High Tech Computer Corp.

Financial Statements for the
Years Ended December 31, 2003, 2004 and 2005 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, 2003, 2004 and 2005, 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, 2003, 2004 and 2005, 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.

We have also audited the consolidated financial statements of High Tech Computer Corp. as of and for the years ended December 31, 2004 and 2005 and have expressed an unqualified opinion on those financial statements in our report dated February 3, 2006.

Our audits also comprehended the translation of the 2005 New Taiwan dollar amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 3. Such U.S. dollar amounts are presented solely for the convenience of readers.

February 3, 2006

<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.

The auditors' report and the accompanying financial statements were originally presented in more than one set of Chinese reports. 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 3 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, 2003, 2004 AND 2005
(In Thousands, Except Par Value)

ASSETS	2003 NT$	2004 NT$	2005 NT$	2005 US$ (Note 3)
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 4,773,077	$ 6,148,201	$ 16,196,448	$ 493,043
Short-term investments (Notes 2 and 5)	30,573	-	-	-
Notes receivable, net (Notes 2 and 6)	35,736	71,756	99,087	3,016
Accounts receivable, net (Notes 2 and 6)	5,286,193	8,386,190	14,212,815	432,658
Accounts receivable from related parties, net (Notes 2 and 22)	114,848	78,213	420,780	12,809
Other current financial assets (Notes 7, 21 and 22)	191,179	97,136	145,404	4,426
Inventories (Notes 2 and 8)	2,157,796	4,203,649	4,837,553	147,262
Prepayments (Notes 9 and 22)	410,844	244,828	474,261	14,437
Deferred income tax assets (Notes 2 and 19)	118,390	161,863	229,826	6,996
Total current assets	13,118,636	19,391,836	36,616,174	1,114,647
LONG-TERM EQUITY INVESTMENTS (Notes 2 and 10)	111,187	352,000	325,533	9,910
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 11 and 22)				
Cost				
Land	300,982	378,274	610,293	18,578
Buildings and structures	836,452	946,207	1,073,560	32,681
Machinery and equipment	1,771,743	2,268,523	2,543,396	77,424
Molding equipment	201,567	201,567	201,567	6,136
Computer equipment	132,141	154,988	161,459	4,915
Transportation equipment	1,315	1,315	1,628	50
Furniture and fixtures	97,283	101,080	107,505	3,273
Leasehold improvements	28,080	45,542	22,816	694
	3,369,563	4,097,496	4,722,224	143,751
Less accumulated depreciation	(1,203,346)	(1,704,469)	(2,254,435)	(68,628)
Prepayments on construction-in-progress and equipment-in-transit	67,788	125,915	27,467	836
Property, plant and equipment, net	2,234,005	2,518,942	2,495,256	75,959
OTHER ASSETS				
Refundable deposits	687	5,922	35,278	1,074
Deferred charges (Note 2)	233,612	186,211	150,237	4,573
Deferred bond issuance costs (Notes 2 and 14)	33,630	17,675	-	-
Deferred tax assets (Notes 2 and 19)	130,414	60,827	249,034	7,581
Other (Notes 2 and 15)	-	7,663	49,760	1,515
Total other assets	398,343	278,298	484,309	14,743
TOTAL	$ 15,862,171	$ 22,541,076	$ 39,921,272	$ 1,215,259

LIABILITIES AND STOCKHOLDERS' EQUITY	2003 NT$	2004 NT$	2005 NT$	2005 US$ (Note 3)
CURRENT LIABILITIES				
Notes and accounts payable (Note 22)	$ 4,947,233	$ 7,941,882	$ 13,796,693	$ 419,991
Income tax payable (Notes 2 and 19)	146,325	94,154	616,863	18,778
Accrued expenses (Notes 12 and 22)	485,265	862,267	1,204,807	36,676
Payable for purchase of equipment	36,215	54,242	14,039	427
Current portion of bonds payable (Notes 2 and 14)	2,255,066	-	-	-
Other current liabilities (Notes 13, 21 and 22)	314,145	468,860	1,302,768	39,658
Total current liabilities	8,184,249	9,421,405	16,935,170	515,530
LONG-TERM LIABILITIES, NET OF CURRENT PORTION				
Bonds payable (Notes 2 and 14)	-	1,477,171	-	-
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 15)	32,144	-	-	-
Guarantee deposits received	30	273,078	561	17
Total other liabilities	32,174	273,078	561	17
Total liabilities	8,216,423	11,171,654	16,935,731	515,547
STOCKHOLDERS' EQUITY (Notes 16 and 17)				
Capital stock - $10 par value				
Authorized: 450,000 thousand shares				
Issued: 217,164 thousand shares in 2003, 271,428 thousand shares in 2004 and 357,016 thousand shares in 2005				
Common stock	2,171,640	2,714,276	3,570,160	108,681
Capital collected in advance	-	48,838	-	-
Capital surplus				
Additional paid-in capital - common stock	2,529,667	3,064,356	4,410,871	134,273
From merger	-	25,972	25,972	791
Retained earnings				
Legal reserve	242,718	427,791	813,326	24,759
Special reserve	331	1,983	19,133	582
Accumulated earnings	2,703,375	5,105,339	14,152,255	430,814
Unrealized valuation loss on long-term investments (Notes 2 and 10)	(277)	(1,268)	(1,135)	(35)
Cumulative translation adjustments (Note 2)	(1,706)	(17,865)	(5,041)	(153)
Total stockholders' equity	7,645,748	11,369,422	22,985,541	699,712
TOTAL	$ 15,862,171	$ 22,541,076	$ 39,921,272	$ 1,215,259

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

HIGH TECH COMPUTER CORP.

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005
(In Thousands, Except Earnings Per Share)

	2003	2004	2005	
	NT$	NT$	NT$	US$ (Note 3)
REVENUES				
Gross sales	$21,432,410	$35,808,714	$72,121,212	$2,195,471
Less sales returns and discounts	(241,533)	(158,453)	(227,367)	(6,922)
NET SALES (Notes 2 and 22)	21,190,877	35,650,261	71,893,845	2,188,549
OTHER REVENUES	630,728	746,905	874,677	26,626
Total revenues	21,821,605	36,397,166	72,768,522	2,215,175
COST OF REVENUES (Note 22)	17,938,644	28,493,144	54,758,040	1,666,911
GROSS PROFIT	3,882,961	7,904,022	18,010,482	548,264
UNREALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	(7,241)	(6,289)	(15,077)	(459)
REALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	-	7,241	6,289	192
REALIZED GROSS PROFIT	3,875,720	7,904,974	18,001,694	547,997
OPERATING EXPENSES (Note 22)				
Administrative and selling	1,008,071	1,600,582	2,761,900	84,076
Research and development	1,048,189	1,993,972	2,399,315	73,039
Total operating expenses	2,056,260	3,594,554	5,161,215	157,115
OPERATING INCOME	1,819,460	4,310,420	12,840,479	390,882
NONOPERATING INCOME AND GAINS				
Interest income	45,473	60,643	145,042	4,415
Gain on sale of property, plant and equipment	380	10,950	5,372	164
Gain on sale of investments	874	13,584	-	-
Gain on physical inventories	-	11,078	2,074	63
Foreign exchange gain (Note 2)	92,465	108,247	-	-
Other	343,486	108,454	65,487	1,993
Total nonoperating income and gains	482,678	312,956	217,975	6,635

(Continued)

HIGH TECH COMPUTER CORP.

