High Tech Computer Corp.

Financial Statements for the
Six Months Ended June 30, 2004, 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 balance sheets of High Tech Computer Corp. (the "Company") as of June 30, 2004, 2005 and 2006, and the related statements of income, changes in stockholders' equity, and cash flows for the six months then ended, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of High Tech Computer Corp. as of June 30, 2004, 2005 and 2006, and the results of its operations and its 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.

We have also audited the consolidated financial statements of High Tech Computer Corp. as of and for the six months ended June 30, 2005 and 2006 and have expressed an unqualified opinion on those financial statements in our report dated August 4, 2006.

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

Notice to Readers

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

The auditors' report and the accompanying financial statements were originally presented in more than one set of Chinese reports. For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail. Also, as stated in Note 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
JUNE 30, 2004, 2005 AND 2006
(In Thousands, Except Par Value)

ASSETS	2004 NT$	2005 NT$	2006 NT$	2006 US$ (Note 2)
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 5,724,040	$ 11,388,664	$ 27,575,494	$ 851,884
Financial assets at fair value through profit or loss (Notes 2 and 5)	-	-	11,005	340
Available-for-sale financial assets - current (Notes 2 and 6)	1,125,640	-	-	-
Notes receivable, net (Notes 2 and 7)	172,599	347,274	515,932	15,939
Accounts receivable, net (Notes 2 and 7)	4,895,846	7,659,630	14,844,114	458,576
Accounts receivable from related parties (Notes 2 and 23)	86,786	187,186	1,068,606	33,012
Other current financial assets (Notes 8 and 23)	85,211	61,315	139,065	4,296
Inventories (Notes 2 and 9)	2,240,565	3,812,511	4,974,358	153,672
Prepayments (Notes 10 and 23)	412,149	624,240	894,411	27,631
Deferred income tax assets (Notes 2 and 20)	129,441	162,982	268,630	8,299
Total current assets	14,872,277	24,243,802	50,291,615	1,553,649
LONG-TERM INVESTMENTS				
Available-for-sale financial assets - noncurrent (Notes 2 and 6)	1,166	947	1,201	37
Financial assets carried at cost (Notes 2 and 11)	1,192	1,192	1,192	37
Investments accounted for using equity method (Notes 2 and 12)	175,971	321,860	486,164	15,019
Prepayments for long-term investments (Notes 2 and 12)	-	-	78,216	2,416
Total long-term investments	178,329	323,999	566,773	17,509
PROPERTY, PLANT AND EQUIPMENT, NET (Notes 2, 13 and 23)				
Cost				
Land	301,111	576,001	610,293	18,854
Buildings and structures	841,084	951,716	1,078,977	33,333
Machinery and equipment	1,837,632	2,390,704	2,644,184	81,686
Molding equipment	201,567	201,567	201,567	6,227
Computer equipment	135,342	156,913	167,642	5,179
Transportation equipment	1,315	1,315	1,938	60
Furniture and fixtures	98,696	103,148	100,391	3,101
Leased assets	-	-	4,712	145
Leasehold improvements	34,353	45,542	22,816	705
	3,451,100	4,426,906	4,832,520	149,290
Less accumulated depreciation	(1,446,033)	(1,991,356)	(2,528,347)	(78,108)
Prepayments for construction-in-progress and equipment-in-transit	93,462	151,990	25,795	797
Property, plant and equipment, net	2,098,529	2,587,540	2,329,968	71,979
OTHER ASSETS				
Refundable deposits	2,028	6,297	35,625	1,101
Deferred charges (Note 2)	206,794	167,308	134,534	4,156
Deferred bond issuance costs (Note 2)	29,503	-	-	-
Deferred tax assets (Notes 2 and 20)	129,225	158,054	192,540	5,948
Other (Note 2)	-	30,973	62,225	1,922
Total other assets	367,550	362,632	424,924	13,127
TOTAL	$ 17,516,685	$ 27,517,973	$ 53,613,280	$ 1,656,264

LIABILITIES AND STOCKHOLDERS' EQUITY	2004 NT$	2005 NT$	2006 NT$	2006 US$ (Note 2)
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss (Notes 2 and 5)	$ 9,188	$ 9,764	$ -	$ -
Notes and accounts payable	4,943,712	8,397,318	15,551,191	480,420
Notes and accounts payable to related parties (Note 23)	22	117,504	14,983	463
Income tax payable (Notes 2 and 20)	94,253	210,291	763,575	23,589
Accrued expenses (Notes 14 and 23)	427,049	657,475	1,525,103	47,115
Payable for purchase of equipment	50,248	21,746	11,596	358
Other current liabilities (Notes 15 and 23)	1,085,156	2,364,380	7,061,702	218,155
Total current liabilities	6,609,628	11,778,478	24,928,150	770,100
LONG-TERM LIABILITIES				
Bonds payable (Notes 2 and 16)	2,180,050	-	-	-
OTHER LIABILITIES				
Accrued pension cost (Note 2)	40,942	-	-	-
Guarantee deposits received (Note 17)	50,999	495,160	613	19
Total other liabilities	91,941	495,160	613	19
Total liabilities	8,881,619	12,273,638	24,928,763	770,119
STOCKHOLDERS' EQUITY (Note 18)				
Capital stock				
Common stock	2,187,313	2,887,633	3,570,160	110,292
Stock dividend for distribution	526,963	682,527	794,032	24,530
Capital surplus				
Additional paid-in capital - common stock	2,529,667	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	25,972	802
Retained earnings				
Legal reserve	427,791	813,326	1,991,520	61,524
Special reserve	1,983	19,133	6,175	191
Accumulated earnings	2,936,009	6,426,542	17,873,984	552,178
Unrealized losses on financial instruments (Notes 2 and 6)	(805)	(1,024)	(770)	(24)
Cumulative translation adjustments (Note 2)	173	(20,645)	(3,272)	(101)
Total stockholders' equity	8,635,066	15,244,335	28,684,517	886,145
TOTAL	$ 17,516,685	$ 27,517,973	$ 53,613,280	$ 1,656,264

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

HIGH TECH COMPUTER CORP.

STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2004, 2005 AND 2006
(In Thousands, Except Earnings Per Share)

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
REVENUES (Notes 2 and 23)				
Gross sales	$ 14,649,519	$ 28,360,245	$ 49,779,931	$ 1,537,841
Less sales returns and discounts	(63,555)	(106,438)	(119,878)	(3,703)
Net sales	14,585,964	28,253,807	49,660,053	1,534,138
Other revenues	395,529	434,165	344,402	10,640
Total revenues	14,981,493	28,687,972	50,004,455	1,544,778
COST OF REVENUES (Note 23)	11,627,376	22,073,529	34,503,576	1,065,912
GROSS PROFIT	3,354,117	6,614,443	15,500,879	478,866
UNREALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	(8,706)	(15,021)	(60,050)	(1,855)
REALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	7,241	6,289	15,077	465
REALIZED GROSS PROFIT	3,352,652	6,605,711	15,455,906	477,476
OPERATING EXPENSES (Notes 19 and 23)				
Administrative and selling expenses	567,985	986,815	2,221,364	68,624
Research and development expenses	828,468	1,071,791	1,265,635	39,099
Total operating expenses	1,396,453	2,058,606	3,486,999	107,723
OPERATING INCOME	1,956,199	4,547,105	11,968,907	369,753
NONOPERATING INCOME AND GAINS				
Interest income	35,788	54,378	165,700	5,119
Gains on equity-method investment (Notes 2 and 12)	-	-	7,284	225
Gain on sale of property, plant and equipment	-	-	4,818	149
Gain on sale of investments	427	-	-	-
Foreign exchange gain (Note 2)	-	-	196,446	6,069
Valuation gain on financial instruments, net (Notes 2, 3, 5 and 22)	-	-	11,005	340
Rental revenue (Note 23)	101	339	-	-
Other	41,491	30,996	108,808	3,361
Total nonoperating income and gains	77,807	85,713	494,061	15,263
NONOPERATING EXPENSES AND LOSSES				
Interest expense	10,925	19,718	156	5
Losses on equity-method investments (Notes 2 and 12)	1,133	21,153	-	-
Losses on disposal of property, plant and equipment	221	502	2,452	76
Losses on physical inventory	423	1,190	2,210	68
Foreign exchange loss (Note 2)	35,607	214,353	-	-
Provision for loss on decline in value of inventory	213,480	187,393	562,024	17,363
Valuation loss on financial instruments, net (Notes 2, 3, 5 and 22)	9,188	9,764	-	-
Other	9,425	5,156	3,834	118
Total nonoperating expenses and losses	280,402	459,229	570,676	17,630
INCOME BEFORE INCOME TAX	1,753,604	4,173,589	11,892,292	367,386

(Continued)

HIGH TECH COMPUTER CORP.

STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2004, 2005 AND 2006
(In Thousands, Except Earnings Per Share)

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
INCOME TAX EXPENSE (Notes 2 and 20)	(67,588)	(117,358)	(762,071)	(23,542)
NET INCOME	$ 1,686,016	$ 4,056,231	$ 11,130,221	$ 343,844

	2004		2005		2006			
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax	Before Income Tax		After Income Tax	
	NT$	NT$	NT$	NT$	NT$	US$ (Note 2)	NT$	US$ (Note 2)
BASIC EARNINGS PER SHARE (Note 21)	$ 4.19	$ 4.03	$ 9.69	$ 9.41	$ 27.25	$ 0.84	$ 25.50	$ 0.79
DILUTED EARNINGS PER SHARE (Note 21)	$ 4.06	$ 3.90	$ 9.59	$ 9.32	$ 26.83	$ 0.83	$ 25.11	$ 0.78

(Concluded)

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

HIGH TECH COMPUTER CORP.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2004, 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**	**Unrealized Losses on Financial Instruments**	**Cumulative Translation Adjustments**	**Total**
BALANCE, JANUARY 1, 2004	$ 2,171,640	$ -	$ -	$ 2,529,667	$ -	$ -	$ 242,718	$ 331	$ 2,703,375	$ (277)	$ (1,706)	$ 7,645,748
Appropriation of 2003 net earnings												
Legal reserve	-	-	-	-	-	-	185,073	-	(185,073)	-	-	-
Special reserve	-	-	-	-	-	-	-	1,652	(1,652)	-	-	-
Stock dividends	-	-	437,463	-	-	-	-	-	(437,463)	-	-	-
Transfer of employee bonuses to capital stock	-	-	89,500	-	-	-	-	-	(89,500)	-	-	-
Employee bonuses	-	-	-	-	-	-	-	-	(83,500)	-	-	(83,500)
Cash dividends	-	-	-	-	-	-	-	-	(656,194)	-	-	(656,194)
Merger with IA Style, Inc.	15,673	-	-	-	-	25,972	-	-	-	-	-	41,645
Net income for the six months ended June 30, 2004	-	-	-	-	-	-	-	-	1,686,016	-	-	1,686,016
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	-	1,879	1,879
Unrealized valuation loss on long-term investments	-	-	-	-	-	-	-	-	-	(528)	-	(528)
BALANCE, JUNE 30, 2004	$ 2,187,313	$ -	$ 526,963	$ 2,529,667	$ -	$ 25,972	$ 427,791	$ 1,983	$ 2,936,009	$ (805)	$ 173	$ 8,635,066
BALANCE, JANUARY 1, 2005	$ 2,714,276	$ 48,838	$ -	$ 3,064,356	$ -	$ 25,972	$ 427,791	$ 1,983	$ 5,105,339	$ (1,268)	$ (17,865)	$11,369,422
Appropriation of 2004 net earnings												
Legal reserve	-	-	-	-	-	-	385,535	-	(385,535)	-	-	-
Special reserve	-	-	-	-	-	-	-	17,150	(17,150)	-	-	-
Stock dividends	-	-	577,527	-	-	-	-	-	(577,527)	-	-	-
Transfer of employee bonuses to capital stock	-	-	105,000	-	-	-	-	-	(105,000)	-	-	-
Employee bonuses	-	-	-	-	-	-	-	-	(206,000)	-	-	(206,000)
Cash dividends	-	-	-	-	-	-	-	-	(1,443,816)	-	-	(1,443,816)
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 valuation loss on long-term investments	-	-	-	-	-	-	-	-	-	244	-	244
BALANCE, JUNE 30, 2005	$ 2,887,633	$ -	$ 682,527	$ 4,410,871	$ -	$ 25,972	$ 813,326	$ 19,133	$ 6,426,542	$ (1,024)	$ (20,645)	$15,244,335

(Continued)

HIGH TECH COMPUTER CORP.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2004, 2005 AND 2006
(In Thousands of New Taiwan Dollars)

