High Tech Computer Corp.

Financial Statements for the Three Months Ended March 31, 2005, 2006 and 2007 and Independent Accountants' Review Report

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
High Tech Computer Corp.

We have reviewed the accompanying balance sheets of High Tech Computer Corp. (the "Company") as of March 31, 2005, 2006 and 2007, and the related statements of income and cash flows for the three months then ended, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our reviews.

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

The calculation of long-term investments accounted for by the equity method as of and for the three months ended March 31, 2005, 2006 and 2007 was based on the investees' unreviewed financial statements of the same reporting periods as those of the Company. These investments amounted to NT$324,456 thousand, NT$354,908 thousand and NT$774,856 thousand as of March 31, 2005, 2006 and 2007, respectively. The related equity in (losses) gains of investees for the three months ended March 31, 2005, 2006 and 2007 amounted to (NT$18,796) thousand, NT$33,796 thousand and (NT$76,835) thousand, respectively.

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

In addition, the translation of the 2007 New Taiwan dollar amounts into U.S. dollars has been reviewed on the basis stated in Note 3 to the financial statements.

April 16, 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 review such financial statements are those generally accepted and applied in the Republic of China.

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

HIGH TECH COMPUTER CORP.

BALANCE SHEETS
MARCH 31, 2005, 2006 AND 2007
(In Thousands, Except Par Value)
(Reviewed, Not Audited)

	2005	2006	2007	
ASSETS	**NT$**	**NT$**	**NT$**	**US$ (Note 3)**
CURRENT ASSETS				
Cash and cash equivalents (Note 5)	$ 7,758,802	$ 20,969,314	$ 38,906,394	$ 1,175,775
Financial assets at fair value through profit or loss (Notes 2, 4, 6 and 25)	347	-	-	-
Notes receivable, net (Notes 2 and 8)	4,502	705,420	1,683	51
Accounts receivable, net (Notes 2 and 8)	8,731,501	13,888,020	15,409,967	465,699
Accounts receivable from related parties (Notes 2 and 26)	146,989	242,606	1,275,220	38,538
Other current financial assets (Notes 9 and 26)	36,411	279,663	135,589	4,097
Inventories (Notes 2 and 10)	4,179,210	4,310,160	4,314,174	130,377
Prepayments (Notes 11 and 26)	460,849	865,439	1,703,413	51,478
Deferred tax assets (Notes 2 and 23)	150,918	357,949	492,466	14,883
Other current assets	17,097	29,822	79,564	2,404
Total current assets	21,486,626	41,648,393	62,318,470	1,883,302
INVESTMENTS				
Available-for-sale financial assets - noncurrent (Notes 2 and 7)	767	1,049	1,500	45
Financial assets carried at cost (Notes 2 and 12)	1,192	1,192	501,192	15,146
Investments accounted for by the equity method (Notes 2 and 13)	324,456	354,908	774,856	23,417
Prepayments for long-term investments (Notes 2 and 13)	-	137,761	261,679	7,908
Total investments	326,415	494,910	1,539,227	46,516
PROPERTIES (Notes 2, 14 and 26)				
Cost				
Land	378,285	610,293	610,293	18,443
Buildings and structures	946,207	1,073,903	1,086,762	32,843
Machinery and equipment	2,344,866	2,561,279	2,982,598	90,136
Molding equipment	201,567	201,567	201,247	6,082
Computer equipment	155,712	164,084	187,033	5,652
Transportation equipment	1,315	1,628	1,938	59
Furniture and fixtures	101,503	107,662	105,951	3,202
Leased assets	-	-	4,712	142
Leasehold improvements	45,542	22,816	22,816	690
	4,174,997	4,743,232	5,203,350	157,249
Less accumulated depreciation	(1,846,839)	(2,394,056)	(2,846,306)	(86,017)
Prepayments for construction-in-progress and equipment-in-transit	87,032	30,297	696,558	21,050
Properties, net	2,415,190	2,379,473	3,053,602	92,282
OTHER ASSETS				
Refundable deposits	6,298	35,305	36,891	1,115
Deferred charges (Note 2)	176,458	142,271	122,430	3,700
Deferred bond issuance costs (Notes 2 and 17)	177	-	-	-
Deferred tax assets (Notes 2 and 23)	71,532	102,038	306,000	9,247
Prepaid pension costs (Note 2)	19,642	56,255	79,633	2,407
Total other assets	274,107	335,869	544,954	16,469
TOTAL	$ 24,502,338	$ 44,858,645	$ 67,456,253	$ 2,038,569

	2005	2006	2007	
LIABILITIES AND STOCKHOLDERS' EQUITY	**NT$**	**NT$**	**NT$**	**US$ (Note 3)**
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss (Notes 2, 4, 6 and 25)	-	36,116	49,910	$ 1,508
Notes and accounts payable (Note 26)	8,262,424	13,186,393	14,539,385	439,389
Income tax payable (Notes 2 and 23)	112,774	813,012	2,376,009	71,804
Accrued expenses (Note 15)	612,635	1,037,445	2,237,616	67,622
Payable for purchase of equipment	15,880	14,715	12,556	380
Other current liabilities (Notes 16 and 26)	594,879	1,393,637	1,865,142	56,366
Total current liabilities	9,598,592	16,481,318	21,080,618	637,069
LONG-TERM LIABILITIES				
Bonds payable (Notes 2 and 17)	15,995	-	-	-
OTHER LIABILITIES				
Guarantee deposits received (Note 18)	495,160	591	628	19
Total liabilities	10,109,747	16,481,909	21,081,246	637,088
STOCKHOLDERS' EQUITY (Notes 19 and 20)				
Capital stock - $10 par value				
Authorized: 550,000 thousand shares				
Issued and outstanding: 276,311 thousand shares in 2005, 357,016 thousand shares in 2006 and 436,419 thousand shares in 2007				
Common stock	2,763,114	3,570,160	4,364,192	131,889
Share subscriptions received	123,165	-	-	-
Capital surplus				
Additional paid-in capital - common stock	4,394,674	4,410,871	4,410,871	133,299
Long-term equity investments	-	-	15,845	479
From merger	25,972	25,972	25,972	785
Retained earnings				
Legal reserve	427,791	813,326	1,991,520	60,185
Special reserve	1,983	19,133	6,175	186
Accumulated earnings	6,677,502	19,545,630	37,530,058	1,134,181
Cumulative translation adjustments (Note 2)	(20,406)	(7,434)	22,600	683
Unrealized losses on financial instruments (Notes 2, 4 and 7)	(1,204)	(922)	(471)	(14)
Treasury stock (Notes 2 and 21)	-	-	(1,991,755)	(60,192)
Total stockholders' equity	14,392,591	28,376,736	46,375,007	1,401,481
TOTAL	$ 24,502,338	$ 44,858,645	$ 67,456,253	$ 2,038,569

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

(With Deloitte & Touche review report dated April 16, 2007)

HIGH TECH COMPUTER CORP.

STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2005, 2006 AND 2007
(In Thousands, Except Earnings Per Share)
(Reviewed, Not Audited)

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
REVENUES (Notes 2 and 26)	$ 13,250,627	$ 24,012,457	$ 23,601,325	713,246
COST OF REVENUES (Notes 22 and 26)	10,530,935	16,986,766	15,367,601	464,418
GROSS PROFIT	2,719,692	7,025,691	8,233,724	248,828
UNREALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	(11,131)	(27,709)	(155,441)	(4,698)
REALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	6,289	15,077	164,011	4,957
REALIZED GROSS PROFIT	2,714,850	7,013,059	8,242,294	249,087
OPERATING EXPENSES (Notes 22 and 26)				
Selling and marketing	360,363	759,942	1,094,049	33,063
General and administrative	101,586	245,422	216,931	6,556
Research and development	504,551	574,153	811,678	24,529
Total operating expenses	966,500	1,579,517	2,122,658	64,148
OPERATING INCOME	1,748,350	5,433,542	6,119,636	184,939
NONOPERATING INCOME AND GAINS				
Interest income	16,474	49,939	140,042	4,232
Equity in earnings of equity method investees (Notes 2 and 13)	-	33,796	-	-
Gain on sale of properties (Note 26)	-	4,449	-	-
Foreign exchange gain (Notes 2 and 6)	-	131,854	245,299	7,413
Valuation gain on financial instruments, net (Notes 2, 4 and 6)	347	-	-	-
Other	19,733	77,481	33,415	1,010
Total nonoperating income and gains	36,554	297,519	418,756	12,655
NONOPERATING EXPENSES AND LOSSES				
Interest expense	19,541	-	66	2
Equity in losses of equity method investees (Notes 2 and 13)	18,796	-	76,835	2,322
Loss on disposal of properties	462	2,047	-	-
Foreign exchange loss (Notes 2 and 6)	92,670	-	-	-
Provision for loss on decline in value of inventory	60,000	78,846	385,134	11,639
Valuation loss on financial instruments, net (Notes 2, 4 and 6)	-	36,116	49,910	1,508
Other	776	35	7,663	232
Total nonoperating expenses and losses	192,245	117,044	519,608	15,703
INCOME BEFORE INCOME TAX	1,592,659	5,614,017	6,018,784	181,891
INCOME TAX EXPENSE (Notes 2 and 23)	(20,496)	(220,642)	(479,816)	(14,500)
NET INCOME	$ 1,572,163	$ 5,393,375	$ 5,538,968	$ 167,391

(Continued)

HIGH TECH COMPUTER CORP.

STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2005, 2006 AND 2007
(In Thousands, Except Earnings Per Share)
(Reviewed, Not Audited)

	2005		2006		2007			
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax	Before Income Tax		After Income Tax	
	NT$	NT$	NT$	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
BASIC EARNINGS PER SHARE (Note 24)	$ 3.72	$ 3.67	$ 12.86	$ 12.36	$ 13.89	$ 0.42	$ 12.78	$ 0.39
DILUTED EARNINGS PER SHARE (Note 24)	$ 3.71	$ 3.67	$ 12.71	$ 12.21	$ 13.68	$ 0.41	$ 12.59	$ 0.38

(Concluded)

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

(With Deloitte & Touche review report dated April 16, 2007)

HIGH TECH COMPUTER CORP.

STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2005, 2006 AND 2007
(In Thousands)
(Reviewed, Not Audited)

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$ 1,572,163	$ 5,393,375	$ 5,538,968	$ 167,391
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation	144,067	146,070	162,345	4,906
Amortization	9,753	7,966	7,933	240
Loss (gain) on disposal of properties	462	(2,402)	-	-
Equity in losses (earnings) of equity method investees	18,796	(33,796)	76,835	2,322
Provision for redemption of convertible bonds	2,042	-	-	-
Foreign exchange gains from convertible bonds	(9,735)	-	-	-
Amortization of bond issue costs	17,498	-	-	-
Deferred income tax asset	240	18,873	(151,159)	(4,568)
Prepaid pension costs	(11,979)	(6,495)	(5,613)	(170)
Net changes in operating assets and liabilities				
Financial instruments at fair value through profit or loss	747	96,201	(26,560)	(803)
Notes receivable	67,254	(606,333)	57,247	1,730
Accounts receivable	(391,067)	324,795	2,908,012	87,882
Accounts receivable from related parties	(68,776)	178,174	36,570	1,105
Other current financial assets	11,916	(224,669)	232,908	7,039
Inventories	24,439	527,393	669,717	20,239
Prepayments	(216,021)	(391,178)	177,706	5,370
Other current assets	30,618	503	(16,463)	(498)
Notes and accounts payable	315,973	(610,300)	(2,307,654)	(69,738)
Income tax payable	18,620	196,149	617,292	18,655
Accrued expenses	(249,632)	(167,362)	(102,513)	(3,098)
Other current liabilities	180,844	90,869	(47,267)	(1,428)
Net cash provided by operating activities	1,468,222	4,937,833	7,828,304	236,576
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of properties	(79,139)	(31,598)	(329,322)	(9,952)
Proceeds of the sale of properties	-	4,389	-	-
Increase in financial assets carried at cost	-	-	(500,000)	(15,110)
Increase in investments accounted for by the equity method	-	(137,761)	(280,000)	(8,462)
Proceeds of the disposal of investments accounted for by the equity method	4,312	-	-	-
(Increase) decrease in refundable deposits	(376)	(27)	100	3
Increase in deferred charges	-	-	(11,304)	(342)
Net cash used in investing activities	(75,203)	(164,997)	(1,120,526)	(33,863)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase (decrease) in guarantee deposits received	222,082	30	(12)	-
Bonus to employees	(4,500)	-	-	-
Bonus to employees	-	-	(451,000)	(13,630)
Purchase of treasury stock	-	-	(1,747,760)	(52,818)
Net cash provided by (used in) financing activities	217,582	30	(2,198,772)	(66,448)

(Continued)

HIGH TECH COMPUTER CORP.

STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2005, 2006 AND 2007
(In Thousands)
(Reviewed, Not Audited)

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 1,610,601	$ 4,772,866	$ 4,509,006	$ 136,265
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	6,148,201	16,196,448	34,397,388	1,039,510
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 7,758,802	$ 20,969,314	$ 38,906,394	$ 1,175,775
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Cash paid during the period				
Interest (net of amounts capitalized)	$ -	$ -	$ 66	2
Income tax	$ 1,636	$ 5,620	$ 13,683	$ 414
NONCASH INVESTING AND FINANCING ACTIVITIES				
Transfer of convertible bonds to common stock and additional paid-in capital	$ 1,453,483	$ -	$ -	$ -
PURCHASE OF PROPERTIES				
Cost of properties purchased	$ 40,777	$ 32,274	$ 306,323	$ 9,257
Decrease (increase) in payable for purchase of equipment	38,362	(676)	22,786	688
Decrease in lease payable	-	-	213	7
Cash paid for purchase of properties	$ 79,139	$ 31,598	$ 329,322	$ 9,952
BONUS TO EMPLOYEES AND DIRECTORS' REMUNERATION				
Appropriation of bonus to employees and directors' remuneration	$ -	$ -	$ -	$ -
Decrease in payable for employee bonus and directors' remuneration	4,500	-	451,000	13,630
Cash paid	$ 4,500	$ -	$ 451,000	$ 13,630

(Concluded)

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

(With Deloitte & Touche review report dated April 16, 2007)

1. ORGANIZATION AND OPERATIONS

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

The Company had 3,427, 4,079 and 4,317 persons in its payroll as of March 31, 2005, 2006 and 2007, respectively.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China (ROC). In preparing financial statements in conformity with these guidelines and principles, the Company is required to make certain estimates and assumptions that could affect the amounts of allowance for doubtful accounts, allowance for inventory devaluation, property depreciation, royalty, accrued pension cost, and warranty liability. Actual results could differ from these estimates.

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

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

Current/Noncurrent Assets and Liabilities

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

Financial Assets/Liabilities at Fair Value through Profit or Loss

Derivatives that do not meet the criteria for hedge accounting are initially recognized at fair value, with transaction costs expensed as incurred. The derivatives are subsequently remeasured at fair value, with the changes in fair value recognized as current income. When the fair value is positive, the derivative is recognized as a financial asset; when the fair value is negative, the derivative is recognized as a financial liability.

Available-for-Sale Financial Assets

Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. When the assets are subsequently measured at fair value, the changes in fair value are excluded from earnings and reported as a separate component of stockholders' equity. The accumulated gains or losses are recognized as earnings when the financial asset is de-recognized from the balance sheet.

Cash dividends are recognized as investment income upon the declaration of an investee's stockholders under a resolution but are accounted for as a reduction of the original cost of investment if these dividends are declared on the earnings of the investees attributable to periods before the purchase of the investments. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated on the basis of the new number of shares held after the stock dividends are received.

If there is objective evidence that a financial asset is impaired, a loss is recognized. If the impairment loss decreases, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to stockholders' equity.

Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes revenues when the earnings process is complete, as evidenced by an agreement with the customer, the transfer of title and acceptance has occurred, the price is fixed or determinable and the collectibility is reasonably assured. The Company records a provision for estimated future returns and other allowances in the same period the related revenue is recorded. Provisions for estimated sales returns and other allowances are generally made based on historical experience, management's judgment, and any known factors that would significantly affect the allowance.

Sales prices are determined using the fair value taking into account related sales discounts agreed to by the Company and its customers. Since the receivables from sales are collectible within one year and such transactions are frequent, the fair value of receivables is equivalent to the nominal amount of cash to be received.

Allowance for doubtful accounts is provided on the basis of management's evaluation of the collectibility of receivables, past loss experience, and other pertinent factors.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the moving-average method. Market value is based on replacement costs of raw materials and work-in-process and on net realizable values of finished goods.

Financial Assets Carried At Cost

Investments that do not have quoted market prices in an active market and have fair values that cannot be reliably measured, such as non-publicly traded stocks, are carried at original cost. The costs of non-publicly traded stocks are determined using the weighted-average method.

The accounting treatment for cash dividends and stock dividends arising from financial assets carried at cost is the same as that for cash and stock dividends arising from available-for-sale financial assets.

Investments Accounted for by the Equity Method

Investments in companies in which the Company’s ownership interest is 20% or more, except where the Company cannot exercise significant influence, are accounted for by the equity method. The difference between the investment acquisition cost and the Company’s equity in an investee’s net assets when an investment is acquired or when the equity method is first adopted is amortized over five years. Effective January 1, 2006, based on the revised Statement of Financial Accounting Standards No. 5 - “Long-term Investments in Equity Securities” (SFAS No. 5), investment premiums, representing goodwill, should no longer be amortized.