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005
(In Thousands, Except Earnings Per Share)

	2003	2004	2005	
	NT$	NT$	NT$	US$ (Note 3)
NONOPERATING EXPENSES AND LOSSES				
Interest expense	$ 27,404	$ 29,367	$ 19,821	$ 603
Losses on equity-method investments (Notes 2 and 10)	16,202	35,606	35,112	1,069
Losses on disposal of property, plant and equipment	-	12,151	2,521	77
Losses on physical inventory	13,216	-	-	-
Foreign exchange loss (Note 2)	-	-	238,920	7,273
Provision for loss on decline in value of inventory	255,134	543,516	584,174	17,783
Other	30,337	42,208	21,967	669
Total nonoperating expenses and losses	342,293	662,848	902,515	27,474
INCOME BEFORE INCOME TAX	1,959,845	3,960,528	12,155,939	370,043
INCOME TAX EXPENSE (Notes 2 and 19)	(109,113)	(105,182)	(373,995)	(11,385)
NET INCOME	$ 1,850,732	$ 3,855,346	$11,781,944	$ 358,658

	2003		2004		2005			
	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 3)	NT$	US$ (Note 3)
BASIC EARNINGS PER SHARE (Note 20)	$ 6.02	$ 5.69	$ 11.66	$ 11.35	$ 34.32	$ 33.26	$ 1.04	$ 1.01
DILUTED EARNINGS PER SHARE (Note 20)	$ 5.82	$ 5.48	$ 11.19	$ 10.89	$ 33.85	$ 32.81	$ 1.03	$ 1.00

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, 2003, 2004 AND 2005
(In Thousands)

	Capital Stock		Capital Surplus		Retained Earnings					
	Common Stock NT$	Capital Collected in Advance NT$	Additional Paid-in Capital - Common Stock NT$	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, 2003	$ 1,627,200	$ -	$ 832,812	$ -	$ 96,273	$ -	$ 1,809,476	$ (410)	$ 79	$ 4,365,430
Appropriation of 2002 net earnings										
Legal reserve	-	-	-	-	146,445	-	(146,445)	-	-	-
Special reserve	-	-	-	-	-	331	(331)	-	-	-
Stock dividends	325,440	-	-	-	-	-	(325,440)	-	-	-
Transfer of employee bonuses to capital stock	75,000	-	-	-	-	-	(75,000)	-	-	-
Employee bonuses	-	-	-	-	-	-	(71,000)	-	-	(71,000)
Cash dividends	-	-	-	-	-	-	(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 of 2003 net earnings										
Legal reserve	-	-	-	-	185,073	-	(185,073)	-	-	-
Special reserve	-	-	-	-	-	1,652	(1,652)	-	-	-
Stock dividends	437,463	-	-	-	-	-	(437,463)	-	-	-
Transfer of employee bonuses to capital stock	89,500	-	-	-	-	-	(89,500)	-	-	-
Employee bonuses	-	-	-	-	-	-	(83,500)	-	-	(83,500)
Cash dividends	-	-	-	-	-	-	(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
Appropriation of 2004 net earnings										
Legal reserve	-	-	-	-	385,535	-	(385,535)	-	-	-
Special reserve	-	-	-	-	-	17,150	(17,150)	-	-	-
Stock dividends	577,527	-	-	-	-	-	(577,527)	-	-	-
Transfer of employee bonuses to capital stock	105,000	-	-	-	-	-	(105,000)	-	-	-
Employee bonuses	-	-	-	-	-	-	(206,000)	-	-	(206,000)
Cash dividends	-	-	-	-	-	-	(1,443,816)	-	-	(1,443,816)
Net income in 2005	-	-	-	-	-	-	11,781,944	-	-	11,781,944
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	12,824	12,824
Unrealized valuation loss on long-term investments	-	-	-	-	-	-	-	133	-	133
Capital collected in advance and transferred to common stocks	48,838	(48,838)	-		-	-	-	-	-	-
Convertible bonds converted to common stocks	124,519	-	1,346,515	-	-	-	-	-	-	1,471,034
BALANCE, DECEMBER 31, 2005	$ 3,570,160	$ -	$ 4,410,871	$ 25,972	$ 813,326	$ 19,133	$ 14,152,255	$ (1,135)	$ (5,041)	$ 22,985,541

HIGH TECH COMPUTER CORP.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005
(In Thousands)

	Capital Stock		Capital Surplus		Retained Earnings					
	Common Stock	Capital Collected in Advance	Additional Paid-in Capital - Common Stock	From Merger	Legal Reserve	Special Reserve	Accumulated Earnings	Unrealized Valuation Loss on Long-Term Investments	Cumulative Translation Adjustments	Total
	US$ (Note 3)	US$ (Note 3)	US$ (Note 3)	US$ (Note 3)	US$ (Note 3)	US$ (Note 3)	US$ (Note 3)	US$ (Note 3)	US$ (Note 3)	US$ (Note 3)
BALANCE, JANUARY 1, 2005	$ 82,626	$ 1,487	$ 93,283	$ 791	$ 13,023	$ 60	$ 155,414	$ (39)	$ (544)	$ 346,101
Appropriation of 2004 net earnings										
Legal reserve	-	-	-	-	11,736	-	(11,736)	-	-	-
Special reserve	-	-	-	-	-	522	(522)	-	-	-
Stock dividends	17,581	-	-	-	-	-	(17,581)	-	-	-
Transfer of employee bonuses to capital stock	3,196	-	-	-	-	-	(3,196)	-	-	-
Employee bonuses	-	-	-	-	-	-	(6,271)	-	-	(6,271)
Cash dividends	-	-	-	-	-	-	(43,952)	-	-	(43,952)
Net income in 2005	-	-	-	-	-	-	358,658	-	-	358,658
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	391	391
Unrealized valuation loss on long-term investments	-	-	-	-	-	-	-	4	-	4
Capital collected in advance and transferred to common stocks	1,487	(1,487)	-		-	-	-	-	-	-
Convertible bonds converted to common stocks	3,791	-	40,990	-	-	-	-	-	-	44,781
BALANCE, DECEMBER 31, 2005	$ 108,681	$ -	$ 134,273	$ 791	$ 24,759	$ 582	$ 430,814	$ (35)	$ (153)	$ 699,712

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

HIGH TECH COMPUTER CORP.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005
(In Thousands)

	2003	2004	2005	
	NT$	NT$	NT$	US$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$ 1,850,732	$ 3,855,346	$11,781,944	$ 358,658
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation	465,281	516,948	582,367	17,728
Amortization	61,335	47,031	35,974	1,095
Gain on disposal of short-term investments	(874)	(13,584)	-	-
(Gain) loss on disposal of property, plant and equipment	(380)	1,201	(2,851)	(87)
Losses on equity-method investments	16,202	35,606	35,112	1,069
Provision for redemption of convertible bonds	13,046	12,978	2,042	62
Foreign exchange gains on convertible bonds	(46,530)	(137,996)	(8,179)	(249)
Amortization of bond issue costs	7,633	15,955	17,675	538
Deferred income tax assets	(63,035)	26,114	(256,170)	(7,798)
Accrued pension costs	12,309	(39,807)	(42,097)	(1,281)
Net changes in operating assets and liabilities				
Notes receivable	12,530	(35,957)	(27,331)	(832)
Accounts receivable	(742,388)	(3,096,651)	(5,826,625)	(177,371)
Accounts receivable from related parties	(42,020)	36,635	(342,567)	(10,428)
Other current financial assets	(148,353)	95,169	10,723	327
Inventories	(387,395)	(2,045,853)	(633,904)	(19,297)
Prepayments	(319,047)	166,016	(229,433)	(6,984)
Notes and accounts payable	1,143,772	2,994,649	5,854,811	178,228
Income tax payable	51,421	(52,171)	522,709	15,912
Accrued expenses	155,286	376,613	342,540	10,427
Other current liabilities	22,701	179,375	838,408	25,523
Net cash provided by operating activities	2,062,226	2,937,617	12,655,148	385,240
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of short-term investments	(1,019,995)	(2,448,020)	-	-
Proceeds from sales of short-term investments	990,296	2,514,707	-	-
Purchase of property, plant and equipment	(445,308)	(795,370)	(601,915)	(18,323)
Proceeds from sales of property, plant and equipment	9,494	10,681	5,882	179
Increase in long-term investments	(40,872)	(292,377)	-	-
Proceeds from liquidation of long-term investments	-	-	4,312	131
Decrease (increase) in refundable deposits	149	(5,080)	(29,356)	(894)
Increase in deferred bond issue costs	(41,263)	-	-	-
Increase in deferred charges	(24,536)	-	-	-
Increase in receivable on forward exchange contracts	-	(359)	(59,726)	(1,818)
Increase (decrease) in option contracts payable	788	(24,316)	735	23
Cash received on merger	-	14,791	-	-
Net cash used in investing activities	(571,247)	(1,025,343)	(680,068)	(20,702)

