High Tech Computer Corp.

**Financial Statements for the
Three Months Ended March 31, 2005 and 2006 and
Independent Accountants' Review Report**

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
High Tech Computer Corp.

We have reviewed the accompanying balance sheets of High Tech Computer Corp. (the "Company") as of March 31, 2005 and 2006, and the related statements of operations, and cash flows for the three months then ended, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management.

Except as stated in the following paragraph, we conducted our reviews in accordance with the Statement of Auditing Standards No. 36, "Review of Financial statements," of the Republic of China. A review consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

The calculation of investments accounted for by the equity method as of and for the three months ended March 31, 2005 and 2006 was based on the investees' unreviewed financial statements of the same reporting periods as those of the Company. These investments amounted to NT$324,456 thousand and NT$354,908 thousand as of March 31, 2005 and 2006, respectively. The related equity in losses amounted to NT$18,796 and gains amounted to NT$33,796 thousand of investees in the three months ended March 31, 2005 and 2006, respectively.

Based on our reviews, except for the effects of adjustments that might have been disclosed had the investees' financial statements mentioned in the preceding paragraph been reviewed, we are not aware of any material modifications that should be made to such financial statements for them to be 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 3, the Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 34 "Accounting for Financial Instruments", and SFAS No. 36, "Disclosure and Presentation of Financial Instruments", starting from January 1, 2006.

In addition, the translation of the 2006 New Taiwan dollar amounts into U.S. dollars has been made in conformity with the basis stated in Note 2. Such U.S. dollar amounts are presented solely for the convenience of readers.

April 13, 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 review such financial statements are those generally accepted and applied in the Republic of China.

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

HIGH TECH COMPUTER CORP.

BALANCE SHEETS
MARCH 31, 2005 AND 2006
(In Thousands)
(Reviewed, Not Audited)

ASSETS	2005 NT$	2006 NT$	2006 US$ (Note 2)
CURRENT ASSETS			
Cash and cash equivalents (Note 4)	$ 7,758,802	$20,969,314	$ 646,802
Financial assets at fair value through profit or loss (Notes 2 and 5)	347	-	-
Notes receivable, net (Notes 2 and 7)	4,502	705,420	21,759
Accounts receivable, net (Notes 2 and 7)	8,731,501	13,888,020	428,378
Accounts receivable from related parties (Notes 2 and 23)	146,989	242,606	7,483
Other current financial assets (Notes 8 and 23)	53,508	309,485	9,546
Inventories (Notes 2 and 9)	4,179,210	4,310,160	132,947
Prepayments (Notes 10 and 23)	460,849	865,439	26,695
Deferred tax assets (Notes 2 and 20)	150,918	357,949	11,041
Total current assets	21,486,626	41,648,393	1,284,651
INVESTMENTS			
Available-for-sale financial assets (Notes 2 and 6)	767	1,049	33
Financial assets carried at cost (Notes 2 and 11)	1,192	1,192	37
Investments accounted for using equity method (Notes 2 and 12)	324,456	354,908	10,947
Prepayments for long-term investments (Notes 2 and 12)	-	137,761	4,249
Total investments	326,415	494,910	15,266
PROPERTIES (Notes 2, 13 and 23)			
Cost			
Land	378,285	610,293	18,825
Buildings and structures	946,207	1,073,903	33,125
Machinery and equipment	2,344,866	2,561,279	79,003
Molding equipment	201,567	201,567	6,217
Computer equipment	155,712	164,084	5,061
Transportation equipment	1,315	1,628	50
Furniture and fixtures	101,503	107,662	3,321
Leasehold improvements	45,542	22,816	704
	4,174,997	4,743,232	146,306
Less accumulated depreciation	(1,846,839)	(2,394,056)	(73,845)
Prepayments on construction-in-progress and equipment-in-transit	87,032	30,297	934
Properties, net	2,415,190	2,379,473	73,395
OTHER ASSETS			
Refundable deposits	6,298	35,305	1,089
Deferred charges	176,458	142,271	4,389
Deferred bond issuance costs (Notes 2 and 16)	177	-	-
Deferred tax assets (Notes 2 and 20)	71,532	102,038	3,147
Prepaid pension cost (Note 2)	19,642	56,255	1,735
Total other assets	274,107	335,869	10,360
TOTAL	$24,502,338	$44,858,645	$1,383,672

LIABILITIES AND STOCKHOLDERS' EQUITY	2005 NT$	2006 NT$	2006 US$ (Note 2)
CURRENT LIABILITIES			
Financial liabilities at fair value through profit or loss (Notes 2 and 5)	$ -	$ 36,116	$ 1,114
Notes and accounts payable (Note 23)	8,262,424	13,186,393	406,736
Income tax payable (Notes 2 and 20)	112,774	813,012	25,077
Accrued expenses (Notes 14 and 23)	614,596	1,037,655	32,008
Payable for purchase of equipment	15,880	14,715	454
Other current liabilities (Notes 15 and 23)	592,918	1,393,427	42,980
Total current liabilities	9,598,592	16,481,318	508,369
LONG-TERM LIABILITIES			
Bonds payable (Notes 2 and 16)	15,995	-	-
OTHER LIABILITIES			
Guarantee deposits received (Note 17)	495,160	591	18
Total liabilities	10,109,747	16,481,909	508,387
STOCKHOLDERS' EQUITY (Note 18)			
Capital stock - NT$10 par value			
Authorized: 450,000 thousand shares			
Issued: 276,311 thousand shares in 2005 and 357,016 thousand shares in 2006			
Common stock	2,763,114	3,570,160	110,122
Capital collected in advance	123,165	-	-
Capital surplus			
Paid-in capital in excess of par value	4,394,674	4,410,871	136,054
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	6,677,502	19,545,630	602,888
Cumulative translation adjustments	(20,406)	(7,434)	(229)
Unrealized losses on financial instruments (Notes 2 and 6)	(1,204)	(922)	(28)
Total stockholders' equity	14,392,591	28,376,736	875,285
TOTAL	$24,502,338	$44,858,645	$1,383,672

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

(With Deloitte & Touche review report dated April 13, 2006)

HIGH TECH COMPUTER CORP.