	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**	**Unrealized Losses on Financial Instruments**	**Cumulative Translation Adjustments**	**Total**
BALANCE, JANUARY 1, 2006	$ 3,570,160	$ -	$ -	$ 4,410,871	$ -	$ 25,972	$ 813,326	$ 19,133	$14,152,255	$ (1,135)	$ (5,041)	$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 in ownership percentage in investees	-	-	-	-	15,845	-	-	-	-	-	-	15,845
Net income for the six months ended June 30, 2006	-	-	-	-	-	-	-	-	11,130,221	-	-	11,130,221
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	-	1,769	1,769
Unrealized losses on financial instruments	-	-	-	-	-	-	-	-	-	317	-	317
BALANCE, JUNE 30, 2006	$ 3,570,160	$ -	$ 794,032	$ 4,410,871	$ 15,845	$ 25,972	$ 1,991,520	$ 6,175	$17,873,984	$ (770)	$ (3,272)	$28,684,517
United States Dollars												
BALANCE, JANUARY 1, 2006	$ 110,292	$ -	$ -	$ 136,264	$ -	$ 802	$ 25,126	$ 591	$ 437,204	$ (35)	$ (156)	$ 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 in ownership percentage in investees	-	-	-	-	489	-	-	-	-	-	-	489
Net income for the six months ended June 30, 2006	-	-	-	-	-	-	-	-	343,844	-	-	343,844
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	-	55	55
Unrealized losses on financial instruments	-	-	-	-	-	-	-	-	-	10	-	10
BALANCE, JUNE 30, 2006	$ 110,292	$ -	$ 24,530	$ 136,264	$ 489	$ 802	$ 61,524	$ 191	$ 552,178	$ (24)	$ (101)	$ 886,145

(Concluded)

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

HIGH TECH COMPUTER CORP.

STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2004, 2005 AND 2006
(In Thousands)

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$ 1,686,016	$ 4,056,231	$ 11,130,221	$ 343,844
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation	248,073	289,124	291,688	9,011
Amortization	26,818	18,903	15,703	485
Loss (gain) on disposal of property, plant and equipment	221	502	(2,366)	(73)
Losses (gains) on equity-method investment	1,133	21,153	(7,284)	(225)
Provision for redemption of convertible bonds	6,364	2,042	-	-
Foreign currency gains from conversion of convertible bonds	(12,030)	(8,179)	-	-
Amortization of bond issue costs	4,127	17,675	-	-
Deferred income tax assets	(9,862)	(98,346)	17,690	546
Accrued pension costs	8,798	(23,310)	(12,465)	(385)
Net changes in operating assets and liabilities				
Financial instruments at fair value through profit or loss	(14,393)	10,858	49,080	1,516
Notes receivable	(136,800)	(275,518)	(416,845)	(12,878)
Accounts receivable	393,693	680,804	(631,299)	(19,503)
Accounts receivable from related parties	28,062	(108,973)	(647,826)	(20,013)
Other current financial assets	106,000	34,727	(53,746)	(1,660)
Inventories	(82,769)	391,138	(136,805)	(4,226)
Prepayments	(1,305)	(379,412)	(420,150)	(12,980)
Notes and accounts payable	3,092	474,004	1,810,796	55,941
Notes and accounts payable to related parties	(6,591)	94,367	(41,315)	(1,276)
Income tax payable	(52,072)	116,137	146,712	4,532
Accrued expenses	(58,605)	(204,792)	320,296	9,895
Other current liabilities	60,478	300,529	305,400	9,435
Net cash provided by operating activities	2,198,448	5,409,664	11,717,485	361,986
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of available-for sale assets	(1,072,537)	-	-	-
Purchase of property, plant and equipment	(104,739)	(390,722)	(126,935)	(3,921)
Proceeds from sale of property, plant and equipment	5,954	2	4,768	147
Increase in long-term investments	(65,732)	-	(215,977)	(6,672)
Proceeds from liquidation of long-term investments	-	4,312	-	-
Increase in refundable deposits	(1,186)	(375)	(347)	(11)
Cash from merger	14,791	-	-	-
Net cash used in investing activities	(1,223,449)	(386,783)	(338,491)	(10,457)
CASH FLOWS FROM FINANCING ACTIVITIES				
Redemption of convertible bonds	(69,350)	-	-	-
Increase in guarantee deposits received	50,969	222,082	52	1
Bonus to employees	(5,655)	(4,500)	-	-
Net cash (used in) provided by financing activities	(24,036)	217,582	52	1
NET INCREASE IN CASH AND CASH EQUIVALENTS	950,963	5,240,463	11,379,046	351,530

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HIGH TECH COMPUTER CORP.

STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2004, 2005 AND 2006
(In Thousands)

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	$ 4,773,077	$ 6,148,201	$ 16,196,448	$ 500,354
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 5,724,040	$ 11,388,664	$ 27,575,494	$ 851,884
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Cash paid during the period				
Income tax	$ 129,522	$ 99,567	$ 597,669	$ 18,464
NONCASH INVESTING AND FINANCING ACTIVITIES				
Transfer of retained earnings and bonus to employees to stock dividend to be distributed	$ 526,963	$ 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	$ 118,772	$ 358,226	$ 128,802	$ 3,979
(Increase) decrease in payable for purchase of equipment	(14,033)	32,496	2,443	75
Increase in lease payable	-	-	(4,310)	(133)
Cash paid for purchase of property, plant and equipment	$ 104,739	$ 390,722	$ 126,935	$ 3,921
CASH DIVIDEND, BONUS TO EMPLOYEES AND DIRECTORS' REMUNERATION				
Appropriation of cash dividend, bonus to employees and directors' remuneration	$ 739,694	$ 1,649,816	$ 5,449,224	$ 168,342
Increase in payable for cash dividend, bonus to employees and directors' remuneration	(734,039)	(1,645,316)	(5,449,224)	(168,342)
Cash paid	$ 5,655	$ 4,500	$ -	$ -
CASH FROM MERGER				
Issue of common stock	$ 15,673	$ -	$ -	$ -
Additional paid-in capital	25,972	-	-	-
Net assets received, except cash	(26,854)	-	-	-
Cash from merger	$ 14,791	$ -	$ -	$ -

(Concluded)

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

1. ORGANIZATION AND OPERATIONS

High Tech Computer Corp. (the "Company") was incorporated on May 15, 1997 under the Company Law of the Republic of China to design, manufacture and sell smart handheld devices. In 1998, the Company had an initial public offering and, in March 2002, the Company's stock was listed on the Taiwan Stock Exchange. On November 19, 2003, the Company started trading Global Depositary Receipts on the Luxembourg Stock Exchange.

The Company had 2,803, 3,560 and 4,145 employees as of June 30, 2004, 2005 and 2006, respectively.

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. Please see Note 26.

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:

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.

Cash Equivalents

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

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.

