High Tech Computer Corp. and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2004 and 2005 Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
High Tech Computer Corp.

We have audited the accompanying consolidated balance sheets of High Tech Computer Corp. and subsidiaries (the "Company") as of December 31, 2004 and 2005, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, all expressed in New Taiwan dollars. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of High Tech Computer Corp. and subsidiaries as of December 31, 2004 and 2005, and the results of their operations and their 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.

As discussed in Note 2 to the consolidated financial statements, the company changed its principles of consolidations to conform to revised Statement of Financial Accounting Standards No. 7 and, retroactively, restated the 2004 consolidated financial statements for the change.

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

Notice to Readers

The accompanying consolidated 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 consolidated financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' report and the accompanying consolidated 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 consolidated financial statements shall prevail. Also, as stated in Note 2 to the consolidated financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English

HIGH TECH COMPUTER CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2004 AND 2005
(In Thousands, Except Par Value)

	2004	2005	
ASSETS	**NT$**	**NT$**	**US$ (Note 3)**
CURRENT ASSETS			
Cash and cash equivalents (Note 4)	$ 6,390,542	$ 16,425,226	$ 506,639
Notes receivable, net (Notes 2 and 5)	71,756	99,087	3,056
Accounts receivable, net (Notes 2 and 5)	8,445,714	14,387,105	443,773
Accounts receivable from related parties (Notes 2 and 21)	1,010	1,718	53
Other current financial assets (Notes 6 and 20)	92,204	158,111	4,877
Inventories (Notes 2 and 7)	4,269,274	5,318,031	164,036
Prepayments (Note 8)	246,513	417,964	12,891
Deferred tax assets (Notes 2 and 18)	163,945	229,826	7,089
Total current assets	19,680,958	37,037,068	1,142,414
LONG-TERM EQUITY INVESTMENTS (Notes 2 and 9)			
Securities available for sale	1,895	2,028	63
Other long-term investments in equity securities	4,312	-	-
Total long-term equity investments	6,207	2,028	63
PROPERTIES (Notes 2, 10 and 21)			
Cost			
Land	378,274	610,293	18,825
Buildings and structures	946,207	1,073,560	33,114
Machinery and equipment	2,297,402	2,634,274	81,255
Molding equipment	201,567	201,567	6,217
Computer equipment	169,700	181,852	5,609
Transportation equipment	2,485	2,841	88
Furniture and fixtures	112,684	127,195	3,923
Leasehold improvements	56,437	34,202	1,055
	4,164,756	4,865,784	150,086
Less accumulated depreciation	(1,715,516)	(2,283,042)	(70,421)
Prepayments for construction-in-progress and equipment-in-transit	125,915	27,467	847
Properties, net	2,575,155	2,610,209	80,512
OTHER ASSETS			
Refundable deposits	6,670	36,592	1,129
Deferred charges	198,933	155,815	4,806
Deferred bond issue costs (Notes 2 and 13)	17,675	-	-
Deferred tax assets (Notes 2 and 18)	60,827	249,034	7,681
Prepaid pension cost (Notes 2 and 14)	7,663	49,760	1,535
Total other assets	291,768	491,201	15,151
TOTAL	$ 22,554,088	$ 40,140,506	$ 1,238,140

	2004	2005	
LIABILITIES AND STOCKHOLDERS' EQUITY	**NT$**	**NT$**	**US$ (Note 3)**
CURRENT LIABILITIES			
Notes and accounts payable	$ 7,927,413	$ 14,021,077	$ 432,482
Notes and accounts payable due to related parties (Note 21)	26,062	55,804	1,721
Income tax payable (Notes 2 and 18)	94,154	616,863	19,027
Accrued expenses (Notes 11 and 21)	870,716	1,242,262	38,318
Payable for purchase of equipment	57,055	20,045	618
Other current liabilities (Note 12)	459,017	1,198,353	36,964
Total current liabilities	9,434,417	17,154,404	529,130
LONG-TERM LIABILITIES			
Bonds payable (Notes 2 and 13)	1,477,171	-	-
OTHER LIABILITIES			
Accrued pension cost (Notes 2 and 14)	-	-	-
Guarantee deposits received	273,078	561	17
Total other liabilities	273,078	561	17
Total liabilities	11,184,666	17,154,965	529,147
STOCKHOLDERS' EQUITY (Notes 15 and 16)			
Capital stock - NT$10 par value			
Authorized: 450,000 thousand shares			
Issued: 271,428 thousand shares in 2004 and 357,016 thousand shares in 2005			
Common stock	2,714,276	3,570,160	110,122
Capital collected in advance	48,838	-	-
Capital surplus			
Additional paid-in capital - common stock	3,064,356	4,410,871	136,054
From merger	25,972	25,972	801
Retained earnings			
Legal reserve	427,791	813,326	25,087
Special reserve	1,983	19,133	590
Accumulated earnings	5,105,339	14,152,255	436,529
Unrealized valuation loss on long-term investments (Notes 2 and 9)	(1,268)	(1,135)	(35)
Cumulative translation adjustments	(17,865)	(5,041)	(155)
Total stockholders' equity	11,369,422	22,985,541	708,993
TOTAL	$ 22,554,088	$ 40,140,506	$ 1,238,140

