High Tech Computer Corp.

Financial Statements for the Nine Months Ended September 30, 2004, 2005 and 2006 and Independent Accountants' Review Report

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
High Tech Computer Corp.

We have reviewed the accompanying balance sheets of High Tech Computer Corp. (the "Company") as of September 30, 2004, 2005 and 2006, and the related statements of income and cash flows for the nine months then ended, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our reviews.

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

The calculation of long-term investments accounted for by the equity method as of and for the nine months ended September 30, 2004, 2005 and 2006 was based on the investees' unreviewed financial statements of the same reporting periods as those of the Company. These investments amounted to NT$172,850 thousand, NT$327,975 thousand and 481,644 thousand as of September 30, 2004, 2005 and 2006, respectively. The related equity in losses of investees in the nine months ended September 30, 2004, 2005 and 2006 amounted to NT$5,347 thousand, 34,844 thousand and 88,635 thousand, respectively.

Based on our reviews, except for the effects of adjustments that might have been disclosed had the investees' financial statements mentioned in the preceding paragraph been reviewed, we are not aware of any material modifications that should be made to such financial statements for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

In addition, the translation of the 2006 New Taiwan dollar amounts into U.S. dollars has been reviewed on the basis stated in Note 2 to the financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers.

October 13, 2006

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

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

The independent accountants' review report and the accompanying financial statements were originally presented in more than one set of Chinese reports. For the convenience of readers, the independent accountants' review report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent accountants' review report and financial statements shall prevail. Also, as stated in Note 2 to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

HIGH TECH COMPUTER CORP.

BALANCE SHEETS
SEPTEMBER 30, 2004, 2005 AND 2006
(In Thousands, Except Par Value)
(Reviewed, Not Audited)

ASSETS	2004 NT$	2005 NT$	2006 NT$	2006 US$ (Note 2)
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 4,789,032	$ 10,104,562	$ 30,441,557	$ 919,685
Financial assets at fair value through profit or loss (Notes 2 and 5)	-	3,677	18,957	573
Available-for-sale financial assets - current (Notes 2 and 6)	1,705,640	-	-	-
Notes receivable (Notes 2 and 7)	68,085	296,798	1,931	58
Accounts receivable, net (Notes 2 and 7)	4,629,881	10,557,270	14,149,140	427,466
Accounts receivable from related parties, net (Notes 2 and 22)	73,043	335,058	1,422,074	42,963
Other current financial assets (Notes 8 and 22)	87,016	67,155	198,651	6,001
Inventories (Notes 2 and 9)	4,066,940	5,624,411	5,659,556	170,984
Prepayments (Notes 10 and 22)	354,945	756,348	780,466	23,579
Deferred income tax assets (Notes 2 and 19)	123,548	162,697	302,202	9,130
Total current assets	15,898,130	27,907,976	52,974,534	1,600,439
LONG-TERM INVESTMENTS				
Available-for-sale financial assets - noncurrent (Notes 2 and 6)	850	876	1,087	33
Financial assets carried at cost (Notes 2 and 11)	1,192	1,192	1,192	36
Investments accounted for by the equity method (Notes 2 and 12)	172,850	327,975	481,644	14,551
Total long-term investments	174,892	330,043	483,923	14,620
PROPERTY, PLANT AND EQUIPMENT, NET (Notes 2, 13 and 22)				
Cost				
Land	301,313	610,293	610,293	18,438
Buildings and structures	842,625	1,072,412	1,081,136	32,663
Machinery and equipment	1,951,594	2,506,852	2,563,963	77,461
Molding equipment	201,567	201,567	201,247	6,080
Computer equipment	137,468	160,425	176,257	5,325
Transportation equipment	1,315	1,315	1,938	59
Furniture and fixtures	97,482	104,828	101,916	3,079
Leased assets	-	-	4,712	142
Leasehold improvements	34,353	22,816	22,816	689
	3,567,717	4,680,508	4,764,278	143,936
Less accumulated depreciation	(1,571,856)	(2,120,547)	(2,524,896)	(76,281)
Prepayments for construction-in-progress and equipment-in-transit	227,174	37,421	491,143	14,838
Property, plant and equipment, net	2,223,035	2,597,382	2,730,525	82,493
OTHER ASSETS				
Refundable deposits	5,554	6,297	35,622	1,076
Deferred charges (Note 2)	196,125	158,706	126,796	3,831
Deferred tax assets (Notes 2 and 19)	144,684	154,307	223,706	6,758
Deferred bond issuance costs	27,440	-	-	-
Other (Note 2)	-	42,212	68,200	2,061
Total other assets	373,803	361,522	454,324	13,726
TOTAL	$ 18,669,860	$ 31,196,923	$ 56,643,306	$ 1,711,278

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)	$ 13,264	$ -	$ -	$ -
Notes and accounts payable	5,814,610	10,988,427	15,885,072	479,912
Notes and accounts payable to related parties (Note 22)	16,239	67,092	9,812	296
Income tax payable (Notes 2 and 19)	141,753	344,234	1,164,826	35,191
Accrued expenses (Notes 14 and 22)	469,324	780,423	1,828,820	55,251
Payable for purchase of equipment	51,747	26,363	15,087	456
Other current liabilities (Notes 15 and 22)	481,750	1,084,567	2,334,784	70,537
Total current liabilities	6,988,687	13,291,106	21,238,401	641,643
LONG-TERM LIABILITIES				
Bonds payable (Notes 2 and 16)	2,197,651	-	-	-
OTHER LIABILITIES				
Accrued pension cost (Note 2)	44,800	-	-	-
Guarantee deposits received	50,997	30	646	20
Total other liabilities	95,797	30	646	20
Total liabilities	9,282,135	13,291,136	21,239,047	641,663
STOCKHOLDERS' EQUITY (Note 17)				
Capital stock - NT$10 par value				
Authorized: 550,000 thousand shares				
Issued: 271,427 thousand shares in 2004, 357,016 thousand shares in 2005 and 436,419 thousand shares in 2006				
Common stock	2,714,276	3,570,160	4,364,192	131,849
Capital surplus				
Additional paid-in capital	2,529,667	4,410,871	4,410,871	133,259
Long-term equity investments	-	-	15,845	479
Merger	25,972	25,972	25,972	784
Retained earnings				
Legal reserve	427,791	813,326	1,991,520	60,167
Special reserve	1,983	19,133	6,175	186
Accumulated earnings	3,687,891	9,068,259	24,581,934	742,657
Unrealized losses on financial instruments (Notes 2 and 6)	(1,121)	(1,095)	(884)	(27)
Cumulative translation adjustments (Note 2)	1,266	(839)	8,634	261
Total stockholders' equity	9,387,725	17,905,787	35,404,259	1,069,615
TOTAL	$ 18,669,860	$ 31,196,923	$ 56,643,306	$ 1,711,278

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

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

HIGH TECH COMPUTER CORP.

