High Tech Computer Corp.

Financial Statements for the Nine Months Ended September 30, 2005, 2006 and 2007 and Independent Accountants' Review Report

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
High Tech Computer Corp.

We have reviewed the accompanying balance sheets of High Tech Computer Corp. (the "Company") as of September 30, 2005, 2006 and 2007 and the related statements of income and cash flows for the nine months then ended, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our reviews.

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

The calculation of long-term investments accounted for by the equity method as of and for the nine months ended September 30, 2005, 2006 and 2007 was based on the investees' unreviewed financial statements of the same reporting periods as those of the Company. These investments amounted to NT$327,975 thousand, NT$481,644 thousand and NT$2,381,979 thousand as of September 30, 2005, 2006 and 2007, respectively. The related equity in the investees' losses for the nine months ended September 30, 2005 and 2006 amounted to NT$34,844 thousand and NT$88,635 thousand, respectively, and the equity in the investees' gain as of September 30, 2007 amounted to NT$72,802 thousand.

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

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

October 12, 2007

Notice to Readers

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

The accountants' report and the accompanying financial statements were originally presented in more than one set of Chinese reports. For the convenience of readers the accountants' 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 accountants' 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
SEPTEMBER 30, 2005, 2006 AND 2007
(In Thousands, Except Par Value)
(Reviewed, Not Audited)

ASSETS	2005 NT$	2006 NT$	2007 NT$	2007 US$ (Note 3)
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 5)	$ 10,104,562	$ 30,441,557	$ 40,612,727	$ 1,245,025
Financial assets at fair value through profit or loss (Notes 2, 4, 6 and 24)	3,677	18,957	-	-
Bond investment with no quoted price in an active market (Notes 2 and 13)	-	-	33,030	1,013
Notes receivable (Notes 2 and 8)	296,798	1,931	1,515	46
Accounts receivable, net (Notes 2 and 8)	10,557,270	14,149,140	19,341,597	592,937
Accounts receivable from related parties, net (Notes 2 and 25)	335,058	1,422,074	689,038	21,123
Other current financial assets (Notes 9 and 25)	45,709	147,150	156,813	4,807
Inventories (Notes 2 and 10)	5,624,411	5,659,556	5,922,301	181,554
Prepayments (Notes 11 and 25)	756,348	780,466	1,780,672	54,588
Deferred income tax assets (Notes 2 and 22)	162,697	302,202	433,771	13,298
Other current assets	21,446	51,501	126,968	3,893
Total current assets	27,907,976	52,974,534	69,098,432	2,118,284
LONG-TERM INVESTMENTS				
Available-for-sale financial assets - noncurrent (Notes 2 and 7)	876	1,087	1,004	31
Financial assets carried at cost (Notes 2 and 12)	1,192	1,192	501,192	15,364
Investments accounted for by the equity method (Notes 2 and 14)	327,975	481,644	1,795,023	55,028
Prepayments for long-term investments (Notes 2 and 14)	-	-	586,956	17,994
Total long-term investments	330,043	483,923	2,884,175	88,417
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 15 and 25)				
Cost				
Land	610,293	610,293	610,293	18,709
Buildings and structures	1,072,412	1,081,136	2,193,394	67,241
Machinery and equipment	2,506,852	2,563,963	3,100,311	95,043
Molding equipment	201,567	201,247	172,632	5,292
Computer equipment	160,425	176,257	202,012	6,193
Transportation equipment	1,315	1,938	1,335	41
Furniture and fixtures	104,828	101,916	101,215	3,103
Leased assets	-	4,712	4,712	145
Leasehold improvements	22,816	22,816	22,816	699
	4,680,508	4,764,278	6,408,720	196,466
Less accumulated depreciation	(2,120,547)	(2,524,896)	(3,044,173)	(93,322)
Prepayments for construction-in-progress and equipment-in-transit	37,421	491,143	247,428	7,585
Property, plant and equipment, net	2,597,382	2,730,525	3,611,975	110,729
OTHER ASSETS				
Refundable deposits	6,297	35,622	40,560	1,244
Deferred charges (Note 2)	158,706	126,796	235,448	7,218
Deferred tax assets (Notes 2 and 19)	154,307	223,706	263,883	8,090
Other (Note 2)	42,212	68,200	90,010	2,759
Total other assets	361,522	454,324	629,901	19,311
TOTAL	$ 31,196,923	$ 56,643,306	$ 76,224,483	$ 2,336,741