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HIGH TECH COMPUTER CORP.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005
(In Thousands)

	2003	2004	2005	
	NT$	NT$	NT$	US$ (Note 3)
CASH FLOWS FROM FINANCING ACTIVITIES				
Decrease in short-term borrowings	$ (381,185)	$ -	$ -	$ -
Decrease in short-term commercial bills	(99,694)	-	-	-
Decrease in long-term debts	(114,913)	-	-	-
Increase (decrease) in guarantee deposits received	30	273,048	(272,517)	(8,295)
Issued convertible bonds	2,288,550	-	-	-
Redemption of convertible bonds	-	(69,350)	-	-
Issuance of Global Depositary Receipts	1,840,855	-	-	-
Cash dividends	(325,440)	(656,194)	(1,443,816)	(43,952)
Bonus to employees	(65,345)	(84,654)	(210,500)	(6,408)
Net cash provided by (used in) financing activities	3,142,858	(537,150)	(1,926,833)	(58,655)
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,633,837	1,375,124	10,048,247	305,883
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	139,240	4,773,077	6,148,201	187,160
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 4,773,077	$ 6,148,201	$16,196,448	$ 493,043
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Cash paid during the year for				
Interest (net of amounts capitalized)	$ 14,956	$ 414	$ -	$ -
Income tax	$ 120,728	$ 131,239	$ 107,456	$ 3,271
NONCASH INVESTING AND FINANCING ACTIVITIES				
Transfer of cost of property, plant and equipment to deferred charges	$ 2,457	$ -	$ -	$ -
Transfer of convertible bonds to common stock and additional paid-in capital	$ -	$ 583,527	$ 1,471,034	$ 44,781
PURCHASE OF PROPERTY, PLANT AND EQUIPMENT				
Cost of property, plant and equipment purchased	$ 422,370	$ 813,397	$ 561,712	$ 17,099
Decrease (increase) in payable for purchase of equipment	22,938	(18,027)	40,203	1,224
Cash paid for purchase of property, plant and equipment	$ 445,308	$ 795,370	$ 601,915	$ 18,323

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HIGH TECH COMPUTER CORP.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005
(In Thousands)

	2003	2004	2005	
	NT$	NT$	NT$	US$ (Note 3)
BONUS TO EMPLOYEES AND DIRECTORS' REMUNERATION				
Appropriation of bonus to employees and directors' remuneration	$ 84,177	$ 83,500	$ 206,000	$ 6,271
(Increase) Decrease in payable for employee bonus and directors' remuneration	(18,832)	1,154	4,500	137
Cash paid	$ 65,345	$ 84,654	$ 210,500	$ 6,408
CASH FROM MERGER				
Issuance of common stock	$ -	$ 15,673	$ -	$ -
Additional paid-in capital	-	25,972	-	-
Net assets received, except cash	-	(26,854)	-	-
Cash received on merger	$ -	$ 14,791	$ -	$ -

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 2,365, 3,265 and 4,108 employees as of December 31, 2003, 2004 and 2005, respectively.

To effect cooperation with other companies in the same trade, lower operating costs and expenses, and enhance competitiveness and 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 25 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, and warranty. Actual results could differ from these estimates.

The accompanying financial statements were originally presented in more than one set of Chinese financial reports. 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 accompanying financial statements do not include the 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:

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 maturities 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 aggregate cost or market. The net change in 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.

Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided on the basis of management's evaluation of the collectibility of receivables, past loss experience, and 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.

Long-Term Equity 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. The difference between the 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 aggregate cost or market value.

On the balance sheet date, an impairment loss should be recognized if recoverable amount is below carrying amount. This loss is treated as an expense in the income statement.

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

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.

On the balance sheet date, assets are evaluated for any impairment. If impairment is identified, the Company should evaluate the recoverable amount of the assets. An impairment loss should be recognized whenever recoverable amount is below carrying amount, and this loss should be charged to current income.

An impairment loss recognized in prior years can be reversed only if there is a change in the estimates used to determine recoverable amount since the last impairment loss was recognized. However, the loss reversal is only to the extent that the increased carrying amount of an asset would not exceed the asset carrying amount (net of depreciation) had no impairment loss been recognized in prior years. Under certain regulations, an impairment loss of a revalued asset should be treated as a revaluation increment decrease. A reversal of an impairment loss on a revalued asset is credited directly to equity under the heading revaluation increment. However, to the extent that an impairment loss on the same revalued asset was previously recognized as profit or loss, a reversal of that impairment loss is also recognized as profit or loss.

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

Deferred Charges

Deferred charges are 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, over 10 years.

Asset Impairment

An impairment loss should be recognized on the balance sheet date if whenever recoverable amount is below carrying amount. The increased carrying amount due to reversal should not be more than what the depreciated historical cost would have been if the impairment had not been recognized. Reversal of an impairment loss is recognized as income in the income statement. However, the reversal of impairment loss on goodwill is prohibited.

Bonds Payable

Bonds are 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.

Pension Plan

Under the ROC Labor Standards Law (the "Law"), which provides for a defined benefit pension plan, the Company has a pension plan covering all eligible employees. 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 under the defined benefit pension plan should be calculated by the actuarial method.

The Labor Pension Act (the "Act), which provides for a new defined contribution plan, took effect on July 1, 2005. Employees already covered by the Law can choose to remain to be subject to the pension mechanism under the Law or to be subject to the Act. Under the Act, the rate of an employer's monthly contribution to the pension fund should be at least 6% of the employee's monthly wages, and the contribution should be recognized as pension expense in the income statement.

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 the Republic of China. Under these guidelines, 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 and pertinent factors.

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, a 10% additional income tax is levied on distributable earnings generated since 1998 that remain undistributed in the following year. In addition, starting on January 1, 1998, every enterprise (except branch, partnership, and not-for-profit organization) should maintain an imputation credit account (ICA) to keep track of all 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 to income in the conversion or settlement period. 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 on forward contracts open as of the balance sheet date are netted out, and the resulting amount is presented as an asset or liability.

The premiums paid for currency option contracts entered into for hedging purposes are amortized and charged to income on a straight-line basis over the term of the related contract. Any resulting gain upon exercise settlement is credited or charged to income in the year of exercise.

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 Company's acquisition of IA Style, Inc. effective March 1, 2004, with the Company as the survivor entity, 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. The net assets and net liabilities of the acquired entity were accounted for in the balance sheet as an increase in additional paid-in capital from merger (credit) and as a decrease in retained earnings (debit), respectively.

Reclassifications

Some 2003 and 2004 accounts were classified to be consistent with the presentation of the financial statements for the year ended December 31, 2005.

3. TRANSLATION INTO U.S. DOLLARS

The financial statements are stated in New Taiwan dollars. The translations of the 2005 New Taiwan dollar amounts into U.S. dollar amounts are included solely for the convenience of readers, using the noon buying rate of NT$32.85 to US$1.00 quoted by the Bank of Taiwan on December 31, 2005. 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.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2003, 2004 and 2005 were as follows:

	2003	2004	2005	
	NT$	NT$	NT$	US$ (Note 3)
Cash on hand	$ 542	$ 793	$ 993	$ 31
Cash in banks	2,484,602	2,954,408	6,478,555	197,216
Time deposits	728,909	3,193,000	9,716,900	295,796
Cash equivalents	1,559,024	-	-	-
	$ 4,773,077	$ 6,148,201	$ 16,196,448	$ 493,043

As of December 31, 2003, interest rates on time deposits ranged from 1.98% to 3.55%, and on cash equivalents, from 1.80% to 2.30%.

As of December 31, 2004 and 2005, interest rates on time deposits ranged from 0.70% to 1.155% and from 1.315% to 1.84%, respectively.

