	US$ (Note 2)
Land	$ 224,244	$ 300,982	$ 378,274	$ -	$ 378,274	$ 11,929
Buildings and structures	718,163	688,482	946,207	209,287	736,920	23,239
Machinery and equipment	895,185	1,041,564	2,268,523	1,097,166	1,171,357	36,940
Molding equipment	141,145	21,586	201,567	201,567	-	-
Computer equipment	63,043	51,351	154,988	107,283	47,705	1,505
Transportation equipment	979	760	1,315	774	541	17
Furniture and fixtures	53,466	46,068	101,080	65,693	35,387	1,116
Leasehold improvements	14,097	15,424	45,542	22,699	22,843	720
Prepayments for construction-in-progress and equipment-in-transit	178,165	67,788	125,915	-	125,915	3,971
	$2,288,487	$2,234,005	$4,223,411	$1,704,469	$2,518,942	$ 79,437

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

As of December 31, 2002, 2003 and 2004, insurance for property, plant and equipment, excluding land, amounted to NT$1,761,300 thousand, NT$1,904,180 thousand and NT$2,297,315 thousand, respectively.

In 2002, interest capitalized for factory and office building construction and machinery and equipment was NT$1,945 thousand.

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

11. SHORT-TERM BORROWINGS

Short-term borrowings as of December 31, 2002, 2003 and 2004 were as follows:

	2002		2003		2004		
	Interest Rate (Fixed)	Amount NT$	Interest Rate (Fixed)	Amount NT$	Interest Rate (Fixed)	Amount NT$	Amount US$ (Note 2)
Materials procurement loans	-	$ -	-	$ -	-	$ -	$ -
Unsecured loans	0.90%~1.85%	381,185	-	-	-	-	-
		$ 381,185		$ -		$ -	$ -

12. SHORT-TERM COMMERCIAL BILLS

Short-term commercial bills as of December 31, 2002, 2003 and 2004 were as follows:

	2002		2003		2004		
	Interest Rate (Fixed)	Amount NT$	Interest Rate (Fixed)	Amount NT$	Interest Rate (Fixed)	Amount NT$	Amount US$ (Note 2)
Commercial paper	1.80%	$ 100,000	-	$ -	-	$ -	$ -
Less discount	-	(306)	-	-	-	-	-
		$ 99,694		$ -		$ -	$ -

13. ACCRUED EXPENSES

Accrued expenses as of December 31, 2002, 2003 and 2004 were as follows:

	2002	2003	2004	
	NT$	NT$	NT$	US$ (Note 2)
Salaries and bonuses	$191,326	$222,408	$500,573	$15,786
Insurance	17,402	17,782	21,877	690
Professional fees	6,573	97,369	18,038	569
Royalties	8,336	13,874	-	-
Export expenses	11,892	6,857	53,822	1,697
Travel	4,172	8,889	8,495	268
Research materials	-	12,847	69,920	2,205
Repairs and maintenance	-	1,260	39,253	1,238
Meals	-	7,030	15,389	485
Donation	-	-	5,000	158
Interest	904	-	-	-
Others	89,374	96,949	129,900	4,096
	$329,979	$485,265	$862,267	$27,192

14. OTHER CURRENT LIABILITIES

Other current liabilities as of December 31, 2002, 2003 and 2004 were as follows:

	2002	2003	2004	
	NT$	NT$	NT$	US$ (Note 2)
Advance receipts	$ 20,907	$ 37,854	$ 6,304	$ 199
Deferred credits - profit from intercompany transactions	-	7,241	6,289	198
Reserve for warranty expenses	149,767	189,211	324,701	10,240
Receipts under custody	67,827	16,300	36,202	1,142
Option on contracts, net (see Note 23)	22,793	23,581	-	-
Employee bonus payable	-	5,655	4,500	142
Directors' remuneration	8,665	21,842	21,842	689
Other	1,865	12,461	18,697	589
	$271,824	$314,145	$418,535	$13,199

15. BONDS PAYABLE

A summary of bonds payable as of December 31, 2002, 2003 and 2004 is as follows:

	2002	2003	2004	
	NT$	NT$	NT$	US$ (Note 2)
January 29, 2003 issue of Zero Coupon Convertible Bonds; maturity on January 29, 2008; issue price is 100% of US$1,000 par value.	$ -	$ 2,288,550	$ 1,593,228	$ 50,244
Add				
Reserve for redemption of Convertible Bonds	-	13,046	19,462	614
Allowance for foreign-currency exchange loss	-	(46,530)	(135,519)	(4,274)
Less current portion of bonds payable	-	(2,255,066)	-	-
	$ -	$ -	$ 1,477,171	$ 46,584

On January 29, 2003, the Company issued Zero Coupon Convertible Bonds with an aggregate amount of US$66,000 thousand; bond maturity is in 2008. Unless previously redeemed, repurchased and canceled, or converted as herein provided, the bonds are redeemable on January 29, 2008 at their accreted principal amount in U.S. dollars. 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 component to produce smart handheld devices.

Under the bond terms, a bondholder has the right to request the Company to redeem the bonds on April 29, 2004 at their accreted principal amount. Some bondholders requested the Company to redeem bonds amounting to US$2,000 thousand bonds, and other bondholders d requested conversion of bonds amounting to US$18,030 thousand into 4,884 thousand shares in the fourth quarter of 2004. As a result, the Company’s outstanding bonds payable was US$45,970 thousand as of December 31, 2004.