STATEMENTS OF INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2004, 2005 AND 2006
(In Thousands, Except Earnings Per Share)
(Reviewed, Not Audited)

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
REVENUES (Note 22)				
Gross sales	$ 21,536,825	$ 44,690,339	$ 75,887,383	$ 2,292,670
Less sales returns and discounts	(98,357)	(171,414)	(150,645)	(4,551)
NET SALES	21,438,468	44,518,925	75,736,738	2,288,119
OTHER REVENUES	624,822	725,508	624,330	18,862
Total revenues	22,063,290	45,244,433	76,361,068	2,306,981
COST OF REVENUES (Note 22)	17,042,386	34,697,239	51,926,899	1,568,789
GROSS PROFIT	5,020,904	10,547,194	24,434,169	738,192
UNREALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	(6,120)	(17,067)	(142,369)	(4,301)
REALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	7,241	6,289	15,077	456
REALIZED GROSS PROFIT	5,022,025	10,536,416	24,306,877	734,347
OPERATING EXPENSES (Notes 18 and 22)				
Administrative and selling	883,723	1,542,002	3,471,803	104,889
Research and development	1,335,939	1,658,635	1,992,332	60,191
Total operating expenses	2,219,662	3,200,637	5,464,135	165,080
OPERATING INCOME	2,802,363	7,335,779	18,842,742	569,267
NONOPERATING INCOME AND GAINS				
Interest income	48,575	91,876	273,588	8,265
Gain on sale of property, plant and equipment	-	-	41,341	1,249
Gain on sale of investments	1,213	-	-	-
Foreign exchange gain (Note 2)	-	-	355,696	10,746
Valuation gain on financial instruments, net (Notes 2, 3, 5 and 21)	-	3,677	18,957	573
Other (Note 22)	51,719	48,633	123,221	3,723
Total nonoperating income and gains	101,507	144,186	812,803	24,556
NONOPERATING EXPENSES AND LOSSES				
Interest expense	16,509	19,718	229	7
Equity in losses of equity method investees (Notes 2 and 12)	5,347	34,844	88,635	2,678
Losses on disposal of property, plant and equipment	1,270	787	3,377	102
Losses on inventory adjustments	415	1,179	2,197	66
Foreign exchange loss	4,623	133,062	-	-
Provision for loss on decline in value of inventory	308,175	327,636	609,582	18,416
Valuation loss on financial instruments, net (Notes 2, 3, 5 and 21)	13,264	-	-	-
Other	10,202	6,375	4,205	127
Total nonoperating expenses and losses	359,805	523,601	708,225	21,396

(Continued)

HIGH TECH COMPUTER CORP.

STATEMENTS OF INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2004, 2005 AND 2006
(In Thousands, Except Earnings Per Share)
(Reviewed, Not Audited)

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
INCOME BEFORE INCOME TAX	$ 2,544,065	$ 6,956,364	$ 18,947,320	$ 572,427
INCOME TAX EXPENSE (Notes 2 and 19)	(106,167)	(258,416)	(1,109,149)	(33,509)
NET INCOME	$ 2,437,898	$ 6,697,948	$ 17,838,171	$ 538,918

	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 20)	$ 6.21	$ 5.95	$ 16.11	$ 15.51	$ 43.42	$ 1.31	$ 40.87	$ 1.23
DILUTED EARNINGS PER SHARE (Note 20)	$ 5.95	$ 5.69	$ 15.93	$ 15.34	$ 42.75	$ 1.29	$ 40.25	$ 1.22

(Concluded)

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

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

HIGH TECH COMPUTER CORP.

STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2004, 2005 AND 2006
(In Thousands)
(Reviewed, Not Audited)

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$ 2,437,898	$ 6,697,948	$ 17,838,171	$ 538,918
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation	377,211	436,193	439,106	13,266
Amortization	37,116	27,505	23,441	708
Loss (gain) on disposal of property, plant and equipment	1,270	787	(37,964)	(1,147)
Equity in losses of equity method investees	5,347	34,844	88,635	2,678
Provision for redemption of convertible bonds	9,885	2,042	-	-
Foreign exchange losses (gains) on convertible bonds	2,050	(8,179)	-	-
Amortization of bond issue costs	6,190	17,675	-	-
Deferred income tax assets	(19,428)	(94,314)	(47,048)	(1,421)
Accrued pension cost	12,656	(34,549)	(18,440)	(557)
Net changes in operating assets and liabilities				
Financial instruments at fair value through profit or loss	(1,662,854)	(2,583)	41,128	1,242
Notes receivable	(32,286)	(225,042)	97,156	2,935
Accounts receivable	659,658	(2,216,836)	63,675	1,924
Accounts receivable from related parties	41,805	(256,845)	(1,001,294)	(30,251)
Other current financial assets	104,195	28,887	(113,332)	(3,424)
Inventories	(1,909,144)	(1,420,762)	(822,003)	(24,834)
Prepayments	55,899	(511,520)	(306,205)	(9,251)
Notes and accounts payable	873,990	3,065,113	2,144,677	64,794
Notes and accounts payable to related parties	9,626	43,955	(46,486)	(1,404)
Income tax payable	(4,572)	250,080	547,963	16,555
Accrued expenses	(16,330)	(81,844)	624,013	18,852
Other current liabilities	113,266	464,532	576,912	17,429
Net cash provided by operating activities	1,103,448	6,217,087	20,092,105	607,012
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(357,715)	(543,301)	(675,778)	(20,416)
Proceeds of sales of property, plant and equipment	6,107	2	44,519	1,345
Increase in long-term investments	(65,732)	-	(217,254)	(6,564)
Proceeds of liquidation of long-term investments	-	4,312	-	-
Increase in refundable deposits	(4,712)	(375)	(344)	(10)
Cash from merger	14,791	-	-	-
Net cash used in investing activities	(407,261)	(539,362)	(848,857)	(25,645)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase (decrease) in guarantee deposits received	50,967	(273,048)	85	3
Redemption of convertible bonds	(69,350)	-	-	-
Cash dividend, bonus to employees and directors' remuneration	(661,849)	(1,448,316)	(4,998,224)	(151,004)
Net cash used in financing activities	(680,232)	(1,721,364)	(4,998,139)	(151,001)

(Continued)

HIGH TECH COMPUTER CORP.

STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2004, 2005 AND 2006
(In Thousands)
(Reviewed, Not Audited)

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 15,955	$ 3,956,361	$ 14,245,109	$ 430,366
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	4,773,077	6,148,201	16,196,448	489,319
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 4,789,032	$ 10,104,562	$ 30,441,557	$ 919,685
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Cash paid during the period				
Interest (net of amounts capitalized)	$ 434	$ -	$ -	$ -
Income tax	$ 130,167	$ 102,650	$ 608,234	$ 18,376
NONCASH INVESTING AND FINANCING ACTIVITIES				
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	$ 373,247	$ 515,422	$ 680,930	$ 20,572
(Increase) decrease in payable for purchase of equipment	(15,532)	27,879	(1,048)	(32)
Increase in lease payable	-	-	(4,104)	(124)
Cash paid for purchase of property, plant and equipment	$ 357,715	$ 543,301	$ 675,778	$ 20,416
BONUS TO EMPLOYEES AND DIRECTORS' REMUNERATION				
Appropriation of cash dividend and bonus to employees	$ 739,694	$ 1,649,816	$ 5,449,224	$ 164,629
Increase in payable for cash dividend and bonus to employees	(77,845)	(201,500)	(451,000)	(13,625)
Cash paid	$ 661,849	$ 1,448,316	$ 4,998,224	$ 151,004
CASH FROM MERGER				
Issue of common stock	$ 15,673	$ -	$ -	$ -
Additional paid-in capital	25,972	-	-	-
Net assets received, except cash	(26,854)	-	-	-
Cash paid	$ 14,791	$ -	$ -	$ -

(Concluded)

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

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

1. ORGANIZATION AND OPERATIONS

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

The Company had 3,326, 4,088 and 4,685 employees as of September 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 25.

