

**High Tech Computer Corp. and
Subsidiaries**

**Consolidated Financial Statements for the
Years Ended December 31, 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 consolidated balance sheets of High Tech Computer Corp. and subsidiaries (the "Company") as of December 31, 2004, 2005 and 2006, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, all expressed in New Taiwan dollars. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of High Tech Computer Corp. and subsidiaries as of December 31, 2004, 2005 and 2006, and the results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

Our audits also comprehended the translation of the 2006 New Taiwan dollar amounts into U.S. dollar amounts and, in our opinion; such translation has been made in conformity with the basis stated in Note 3. Such U.S. dollar amounts are presented solely for the convenience of readers.

January 26, 2007

Notice to Readers

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

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 consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and consolidated financial statements shall prevail. Also, as stated in Note 2 to the consolidated financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

HIGH TECH COMPUTER CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2004, 2005 AND 2006 (In Thousands, Except Par Value)

ASSETS	2004	2005	2006		LIABILITIES AND STOCKHOLDERS' EQUITY	2004	2005	2006	
	NT\$	NT\$	NT\$	US\$ (Note 3)		NT\$	NT\$	NT\$	US\$ (Note 3)
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Note 5)	\$ 6,390,542	\$ 16,425,226	\$ 34,969,818	\$ 1,072,694	Financial liabilities at fair value through profit or loss (Notes 2, 4, 6 and 25)	\$ -	\$ -	\$ 76,470	\$ 2,346
Financial assets at fair value through profit or loss (Notes 2, 4, 6 and 25)	1,094	60,085	-	-	Notes and accounts payable (Note 26)	7,953,475	14,076,881	17,276,571	529,956
Notes receivable, net (Notes 2 and 8)	71,756	99,087	58,930	1,808	Income tax payable (Notes 2 and 23)	94,154	616,863	1,758,717	53,948
Accounts receivable, net (Notes 2 and 8)	8,445,714	14,387,105	19,144,616	587,258	Accrued expenses (Notes 15 and 26)	870,716	1,242,262	2,484,078	76,199
Accounts receivable from related parties (Notes 2 and 26)	1,010	1,718	3,685	113	Payable for purchase of equipment	57,055	20,045	49,058	1,505
Other current financial assets (Notes 9 and 26)	91,110	98,026	376,164	11,539	Other current liabilities (Notes 16 and 26)	<u>459,017</u>	<u>1,198,353</u>	<u>2,113,003</u>	<u>64,816</u>
Inventories (Notes 2 and 10)	4,269,274	5,318,031	5,963,513	182,930	Total current liabilities	<u>9,434,417</u>	<u>17,154,404</u>	<u>23,757,897</u>	<u>728,770</u>
Prepayments (Note 11)	246,513	417,964	1,867,820	57,295					
Deferred tax assets (Notes 2 and 23)	<u>163,945</u>	<u>229,826</u>	<u>428,077</u>	<u>13,131</u>	LONG-TERM LIABILITIES				
Total current assets	<u>19,680,958</u>	<u>37,037,068</u>	<u>62,812,623</u>	<u>1,926,768</u>	Bonds payable (Notes 2 and 17)	<u>1,477,171</u>	-	-	-
LONG-TERM INVESTMENTS					OTHER LIABILITIES				
Available-for-sale financial assets - noncurrent (Notes 2 and 7)	703	836	1,733	53	Guarantee deposits received	<u>273,078</u>	<u>561</u>	<u>640</u>	<u>20</u>
Financial assets carried at cost (Notes 2 and 12)	1,192	1,192	1,192	37	Total liabilities	<u>11,184,666</u>	<u>17,154,965</u>	<u>23,758,537</u>	<u>728,790</u>
Investments accounted for by the equity method (Notes 2 and 13)	<u>4,312</u>	-	-	-					
Total long-term investments	<u>6,207</u>	<u>2,028</u>	<u>2,925</u>	<u>90</u>	STOCKHOLDERS' EQUITY (Notes 19 and 20)				
					Capital stock - NT\$10 par value				
PROPERTIES (Notes 2, 14 and 26)					Authorized: 550,000 thousand shares				
Cost					Issued and outstanding: 271,428 thousand shares in 2004, 357,016 thousand shares in 2005 and 436,419 thousand shares in 2006				
Land	378,274	610,293	610,293	18,721	Common stock	2,714,276	3,570,160	4,364,192	133,871
Buildings and structures	946,207	1,073,560	1,083,065	33,223	Share subscriptions received in advance	48,838	-	-	-
Machinery and equipment	2,297,402	2,634,274	3,103,327	95,194	Capital surplus				
Molding equipment	201,567	201,567	201,247	6,173	Additional paid-in capital - common stock	3,064,356	4,410,871	4,410,871	135,303
Computer equipment	169,700	181,852	226,903	6,960	Long-term equity investments	-	-	15,845	486
Transportation equipment	2,485	2,841	3,141	96	From merger	25,972	25,972	25,972	797
Furniture and fixtures	112,684	127,195	139,647	4,284	Retained earnings				
Leased assets	-	-	4,712	145	Legal reserve	427,791	813,326	1,991,520	61,090
Leasehold improvements	<u>56,437</u>	<u>34,202</u>	<u>76,772</u>	<u>2,355</u>	Special reserve	1,983	19,133	6,175	189
Total cost	4,164,756	4,865,784	5,449,107	167,151	Accumulated earnings	5,105,339	14,152,255	31,991,090	981,322
Less accumulated depreciation	(1,715,516)	(2,283,042)	(2,752,680)	(84,438)	Cumulative translation adjustments	(17,865)	(5,041)	10,786	330
Prepayments for construction-in-progress and equipment-in-transit	<u>125,915</u>	<u>27,467</u>	<u>473,971</u>	<u>14,538</u>	Unrealized valuation loss on financial instruments (Notes 2, 4 and 7)	(1,268)	(1,135)	(238)	(7)
Properties, net	<u>2,575,155</u>	<u>2,610,209</u>	<u>3,170,398</u>	<u>97,251</u>	Treasury stock (Notes 2 and 21)	-	-	(243,995)	(7,485)
					Equity attributable to stockholders of the parent	11,369,422	22,985,541	42,572,218	1,305,896
OTHER ASSETS					MINORITY INTEREST				
Refundable deposits	6,670	36,592	45,234	1,387	Total Stockholders' equity	<u>11,369,422</u>	<u>22,985,541</u>	<u>42,704,887</u>	<u>1,309,965</u>
Deferred charges (Note 2)	198,933	155,815	135,060	4,143					
Deferred bond issue costs (Notes 2 and 17)	17,675	-	-	-					
Deferred tax assets (Notes 2 and 23)	60,827	249,034	223,164	6,845					
Prepaid pension cost (Notes 2 and 18)	<u>7,663</u>	<u>49,760</u>	<u>74,020</u>	<u>2,271</u>					
Total other assets	<u>291,768</u>	<u>491,201</u>	<u>477,478</u>	<u>14,646</u>					
TOTAL	<u>\$ 22,554,088</u>	<u>\$ 40,140,506</u>	<u>\$ 66,463,424</u>	<u>\$ 2,038,755</u>	TOTAL	<u>\$ 22,554,088</u>	<u>\$ 40,140,506</u>	<u>\$ 66,463,424</u>	<u>\$ 2,038,755</u>

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

HIGH TECH COMPUTER CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006 (In Thousands, Except Earnings Per Share)

	2004	2005	2006	
	NT\$	NT\$	NT\$	US\$ (Note 3)
REVENUES				
Gross sales	\$ 35,760,923	\$ 72,446,649	\$ 104,999,194	\$ 3,220,834
Less sales returns and discounts	<u>(163,186)</u>	<u>(260,894)</u>	<u>(584,849)</u>	<u>(17,940)</u>
NET SALES (Notes 2 and 26)	35,597,737	72,185,755	104,414,345	3,202,894
OTHER REVENUES	<u>790,238</u>	<u>958,899</u>	<u>944,052</u>	<u>28,958</u>
Total revenues	36,387,975	73,144,654	105,358,397	3,231,852
COST OF REVENUES (Notes 22 and 26)	<u>28,501,121</u>	<u>55,238,941</u>	<u>72,066,150</u>	<u>2,210,618</u>
GROSS PROFIT	<u>7,886,854</u>	<u>17,905,713</u>	<u>33,292,247</u>	<u>1,021,234</u>
OPERATING EXPENSES (Notes 22 and 26)				
Administrative and selling	1,613,888	2,701,397	3,796,185	116,447
Research and development	<u>1,993,972</u>	<u>2,399,315</u>	<u>2,974,003</u>	<u>91,227</u>
Total operating expenses	<u>3,607,860</u>	<u>5,100,712</u>	<u>6,770,188</u>	<u>207,674</u>
OPERATING INCOME	<u>4,278,994</u>	<u>12,805,001</u>	<u>26,522,059</u>	<u>813,560</u>
NONOPERATING INCOME AND GAINS				
Interest income	66,505	147,820	445,121	13,654
Equity in earnings of equity method investees (Notes 2 and 13)	259	-	-	-
Gain on sale of properties	10,950	5,372	39,111	1,200
Gain on sale of investments	13,584	-	-	-
Gain on physical inventory	12,741	3,474	-	-
Foreign exchange gain (Notes 2 and 4)	107,104	-	626,464	19,217
Valuation gains on financial instruments (Notes 2, 4 and 6)	1,094	60,085	-	-
Other	<u>108,453</u>	<u>80,788</u>	<u>173,356</u>	<u>5,317</u>
Total nonoperating income and gains	<u>320,690</u>	<u>297,539</u>	<u>1,284,052</u>	<u>39,388</u>
NONOPERATING EXPENSES AND LOSSES				
Interest expense	29,367	19,821	298	9
Losses on disposal of properties	11,800	2,576	3,412	105
Loss on physical inventory	-	-	1,121	34
Foreign exchange loss (Notes 2 and 4)	-	301,437	-	-
Provision for loss on decline in value of inventory	554,416	598,549	774,944	23,771
Valuation loss on financial instruments (Notes 2, 4 and 6)	-	-	76,470	2,346
Other	<u>42,208</u>	<u>22,012</u>	<u>7,149</u>	<u>219</u>
Total nonoperating expenses and losses	<u>637,791</u>	<u>944,395</u>	<u>863,394</u>	<u>26,484</u>
INCOME BEFORE INCOME TAX	3,961,893	12,158,145	26,942,717	826,464
INCOME TAX (Notes 2 and 23)	<u>(106,547)</u>	<u>(376,201)</u>	<u>(1,708,375)</u>	<u>(52,404)</u>
NET INCOME	<u>\$ 3,855,346</u>	<u>\$ 11,781,944</u>	<u>\$ 25,234,342</u>	<u>\$ 774,060</u>