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

HIGH TECH COMPUTER CORP. AND SUBSIDIARIES

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

	2004	2005	
	NT$	NT$	US$ (Note 3)
REVENUES (Notes 2 and 21)			
Gross sales	$35,760,923	$72,446,649	$2,234,628
Less sales returns and discounts	(163,186)	(260,894)	(8,047)
NET SALES	35,597,737	72,185,755	2,226,581
OTHER REVENUES	790,238	958,899	29,577
Total revenues	36,387,975	73,144,654	2,256,158
COST OF REVENUES (Note 21)	28,501,121	55,238,941	1,703,854
GROSS PROFIT	7,886,854	17,905,713	552,304
OPERATING EXPENSES (Note 21)			
Administrative and selling	1,613,888	2,701,397	83,325
Research and development	1,993,972	2,399,315	74,007
Total operating expenses	3,607,860	5,100,712	157,332
OPERATING INCOME	4,278,994	12,805,001	394,972
NON-OPERATING INCOME AND GAINS			
Interest income	66,505	147,820	4,560
Equity in earnings of equity method investees (Notes 2 and 9)	259	-	-
Gain on sale of properties	10,950	5,372	166
Gain on sale of investments	13,584	-	-
Gain on inventories adjustments	12,741	3,474	107
Foreign exchange gain	108,198	-	-
Other	108,453	80,788	2,491
Total non-operating income and gains	320,690	237,454	7,324
NON-OPERATING EXPENSES AND LOSSES			
Interest expense	29,367	19,821	611
Losses on disposal of properties	11,800	2,576	79
Foreign exchange loss	-	241,352	7,445
Provision for loss on decline in value of inventory	554,416	598,549	18,462
Other	42,208	22,012	679
Total non-operating expenses and losses	637,791	884,310	27,276

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HIGH TECH COMPUTER CORP. AND SUBSIDIARIES

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

	2004	2005	
	NT$	NT$	US$ (Note 3)
INCOME BEFORE INCOME TAX	$ 3,961,893	$12,158,145	$ 375,020
INCOME TAX EXPENSE (Notes 2 and 18)	(106,547)	(376,201)	(11,604)
NET INCOME	$ 3,855,346	$11,781,944	$ 363,416

	2004		2005			
	Before Income Tax	After Income Tax	Before Income Tax		After Income Tax	
	NT$	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
BASIC EARNINGS PER SHARE (Note 19)	$ 11.66	$ 11.35	$ 34.32	$ 1.06	$ 33.26	$ 1.03
DILUTED EARNINGS PER SHARE (Note 19)	$ 11.19	$ 10.89	$ 33.86	$ 1.04	$ 32.81	$ 1.01

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

HIGH TECH COMPUTER CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 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, 2004	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 stock	-	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 stock	48,838	(48,838)	-	-	-	-	-	-	-	-
Convertible bonds converted to common stock	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. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 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	$ 83,722	$ 1,506	$ 94,521	$ 801	$ 13,195	$ 61	$ 157,475	$ (39)	$ (551)	$ 350,691
Appropriation of 2004 net earnings										
Legal reserve	-	-	-	-	11,892	-	(11,892)	-	-	-
Special reserve	-	-	-	-	-	529	(529)	-	-	-
Stock dividends	17,814	-	-	-	-	-	(17,814)	-	-	-
Transfer of employee bonuses to capital stock	3,239	-	-	-	-	-	(3,239)	-	-	-
Employee bonuses	-	-	-	-	-	-	(6,354)	-	-	(6,354)
Cash dividends	-	-	-	-	-	-	(44,534)	-	-	(44,534)
Net income in 2005	-	-	-	-	-	-	363,416	-	-	363,416
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	396	396
Unrealized valuation loss on long-term investments	-	-	-	-	-	-	-	4	-	4
Capital collected in advance and transferred to common stock	1,506	(1,506)	-	-	-	-	-	-	-	-
Convertible bonds converted to common stock	3,841	-	41,533	-	-	-	-	-	-	45,374
BALANCE, DECEMBER 31, 2005	$ 110,122	$ -	$ 136,054	$ 801	$ 25,087	$ 590	$ 436,529	$ (35)	$ (155)	$ 708,993