LIABILITIES AND STOCKHOLDERS' EQUITY	2005 NT$	2006 NT$	2007 NT$	2007 US$ (Note 3)
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss (Notes 2, 4, 6 and 24)	-	$ -	$ 204,449	$ 6,268
Notes and accounts payable	10,988,427	15,885,072	18,722,055	573,944
Notes and accounts payable to related parties (Note 25)	67,092	9,812	45,341	1,390
Income tax payable (Notes 2 and 22)	344,234	1,164,826	2,401,081	73,608
Accrued expenses (Notes 16 and 25)	780,423	1,828,820	4,167,098	127,746
Payable for purchase of equipment	26,363	15,087	103,711	3,179
Other current liabilities (Notes 17 and 25)	1,084,567	2,334,784	4,480,016	137,340
Total current liabilities	13,291,106	21,238,401	30,123,751	923,475
OTHER LIABILITIES				
Guarantee deposits received	30	646	628	19
Total liabilities	13,291,136	21,239,047	30,124,379	923,494
STOCKHOLDERS' EQUITY (Note 19)				
Capital stock				
Common stock	3,570,160	4,364,192	5,731,337	175,700
Capital surplus				
Additional paid-in capital	4,410,871	4,410,871	4,374,244	134,097
Long-term equity investments	-	15,845	15,845	486
Merger	25,972	25,972	25,756	790
Retained earnings				
Legal reserve	813,326	1,991,520	4,516,253	138,450
Special reserve	19,133	6,175	-	-
Accumulated earnings	9,068,259	24,581,934	31,411,931	962,966
Unrealized valuation losses on financial instruments (Notes 2)	(1,095)	(884)	(967)	(30)
Cumulative translation adjustments (Note 2)	(839)	8,634	25,705	788
Total stockholders' equity	17,905,787	35,404,259	46,100,104	1,413,247
TOTAL	$ 31,196,923	$ 56,643,306	$ 76,224,483	$ 2,336,741

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

(With Deloitte & Touche review report dated October 12, 2007)

HIGH TECH COMPUTER CORP.

STATEMENTS OF INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2005, 2006 AND 2007
(In Thousands, Except Earnings Per Share)
(Reviewed, Not Audited)

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
REVENUES (Notes 2 and 25)	$ 45,244,433	$ 76,361,068	$ 79,570,181	2,439,307
COST OF REVENUES (Note 22)	34,697,239	51,926,899	50,349,312	1,543,511
GROSS PROFIT	10,547,194	24,434,169	29,220,869	895,796
UNREALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	(17,067)	(142,369)	(173,330)	(5,314)
REALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	6,289	15,077	164,011	5,028
REALIZED GROSS PROFIT	10,536,416	24,306,877	29,211,550	895,510
OPERATING EXPENSES (Notes 21 and 25)				
Selling and marketing	1,318,591	2,914,933	5,338,909	163,670
General and administrative	223,411	556,870	649,133	19,900
Research and development	1,658,635	1,992,332	2,645,438	81,099
Total operating expenses	3,200,637	5,464,135	8,633,480	264,669
OPERATING INCOME	7,335,779	18,842,742	20,578,070	630,841
NONOPERATING INCOME AND GAINS				
Interest income	91,876	273,588	541,228	16,592
Investment income recognized under the equity method (Notes 2 and 14)	-	-	72,802	2,232
Gain on sale of property, plant and equipment	-	41,341	2,120	65
Gain on physical inventory	-	-	53	2
Foreign exchange gain (Note 2)	-	355,696	720,419	22,085
Valuation gains on financial instruments, net (Notes 2, 4 and 6)	3,677	18,957	-	-
Other	48,633	123,221	101,625	3,115
Total nonoperating income and gains	144,186	812,803	1,438,247	44,091
NONOPERATING EXPENSES AND LOSSES				
Interest expense	19,718	229	186	6
Investment loss recognized under the equity method (Notes 2 and 14)	34,844	88,635	-	-
Losses on disposal of property, plant and equipment	787	3,377	661	20
Losses on physical inventory	1,179	2,197	-	-
Foreign exchange loss (Note 2)	133,062	-	-	-
Provision for loss on decline in value of inventory	327,636	609,582	487,479	14,944
Valuation loss on financial instruments, net (Notes 2, 4 and 6)	-	-	204,449	6,268
Other	6,375	4,205	40,916	1,253
Total nonoperating expenses and losses	523,601	708,225	733,691	22,491
INCOME BEFORE INCOME TAX	6,956,364	18,947,320	21,282,626	652,441
INCOME TAX (Notes 2 and 22)	(258,416)	(1,109,149)	(2,335,700)	(71,603)
NET INCOME	$ 6,697,948	$ 17,838,171	$ 18,946,926	$ 580,838