Bond Terms and Conditions

Bondholders may exercise their conversion rights at any time within one month from the issuance date of February 28, 2003 or 20 days prior to the maturity date of January 9, 2008.

A bondholder has the right to request the Company to redeem the bonds on April 29, 2004 (holders’ put date) at the accreted principal amount.

The accreted principal amount of a bond is the principal amount of the bond plus a premium representing a compounded yield of 0.5% per annum (accrued from the issue date and computed semiannually) on the redemption date.

On January 29, 2006, or three years from the issuance date, if the closing price of the shares for 30 consecutive trading days - with the last trading day within five trading days before the date when a redemption notice is given - is at least 130% of the conversion price, the Company has the option to redeem the bonds at their accreted principal amount.

If the balance of unconverted bonds is less than US$3,300 thousand (5% of the issue amount), then the Company has the option to redeem all the bonds at their accreted principal amount.

Provisions for Conversion Rights

A bondholder has the right to convert the bonds into Company shares.

Conversion period: Except during the period when ownership transfer is suspended, the bondholders may request to convert the bonds into shares after February 28, 2003 and before 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 related documents to the conversion agent. The conversion is effective while the documents are being sent to the conversion agent and cannot be countermanded.

The number of shares issuable upon conversion of any bond is 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 NT$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 NT$127.95 per share as of December 31, 2004.

16. LONG-TERM DEBTS

Long-term debts as of December 31, 2002, 2003 and 2004 are summarized as follows:

	2002	2003	2004	
	NT$	NT$	NT$	US$ (Note 2)
Secured loan of NT$130,900 thousand from First Commercial Bank for purchase of automated machinery; principal and interest payments calculated monthly under the annuity method; loan fully repaid in February 2003.	$ 85,132	$ -	$ -	$ -
Secured loan of JP¥108,900 from First Commercial Bank for purchase of automated machinery; principal payments are due in 30 equal quarterly installments starting on October 15, 2002; loan fully repaid in June 2003.	29,781	-	-	-
	114,913	-	-	-
Less current portion of long-term liabilities	(57,749)	-	-	-
Long-term debts	$ 57,164	$ -	$ -	$ -

See Note 25 for collaterals for long-term debts.

17. EMPLOYEE BENEFIT PLAN

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

Based on the Statement of Financial Accounting Standards 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. Related disclosure is as follows:

The composition of net pension costs in 2002, 2003 and 2004 was as follows:

	2002	2003	2004	
	NT$	NT$	NT$	US$ (Note 2)
Service cost	$22,654	$32,743	$62,685	$1,977
Interest cost	2,422	3,571	4,012	127
Projected return of plan assets	(1,468)	(1,900)	(2,265)	(71)
Amortization of unrecognized net transition obligation, net	77	77	1,311	41
Amortization of net pension benefit	372	1,134	1,001	31
Net pension cost	$24,057	$35,625	$66,744	$2,105

The reconciliation between pension fund status and accrued (prepaid) pension liabilities as of December 31, 2002, 2003 and 2004 is as follows:

	2002	2003	2004	
	NT$	NT$	NT$	US$ (Note 2)
Actuarial present value of benefit obligation				
Vested benefits	$ 167	$ 564	$ 183	$ 6
Non-vested benefits	39,988	60,218	143,542	4,526
Accumulated benefit obligation	40,155	60,782	143,725	4,532
Additional benefits on future salaries	55,080	72,949	191,007	6,024
Projected benefit obligation	95,235	133,731	334,732	10,556
Plan assets at fair value	(41,803)	(65,873)	(173,525)	(5,472)
Projected benefit obligation in excess of plan assets	53,432	67,858	161,207	5,084
Unrecognized transition obligation, net	(1,388)	(1,311)	-	-
Unrecognized pension benefit	(32,209)	(34,403)	(168,870)	(5,326)
Accrued (prepaid) pension cost	$ 19,835	$ 32,144	$ (7,663)	$ (242)

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

	2002	2003	2004
Weighted-average discount rate	3.75%	3.25%	3.00%
Assumed rate of increase in future compensation	5.00%	4.75%	4.75%
Expected long-term rate of return on plan assets	3.75%	3.25%	3.00%

The vested benefits as of December 31, 2002, 2003 and 2004 amounted to NT$0, NT$673 thousand and NT$192 thousand, respectively.

18. STOCKHOLDERS' EQUITY

Capital Stock

The Company's outstanding common stock as of January 1, 2002 amounted to NT$1,276,000 thousand, divided into 127,600 thousand shares at NT$10 par value. In June 2002, the stockholders approved the transfer to capital stock of retained earnings of NT$255,200 thousand and employees bonuses of NT$96,000 thousand. As a result, the amount of the Company's outstanding common stock as of December 31, 2002 increased to NT$1,627,200 thousand, divided into 162,720 thousand common shares at NT$10 par value.

In June 2003, the stockholders approved the transfer to capital stock of retained earnings of NT$325,440 thousand and employees bonuses of NT$75,000 thousand. On November 19, 2003, the Company issued through the Luxembourg Stock Exchange Global Depositary Receipts representing 14,400 thousand shares of its common stock at NT$131.1 per share. As a result, the amount of the Company's outstanding common stock as of December 31, 2003 increased to NT$2,171,640 thousand, divided into 217,164 thousand common shares at NT$10 par value.