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

HIGH TECH COMPUTER CORP. AND SUBSIDIARIES

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

	2004	2005	
	NT$	NT$	US$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 3,855,346	$11,781,944	$ 363,416
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	527,394	600,476	18,522
Amortization	48,123	44,098	1,360
Gain on disposal of short-term investments	(13,584)	-	-
Loss (gain) on disposal of properties	850	(2,796)	(86)
Equity in earnings of equity method investees	(259)	-	-
Provision for redemption of convertible bonds	12,978	2,042	63
Foreign exchange gains on convertible bonds	(137,996)	(8,179)	(252)
Amortization of bond issue costs	15,955	17,675	545
Deferred income tax assets	27,649	(254,088)	(7,837)
Accrued pension costs	(39,807)	(42,097)	(1,298)
Net changes in operating assets and liabilities			
Notes receivable	(35,957)	(27,331)	(843)
Accounts receivable	(3,123,976)	(5,941,391)	(183,263)
Accounts receivable from related parties	9,782	(708)	(22)
Other current financial assets	96,759	(6,916)	(213)
Inventories	(2,045,141)	(1,048,757)	(32,349)
Prepayments	151,722	(171,451)	(5,288)
Notes and accounts payable	2,988,603	6,123,406	188,877
Income tax payable	(56,857)	522,709	16,123
Accrued expenses	383,225	371,546	11,459
Other current liabilities	176,773	743,836	22,943
Net cash provided by operating activities	2,841,582	12,704,018	391,857
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of short-term investments	(2,448,020)	-	-
Proceeds from sales of short-term investments	2,514,707	-	-
Purchase of properties	(843,240)	(672,602)	(20,747)
Proceeds from sales of properties	10,681	5,918	183
Proceeds from disposal of long-term investments	-	4,312	133
Increase in refundable deposits	(5,435)	(29,922)	(923)
Increase in deferred charges	(13,675)	(477)	(15)
Increase in receivable on forward exchange contracts	(359)	(59,726)	(1,842)
(Decrease) increase in option contracts payable	(24,316)	735	23
Cash received on merger	14,791	-	-
Net cash used in investing activities	(794,866)	(751,762)	(23,188)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase (decrease) in guarantee deposits received	273,048	(272,517)	(8,406)
Redemption of convertible bonds	(69,350)	-	-
Cash dividends	(656,194)	(1,443,816)	(44,534)
Bonus to employees	(84,654)	(210,500)	(6,493)
Net cash used in financing activities	(537,150)	(1,926,833)	(59,433)

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HIGH TECH COMPUTER CORP. AND SUBSIDIARIES

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

	2004	2005	
	NT$	NT$	US$ (Note 3)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	$ (12,949)	$ 9,261	$ 286
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,496,617	10,034,684	309,522
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,893,925	6,390,542	197,117
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 6,390,542	$ 16,425,226	$ 506,639
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the year			
Interest	$ 414	$ -	$ -
Income tax	$ 135,755	$ 107,580	$ 3,318
NONCASH INVESTING AND FINANCING ACTIVITIES			
Transfer of convertible bonds to common stock and additional paid-in capital	$ 583,527	$ 1,471,034	$ 45,374
PURCHASE OF PROPERTIES			
Cost of properties purchased	$ 864,080	$ 635,592	$ 19,605
(Increase) decrease in payable for purchase of equipment	(20,840)	37,010	1,142
Cash paid for purchase of properties	$ 843,240	$ 672,602	$ 20,747
BONUS TO EMPLOYEES AND DIRECTORS' REMUNERATION			
Appropriation of bonus to employees and directors' remuneration	$ 83,500	$ 206,000	$ 6,354
Decrease in payable for employee bonus and directors' remuneration	1,154	4,500	139
Cash paid	$ 84,654	$ 210,500	$ 6,493
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 consolidated 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.

In 2004, to take advantage of synergies with companies in similar industries, 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 24 the Company acquired IA Style, Inc.)

The Company has one direct wholly owned subsidiary, H.T.C. (B.V.I.) Corp., which has five direct wholly owned subsidiaries: HTEK, HTC USA Inc., HTC EUROPE Co., Ltd., High Tech Computer Corp. (Suzhou) and Exedea Inc.

H.T.C. (B.V.I.) Corp. was incorporated in August, 2000 to engage in global investing activities. H.T.C. (B.V.I.) Corp. makes investments on behalf of the Company.

HTEK was incorporated in August, 2000 to engage mainly in marketing activities and engineering support activities.

HTC USA Inc. and HTC EUROPE Co., Ltd., which engage mainly in repair and after-sales service, were incorporated in January and July, 2003, respectively.

High Tech Computer Corp. (Suzhou) was incorporated in January, 2003 to manufacture and sell smart handheld devices.

Exedea Inc. was incorporated in December, 2004 as a distribution center through which the Company and subsidiaries deliver their products.

The Company and its subsidiaries had 3,435 and 4,664 employees as of December 31, 2004 and 2005, respectively.

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, accrued pension cost and warranty liability. 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 ROC. 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 ROC 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:

Consolidation

The consolidating entities as of December 31, 2005 were as follows:

Name of Investor	Name of Investee	Main Businesses	% of Ownership
High Tech Computer Corp.	H.T.C. (B.V.I.) Corp.	Global investing activities	100
H.T.C. (B.V.I.) Corp.	HTEK	Marketing and engineering support activities	100
	HTC USA Inc.	Repair and after-sales service	100
	HTC EUROPE Co., Ltd.	Repair and after-sales service	100
	High Tech Computer Corp. (Suzhou)	Manufactures and sells smart handheld devices	100
	Exedea Inc.	Distribution and sales	100

The Company included the accounts of all its direct and indirect subsidiaries in the consolidated financial statements as of and for the years ended December 31, 2004 and 2005. All significant intercompany balances and transactions have been eliminated.