When the Company subscribes for additional investee shares at a percentage different from its existing equity interest, the resulting change in the Company’s equity in the investee’s net assets is recorded as an adjustment to long-term investments, with the corresponding amount charged or credited to capital surplus.

On the balance sheet date, an impairment loss should be recognized if the recoverable amount of the investment is below carrying amount. This loss should be charged to current income.

Properties

Properties are stated at cost less accumulated depreciation. Interest incurred in connection with the purchase or construction of properties is capitalized. Major additions, renewals and betterments are capitalized, while maintenance and repairs are expensed in the period incurred.

On the balance sheet date, assets are evaluated for any impairment. If impairment is identified, the Company should evaluate the recoverable amount of the assets. An impairment loss should be recognized whenever the recoverable amount of the properties is below carrying amount, and this loss should be charged to current income.

An impairment loss recognized in prior years can be reversed only if there is a change in the estimates used to determine recoverable amount since the last impairment loss was recognized. However, the amount reversed is only to the extent that the increased carrying amount of an asset should not exceed the asset carrying amount (net of depreciation) that would have been determined had no impairment loss been recognized in prior years. An impairment loss of an asset revalued under certain regulations should be treated as a revaluation increment decrease. A reversal of an impairment loss on a revalued asset is credited directly to equity under the heading revaluation increment. However, to the extent that an impairment loss on the same revalued asset was previously recognized as profit or loss, a reversal of that impairment loss is also recognized as profit or loss.

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

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

Depreciation is calculated on a straight-line basis over the estimated service lives of the assets plus one additional year for salvage value: buildings(including auxiliary equipments) - 3 to 50 years; machinery and equipment - 3 to 5 years; office equipment - 3 to 5 years; transportation equipment - 5 years; and leasehold improvements - 3 years.

Deferred Charges

Deferred charges are telephone installation charges, computer software costs and deferred license fees. Installation charges and computer software are amortized on a straight-line basis over 3 years, and deferred license fees, over 10 years.

Asset Impairment

An impairment loss should be recognized on the balance sheet date whenever the recoverable amount of the asset is below carrying amount. The increased carrying amount due to reversal should not be more than what the depreciated historical cost would have been if the impairment had not been recognized. Reversal of an impairment loss is recognized as income in the income statement. However, the reversal of impairment loss on goodwill is prohibited.

Accrued Marketing Expenses

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

Reserve for Warranty Expenses

The Company provides warranty service for one to two years depending on the contract with customers. The warranty liability is estimated based on management's evaluation of the products under warranty, past warranty experience, and other pertinent factors.

Bonds Payable

Bonds are issued at face value and recorded as bonds payable. Each month's interest expense is booked at face value multiplied by the stated interest rate. For bonds sold under repurchase agreements, interest is calculated according to the repurchase value and recognized as interest expense by period. The direct and necessary expenses of issuing convertible bonds are recorded as issuance expenses and amortized over the period from issuance date to the maturity date. When a bondholder requests conversion of convertible bonds, unamortized issue costs, interest expense that is accreted to the date of conversion but need not be paid, recognized interest premium, and the par value of the bonds are written off. The common stock should be valued at the carrying amount net of the amounts written off, and the difference of this net amount from the par value of the common stock is recognized as additional paid-in capital.

Pension Plan

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

The rate of the Company's contributions to the plan was 2%. The funds are deposited in the Central Trust of China, a government-designated custodian of pension funds, and are managed by the Company's Pension Fund Administration Committee. The pension fund balances were NT$209,276 thousand, NT$283,996 thousand and NT$321,029 (US$9,702 thousand) as of March 31, 2005, 2006 and 2007, respectively. The pension costs of the defined benefit pension plan for the three months ended March 31, 2005, 2006 and 2007 were NT$23,771, NT$1,512 thousand and NT$1,681 thousand (US$51 thousand), respectively.

The Labor Pension Act (the "Act), which provides for a new defined contribution plan, took effect on July 1, 2005. Employees already covered by the Law can choose to remain to be subject to the pension mechanism under the Law or to be subject to the Act. Under the Act, the rate of an employer's monthly contribution to the pension fund should be at least 6% of the employee's monthly wages, and the contribution should be recognized as pension expense in the income statement. The pension costs of the defined contribution pension plan for the three months ended March 31, 2005, 2006 and 2007 were NT$0, NT$19,897 thousand and NT$25,075 thousand (US$758 thousand), respectively.

Income Tax

The Company adopted Statement of Financial Accounting Standards No. 22, "Accounting for Income Taxes," which requires an asset and liability approach to financial accounting and reporting for income tax. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are provided for deferred tax assets that are not certain to be realized. Income tax expense or benefit is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

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

Income tax on unappropriated earnings of 10% is expensed in the year of stockholder approval which is the year subsequent to the year the earnings are generated.

Stock-Based Employee Compensation Plans

When the grant date of stock-based employee compensation plans is on or after January 1, 2004, the Company applies the accounting guidelines for stock-based compensation issued by the Accounting Research and Development Foundation of the ROC. Under these guidelines, the fair value of option compensation is recorded initially as an asset. This asset is expensed ratably over the service period, which is generally the period over which the options vest.

Treasury Stock

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

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

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

Foreign-Currency Transactions

Transactions in currencies other than the New Taiwan dollars are recorded at the rates of exchange prevailing on the dates of the transactions. On the balance sheet date, monetary items denominated in foreign currencies are translated at prevailing rates. Exchange differences arising on the settlements of the monetary items and on the retranslation of monetary items are included in earnings for the period.

Exchange differences arising on the retranslation of nonmonetary items carried at fair value are included in earnings for the period, except for differences arising on the retranslation of nonmonetary items for which gains and losses are recognized directly under equity. For these nonmonetary items, any exchange component of that gain or loss is also recognized directly under equity. Nonmonetary items that are measured at historical cost in a foreign currency are not retranslated.

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

The rates of exchange prevailing on the transaction dates are based on the rates quoted by the Bank of Taiwan.

Mergers

The Company's acquisition of IA Style, Inc. was accounted for using the Statement of Financial Accounting Standards No. 25, "Business Combinations - Accounting Treatment under the Purchase Method," and measured at the fair value of the business acquired. The net assets and net liabilities of the acquired entity were accounted for in the balance sheet as an increase in additional paid-in capital from merger (credit) and as a decrease in retained earnings (debit), respectively.

Reclassifications

Certain 2005 and 2006 accounts have been reclassified to be consistent with the presentation of the financial statements as of and for the three months ended March 31, 2007.

3. TRANSLATION INTO U.S. DOLLARS

The financial statements are stated in New Taiwan dollars. The translation of the 2007 New Taiwan dollar amounts into U.S. dollar amounts are included solely for the convenience of readers, using the noon buying rate of NT$33.09 to US$1.00 quoted by the Bank of Taiwan on March 31, 2007. The convenience translation should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other exchange rate.

4. ACCOUNTING CHANGES

a. SFAS Nos. 37 and 38

Effective January 1, 2007, the Company adopted the newly released SFAS No. 37 - "Intangible Assets" and SFAS No. 38 - "Non-current Assets Held for Sale and Discontinued Operations." These accounting changes had no material effect on the Company's financial statements as of and for the three months ended March 31, 2007.

b. SFAS Nos. 34 and 36

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

The Company recategorized its financial assets and liabilities upon adopting SFAS Nos. 34 and 36. As shown below, the adjustments made to the carrying amounts of the financial instruments categorized as financial assets or financial liabilities at fair value through profit or loss were included in the cumulative effect of changes in accounting principles. On the other hand, the adjustments made to the carrying amounts of those categorized as available-for-sale financial assets were recognized as adjustments to stockholders' equity.

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

The accounting changes had no material effect on the Company's financial statements as of and for the three months ended March 31, 2006.

c. SFAS Nos. 1, 5 and 25

Effective January 1, 2006, the Company adopted the newly revised SFAS No. 1 - "Conceptual Framework for Financial Accounting and Preparation of Financial Statements," No. 5 - "Long Term Investments in Equity Securities" and No. 25 - "Business Combinations - Accounting Treatment under the Purchase Method," which prescribe that investment premiums, representing goodwill, be assessed for impairment at least annually instead of being amortized. These accounting changes had no material effect on the Company's financial statements as of and for the three months ended March 31, 2006.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of March 31, 2005, 2006 and 2007 were as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Cash on hand	$ 792	$ 993	$ 1,000	$ 30
Cash in banks	4,399,982	3,693,921	7,396,994	223,542
Time deposits	3,358,028	17,274,400	31,508,400	952,203
	$ 7,758,802	$ 20,969,314	$ 38,906,394	$ 1,175,775

As of March 31, 2005, 2006 and 2007, interest rates on time deposits ranged from 1.08% to 4.45%, 0.86% to 1.84% and 1.644%~2.175%, respectively.

