

**VIA Technologies, Inc.**

**Financial Statements for the  
Years Ended December 31, 2006 and 2005 and  
Independent Auditors' Report**

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders  
VIA Technologies, Inc.

We have audited the accompanying balance sheets of VIA Technologies, Inc. as of December 31, 2006 and 2005, 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 VIA Technologies, Inc. as of December 31, 2006 and 2005, 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.

As mentioned in Note 3, effective January 1, 2006, VIA Technologies, Inc. adopted SFAS No. 34 "Financial Instruments: Recognition and Measurement", SFAS No. 36 "Financial Instruments: Disclosure and Presentation" and related revisions of previously released SFASs.

We have also audited the consolidated financial statements of VIA Technologies, Inc. and its subsidiaries for the years ended December 31, 2006 and 2005 (not accompanied herein) and have issued our report, dated April 12, 2007, thereon expressing an unqualified opinion on such financial statements.

April 12, 2007

### Notice to Readers

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

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

# VIA TECHNOLOGIES, INC.

## BALANCE SHEETS

DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars)

ASSETS	2006		2005		LIABILITIES AND STOCKHOLDERS' EQUITY	2006		2005	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and cash equivalents (Note 2)	\$ 6,183,067	25	\$ 7,497,311	28	Financial liabilities at fair value through profit or loss, current (Notes 2 and 5)	29	-	-	-
Financial assets at fair value through profit or loss, current (Notes 2 and 5)	1,667,515	7	-	-	Notes payable	3,969	-	5,474	-
Available-for-sale financial assets, current (Notes 2 and 6)	8,795	-	9,357	-	Accounts payable	3,453,215	14	6,527,315	24
Notes receivable, net (Note 2)	8,539	-	254,885	1	Notes and accounts payable to related parties (Note 26)	38,671	-	126,672	1
Accounts receivable, net (Notes 2 and 7)	1,101,241	4	3,211,186	12	Income tax payable (Notes 2 and 24)	348,642	2	347,612	1
Notes and accounts receivable from related parties, net (Notes 2, 8 and 26)	367,778	1	267,479	1	Accrued expenses (Notes 16 and 26)	1,093,836	4	809,226	3
Other receivables, current (Notes 9, 24 and 26)	2,398,153	9	198,571	1	Current portion of long-term liabilities (Note 19)	529,167	2	222,222	1
Inventories (Notes 2 and 10)	4,195,942	17	4,336,185	16	Other current liabilities (Note 17)	2,170,466	9	719,319	3
Deferred income tax asset, current (Notes 2 and 24)	672,145	3	380,642	2					
Other current assets (Note 11)	206,668	1	101,931	-	Total current liabilities	7,637,995	31	8,757,840	33
Total current assets	16,809,843	67	16,257,547	61					
<b>LONG-TERM INVESTMENTS</b>					<b>LONG-TERM LIABILITIES</b>				
Financial assets carried at cost (Notes 2 and 12)	77,984	-	77,984	-	Corporate bonds payable (Notes 2 and 18)	1,537,500	6	1,904,820	7
Investment accounted for using equity method (Notes 2, 13, 22 and 26)	4,877,441	20	6,683,277	25	Long-term bank loans (Notes 2 and 19)	300,000	1	166,667	1
Prepayments long-term investments (Note 13)	254,201	1	258,270	1	Total long-term liabilities	1,837,500	7	2,071,487	8
Total long-term investments	5,209,626	21	7,019,531	26					
<b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 14 and 26)</b>					<b>OTHER LIABILITIES (Notes 2, 13, 20 and 26)</b>				
Land	1,016,714	4	946,707	4		820,210	3	329,699	1
Buildings and improvements	694,896	3	658,927	2	Total liabilities	10,295,705	41	11,159,026	42
Machinery and equipment	87,413	-	131,324	1					
Computer equipment	185,480	1	261,625	1	<b>STOCKHOLDERS' EQUITY</b>				
Research and development equipment	479,984	2	521,707	2	Common stock (Note 21)	13,253,893	53	13,333,803	50
Transportation equipment	5,607	-	7,420	-	Capital surplus				
Furniture and fixtures	13,852	-	34,736	-	Additional paid-in capital	4,309,941	17	4,335,927	16
Leasehold improvements	16,197	-	29,921	-	Long-term equity investments (Note 13)	218,465	1	217,339	1
	2,500,143	10	2,592,367	10	Retained earnings (Note 21)				
Less accumulated depreciation	(673,310)	(2)	(755,266)	(3)	(Accumulated deficit) unappropriated earnings	(1,430,409)	(6)	8,347	-
Prepayments for business facilities	24,420	-	-	-	Cumulative translation adjustments (Note 2)	489,449	2	499,637	2
Property, plant and equipment, net	1,851,253	8	1,837,101	7	Unrealized losses on financial instruments (Notes 2, 3, 6 and 13)	(4,041)	-	(14,956)	-
					Treasury stock (Notes 2 and 22)	(2,175,383)	(8)	(2,760,319)	(11)
<b>OTHER ASSETS</b>					Total stockholders' equity	14,661,915	59	15,619,778	58
Leased-out assets (Notes 2, 15 and 26)	198,750	1	304,386	1					
Refundable deposits	18,325	-	12,078	-	<b>TOTAL</b>	<b>\$24,957,620</b>	<b>100</b>	<b>\$26,778,804</b>	<b>100</b>
Deferred bonds issuance costs (Note 2)	3,985	-	4,683	-					
Deferred charges (Note 2)	408,657	1	422,523	2					
Deferred income tax assets, noncurrent (Notes 2 and 24)	457,181	2	920,955	3					
Total other assets	1,086,898	4	1,664,625	6					
<b>TOTAL</b>	<b>\$24,957,620</b>	<b>100</b>	<b>\$26,778,804</b>	<b>100</b>					

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

(With Deloitte & Touche audit report dated April 12, 2007)

# VIA TECHNOLOGIES, INC.

## STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006		2005	
	Amount	%	Amount	%
OPERATING REVENUES (Note 2)				
Sales	\$ 23,540,064	110	\$ 20,334,396	106
Less				
Sales returns	(79,951)	-	(68,218)	-
Sales discounts	(2,012,897)	(10)	(1,077,605)	(6)
Net sales (Note 26)	21,447,216	100	19,188,573	100
Other operating revenues (Note 26)	2,779	-	3,990	-
Total operating revenues	21,449,995	100	19,192,563	100
COST OF OPERATING REVENUES (Note 26)	16,022,742	74	14,518,797	76
GROSS PROFIT	5,427,253	26	4,673,766	24
UNREALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS (Notes 2 and 17)	(20,919)	-	(18,670)	-
REALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	18,670	-	87,752	1
REALIZED GROSS PROFIT	5,425,004	26	4,742,848	25
OPERATING EXPENSES (Note 26)				
General and administrative expenses	2,682,435	13	2,339,111	12
Research and development expenses	2,630,713	12	2,424,567	13
Total operating expenses	5,313,148	25	4,763,678	25
INCOME (LOSS) FROM OPERATIONS	111,856	1	(20,830)	-
NON-OPERATING INCOME				
Interest income	94,217	1	58,316	1
Dividend income	1	-	5,803	-
Gain on disposal of property, plant and equipment	577	-	31,099	-
Gain on sale of investments, net (Note 11)	-	-	1,542,710	8
Foreign currency exchange gain, net (Note 2)	21,597	-	52,817	-
Rental income (Note 26)	20,238	-	44,027	-
Reversal of provision for bad debts	2,035	-	9,487	-
Valuation gain on financial instruments, net (Notes 2 and 5)	458	-	-	-
Others (Note 26)	188,510	1	269,674	2
Total non-operating income	327,633	2	2,013,933	11

(Continued)

# VIA TECHNOLOGIES, INC.

## STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006		2005	
	Amount	%	Amount	%
<b>NON-OPERATING EXPENSES</b>				
Interest expense	\$ 76,242	1	\$ 72,724	1
Investment loss under equity method (Notes 2 and 13)	604,557	3	1,513,524	8
Loss on disposal of property, plant and equipment	154	-	73	-
Loss on sale of investments, net (Note 13)	22,600	-	-	-
Loss on physical inventory	1,084	-	1,080	-
Loss on inventory devaluation	658,566	3	238,563	1
Valuation loss on financial instruments, net (Notes 2 and 5)	519	-	-	-
Others	29,454	-	28,293	-
Total non-operating expenses	<u>1,393,176</u>	<u>7</u>	<u>1,854,257</u>	<u>10</u>
(LOSS) INCOME BEFORE INCOME TAX	(953,687)	(4)	138,846	1
INCOME TAX EXPENSE (Notes 2 and 24)	<u>(201,017)</u>	<u>(1)</u>	<u>(12,981)</u>	<u>-</u>
(LOSS) INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	(1,154,704)	(5)	125,865	1
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	<u>(487)</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET (LOSS) INCOME	<u>\$ (1,155,191)</u>	<u>(5)</u>	<u>\$ 125,865</u>	<u>1</u>
	<b>2006</b>		<b>2005</b>	
	<b>Before Income Tax</b>	<b>After Income Tax</b>	<b>Before Income Tax</b>	<b>After Income Tax</b>
BASIC (LOSS) EARNINGS PER SHARE (Note 25)	<u>\$ (0.74)</u>	<u>\$ (0.90)</u>	<u>\$ 0.11</u>	<u>\$ 0.10</u>
DILUTED (LOSS) EARNINGS PER SHARE (Note 25)	<u>\$ (0.74)</u>	<u>\$ (0.90)</u>	<u>\$ 0.11</u>	<u>\$ 0.10</u>
If the Company's stock held by subsidiaries is not considered as treasury stock:				
NET (LOSS) INCOME	<u>\$ (1,155,191)</u>		<u>\$ 125,865</u>	
BASIC (LOSS) EARNINGS PER SHARE (Note 25)	<u>\$ (0.89)</u>		<u>\$ 0.10</u>	
DILUTED (LOSS) EARNINGS PER SHARE (Note 25)	<u>\$ (0.89)</u>		<u>\$ 0.10</u>	

(Concluded)

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

(With Deloitte & Touche audit report dated April 12, 2007)

**VIA TECHNOLOGIES, INC.**

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

	Capital Surplus				Retained Earnings			Cumulative Translation Adjustments	Unrealized Gains (Losses) on Financial Instruments	Treasury Stock	Total
	Capital Stock	Stock Dividend to Be Distributed	Additional Paid-in Capital	Long-Term Equity Investments	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficit)				
BALANCE, JANUARY 1, 2005	\$ 12,704,467	\$ 629,336	\$ 7,110,445	\$ 217,529	\$ 1,708,059	\$ 345,501	\$ (4,828,078)	\$ 315,495	\$ (33,183)	\$ (2,760,205)	\$ 15,409,366
Capital surplus, legal reserve and special reserve transferred to cover accumulated deficit	-	-	(2,774,518)	-	(1,708,059)	(345,501)	4,828,078	-	-	-	-
Transfer of undistributed stock dividend to capital stock	629,336	(629,336)	-	-	-	-	-	-	-	-	-
Effect of changes of ownership interests in equity method investees	-	-	-	(190)	-	-	(117,518)	-	-	(114)	(117,822)
Recovery of unrealized valuation losses on long-term equity investments	-	-	-	-	-	-	-	-	18,227	-	18,227
Cumulative translation adjustments	-	-	-	-	-	-	-	184,142	-	-	184,142
Net income for 2005	-	-	-	-	-	-	125,865	-	-	-	125,865
BALANCE, DECEMBER 31, 2005	13,333,803	-	4,335,927	217,339	-	-	8,347	499,637	(14,956)	(2,760,319)	15,619,778
Adjustments due to adoption of newly released SFASs	-	-	-	-	-	-	-	-	(128)	-	(128)
Transfer of treasury stock to employees	-	-	-	-	-	-	(134,049)	-	-	340,559	206,510
Retirement of treasury stock - 7,991,000 shares	(79,910)	-	(25,986)	-	-	-	(138,481)	-	-	244,377	-
Effect of changes of ownership interest in equity method investees and unrealized losses on financial instruments under equity method	-	-	-	1,126	-	-	(11,035)	-	10,919	-	1,010
Unrealized losses on financial instruments	-	-	-	-	-	-	-	-	124	-	124
Translation adjustments on long-term investments	-	-	-	-	-	-	-	(10,188)	-	-	(10,188)
Net loss for 2006	-	-	-	-	-	-	(1,155,191)	-	-	-	(1,155,191)
BALANCE, DECEMBER 31, 2006	<u>\$ 13,253,893</u>	<u>\$ -</u>	<u>\$ 4,309,941</u>	<u>\$ 218,465</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,430,409)</u>	<u>\$ 489,449</u>	<u>\$ (4,041)</u>	<u>\$ (2,175,383)</u>	<u>\$ 14,661,915</u>