(Continued)

HIGH TECH COMPUTER CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006 (In Thousands, Except Earnings Per Share)

	2004		2005		2006			
	NT\$		NT\$		NT\$		US\$ (Note 3)	
ATTRIBUTABLE TO								
Stockholders of the parent	\$ 3,855,346		\$ 11,781,944		\$ 25,247,327		774,458	
Minority interest	-		-		(12,985)		(398)	
	<u>\$ 3,855,346</u>		<u>\$ 11,781,944</u>		<u>\$ 25,234,342</u>		<u>774,060</u>	
	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 3)	NT\$	US\$ (Note 3)
BASIC EARNINGS PER SHARE (Note 24)	<u>\$ 9.66</u>	<u>\$ 9.40</u>	<u>\$ 28.07</u>	<u>\$ 27.21</u>	<u>\$ 61.77</u>	<u>\$ 1.89</u>	<u>\$ 57.85</u>	<u>\$ 1.77</u>
DILUTED EARNINGS PER SHARE (Note 24)	<u>\$ 9.33</u>	<u>\$ 9.08</u>	<u>\$ 27.76</u>	<u>\$ 26.91</u>	<u>\$ 60.83</u>	<u>\$ 1.87</u>	<u>\$ 56.97</u>	<u>\$ 1.75</u>

(Concluded)

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

HIGH TECH COMPUTER CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006 (In Thousands of New Taiwan Dollars)

New Taiwan Dollars	Capital Stock		Capital Surplus			Retained Earnings			Cumulative Translation Adjustments	Unrealized Losses on Financial Instruments	Treasury Stock	Minority Interest	Total
	Issued and Outstanding Common Stock	Share Subscriptions Received in Advance	Additional Paid-in Capital - Common Stock	Long-Term Equity Investments	From Merger	Legal Reserve	Special Reserve	Accumulated Earnings					
BALANCE, JANUARY 1, 2004	\$ 2,171,640	\$ -	\$ 2,529,667	\$ -	\$ -	\$ 242,718	\$ 331	\$ 2,703,375	\$ (1,706)	\$ (277)	\$ -	\$ -	\$ 7,645,748
Appropriation of the 2003 net earnings													
Legal reserve	-	-	-	-	-	185,073	-	(185,073)	-	-	-	-	-
Special reserve	-	-	-	-	-	-	1,652	(1,652)	-	-	-	-	-
Stock dividends	437,463	-	-	-	-	-	-	(437,463)	-	-	-	-	-
Transfer of employee bonuses to capital stock	89,500	-	-	-	-	-	-	(89,500)	-	-	-	-	-
Employee bonuses	-	-	-	-	-	-	-	(83,500)	-	-	-	-	(83,500)
Cash dividends	-	-	-	-	-	-	-	(656,194)	-	-	-	-	(656,194)
Net income in 2004	-	-	-	-	-	-	-	3,855,346	-	-	-	-	3,855,346
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	(16,159)	-	-	-	(16,159)
Unrealized losses on financial instruments	-	-	-	-	-	-	-	-	-	(991)	-	-	(991)
Merger with IA Style, Inc.	15,673	-	-	-	25,972	-	-	-	-	-	-	-	41,645
Convertible bonds converted to common stocks	-	48,838	534,689	-	-	-	-	-	-	-	-	-	583,527
BALANCE, DECEMBER 31, 2004	2,714,276	48,838	3,064,356	-	25,972	427,791	1,983	5,105,339	(17,865)	(1,268)	-	-	11,369,422
Appropriation of the 2004 net earnings													
Legal reserve	-	-	-	-	-	385,535	-	(385,535)	-	-	-	-	-
Special reserve	-	-	-	-	-	-	17,150	(17,150)	-	-	-	-	-
Stock dividends	577,527	-	-	-	-	-	-	(577,527)	-	-	-	-	-
Transfer of employee bonuses to capital stock	105,000	-	-	-	-	-	-	(105,000)	-	-	-	-	-
Employee bonuses	-	-	-	-	-	-	-	(206,000)	-	-	-	-	(206,000)
Cash dividends	-	-	-	-	-	-	-	(1,443,816)	-	-	-	-	(1,443,816)
Net income in 2005	-	-	-	-	-	-	-	11,781,944	-	-	-	-	11,781,944
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	12,824	-	-	-	12,824
Unrealized losses on financial instruments	-	-	-	-	-	-	-	-	-	133	-	-	133
Share subscriptions received in advance and transferred to common stocks	48,838	(48,838)	-	-	-	-	-	-	-	-	-	-	-
Convertible bonds converted to common stocks	124,519	-	1,346,515	-	-	-	-	-	-	-	-	-	1,471,034
BALANCE, DECEMBER 31, 2005	3,570,160	-	4,410,871	-	25,972	813,326	19,133	14,152,255	(5,041)	(1,135)	-	-	22,985,541
Adjustments due to accounting changes (Note 4)	-	-	-	-	-	-	-	-	-	48	-	-	48
Appropriation of the 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)
Net income in 2006	-	-	-	-	-	-	-	25,247,327	-	-	-	(12,985)	25,234,342
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	15,827	-	-	-	15,827
Unrealized losses on financial instruments	-	-	-	-	-	-	-	-	-	849	-	-	849
Adjustment due to changes in ownership percentage in investees	-	-	-	15,845	-	-	-	-	-	-	-	-	15,845
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	(243,995)	-	(243,995)
Increase in minority interest	-	-	-	-	-	-	-	-	-	-	-	145,654	145,654
BALANCE, DECEMBER 31, 2006	\$ 4,364,192	\$ -	\$ 4,410,871	\$ 15,845	\$ 25,972	\$ 1,991,520	\$ 6,175	\$ 31,991,090	\$ 10,786	\$ (238)	\$ (243,995)	\$ 132,669	\$ 42,704,887

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

HIGH TECH COMPUTER CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006 (In Thousands of New Taiwan Dollars)

U.S. Dollars	Capital Stock		Capital Surplus			Retained Earnings			Cumulative Translation Adjustments	Unrealized Losses on Financial Instruments	Treasury Stock	Minority Interest	Total
	Issued and Outstanding Common Stock	Share Subscriptions Received in Advance	Additional Paid-in Capital - Common Stock	Long-Term Equity Investments	From Merger	Legal Reserve	Special Reserve	Accumulated Earnings					
BALANCE, JANUARY 1, 2006	\$ 109,514	\$ -	\$ 135,303	\$ -	\$ 797	\$ 24,949	\$ 587	\$ 434,118	\$ (155)	\$ (35)	\$ -	\$ -	\$ 705,078
Adjustments due to accounting changes (Note 4)	-	-	-	-	-	-	-	-	-	2	-	-	2
Appropriation of the 2005 net earnings													
Legal reserve	-	-	-	-	-	36,141	-	(36,141)	-	-	-	-	-
Special reserve	-	-	-	-	-	-	(398)	398	-	-	-	-	-
Stock dividends	21,903	-	-	-	-	-	-	(21,903)	-	-	-	-	-
Transfer of employee bonuses to capital stock	2,454	-	-	-	-	-	-	(2,454)	-	-	-	-	-
Employee bonuses	-	-	-	-	-	-	-	(13,834)	-	-	-	-	(13,834)
Cash dividends	-	-	-	-	-	-	-	(153,320)	-	-	-	-	(153,320)
Net income in 2006	-	-	-	-	-	-	-	774,458	-	-	-	(398)	774,060
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	485	-	-	-	485
Unrealized losses on financial instruments	-	-	-	-	-	-	-	-	-	26	-	-	26
Adjustment due to changes in ownership percentage in investees	-	-	-	486	-	-	-	-	-	-	-	-	486
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	(7,485)	-	(7,485)
Increase in minority interest	-	-	-	-	-	-	-	-	-	-	-	4,467	4,467
BALANCE, DECEMBER 31, 2006	<u>\$ 133,871</u>	<u>\$ -</u>	<u>\$ 135,303</u>	<u>\$ 486</u>	<u>\$ 797</u>	<u>\$ 61,090</u>	<u>\$ 189</u>	<u>\$ 981,322</u>	<u>\$ 330</u>	<u>\$ (7)</u>	<u>(7,485)</u>	<u>\$ 4,069</u>	<u>\$ 1,309,965</u>

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

HIGH TECH COMPUTER CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006 (In Thousands)

