High Tech Computer Corp.

Financial Statements for the
Six Months Ended June 30, 2005, 2006 and 2007 and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
High Tech Computer Corp.

We have audited the accompanying balance sheets of High Tech Computer Corp. (the "Company") as of June 30, 2005, 2006 and 2007, and the related statements of income, changes in stockholders' equity, and cash flows for the six months then ended, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of High Tech Computer Corp. as of June 30, 2005, 2006 and 2007, and the results of its operations and its cash flows for the six months then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

We have also audited the consolidated financial statements of High Tech Computer Corp. as of and for the six months ended June 30, 2005, 2006 and 2007 and have expressed an unqualified opinion on those financial statements in our report dated July 13, 2007 (not presented herewith).

Our audits also comprehended the translation of the 2007 New Taiwan dollar amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 3. Such U.S. dollar amounts are presented solely for the convenience of readers.

July 13, 2007

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

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

The auditors' report and the accompanying financial statements were originally presented in more than one set of Chinese reports. For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail. Also, as stated in Note 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
JUNE 30, 2005, 2006 AND 2007
(In Thousands, Except Par Value)

	2005	2006	2007	
ASSETS	**NT$**	**NT$**	**NT$**	**US$ (Note 3)**
CURRENT ASSETS				
Cash (Notes 2 and 5)	$ 11,388,664	$ 27,575,494	$ 45,086,189	$ 1,372,069
Financial assets at fair value through profit or loss (Notes 2, 4, 6 and 25)	-	11,005	30,670	933
Bond investments not quoted in an active market (Notes 2 and 13)	-	-	33,030	1,005
Notes receivable, net (Notes 2 and 8)	347,274	515,932	1,520	46
Accounts receivable, net (Notes 2 and 8)	7,659,630	14,844,114	17,285,928	526,048
Accounts receivable from related parties (Notes 2 and 26)	187,186	1,068,606	510,163	15,525
Other current financial assets (Notes 9 and 26)	35,815	115,596	134,016	4,079
Inventories (Notes 2 and 10)	3,812,511	4,974,358	4,808,664	146,338
Prepayments (Notes 11 and 26)	624,240	894,411	1,442,991	43,914
Deferred income tax assets (Notes 2 and 23)	162,982	268,630	458,213	13,944
Other current assets	25,500	23,469	88,131	2,682
Total current assets	24,243,802	50,291,615	69,879,515	2,126,583
LONG-TERM INVESTMENTS				
Available-for-sale financial assets - noncurrent (Notes 2 and 7)	947	1,201	1,485	45
Financial assets carried at cost (Notes 2 and 12)	1,192	1,192	501,192	15,253
Investments accounted for using equity method (Notes 2 and 14)	321,860	486,164	1,059,477	32,242
Prepayments for long-term investments (Notes 2 and 14)	-	78,216	605,746	18,434
Total long-term investments	323,999	566,773	2,167,900	65,974
PROPERTIES (Notes 2, 15 and 26)				
Cost				
Land	576,001	610,293	610,293	18,572
Buildings and structures	951,716	1,078,977	1,087,626	33,099
Machinery and equipment	2,390,704	2,644,184	3,037,666	92,443
Molding equipment	201,567	201,567	172,632	5,254
Computer equipment	156,913	167,642	190,093	5,785
Transportation equipment	1,315	1,938	1,335	41
Furniture and fixtures	103,148	100,391	100,624	3,062
Leased assets	-	4,712	4,712	143
Leasehold improvements	45,542	22,816	22,816	694
	4,426,906	4,832,520	5,227,797	159,093
Less accumulated depreciation	(1,991,356)	(2,528,347)	(2,929,037)	(89,137)
Prepayments for construction-in-progress and equipment-in-transit	151,990	25,795	843,510	25,670
Properties, net	2,587,540	2,329,968	3,142,270	95,626
OTHER ASSETS				
Refundable deposits	6,297	35,625	40,100	1,220
Deferred charges (Note 2)	167,308	134,534	188,548	5,738
Deferred tax assets (Notes 2 and 23)	158,054	192,540	273,816	8,333
Other (Notes 2 and 19)	30,973	62,225	84,891	2,583
Total other assets	362,632	424,924	587,355	17,874
TOTAL	$ 27,517,973	$ 53,613,280	$ 75,777,040	$ 2,306,057

	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)	$ 9,764	$ -	$ -	$ -
Notes and accounts payable	8,397,318	15,551,191	16,863,579	513,195
Notes and accounts payable to related parties (Note 26)	117,504	14,983	58,845	1,791
Income tax payable (Notes 2 and 23)	210,291	763,575	1,859,458	56,587
Accrued expenses (Notes 16 and 26)	657,475	1,525,103	2,688,287	81,810
Payable for purchase of equipment	21,746	11,596	43,523	1,325
Other current liabilities (Notes 17 and 26)	2,364,380	7,061,702	15,599,841	474,736
Total current liabilities	11,778,478	24,928,150	37,113,533	1,129,444
OTHER LIABILITIES				
Guarantee deposits received	495,160	613	628	19
Total liabilities	12,273,638	24,928,763	37,114,161	1,129,463
STOCKHOLDERS' EQUITY (Note 20)				
Capital stock				
Common stock	2,887,633	3,570,160	4,327,952	131,709
Stock dividend for distribution	682,527	794,032	1,403,385	42,708
Capital surplus				
Additional paid-in capital - common stock	4,410,871	4,410,871	4,374,244	133,118
Long-term equity investments	-	15,845	15,845	482
From a merger	25,972	25,972	25,756	784
Retained earnings				
Legal reserve	813,326	1,991,520	4,516,253	137,439
Special reserve	19,133	6,175	-	-
Accumulated earnings	6,426,542	17,873,984	23,980,153	729,767
Cumulative translation adjustments (Note 2)	(20,645)	(3,272)	19,777	602
Unrealized valuation losses on financial instruments (Notes 2 and 7)	(1,024)	(770)	(486)	(15)
Total stockholders' equity	15,244,335	28,684,517	38,662,879	1,176,594
TOTAL	$ 27,517,973	$ 53,613,280	$ 75,777,040	$ 2,306,057

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

HIGH TECH COMPUTER CORP.

STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2005, 2006 AND 2007
(In Thousands, Except Earnings Per Share)