The Company issued 1,567.3 thousand shares to merge with IA Style, Inc.; the effective date of this merger was March 1, 2004. In June 2004, the stockholders approved the transfer to capital stock of retained earnings of NT$437,463 thousand and employees bonuses of NT$89,500 thousand. In the fourth quarter of 2004, holders of US$18,030 thousand in bonds requested to convert the bonds into 4,884 thousand shares. The amounts were temporarily accounted for as "capital collected in advance." Because the registration of this conversion had not completed by the end of 2004, the Company's outstanding capital stock as of December 31, 2004 amounted to NT$2,714,276 thousand, divided into 271,428 thousand shares at NT$10 par value.

In their meeting on December 11, 2002, the Company's Board of Directors resolved to issue 7,000 thousand units of employee stock options in accordance with Article 28.3 of the Securities and Exchange Law. Each option represents the right to buy one newly issued common share of the Company. The exercise price is the closing price of the Company's common shares on the option issuance date or the share 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 on up to 70% of the granted option units. After four years from the grant date, the option holders are eligible to exercise their rights on all the options owned. The exercise period is five years. As of December 31, 2004, the Company had issued 3,000 thousand units of the stock options to employees. After taking into account the effect of stock dividends and the issuance of additional common stocks, 4,638,882 units of the employee stock options were outstanding as of December 31, 2004. The rest of the options, amounting to 4,000 thousand units, of the employee stock options had expired on December 25, 2003.

Global Depositary Receipts

The Company issued 3,600 thousand units of Global Depositary Receipts (GDRs) representing 14,400 thousand common shares in November 2003. The Company's stockholders, including Via Technologies, Inc. also issued 3,219.6 thousand units of GDRs representing 12,878.4 thousand common shares of the Company. Thus, total offerings amounted to 6,819.6 thousand GDR units. Each GDR represents four common shares and issued at NT$131.1 per share, resulting in an additional paid-in capital of NT$1,696,855 thousand, accounted for as "capital surplus". The related cash subscription was completed and registered on November 19, 2003.

The holders of these GDRs have the same rights and obligations as those of the Company's stockholders. However, in certain jurisdictions, the distribution of the offering and sales of the Company's GDRs and the shares represented may be restricted by law. Thus, the GDRs offered and the shares represented are not transferable, unless the transfer is in accordance with the restrictions described in the GDR offering circular and related laws applied in Taiwan. Through the depositary custodian in Taiwan, the holders should exercise these rights as follows:

(a) Voting right,
(b) Shares trading; and
(c) Receipt of dividends and participation in new cash subscriptions.

The GDR holders have requested the Company to redeem the GDRs and issue the common stock in 2004. After the issuance of stock dividends and additional common shares, the GDRs increased by 216.1 thousand units representing 864.4 thousand common shares. As of December 31, 2004, 3,099.9 thousand GDR units representing 12,399.5 thousand common shares had been redeemed. The outstanding GDRs represented 15,743.3 thousand common shares, or 5.8% of the Company's issued shares.

Capital Surplus

The additional paid-in capital was NT$832,812 thousand as of December 31, 2002. Then, additional paid-in capital in the following amounts resulted from two transactions: (a) NT$1,696,855 thousand from the issuance of Global Depositary Receipts in November 2003; and (b) NT$534,689 thousand from the conversion of bonds payable into 4,884 thousand shares in the fourth quarter of 2004. As a result, the additional paid-in capital as of December 31, 2004 was NT$3,064,356 thousand. Under the Company Law, the Company may transfer the capital surplus to common stock if there is no accumulated deficit.

The additional paid-in capital from a merger (Note 1), which took effect on March 1, 2004, was NT$25,972 thousand.

19. APPOPRIATION OF RETAINED RARNINGS AND DIVIDEND POLICY

Based on the Company Law of the ROC and the Company's Articles of Incorporation, 10% of the Company's annual net income less any deficit should first be appropriated as legal reserve until reserve equals its paid-in capital. From the remainder, there should be appropriations of not more than 1% as remuneration to directors and supervisors and of at least 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.

As part of a high-technology and capital-intensive industry and as a growing enterprise, the Company considers its operating environment, industry developments, the long-term interests of stockholders as well as its programs to maintain operating efficiency and meet its capital expenditure budget and financial goals determine the stock or cash dividends to be paid. The Company’s dividend policy stipulates that only up to 95% of total dividends may be distributed as cash dividends.

Had the Company recognized the employees bonuses of NT$146,000 thousand and directors’ remuneration of NT$13,177 thousand as expenses in 2002, the pro forma earnings per share in 2002 would have decreased from NT$9.00 to NT$8.02.

Had the Company recognized the employees bonuses of NT$173,000 thousand as expenses in 2003, the pro forma earnings per share in 2003 would have decreased from NT$9.05 to NT$8.21.

As of March 22, 2005, the date of the accompanying independent auditors’ report, the appropriation of the 2004 earnings had not been proposed by the Board of Directors. Information on earnings appropriation can be accessed online through the Market Observation Post System on the Web site of the Taiwan Stock Exchange.