As of March 31, 2005, 2006 and 2007, interest rates on preferential deposits ranged from 2.00%~2.70%, 2.20% to 4.70% and 2.30% to 5.25%, respectively.

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

Financial assets and liabilities at fair value through profit or loss as of March 31, 2005, 2006 and 2007 were as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Derivatives - financial assets				
Forward exchange contracts	$ 347	$ -	$ -	$ -
Derivatives - financial liabilities				
Forward exchange contracts	$ -	$ 36,116	$ 49,910	$ 1,508

The Company had derivative transactions during the three months ended March 31, 2005, 2006 and 2007 to manage exposures related to exchange rate fluctuations. However, these transactions did not meet the criteria for hedge accounting under Statement of Financial Accounting Standards No. 34 - “Accounting for Financial Instruments.” Thus, the Company had no hedge accounting for the three months ended March 31, 2005, 2006, and 2007. Outstanding forward exchange and currency option contracts as of March 31, 2005, 2006 and 2007 were as follows:

	2005			
	Buy/Sell	Currency	Expiry Date	Contract Amount
Forward exchange contracts	Sell	USD/NTD	2005.04.08~2005.05.03	US$ 70,000

	2006			
	Buy/Sell	Currency	Expiry Date	Contract Amount
Forward exchange contracts	Sell	USD/NTD	2006.04.07~2006.05.12	US$ 101,703
Forward exchange contracts	Sell	EUR/USD	2006.04.04~2006.05.24	EUR€ 43,600
Forward exchange contracts	Sell	EUR/NTD	2006.04.28~2006.05.24	EUR€ 22,000
Forward exchange contracts	Sell	GBP/USD	2006.05.05	GBP$ 2,000

	2007				
	Buy/Sell	Currency	Expiry Date	Contract Amount	
Forward exchange contracts	Sell	USD/NTD	2007.04.04~2007.04.20	US$	44,000
Forward exchange contracts	Sell	EUR/USD	2007.04.04~2007.05.23	EUR€	87,500
Forward exchange contracts	Buy	USD/JPY	2007.04.13~2007.04.20	US$	10,000
Forward exchange contracts	Sell	GBP/USD	2007.04.11~2007.04.25	GBP£	1,776
Forward exchange contracts	Sell	JPY/NTD	2007.04.18~2007.06.22	JPY	418,000
Forward exchange contracts	Sell	CAD/NTD	2007.04.18	CAD	108
Forward exchange contracts	Sell	CAD/USD	2007.04.18	CAD	1,700

Net loss on derivative financial instruments for the three months ended March 31, 2007 was NT$35,917 thousand (US$1,085 thousand), including realized settlement gain of NT$13,993 thousand (US$423 thousand) and valuation loss of NT$49,910 thousand (US$1,508 thousand).

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets as of March 31, 2005, 2006 and 2007 were as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
VIA Technologies, Inc.	$ 767	$ 1,049	$ 1,500	$ 45

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

8. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable as of March 31, 2005, 2006 and 2007 were as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Notes receivable	$ 4,502	$ 705,420	$ 1,683	$ 51
Accounts receivable	8,739,564	13,893,207	15,419,836	465,997
Less allowance for doubtful accounts	(8,063)	(5,187)	(9,869)	(298)
	$ 8,736,003	$ 14,593,440	$ 15,411,650	$ 465,750

9. OTHER CURRENT FINANCIAL ASSETS

Other current financial assets as of March 31, 2005, 2006 and 2007 were as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Other receivables from related parties (Note 26)	$ 8,594	$ 220,707	$ 38,369	$ 1,160
Other receivable	23,273	37,899	28,042	846
Interest receivable	1,625	9,279	28,047	848
Agency payments	2,919	11,778	41,131	1,243
	$ 36,411	$ 279,663	$ 135,589	$ 4,097

Other receivables from related parties were agency payments for related parties.

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

10. INVENTORIES

Inventories as of March 31, 2005, 2006 and 2007 were as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Finished goods	$ 660,215	$ 451,524	$ 702,435	$ 21,228
Work-in-process	1,948,398	2,020,766	1,630,854	49,285
Raw materials	1,977,369	2,503,443	3,257,682	98,449
	4,585,982	4,975,733	5,590,971	168,962
Less valuation allowance	(406,772)	(665,573)	(1,276,797)	(38,585)
	$ 4,179,210	$ 4,310,160	$ 4,314,174	$ 130,377

11. PREPAYMENTS

Prepayments as of March 31, 2005, 2006 and 2007 were as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Royalty	$ 295,998	$ 647,455	$ 1,418,471	$ 42,867
Services	943	65,920	65,640	1,984
Molding equipment	117,199	89,154	73,879	2,233
Prepayments for software and hardware maintenance	8,814	9,176	58,438	1,766
Prepayments for travel	8,551	27,139	55,730	1,684
Others	29,344	26,595	31,255	944
	$ 460,849	$ 865,439	$ 1,703,413	$ 51,478

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

12. FINANCIAL ASSETS CARRIED AT COST

Financial assets carried at cost as of March 31, 2005, 2006 and 2007 were as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Hua-Chuang Automobile Information Technical Center Co., Ltd.	$ -	$ -	$ 500,000	$ 15,110
Answer Online, Inc.	1,192	1,192	1,192	36
	$ 1,192	$ 1,192	$ 501,192	$ 15,146

In January 2007, the Company acquired 10% equity interest in Hua-Chuang Automobile Information Technical Center Co., Ltd. for NT$500,000 thousand (US$15,110 thousand). The Company also signed a joint venture agreement with Yulon Group, which was the main stockholder of Hua-Chuang. Under the agreement, the Company and Yulon Group may, from January 1, 2010 to December 31, 2011, submit written requests to each other to request Yulon Group to buy back for NT$300 million, some of the Hua-Chuang shares bought by the Company.

In March 2004, the Company merged with IA Style, Inc. (Note 1) and acquired 1.82% equity interest in Answer Online, Inc. as a result of the merger.

These unquoted equity instruments are not carried at fair value because their fair value cannot be reliably measured; the Company accounted for these investments by the cost method.

13. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Investments accounted for by the equity method as of March 31, 2005, 2006 and 2007 were as follows:

	2005		2006		2007				
	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage	Original Cost		Carrying Value		Ownership Percentage
	NT$		NT$		NT$	US$ (Note 3)	NT$	US$ (Note 3)	
Equity method									
H.T.C. (B.V.I.) Corp.	$ 324,456	100	$ 354,908	100	$ 509,114	$ 15,386	$ 350,348	$ 10,588	100
BandRich Inc.	-	-	-	-	135,000	4,080	124,904	3,775	51
HTC HK, Limited	-	-	-	-	1,277	38	783	23	100
Communication Global Certification Inc.	-	-	-	-	280,000	8,462	298,821	9,031	100
Prepayments for long-term investments	-		137,761	-	261,679	7,908	261,679	7,908	-
	$ 324,456		$ 492,669		$ 1,187,070	$ 35,874	$ 1,036,535	$ 31,325	

In August 2000, the Company acquired 100% equity interest in H.T.C. (B.V.I.) Corp. for NT$12,834 thousand and accounted for this investment by the equity method. As of March 31, 2007, the Company had increased this investment to NT$770,793 thousand (US$23,254 thousand). Because the registration of this investment was not completed on March 31, 2007, the amounts of NT$261,679 thousand (US$7,908 thousand) were temporarily accounted for as “prepayments for long-term investments.” H.T.C. (B.V.I.) Corp. makes investments on behalf of the Company.

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

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

In January 2007, the Company acquired 100% equity interest in Communication Global Certification Inc. for NT$280,000 thousand (US$ 8,462 thousand) and accounted for this investment by the equity method.

On its equity-method investments, the Company had (losses) gains of (NT$18,796) thousand, NT$33,796 thousand and (NT$76,835) thousand for the three months ended March 31, 2005, 2006 and 2007, respectively.