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
REVENUES (Notes 2 and 26)	$ 28,687,972	$ 50,004,455	$ 50,462,057	$ 1,535,668
COST OF REVENUES (Note 26)	22,073,529	34,503,576	32,276,701	982,249
GROSS PROFIT	6,614,443	15,500,879	18,185,356	553,419
UNREALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	(15,021)	(60,050)	(147,817)	(4,498)
REALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	6,289	15,077	164,011	4,991
REALIZED GROSS PROFIT	6,605,711	15,455,906	18,201,550	553,912
OPERATING EXPENSES (Notes 22 and 26)				
Selling and marketing	821,838	1,746,843	2,977,869	90,623
General and administrative	164,977	474,521	431,044	13,118
Research and development	1,071,791	1,265,635	1,645,196	50,067
Total operating expenses	2,058,606	3,486,999	5,054,109	153,808
OPERATING INCOME	4,547,105	11,968,907	13,147,441	400,104
NONOPERATING INCOME AND GAINS				
Interest income	54,378	165,700	335,419	10,208
Gains on equity-method investment (Notes 2 and 14)	-	7,284	-	-
Gain on sale of properties	-	4,818	2,120	65
Foreign exchange gain (Note 2)	-	196,446	236,439	7,195
Valuation gain on financial instruments, net (Notes 2, 4 and 6)	-	11,005	30,670	933
Rental revenue (Note 26)	339	-	-	-
Other	30,996	108,808	82,880	2,522
Total nonoperating income and gains	85,713	494,061	687,528	20,923
NONOPERATING EXPENSES AND LOSSES				
Interest expense	19,718	156	132	4
Losses on equity-method investments (Notes 2 and 14)	21,153	-	51,070	1,554
Losses on disposal of properties	502	2,452	661	20
Losses on physical inventory	1,190	2,210	-	-
Foreign exchange loss (Note 2)	214,353	-	-	-
Provision for loss on decline in value of inventory	187,393	562,024	487,479	14,835
Valuation loss on financial instruments, net (Notes 2, 4 and 6)	9,764	-	-	-
Other	5,156	3,834	40,824	1,243
Total nonoperating expenses and losses	459,229	570,676	580,166	17,656
INCOME BEFORE INCOME TAX	4,173,589	11,892,292	13,254,803	403,371
INCOME TAX (Notes 2 and 23)	(117,358)	(762,071)	(1,739,655)	(52,941)
NET INCOME	$ 4,056,231	$ 11,130,221	$ 11,515,148	$ 350,430

(Continued)

HIGH TECH COMPUTER CORP.

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

	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)	$ 7.31	$ 7.11	$ 20.58	$ 19.26	$ 23.11	$ 0.70	$ 20.08	$ 0.61
DILUTED EARNINGS PER SHARE (Note 24)	$ 7.26	$ 7.05	$ 20.34	$ 19.04	$ 23.11	$ 0.70	$ 20.08	$ 0.61

(Concluded)

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

HIGH TECH COMPUTER CORP.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars)

	Issued and Outstanding Capital Stock			Capital Surplus			Retained Earnings						
	Common Stock	Share Subscriptions Received in Advance	Stock Dividend for Distribution	Additional Paid-in Capital - Common Stock	Long-Term Equity Investments	From a Merger	Legal Reserve	Special Reserve	Accumulated Earnings	Cumulative Translation Adjustments	Unrealized Valuation Losses on Financial Instruments	Treasury Stock	Total
BALANCE, JANUARY 1, 2005	$ 2,714,276	$ 48,838	$ -	$ 3,064,356	$ -	$ 25,972	$ 427,791	$ 1,983	$ 5,105,339	$ (17,865)	$ (1,268)	$ -	$11,369,422
Appropriation of the 2004 net earnings													
Legal reserve	-	-	-	-	-	-	385,535	-	(385,535)	-	-	-	-
Special reserve	-	-	-	-	-	-	-	17,150	(17,150)	-	-	-	-
Stock dividends	-	-	577,527	-	-	-	-	-	(577,527)	-	-	-	-
Transfer of employee bonuses to capital stock	-	-	105,000	-	-	-	-	-	(105,000)	-	-	-	-
Employee bonuses	-	-	-	-	-	-	-	-	(206,000)	-	-	-	(206,000)
Cash dividends	-	-	-	-	-	-	-	-	(1,443,816)	-	-	-	(1,443,816)
Capital collected in advance transferred to common stock	48,838	(48,838)	-	-	-	-	-	-	-	-	-	-	-
Convertible bonds converted to common stock	124,519	-	-	1,346,515	-	-	-	-	-	-	-	-	1,471,034
Net income in the six months ended June 30, 2005	-	-	-	-	-	-	-	-	4,056,231	-	-	-	4,056,231
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	(2,780)	-	-	(2,780)
Unrealized valuation losses on financial instruments	-	-	-	-	-	-	-	-	-	-	244	-	244
BALANCE, JUNE 30, 2005	$ 2,887,633	$ -	$ 682,527	$ 4,410,871	$ -	$ 25,972	$ 813,326	$ 19,133	$ 6,426,542	$ (20,645)	$ (1,024)	$ -	$15,244,335
BALANCE, JANUARY 1, 2006	$ 3,570,160	$ -	$ -	$ 4,410,871	$ -	$ 25,972	$ 813,326	$ 19,133	$14,152,255	$ (5,041)	$ (1,135)	$ -	$22,985,541
Adjustments due to accounting changes	-	-	-	-	-	-	-	-	-	-	48	-	48
Appropriation of the 2005 net earnings													
Legal reserve	-	-	-	-	-	-	1,178,194	-	(1,178,194)	-	-	-	-
Special reserve	-	-	-	-	-	-	-	(12,958)	12,958	-	-	-	-
Stock dividends	-	-	714,032	-	-	-	-	-	(714,032)	-	-	-	-
Transfer of employee bonuses to capital stock	-	-	80,000	-	-	-	-	-	(80,000)	-	-	-	-
Employee bonuses	-	-	-	-	-	-	-	-	(451,000)	-	-	-	(451,000)
Cash dividends	-	-	-	-	-	-	-	-	(4,998,224)	-	-	-	(4,998,224)
Adjustment arising from changes in ownership percentage in investees	-	-	-	-	15,845	-	-	-	-	-	-	-	15,845
Net income in the six months ended June 30, 2006	-	-	-	-	-	-	-	-	11,130,221	-	-	-	11,130,221
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	1,769	-	-	1,769
Unrealized valuation losses on financial instruments	-	-	-	-	-	-	-	-	-	-	317	-	317
BALANCE, JUNE 30, 2006	$ 3,570,160	$ -	$ 794,032	$ 4,410,871	$ 15,845	$ 25,972	$ 1,991,520	$ 6,175	$17,873,984	$ (3,272)	$ (770)	$ -	$28,684,517

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HIGH TECH COMPUTER CORP.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2007 AND 2006
(In Thousands)