20. PERSONNEL EXPENSES, DEPRECIATION AND AMORTIZATION

Function / Expense Item	2002			2003			2004		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses	659,955	516,813	1,176,768	678,189	703,901	1382,090	952,246	1,115,444	2,067,690
Salary	573,4	450,1	1,023,6	584,0	607,4	1,191,5	808,291	967,793	1,776,084
Insurance	35,9	29,3	65,2	38,9	39,4	78,4	47,328	56,236	103,564
Pension	13,9	10,1	24,0	17,9	17,6	35,6	32,394	34,350	66,744
Others	36,6	27,1	63,7	37,1	39,3	76,5	64,233	57,065	121,298
Depreciation expense	310,9	67,8	387,7	342,5	122,6	465,2	341,069	175,879	516,948
Amortization	5,5	62,5	68,0	5,5	55,7	61,3	2,339	44,692	47,031

21. INCOME TAX

The income tax returns through 2001 had been examined and cleared by the tax authorities.

Under the Statute for Upgrading Industries, the Company is exempt from paying corporate income tax on (a) sales of pocket PCs (wireless) and Smartphones for five consecutive years from April 26, 2001; (b) sales of pocket PCs (wireless) and Smartphones (wireless) for five consecutive years from January 1, 2002; and (c) sales of Win CE products for five consecutive years from January 1, 2003.

Income taxes payable as of December 31, 2002, 2003 and 2004 were computed as follows:

	2002	2003	2004	
	NT$	**NT$**	**NT$**	**US$ (Note 2)**
Income before income tax	$ 1,508,029	$ 1,959,845	$ 3,960,528	$ 124,898
Permanent differences				
(Gains) losses on equity-method investments	(6,020)	16,202	35,606	1,123
Gain on disposal of investments	(642)	(518)	(13,389)	(422)
Other	-	-	6,138	194
Temporary differences				
Unrealized (realized) pension cost	9,392	12,309	(39,806)	(1,255)
Unrealized (realized) loss on decline in value of inventory	35,527	(13,512)	224,267	7,072
Unrealized (realized) royalties	-	211,330	(4,078)	(129)
(Realized) unrealized depreciation	(6,968)	6,434	(1,417)	(45)
Unrealized foreign currency exchange gains, net	(33,914)	(56,921)	(12,212)	(385)
Unrealized warranty expense	139,274	39,444	135,490	4,273
Capitalize expense	-	6,177	33,413	1,054
Other	858	33,301	(27,136)	(856)
Total income	1,645,536	2,214,091	4,297,404	135,522
Less tax-exempt income tax	(782,694)	(1,046,375)	(3,166,124)	(99,846)
Prior years' loss carryforwards - merger with IA Style, Inc.	-	-	(465)	(15)
Taxable income	862,842	1,167,716	1,130,815	35,661
Tax rate	X25%	X25%	X25%	X25%
	215,710	291,929	282,704	8,915
Income tax credit	(10)	(10)	(10)	-
Estimated income tax provision	215,700	291,919	282,694	8,915
Unappropriated earnings (additional 10% income tax)	34,234	102,807	71,798	2,264
Less investment research and development tax credits	(154,948)	(246,455)	(256,809)	(8,099)
Current income tax expense	94,986	148,271	97,683	3,080
Less prepaid and withheld income tax	(82)	(1,946)	(3,529)	(111)
Income tax payable	$ 94,904	$ 146,325	$ 94,154	$ 2,969

The tax effects of deductible temporary differences and loss and tax credit carryforwards that gave rise to deferred tax assets as of December 31, 2002, 2003 and 2004 were as follows:

	2002	2003	2004	
	NT$	NT$	NT$	US$ (Note 2)
Temporary differences				
Unrealized pension cost	$ 5,517	$ 8,594	$ -	$ -
Unrealized depreciation	5,990	7,599	7,245	228
Provision for loss on decline in value of inventory	34,004	30,626	86,693	2,734
Unrealized royalties	-	164,577	163,558	5,158
Capitalize expense	15,830	17,807	30,508	962
Unrealized reserve for warranty expense	34,818	47,303	81,175	2,560
Other	13	8,330	15,069	475
Tax credit carryforwards	337,355	287,362	612,144	19,305
Total deferred tax asset	433,527	572,198	996,392	31,422
Less valuation allowance	(242,895)	(304,300)	(750,197)	(23,658)
Total deferred tax asset, net	190,632	267,898	246,195	7,764
Deferred tax liability				
Unrealized pension cost	-	-	(1,358)	(43)
Unrealized foreign currency exchange gain, net	(4,863)	(19,094)	(22,147)	(699)
	185,769	248,804	222,690	7,022
Less current portion	(78,387)	(118,390)	(161,863)	(5,104)
Deferred tax assets, noncurrent	$ 107,382	$ 130,414	$ 60,827	$ 1,918

Details of the tax credit carryforwards were as follows:

		2002	2003	2004	
Year Occur	**Validity Period**	**NT$**	**NT$**	**NT$**	**US$ (Note 2)**
1999	1999-2003	$ 49,092	$ -	$ -	$ -
2000	2000-2004	79,780	77,615	-	-
2001	2001-2005	155,563	155,230	155,447	4,902
2002	2002-2006	52,920	54,517	54,941	1,733
2003	2003-2007	-	-	179,230	5,652
2004	2004-2008	-	-	222,526	7,018
		$ 337,355	$ 287,362	$ 612,144	$ 19,305

Based on the Income Tax Law of the ROC, the investment research and development tax credits can be carried forward for four years. The total credits used in each year cannot exceed half of the estimated income tax provision, except in 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 expenses in 2002, 2003 and 2004 were as follows:

	2002	2003	2004	
	NT$	NT$	NT$	US$ (Note 2)
Current income tax expense	$ 94,986	$ 148,271	$ 97,683	$ 3,080
Increase (decrease) in deferred income tax assets	(48,332)	(63,035)	26,114	824
(Over) under estimation of prior year's income tax	(3,079)	23,877	(18,615)	(587)
Income tax expense	$ 43,575	$ 109,113	$ 105,182	$ 3,317

The integrated income tax information is as follows:

	2002	2003	2004	
	NT$	NT$	NT$	US$ (Note 2)
Balance of imputation credit account	$ 88,093	$ 72,855	$ 96,255	$ 3,035
Unappropriated earnings from 1998	1,809,476	2,703,375	5,105,339	161,001
Expected creditable ratio (including income tax payable)	10.11%	8.11%	3.73%	3.73%

22. EARNINGS PER SHARE

Before-tax and after-tax earnings per share (EPS) are calculated by dividing net income by the weighted average number of common shares outstanding each year. The weighted-average number of shares used in EPS calculation was 255,460 thousand, 257,156 thousand and 271,405 thousand in 2002, 2003 and 2004, respectively. The average number of shares used in calculating the EPS in 2002 and 2003 were was adjusted retroactively for the distribution of stock dividends in 2004.

The convertible bonds and employee stock options had a dilutive effect on the 2002, 2003 and 2004 EPS. The related information is as follows:

	2002				
	Numerators		Denominator	Earnings Per Share	
	Income before Income Tax	Income after Income Tax	Shares (Thousands)	Income before Income Tax	Income after Income Tax
	NT$	NT$		NT$	NT$
Basic EPS	$ 1,508,029	$ 1,464,454	255,460	$ 5.90	$ 5.73
Zero coupon convertible bonds	-	-	-		
Diluted earnings per share	$ 1,508,029	$ 1,464,454	255,460	$ 5.90	$ 5.73

	2003				
	Numerators		Denominator	Earnings Per Share	
	Income before Income Tax NT$	Income after Income Tax NT$	Shares (Thousands)	Income before Income Tax NT$	Income after Income Tax NT$
Basic EPS	$ 1,959,845	$ 1,850,732	257,156	$ 7.62	$ 7.20
Zero coupon convertible bonds	13,046	9,785	12,945		
Employee stock options	-	-	876		
Diluted EPS	$ 1,972,891	$ 1,860,517	270,977	$ 7.28	$ 6.87

	2004				
	Numerators		Denominator	Earnings Per Share	
	Income before Income Tax NT$	Income after Income Tax NT$	Shares (Thousands)	Income before Income Tax NT$	Income after Income Tax NT$
Basic EPS	$ 3,960,528	$ 3,855,346	271,405	$14.59	$14.21
Zero coupon convertible bonds	6,416	4,812	12,452		
Employee stock options	-	-	2,368		
Diluted EPS	$ 3,966,944	$ 3,860,158	286,225	$13.86	$13.49

23. FINANCIAL INSTRUMENTS

Under the Approval Documents (85) Tai-Tsai-Tseng (6) No. 00263 of the Securities and Futures Bureau of the ROC and Statement of Financial Accounting Standards No. 27, “Disclosure of Financial Instruments,” the Company discloses financial instruments information as follows:

Amount of Contract and Credit Risk

Forward Exchange Contracts

	December 31					
	2002		2003		2004	
	Contract Amount	Credit Risk	Contract Amount	Credit Risk	Contract Amount	Credit Risk
Forward exchange contracts	$ -	$ -	$ -	$ -	EUR$ 5,000	$

Currency Option Contracts

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/US$	US$7,762.5	1.15	-

				December 31, 2004		
Buy/Sell	**Trade Date**	**Expiry Date**	**Call/Put**	**Contract Amount**	**Strike Rate**	**Credit Risk**
Buy	2004.02.09	2005.01.31	USD/EUR	US$ 2,300	1.15	-
Buy	2004.02.09-2004.03.29	2005.01.07-2005.03.29	NTD/USD	US$ 10,000	33.15-33.60	Note
Sell	2004.02.09-2004.03.29	2005.01.07-2005.03.29	USD/NTD	US$ 12,000	33.26-33.60	-

Note: This currency option transaction shall cease to be exercisable if the spot rate is at a price equal to or below the Out-Strike Price (32.2-32.6).

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

Market Risk

Forward exchange contracts and currency options are measured at the market value on the balance sheet date using the market value. As of December 31, 2004, the Company recorded unrealized exchange gains of NT$1,094 thousand on these contracts.

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

The gain on forward exchange contracts and currency options will be from NT$0 thousand to NT$19,000 thousand, assuming exchange rates in 2004 of NT$31.62~NT$32.63:US$1 and US$1.29~US$1.31:EUR1. Because the Company has sufficient working capital to settle those contracts, there are no future cash requirements for contract settlement. In addition, because the Company does not intend to sell currency options before their maturity dates, no liquidity risk is expected.

Purpose and Category of Financial Instrument Held

The Company used derivative contracts for nontrading purposes, i.e., to reduce any adverse effect of exchange rate fluctuations.

Disclosures of Derivative Instruments in the Financial Statements

On the balance sheet date, the receivables and payables on currency option and forward exchange contracts will be netted out, and the net amount will be included in other current assets or other current liabilities. As of December 31, 2004, the net amount recorded as other current financial assets was NT$1,094 thousand. Derivative transactions resulted in losses of NT$354,766 thousand in 2002; NT$89,254 thousand in 2003; and NT$13,748 thousand in 2004.