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

(With Deloitte & Touche audit report dated April 12, 2007)

# VIA TECHNOLOGIES, INC.

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2006 AND 2005 (In Thousands of New Taiwan Dollars)

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (loss) income	\$ (1,155,191)	\$ 125,865
Adjustments to reconcile net (loss) income to net cash provided by operating activities		
Depreciation (including depreciation of leased-out assets) and amortization	470,976	631,621
Investment loss under equity-method	604,557	1,513,524
Cash dividends under equity-method	200,000	418,496
Loss on disposal of property, plant and equipment	154	73
Gain on disposal of property, plant and equipment	(577)	(31,099)
Transfer of cost of property, plant and equipment to expense	-	1,103
Loss (gain) on sale of investments	22,600	(1,542,710)
Amortization of bond issuance costs	698	9,642
Accrued pension cost	(1,640)	21,149
Interest on redeemed convertible bonds	(242)	(341)
Gain on redemption of convertible bonds	(278)	-
Deferred tax expense (benefit)	195,561	(331,435)
Net changes in operating assets and liabilities		
Financial assets held for trading	519	-
Financial liabilities held for trading	29	-
Notes receivable, net	246,356	289,690
Accounts receivable, net	2,120,768	(1,574,833)
Notes and accounts receivable from related parties, net	186,227	(114,735)
Other receivables	21,195	(27,868)
Inventories	418,005	(190,744)
Other current assets	(104,287)	(20,919)
Notes payable	(1,505)	(155)
Accounts payable	(3,181,152)	2,639,749
Notes and accounts payable to related parties	(88,001)	(693,188)
Income tax payable	-	209,280
Accrued expenses	254,324	80,659
Other current liabilities	21,076	(52,074)
Other liabilities	-	(5,787)
Net cash provided by operating activities	<u>230,172</u>	<u>1,354,963</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payment for available-for-sale financial assets	(1,339,500)	(12,969,425)
Proceeds from sale of available-for-sale financial assets	1,342,649	14,380,320
Increase in other receivables from related parties, net	(160,000)	-
Payment for long-term investments (including prepayment for long-term investment)	(1,889,249)	(2,342,845)
Proceeds from sale of long-term investments (including proceeds from capital reduction)	301,776	730,397
Acquisition of property, plant and equipment	(185,789)	(120,375)
Proceeds from disposal of property, plant and equipment	400	336,650
Increase in refundable deposits	(4,252)	(213)
Increase in deferred charges	(305,390)	(286,387)
Cash and cash equivalents from dissolved company	<u>507,506</u>	<u>-</u>
Net cash used in investing activities	<u>(1,731,849)</u>	<u>(271,878)</u>

(Continued)

# VIA TECHNOLOGIES, INC.

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2006 AND 2005 (In Thousands of New Taiwan Dollars)

	2006	2005
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in long-term bank loans	\$ 77,778	\$ (111,111)
Redemption of convertible bonds	(4,300)	-
Proceeds from transfer of treasury stock to employees	206,510	-
Bonuses to employees	(90,270)	(103,509)
(Decrease) increase in guarantee deposits received	<u>(2,285)</u>	<u>73</u>
Net cash provided by (used in) financing activities	<u>187,433</u>	<u>(214,547)</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,314,244)</b>	<b>868,538</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b><u>7,497,311</u></b>	<b><u>6,628,773</u></b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b><u>\$ 6,183,067</u></b>	<b><u>\$ 7,497,311</u></b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION</b>		
Cash paid during the year		
Interest	<u>\$ 76,296</u>	<u>\$ 72,933</u>
Income tax	<u>\$ 6,495</u>	<u>\$ 138,319</u>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Current portion of long-term liabilities	<u>\$ 529,167</u>	<u>\$ 222,222</u>
Transfer of deferred credits to gain on disposal of property, plant and equipment	<u>\$ 220</u>	<u>\$ 712</u>
Transfer of long-term investment under equity method to other liabilities	<u>\$ 490,099</u>	<u>\$ 59,221</u>
Transfer of lease-out assets to property, plant and equipment	<u>\$ 103,716</u>	<u>\$ 27,175</u>
<b>PURCHASE OF FINANCIAL ASSETS FOR TRADING</b>		
Increase in financial assets held for trading	\$ 1,668,034	\$ -
Increase in other payable	<u>(1,668,034)</u>	<u>-</u>
Cash payment	<u>\$ -</u>	<u>\$ -</u>
<b>PROCEEDS FROM SALE OF LONG-TERM INVESTMENT UNDER EQUITY METHOD (INCLUDING PROCEEDS FROM CAPITAL REDUCTION)</b>		
Proceeds from sale of long-term investment under equity method	\$ 2,359,937	\$ 730,397
Increase in other receivables	<u>(2,058,161)</u>	<u>-</u>
Cash received	<u>\$ 301,776</u>	<u>\$ 730,397</u>
<b>PURCHASE OF PROPERTY, PLANT AND EQUIPMENT</b>		
Increase in property, plant and equipment	\$ 94,982	\$ 266,598
Decrease (increase) in payable due to acquisition of property, plant and equipment	<u>90,807</u>	<u>(146,223)</u>
Cash payment	<u>\$ 185,789</u>	<u>\$ 120,375</u>

(Continued)

# VIA TECHNOLOGIES, INC.

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2006 AND 2005 (In Thousands of New Taiwan Dollars)

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	2006	2005
PURCHASE OF DEFERRED CHARGES		
Increase in deferred charges	\$ 247,549	\$ 177,220
Decrease in payable for deferred charges	<u>57,841</u>	<u>109,167</u>
Cash payment	<u>\$ 305,390</u>	<u>\$ 286,387</u>
BONUSES TO EMPLOYEES		
Employee bonuses	\$ -	\$ -
Add employees bonuses payable, beginning of year	90,270	193,779
Minus employees bonuses payable, end of year	<u>-</u>	<u>(90,270)</u>
Cash payment	<u>\$ 90,270</u>	<u>\$ 103,509</u>
The summary of assets and liabilities from the dissolved company:		
Cash and cash equivalents	\$ 507,506	
Notes receivable	10	
Accounts receivable	10,823	
Notes and accounts receivable from related parties, net	286,526	
Other financial assets, current	2,616	
Inventories	277,762	
Deferred income tax assets, current	6,657	
Other current assets	450	
Property, plant and equipment	16,188	
Refundable deposits	1,995	
Deferred charges	7,104	
Deferred income tax assets, noncurrent	16,633	
Accounts payable	(107,052)	
Income tax payable	(1,030)	
Accrued expenses	(30,286)	
Other current liabilities	(955)	
Other liabilities	<u>(4,557)</u>	
	<u>\$ 990,390</u>	

(Concluded)

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

(With Deloitte & Touche audit report dated April 12, 2007)

# VIA TECHNOLOGIES, INC.

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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### 1. ORGANIZATION AND OPERATIONS

VIA Technologies, Inc. (the “Company”) was incorporated in September 1992 under the Company Law of the Republic of China to engage in the programming, designing, manufacturing and selling of semiconductors and PC chipsets. In March 1999, the Company’s common stock was officially listed on the Taiwan Stock Exchange.

There are 1,709 and 1,543 employees in the Company at December 31, 2006 and 2005 respectively.

In order to integrate the group and enhance operating efficiency, the board of directors proposed to merge its subsidiary, VIA Networking, Inc., on July 22, 2006. The effective merger date was September 8, 2006.

### 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, pension cost and accrued litigation loss. Actual results could differ from these estimates.

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

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

#### **Current/Noncurrent Assets and Liabilities**

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

## **Cash Equivalents**

Cash equivalents consist primarily of bankers' acceptance and commercial paper which are highly liquid investments with a maturity of three months or less at the date of acquisition. The carrying amount approximates fair value.

## **Financial Assets/Liabilities at Fair Value through Profit or Loss**

Financial instruments at fair value through profit or loss include financial assets or liabilities held for trading and those designated on initial recognition to be measured at fair value with fair value changes recognized in profit or loss. On initial recognition, the financial instruments are recognized at fair value and are subsequently measured at fair value with fair value changes recognized in profit or loss. Cash dividends received, including those received in the year of investment, are recognized as current income. The purchase or sale of the financial instruments is recognized and derecognized using trade date accounting.

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.

Except structured time deposits whose fair value is estimated using valuation techniques, fair values of open-end mutual funds and publicly traded stocks are determined using the net assets value and the closing-price at the end of the year, respectively. For debt securities, fair value is determined using the average of bid and asked prices at the end of the year.

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.

## **Allowance for Doubtful Accounts**

Allowance for doubtful accounts is generally provided for notes and accounts receivable due from unrelated and related parties based on management's evaluation of the collectibility of individual accounts, past loss experience, and other pertinent factors.

## **Inventories**

Inventories are stated at the lower of cost or market (“LCM”). Cost is determined using the moving average method. Market value is based on replacement cost. The LCM method is applied to each inventory category.

## **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 for them, 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. 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.

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.

If the Company’s share of an investee company’s losses equals to or exceeds the carrying amount of an investment accounted for under the equity method, plus advances made by the Company, then the recognized investment losses shall be limited to the extent that makes the book value of a long-term investment and advances equal to zero. However, if the Company intends to continue its support for the investee or an investee company’s losses are temporary and there exists sufficient evidence showing imminent return to profitable operations in the near future, the Company shall continue to recognize investment losses in proportion to its stock ownership percentage.

From 2005, if the Company’s share of an investee company’s losses equals to or exceeds the carrying amount of an investment accounted for under the equity method, plus advances made by the Company, the Company will absorb the loss beyond the investee’s stock equity, except other stockholders are under obligation and have ability to support the investee company. If the investee company subsequently reports net income, the Company shall resume applying the equity method only after recovery of the losses not recognized during the period the equity method was suspended.

## **Property, Plant and Equipment and Leased-out Assets**

Property, plant and equipment are stated at cost less accumulated depreciation. Interest incurred in connection with the purchase or construction of property, plant and equipment is capitalized. Major renewals and betterments are capitalized, while maintenance and repairs are expensed in the period incurred. Upon sale or disposal of property, plant and equipment, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is credited to or charged against income.

Depreciation is provided on a straight-line basis over the estimated service lives of the assets as prescribed in the tax regulations, plus one additional year for salvage value.

The value of the leased property is the smaller of the following two values: (a) the present value of all future rental payments (less the lessee's executory costs) plus the bargain purchase price or lessee's guaranteed residual value, and (b) the leased property's market value at the inception date of the lease.

Fixed assets rented out, the related costs and accumulated depreciation, are classified as other assets - leased-out assets.

## **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 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.

## **Deferred Charges**

Deferred charges which consist of telephone installation charges, computer software installations and deferred authorization charges are amortized on a straight-line basis over three to five years or authorization period.

## **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.

## **Income Tax**

The Company adopted the provisions of SFAS No. 22, "Accounting for Income Tax," which require 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 established when necessary to reduce deferred tax assets to the amount expected 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.

The Company adopted the flow-through method for income tax credits resulting from purchase of equipment, research and development expenditures, investments in equity stock and loss carryforward.

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.