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.

The accompanying financial statements were originally presented in more than one set of Chinese reports. For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the 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 U.S. 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$33.10 to US$1.00 quoted by the Bank of Taiwan on September 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. The derivatives are subsequently remeasured at fair value, with the changes in fair value recognized as current income. When the fair value is positive, the derivative is recognized as a financial asset; when the fair value is negative, 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 the assets are subsequently measured at fair value, the changes in fair value are excluded from earnings and reported as a separate component of stockholders' equity. The accumulated gains or losses are recognized as earnings when the financial asset is de-recognized from the balance sheet.

Cash dividends are recognized as investment income upon the declaration of an investee's stockholders under a resolution but are accounted for as a reduction of the original cost of investment if these dividends are declared on the earnings of the investees attributable to periods before 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 on the basis of the new number of shares held after the stock dividends are received.

If there is objective evidence that a financial asset is impaired, a loss is recognized. If the impairment loss decreases, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to stockholders' 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 quoted market prices in an active market and have fair values that cannot be reliably measured, such as non-publicly traded stocks, are carried at original cost. 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 by the 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, based on the revised Statement of Financial Accounting Standards No. 5 - "Long-term Investments in Equity Securities" (SFAS No. 5), investment premiums, representing goodwill, should no longer be amortized.

When the Company subscribes for additional investee shares at a percentage different from its existing equity interest, the resulting change in the Company's equity in the investee's net assets is recorded 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 the recoverable amount of the investment 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$85,492 thousand, NT$265,344 thousand and NT$298,964 (US$9,032 thousand) as of September 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 nine months ended September 30, 2005 and 2006 were NT$20,642 thousand and NT$65,656 thousand (US$1,984 thousand), respectively.

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

Under 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 of 10% is expensed in the year of stockholder approval which is the year subsequent to the year the earnings are generated.

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

Transactions in currencies other than the entity's functional currency (i.e., foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. On the balance sheet date, monetary items denominated in foreign currencies are translated at prevailing rates. 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 nonmonetary items carried at fair value are included in earnings for the period, except for differences arising on the retranslation of nonmonetary items for which gains and losses are recognized directly under equity. For these nonmonetary items, any exchange component of that gain or loss is also recognized directly under equity. Nonmonetary items that are measured at historical cost in a foreign currency are not retranslated.

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

The rates of exchange prevailing on the transaction dates are also based on the rates quoted by the 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 nine months ended September 30, 2006.

3. ACCOUNTING CHANGES

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

a. Adjustments due to accounting changes

   The Company recategorized its financial assets and liabilities upon the initial adoption of the newly released Statements. As shown below, 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 stockholders' equity.

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

The accounting changes had no material effect on net income in the nine months ended September 30, 2006.

b. Account reclassifications

Upon the adoption of SFAS No. 34, certain accounts in the financial statements as of and for the nine months ended September 30, 2004 and 2005 were reclassified to conform with the financial statements as of and for the nine months ended September 30, 2006. However, the financial statements as of and for the nine months ended September 30, 2004 and 2005 need not be restated.

Certain accounting policies before the adoption of the new SFAS Nos. 34 and 36 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 in which 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 forward contracts to manage foreign exchange exposures on foreign currency-denominated assets and liabilities. The contracts are recorded in New Taiwan dollars at the exchange rate prevailing on the contract date. The differences in the New Taiwan dollar amounts translated at current rates and the amounts translated at forward rates are amortized over the terms of the forward contracts using the straight-line method. At the end of each period, the receivables or payables on forward contracts are restated at prevailing exchange rates, with the resulting differences credited or charged to income. In addition, the receivables and payables on forward contracts open as of period-end are netted out, with the resulting amount presented as an asset or a liability. Any resulting gain or loss upon settlement is credited or charged to income in the settlement period.

Certain accounts in the financial statements as of and for the nine months ended September 30, 2004 and 2005 have been reclassified to conform to the classifications prescribed by the newly released and revised Statements. The reclassifications of the entire or a part of the account balances of certain accounts are summarized as follows:

	September 30			
	2004		2005	
	(Before Reclassification)	(After Reclassification)	(Before Reclassification)	(After Reclassification)
Balance sheets				
Short-term investments	$ 1,705,640	$ -	$ -	$ -
Other current financial assets	-	-	3,677	-
Other current liabilities	13,264	-	-	-
Financial assets at fair value through profit or loss	-	-	-	3,677
Available-for-sale financial assets - current	-	1,705,640	-	-
Financial liabilities at fair value through profit or loss	-	13,264	-	-
Long-term equity investments	2,042	-	2,068	-
Available-for-sale financial assets - noncurrent	-	850	-	876
Financial assets carried at cost - noncurrent	-	1,192	-	1,192
Stockholders' equity				
Unrealized valuation loss on long-term investments	(1,121)	-	(1,095)	-
Unrealized losses on financial instruments	-	(1,121)	-	(1,095)
Statement of income				
Foreign exchange (loss) gain, net	(13,264)	-	3,677	-
Valuation (loss) gain on financial instruments, net	-	(13,264)	-	3,677

Effective January 1, 2006, the Company adopted the newly revised SFAS No. 5 - "Long Term Investments in Equity Securities" and SFAS No. 25 - "Business Combinations - Accounting Treatment under the Purchase Method," which prescribe that investment premiums, representing goodwill, be assessed for impairment at least annually instead of being amortized. These accounting changes had no material effect on the Company's financial statements as of and for the nine months ended September 30, 2006.

The Company adopted SFAS No. 35 - "Impairment of Assets" on January 1, 2005. This accounting change had no material effect on the financial statements for the nine months ended September 30, 2005.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of September 30, 2004, 2005 and 2006 were as follows:

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
Cash on hand	$ 793	$ 993	$ 1,000	$ 30
Cash in banks	3,043,399	2,020,569	5,632,157	170,156
Time deposits	1,744,840	8,083,000	24,808,400	749,499
	$ 4,789,032	$ 10,104,562	$ 30,441,557	$ 919,685

As of September 30, 2004, 2005 and 2006, interest rates on time deposits ranged from 1.00% to 3.75%, 1.30% to 1.68% and 1.40% to 2.075% as of September 30, 2004, 2005 and 2006, respectively.

