High Tech Computer Corp. and Subsidiaries

Consolidated Financial Statements for the Six Months Ended June 30, 2005 and 2006 and 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 June 30, 2005 and 2006, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the six months 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 June, 2005 and 2006, and the results of their operations and their cash flows for the six months then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

Our audits also comprehended the translation of the 2006 New Taiwan dollar amounts into U.S. dollars and, in our opinion, such translation has been made in conformity with the basis stated in Note 2. Such U.S. dollar amounts are presented solely for the convenience of readers.

August 4, 2006

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

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 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 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. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2005 AND 2006
(In Thousands)

ASSETS	2005 NT$	2006 NT$	2006 US$ (Note 2)
CURRENT ASSETS			
Cash and cash equivalents (Note 4)	$ 11,628,642	$ 28,106,066	$ 868,275
Financial assets at fair value through profit or loss (Notes 2 and 5)	-	11,005	340
Notes receivable, net (Notes 2 and 7)	347,274	515,932	15,939
Accounts receivable, net (Notes 2 and 7)	7,726,383	15,630,125	482,858
Accounts receivable from related parties (Notes 2 and 22)	5,971	1,308	40
Other current financial assets (Note 8)	57,806	75,542	2,334
Inventories (Notes 2 and 9)	3,947,832	5,688,896	175,746
Prepayments (Note 10)	636,418	884,454	27,323
Deferred income tax assets (Notes 2 and 19)	165,460	268,630	8,299
Total current assets	24,515,786	51,181,958	1,581,154
LONG-TERM INVESTMENTS			
Available-for-sale financial assets (Notes 2 and 6)	947	1,201	37
Financial assets carried at cost (Notes 2 and 11)	1,192	1,192	37
Total long-term investments	2,139	2,393	74
PROPERTY, PLANT AND EQUIPMENT, NET (Notes 2, 12 and 22)			
Cost			
Land	576,001	610,293	18,854
Buildings and structures	951,716	1,078,977	33,333
Machinery and equipment	2,420,018	2,737,110	84,557
Molding equipment	201,567	201,567	6,227
Computer equipment	171,964	192,601	5,950
Transportation equipment	2,482	3,133	97
Furniture and fixtures	114,829	120,335	3,717
Leased assets	-	4,712	145
Leasehold improvements	56,311	42,888	1,325
	4,494,888	4,991,616	154,205
Less accumulated depreciation	(2,008,618)	(2,571,269)	(79,434)
Prepayments for construction-in-progress and equipment-in-transit	151,990	25,795	797
Property, plant and equipment, net	2,638,260	2,446,142	75,568
OTHER ASSETS			
Refundable deposits	7,087	37,868	1,170
Deferred charges (Note 2)	175,650	138,002	4,263
Deferred tax assets (Notes 2 and 19)	158,054	193,821	5,988
Other (Note 2)	30,973	62,225	1,922
Total other assets	371,764	431,916	13,343
TOTAL	$ 27,527,949	$ 54,062,409	$ 1,670,139

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)	$ 9,764	$ -	$ -
Notes and accounts payable	8,411,010	15,869,076	490,240
Notes and accounts payable to related parties (Note 22)	117,389	224	7
Income tax payable (Notes 2 and 19)	210,291	763,575	23,589
Accrued expenses (Note 13)	667,659	1,630,126	50,359
Payable for purchase of equipment	22,097	15,057	465
Other current liabilities (Note 14)	2,350,244	6,954,814	214,854
Total current liabilities	11,788,454	25,232,872	779,514
OTHER LIABILITIES			
Guarantee deposits received (Note 16)	495,160	613	19
Total liabilities	12,283,614	25,233,485	779,533
EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF PARENT (Note 17)			
Capital stock			
Common stock	2,887,633	3,570,160	110,292
Stock dividend for distribution	682,527	794,032	24,530
Capital surplus			
Additional paid-in capital - common stock	4,410,871	4,410,871	136,264
Long-term equity investments	-	15,845	489
Additional paid-in capital from merger	25,972	25,972	802
Retained earnings			
Legal reserve	813,326	1,991,520	61,524
Special reserve	19,133	6,175	191
Accumulated earnings	6,426,542	17,873,984	552,178
Cumulative translation adjustments (Note 2)	(20,645)	(3,272)	(101)
Unrealized losses on financial instruments (Notes 2 and 6)	(1,024)	(770)	(24)
Total equity attributable to stockholders of the parent	15,244,335	28,684,517	886,145
MINORITY INTEREST IN SUBSIDIARIES	-	144,407	4,461
Total stockholders' equity	15,244,335	28,828,924	890,606
TOTAL	$ 27,527,949	$ 54,062,409	$ 1,670,139

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

HIGH TECH COMPUTER CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2005 AND 2006
(In Thousands, Except Earnings Per Share)

	2005	2006	
	NT$	NT$	US$ (Note 2)
REVENUES (Notes 2 and 22)			
Gross sales	$ 28,267,058	$ 49,378,439	$ 1,525,438
Less sales returns and discounts	(104,159)	(119,878)	(3,703)
Net sales	28,162,899	49,258,561	1,521,735
Other revenues	464,985	483,635	14,941
Total revenues	28,627,884	49,742,196	1,536,676
COST OF REVENUES (Note 22)	22,047,945	34,393,166	1,062,501
GROSS PROFIT	6,579,939	15,349,030	474,175
OPERATING EXPENSES (Notes 18 and 22)			
Administrative and selling expenses	981,330	2,076,855	64,160
Research and development expenses	1,071,791	1,275,507	39,404
Total operating expenses	2,053,121	3,352,362	103,564
OPERATING INCOME	4,526,818	11,996,668	370,611
NONOPERATING INCOME AND GAINS			
Interest income	55,203	167,724	5,181
Gain on sale of property, plant and equipment	-	2,568	79
Gain on physical inventories	3,231	-	-
Foreign exchange gain (Note 2)	-	198,286	6,126
Valuation gain on financial instruments, net (Notes 2, 3, 5 and 21)	-	11,005	340
Rental revenue (Note 22)	339	-	-
Other	30,997	121,878	3,765
Total nonoperating income and gains	89,770	501,461	15,491
NONOPERATING EXPENSES AND LOSSES			
Interest expense	19,718	156	5
Losses on disposal of property, plant and equipment	504	2,452	76
Loss on physical inventories	-	2,210	68
Foreign exchange loss (Note 2)	214,401	-	-
Provision for loss on decline in value of inventory	193,710	599,616	18,524
Valuation loss on financial instruments, net (Notes 2, 3, 5 and 21)	9,764	-	-
Other	5,303	3,933	121
Total nonoperating expenses and losses	443,400	608,367	18,794

