High Tech Computer Corp.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of High Tech Computer Corp. as of December 31, 2004, 2005 and 2006, and the results of its operations and its 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.

We have also audited the consolidated financial statements of High Tech Computer Corp. as of and for the years ended December 31, 2004, 2005 and 2006 and have expressed an unqualified opinion on those financial statements in our report dated January 26, 2007 (not presented herewith).

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

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

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

The auditors' report and the accompanying financial statements were originally presented in more than one set of Chinese reports. For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail. Also, as stated in Note 3 to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

HIGH TECH COMPUTER CORP.

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

ASSETS	**2004 NT$**	**2005 NT$**	**2006 NT$**	**2006 US$ (Note 3)**
CURRENT ASSETS				
Cash and cash equivalents (Note 5)	$ 6,148,201	$ 16,196,448	$ 34,397,388	$ 1,055,135
Financial assets at fair value through profit or loss (Notes 2, 4, 6 and 25)	1,094	60,085	-	-
Notes receivable, net (Notes 2 and 8)	71,756	99,087	58,930	1,808
Accounts receivable, net (Notes 2 and 8)	8,386,190	14,212,815	18,317,979	561,901
Accounts receivable from related parties, net (Notes 2 and 26)	78,213	420,780	1,311,790	40,239
Other current financial assets (Notes 9 and 26)	96,042	85,319	431,598	13,239
Inventories (Notes 2 and 10)	4,203,649	4,837,553	4,983,891	152,880
Prepayments (Notes 11 and 26)	244,828	474,261	1,881,119	57,703
Deferred income tax assets (Notes 2 and 23)	161,863	229,826	428,077	13,131
Total current assets	19,391,836	36,616,174	61,810,772	1,896,036
LONG-TERM INVESTMENTS				
Available-for-sale financial assets - noncurrent (Notes 2 and 7)	703	836	1,733	53
Financial assets carried at cost (Notes 2 and 12)	1,192	1,192	1,192	37
Investments accounted for by the equity method (Notes 2 and 13)	350,105	323,505	559,877	17,174
Prepayments for long-term investments (Notes 2 and 13)	-	-	261,679	8,027
Total long-term investments	352,000	325,533	824,481	25,291
PROPERTIES (Notes 2, 14 and 26)				
Cost				
Land	378,274	610,293	610,293	18,721
Buildings and structures	946,207	1,073,560	1,083,065	33,223
Machinery and equipment	2,268,523	2,543,396	2,913,495	89,371
Molding equipment	201,567	201,567	201,247	6,173
Computer equipment	154,988	161,459	180,855	5,548
Transportation equipment	1,315	1,628	1,938	59
Furniture and fixtures	101,080	107,505	105,016	3,221
Leased assets	-	-	4,712	145
Leasehold improvements	45,542	22,816	22,816	700
Total cost	4,097,496	4,722,224	5,123,437	157,161
Less accumulated depreciation	(1,704,469)	(2,254,435)	(2,684,143)	(82,336)
Prepayments for construction-in-progress and equipment-in-transit	125,915	27,467	470,330	14,427
Properties, net	2,518,942	2,495,256	2,909,624	89,252
OTHER ASSETS				
Refundable deposits	5,922	35,278	36,991	1,134
Deferred charges (Note 2)	186,211	150,237	119,059	3,652
Deferred bond issuance costs (Notes 2 and 17)	17,675	-	-	-
Deferred tax assets (Notes 2 and 23)	60,827	249,034	219,230	6,725
Prepaid pesion cost (Notes 2 and 18)	7,663	49,760	74,020	2,271
Total other assets	278,298	484,309	449,300	13,782
TOTAL	$ 22,541,076	$ 39,921,272	$ 65,994,177	$ 2,024,361

LIABILITIES AND STOCKHOLDERS' EQUITY	**2004 NT$**	**2005 NT$**	**2006 NT$**	**2006 US$ (Note 3)**
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss (Notes 2, 4, 6 and 25)	$ -	$ -	$ 76,470	$ 2,346
Notes and accounts payable (Note 26)	7,941,882	13,796,693	16,847,039	516,780
Income tax payable (Notes 2 and 23)	94,154	616,863	1,758,717	53,948
Accrued expenses (Notes 15 and 26)	862,267	1,204,807	2,340,129	71,783
Payable for purchase of equipment	54,242	14,039	35,342	1,084
Other current liabilities (Notes 16 and 26)	468,860	1,302,768	2,363,622	72,504
Total current liabilities	9,421,405	16,935,170	23,421,319	718,445
LONG-TERM LIABILITIES				
Bonds payable (Notes 2 and 17)	1,477,171	-	-	-
OTHER LIABILITIES				
Guarantee deposits received	273,078	561	640	20
Total liabilities	11,171,654	16,935,731	23,421,959	718,465
STOCKHOLDERS' EQUITY (Notes 19 and 20)				
Capital stock - $10 par value				
Authorized: 550,000 thousand shares				
Issued and outstanding: 271,428 thousand shares in 2004, 357,016 thousand shares in 2005 and 436,419 thousand shares in 2006				
Common stock	2,714,276	3,570,160	4,364,192	133,871
Share subscriptions received in advance	48,838	-	-	-
Capital surplus				
Additional paid-in capital - common stock	3,064,356	4,410,871	4,410,871	135,303
Long-term equity investments	-	-	15,845	486
From merger	25,972	25,972	25,972	797
Retained earnings				
Legal reserve	427,791	813,326	1,991,520	61,090
Special reserve	1,983	19,133	6,175	189
Accumulated earnings	5,105,339	14,152,255	31,991,090	981,322
Cumulative translation adjustments (Note 2)	(17,865)	(5,041)	10,786	330
Unrealized losses on financial instruments (Notes 2, 4 and 7)	(1,268)	(1,135)	(238)	(7)
Treasury stock (Notes 2 and 21)	-	-	(243,995)	(7,485)
Total stockholders' equity	11,369,422	22,985,541	42,572,218	1,305,896
TOTAL	$ 22,541,076	$ 39,921,272	$ 65,994,177	$ 2,024,361

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

HIGH TECH COMPUTER CORP.