	Issued and Outstanding Capital Stock			Capital Surplus			Retained Earnings						
New Taiwan Dollars	**Common Stock**	**Share Subscriptions Received in Advance**	**Stock Dividend for Distribution**	**Additional Paid-in Capital - Common Stock**	**Long-Term Equity Investments**	**From a Merger**	**Legal Reserve**	**Special Reserve**	**Accumulated Earnings**	**Cumulative Translation Adjustments**	**Unrealized Valuation Losses on Financial Instruments**	**Treasury Stock**	**Total**
BALANCE, JANUARY 1, 2007	$ 4,364,192	$ -	$ -	$ 4,410,871	$ 15,845	$ 25,972	$ 1,991,520	$ 6,175	$31,991,090	$ 10,786	$ (238)	$ (243,995)	$42,572,218
Appropriation of the 2006 net earnings													
Legal reserve	-	-	-	-	-	-	2,524,733	-	(2,524,733)	-	-	-	-
Special reserve	-	-	-	-	-	-	-	(6,175)	6,175	-	-	-	-
Stock dividends	-	-	1,298,385	-	-	-	-	-	(1,298,385)	-	-	-	-
Transfer of employee bonuses to capital stock	-	-	105,000	-	-	-	-	-	(105,000)	-	-	-	-
Employee bonuses	-	-	-	-	-	-	-	-	(2,000,000)	-	-	-	(2,000,000)
Cash dividends	-	-	-	-	-	-	-	-	(11,685,470)	-	-	-	(11,685,470)
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	-	(1,747,760)	(1,747,760)
Retirement of treasury stock	(36,240)	-	-	(36,627)	-	(216)	-	-	(1,918,672)	-	-	1,991,755	-
Net income in the six months ended June 30, 2007	-	-	-	-	-	-	-	-	11,515,148	-	-	-	11,515,148
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	8,991	-	-	8,991
Unrealized valuation losses on financial instruments	-	-	-	-	-	-	-	-	-	-	(248)	-	(248)
BALANCE, JUNE 30, 2007	$ 4,327,952	$ -	$ 1,403,385	$ 4,374,244	$ 15,845	$ 25,756	$ 4,516,253	$ -	$23,980,153	$ 19,777	$ (486)	$ -	$38,662,879
United States Dollars												-	
BALANCE, JANUARY 1, 2007	$ 132,812	$ -	$ -	$ 134,233	$ 482	$ 790	$ 60,606	$ 188	$ 973,557	$ 328	$ (7)	$ (7,425)	$ 1,295,564
Appropriation of the 2006 net earnings													
Legal reserve	-	-	-	-	-	-	76,833	-	(76,833)	-	-	-	-
Special reserve	-	-	-	-	-	-	-	(188)	188	-	-	-	-
Stock dividends	-	-	39,513	-	-	-	-	-	(39,513)	-	-	-	-
Transfer of employee bonuses to capital stock	-	-	3,195	-	-	-	-	-	(3,195)	-	-	-	-
Employee bonuses	-	-	-	-	-	-	-	-	(60,864)	-	-	-	(60,864)
Cash dividends	-	-	-	-	-	-	-	-	(355,614)	-	-	-	(355,614)
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	-	(53,188)	(53,188)
Retirement of treasury stock	(1,103)	-	-	(1,115)	-	(6)	-	-	(58,389)	-	-	60,613	-
Net income in the six months ended June 30, 2007	-	-	-	-	-	-	-	-	350,430	-	-	-	350,430
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	274	-	-	274
Unrealized valuation losses on financial instruments	-	-	-	-	-	-	-	-	-	-	(8)	-	(8)
BALANCE, JUNE 30, 2007	$ 131,709	$ -	$ 42,708	$ 133,118	$ 482	$ 784	$ 137,439	$ -	$ 729,767	$ 602	$ (15)	$ -	$ 1,176,594

(Concluded)

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

HIGH TECH COMPUTER CORP.

STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2005, 2006 AND 2007
(In Thousands)

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$ 4,056,231	$ 11,130,221	$ 11,515,148	$ 350,430
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation	289,124	291,688	285,516	8,689
Amortization	18,903	15,703	29,767	906
Loss (gain) on disposal of properties	502	(2,366)	(1,459)	(44)
Losses (gains) on equity-method investment	21,153	(7,284)	51,070	1,554
Provision for the redemption of convertible bonds	2,042	-	-	-
Foreign exchange gains from the conversion of convertible bonds	(8,179)	-	-	-
Amortization of bond issue costs	17,675	-	-	-
Deferred income tax assets	(98,346)	17,690	(84,722)	(2,578)
Accrued pension costs	(23,310)	(12,465)	(10,871)	(331)
Net changes in operating assets and liabilities				
Financial instruments at fair value through profit or loss	10,858	49,080	(107,140)	(3,260)
Notes receivable	(275,518)	(416,845)	57,410	1,747
Accounts receivable	680,804	(631,299)	1,032,051	31,407
Accounts receivable from related parties	(108,973)	(647,826)	801,627	24,395
Other current financial assets	12,512	(60,602)	234,481	7,136
Inventories	391,138	(136,805)	175,227	5,333
Prepayments	(379,412)	(420,150)	438,128	13,333
Other current assets	22,215	6,856	(25,030)	(762)
Notes and accounts payable	474,004	1,810,796	30,594	931
Notes and accounts payable to related parties	94,367	(41,315)	44,791	1,363
Income tax payable	116,137	146,712	100,741	3,066
Accrued expenses	(204,792)	320,296	348,158	10,595
Other current liabilities	300,529	305,400	2,175	66
Net cash provided by operating activities	5,409,664	11,717,485	14,917,662	453,976
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of properties	(390,722)	(126,935)	(514,103)	(15,645)
Proceeds of the sales of properties	2	4,768	5,155	157
Increase in long-term investments - equity method	-	(215,977)	(885,746)	(26,955)
Increase in financial assets carried at cost	-	-	(500,000)	(15,216)
Purchase of bond investments not quoted in an active market	-	-	(33,030)	(1,005)
Proceeds of the liquidation of long-term investments	4,312	-	-	-
Increase in refundable deposits	(375)	(347)	(3,109)	(95)
Increase in deferred charges	-	-	(99,256)	(3,021)
Net cash used in investing activities	(386,783)	(338,491)	(2,030,089)	(61,780)
CASH FLOWS FROM FINANCING ACTIVITIES				
Purchase of treasury stock	-	-	(1,747,760)	(53,188)
Increase (decrease) in guarantee deposits received	222,082	52	(12)	-
Bonus to employees	(4,500)	-	(451,000)	(13,725)
Net cash provided by (used in) financing activities	217,582	52	(2,198,772)	(66,913)

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HIGH TECH COMPUTER CORP.

STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2005, 2006 AND 2007
(In Thousands)

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 5,240,463	$ 11,379,046	$ 10,688,801	$ 325,283
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	6,148,201	16,196,448	34,397,388	1,046,786
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 11,388,664	$ 27,575,494	$ 45,086,189	$ 1,372,069
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Cash paid during the period				
Interest paid	$ -	$ -	$ 132	$ 4
Income tax	$ 99,567	$ 597,669	$ 1,723,636	$ 52,454
NONCASH INVESTING AND FINANCING ACTIVITIES				
Transfer of retained earnings and bonus to employees to stock dividends for distribution	$ 682,527	$ 794,032	$ 1,403,385	$ 42,708
Transfer of convertible bonds to common stock and additional paid-in capital	$ 1,471,034	$ -	$ -	$ -
PURCHASE OF PROPERTIES				
Cost of properties purchased	$ 358,226	$ 128,802	$ 521,858	$ 15,881
Decrease (increase) in payable for purchase of equipment	32,496	2,443	(8,181)	(249)
(Increase) decrease lease payable	-	(4,310)	426	13
Cash paid for purchase of properties	$ 390,722	$ 126,935	$ 514,103	$ 15,645
CASH DIVIDENDS, BONUSES TO EMPLOYEES AND DIRECTORS' REMUNERATION				
Appropriation of cash dividends, bonuses to employees and directors' remuneration	$ 1,649,816	$ 5,449,224	$ 13,685,470	$ 416,478
Increase in payable for cash dividends, bonuses to employees and directors' remuneration	(1,645,316)	(5,449,224)	(13,234,470)	(402,753)
Cash paid	$ 4,500	$ -	$ 451,000	$ 13,725

(Concluded)

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

1. ORGANIZATION AND OPERATIONS

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

The Company had 3,560, 4,145 and 4,879 employees as of June 30, 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 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 unrestricted cash, cash equivalents and other assets to be realized in cash, sold, or consumed (prepaid items) within 12 months of the balance sheet date. Current liabilities are obligations to be paid or settled within 12 months of the balance sheet date. All other assets or liabilities are classified as noncurrent.

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.

Bond Investments not Quoted in an Active Market

Bond investments not quoted in an active market are carried at amortized cost under the effective interest method. Those financial assets are initially recognized at fair value plus costs that are directly attributable to the acquisition. Gains or losses are recognized on investment de-recognition, impairment or amortization.

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 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.