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 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, 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 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 the Company's Pension Fund Administration Committee. The pension fund balances were NT$78,647 thousand, NT$244,377 thousand and NT$291,477 (US$9,005 thousand) as of June 30, 2004, 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$41,987 thousand (US$1,297 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 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.

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 2004 and 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, 2004 and 2005 were reclassified to conform with 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, 2004 and 2005 need not be restated.

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

(i) Short-term investments

Short-term investments include marketable equity securities and mutual funds, which are carried at the lower of aggregate cost or market. The net change in the investment valuation allowance used in the determination of net income is the result of changes in the difference between aggregate costs and market values of investments still held at period-end. The cost of investments sold is determined using the moving average method. Stock dividends received are not recognized as income; instead, they are reflected as an increase in the number of shares held.

(ii) 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.

(iii) 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, 2004 and 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:

	June 30			
	2004		2005	
	(Before Reclassification)	(After Reclassification)	(Before Reclassification)	(After Reclassification)
Balance sheets				
Short-term investments	$ 1,125,640	$ -	$ -	$ -
Other current liabilities	9,188	-	9,764	-
Available-for-sale financial assets - current	-	1,125,640	-	-
Financial liabilities at fair value through profit or loss	-	9,188	-	9,764
Long-term equity investments	2,358	-	2,139	-
Available-for-sale financial assets - noncurrent	-	1,166	-	947
Financial assets carried at cost - noncurrent	-	1,192	-	1,192
Stockholders' equity				
Unrealized valuation loss on long-term investments	(805)	-	(1,024)	-
Unrealized losses on financial instruments	-	(805)	-	(1,024)
Statement of income				
Foreign exchange loss, net	9,188	-	9,764	-
Valuation loss on financial instruments, net	-	9,188	-	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, 2004, 2005 and 2006 were as follows:

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
Cash on hand	$ 793	$ 992	$ 900	$ 28
Cash in banks	3,009,690	3,257,884	3,794,194	117,213
Time deposits	1,253,200	8,129,788	23,780,400	734,643
Cash equivalents	1,460,357	-	-	-
	$ 5,724,040	$ 11,388,664	$ 27,575,494	$ 851,884

As of June 30, 2004, 2005 and 2006, interest rates on domestic currency time deposits ranged from 0.95% to 1.00%, 1.00% to 1.45% and 1.30% to 2.005%, respectively.

As of June 30, 2004, 2005 and 2006, interest rates on foreign currency time deposits or preferential deposit ranged from 1.11% to 1.35%, 2.00% to 4.55% and 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, 2004, 2005 and 2006 were as follows:

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
Derivatives - financial assets				
Forward exchange contracts	$ -	$ -	$ 11,005	$ 340
Derivatives - financial liabilities				
Forward exchange contracts	$ 120	$ 9,764	$ -	$ -
Currency option contracts	9,068	-	-	-
	$ 9,188	$ 9,764	$ -	$ -

The Company entered into derivative transactions during the six months ended June 30, 2004, 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, 2004, 2005 and 2006 were as follows:

Forward Exchange Contracts

	2004			
	Buy/Sell	Currency	Expiry Date	Contract Amount
Forward exchange contracts	Sell	USD/NTD	2004.07.21~2004.07.23	US$ 6,000

	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

Currency Option Contracts

2004						
Buy/Sell	**Trade Date**	**Expiry Date**	**Call/Put**	**Contract Amount**	**Strike Rate**	**Credit Risk**
Buy	2004.02.09	2004.09.28~ 2005.01.31	USD/EUR	US$ 11,500	1.15	-
Buy	2004.02.09~ 2004.03.29	2004.07.08~ 2005.03.29	NTD/USD	US$ 34,000	33.15~33.60	-
Sell	2004.02.06~ 2004.03.29	2004.07.08~ 2005.03.31	USD/NTD	US$ 48,000	33.26~33.625	-

The transactions of derivative financial instruments resulted in losses of NT$13,956 thousand, NT$7,987 thousand and NT$137,307 thousand (US$4,242 thousand) for the six months ended June 30, 2004, 2005 and 2006, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets as of June 30, 2004, 2005 and 2006 were as follows:

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
Mutual fund investments	$ 1,125,640	$ -	$ -	$ -
VIA Technologies, Inc.	1,166	947	1,201	37
	1,126,806	947	1,201	37
Less current portion	(1,125,640)	-	-	-
	$ 1,166	$ 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, 2004, 2005 and 2006 were as follows:

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
Notes receivable	$ 172,599	$ 347,274	$ 515,932	$ 15,938
Accounts receivable	4,901,708	7,666,516	14,847,947	458,695
Less allowance for doubtful accounts	(5,862)	(6,886)	(3,833)	(118)
	$ 5,068,445	$ 8,006,904	$ 15,360,046	$ 474,515

8. OTHER CURRENT FINANCIAL ASSETS

Other current financial assets as of June 30, 2004, 2005 and 2006 were as follows:

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
Other receivables from related parties (Note 23)	$ 12,781	$ 4,125	$ 70,275	$ 2,171
Value-added tax refund receivables	11,271	25,500	23,469	725
Other receivables	58,361	23,100	23,233	718
Interest receivable	2,521	3,874	12,916	399
Others	277	4,716	9,172	283
	$ 85,211	$ 61,315	$ 139,065	$ 4,296

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

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

9. INVENTORIES

Inventories as of June 30, 2004, 2005 and 2006 were as follows:

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
Finished goods	$ 151,292	$ 560,798	$ 661,433	$ 20,434
Work-in-process	776,648	1,419,141	1,586,557	49,013
Raw materials	1,487,771	2,280,900	3,719,451	114,904
	2,415,711	4,260,839	5,967,441	184,351
Less valuation allowance	(175,146)	(448,328)	(993,083)	(30,679)
	$ 2,240,565	$ 3,812,511	$ 4,974,358	$ 153,672

10. PREPAYMENTS

Prepayments as of June 30, 2004, 2005 and 2006 were as follows:

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
Royalty (Note 25)	$ 319,180	$ 459,721	$ 688,356	$ 21,265
Services	8,947	9,670	47,306	1,462
Prepayments for materials purchases	2,934	4,571	265	8
Others	81,088	150,278	158,484	4,896
	$ 412,149	$ 624,240	$ 894,411	$ 27,631

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 June 30, 2004, 2005 and 2006 were as follows:

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
Answer Online, Inc.	$ 1,192	$ 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. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Investments accounted for using equity method as of June 30, 2004, 2005 and 2006 were as follows:

	2004		2005		2006				
	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage	Original Cost		Carrying Value		Ownership Percentage
	NT$		NT$		NT$	US$ (Note 2)	NT$	US$ (Note 2)	
Equity method									
H.T.C. (B.V.I.) Corp.	$ 171,931	100	$ 321,860	100	$ 430,898	$ 13,312	$ 337,914	$ 10,439	100
Auto Hi-Tech Computer Corp.	4,040	20	-	-	-	-	-	-	
BandRich Inc.	-		-		135,000	4,170	148,250	4,580	51
Prepayments for long-term investments	-		-	-	78,216	2,416	78,216	2,416	-
	$ 175,971		$ 321,860		$ 644,114	$ 19,898	$ 564,380	$ 17,435	

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 June 30, 2006, the Company had increased this investment to NT$509,114 thousand (US$15,728 thousand). Because the registration of this investment was not completed on June 30, 2006, the amounts of NT$78,216 thousand (US$2,416 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.