5. SHORT-TERM INVESTMENTS

Short-term investments as of December 31, 2003, 2004 and 2005 were as follows:

	2003	2004	2005	
	NT$	NT$	NT$	US$ (Note 3)
Purchase of corporate bonds	$30,573	$ -	$ -	$ -

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

6. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable as of December 31, 2003, 2004 and 2005 were as follows:

	2003	2004	2005	
	NT$	NT$	NT$	US$ (Note 3)
Notes receivable	$ 35,736	$ 71,756	$ 99,087	$ 3,016
Accounts receivable	5,291,026	8,393,163	14,221,725	432,929
Less allowance for doubtful accounts	(4,833)	(6,973)	(8,910)	(271)
	$ 5,321,929	$ 8,457,946	$ 14,311,902	$ 435,674

7. OTHER CURRENT FINANCIAL ASSETS

Other current financial assets as of December 31, 2003, 2004 and 2005 were as follows:

	2003	2004	2005	
	NT$	NT$	NT$	US$ (Note 3)
Other receivables	$174,473	$ 45,574	$ 23,234	$ 707
Forward exchange contract, net (Note 21)	-	359	60,085	1,829
Currency option contract, net (Note 21)	-	735	-	-
Value-added tax refund receivables	9,473	47,715	30,325	923
Interest receivables	2,085	1,515	15,566	474
Others	5,148	1,238	16,194	493
	$191,179	$ 97,136	$145,404	$ 4,426

8. INVENTORIES

Inventories as of December 31, 2003, 2004 and 2005 were as follows:

	2003	2004	2005	
	NT$	NT$	NT$	US$ (Note 3)
Finished goods	$ 189,863	$ 647,329	$ 625,943	$ 19,055
Work-in-process	818,458	1,218,137	1,801,220	54,832
Raw materials	1,271,980	2,684,955	2,997,117	91,236
	2,280,301	4,550,421	5,424,280	165,123
Less valuation allowance	(122,505)	(346,772)	(586,727)	(17,861)
	$2,157,796	$4,203,649	$4,837,553	$147,262

Inventory insurance as of December 31, 2003, 2004 and 2005 amounted to NT$2,305,000 thousand, NT$4,300,000 thousand and NT$5,105,000 thousand (US$155,403 thousand), respectively.

9. PREPAYMENTS

Prepayments as of December 31, 2003, 2004 and 2005 were as follows:

	2003	2004	2005	
	NT$	NT$	NT$	US$ (Note 3)
Prepayments for royalty (Note 24)	$305,113	$142,789	$274,489	$ 8,356
Prepayments for materials purchases	3,435	563	2,820	86
Prepayments for service	4,762	6,628	83,352	2,537
Prepayments for molding equipment	41,127	43,546	56,823	1,730
Others	56,407	51,302	56,777	1,728
	$410,844	$244,828	$474,261	$14,437

10. LONG-TERM EQUITY INVESTMENTS

Long-term equity investments as of December 31, 2003, 2004 and 2005 were as follows:

	2003		2004		2005				
	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage	Original Cost		Carrying Value		Ownership Percentage
	NT$		NT$		NT$	US$ (Note 3)	NT$	US$ (Note 3)	
Equity method									
H.T.C. (B.V.I.) Corp.	$ 64,568	100.00	$ 345,793	100.00	$ 428,137	$ 13,033	$ 323,505	$ 9,848	100.00
Auto Hi-Tech Computer Corp.	4,053	20.00	4,312	20.00	-	-	-	-	-
Prepayments for long-term equity investments									
H.T.C. (B.V.I.) Corp.	40,872	-	-	-	-	-	-	-	-
LCM method									
VIA Technologies, Inc.	1,694	-	703	-	1,971	60	836	26	-
Cost method									
Answer Online, Inc.	-	-	1,192	1.82	1,192	36	1,192	36	1.82
	$ 111,187		$ 352,000		$ 431,300	$ 13,129	$ 325,533	$ 9,910	

In August 2000, the Company incorporated 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, 2005, 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. On October 6, 2004, Auto Hi-Tech Computer Corp. started liquidation procedures and completed these procedures by the end of January 2005.

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 losses of NT$16,202 thousand, NT$35,606 thousand and NT$35,112 thousand (US$1,069 thousand) in 2003, 2004 and 2005, respectively.

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

Under the revised Statement of Financial Accounting Standards No. 7, "Consolidated Financial Statements," which took effect on January 1, 2005, the Company included the accounts of all its direct and indirect subsidiaries in the consolidated financial statements as of and for the year ended December 31, 2004 and 2005. All significant intercompany balances and transactions have been eliminated.

11. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of December 31, 2003, 2004 and 2005 were as follows:

	2003	2004	2005			
	Carrying Value	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NT$	NT$	NT$	NT$	NT$	US$ (Note 3)
Land	$ 300,982	$ 378,274	$ 610,293	$ -	$ 610,293	$ 18,578
Buildings and structures	688,482	736,920	1,073,560	275,579	797,981	24,292
Machinery and equipment	1,041,564	1,171,357	2,543,396	1,556,387	987,009	30,046
Molding equipment	21,586	-	201,567	201,567	-	-
Computer equipment	51,351	47,705	161,459	126,062	35,397	1,077
Transportation equipment	760	541	1,628	1,002	626	19
Furniture and fixtures	46,068	35,387	107,505	76,865	30,640	933
Leasehold improvements	15,424	22,843	22,816	16,973	5,843	178
Prepayments on equipment-in-transit	67,788	125,915	27,467	-	27,467	836
	$2,234,005	$2,518,942	$4,749,691	$2,254,435	$2,495,256	$ 75,959

In June 2005, the Company acquired land and building from VIA Technologies, Inc. for NT$304,630 thousand (US$9,273 thousand).

In April 2003, the Company paid NT$75,000 thousand to acquire from Goodyear (Taiwan) Co. land to be used for constructing a factory and office building.

As of December 31, 2003, 2004 and 2005, insurance for property, plant and equipment, excluding land, amounted to NT$1,904,180 thousand, NT$2,297,315 thousand and NT$1,910,290 thousand (US$58,152 thousand), respectively.

12. ACCRUED EXPENSES

Accrued expenses as of December 31, 2003, 2004 and 2005 were as follows:

	2003	2004	2005	
	NT$	NT$	NT$	US$ (Note 3)
Salaries and bonuses	$ 222,408	$ 500,573	$ 698,818	$ 21,273
Export expenses	6,857	53,822	183,060	5,573
Research materials	12,847	69,920	48,013	1,461
Insurance	17,782	21,877	45,307	1,379
Professional fees	97,369	18,038	39,445	1,201
Meals and welfare	7,030	18,159	36,978	1,126
Travel	8,889	8,495	23,689	721
Repairs and maintenance	1,260	39,253	23,690	721
Donation	-	5,000	-	-
Royalties	13,874	-	-	-
Others	96,949	127,130	105,807	3,221
	$ 485,265	$ 862,267	$ 1,204,807	$ 36,676

13. OTHER CURRENT LIABILITIES

Other current liabilities as of December 31, 2003, 2004 and 2005 were as follows:

	2003	2004	2005	
	NT$	NT$	NT$	US$ (Note 3)
Reserve for warranty expenses	$ 189,211	$ 324,701	$ 964,503	$ 29,361
Advance receipts	37,854	6,304	112,641	3,429
Other payables to related parties (See Note 22)	-	4,569	89,777	2,733
Receipts under custody	16,300	81,958	86,467	2,632
Directors' remuneration	21,842	21,842	21,842	665
Deferred credits - profit from intercompany transactions	7,241	6,289	15,077	459
Currency option contracts, net (see Note 21)	23,581	-	-	-
Employee bonus payable	5,655	4,500	-	-
Other	12,461	18,697	12,461	379
	$ 314,145	$ 468,860	$ 1,302,768	$ 39,658

14. BONDS PAYABLE

A summary of bonds payable as of December 31, 2003, 2004 and 2005 is as follows:

	2003	2004	2005	
	NT$	NT$	NT$	US$ (Note 3)
January 29, 2003 issue of zero coupon convertible bonds; maturity on January 29, 2008; issue price at 100% of US$1,000 par value.	$ 2,288,550	$ 1,593,228	$ -	$ -
Add				
Reserve for redemption of convertible bonds	13,046	19,462	-	-
Allowance for foreign exchange loss	(46,530)	(135,519)	-	-
Less current portion of bonds payable	(2,255,066)	-		
	$ -	$ 1,477,171	$ -	$ -

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% of the US$1,000 par value. The Company intended to use the net proceeds of the offering for the import of raw materials and input components to produce smart handheld devices.