(Continued)

HIGH TECH COMPUTER CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2005 AND 2006
(In Thousands, Except Earnings Per Share)

	2005	2006	
	NT$	NT$	US$ (Note 2)
INCOME BEFORE INCOME TAX	4,173,188	11,889,762	367,308
INCOME TAX EXPENSE (Notes 2 and 19)	(116,957)	(760,790)	(23,503)
NET INCOME	$ 4,056,231	$ 11,128,972	$ 343,805
ATTRIBUTABLE TO			
Stockholders of the parent	$ 4,056,231	$ 11,130,221	$ 343,844
Minority interest	-	(1,249)	(39)
	$ 4,056,231	$ 11,128,972	$ 343,805

	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 20)	$ 9.69	$ 9.41	$ 27.25	$ 0.84	$ 25.50	$ 0.79
DILUTED EARNINGS PER SHARE (Note 20)	$ 9.59	$ 9.32	$ 26.83	$ 0.83	$ 25.11	$ 0.78

(Concluded)

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

HIGH TECH COMPUTER CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2005 AND 2006
(In Thousands)

	Capital Stock			Capital Surplus			Retained Earnings						
New Taiwan Dollars	**Common Stock**	**Capital Collected in Advance**	**Stock Dividend for Distribution**	**Additional Paid-in Capital - Common Stock**	**Long-Term Equity Investments**	**Additional Paid-in Capital from Merger**	**Legal Reserve**	**Special Reserve**	**Accumulated Earnings**	**Cumulative Translation Adjustments**	**Unrealized Losses on Financial Instruments**	**Minority Interest**	**Total**
BALANCE, JANUARY 1, 2005	$ 2,714,276	$ 48,838	$ -	$ 3,064,356	$ -	$ 25,972	$ 427,791	$ 1,983	$ 5,105,339	$ (17,865)	$ (1,268)	$ -	$ 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)
Capital collected in advance transferred to common stock	48,838	(48,838)	-	-	-	-	-	-	-	-	-	-	-
Convertible bonds converted to common stock	124,519	-	-	1,346,515	-	-	-	-	-	-	-	-	1,471,034
Net income for the six months ended June 30, 2005	-	-	-	-	-	-	-	-	4,056,231	-	-	-	4,056,231
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	(2,780)	-	-	(2,780)
Unrealized gains on financial instruments	-	-	-	-	-	-	-	-	-	-	244	-	244
BALANCE, JUNE 30, 2005	$ 2,887,633	$ -	$ 682,527	$ 4,410,871	$ -	$ 25,972	$ 813,326	$ 19,133	$ 6,426,542	$ (20,645)	$ (1,024)	$ -	$ 15,244,335
BALANCE, JANUARY 1, 2006	$ 3,570,160	$ -	$ -	$ 4,410,871	$ -	$ 25,972	$ 813,326	$ 19,133	$ 14,152,255	$ (5,041)	$ (1,135)	$ -	$ 22,985,541
Adjustments for adopting the newly released SFAS No. 34	-	-	-	-	-	-	-	-	-	-	48	-	48
Appropriation of 2005 net earnings													
Legal reserve	-	-	-	-	-	-	1,178,194	-	(1,178,194)	-	-	-	-
Special reserve	-	-	-	-	-	-	-	(12,958)	12,958	-	-	-	-
Stock dividends	-	-	714,032	-	-	-	-	-	(714,032)	-	-	-	-
Transfer of employee bonuses to capital stock	-	-	80,000	-	-	-	-	-	(80,000)	-	-	-	-
Employee bonuses	-	-	-	-	-	-	-	-	(451,000)	-	-	-	(451,000)
Cash dividends	-	-	-	-	-	-	-	-	(4,998,224)	-	-	-	(4,998,224)
Adjustment arising from changes of percentage of ownership in investees	-	-	-	-	15,845	-	-	-	-	-	-	-	15,845
Net income for the six months ended June 30, 2006	-	-	-	-	-	-	-	-	11,130,221	-	-	(1,249)	11,128,972
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	1,769	-	-	1,769
Unrealized gains on financial instruments	-	-	-	-	-	-	-	-	-	-	317	-	317
Increase in minority interest	-	-	-	-	-	-	-	-	-	-	-	145,656	145,656
BALANCE, JUNE 30, 2006	$ 3,570,160	$ -	$ 794,032	$ 4,410,871	$ 15,845	$ 25,972	$ 1,991,520	$ 6,175	$ 17,873,984	$ (3,272)	$ (770)	$ 144,407	$ 28,828,924

(Continued)

HIGH TECH COMPUTER CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2005 AND 2006
(In Thousands)