The ROC government enacted the Alternative Minimum Tax Act (the AMT Act), which became effective on January 1, 2006. The alternative minimum tax (AMT) imposed under the AMT Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law is below the minimum amount prescribed under the AMT Act. The taxable income for calculating the AMT includes most of the income that is exempted from income tax under various laws and statutes. The Company has considered the impact of the AMT Act in the determination of its tax liabilities.

Adjustment of prior years' income tax is made to current income tax expense in the year the adjustment is made.

Under the Amended Income Tax Law of ROC, the 25% regular corporate income tax and the 20% separate income tax on interest income from short-term investment remain and a 10% additional income tax is levied on distributable earnings earned in 1998 onward that remain undistributed in the following year. Beginning in 1998, every enterprise (except branch, partnership, and not-for-profit organization) is required to maintain an Imputation Credit Account ("ICA") to keep track of all its income taxes paid and income tax credits received, collectively called Imputation Credit ("IC"), and the allocation of IC to shareholders. When the earnings are distributed as cash or stock dividends to:

- (a) resident individual shareholders ("RIS"), the RIS include the dividend income in their taxable income and claim an IC issued by the enterprise as deduction from their income tax payable;
- (b) non-resident individual or non-resident corporate shareholders ("NRS"), the NRS exclude the dividend income from their taxable income and do not claim an IC; dividends paid to NRS are subject to 20% withholding tax which can be offset by the 10% additional income tax paid on undistributed earnings;
- (c) resident corporate shareholders ("RCS"), the RCS exclude the dividend income from their taxable income and do not claim the IC as deduction from income tax payable; the IC received is added to the RCS' own ICA until the IC is allocated to RIS or NRS when the earnings are finally distributed to RIS or NRS.

## **Bonds Payable**

Bonds were issued at face value and recorded as bonds payable. Each month interest expense is booked at face value multiplied by the stated interest rate. For bonds with purchase back condition, interest is calculated according to purchase back value and recognized as interest expense period by period. The direct and necessary expenses caused by issuing convertible bonds were recorded as issuance expenses and amortized over the period from issuance date to maturity date. When a conversion is requested by a holder of convertible bonds, unamortized issuance expenses, interest payable and recognized interest expense is written off with convertible bonds payable. The exceeding value of bonds to stock face value is recognized as capital surplus.

## **Treasury Stock**

The Company adopted the provisions of Statement of Financial Accounting Standards (“SFAS”) No. 30, “Accounting for Treasury Stock” to account for the Company’s reacquisition of its outstanding shares. Under the provisions of SFAS No. 30, the cost of shares purchased or fair value of shares donated by outside parties is charged to the treasury stock account. If numerous acquisitions of blocks of treasury shares are made at different prices, the average costing method is used to identify the cost of the treasury shares at the date of reissuance.

Upon reissuance, the discrepancy between the cost of the treasury shares and the price received is reflected in stockholders’ equity accounts. If the treasury shares are reissued to settle stock warrants, the price received is the sum of the issuance price and the exercise price of the stock warrants.

## **Revenue Recognition**

Revenue from sales of inventories is recognized upon shipment, net of estimated returns, provided that collection is determined to be probable and no significant obligations remain. Product revenues from customers are subject to agreements allowing for limited rights of returns.

Allowance for sales returns is generally based on historical rates of returns, inventory levels in the channel and other pertinent factors.

## **Stock-Based Employee Compensation Plans**

When the grant date of stock-based employee compensation plans is at or after January 1, 2004, the Company will apply the accounting guidelines for stock-based compensation issued by the Accounting Research and Development Foundation of Republic of China. The fair value of option compensation is recorded initially as an asset. This asset is amortized as expense over the service period of the options granted to employees.

## **Foreign Currency Transactions**

Foreign currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses caused by different foreign exchange rates applied when cash in foreign currency is actually converted into New Taiwan dollars, or when the foreign currency receivables or payables are settled, are credited or charged against income in the period of actual conversion or settlement. Balances of assets and liabilities denominated in foreign currencies are translated at the balance sheet date exchange rate and any resulting gains or losses are credited to or charged against current income.

Long-term investments denominated in foreign currencies are restated at the balance sheet date exchange rate. Related translation adjustments are reported as a separate component of stockholders' equity under the caption "cumulative translation adjustments."

### Reclassifications

Certain 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. ACCOUNTING PRINCIPLE CHANGES AND EFFECTS

On January 1, 2006, the Company adopted the newly released Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement" and No. 36, "Financial Instruments: Disclosure and Presentation" and related revisions of previously released SFASs.

The Company had properly categorized its financial assets and liabilities upon initial adoption of the newly released SFASs. The adjustments made to the carrying amounts of the financial instruments categorized as financial assets or financial liabilities at fair value through profit or loss were included in the cumulative effect of changes in accounting principles; the adjustments made to the carrying amounts of those categorized as available-for-sale financial assets were recognized as adjustments to shareholders' equity.

The effect of adopting the newly released SFASs is summarized as follows:

	<b>Recognized as Cumulative Effect of Changes in Accounting Principles (Net of Tax)</b>	<b>Recognized as a Separate Component of Shareholders' Equity (Net of Tax)</b>
Financial assets or liabilities at fair value through profit or loss	\$ 487	\$ -
Available-for-sale financial assets	-	(128)

Upon the adoption of SFAS No. 34, certain accounts in the financial statements as of and for the year ended December 31, 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 year ended December 31, 2005 need not be restated. Certain accounting policies before the adoption of the new SFAS Nos. 34 and 36 are summarized as follows:

#### (a) 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 on the investment valuation allowance used in the determination of net income is the result of changes in the difference between aggregate costs and market values of investments still held at period-end. The cost of investments sold is determined using the moving average method. Stock dividends received are not recognized as income; instead, they are reflected as an increase in the number of shares held.

(b) Long-term investments - cost method

Marketable equity securities are valued at the lower of cost or quoted market value. Unrealized losses, if any, are shown as a deduction to stockholders' equity. Permanent decline in value of investment that is not readily marketable is recognized as a realized loss. The cost of investments sold is determined by the weighted-average method.

(c) 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.

Premiums received on short options or paid on long options, which do not qualify as hedges for financial reporting purpose, are included in other current liabilities or other current assets, and are amortized to current income or expense over the term of the contracts by using average method. Gain or loss from the execution of the foreign currency option contracts are credited to or charged against current income. The option contracts are measured at the balance sheet date using the market value, and gain or loss is credited or charged against current income. Receivables and payables generated from the option contracts shall be offset and the net balance will be included in other current assets and other current liabilities.

The deposit paid for security credit transactions shall be listed as short sales refundable deposit and memo entries shall be made for the contract portion. The closing market price of balance sheet date of the short sales refundable deposit and un-offset portions shall be adopted. However, if such price is unavailable, the nearest closing market price of the balance sheet date shall be adopted and adjustment shall be made for short sales refundable deposit. The profit and loss due to the execution of contract shall be listed as disposal profit/loss.

The Company enters into interest rate swap transactions to manage exposures to changes in interest rates on existing liabilities. These transactions are accounted for on an accrual basis, in which the cash settlement receivable or payable is recorded as an adjustment to interest income or expense associated with the hedged items.

Certain accounts in the financial statements as of and for the year ended December 31, 2005 have been reclassified to conform to the classifications under the newly released and revised SFASs. The reclassifications of the whole or a part of the account balances of certain accounts are summarized as follows:

	<b>Before Reclassification</b>	<b>After Reclassification</b>
<u>Balance sheets</u>		
Short-term investments, net	\$ 2,268	\$ -
Long-term investments accounted for using cost method	85,073	-
Unrealized valuation loss on long-term investments	(14,956)	-
Available-for-sale financial assets	-	9,357
Financial assets carried at cost	-	77,984
Valuation loss on financial instruments, net	-	(14,956)

#### 4. CASH AND CASH EQUIVALENTS

	<b>2006</b>	<b>2005</b>
Cash on hand	\$ 410	\$ 444
Cash in banks	951,244	1,948,532
Time certificates of deposit	3,706,250	2,473,815
Cash equivalents - corporate bonds under repurchase agreements	<u>1,525,163</u>	<u>3,074,520</u>
	<u>\$ 6,183,067</u>	<u>\$ 7,497,311</u>

At December 31, 2006 and 2005, interest rates on time certificates of deposit ranged from 1.200% to 2.060% and 1.005% to 1.75%, respectively. At December 31, 2006 and 2005, interest rate on cash equivalents ranged from 1.50% to 1.60% and 1.36% to 1.40%, respectively.

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

	<b>2006</b>	<b>2005</b>
<u>Financial assets</u>		
Financial assets held for trading - marketable equity securities	\$ 1,667,325	\$ -
Derivatives - financial assets - forward exchange contracts	<u>190</u>	<u>-</u>
	<u>\$ 1,667,515</u>	<u>\$ -</u>
<u>Derivatives - financial liabilities</u>		
Interest rate swap	<u>\$ 29</u>	<u>\$ -</u>

The Company held derivative financial instruments in 2006 and 2005, for trading purpose and earned profit from foreign exchange fluctuation. In addition, the Company entered into interest rate swap contract to manage the exposure to interest rate fluctuation of long-term bank loan. (Note 31 has more information on Derivatives financial assets and liabilities.)

Outstanding forward exchange and interest rate swap contracts as of December 31, 2006 and 2005 were as follows:

Outstanding forward contracts as of December 31, 2006:

<b>December 31, 2006</b>				
	<b>Buy/Sell</b>	<b>Currency</b>	<b>Expiry Date</b>	<b>Contract Amount</b>
Forward exchange contracts	Sell	USD/TWD	2007.01.25~ 2007.01.31	US\$8,000

Outstanding interest rate swap contracts as of December 31, 2006 and 2005:

<b>December 31, 2006</b>				
	<b>Contract Amount</b>	<b>Expiry Date</b>	<b>Interest Rates Paid</b>	<b>Range of Interest Rates Received</b>
Interest rate swap	\$166,667	2007.03.27~ 2007.09.26	1.81%	90-Day Commercial interest rate mark up

<b>December 31, 2005</b>				
	<b>Contract Amount</b>	<b>Expiry Date</b>	<b>Interest Rates Paid</b>	<b>Range of Interest Rates Received</b>
Interest rate swap	\$388,889	2006.03.27~ 2007.09.26	1.81%	90-Day Commercial interest Rate mark up

Net loss arising from derivative financial instruments for the year ended December 31, 2006 amounted to \$60,275 thousand and recognized in exchange gain or loss, net. Net loss and gain on valuation of derivative financial instruments for the year ended December 31, 2006 amounted to \$(519) thousand and \$458 thousand, and recognized valuation loss on financial assets and valuation gain on financial liabilities. Net loss arising from derivative financial instruments for the year ended December 31, 2005 amounted to \$381 thousand and recognized in exchange gain, net. Net loss or gain on valuation of derivative financial instruments for the year ended December 31, 2005 amounted to \$0.

## 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<b>2006</b>	<b>2005</b>
Marketable equity securities	\$ 6,440	\$ 7,089
Mutual fund investments	<u>2,355</u>	<u>2,268</u>
	<u>\$ 8,795</u>	<u>\$ 9,357</u>

Unrealized gains on financial instruments for the year ended December 31, 2006 were \$124 thousand.

## 7. ACCOUNTS RECEIVABLE

	2006	2005
Accounts receivable	\$ 2,115,900	\$ 3,466,395
Less allowance for doubtful accounts	(24,707)	(24,583)
Less allowance for sales returns and discounts	<u>(989,952)</u>	<u>(230,626)</u>
Accounts receivable, net	<u>\$ 1,101,241</u>	<u>\$ 3,211,186</u>

## 8. NOTES AND ACCOUNTS RECEIVABLE FROM RELATED PARTIES

	2006	2005
Accounts receivable	\$ 378,621	\$ 268,486
Less allowance for sales returns and discounts	<u>(10,843)</u>	<u>(1,007)</u>
Notes and accounts receivable from related parties, net	<u>\$ 367,778</u>	<u>\$ 267,479</u>

## 9. OTHER FINANCIAL ASSETS, CURRENT

	2006	2005
Income tax refunds receivable	\$ 10,613	\$ 4,118
Value-added tax refunds receivable	75,831	97,044
Interests receivable	9,427	7,165
Other receivables from related parties, proceeds from sale of long-term investment	2,058,161	-
Other receivables from related parties - other	218,087	65,091
Others	<u>26,034</u>	<u>25,153</u>
	<u>\$ 2,398,153</u>	<u>\$ 198,571</u>

The proceeds from sale of long-term investment, Way-Lien Technologies, Inc., were collected completely in January, 2007. Other receivables from related parties, net were primarily the amount of lending to related parties, equipment receivables, technical service fees, rental income and other income, etc.