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	$ 35,808,714	$ 72,121,212	$ 104,172,460	$ 3,195,475
Less sales returns and discounts	(158,453)	(227,367)	(388,323)	(11,912)
NET SALES (Notes 2 and 26)	35,650,261	71,893,845	103,784,137	3,183,563
OTHER REVENUES	746,905	874,677	1,032,411	31,669
Total revenues	36,397,166	72,768,522	104,816,548	3,215,232
COST OF REVENUES (Notes 22 and 26)	28,493,144	54,758,040	70,779,066	2,171,137
GROSS PROFIT	7,904,022	18,010,482	34,037,482	1,044,095
UNREALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	(6,289)	(15,077)	(164,011)	(5,031)
REALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	7,241	6,289	15,077	462
REALIZED GROSS PROFIT	7,904,974	18,001,694	33,888,548	1,039,526
OPERATING EXPENSES (Notes 22 and 26)				
Administrative and selling	1,600,582	2,761,900	4,382,155	134,422
Research and development	1,993,972	2,399,315	2,954,427	90,626
Total operating expenses	3,594,554	5,161,215	7,336,582	225,048
OPERATING INCOME	4,310,420	12,840,479	26,551,966	814,478
NONOPERATING INCOME AND GAINS				
Interest income	60,643	145,042	438,982	13,465
Gain on sale of properties	10,950	5,372	41,361	1,269
Gain on sale of investments	13,584	-	-	-
Gain on physical inventory	11,078	2,074	-	-
Foreign exchange gain (Notes 2 and 4)	107,153	-	603,127	18,501
Valuation gains on financial assets (Notes 2, 4 and 6)	1,094	60,085	-	-
Other	108,454	65,487	150,866	4,628
Total nonoperating income and gains	312,956	278,060	1,234,336	37,863
NONOPERATING EXPENSES AND LOSSES				
Interest expense	29,367	19,821	298	9
Losses on equity-method investments (Notes 2 and 13)	35,606	35,112	12,554	385
Losses on disposal of properties	12,151	2,521	3,377	104
Loss on physical inventory	-	-	2,032	62
Foreign exchange loss (Notes 2 and 4)	-	299,005	-	-
Provision for loss on decline in value of inventory	543,516	584,174	729,310	22,371
Valuation loss on financial liabilities (Notes 2, 4 and 6)	-	-	76,470	2,346
Other	42,208	21,967	4,383	135
Total nonoperating expenses and losses	662,848	962,600	828,424	25,412
INCOME BEFORE INCOME TAX	3,960,528	12,155,939	26,957,878	826,929
INCOME TAX (Notes 2 and 23)	(105,182)	(373,995)	(1,710,551)	(52,471)
NET INCOME	$ 3,855,346	$ 11,781,944	$ 25,247,327	$ 774,458

(Continued)

HIGH TECH COMPUTER CORP.

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

	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)	$ 9.66	$ 9.40	$ 28.07	$ 27.21	$ 61.77	$ 1.89	$ 57.85	$ 1.77
DILUTED EARNINGS PER SHARE (Note 24)	$ 9.33	$ 9.08	$ 27.76	$ 26.91	$ 60.83	$ 1.87	$ 56.97	$ 1.75

(Concluded)

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

HIGH TECH COMPUTER CORP.

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

	Capital Stock		Capital Surplus			Retained Earnings						
New Taiwan Dollars	**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**	**Cumulative Translation Adjustments**	**Unrealized Losses on Financial Instruments**	**Treasury Stock**	**Total**
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	-	-	-	25,247,327
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)
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)	$42,572,218

(Continued)

HIGH TECH COMPUTER CORP.

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

	Capital Stock		Capital Surplus			Retained Earnings						
U.S. Dollars	**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**	**Cumulative Translation Adjustments**	**Unrealized Losses on Financial Instruments**	**Treasury Stock**	**Total**
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	-	-	-	774,458
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)
BALANCE, DECEMBER 31, 2006	$ 133,871	$ -	$ 135,303	$ 486	$ 797	$ 61,090	$ 189	$ 981,322	$ 330	$ (7)	(7,485)	$ 1,305,896

(Concluded)

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

HIGH TECH COMPUTER CORP.

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	$ 25,247,327	$ 774,458
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation	516,948	582,367	601,382	18,447
Amortization	47,031	35,974	31,178	956
Loss (gain) on disposal of properties	1,201	(2,851)	(37,984)	(1,165)
Losses on equity-method investments	35,606	35,112	12,554	385
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	26,114	(256,170)	(168,447)	(5,167)
Prepaid 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	(3,096,651)	(5,826,625)	(4,105,164)	(125,925)
Accounts receivable from related parties	36,635	(342,567)	(891,010)	(27,332)
Other current financial assets	95,169	10,723	(346,279)	(10,622)
Inventories	(2,045,853)	(633,904)	(146,338)	(4,489)
Prepayments	166,016	(229,433)	(1,406,858)	(43,155)
Notes and accounts payable	2,994,649	5,854,811	3,050,346	93,569
Income tax payable	(52,171)	522,709	1,141,854	35,026
Accrued expenses	376,613	342,540	1,135,322	34,826
Other current liabilities	179,375	838,408	605,960	18,588
Net cash provided by operating activities	2,979,629	12,596,157	24,876,295	763,077
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of properties	(795,370)	(601,915)	(997,233)	(30,591)
Proceeds of the sales of properties	10,681	5,882	44,664	1,370
Increase in long-term investments	(292,377)	-	(478,933)	(14,691)
Proceeds of the disposal of long-term investments	-	4,312	-	-
Increase in refundable deposits	(5,080)	(29,356)	(1,713)	(52)
Cash received on merger	14,791	-	-	-
Net cash used in investing activities	(1,067,355)	(621,077)	(1,433,215)	(43,964)
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)
Net cash used in financing activities	(537,150)	(1,926,833)	(5,242,140)	(160,802)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,375,124	10,048,247	18,200,940	558,311
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,773,077	6,148,201	16,196,448	496,824
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 6,148,201	$ 16,196,448	$ 34,397,388	$ 1,055,135

(Continued)

HIGH TECH COMPUTER CORP.