As of September 30, 2004, 2005 and 2006, interest rates on preferential deposits ranged from 1.04%~1.70%, 2.15%～4.75% and 2.57%～5.25%, 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 September 30, 2004, 2005 and 2006 were as follows:

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
Derivatives - financial assets				
Forward exchange contracts	$ -	$ 3,677	$ 18,957	$ 573
Derivatives - financial liabilities				
Forward exchange contracts	$ 388	$ -	$ -	$ -
Currency option contracts	12,876	-	-	-
	$ 13,264	$ -	$ -	$ -

The Company had derivative transactions the nine months ended September 30, 2004, 2005 and 2006 to manage exposures related to exchange rate fluctuations. However, these transactions did not meet the criteria for hedge accounting under SFAS No. 34. Thus, the Company had no hedge accounting in the nine months ended September 30, 2006. Outstanding forward exchange and currency option contracts as of September 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	2004.10.14~2004.11.24	US$ 11,000

	2005			
	Buy/Sell	Currency	Expiry Date	Contract Amount
Forward exchange contracts	Sell	USD/NTD	2005.10.05～2005.11.02	US$ 29,000
Forward exchange contracts	Sell	EUR/USD	2005.10.14～2005.11.02	EUR€ 8,000
Forward exchange contracts	Sell	GBP/USD	2005.11.01～2005.11.30	GBP£ 3,000

	2006			
	Buy/Sell	Currency	Expiry Date	Contract Amount
Forward exchange contracts	Sell	USD/NTD	2006.10.04～2006.12.29	US$ 10,000
Forward exchange contracts	Sell	EUR/USD	2006.10.04～2006.11.29	EUR€ 66,000
Forward exchange contracts	Buy	USD/JPY	2006.10.25～2006.12.29	US$ 4,016
Forward exchange contracts	Sell	GBP/USD	2006.10.11～2006.11.03	GBP£ 4,250
Forward exchange contracts	Sell	JPY/NTD	2006.10.25～2006.11.03	JPY 205,000

Currency Option Contracts

2004						
Buy/Sell	Trade Date	Expiry Date	Call/Put	Contract Amount	Strike Rate	Credit Risk
Buy	2004.02.09	2004.10.29~2005.01.31	USD/EUR	US$ 9,200	1.15	-
Buy	2004.02.09~2004.03.29	2004.10.08~2005.03.29	NTD/USD	US$ 22,000	33.15~33.60	-
Sell	2004.02.09~2004.03.29	2004.10.08~2005.03.29	USD/NTD	US$ 27,000	33.26~33.60	-

Net losses on derivative financial instruments in the nine months ended September 30, 2006 were NT$177,138 thousand (including realized settlement losses of NT$196,095 thousand and valuation gains of NT$18,957 thousand).

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
Mutual fund investments	$ 1,705,640	$ -	$ -	$ -
VIA Technologies, Inc.	850	876	1,087	33
	1,706,490	876	1,087	33
Less current portion	(1,705,640)	-	-	-
	$ 850	$ 876	$ 1,087	$ 33

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

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
Notes receivable	$ 68,085	$ 296,798	$ 1,931	$ 58
Accounts receivable	4,636,454	10,561,336	14,152,814	427,577
Less allowance for doubtful accounts	(6,573)	(4,066)	(3,674)	(111)
	$ 4,697,966	$ 10,854,068	$ 14,151,071	$ 427,524

8. OTHER CURRENT FINANCIAL ASSETS

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

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
Other receivables from related parties (Note 22)	$ 9,721	$ 3,699	$ 106,727	$ 3,224
Value-added tax refunds receivable	19,182	21,446	51,501	1,556
Other receivables	56,792	21,785	16,278	492
Interest receivable	-	10,465	15,150	457
Others	1,321	9,760	8,995	272
	$ 87,016	$ 67,155	$ 198,651	$ 6,001

Other receivables from related parties were 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 September 30, 2004, 2005 and 2006 were as follows:

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
Finished goods	$ 174,501	$ 637,048	$ 455,786	$ 13,770
Work-in-process	1,303,588	2,232,654	2,296,051	69,367
Raw materials	2,858,692	3,232,201	3,950,088	119,338
	4,336,781	6,101,903	6,701,925	202,475
Less valuation allowance	(269,841)	(477,492)	(1,042,369)	(31,491)
	$ 4,066,940	$ 5,624,411	$ 5,659,556	$ 170,984

10. PREPAYMENTS

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

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
Prepayments for royalty (Note 24)	$275,775	$595,053	$585,083	$17,676
Services	2,109	29,947	54,799	1,656
Prepayments for materials purchases	3,366	7,270	195	6
Others	73,695	124,078	140,389	4,241
	$354,945	$756,348	$780,466	$23,579

11. FINANCIAL ASSETS CARRIED AT COST

Financial assets carried at cost as of September 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	$ 36

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. This investment was not carried at fair value because its fair value could not be reliably measured. The Company accounted for this investment by the cost method.

12. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Investments accounted for using equity method as of September 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.	$ 168,507	100	$ 327,975	100	$ 509,114	$ 15,381	$ 337,517	$ 10,197	100
Auto Hi-Tech Computer Corp.	4,343	20	-	-	-	-	-	-	-
BandRich Inc.	-	-	-	-	135,000	4,079	142,850	4,316	51
HTC HK, Limited	-	-	-	-	1,277	38	1,277	38	100
	$ 172,850		$ 327,975		$ 645,391	$ 19,498	$ 481,644	$ 14,551	

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 September 30, 2006, the Company had increased this investment to NT$509,114 thousand (US$15,231 thousand).

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 common shares at NT$12.50 per share, but the Company did not buy any of these shares. Thus, the Company’s ownership percentage declined from 92% to 51%, and there was a capital surplus - long term equity investments of NT$15,845 thousand (US$479 thousand).

In September 2006, the Company acquired 100% equity interest in HTC HK, Limited for NT$1,277 thousand (US$38 thousand) and accounted for this investment by the equity method.

On its equity-method investments, the Company had losses of NT$5,347 thousand, NT$34,844 thousand and NT$88,635 thousand (US$2,678 thousand) for the nine months ended September 30, 2004, 2005 and 2006, respectively.

The financial statements of equity-method investees hadn't been reviewed by the Company's independent accountants.

13. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of September 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	$ 301,313	$ 610,293	$ 610,293	$ -	$ 610,293	$ 18,438
Buildings and structures	649,399	813,623	1,081,136	329,537	751,599	22,707
Machinery and equipment	956,936	1,063,730	2,563,963	1,758,238	805,725	24,342
Molding equipment	1,926	-	201,247	201,247	-	-
Computer equipment	37,149	35,773	176,257	136,505	39,752	1,201
Transportation equipment	596	376	1,938	1,177	761	23
Furniture and fixtures	33,966	29,294	101,916	78,161	23,755	718
Leased assets	-	-	4,712	589	4,123	124
Leasehold improvements	14,576	6,872	22,816	19,442	3,374	102
Prepayments on equipment-in-transit	227,174	37,421	491,143	-	491,143	14,838
	$2,223,035	$2,597,382	$5,255,421	$2,524,896	$2,730,525	$ 82,493

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

Prepayments on equipment-in-transit were prepayments for building construction and miscellaneous equipment.