STATEMENTS OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 2005 AND 2006
(In Thousands, Except Earnings Per Share)
(Reviewed, Not Audited)

	2005	2006	
	NT$	NT$	US$ (Note 2)
REVENUES (Notes 2 and 23)			
Gross sales	$13,144,181	$23,921,753	$ 737,870
Less sales returns and discounts	(72,036)	(60,263)	(1,859)
NET SALES	13,072,145	23,861,490	736,011
OTHER REVENUES (Note 23)	178,482	150,967	4,657
Total revenues	13,250,627	24,012,457	740,668
COST OF REVENUES (Note 23)	10,530,935	16,986,766	523,959
GROSS PROFIT	2,719,692	7,025,691	216,709
UNREALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	(11,131)	(27,709)	(855)
REALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	6,289	15,077	465
REALIZED GROSS PROFIT	2,714,850	7,013,059	216,319
OPERATING EXPENSES (Note 23)			
Administrative and selling expenses	461,949	1,005,364	31,011
Research and development expenses	504,551	574,153	17,710
Total operating expenses	966,500	1,579,517	48,721
INCOME FROM OPERATIONS	1,748,350	5,433,542	167,598
NON-OPERATING INCOME AND GAINS			
Interest income	16,474	49,939	1,540
Equity in earnings of equity method investees (Notes 2 and 12)	-	33,796	1,042
Gain on sale of properties	-	4,449	137
Foreign exchange gain	-	131,854	4,067
Valuation gain on financial instruments, net (Notes 2, 3, 5 and 22)	347	-	-
Other (Note 23)	19,733	77,481	2,391
Total non-operating income and gains	36,554	297,519	9,177
NON-OPERATING EXPENSES AND LOSSES			
Interest expense	19,541	-	-
Equity in losses of equity method investees (Notes 2 and 12)	18,796	-	-
Loss on disposal of properties	462	2,047	63

(Continued)

HIGH TECH COMPUTER CORP.

STATEMENTS OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 2005 AND 2006
(In Thousands, Except Earnings Per Share)
(Reviewed, Not Audited)

	2005	2006	
	NT$	NT$	US$ (Note 2)
Foreign exchange loss	$ 92,670	$ -	$ -
Provision for loss on decline in value of inventory	60,000	78,846	2,432
Valuation loss on financial instruments, net (Notes 2, 3, 5 and 22)	-	36,116	1,114
Other	776	35	1
Total non-operating expenses and losses	192,245	117,044	3,610
INCOME BEFORE INCOME TAX	1,592,659	5,614,017	173,165
INCOME TAX EXPENSE (Notes 2 and 20)	(20,496)	(220,642)	(6,806)
NET INCOME	$ 1,572,163	$ 5,393,375	$ 166,359

	2005		2006			
	Before Income Tax	After Income Tax	Before Income Tax		After Income Tax	
	NT$	NT$	NT$	US$ (Note 2)	NT$	US$ (Note 2)
BASIC EARNINGS PER SHARE (Note 21)	$ 4.53	$ 4.47	$ 15.72	$ 0.48	$ 15.11	$ 0.47
DILUTED EARNINGS PER SHARE (Note 21)	$ 4.52	$ 4.46	$15.49	$ 0.48	$ 14.88	$ 0.46

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

(With Deloitte & Touche review report dated April 13, 2006) (Concluded)

HIGH TECH COMPUTER CORP.

STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2005 AND 2006
(In Thousands)
(Reviewed, Not Audited)

	2005	2006	
	NT$	NT$	US$ (Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 1,572,163	$ 5,393,375	$ 166,359
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	144,067	146,070	4,506
Amortization	9,753	7,966	246
Loss (gain) on disposal of properties	462	(2,402)	(74)
Equity in losses (earnings) of equity method investees	18,796	(33,796)	(1,042)
Provision for redemption of convertible bonds	2,042	-	-
Foreign exchange gains from convertible bonds	(9,735)	-	-
Amortization of bond issue costs	17,498	-	-
Deferred income tax asset	240	18,873	582
Accrued pension costs	(11,979)	(6,495)	(200)
Net changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	747	96,201	2,967
Notes receivable	67,254	(606,333)	(18,702)
Accounts receivable	(391,067)	324,795	10,018
Accounts receivable from related parties	(68,776)	178,174	5,496
Other current financial assets	42,534	(224,166)	(6,914)
Inventories	24,439	527,393	16,267
Prepayments	(216,021)	(391,178)	(12,066)
Notes and accounts payable	315,973	(610,300)	(18,825)
Income tax payable	18,620	196,149	6,050
Accrued expenses	(247,671)	(167,152)	(5,156)
Other current liabilities	178,883	90,659	2,796
		-	
Net cash provided by operating activities	1,468,222	4,937,833	152,308
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of properties	(79,139)	(31,598)	(974)
Proceeds from sales of properties	-	4,389	135
Increase in investments accounted for using equity method	-	(137,761)	(4,249)
Proceeds from disposal of investments accounted for using equity method	4,312	-	-
Increase in refundable deposits	(376)	(27)	(1)
Net cash used in investing activities	(75,203)	(164,997)	(5,089)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in guarantee deposits received	222,082	30	1
Bonus to employees	(4,500)	-	-
Net cash provided by financing activities	217,582	30	1

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HIGH TECH COMPUTER CORP.

STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2005 AND 2006
(In Thousands)
(Reviewed, Not Audited)

	2005	2006	
	NT$	NT$	US$ (Note 2)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,610,601	4,772,866	147,220
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	6,148,201	16,196,448	499,582
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 7,758,802	$ 20,969,314	$ 646,802
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the period			
Income tax	$ 1,636	$ 5,620	$ 173
NONCASH INVESTING AND FINANCING ACTIVITIES			
Transfer of convertible bonds to common stock and additional paid-in capital	$ 1,453,483	$ -	$ -
PURCHASE OF PROPERTIES			
Cost of properties purchased	40,777	$ 32,274	995
Decrease (increase) in payable for purchase of equipment	38,362	(676)	(21)
Cash paid for purchase of properties	$ 79,139	$ 31,598	$ 974
BONUS TO EMPLOYEES AND DIRECTORS' REMUNERATION			
Appropriation of bonus to employees and directors' remuneration	$ -	$ -	$
Decrease in payable for employee bonus and directors' remuneration	4,500	-	-
Cash paid	$ 4,500	$ -	$

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

(With Deloitte & Touche review report dated April 13, 2006) (Concluded)

HIGH TECH COMPUTER CORP.

NOTES TO FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2005 AND 2006
(In Thousands, Unless Stated Otherwise)
(Reviewed, Not Audited)

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 3,427 and 4,079 persons in its payroll as of March 31, 2005 and 2006, respectively.