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

14. PROPERTIES

Properties as of March 31, 2005, 2006 and 2007 were as follows:

	2005	2006	2007			
	Carrying Value	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NT$	NT$	NT$	NT$	NT$	US$ (Note 3)
Land	$ 378,285	$ 610,293	$ 610,293	$ -	$ 610,293	$ 18,443
Buildings and structures	720,582	779,650	1,086,762	365,098	721,664	21,809
Machinery and equipment	1,134,909	892,235	2,982,598	2,027,859	954,739	28,853
Molding equipment	-	-	201,247	201,247	-	-
Computer equipment	41,688	34,076	187,033	144,714	42,319	1,279
Transportation equipment	486	558	1,938	1,288	650	20
Furniture and fixtures	32,583	27,471	105,951	84,266	21,685	655
Leased assets			4,712	982	3,730	113
Leasehold improvements	19,625	4,893	22,816	20,852	1,964	60
Prepayments for construction-in-progress and equipment-in-transit	87,032	30,297	696,558	-	696,558	21,050
	$ 2,415,190	$ 2,379,473	$ 5,899,908	$ 2,846,306	$ 3,053,602	$ 92,282

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

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

15. ACCRUED EXPENSES

Accrued expenses as of March 31, 2005, 2006 and 2007 were as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Marketing	$ -	$ 108,597	$ 1,293,171	$ 39,080
Salaries and bonuses	230,011	248,291	405,759	12,262
Research materials	123,793	79,773	85,032	2,570
Export expenses	69,019	196,695	77,708	2,348
Professional fees	15,466	36,512	76,390	2,309
Travel	7,261	18,440	68,480	2,070
Donation	-	165,751	55,988	1,692
Insurance	37,808	52,578	41,321	1,249
Meals and welfare	19,129	35,570	27,213	822
Repairs and maintenance	23,802	9,192	8,955	271
Others	86,346	86,046	97,599	2,949
	$ 612,635	$ 1,037,445	$ 2,237,616	$ 67,622

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

For the three months ended March 31, 2006 and 2007, the Company accrued the donation of NT$165,751 thousand and 55,988 (US$1,692 thousand) based on its social welfare policy to the High Tech Computer Foundation for Social Welfare Charity to help disadvantaged minorities, teenagers and other people in need.

16. OTHER CURRENT LIABILITIES

Other current liabilities as of March 31, 2005, 2006 and 2007 were as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Reserve for warranty expenses	$ 473,871	$ 1,119,561	$ 1,440,497	$ 43,533
Agency receipts	45,084	114,135	156,328	4,724
Deferred credits - profit from intercompany transactions	11,131	27,709	155,441	4,698
Other payable to related parties (see Note 26)	1,961	17,568	43,511	1,315
Advance receipts	22,294	80,361	38,423	1,161
Directors' remuneration	21,842	21,842	21,842	660
Other	18,696	12,461	9,100	275
	$ 594,879	$ 1,393,637	$ 1,865,142	$ 56,366

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

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

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

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

17. BONDS PAYABLE

A summary of bonds payable as of March 31, 2005, 2006 and 2007 was as follows:

	2005	2006	2007	
	NT$	**NT$**	**NT$**	**US$ (Note 3)**
January 29, 2003 issue of Zero Coupon Convertible Bonds; maturity on January 29, 2008; issue price is 100% of US$1,000 par value.	$ 17,329	$ -	$ -	$ -
Add				
Reserve for redemption of Convertible Bonds	223	-	-	-
Allowance for foreign-currency exchange loss	(1,557)	-	-	-
Less current portion of bonds payable	-	-	-	-
	$ 15,995	$ -	$ -	$ -

On January 29, 2003, the Company issued zero coupon convertible bonds with an aggregate amount of US$66,000 thousand and maturity in 2008. The issue price was 100% of the US$1,000 par value.

Under the bond terms, a bondholder has the right to request the Company to redeem the bonds on April 29, 2004 at their accreted principal amount. Thus, some bondholders requested the Company to redeem the bonds amounting to US$2,000 thousand, and other bondholders requested conversion of bonds amounting to US$64,000 thousand into 17,336 thousand shares. As a result, the Company had no outstanding bonds payable as of April 30, 2005.

The number of shares issued upon conversion of any bond is determined by dividing the principal amount of the bonds (translated into New Taiwan dollars at a fixed exchange rate of NT$34.658 to US$1.00) by the conversion price in effect on the conversion date.

The initial conversion price was NT$205.32 per share at the time of issuance. Upon the distribution of stock dividends and the issuance of additional common shares, the conversion price will be adjusted.

18. GUARANTEE DEPOSITS RECEIVED

Guarantee deposits received as of March 31, 2005, 2006 and 2007 included cash received from leasehold and from customers for preparation of key materials.

19. STOCKHOLDERS' EQUITY

Capital Stock

The Company's outstanding common stock as of January 1, 2005 amounted to NT$2,714,276 thousand, divided into 271,428 thousand shares at NT$10.00 par value. After the registration of the conversion of bonds into 4,884 thousand shares (NT$48,838 thousand) was completed, these shares were transferred to common stocks. In the first quarter of 2005, holders of US$45,470 thousand in bonds requested to convert the bonds into 12,317 thousand shares (NT$123,165 thousand). The amounts of NT$123,165 thousand were temporarily accounted for as "capital collected in advance." Because the registration of this conversion had not completed on March 31, 2005, the Company's outstanding capital stock as of March 31, 2005 amounted to NT$2,763,114 thousand, divided into 276,312 thousand shares at NT$10 par value.

In the second quarter of 2005, holders of US$500 thousand in bonds requested to convert the bonds into 135 thousand shares (NT$1,354 thousand). In June 2005, the stockholders approved the transfer of retained earnings amounting to NT$577,527 thousand and employee bonuses amounting to NT$105,000 thousand to capital stock. As a result, the amount of the Company's outstanding common stock as of March 31, 2006 increased to NT$3,570,160 thousand, divided into 357,016 thousand common shares at NT$10.00 par value.

Also, in May 2006, the stockholders approved the transfer of retained earnings amounting to NT$714,032 thousand and employee bonuses amounting to NT$80,000 thousand to capital stock. As a result, the amount of the Company's outstanding common stock as of March 31, 2007 increased to NT$4,364,192 thousand (US$ 131,889 thousand), divided into 436,419 thousand common shares at NT$10.00 par value.

In their meeting on December 11, 2002, the Company's Board of Directors resolved to issue 7,000 thousand units of employee stock options in accordance with Article 28.3 of the Securities and Exchange Law. Each option represents the right to buy one newly issued common share of the Company. The exercise price is the closing price of the Company's common shares on the option issuance date or the share par value, whichever is higher. The option holders can exercise the right up to 35% of the granted option units no earlier than two years from the grant date. After three years from the grant date, the holders can exercise the right at up to 70% of the granted option units. After four years from the grant date, the option holders are eligible to exercise their rights on all the options owned. The exercise period is five years. As of March 31, 2007, the Company had issued 3,000 thousand units of the stock options to employees. After taking into account the effect of stock dividends and the issuance of additional common stocks, 7,011 thousand units of the employee stock options were outstanding as of March 31, 2007. The remaining employee stock options, amounting to 4,000 thousand units, expired on December 25, 2003.

Global Depositary Receipts

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

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

a. Voting right, and
b. Entitlement to receive dividends and participate in new share issuance for cash subscription.

Also the GDR holders could trade their shares through the GDR custodian in Taiwan. Taking into account the effect of stock dividends, the GDRs increased to 7,324.7 thousand units (29,299 thousand shares). The holders of these GDRs requested the Company to redeem the GDRs to get the Company's common shares. As of March 31, 2007, there were 6,332.9 thousand units of GDRs redeemed, representing 25,331.6 thousand common shares, and the outstanding GDRs represented 3,967.4 thousand common shares or 0.91% of the Company's common shares.

Capital Surplus

The additional paid-in capital was NT$3,064,356 thousand as of January 1, 2005. Additional paid-in capital amounted to NT$1,330,318 thousand resulted from the conversion of bonds payable into 12,317 thousand shares in the first quarter of 2005. As a result, the additional paid-in capital as of March 31, 2005 was NT$4,394,674 thousand.

Then, additional paid-in capital amounted to NT$16,197 thousand resulted from the conversion of bonds payable into 135 thousand shares in the second quarter of 2005. As a result, the additional paid-in capital as of March 31, 2006 and 2007 was NT$4,410,871 thousand (US$133,299 thousand). Under the Company Law, the Company may transfer the capital surplus to common stock if there is no accumulated deficit.

When the Company did not subscribe for the new shares issued by BandRich Inc., an adjustment of NT$15,845 thousand was made to the investment carrying value and capital surplus.

The additional paid-in capital from a merger (Note 1), which took effect on March 1, 2004, was NT$25,972 thousand.

20. APPROPRIATION OF RETAINED EARNINGS AND DIVIDEND POLICY

Based on the Company Law of the ROC and the Company's Articles of Incorporation, 10% of the Company's annual net income less any deficit should first be appropriated as legal reserve until this reserve equals its paid-in capital. From the remainder, there should be appropriations of not more than 1% as remuneration to directors and supervisors and at least 5% as bonuses to employees.