In 2005, the revised ROC Statement of Financial Accounting Standards No. 7, "consolidated Financial Statements", was applied. This revised standard requires consolidations of all subsidiaries for which the Company has a controlling interest regardless of the size of the subsidiary in comparison to the parent company. Pursuant to the revised standard, the Company adopted this standard effective January 1, 2004 and retroactively restated its consolidated financial statements as of 2004.

High Tech Computer Corp. and the foregoing subsidiaries are hereinafter referred to collectively as the "Company."

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.

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 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.

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 the recoverable amount of the investment is below carrying amount. This loss should be charged to current income.

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

Properties

Properties are stated at cost less accumulated depreciation. Interest incurred in connection with the purchase or construction of properties 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 the recoverable amount of the properties 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 amount reversed 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 whenever the recoverable amount of the asset 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.

Reserve for Warranty Expenses

The Company provides warranty service for one to two years depending on the contract with our customers. The warranty liability is estimated based on management’s evaluation of the products under warranty, past warranty experience, and other pertinent factors.

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 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 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.

High Tech Computer Corp. (Suzhou) has a defined contribution pension plan covering all eligible employees in accordance with the regulations of the local government. H.T.C. (B.V.I.) Corp., HTEK, HTC USA Inc. and HTC EUROPE Co., Ltd. and Exedea Inc. have no pension plans.

Stock-Based Employee Compensation Plans

When the grant date of stock-based employee compensation plans is on or after January 1, 2004, the Company applies the accounting guidelines for stock-based compensation issued by the Accounting Research and Development Foundation of the ROC. 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

The Company recognizes revenues when the earnings process is complete, as evidenced by an agreement with the customer, the transfer of title and acceptance, if applicable, has occurred, the price is fixed or determinable and the collectibility is reasonably assured.

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.

Income taxes on unappropriated earnings (excluding earnings from foreign consolidating subsidiaries) of 10% are expensed in the year of shareholder approval which is the year subsequent to the year the earnings are generated.

All subsidiaries file income tax returns based on the regulations of their respective local governments. In addition, there is no material difference in the accounting principles on income taxes between the parent company and those of its subsidiaries.

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.

ROC SFAS No. 14, "Accounting for Foreign currency Transactions," applies to foreign subsidiaries that use the local currency as their functional currency. The financial statements of foreign subsidiaries are translated into New Taiwan dollars at the following exchange rates: Assets and liabilities - current rate on the balance sheet date; shareholders' equity - historical rates; income and expenses - average rate during the period. The resulting translation adjustments are recorded as a separate component under shareholders' equity.

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 ROC.

Mergers

The Company's acquisition of IA Style, Inc. 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

Certain 2004 accounts have been reclassified to conform to the presentation of the consolidated 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$32.42 to US$1.00 quoted by the Federal Reserve Bank of New York on March 31, 2006. 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, 2004 and 2005 were as follows:

	2004	2005	
	NT$	NT$	US$ (Note 3)
Cash on hand	$ 918	$ 1,104	$ 34
Cash in banks	3,196,624	6,707,222	206,886
Time deposits	3,193,000	9,716,900	299,719
	$ 6,390,542	$ 16,425,226	$ 506,639

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. NOTES AND ACCOUNTS RECEIVABLE

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

	2004	2005	
	NT$	NT$	US$ (Note 3)
Notes receivable	$ 71,756	$ 99,087	$ 3,056
Accounts receivable	8,452,687	14,396,015	444,048
Less allowance for doubtful accounts	(6,973)	(8,910)	(275)
	$ 8,517,470	$ 14,486,192	$ 446,829

6. OTHER CURRENT FINANCIAL ASSETS

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

	2004	2005	
	NT$	NT$	US$ (Note 3)
Forward exchange contract, net (Note 20)	$ 359	$ 60,085	$ 1,853
Value-added tax refund receivables	47,715	30,325	936
Payment on behalf of others	251	15,622	482
Interest receivables	1,515	15,566	480
Currency option contract, net (Note 20)	735	-	-
Other receivables	40,341	20,230	624
Others	1,288	16,283	502
	$ 92,204	$ 158,111	$ 4,877

Other receivables were primarily compensation from customers' cancelled orders, service charges, overseas value-added tax refund receivables, prepayment for employees' traveling expenses and proceeds from sales of properties.

7. INVENTORIES

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

	2004	2005	
	NT$	NT$	US$ (Note 3)
Finished goods	$ 666,838	$ 703,834	$ 21,710
Work-in-process	1,226,072	1,868,373	57,630
Raw materials	2,730,228	3,332,551	102,793
	4,623,138	5,904,758	182,133
Less valuation allowance	(353,864)	(586,727)	(18,097)
	$ 4,269,274	$ 5,318,031	$ 164,036

Inventory insurance as of December 31, 2004 and 2005 amounted to NT$4,593,360 thousand and NT$5,677,832 thousand (US$175,134 thousand), respectively.