14. ACCRUED EXPENSES

Accrued expenses as of September 30, 2004, 2005 and 2006 were as follows:

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
Marketing	$ -	$ -	$542,741	$16,397
Salaries & bonuses	245,548	350,300	391,544	11,829
Donation (Note 25)	-	-	300,000	9,063
Export expenses	15,479	94,717	207,516	6,269
Research materials	27,368	100,858	89,114	2,692
Meals and welfare	1,500	16,257	62,244	1,881
Insurance	23,768	30,132	61,302	1,852
Travel	7,492	9,247	50,112	1,514
Professional fees	19,569	32,534	33,665	1,017
Others	128,600	146,378	90,582	2,737
	$469,324	$780,423	$1,828,820	$55,251

15. OTHER CURRENT LIABILITIES

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

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
Reserve for warranty expenses	$ 311,641	$ 747,039	$ 1,373,587	$ 41,498
Employee bonus payable	83,500	206,000	451,000	13,625
Deferred credits - profit from intercompany transactions	6,120	17,067	142,369	4,301
Receipts for custody	22,494	32,890	110,364	3,334
Other payable to related parties (Note 22)	-	-	101,066	3,053
Advance receipts	23,691	47,267	67,441	2,038
Directors' remuneration	21,842	21,842	21,842	660
Other	12,462	12,462	67,115	2,028
	$ 481,750	$ 1,084,567	$ 2,334,784	$ 70,537

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.

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

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

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

16. BONDS PAYABLE

A summary of bonds payable as of September 30, 2004, 2005 and 2006 was as follows:

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
On January 29, 2003, the Company issued Zero Coupon Convertible Bonds of US$66,000 thousand. The bonds will mature on January 29, 2008. The issue price is 100% and the par value is US$1,000.	$ 2,219,200	$ -	$ -	$ -
Add				
Reserve for redemption of Convertible Bonds	22,931	-	-	-
Allowance for foreign currency exchange loss	(44,480)	-	-	-
Less current portion of bonds payable	-	-	-	-
	$ 2,197,651	$ -	$ -	$ -

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. 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$10.00 par value. The Company issued 1,567.3 thousand shares (NT$ 15,673 thousand) to merge with IA Style, Inc.; the effective date of this merger was March 1, 2004. In June 2004, the stockholders approved the transfer to capital stock of retained earnings of NT$437,463 thousand and employees' bonuses of NT$89,500 thousand. As a result, the amount of the Company's outstanding common stock as of September 30, 2004 increased to NT$2,714,276 thousand. In the fourth quarter of 2004, holders of US$18,030 thousand in bonds requested to convert the bonds into 4,884 thousand shares (NT$ 48,838 thousand). The amounts were temporarily accounted for as "capital collected in advance."

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$45,970 thousand in bonds requested to convert the bonds into 12,452 thousand shares (NT$ 124,519 thousand). In June 2005, the stockholders approved the transfer of retained earnings amounting to NT$577,527 thousand and employee bonuses amounting to NT$105,000 thousand to capital stock. As a result, the amount of the Company's outstanding common stock as of September 30, 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$21,572 thousand) and employee bonuses amounting to NT$80,000 thousand (US$2,417 thousand) to capital stock. As a result, the amount of the Company's outstanding common stock as of September 30, 2006 increased to NT$ 4,364,192 thousand, divided into 436,419 thousand common shares at NT$10.00 par value.

In their meeting on December 11, 2002, the Company's Board of Directors resolved to issue 7,000 thousand units of employee stock options in accordance with Article 28.3 of the Securities and Exchange Law. Each option represents the right to buy one newly issued common share of the Company. The exercise price is the closing price of the Company's common shares on the option issuance date or the share par value, whichever is higher. The option holders can exercise the right up to 35% of the granted option units no earlier than two years from the grant date. After three years from the grant date, the holders can exercise the right at up to 70% of the granted option units. After four years from the grant date, the option holders are eligible to exercise their rights on all the options owned. The exercise period is five years. As of September 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 September 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. The Company's stockholders including Via Technologies, Inc., offered 12,878.4 thousand shares of its common stock, divided into 3,219.6 thousand units of Global Depositary Receipts. Therefore, there are 6,819.6 thousand units of GDRs in the aggregate in this offering. Each GDR represents four common shares and issued at NT$131.1 per share. NT$1,696,855 thousand of the additional paid-in capital from the issuance of such common stock were accounted for as "capital surplus". This cash subscription was finished and registered on November 19, 2003.

The holders of these GDRs have same rights and obligation with the stockholders of the Company. However, the distribution of the offering and sales of GDRs and the shares represented thereby in certain jurisdictions may be restricted by law. The GDRs offered hereby and the shares represented thereby are not transferable except in accordance with the restrictions described in the GDRs offering circular and related laws applied in Taiwan. The holders should through the depositary's custodian in Taiwan exercise these rights as follows:

a. to exercise voting right, and
b. being entitled to receive dividends and participate new cash subscription.

Also the holders could trade their shares through the depositary's custodian in Taiwan. Taken into account the effect of stock dividends, the Global Depositary Receipts increased to 7,324.7 thousand units (29,299 thousand shares). The holders of these GDRs have requested the Company to redeem the GDRSs and receive the common stock as of September 30, 2006, the GDRs redeemed were 5,864.7 thousand units amounted 23,458.8 thousand shares common stock, and the outstanding GDRs represent 5,840.2 thousand shares of common stock and account 1.34% 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, other additional paid-in capital 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. Thus, the additional paid-in capital as of September 30, 2005 and 2006 was NT$4,410,871 thousand each. 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 for the new shares issued by BandRich Inc., an adjustment of NT$15,845 thousand (US$479 thousand) was made to the investment 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.

18. PERSONNEL EXPENSE, DEPRECIATION AND AMORTIZATION

Function / Expense Item	2004			2005		
	NT$			NT$		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses	$576,870	$701,666	$1,278,536	850,162	930,838	1,781,000
Salary	489,377	610,422	1,099,799	691,752	781,430	1,473,182
Insurance	32,494	40,386	72,880	44,730	53,628	98,358
Pension cost	14,666	17,442	32,108	34,179	40,842	75,021
Other	40,333	33,416	73,749	79,501	54,938	134,439
Depreciation	252,371	124,840	377,211	270,396	165,797	436,193
Amortization	2,135	34,981	37,116	539	26,966	27,505

Function / Expense Item	2006					
	NT$			US$ (Note 2)		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses	991,789	1,088,306	2,080,095	29,964	32,879	62,843
Salary	822,822	910,488	1,733,310	24,859	27,507	52,366
Insurance	51,516	62,772	114,288	1,556	1,896	3,452
Pension cost	23,882	46,309	70,191	722	1,399	2,121
Other	93,569	68,737	162,306	2,827	2,077	4,904
Depreciation	266,997	172,109	439,106	8,066	5,200	13,266
Amortization	-	23,441	23,441	-	708	708