Under SFAS No. 23, "Interim Financial Reporting and Disclosures," the Company does not have to apply the requirement stated in SFAS No. 18 ("Accounting for Pensions") of remeasuring the minimum pension liability and pension cost of the current interim period.

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 June 30, 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$32.86 to US$1.00 quoted by the Bank of Taiwan on June 30, 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 six months ended June 30, 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 six months ended June 30, 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 six months ended June 30, 2006.

5. CASH

Cash as of June 30, 2005, 2006 and 2007 were as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Cash on hand	$ 992	$ 900	$ 1,000	$ 30
Cash in banks	3,257,884	3,794,194	5,726,789	174,279
Time deposits	8,129,788	23,780,400	39,358,400	1,197,760
	$ 11,388,664	$ 27,575,494	$ 45,086,189	$ 1,372,069

As of June 30, 2005, 2006 and 2007, interest rates on domestic currency time deposits ranged from 1.00% to 1.45%, 1.30% to 2.005% and 1.844% to 2.20%, respectively.

As of June 30, 2005, 2006 and 2007, interest rates on foreign currency time deposits or preferential deposit ranged from 2.00% to 4.55%, 2.43% to 4.97% and 2.95% to 5.00%, 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 June 30, 2005, 2006 and 2007 were as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Derivatives - financial assets				
Forward exchange contracts	$ -	$ 11,005	$ 30,670	$ 933
Derivatives - financial liabilities				
Forward exchange contracts	$ 9,764	$ -	$ -	$ -

The Company entered into derivative transactions during the six months ended June 30, 2005, 2006 and 2007 to manage exposures related to foreign exchange rate fluctuations. The derivative transactions entered into by the Company did not meet the criteria for hedge accounting prescribed by SFAS No. 34. Therefore, the Company hadn't adopted hedge accounting. Outstanding forward exchange and currency option contracts as of June 30, 2005, 2006 and 2007 were as follows:

Forward Exchange Contracts

	2005			
	Buy/Sell	Currency	Expiry Date	Contract Amount
Forward exchange contracts	Sell	USD/NTD	2005.07.01~2005.08.05	US$ 65,000
Forward exchange contracts	Sell	EUR/USD	2005.07.01~2005.07.22	EUR€ 18,000
Forward exchange contracts	Sell	GBP/USD	2005.07.07	GBP£ 2,000

	2006			
	Buy/Sell	Currency	Expiry Date	Contract Amount
Forward exchange contracts	Sell	USD/NTD	2006.07.05~2006.09.06	US$ 89,000
Forward exchange contracts	Sell	EUR/USD	2006.07.05~2006.09.27	EUR€ 93,000
Forward exchange contracts	Sell	EUR/JPY	2006.07.07	EUR€ 250
Forward exchange contracts	Sell	USD/JPY	2006.07.07	US$ 800
Forward exchange contracts	Sell	GBP/USD	2006.07.14	GBP£ 500

	2007			
	Buy/Sell	Currency	Expiry Date	Contract Amount
Forward exchange contracts	Sell	USD/NTD	2007.07.04～2007.07.18	US$ 33,000
Forward exchange contracts	Sell	EUR/USD	2007.07.13～2007.09.07	EUR€ 130,000
Forward exchange contracts	Sell	GBP/USD	2007.07.13	GBP£ 150
Forward exchange contracts	Sell	JPY/USD	2007.08.24	JPY 70,000

Net loss on derivative financial instruments for the six months ended June 30, 2007 was NT$106,324 thousand (US$3,236 thousand), including realized settlement loss of NT$136,994 thousand (US$4,169 thousand) and valuation gain of NT$30,670 thousand (US$933 thousand).

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets as of June 30, 2005, 2006 and 2007 were as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
VIA Technologies, Inc.	$ 947	$ 1,201	$ 1,485	$ 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 June 30, 2005, 2006 and 2007 were as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Notes receivable	$ 347,274	$ 515,932	$ 1,520	$ 46
Accounts receivable	7,666,516	14,847,947	17,294,864	526,320
Less allowance for doubtful accounts	(6,886)	(3,833)	(8,936)	(272)
	$ 8,006,904	$ 15,360,046	$ 17,287,448	$ 526,094

9. OTHER CURRENT FINANCIAL ASSETS

Other current financial assets as of June 30, 2005, 2006 and 2007 were as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Other receivables from related parties (Note 26)	$ 4,125	$ 70,275	$ 62,178	$ 1,892
Other receivables	23,100	23,233	22,103	673
Interest receivable	3,874	12,916	33,737	1,027
Others	4,716	9,172	15,998	487
	$ 35,815	$ 115,596	$ 134,016	$ 4,079

Other receivables were primarily compensation from service charges, overseas value-added tax refund receivables, prepayment for employees' traveling expenses and proceeds of the sales of properties.

10. INVENTORIES

Inventories as of June 30, 2005, 2006 and 2007 were as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Finished goods	$ 560,798	$ 661,433	$ 514,355	$ 15,653
Work-in-process	1,419,141	1,586,557	1,521,818	46,312
Raw materials	2,280,900	3,719,451	3,819,296	116,229
	4,260,839	5,967,441	5,855,469	178,194
Less valuation allowance	(448,328)	(993,083)	(1,046,805)	(31,856)
	$ 3,812,511	$ 4,974,358	$ 4,808,664	$ 146,338

11. PREPAYMENTS

Prepayments as of June 30, 2005, 2006 and 2007 were as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Royalty	$ 459,721	$ 688,356	$ 1,272,333	$ 38,720
Services	9,670	47,306	61,874	1,883
Prepayments for materials purchases	4,571	265	1,273	39
Others	150,278	158,484	107,511	3,272
	$ 624,240	$ 894,411	$ 1,442,991	$ 43,914

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 June 30, 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	$ 15,216
Answer Online, Inc.	1,192	1,192	1,192	37
	$ 1,192	$ 1,192	$ 501,192	$ 15,253

In January 2007, the Company acquired 10% equity interest in Hua-Chuang Automobile Information Technical Center Co., Ltd. for NT$500,000 thousand (US$15,216 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. BOND INVESTMENT NOT QUOTED IN AN ACTIVE MARKET

As of June 30, 2007, the Company had the following bond investment, which was not quoted in an active market:

	NT$	US$ (Note 3)
Bond investment	$ 33,030	$ 1,005
Less current portion	(33,030)	(1,005)
	$ -	$ -

The above 12-month bond investment was acquired by the Company for NT$33,030 thousand (US$1,000 thousand). The unquoted debt instrument was not carried at fair value because its fair value could not be reliably measured.

14. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Investments accounted for by the equity method as of June 30, 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.	$ 321,860	100	$ 337,914	100	$ 770,793	$ 23,457	$ 653,987	$ 19,902	100
BandRich Inc.	-		148,250	51	135,000	4,108	116,720	3,552	51
HTC HK, Limited	-	-	-	-	1,277	39	1,828	56	100
Communication Global Certification Inc.	-	-	-	-	280,000	8,521	286,942	8,732	100
Prepayments for long-term investments	-	-	78,216	-	605,746	18,434	605,746	18,434	-
	$ 321,860		$ 564,380		$ 1,792,816	$ 54,559	$ 1,665,223	$ 50,676	

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 June 30, 2007, the Company had increased this investment to NT$1,376,539 thousand (US$41,454 thousand). Because the registration of this investment was not completed on June 30, 2007, the amounts of NT$605,746 thousand (US$18,434 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 shares of common stock at a price of NT$12.50 per share of which the Company didn’t purchase. The Company’s ownership percentage declined from 92% to 51% and resulted in 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$280,000 thousand (US$ 8,521 thousand) and accounted for this investment by the equity method.