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.

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:

Translations into United States (US) Dollars

The financial statements are stated in New Taiwan dollars. The translations of the 2006 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.

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) within 12 months of the balance sheet date. Current liabilities are obligations to be paid or settled within 12 months of the balance sheet date. All other assets or liabilities are classified as noncurrent.

Financial Assets/Liabilities at Fair Value Through Profit or Loss

Derivatives that do not meet the criteria for hedge accounting are initially recognized at fair value, with transaction costs expensed as incurred. After initial recognition, the derivatives are remeasured at fair value with the changes in fair value recognized in earnings.

Fair value is estimated using valuation techniques incorporating estimates and assumptions that are consistent with prevailing market conditions. When the fair value is a positive amount, the derivative is recognized as a financial asset; when the fair value is a negative amount, the derivative is recognized as a financial liability.

Available-for-Sale Financial Assets

Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. When subsequently measured at fair value, the changes in fair value are excluded from earnings and reported as a separate component of shareholders' equity. The accumulated gains or losses are recognized in earnings when the financial asset is derecognized from the balance sheet.

Cash dividends are recognized as investment income upon resolution of the shareholders of an investee but are accounted for as reductions to the original cost of investment if such dividends are declared on the earnings of the investees attributable to periods prior to the purchase of the investments. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated based on the new number of shares.

If there is objective evidence that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to shareholders' equity.

Revenue Recognition, Accounts receivables and Allowance for Doubtful Accounts

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. The Company records a provision for estimated future returns and other allowances in the same period the related revenue is recorded. Provisions for estimated sales returns and other allowances are generally made at a specific percentage based on historical experience, our management's judgment, and any known factors that would significantly affect the allowance.

Sales are determined using the fair value taking into account related sales discounts agreed to by the Company and its customers. Since the receivables from sales are collectible within one year and such transactions are frequent, the fair value of receivables is equivalent to the nominal amount of cash to be received.

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.

Financial Assets Carried At Cost

Investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at original cost, such as non-publicly traded stocks. The costs of non-publicly traded stocks are determined using the weighted-average method. If there is objective evidence that a financial asset is impaired, a loss is recognized. However, the reversal of impairment loss on financial assets carried at cost is prohibited.

The accounting treatment for cash dividends and stock dividends arising from financial assets carried at cost is the same as that for cash and stock dividends arising from available-for-sale financial assets.

Investments Accounted for Using Equity Method

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. Effective January 1, 2006, pursuant to the revised Statement of Financial Accounting Standards No. 5 "Long-term Investments in Equity Securities" (SFAS No. 5), investment premiums, representing goodwill, are no longer being amortized; while investment discounts continue to be amortized over the remaining periods.

When the Company subscribes for additional investee shares at a percentage different from its existing ownership percentage of equity interest, the resulting carrying amount of the investment in the investee differs from the amount of the Company's share of the investee's net equity. The Company records such difference as an adjustment to long-term investments with the corresponding amount charged or credited to capital surplus.

On the balance sheet date, an impairment loss should be recognized if recoverable amount is below carrying amount. This loss should be charged to current income.

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. 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$209,276 thousand and NT$283,996 thousand (US$8,760 thousand) as of March 31, 2005 and 2006, respectively.

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. The pension fund contribution for the three months ended 2006 was NT$19,897 thousand (US$614 thousand).

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 SFAS No. 23, "Interim Financial Reporting and Disclosures," the Company does not have to apply the requirement stated in SFAS No. 18 ("Accounting for Pensions") of remeasuring the minimum pension liability and pension cost of the current interim period.

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.

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.

Income Basic Tax Act took effect on January 1, 2006. If the amount of regular income tax for a profit-seeking enterprise is greater than or equal to the amount of basic tax, the income tax of the current year for the enterprise shall be calculated in accordance with the Income Tax Act and other relevant laws. Whereas the amount of regular income tax is less than the amount of basic tax, the amount of income tax payable shall also include the balance of the amount of basic tax and regular income tax, in addition to the amount as calculated in accordance with the Income Tax Act and other relevant laws.

The balance calculated in accordance with the provisions in the preceding paragraph shall not allow for deductions claimed in regard to investment tax credit granted under the provisions of other laws.

Foreign-Currency Transactions

In preparing the financial statements, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Exchange differences arising on the settlements of the monetary items, and on the retranslation of monetary items, are included in earnings for the period.

Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in earnings for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognized directly in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

If an investee's functional currency is a foreign currency, translation adjustments will result from the translation of the investee's financial statements into the reporting currency of the Company. Such adjustments are accumulated and reported as a separate component of shareholders' equity.

The rates of exchange prevailing on the dates of the transactions are also based on the middle price provided by Bank of Taiwan.

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 accounts in the financial statements as of and for the three months ended March 31, 2005 have been reclassified to be consistent with the consolidated financial statements as of and for the three months ended March 31, 2006.

3. ACCOUNTING CHANGES

On January 1, 2006, the Company adopted the newly released Statements of Financial Accounting Standards No. 34 “Accounting for Financial Instruments” (SFAS No. 34) and No. 36 “Disclosure and Presentation for Financial Instruments” and related revisions of previously released SFASs.

a. Effect of adopting the newly released SFASs and related revisions of previously released SFASs

The Company had properly categorized its financial assets and liabilities upon initial adoption of the newly released SFASs. The adjustments made to the carrying amounts of the financial instruments categorized as financial assets or financial liabilities at fair value through profit or loss were included in the cumulative effect of changes in accounting principles; on the other hand, the adjustments made to the carrying amounts of those categorized as available-for-sale financial assets were recognized as adjustments to shareholders’ equity.

The effect of adopting the newly released SFASs was as follows:

	As Accumulative Effect of Change in Accounting Principles (After Tax)	As Adjustments in Stockholders’ Equity (After Tax)
Available-for-sale financial assets	$ -	$ 48

There is no effect of net income for the adoption newly released SFASs on the financial statements for the three-month periods ended March 31, 2006.

b. Reclassifications

Upon the adoption of SFAS No. 34, certain accounts in the financial statements as of and for the three months ended March 31, 2005 were reclassified to conform with the financial statements as of and for the three months ended March 31, 2006. The previous issued financial statements as of and for the three months ended March 31, 2005 need not be restated.

Certain accounting policies prior to the adoption of the newly released SFASs are summarized as follows:

(i) Long-term investments

Long-term investments in listed companies wherein the Company does not exercise significant influence are stated at the lower of aggregate cost or market value.