Fair Value of Financial Instruments

Derivative Financial Instruments

	2002		2003		2004			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NT$	NT$	NT$	NT$	NT$	US$	NT$	US$ (Note 2)
Assets								
Forward exchange contracts	$ -	$ -	$ -	$ -	$ 359	$ 11	$ 359	$ 11
Currency option contracts	-	-	-	-	735	23	735	23
Liabilities								
Currency option contracts	22,793	22,793	23,581	23,581	-	-	-	-

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

Nonderivative Financial Instruments

	2002		2003		2004			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NTD	NTD	NTD	NTD	NTD	USD (Note 2)	NTD	USD (Note 2)
Assets								
Cash and cash equivalents	$ 139,240	$ 139,240	$ 4,773,077	$ 4,773,077	$ 6,148,201	$ 193,888	$ 6,148,201	$ 193,888
Short-term investments	-	-	30,573	30,573	-	-	-	-
Receivables	4,664,899	4,664,899	5,436,777	5,436,777	8,490,403	267,752	8,490,403	267,752
Other current financial assets	42,826	42,826	191,179	191,179	96,042	3,029	96,042	3,029
Long-term investments	88,169	88,169	111,187	111,187	352,000	11,101	352,000	11,101
Other financial assets	836	820	687	674	5,922	187	5,881	185
Liabilities								
Short-term borrowings	480,879	480,879	-	-	-	-	-	-
Payables	3,803,461	3,803,461	4,947,233	4,947,233	7,946,451	250,598	7,946,451	250,598
Income tax payable	94,904	94,904	146,325	146,325	94,154	2,969	94,154	2,969
Accrued expense	329,979	329,979	485,265	485,265	862,267	27,192	862,267	27,192
Payable for purchase of equipment	59,153	59,153	36,215	36,215	54,242	1,711	54,242	1,711
Current portion of bonds payable	-	-	2,255,066	2,255,066	-	-	-	-
Current portion of long-term debts	57,749	57,749	-	-	-	-	-	-
Other current financial liabilities	228,124	228,124	233,008	233,008	405,942	12,802	405,942	12,802
Long-term debts	57,164	57,164	-	-	-	-	-	-
Bonds payable	-	-	-	-	1,477,171	46,584	1,477,171	46,584
Other financial liabilities	-	-	30	29	273,078	8,612	271,180	8,552

The following methods and assumptions were used to estimate the fair value of financial instruments:

For instruments with short maturities, including cash and cash equivalents, receivables, other current financial assets, payables, short-term borrowings and other current financial liabilities, the carrying amounts approximated fair values because of the short maturities of these instruments.

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

The fair value of long-term debts is based on the discounted value of the future cash flows discounted at the average interest rate for time deposits.

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
Comserve Network Netherlands B.V.	An entity related to the Company
Leo Systems, Inc.	An entity related to the Company
Xander International Corp.	An entity related to the Company
Vate Technology Co., Ltd.	An entity related to the Company
H.T.C. (B.V.I.) Corp.	Subsidiary
HTEK	Subsidiary of H.T.C. (B.V.I.) Corp.
HTC USA Inc.	Subsidiary of H.T.C. (B.V.I.) Corp.
HTC Europe Co., Ltd.	Subsidiary of H.T.C. (B.V.I.) Corp.
High Tech Computer Corp. (Suzhou)	Subsidiary of H.T.C. (B.V.I.) Corp.

Major transactions with related parties are summarized below:

Purchases of Inventories and Services

	2002		2003		2004		
Related Party	**Amount**	**% of Total Net Purchases**	**Amount**	**% of Total Net Purchases**	**Amount**		**% of Total Net Purchases**
	NT$		**NT$**		**NT$**	**US$ (Note 2)**	
Chander Electronics Corp.	$ 227,836	1	$ 124,038	1	$ 147,810	$ 4,661	1

Terms of payment and purchasing prices for both related and third parties were similar.

Sales and Services Provided

	2002		2003		2004		
Related Party	**Amount**	**% of Total Revenues**	**Amount**	**% of Total Revenues**	**Amount**		**% of Total Revenues**
	NT$		**NT$**		**NT$**	**US$ (Note 2)**	
Comserve Network Netherlands B.V.	$ 97,118	1	$ 142,396	1	$ 187,828	$ 5,923	1
HTC USA Inc.	-	-	39,849	-	172,806	5,450	-
H.T.C. (B.V.I.) Corp.	-	-	64,206	-	5,834	184	-
Leo Systems, Inc.	10,484	-	1,619	-	3,146	99	-
Others	498	-	566	-	1,112	35	-
	$ 108,100	1	$ 248,636	1	$ 370,726	$11,691	1

Selling prices and terms of payment for both related and third parties were similar, except those for HTC USA Inc.