8. PREPAYMENTS

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

	2004	2005	
	NT$	NT$	US$ (Note 3)
Royalty (Note 23)	$ 142,789	$ 274,489	$ 8,466
Molding equipment	43,546	56,823	1,753
Services	6,628	18,224	562
Materials purchases	1,044	2,820	87
Others	52,506	65,608	2,023
	$ 246,513	$ 417,964	$ 12,891

Prepayments for others were primarily for insurance expense, traveling expenses, software and molding expense.

9. LONG-TERM EQUITY INVESTMENTS

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

	2004		2005				
	Carrying Value	Ownership Percentage	Original Cost		Carrying Value		Ownership Percentage
	NT$		NT$	US$ (Note 3)	NT$	US$ (Note 3)	
Equity method							
Auto Hi-Tech Computer Corp.	$ 4,312	20.00	$ -	$ -	$ -	$ -	-
LCM method							
VIA Technologies, Inc.	703	-	1,971	61	836	26	-
Cost method							
Answer Online, Inc.	1,192	1.82	1,192	37	1,192	37	1.82
	$ 6,207		$ 3,163	$ 98	$ 2,028	$ 63	

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.

The Company's equity in earnings of its equity method investees was NT$259 thousand in 2004.

10. PROPERTIES

Properties as of December 31, 2004 and 2005 were as follows:

	2004	2005			
	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NT$	NT$	NT$	NT$	US$ (Note 3)
Land	$ 378,274	$ 610,293	$ -	$ 610,293	$ 18,824
Buildings and structures	736,920	1,073,560	275,579	797,981	24,614
Machinery and equipment	1,195,281	2,634,274	1,571,069	1,063,205	32,795
Molding equipment	-	201,567	201,567	-	-
Computer equipment	59,543	181,852	132,650	49,202	1,518
Transportation equipment	1,457	2,841	1,507	1,334	41
Furniture and fixtures	45,450	127,195	81,156	46,039	1,420
Leasehold improvements	32,315	34,202	19,514	14,688	453
Prepayments for construction-in-progress and equipment-in-transit	125,915	27,467	-	27,467	847
	$2,575,155	$4,893,251	$2,283,042	$2,610,209	$ 80,512

In June 2005, the Company acquired land and building from VIA Technologies, Inc. for NT$304,630 thousand (US$9,396 thousand).

As of December 31, 2004 and 2005, insurance for properties, excluding land, amounted to NT$2,451,959 thousand and NT$2,186,322 thousand (US$67,437 thousand), respectively.

11. ACCRUED EXPENSES

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

	2004	2005	
	NT$	NT$	US$ (Note 3)
Salaries and bonuses	$ 502,167	$ 724,267	$ 22,340
Export expenses	53,822	187,324	5,778
Research materials	69,920	48,013	1,481
Insurance	21,877	45,307	1,397
Professional fees	18,038	40,595	1,252
Meals and welfare	15,389	36,978	1,141
Repairs and maintenance	39,253	23,690	731
Travel	8,495	23,689	731
Donation	5,000	-	-
Others	136,755	112,399	3,467
	$ 870,716	$ 1,242,262	$ 38,318

12. OTHER CURRENT LIABILITIES

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

	2004	2005	
	NT$	NT$	US$ (Note 3)
Reserve for warranty expenses	$ 324,701	$ 964,503	$ 29,750
Advance receipts	7,265	113,471	3,500
Receipts under custody	82,006	86,845	2,679
Directors' remuneration	21,842	21,842	674
Employee bonus payable	4,500	-	-
Other	18,703	11,692	361
	$ 459,017	$ 1,198,353	$ 36,964

Receipts under custody were primarily overseas value-added tax, employees' income tax and insurance, and other items.

13. BONDS PAYABLE

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

	2004	2005	
	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.	$ 1,593,228	$ -	$ -
Add			
Reserve for redemption of convertible bonds	19,462	-	-
Allowance for foreign exchange loss	(135,519)	-	-
	$ 1,477,171	$ -	$ -

On January 29, 2003, the Company issued zero coupon convertible bonds with an aggregate amount of US$66,000 thousand and maturity in 2008. The issue price was 100% of the US$1,000 par value.

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 the bonds into 17,336 thousand shares. Because of these redemptions, the Company had no outstanding bonds payable as of December 31, 2005.

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.

14. PENSION PLAN

The Labor Pension Act (the "Act), which provides for a new defined contribution plan, took effect on July 1, 2005. Employees of High Tech Computer Corp. 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$1,238 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 High Tech Computer Corp.'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$173,525 thousand and NT$274,197 thousand (US$8,458 thousand) as of December 31, 2004 and 2005, respectively.

The related pension benefit obligation for those employees that elected to join the defined contribution plan were not settled, therefore, no settlement or curtailment charge was recorded.