	2004	2005	2006	
	NT\$	NT\$	NT\$	US\$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	\$ 3,855,346	\$ 11,781,944	\$ 25,234,342	\$ 774,060
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation	527,394	600,476	638,353	19,581
Amortization	48,123	44,098	40,516	1,243
Loss (gain) on disposal of properties	850	(2,796)	(35,699)	(1,095)
Equity in earnings of equity method investees	(259)	-	-	-
Provision for redemption of convertible bonds	12,978	2,042	-	-
Foreign exchange gains on convertible bonds	(137,996)	(8,179)	-	-
Amortization of bond issue costs	15,955	17,675	-	-
Deferred income tax assets	27,649	(254,088)	(172,381)	(5,288)
Accrued pension costs	(39,807)	(42,097)	(24,260)	(744)
Net changes in operating assets and liabilities				
Financial instruments at fair value through profit or loss	28,428	(58,991)	136,555	4,189
Notes receivable	(35,957)	(27,331)	40,157	1,232
Accounts receivable	(3,123,976)	(5,941,391)	(4,757,511)	(145,936)
Accounts receivable from related parties	9,782	(708)	(1,967)	(60)
Other current financial assets	96,759	(6,916)	(278,138)	(8,532)
Inventories	(2,045,141)	(1,048,757)	(645,482)	(19,800)
Prepayments	151,722	(171,451)	(1,449,856)	(44,474)
Notes and accounts payable	2,988,603	6,123,406	3,199,690	98,150
Income tax payable	(56,857)	522,709	1,141,854	35,026
Accrued expenses	383,225	371,546	1,241,816	38,093
Other current liabilities	<u>176,773</u>	<u>743,836</u>	<u>459,756</u>	<u>14,103</u>
Net cash provided by operating activities	<u>2,883,594</u>	<u>12,645,027</u>	<u>24,767,745</u>	<u>759,748</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of properties	(843,240)	(672,602)	(1,166,408)	(35,779)
Proceeds of the sales of properties	10,681	5,918	44,701	1,371
Proceeds of the disposal of long-term investments	-	4,312	-	-
Increase in refundable deposits	(5,435)	(29,922)	(8,642)	(265)
Increase in deferred charges	(13,675)	(477)	(19,401)	(595)
Cash received on merger	<u>14,791</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash used in investing activities	<u>(836,878)</u>	<u>(692,771)</u>	<u>(1,149,750)</u>	<u>(35,268)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase (decrease) in guarantee deposits received	273,048	(272,517)	79	3
Redemption of convertible bonds	(69,350)	-	-	-
Cash dividends	(656,194)	(1,443,816)	(4,998,224)	(153,320)
Bonus to employees	(84,654)	(210,500)	-	-
Purchase of treasury stock	-	-	(243,995)	(7,485)
Increase in minority interest	<u>-</u>	<u>-</u>	<u>161,499</u>	<u>4,953</u>
Net cash used in financing activities	<u>(537,150)</u>	<u>(1,926,833)</u>	<u>(5,080,641)</u>	<u>(155,849)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				
	<u>(12,949)</u>	<u>9,261</u>	<u>7,238</u>	<u>222</u>

(Continued)

HIGH TECH COMPUTER CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006 (In Thousands)

	2004	2005	2006	
	NT\$	NT\$	NT\$	US\$ (Note 3)
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 1,496,617	\$ 10,034,684	\$ 18,544,592	\$ 568,853
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,893,925</u>	<u>6,390,542</u>	<u>16,425,226</u>	<u>503,841</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 6,390,542</u>	<u>\$ 16,425,226</u>	<u>\$ 34,969,818</u>	<u>\$ 1,072,694</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Cash paid during the year				
Interest	\$ <u>414</u>	\$ <u>-</u>	\$ <u>298</u>	\$ <u>9</u>
Income tax	\$ <u>135,755</u>	\$ <u>107,580</u>	\$ <u>738,902</u>	\$ <u>22,666</u>
NONCASH INVESTING AND FINANCING ACTIVITIES				
Transfer of convertible bonds to common stock and additional paid-in capital	\$ <u>583,527</u>	\$ <u>1,471,034</u>	\$ <u>-</u>	\$ <u>-</u>
PURCHASE OF PROPERTIES				
Cost of properties purchased	\$ 864,080	\$ 635,592	\$ 1,199,315	\$ 36,789
(Increase) decrease in payable for purchase of equipment	(20,840)	37,010	(29,013)	(891)
Increase in lease payable	<u>-</u>	<u>-</u>	<u>(3,894)</u>	<u>(119)</u>
Cash paid for purchase of properties	\$ <u>843,240</u>	\$ <u>672,602</u>	\$ <u>1,166,408</u>	\$ <u>35,779</u>
BONUS TO EMPLOYEES AND DIRECTORS' REMUNERATION				
Appropriation of bonus to employees and directors' remuneration	\$ 83,500	\$ 206,000	\$ 451,000	\$ 13,834
Decrease (increase) in payable for employee bonus and directors' remuneration	<u>1,154</u>	<u>4,500</u>	<u>(451,000)</u>	<u>(13,834)</u>
Cash paid	\$ <u>84,654</u>	\$ <u>210,500</u>	\$ <u>-</u>	\$ <u>-</u>
CASH FROM MERGER				
Issuance of common stock	\$ 15,673	\$ -	\$ -	\$ -
Additional paid-in capital	25,972	-	-	-
Net assets received, except cash	<u>(26,854)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash received on merger	\$ <u>14,791</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

(Concluded)

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

HIGH TECH COMPUTER CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006

(In Thousands, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

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

To take advantage of synergies with companies in similar industries, lower operating costs and expenses, and enhance competitiveness and research and development capabilities, HTCC's Board of Directors proposed to merge HTCC with IA Style, Inc. on October 31, 2003. The effective merger date was March 1, 2004.

HTCC and its consolidated subsidiaries, hereinafter referred to as the "Company, had 3,435, 4,664 and 5,654 employees as of December 31, 2004, 2005 and 2006, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, 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, royalty, 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:

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of all direct and indirect subsidiaries of HTCC, and the accounts of investees in which HTCC's ownership percentage is less than 50% but in which HTCC has a controlling interest.

The revised ROC Statement of Financial Accounting Standards No. 7 - "Consolidated Financial Statements" took effect on January 1, 2005. This revised standard requires the consolidation of all investees in which HTCC has a controlling interest. When HTCC adopted this standard in 2005, it retroactively restated its consolidated financial statements as of and for the year ended December 31, 2004.

All significant intercompany balances and transactions were eliminated upon consolidation. Minority interest was presented separately in the financial statements.

The consolidated entities as of December 31, 2004, 2005 and 2006 were as follows:

Name of Investor	Name of Investee	Main Businesses	% of Ownership			Remark
			2004	2005	2006	
High Tech Computer Corp.	H.T.C. (B.V.I.) Corp.	Global investing activities	100	100	100	Incorporated in August 2000
	BandRich Inc.	Design, manufacture and sale of electronic devices	-	-	51	Incorporated in April 2006
	HTC HK, Limited	Global investing activities	-	-	100	Incorporated in August 2006
H.T.C. (B.V.I.) Corp.	HTEK	Marketing and engineering support activities	100	100	100	Incorporated in August 2000
	HTC America Inc.	Repair and after-sales service	100	100	100	Incorporated in January 2003
	HTC Europe Co., Ltd.	Repair and after-sales service	100	100	100	Incorporated in July 2003
	High Tech Computer Corp. (Suzhou)	Manufacture and sale of smart handheld devices	100	100	100	Incorporated in January 2003
	Exedea Inc.	Distribution and sales	-	100	100	Incorporated in December 2004 and invested in July 2005
HTC HK, Limited	HTC Nippon Corporation	Distribution and after-sales service	-	-	100	Incorporated in March 2006
	HTC Belgium BVBA/SPRL	Global investing activities	-	-	100	Incorporated in October 2006

As mentioned in Note 1, HTCC and the foregoing subsidiaries are hereinafter referred to collectively as the "Company."

Current/Noncurrent Assets and Liabilities

Current assets are cash, cash equivalents and other assets to be realized in cash, sold, or consumed (prepaid items) within 12 months of the balance sheet date. Current liabilities are obligations to be paid or settled within 12 months of the balance sheet date. All other assets or liabilities are classified as noncurrent.

Financial Assets/Liabilities at Fair Value through Profit or Loss

Derivatives that do not meet the criteria for hedge accounting are initially recognized at fair value, with transaction costs expensed as incurred. 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 additions, 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.

Assets held under capital leases are initially recognized as assets at the lower of their fair value at the inception of the lease or the present value of all future lease payments plus the bargain purchase price. The corresponding liability to the lessor is included in the balance sheet as a capital lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation to have a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to gain or loss. But if these charges they are directly attributable to qualifying assets, they are capitalized in accordance with the Company's general policy on borrowing costs.

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.

Accrued Marketing Expenses

The Company accrues marketing expenses on the basis of agreements, management's judgment, and any known factors that would significantly affect the accruals. In addition, depending on the nature of relevant events, the accrued marketing expenses are accounted for as an increase in marketing expenses or as a decrease in revenues.

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.

Treasury Stock

The Company adopted the Statement of Financial Accounting Standards No. 30 - "Accounting for Treasury Stocks," which requires the treasury stock held by the Company to be accounted for by the cost method. The cost of treasury stock is shown as a deduction to arrive at stockholders' equity, while gain or loss from selling treasury stock is treated as an adjustment to capital surplus.

Pension Plan

Under the ROC Labor Standards Law (the “Law”), which provides for a defined benefit pension plan, the Company has a pension plan covering all eligible employees. Based on the Statement of Financial Accounting Standards No. 18, “Accounting for Pensions,” issued by the Accounting Research and Development Foundation of the ROC, pension cost under the defined benefit pension plan should be calculated by the actuarial method.