(Continued)

HIGH TECH COMPUTER CORP.

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006
(In Thousands, Except Earnings Per Share)
(Reviewed, Not Audited)

	2005		2006		2007			
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax	Before Income Tax		After Income Tax	
	NT$	NT$	NT$	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
BASIC EARNINGS PER SHARE (Note 23)	$ 12.16	$ 11.71	$ 32.78	$ 30.87	$ 37.12	$ 1.14	$ 33.05	$ 1.01
DILUTED EARNINGS PER SHARE (Note 23)	$ 12.06	$ 11.62	$ 32.41	$ 30.51	$ 37.12	$ 1.14	$ 33.05	$ 1.01

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

(With Deloitte & Touche review report dated October 12, 2007) (Concluded)

HIGH TECH COMPUTER CORP.

STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2005, 2006 AND 2007
(In Thousands)
(Reviewed, Not Audited)

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$ 6,697,948	$ 17,838,171	$ 18,946,926	$ 580,838
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation	436,193	439,106	400,803	12,287
Amortization	27,505	23,441	72,895	2,235
Loss (gain) on disposal of property, plant and equipment	787	(37,964)	(1,459)	(45)
Equity in losses (gains) of equity method investees	34,844	88,635	(72,802)	(2,232)
Provision for redemption of convertible bonds	2,042	-	-	-
Foreign exchange gains on convertible bonds	(8,179)	-	-	-
Amortization of bond issue costs	17,675	-	-	-
Deferred income tax assets	(94,314)	(47,048)	(50,347)	(1,543)
Accrued pension cost	(34,549)	(18,440)	(15,990)	(490)
Net changes in operating assets and liabilities				
Financial instruments at fair value through profit or loss	(2,583)	41,128	127,979	3,923
Notes receivable	(225,042)	97,156	57,415	1,760
Accounts receivable	(2,216,836)	63,675	(1,023,618)	(31,380)
Accounts receivable from related parties	(256,845)	(1,001,294)	622,752	19,091
Other current financial assets	2,618	(92,156)	211,684	6,489
Inventories	(1,420,762)	(822,003)	(938,410)	(28,768)
Prepayments	(511,520)	(306,205)	100,447	3,079
Other current assets	26,269	(21,176)	(63,867)	(1,958)
Notes and accounts payable	3,065,113	2,144,677	1,889,071	57,912
Notes and accounts payable to related parties	43,955	(46,486)	31,286	959
Income tax payable	250,080	547,963	642,364	19,692
Accrued expenses	(81,844)	624,013	1,826,969	56,008
Other current liabilities	464,532	576,912	568,045	17,414
Net cash provided by operating activities	6,217,087	20,092,105	23,332,143	715,271
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(543,301)	(675,778)	(1,039,132)	(31,856)
Proceeds of sales of property, plant and equipment	2	44,519	5,155	158
Increase in long-term investments	-	(217,254)	(1,472,702)	(45,147)
Increase in financial assets carried at cost	-	-	(500,000)	(15,328)
Purchase of bond investment with no quoted price in an active market	-	-	(33,030)	(1,013)
Proceeds of liquidation of long-term investments	4,312	-	-	-
Increase in refundable deposits	(375)	(344)	(3,569)	(109)
Increase in deferred charges	-	-	(189,284)	(5,803)
Net cash used in investing activities	(539,362)	(848,857)	(3,232,562)	(99,098)
CASH FLOWS FROM FINANCING ACTIVITIES				
Purchase of treasury stock	-	-	(1,747,760)	(53,579)
(Decrease) increase in guarantee deposits received	(273,048)	85	(12)	-
Cash dividend, bonus to employees and directors' remuneration	(1,448,316)	(4,998,224)	(12,136,470)	(372,057)
Net cash used in financing activities	(1,721,364)	(4,998,139)	(13,884,242)	(425,636)

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HIGH TECH COMPUTER CORP.

STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2005, 2006 AND 2007
(In Thousands)
(Reviewed, Not Audited)

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 3,956,361	$ 14,245,109	$ 6,215,339	$ 190,537
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	6,148,201	16,196,448	34,397,388	1,054,488
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 10,104,562	$ 30,441,557	$ 40,612,727	$ 1,245,025
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Cash paid during the period				
Interest (net of amounts capitalized)	$ -	$ -	$ 186	$ 6
Income tax	$ 102,650	$ 608,234	$ 1,743,683	53,454
NONCASH INVESTING AND FINANCING ACTIVITIES				
Transfer of convertible bonds to common stock and additional paid-in capital	$ 1,471,034	$ -	$ -	$ -
PURCHASE OF PROPERTY, PLANT AND EQUIPMENT				
Cost of property, plant and equipment purchased	$ 515,422	$ 680,930	$ 1,106,850	$ 33,932
Decrease (increase) in payable for purchase of equipment	27,879	(1,048)	(68,369)	(2,096)
Increase in lease payable	-	(4,104)	651	20
Cash paid for purchase of property, plant and equipment	$ 543,301	$ 675,778	$ 1,039,132	$ 31,856
BONUS TO EMPLOYEES AND DIRECTORS' REMUNERATION				
Appropriation of cash dividend and bonus to employees	$ 1,649,816	$ 5,449,224	$ 13,685,470	$ 419,542
Increase in payable for cash dividend and bonus to employees	(201,500)	(451,000)	(1,549,000)	(47,486)
Cash paid	$ 1,448,316	$ 4,998,224	$ 12,136,470	$ 372,056

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

(With Deloitte & Touche review report dated October 12, 2007) (Concluded)

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 4,088, 4,685 and 5,271 employees as of September 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. Please see Note 25.

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

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

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

Current/Noncurrent Assets and Liabilities

Current assets are cash (unrestricted), 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 with No Quoted Prices in an Active Market

Bond investments with no quoted prices 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 rate of the Company's contributions to the plan was 2%. The funds are deposited in the Central Trust of China, a government-designated custodian of pension funds, and are managed by the Company's Pension Fund Administration Committee. The pension fund balances were NT$265,344 thousand, NT$298,964 thousand and NT$334,768 (US$10,262 thousand) as of September 30, 2005, 2006 and 2007, respectively. The pension costs of the defined benefit pension plan for the nine months ended September 30, 2005, 2006 and 2007 were NT$54,379, NT$4,535 thousand and NT$5,043 thousand (US$155 thousand), respectively.

The Labor Pension Act (the "Act), which provides for a new defined contribution plan, took effect on July 1, 2005. Employees already covered by the Law can choose to remain to be subject to the pension mechanism under the Law or to be subject to the Act. Under the Act, the rate of an employer's monthly contribution to the pension fund should be at least 6% of the employee's monthly wages, and the contribution should be recognized as pension expense in the income statement. The pension costs of the defined contribution pension plan for the three months ended September 30, 2005, 2006 and 2007 were NT$20,642, NT$65,656 thousand and NT$80,385 thousand (US$2,464 thousand), respectively.

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 nine months ended September 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$ 32.62 to US$1.00 quoted by the Bank of Taiwan on September 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 nine months ended September 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 nine months ended September 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 nine months ended September 30, 2006.