Under local government regulations, High Tech Computer Corp. (Suzhou) has a defined contribution pension plan covering all eligible employees. The pension fund contribution from January 1, 2005 to December 31, 2005 was NT$846 thousand (US$26 thousand).

H.T.C. (B.V.I.) Corp., HTEK, HTC USA Inc., HTC EUROPE Co., Ltd. and Exedea Inc. have no pension plans.

Based on the SFAS 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.

Net pension costs of High Tech Computer Corp. in 2004 and 2005 were as follows:

	2004	2005	
	NT$	NT$	US$ (Note 3)
Service cost	$ 62,685	$ 44,766	$ 1,381
Interest cost	4,012	10,042	309
Projected return of plan assets	(2,265)	(5,782)	(178)
Amortization of unrecognized net transition obligation, net	1,311	-	-
Amortization of net pension benefit	1,001	6,154	190
Net pension cost	$ 66,744	$ 55,180	$ 1,702

The reconciliation between pension fund status and prepaid pension assets as of December 31, 2004 and 2005 is as follows:

	2004	2005	
	NT$	NT$	US$ (Note 3)
Present actuarial value of benefit obligation			
Vested benefits	$ 183	$ 792	$ 24
Non-vested benefits	143,542	127,313	3,927
Accumulated benefit obligation	143,725	128,105	3,951
Additional benefits on future salaries	191,007	161,127	4,970
Projected benefit obligation	334,732	289,232	8,921
Plan assets at fair value	(173,525)	(274,197)	(8,457)
Projected benefit obligation in excess of plan assets	161,207	15,035	464
Unrecognized pension benefit	(168,870)	(64,795)	(1,999)
Prepaid pension cost	$ (7,663)	$ (49,760)	$ (1,535)

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

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

The vested benefits as of December 31, 2004 and 2005 amounted to NT$192 thousand and NT$962 thousand (US$30 thousand), respectively.

15. STOCKHOLDERS' EQUITY

Capital Stock

The Company's outstanding common stock as of January 1, 2004 amounted 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$17,814 thousand) and employee bonuses amounting to NT$105,000 thousand (US$3,239 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$110,122 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$2,529,667 thousand as of January 1, 2004. 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 (US$136,054 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.

16. 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$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.

17. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Function / Expense Item	2004			2005					
	NT$			NT$			US$ (Note 3)		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses	1,008,199	1,178,225	2,186,424	1,340,366	1,541,507	2,881,873	41,344	47,548	88,892
Salary	864,244	1,030,341	1,894,585	1,162,139	1,345,393	2,507,532	35,846	41,499	77,345
Insurance	47,328	56,236	103,564	62,798	74,800	137,598	1,937	2,307	4,244
Pension	32,394	34,350	66,744	41,624	54,554	96,178	1,284	1,683	2,967
Others	64,233	57,298	121,531	73,805	66,760	140,565	2,277	2,059	4,336
Depreciation expense	343,588	183,806	527,394	369,120	231,356	600,476	11,386	7,136	18,522
Amortization	2,918	45,205	48,123	7,830	36,268	44,098	241	1,119	1,360

18. INCOME TAX

High Tech Computer Corp.'s 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.

Provision for income tax for the years ended December 31, 2004 AND 2005, deferred tax assets and income tax payable as of December 31, 2004 and 2005 were as follows:

	2004		
	Income Tax Expense	Income Tax Payable	Deferred Tax Assets
High Tech Computer Corp.	$105,182	$ 94,154	$222,690
HTC USA Inc.	1,365	-	2,082
	$106,547	$ 94,154	$224,772

	2005					
	Income Tax Expense		Income Tax Payable		Deferred Tax Assets	
	NT$	US$ (Note 3)	NT$	US$ (Note 3)	NT$	US$ (Note 3)
High Tech Computer Corp.	$373,995	$11,536	$616,863	$19,027	$478,860	$14,770
HTEK	49	2	-	-	-	-
HTC USA Inc.	2,112	65	-	-	-	-
HTC EUROPE Co., Ltd.	45	1	-	-	-	-
	$376,201	$11,604	$616,863	$19,027	$478,860	$14,770

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

	2004	2005	
	NT$	NT$	US$ (Note 3)
Temporary differences			
Unrealized depreciation	$ 7,245	$ -	$ -
Provision for loss on decline in value of inventory	88,775	146,682	4,524
Unrealized royalties	163,558	459,556	14,175
Capitalize expense	30,508	39,571	1,221
Unrealized reserve for warranty expense	81,175	241,126	7,438
Unrealized foreign exchange loss, net	-	6,199	191
Other	15,069	16,348	504

	2004	2005	
	NT$	NT$	US$ (Note 3)
Tax credit carryforwards	612,144	378,236	11,667
Total deferred tax assets	998,474	1,287,718	39,720
Less valuation allowance	(750,197)	(796,976)	(24,583)
Total deferred tax asset, net	248,277	490,742	15,137
Deferred tax liability			
Realized pension cost	(1,358)	(11,882)	(367)
Unrealized foreign exchange gain, net	(22,147)	-	-
	224,772	478,860	14,770
Less current portion	(163,945)	(229,826)	(7,089)
Deferred tax assets, noncurrent	$ 60,827	$ 249,034	$ 7,681