In April 2006, the Company acquired 92% equity interest in BandRich Inc. for NT$135,000 thousand and accounted for this investment by the equity method. In May 2006, BandRich Inc. issued 12,000 thousand shares of common stock at a price of NT$12.50 per share of which the Company didn't purchase. The Company's ownership percentage declined from 92% to 51% and resulted in capital surplus - long term equity investments of NT$15,845 thousand (US$489 thousand).

On its equity-method investments, the Company had losses of NT$1,133 thousand, NT$21,153 thousand and a gain of NT$7,284 thousand (US$225 thousand) for the six months ended June 30, 2004, 2005 and 2006, respectively.

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

Under the revised Statement of Financial Accounting Standards No. 7, "Consolidated Financial Statements," which took effect on January 1, 2005, the Company included the accounts of all its direct and indirect subsidiaries in the consolidated financial statements as of and for the six months ended June 30, 2005 and 2006. All significant intercompany balances and transactions have been eliminated.

13. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of June 30, 2004, 2005 and 2006 were as follows:

	2004	2005	2006			
	Carrying Value	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NT$	NT$	NT$	NT$	NT$	US$ (Note 2)
Land	$ 301,111	$ 576,001	$ 610,293	$ -	$ 610,293	$ 18,854
Buildings and structures	663,015	709,597	1,078,977	311,872	767,105	23,698
Machinery and equipment	935,811	1,066,432	2,644,184	1,786,533	857,651	26,495
Molding equipment	8,003	-	201,567	201,567	-	-
Computer equipment	41,476	36,540	167,642	132,553	35,089	1,084
Transportation equipment	650	431	1,938	1,121	817	25
Furniture and fixtures	38,020	30,100	100,391	75,626	24,765	765
Leased assets	-	-	4,712	393	4,319	133
Leasehold improvements	16,981	16,449	22,816	18,682	4,134	128
Prepayments on equipment-in-transit	93,462	151,990	25,795	-	25,795	797
	$2,098,529	$2,587,540	$4,858,315	$2,528,347	$2,329,968	$ 71,979

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 June 30, 2004, 2005 and 2006 were as follows:

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
Salaries and bonuses	$ 184,333	$ 268,946	$ 319,417	$ 9,868
Donation (Note 26)	-	-	300,000	9,268
Marketing	-	-	267,305	8,258
Export expenses	30,203	71,265	220,212	6,803
Research materials	36,655	101,233	121,082	3,741
Insurance	22,256	67,351	66,166	2,044
Meals and welfare	1,269	32,624	60,733	1,876
Travel	8,796	15,712	41,005	1,267
Professional fees	9,328	22,670	27,756	857
Others	134,209	77,674	101,427	3,133
	$ 427,049	$ 657,475	$1,525,103	$ 47,115

15. OTHER CURRENT LIABILITIES

Other current liabilities as of June 30, 2004, 2005 and 2006 were as follows:

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
Cash dividend payable	$ 656,194	$ 1,443,816	$ 4,998,224	$ 154,409
Reserve for warranty expenses	244,422	615,590	1,144,979	35,371
Employee bonus payable	83,500	206,000	451,000	13,933
Agency receipts	24,336	30,976	112,568	3,477
Advance receipts	35,252	13,858	96,555	2,983
Other payable to related parties (Note 23)	-	4,815	68,909	2,129
Deferred credits - profit from intercompany transactions	8,706	15,021	60,050	1,855
Directors' remuneration	21,842	21,842	21,842	675
Other	10,904	12,462	107,575	3,323
	$ 1,085,156	$ 2,364,380	$ 7,061,702	$ 218,155

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.

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

Bonds payable as of June 30, 2004, 2005 and 2006 are summarized as follows:

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
January 29, 2003 issue of zero coupon convertible bonds; maturity on January 29, 2008; issue price at 100% of US$1,000 par value.	$ 2,219,200	$ -	$ -	$ -
Add				
Reserve for redemption of convertible bonds	19,410	-	-	-
Allowance for foreign-currency exchange loss	(58,560)	-	-	-
	$ 2,180,050	$ -	$ -	$ -

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.

17. GUARANTEE DEPOSITS RECEIVED

Guarantee deposits received as of June 30, 2004, 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, 2004 amounted to NT$2,171,640 thousand, divided into 217,164 thousand common shares at NT$10.00 par value. The Company issued 1,567.3 thousand shares to merge with IA Style, Inc.; the effective date of this merger was March 1, 2004. As a result, the amount of the Company's outstanding common stock as of June 30, 2004 was NT$2,187,313 thousand. In June 2004, the stockholders approved the transfer to capital stock of retained earnings of NT$437,463 thousand and employees' bonuses of NT$89,500 thousand. The amounts to be distributed were accounted for as "stock dividend for distribution" temporarily. In the fourth quarter of 2004, holders of US$18,030 thousand in bonds requested to convert the bonds into 4,884 thousand shares. The amounts were temporarily accounted for as "capital collected in advance." Because the registration of this conversion was not completed by the end of 2004, the Company's outstanding capital stock as of December 31, 2004 amounted to NT$2,714,276 thousand, divided into 271,427 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 in 2003 and 2004, 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$2,529,667 thousand as of January 1, 2004. Then, additional paid-in capital in the following amounts resulted from two transactions: (a) NT$534,689 thousand from the conversion of bonds payable into 4,884 thousand shares in the fourth quarter of 2004; and (b) NT$ 1,346,515 thousand from the conversion of bonds payable into 12,452 thousand shares in the first and second quarters of 2005. As a result, the additional paid-in capital as of 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$173,000 thousand as expenses in 2003, the pro forma earnings per share in 2003 would have decreased from NT$9.05 to NT$8.21.