Also 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. Thus, some bondholders requested the Company to redeem bonds amounting to US$2,000 thousand, and other bondholders requested conversion of bonds amounting to US$64,000 thousand into 17,336 thousand shares. Because of these redemptions, the Company had no outstanding bonds payable as of December 31, 2005.

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 before 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 the unconverted bonds is less than US$3,300 thousand (5% of the issue amount), 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 under these terms:

Conversion period: Except 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.

15. PENSION PLAN

The Labor Pension Act (the "Act), which provides for a new defined contribution plan, took effect on July 1, 2005. Employees already covered by the Labor Standards Law (the "Law") can choose to remain to be subject to the pension mechanism under the Law or to be subject to the Act. Under the Act, the rate of an employer's monthly contribution to the pension fund should be at least 6% of the employee's monthly wages, and the contribution should be recognized as pension expense in the income statement. The pension fund contribution from July 1, 2005 to December 31, 2005 was NT$40,152 thousand (US$1,222 thousand).

Under the Law, which provides for a defined benefit pension plan, retirement payments should be made according to the years of service, with a payment of two units for each year of service but only one unit per year after the 15th year; however, total units should not exceed 45. On January 1, 2004, the rate of the Company's contributions to the plan increased from 2% to 8% of employees' salaries and wages and decreased to 2% after the Act took effect. 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$65,119 thousand, NT$173,525 thousand and NT$274,197 thousand (US$8,347 thousand) as of December 31, 2003, 2004 and 2005, respectively.

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 under a defined benefit pension plan should be calculated by the actuarial method. Related disclosure is as follows:

Net pension costs in 2003, 2004 and 2005 were as follows:

	2003	2004	2005	
	NT$	NT$	NT$	US$ (Note 3)
Service cost	$32,743	$62,685	$44,766	$1,363
Interest cost	3,571	4,012	10,042	306
Projected return of plan assets	(1,900)	(2,265)	(5,782)	(176)
Amortization of unrecognized net transition obligation, net	77	1,311	-	-
Amortization of net pension benefit	1,134	1,001	6,154	187
Net pension cost	$35,625	$66,744	$55,180	$1,680

The reconciliation between pension fund status and accrued (prepaid) pension liabilities as of December 31, 2003, 2004 and 2005 is as follows:

	2003	2004	2005	
	NT$	NT$	NT$	US$ (Note 3)
Present actuarial value of benefit obligation				
Vested benefits	$ 564	$ 183	$ 792	$ 24
Non-vested benefits	60,218	143,542	127,313	3,876
Accumulated benefit obligation	60,782	143,725	128,105	3,900
Additional benefits on future salaries	72,949	191,007	161,127	4,905
Projected benefit obligation	133,731	334,732	289,232	8,805
Plan assets at fair value	(65,873)	(173,525)	(274,197)	(8,347)
Projected benefit obligation in excess of plan assets	67,858	161,207	15,035	458
Unrecognized transition obligation, net	(1,311)	-	-	-
Unrecognized pension benefit	(34,403)	(168,870)	(64,795)	(1,973)
Accrued (prepaid) pension cost	$ 32,144	$ (7,663)	$ (49,760)	$ (1,515)

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

	2003	2004	2005
Weighted-average discount rate	3.25%	3.00%	3.25%
Assumed rate of increase in future compensation	4.75%	4.75%	4.75%
Expected long-term rate of return on plan assets	3.25%	3.00%	3.25%

The vested benefits as of December 31, 2003, 2004 and 2005 amounted to NT$673 thousand, NT$192 thousand and NT$962 thousand (US$29 thousand), respectively.

16. STOCKHOLDERS' EQUITY

Capital Stock

The Company's outstanding common stock as of January 1, 2003 amounted to NT$1,627,200 thousand, divided into 162,720 thousand common shares at NT$10.00 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$10.00 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 (NT$48,838 thousand) in bonds requested to convert the bonds into 4,884 thousand shares. This bond amount was temporarily accounted for as "capital collected in advance." Because the registration of this conversion had not been 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$10.00 par value.

After the registration of the conversion of bonds into 4,884 thousand shares (NT$48,838 thousand) was completed, these shares were transferred to common stocks. In the first and second quarters of 2005, holders of US$45,970 thousand in bonds requested to convert the bonds into 12,452 thousand shares (NT$124,519 thousand). In June 2005, the stockholders approved the transfer of retained earnings amounting to NT$577,527 thousand (US$17,581 thousand) and employee bonuses amounting to NT$105,000 thousand (US$3,196 thousand) to capital stock. As a result, the amount of the Company's outstanding common stock as of December 31, 2005 increased to NT$3,570,160 thousand (US$108,681 thousand), divided into 357,016 thousand common shares at NT$10.00 (US$0.3) 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 at 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, 2005, 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, 5,735 thousand units of the employee stock options were outstanding as of December 31, 2005. The remaining employee stock options, amounting to 4,000 thousand units, expired on December 25, 2003.

Global Depositary Receipts

The Company issued 14,400 thousand shares of its common stock divided into 3,600 thousand units of Global Depositary Receipts (GDRs). The Company's stockholders, including Via Technologies, Inc., also placed for issuance 12,878.4 thousand shares of their common stock, divided into 3,219.6 thousand units of GDRs. Thus, the total GDR offering consisted of 6,819.6 thousand units. Each GDR represents four common shares, issued at NT$131.1 per share. The additional paid-in capital of NT$1,696,855 thousand from this common stock issuance was accounted for as "capital surplus". This cash subscription was completed and registered on November 19, 2003.

The GDR holders have the same rights and obligations as those of the stockholders of the Company. However, the distribution of the offering and sales of GDRs and the shares represented by the GDRs in certain jurisdictions may be restricted by local laws. In addition, the GDRs and 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. The rights that the GDR holders may exercise through the depositary's custodian in Taiwan are as follows:

a. To vote;
b. To trade shares; and
c. To receive dividends and participate in new cash subscriptions.

Taking into account the effect of stock dividend distribution in 2003 and 2004, the GDRs increased to 7,105.9 thousand units (28,423.9 thousand shares). As of December 31, 2005, the GDRs redeemed comprised 6,055.5 thousand units, representing 24,222.1 thousand common shares, and the outstanding GDRs represented 4,201.8 thousand common shares, or 1.18% of the Company's common stock.

Capital Surplus

The additional paid-in capital was NT$832,812 thousand as of January 1, 2003. After the issuance of Global Depositary Receipts in November 2003, resulting in an additional paid-in capital of NT$1,696,855 thousand, the amount of the Company's capital surplus as of December 31, 2003 increased to NT$2,529,667 thousand. Then, additional paid-in capital in the following amounts resulted from two transactions: (a) NT$534,689 thousand from the conversion of bonds payable into 4,884 thousand shares in the fourth quarter of 2004; and (b) NT$ 1,346,515 thousand from the conversion of bonds payable into 12,452 thousand shares in the first and second quarters of 2005. As a result, the additional paid-in capital as of December 31, 2005 was NT$4,410,871 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.

17. APPROPRIATION OF RETAINED EARNINGS 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 this 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 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, and long-term interests of stockholders as well as its programs to maintain operating efficiency and meet its capital expenditure budget and financial goals in determining 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$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.

Had the Company recognized the employees bonuses of NT$311,000 thousand as expenses in 2004, the pro forma earnings per share in 2004 would have decreased from NT$14.21 to NT$13.06.

As of February 3, 2006, the date of the accompanying independent auditors' report, the appropriation of the 2005 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.