On its equity-method investments, the Company had (losses) gain of NT$(21,153) thousand, NT$7,284 thousand and NT$(51,070) thousand (US$1,554 thousand) for the six months ended June 30, 2005, 2006 and 2007, respectively.

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

Under the revised Statement of Financial Accounting Standards No. 7, “Consolidated Financial Statements,” which took effect on January 1, 2005, the Company included the accounts of all its direct and indirect subsidiaries in the consolidated financial statements as of and for the six months ended June 30, 2005, 2006 and 2007. All significant intercompany balances and transactions have been eliminated.

15. PROPERTIES

Properties as of June 30, 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	$ 576,001	$ 610,293	$ 610,293	$ -	$ 610,293	$ 18,572
Buildings and structures	709,597	767,105	1,087,626	382,187	705,439	21,468
Machinery and equipment	1,066,432	857,651	3,037,666	2,120,257	917,409	27,919
Molding equipment	-	-	172,632	172,632	-	-
Computer equipment	36,540	35,089	190,093	149,298	40,795	1,241
Transportation equipment	431	817	1,335	740	595	18
Furniture and fixtures	30,100	24,765	100,624	81,608	19,016	579
Leased assets	-	4,319	4,712	1,178	3,534	108
Leasehold improvements	16,449	4,134	22,816	21,137	1,679	51
Prepayments on equipment-in-transit	151,990	25,795	843,510	-	843,510	25,670
	$2,587,540	$2,329,968	$6,071,307	$2,929,037	$3,142,270	$ 95,626

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.

16. ACCRUED EXPENSES

Accrued expenses as of June 30, 2005, 2006 and 2007 were as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Marketing	$ -	$ 267,305	$1,343,864	$ 40,897
Salaries and bonuses	268,946	319,417	593,244	18,054
Research materials	101,233	121,082	136,212	4,145
Donation	-	300,000	120,402	3,664
Professional fees	22,670	27,756	117,838	3,586
Export expenses	71,265	220,212	108,028	3,288
Meals and welfare	32,624	60,733	49,394	1,503
Insurance	67,351	66,166	22,124	673
Travel	15,712	41,005	18,188	553
Others	77,674	101,427	178,993	5,447
	$ 657,475	$1,525,103	$2,688,287	$ 81,810

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 June 30, 2006 and 2007, the Company accrued the donation of NT$300,000 thousand and 120,402 (US$3,664 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.

17. OTHER CURRENT LIABILITIES

Other current liabilities as of June 30, 2005, 2006 and 2007 were as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Cash dividend payable	$ 1,443,816	$ 4,998,224	$11,685,470	$ 355,614
Reserve for warranty expenses	615,590	1,144,979	1,319,395	40,152
Employee bonus payable	206,000	451,000	2,000,000	60,864
Agency receipts	30,976	112,568	107,254	3,264
Advance receipts	13,858	96,555	69,016	2,100
Other payable to related parties (Note 26)	4,815	68,909	152,586	4,644
Deferred credits - profit from intercompany transactions	15,021	60,050	147,817	4,498
Directors' remuneration	21,842	21,842	21,842	665
Other	12,462	107,575	96,461	2,935
	$ 2,364,380	$ 7,061,702	$15,599,841	$ 474,736

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

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

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.

18. BONDS PAYABLE

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.

19. PENSION PLAN

The Labor Pension Act (the "Act), which provides for a new defined contribution plan, took effect on July 1, 2005. Employees already covered by the Labor Standards Law (the "Law") can choose to remain to be subject to the pension mechanism under the Law or to be subject to the Act. Under the Act, the rate of an employer's monthly contribution to the pension fund should be at least 6% of the employee's monthly wages, and the contribution should be recognized as pension expense in the income statement. The pension costs of the defined contribution pension plan for the six months ended June 30, 2006 and 2007 were NT$41,987, and NT$51,830 thousand (US$1,578 thousand), respectively.

Under the Law, which provides for a defined benefit pension plan, retirement payments should be made according to the years of service, with a payment of two units for each year of service but only one unit per year after the 15th year; however, total units should not exceed 45. On January 1, 2004, the rate of the Company's contributions to a pension fund increased from 2% to 8% of employees' salaries and wages and then decreased to 2% after the Act took effect. The fund is deposited in the Central Trust of China, a government-designated custodian of pension funds, and managed by the Pension Fund Administration Committee. The pension fund balances were NT$ 244,377 thousand, NT$291,477 thousand and NT$327,968 (US$ 9,981 thousand) as of June 30, 2005, 2006 and 2007, respectively.

Based on the Statement of Financial Accounting Standards No. 18 - "Accounting for Pensions," issued by the Accounting Research and Development Foundation of the ROC, changes of prepaid pension cost under the defined benefit plans for the six months ended June 30, 2005, 2006 and 2007 as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Balance, beginning of period	$ 7,663	$ 49,760	$ 74,020	$ 2,252
Contributions	(47,542)	(3,024)	(3,362)	(102)
Payments	70,852	15,489	14,233	433
Balance, end of period	$ 30,973	$ 62,225	$ 84,891	$ 2,583

20. STOCKHOLDERS' EQUITY

Capital Stock

The Company's outstanding common stock as of January 1, 2005 amounted to NT$2,714,276 thousand, divided into 271,427 thousand shares at NT$10.00 par value. After the registration of the conversion of bonds into 4,884 thousand shares (NT$48,838 thousand) was completed, these shares were transferred to common stocks. In the first and second quarters of 2005, holders of US$45,970 thousand in bonds requested to convert the bonds into 12,452 thousand shares (NT$124,519 thousand). As a result, the amount of the Company's outstanding common stock as of June 30, 2005 increased to NT$2,887,633 thousand, divided into 288,763 thousand common shares at NT$10.00 par value. 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. The amounts to be distributed were accounted for as "stock dividend for distribution" temporarily.

After finishing the registration of the shares to be distributed, the amount of the Company's outstanding common stock as of June 30, 2006 increased to NT$3,570,160 thousand, divided into 357,016 thousand common shares at NT$10.00 par value. 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. The amounts to be distributed were accounted for as "stock dividend for distribution" temporarily.

In April 2007, the Company retired 3,624 thousand treasury shares (NT$36,240 thousand, or US$1,103 thousand). As a result, the amount of the Company's outstanding common stock as of June 30, 2007 decreased to NT$4,327,952 thousand (US$131,709 thousand), divided into 432,795 thousand common shares at NT$10.00 (US$0.30) par value. Also, in June 2007, the stockholders approved the transfer of retained earnings amounting to NT$1,298,385 thousand (US$39,513 thousand) and employee bonuses amounting to NT$105,000 thousand (US$3,195 thousand) to capital stock. The amounts to be distributed were accounted for as "stock dividend for distribution" temporarily.

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 June 30, 2007, the Company had issued 3,000 thousand units of the stock options to employees which were increased to 7,011 thousand units by taking into account the effect of stock dividends and the issuance of additional common stocks. After the employees' choosing to give up the stock options, there was no employee stock options outstanding. The remaining employee stock options which were not issued, 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 June 30, 2007, there were 5,106.5 thousand units of GDRs redeemed, representing 20,426 thousand common shares, and the outstanding GDRs represented 8,873 thousand common shares or 2.05% of the Company's common shares.