## 10. INVENTORIES

	2006	2005
Resale merchandise	\$ 24,986	\$ 10,266
Finished goods	2,372,020	1,821,385
Work-in-process	2,349,869	2,461,497
Raw materials	<u>1,091,551</u>	<u>1,284,277</u>
	5,838,426	5,577,425
Less valuation allowance	<u>(1,642,484)</u>	<u>(1,241,240)</u>
	<u>\$ 4,195,942</u>	<u>\$ 4,336,185</u>

## 11. OTHER CURRENT ASSETS

	2006	2005
Prepaid expenses	\$ 142,089	\$ 73,037
Prepayment for material purchase	54,012	7,860
Excess business tax paid	-	5
Temporary debits	<u>10,567</u>	<u>21,029</u>
	<u>\$ 206,668</u>	<u>\$ 101,931</u>

On December 31, 2006 and 2005, prepaid expenses were primarily prepayments for advertisement expense, software cost and insurance premiums.

## 12. FINANCIAL ASSETS CARRIED AT COST

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

	2006	2005
Non-publicly traded stocks - Domestic	\$ 74,276	\$ 74,276
Non-publicly traded stocks - International	<u>3,708</u>	<u>3,708</u>
	<u>\$ 77,984</u>	<u>\$ 77,984</u>

The above investments are measured at cost because of lack of active market and reliable fair value.

## 13. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	2006			2005	
	Original Cost	Carrying Value	Ownership %	Carrying Value	Ownership %
Publicly traded stock					
Vate Technology Co., Ltd.	\$ 985,970	\$ 401,513	66.28	352,630	66.28
Non-publicly traded stock					
Viabase Co., Ltd.	\$ 4,397,175	2,084,925	100.00	\$ 2,753,103	100.00
Viatech Co., Ltd.	2,366,014	1,203,484	100.00	1,234,745	100.00
VIA Technologies GmbH	1,433	7,796	100.00	5,842	100.00
Linkage Technology Co., Ltd.	120,017	93,191	100.00	89,933	100.00
VIA Communications, Inc.	10,000	10,183	100.00	10,142	100.00
VIA Telecom, Inc.	5,000	5,140	100.00	5,092	100.00
VIA -Cyrix Technologies, Inc.	1,190,033	1,071,209	100.00	1,008,142	100.00
Way-Hao International Corp.	1,297,833	(50,761)	100.00	240,831	100.00
VIA Networking, Inc.	-	-	-	742,614	75.18
VIA Optical Solution, Inc.	999,313	(544,895)	57.10	(105,557)	57.10
S3-VIA Inc.	-	-	-	33	49.90
Way-Lien Technologies, Inc.	-	-	-	<u>240,170</u>	15.00
	<u>11,372,788</u>	4,281,785		6,577,720	
Transfer of long-term investments to other liabilities		<u>595,656</u>		<u>105,557</u>	
		4,877,441		6,683,277	
Prepayments for long-term investments		<u>254,201</u>		<u>258,270</u>	
		<u>\$ 5,131,642</u>		<u>\$ 6,941,547</u>	

In 2005, the Company invested totaling \$2,342,845 thousand in Viabase Co., Ltd., Viatech Co., Ltd., Via Optical Solution, Inc., VIA Networking, Inc. and other 7 companies. However, the procedures about the issuance of securities of Via Optical Solution, Inc. had not been completed as of December 31, 2005. Therefore, the Company recognized \$254,201 thousand as prepayment for long-term investment.

In 2006, the Company invested totaling \$1,889,249 thousand in Viabase Co., Ltd., Viatech Co., Ltd. and VIA Networking, Inc. However, the procedures about the issuance of securities of Via Optical Solution, Inc. had not been completed as of December 31, 2006. Therefore, the Company recognized \$258,270 thousand as prepayment for long-term investment.

In 2005, the Company sold all of its investment in Premier Development & Investment Co., Ltd., amounted to \$630,407 thousand, and recognized \$489,579 thousand as gain on sales of such long-term investment. In addition, Way-Hao Investment Corp. had reduced its capital and returned \$99,990 thousand of capital to the Company. Furthermore, in October and December of the same year, due to the operating consideration, the Company has combined nine subsidiaries, which included VIA Communications, Inc., Wan-Xing Technologies Inc., Way-Hao Investment Corp., Way-Shuo Investment Corp., Way-Mao Investment Corp., Lian-Mei Investment Corp., VIA-Cyrix Technologies Inc., Way-Ming Investment Corp., and Way-Cheng Investment Corp., to become three subsidiaries, which included VIA Communications, Inc., Lian-Mei Investment Corp., Via-Cyrix Technologies, Inc. and meanwhile, Lian-Mei Investment Corp. was renamed Way-Hao International Corp.

In 2006, the Company sold all of its investment in Way-Lien Technologies, Inc., amounted to \$2,355,802 thousand, and recognized \$25,191 thousand as loss on sales of such long-term investment. The transaction mentioned above deals with the related parties and please see note 26. In addition, S3-Via Inc. had completed liquidation and returned \$66 thousand of capital to the Company and Via Optical Solution, Inc. returned \$4,069 thousand of prepayment for long-term investment.

In 2005, Via Networking, Inc. had transferred employee bonuses to capital stock, and the ownership of the Company had been changed. Furthermore, due to the decrease in capital surplus, retained earnings, and unrealized valuation losses on long-term equity investments of Viabase Co., Ltd., Via-Cyrix Technologies, Inc. and so forth, the Company proportionately decreased its capital surplus by \$190 thousand, retained earnings by \$117,518 thousand, unrealized losses on financial instruments (formerly unrealized valuation losses on long-term investments) by \$18,227 thousand, and increased its treasury stock by \$114 thousand.

In 2006, due to the change in retained earnings, and unrealized valuation gain on Available-for-sale financial assets of Viabase Co., Ltd., Way-Hao International Corp. and VIA-Cyrix Technologies, Inc., the Company proportionately increased its capital surplus by \$1,126 thousand, decreased retained earnings by \$11,035 thousand, and increased unrealized gains on financial instruments by \$10,919 thousand.

At July 22, 2006, due to the operating consideration, Board of Directors proposed to merge Via Networking, Inc. The effective merger date was September 8, 2006 and the Company was surviving company. The Company took all of the rights and liabilities belonging to Via Networking, Inc.

For the years ended December 31, 2006 and 2005, Viabase Co., Ltd. and Viatech Co., Ltd. had decreased their capital by \$3,710,766 thousand (US\$114,066 thousand) and \$619,645 thousand (US\$19,047 thousand) and \$2,511,820 thousand (US\$72,997 thousand) and \$169,147 thousand (US\$4,916 thousand) to make up for past losses, respectively.

Via-Cyrix Technologies, Inc., Way-Hao International Corp. held the Company's common stock amounted to 17,456 thousand shares. The Company proportionately recognized \$1,633,176 thousand as its treasury stock (see Note 22).

For the years ended December 31, 2006 and 2005, the amounts of publicly traded stocks were \$778,716 thousand and \$141,980 thousand based on the closing price at December 29, 2006 and the average price in December, 2005.

In accordance with SFAS No. 7 and the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers", the Company prepared consolidated financial statements which included all subsidiaries of the Company.

Except for S3-VIA, Inc., Via Technologies GmbH, VIA Communications, Inc. and VIA Telecom, Inc., the financial statements of equity method investees were examined by independent auditors. The equity of Via Optional Solution, Inc. and Way-Hao International Corp. were negative at December 31, 2006. The Company recognized investment losses proportionately and recorded as other liabilities due to continuous financial support to the investee. Equity in net losses amounted to \$604,557 thousand and \$1,513,524 thousand in 2006 and 2005, respectively which consisted of the following:

	<b>2006</b>	<b>2005</b>
Viatch Co., Ltd.	\$ (845,739)	\$ (439,303)
Viabase Co., Ltd.	(1,457,491)	(1,165,963)
Via Technologies GmbH	1,293	928
Premier Development & Investment (B.V.I.) Co., Ltd.	-	(3,185)
S3 VIA, Inc.	(3,445)	-
Linkage Technology Co., Ltd.	3,948	3,392
VIA Networking, Inc	(29,846)	(25,900)
Via-Cyrix Technologies, Inc.	233,084	61,951
Way-Hao Investment Corp.	-	68,983
Way-Hao International Corp.	(256,818)	(31,548)
Way-Cheng Investment Corp.	-	27,688
Way-Ming Investment Corp.	-	(2,166)
Way-Mao Investment Corp.	-	(1,084)
Way-Shuo Investment Corp.	-	(17,275)
VIA Optical Solution, Inc.	(439,338)	(185,175)
Way-Lien Technologies, Inc.	2,140,823	205,060
VIA Communications, Inc.	41	(20)
VIA Telecom, Inc.	48	59
Vate Technology, Co., Ltd.	48,883	(10,071)
Way-Xing Technologies, Inc.	-	105
	<u>                    </u>	<u>                    </u>
	<u>\$ (604,557)</u>	<u>\$(1,513,524)</u>

#### 14. PROPERTY, PLANT AND EQUIPMENT

	2006			2005
	Cost	Accumulated Depreciation	Carrying Value	Carrying Value
Land	\$ 1,016,714	\$ -	\$ 1,016,714	\$ 946,707
Buildings and improvements	694,896	203,655	491,241	486,906
Machinery and equipment	87,413	43,776	43,637	37,791
Computer equipment	185,480	136,724	48,756	65,679
Research and development equipment	479,984	259,135	220,849	288,165
Transportation equipment	5,607	5,404	203	912
Furniture and fixtures	13,852	11,163	2,689	4,176
Leasehold improvements	16,197	13,453	2,744	6,765
Prepayments for business facilities	24,420	-	24,420	-
	<u>\$ 2,524,563</u>	<u>\$ 673,310</u>	<u>\$ 1,851,253</u>	<u>\$ 1,837,101</u>

The Company sold the land and building in Xing-Dian (including leased-out assets) to High Tech Computer Corp. and the carrying value amounted to \$300,125 thousand (including the carrying value of leased-out assets amounted to \$229,244 thousand), whose selling price amounted to \$304,630 thousand and the Company recognized \$4,505 thousand as gain on disposal of property (see Note 26).

The Company rented out parts of its land, buildings and improvements to other companies and the carrying value of the related assets had been transferred to leased-out assets (see Note 15).

The Company had no interest capitalization as of December 31, 2006 and 2005.