18. PERSONNEL EXPENSES, DEPRECIATION AND AMORTIZATION

Function / Expense Item	2003			2004		
	NT$			NT$		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses	678,189	703,901	1,382,090	952,246	1,115,444	2,067,690
Salary	584,061	607,481	1,191,542	808,291	967,793	1,776,084
Insurance	38,963	39,457	78,420	47,328	56,236	103,564
Pension	17,977	17,648	35,625	32,394	34,350	66,744
Others	37,188	39,315	76,503	64,233	57,065	121,298
Depreciation expense	342,591	122,690	465,281	341,069	175,879	516,948
Amortization	5,537	55,798	61,335	2,339	44,692	47,031

Function / Expense Item	2005					
	NT$			US$ (Note 3)		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses	$1,253,363	$1,460,432	$2,713,795	$38,154	$44,458	$82,612
Salary	1,077,001	1,266,704	2,343,705	32,785	38,561	71,346
Insurance	62,775	74,798	137,573	1,911	2,277	4,188
Pension	40,987	54,345	95,332	1,248	1,654	2,902
Others	72,600	64,585	137,185	2,210	1,966	4,176
Depreciation expense	361,055	221,312	582,367	10,991	6,737	17,728
Amortization	660	35,314	35,974	20	1,075	1,095

19. 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 and Smartphones for five consecutive years from April 26, 2001; (b) sales of pocket PCs (wireless) and Smartphones for five consecutive years from January 1, 2002; (c) sales of Win CE products for five consecutive years from January 1, 2003; (d) sales of pocket PCs, pocket PCs (wireless) and Smartphones for five consecutive years from September 15, 2004; and (e) sales of pocket PCs (wireless) and Smartphones for five consecutive years from November 30, 2004.

Income taxes payable as of December 31, 2003, 2004 and 2005 were computed as follows:

	2003	2004	2005	
	NT$	NT$	NT$	US$ (Note 3)
Income before income tax	$ 1,959,845	$ 3,960,528	$ 12,155,939	$ 370,043
Permanent differences				
Losses on equity-method investments	16,202	35,606	35,112	1,069
Gain on disposal of investments	(518)	(13,389)	-	-
Other	-	6,138	31,012	944
Temporary differences				
Unrealized (realized) pension cost	12,309	(39,806)	(42,098)	(1,282)
(Realized) unrealized loss on decline in value of inventory	(13,512)	224,267	239,955	7,304
Unrealized (realized) royalties	211,330	(4,078)	1,183,995	36,042
Unrealized (realized) depreciation	6,434	(1,417)	(12,058)	(367)
Unrealized foreign exchange (gains) losses, net	(56,921)	(12,212)	157,910	4,807
Unrealized warranty expense	39,444	135,490	639,801	19,476
Capitalized expense	6,177	33,413	2,698	82
Other	33,301	(27,136)	39,665	1,207
Total income	2,214,091	4,297,404	14,431,931	439,325
Less tax-exempt income tax	(1,046,375)	(3,166,124)	(8,734,397)	(265,887)
Prior years' loss carryforwards - merger with IA Style, Inc.	-	(465)	-	-
Taxable income	1,167,716	1,130,815	5,697,534	173,438
Tax rate	25%	25%	25%	25%
	291,929	282,704	1,424,384	43,360
Income tax credit	(10)	(10)	(10)	-
Estimated income tax provision	291,919	282,694	1,424,374	43,360
Unappropriated earnings (additional 10% income tax)	102,807	71,798	144,006	4,384
Less investment research and development tax credits	(246,455)	(256,809)	(938,425)	(28,567)
Current income tax expense	148,271	97,683	629,955	19,177
Less prepaid and withheld income tax	(1,946)	(3,529)	(13,092)	(399)
Income tax payable	$ 146,325	$ 94,154	$ 616,863	$ 18,778

The tax effects of deductible temporary differences and loss and tax credit carryforwards that gave rise to deferred tax assets as of December 31, 2003, 2004 and 2005 were as follows:

	2003	2004	2005	
	NT$	**NT$**	**NT$**	**US$ (Note 3)**
Temporary differences				
Unrealized pension cost	$ 8,594	$ -	$ -	$ -
Unrealized depreciation	7,599	7,245	-	-
Provision for loss on decline in value of inventory	30,626	86,693	146,682	4,465
Unrealized royalties	164,577	163,558	459,556	13,989
Capitalized expense	17,807	30,508	39,571	1,205
Unrealized reserve for warranty expense	47,303	81,175	241,126	7,340
Unrealized foreign exchange loss, net	-	-	6,199	189
Other	8,330	15,069	16,348	498
Tax credit carryforwards	287,362	612,144	378,236	11,514
Total deferred tax assets	572,198	996,392	1,287,718	39,200
Less valuation allowance	(304,300)	(750,197)	(796,976)	(24,261)
Total deferred tax assets, net	267,898	246,195	490,742	14,939
Deferred tax liabilities				
Unrealized pension cost	-	(1,358)	(11,882)	(362)
Unrealized foreign exchange gain, net	(19,094)	(22,147)	-	-
	248,804	222,690	478,860	14,577
Less current portion	(118,390)	(161,863)	(229,826)	(6,996)
Deferred tax assets - noncurrent	$ 130,414	$ 60,827	$ 249,034	$ 7,581

Details of the tax credit carryforwards were as follows:

Year Obtained	Validity Period	2003	2004	2005	
		NT$	**NT$**	**NT$**	**US$ (Note 3)**
2000	2000-2004	$ 77,615	$ -	$ -	$ -
2001	2001-2005	155,230	155,447	-	-
2002	2002-2006	54,517	54,941	56,405	1,717
2003	2003-2007	-	179,230	58,500	1,781
2004	2004-2008	-	222,526	-	-
2005	2005-2009	-	-	263,331	8,016
		$287,362	$612,144	$378,236	$11,514

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 2003, 2004 and 2005 were as follows:

	2003	2004	2005	
	NT$	NT$	NT$	US$ (Note 3)
Current income tax expense	$148,271	$ 97,683	$629,955	$19,177
Increase (decrease) in deferred income tax assets	(63,035)	26,114	(256,170)	(7,798)
Underestimation (overestimation) of prior year's income tax	23,877	(18,615)	210	6
Income tax expense	$109,113	$105,182	$373,995	$11,385

The integrated income tax information is as follows:

	2003	2004	2005	
	NT$	NT$	NT$	US$ (Note 3)
Balance of imputation credit account	$ 72,855	$ 96,255	$ 101,702	$ 3,096
Unappropriated earnings generated from 1998	2,703,375	5,105,339	14,152,255	430,814
Expected creditable ratio (including income tax payable)	8.11%	3.73%	5.08%	5.08%

20. EARNINGS PER SHARE

Earnings per share before tax and after tax are 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 earnings per share calculation was 325,409 thousand shares in 2003; 339,657 thousand shares in 2004; and 354,227 thousand shares in 2005. Earnings per share in 2003 and 2004 were calculated after the average number of shares outstanding was adjusted retroactively for the effect of stock dividend distribution in 2005.

The convertible bonds and employee stock options had dilutive effects on the 2003, 2004 and 2005 earnings per share. The related information is as follows:

	2003				
	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	$ 1,959,845	$ 1,850,732	325,409	$ 6.02	$ 5.69
Zero coupon convertible bonds	13,046	9,785	12,945		
Employee stock options	-	-	876		
Diluted EPS	$ 1,972,891	$ 1,860,517	339,230	$ 5.82	$ 5.48

	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	339,657	$ 11.66	$ 11.35
Zero coupon convertible bonds	6,416	4,812	12,452		
Employee stock options	-	-	2,368		
Diluted EPS	$ 3,966,944	$ 3,860,158	354,477	$ 11.19	$ 10.89

	2005				
	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 earnings per share	$12,155,939	$11,781,944	354,227	$ 34.32	$ 33.26
Zero coupon convertible bonds	-	-	-		
Employee stock options	-	-	4,846		
Diluted earnings per share	$12,155,939	$11,781,944	359,073	$ 33.85	$ 32.81

	2005				
	Numerators		Denominator	Earnings Per Share	
	Income before Income Tax US$ (Note 3)	Income after Income Tax US$ (Note 3)	Shares (Thousands)	Income before Income Tax US$ (Note 3)	Income after Income Tax US$ (Note 3)
Basic earnings per share	$ 370,043	$ 358,658	354,227	$ 1.04	$ 1.01
Zero coupon convertible bonds	-	-	-		
Employee stock options	-	-	4,846		
Diluted earnings per share	$ 370,043	$ 358,658	359,073	$ 1.03	$ 1.00