The Labor Pension Act (the “Act), which provides for a new defined contribution plan, took effect on July 1, 2005. Employees already covered by the Law can choose to remain to be subject to the pension mechanism under the Law or to be subject to the Act. Under the Act, the rate of an employer’s monthly contribution to the pension fund should be at least 6% of the employee's monthly wages, and the contribution should be recognized as pension expense in the income statement.

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.

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

Foreign-Currency Transactions

Transactions in currencies other than the New Taiwan dollars 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 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 be consistent with the presentation of the financial statements as of and for the year ended December 31, 2006.

3. 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\$32.60 to US\$1.00 quoted by the Bank of Taiwan on December 31, 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.

4. 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.

The effects of the accounting changes are summarized as follows:

a. Adjustments due to accounting changes

The Company recategorized its financial assets and liabilities upon adopting SFAS Nos. 34 and 36. 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 of Stockholders' Equity (After Tax)
Available-for-sale financial assets	<u>\$ -</u>	<u>\$ 48</u>

The accounting changes had no material effect on the 2006 net income.

b. Reclassification of financial statement accounts

Upon the adoption of SFAS No. 34, certain accounts in the financial statements as of and for the years ended December 31, 2004 and 2005 were reclassified to be consistent with the financial statements as of and for the year ended December 31, 2006. However, the financial statements as of and for the years ended December 31, 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 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 - 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 exchange rate exposures on foreign currency-denominated assets and liabilities. The contracts are recorded in New Taiwan dollars at the exchange rates prevailing on the contract starting dates. The differences in the New Taiwan dollar amounts translated at starting date 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 years ended December 31, 2004 and 2005 have been reclassified to conform to the classifications under the newly released and revised Statements. The reclassifications of the account balances in whole or in part of certain accounts are summarized as follows:

	2004		2005	
	Before Reclassification	After Reclassification	Before Reclassification	After Reclassification
<u>Balance sheets</u>				
Other current financial assets	\$ 1,094	\$ -	\$ 60,085	\$ -
Financial assets at fair value through profit or loss	-	1,094	-	60,085
Long-term equity investments	1,895	-	2,028	-
Available-for-sale financial assets - noncurrent	-	703	-	836
Financial assets carried at cost - noncurrent	-	1,192	-	1,192
<u>Stockholders' equity</u>				
Unrealized valuation loss on long-term investments	(1,268)	-	(1,135)	-
Unrealized losses on financial instruments	-	(1,268)	-	(1,135)
<u>Statement of income</u>				
Foreign exchange gain, net	1,094	-	60,085	-
Valuation gain on financial instruments, net	-	1,094	-	60,085

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 year ended December 31, 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 as of and for the year ended December 31, 2005.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2004, 2005 and 2006 were as follows:

	2004	2005	2006	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Cash on hand	\$ 918	\$ 1,104	\$ 1,505	\$ 46
Cash in banks	3,196,624	6,707,222	4,499,913	138,035
Time deposits	3,193,000	9,716,900	30,468,400	934,613
	<u>\$ 6,390,542</u>	<u>\$ 16,425,226</u>	<u>\$ 34,969,818</u>	<u>\$ 1,072,694</u>

As of December 31, 2004, 2005 and 2006, interest rates on time deposits ranged from 0.700% to 1.155%, 1.315% to 1.840% and 1.610% to 2.145%, respectively.

As of December 31, 2004, 2005 and 2006, interest rates on preferential deposits ranged from 0.40% to 2.20%, 2.00% to 4.45% and 2.30% to 5.25%, respectively.

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

Financial assets and liabilities at fair value through profit or loss as of December 31, 2004, 2005 and 2006 were as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Derivatives - financial assets				
Forward exchange contracts	\$ 359	\$ 60,085	\$ -	\$ -
Currency option contracts	<u>735</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,094</u>	<u>\$ 60,085</u>	<u>\$ -</u>	<u>\$ -</u>
Derivatives - financial liabilities				
Forward exchange contracts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 76,470</u>	<u>\$ 2,346</u>

The Company had derivative transactions in 2004, 2005 and 2006 to manage exposures related to exchange rate fluctuations. However, these transactions did not meet the criteria for hedge accounting under Statement of Financial Accounting Standards No. 34 – “Accounting for Financial Instruments.” Thus, the Company had no hedge accounting in 2006. Outstanding forward exchange and currency option contracts as of December 31, 2004, 2005 and 2006 were as follows:

Forward Exchange Contracts

<u>2004</u>					
	Buy/Sell	Currency	Expiry Date	Contract Amount	
Forward exchange contracts	Sell	EUR/NTD	2005.01.14~2005.01.21	EUR€	5,000
<u>2005</u>					
	Buy/Sell	Currency	Expiry Date	Contract Amount	
Forward exchange contracts	Sell	USD/NTD	2006.01.02~2006.01.27	US\$	167,000
Forward exchange contracts	Sell	EUR/USD	2006.01.02~2006.02.22	EUR€	79,000
Forward exchange contracts	Sell	GBP/USD	2006.01.25	GBP£	3,000
<u>2006</u>					
	Buy/Sell	Currency	Expiry Date	Contract Amount	
Forward exchange contracts	Sell	USD/NTD	2007.01.05~2007.03.28	US\$	78,000
Forward exchange contracts	Sell	EUR/USD	2007.01.05~2007.03.09	EUR€	108,000
Forward exchange contracts	Buy	USD/JPY	2007.01.12~2007.03.09	US\$	11,000
Forward exchange contracts	Sell	GBP/USD	2007.01.05~2007.02.16	GBP£	6,150

2006				
	Buy/Sell	Currency	Expiry Date	Contract Amount
Forward exchange contracts	Sell	JPY/NTD	2007.01.12~2007.03.28	JPY 427,750
Forward exchange contracts	Sell	JPY/USD	2007.01.17~2007.03.28	JPY 810,626

Currency Option Contracts

2004						
Buy/Sell	Trade Date	Expiry Date	Call/Put	Contract Amount	Strike Rate	Credit Risk
Buy	2004.02.09	2005.01.31	USD/EUR	US\$ 2,300	1.15	-
Buy	2004.02.09~ 2004.03.29	2005.1.7~ 2005.3.29	NTD/USD	US\$ 10,000	33.15~33.60	-
Sell	2004.02.09~ 2004.03.29	2005.1.7~ 2005.3.29	USD/NTD	US\$ 12,000	33.26~33.60	-

Note: This currency option transaction shall cease to be exercisable if the spot rate is at a price equal to or below the Out-Strike Price (32.2-32.6)

Net loss on derivative financial instruments in 2006 was NT\$408,757 thousand (US\$12,539 thousand), including realized settlement losses of NT\$332,287 thousand (US\$10,193 thousand) and valuation losses of NT\$76,470 thousand (US\$2,346 thousand).

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets as of December 31, 2004, 2005 and 2006 were as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
VIA Technologies, Inc.	\$ 703	\$ 836	\$ 1,733	\$ 53

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

8. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable as of December 31, 2004, 2005 and 2006 were as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Notes receivable	\$ 71,756	\$ 99,087	\$ 58,930	\$ 1,808
Accounts receivable	8,452,687	14,396,015	19,176,850	588,247
Less allowance for doubtful accounts	(6,973)	(8,910)	(32,234)	(989)
	<u>\$ 8,517,470</u>	<u>\$ 14,486,192</u>	<u>\$ 19,203,546</u>	<u>\$ 589,066</u>

9. OTHER CURRENT FINANCIAL ASSETS

Other current financial assets as of December 31, 2004, 2005 and 2006 were as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Agency payments	\$ 1,489	\$ 31,816	\$210,077	\$ 6,444
Value-added tax refund receivables	47,715	30,325	115,936	3,556
Other receivables	40,391	20,319	25,297	776
Interest receivables	<u>1,515</u>	<u>15,566</u>	<u>24,854</u>	<u>763</u>
	<u>\$ 91,110</u>	<u>\$ 98,026</u>	<u>\$376,164</u>	<u>\$11,539</u>

Agency payments were prepayments for royalty on behalf of customers.

Other receivables were primarily compensation from service charges, prepayment for employees' traveling expenses and proceeds from sales of properties.

10. INVENTORIES

Inventories as of December 31, 2004, 2005 and 2006 were as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Finished goods	\$ 666,838	\$ 703,834	\$1,217,864	\$ 37,358
Work-in-process	1,226,072	1,868,373	1,274,719	39,102
Raw materials	<u>2,730,228</u>	<u>3,332,551</u>	<u>4,445,963</u>	<u>136,379</u>
	4,623,138	5,904,758	6,938,546	212,839
Less valuation allowance	<u>(353,864)</u>	<u>(586,727)</u>	<u>(975,033)</u>	<u>(29,909)</u>
	<u>\$4,269,274</u>	<u>\$5,318,031</u>	<u>\$5,963,513</u>	<u>\$182,930</u>

11. PREPAYMENTS

Prepayments as of December 31, 2004, 2005 and 2006 were as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Prepayments for royalty (Note 28)	\$ 142,789	\$ 274,489	\$1,631,513	\$ 50,046
Prepayments for software and hardware maintenance	7,172	22,984	81,322	2,495
Prepayments for travel	1,047	16,034	47,153	1,446
Prepayments for molding equipment	43,546	57,700	40,088	1,230
Prepayments for service	6,628	18,224	10,039	308
Prepayments for material purchases	1,044	2,820	4,281	131
Others	<u>44,287</u>	<u>25,713</u>	<u>53,424</u>	<u>1,639</u>
	<u>\$ 246,513</u>	<u>\$ 417,964</u>	<u>\$1,867,820</u>	<u>\$ 57,295</u>

12. FINANCIAL ASSETS CARRIED AT COST

Financial assets carried at cost as of December 31, 2004, 2005 and 2006 were as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Answer Online, Inc.	<u>\$ 1,192</u>	<u>\$ 1,192</u>	<u>\$ 1,192</u>	<u>\$ 37</u>

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.

13. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Investments accounted for by the equity method as of December 31, 2004, 2005 and 2006 were as follows:

	<u>2004</u>		<u>2005</u>		<u>2006</u>				
	<u>Carrying</u>	<u>Ownership</u>	<u>Carrying</u>	<u>Ownership</u>	<u>Original Cost</u>		<u>Carrying Value</u>		<u>Ownership</u>
	Value	Percentage	Value	Percentage	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	Percentage
Equity method									
Auto Hi-Tech Computer Corp.	\$ 4,312	20.00	\$ -	-	\$ -	\$ -	\$ -	\$ -	-

In December 2000, the Company acquired 20% equity interest in Auto Hi-Tech Computer Corp. for NT\$4,000 thousand and accounted for this investment by the equity method. On October 6, 2004, Auto Hi-Tech Computer Corp. started liquidation procedures and completed these procedures by the end of January 2005.

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

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

14. PROPERTIES

Properties as of December 31, 2004, 2005 and 2006 were as follows:

	<u>2004</u>		<u>2005</u>		<u>2006</u>		
	<u>Carrying</u>	<u>Carrying</u>	<u>Cost</u>	<u>Accumulated</u>	<u>Carrying Value</u>		
	Value	Value			NT\$	Depreciation	NT\$
	NT\$	NT\$	NT\$	NT\$	NT\$	US\$ (Note 3)	
Land	\$ 378,274	\$ 610,293	\$ 610,293	\$ -	\$ 610,293	\$ 18,721	
Buildings and structures	736,920	797,981	1,083,065	347,280	735,785	22,570	
Machinery and equipment	1,195,281	1,063,205	3,103,327	1,932,755	1,170,572	35,907	
Molding equipment	-	-	201,247	201,247	-	-	
Computer equipment	59,543	49,202	226,903	153,073	73,830	2,265	
Transportation equipment	1,457	1,334	3,141	1,974	1,167	36	
Furniture and fixtures	45,450	46,039	139,647	88,591	51,056	1,566	
Leased assets	-	-	4,712	785	3,927	120	
Leasehold improvements	32,315	14,688	76,772	26,975	49,797	1,528	
Prepayments for construction-in-progress and equipment-in-transit	125,915	27,467	473,971	-	473,971	14,538	
	<u>\$2,575,155</u>	<u>\$2,610,209</u>	<u>\$5,923,078</u>	<u>\$2,752,680</u>	<u>\$3,170,398</u>	<u>\$ 97,251</u>	

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

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

15. ACCRUED EXPENSES

Accrued expenses as of December 31, 2004, 2005 and 2006 were as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Marketing	\$ -	\$ -	\$ 983,088	\$ 30,156
Salaries and bonuses	502,167	724,267	828,071	25,401
Export expenses	53,822	187,324	200,083	6,137
Research materials	69,920	48,013	128,505	3,942
Travel	8,495	23,689	58,027	1,780
Meals and welfare	15,389	36,978	57,598	1,767
Professional fees	18,038	40,595	53,074	1,628
Insurance	21,877	45,307	42,403	1,301
Repairs and maintenance	39,253	23,690	23,759	729
Donation	5,000	-	-	-
Others	136,755	112,399	109,470	3,358
	<u>\$ 870,716</u>	<u>\$ 1,242,262</u>	<u>\$ 2,484,078</u>	<u>\$ 76,199</u>

The Company accrued marketing expenses on the basis of related agreements, management's judgment, and other factors that would significantly affect the accruals.

16. OTHER CURRENT LIABILITIES

Other current liabilities as of December 31, 2004, 2005 and 2006 were as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Reserve for warranty expenses	\$ 324,701	\$ 964,503	\$ 1,393,995	\$ 42,761
Employee bonus payable	4,500	-	451,000	13,834
Agency receipts	82,006	86,845	123,507	3,789
Advance receipts	7,265	113,471	57,426	1,761
Directors' remuneration	21,842	21,842	21,842	670
Others	18,703	11,692	65,233	2,001
	<u>\$ 459,017</u>	<u>\$ 1,198,353</u>	<u>\$ 2,113,003</u>	<u>\$ 64,816</u>

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.

17. BONDS PAYABLE

A summary of bonds payable as of December 31, 2004, 2005 and 2006 is as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
January 29, 2003 issue of zero coupon convertible bonds; maturity on January 29, 2008; issue price at 100% of US\$1,000 par value.	\$ 1,593,228	\$ -	\$ -	\$ -
Add				
Reserve for redemption of convertible bonds	19,462	-	-	-
Allowance for foreign exchange loss	<u>(135,519)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,477,171</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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.

18. PENSION PLAN

The Labor Pension Act (the "Act"), which provides for a new defined contribution plan, took effect on July 1, 2005. Employees covered by the Labor Standards Law (the "Law") before the enforcement of the Act were allowed to choose to remain to be subject to the defined benefit pension mechanism under the Law or to be subject instead to the Act. Based on the Act, the rate of the Company's required monthly contributions to the employees' individual pension accounts is at 6% of monthly wages and salaries, and these contributions are recognized as pension expense in the income statement. The pension fund contributions were NT\$40,152 thousand in 2005 and NT\$90,488 thousand (US\$2,776 thousand) in 2006.

Under the Law, which provides for a defined benefit pension plan, retirement payments should be made according to the years of service, with a payment of two units for each year of service but only one unit per year after the 15th year; however, total units should not exceed 45. On January 1, 2004, the rate of HTCC's contributions to a pension fund increased from 2% to 8% of employees' salaries and wages and then decreased to 2% after the Act took effect. The fund is deposited in the Central Trust of China, a government-designated custodian of pension funds, and managed by the Pension Fund Administration Committee. The pension fund balances were NT\$173,525 thousand, NT\$274,197 thousand and NT\$311,532 (US\$9,556 thousand) as of December 31, 2004, 2005 and 2006, respectively.

The pension benefit obligations on those employees that elected to join the defined contribution plan were not settled; thus, no settlement or curtailment charge was recorded.

Under local government regulations, High Tech Computer Corp. (Suzhou) and HTC Europe Co., Ltd. have defined contribution pension plans covering all eligible employees. The pension fund contributions were NT\$846 thousand in 2005 and NT\$3,006 thousand (US\$93 thousand) in 2006. The remaining subsidiaries have no pension plans.

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 a defined benefit pension plan should be calculated by the actuarial method. Related disclosure is as follows:

The Company's net pension costs under the defined benefit plan in 2004, 2005 and 2006 were as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Service cost	\$ 62,685	\$ 44,766	\$ 5,259	\$ 161
Interest cost	4,012	10,042	9,400	288
Projected return of plan assets	(2,265)	(5,782)	(10,320)	(316)
Amortization of unrecognized net transition obligation, net	1,311	-	-	-
Amortization of net pension benefit	<u>1,001</u>	<u>6,154</u>	<u>1,708</u>	<u>52</u>
Net pension cost	<u>\$ 66,744</u>	<u>\$ 55,180</u>	<u>\$ 6,047</u>	<u>\$ 185</u>

The reconciliation between pension fund status and prepaid pension cost as of December 31, 2004, 2005 and 2006 is as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Present actuarial value of benefit obligation				
Vested benefits	\$ 183	\$ 792	\$ -	\$ -
Non-vested benefits	<u>143,542</u>	<u>127,313</u>	<u>153,371</u>	<u>4,704</u>
Accumulated benefit obligation	143,725	128,105	153,371	4,704
Additional benefits on future salaries	<u>191,007</u>	<u>161,127</u>	<u>159,023</u>	<u>4,878</u>
Projected benefit obligation	334,732	289,232	312,394	9,582
Plan assets at fair value	<u>(173,525)</u>	<u>(274,197)</u>	<u>(311,532)</u>	<u>(9,556)</u>

	<u>2004</u>	<u>2005</u>	<u>2006</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Projected benefit obligation in excess of plan assets	161,207	15,035	862	26
Unrecognized pension benefit	<u>(168,870)</u>	<u>(64,795)</u>	<u>(74,882)</u>	<u>(2,297)</u>
Prepaid pension cost	<u>\$ (7,663)</u>	<u>\$ (49,760)</u>	<u>\$ (74,020)</u>	<u>\$ (2,271)</u>

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

	2004	2005	2006
Weighted-average discount rate	3.00%	3.25%	2.75%
Assumed rate of increase in future compensation	4.75%	4.75%	4.25%
Expected long-term rate of return on plan assets	3.00%	3.25%	2.75%

The vested benefits as of December 31, 2004, 2005 and 2006 amounted to NT\$192 thousand, NT\$962 thousand and NT\$0 thousand (US\$0 thousand), respectively.

19. STOCKHOLDERS' EQUITY

Capital Stock

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. HTCC 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. In the fourth quarter of 2004, holders of US\$18,030 thousand (NT\$48,838 thousand) in bonds requested to convert the bonds into 4,884 thousand shares. This bond amount was temporarily accounted for as "share subscriptions received in advance." Because the registration of this conversion had not been completed by the end of 2004, HTCC's outstanding capital stock as of December 31, 2004 amounted to NT\$2,714,276 thousand, divided into 271,428 thousand shares at NT\$10.00 par value.