19. INCOME TAX

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

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

Items Granted Exemption from Corporate Income Tax	Tax Exemption Period
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 September 30, 2004, 2005 and 2006 were computed as follows:

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
Income before income tax	$ 2,544,065	$ 6,956,364	$ 18,947,320	$ 572,427
Permanent differences				
Losses on equity-method investments	5,347	34,844	88,635	2,678
Gain on disposal of investments	(1,213)	-	-	-
Other	4,435	18,215	25,994	785
Temporary differences				
Unrealized (realized) pension cost	12,656	(34,549)	(18,439)	(557)
Unrealized loss on decline in value of inventory	147,336	130,721	455,642	13,766
Unrealized royalties	68,500	707,553	1,460,302	44,118
Realized depreciation	(70)	(9,044)	-	-
Unrealized foreign exchange losses (gains), net	12,025	60,180	(55,058)	(1,663)
Unrealized warranty expense	122,430	422,338	409,084	12,359
Capitalize expense	(2,909)	16,383	(11,901)	(359)
(Realized) unrealized profit from intercompany transactions	(1,121)	10,778	127,292	3,845
Other	8,181	(14,598)	(22,937)	(693)
Total income	2,919,662	8,299,185	21,405,934	646,706
Less tax-exempt income tax	(1,575,165)	(5,129,604)	(15,241,139)	(460,457)
Prior years' loss carryforwards - merger with IA Style, Inc.	(465)	-	-	-
Taxable income	1,344,032	3,169,581	6,164,795	186,249
Tax rate	25%	25%	25%	25%
	336,008	792,395	1,541,199	46,562
Income tax credit	(10)	(10)	(10)	-

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
Estimated income tax provision	335,998	792,385	1,541,189	46,562
Unappropriated earnings (additional 10% income tax)	71,798	144,006	436,049	13,174
Less investment research and development tax credits	(263,586)	(583,872)	(852,745)	(25,763)
Current income tax expense	144,210	352,519	1,124,493	33,973
Less prepaid and withheld income tax	(2,457)	(8,285)	(27,398)	(828)
Tax shortage stated in the tax assessment notice	-	-	67,731	2,046
Income tax payable	$ 141,753	$ 344,234	$ 1,164,826	$ 35,191

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

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 2)
Temporary differences				
Unrealized pension cost	$ 11,758	$ -	$ -	$ -
Unrealized depreciation	7,582	754	-	-
Provision for loss on decline in value of inventory	67,460	119,373	260,592	7,873
Capitalize expense	36,719	42,992	33,814	1,022
Unrealized reserve for warranty expense	77,910	186,760	343,397	10,374
Unrealized royalties	181,702	340,446	824,632	24,913
Other	8,520	3,911	16,949	512
Tax credit carryforwards	577,362	560,876	-	-
Total deferred tax asset	969,013	1,255,112	1,479,384	44,694
Less valuation allowance	(684,694)	(909,879)	(929,418)	(28,079)
Total deferred tax asset, net	284,319	345,233	549,966	16,615
Deferred tax liability				
Unrealized pension cost	-	(9,995)	(16,492)	(498)
Unrealized foreign currency exchange gain, net	(16,087)	(18,234)	(7,566)	(229)
	268,232	317,004	525,908	15,888
Less current portion	(123,548)	(162,697)	(302,202)	(9,130)
Deferred tax assets, noncurrent	$ 144,684	$ 154,307	$ 223,706	$ 6,758

The tax credit carryforwards were as follows:

Year of Occurrence	Validity Period	2004 NT$	2005 NT$	2006 NT$	2006 US$ (Note 2)
2000	2000-2004	$ 19,875	$ -	$ -	$ -
2001	2001-2005	155,447	38,559	-	-
2002	2002-2006	54,941	56,405	-	-
2003	2003-2007	179,230	179,061	-	-
2004	2004-2008	167,869	109,476	-	-
2005	2005-2009	-	177,375	-	-
		$577,362	$560,876	$ -	$ -

Based on the Income Tax Law of the ROC, the investment research and development tax credits can be carried forward for four years. The total credits used in each year cannot exceed half of the estimated income tax provision, except in the last year.

Valuation allowance is based on management's evaluation of the amount of tax credits that can be carried forward for four years, based on the Company's financial forecasts.

The income tax expenses for the nine months ended September 30, 2004, 2005 and 2006 were as follows:

	2004 NT$	2005 NT$	2006 NT$	2006 US$ (Note 2)
Current income tax expense	$ 144,210	$352,519	$1,124,493	$ 33,973
Decrease in deferred income tax assets	(19,428)	(94,314)	(47,048)	(1,421)
Under (over) under estimation of prior year's income tax	(18,615)	211	31,704	957
Income tax expense	$ 106,167	$ 258,416	$1,109,149	$ 33,509

The integrated income tax information is as follows:

	2004 NT$	2005 NT$	2006 NT$	2006 US$ (Note 2)
Balance of imputation credit account	$ 95,182	$ 96,896	$ 352,831	$ 10,660
Unappropriated earnings from 1998	3,687,891	9,068,259	24,581,934	742,657
Expected creditable ratio (including income tax payable)	6.42%	4.86%	6.17%	6.17%

20. EARNINGS PER SHARE

Earnings per share ("EPS") before tax and after tax are calculated by dividing net income by the weighted average number of common shares outstanding during each year. The weighted average number of shares used in EPS calculation was 409,703 thousand shares, 431,871 thousand shares and 436,419 thousand shares for the nine months ended September 30, 2004, 2005 and 2006, respectively. EPS for the nine months ended September 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 have dilutive effects on the 2004, 2005 and 2006 earnings per share. The related information is as follows:

	2004				
	Numerator		Denominator	Earnings Per Share	
	Income before Income Tax NT$	Income after Income Tax NT$	Shares (Thousands)	Income before Income Tax NT$	Income after Income Tax NT$
Basic earnings per share	$ 2,544,065	$ 2,437,898	409,703	$ 6.21	$ 5.95
Zero coupon convertible bonds	9,885	7,414	17,344		
Employee stock options	-	-	2,335		
Diluted earnings per share	$ 2,553,950	$ 2,445,312	429,382	$ 5.95	$ 5.69

	2005				
	Numerator		Denominator	Earnings Per Share	
	Income before Income Tax NT$	Income after Income Tax NT$	Shares (Thousands)	Income before Income Tax NT$	Income after Income Tax NT$
Basic earnings per share	$ 6,956,364	$ 6,697,948	431,871	$ 16.11	$ 15.51
Employee stock options	-	-	4,685		
Diluted earnings per share	$ 6,956,364	$ 6,697,948	436,556	$ 15.93	$ 15.34

	2006				
	Numerator		Denominator	Earnings Per Share	
	Income before Income Tax NT$	Income after Income Tax NT$	Shares (Thousands)	Income before Income Tax NT$	Income after Income Tax NT$
Basic earnings per share	$18,947,320	$17,838,171	436,419	$ 43.42	$ 40.87
Employee stock options	-	-	6,770		
Diluted earnings per share	$18,947,320	$17,838,171	443,189	$ 42.75	$ 40.25