(ii) Derivative financial instruments

The Company entered into foreign currency forward contracts to manage foreign exchange exposures on foreign-currency-denominated assets and liabilities. The contracts were recorded in New Taiwan dollars at the current rate of exchange at the contract date. The differences in the New Taiwan dollar amounts translated using the current rates and the amounts translated using the contracted forward rates were amortized over the terms of the forward contracts using the straight-line method. At the end of each period, the receivables or payables arising from forward contracts were restated using the prevailing exchange rates with the resulting differences credited or charged to income. In addition, the receivables and payables related to the same forward contracts were netted with the resulting amount presented as either an asset or a liability. Any resulting gain or loss upon settlement was credited or charged to income in the period of settlement.

Certain accounts in the financial statements as of and for the three months ended March 31, 2005 have been reclassified to conform to the classifications prescribed by the newly released and revised SFASs. The reclassifications of the whole or a part of the account balances of certain accounts are summarized as follows:

	March 31, 2005 (Before Reclassification)	March 31, 2005 (After Reclassification)
Balance sheets		
Other current financial assets	$ 347	$ -
Financial assets at fair value through profit or loss	-	347
Long-term equity investments	1,959	-
Available-for-sale financial assets - noncurrent	-	767
Financial assets carried at cost - noncurrent	-	1,192
Stockholders' equity		
Unrealized valuation loss on long-term investments	(1,204)	-
Unrealized losses on financial instruments	-	(1,204)
Statement of income		
Foreign exchange gain, net	347	-
Valuation gain on financial instruments, net	-	347

The Company adopted Statement of Financial Accounting Standards No. 35 "Impairment of Assets" from January 1, 2005. There is no effect on the financial statements for the three months ended March 31, 2005.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of March 31, 2005 and 2006 were as follows:

	2005	2006	
	NT$	NT$	US$ (Note 2)
Cash on hand	$ 792	$ 993	$ 31
Cash in banks	4,399,982	3,693,921	113,939
Time deposits	3,358,028	17,274,400	532,832
	$ 7,758,802	$ 20,969,314	$ 646,802

As of March 31, 2005 and 2006, interest rates on time deposits ranged from 1.08% to 4.45% and from 0.86% to 1.84%, respectively.

5. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets and liabilities at fair value through profit or loss as of March 31, 2005 and 2006 were as follows:

	2005	2006	
	NT$	NT$	US$ (Note 2)
Derivatives - financial assets			
Forward exchange contracts	$ 347	$ -	$ -
Derivatives - financial liabilities			
Forward exchange contracts	$ -	$36,116	$ 1,114

The Company entered into derivative transactions during the three months ended March 31, 2005 and 2006 to manage exposures related to foreign exchange rate fluctuations. The derivative transactions entered into by the Company did not meet the criteria for hedge accounting prescribed by SFAS No. 34. Therefore, the Company hadn't adopted hedge accounting during the three months ended March 31, 2006. Outstanding forward contracts as of March 31, 2005 and 2006 were as follows:

	2005			
	Buy/Sell	Currency	Expiry Date	Contract Amount
Forward exchange contracts	Sell	USD/NTD	2005.04.08~2005.05.03	US$ 70,000

	2006			
	Buy/Sell	Currency	Expiry Date	Contract Amount
Forward exchange contracts	Sell	USD/NTD	2006.04.07~2006.05.12	US$ 101,703
Forward exchange contracts	Sell	EUR/USD	2006.04.04~2006.05.24	EUR€ 43,600
Forward exchange contracts	Sell	EUR/NTD	2006.04.28~2006.05.24	EUR€ 22,000
Forward exchange contracts	Sell	GBP/USD	2006.05.05	GBP$ 2,000

The transactions of derivative financial instruments resulted in gains of NT$7,903 thousand and losses of NT$37,131 thousand (US$1,145 thousand) for the three months ended March 31, 2005 and 2006, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets as of March 31, 2005 and 2006 were as follows:

	2005	2006	
	NT$	NT$	US$ (Note 2)
VIA Technologies, Inc.	$ 1,971	$ 1,971	$ 61
Less valuation adjustment on available-for-sale financial asset - non current	(1,204)	(922)	(28)
	767	1,049	33
Less current portion	-	-	-
	$ 767	$ 1,049	$ 33

In December 1999, the Company invested NT$1,971 thousand in VIA Technologies, Inc. and accounted for available-for-sale financial asset.

7. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable as of March 31, 2005 and 2006 were as follows:

	2005	2006	
	NT$	NT$	US$ (Note 2)
Notes receivable	$ 4,502	$ 705,420	$ 21,759
Accounts receivable	8,739,564	13,893,207	428,538
Less allowance for doubtful accounts	(8,063)	(5,187)	(160)
	$ 8,736,003	$ 14,593,440	$ 450,137

8. OTHER CURRENT FINANCIAL ASSETS

Other current financial assets as of March 31, 2005 and 2006 were as follows:

	2005	2006	
	NT$	NT$	US$ (Note 2)
Other receivables from related parties (Note 23)	$ 8,594	$ 220,707	$ 6,808
Value-added tax refunds receivable	17,097	29,822	920
Other receivable	23,273	37,899	1,169
Interest receivable	1,625	9,279	286
Agency payments	2,919	11,778	363
	$ 53,508	$ 309,485	$ 9,546

Other receivables from related parties are receivables transferred from accounts receivable and agency payments from related parties.

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.

9. INVENTORIES

Inventories as of March 31, 2005 and 2006 were as follows:

	2005	2006	
	NT$	NT$	US$ (Note 2)
Finished goods	$ 660,215	$ 451,524	$ 13,927
Work-in-process	1,948,398	2,020,766	62,331
Raw materials	1,977,369	2,503,443	77,219
	4,585,982	4,975,733	153,477
Less valuation allowance	(406,772)	(665,573)	(20,530)
	$ 4,179,210	$ 4,310,160	$ 132,947

10. PREPAYMENTS

Prepayments as of March 31, 2005 and 2006 were as follows:

	2005	2006	
	NT$	NT$	US$ (Note 2)
Royalty (Note 25)	$295,998	$647,455	$19,971
Services	943	65,920	2,033
Molding equipment	117,199	56,823	1,753
Others	46,709	95,241	2,938
	$460,849	$865,439	$26,695

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

11. FINANCIAL ASSETS CARRIED AT COST

Financial assets carried at cost as of March 31, 2005 and 2006 were as follows:

	2005	2006	
	NT$	NT$	US$ (Note 2)
Answer Online, Inc.	$ 1,192	$ 1,192	$ 37

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 unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the Company accounted for this investment by the cost method.