21. FINANCIAL INSTRUMENTS

Under approval document (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’s derivative transactions are disclosed as follows:

Amount of Contract and Credit Risk

Forward Exchange Contracts

	December 31							
	2003		2004			2005		
	Contract Amount	Credit Risk	Contract Amount		Credit Risk	Contract Amount		Credit Risk
Forward exchange contracts	$ -	$ -	$ -	-	$ -	US$/NT$	167,000	$ -
	-	-	EUR€/NT$	5,000	-	EUR€/US$	79,000	-
	-	-	-	-	-	GBP$/US$	3,000	-

Currency Option Contracts

December 31, 2003						
Buy/Sell	Trade Date	Expiry Date	Call/Put	Contract Amount	Strike Rate	Credit Risk
Sell	2003.05.02	2004.01.02~ 2004.05.04	EUR/USD	US$7,762.5	1.15	-

December 31, 2004						
Buy/Sell	Trade Date	Expiry Date	Call/Put	Contract Amount	Strike Price (NT$)	Credit Risk
Buy	2004.02.09	2005.01.31	USD/EUR	US$ 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 strike price (NT$32.2-NT$32.6).

The Company deals only with banks with good credit standing based on the banks' reputation and takes into account its past experience with them. Moreover, the Company has a series of control procedures for derivative transactions. Thus, no significant credit risks are expected.

Market Risk

Forward exchange contracts and currency options open as of the balance sheet date are marked to market. As of December 31, 2003, 2004 and 2005, the Company recorded unrealized exchange losses of NT$23,581 thousand; gains of NT$1,094 thousand; and gains of NT$60,085 thousand (US$1,829 thousand), respectively, on these contracts.

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

The forward transactions are projected to result in losses of NT$36,190 thousand and gains of NT$183,688 thousand, assuming that exchange rates in the first quarter of 2006 are between NT$32.53 and NT$33.17 for US$1.00; NT$38.32 and NT$39.64 for every €1.00; and NT$56.04 and NT$57.40 for every GBP1.00. Because the Company has sufficient working capital to settle these 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 Instruments Held

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

Presentation of Derivative Instruments in the Financial Statements

On the balance sheet date, the receivables and payables on open 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, 2003, the net amount recorded as other current liabilities was NT$23,581 thousand. As of December 31, 2004 and 2005, the net amounts recorded as other current financial assets were NT$1,094 thousand and 60,085 thousand, respectively. Derivative transactions resulted in losses of NT$ 89,254 thousand in 2003; NT$13,748 thousand in 2004; and NT$45,907 thousand (US$1,397 thousand) in 2005.

Fair Value of Financial Instruments

Derivative Financial Instruments

	2003		2004		2005			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NT$	NT$	NT$	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
Assets								
Forward exchange contracts	$ -	$ -	$ 359	$ 359	$ 60,085	$1,829	$ 60,085	$1,829
Currency option contracts	-	-	735	735	-	-	-	-
Liabilities								
Currency option contracts	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

	2003		2004		2005			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NT$	NT$	NT$	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
Assets								
Cash and cash equivalents	$ 4,773,077	$ 4,773,077	$ 6,148,201	$ 6,148,201	$ 16,196,448	$ 493,043	$ 16,196,448	$ 493,043
Short-term investments	30,573	30,573	-	-	-	-	-	-
Receivables	5,436,777	5,436,777	8,536,159	8,536,159	14,732,682	448,483	14,732,682	448,483
Other current financial assets	191,179	191,179	96,042	96,042	85,319	2,597	85,319	2,597
Long-term investments	111,187	111,187	352,000	352,000	325,533	9,910	325,533	9,910
Other financial assets	687	674	5,922	5,881	35,278	1,074	34,820	1,060
Liabilities								
Payables	4,947,233	4,947,233	7,941,882	7,941,882	13,796,693	419,991	13,796,693	419,991
Income tax payable	146,325	146,325	94,154	94,154	616,863	18,778	616,863	18,778
Accrued expense	485,265	485,265	862,267	862,267	1,204,807	36,676	1,204,807	36,676
Payable for purchase of equipment	36,215	36,215	54,242	54,242	14,039	427	14,039	427
Current portion of bonds payable	2,255,066	2,255,066	-	-	-	-	-	-
Other current financial liabilities	233,008	233,008	456,267	456,267	1,175,050	35,770	1,175,050	35,770
Bonds payable	-	-	1,477,171	1,477,171	-	-	-	-
Other financial liabilities	30	29	273,078	271,180	561	17	554	17

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

For cash and cash equivalents, receivables, other current financial assets, payables, short-term borrowings and other current financial liabilities, the carrying amounts approximate 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 on the basis of financial or other information.

The fair value of bonds payable is based on the discounted value of the future cash flows discounted at the average interest rate for time deposits with maturities similar to those of the long-term debts.

22. 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 an immediate relative of the Company's chairperson
VIA Technologies, Inc.	Same chairperson
Chander Electronics Corp.	Same 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

	2003		2004		2005		
Related Party	Amount NT$	% to Total Net Purchases	Amount NT$	% to Total Net Purchases	Amount NT$	Amount US$ (Note 3)	% to Total Net Purchases
Chander Electronics Corp.	$ 124,038	1	$ 147,810	1	$ 588,024	$ 17,900	1

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

Sales and Services Provided

	2003		2004		2005		
Related Party	Amount NT$	% to Total Revenues	Amount NT$	% to Total Revenues	Amount NT$	Amount US$ (Note 3)	% to Total Revenues
HTC Europe Co., Ltd.	$ -	-	$ -	-	$ 263,779	$ 8,030	1
HTC USA Inc.	39,849	-	172,806	-	233,757	7,116	-
Comserve Network Netherlands B.V.	142,396	1	187,828	1	72,168	2,197	-
H.T.C. (B.V.I.) Corp.	64,206	-	5,834	-	-	-	-
Leo Systems, Inc.	1,619	-	3,146	-	-	-	-
Others	566	-	1,112	-	3,262	99	-
	$ 248,636	1	$ 370,726	1	$ 572,966	$ 17,442	1

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

Notes and Accounts Receivable

	December 31						
	2003		2004		2005		
Related Party	Amount	% to Total Notes and Accounts Receivable	Amount	% to Total Notes and Accounts Receivable	Amount		% to Total Notes and Accounts Receivable
	NT$		NT$		NT$	US$ (Note 3)	
Accounts receivable							
HTC Europe Co., Ltd.	$ -	-	$ -	-	$ 247,885	$ 7,546	2
HTC USA Inc.	39,849	1	71,369	1	171,177	5,211	1
H.T.C. (B.V.I.) Corp.	64,206	1	5,834	-	-	-	-
Comserve Network Netherlands B.V.	10,416	-	611	-	-	-	-
Others	377	-	399	-	1,718	52	-
	$ 114,848	2	$ 78,213	1	$ 420,780	$ 12,809	3

Notes and Accounts Payable

	December 31						
	2003		2004		2005		
Related Party	Amount	% to Total Notes and Accounts Payable	Amount	% to Total Notes and Accounts Payable	Amount		% to Total Notes and Accounts Payable
	NT$		NT$		NT$	US$ (Note 3)	
Chander Electronics Corp.	$ 6,613	-	$ 18,562	-	$ 55,804	$ 1,699	-
H.T.C. (B.V.I.) Corp.	-	-	-	-	494	15	-
First International Computer, Inc.	-	-	7,500	-	-	-	-
	$ 6,613	-	$ 26,062	-	$ 56,298	$ 1,714	-

Other Receivables

	December 31						
	2003		2004		2005		
Related Party	Amount	% to Total Other Receivable	Amount	% to Total Other Receivable	Amount		% to Total Other Receivable
	NT$		NT$		NT$	US$ (Note 3)	
HTC USA Inc.	$ -	-	$ 3,634	8	$ 1,382	$ 42	6
HTC EUROPE Co., Ltd.	-	-	447	1	1,318	40	6
High Tech Computer Corp. (Suzhou)	-	-	-	-	304	9	1
H.T.C. (B.V.I.) Corp.	3,342	2	1,152	2	-	-	-
	$ 3,342	2	$ 5,233	11	$ 3,004	$ 91	13