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

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 3)
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Cash paid during the year				
Interest (net of amounts capitalized)	$ 414	$ -	$ 298	$ 9
Income tax	$ 131,239	$ 107,456	$ 737,145	$ 22,611
NONCASH INVESTING AND FINANCING ACTIVITIES				
Transfer of convertible bonds to common stock and additional paid-in capital	$ 583,527	$ 1,471,034	$ -	$ -
PURCHASE OF PROPERTIES				
Cost of properties purchased	$ 813,397	$ 561,712	$ 1,022,430	$ 31,363
(Increase) decrease in payable for purchase of equipment	(18,027)	40,203	(21,303)	(653)
Increase in lease payable	-	-	(3,894)	(119)
Cash paid for purchase of properties	$ 795,370	$ 601,915	$ 997,233	$ 30,591
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	1,154	4,500	(451,000)	(13,834)
Cash paid	$ 84,654	$ 210,500	$ -	$ -
CASH FROM MERGER				
Issuance of common stock	$ 15,673	$ -	$ -	$ -
Additional paid-in capital	25,972	-	-	-
Net assets received, except cash	(26,854)	-	-	-
Cash received on merger	$ 14,791	$ -	$ -	$ -

(Concluded)

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

1. ORGANIZATION AND OPERATIONS

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

The Company had 3,265, 4,108 and 4,590 employees as of December 31, 2004, 2005 and 2006, respectively.

To take advantage of synergies with companies in similar industries, lower operating costs and expenses, and enhance competitiveness and research and development capabilities, the Company's Board of Directors proposed the acquisition of IA Style, Inc. on October 31, 2003. The effective merger date was March 1, 2004. (Note 29 has more information on this merger.)

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:

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: buildings(including auxiliary equipments) - 3 to 50 years; machinery and equipment - 3 to 5 years; office equipment - 3 to 5 years; transportation equipment - 5 years; and leasehold improvements - 3 years.

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.

When treasury stocks are sold, if the selling price is above the book value, the difference should be credited to the capital surplus - from treasury stock transactions account. If the selling price is below the book value, the difference should first be offset against capital surplus from the same class of treasury stock transactions, and the remainder, if any, debited to retained earnings. The carrying value of treasury stocks should be calculated by using the weighted-average approach.

When the Company's treasury stock is retired, the treasury stock account should be credited, and the capital surplus - premium on stock account and capital stock account should be debited proportionately according to the share ratio. The difference should be credited to capital surplus or debited to capital surplus and/or retained earnings.

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.

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	$ -	$ 48

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**
Balance sheets				
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
Stockholders' equity				
Unrealized valuation loss on long-term investments	(1,268)	-	(1,135)	-
Unrealized losses on financial instruments	-	(1,268)	-	(1,135)
Statement of income				
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	$ 793	$ 993	$ 1,000	$ 31
Cash in banks	2,954,408	6,478,555	4,137,988	126,932
Time deposits	3,193,000	9,716,900	30,258,400	928,172
	$ 6,148,201	$ 16,196,448	$ 34,397,388	$ 1,055,135

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:

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

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

	2004			
	Buy/Sell	Currency	Expiry Date	Contract Amount
Forward exchange contracts	Sell	EUR/NTD	2005.01.14~2005.01.21	EUR€ 5,000

	2005			
	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

	2006			
	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
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 (Note)	-
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:

	2004	2005	2006	
	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:

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 3)
Notes receivable	$ 71,756	$ 99,087	$ 58,930	$ 1,808
Accounts receivable	8,393,163	14,221,725	18,320,329	561,973
Less allowance for doubtful accounts	(6,973)	(8,910)	(2,350)	(72)
	$ 8,457,946	$ 14,311,902	$ 18,376,909	$ 563,709

9. OTHER CURRENT FINANCIAL ASSETS

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

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 3)
Agency payments	$ 1,238	$ 16,194	$ 189,977	$ 5,828
Other receivables from related parties	5,233	3,004	130,990	4,018
Value-added tax refund receivables	47,715	30,325	63,101	1,936
Interest receivables	1,515	15,566	24,854	762
Other receivables	40,341	20,230	22,676	695
	$ 96,042	$ 85,319	$ 431,598	$ 13,239

Agency payments were prepayments for royalty and other expenses on behalf of customers.

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

Other receivables were primarily compensation from service charges, 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:

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 3)
Finished goods	$ 647,329	$ 625,943	$ 753,426	$ 23,111
Work-in-process	1,218,137	1,801,220	1,207,886	37,052
Raw materials	2,684,955	2,997,117	3,914,242	120,069
	4,550,421	5,424,280	5,875,554	180,232
Less valuation allowance	(346,772)	(586,727)	(891,663)	(27,352)
	$ 4,203,649	$ 4,837,553	$ 4,983,891	$ 152,880

11. PREPAYMENTS

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

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 3)
Prepayments for royalty	$ 142,789	$ 274,489	$ 1,631,513	$ 50,046
Prepayments for software and hardware maintenance	7,172	22,984	80,517	2,470
Prepayments for service	6,628	83,352	50,606	1,552
Prepayments for travel	1,047	16,034	47,298	1,451
Prepayments for molding equipment	43,546	57,700	40,088	1,230
Prepayments for material purchases	563	2,820	1,479	45
Others	43,083	16,882	29,618	909
	$ 244,828	$ 474,261	$ 1,881,119	$ 57,703

Prepayments for royalty were primarily prepayments for the future discount purpose (Note 28 has more information).