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

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.

19. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Function / Expense Item	2004			2005		
	NT$			NT$		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses	368,545	436,864	805,409	526,387	595,283	1,121,670
Salary	320,109	383,961	704,070	447,595	508,326	955,921
Insurance	21,276	25,394	46,670	28,948	34,943	63,891
Pension cost	10,040	11,365	21,405	22,982	24,560	47,542
Other	17,120	16,144	33,264	26,862	27,454	54,316
Depreciation	169,056	79,017	248,073	180,151	108,973	289,124
Amortization	1,899	24,919	26,818	393	18,510	18,903

Expense Item \ Function	2006					
	NT$			US$ (Note 2)		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses	641,973	766,955	1,408,928	19,832	23,693	43,525
Salary	532,180	662,708	1,194,888	16,440	20,473	36,913
Insurance	33,594	40,082	73,676	1,038	1,238	2,276
Pension cost	15,354	29,657	45,011	474	916	1,390
Other	60,845	34,508	95,353	1,880	1,066	2,946
Depreciation	176,692	114,996	291,688	5,458	3,553	9,011
Amortization	-	15,703	15,703	-	485	485

20. 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

Income taxes payable as of June 30, 2004, 2005 and 2006 were computed as follows:

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
Income before income tax	$ 1,753,604	$ 4,173,589	$ 11,892,292	$ 367,386
Permanent differences				
Losses (gains) on equity-method investments	1,133	21,153	(7,284)	(225)
Gain on disposal of investments	(427)	-	-	-
Other	-	1,631	6,942	214
Temporary differences				
Unrealized (realized) pension cost	8,798	(23,310)	(12,465)	(385)
Unrealized loss on decline in value of inventory	52,640	101,556	406,356	12,553
(Realized) unrealized royalties	(14,058)	369,964	911,156	28,148
Unrealized (realized) depreciation	389	(6,029)	-	-
Unrealized (realized) foreign currency exchange losses, net	50,693	92,434	(166,494)	(5,143)
Unrealized warranty expense	55,211	290,889	180,476	5,575
Other	6,383	(14,549)	31,835	983
Total income	1,914,366	5,007,328	13,242,814	409,106
Less tax-exempt income	(1,086,280)	(3,242,437)	(9,224,622)	(284,974)

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
Prior years' loss carryforwards - merger with IA Style, Inc.	(465)	-	-	-
Taxable income	827,621	1,764,891	4,018,192	124,132
Tax rate	×25%	×25%	×25%	×25%
Current income tax	206,905	441,223	1,004,548	31,033
Income tax credit	(10)	(10)	(10)	-
Estimated income tax provision	206,895	441,213	1,004,538	31,033
Unappropriated earnings (additional 10% income tax)	64,862	144,006	436,049	13,471
Less investment research and development tax credits	(175,692)	(369,727)	(727,910)	(22,487)
Current income tax expense	96,065	215,492	712,677	22,017
Less prepaid and withheld income tax	(1,812)	(5,201)	(16,833)	(520)
Tax shortage stated in the tax assessment notice	-	-	67,731	2,092
Income tax payable	$ 94,253	$ 210,291	$ 763,575	$ 23,589

The tax effects of deductible temporary differences and loss and tax credit carryforwards that gave rise to deferred tax assets as of June 30, 2004, 2005 and 2006 were as follows:

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
Temporary differences				
Unrealized pension cost	$ 10,793	$ -	$	$
Unrealized depreciation	7,696	1,507	-	-
Unrealized foreign currency exchange loss, net	-			
Provision for loss on decline in value of inventory	43,786	112,082	248,271	7,670
Unrealized royalties	161,062	256,049	687,345	21,234
Capitalize expense	31,267	39,264	34,532	1,067
Unrealized reserve for warranty expense	61,106	153,898	286,245	8,843
Other	10,417	860	1,075	33
Tax credit carryforwards	532,924	633,588	-	-
Total deferred tax assets	859,051	1,197,248	1,257,468	38,847
Less valuation allowance	(593,965)	(858,857)	(745,875)	(23,042)
Total deferred tax asset, net	265,086	338,391	511,593	15,805
Deferred tax liability				
Unrealized pension cost	-	(7,185)	(14,998)	(463)
Unrealized foreign currency exchange gain, net	(6,420)	(10,170)	(35,425)	(1,095)
	258,666	321,036	461,170	14,247
Less current portion	(129,441)	(162,982)	(268,630)	(8,299)
Deferred tax assets, noncurrent	$ 129,225	$ 158,054	$ 192,540	$ 5,948

Details of the tax credit carryforwards are as follows:

Year of Occurrence	Validity Period	2004 NT$	2005 NT$	2006 NT$	2006 US$ (Note 2)
2000	2000-2004	$ 39,750	$ -	$ -	$ -
2001	2001-2005	155,447	77,118	-	-
2002	2002-2006	54,941	56,405	-	-
2003	2003-2007	179,230	179,061	-	-
2004	2004-2008	103,556	214,346	-	-
2005	2005-2009	-	106,658	-	-
		$532,924	$633,588	$ -	$ -

Based on the Income Tax Law of the ROC, the investment and 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 six months ended June 30, 2004, 2005 and 2006 were as follows:

	2004 NT$	2005 NT$	2006 NT$	2006 US$ (Note 2)
Current income tax expense	$ 96,065	$215,492	$712,677	$22,017
(Increase) decrease in deferred income tax assets	(9,862)	(98,346)	17,690	546
(Over) under estimation of prior years' income tax	(18,615)	212	31,704	979
Income tax expense	$ 67,588	$117,358	$762,071	$23,542

The integrated income tax information is as follows:

	2004 NT$	2005 NT$	2006 NT$	2006 US$ (Note 2)
Balance of imputation credit account	$ 94,538	$ 93,811	$ 342,267	$ 10,574
Unappropriated earnings from 1998	2,936,009	6,426,542	17,873,984	552,178
Expected creditable ratio (including income tax payable)	6.43%	4.73%	6.19%	6.19%

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 418,561 thousand shares, 430,841 thousand shares and 436,419 thousand shares for the six months ended June 30, 2004, 2005 and 2006, respectively. EPS for the six months ended June 30, 2004 and 2005 were calculated after the average number of shares outstanding was adjusted retroactively for the effect of stock dividend distribution in 2006.