	Capital Stock			Capital Surplus			Retained Earnings						
United States Dollars	**Common Stock**	**Capital Collected in Advance**	**Stock Dividend for Distribution**	**Additional Paid-in Capital - Common Stock**	**Long-Term Equity Investments**	**Additional Paid-in Capital from Merger**	**Legal Reserve**	**Special Reserve**	**Accumulated Earnings**	**Cumulative Translation Adjustments**	**Unrealized Losses on Financial Instruments**	**Minority Interest**	**Total**
BALANCE, JANUARY 1, 2006	$ 110,292	$ -	$ -	$ 136,264	$ -	$ 802	$ 25,126	$ 591	$ 437,204	$ (156)	$ (35)	$ -	$ 710,088
Adjustments for adopting the newly released SFAS No. 34	-	-	-	-	-	-	-	-	-	-	1	-	1
Appropriation of 2005 net earnings													
Legal reserve	-	-	-	-	-	-	36,398	-	(36,398)	-	-	-	-
Special reserve	-	-	-	-	-	-	-	(400)	400	-	-	-	-
Stock dividends	-	-	22,058	-	-	-	-	-	(22,058)	-	-	-	-
Transfer of employee bonuses to capital stock	-	-	2,472	-	-	-	-	-	(2,472)	-	-	-	-
Employee bonuses	-	-	-	-	-	-	-	-	(13,933)	-	-	-	(13,933)
Cash dividends	-	-	-	-	-	-	-	-	(154,409)	-	-	-	(154,409)
Adjustment arising from changes of percentage of ownership in investees	-	-	-	-	489	-	-	-	-	-	-	-	489
Net income for the six months ended June 30, 2006	-	-	-	-	-	-	-	-	343,844	-	-	(39)	343,805
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	55	-	-	55
Unrealized gains on financial instruments	-	-	-	-	-	-	-	-	-	-	10	-	10
Increase in minority interest	-	-	-	-	-	-	-	-	-	-	-	4,500	4,500
BALANCE, JUNE 30, 2006	$ 110,292	$ -	$ 24,530	$ 136,264	$ 489	$ 802	$ 61,524	$ 191	$ 552,178	$ (101)	$ (24)	$ 4,461	$ 890,606

(Concluded)

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

HIGH TECH COMPUTER CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2005 AND 2006
(In Thousands)

	2005	2006	
	NT$	NT$	US$ (Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 4,056,231	$11,128,972	$ 343,805
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	296,249	305,356	9,433
Amortization	23,834	27,250	842
Loss (gain) on disposal of property, plant and equipment	504	(116)	(4)
Provision for redemption of convertible bonds	2,042	-	-
Foreign-currency gains from conversion of convertible bonds	(8,179)	-	-
Amortization of bond issue costs	17,675	-	-
Deferred income tax assets	(98,747)	16,409	507
Prepaid pension costs	(23,310)	(12,465)	(385)
Net changes in operating assets and liabilities			
Financial liabilities at fair value through profit or loss	10,858	49,080	1,516
Notes receivable	(275,518)	(416,845)	(12,878)
Accounts receivable	663,684	(1,243,020)	(38,400)
Accounts receivable from related parties	(4,961)	410	13
Other current financial assets	43,770	22,484	695
Inventories	321,441	(370,865)	(11,457)
Prepayments	(379,180)	(466,490)	(14,411)
Notes and accounts payable	483,699	1,847,999	57,090
Notes and accounts payable to related parties	91,327	(55,580)	(1,717)
Income tax payable	115,790	146,712	4,532
Accrued expenses	(213,625)	387,864	11,982
Other current liabilities	291,668	302,927	9,358
Net cash provided by operating activities	5,415,252	11,670,082	360,521
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(395,370)	(146,636)	(4,530)
Proceeds from sale of property, plant and equipment	-	4,768	147
Proceeds from liquidation of long-term investments	4,312	-	-
Increase in refundable deposits	(417)	(1,276)	(39)
Increase in deferred charges	(1,091)	(9,484)	(293)
Net cash used in investing activities	(392,566)	(152,628)	(4,715)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in minority interest	-	161,501	4,989
Increase in guarantee deposits received	222,082	52	2
Bonus to employees	(4,500)	-	-
Net cash provided by financing activities	217,582	161,553	4,991

(Continued)

HIGH TECH COMPUTER CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2005 AND 2006
(In Thousands)

	2005	2006	
	NT$	NT$	US$ (Note 2)
EFFECT OF EXCHANGE RATE CHANGES	(2,168)	1,833	57
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,238,100	11,680,840	360,854
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	6,390,542	16,425,226	507,421
CASH AND CASH EQUIVALENTS, END OF PERIOD	$11,628,642	$28,106,066	$ 868,275
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the period			
Income tax	$ 99,914	$ 597,669	$ 18,464
NONCASH INVESTING AND FINANCING ACTIVITIES			
Transfer of retained earnings and bonus to employees to stock dividend to be distributed	$ 682,527	$ 794,032	$ 24,530
Transfer of convertible bonds to common stock and additional paid-in capital	$ 1,471,034	$ -	$ -
PURCHASE OF PROPERTY, PLANT AND EQUIPMENT			
Cost of property, plant and equipment purchased	$ 360,412	$ 145,958	$ 4,509
Decrease in payable for purchase of equipment	34,958	4,988	154
Increase in lease payable	-	(4,310)	(133)
	$ 395,370	$ 146,636	$ 4,530
CASH DIVIDEND, BONUS TO EMPLOYEES AND DIRECTORS' REMUNERATION			
Appropriation of cash dividend, bonus to employees and directors' remuneration	$ 1,649,816	$ 5,449,224	$ 168,342
Increase in payable for cash dividend, bonus to employees and directors' remuneration	(1,645,316)	(5,449,224)	(168,342)
	$ 4,500	$ -	$ -

(Concluded)

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

1. ORGANIZATION AND OPERATIONS

High Tech Computer Corp. (HTCC) 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, HTCC had an initial public offering and, in March 2002, had its stock listed on the Taiwan Stock Exchange. On November 19, 2003, HTCC started trading Global Depositary Receipts on the Luxembourg Stock Exchange.

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.