	2006				
	Numerator		Denominator	Earnings Per Share	
	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 earnings per share	$ 572,427	$ 538,918	436,419	$ 1.31	$ 1.23
Employee stock options	-	-	6,770		
Diluted earnings per share	$ 572,427	$ 538,918	443,189	$ 1.29	$ 1.22

21. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

Nonderivative Financial Instruments

	September 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								
Available-for-sale financial assets - current	$1,705,640	$1,705,640	$ -	$ -	$ -	$ -	$ -	$ -
Available-for-sale financial assets - noncurrent	850	850	876	876	1,087	33	1,087	33
Financial assets carried at cost	1,192	1,192	1,192	1,192	1,192	36	1,192	36
Investments accounted for using equity method	172,850	172,850	327,975	327,975	481,644	14,551	481,644	14,551
Refundable deposits	5,554	5,499	6,297	6,216	35,622	1,076	35,269	1,066
Liabilities								
Guarantee deposits received	50,997	50,492	30	30	646	20	640	19

Derivative Financial Instruments

	September 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								
Financial assets at fair value through profit or loss	$ -	$ -	$ 3,677	$ 3,677	$ 18,957	$ 573	$ 18,957	$ 573
Liabilities								
Financial liabilities at fair value through profit or loss	13,264	13,264	-	-	-	-	-	-

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 34 - "Accounting for Financial Instruments" for accounting period on January 1, 2006. The effects of this accounting change are described in Note 3.

Methods and Assumptions Used in Determining Fair Values of Financial Instruments

The financial instruments subject to SFAS No. 34 do not include cash and cash equivalents, receivables, other financial assets, payables, accrued expenses and other current financial liabilities. The carrying amounts of these financial instruments approximate their fair values.

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 their 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 information that market participants would use in setting a price for these securities.

The fair values of bonds payable, refundable deposits and guarantee deposits received are based on the present value of future cash flows discounted at the average interest rates for time deposits with maturities similar to those of the financial instruments.

Methodology Used to Determine the Fair Values of Financial Instruments

	Quoted Market Prices				Measurement Method			
	September 30				September 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	$ -	$ 3,677	$ 18,957	$ 573	$ -	$ -	$ -	$ -
Available-for-sale financial assets - current	1,705,640	-	-	-	-	-	-	-
Available-for-sale financial assets - noncurrent	850	876	1,087	33	-	-	-	-
Financial assets carried at cost	-	-	-	-	1,192	1,192	1,192	36
Investments accounted for using equity method	-	-	-	-	172,850	327,975	481,644	14,551
Refundable deposits	-	-	-	-	5,499	6,216	35,269	1,066
Liabilities								
Financial liabilities at fair value through profit or loss	13,264	-	-	-	-	-	-	-
Guarantee deposits received	-	-	-	-	50,492	30	640	19

There was no loss or gain recognized in the nine months ended September 30, 2006 on the fair value changes of derivatives estimated using valuation techniques. The Company recognized an unrealized loss of NT$844 thousand and gains of NT$173 thousand and NT$251 thousand (US$7 thousand) in stockholders' equity for the changes in fair value of available-for-sale financial assets in the nine months ended September 30, 2004, 2005 and 2006, respectively.

As of September 30, 2004, 2005 and 2006, financial assets exposed to cash flow interest rate risk amounted to NT$1,744,840 thousand, NT$8,083,000 thousand and NT$24,808,400 thousand (US$749,499 thousand), respectively.

Financial Risks

Market Risk

The Company uses derivative contracts for hedging purposes, i.e., to reduce any adverse effect of exchange rate fluctuations of accounts receivable/payable. The gains or losses on these contracts almost offset the gains or losses on the hedged items. Thus, market risk is not material.

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 counter-parties' default on contracts is low.

Cash Flow Risk

The Company has sufficient working capital to settle derivative contracts. However, there are no future cash requirements for contract settlement.

22. RELATED-PARTY TRANSACTIONS

The names and relationships of related parties are as follows:

Related Party	Relationship with the 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
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.
HTC NIPPON Corporation	Subsidiary of H.T.C. (B.V.I.) Corp.

Major transactions with related parties are summarized below:

Purchases of Inventories and Services

	Nine Months Ended September 30						
	2004		2005		2006		
Related Party	Amount	% of Total Net Purchases	Amount	% of Total Net Purchases	Amount		% of Total Net Purchases
	NT$		NT$		NT$	US$ (Note 2)	
Chander Electronics Corp.	$ 20,781	-	$ 546,436	2	$ 72,290	$ 2,184	-
High Tech Computer Corp. (Suzhou)	-	-	-	-	12,290	371	-
	$ 20,781	-	$ 546,436	2	$ 84,580	$ 2,555	-

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

Sales and Services Provided

	Nine Months Ended September 30						
	2004		2005		2006		
Related Party	Amount	% of Total Revenues	Amount	% of Total Revenues	Amount		% of Total Revenues
	NT$		NT$		NT$	US$ (Note 2)	
Exedea Inc.	$ -	-	$ -	-	$1,605,585	$ 48,507	2
HTC American Inc.	100,291	-	184,205	1	540,719	16,336	1
HTC Europe Co., Ltd.	-	-	151,984	-	248,058	7,494	-
Comserve Network Netherlands B.V.	148,640	1	72,168	-	-	-	-
Others	3,733	-	1,584	-	838	25	-
	$ 252,664	1	$ 409,941	1	$2,395,200	$ 72,362	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	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
	September 30						
Accounts receivable							
Exedea Inc.	$ -	-	$ -	-	$ 650,698	$ 19,659	4
HTC American Inc.	70,771	2	176,681	2	534,688	16,154	3
HTC Europe Co., Ltd.	-	-	151,992	1	236,536	7,146	2
Comserve Network Netherlands B.V.	2,219	-	6,324	-	-	-	-
Others	53	-	61	-	152	4	-
	$ 73,043	2	$ 335,058	3	$1,422,074	$ 42,963	9

Notes and Accounts Payable

Related Party	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
	September 30						
High Tech Computer Corp. (Suzhou)	$ -	-	$ -	-	$ 9,187	$ 277	-
Chander Electronics Corp.	16,239	-	61,905	1	132	4	-
Others	-	-	5,187	-	493	15	-
	$ 16,239	-	$ 67,092	1	$ 9,812	$ 296	-

Other Receivable

Related Party	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
	September 30						
HTC American Inc.	$ 1,109	2	$ 1,858	7	$ 48,499	$ 1,465	40
HTC Europe Co., Ltd.	5,196	8	1,300	5	41,936	1,267	34
High Tech Computer Corp. (Suzhou)	-	-	-	-	16,248	491	13
Others	3,416	5	541	2	44	1	-
	$ 9,721	15	$ 3,699	14	$ 106,727	$ 3,224	87

The term for other receivables from related parties was 90 days, longer than that for third parties. The Company transferred accounts receivables amounting to NT$87,588 (US$2,646 thousand), which were more than 180 days outstanding, to other receivables. Other receivables from related parties included agency payments of NT$19,139 thousand (US$578 thousand).