The convertible bonds and employee stock options had dilutive effects on the EPS for the six months ended June 30, 2004, 2005 and 2006. The related information is as follows:

	2004				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax NT$	Income after Income Tax NT$	Shares (Thousands)	Income before Income Tax NT$	Income after Income Tax NT$
Basic EPS	$ 1,753,604	$ 1,686,016	418,561	$ 4.19	$ 4.03
Zero coupon convertible bonds	6,364	4,773	13,694		
Employee stock options	-	-	1,443		
Diluted EPS	$ 1,759,968	$ 1,690,789	433,698	$ 4.06	$ 3.90

	2005				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax NT$	Income after Income Tax NT$	Shares (Thousands)	Income before Income Tax NT$	Income after Income Tax NT$
Basic 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

22. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

Derivative Financial Instruments

	June 30							
	2004		2005		2006			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NT$	NT$	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	9,188	9,188	9,764	9,764	-	-	-	-

Nonderivative Financial Instruments

	June 30							
	2004		2005		2006			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NT$	NT$	NT$	NT$	NT$	US$ (Note 2)	NT$	US$ (Note 2)
Assets								
Cash and cash equivalents	$ 5,724,040	$ 5,724,040	$ 11,388,664	$ 11,388,664	$ 27,575,494	$ 851,884	$ 27,575,494	$ 851,884
Available-for-sale financial assets - current	1,125,640	1,127,530	-	-	-	-	-	-
Receivables	5,155,231	5,155,231	8,194,090	8,194,090	16,428,652	507,527	16,428,652	507,527
Other current financial assets	85,211	85,211	61,315	61,315	139,065	4,296	139,065	4,296
Long-term investments	178,329	178,329	323,999	323,999	566,773	17,509	566,773	17,509
Other financial assets	2,028	2,009	6,297	6,235	35,625	1,101	35,297	1,090
Liabilities								
Payables	4,943,734	4,943,734	8,514,822	8,514,822	15,566,174	480,883	15,566,174	480,883
Income tax payable	94,253	94,253	210,291	210,291	763,575	23,589	763,575	23,589
Accrued expense	427,049	427,049	657,475	657,475	1,525,103	47,115	1,525,103	47,115
Payable for purchase of equipment	50,248	50,248	21,746	21,746	11,596	358	11,596	358
Other current financial liabilities	1,041,319	1,041,319	2,335,501	2,335,501	6,905,097	213,317	6,905,097	213,317
Bonds payable	2,180,050	2,180,050	-	-	-	-	-	-
Other financial liabilities	50,999	50,519	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:

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

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			
	2004	2005	2006		2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)	NT$	NT$	NT$	US$ (Note 2)
Assets								
Financial assets at fair value through profit or loss	$ -	$ -	$ 11,005	$ 340	$ -	$ -	$	$ -
Available-for-sale financial assets - current	1,125,640	-	-	-	-	-	-	-
Available-for-sale financial assets - noncurrent	1,166	947	1,201	37	-	-	-	-
Financial assets carried at cost	-	-	-	-	1,192	1,192	1,192	37
Refundable deposits	-	-	-	-	2,009	6,235	35,297	1,090
Liabilities								
Financial liabilities at fair value through profit or loss	9,188	9,764	-	-	-	-	-	-
Guarantee deposits received	-	-	-	-	50,519	490,257	607	19

Forward exchange contracts outstanding as of the balance sheet date are marked to market. As of June 30, 2004, 2005 and 2006, the Company recorded unrealized exchange losses of NT$9,188 thousand and 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 NT$528 thousand, 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, 2004, 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$56,150thousand, 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.

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.	Main director is an immediate relative of the Company's chairperson
Leo Systems, Inc.	Affiliate
H.T.C. (B.V.I.) Corp.	Subsidiary
HTEK	Subsidiary of H.T.C. (B.V.I.) Corp.
HTC America Inc. (formerly HTC USA Inc. until August 2, 2006)	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.
Exedea Inc.	Subsidiary of H.T.C. (B.V.I.) Corp.

Major transactions with related parties are summarized below:

	Six Months Ended June 30						
	2004		2005		2006		
Related Party	Amount NT$	% of Total Net Purchases	Amount NT$	% of Total Net Purchases	Amount NT$	Amount US$ (Note 2)	% of Total Net Purchases
Chander Electronics Corp.	$ 4,628	-	$ 263,415	1	$ 72,175	$ 2,230	-
High Tech Computer Corp. (Suzhou)	-	-	-	-	4,746	146	-
	$ 4,628	-	$ 263,415	1	$ 76,921	$ 2,376	-

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

Sales and Services Provided

	Six Months Ended June 30						
	2004		2005		2006		
Related Party	Amount NT$	% of Total Revenues	Amount NT$	% of Total Revenues	Amount NT$	Amount US$ (Note 2)	% of Total Revenues
Exedea Inc.	$ -	-	$ -	-	$1,016,049	$ 31,389	2
HTC America Inc.	57,001	-	145,394	1	264,924	8,184	1
HTC Europe Co., Ltd.	-	-	15,008	-	128,757	3,978	-
Comserve Network Netherlands B.V.	109,308	1	53,470	-	-	-	-
Leo Systems, Inc.	3,146	-	-	-	-	-	-
Others	538	-	1,531	-	785	24	-
	$ 169,993	1	$ 215,403	1	$1,410,515	$ 43,575	3

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

Notes and Accounts Receivable

Related Party	June 30 2004 Amount NT$	2004 % of Total Notes and Accounts Receivable	2005 Amount NT$	2005 % of Total Notes and Accounts Receivable	2006 Amount NT$	2006 Amount US$ (Note 2)	2006 % of Total Notes and Accounts Receivable
Accounts receivable							
Exedea Inc.	$ -	-	$ -	-	$ 706,304	$ 21,820	4
HTC America Inc.	75,386	2	166,207	2	239,441	7,397	2
HTC Europe Co., Ltd.	-	-	15,008	-	121,553	3,755	1
Comserve Network Netherlands B.V.	11,335	-	5,971	-	-	-	-
Other	65	-	-	-	1,308	40	-
	$ 86,786	2	$ 187,186	2	$1,068,606	$ 33,012	7

Notes and Accounts Payable

Related Party	June 30 2004 Amount NT$	2004 % of Total Notes and Accounts Payable	2005 Amount NT$	2005 % of Total Notes and Accounts Payable	2006 Amount NT$	2006 Amount US$ (Note 2)	2006 % of Total Notes and Accounts Payable
High Tech Computer Corp. (Suzhou)	$ -	-	$ -	-	$ 14,265	$ 441	-
Chander Electronics Corp.	22	-	117,389	1	224	7	-
Others	-	-	115	-	494	15	-
	$ 22	-	$ 117,504	1	$ 14,983	$ 463	-

Other Receivable

Related Party	June 30 2004 Amount NT$	2004 % of Total Other Receivable	2005 Amount NT$	2005 % of Total Other Receivable	2006 Amount NT$	2006 Amount US$ (Note 2)	2006 % of Total Other Receivable
HTC Europe Co., Ltd.	$ 5,136	7	$ 658	2	$ 35,453	$ 1,095	38
HTC America Inc.	4,229	6	3,467	13	18,509	572	20
High Tech Computer Corp. (Suzhou)	-	-	-	-	16,313	504	17
H.T.C. (B.V.I.) Corp.	3,416	5	-	-	-	-	-
	$ 12,781	18	$ 4,125	15	$ 70,275	$ 2,171	75

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$51,610 (US$1,594 thousand), which is longer than 180 days, to other receivables. Other receivables from related parties also included agency payments of NT$18,665 thousand (US$577 thousand).