HTCC has two directly owned subsidiaries, H.T.C. (B.V.I.) Corp. and BandRich Inc. H.T.C. (B.V.I.) Corp. was incorporated in August 2000 to engage in global investing activities and has six directly wholly owned subsidiaries: HTEK, HTC America Inc., HTC EUROPE Co., Ltd., High Tech Computer Corp. (Suzhou), Exedea Inc. and HTC NIPPON Corporation. H.T.C. (B.V.I.) Corp. makes investments on behalf of HTCC.

BandRich Inc. was incorporated in April 2006 to engage in designing, manufacturing and selling of electronic devices

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

HTC America Inc. (formerly HTC USA Inc. until August 2, 2006) and HTC EUROPE Co., Ltd., which engage mainly in repair and after-sales service, were incorporated in January 2003 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 HTCC and subsidiaries deliver their products.

HTC NIPPON Corporation was incorporated in March 2006 to engage mainly in distribution and after-sales service

HTCC and subsidiaries (collectively, the “Company”) had 3,744 and 4,930 employees as of June 30, 2005 and 2006, 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, pension, and warranty. Actual results could differ from these estimates.

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

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

Consolidation

The consolidated entities as of June 30, 2005 and 2006 were as follows:

			% of Ownership		
Name of Investor	**Name of Investee**	**Main Businesses**	**2005**	**2006**	**Remark**
High Tech Computer Corp.	H.T.C. (B.V.I.) Corp.	Global investing activities	100	100	
	BandRich Inc.	Design, manufacture and sale of electronic devices	-	51	Incorporated in April 2006
H.T.C. (B.V.I.) Corp.	HTEK	Marketing and engineering support activities	100	100	
	HTC America Inc.	Repair and after-sales service	100	100	
	HTC EUROPE Co., Ltd.	Repair and after-sales service	100	100	
	High Tech Computer Corp. (Suzhou)	Manufacture and sale of smart handheld devices	100	100	
	Exedea Inc.	Distribution and sales	-	100	Invested in July 2005
	HTC NIPPON Corporation	Distribution and after-sales service	-	100	Incorporated in March 2006

The Company included the accounts of all direct and indirect subsidiaries in the consolidated financial statements as of and for the six months ended June 30, 2005 and 2006. All significant intercompany balances and transactions have been eliminated. Minority interest in subsidiaries is presented separately in the financial statements.

Translation into United States (US) Dollars

The financial statements are stated in New Taiwan dollars. The translation 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$32.37 to US$1.00 quoted by the Bank of Taiwan on June 30, 2006. The convenience translation 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, 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 Receivable 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 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 based on historical experience, management's judgment, and any known factors that would significantly affect the allowance.

Sales prices 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.

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.

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 should not exceed the asset carrying amount (net of depreciation) that would have been determined had no impairment loss been recognized in prior years. An impairment loss of an asset revalued under certain regulations 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 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, HTCC 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 HTCC's contributions to the plan increased from 2% to 8% of employees' salaries and wages and decreased to 2% after the New Labor Pension Act took effect. The funds are deposited in the Central Trust of China, a government-designated custodian of pension funds, and are managed by HTCC's Pension Fund Administration Committee. The pension fund balances were NT$244,377 thousand and NT$291,477 (US$9,005 thousand) as of June 30, 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 six months ended June 30, 2006 was NT$42,031 thousand (US$1,298 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.

HTC EUROPE Co., Ltd. and 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 America Inc., Exedea Inc. and HTC NIPPON Corporation have no pension plans.

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 tax on unappropriated earnings (excluding earnings from foreign consolidated subsidiaries) of 10% is 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.

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

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.

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 2005 accounts have been reclassified to conform to the presentation of the financial statements for the six months ended June 30, 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 Cumulative Effect of Change in Accounting Principles (After Tax)	As Adjustments in Stockholders' Equity (After Tax)
Available-for-sale financial assets	$ -	$ 48

The adoption of newly released SFASs did not have effect on net income for the six months ended June 30, 2006.

b. Reclassifications

Upon the adoption of SFAS No. 34, certain accounts in the financial statements as of and for the six months ended June 30, 2005 were reclassified to conform to the financial statements as of and for the six months ended June 30, 2006. The previously issued financial statements as of and for the six months ended June 30, 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 - carried at cost method

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 six months ended June 30, 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:

	(Before Reclassification)	**(After Reclassification**
Balance sheets		
Other current liabilities	$ 9,764	$ -
Financial liabilities at fair value through profit or loss	-	9,764
Long-term equity investments	2,139	-
Available-for-sale financial assets - noncurrent	-	947
Financial assets carried at cost - noncurrent	-	1,192
Stockholders’ equity		
Unrealized valuation loss on long-term investments	(1,024)	-
Unrealized losses on financial instruments	-	(1,024)
Statement of income		
Foreign exchange loss, net	9,764	-
Valuation loss on financial instruments, net	-	9,764

The Company adopted the revised Statements of Financial Accounting Standards No.1 "Conceptual Framework for Financial Accounting and Preparation of Financial Statements", No. 5 "Long-term Investments in Equity Securities", and No.25 "Business Combinations" from January 1, 2006. The adoption did not have effect on the financial statements for the six months ended June 30, 2006.

The Company adopted Statement of Financial Accounting Standards No. 35 "Impairment of Assets" from January 1, 2005. The adoption did not have effect on the financial statements for the six months ended June 30, 2005.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2005 and 2006 were as follows:

	2005	2006	
	NT$	NT$	US$ (Note 2)
Cash on hand	$ 1,043	$ 1,064	$ 33
Cash in banks	3,497,811	4,064,602	125,567
Time deposits	8,129,788	24,040,400	742,675
	$ 11,628,642	$ 28,106,066	$ 868,275

As of June 30, 2005 and 2006, interest rates on domestic currency time deposits ranged from 1.00% to 1.45% and from 1.30% to 2.005%, respectively.