Notes and Accounts Receivable

	December 31						
	2002		2003		2004		
Related Party	Amount NT$	% of Total Notes and Accounts Receivable	Amount NT$	% of Total Notes and Accounts Receivable	Amount NT$	Amount US$ (Note 2)	% of Total Notes and Accounts Receivable
Accounts receivable							
HTC USA Inc.	$ -	-	39,849	1	$ 71,369	$ 2,251	1
H.T.C. (B.V.I.) Corp.	-	-	64,206	1	5,834	184	-
Conserve Network Netherlands B.V.	72,613	2	10,416	-	611	19	-
Leo Systems, Inc.	86	-	105	-	-	-	-
Others	129	-	272	-	399	13	-
	$ 72,828	2	$ 114,848	2	$ 78,213	$ 2,467	1

Notes and Accounts Payable

	December 31						
	2002		2003		2004		
Related Party	Amount NT$	% of Total Notes and Accounts Receivable	Amount NT$	% of Total Notes and Accounts Receivable	Amount NT$	Amount US$ (Note 2)	% of Total Notes and Accounts Receivable
Chander Electronics Corp.	$ 18,558	-	$ 6,613	-	$ 18,562	$ 585	-
HTC Europe Co., Ltd.	-	-	-	-	4,569	144	-
First International Computer, Inc.	-	-	-	-	7,500	237	-
	$ 18,558	-	$ 6,613	-	$ 30,631	$ 966	-

Other Receivables

	December 31						
	2002		2003		2004		
Related Party	Amount NT$	% of Total Other Receivable	Amount NT$	% of Total Other Receivable	Amount NT$	Amount US$ (Note 2)	% of Total Other Receivable
HTC USA Inc.	$ -	-	$ -	-	$ 3,634	$ 115	8
H.T.C. (B.V.I.) Corp.	-	-	3,342	2	1,152	36	2
HTC EUROPE Co., Ltd.	-	-	-	-	447	14	1
	$ -	-	$ 3,342	2	$ 5,233	$ 165	11

Prepaid Expenses

	December 31						
	2002		2003		2004		
Related Party	Amount NT$	% of Total Prepayment	Amount NT$	% of Total Prepayment	Amount NT$	Amount US$ (Note 2)	% of Total Prepayment
HTEK	$ -	-	$ -	-	$ 9,891	$ 312	4
HTC USA Inc.	-	-	22,180	5	-	-	-
	$ -	-	$ 22,180	5	$ 9,891	$ 312	4

Accrued Expenses

	December 31						
	2002		2003		2004		
Related Party	Amount NT$	% of Total Accrued Expenses	Amount NT$	% of Total Accrued Expenses	Amount NT$	Amount US$ (Note 2)	% of Total Accrued Expenses
VIA Technologies Inc.	$ 2,467	1	$ 5,945	1	$ 525	$ 17	-
Others	146	-	-	-	-	-	-
	$ 2,613	1	$ 5,945	1	$ 525	$ 17	-

Outsourcing Expenses

	December 31						
	2002		2003		2004		
Related Party	Amount NT$	% of Total Out-Sourcing Expenses	Amount NT$	% of Total Out-Sourcing Expenses	Amount NT$	Amount US$ (Note 2)	% of Total Out-Sourcing Expenses
First International Computer Inc.	$	-	$	-	$ 7,500	$ 237	6

Service Warranty Expense

	2002		2003		2004		
Related Party	Amount NT$	% of Total Warranty Expenses	Amount NT$	% of Total Warranty Expenses	Amount NT$	Amount US$ (Note 2)	% of Total Warranty Expenses
Comserve Network Netherlands B.V.	$ 31,567	19	$ 126,029	59	$ 132,209	$ 4,169	21
HTC USA Inc.	-	-	21,048	10	34,824	1,098	5
HTC EUROPE Co., Ltd.	-	-	-	-	32,812	1,035	5
	$ 31,567	19	$ 147,077	69	$ 199,845	$ 6,302	31

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

Service Expenses

	2002		2003		2004		
Related Party	Amount NT$	% of Total Operating Expenses	Amount NT$	% of Total Operating Expenses	Amount NT$	Amount US$ (Note 2)	% of Total Operating Expenses
HTEK	$ 5,093	-	$ 14,581	12	$ 26,718	$ 843	26
Others	146	-	-	-	-	-	-
	$ 5,239	-	$ 14,581	12	$ 26,718	$ 843	26

Leasing - Lessee

Operating Expense - Rental Expense

Related Party	2002 Amount NT$	2002 % of Total Rental Expense	2003 Amount NT$	2003 % of Total Rental Expense	2004 Amount NT$	2004 Amount US$ (Note 2)	2004 % of Total Rental Expense
VIA Technologies Inc.	$ 10,951	74	$ 15,060	78	$ 15,046	$ 474	64

The Company leases offices and parking space owned by VIA Technologies, Inc., and Chander Electronics Corp. at one-year renewable agreements, and the rental payment was determined at the prevailing rates in the surrounding area.

Nonoperating Income - Rental Revenue

Related Party	2002 Amount NT$	2002 % of Total Rental Revenue	2003 Amount NT$	2003 % of Total Rental Revenue	2004 Amount NT$	2004 Amount US$ (Note 2)	2004 % of Total Rental Revenue
VIA Technologies Inc.	$ -	-	$ -	-	$ 101	$ 3	76
Chander Electronics Corp.	-	-	-	-	18	1	14
	$ -	-	$ -	-	$ 119	$ 4	90

Property Transaction

In 2003, the Company acquired computer equipment from Xander International Corp. for NT$264 thousand. In 2003, the Company sold furniture and fixtures to H.T.C. (B.V.I.) Corp. for NT$3,342 thousand and HTC USA Inc. for NT$109 thousand.

In 2004, the Company acquired land and building from Vate Technology Co., Ltd. for NT$126,703 thousand and paid NT$110,365 up to December 31, 2004.