Prepaid Expenses

Related Party	June 30 2004 Amount NT$	2004 % of Total Prepayment	2005 Amount NT$	2005 % of Total Prepayment	2006 Amount NT$	2006 Amount US$ (Note 2)	2006 % of Total Prepayment
HTC America Inc.	$ -	-	$ -	-	$ 19,857	$ 613	2
HTC Europe Co., Ltd.	-	-	-	-	17,610	544	2
HTEK	8,437	2	-	-	-	-	-
	$ 8,437	2	$ -	-	$ 37,467	$ 1,157	4

Accrued Expenses

Related Party	June 30 2004 Amount NT$	2004 % of Total Accrued Expenses	2005 Amount NT$	2005 % of Total Accrued Expenses	2006 Amount NT$	2006 Amount US$ (Note 2)	2006 % of Total Accrued Expenses
VIA Technologies, Inc.	$ 525	-	$ -	-	$ -	$ -	-

Other Payables to Related Parties

Related Party	June 30 2004 Amount NT$	2004 % of Total Other Payables	2005 Amount NT$	2005 % of Total Other Payables	2006 Amount NT$	2006 Amount US$ (Note 2)	2006 % of Total Other Payables
HTC America Inc.	$ -	-	$ -	-	$ 28,348	$ 876	41
HTC Europe Co., Ltd.	-	-	4,815	100	24,974	771	36
Exedea Inc.	-	-	-	-	15,567	481	23
Others	-	-	-	-	20	1	-
	$ -	-	$ 4,815	100	$ 68,909	$ 2,129	100

Outsourcing Expenses

Related Party	Six Months Ended June 30 2004 Amount NT$	2004 % of Total Out-Sourcing Expenses	2005 Amount NT$	2005 % of Total Out-Sourcing Expenses	2006 Amount NT$	2006 Amount US$ (Note 2)	2006 % of Total Out-Sourcing Expenses
High Tech Computer Corp. (Suzhou)	$ -	-	$ -	-	$ 39,388	$ 1,217	10
First International Computer Inc.	-	-	7,350	4	-	-	-
	$ -	-	$ 7,350	4	$ 39,388	$ 1,217	10

Service Warranty Expense

Related Party	Six Months Ended June 30						
	2004		2005		2006		
	Amount	% of Warranty Expenses	Amount	% of Warranty Expenses	Amount		% of Warranty Expenses
	NT$		NT$		NT$	US$ (Note 2)	
HTC Europe Co., Ltd.	$ 9,260	4	$ 18,749	3	$ 153,171	$ 4,732	16
HTC America Inc.	5,074	2	37,175	7	108,069	3,338	11
Comserve Network Netherlands B.V.	59,261	28	68,649	12	-	-	-
	$ 73,595	34	$ 124,573	22	$ 261,240	$ 8,070	27

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

Administrative and Selling Expenses - Service Fees

Related Party	Six Months Ended June 30						
	2004		2005		2006		
	Amount	% of Total Professional Fees	Amount	% of Total Professional Fees	Amount		% of Total Professional Fees
	NT$		NT$		NT$	US$ (Note 2)	
HTEK	$ 8,728	24	$ 10,299	25	$ 21,685	$ 670	16
HTC America Inc.	-	-	-	-	21,589	667	16
Exedea Inc.	-	-	-	-	15,567	481	11
HTC EUROPE Co., Ltd.	-	-	-	-	6,289	194	5
VIA Technologies, Inc.	-	-	2,400	6	1,200	37	1
	$ 8,728	24	$ 12,699	31	$ 66,330	$ 2,049	49

Leasing - Lessee

Operating Expense - Rental Expense

Related Party	Six Months Ended June 30						
	2004		2005		2006		
	Amount	% of Total Rental Expense	Amount	% of Total Rental Expense	Amount		% of Total Rental Expense
	NT$		NT$		NT$	US$ (Note 2)	
VIA Technologies, Inc.	$ 7,530	71	$ 8,304	62	$ -	$ -	-

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 prevailing rates in the surrounding area.

Leasing - Lessor

Nonoperating Revenue - Rental Revenue

	Six Months Ended June 30							
	2004		2005		2006			
Related Party	**Amount NT$**	**% of Rental Revenue**	**Amount NT$**	**% of Rental Revenue**	**Amount NT$**	**Amount US$ (Note 2)**	**% of Rental Revenue**
VIA Technologies, Inc.	$ 60	60	$ 339	100	$ -	$ -	-
Chander Electronics Corp.	41	40	-	-	-	-	-
	$ 101	100	$ 339	100	$ -	$ -	-

Property Transaction

In the second quarter of 2004, the Company sold equipment to H.T.C. (B.V.I.) Corp., Inc. for NT$2,106 thousand; to HTC America Inc. for NT$430 thousand; and to HTC Europe Co., Ltd. for NT$20 thousand.

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

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

In the second quarter of 2006, the Company sold equipment to HTC Europe Co., Ltd. for NT$141 thousand and to High Tech Computer Corp. (Suzhou) for NT$3,914 thousand.

24 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.

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:	

Contractor	Contract Term	Description
	(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.
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

Merger

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

Other merger information is as follows:

(a) Share issuance and swap ratio:
The Company issued 1,567,347 new shares at NT$10.00 par value to acquire IA System Inc. One share of the Company was exchanged for 5.423177 shares of IA System Inc.

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

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

(d) Had the effective merger date been January 1, 2004 and the effect of stock dividend distribution been taken into account, the pro forma information for 2004 would have been as follows:

	NT$
Revenues	$ 14,982,998
Net income	1,677,304
Basic earnings per share after income tax (dollars)	4.00

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.