As of June 30, 2005 and 2006, interest rates on foreign currency time deposits or preferential deposit ranged from 2.00% to 4.55% and from 2.43% to 4.97%, 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 June 30, 2005 and 2006 were as follows:

	2005	2006	
	NT$	NT$	US$ (Note 2)
Derivatives - financial assets			
Forward exchange contracts	$ -	$ 11,005	$ 340
Derivatives - financial liabilities			
Forward exchange contracts	9,764	-	-

The Company entered into derivative transactions during the six months ended June 30, 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 six months ended June 30, 2006. Outstanding forward exchange and currency option contracts as of June 30, 2005 and 2006 were as follows:

Forward Exchange Contracts

	2005			
	Buy/Sell	Currency	Expiry Date	Contract Amount
Forward exchange contracts	Sell	USD/NTD	2005.07.01~2005.08.05	US$ 65,000
Forward exchange contracts	Sell	EUR/USD	2005.07.01~2005.07.22	EUR€ 18,000
Forward exchange contracts	Sell	GBP/USD	2005.07.07	GBP£ 2,000

	2006			
	Buy/Sell	Currency	Expiry Date	Contract Amount
Forward exchange contracts	Sell	USD/NTD	2006.07.05~2006.09.06	US$ 89,000
Forward exchange contracts	Sell	EUR/USD	2006.07.05~2006.09.27	EUR€ 93,000
Forward exchange contracts	Sell	EUR/JPY	2006.07.07	EUR€ 250
Forward exchange contracts	Sell	USD/JPY	2006.07.07	US$ 800
Forward exchange contracts	Sell	GBP/USD	2006.07.14	GBP£ 500

The transactions of derivative financial instruments resulted in losses of NT$7,987 thousand and NT$137,307 thousand (US$4,242 thousand) for the six months ended June 30, 2005 and 2006, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets as of June 30, 2005 and 2006 were as follows:

	2005	2006	
	NT$	NT$	US$ (Note 2)
VIA Technologies, Inc.	$ 947	$ 1,201	$ 37

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

7. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable as of June 30, 2005 and 2006 were as follows:

	2005	2006	
	NT$	NT$	US$ (Note 2)
Notes receivable	$ 347,274	$ 515,932	$ 15,939
Accounts receivable	7,743,675	15,633,958	482,977
Less allowance for doubtful accounts	(17,292)	(3,833)	(119)
	$ 8,073,657	$ 16,146,057	$ 498,797

8. OTHER CURRENT FINANCIAL ASSETS

Other current financial assets as of June 30, 2005 and 2006 were as follows:

	2005	2006	
	NT$	NT$	US$ (Note 2)
Value-added tax refund receivables	$ 25,500	$ 23,469	$ 725
Other receivables	23,664	23,233	718
Payment on behalf of others	4,768	15,580	481
Interest receivable	3,874	12,916	399
Others	-	344	11
	$ 57,806	$ 75,542	$ 2,334

Other receivables were primarily overseas value-added tax refund receivables and proceeds from sales of properties.

9. INVENTORIES

Inventories as of June 30, 2005 and 2006 were as follows:

	2005	2006	
	NT$	NT$	US$ (Note 2)
Finished goods	$ 590,526	$ 874,579	$ 27,018
Work-in-process	1,433,967	1,765,838	54,552
Raw materials	2,385,089	4,057,877	125,359
	4,409,582	6,698,294	206,929
Less valuation allowance	(461,750)	(1,009,398)	(31,183)
	$3,947,832	$5,688,896	$175,746

10. PREPAYMENTS

Prepayments as of June 30, 2005 and 2006 were as follows:

	2005	2006	
	NT$	NT$	US$ (Note 2)
Prepayments for royalty (Note 24)	$459,721	$688,356	$21,265
Prepayment for molding equipment	85,141	65,383	2,020
Prepayments for travel	18,784	32,037	990
Prepayments for materials purchases	4,571	265	8
Others	68,201	98,413	3,040
	$636,418	$884,454	$27,323

Prepayments for others were primarily for insurance expenses and rental expenses.

11. FINANCIAL ASSETS CARRIED AT COST

Financial assets carried at cost as of June 30, 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 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. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of June 30, 2005 and 2006 were as follows:

	2005	2006			
	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NT$	NT$	NT$	NT$	US$ (Note 2)
Land	$ 576,001	$ 610,293	$ -	$ 610,293	$ 18,854
Buildings and structures	709,597	1,078,977	311,872	767,105	23,698
Machinery and equipment	967,530	2,737,110	1,811,532	925,578	28,594
Molding equipment	-	201,567	201,567	-	-
Computer equipment	167,502	192,601	141,812	50,789	1,569
Transportation equipment	1,229	3,133	1,738	1,395	43
Furniture and fixtures	39,119	120,335	79,952	40,383	1,247
Leased assets	-	4,712	393	4,319	133
Leasehold improvements	25,292	42,888	22,403	20,485	633
Prepayments on equipment-in-transit	151,990	25,795	-	25,795	797
	$2,638,260	$5,017,411	$2,571,269	$2,446,142	$ 75,568

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

13. ACCRUED EXPENSES

Accrued expenses as of June 30, 2005 and 2006 were as follows:

	2005	2006	
	NT$	NT$	US$ (Note 2)
Salaries and bonuses	$ 275,510	$ 350,716	$ 10,834
Donation (Note 25)	-	300,000	9,268
Marketing	-	267,305	8,258
Export expenses	71,265	245,652	7,589
Research materials	101,233	121,578	3,756
Insurance	67,351	66,166	2,044
Meals and welfare	32,624	61,148	1,889
Travel	15,712	41,005	1,267
Professional fees	22,820	29,180	901
Others	81,144	147,376	4,553
	$ 667,659	$ 1,630,126	$ 50,359

14. OTHER CURRENT LIABILITIES

Other current liabilities as of June 30, 2005 and 2006 were as follows:

	2005	2006	
	NT$	NT$	US$ (Note 2)
Cash dividend payable	$ 1,443,816	$ 4,998,224	$ 154,409
Reserve for warranty expenses	615,590	1,144,979	35,372
Employee bonus payable	206,000	451,000	13,933
Agency receipts	31,016	113,020	3,491
Advance receipts	19,397	105,613	3,263
Directors' remuneration	21,842	21,842	675
Other	12,583	120,136	3,711
	$ 2,350,244	$ 6,954,814	$ 214,854

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, insurance, and other items.