In 2004, the Company sold equipment to H.T.C. (B.V.I.) Corp., Inc. for NT$2,106 thousand; to HTC USA Inc. for NT$430 thousand; to HTC Europe Co., Ltd. for NT$20 thousand; and to High Tech Computer Corp. (Suzhou) for NT$15 thousand.

25. PLEDGED ASSETS

As of December 31, 2002, 2003 and 2004, the following assets had been pledged to secure short-term borrowings and long-term debts:

	2002 NT$	2003 NT$	2004 NT$	2004 US$ (Note 2)
Machinery and equipment	$ 169,660	$ -	$	$

26. COMMITMENTS AND CONTINGENCIES

As of December 31, 2004, unused letters of credit amounted to US$255 thousand and JPY$13,803 thousand.

27. SIGNIFICANT CONTRACTS

Patent Agreements

To enhance the quality of its products and manufacturing technologies, the Company has patent agreements as follows:

Contractor	Contract Term	Description
Texas Instruments France	January 14, 2000 ~ January 14, 2005	Authorization to use GSM system software; royalty payment based on agreement.
Microsoft	December 1, 2004 ~ December 31, 2006	Authorization to use embedded operating system; quarterly royalty prepayments.
Qualcomm Incorporated	December 20, 2000 to the following dates:	
	(a) If the Company materially breaches any covenant and fails to take remedial action within 30 days after Qualcomm's issuance of a written notice	(a) Authorization to use CDMA technology to manufacture and sell units.
	(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.	(b) Up-front license fee paid within six months from the effective date of the agreement and recorded as deferred charges, amortized on a straight-line basis over 10 years; quarterly royalty payments based on units sold.
Ericsson Mobile Platform AB	April 2003~March 2011	Authorization to use EDGE reference design license and support agreement; royalty payment based on agreement.
Telefonaktiebolaget LM Ericsson	April 2003~March 2011	Authorization to use platform patent license agreement; royalty payment based on agreement.
Nokia Corporation	January 2003~December 2009	Authorization to use wireless technology, like GSM; royalty payment based on agreement.
Inter Digital Technology Corporation	December 31, 2003 ~ December 31, 2008	Authorization to use TDMA and CDMA technology; royalty payment based on agreement.

Contractor	Contract Term	Description
Koninklijke Philips Electronics N.V.	January 5, 2004 to the expired date of these patents	GSM/DCS 1800/1900 Patent License; royalty payment based on agreement.
Motorola, Inc.	December 23, 2003 to the latest of the following dates: (a) Expiry dates of patents (b) March 6, 2005	TDMA, NARROWBAND CDMA, WIDEBAND CDMA or TD/CDMA Standards patent license or technology; royalty payment based on agreement.
Siemens Aktiengesells-Chaft	July 1, 2004-June 30, 2009	Authorization to use GSM system software; royalty payment based on agreement.
Lucent Technologies GRL LLC	July 1, 2004-June 30, 2009	Authorization to use GSM system software; royalty payment based on agreement.
ALCATEL/TCL & Alcatel	July 1, 2004-June 30, 2009	Authorization to use GSM system software; royalty payment based on agreement.

28. OTHER EVENTS

To effect cooperation with other companies in the same trade, lower operating costs and expenses, and enhance competitiveness as well as research and development capabilities, the Board of Directors proposed the acquisition of IA Style, Inc. on October 31, 2003. The effective merger date was March 1, 2004.

Other merger information is as follows:

(a) Share issuance and swap ratio:
The Company issued 1,567,347 new shares at NT$10 par value to acquire IA System Inc. One share of the Company was exchanged for 5.423177 shares of IA System Inc.

(b) Merger basis:
(i) Current market condition and Company's vision of the future;
(ii) Equity per share.

(c) Influence on the Company's financial status and stockholders' equity:
The Company could lower operating costs and expenses and enhance its competitiveness and research and development capabilities.

(d) Had the effective merger date been January 1, 2004, the pro forma information for 2004 would have been as follows:

	NT$	US$
Revenues	$ 36,398,671	$ 1,147,861
Net income	3,846,634	121,307
Basic earnings per share after income tax	14.16	0.45

Donation

The Company donated NT$200 million to High Tech Computer Foundation for Social Welfare Charity to help welfare activities of disadvantaged minority, teenagers and the people needed in 2004.

29. SEGMENT INFORMATION

Industry Type

The Company mainly manufactures and sells smart handheld devices.

Foreign Operations

The Company does not have any foreign operations.

Export Sales

Export sales in 2002, 2003 and 2004 were as follows:

	2002	2003	2004	
	NT$	NT$	NT$	US$ (Note 2)
Asia	$ 795,966	$ 4,811,947	$ 5,157,560	$ 162,648
America	14,620,116	6,022,178	8,087,168	255,035
Europe	-	9,806,308	18,263,948	575,968
Others	4,214,841	773,588	4,358,517	137,449
	$ 19,630,923	$ 21,414,021	$ 35,867,193	$ 1,131,100

Major Customers

Sales to major customers were as follows:

	2002	2003	2004	
Customer	NT$	NT$	NT$	US$ (Note 2)
A	$ 13,344,835	$ 12,438,356	$ 11,829,986	$ 373,068
B	-	-	4,175,764	131,686
	$ 13,344,835	$ 12,438,356	$ 16,005,750	$ 504,754

30. RECLASSIFICATION

Some 2002 and 2003 accounts were classified to be consistent with the presentation of the financial statements for the year ended December 31, 2004.