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

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

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

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

As of April 16, 2007, the date of the accompanying independent accountants' review report, the appropriation of the 2006 earnings had not been proposed by the Board of Directors. Information on earnings appropriation can be accessed online through the Market Observation Post System on the Web site of the Taiwan Stock Exchange.

21. TREASURY STOCK

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

During the repurchase period, the Company brought back 3,624 thousand shares for NT$1,991,755 thousand (US$52,818 thousand). Other information on the treasury stock transactions was as follows:

(In thousands of shares)

Purpose	**As of January 1, 2007**	**Increase**	**Decrease**	**As of March 31, 2007**
For maintaining the Company's credit and stockholders' equity	374	3,250	-	3,624

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

22. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Function / **Expense Item**	**2005**			**2006**		
	NT$			**NT$**		
	Operating Costs	**Operating Expenses**	**Total**	**Operating Costs**	**Operating Expenses**	**Total**
Personnel expenses	$278,858	$291,503	$570,361	$314,758	$350,205	$664,963
Salary	228,419	247,668	476,087	260,949	296,898	557,847
Insurance	14,333	16,361	30,694	16,764	18,430	35,194
Pension cost	11,684	12,087	23,771	7,485	13,924	21,409
Other	24,422	15,387	39,809	29,560	20,953	50,513
Depreciation	90,793	53,274	144,067	88,267	57,803	146,070
Amortization	204	9,549	9,753	-	7,966	7,966

Function Expense Item	2007					
	NT$			**US$ (Note 3)**		
	Operating Costs	**Operating Expenses**	**Total**	**Operating Costs**	**Operating Expenses**	**Total**
Personnel expenses	$313,753	$662,847	$976,600	$9,482	$20,032	$29,514
Salary	256,732	591,837	848,569	7,759	17,885	25,644
Insurance	16,843	24,575	41,418	509	743	1,252
Pension cost	8,468	18,288	26,756	256	553	809
Other	31,710	28,147	59,857	958	851	1,809
Depreciation	98,362	63,983	162,345	2,972	1,934	4,906
Amortization	195	7,738	7,933	6	234	240

23. INCOME TAX

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

The income tax returns through 2003 had been examined by the tax authorities. However, the Company disagreed with the tax authorities' assessment on its returns from 2002 to 2003 and applied for the reexaminations. Nevertheless, the Company adjusted its income tax for the tax shortage stated in the tax assessment notices for conservative reasons.

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

Items Granted Exemption from Corporate Income Tax	Tax Exemption Period
Sales of pocket PCs and Smartphones	2001.04.26-2006.04.25
Sales of pocket PCs (wireless) and Smartphones	2002.01.01-2006.12.31
Sales of Win CE products	2003.01.01-2007.12.31
Sales of pocket PCs, pocket PCs (wireless) and Smartphones	2004.09.15-2009.09.14
Sales of pocket PCs (wireless) and Smartphones	2004.11.30-2009.11.29
Sales of pocket PCs (wireless) and Smartphones	2005.12.20-2010.12.19

Income taxes payable as of March 31, 2005, 2006 and 2007 were computed as follows:

	2005	**2006**	**2007**	
	NT$	**NT$**	**NT$**	**US$ (Note 3)**
Income before income tax	$ 1,592,659	$ 5,614,017	$ 6,018,784	$ 181,891
Permanent differences				
Equity in losses (earnings) of equity method investees	18,796	(33,796)	76,835	2,322
Other	5,021	7,732	5,324	161
Temporary differences				
Realized pension cost	(11,980)	(6,495)	(5,613)	(170)
Unrealized loss on decline in value of inventory	60,000	78,846	385,134	11,639
Unrealized royalties	137,515	432,691	446,832	13,504
Unrealized marketing expenses	-	-	310,083	9,371

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Unrealized foreign currency exchange loss (gain), net	102,287	(198,366)	67,049	2,026
Unrealized valuation (gain) loss on financial instruments	(347)	36,116	49,910	1,508
Unrealized warranty expense	149,170	160,547	46,502	1,406
Other	(14,175)	6,366	(8,004)	(242)
Total income	2,038,946	6,097,658	7,392,836	223,416
Less tax-exempt income tax	(1,565,961)	(4,370,658)	(4,865,386)	(147,035)
Taxable income	472,985	1,727,000	2,527,450	76,381
Tax rate	×25%	×25%	×25%	×25%
	118,246	431,750	631,863	19,095
Income tax credit	(10)	(10)	(10)	-
Estimated income tax provision	118,236	431,740	631,853	19,095
Unappropriated earnings (additional 10% income tax)	-	-	-	-
Less investment research and development tax credits	(97,980)	(229,971)	(126,789)	(3,832)
Current income tax expense	20,256	201,769	505,064	15,263
Less prepaid and withheld income tax	(1,636)	(5,620)	(13,683)	(414)
Add income tax payable, beginning balance	94,154	616,863	1,758,717	53,150
Tax shortage stated in the tax assessment notice	-	-	125,911	3,805
Income tax payable	$ 112,774	$ 813,012	$ 2,376,009	$ 71,804

The tax effects of deductible temporary differences and loss and tax credit carryforwards that gave rise to deferred tax assets as of March 31, 2005, 2006 and 2007 were as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Temporary differences				
Provision for loss on decline in value of inventory	$ 101,693	$ 166,393	$ 319,199	$ 9,646
Unrealized reserve for warranty expense	118,468	279,890	360,124	10,883
Unrealized royalties	197,936	567,729	1,053,806	31,847
Unrealized marketing expenses	-	-	323,293	9,770
Unrealized profit from intercompany transactions	2,783	6,927	38,860	1,174
Unrealized valuation loss on financial instruments	-	9,029	12,478	377
Other	40,914	38,318	18,844	570
Tax credit carryforwards	587,632	259,159	-	-
Total deferred tax asset	1,049,426	1,327,445	2,126,604	64,267

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Less valuation allowance	(822,623)	(825,580)	(1,286,738)	(38,886)
Total deferred tax asset, net	226,803	501,865	839,866	25,381
Deferred tax liability				
Unrealized foreign currency exchange gain, net	-	(28,372)	(21,492)	(649)
Unrealized pension cost	(4,353)	(13,506)	(19,908)	(602)
	222,450	459,987	798,466	24,130
Less current portion	(150,918)	(357,949)	(492,466)	(14,883)
Deferred tax assets, noncurrent	$ 71,532	$ 102,038	$ 306,000	$ 9,247

Details of the tax credit carryforwards were as follows:

		2005	2006	2007	
Year Occur	**Validity Period**	NT$	NT$	NT$	US$ (Note 3)
2001	2001-2005	$116,585	$ -	$ -	$ -
2002	2002-2006	54,941	42,304	-	-
2003	2003-2007	179,230	58,500	-	-
2004	2004-2008	222,525	-	-	-
2005	2005-2009	14,351	102,908	-	-
2006	2006-2010	-	55,447	-	-
		$587,632	$259,159	$ -	$ -

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

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

The income tax expenses for the three months ended March 31, 2005, 2006 and 2007 were as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Current income tax expense	$ 20,256	$201,769	$505,064	$15,263
Decrease (increase) in deferred income tax assets	240	18,873	(151,159)	(4,568)
Underestimation of prior year's income tax	-	-	125,911	3,805
Income tax expense	$ 20,496	$220,642	$479,816	$14,500

The integrated income tax information is as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Balance of imputation credit account	$ 97,891	$ 107,322	$ 495,425	$ 13,884
Unappropriated earnings from 1998	6,677,502	19,545,630	37,530,058	1,134,181
Expected creditable ratio (including income tax payable)	3.15%	4.71%	7.65%	7.65%

24. EARNINGS PER SHARE

Earnings per share ("EPS") before tax and after tax are calculated by dividing net income by the weighted average number of common shares outstanding which includes the deduction of the effect of treasury stock during each year. The weighted average number of shares used in EPS calculation was 427,994 thousand, 436,419 thousand shares and 433,675 thousand shares for the three months ended March 31, 2005, 2006 and 2007, respectively.. EPS for the three months ended March 31, 2005 and 2006 were calculated after the average number of shares outstanding which was adjusted retroactively for the effect of stock dividend distribution in 2006.