After the registration of the conversion of bonds into 4,884 thousand shares (NT\$48,838 thousand) was completed, these shares were transferred to common stocks. In the first and second quarters of 2005, holders of US\$45,970 thousand in bonds requested to convert the bonds into 12,452 thousand shares (NT\$124,519 thousand). In June 2005, the stockholders approved the transfer of retained earnings amounting to NT\$577,527 thousand and employee bonuses amounting to NT\$105,000 thousand to capital stock. As a result, the amount of HTCC'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\$21,903 thousand) and employee bonuses amounting to NT\$80,000 thousand (US\$2,454 thousand) to capital stock. As a result, the amount of HTCC's outstanding common stock as of December 31, 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, HTCC'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 HTCC. The exercise price is the closing price of HTCC's common shares on the option issuance date or the share par value, whichever is higher. The option holders can exercise the right up to 35% of the granted option units no earlier than two years from the grant date. After three years from the grant date, the holders can exercise the right at up to 70% of the granted option units. After four years from the grant date, the option holders are eligible to exercise their rights on all the options owned. The exercise period is five years. As of December 31, 2006, HTCC 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 December 31, 2006. The remaining employee stock options, amounting to 4,000 thousand units, expired on December 25, 2003.

Global Depositary Receipts

HTCC issued 14,400 thousand shares of its common stock divided into 3,600 thousand units of Global Depositary Receipts. HTCC'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 HTCC. 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. Voting right, and
- b. Entitlement to receive dividends and participate in new share issuance for cash subscription.

Also the GDR holders could trade their shares through the GDR custodian in Taiwan. Taking into account the effect of stock dividends, the GDRs increased to 7,324.7 thousand units (29,299 thousand shares). The holders of these GDRs requested HTCC to redeem the GDRs to get HTCC's common shares. As of December 31, 2006, there were 6,202.2 thousand units of GDRs redeemed, representing 24,808.6 thousand common shares, and the outstanding GDRs represented 4,490.4 thousand common shares or 1.03% of HTCC's common shares.

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 December 31, 2005 and 2006 was NT\$4,410,871 thousand each. Under the Company Law, HTCC may transfer the capital surplus to common stock if there is no accumulated deficit.

When HTCC did not subscribe for the new shares issued by BandRich Inc., an adjustment of NT\$15,845 thousand (US\$486 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.

20. APPROPRIATION OF RETAINED EARNINGS AND DIVIDEND POLICY

Based on the Company Law of the ROC and the Company's Articles of Incorporation, 10% of HTCC'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, HTCC 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. HTCC's dividend policy stipulates that only up to 95% of total dividends may be distributed as cash dividends.

Had HTCC 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 HTCC 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.

As of January 26, 2007, the date of the accompanying independent auditors' report, the appropriation of the 2006 earnings had not been proposed by the Board of Directors. Information on earnings appropriation can be accessed online through the Market Observation Post System on the Web site of the Taiwan Stock Exchange.

21. TREASURY STOCK

On December 12, 2006, HTCC's board of directors passed a resolution to buy back 5,000 thousand Company shares from the open market. The repurchase period was between December 13, 2006 and January 19, 2007, and the repurchase price ranged from NT\$601 to NT\$800 per share. If HTCC's share price is lower than this price range, HTCC may continue to buy back its shares.

In 2006, HTCC brought back 374 thousand shares for NT\$243,995 thousand (US\$7,485 thousand). Other information on the treasury stock transactions was as follows:

Purpose	(In thousands of shares)			
	As of January 1, 2006	Increase	Decrease	As of December 31, 2006
For maintaining HTCC's credit and stockholders' equity	-	374	-	374

Based on the Securities and Exchange Act of the ROC, the number of reacquired shares should not exceed 10% of HTCC's issued and outstanding stocks, and the total purchase amount should not exceed the sum of the retained earnings, additional paid-in capital in excess of par, and realized capital reserve. In addition, HTCC should not pledge its treasury shares nor exercise voting rights on the shares before their reissuance.

22. PERSONNEL EXPENSES, DEPRECIATION AND AMORTIZATION

Expense Item	Function	2004			2005		
		NT\$			NT\$		
		Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses		1,008,199	1,178,225	2,186,424	1,340,366	1,541,507	2,881,873
Salary		864,244	1,030,341	1,894,585	1,162,139	1,345,393	2,507,532
Insurance		47,328	56,236	103,564	62,798	74,800	137,598
Pension		32,394	34,350	66,744	41,624	54,554	96,178
Others		64,233	57,298	121,531	73,805	66,760	140,565
Depreciation expense		343,588	183,806	527,394	369,120	231,356	600,476
Amortization		2,918	45,205	48,123	7,830	36,268	44,098

Expense Item	Function	2006					
		NT\$			US\$ (Note 3)		
		Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses		1,747,869	2,195,829	3,943,698	53,615	67,357	120,972
Salary		1,503,540	1,942,094	3,445,634	46,121	59,573	105,694
Insurance		70,395	87,463	157,858	2,159	2,683	4,842
Pension		35,036	64,505	99,541	1,075	1,979	3,054
Others		138,898	101,767	240,665	4,260	3,122	7,382
Depreciation expense		384,241	254,112	638,353	11,786	7,795	19,581
Amortization		7,319	33,197	40,516	225	1,018	1,243

23. INCOME TAX

The Basic Income Tax Act (BITA), which took effect on January 1, 2006, requires that the basic income tax (BIT) should be 10% of the sum of the taxable income as calculated in accordance with the Income Tax Act (ITA) plus tax-exempt income under the ITA or relevant laws. The tax payable of the current year would be the higher of the BIT or the income tax payable calculated in accordance with the ITA. However, if the BIT is higher than the ITA tax, investment tax credits granted under the provisions of other laws should not be used to deduct the difference between the two taxes payable. The effect of BIT had been taken into account by the Company.

The income tax returns through 2003, except for 2002, had been examined by the tax authorities. However, HTCC disagreed with the tax authorities' assessment on its 2003 return and applied for the reexamination. Nevertheless, HTCC adjusted its income tax 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

Provision for income tax for the years ended December 31, 2004, 2005 and 2006; income tax payable, income tax refund receivables and deferred tax assets as of December 31, 2004, 2005 and 2006 were as follows:

	2004			2005		
	Income Tax Expense	Income Tax Payable	Deferred Tax Assets	Income Tax Expense	Income Tax Payable	Deferred Tax Assets
High Tech Computer Corp.	\$ 105,182	\$ 94,154	\$ 222,690	\$ 373,995	\$ 616,863	\$ 478,860
HTEK	-	-	-	49	-	-
HTC America Inc.	1,365	-	2,082	2,112	-	-
HTC Europe Co., Ltd.	-	-	-	45	-	-
	<u>\$ 106,547</u>	<u>\$ 94,154</u>	<u>\$ 224,772</u>	<u>\$ 376,201</u>	<u>\$ 616,863</u>	<u>\$ 478,860</u>

	2006							
	Income Tax Expense (Benefit)		Income Tax Payable		Income Tax Refund Receivables		Deferred Tax Assets	
	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)
High Tech Computer Corp.	\$ 1,710,551	\$ 52,471	\$ 1,758,717	\$ 53,948	-	-	\$ 647,307	\$ 19,856
BandRich Inc.	(3,934)	(121)	-	-	201	6	3,934	120
HTC America Inc.	294	9	-	-	-	-	-	-
Exedea Inc.	1,464	45	-	-	-	-	-	-
	<u>\$ 1,708,375</u>	<u>\$ 52,404</u>	<u>\$ 1,758,717</u>	<u>\$ 53,948</u>	<u>\$ 201</u>	<u>\$ 6</u>	<u>\$ 651,241</u>	<u>\$ 19,976</u>

The tax effects of deductible temporary differences and loss and tax credit carryforwards that gave rise to deferred tax assets as of December 31, 2004, 2005 and 2006 were as follows:

	2004	2005	2006	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Temporary differences				
Unrealized marketing expenses	\$ -	\$ -	\$ 245,772	\$ 7,539
Unrealized depreciation	7,245	-	-	-
Provision for loss on decline in value of inventory	88,775	146,682	222,916	6,838
Unrealized royalties	163,558	459,556	942,097	28,899
Capitalized expense	30,508	39,571	31,936	980
Unrealized reserve for warranty expense	81,175	241,126	348,499	10,690
Unrealized value loss on financial instruments	-	-	19,117	586

	<u>2004</u>	<u>2005</u>	<u>2006</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Unrealized foreign exchange loss, net	-	21,220	-	-
Other	15,069	16,348	27,770	852
Loss carryforwards	-	-	7,868	241
Tax credit carryforwards	<u>612,144</u>	<u>378,236</u>	<u>9,574</u>	<u>294</u>
Total deferred tax assets	998,474	1,302,739	1,855,549	56,919
Less valuation allowance	<u>(750,197)</u>	<u>(796,976)</u>	<u>(1,147,549)</u>	<u>(35,201)</u>
Total deferred tax assets, net	248,277	505,763	708,000	21,718
Deferred tax liabilities				
Unrealized pension cost	(1,358)	(11,882)	(18,505)	(568)
Unrealized valuation gain on financial instruments	(274)	(15,021)	-	-
Unrealized foreign exchange gain, net	<u>(21,873)</u>	<u>-</u>	<u>(38,254)</u>	<u>(1,174)</u>
	224,772	478,860	651,241	19,976
Less current portion	<u>(163,945)</u>	<u>(229,826)</u>	<u>(428,077)</u>	<u>(13,131)</u>
Deferred tax assets - noncurrent	<u>\$ 60,827</u>	<u>\$ 249,034</u>	<u>\$ 223,164</u>	<u>\$ 6,845</u>

Details of the tax credit carryforwards are as follows:

Year Occur	Validity Period	<u>2004</u>	<u>2005</u>	<u>2006</u>	
		NT\$	NT\$	NT\$	US\$ (Note 3)
2001	2001~2005	\$ 155,447	\$ -	\$ -	\$ -
2002	2002~2006	54,941	56,405	-	-
2003	2003~2007	179,230	58,500	-	-
2004	2004~2008	222,526	-	-	-
2005	2005~2009	-	263,331	-	-
2006	2006~2010	<u>-</u>	<u>-</u>	<u>9,574</u>	<u>294</u>
		<u>\$ 612,144</u>	<u>\$ 378,236</u>	<u>\$ 9,574</u>	<u>\$ 294</u>

Detail of the loss carryforwards are as follows:

Year Occur	Validity Period	<u>2004</u>	<u>2005</u>	<u>2006</u>	
		NT\$	NT\$	NT\$	US\$ (Note 3)
2006	2007~2011	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,474</u>	<u>\$ 965</u>

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 taxes in 2004, 2005 and 2006 were as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Current income tax	\$ 97,513	\$ 630,079	\$ 1,849,052	\$ 56,719
Decrease (increase) in deferred income tax assets	27,649	(254,088)	(172,381)	(5,288)
(Overestimation) underestimation of prior year's income tax	<u>(18,615)</u>	<u>210</u>	<u>31,704</u>	<u>973</u>
Income tax	<u>\$ 106,547</u>	<u>\$ 376,201</u>	<u>\$ 1,708,375</u>	<u>\$ 52,404</u>

The integrated income tax information of HTCC is as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Balance of imputation credit account	\$ 96,255	\$ 101,702	\$ 481,742	\$ 14,777
Unappropriated earnings generated from 1998	5,105,339	14,152,255	31,991,090	981,322
Expected creditable ratio (including income tax payable)	3.73%	5.08%	7.00%	7.00%

24. 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 410,195 thousand shares in 2004; 433,007 thousand shares in 2005; and 436,409 thousand shares in 2006. EPS in 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 2004, 2005 and 2006 EPS. The related information is as follows:

	<u>2004</u>				
	<u>Numerators</u>		<u>Denominator</u>	<u>EPS (In Dollars)</u>	
	<u>Income before Income Tax</u>	<u>Income after Income Tax</u>	<u>Shares (Thousands)</u>	<u>Income before Tax</u>	<u>Income after Tax</u>
	NT\$	NT\$		NT\$	NT\$
Basic EPS	\$ 3,960,528	\$ 3,855,346	410,195	<u>\$ 9.66</u>	<u>\$ 9.40</u>
Zero coupon convertible bonds	6,416	4,812	12,452		
Employee stock options	<u>-</u>	<u>-</u>	<u>2,368</u>		
Diluted EPS	<u>\$ 3,966,944</u>	<u>\$ 3,860,158</u>	<u>425,015</u>	<u>\$ 9.33</u>	<u>\$ 9.08</u>

	2005				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax	Income after Income Tax	Shares (Thousands)	Income before Income Tax	Income after Income Tax
	NT\$	NT\$		NT\$	NT\$
Basic EPS	\$ 12,155,939	\$ 11,781,944	433,007	\$ 28.07	\$ 27.21
Zero coupon convertible bonds	-	-	-		
Employee stock options	-	-	4,846		
Diluted EPS	\$ 12,155,939	\$ 11,781,944	437,853	\$ 27.76	\$ 26.91

	2006				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax	Income after Income Tax	Shares (Thousands)	Income before Income Tax	Income after Income Tax
	NT\$	NT\$		NT\$	NT\$
Basic EPS	\$ 26,957,878	\$ 25,247,327	436,409	\$ 61.77	\$ 57.85
Employee stock options	-	-	6,763		
Diluted EPS	\$ 26,957,878	\$ 25,247,327	443,172	\$ 60.83	\$ 56.97

	2006				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax	Income after Income Tax	Shares (Thousands)	Income before Income Tax	Income after Income Tax
	US\$ (Note 3)	US\$ (Note 3)		US\$ (Note 3)	US\$ (Note 3)
Basic EPS	\$ 826,929	\$ 774,458	436,409	\$ 1.89	\$ 1.77
Employee stock options	-	-	6,763		
Diluted EPS	\$ 826,929	\$ 774,458	443,172	\$ 1.87	\$ 1.75

25. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

Nonderivative Financial Instruments

	December 31							
	2004		2005		2006			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NT\$	NT\$	NT\$	NT\$	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)
Assets								
Available-for-sale financial assets - noncurrent	\$ 703	\$ 703	\$ 836	\$ 836	\$ 1,733	\$ 53	\$ 1,733	\$ 53
Financial assets carried at cost	1,192	1,192	1,192	1,192	1,192	37	1,192	37
Investments accounted for using equity method	4,312	4,312	-	-	-	-	-	-
Refundable deposits	6,670	6,624	36,592	36,117	45,234	1,387	44,786	1,374
Liabilities								
Guarantee deposits received	273,078	271,180	561	554	640	20	634	19

Derivative Financial Instruments

	December 31							
	2004		2005		2006			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NT\$	NT\$	NT\$	NT\$	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)
Assets								
Financial assets at fair value through profit or loss	\$ 1,094	\$ 1,094	\$ 60,085	\$ 60,085	\$ -	\$ -	\$ -	\$ -
Liabilities								
Financial liabilities at fair value through profit or loss	-	-	-	-	76,470	2,346	76,470	2,346

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 4.

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			
	December 31							
	2004		2005		2006		2006	
	NT\$	NT\$	NT\$	US\$ (Note 3)	NT\$	NT\$	NT\$	US\$ (Note 3)
Assets								
Financial assets at fair value through profit or loss	\$ 1,094	\$ 60,085	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Available-for-sale financial assets - noncurrent	703	836	1,733	53	-	-	-	-
Financial assets carried at cost	-	-	-	-	1,192	1,192	1,192	37
Investments accounted for using equity method	-	-	-	-	4,312	-	-	-
Refundable deposits	-	-	-	-	6,624	36,117	44,786	1,374
Liabilities								
Financial liabilities at fair value through profit or loss	-	-	76,470	2,346	-	-	-	-
Guarantee deposits received	-	-	-	-	271,180	554	634	19

There was no loss or gain recognized in 2006 on the fair value changes of derivatives estimated using valuation techniques. The Company recognized an unrealized loss of NT\$991 thousand and gains of NT\$133 thousand and NT\$849 thousand (US\$26 thousand) in stockholders' equity for the changes in fair value of available-for-sale financial assets for the years ended December 31, 2004, 2005 and 2006, respectively.

As of December 31, 2004, 2005 and 2006, financial assets exposed to cash flow interest rate risk amounted to NT\$3,193,000 thousand, NT\$9,716,900 thousand and NT\$30,468,400 thousand (US\$934,613 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.

26. RELATED-PARTY TRANSACTIONS

The related parties were as follows:

Related Party	Relationship with the Company
First International Computer, Inc. (FIC)	Chairperson is an immediate relative of the common chairperson of HTCC, H.T.C. (B.V.I.) Corp. and HTEK
FIC (Suzhou) Inc.	Chairperson is an immediate relative of the common chairperson of HTCC, H.T.C. (B.V.I.) Corp. and HTEK
Xander International Corp.	Chairperson is an immediate relative of the common chairperson of HTCC, H.T.C. (B.V.I.) Corp. and HTEK
VIA Technologies, Inc.	Same chairperson as those of HTCC, H.T.C. (B.V.I.) Corp. and HTEK
Chander Electronics Corp.	Same chairperson as those of HTCC, H.T.C. (B.V.I.) Corp. and HTEK
Comserve Network Netherlands B.V.	Main director is an immediate relative of the common chairperson of HTCC, H.T.C. (B.V.I.) Corp. and HTEK
Leo Systems, Inc.	Affiliate of HTCC, H.T.C. (B.V.I.) Corp. and HTEK
Vate Technology Co., Ltd.	Affiliate of HTCC, H.T.C. (B.V.I.) Corp. and HTEK

Major transactions with related parties are summarized below:

Purchases of Inventories and Services

Related Party	2004		2005		2006		% to Total Net Purchases
	Amount NT\$	% to Total Net Purchases	Amount NT\$	% to Total Net Purchases	Amount		
					NT\$	US\$ (Note 3)	
Chander Electronics Corp.	\$ 147,810	-	\$ 588,024	-	\$ 72,290	\$ 2,217	-

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

Sales and Services Provided

Related Party	2004		2005		2006		% to Total Revenues
	Amount NT\$	% to Total Revenues	Amount NT\$	% to Total Revenues	Amount		
					NT\$	US\$ (Note 3)	
Comserve Network Netherlands B.V.	\$ 187,828	1	\$ 72,168	-	\$ -	\$ -	-
Leo Systems, Inc.	3,146	-	-	-	-	-	-
Others	1,112	-	3,262	-	1,388	43	-
	\$ 192,086	1	\$ 75,430	-	\$ 1,388	43	-

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

Notes and Accounts Receivable

Related Party	December 31						% to Total Notes and Accounts Receivable
	2004		2005		2006		
	Amount NT\$	% to Total Notes and Accounts Receivable	Amount NT\$	% to Total Notes and Accounts Receivable	Amount NT\$	US\$ (Note 3)	
FIC (Suzhou) Inc.	\$ -	-	\$ -	-	\$ 3,180	98	-
Comserve Network Netherlands B.V.	611	-	-	-	-	-	-
Others	399	-	1,718	-	505	15	-
	\$ 1,010	-	\$ 1,718	-	\$ 3,685	\$ 113	-