12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Investments accounted for using equity method as of March 31, 2005 and 2006 were as follows:

	2005		2006				
	Carrying Value	Ownership Percentage	Original Cost		Carrying Value		Ownership Percentage
	NT$		NT$	US$ (Note 2)	NT$	US$ (Note 2)	
Equity method							
H.T.C. (B.V.I.) Corp.	$ 324,456	100.00	$ 430,898	$ 13,291	$ 354,908	$ 10,947	100.00
Prepayments for long-term investments	-	-	137,761	4,249	137,761	4,249	-
	$ 324,456		$ 568,659	$ 17,540	$ 492,669	$ 15,196	

In August 2000, the Company acquired 100% equity interest in H.T.C. (B.V.I.) Corp. for NT$12,834 thousand and accounted for this investment by the equity method. As of March 31, 2006, the Company had increased this investment to NT$430,898 thousand (US$13,291 thousand). Because the registration of this investment had not completed on March 31, 2006, the amounts of NT$2,761 thousand (US$85 thousand) were temporarily accounted for as “prepayments for long-term investments.” H.T.C. (B.V.I.) Corp. makes investments on behalf of the Company.

The Company invested BandRich Inc. in the first quarter of 2006. Also because the registration of this investment had not completed on March 31, 2006, the amounts of NT$135,000 thousand (US$4,164 thousand) were temporarily accounted for as "prepayments for long-term investments."

The Company's equity in losses of its equity method investee was NT$18,796 thousand in 2005 and earnings of NT$33,796 thousand (US$1,042 thousand) in 2006.

13. PROPERTIES

Properties as of March 31, 2005 and 2006 were as follows:

	2005	2006			
	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NT$	NT$	NT$	NT$	US$ (Note 2)
Land	$ 378,285	$ 610,293	$ -	$ 610,293	$ 18,825
Buildings and structures	720,582	1,073,903	294,253	779,650	24,049
Machinery and equipment	1,134,909	2,561,279	1,669,044	892,235	27,521
Molding equipment	-	201,567	201,567	-	-
Computer equipment	41,688	164,084	130,008	34,076	1,051
Transportation equipment	486	1,628	1,070	558	17
Furniture and fixtures	32,583	107,662	80,191	27,471	847
Leasehold improvements	19,625	22,816	17,923	4,893	151
Prepayments on construction-in-progress and equipment-in-transit	87,032	30,297	-	30,297	934
	$ 2,415,190	$ 4,773,529	$ 2,394,056	$ 2,379,473	$ 73,395

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

14. ACCRUED EXPENSES

Accrued expenses as of March 31, 2005 and 2006 were as follows:

	2005	2006	
	NT$	NT$	US$ (Note 2)
Salaries and bonuses	$ 230,011	$ 248,291	$ 7,659
Export expenses	69,019	196,695	6,067
Donation	-	165,751	5,113
Marketing	-	108,597	3,350
Research materials	123,793	79,773	2,461
Insurance	37,808	52,578	1,622
Professional fees	15,466	36,722	1,133
Employee welfare	19,129	35,570	1,097
Travel	7,261	18,440	569
Repairs and maintenance	23,802	9,192	283
Others	88,307	86,046	2,654
	$ 614,596	$ 1,037,655	$ 32,008

15. OTHER CURRENT LIABILITIES

Other current liabilities as of March 31, 2005 and 2006 were as follows:

	2005	2006	
	NT$	NT$	US$ (Note 2)
Reserve for warranty expenses	$ 473,871	$ 1,119,561	$ 34,533
Agency receipts	45,084	114,135	3,520
Advance receipts	22,294	80,361	2,479
Deferred credits - profit from intercompany transactions	11,131	27,709	855
Directors' remuneration	21,842	21,842	674
Other payable to related parties (see Note 23)	-	17,358	535
Other	18,696	12,461	384
	$ 592,918	$ 1,393,427	$ 42,980

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 and recognized as warranty liability.

Agency receipts were primarily overseas value-added tax, employees' income tax and insurance, and other items.

Deferred credits - profit from intercompany transactions were unrealized profit from intercompany transactions.

Other payables to related parties were payments for miscellaneous expenses of overseas sales offices and repair materials.

16. BONDS PAYABLE

A summary of bonds payable as of March 31, 2005 and 2006 was as follows:

	2005	2006	
	NT$	NT$	US$ (Note 2)
January 29, 2003 issue of Zero Coupon Convertible Bonds; maturity on January 29, 2008; issue price is 100% of US$1,000 par value.	$ 17,329	$ -	$ -
Add			
Reserve for redemption of Convertible Bonds	223	-	-
Allowance for foreign-currency exchange loss	(1,557)	-	-
Less current portion of bonds payable	-	-	-
		$ -	$ -
	$ 15,995	$	$

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 amounting to US$2,000 thousand, and other bondholders requested conversion of bonds amounting to US$63,500 thousand into 17,201 thousand shares. As a result, the Company's outstanding bonds payable was US$500 thousand as of March 31, 2005. After the rest bondholders' requisition of bonds conversion amounting to US$500 thousand into 135 thousand shares in April, 2005, the Company had no outstanding bonds payable as of March 31, 2006.

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.

17. GUARANTEE DEPOSITS RECEIVED

Guarantee deposits received as of March 31, 2005 and 2006 included cash received from leasehold and from customers for preparation of key materials.

18. STOCKHOLDERS' EQUITY

Capital Stock

The Company's outstanding common stock as of January 1, 2005 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 quarter of 2005, holders of US$45,470 thousand in bonds requested to convert the bonds into 12,317 thousand shares (NT$123,165 thousand). The amounts of NT$123,165 thousand were temporarily accounted for as "capital collected in advance." Because the registration of this conversion had not completed on March 31, 2005, the Company's outstanding capital stock as of March 31, 2005 amounted to NT$2,763,114 thousand, divided into 276,312 thousand shares at NT$10 par value.