12. FINANCIAL ASSETS CARRIED AT COST

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

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 3)
Answer Online, Inc.	$ 1,192	$ 1,192	$ 1,192	$ 37

In March 2004, the Company merged with IA Style, Inc. (Note 1) and acquired 1.82% equity interest in Answer Online, Inc. as a result of the merger. The unquoted equity instrument is not carried at fair value because its fair value cannot be reliably measured; the Company accounted for this investment by the cost method.

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:

	2004		2005		2006				
	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage	Original Cost		Carrying Value		Ownership Percentage
	NT$		NT$		NT$	US$ (Note 3)	NT$	US$ (Note 3)	
Equity method									
H.T.C. (B.V.I.) Corp.	$ 345,793	100	$ 323,505	100	$ 509,114	$ 15,617	$ 422,788	$ 12,969	100
BandRich Inc.	-	-	-	-	135,000	4,141	136,200	4,178	51
HTC HK, Limited	-	-	-	-	1,277	39	889	27	100
Auto Hi-Tech Computer Corp.	4,312	20	-	-	-	-	-	-	
Prepayments for long-term investments	-		-	-	261,679	8,027	261,679	8,027	-
	$ 350,105		$ 323,505		$ 907,070	$ 27,824	$ 821,556	$ 25,201	

In August 2000, the Company acquired 100% equity interest in H.T.C. (B.V.I.) Corp. for NT$12,834 thousand and accounted for this investment by the equity method. As of December 31, 2006, the Company had increased this investment to NT$770,793 thousand (US$23,254 thousand). Because the registration of this investment was not completed on December 31, 2006, the amounts of NT$261,679 thousand (US$8,027 thousand) were temporarily accounted for as "prepayments for long-term investments." H.T.C. (B.V.I.) Corp. makes investments on behalf of the Company.

In April 2006, the Company acquired 92% equity interest in BandRich Inc. for NT$135,000 thousand and accounted for this investment by the equity method. In May 2006, BandRich Inc. issued 12,000 thousand common shares at NT$12.50 per share, but the Company did not buy any of these shares. Thus, the Company's ownership percentage declined from 92% to 51%, and there was a capital surplus - long term equity investments of NT$15,845 thousand (US$486 thousand).

In September 2006, the Company acquired 100% equity interest in HTC HK, Limited for NT$1,277 thousand (US$39 thousand) and accounted for this investment by the equity method.

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.

On its equity-method investments, the Company had losses of NT$35,606 thousand, NT$35,112 thousand and NT$12,554 thousand (US$385 thousand) in 2004, 2005 and 2006, respectively.

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

Under the revised Statement of Financial Accounting Standards No. 7 - "Consolidated Financial Statements," which took effect on January 1, 2005, the Company included the accounts of all its direct and indirect subsidiaries in the consolidated financial statements as of and for the years ended December 31, 2004, 2005 and 2006. All significant intercompany balances and transactions have been eliminated.

14. PROPERTIES

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

	2004	2005	2006			
	Carrying Value	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NT$	NT$	NT$	NT$	NT$	US$ (Note 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	1,171,357	987,009	2,913,495	1,892,696	1,020,799	31,313
Molding equipment	-	-	201,247	201,247	-	-
Computer equipment	47,705	35,397	180,855	139,551	41,304	1,267
Transportation equipment	541	626	1,938	1,232	706	22
Furniture and fixtures	35,387	30,640	105,016	81,192	23,824	731
Leased assets	-	-	4,712	785	3,927	120
Leasehold improvements	22,843	5,843	22,816	20,160	2,656	81
Prepayments for construction-in-progress and equipment-in-transit	125,915	27,467	470,330	-	470,330	14,427
	$2,518,942	$2,495,256	$5,593,767	$2,684,143	$2,909,624	$ 89,252

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:

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 3)
Marketing	$ -	$ -	$ 983,088	$ 30,156
Salaries and bonuses	500,573	698,818	762,942	23,403
Export expenses	53,822	183,060	162,221	4,976
Research materials	69,920	48,013	119,075	3,653
Travel	8,495	23,689	58,027	1,780
Meals and welfare	18,159	36,978	57,436	1,762
Professional fees	18,038	39,445	49,221	1,510
Insurance	21,877	45,307	40,398	1,239
Repairs and maintenance	39,253	23,690	23,759	729
Donation	5,000	-	-	-
Others	127,130	105,807	83,962	2,575
	$ 862,267	$ 1,204,807	$ 2,340,129	$ 71,783

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:

	2004	2005	2006	
	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
Deferred credits - profit from intercompany transactions	6,289	15,077	164,011	5,031
Agency receipts	81,958	86,467	122,897	3,770
Other payables to related parties (Note 26)	4,569	89,777	110,617	3,393
Advance receipts	6,304	112,641	37,340	1,145
Directors' remuneration	21,842	21,842	21,842	670
Others	18,697	12,461	61,920	1,900
	$ 468,860	$ 1,302,768	$ 2,363,622	$ 72,504

The Company provides warranty service for one to two years depending on the contract with our customers. The warranty liability is estimated based on management's evaluation of the products under warranty and recognized as warranty liability.

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

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

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

17. BONDS PAYABLE

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

	2004	2005	2006	
	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	(135,519)	-	-	-
	$ 1,477,171	$ -	$ -	$ -

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 already covered by the Labor Standards Law (the "Law") can choose to remain to be subject to the pension mechanism under the Law or to be subject to the Act. Under the Act, the rate of an employer's monthly contribution to the pension fund should be at least 6% of the employee's monthly wages, and the contribution should be recognized as pension expense in the income statement. The pension fund contributions were NT$40,152 thousand in 2005 and NT$ 89,723 thousand (US$2,753 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 the Company'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.