5. CASH

Cash and cash equivalents as of September 30, 2005, 2006 and 2007 were as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Cash on hand	$ 993	$ 1,000	$ 1,000	$ 31
Cash in banks	2,020,569	5,632,157	5,684,727	174,271
Time deposits	8,083,000	24,808,400	34,927,000	1,070,723
	$ 10,104,562	$ 30,441,557	$ 40,612,727	$ 1,245,025

As of September 30, 2005, 2006 and 2007, interest rates on domestic currency time deposits ranged from 1.30% to 1.68%, 1.40% to 2.075% and 1.76% to 2.185%, respectively.

As of September 30, 2005, 2006 and 2007, interest rates on foreign currency time deposits or preferential deposits ranged from 2.15% to 4.75%, 2.57% to 5.25% and 3.05% to 4.75%, 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 September 30, 2005, 2006 and 2007 were as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Derivatives - financial assets				
Forward exchange contracts	$ 3,677	$ 18,957	$	$
Derivatives - financial liabilities				
Forward exchange contracts	$ -	$ -	$ 204,449	$ 6,268

The Company entered into derivative transactions during the nine months ended September 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 September 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	2005.10.05~2005.11.02	US$ 29,000
Forward exchange contracts	Sell	EUR/USD	2005.10.14~2005.11.02	EUR€ 8,000
Forward exchange contracts	Sell	GBP/USD	2005.11.01~2005.11.30	GBP£ 3,000

	2006			
	Buy/Sell	Currency	Expiry Date	Contract Amount
Forward exchange contracts	Sell	USD/NTD	2006.10.04~2006.12.29	US$ 10,000
Forward exchange contracts	Sell	EUR/USD	2006.10.04~2006.11.29	EUR€ 66,000
Forward exchange contracts	Buy	USD/JPY	2006.10.25~2006.12.29	US$ 4,016
Forward exchange contracts	Sell	GBP/USD	2006.10.11~2006.11.03	GBP£ 4,250
Forward exchange contracts	Sell	JPY/NTD	2006.10.25~2006.11.03	JP¥ 205,000

	2007			
	Buy/Sell	Currency	Expiry Date	Contract Amount
Forward exchange contracts	Sell	USD/NTD	2007.10.02~2007.10.26	US$ 37,500
Forward exchange contracts	Sell	EUR/USD	2007.10.05~2007.12.28	EUR€ 152,000
Forward exchange contracts	Sell	GBP/USD	2007.10.17~2007.11.30	GBP£ 3,100
Forward exchange contracts	Sell	JPY/NTD	2007.11.09~2007.11.21	JP¥ 1,830,000
Forward exchange contracts	Buy	CAD/USD	2007.10.12	US$ 1,872

Net loss on derivative financial instruments for the nine months ended September 30, 2007 was NT$339,021 thousand (US$10,399 thousand), including realized settlement loss of NT$134,752 thousand (US$4,131 thousand) and valuation loss of NT$204,449 thousand (US$6,268 thousand).

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
VIA Technologies, Inc.	$ 876	$ 1,087	$ 1,004	$ 31

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 September 30, 2005, 2006 and 2007 were as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Notes receivable	$ 296,798	$ 1,931	$ 1,515	$ 46
Accounts receivable	10,561,336	14,152,814	19,513,908	597,809
Less allowance for doubtful accounts	(4,066)	(3,674)	(158,937)	(4,872)
	$ 10,854,068	$ 14,151,071	$ 19,356,486	$ 592,983

9. OTHER CURRENT FINANCIAL ASSETS

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

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Other receivables from related parties (Note 25)	$ 3,699	$ 106,727	$ 72,253	$ 2,215
Other receivables	21,785	16,278	14,101	432
Interest receivable	10,465	15,150	39,058	1,197
Others	9,760	8,995	31,401	963
	$ 45,709	$ 147,150	$ 156,813	$ 4,807

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 September 30, 2005, 2006 and 2007 were as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Finished goods	$ 637,048	$ 455,786	$ 460,211	$ 14,108
Work-in-process	2,232,654	2,296,051	2,402,113	73,639
Raw materials	3,232,201	3,950,088	4,106,782	125,898
	6,101,903	6,701,925	6,969,106	213,645
Less valuation allowance	(477,492)	(1,042,369)	(1,046,805)	(32,091)
	$ 5,624,411	$ 5,659,556	$ 5,922,301	$ 181,554