15. BONDS PAYABLE

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$64,000 thousand into 17,336 thousand shares. As a result, the Company had no outstanding bonds payable as of April 30, 2005.

The number of shares issued 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.

16. GUARANTEE DEPOSITS RECEIVED

Guarantee deposits received as of June 30, 2005 and 2006 included cash received from leasehold and from customers for preparation of key materials.

17. STOCKHOLDERS' EQUITY

Capital Stock

The Company's outstanding common stock as of January 1, 2005 amounted to NT$2,714,276 thousand, divided into 271,427 thousand shares at NT$10.00 par value. After finishing the registration of 4,884 thousand shares in capital collected in advance, 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. As a result, the amount of the Company's outstanding common stock as of June 30, 2005 increased to NT$2,887,633 thousand, divided into 288,763 thousand common shares at NT$10.00 par value. 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. The amounts to be distributed were accounted for as "stock dividend for distribution" temporarily. After finishing the registration of the shares to be distributed, the amount of the Company's outstanding common stock as of December 31, 2005 increased to NT$3,570,160 thousand, divided into 357,016 thousand common shares at NT$10.00 par value.

Also, in May 2006, the stockholders approved the transfer of retained earnings amounting to NT$714,032 thousand (US$22,058 thousand) and employee bonuses amounting to NT$80,000 thousand (US$2,472 thousand) to capital stock. The amounts to be distributed were accounted for as "stock dividend for distribution" temporarily.

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 June 30, 2006, 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, 7,011 thousand units of the employee stock options were outstanding as of June 30, 2006. 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, the GDRs increased to 7,105.9 thousand units (28,423.9 thousand shares). As of June 30, 2006, the GDRs redeemed comprised 6,022.8 thousand units, representing 24,091.1 thousand common shares, and the outstanding GDRs represented 4,332.8 thousand common shares, or 1.21% of the Company's common stock.

Capital Surplus

The additional paid-in capital was NT$3,064,356 thousand as of January 1, 2005. Then, NT$ 1,346,515 thousand of additional paid-in capital resulted 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 June 30, 2005 and 2006 was NT$4,410,871 thousand. Under the Company Law, the Company may transfer the capital surplus to common stock if there is no accumulated deficit.

When the Company did not subscribe to the new shares issued by BandRich Inc., an adjustment of NT$15,845 thousand (US$489 thousand) was made to the investment's carrying value and capital surplus.

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 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.

Had the Company recognized the employees bonuses of NT$531,000 thousand as expenses in 2005, the pro forma earnings per share in 2005 would have decreased from NT$33.26 to NT$31.76.

18. 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	$585,797	$618,636	$1,204,433	$769,797	$828,913	$1,598,710	$23,781	$25,607	$49,388
Salary	507,005	531,490	1,038,495	654,370	717,519	1,371,889	20,215	22,166	42,381
Insurance	28,948	34,943	63,891	33,594	40,192	73,786	1,038	1,242	2,280
Pension cost	22,982	24,643	47,625	17,894	31,084	48,978	553	960	1,513
Other	26,862	27,560	54,422	63,939	40,118	104,057	1,975	1,239	3,214
Depreciation	181,683	114,566	296,249	183,205	122,151	305,356	5,660	3,773	9,433
Amortization	393	23,441	23,834	9,391	17,859	27,250	290	552	842

19. INCOME TAX

The income tax returns through 2003, except for 2002, had been examined by the tax authorities. The Company disagreed with the 2003 tax assessment notice and applied for a recheck of the assessment. The tax shortage stated in the tax assessment notice was adjusted in tax expense for conservative reason.

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

Provision for income tax for the years ended June 30, 2005 and 2006, deferred tax assets and income tax payable as of June 30, 2005 and 2006 were as follows:

	2005		
	Income Tax Expense (Gain)	Income Tax Payable	Deferred Tax Asset
High Tech Computer Corp.	$117,358	$210,291	$321,036
HTC America Inc.	(401)	-	2,478
Income tax payable	$116,957	$210,291	$323,514

	2006					
	Income Tax Expense		Income Tax Payable		Deferred Tax Assets	
	NT$	US$ (Note 2)	NT$	US$ (Note 2)	NT$	US$ (Note 2)
High Tech Computer Corp.	$762,071	$23,543	$763,575	$23,589	$461,170	$14,247
BandRich Inc.	(1,281)	(40)	-	-	1,281	40
	$760,790	$23,503	$763,575	$23,589	$462,451	$14,287

The tax effects of deductible temporary differences and loss and tax credit carryforwards that gave rise to deferred tax assets as of June 30, 2005 and 2006 were as follows:

	2005	2006	
	NT$	NT$	US$ (Note 2)
Temporary differences			
Unrealized depreciation	$ 1,507	$ -	$ -
Provision for loss on decline in value of inventory	114,560	248,271	7,670
Unrealized royalties	256,049	687,345	21,234
Capitalize expense	39,264	34,532	1,067
Unrealized reserve for warranty expense	153,898	286,245	8,843
Other	860	1,075	32
Prior years' loss carryforwards	-	1,281	40
Tax credit carryforwards	633,588	-	-
Total deferred tax assets	1,199,726	1,258,749	38,886
Less valuation allowance	(858,857)	(745,875)	(23,042)
Total deferred tax asset, net	340,869	512,874	15,844
Deferred tax liability			
Unrealized pension cost	(7,185)	(14,998)	(463)
Unrealized foreign currency exchange gain, net	(10,170)	(35,425)	(1,094)
	323,514	462,451	14,287
Less current portion	(165,460)	(268,630)	(8,299)
Deferred tax assets, noncurrent	$ 158,054	$ 193,821	$ 5,988