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:

	2004	2005	2006	
	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	1,001	6,154	1,708	52
Net pension cost	$ 66,744	$ 55,180	$ 6,047	$ 185

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

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 3)
Present actuarial value of benefit obligation				
Vested benefits	$ 183	$ 792	$ -	$ -
Non-vested benefits	143,542	127,313	153,371	4,704
Accumulated benefit obligation	143,725	128,105	153,371	4,704
Additional benefits on future salaries	191,007	161,127	159,023	4,878
Projected benefit obligation	334,732	289,232	312,394	9,582
Plan assets at fair value	(173,525)	(274,197)	(311,532)	(9,556)
Projected benefit obligation in excess of plan assets	161,207	15,035	862	26
Unrecognized pension benefit	(168,870)	(64,795)	(74,882)	(2,297)
Prepaid pension cost	$ (7,663)	$ (49,760)	$ (74,020)	$ (2,271)

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

The Company's outstanding common stock as of January 1, 2004 amounted to NT$2,171,640 thousand, divided into 217,164 thousand common shares at NT$10.00 par value. The Company issued 1,567.3 thousand shares (NT$ 15,673 thousand) to merge with IA Style, Inc.; the effective date of this merger was March 1, 2004. In June 2004, the stockholders approved the transfer to capital stock of retained earnings of NT$437,463 thousand and employees' bonuses of NT$89,500 thousand. 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, the Company'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 the Company's outstanding common stock as of December 31, 2005 increased to NT$3,570,160 thousand, divided into 357,016 thousand common shares at NT$10.00 par value.

Also, in May 2006, the stockholders approved the transfer of retained earnings amounting to NT$714,032 thousand (US$21,903 thousand) and employee bonuses amounting to NT$80,000 thousand (US$2,454 thousand) to capital stock. As a result, the amount of the Company's outstanding common stock as of December 31, 2006 increased to NT$ 4,364,192 thousand (US$133,871 thousand), divided into 436,419 thousand common shares at NT$10.00 par value.

In their meeting on December 11, 2002, the Company's Board of Directors resolved to issue 7,000 thousand units of employee stock options in accordance with Article 28.3 of the Securities and Exchange Law. Each option represents the right to buy one newly issued common share of the Company. The exercise price is the closing price of the Company's common shares on the option issuance date or the share par value, whichever is higher. The option holders can exercise the right up to 35% of the granted option units no earlier than two years from the grant date. After three years from the grant date, the holders can exercise the right at up to 70% of the granted option units. After four years from the grant date, the option holders are eligible to exercise their rights on all the options owned. The exercise period is five years. As of December 31, 2006, the Company had issued 3,000 thousand units of the stock options to employees. After taking into account the effect of stock dividends and the issuance of additional common stocks, 7,011 thousand units of the employee stock options were outstanding as of December 31, 2006. The remaining employee stock options, amounting to 4,000 thousand units, expired on December 25, 2003.

Global Depositary Receipts

The Company issued 14,400 thousand shares of its common stock divided into 3,600 thousand units of Global Depositary Receipts. The Company's stockholders including Via Technologies, Inc., offered 12,878.4 thousand shares of its common stock, divided into 3,219.6 thousand units of Global Depositary Receipts. Therefore, there are 6,819.6 thousand units of GDRs in the aggregate in this offering. Each GDR represents four common shares and issued at NT$131.1 per share. NT$1,696,855 thousand of the additional paid-in capital from the issuance of such common stock were accounted for as "capital surplus". This cash subscription was finished and registered on November 19, 2003.

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

a. 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 the Company to redeem the GDRSs to get the Company'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 the Company'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, the Company may transfer the capital surplus to common stock if there is no accumulated deficit.

When the Company did not subscribe for the new shares issued by BandRich Inc., an adjustment of NT$15,845 thousand (US$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 the Company's annual net income less any deficit should first be appropriated as legal reserve until this reserve equals its paid-in capital. From the remainder, there should be appropriations of not more than 1% as remuneration to directors and supervisors and at least 5% as bonuses to employees.

The appropriation of retained earnings should be proposed by the board of directors and approved by the stockholders in their annual meeting.

As part of a high-technology industry and as a growing enterprise, the Company considers its operating environment, industry developments, and long-term interests of stockholders as well as its programs to maintain operating efficiency and meet its capital expenditure budget and financial goals in determining the stock or cash dividends to be paid. The Company's dividend policy stipulates that only up to 95% of total dividends may be distributed as cash dividends.

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

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

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, the Company'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 the Company's share price is lower than this price range, the Company may continue to buy back its shares.

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

(In thousands of shares)

Purpose	As of January 1, 2006	Increase	Decrease	As of December 31, 2006
For maintaining the Company'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 the Company'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, the Company should not pledge its treasury shares nor exercise voting rights on the shares before their reissuance.

22. PERSONNEL EXPENSES, DEPRECIATION AND AMORTIZATION

Function / Expense Item	2004			2005		
	NT$			NT$		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses	952,246	1,115,444	2,067,690	1,253,363	1,460,432	2,713,795
Salary	808,291	967,793	1,776,084	1,077,001	1,266,704	2,343,705
Insurance	47,328	56,236	103,564	62,775	74,798	137,573
Pension	32,394	34,350	66,744	40,987	54,345	95,332
Others	64,233	57,065	121,298	72,600	64,585	137,185
Depreciation expense	341,069	175,879	516,948	361,055	221,312	582,367
Amortization	2,339	44,692	47,031	660	35,314	35,974