The convertible bonds and employee stock options had dilutive effects on the EPS for the three months ended March 31, 2005, 2006 and 2007. The related information is as follows:

	2005				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax	Income after Income Tax	Shares (Thousand)	Income before Income Tax	Income after Income Tax
	NT$	NT$		NT$	NT$
Basic EPS	$1,592,659	$1,572,163	427,994	$ 3.72	$ 3.67
Zero coupon convertible bonds	25	19	135		
Employee stock options	-	-	722		
Diluted EPS	$1,592,684	$1,572,182	428,851	$ 3.71	$ 3.67

	2006				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax	Income after Income Tax	Shares (Thousand)	Income before Income Tax	Income after Income Tax
	NT$	NT$		NT$	NT$
Basic EPS	$5,614,017	$5,393,375	436,419	$12.86	$12.36
Employee stock options	-	-	5,349		
Diluted EPS	$5,614,017	$5,393,375	441,768	$12.71	$12.21

	2007				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax	Income after Income Tax	Shares (Thousand)	Income before Income Tax	Income after Income Tax
	NT$	NT$		NT$	NT$
Basic EPS	$6,018,784	$5,538,968	433,301	$13.89	$12.78
Employee stock options	-	-	6,606		
Diluted EPS	$6,018,784	$5,538,968	439,907	$13.68	$12.59

	2007				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax	Income after Income Tax	Shares (Thousand)	Income before Income Tax	Income after Income Tax
	US$ (Note 3)	US$ (Note 3)		US$ (Note 3)	US$ (Note 3)
Basic EPS	$ 181,891	$ 167,391	433,301	$ 0.42	$ 0.39
Employee stock options	-	-	6,606		
Diluted EPS	$ 181,891	$ 167,391	439,907	$ 0.41	$ 0.38

25. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

Nonderivative Financial Instruments

	March 31							
	2005		2006		2007			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NT$	NT$	NT$	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
Assets								
Available-for-sale financial assets - noncurrent	$ 767	$ 767	$ 1,049	$ 1,049	$ 1,500	$ 45	$ 1,500	$ 45
Financial assets carried at cost	1,192	1,192	1,192	1,192	501,192	15,146	501,192	15,146
Investments accounted for using equity method	324,456	324,456	492,669	492,669	1,036,535	31,325	1,036,535	31,325
Refundable deposits	6,298	6,231	35,305	35,004	36,891	1,115	36,310	1,097
Liabilities								
Bonds payable	15,995	15,995	-	-	-	-	-	-
Guarantee deposits received	495,160	489,869	591	586	628	19	618	19

Derivative Financial Instruments

	March 31							
	2005		2006		2007			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NT$	NT$	NT$	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
Assets								
Financial assets at fair value through profit or loss	$ 347	$ 347	$ -	$ -	$ -	$ -	$ -	$ -
Liabilities								
Financial liabilities at fair value through profit or loss	-	-	36,116	36,116	49,910	1,508	49,910	1,508

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 34 - “Accounting for Financial Instruments” for accounting period on January 1, 2006. The effects of this accounting change are described in Note 4.

Methods and Assumptions Used in Determining Fair Values of Financial Instruments

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

The fair values of financial instruments at fair value through profit or loss and available-for-sale financial assets are based on quoted market prices in an active market, and their fair values can be reliably measured. If the securities do not have market prices, fair value is measured on the basis of financial or other information. The Company uses estimates and assumptions that are consistent with information that market participants would use in setting a price for these securities.

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

Methodology Used to Determine the Fair Values of Financial Instruments

	Quoted Market Prices				Measurement Method			
	March 31				March 31			
	2005	2006	2007		2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)	NT$	NT$	NT$	US$ (Note 3)
Assets								
Financial assets at fair value through profit or loss	$ 347	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Available-for-sale financial assets - noncurrent	767	1,049	1,500	45	-	-	-	-
Financial assets carried at cost	-	-	-	-	1,192	1,192	501,192	15,146
Investments accounted for using equity method	-	-	-	-	324,456	492,669	1,036,535	31,325
Refundable deposits	-	-	-	-	6,231	35,004	36,310	1,097
Liabilities								
Financial liabilities at fair value through profit or loss	-	36,116	49,910	1,508	-	-	-	-
Bonds payable	-	-	-	-	15,995	-	-	-
Guarantee deposits received	-	-	-	-	489,869	586	618	19

There was no loss or gain recognized for the three months ended March 31, 2006, and 2007 on the fair value changes of derivatives estimated using valuation techniques. The Company recognized unrealized gains of NT$64 thousand and NT$213 thousand and a loss of NT$233 thousand (US$7 thousand) in stockholders’ equity for the changes in fair value of available-for-sale financial assets for the three months ended March 31, 2005, 2006 and 2007, respectively.

As of March 31, 2005, 2006 and 2007, financial assets exposed to cash flow interest rate risk amounted to NT$3,358,028 thousand, NT$17,274,400 thousand and NT$31,508,400 thousand (US$952,203) thousand, respectively.

Financial Risks

Market Risk

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

Credit Risk

The Company deals only with banks with good credit standing based on the banks' reputation and takes into account past experience with them. Moreover, the Company has a series of control procedures for derivative transactions. Management believes its exposure to counter-parties' default on contracts is low.

Cash Flow Risk

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

26. RELATED-PARTY TRANSACTIONS

The related parties were as follows:

Related Party	Relationship with the Company
First International Computer, Inc. (FIC)	Chairperson is an immediate relative of the Company's chairperson
VIA Technologies, Inc.	Same chairperson
Chander Electronics Corp.	Same chairperson
Comserve Network Netherlands B.V.	Main director is an immediate relative of the Company's chairperson
H.T.C. (B.V.I.) Corp.	Subsidiary
BandRich Inc.	Subsidiary
Communication Global Certification Inc.	Subsidiary
HTEK	Subsidiary of H.T.C. (B.V.I.) Corp.
HTC America Inc. (formerly HTC USA Inc. until August 2, 2006)	Subsidiary of H.T.C. (B.V.I.) Corp.
HTC Europe Co., Ltd.	Subsidiary of H.T.C. (B.V.I.) Corp.
High Tech Computer Corp. (Suzhou)	Subsidiary of H.T.C. (B.V.I.) Corp.
Exedea Inc.	Subsidiary of H.T.C. (B.V.I.) Corp.
HTC Nippon Corporation	Subsidiary of H.T.C. (B.V.I.) Corp.

Major transactions with related parties are summarized below:

Purchases of Inventories and Services

	Three Months Ended March 31						
	2005		2006		2007		
Related Party	Amount	% of Total Net Purchases	Amount	% of Total Net Purchases	Amount		% of Total Net Purchases
	NT$		NT$		NT$	US$ (Note 3)	
High Tech Computer Corp. (Suzhou)	$ -	-	$ 3,946	-	$ 5,261	$ 159	-
Chander Electronics Corp.	146,505	2	75,161	1	-	-	-
Others	-	-	-	-	104	3	-
	$ 146,505	2	$ 79,107	1	$ 5,365	$ 162	-

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

Sales and Services Provided

	Three Months Ended March 31						
	2005		2006		2007		
Related Party	Amount	% of Total Net Sales	Amount	% of Total Net Sales	Amount		% of Total Net Sales
	NT$		NT$		NT$	US$ (Note 3)	
HTC America Inc.	$ 78,445	1	$ 74,036	1	$ 197,558	$ 5,970	1
Exedea Inc.	-		-		191,897	5,799	1
HTC Europe Co., Ltd.	-	-	54,270	-	124,167	3,753	-
Comserve Network Netherlands B.V.	30,946	-	-	-	-	-	-
Others	1,631	-	262	-	3,486	105	-
	$ 111,022	1	$ 128,568	1	$ 517,108	$ 15,627	2

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

Notes and Accounts Receivable

	March 31						
	2005		2006		2007		
Related Party	Amount	% of Total Notes and Accounts Receivable	Amount	% of Total Notes and Accounts Receivable	Amount		% of Total Notes and Accounts Receivable
	NT$		NT$		NT$	US$ (Note 3)	
Accounts receivable							
HTC America Inc.	$ 144,846	2	$ 107,519	1	$ 538,736	$ 16,281	3
HTC Europe Co., Ltd.	-	-	133,948	1	435,772	13,169	3
Exedea Inc.	-	-	-	-	296,841	8,971	2
Comserve Network Netherlands B.V.	1,151	-	-	-	-	-	-
Others	992	-	1,139	-	3,871	117	-
	$ 146,989	2	$ 242,606	2	$1,275,220	$ 38,538	8

Notes and Accounts Payable

	March 31						
	2005		2006		2007		
Related Party	Amount	% of Total Notes and Accounts Payable	Amount	% of Total Notes and Accounts Payable	Amount		% of Total Notes and Accounts Payable
	NT$		NT$		NT$	US$ (Note 3)	
High Tech Computer Corp. (Suzhou)	$ -	-	$ 31,790	-	$ 15,096	$ 456	
Chander Electronics Corp.	147,622	2	105,742	1	-	-	-
First International Computer Inc.	11,725	-	-	-	-	-	-
Others	-	-	494	-	494	15	-
	$ 159,347	2	$ 138,026	1	$ 15,590	$ 471	-

Other Receivables

	March 31						
	2005		2006		2007		
Related Party	Amount NT$	% of Total Other Receivable	Amount NT$	% of Total Other Receivable	Amount NT$	Amount US$ (Note 3)	% of Total Other Receivable
High Tech Computer Corp. (Suzhou)	$ -	-	$ 4,241	2	$ 18,866	$ 570	29
HTC Nippon Corporation	-	-	-	-	16,203	490	24
HTC Europe Co., Ltd.	517	1	96,447	37	2,476	75	4
HTC America Inc	4,019	13	120,019	46	789	24	1
Others	4,058	13	-	-	35	1	-
	$ 8,594	27	$220,707	85	$ 38,369	$ 1,160	58

Other receivables from related parties primarily included payments by the Company for travel and other expenses on behalf of the related parties.