11. PREPAYMENTS

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

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Prepayments for royalty (Note 24)	$ 595,053	$ 585,083	$ 1,622,429	$ 49,737
Services	29,947	54,799	18,938	581
Prepayments for molding equipment	49,679	39,528	46,912	1,438
Others	81,669	101,056	92,393	2,832
	$ 756,348	$ 780,466	$ 1,780,672	$ 54,588

Prepayments for royalty were primarily prepayments for the future discount purpose (Note 27 has more information)

12. FINANCIAL ASSETS CARRIED AT COST

Financial assets carried at cost as of September 30, 2005, 2006 and 2007 were as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Hug-Chuang Automobile Information Technical Center Co., Ltd.	$ -	$ -	$ 500,000	$ 15,328
Answer Online, Inc.	1,192	1,192	1,192	36
	$ 1,192	$ 1,192	$ 501,192	$ 15,364

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 WITH NO QUOTED PRICE IN AN ACTIVE MARKET

As of September 30, 2007, the Company had the following bond investment, which had no quoted price 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 using equity method as of September 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.	$ 327,975	100	$ 337,517	100	$ 1,376,539	$ 42,199	$ 1,401,519	$ 42,965	100
BandRich Inc.	-	-	142,850	51	135,000	4,139	111,794	3,427	51
HTC HK, Limited	-	-	1,277	100	1,277	39	3,130	96	100
Communication Global Certification Inc.	-	-	-	-	280,000	8,584	278,580	8,540	100
Prepayments for long-term investments	-	-	-	-	586,956	17,994	586,956	17,994	-
	$ 327,975		$ 481,644		$ 2,379,772	$ 72,955	$ 2,381,979	$ 73,022	

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 September 30, 2007, the Company had increased this investment to NT$1,402,835 thousand (US$42,254 thousand). Because the registration of this investment was not completed on September 30, 2007, the amounts of NT$26,296 thousand (US$806 thousand) were temporarily accounted for as “prepayments for long-term investments.” H.T.C. (B.V.I.) Corp. makes investments on behalf of the Company.

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

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

In January 2007, the Company acquired 100% equity interest in Communication Global Certification Inc. for NT$280,000 thousand (US$8,584 thousand) and accounted for this investment by the equity method.

In July 2007, the Company acquired 100% equity interest in High Tech Computer Asia Pacific Pte. Ltd. for NT$560,660 thousand (US$1,700 thousand). Because the registration of this investment had not been completed as of September 30, 2007, the acquisition amount was temporarily accounted for under “prepayments for long-term investments.” High Tech Computer Asia Pacific Pte. Ltd. made this investment on the Company’s behalf.

On its equity-method investments, the Company had (losses) gains of NT$(34,844) thousand, NT$(88,635) thousand and NT$72,802 thousand (US$2,232 thousand) for the nine months ended September 30, 2005, 2006 and 2007, respectively.

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

15. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of September 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	$ 610,293	$ 610,293	$ 610,293	$ -	$ 610,293	$ 18,709
Buildings and structures	813,623	751,599	2,193,394	400,328	1,793,066	54,969
Machinery and equipment	1,063,730	805,725	3,100,311	2,208,826	891,485	27,329
Molding equipment	-	-	172,632	172,632	-	-
Computer equipment	35,773	39,752	202,012	155,189	46,823	1,436
Transportation equipment	376	761	1,335	796	539	17
Furniture and fixtures	29,294	23,755	101,215	83,693	17,522	537
Leased assets	-	4,123	4,712	1,374	3,338	102
Leasehold improvements	6,872	3,374	22,816	21,335	1,481	45
Prepayments on equipment-in-transit	37,421	491,143	247,428	-	247,428	7,585
	$2,597,382	$2,730,525	$6,656,148	$3,044,173	$3,611,975	$110,729