Capital Surplus

The additional paid-in capital was NT$3,064,356 thousand as of January 1, 2005. Then, the following additional paid-in capital resulted from two transactions: (a) NT$1,346,515 thousand from the conversion of bonds payable into 12,452 thousand shares in the first and second quarters of 2005; and (b) NT$36,627 thousand (US$1,115 thousand) from the retirement of treasury stock in April 2007. As a result, the additional paid-in capital as of June 30, 2007 was NT$4,374,244 thousand (US$133,118 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 to the new shares issued by BandRich Inc., an adjustment of NT$15,845 thousand was made to the investment's 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. Then, because of treasury stock retirement in April 2007, the additional paid-in capital from a merger decreased to NT$25,756 thousand (US$784 thousand).

Appropriation of Retained Earnings and Dividend Policy

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

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

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

Had the Company recognized the employees bonuses of NT$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.

Had the Company recognized the employees bonuses of NT$2,105,000 thousand as expenses in 2006, the pro forma earnings per share in 2005 would have decreased from NT$57.85 to NT$53.03.

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$53,188 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 June 30, 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	526,387	595,283	1,121,670	641,973	766,955	1,408,928
Salary	447,595	508,326	955,921	532,180	662,708	1,194,888
Insurance	28,948	34,943	63,891	33,594	40,082	73,676
Pension cost	22,982	24,560	47,542	15,354	29,657	45,011
Other	26,862	27,454	54,316	60,845	34,508	95,353
Depreciation	180,151	108,973	289,124	176,692	114,996	291,688
Amortization	393	18,510	18,903	-	15,703	15,703

Function / Expense Item	2007					
	NT$			US$ (Note 3)		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses	669,255	1,322,556	1,991,811	20,367	40,248	60,615
Salary	551,199	1,177,209	1,728,408	16,774	35,825	52,599
Insurance	36,379	51,067	87,446	1,107	1,554	2,661
Pension cost	17,705	37,487	55,192	539	1,141	1,680
Other	63,972	56,793	120,765	1,947	1,728	3,675
Depreciation	163,370	122,146	285,516	4,972	3,717	8,689
Amortization	14,292	15,475	29,767	435	471	906

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:

Products Granted Exemption from Corporate Income Tax	Terms Granted Exemption from Corporate Income Tax
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
sales of wireless or smartphone which has 3G or GPS function	2006.12.20~2011.12.19

Income taxes payable as of June 30, 2005, 2006 and 2007 were computed as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Income before income tax	$ 4,173,589	$ 11,892,292	$ 13,254,803	$ 403,371
Permanent differences				
Losses (gains) on equity-method investments	21,153	(7,284)	51,070	1,554
Other	1,631	6,942	14,966	456
Temporary differences				
Realized pension cost	(23,310)	(12,465)	(10,871)	(331)
Unrealized loss on decline in value of inventory	101,556	406,356	155,142	4,721
Unrealized royalties	369,964	911,156	1,007,449	30,659
Realized depreciation	(6,029)	-	-	-
Unrealized foreign exchange losses(gain), net	92,434	(166,494)	145,481	4,427
Unrealized valuation loss (gain) on financial instruments	9,764	(11,005)	(30,670)	(933)
Unrealized (realized) warranty expense	290,889	180,476	(74,600)	(2,270)
Unrealized marketing expense	-	-	360,776	10,979
Other	(24,313)	42,840	(11,538)	(350)
Total income	5,007,328	13,242,814	14,862,008	452,283
Less tax-exempt income	(3,242,437)	(9,224,622)	(9,425,991)	(286,853)
Taxable income	1,764,891	4,018,192	5,436,017	165,430
Tax rate	×25%	×25%	×25%	×25%
Current income tax	441,223	1,004,548	1,359,004	41,357
Income tax credit	(10)	(10)	(10)	-

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Estimated income tax provision	441,213	1,004,538	1,358,994	41,357
Unappropriated earnings (additional 10% income tax)	144,006	436,049	571,507	17,392
Less investment research and development tax credits	(369,727)	(727,910)	(232,035)	(7,061)
Current income tax expense	215,492	712,677	1,698,466	51,688
Less prepaid and withheld income tax	(5,201)	(16,833)	(32,650)	(994)
Tax shortage stated in the tax assessment notice	-	67,731	193,642	5,893
Income tax payable	$ 210,291	$ 763,575	$ 1,859,458	$ 56,587

The tax effects of deductible temporary differences and loss and tax credit carryforwards that gave rise to deferred tax assets as of June 30, 2005, 2006 and 2007 were as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Temporary differences				
Unrealized depreciation	$ 1,507	$ -	$ -	$ -
Unrealized foreign exchange loss, net	-	-	17,233	524
Provision for loss on decline in value of inventory	112,082	248,271	261,701	7,964
Unrealized royalties	256,049	687,345	1,193,960	36,335
Capitalize expense	39,264	34,532	35,302	1,074
Unrealized reserve for warranty expense	153,898	286,245	329,849	10,038
Unrealized marketing expense	-	-	335,966	10,224
Other	860	1,075	21,519	655
Tax credit carryforwards	633,588	-	-	-
Total deferred tax assets	1,197,248	1,257,468	2,195,530	66,814
Less valuation allowance	(858,857)	(745,875)	(1,434,611)	(43,658)
Total deferred tax asset, net	338,391	511,593	760,919	23,156
Deferred tax liability				
Unrealized pension cost	(7,185)	(14,998)	(21,223)	(646)
Unrealized valuation gain on financial instruments	-	(2,751)	(7,667)	(233)
Unrealized foreign exchange gain, net	(10,170)	(32,674)	-	-
	321,036	461,170	732,029	22,277
Less current portion	(162,982)	(268,630)	(458,213)	(13,944)
Deferred tax assets, noncurrent	$ 158,054	$ 192,540	$ 273,816	$ 8,333

Details of the tax credit carryforwards are as follows:

Year of Occurrence	Validity Period	2005 NT$	2006 NT$	2007 NT$	2007 US$ (Note 3)
2000	2000-2004	$ -	$ -	$ -	$ -
2001	2001-2005	77,118	-	-	-
2002	2002-2006	56,405	-	-	-
2003	2003-2007	179,061	-	-	-
2004	2004-2008	214,346	-	-	-
2005	2005-2009	106,658	-	-	-
		$633,588	$ -	$ -	$ -

Based on the Income Tax Law of the ROC, the investment and 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 six months ended June 30, 2005, 2006 and 2007 were as follows:

	2005 NT$	2006 NT$	2007 NT$	2007 US$ (Note 3)
Current income tax expense	$ 215,492	$ 712,677	$ 1,698,466	$ 51,688
(Increase) decrease in deferred income tax assets	(98,346)	17,690	(84,722)	(2,578)
Under estimation of prior years' income tax	212	31,704	125,911	3,831
Income tax expense	$ 117,358	$ 762,071	$ 1,739,655	$ 52,941

The integrated income tax information is as follows:

	2005 NT$	2006 NT$	2007 NT$	2007 US$ (Note 3)
Balance of imputation credit account	$ 93,811	$ 342,267	$ 830,009	$ 25,259
Unappropriated earnings from 1998	6,426,542	17,873,984	23,980,153	729,767
Expected creditable ratio (including income tax payable)	4.73%	6.19%	11.12%	11.12%

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 570,563 thousand shares, 577,950 thousand shares and 573,468 thousand shares for the six months ended June 30, 2005, 2006 and 2007, respectively. EPS for the six months ended June 30, 2005 and 2006 were calculated after the average number of shares outstanding was adjusted retroactively for the effect of stock dividend distribution in 2007.