Details of the tax credit carryforwards are as follows:

		2004	2005	
Year Occur	**Validity Period**	**NT$**	**NT$**	**US$ (Note 3)**
2001	2001~2005	$155,447	$ -	$ -
2002	2002~2006	54,941	56,405	1,740
2003	2003~2007	179,230	58,500	1,804
2004	2004~2008	222,526	-	-
2005	2005~2009	-	263,331	8,123
		$612,144	$378,236	$11,667

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 for the years ended December 31, 2004 and 2005 were as follows:

	2004	2005	
	NT$	NT$	US$ (Note 3)
Current income tax expense	$ 97,513	$630,079	$19,435
Decrease (increase) in deferred income tax assets	27,649	(254,088)	(7,837)
(Overestimation) underestimation of prior year's income tax	(18,615)	210	6
Income tax expense	$106,547	$376,201	$11,604

The integrated income tax information of High Tech Computer Corp. as of December 31, 2004 and 2005 is as follows:

	2004	2005	
	NT$	NT$	US$ (Note 3)
Balance of imputation credit account	$ 96,255	$ 101,702	$ 3,137
Unappropriated earnings generated from 1998	5,105,339	14,152,255	436,529
Expected creditable ratio (including income tax payable)	3.73%	5.08%	5.08%

19. EARNINGS PER SHARE

Earnings per share ("EPS") 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 EPS calculation was 339,657 thousand shares in 2004, and 354,227 thousand shares in 2005. EPS in 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 2004 and 2005 EPS. The related information is as follows:

	2004				
	Numerators		Denominator	EPS (In Dollars)	
	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	$ 3,961,893	$ 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 earnings per share	$ 3,968,309	$ 3,860,158	354,477	$ 11.19	$ 10.89

	2005				
	Numerators		Denominator	EPS (In Dollars)	
	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	$12,158,145	$11,781,944	354,227	$ 34.32	$ 33.26
Zero coupon convertible bonds	-	-	-		
Employee stock options	-	-	4,846		
Diluted earnings per share	$12,158,145	$11,781,944	359,073	$ 33.86	$ 32.81

	2005				
	Numerators		Denominator	EPS (In Dollars)	
	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	$ 375,020	$ 363,416	354,227	$ 1.06	$ 1.03
Zero coupon convertible bonds	-	-	-		
Employee stock options	-	-	4,846		
Diluted earnings per share	$ 375,020	$ 363,416	359,073	$ 1.04	$ 1.01

20. 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					
	2004			2005		
	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, 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.

Market Risk

Forward exchange contracts and currency options open as of the balance sheet date are marked to market. As of December 31, 2004 and 2005, the Company recorded unrealized exchange gains of NT$1,094 thousand and gains of NT$60,085 thousand (US$1,853 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 GBP 1.00. Because the Company has sufficient working capital to settle these contracts, there are no future cash requirements for contract settlement. The Company does not intend to sell currency options before their maturity dates.

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, 2004 and 2005, the net amounts recorded as other current financial assets were NT$1,094 thousand and 60,085 thousand (US$1,853 thousand), respectively. Derivative transactions resulted in losses NT$13,748 thousand in 2004; and NT$45,907 thousand (US$1,416 thousand) in 2005.

Fair Value of Financial Instruments

Derivative Financial Instruments

	2004		2005			
	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NT$	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
Assets						
Forward exchange contracts	$ 359	$ 359	$ 60,085	$1,853	$ 60,085	$1,853
Currency option contracts	735	735	-	-	-	-

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

	2004		2005			
	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NT$	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
Assets						
Cash and cash equivalents	$ 6,390,542	$ 6,390,542	$ 16,425,226	$ 506,639	$ 16,425,226	$ 506,639
Receivables	8,518,480	8,518,480	14,487,910	446,882	14,487,910	446,882
Other current financial assets	91,110	91,110	98,026	3,024	98,026	3,024
Long-term investments	6,207	6,207	2,028	63	2,028	63
Other financial assets	6,670	6,624	36,592	1,129	36,117	1,129
Liabilities						
Payables	7,953,475	7,953,475	14,076,881	434,203	14,076,881	434,203
Income tax payable	94,154	94,154	616,863	19,027	616,863	19,027
Accrued expense	870,716	870,716	1,242,262	38,318	1,242,262	38,318
Payable for purchase of equipment	57,055	57,055	20,045	618	20,045	618
Other current financial liabilities	451,752	451,752	1,084,882	33,464	1,084,882	33,464
Bonds payable	1,477,171	1,477,171	-	-	-	-
Other financial liabilities	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 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 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.