Notes and Accounts Payable

Related Party	December 31						% to Total Notes and Accounts Payable
	2004		2005		2006		
	Amount NT\$	% to Total Notes and Accounts Payable	Amount NT\$	% to Total Notes and Accounts Payable	Amount NT\$	US\$ (Note 3)	
Chander Electronics Corp.	\$ 18,562	-	\$ 55,804	-	\$ -	\$ -	-
First International Computer, Inc.	7,500	-	-	-	-	-	-
	\$ 26,062	-	\$ 55,804	-	\$ -	\$ -	-

Other Receivables

Related Party	December 31						
	2004		2005		2006		
	Amount	% to Total	Amount	% to Total	Amount		
NT\$	Other Receivable	NT\$	Other Receivable	NT\$	US\$	% to Total	
						Other Receivable	
						(Note 3)	
VIA Technologies Inc.	\$ -	-	\$ -	-	\$ 19	\$ 1	-
Others	-	-	-	-	17	-	-
	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ 36</u>	<u>\$ 1</u>	<u>-</u>

Accrued Expenses

Related Party	December 31						
	2004		2005		2006		
	Amount	% to Total	Amount	% to Total	Amount		
NT\$	Accrued Expenses	NT\$	Accrued Expenses	NT\$	US\$	% to Total	
						Accrued Expenses	
						(Note 3)	
VIA Technologies Inc.	\$ 525	-	\$ -	-	\$ 210	\$ 6	-
	<u>\$ 525</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ 210</u>	<u>\$ 6</u>	<u>-</u>

Other Payables to Related Parties

Related Party	December 31						
	2004		2005		2006		
	Amount	% to Total	Amount	% to Total	Amount		
NT\$	Other Payables	NT\$	Other Payables	NT\$	US\$	% to Total	
						Other Payables	
						(Note 3)	
Xander International Corp.	\$ -	-	\$ -	-	\$ 24	\$ 1	-
	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ 24</u>	<u>\$ 1</u>	<u>-</u>

Outsourcing Expenses

Related Party	December 31						
	2004		2005		2006		
	Amount	% to Total	Amount	% to Total	Amount		
NT\$	Out-sourcing Expenses	NT\$	Out-sourcing Expenses	NT\$	US\$	% to Total	
						Out-sourcing Expenses	
						(Note 3)	
First International Computer Inc.	\$ 7,500	6	\$ 7,350	1	\$ -	\$ -	-
	<u>\$ 7,500</u>	<u>6</u>	<u>\$ 7,350</u>	<u>1</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>

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

Service Warranty Expense

Related Party	December 31						
	2004		2005		2006		
	Amount	% to Total	Amount	% to Total	Amount		
NT\$	Warranty Expenses	NT\$	Warranty Expenses	NT\$	US\$	% to Total	
						Warranty Expenses	
						(Note 3)	
Comserve Network Netherlands B.V.	\$ 132,209	21	\$ 86,430	6	\$ 11,470	\$ 352	1
	<u>\$ 132,209</u>	<u>21</u>	<u>\$ 86,430</u>	<u>6</u>	<u>\$ 11,470</u>	<u>\$ 352</u>	<u>1</u>

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

Administrative and Selling Expenses - Service Fees

Related Party	2004		2005		2006		% to Total Service Expenses
	Amount	% to Total Service Expenses	Amount	% to Total Service Expenses	Amount		
					NT\$	US\$	
					(Note 3)		
VIA Technologies Inc.	\$ 6,000	3	\$ 3,600	2	\$ 2,400	\$ 74	1

Leasing - Lessee

Operating Expense - Rental Expense

Related Party	2004		2005		2006		% to Total Rental Expense
	Amount	% to Total Rental Expense	Amount	% to Total Rental Expense	Amount		
					NT\$	US\$	
					(Note 3)		
VIA Technologies Inc.	\$ 15,046	47	\$ 7,663	19	\$ -	\$ -	-

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

Nonoperating Income - Rental Revenue

Related Party	2004		2005		2006		% to Total Rental Revenue
	Amount	% to Total Rental Revenue	Amount	% to Total Rental Revenue	Amount		
					NT\$	US\$	
					(Note 3)		
VIA Technologies Inc.	\$ 101	76	\$ 339	100	\$ -	\$ -	-
Chander Electronics Corp.	18	14	-	-	-	-	-
	\$ 119	90	\$ 339	100	\$ -	\$ -	-

This rental revenue referred to leased parking spaces.

Property Transaction

In 2004, the Company acquired land and building from Vate Technology Co., Ltd. for NT\$126,703 thousand and had paid NT\$110,365 thousand and NT\$16,338 thousand in 2004 and 2005, respectively.

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

27. COMMITMENTS AND CONTINGENCIES

As of December 31, 2006, unused letters of credit amounted to US\$28 thousand and EUR€180 thousand.

28. SIGNIFICANT CONTRACTS

Patent Agreements

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

Contractor	Contract Term	Description
Microsoft	December 1, 2004 - December 31, 2006; January 1, 2007-January 1, 2009	Authorization to use embedded operating system; royalty payment based on agreement.
Texas Instruments France	January 14, 2000 - January 13, 2010	Authorization to use GSM system software; royalty payment based on agreement.
Qualcomm Incorporated	December 20, 2000 to the following dates: (a) If the Company materially breaches any covenant and fails to take remedial action within 30 days after Qualcomm's issuance of a written notice, the Company will be prohibited from using Qualcomm's property or patents. (b) Any time when the Company is not using any of Qualcomm's intellectual property, the Company may terminate this agreement upon 60 days' prior written notice to Qualcomm.	Authorization to use CDMA technology to manufacture and sell units; royalty payment based on agreement.
Ericsson Mobile Platform AB	April 2003-March 2011	Authorization to use EDGE reference design license and support agreement; royalty payment based on agreement.
Telefonaktiebolaget LM Ericsson	December 15, 2003 to the expiry dates of these patents, and no longer than December 14, 2008	Authorization to use platform patent license agreement; royalty payment based on agreement.
Nokia Corporation	January 1, 2003 to the expiry dates of these patents.	Authorization to use wireless technology, like GSM; royalty payment based on agreement.
InterDigital Technology Corporation.	December 31, 2003 to the expiry dates of these patents.	Authorization to use TDMA and CDMA technology; royalty payment based on agreement.
KONINKLIJKE PHILIPS ELECTRONICS N.V.	January 5, 2004 to the expiry dates of these patents	GSM/DCS 1800/1900 Patent License; royalty payment based on agreement.

Contractor	Contract Term	Description
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.

29. SUBSEQUENT / 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 the effect of stock dividend distribution been taken into account, the pro forma information for 2004 would have been as follows:

	NT\$
Revenues	\$ 36,398,671
Net income	3,846,634
Basic earnings per share after income tax	9.37

Donation

The Company donated NT\$200 million in 2004, NT\$300 million in 2005 and NT\$300 million (US\$9,202 thousand) in 2006 to High Tech Computer Foundation for Social Welfare Charity to help disadvantaged minority, 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.

Memorandum of Understanding with Dopod (Cayman) Holding Corporation

In June 2006, the Company's board of directors passed a resolution to sign a memorandum of understanding with Dopod (Cayman) Holding Corporation ("Dopod") for the Company's acquisition of over 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.

Investment in Hua-Chuang Automobile Information Technical Center Co., Ltd.

In December 2006, the Company's board of directors resolved to delegate the chairperson to make the decision for the Company's acquisition of 50,000,000 common shares, amounting to NT\$500 million (US\$15,337 thousand) which had paid on January 11, 2007 and newly issued by Hua-Chuang Automobile Information Technical Center Co., Ltd. ("Hua-Chuang"). The stockholding percentage of the Company in Hua-Chuang after joining in this capital increase was 10% .

The Company also signed a joint venture agreement with two Yulon Group members, which are stockholders of Hua-Chuang. Under the agreement, the Company and the two Yulon Group members may, from January 1, 2010 to December 31, 2011, submit written requests to each other to request the Yulon Group members to buy back for NT\$ 300 million (US\$9,202 thousand), some of the Hua-Chuang shares bought by the Company.

Treasury Stock

The scheduled period for the buyback plan of treasury stock ranged from December 13, 2006 to January 19, 2007. At the date of expiry of the repurchase period, cumulative shares held by the Company were 3,624 thousand shares at the cost of NT\$1,991,755 thousand (US\$61,097 thousand).

30. SEGMENT INFORMATION

Industry Type

The Company mainly manufactures and sells smart handheld devices.

Foreign Operations

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

Export Revenues

Export revenues in 2004, 2005 and 2006 were as follows:

Customer	2004	2005	2006	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Asia	\$ 5,163,495	\$ 7,392,835	\$ 7,683,450	\$ 235,689
America	8,052,561	28,589,561	48,865,122	1,498,930
Europe	18,283,429	29,017,671	38,873,000	1,192,423
Others	4,358,517	5,574,579	6,771,781	207,723
	<u>\$ 35,858,002</u>	<u>\$ 70,574,646</u>	<u>\$ 102,193,353</u>	<u>\$ 3,134,765</u>

Major Customers

Sales to major customers were as follows:

Customer	2004	2005	2006	
	NT\$	NT\$	NT\$	US\$ (Note 3)
A	\$ 1,470,781	\$ 14,965,913	\$ 17,839,399	\$ 547,221
B	11,956,226	8,179,942	12,326,693	378,119
C	488,762	7,448,551	10,335,852	317,051
D	4,175,764	5,067,341	6,001,326	184,090
	<u>\$ 18,091,533</u>	<u>\$ 35,661,747</u>	<u>\$ 46,503,270</u>	<u>\$ 1,426,481</u>