Details of the tax credit carryforwards are as follows:

Year of Occurrence	Validity Period	2005	2006	
		NT$	NT$	US$ (Note 2)
2001	2001-2005	$ 77,118	$ -	$ -
2002	2002-2006	56,405	-	-
2003	2003-2007	179,061	-	-
2004	2004-2008	214,346	-	-
2005	2005-2009	106,658	-	-
		$633,588	$ -	$ -

Based on the Income Tax Law of the ROC, the net operating loss within the preceding five years authorized by the appropriate tax authorities may be deducted from the net profit of the current year. The investment and research and development tax credits can be carried forward for four years and 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 six months ended June 30, 2005 and 2006 were as follows:

	2005	2006	
	NT$	NT$	US$ (Note 2)
Current income tax expense	$215,492	$712,677	$22,017
(Increase) decrease in deferred income tax assets	(98,747)	16,409	507
Underestimation of prior year's income tax	212	31,704	979
Income tax expense	$116,957	$760,790	$23,503

The integrated income tax information is as follows:

	2005	2006	
	NT$	NT$	US$ (Note 2)
Balance of imputation credit account	$ 93,811	$ 342,267	$ 10,574
Unappropriated earnings from 1998	6,426,542	17,873,984	552,178
Expected creditable ratio (including income tax payable)	4.73%	6.19%	6.19%

20. 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 430,841 thousand shares and 436,419 thousand shares for the six months ended June 30, 2005 and 2006, respectively. EPS for the six months ended June 30, 2005 were calculated after the average number of shares outstanding was adjusted retroactively for the effect of stock dividend distribution in 2006.

The employee stock options had dilutive effects on the EPS for the six months ended June 30, 2005 and 2006. The related information is as follows:

	2005				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax	Income after Income Tax	Shares (Thousands)	Income before Income Tax	Income after Income Tax
	NT$	NT$		NT$	NT$
Basic EPS	$ 4,173,589	$ 4,056,231	430,841	$ 9.69	$ 9.41
Employee stock options	-	-	4,437		
Diluted EPS	$ 4,173,589	$ 4,056,231	435,278	$ 9.59	$ 9.32

	2006				
	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 EPS	$11,892,292	$11,130,221	436,419	$ 27.25	$ 25.50
Employee stock options	-	-	6,771		
Diluted EPS	$11,892,292	$11,130,221	443,190	$ 26.83	$ 25.11

	2006				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax US$ (Note 2)	Income after Income Tax US$ (Note 2)	Shares (Thousands)	Income before Income Tax US$ (Note 2)	Income after Income Tax US$ (Note 2)
Basic EPS	$ 367,386	$ 343,844	436,419	$ 0.84	$ 0.79
Employee stock options			6,771		
Diluted EPS	$ 367,386	$ 343,844	443,190	$ 0.83	$ 0.78

21. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

Derivative Financial Instruments

	June 30					
	2005		2006			
	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NT$	NT$	NT$	US$	NT$	US$ (Note 2)
Assets						
Financial assets at fair value through profit or loss	$ -	$ -	$ 11,005	$ 340	$ 11,005	$ 340
Liabilities						
Financial liabilities at fair value through profit or loss	9,764	9,764	-	-	-	-

Nonderivative Financial Instruments

	June 30					
	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	$11,628,642	$11,628,642	$28,106,066	$868,275	$28,106,066	$868,275
Receivables	8,079,628	8,079,628	16,147,365	498,837	16,147,365	498,837
Other current financial assets	57,806	57,806	75,542	2,334	75,542	2,334
Long-term investments	2,139	2,139	2,393	74	2,393	74
Other financial assets	7,087	7,017	37,868	1,170	37,519	1,159
Liabilities						
Payables	8,528,399	8,528,399	15,869,300	490,247	15,869,300	490,247
Income tax payable	210,291	210,291	763,575	23,589	763,575	23,589
Accrued expense	667,659	667,659	1,630,126	50,359	1,630,126	50,359
Payable for purchase of equipment	22,097	22,097	15,057	465	15,057	465
Other current financial liabilities	2,330,847	2,330,847	6,849,201	211,591	6,849,201	211,591
Other financial liabilities	495,160	490,257	613	19	607	19

The Company has adopted SFAS No. 34, "Accounting for Financial Instruments" for accounting period beginning on January 1, 2006. The effects of the adoption of these new accounting standards are described in Note 3.

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

a. 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.

b. The fair values of financial instruments at fair value through profit or loss and available-for-sale financial assets 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 methodology that the Company used to determine the fair value of financial instruments was as follows:

	Quoted Market Prices			Measurement Method		
	June 30			June 30		
	2005	2006		2005	2006	
	NT$	NT$	US$ (Note 2)	NT$	NT$	US$ (Note 2)
Assets						
Financial assets at fair value through profit or loss	$ -	$ 11,005	$ 340	$ -	$ -	$ -
Available-for-sale financial assets - noncurrent	947	1,201	37	-	-	-
Financial assets carried at cost	-	-	-	1,192	1,192	37
Refundable deposits	-	-	-	7,017	37,519	1,159
Liabilities						
Financial liabilities at fair value through profit or loss	9,764	-	-	-	-	-
Guarantee deposits received	-	-	-	490,257	607	19

Forward exchange contracts outstanding as of the balance sheet date are marked to market. As of June 30, 2005 and 2006, the Company recorded unrealized exchange loss of NT$9,764 thousand and gain of NT$11,005 thousand (US$340 thousand), respectively, on these contracts. The Company recognized an unrealized loss of gains of NT$244 thousand and NT$317 thousand (US$10 thousand) in shareholder's equity for the changes in fair value of available-for-sale financial assets for the six months ended June 30, 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 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$112,235 thousand and gains of NT$56,150 thousand, assuming that exchange rates in the third quarter of 2006 are between NT$32.14 and NT$32.60 for US$1.00; NT$40.29 and NT$42.05 for every €1.00; and NT$54.79 and NT$58.41 for every GBP1.00. Because the Company has sufficient working capital to settle these contracts, there are no future cash requirements for contract settlement.