The convertible bonds and employee stock options had dilutive effects on the EPS for the six months ended June 30, 2005, 2006 and 2007. The related information is as follows:

	2005				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax NT$	Income after Income Tax NT$	Shares (Thousands)	Income before Income Tax NT$	Income after Income Tax NT$
Basic EPS	$ 4,173,589	$ 4,056,231	570,563	$ 7.31	$ 7.11
Employee stock options	-	-	4,437		
Diluted EPS	$ 4,173,589	$ 4,056,231	575,000	$ 7.26	$ 7.05

	2006				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax NT$	Income after Income Tax NT$	Shares (Thousands)	Income before Income Tax NT$	Income after Income Tax NT$
Basic EPS	$11,892,292	$11,130,221	577,950	$ 20.58	$ 19.26
Employee stock options	-	-	6,771		
Diluted EPS	$11,892,292	$11,130,221	584,721	$ 20.34	$ 19.04

	2007				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax NT$	Income after Income Tax NT$	Shares (Thousands)	Income before Income Tax NT$	Income after Income Tax NT$
Basic EPS	$13,254,803	$11,515,148	573,468	$ 23.11	$ 20.08
Employee stock options	-	-	-		
Diluted EPS	$13,254,803	$11,515,148	573,468	$ 23.11	$ 20.08

	2007				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax US$ (Note 3)	Income after Income Tax US$ (Note 3)	Shares (Thousands)	Income before Income Tax US$ (Note 3)	Income after Income Tax US$ (Note 3)
Basic EPS	$ 403,371	$ 350,430	573,468	$ 0.70	$ 0.61
Employee stock options	-	-	-		
Diluted EPS	$ 403,371	$ 350,430	573,468	$ 0.70	$ 0.61

25. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

Nonderivative Financial Instruments

	June 30							
	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	$ 947	$ 947	$ 1,201	$ 1,201	$ 1,485	$ 45	$ 1,485	$ 45
Financial assets carried at cost	1,192	1,192	1,192	1,192	501,192	15,253	501,192	15,253
Bond investments not quoted in an active market	-	-	-	-	33,030	1,005	33,030	1,005
Investments accounted for by the equity method	321,860	321,860	564,380	564,380	1,665,223	50,676	1,665,223	50,676

Derivative Financial Instruments

	June 30							
	2005		2006		2007			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NT$	NT$	NT$	NT$	NT$	US$	NT$	US$ (Note 3)
Assets								
Financial assets at fair value through profit or loss	$ -	$ -	$ 11,005	$ 11,005	$ 30,670	$ 933	$ 30,670	$ 933
Liabilities								
Financial liabilities at fair value through profit or loss	9,764	9,764	-	-	-	-	-	-

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 financial instruments neither include bonds payable, refundable deposits nor guarantee deposits. 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.

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.

Methodology Used to Determine the Fair Values of Financial Instruments

	Quoted Market Prices				Measurement Method			
	June 30				June 30			
	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	$ -	$ 11,005	$ 30,670	$ 933	$ -	$ -	$ -	$ -
Available-for-sale financial assets - noncurrent	947	1201	1,485	45				
Financial assets carried at cost	-	-	-	-	1,192	1,192	501,192	15,253
Bond investments not quoted in an active market	-	-	-	-	-	-	33,030	1,005
Investments accounted for by the equity method	-	-	-	-	321,860	564,380	1,665,223	50,676
Liabilities								
Financial liabilities at fair value through profit or loss	9,764	-	-	-	-	-	-	-

There was no loss or gain recognized for the six months ended June 30, 2005, 2006, and 2007 on the fair value changes of derivatives estimated using valuation techniques. The Company recognized unrealized gains of NT$244 thousand and NT$317 thousand and a loss of NT$248 thousand (US$8 thousand) in stockholders' equity for the changes in fair value of available-for-sale financial assets for the six months ended June 30, 2005, 2006 and 2007, respectively.

As of June 30, 2005, 2006 and 2007, financial assets exposed to cash flow interest rate risk amounted to NT$8,129,788 thousand, NT$23,780,400 thousand and NT$39,358,400 thousand (US$1,197,760 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

	Six Months Ended June 30						
	2005		2006		2007		
Related Party	Amount NT$	% of Total Net Purchases	Amount NT$	% to Total Net Purchases	Amount NT$	Amount US$ (Note 3)	% to Total Net Purchases
High Tech Computer Corp. (Suzhou)	$ -	-	$ 4,746	-	$ 21,508	$ 654	-
BandRich Inc.	-	-	-	-	610	19	-
Chander Electronics Corp.	263,415	1	72,175	-	-	-	-
	$ 263,415	1	$ 76,921	-	$ 22,118	$ 673	-

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

Sales and Services Provided

	Six Months Ended June 30						
	2005		2006		2007		
Related Party	Amount NT$	% to Total Revenues	Amount NT$	% to Total Revenues	Amount NT$	Amount US$ (Note 3)	% to Total Revenues
HTC America Inc.	$ 145,394	1	$ 264,924	1	$ 395,955	$ 12,050	1
HTC Europe Co., Ltd.	15,008	-	128,757	-	301,688	9,181	1
Exedea Inc.	-	-	1,016,049	2	191,897	5,840	-
First International Computer, Inc. (FIC)	-	-	-	-	58,523	1,781	-
Comserve Network Netherlands B.V.	53,470	-	-	-	37,587	1,144	-
BandRich Inc.	-	-	-	-	15,758	480	-
HTC Nippon Corporation	-	-	-	-	4,313	131	-
Others	1,531	-	785	-	104	3	-
	$ 215,403	1	$1,410,515	3	$1,005,825	$ 30,610	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

	June 30						
	2005		2006		2007		
Related Party	Amount NT$	% to Total Notes and Accounts Receivable	Amount NT$	% to Total Notes and Accounts Receivable	Amount NT$	Amount US$ (Note 3)	% to Total Notes and Accounts Receivable
Accounts receivable							
HTC America Inc.	$ 166,207	2	$ 239,441	2	$ 229,682	6,990	1
HTC Europe Co., Ltd.	15,008	-	121,553	1	192,736	5,865	1
First International Computer, Inc. (FIC)	-	-	-	-	59,717	1,817	-
Exedea Inc.	-	-	706,304	4	12,177	370	-
BandRich Inc.	-	-	-	-	6,265	191	-
Comserve Network Netherlands B.V.	5,971	-	-	-	4,896	149	-
HTC Nippon Corporation	-	-	-	-	4,686	143	-
Other	-	-	1,308	-	4	-	-
	$ 187,186	2	$1,068,606	7	$ 510,163	$ 15,525	2

Notes and Accounts Payable

	June 30						
	2005		2006		2007		
Related Party	Amount NT$	% to Total Notes and Accounts Payable	Amount NT$	% to Total Notes and Accounts Payable	Amount NT$	Amount US$ (Note 3)	% to Total Notes and Accounts Payable
High Tech Computer Corp. (Suzhou)	$ -	-	$ 14,265	-	$ 58,351	$ 1,776	-
Chander Electronics Corp.	117,389	1	224	-	-	-	-
Others	115	-	494	-	494	15	-
	$ 117,504	1	$ 14,983	-	$ 58,845	$ 1,791	-