#### 15. LEASED-OUT ASSETS

	2006			2005
	Cost	Accumulated Depreciation	Carrying Value	Carrying Value
Land	\$ 132,708	\$ -	\$ 132,708	\$ 202,715
Buildings and improvements	<u>75,406</u>	<u>9,364</u>	<u>66,042</u>	<u>101,671</u>
	<u>\$208,114</u>	<u>\$ 9,364</u>	<u>\$198,750</u>	<u>\$304,386</u>

The above land and buildings and improvements were rented out to the related parties, Xander International Corp., Chander Electronics Corp., VIA Optical Solution Inc., VIA Networking, Inc., and Vate Technology Co., Ltd. and so on. However, the leasing contracts with Via Optical Technologies and Via Networking were terminated in 2006, and the related leased assets were transferred to fixed assets. The leased-out assets with High Tech Computer Corp., were sold to lessee in June 2005. (see Note 26)

## 16. ACCRUED EXPENSES

	2006	2005
Salaries & bonuses	\$ 455,790	\$ 235,784
Royalties (Notes 24 and 26)	184,037	187,372
Commission	15,835	97,189
Insurance	18,776	18,760
Advertisement	100,496	48,582
Research and development	47,500	41,145
Interest	20,270	20,083
Professional fees	128,474	53,432
Pension	17,670	14,689
Others	104,988	92,190
	<u>\$ 1,093,836</u>	<u>\$ 809,226</u>

## 17. OTHER CURRENT LIABILITIES

	2006	2005
Advance receipts	\$ 27,821	\$ 36,892
Balance payable - machinery and equipment	74,250	165,057
Employees bonuses payable	-	90,270
Compensation due to directors and supervisors	72,196	72,196
Temporary receipts	36,967	15,060
Receipts under custody	26,153	19,207
Deferred credits - profit from intercompany transactions	20,919	18,670
Other payables	<u>1,912,160</u>	<u>301,967</u>
	<u>\$ 2,170,466</u>	<u>\$ 719,319</u>

On December 31, 2006 and 2005, other payables were primarily purchase of financial assets held for trading - stocks of High Tech Computer Corp. and deferred charges.

On December 31, 2006 and 2005, deferred credits - profit from intercompany transactions were the unrealized profit from intercompany transactions between the Company and its subsidiaries.

## 18. CORPORATE BONDS PAYABLE

	2006	2005
On August 31, 2000 the Company issued unsecured convertible corporate bonds of \$4,300,000 thousand for investments in affiliates and purchases of equipment. The interest rate is zero and the bonds will mature on August 30, 2007.	\$ -	\$ 4,300
Add provision for redemption of convertible bonds.	-	520
On July 27, 2004 the Company issued secured corporate bonds of \$1,900,000 thousand. The interest rates ranged from 2.40% to 2.50% and the bonds will mature on July 27, 2009. The payments of principal can be separated into two parts. First part, principal payments are due on third, fourth and fifth years to pay 25%, 25% and 50%, respectively, second part, principal payment is due on maturity. Interest is paid every half year.	1,900,000	1,900,000
Less current portion of convertible bonds	<u>(362,500)</u>	<u>-</u>
	<u>\$ 1,537,500</u>	<u>\$ 1,904,820</u>

## Terms and Conditions of Bonds

The bonds will mature at August 30, 2007. The conversion rights of bonds are exercisable by the bondholders at any time on or after three months from the date of issuance and ten days prior to the maturity date.

A bondholder has the right to request the Company to redeem the bonds on July 31, 2003 and July 31, 2004 at 115.76% and 122.71% of par value, respectively.

After two years from issuance date, the Company has the option to call redemption of the bonds and calculate the redemption price at 5%~5.25% yield.

After three months from the issuance date and forty days prior to the maturity date, if the balance not converted is less than \$430,000 (10% of the issuing amount), then the Company has the option to redeem at 5%~5.25% yield.

The initial conversion price was \$325.3 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. At December 31, 2005, the conversion price is \$112.5 per share.

As at December 31, 2005, the Company had redeemed bonds totaling \$4,295,700 thousand plus the provision for redemption, as requested by the bondholders or the Company purchased from stock market. Afterward the other bonds had been redeemed by the Company because the amount of outstanding convertible bonds was less than 10% of the issuing amount. The effective date of redemption was November 16, 2006. The gain of the redemption amounted to \$278 thousand and recognized as other income.

## 19. LONG-TERM LIABILITIES

	2006	2005
Long-term liabilities	\$ 466,667	\$ 388,889
Less current portion of long-term liabilities	<u>(166,667)</u>	<u>(222,222)</u>
	<u>\$ 300,000</u>	<u>\$ 166,667</u>

Unsecured loan from International Commercial Bank of China, amounted to \$500,000 thousand and principal payments are due in 9 equal quarterly installments commencing on September 24, 2005. At December 31, 2006, the interest rate was 2.578%.

Unsecured loan from Taishin Bank amounted to \$500,000 thousand. The principal payments are due in 5 equal quarterly installments commencing on January 17, 2008. At December 31, 2006, the interest rate was 2.53%.

## 20. EMPLOYEE PENSION PLAN

The Labor Pension Act (the "Act") became effective on July 1, 2005 and the pension mechanism under the Act is deemed a defined contribution plan. The employees who were subject to the Labor Standards Law prior to July 1, 2005 were allowed to choose to be subject to the pension mechanism under the Act or continue to be subject to the pension mechanism under the Labor Standards Law. For those employees who were subject to the Labor Standards Law prior to July 1, 2005 and still work for the same company after July 1, 2005 and have chosen to be subject to the pension mechanism under the Act, their seniority as of July 1, 2005 shall be maintained. The Act prescribes that the rate of contribution by an employer to employees' pension accounts per month shall not be less than 6% of each employee's monthly salary. Pursuant to the Act, the Company has made monthly contributions to employees' pension accounts in 2006 and 2005, and recognized pension costs of \$67,611 thousand and \$28,374 thousand, respectively.

The Company has a defined benefit plan under the Labor Standards Law that provides benefits based on an employee's length of service and average monthly salary for the six-month period prior to retirement. The Company contributes an amount equal to 2% of salaries paid each month to a pension fund (the Fund). The Fund is administered by a pension fund monitoring committee (the Committee) and deposited in the Committee's name in the Central Trust of China.

The Company adopted the provisions of SFAS No. 18, "Accounting for Pension," which require that pension expense shall be computed on actuarial basis. The following table sets forth the plan's status at December 31, 2006 and 2005:

Net periodic pension cost for 2006 and 2005 included the following components:

	<b>2006</b>	<b>2005</b>
Service cost	\$ 12,785	\$ 36,188
Interest cost on projected benefit obligation	9,496	8,773
Amortization on unrecognized net obligation	(10)	(10)
Expected return on plan assets	<u>(4,508)</u>	<u>(3,759)</u>
Net periodic pension cost	<u>\$ 17,763</u>	<u>\$ 41,192</u>

The following table sets forth the reconciliation between the plan's funding status and the amount of accrued pension liability recognized at December 31, 2006 and 2005:

	<b>2006</b>	<b>2005</b>
Actuarial present value of benefit obligations		
Nonvested benefits	<u>\$(173,492)</u>	<u>\$(163,315)</u>
Accumulated benefit obligation	(173,492)	(163,315)
Additional benefits based on future salaries	<u>(166,777)</u>	<u>(128,883)</u>
Projected benefit obligation	(340,269)	(292,198)
Plan assets at fair value	<u>156,533</u>	<u>127,753</u>
Funded status	(183,736)	(164,445)
Prior unrecognized net assets not yet recognized in net periodic pension cost	(162)	(172)
Unrecognized gain of pension, net	<u>(12,661)</u>	<u>(29,025)</u>
Accrued pension cost	<u>\$(196,559)</u>	<u>\$(193,642)</u>

The Company had no vested benefits as of December 31, 2006 and 2005.

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

	2006	2005
Weighted-average discount rate	2.75%	3.25%
Assumed rate of increase in future compensation	3.50%	3.50%
Expected rate of return on plan assets	2.75%	3.25%

## 21. STOCKHOLDERS' EQUITY

### Capital Stock

The Company's outstanding common stock at January 1, 2005 amounted to \$12,704,467 thousand divided into 1,270,447 thousand shares with a par value of \$10 each.

In their June 2004 meeting, the stockholders approved the transfer of capital surplus amounting to \$629,336 thousand and employees bonuses amounting to \$190,000 thousand to capital stock. The amount to be distributed was accounted as "stock dividend to be distributed" except for employees bonuses due to the change of the rules in December 2004. In January 2005, the distribution of capital surplus to capital was approved by SFB and the employee bonuses were changed to cash according to the new rules. As a result, the Company's outstanding capital stock at December 31, 2005 was \$13,333,803 thousand, divided into 1,333,380 thousand common shares with a par value of \$10 each.

The Company canceled the treasury stock amounted to \$79,910 thousand to decrease capital stock in September 2006. As a result, the Company's outstanding capital stock at December 31, 2006 was \$13,253,893 thousand, divided into 1,325,389 thousand common stocks with a par value of \$10 each.

The Company was approved by SFB to issue employee stock options in accordance with Securities and Exchange Law Article 28.3 within the quantity of 200 thousand in 2001, 20,000 thousand in 2003, 8,000 thousand and 25,000 thousand option units in 2004, with each unit representing 100 shares, one share, one share and one share of common stock, respectively. The Company will issue new common stock for employee stock option exercised by granted employees. For the year ended December 31, 2006, totaling 73,000 thousand option units had been issued to employees and the Company transferred retained earnings and capital surplus to capital stock during 2004 and 2003. Option units has become 76,762 thousand after considering the effect of that transfer. The option holders can exercise the right up to 50% of the granted option units no earlier than two years from the granted date. After three years from the granted date the holders can exercise the right up to 75% of the granted option units. After four years from the granted date, the option holders are eligible to exercise all the option units owned. The option holders should exercise the right within seven years. Other information on stock option rights plan is as follows:

	<u>Year Ended December 31, 2006</u>	
	<b>Number of Outstanding Stock Option Right (Thousand)</b>	<b>Weighted-Average Exercise Price (NT\$/Per Share)</b>
Beginning balance	\$ 76,762	\$ 35.04
Option granted	<u>          -</u>	
Ending balance	<u>\$ 76,762</u>	35.04

As of December 31, 2006 the information about the outstanding stock options is as follows:

Exercise Price	Number Outstanding (Thousand)	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price (Per Share)	Number Exercisable (Per Share)	Weighted Average Exercise Price (Per Share)
\$42.60	22,375	2.72	\$42.60	22,375	\$42.60
45.40	20,991	3.06	45.40	10,495	45.40
26.50	8,396	3.53	26.50	4,198	26.50
22.45	<u>25,000</u>	4.63	22.45	-	-
	<u><u>76,762</u></u>				

The Company uses the intrinsic value method to evaluate compensation cost for employee stock options granted on or after January 1, 2004. The compensation cost recognized for the year ended December 31, 2005 was zero since the stock options were granted at an exercise price equal to the closing price of the Company's common shares on the measurement dates. Had the Company applied the fair value based method to evaluate compensation cost for employee stock options granted, the assumptions and pro forma results of the Company for the year ended December 31, 2006 would have been as follows:

Method	Black-Scholes Model
Assumptions	
Risk free interest rate	1.98%~2.28%
Expected life (in years)	6 years
Expected stock price volatility	42.95%~48.25%
Expected dividend yield	5%
Net income	
Net loss as reported	\$(1,155,191)
Pro forma net loss	\$(1,256,203)
Earnings per share (EPS)	
Basic EPS as reported	\$(0.90)
Pro forma basic EPS	\$(0.98)
Diluted EPS as reported	\$(0.90)
Pro forma diluted EPS	\$(0.98)

#### Appropriation of Retained Earnings

According to the Company Law and the Company's Articles of Incorporation, 10% of the Company's annual earnings, after paying tax and offsetting deficit, if any, shall be appropriated as legal reserve until such reserve equals the amount of common stock. The remaining balance shall be appropriated no more than 1% as directors' remuneration and no less than 5% as bonuses to employees. The appropriation of retained earnings should be proposed by the board of directors and approved by the stockholders.

The Company engages in the programming, designing, manufacturing and selling of semiconductor and PC chipset and is in the development stage of industry cycle. Under the consideration of whole environment around the Company and the characteristics of industry development, and the intention of pursuing the long-term interests of stockholders, maintaining the operating efficiency, and meeting its capital expenditure budget and the financial goals, the Company would prefer to distribute unappropriated earnings by cash dividends rather than by stock dividends. The sum of stock dividends will not exceed 50% of total dividends.

As of April 12, 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 website of TSE.

There was no earnings appropriation to be declared due to accumulated deficit of the Company at December 31, 2005. Information on earnings appropriation can be accessed online through Market Observation Post System on the website of TSE.