22. RELATED-PARTY TRANSACTIONS

The names and relationships of related parties are as follows:

Related Party	Relationship with the Group
First International Computer Inc. (FIC)	Chairperson is an immediate relative of the Company's chairperson
VIA Technologies, Inc.	Chairperson is the Company's chairperson
Chander Electronics Corp.	Chairperson is the Company's chairperson
Comserve Network Netherlands B.V.	Main director is an immediate relative of the Company's chairperson

Major transactions with related parties are summarized below:

Purchases of Inventories and Services

	Six Months Ended June 30				
	2005		2006		
Related Party	Amount NT$	% of Total Net Purchases	Amount NT$	Amount US$ (Note 2)	% of Total Net Purchases
Chander Electronics Corp.	$ 263,415	1	$ 72,175	$ 2,230	-

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

Sales and Services Provided

	Six Months Ended June 30				
	2005		2006		
Related Party	Amount NT$	% of Total Revenues	Amount NT$	Amount US$ (Note 2)	% of Total Revenues
Comserve Network Netherlands B.V.	$ 53,470	-	$ -	$ -	-
Others	1,525	-	785	24	-
	$ 54,995	-	$ 785	$ 24	-

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

Notes and Accounts Receivable

	June 30				
	2005		2006		
Related Party	Amount NT$	% of Total Notes and Accounts Receivable	Amount NT$	Amount US$ (Note 2)	% of Total Notes and Accounts Receivable
Comserve Network Netherlands B.V.	$ 5,971	-	$ -	$ -	-
Others	-	-	1,308	40	-
	$ 5,971	-	$ 1,308	$ 40	-

Notes and Accounts Payable

	June 30				
	2005		2006		
Related Party	Amount NT$	% of Total Notes and Accounts Payable	Amount NT$	Amount US$ (Note 2)	% of Total Notes and Accounts Payable
Chander Electronics Corp.	$ 117,389	1	$ 224	$ 7	-

Outsourcing Expense

	Six Months Ended June 30				
	2005		2006		
Related Party	Amount NT$	% of Outstanding Expense	Amount NT$	Amount US$ (Note 2)	% of Outstanding Expense
First International Computer Inc. (FIC)	$ 7,350	4	$ -	$ -	-

Service Warranty Expense

	Six Months Ended June 30				
	2005		2006		
Related Party	Amount NT$	% of Warranty Expenses	Amount NT$	Amount US$ (Note 2)	% of Warranty Expenses
Comserve Network Netherlands B.V.	$ 68,649	14	$ -	$ -	-

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

Administrative and Selling Expenses - Service Fees

	Six Months Ended June 30				
	2005		2006		
Related Party	Amount NT$	% to Total Service Expenses	Amount NT$	US$ (Note 2)	% to Total Service Expenses
VIA Technologies Inc.	$ 2,400	6	$ 1,200	$ 37	1

Leasing - Lessee

Operating Expense - Rental Expense

	Six Months Ended June 30				
	2005		2006		
Related Party	Amount NT$	% of Total Rental Expense	Amount NT$	US$ (Note 2)	% of Total Rental Expense
VIA Technologies, Inc.	$ 8,304	55	$ -	$ -	-

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

	Six Months Ended June 30				
	2005		2006		
Related Party	Amount NT$	% of Rental Revenue	Amount NT$	US$ (Note 2)	% of Rental Revenue
VIA Technologies, Inc.	$ 339	100	$ -	$ -	-

Property Transaction

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

23. COMMITMENTS AND CONTINGENCIES

As of June 30, 2006, unused letters of credit amounted to US$921 thousand, JP¥829,466 thousand, and EUR€109 thousand.

24. SIGNIFICANT CONTRACT

Patent Agreement

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. (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.	Authorization to use CDMA technology to manufacture and sell units; royalty payment based on agreement.
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.

Contractor	Contract Term	Description
ALCATEL/TCL & Alcatel	July 1, 2004-June 30, 2009	Authorization to use GSM, GPRS or EDGE patent license or technology; royalty payment based on agreement.
Siemens Aktiengesellschaft	July 1, 2004 to the expiry dates of these patents.	Authorization to use GSM, GPRS or EDGE patent license or technology; royalty payment based on agreement.
Lucent Technologies GRL LLC	July 1, 2004-June 30, 2009	Authorization to use GSM, GPRS, EDGE, CDMA or WCDMA patent license or technology; royalty payment based on agreement.

25. OTHER EVENTS

Donation

The Company donated NT$300,000 thousand (US$9,268 thousand) based on the Company's internal donation regulation for the six months ended 2006 to High Tech Computer Foundation for Social Welfare Charity to help disadvantaged minority, teenagers and other people in need.

Overseas DR offering

The Company's Board of Directors had been authorized by the 2006 annual general shareholders' meeting dated May 2, 2006 to issue up to 16,000 thousand common shares to sponsor overseas DR offering which was proved latter by the Financial Supervisory Commission, Executive Yuan. Information on overseas DR offering can be accessed online through the Market Observation Post System on the Web site of the Taiwan Stock Exchange.

Other

The board of directors of the Company had resolved to sign a memorandum of understanding with Dopod (Cayman) Holding Corporation in June, 2006. According to the Company's assessment to Dopod, the entire Dopod (100% of Dopod equity) to be valued at no more than US$150 million and the Company is planning to acquire over 50% of Dopod shares. The transaction details, the business cooperation plans, the rights and obligations of both, and other related affairs will be negotiated and subject to further due diligence.