Prepaid Expenses

Related Party	September 30						
	2004		2005		2006		
	Amount NT$	% of Total Prepayment	Amount NT$	% of Total Prepayment	Amount NT$	Amount US$ (Note 2)	% of Total Prepayment
HTC American Inc.	$ -	-	$ -	-	$ 19,857	$ 600	3
HTC Europe Co., Ltd.	-	-	-	-	17,610	532	2
HTC NIPPON Corporation	-	-	-	-	3,100	94	-
HTEK	2,109	1	9,266	1	-	-	-
	$ 2,109	1	$ 9,266	1	$ 40,567	$ 1,226	5

Accrued Expenses

Related Party	September 30						
	2004		2005		2006		
	Amount NT$	% of Total Accrued Expenses	Amount NT$	% of Total Accrued Expenses	Amount NT$	Amount US$ (Note 2)	% of Total Accrued Expenses
VIA Technologies, Inc.	$ 2,468	1	$ -	-	$ 210	$ 6	-

Other Payables to Related Parties

Related Party	September 30						
	2004		2005		2006		
	Amount NT$	% of Total Other Payables	Amount NT$	% of Total Other Payables	Amount NT$	Amount US$ (Note 2)	% of Total Other Payables
HTC America Inc.	$ -	-	$ -	-	$ 71,607	$ 2,163	71
HTC Europe Co., Ltd.	-	-	-	-	29,439	889	29
Others	-	-	-	-	20	1	-
	$ -	-	$ -	-	$ 101,066	$ 3,053	100

Outsourcing Expenses

Related Party	Nine Months Ended September 30						
	2004		2005		2006		
	Amount NT$	% of Total Out-Sourcing Expenses	Amount NT$	% of Total Out-Sourcing Expenses	Amount NT$	Amount US$ (Note 2)	% of Total Out-Sourcing Expenses
High Tech Computer Corp. (Suzhou)	$ -	-	$ 33,371	10	$ 57,820	$ 1,747	10
First International Computer Inc.	-	-	7,350	2	-	-	-
	$ -	-	$ 40,721	12	$ 57,820	$ 1,747	10

Service Warranty Expense

Related Party	2004 Amount NT$	2004 % of Warranty Expenses	2005 Amount NT$	2005 % of Warranty Expenses	2006 Amount NT$	2006 Amount US$ (Note 2)	2006 % of Warranty Expenses
	Nine Months Ended September 30						
HTC Europe Co., Ltd.	$ 16,446	5	$ 42,503	5	$ 220,384	$ 6,658	15
HTC USA Inc.	20,968	6	66,507	7	179,729	5,430	12
Comserve Network Netherlands B.V.	95,402	26	86,430	10	-	-	-
	$ 132,816	37	$ 195,440	22	$ 400,113	$ 12,088	27

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

Administrative and Selling Expenses - Service Fees

Related Party	2004 Amount NT$	2004 % of Total Professional Fees	2005 Amount NT$	2005 % of Total Professional Fees	2006 Amount NT$	2006 Amount US$ (Note 2)	2006 % of Total Professional Fees
	Nine Months Ended September 30						
HTC America Inc.	$ -	-	$ -	-	$ 75,661	$ 2,286	37
HTEK	19,663	28	12,378	27	21,685	655	10
Exedea Inc.	-	-	-	-	15,567	470	7
HTC Europe Co., Ltd.	-	-	-	-	9,425	285	5
VIA Technologies, Inc.	-	-	3,000	6	1,800	54	1
	$ 19,663	28	$ 15,378	33	$ 124,138	$ 3,750	60

Leasing - Lessee

Operating Expense - Rental Expense

Related Party	2004 Amount NT$	2004 % of Rental Expense	2005 Amount NT$	2005 % of Rental Expense	2006 Amount NT$	2006 Amount US$ (Note 2)	2006 % of Rental Expense
	Nine Months Ended September 30						
VIA Technologies, Inc.	$ 11,286	65	$ 7,663	59	$ -	$ -	-
Chander Electronics Corp.	56	-	-	-	-	-	-
	$ 11,342	65	$ 7,663	59	$ -	$ -	-

The Company leased offices and parking space owned by the related parties 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 Income - Rental Revenue

	Nine Months Ended September 30						
	2004		2005		2006		
Related Party	Amount NT$	% of Total Rental Revenue	Amount NT$	% of Total Rental Revenue	Amount NT$	Amount US$ (Note 2)	% of Total Rental Revenue
VIA Technologies, Inc.	$ 91	80	$ 339	100	$ -	$ -	-
Chander Electronics Corp.	18	16	-	-	-	-	-
	$ 109	96	$ 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.

23. COMMITMENTS AND CONTINGENCIES

As of September 30, 2006, unused letters of credit amounted to US$226 thousand, JP¥4,200 thousand and EUR512 thousand.

24. SIGNIFICANT CONTRACTS

Patent Agreement

To enhance the quality of its products and manufacturing technologies, the Company has patent agreements as follows:

Contractor	Contract Term	Description
Microsoft	December 1, 2004 - December 31, 2006	Authorization to use embedded operating system; royalty payment based on agreement.
Texas Instruments France	January 14, 2000 - January 13, 2010	Authorization to use GSM system software; royalty payment based on agreement.
Qualcomm Incorporated	December 20, 2000 to the following dates:	

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-September 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-September 30, 2009	Authorization to use GSM, GPRS, EDGE, CDMA or WCDMA patent license or technology; royalty payment based on agreement.

25. OTHER EVENTS

Merger

To effect cooperation with other companies in the same trade, lower operating costs and expenses, and enhance competitiveness as well as 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 taken into account the effect of stock dividends , the pro forma information for nine months ended September 30, 2004 would have been as follows:

	NT$
Revenues	$ 22,064,79
Net income	2,429,186
Basic earnings per share after income tax	5.92

Donation

In the nine months ended September 30, 2006, the Company donated NT$300,000 thousand (US$9,063 thousand) based on its internal donation policy its social welfare policy to the High Tech Computer Foundation for Social Welfare Charity to help disadvantaged minorities, teenagers and other people in need.

Global Depositary Receipt Issuance

In their annual general meeting on May 2, 2006, the Company's stockholders authorized the board of directors to issue up to 16,000 thousand common shares for a global depositary receipt offering, which was approved by the Financial Supervisory Commission under the Executive Yuan. However, in August 2006, the Company's board of directors approved the cancellation of this offering because of global financial instability.

Other

In June 2006, the Company's board of directors of the Company passed a resolution to sign a memorandum of understanding with Dopod (Cayman) Holding Corporation ("Dopod") for the Company's acquisition of 50% of Dopod's shares. Based on the Company's assessment of Dopod, the value of Dopod's entire equity was US$150 million at most. The share acquisition details, business cooperation plans, the Company's and Dopod's rights and obligations, and related matters will be negotiated and subject to due diligence.