21. 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.	Affiliate
Leo Systems, Inc.	Affiliate
Xander International Corp.	Affiliate
Vate Technology Co., Ltd.	Affiliate

Major transactions with related parties are summarized below:

Purchases of Inventories and Services

Related Party	2004 Amount NT$	2004 % to Total Net Purchases	2005 Amount NT$	2005 Amount US$ (Note 3)	2005 % to Total Net Purchases
Chander Electronics Corp.	$ 147,810	-	$ 580,024	$ 17,891	-

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

Sales and Services Provided

Related Party	2004 Amount NT$	2004 % to Total Revenues	2005 Amount NT$	2005 Amount US$ (Note 3)	2005 % to Total Revenues
Comserve Network Netherlands B.V.	$ 187,828	1	$ 72,168	$ 2,226	-
Leo Systems, Inc.	3,146	-	-	-	-
Others	1,112	-	3,262	101	-
	$ 192,086	1	$ 75,430	$ 2,327	-

Selling prices and terms of payment for both related and third parties were similar.

Notes and Accounts Receivable

Related Party	December 31, 2004 Amount NT$	2004 % to Total Notes and Accounts Receivable	2005 Amount NT$	2005 Amount US$ (Note 3)	2005 % to Total Notes and Accounts Receivable
Conserve Network Netherlands B.V.	$ 611	-	$ -	$ -	-
Others	399	-	1,718	53	-
	$ 1,010	-	$ 1,718	$ 53	-

Notes and Accounts Payable

Related Party	December 31, 2004 Amount NT$	2004 % to Total Notes and Accounts Payable	2005 Amount NT$	2005 Amount US$ (Note 3)	2005 % to Total Notes and Accounts Payable
Chander Electronics Corp.	$ 18,562	-	$ 55,804	$ 1,721	-
First International Computer, Inc.	7,500	-	-	-	-
	$ 26,062	-	$ 55,804	$ 1,721	-

Accrued Expenses

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

Outsourcing Expenses

	2004		2005		
Related Party	Amount	% of Outsourcing Expenses	Amount		% of Outsourcing Expenses
	NT$		NT$	US$ (Note 3)	
First International Computer Inc. (FIC)	$ 7,500	6	$ 7,350	$ 227	1

Service Warranty Expense

	2004		2005		
Related Party	Amount	% of Total Warranty Expenses	Amount		% of Total Warranty Expenses
	NT$		NT$	US$ (Note 3)	
Comserve Network Netherlands B.V.	$ 132,209	21	$ 86,430	$ 2,666	6

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

Administrative and Selling Expenses - Service Fees

	2004		2005		
Related Party	Amount	% to Total Service Expenses	Amount		% to Total Service Expenses
	NT$		NT$	US$ (Note 3)	
VIA Technologies Inc.	$ 6,000	3	$ 3,600	$ 111	2

Leasing - Lessee

Operating Expense - Rental Expense

	2004		2005		
Related Party	Amount	% to Total Rental Expense	Amount		% to Total Rental Expense
	NT$		NT$	US$ (Note 3)	
VIA Technologies Inc.	$ 15,046	47	$ 7,663	$ 236	19

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

Leasing - Lessor

Nonoperating Revenue - Rental Revenue

Related Party	2004			2005				
	Amount		% to Total Rental Revenue	Amount				% to Total Rental Revenue
	NT$			NT$		US$ (Note 3)		
VIA Technologies Inc.	$	101	76	$	339	$	10	100
Chander Electronics Corp.		18	14		-		-	-
	$	119	90	$	339	$	10	100

Property Transaction

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 the second quarter of 2005, the Company acquired land and building from VIA Technologies, Inc. for NT$304,630 thousand (US$9,396 thousand).

22. COMMITMENTS AND CONTINGENCIES

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

23. 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.

24. OTHER EVENTS

Merger

In 2004, the take advantage of synergies with companies in similar industries, lower operating costs and expenses, and enhance competitiveness and research and development capabilities, the Company acquired IA Style, Inc.

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) Impact 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	$ 36,389,480
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.

25. SEGMENT INFORMATION

Industry Type

The Company mainly manufactures and sells smart handheld devices.

Foreign Operations

Because sales to unaffiliated customers and identifiable assets of foreign segments were less than 10 percent of that of the Company, the Company was exempt from disclosing information on foreign operations.

Export Revenues

Export revenues in 2004 and 2005 were as follows:

	2004	2005	
	NT$	**NT$**	**US$ (Note 3)**
Asia	$ 5,157,560	$ 7,657,902	$ 236,209
America	8,138,526	28,702,427	885,331
Europe	18,300,820	29,138,652	898,786
Others	4,358,517	5,574,579	171,949
	$ 35,955,423	$ 71,073,560	$ 2,192,275

Major Customers

Sales to major customers were as follows:

	2004	2005	
Customer	**NT$**	**NT$**	**US$ (Note 3)**
A	$ 1,470,781	$ 14,965,913	$ 461,626
B	11,956,226	8,179,942	252,312
C	488,762	7,448,551	229,751
D	4,175,764	5,067,341	156,303
	$ 18,091,533	$ 35,661,747	$ 1,099,992