## 22. TREASURY STOCK

As of December 31, 2006, the Company's common stocks held by subsidiaries amounted to 17,456 thousand shares with book value of \$1,633,176 thousand. The details consisted of the following:

	Shares Held by the Subsidiaries	Book Value	Ownership %	Amount Transfer to Treasury Stock	Market Price
Via-Cyrix Technologies, Inc.	10,735	\$ 962,457	100.00	\$ 962,457	\$ 435,308
Way-Hao International Corp. (formerly Lian-Mei Investment Corp.)	<u>6,721</u>	<u>670,719</u>	100.00	<u>670,719</u>	<u>272,532</u>
	<u>17,456</u>	<u>\$1,633,176</u>		<u>\$1,633,176</u>	<u>\$ 707,840</u>

At September 15, 2003, March 25, 2004, June 7, 2004 and September 21, 2004 the board of directors authorized the repurchase of up to 15,000,000 shares, 10,000,000 shares, 10,000,000 shares and 25,000,000 shares to transfer to employees, at a price ranging from \$33.60 to \$75.70 per share, \$25.20 to \$63.20 per share, \$21.49 to \$47.99 per share and \$13.30 to \$33.73 per share, during the period from September 16 to November 15, 2003, March 26 to May 25, 2004, June 8 to August 7, 2004 and September 22 to November 21, 2004, respectively. In addition, when the market price was lower than the minimum repurchase price, the Company allowed to continue repurchasing the common stock.

In accordance with the Securities and Exchange Law, the common stock that a public company repurchased should not exceed 10% of its total outstanding shares. Additionally, the amount that a public company spent for common stock repurchase should not exceed its retained earnings plus additional paid-in capital and realized capital surplus. At December 31, 2006, the Company has repurchased 36,857 thousand shares at \$1,127,143 thousand, which meets the regulations of the Securities and Exchange Law. In addition, the Company transferred treasury stock through various tranches to employees totaling 11,136 thousand shares at \$18.6 per share and canceled treasury stock of 7,991 shares for the year ended, 2006.

## 23. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Expenses \ Year	2006			2005		
	Cost of Revenues	Operating Expenses	Total	Cost of Revenues	Operating Expenses	Total
Personnel expense	\$ 106,606	\$ 1,866,711	\$ 1,973,317	\$ 91,700	\$ 1,431,771	\$ 1,523,471
Salary	92,197	1,635,732	1,727,929	79,570	1,237,144	1,316,714
Insurance	5,737	96,728	102,465	4,880	80,804	85,684
Pension cost	4,820	80,260	85,080	3,921	65,645	69,566
Others	3,852	53,991	57,843	3,329	48,178	51,507
Depreciation	6,883	193,654	200,537	10,756	193,172	203,928
Amortization	-	268,519	268,519	23	422,843	422,866

## 24. 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 adoption of BITA has no impact on the Company in 2006.

The income tax returns for the years through 2004 have been examined and approved by the tax authority.

The Company is exempt from paying the corporation income tax on certain products for five consecutive years commencing on January 1, 2002.

Income tax payable at December 31, 2006 and 2005 was computed as follows:

	2006	2005
(Loss) income before income tax	\$ (953,687)	\$ 138,846
Add (less)		
Investment losses under equity-method	604,557	1,513,524
Provision for (recovery from) inventory devaluation	375,844	(103,459)
Unrealized sales allowance	1,000,795	231,633
Unrealized profit from intercompany transaction	20,919	18,670
Loss (gain) on disposal of investments	22,600	(1,053,131)
Unrealized sales allowance, beginning of year	(231,633)	(121,003)
Realized loss on long-term investments	(4,330,411)	(2,680,967)
Unrealized profit from intercompany transaction, beginning of year	(18,670)	(87,752)
Others	<u>(59,642)</u>	<u>68,474</u>
Estimated taxable income	<u>(3,569,328)</u>	<u>(2,075,165)</u>
Estimated income tax provision (×25%-10)	-	-
Unappropriated earnings additional 10% income tax	835	99,620
Less investment, research and development tax credits	<u>(835)</u>	<u>(99,620)</u>
Current income tax expense	-	-
Less prepaid and withheld income tax	<u>(6,495)</u>	<u>(3,182)</u>
Income tax refunds receivable	<u>\$ (6,495)</u>	<u>\$ (3,182)</u>

The tax effects of deductible temporary differences and tax credit carryforwards that gave rise to deferred tax assets as of December 31, 2006 and 2005 consisted of the following:

	<b>2006</b>	<b>2005</b>
Deferred tax asset		
Unrealized provision for inventory devaluation	\$ 410,621	\$ 310,310
Unrealized profit from intercompany transaction	5,230	4,667
Unrealized sales allowance	250,199	57,908
Unrealized pension cost	46,598	45,123
Loss carryforward	2,005,549	1,286,411
Investment tax credits	2,408,999	2,413,441
Others	<u>8,458</u>	<u>10,173</u>
Total deferred income tax assets	5,135,654	4,128,033
Less allowance for deferred income tax assets	<u>(4,006,328)</u>	<u>(2,826,436)</u>
Deferred income tax assets, net	1,129,326	1,301,597
Deferred income tax assets, current	<u>(672,145)</u>	<u>(380,642)</u>
Deferred income tax assets, noncurrent	<u>\$ 457,181</u>	<u>\$ 920,955</u>

The income tax expense for the years ended December 31, 2006 and 2005 consists of the following:

	<b>2006</b>	<b>2005</b>
Current income tax expense	\$ -	\$ -
Decrease (increase) in deferred income tax assets	195,561	(331,435)
Under estimation of prior year's income tax	<u>5,456</u>	<u>344,416</u>
Income tax expense	<u>\$ 201,017</u>	<u>\$ 12,981</u>

The amounts of investment tax credit and loss carryforward as of December 31, 2006 are as follows:

<b>Expiration Year</b>	<b>Investment Tax Credits</b>	<b>Loss Carryforward</b>
2007	\$ 588,774	\$ -
2008	428,955	2,842,181
2009	680,342	-
2010	710,928	1,610,688
2011	<u>-</u>	<u>3,569,328</u>
	<u>\$ 2,408,999</u>	<u>\$ 8,022,197</u>

The details of investment tax credit are as follows:

Expiration Year	Item	Balance	Amount	Basis
2007	Research and development	\$ 414,033	\$ 440,990	Statute for Upgrading Industries
	Training	1,606	1,606	Statute for Upgrading Industries
	Investments in equity stock	173,135	173,135	Statute for Upgrading Industries
2008	Research and development	413,303	413,303	Statute for Upgrading Industries
	Training	3,085	3,085	Statute for Upgrading Industries
	Investment in equity stock	12,567	12,567	Statute for Upgrading Industries
2009	Research and development	676,811	676,811	Statute for Upgrading Industries
	Training	3,106	3,106	Statute for Upgrading Industries
	Investment in equity stock	425	425	Statute for Upgrading Industries
2010	Research and development	708,842	708,842	Statute for Upgrading Industries
	Training	2,086	2,086	Statute for Upgrading Industries
			<u>\$2,408,999</u>	

The related information for the integrated income tax system as of December 31, 2006 and 2005 is disclosed as follows:

	2006	2005
Balance of imputation credit account	\$ 398,055	\$ 257,485
Unappropriated earnings attributed to years before 1998	-	-
Unappropriated earnings attributed to 1998 and years after	(1,430,409)	8,347
Expected creditable ratio for 2006 and 2005	-	-

## 25. EARNINGS (LOSS) PER SHARE

The numerators and denominators used in calculating earnings per share (EPS) were as follows:

(In New Taiwan Dollar)

	For the Years Ended December 31			
	2006		2005	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
Basic EPS				
(Loss) income from continuing operations	\$ (0.74)	\$ (0.90)	\$ 0.11	\$ 0.10
Cumulative effect of changes in accounting principle	-	-	-	-
Net (loss) income	<u>\$ (0.74)</u>	<u>\$ (0.90)</u>	<u>\$ 0.11</u>	<u>\$ 0.10</u>

	<b>For the Years Ended December 31</b>			
	<b>2006</b>		<b>2005</b>	
	<b>Before Income Tax</b>	<b>After Income Tax</b>	<b>Before Income Tax</b>	<b>After Income Tax</b>
Diluted EPS				
(Loss) income from continuing operations	\$ (0.74)	\$ (0.90)	\$ 0.11	\$ 0.10
Cumulative effect of changes in accounting principle	-	-	-	-
Net (loss) income	<u>\$ (0.74)</u>	<u>\$ (0.90)</u>	<u>\$ 0.11</u>	<u>\$ 0.10</u>

	<b>Amounts (Numerator)</b>			<b>Earnings Per Share (Dollars)</b>	
	<b>Before Income Tax</b>	<b>After Income Tax</b>	<b>Shares Denominator (Thousands)</b>	<b>Before Income Tax</b>	<b>After Income Tax</b>
<u>For the year ended December 31, 2006</u>					
Basic EPS					
Income (loss) of common stockholders	\$ (954,174)	\$ (1,155,191)	1,285,146	<u>\$ (0.74)</u>	<u>\$ (0.90)</u>
Add effect of potentially dilutive stock options	-	-	-		
convertible bonds	-	-	-		
Diluted EPS					
Income (loss) of common stockholders with dilution effect	<u>\$ (954,174)</u>	<u>\$ (1,155,191)</u>	<u>1,285,146</u>	<u>\$ (0.74)</u>	<u>\$ (0.90)</u>
<u>For the year ended December 31, 2005</u>					
Basic EPS					
Income of common stockholders	\$ 138,846	\$ 125,865	1,279,067	<u>\$ 0.11</u>	<u>\$ 0.10</u>
Add effect of potentially dilutive stock options	-	-	-		
convertible bonds	-	-	-		
Diluted EPS					
Income of common stockholders with dilution effect	<u>\$ 138,846</u>	<u>\$ 125,865</u>	<u>1,279,067</u>	<u>\$ 0.11</u>	<u>\$ 0.10</u>

The convertible bonds have no dilution effect to the earnings per share of 2006 and 2005 because the conversion price was higher than the common stock market price.

As of December 31, 2005, the exercise price of employee stock warrants that ranged from \$22.45 to \$45.4 per unit was higher than the common stock market price of \$19.43 per share and these employee stock options have no dilution effect to the 2005 income per share. In addition, these employee stock options have no dilution effect to the earnings per share of 2006 as the Company reported loss in 2006.

## 26. SIGNIFICANT RELATED PARTY TRANSACTIONS

The names and relationships of related parties are as follows:

<b>Related Party</b>	<b>Relationship with the Company</b>
First International Company, Inc. (“FIC Inc.”)	Chairman of the Board of Directors is one of the immediate family members of the Company’s Chairman of the Board of Directors
VIA Technologies GmbH	A subsidiary of the Company
Viatech Co., Ltd.	A subsidiary of the Company
Linkage Technology Co., Ltd.	A subsidiary of the Company
VIA-Cyrix Technologies, Inc.	A subsidiary of the Company
VIA Optical Solution Inc.	A subsidiary of the Company
VIA Networking, Inc.	A subsidiary of the Company (merged into the Company on September 8, 2006)
Vate Technology Co., Ltd.	A subsidiary of the Company
Way-Cheng Investment Corp.	A subsidiary of the Company
Way-Ming Investment Corp.	A subsidiary of the Company
VIA Communication, Inc.	A subsidiary of the Company
VIA Telecom Co., Ltd.	A subsidiary of the Company
Way-Xing Technologies, Inc.	A subsidiary of the Company
Way-Hao Investment Corp.	A subsidiary of the Company
Way-Shuo Investment, Corp.	A subsidiary of the Company
Way-Mao Investment, Corp.	A subsidiary of the Company
Way-Hao International Corp.	A subsidiary of the Company
Viabase Co., Ltd.	A subsidiary of the Company
VIA Technologies, Inc. (USA)	An indirect subsidiary of the Company
VIA-Cyrix, Inc.	An indirect subsidiary of the Company
Centaur Technology, Inc.	An indirect subsidiary of the Company
VIA Technologies (Europe) Ltd.	An indirect subsidiary of the Company
VIA Technologies (HK) Inc. Ltd.	An indirect subsidiary of the Company
VIA Technologies (China) Ltd.	An indirect subsidiary of the Company
S3 Graphics Co., Ltd.	An investee under the equity method
VIA Technologies Japan K.K.	An investee under the equity method
S3 Graphics, Inc.	An investee under the equity method
VIA Telecom Co., Ltd.	An investee under the equity method
High Tech Computer Corp.	Chairman of the board of directors is the Company’s chairman of the Board of directors.
Chander Electronics Corp.	Chairman of the board of directors is the Company’s chairman of the Board of directors.
Xander International Corp.	Chairman of the board of directors is the Company’s president.
Chuan-Te Investment Co.	Chairman of the board of directors is the Company’s chairman of the Board of directors.
iDOT Computers, Inc.	Chairman of the board of directors is the Company’s chairman of the Board of directors.
QDC Technologies, Inc.	Chairman of the board of directors is the Company’s chairman of the Board of directors.
Hung-Mao Investment Co.	Chairman of the board of directors is the Company’s chairman of the Board of directors.
Zircon Technology Co., Ltd.	An entity related to FIC Inc.