Prepaid Expenses

Related Party	December 31 2003 Amount NT$	2003 % to Total Prepayment	2004 Amount NT$	2004 % to Total Prepayment	2005 Amount NT$	2005 Amount US$ (Note 3)	2005 % to Total Prepayment
HTC Europe Co., Ltd.	$ -	-	$ -	-	$ 23,466	$ 715	5
HTEK	-	-	9,891	4	21,685	660	5
HTC USA Inc.	22,180	5	-	-	19,977	608	4
	$ 22,180	5	$ 9,891	4	$ 65,128	$ 1,983	14

Accrued Expenses

Related Party	December 31 2003 Amount NT$	2003 % to Total Accrued Expenses	2004 Amount NT$	2004 % to Total Accrued Expenses	2005 Amount NT$	2005 Amount US$ (Note 3)	2005 % to Total Accrued Expenses
VIA Technologies Inc.	$ 5,945	1	$ 525	-	$ -	$ -	-

Other Payables to Related Parties

Related Party	December 31 2003 Amount NT$	2003 % to Total Other Payables	2004 Amount NT$	2004 % to Total Other Payables	2005 Amount NT$	2005 Amount US$ (Note 2)	2005 % to Total Other Payables
HTC Europe Co., Ltd.	$ -	-	$ 4,569	100	$ 56,420	$ 1,718	63
HTC USA Inc.	-	-	-	-	33,357	1,015	37
	$ -	-	$ 4,569	100	$ 89,777	$ 2,733	100

Outsourcing Expenses

Related Party	2003 Amount NT$	2003 % to Total Out-sourcing Expenses	2004 Amount NT$	2004 % to Total Out-sourcing Expenses	2005 Amount NT$	2005 Amount US$ (Note 3)	2005 % to Total Out-sourcing Expenses
High Tech Computer Corp. (Suzhou)	$ -	-	$ -	-	$ 259,919	$ 7,912	43
First International Computer Inc.	-	-	7,500	6	7,350	224	1
	$ -	-	$ 7,500	6	$ 267,269	$ 8,136	44

Service Warranty Expense

Related Party	2003 Amount NT$	2003 % to Total Warranty Expenses	2004 Amount NT$	2004 % to Total Warranty Expenses	2005 Amount NT$	2005 Amount US$ (Note 3)	2005 % to Total Warranty Expenses
Comserve Network Netherlands B.V.	$ 126,029	59	$ 132,209	20	$ 86,430	$ 2,631	6
HTC USA Inc.	21,048	10	53,414	8	96,558	2,939	7
HTC EUROPE Co., Ltd.	-	-	17,391	3	120,981	3,683	8
	$ 147,077	69	$ 203,014	31	$ 303,969	$ 9,253	21

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

Administrative and Selling Expenses - Service Fees

Related Party	2003 Amount NT$	2003 % to Total Service Expenses	2004 Amount NT$	2004 % to Total Service Expenses	2005 Amount NT$	2005 Amount US$ (Note 3)	2005 % to Total Service Expenses
HTEK	$ 14,581	12	$ 26,718	20	$ 21,983	$ 669	14
VIA Technologies Inc.	-	-	6,000	4	3,600	110	3
	$ 14,581	12	$ 32,718	24	$ 25,583	$ 779	17

Leasing - Lessee

Operating Expense - Rental Expense

Related Party	2003 Amount NT$	2003 % to Total Rental Expense	2004 Amount NT$	2004 % to Total Rental Expense	2005 Amount NT$	2005 Amount US$ (Note 3)	2005 % to Total Rental Expense
VIA Technologies Inc.	$ 15,060	78	$ 15,046	64	$ 7,663	$ 233	37

The Company leases offices and parking space owned by VIA Technologies, Inc. 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	2003 Amount NT$	2003 % to Total Rental Revenue	2004 Amount NT$	2004 % to Total Rental Revenue	2005 Amount NT$	2005 Amount US$ (Note 3)	2005 % to Total Rental Revenue
VIA Technologies Inc.	$ -	-	$ 101	76	$ 339	$ 10	100
Chander Electronics Corp.	-	-	18	14	-	-	-
	$ -	-	$ 119	90	$ 339	$ 10	100

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 had paid NT$110,365 thousand and NT$16,338 thousand in 2004 and 2005, respectively.

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.

In the second quarter of 2005, the Company acquired land and building from VIA Technologies, Inc. for NT$304,630 thousand.

In the second quarter of 2005, the Company sold equipment to HTC Europe Co., Ltd. for NT$2 thousand.

23. COMMITMENTS AND CONTINGENCIES

As of December 31, 2005, unused letters of credit amounted to €83 thousand.

24. 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
Microsoft	December 1, 2004 - December 31, 2006	Authorization to use embedded operating system; royalty payment based on agreement.
Texas Instruments France	January 14, 2000 - January 13, 2010	Authorization to use GSM system software; royalty payment based on agreement.
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, the Company will be prohibited from using Qualcomm's property or patents.	Authorization to use CDMA technology to manufacture and sell units; royalty payment based on agreement.

Contractor	Contract Term	Description
	(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.	
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	December 15, 2003 to the expiry dates of these patents, and no longer than December 14, 2008	Authorization to use platform patent license agreement; royalty payment based on agreement.
Nokia Corporation	January 1, 2003 to the expiry dates of these patents.	Authorization to use wireless technology, like GSM; royalty payment based on agreement.
InterDigital Technology Corporation.	December 31, 2003 to the expiry dates of these patents.	Authorization to use TDMA and CDMA technology; royalty payment based on agreement.
KONINKLIJKE PHILIPS ELECTRONICS N.V.	January 5, 2004 to the expiry dates 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) Any time when the Company is not using any of Motorola's intellectual property,	TDMA, NARROWBAND CDMA, WIDEBAND CDMA or TD/CDMA Standards patent license or technology; royalty payment based on agreement.
ALCATEL/TCL & Alcatel	July 1, 2004-June 30, 2009	Authorization to use GSM, GPRS or EDGE patent license or technology; royalty payment based on agreement.
Siemens Aktiengesellschaft	July 1, 2004 to the expiry dates of these patents.	Authorization to use GSM, GPRS or EDGE patent license or technology; royalty payment based on agreement.
Lucent Technologies GRL LLC	July 1, 2004-June 30, 2009	Authorization to use GSM, GPRS, EDGE, CDMA or WCDMA patent license or technology; royalty payment based on agreement.

25. OTHER EVENTS

Merger

To effect cooperation with other companies in the same trade, lower operating costs and expenses, and enhance competitiveness and 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$10.00 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 and the effect of stock dividend distribution been taken into account, the pro forma information for 2004 would have been as follows:

	NT$
Revenues	$ 36,398,671
Net income	3,846,634
Basic earnings per share after income tax (dollars)	11.32

Donation

The Company donated NT$200 million in 2004 and NT$300 million in 2005 to High Tech Computer Foundation for Social Welfare Charity to help disadvantaged minority, teenagers and other people in need.

26. 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 2003, 2004 and 2005 were as follows:

	2003	2004	2005	
	NT$	NT$	NT$	US$ (Note 3)
Asia	$ 4,811,947	$ 5,157,560	$ 6,833,891	$ 208,033
America	6,022,178	8,087,168	28,733,781	874,697
Europe	9,806,308	18,263,948	29,056,263	884,513
Others	773,588	4,358,517	5,574,579	169,698
	$ 21,414,021	$ 35,867,193	$ 70,198,514	$ 2,136,941

Major Customers

Sales to major customers were as follows:

	2003	2004	2005	
Customer	NT$	NT$	NT$	US$ (Note 3)
A	$ -	$ 1,470,781	$ 14,965,913	$ 455,583
B	12,438,356	11,829,986	7,995,052	243,381
C	3,427	488,762	7,448,551	226,744
D	1,351,009	4,175,764	5,067,341	154,257
	$ 13,792,792	$ 17,965,293	$ 35,476,857	$ 1,079,965