Function / Expense Item	2006					
	NT$			US$ (Note 3)		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses	1,399,381	1,980,666	3,380,047	42,926	60,756	103,682
Salary	1,167,170	1,736,364	2,903,534	35,803	53,262	89,065
Insurance	70,395	86,345	156,740	2,159	2,649	4,808
Pension	32,485	63,285	95,770	997	1,941	2,938
Others	129,331	94,672	224,003	3,967	2,904	6,871
Depreciation expense	367,879	233,503	601,382	11,284	7,163	18,447
Amortization	-	31,178	31,178	-	956	956

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, the Company disagreed with the tax authorities' assessment on its 2003 return and applied for the reexamination. Nevertheless, the Company 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

Income taxes payable as of December 31, 2004, 2005 and 2006 were computed as follows:

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 3)
Income before income tax	$ 3,960,528	$ 12,155,939	$ 26,957,878	$ 826,929
Permanent differences				
Losses on equity-method investments	35,606	35,112	12,554	385
Gain on disposal of investments	(13,389)	-	-	-
Other	6,138	31,012	36,625	1,123
Temporary differences				
Realized pension cost	(39,806)	(42,098)	(24,260)	(744)
Unrealized loss on decline in value of inventory	224,267	239,955	304,936	9,354
(Realized) unrealized royalties	(4,078)	1,183,995	1,930,164	59,207
Realized depreciation	(1,417)	(12,058)	-	-
Unrealized foreign exchange (gains) losses, net	(12,212)	217,995	(177,812)	(5,454)
Unrealized warranty expense	135,490	639,801	429,492	13,175
Unrealized marketing expenses	-	-	983,087	30,156
(Realized) unrealized profit from intercompany transactions	(952)	8,788	148,934	4,569
Unrealized valuation (gain) loss on financial instruments	(1,094)	(60,085)	76,470	2,346
Capitalized expense	33,413	2,698	(19,414)	(596)
Other	(25,090)	30,877	(1,292)	(40)
Total income	4,297,404	14,431,931	30,657,362	940,410
Less tax-exempt income tax	(3,166,124)	(8,734,397)	(20,914,039)	(641,535)
Prior years' loss carryforwards - merger with IA Style, Inc.	(465)	-	-	-
Taxable income	1,130,815	5,697,534	9,743,323	298,875
Tax rate	25%	25%	25%	25%
	282,704	1,424,384	2,435,831	74,718
Income tax credit	(10)	(10)	(10)	-
Estimated income tax provision	282,694	1,424,374	2,435,821	74,718
Unappropriated earnings (additional 10% income tax)	71,798	144,006	436,049	13,376
Less investment research and development tax credits	(256,809)	(938,425)	(1,024,576)	(31,429)
Current income tax	97,683	629,955	1,847,294	56,665
Less prepaid and withheld income tax	(3,529)	(13,092)	(156,308)	(4,795)
Tax shortage stated in the tax assessment notice	-	-	67,731	2,078
Income tax payable	$ 94,154	$ 616,863	$ 1,758,717	$ 53,948

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	86,693	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
Unrealized foreign exchange loss, net	-	21,220	-	-
Other	15,069	16,348	27,770	852
Tax credit carryforwards	612,144	378,236	-	-
Total deferred tax assets	996,392	1,302,739	1,838,107	56,384
Less valuation allowance	(750,197)	(796,976)	(1,134,041)	(34,787)
Total deferred tax assets, net	246,195	505,763	704,066	21,597
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	(21,873)	-	(38,254)	(1,173)
	222,690	478,860	647,307	19,856
Less current portion	(161,863)	(229,826)	(428,077)	(13,131)
Deferred tax assets - noncurrent	$ 60,827	$ 249,034	$ 219,230	$ 6,725

Details of the tax credit carryforwards were as follows:

Year Obtained	Validity Period	2004 NT$	2005 NT$	2006 NT$	2006 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	-	-
		$612,144	$378,236	$ -	$ -

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:

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 3)
Current income tax	$ 97,683	$ 629,955	$ 1,847,294	$ 56,665
(Decrease) increase in deferred income tax assets	26,114	(256,170)	(168,447)	(5,167)
(Overestimation) underestimation of prior year's income tax	(18,615)	210	31,704	973
Income tax	$ 105,182	$ 373,995	$ 1,710,551	$ 52,471

The integrated income tax information is as follows:

	2004	2005	2006	
	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 which includes the deduction of the effect of treasury stock 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:

	2004				
	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	$ 3,960,528	$ 3,855,346	410,195	$ 9.66	$ 9.40
Zero coupon convertible bonds	6,416	4,812	12,452		
Employee stock options	-	-	2,368		
Diluted EPS	$ 3,966,944	$ 3,860,158	425,015	$ 9.33	$ 9.08

	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	350,105	350,105	323,505	323,505	821,556	25,201	821,556	25,201
Refundable deposits	5,922	5,881	35,278	34,820	36,991	1,134	36,625	1,123
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				December 31			
	2004	2005	2006		2004	2005	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	-	-	-	-	350,105	323,505	821,556	25,201
Refundable deposits	-	-	-	-	5,881	34,820	36,625	1,123
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$30,258,400 thousand (US$928,172 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 Company's chairperson
VIA Technologies, Inc.	Same chairperson
Chander Electronics Corp.	Same chairperson
Comserve Network Netherlands B.V.	Main director is an immediate relative of the Company's chairperson
H.T.C. (B.V.I.) Corp.	Subsidiary
BandRich Inc.	Subsidiary
HTEK	Subsidiary of H.T.C. (B.V.I.) Corp.
HTC America Inc. (formerly HTC USA Inc. until August 2, 2006)	Subsidiary of H.T.C. (B.V.I.) Corp.
HTC Europe Co., Ltd.	Subsidiary of H.T.C. (B.V.I.) Corp.
High Tech Computer Corp. (Suzhou)	Subsidiary of H.T.C. (B.V.I.) Corp.
Exedea Inc.	Subsidiary of H.T.C. (B.V.I.) Corp.
HTC Nippon Corporation	Subsidiary of H.T.C. (B.V.I.) Corp.
Leo Systems, Inc.	Affiliate
Vate Technology Co., Ltd.	Affiliate