Other Receivable

	June 30						
	2005		2006		2007		
Related Party	Amount NT$	% to Total Other Receivable	Amount NT$	% to Total Other Receivable	Amount NT$	Amount US$ (Note 3)	% to Total Other Receivable
High Tech Computer Corp. (Suzhou)	$ -	-	$ 16,313	17	$ 40,894	$ 1,244	48
HTC Nippon Corporation	-	-	-	-	19,113	582	23
HTC Europe Co., Ltd.	658	2	35,453	38	1,310	40	2
HTC America Inc.	3,467	13	18,509	20	792	24	1
Others	-	-	-	-	69	2	-
	$ 4,125	15	$ 70,275	75	$ 62,178	$ 1,892	74

Prepaid Expenses

Related Party	June 30 2005 Amount NT$	2005 % to Total Prepayment	2006 Amount NT$	2006 % to Total Prepayment	2007 Amount NT$	2007 Amount US$ (Note 3)	2007 % to Total Prepayment
HTC Europe Co., Ltd.	$ -	-	$ 17,610	2	$ 24,066	$ 732	2
HTC America Inc.	-	-	19,857	2	19,857	604	1
HTC Nippon Corporation	-	-	-	-	15,789	481	1
	$ -	-	$ 37,467	4	$ 59,712	$ 1,817	4

Other Payables to Related Parties

Related Party	June 30 2005 Amount NT$	2005 % to Total Other Payables	2006 Amount NT$	2006 % to Total Other Payables	2007 Amount NT$	2007 Amount US$ (Note 3)	2007 % to Total Other Payables
HTC America Inc.	$ -	-	$ 28,348	41	$ 87,589	$ 2,666	57
HTC Europe Co., Ltd.	4,815	100	24,974	36	40,982	1,247	27
HTC Nippon Corporation	-	-	-	-	14,790	450	10
Communication Global Certification Inc.	-	-	-	-	8,516	259	6
High Tech Computer Corp. (Suzhou)	-	-	-	-	499	15	-
Exedea Inc.	-	-	15,567	23	-	-	-
Others	-	-	20	-	210	7	-
	$ 4,815	100	$ 68,909	100	$ 152,586	$ 4,644	100

Outsourcing Expenses

Related Party	Six Months Ended June 30 2005 Amount NT$	2005 % to Total Out-Sourcing Expenses	2006 Amount NT$	2006 % to Total Out-Sourcing Expenses	2007 Amount NT$	2007 Amount US$ (Note 3)	2007 % to Total Out-Sourcing Expenses
High Tech Computer Corp. (Suzhou)	$ -	-	$ 39,388	10	$ 107,087	$ 3,259	50
First International Computer Inc.	7,350	4	-	-	-	-	-
	$ 7,350	4	$ 39,388	10	$ 107,087	$ 3,259	50

Service Warranty Expense

Related Party	Six Months Ended June 30 2005 Amount NT$	2005 % to Warranty Expenses	2006 Amount NT$	2006 % to Warranty Expenses	2007 Amount NT$	2007 Amount US$ (Note 3)	2007 % to Warranty Expenses
HTC America Inc.	$ 37,175	7	$ 108,069	11	$ 438,270	$ 13,338	32
Comserve Network Netherlands B.V.	68,649	12	-	-	188,740	5,744	14
HTC Europe Co., Ltd.	18,749	3	153,171	16	152,024	4,626	11
	$ 124,573	22	$ 261,240	27	$ 779,034	$ 23,708	57

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

Administrative and Selling Expenses - Service Fees

	Six Months Ended June 30						
	2005		2006		2007		
Related Party	**Amount NT$**	**% to Total Professional Fees**	**Amount NT$**	**% to Total Professional Fees**	**Amount NT$**	**Amount US$ (Note 3)**	**% to Total Professional Fees**
HTC America Inc.	$ -	-	$ 21,589	16	$ 73,752	$ 2,244	11
Communication Global Certification Inc.	-	-	-	-	42,118	1,282	7
HTC Nippon Corporation	-	-	-	-	14,683	447	2
HTC EUROPE Co., Ltd.	-	-	6,289	5	11,123	338	2
VIA Technologies, Inc.	2,400	6	1,200	1	1,200	37	-
HTEK	10,299	25	21,685	16	-	-	-
Exedea Inc.	-	-	15,567	11	-	-	-
	$ 12,699	31	$ 66,330	49	$ 142,876	$ 4,348	22

Leasing - Lessee

Operating Expense - Rental Expense

	Six Months Ended June 30						
	2005		2006		2007		
Related Party	**Amount NT$**	**% to Total Rental Expense**	**Amount NT$**	**% to Total Rental Expense**	**Amount NT$**	**Amount US$ (Note 3)**	**% to Total Rental Expense**
VIA Technologies, Inc.	$ 8,304	62	$ -	-	$	$	

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

Leasing - Lessor

Nonoperating Revenue - Rental Revenue

	Six Months Ended June 30						
	2005		2006		2007		
Related Party	**Amount NT$**	**% to Rental Revenue**	**Amount NT$**	**% to Rental Revenue**	**Amount NT$**	**Amount US$ (Note 3)**	**% to Rental Revenue**
VIA Technologies, Inc.	$ 339	100	$ -	-	$ -	$ -	-

Property Transaction

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

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

In the second quarter of 2006, the Company sold equipment to HTC Europe Co., Ltd. for NT$141 thousand and to High Tech Computer Corp. (Suzhou) for NT$3,914 thousand.

In the second quarter of 2007, the Company sold equipment to High Tech Computer Corp. (Suzhou) for NT$5,080 thousand.

27 COMMITMENTS AND CONTINGENCIES

As of June 30, 2007, unused letters of credit amounted to US$340 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 31, 2009	Authorization to use embedded operating system; royalty payment based on agreement.
Texas Instruments France	January 14, 2000 - January 13, 2010	Authorization to use GSM system software; royalty payment based on agreement.
Qualcomm Incorporated	December 20, 2000 to the following dates: (a) If the Company materially breaches any covenant and fails to take remedial action within 30 days after Qualcomm's issuance of a written notice, the Company will be prohibited from using Qualcomm's property or patents. (b) Any time when the Company is not using any of Qualcomm's intellectual property, the Company may terminate this agreement upon 60 days' prior written notice to Qualcomm.	Authorization to use CDMA technology to manufacture and sell units; royalty payment based on agreement.
Ericsson Mobile Platform AB	April 2003-March 2011	Authorization to use EDGE reference design license and support agreement; royalty payment based on agreement.
Telefonaktiebolaget LM Ericsson	December 15, 2003 to the expiry dates of these patents, and no longer than December 14, 2008	Authorization to use platform patent license agreement; royalty payment based on agreement.

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

29. OTHER EVENT

In May 2007, the board of directors of the Company signed an acquisition agreement with Dopod International Inc. ("Dopod") to buy all of the assets of nine of Dopod's subsidiaries: Dopod Taiwan, Dopod Hong Kong, Dopod Singapore, Dopod Malaysia, Dopod Indonesia, and Dopod Australia, Dopod Thailand, Dopod India, and Dopod Philippines.

The purchase price will depend on the book value of the net assets of Dopod's subsidiaries. These assets had been audited by independent certified public accountants as of June 30, 2007. The Company estimates that the purchase price will not exceed US$14.5 million dollars. The transfer of all of the subsidiaries' assets will take effect on July 1, 2007.