The term for accounts receivable from related parties was 90 days, longer than that for third parties. As of March 31, 2006, the Company transferred accounts receivables amounting to NT$82,529, which were more than 180 days outstanding, to other receivables.

Prepaid Expenses

	March 31						
	2005		2006		2007		
Related Party	Amount NT$	% of Total Prepayment	Amount NT$	% of Total Prepayment	Amount NT$	Amount US$ (Note 3)	% of Total Prepayment
HTC Europe Co., Ltd.	$ -	-	$ 23,466	3	$ 24,066	$ 727	2
HTC America Inc.	-	-	26,405	3	19,857	600	1
HTC Nippon Corporation	-		-		18,606	562	1
HTEK	2,473	1	10,843	1	-	-	-
	$ 2,473	1	$ 60,714	7	$ 62,529	$ 1,889	4

Other Payables to Related Parties

	March 31						
	2005		2006		2007		
Related Party	Amount NT$	% to Total Other Payables	Amount NT$	% to Total Other Payables	Amount NT$	Amount US$ (Note 3)	% to Total Other Payables
Communication Global Certification Inc.	$ -	-	$ -	-	$ 24,952	$ 754	58
HTC Europe Co., Ltd.	-	-	11,870	68	11,858	358	27
HTC America Inc.	-	-	5,488	32	6,320	191	15
Others	1,961	100	210	-	381	12	-
	$ 1,961	100	$ 17,568	100	$ 43,511	$ 1,315	100

Outsourcing Expenses

	Three Months Ended March 31						
	2005		2006		2007		
Related Party	**Amount** **NT$**	**% of Total Out-Sourcing Expenses**	**Amount** **NT$**	**% of Total Out-Sourcing Expenses**	**Amount** **NT$**	**Amount** **US$ (Note 3)**	**% of Total Out-Sourcing Expenses**
High Tech Computer Corp. (Suzhou)	$ -	-	$ 37,964	19	$ 46,730	$ 1,412	43
First International Computer Inc.	7,350	6	-	-	-	-	-
	$ 7,350	6	$ 37,964	19	$ 46,730	$ 1,412	43

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

Service Warranty Expense

	Three Months Ended March 31						
	2005		2006		2007		
Related Party	**Amount** **NT$**	**% of Warranty Expenses**	**Amount** **NT$**	**% of Warranty Expenses**	**Amount** **NT$**	**Amount** **US$ (Note 3)**	**% of Warranty Expenses**
HTC America Inc.	$ 22,154	8	$ 21,603	4	$ 148,295	$ 4,481	32
HTC Europe Co., Ltd.	12,408	5	88,144	19	54,600	1,650	12
Comserve Network Netherlands B.V.	38,183	15	-	-	28,783	870	6
	$ 72,745	28	$ 109,747	23	$ 231,678	$ 7,001	50

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

Service Fees

	Three Months Ended March 31						
	2005		2006		2007		
Related Party	**Amount** **NT$**	**% to Total Service Expenses**	**Amount** **NT$**	**% to Total Service Expenses**	**Amount** **NT$**	**Amount** **US$ (Note 3)**	**% to Total Service Expenses**
HTC America Inc.	$ -	-	$ -	-	$ 46,501	$ 1,405	17
HTC Nippon Corporation	-	-	-	-	31,442	950	12
Communication Global Certification Inc.	-	-	-	-	24,952	754	9
HTC Europe Co., Ltd.	-	-	-	-	8,900	269	3
HTEK	7,419	23	10,843	11	-	-	-
Exedea Inc.	-	-	-	-	-	-	-
VIA Technologies Inc.	1,500	5	600	1	600	18	-
	$ 8,919	28	$ 11,443	12	$ 112,395	$ 3,396	41

Leasing - Lessee

Operating Expense - Rental Expense

	Three Months Ended March 31						
	2005		2006		2007		
Related Party	**Amount** **NT$**	**% of Rental Expense**	**Amount** **NT$**	**% of Rental Expense**	**Amount** **NT$**	**Amount** **US$ (Note 3)**	**% of Rental Expense**
VIA Technologies, Inc.	$ 4,051	61	$ -	-	$ -	$ -	-

The Company leases offices owned by VIA Technologies Inc. at one-year renewable agreements, and the rental payment was determined based on the prevailing rates in the surrounding area.

Nonoperating Income - Rental Revenue

	Three Months Ended March 31						
	2005		2006		2007		
Related Party	**Amount**	**% of Total Rental Revenue**	**Amount**	**% of Total Rental Revenue**	**Amount**		**% of Total Rental Revenue**
	NT$		**NT$**		**NT$**	**US$ (Note 3)**	
VIA Technologies Inc.	$ 170	88	$ -	-	$ -	$ -	-
Chander Electronics Corp.	24	12	-	-	-	-	-
	$ 194	100	$ -	-	$ -	$ -	-

Property Transaction

In the first quarter of 2006, the Company sold equipment to High Tech Computer Corp. (Suzhou) for NT$3,686 thousand and resulted in gains for NT$2,091 thousand.

27. COMMITMENTS AND CONTINGENCIES

As of March 31, 2006, unused letters of credit amounted to US$37 thousand.

28. SIGNIFICANT CONTRACT

Patent Agreements

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

Contractor	Contract Term	Description
Microsoft	January 1, 2007 - January 1, 2009	Authorization to use embedded operating system; royalty payment based on agreement.
Texas Instruments France	January 14, 2000 - January 13, 2010	Authorization to use GSM system software; royalty payment based on agreement.
Qualcomm Incorporated	December 20, 2000 to the following dates: (a) If the Company materially breaches any covenant and fails to take remedial action within 30 days after Qualcomm's issuance of a written notice, the Company will be prohibited from using Qualcomm's property or patents.	Authorization to use CDMA technology to manufacture and sell units; royalty payment based on agreement.

Contractor	Contract Term	Description
	(b) Any time when the Company is not using any of Qualcomm's intellectual property, the Company may terminate this agreement upon 60 days' prior written notice to Qualcomm.	
Ericsson Mobile Platform AB	April 2003-March 2011	Authorization to use EDGE reference design license and support agreement; royalty payment based on agreement.
Telefonaktiebolaget LM Ericsson	December 15, 2003 to the expiry dates of these patents, and no longer than December 14, 2008	Authorization to use platform patent license agreement; royalty payment based on agreement.
Nokia Corporation	January 1, 2003 to the expiry dates of these patents.	Authorization to use wireless technology, like GSM; royalty payment based on agreement.
InterDigital Technology Corporation.	December 31, 2003 to the expiry dates of these patents.	Authorization to use TDMA and CDMA technology; royalty payment based on agreement.
KONINKLIJKE PHILIPS ELECTRONICS N.V.	January 5, 2004 to the expiry dates of these patents	GSM/DCS 1800/1900 Patent License; royalty payment based on agreement.
Motorola, Inc.	December 23, 2003 to the latest of the following dates: (a) Expiry dates of patents (b) Any time when the Company is not using any of Motorola's intellectual property,	TDMA, NARROWBAND CDMA, WIDEBAND CDMA or TD/CDMA Standards patent license or technology; royalty payment based on agreement.
ALCATEL/TCL & Alcatel	July 1, 2004-June 30, 2009	Authorization to use GSM, GPRS or EDGE patent license or technology; royalty payment based on agreement.
Siemens Aktiengesellschaft	July 1, 2004 to the expiry dates of these patents.	Authorization to use GSM, GPRS or EDGE patent license or technology; royalty payment based on agreement.
Lucent Technologies GRL LLC	July 1, 2004-June 30, 2009	Authorization to use GSM, GPRS, EDGE, CDMA or WCDMA patent license or technology; royalty payment based on agreement.

29. SUBSEQUENT / OTHER EVENTS

Memorandum of Understanding with Dopod (Cayman) Holding Corporation

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

Treasury Stock

The treasury stock of 3,624 thousand shares which were brought back from December 13, 2006 to January 19, 2007 was retired on April 2, 2007. And the Company had completed the capital amendment registration.