Major transactions with related parties are summarized below:

Purchases of Inventories and Services

Related Party	2004 Amount NT$	2004 % to Total Net Purchases	2005 Amount NT$	2005 % to Total Net Purchases	2006 Amount NT$	2006 Amount US$ (Note 3)	2006 % to Total Net Purchases
Chander Electronics Corp.	$ 147,810	1	$ 588,024	1	$ 72,290	$ 2,217	-
High Tech Computer Corp. (Suzhou)	-	-	-	-	16,069	493	-
	$ 147,810	1	$ 588,024	1	$ 88,359	$ 2,710	-

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

Sales and Services Provided

Related Party	2004 Amount NT$	2004 % to Total Revenues	2005 Amount NT$	2005 % to Total Revenues	2006 Amount NT$	2006 Amount US$ (Note 3)	2006 % to Total Revenues
Exedea Inc.	$ -	-	$ -	-	$2,080,052	$ 63,805	2
HTC America Inc.	172,806	-	233,757	-	953,579	29,251	1
HTC Europe Co., Ltd.	-	-	263,779	1	389,302	11,942	-
Comserve Network Netherlands B.V.	187,828	1	72,168	-	-	-	-
H.T.C. (B.V.I.) Corp.	5,834	-	-	-	-	-	-
Leo Systems, Inc.	3,146	-	-	-	-	-	-
Others	1,112	-	3,262	-	2,157	66	-
	$ 370,726	1	$ 572,966	1	$3,425,090	$105,064	3

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

Notes and Accounts Receivable

Related Party	December 31, 2004 Amount NT$	2004 % to Total Notes and Accounts Receivable	2005 Amount NT$	2005 % to Total Notes and Accounts Receivable	2006 Amount NT$	2006 Amount US$ (Note 3)	2006 % to Total Notes and Accounts Receivable
Accounts receivable							
Exedea Inc.	$ -	-	$ -	-	$ 603,021	$ 18,497	3
HTC America Inc.	71,369	1	171,177	1	444,099	13,623	2
HTC Europe Co., Ltd.	-	-	247,885	2	263,376	8,079	1
H.T.C. (B.V.I.) Corp.	5,834	-	-	-	-	-	-
Comserve Network Netherlands B.V.	611	-	-	-	-	-	-
Others	399	-	1,718	-	1,294	40	-
	$ 78,213	1	$ 420,780	3	$1,311,790	$ 40,239	6

Notes and Accounts Payable

Related Party	2004 Amount NT$	2004 % to Total Notes and Accounts Payable	2005 Amount NT$	2005 % to Total Notes and Accounts Payable	2006 Amount NT$	2006 Amount US$ (Note 3)	2006 % to Total Notes and Accounts Payable
High Tech Computer Corp. (Suzhou)	$ -	-	$ -	-	$ 13,560	$ 416	-
Chander Electronics Corp.	18,562	-	55,804	-	-	-	-
First International Computer, Inc.	7,500	-	-	-	-	-	-
Others	-	-	494	-	494	15	-
	$ 26,062	-	$ 56,298	-	$ 14,054	$ 431	-

Other Receivables

Related Party	2004 Amount NT$	2004 % to Total Other Receivable	2005 Amount NT$	2005 % to Total Other Receivable	2006 Amount NT$	2006 Amount US$ (Note 3)	2006 % to Total Other Receivable
HTC Europe Co., Ltd.	$ 447	1	$ 1,318	6	$ 84,055	$ 2,578	55
HTC Nippon Corporation	-	-	-	-	27,249	836	18
High Tech Computer Corp. (Suzhou)	-	-	304	1	19,273	591	12
HTC America Inc.	3,634	8	1,382	6	377	12	-
H.T.C. (B.V.I.) Corp.	1,152	2	-	-	-	-	-
Others	-	-	-	-	36	1	-
	$ 5,233	11	$ 3,004	13	$ 130,990	$ 4,018	85

The term for other receivables from related parties was 90 days, longer than that for third parties. The Company transferred accounts receivables amounting to NT$82,529 (US$2,532 thousand), which were more than 180 days outstanding, to other receivables. Other receivables from related parties included payments of NT$48,461 thousand (US$1,486 thousand) by the Company for travel and other expenses on behalf of the related parties.

Prepaid Expenses

Related Party	2004 Amount NT$	2004 % to Total Prepayment	2005 Amount NT$	2005 % to Total Prepayment	2006 Amount NT$	2006 Amount US$ (Note 3)	2006 % to Total Prepayment
HTC America Inc.	$ -	-	$ 19,977	4	$ 19,857	$ 609	1
HTC Europe Co., Ltd.	-	-	23,466	5	17,610	540	1
HTC Nippon Corporation	-	-	-	-	3,245	100	-
HTEK	9,891	4	21,685	5	-	-	-
	$ 9,891	4	$ 65,128	14	$ 40,712	$ 1,249	2

Accrued Expenses

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

Other Payables to Related Parties

	December 31						
	2004		2005		2006		
Related Party	Amount	% to Total Other Payables	Amount	% to Total Other Payables	Amount		% to Total Other Payables
	NT$		NT$		NT$	US$ (Note 3)	
HTC America Inc.	$ 4,569	100	$ 33,357	37	$ 72,404	$ 2,221	66
HTC Europe Co., Ltd.	-	-	56,420	63	23,354	716	21
HTC Nippon Corporation	-	-	-	-	11,526	354	10
Others	-	-	-	-	3,333	102	3
	$ 4,569	100	$ 89,777	100	110,617	$ 3,393	100