In the second quarter of 2005, holders of US$500 thousand in bonds requested to convert the bonds into 135 thousand shares (NT$1,354 thousand). In June 2005, the stockholders approved the transfer of retained earnings amounting to NT$577,527 thousand and employee bonuses amounting to NT$105,000 thousand to capital stock. As a result, the amount of the Company's outstanding common stock as of March 31, 2006 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 March 31, 2006, the GDRs redeemed comprised 6,026.6 thousand units, representing 24,106.4 thousand common shares, and the outstanding GDRs represented 4,317.5 thousand common shares, or 1.21% of the Company's common stock.

Capital Surplus

The additional paid-in capital was NT$3,064,356 thousand as of January 1, 2005. Additional paid-in capital amounted to NT$1,330,318 thousand resulted from the conversion of bonds payable into 12,317 thousand shares in the first quarter of 2005. As a result, the additional paid-in capital as of March 31, 2005 was NT$4,394,674 thousand.

Then, additional paid-in capital amounted to NT$16,197 thousand resulted from the conversion of bonds payable into 135 thousand shares in the second quarter of 2005. As a result, the additional paid-in capital as of March 31, 2006 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.

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 April 13, 2006, the date of the accompanying independent accountants' review report, the appropriation of the 2005 earnings had been proposed by the Board of Directors but hadn't been approved by the stockholders in their annual meeting. They proposed stock dividend of NT$714,032 thousand, cash dividend of NT$4,998,224 thousand, and employees bonuses of NT$531,000 thousand. Information on earnings appropriation can be accessed online through the Market Observation Post System on the Web site of the Taiwan Stock Exchange.

19. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Function / Expense Item	2005			2006					
	NT$			NT$			US$ (Note 2)		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses	278,858	291,503	570,361	314,758	350,205	664,963	9,709	10,802	20,511
Salary	228,419	247,668	476,087	260,949	296,898	557,847	8,049	9,158	17,207
Insurance	14,333	16,361	30,694	16,764	18,430	35,194	517	569	1,086
Pension	11,684	12,087	23,771	7,485	13,924	21,409	231	429	660
Others	24,422	15,387	39,809	29,560	20,953	50,513	912	646	1,558
Depreciation expense	90,793	53,274	144,067	88,267	57,803	146,070	2,723	1,783	4,506
Amortization	204	9,549	9,753	-	7,966	7,966	-	246	246

20. INCOME TAX

The income tax returns through 2003, except for 2002, had been examined and cleared by the tax authorities. Upon discovery of computation error in the contents of 2003 tax payment notice issued by tax collection authorities, the Company applied with the tax collection authorities for correction. Any adjustment in tax expense will be dependent on the result of correction.

Under the Statute for Upgrading Industries, the exemption the Company granted from corporate income tax was as follows:

Products Granted Exemption from Corporate Income Tax	**Terms Granted Exemption from Corporate Income Tax**
sales of pocket PCs and Smartphones	2001.04.26~2006.04.25
sales of pocket PCs (wireless) and Smartphones	2002.01.01~2006.12.31
sales of Win CE products	2003.01.01~2007.12.31
sales of pocket PCs, pocket PCs (wireless) and Smartphones	2004.09.15~2009.09.14
sales of pocket PCs (wireless) and Smartphones	2004.11.30~2009.11.29
sales of pocket PCs (wireless) and Smartphones	2005.12.20~2010.12.19

Income taxes payable as of March 31, 2005 and 2006 were computed as follows:

	2005	**2006**	
	NT$	**NT$**	**US$ (Note2)**
Income before income tax	$1,592,659	$5,614,017	$173,165
Permanent differences			
Equity in losses (earnings) of equity method investees	18,796	(33,796)	(1,042)
Other	5,021	7,732	238
Temporary differences			
Realized pension cost	(11,980)	(6,495)	(200)
Unrealized loss on decline in value of inventory	60,000	78,846	2,432
Unrealized royalties	137,515	432,691	13,346
Unrealized (realized) foreign currency exchange losses, net	102,287	(198,366)	(6,119)
Unrealized valuation (gain) loss on financial instruments	(347)	36,116	1,114
Unrealized warranty expense	149,170	160,547	4,952
Other	(14,175)	6,366	197
Total income	2,038,946	6,097,658	188,083
Less tax-exempt income tax	(1,565,961)	(4,370,658)	(134,814)
Taxable income	472,985	1,727,000	53,269
Tax rate	×25%	×25%	×25%
	118,246	431,750	13,317
Income tax credit	(10)	(10)	-
Estimated income tax provision	118,236	431,740	13,317
Unappropriated earnings (additional 10% income tax)	-	-	-
Less investment research and development tax credits	(97,980)	(229,971)	(7,093)
Current income tax expense	20,256	201,769	6,224
Less prepaid and withheld income tax	(1,636)	(5,620)	(174)
Add income tax payable, beginning balance	94,154	616,863	19,027
Income tax payable	$ 112,774	$ 813,012	$ 25,077

The tax effects of deductible temporary differences and loss and tax credit carryforwards that gave rise to deferred tax assets as of March 31, 2005 and 2006 were as follows:

	2005	2006	
	NT$	NT$	US$ (Note2)
Temporary differences			
Provision for loss on decline in value of inventory	$ 101,693	$ 166,393	$ 5,132
Unrealized reserve for warranty expense	118,468	279,890	8,633
Unrealized royalties	197,936	567,729	17,512
Unrealized valuation loss on financial instruments	-	9,029	278
Other	43,697	45,245	1,396
Tax credit carryforwards	587,632	259,159	7,994
Total deferred tax asset	1,049,426	1,327,445	40,945
Less valuation allowance	(822,623)	(825,580)	(25,465)
Total deferred tax asset, net	226,803	501,865	15,480
Deferred tax liability			
Unrealized foreign currency exchange gain, net	-	(28,372)	(875)
Unrealized pension cost	(4,353)	(13,506)	(417)
	222,450	459,987	14,188
Less current portion	(150,918)	(357,949)	(11,041)
Deferred tax assets, noncurrent	$ 71,532	$ 102,038	$ 3,147

Details of the tax credit carryforwards were as follows:

		2005	2006	
Year Occur	**Validity Period**	**NT$**	**NT$**	**US$ (Note 2)**
2001	2001-2005	$116,585	$ -	$ -
2002	2002-2006	54,941	42,304	1,305
2003	2003-2007	179,230	58,500	1,805
2004	2004-2008	222,525	-	-
2005	2005-2009	14,351	102,908	3,174
2006	2006-2010	-	55,447	1,710
		$587,632	$259,159	$ 7,994

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 three months ended March 31, 2005 and 2006 were as follows:

	2005	2006	
	NT$	NT$	US$ (Note 2)
Current income tax expense	$ 20,256	$ 201,769	$ 6,224
Decrease in deferred income tax assets	240	18,873	582
Income tax expense	$ 20,496	$ 220,642	$ 6,806

The integrated income tax information is as follows:

	2005	2006	
	NT$	NT$	US$ (Note 2)
Balance of imputation credit account	$ 97,891	$ 107,322	$ 3,310
Unappropriated earnings from 1998	6,677,502	19,545,630	602,888
Expected creditable ratio (including income tax payable)	3.15%	4.71%	4.71%

21. 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 351,434 thousand shares and 357,016 thousand shares for the three months ended March 31, 2005 and 2006, respectively. EPS for the three months ended March 31, 2005 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 EPS for the three months ended March 31, 2005 and 2006. The related information is as follows:

	2005				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax	Income after Income Tax	Shares (Thousand)	Income before Income Tax	Income after Income Tax
	NT$	NT$		NT$	NT$
Basic EPS	$1,592,659	$1,572,163	351,434	$ 4.53	$ 4.47
Zero coupon convertible bonds	25	19	135		
Employee stock options	-	-	722		
Diluted EPS	$1,592,684	$1,572,182	352,291	$ 4.52	$ 4.46

	2006				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax NT$	Income after Income Tax NT$	Shares (Thousand)	Income before Income Tax NT$	Income after Income Tax NT$
Basic EPS	$5,614,017	$5,393,375	357,016	$15.72	$15.11
Employee stock options	-	-	5,349		
Diluted EPS	$5,614,017	$5,393,375	362,365	$15.49	$14.88

	2006				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax US$ (Note 2)	Income after Income Tax US$ (Note 2)	Shares (Thousand)	Income before Income Tax US$ (Note 2)	Income after Income Tax US$ (Note 2)
Basic EPS	$ 173,165	$ 166,359	357,016	$ 0.48	$ 0.47
Employee stock options	-	-	5,349		
Diluted EPS	$ 173,165	$ 166,359	362,365	$ 0.48	$ 0.46

22. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

Derivative Financial Instruments

	March 31					
	2005		2006			
	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NT$	NT$	NT$	US$ (Note 2)	NT$	US$ (Note 2)
Assets						
Financial assets at fair value through profit or loss	$ 347	$ 347	$ -	$ -	$ -	$ -
Liabilities						
Financial liabilities at fair value through profit or loss	-	-	36,116	1,114	36,116	1,114

Non-Derivative Financial Instruments

	March 31					
	2005		2006			
	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NT$	NT$	NT$	US$ (Note 2)	NT$	US$ (Note 2)
Assets						
Cash and cash equivalents	$ 7,758,802	$ 7,758,802	$ 20,969,314	$ 646,802	$ 20,969,314	$ 646,802
Receivables	8,882,992	8,882,992	14,836,046	457,620	14,836,046	457,620
Other current financial assets	53,508	53,508	309,485	9,546	309,485	9,546
Investments	326,415	326,415	494,910	15,266	494,910	15,266
Other financial assets	6,298	6,231	35,305	1,089	35,004	1,080
Liabilities						
Payables	8,262,424	8,262,424	13,186,393	406,736	13,186,393	406,736
Income tax payable	112,774	112,774	813,012	25,077	813,012	25,077
Accrued expenses	614,596	614,596	1,037,655	32,008	1,037,655	32,008
Payable for purchase of equipment	15,880	15,880	14,715	454	14,715	454
Other current financial liabilities	559,493	559,493	1,285,357	39,646	1,285,357	39,646
Bonds payable	15,995	15,995	-	-	-	-
Other financial liabilities	495,160	489,869	591	18	586	18

The Company has adopted SFAS No. 34, “Accounting for Financial Instruments for accounting period beginning on January 1, 2006. The changes of the adoption of these new accounting standards please see Note 3.

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 financial instruments at fair value through profit or loss, available-for-sale financial assets and derivatives are based on quoted market prices in an active market, and whose fair values can be reliably measured. If the securities do not have market prices, fair value is measured on the basis of financial or other information. The Company uses estimates and assumptions that are consistent with available information about the estimates and assumptions that market participants would use in setting a price for the financial instrument.

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.

The methodology that the Company used to determine the fair value of financial instruments was as follows:

	Quoted Market Prices		**Measurement Method**	
	March 31		**March 31**	
	2005	**2006**	**2005**	**2006**
Assets				
Financial assets at fair value through profit or loss	$ -	$ 347	$ -	$ -
Available-for-sale financial assets - noncurrent	1,049	767	-	-
Liabilities				
Financial liabilities at fair value through profit or loss	36,116	-	-	-

Forward exchange contracts outstanding as of the balance sheet date are marked to market. As of March 31, 2005 and 2006, the Company recorded unrealized exchange gains of NT$347 thousand and losses of NT$36,116 thousand (US$1,114 thousand), respectively, on these contracts. The Company recognized an unrealized gain of NT$64 thousand and NT$213 thousand (US$7 thousand) in shareholder’s equity for the changes in fair value of available-for-sale financial assets for the three months ended March 31, 2005 and 2006, respectively.

Market Risk

The Company used derivative contracts for some purposes, i.e., to reduce any adverse effect of exchange rate fluctuations of accounts receivable/payable. The gains or losses of these contracts almost offset with that of hedged items.

Credit Risk

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. Management believes its exposure to default by those parties is low.

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$55,545 thousand and gains of NT$18,343 thousand, assuming that exchange rates in the second quarter of 2006 are between NT$32.36 and NT$32.56 for US$1.00; NT$38.75 and NT$39.21 for every €1.00; and NT$56.34 and NT$56.86 for every GBP1.00. Because the Company has sufficient working capital to settle these contracts, there are no future cash requirements for contract settlement.

23. 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
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

	Three Months Ended March 31				
	2005		2006		
Related Party	Amount	% of Total Net Purchases	Amount		% of Total Net Purchases
	NT$		NT$	US$ (Note 2)	
Chander Electronics Corp.	$146,505	2	$ 75,161	$ 2,318	1
High Tech Computer Corp. (Suzhou)	-	-	3,946	122	-
	$146,505	2	$ 79,107	$ 2,440	1

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

Sales and Services Provided

	Three Months Ended March 31				
	2005		2006		
Related Party	Amount NT$	% of Total Net Sales	Amount NT$	Amount US$ (Note 2)	% of Total Net Sales
HTC USA Inc.	$ 78,445	1	$ 74,036	$ 2,284	1
HTC EUROPE Co., Ltd.	-	-	54,270	1,674	-
Comserve Network Netherlands B.V.	30,946	-	-	-	-
Others	1,631	-	262	8	-
	$111,022	1	$128,568	$ 3,966	1

Selling prices and terms of payment for both related and unrelated parties are similar, except those for HTC USA Inc. and HTC EUROPE Co., Ltd.