Major transactions with related parties are summarized below:

### Sales

Related Party	Years Ended December 31			
	2006		2005	
	Amount	% of Total Net Sales	Amount	% of Total Net Sales
Chander Electronics Corp.	\$ 1,468,842	7	\$ 370,598	2
Via Technologies, Inc. (USA)	1,135,767	5	553,082	3
FIC Inc.	411,824	2	237,433	1
S3 Graphics Co., Ltd.	158,579	1	-	-
iDOT Computers, Inc.	88,259	-	-	-
Zircon Technology Co., Ltd.	-	-	175,523	1
Others	15,705	-	7,302	-
	<u>\$ 3,278,976</u>	<u>15</u>	<u>\$ 1,343,938</u>	<u>7</u>

Selling prices to related parties are similar with other regular sales except for some kind of merchandise that have no comparison and Via Technologies, Inc. (USA) and Chander Electronics Corp. whose prices are less than normal. Terms of payment for both related and unrelated parties are similar except for Chander Electronics Corp. and iDOT Computer, Inc. which are established at open accounts for about one to two months.

### Other Operating Revenue

Related Party	Years Ended December 31			
	2006		2005	
	Amount	% of Total Other Operating Revenue	Amount	% of Total Other Operating Revenue
VIA Optical Solution Inc.	\$ 547	20	\$ 2,462	62
VIA Networking, Inc.	-	-	1,058	26
	<u>\$ 547</u>	<u>20</u>	<u>\$ 3,520</u>	<u>88</u>

The Company, Via Optical Solution, Inc., and VIA Networking, Inc. have entered into the technical support and supervision agreement of chipset products effective in September 2002 and January 2003, respectively. The technical support revenue accounted based on the agreement was recognized as other operating revenue.

### Leasing - Lessor

Related Party	Years Ended December 31			
	2006		2005	
	Amount	% of Total Rental Income	Amount	% of Total Rental Income
Chander Electronics Corp.	\$ 5,472	27	\$ 5,913	13
Xander International Corp.	5,424	27	5,742	13
Via Networking, Inc.	3,990	20	6,591	15
Vate Technology Co., Ltd.	2,079	10	2,091	5
Via Optical Solution Inc.	1,344	7	6,058	14
High Tech Computer Corp.	-	-	8,246	19
Others	1,076	5	1,483	3
	<u>\$ 19,385</u>	<u>96</u>	<u>\$ 36,124</u>	<u>82</u>

The Company rented out part of its land and building and improvements to the related parties. Rental prices were determined based on the prevailing rates in the surrounding area.

### Other Income

Related Party	Years Ended December 31			
	2006		2005	
	Amount	% of Total Other Income	Amount	% of Total Other Income
VIA Networking, Inc.	\$ 31,289	17	\$ 47,302	18
VIA Telecom Co., Ltd.	26,604	14	41,793	16
VIA On Demand, Inc.	11,723	6	3,158	1
S3 Graphics Co., Ltd.	2,859	2	5,582	2
High Tech Computer Corp.	2,400	1	3,676	1
Chander Electronics Corp.	684	-	3,263	1
Others	7,586	4	162	-
	<u>\$ 83,145</u>	<u>44</u>	<u>\$ 104,936</u>	<u>39</u>

The Company, VIA On Demand, Inc., VIA Telecom Co., Ltd., VIA Networking, Inc., and High Tech Computer Corp. have entered into the management support and supervision agreement. The support revenue accounted based on the agreement was recognized as other income.

### Purchases

Related Party	Years Ended December 31			
	2006		2005	
	Amount	% of Total Net Purchases	Amount	% of Total Net Purchases
Via Networking, Inc.	\$ 746,953	8	\$ 197,813	3
QDC Technologies Inc.	18,114	-	-	-
Others	11,498	-	10,023	-
	<u>\$ 776,565</u>	<u>8</u>	<u>\$ 207,836</u>	<u>3</u>

Terms of payment for both related and unrelated parties are similar.

### Technical Support and Supervision Agreement

#### *Via Technologies, Inc. (USA)*

The Company and Via Technologies, Inc. (USA) have entered into the technical support and supervision agreement of chipset products effective on April 1, 1998, under which the Company and Via Technologies, Inc. (USA) will jointly develop certain chipset products.

The Company and Via Technologies Inc. (USA) amended the above technical support and supervision agreement of chipset products on April 1, 2003. The major provisions of the amendment are as follows:

Technical Service Fees: Under this agreement the Company shall pay Via Technologies, Inc. (USA) the technical service fees based on the set of chipset sold. The Company will pay US\$0.5 for the first 40,000,000 sets sold and US\$0.3 for every chipset sold thereafter. All the service fees shall be due and payable yearly within 60 to 90 days. The amount of the service fee to be paid shall be limited to US\$11,000 per annum.

Term: This agreement became effective on April 1, 2003 and shall be terminated on March 31, 2008.

The technical service fees the Company shall pay to Via Technologies, Inc. (USA) were \$338,879 thousand and \$332,321 thousand in 2006 and 2005, respectively. As of December 31, 2006 and 2005, \$104,416 thousand and \$0 thousand are still unpaid, respectively.

### ***Centaur Technology, Inc.***

The Company and Centaur Technology, Inc. have entered into the technical support and supervision agreement of central processing units effective on December 1, 1999, under which the Company and Centaur Technology, Inc. will jointly develop certain chipset products on certain terms and conditions. The Company and Centaur Technology, Inc. amended the above technical support and supervision agreement of central processing unit on December 1, 2004. The major provisions of the amendment are as follows:

Technical Service Fees: Under this agreement the Company shall pay Centaur Technology, Inc. the technical service fees based on the set of chipset sold. All the service fees shall be due and payable monthly within 30 to 60 days. The amount of the service fee to be paid under this agreement shall be as follows:

US\$5 dollar / set for the first 5,000,000 sets.

US\$4 dollar / set for the second 5,000,000 sets.

US\$3 dollar / set for the third 5,000,000 sets and thereafter.

Technical Design Fees: Under this agreement the Company shall pay Centaur Technology, Inc. the technical design fees based on service of design on central processing units. All the design fees shall be due and payable monthly within 60 days.

Term: This agreement became effective on December 1, 2004 and shall be terminated on November 30, 2008.

The technical service fees the Company shall pay to Centaur Technology, Inc. were \$290,061 thousand and \$505,072 thousand in 2006 and 2005, respectively. As of December 31, 2006 and 2005, \$0 and \$63,521 thousand are still unpaid, respectively. For operating consideration, the Company had terminated the technical support and suspension agreement with Centaur Technology, Inc. in April 2006.

### **Patent Agreement**

#### ***S3 Graphics Co., Ltd.***

The Company and S3 Graphics Co., Ltd. have entered into the patent agreement of graphics chipset products effective on May 1, 2003. The major provisions of the agreement are as follows:

Royalty fees: Under this agreement the Company shall pay the amount computed from quantity of products sold of the Company within 60 days following the end of each calendar quarter.

Term: This agreement became effective on May 1, 2003 and shall be terminated on April 30, 2006. However, it shall be automatically renewed for another calendar year unless terminated by 30 days prior written notice.

The royalty fees the Company shall pay to S3 Graphics Co., Ltd. were \$19,915 thousand and \$20,501 thousand in 2006 and 2005, respectively. As of December 31, 2006 and 2005, \$40,834 thousand and \$79,762 thousand are still unpaid, respectively.

### Commissions

The Company has sales commission agreements with related parties below. Those related parties will offer the Company sales support and information of the Company's products.

	2006		2005	
	Amount for the Year Ended	Amount Unpaid as of December 31, 2006	Amount for the Year Ended	Amount Unpaid as of December 31, 2005
S3 Graphics, Inc.	\$ 17,263	\$37,658	\$ 75,743	\$75,743
VIA Technologies JAPAN K.K.	31,047	171	41,850	-
VIA Technologies (HK) Inc.	26,930	-	40,697	7,937
VIA Technologies GmbH	48,066	6,378	34,263	2,978
Others	1,740	-	-	-
	<u>\$125,046</u>	<u>\$44,207</u>	<u>\$192,553</u>	<u>\$86,658</u>

For operating consideration, the Company terminated the sales commission agreements with S3 Graphic Inc. and VIA Technologies (HK) Inc., Ltd. in April and October 2006, respectively.

### Packaging and Testing Expenses

	Years Ended December 31			
	2006		2005	
Related Party	Amount	% of Total Testing Expenses	Amount	% of Total Testing Expenses
Vate Technology Co., Ltd.	<u>\$ 207,824</u>	<u>3</u>	<u>\$ 231,522</u>	<u>4</u>

### Research and Development Expenses

	Years Ended December 31			
	2006		2005	
Related Party	Amount	% of Total Research and Development Expenses	Amount	% of Total Research and Development Expenses
Vate Technology Co., Ltd.	\$ 54,490	2	\$ 26,061	-
Others	<u>12,423</u>	<u>-</u>	<u>7,553</u>	<u>-</u>
	<u>\$ 66,913</u>	<u>2</u>	<u>\$ 33,614</u>	<u>-</u>

## Receivables / Payables

Related Party	December 31			
	2006		2005	
	Amount	% of Total Receivables / Payables	Amount	% of Total Receivables / Payables
Notes and accounts receivable from related parties				
Chander Electronics Corp.	\$ 181,488	7	\$ 45,036	1
FIC Inc.	140,966	6	67,960	2
iDOT Computer Inc.	54,897	2	-	-
Via Technologies, Inc. (USA)	-	-	126,026	3
Zircon Technology Co., Ltd.	-	-	28,516	1
Others	1,270	-	948	-
	<u>\$ 378,621</u>	<u>15</u>	<u>\$ 268,486</u>	<u>7</u>
Notes and accounts payable to related parties				
Vate Technology Inc.	\$ 34,120	1	\$ 77,942	1
QDC Technologies, Inc.	4,343	-	-	-
VIA Networking, Inc.	-	-	42,201	1
Others	208	-	6,529	-
	<u>\$ 38,671</u>	<u>1</u>	<u>\$ 126,672</u>	<u>2</u>
Other receivable				
Hung-Mao Investment Co.	\$2,060,661	86	\$ -	-
VIA Optical Solution Inc.	160,116	7	2,643	1
S3 Graphics, Co., Ltd.	15,315	1	-	-
QDC Technologies Inc.	13,725	1	225	-
S3 Graphics, Inc.	8,829	-	5,872	3
VIA Technologies, Inc. (USA)	4,171	-	-	-
VIA Telecom Co., Ltd.	3,917	-	7,631	4
VIA Networking, Inc.	-	-	40,968	21
Others	9,514	-	7,752	9
	<u>\$2,276,248</u>	<u>95</u>	<u>\$ 65,091</u>	<u>72</u>

Other receivables from Hung-Mao Investment Co. on December 31, 2006 were mainly proceeds of sale of long-term investment - Way-Lien Technologies, Inc. Other receivables from VIA Optical Solution Inc. on December 31, 2006 were mainly financing. (See Note 30) Others are expenses on behalf of related parties, technical service fees, rental income and others, etc.