Outsourcing Expenses

	2004		2005		2006		
Related Party	Amount	% to Total Out-sourcing Expenses	Amount	% to Total Out-sourcing Expenses	Amount		% to Total Out-sourcing Expenses
	NT$		NT$		NT$	US$ (Note 3)	
High Tech Computer Corp. (Suzhou)	$ -	-	$ 28,212	5	$ 159,134	$ 4,881	19
First International Computer Inc.	7,500	6	7,350	1	-	-	-
	$ 7,500	6	$ 35,562	6	$ 159,134	$ 4,881	19

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

Service Warranty Expense

	2004		2005		2006		
Related Party	Amount	% to Total Warranty Expenses	Amount	% to Total Warranty Expenses	Amount		% to Total Warranty Expenses
	NT$		NT$		NT$	US$ (Note 3)	
HTC America Inc.	$ 53,414	8	$ 96,558	7	$ 463,474	$ 14,217	23
HTC Europe Co., Ltd.	17,391	3	120,981	8	308,187	9,453	15
Comserve Network Netherlands B.V.	132,209	20	86,430	6	11,470	352	1
	$ 203,014	31	$ 303,969	21	$ 783,131	$ 24,022	39

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

Administrative and Selling Expenses - Service Fees

Related Party	2004 Amount NT$	2004 % to Total Service Expenses	2005 Amount NT$	2005 % to Total Service Expenses	2006 Amount NT$	2006 Amount US$ (Note 3)	2006 % to Total Service Expenses
HTC America Inc.	$ -	-	$ -	-	$ 101,696	$ 3,119	30
HTC Nippon Corporation	-	-	-	-	31,477	966	9
HTEK	26,718	20	21,983	14	21,685	665	7
HTC Europe Co., Ltd.	-	-	-	-	20,470	628	6
Exedea Inc.	-	-	-	-	15,567	477	5
VIA Technologies Inc.	6,000	4	3,600	3	2,400	74	1
	$ 32,718	24	$ 25,583	17	$ 193,295	$ 5,929	58

Leasing - Lessee

Operating Expense - Rental Expense

Related Party	2004 Amount NT$	2004 % to Total Rental Expense	2005 Amount NT$	2005 % to Total Rental Expense	2006 Amount NT$	2006 Amount US$ (Note 3)	2006 % to Total Rental Expense
VIA Technologies Inc.	$ 15,046	64	$ 7,663	37	$ -	$ -	-

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

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 2004, the Company sold equipment to H.T.C. (B.V.I.) Corp., Inc. for NT$2,106 thousand; to HTC America Inc. for NT$430 thousand; to HTC Europe Co., Ltd. for NT$20 thousand; and to High Tech Computer Corp. (Suzhou) for NT$15 thousand, resulting in gains of NT$480 thousand, NT$101 thousand, NT$18 thousand and NT$10 thousand, respectively.

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

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

In the second quarter of 2006, the Company sold equipment to HTC Europe Co., Ltd. for NT$141 thousand (US$ 4 thousand) and to High Tech Computer Corp. (Suzhou) for NT$3,914 thousand (US$ 120 thousand), resulting in gains of NT$81 thousand (US$2 thousand) and NT$2,169 thousand (US$ 67 thousand), respectively.

27. COMMITMENTS AND CONTINGENCIES

As of December 31, 2006, unused letters of credit amounted to US$28 thousand and EUR180 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.

Contractor	Contract Term	Description
Nokia Corporation	January 1, 2003 to the expiry dates of these patents.	Authorization to use wireless technology, like GSM; royalty payment based on agreement.
InterDigital Technology Corporation.	December 31, 2003 to the expiry dates of these patents.	Authorization to use TDMA and CDMA technology; royalty payment based on agreement.
KONINKLIJKE PHILIPS ELECTRONICS N.V.	January 5, 2004 to the expiry dates of these patents	GSM/DCS 1800/1900 Patent License; royalty payment based on agreement.
Motorola, Inc.	December 23, 2003 to the latest of the following dates: (a) Expiry dates of patents (b) Any time when the Company is not using any of Motorola's intellectual property,	TDMA, NARROWBAND CDMA, WIDEBAND CDMA or TD/CDMA Standards patent license or technology; royalty payment based on agreement.
ALCATEL/TCL & Alcatel	July 1, 2004-June 30, 2009	Authorization to use GSM, GPRS or EDGE patent license or technology; royalty payment based on agreement.
Siemens Aktiengesellschaft	July 1, 2004 to the expiry dates of these patents.	Authorization to use GSM, GPRS or EDGE patent license or technology; royalty payment based on agreement.
Lucent Technologies GRL LLC	July 1, 2004-June 30, 2009	Authorization to use GSM, GPRS, EDGE, CDMA or WCDMA patent license or technology; royalty payment based on agreement.

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 thousand 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 Yulon Group, which are stockholders of Hua-Chuang. Under the agreement, the Company and Yulon Group may, from January 1, 2010 to December 31, 2011, submit written requests to each other to request the Yulon Group 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

The Company does not have any foreign operations.

Export Sales

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

	2004	2005	2006	
	NT$	NT$	NT$	US$ (Note 3)
Asia	$ 5,157,560	$ 6,833,891	$ 6,317,593	$ 193,791
America	8,087,168	28,733,781	49,644,601	1,522,841
Europe	18,263,948	29,056,263	38,917,132	1,193,777
Others	4,358,517	5,574,579	6,771,781	207,723
	$ 35,867,193	$ 70,198,514	$ 101,651,107	$ 3,118,132

Major Customers

Sales to major customers were as follows:

	2004	2005	2006	
Customer	NT$	NT$	NT$	US$ (Note 3)
A	$ 1,470,781	$ 14,965,913	$ 17,738,373	$ 544,122
B	4,175,764	5,067,341	12,304,976	377,453
C	488,762	7,448,551	10,335,852	317,051
D	11,829,986	7,995,052	5,888,382	180,625
	$ 17,965,293	$ 35,476,857	$ 46,267,583	$ 1,419,251