Notes and Accounts Receivable

	March 31				
	2005		2006		
Related Party	Amount NT$	% of Total Notes and Accounts Receivable	Amount NT$	Amount US$ (Note 2)	% of Total Notes and Accounts Receivable
Accounts receivable					
HTC EUROPE Co., Ltd.	$144,846	2	$133,948	$ 4,132	1
HTC USA Inc.	-	-	107,519	3,316	1
Comserve Network Netherlands B.V.	1,151	-	-	-	-
Others	992	-	1,139	35	-
	$146,989	2	$242,606	$ 7,483	2

Notes and Accounts Payable

	March 31				
	2005		2006		
Related Party	Amount NT$	% of Total Notes and Accounts Payable	Amount NT$	Amount US$ (Note 2)	% of Total Notes and Accounts Payable
High Tech Computer Corp. (Suzhou)	$ -	-	$175,402	$ 5,410	1
Chander Electronics Corp.	147,622	2	105,742	$ 3,262	1
First International Computer Inc.	11,725	-	-	-	-
Others	-	-	494	15	-
	$159,347	2	$281,638	$ 8,687	2

Other Current Financial Assets

	March 31				
	2005		2006		
Related Party	Amount	% of Total Other Receivable	Amount		% of Total Other Receivable
	NT$		NT$	US$ (Note 2)	
HTC USA Inc	$ 4,019	7	$120,019	$ 3,702	46
HTC EUROPE Co., Ltd.	517	1	96,447	2,975	37
High Tech Computer Corp. (Suzhou)	-	-	4,241	131	2
H.T.C. (B.V.I.) Corp.	4,058	8	-	-	-
	$ 8,594	16	$220,707	$ 6,808	85

The term of other receivables from related parties is 90 days, longer than that of non-related parties. The Company transferred accounts receivables of NT$213,890 (US$6,598 thousand), which is longer than 180 days, to other receivables. Other receivables from related parties also included agency payments of NT$6,817 thousand (US$210 thousand).

Prepaid Expenses

	March 31				
	2005		2006		
Related Party	Amount	% of Total Prepayment	Amount		% of Total Prepayment
	NT$		NT$	US$ (Note 2)	
HTC USA Inc.	$ -	-	$ 26,405	815	3
HTC EUROPE Co., Ltd.	-	-	23,466	724	3
HTEK	2,473	1	10,843	334	1
	$ 2,473	1	$ 60,714	$ 1,873	7

Accrued Expenses

	March 31				
	2005		2006		
Related Party	Amount	% of Total Accrued Expenses	Amount		% of Total Accrued Expenses
	NT$		NT$	US$ (Note 2)	
VIA Technologies Inc.	$ 1,961	-	$ 210	$ 6	-

Other Payables to Related Parties

	March 31				
	2005		2006		
Related Party	Amount	% to Total Other Payables	Amount		% to Total Other Payables
	NT$		NT$	US$ (Note 2)	
HTC EUROPE Co., Ltd.	$ -	-	$ 11,870	$ 366	68
HTC USA Inc.	-	-	5,488	169	32
	$ -	-	$ 17,358	$ 535	100

Outsourcing Expenses

Related Party	Three Months Ended March 31arch 31				
	2005		2006		
	Amount	% of Total Out-Sourcing Expenses	Amount		% of Total Out-Sourcing Expenses
	NT$		NT$	US$ (Note 2)	
High Tech Computer Corp. (Suzhou)	$ -	-	$414,500	$ 12,785	71
First International Computer Inc.	7,350	6	-	-	-
	$ 7,350	6	$414,500	$ 12,785	71

Service Warranty Expense

Related Party	Three Months Ended March 31arch 31				
	2005		2006		
	Amount	% of Warranty Expenses	Amount		% of Warranty Expenses
	NT$		NT$	US$ (Note 2)	
HTC EUROPE Co., Ltd.	$ 12,408	5	$ 88,144	$ 2,719	19
HTC USA Inc.	22,154	8	21,603	666	4
Comserve Network Netherlands B.V.	38,183	15	-	-	-
	$ 72,745	28	$109,747	$ 3,385	23

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

Service Expenses

Related Party	Three Months Ended March 31				
	2005		2006		
	Amount	% of Total Service Expenses	Amount		% of Total Service Expenses
	NT$		NT$	US$ (Note 2)	
HTEK	$ 7,419	23	$ 10,843	$ 334	11
VIA Technologies, Inc.	1,500	5	600	19	1
	$ 8,919	28	$ 11,443	353	12

Leasing - Lessee

Operating Expense - Rental Expense

Related Party	Three Months Ended March 31				
	2005		2006		
	Amount	% of Rental Expense	Amount		% of Rental Expense
	NT$		NT$	US$ (Note 2)	
VIA Technologies, Inc.	$ 4,051	61	$ -	$ -	-

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

Nonoperating Income - Rental Revenue

	Three Months Ended March 31				
	2005		2006		
Related Party	**Amount**	**% of Total Rental Revenue**	**Amount**		**% of Total Rental Revenue**
	NT$		**NT$**	**US$ (Note 2)**	
VIA Technologies Inc.	$ 170	88	$ -	$ -	-
Chander Electronics Corp.	24	12	-	-	-
	$ 194	100	$ -	$ -	-

Property Transaction

In the first quarter of 2006, the Company sold equipment to High Tech Computer Corp. (Suzhou) for NT$3,686 thousand (US$114 thousand) and resulted in gains for NT$2,091 thousand (US$64 thousand).

24. COMMITMENTS AND CONTINGENCIES

As of March 31, 2006, unused letters of credit amounted to US$185 thousand and EUR€92 thousand.

25. SIGNIFICANT CONTRACT

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.

26. OTHER EVENTS

Donation

The Company donated NT$165,751 thousand (US$5,113 thousand) for the three months ended 2006 to High Tech Computer Foundation for Social Welfare Charity to help disadvantaged minority, teenagers and other people in need.