Related Party	December 31			
	2006		2005	
	Amount	% of Total Receivables / Payables	Amount	% of Total Receivables / Payables
Accrued expenses				
VIA Technologies Inc.	\$ 104,416	10	\$ -	-
S3 Graphics Co, Ltd.	40,834	4	79,762	9
S3 Graphics, Inc.	37,658	3	75,770	10
Vate Technology Co., Ltd.	16,554	1	6,481	1
VIA Technologies GmbH	6,378	1	2,978	-
VIA Technologies (HK) Inc.	173	-	8,042	1
Centaur Technology, Inc.	-	-	63,521	8
Others	5,415	-	10,271	1
	<u>\$ 211,428</u>	<u>19</u>	<u>\$ 246,825</u>	<u>30</u>
Guarantee deposits received				
Via Optical Solution, Inc.	\$ -	-	\$ 1,311	25
Via Networking, Inc.	-	-	1,995	38
Chander Electronics Corp.	1,050	35	1,050	20
Vate Technology Co., Ltd.	484	16	484	-
Others	321	11	148	11
	<u>\$ 1,855</u>	<u>62</u>	<u>\$ 4,988</u>	<u>94</u>

### Property Transactions

The Company acquired part of its computer equipment and furniture and fixtures from Xander International Corp. in 2005 which amounted to \$290 thousand.

The Company acquired part of its computer and research and development equipment from VIA Optical Solution Inc. in 2006 and 2005 which amounted to \$1,336 thousand and \$5,344 thousand, respectively.

The Company acquired part of its computer equipment from VIA Networking, Inc. in 2006 which amounted to \$1,819 thousand.

The Company acquired parts of its computer and research and development equipment from VIA Technologies, Inc. (USA) in 2006 and 2005 which amounted to \$987 thousand and \$1,182 thousand, respectively.

The Company sold part of its land, buildings and improvements to High Tech Computer Corp. in 2005 which amounted to \$304,630 thousand based on the appraisal report.

The Company sold all of its investment, Way-Lien Technologies Inc, to Chuan-Te Investment Co., and Hung-Mao Investment Co. in 2006 which amounted to \$297,641 thousand and \$2,058,161 thousand respectively, and recognized \$18,977 thousand and \$6,214 thousand as loss on sales of investments, respectively.

## Financing

		2006			
Accounts		Maximum Balance	Ending Balance	Range of Interest rate	Interest Income
VIA Optical Solution, Inc.	Other receivable	<u>\$ 160,000</u>	<u>\$ 160,000</u>	-	<u>\$ -</u>

## ENDORSEMENT/GUARANTEE PROVIDED

	2006	2005
VIA Networking Inc.	<u>\$ -</u>	<u>\$ 192,834</u>

No loss was recognized for endorsement. Neither cash nor other assets were paid due to above transaction.

## 27. COMMITMENTS AND CONTINGENCIES

In December 2003, the Company's chairman and president were indicted by the Prosecutor for a complaint filed by D-Link regarding the misappropriation of trade secret. D-Link then filed a supplemental civil action against the Company based on the indictment. The lawsuit was pending at the Taipei district court since January 2004, and the Company had settled with D-Link in August 2004 except for public prosecution. In the settlement between the Company and D-Link, the Company did not have any financial loss. The Company's attorneys do not believe the outcome is likely to bring any significant financial damage to the Company; thus the Company does not have plans to accrue a fund for damages in advance.

As Breach of Trust of public prosecution is concerned, compliant was adjudicated on July 31, 2006 through investigation by Taiwan Taipei District Court. However, Taiwan Taipei District Prosecutors Office refused to accept the outcome and appealed to Taipei High Court. The prosecution was dismissed on April 12, 2006. Consequently, the adjudication was confirmative.

The tax authorities has examined income tax returns of the Company in 2001 and 2000, respectively and adjusted much amount about income exempt calculation. The Company thinks it's not reasonable and requests the tax authorities to reexamine. The Company had estimated and recognized the probable amount of supplementary tax as current tax expense due to the principle of moderation.

By December, 31, 2006, the amounts of L/C issued by banks and not used yet were US\$2,000 thousand and ¥45,000 thousand.

By December, 31, 2006, the amounts of customs confirmed by banks for importing goods were 18,000 thousand.

By December 31, 2006, the guarantee amounts by banks were \$1,923,025 thousand for outstanding corporate bonds.

## 28. SIGNIFICANT CONTRACTS

Contractor	Item	Contract Period	Description
Taiwan Semiconductor Manufacturing Company Limited (TSMC)	Purchase agreement	March 27, 1997 to March 26, 2007	<p>a. Wafer production agreement.</p> <p>b. Fabricated wafer prices will be negotiated and determined between the Company and TSMC based on the market price as of the month before every calendar quarter. The price are in U.S. dollars.</p>
Siliconware Precision Industries Co., Ltd. (SPIL)	IC Testing and packaging service agreement	December 15, 2005 to December 14, 2007	<p>a. Providing with the very latest testing and packaging solutions which cover digital and mixed signal deuces.</p> <p>b. The Company shall pay the fee according to the agreement signed between two parties.</p>
Intel	Patent agreement	April 8, 2003 to the expiration of last patent licensed to expire	<p>a. Pentium 4 CPU patent agreement.</p> <p>b. The Company shall pay the fee according to the agreement signed between two parties.</p>

## 29. MERGER

The Company had been holding the shares of its subsidiary, VNT, up to 93%. In order to integrate the Company and its subsidiaries resources, lower the cost and enhance the operating efficiency, the Board of Directors proposed the acquisition of VNT at cost of \$14 per share. The effective merger date was September 8, 2006.

Other merger information is as follows:

(a) Influence on the company's financial status and stockholders' equity:

VNT, established on July 2, 2002, primarily engaged in designing, manufacturing and selling of networking chipsets. The Company lowered operating cost and enhanced its competitiveness through this integration.

(b) Had the effective merger date been January 1, 2006, the pro forma information for 2006 would have been as follows:

Revenues	\$ 21,469,366
Net loss	\$ (1,160,010)
Basic earnings per share after income tax (dollars)	\$(0.90)

### 30. DISCLOSURES FOR FINANCIAL INSTRUMENTS

Non-derivative Financial Instruments	December 31			
	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Assets</b>				
Cash and cash equivalents	\$ 6,183,067	\$ 6,183,067	\$ 7,497,311	\$ 7,497,311
Financial assets at fair value through profit or loss	1,667,325	1,667,325	-	-
Available-for-sale financial assets				
current	8,795	8,795	9,357	9,357
Notes and accounts receivable, net	1,477,558	1,477,558	3,733,550	3,733,550
Other financial assets, current	2,311,709	2,311,709	97,409	97,409
Financial assets carried at cost	77,984	77,984	77,984	77,984
Long-term investments under equity method	4,877,441	4,877,441	6,683,277	6,683,277
Other financial assets, noncurrent	18,325	18,042	12,078	11,900
<b>Liabilities</b>				
Notes and accounts payable	3,495,855	3,495,855	6,659,461	6,659,461
Accrued expenses	1,093,836	1,093,836	809,226	809,226
Other financial assets, current	2,084,759	2,084,759	648,697	648,697
Long-term loans (include current portion)	466,667	466,667	388,889	388,889
Corporate bonds payable	1,900,000	1,900,000	1,904,820	1,904,820
Other financial liabilities	3,007	2,961	5,292	5,214

#### Derivative Financial Instruments

<b>Assets</b>				
Forward exchange contract	\$ 190	\$ 190	\$ -	\$ -
<b>Liabilities</b>				
Interest rate swap	29	29	-	487

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 34 - "Accounting for Financial Instruments" effective for accounting period beginning on January 1, 2006. The cumulative effect of changes in accounting principles are described in Note 3.

- (a) The carrying amount approximated the fair value because of the short maturities of such instruments, including cash and cash equivalents, notes and accounts receivable, notes and accounts receivable from related parties, other current financial assets, notes and accounts payable, notes and accounts payable due to related parties, accrued expenses, and other current financial liabilities.
- (b) The fair values of financial instruments at fair value through profit or loss and available-for-sale financial assets are based on quoted market prices in an active market, and 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 instruments.
- (c) Financial assets carried at cost and long-term investments under equity method are unlisted securities. Fair value can not be estimated because there are no active market and reliable fair value could be verified at a more than reasonable cost.

- (d) The fair value of other financial assets and liabilities are based on the discounted value of the future cash flows expected to be received. The discount rate is based on the average interest rate of time deposits in banks.
- (e) The fair value of long-term loans, including current portion, and corporate bonds payable are estimated based on rates that the Company obtained which are comparable to rates offered by the banks to other borrowers for long-term debts with same terms and maturities.

There was no loss or gain recognized in 2006 on the fair value changes of derivatives estimated using valuation techniques.

As of December 31, 2006 and 2005, financial assets exposed to cash flow interest rate risk amounted to \$5,231,413 thousand and \$5,548,335 thousand, respectively, and financial liabilities exposed to cash flow interest rate risk amounted to \$1,900,000 thousand and \$1,900,000 thousand, respectively. Financial liabilities exposed to fair value interest risk amounted to \$300,000 thousand and \$0 thousand, respectively.

The Company recognized interest income from financial assets and liabilities not categorized as at fair value through profit or loss amounted to \$94,217 thousand and \$58,316 thousand, respectively, and interest expense amounted to \$75,464 thousand and \$66,780 thousand respectively.

The Company recognized an unrealized gain of \$124 thousand and \$0 thousand in stockholders' equity for the changes in fair value of available-for-sale financial assets for the years ended December 31, 2006 and 2005, respectively.

## **Financial Risks**

### ***Market Risk***

The Company's transactions of foreign exchange instruments are for trading purpose. Thus, such instruments are measured at balance sheet date using the market rate. As the market interest rate increase 1%, the market price of financial assets will decrease \$51,035 thousand. The gain and loss from forward contracts held at December 31, 2006 was calculated according to the quoted market price at balance sheet date. Therefore, the market risk is low.

### ***Credit Risk***

Credit risk represents the potential loss that would be incurred by the Company if the counter-parties or third-parties breached contracts. The counter-parties or third-parties to the foregoing financial instruments are reputable financial institutions and business organizations. Management believes its exposure to default by those parties is low.

### ***Liquidity Risk***

The Company has sufficient working capital to settle derivative contract. The Company engages in forward contract in fixed-exchange-rate and cash flows are not expected to fluctuate significantly due to changes in market exchange rates.

### ***Cash Flow Interest Rate Risk***

The Company is exposed to cash flow interest rate risk on its long-term bank loan with variable interest rate. As the market rate increases 1%, the Company expects to have \$3,000 thousand cash outflow within 1 year.

### 31. SEGMENT INFORMATION

#### Industry Segment

Manufacturing and sales of PC chipset and semiconductor accounted for over 90% of the Company's total revenues; therefore, the disclosure for industry segment is not applicable.

#### Foreign Operations

Currently, the Company does not have any foreign operations.

#### Export Sales

Export sales for the years ended December 31, 2006 and 2005 were as follows:

Areas	2006	2005
Hong Kong	\$ 14,427,359	\$ 12,646,012
Singapore	473,598	327,637
Japan	303,460	186,152
USA	1,136,525	560,223
Europe	953,831	787,716
Others	<u>427,746</u>	<u>411,033</u>
	<u>\$ 17,722,519</u>	<u>\$ 14,918,773</u>

#### Dominant Customers Information

Sales to major customers for the years ended December 31, 2006 and 2005 were as follows:

Customer	2006		2005	
	Amount	% of Total Sales	Amount	% of Total Sales
A	\$ 3,630,597	17	\$ 2,848,431	15
B	<u>572,175</u>	<u>3</u>	<u>1,942,899</u>	<u>10</u>
	<u>\$ 4,202,772</u>	<u>20</u>	<u>\$ 4,791,330</u>	<u>25</u>