The construction of a new office building was completed in September 2007, and construction amount of NT$933,546 thousand (US$28,619 thousand) was transferred from prepayments for construction in progress to buildings and structures. Prepayments on equipment-in-transit and construction- in- process 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 September 30, 2005, 2006 and 2007 were as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Marketing	$ -	$ 542,741	$2,151,433	$ 65,954
Salaries & bonuses	350,300	391,544	811,347	24,873
Professional fees	32,534	33,665	314,785	9,650
Donation (Note 25)	-	300,000	197,600	6,058
Export expenses	94,717	207,516	140,400	4,304
Research materials	100,858	89,114	129,577	3,972
Meals and welfare	16,257	62,244	55,494	1,701
Insurance	30,132	61,302	47,425	1,454
Travel	9,247	50,112	3,392	104
Others	146,378	90,582	315,645	9,676
	$ 780,423	$1,828,820	$4,167,098	$127,746

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 September 30, 2006 and 2007, the Company accrued the donation of NT$300,000 thousand and 197,600 (US$6,058 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 September 30, 2005, 2006 and 2007 were as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Reserve for warranty expenses	$ 747,039	$ 1,373,587	$ 1,765,955	$ 54,137
Employee bonus payable	206,000	451,000	2,000,000	61,312
Other payable to related parties (Note 25)	-	101,066	188,861	5,790
Deferred credits - profit from intercompany transactions	17,067	142,369	173,330	5,314
Advance receipts	47,267	67,441	117,577	3,604
Receipts for custody	32,890	110,364	116,850	3,582
Directors' remuneration	21,842	21,842	21,842	670
Other	12,462	67,115	95,601	2,931
	$ 1,084,567	$ 2,334,784	$ 4,480,016	$ 137,340

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

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

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

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

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. 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 17,336 thousand shares (NT$173,357 thousand) was completed in the first quarter of 2007, these shares were transferred to common stocks. In June 2005, the stockholders approved the transfer of retained earnings of NT$577,527 thousand and employee bonuses of NT$105,000 thousand to capital stock. As a result, the amount of the Company's outstanding common stock as of September 30, 2005 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 of NT$714,032 thousand and employee bonuses of NT$80,000 thousand to capital stock. As a result, the amount of the Company's outstanding common stock as of September 30, 2006 increased to NT$ 4,364,192 thousand, divided into 436,419 thousand common shares at NT$10.00 par value.

In April 2007, the Company retired 3,624 thousand treasury shares (NT$36,240 thousand, or US$1,111 thousand). In June 2007, the stockholders approved the transfer of retained earnings of NT$1,298,385 thousand (US$39,803 thousand) and employee bonuses of NT$105,000 thousand (US$3,219 thousand) to capital stock. As a result, the amount of the Company's outstanding common stock as of September 30, 2007 increased to NT$5,731,337 thousand (US$175,700 thousand), divided into 573,134 thousand common shares at NT$10.00 (US$0.31) par value.

In their meeting on December 11, 2002, the Company's Board of Directors resolved to issue 7,000 thousand units of employee stock options in accordance with Article 28.3 of the Securities and Exchange Law. Each option represents the right to buy one newly issued common share of the Company. The exercise price is the closing price of the Company's common shares on the option issuance date or the share par value, whichever is higher. The option holders can exercise the right up to 35% of the granted option units no earlier than two years from the grant date. After three years from the grant date, the holders can exercise the right at up to 70% of the granted option units. After four years from the grant date, the option holders are eligible to exercise their rights on all the options owned. The exercise period is five years. As of September 30, 2006, the Company had issued 3,000 thousand units of the stock options to employees. After taking into account the effect of stock dividends and the issuance of additional common stocks, 7,011 thousand units of the employee stock options were outstanding as of September 30, 2006. The remaining employee stock options, amounting to 4,000 thousand units, expired on December 25, 2003.

Global Depositary Receipts

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

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

a. to exercise voting right, and
b. being entitled to receive dividends and participate new 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 September 30, 2007, there were 5,597.5 thousand units of GDRs redeemed, representing 22,390 thousand common shares, and the outstanding GDRs represented 8,943 thousand common shares or 1.56% 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$1,123 thousand) from the retirement of treasury stock in April 2007. As a result, the additional paid-in capital as of September 30, 2007 was NT$4,374,244 thousand (US$134,097 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$790 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$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.

20. 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 September 30, 2007
Bond For maintaining the Company's credit and stockholders' equity investment	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.

21. PERSONNEL EXPENSE, DEPRECIATION AND AMORTIZATION

Function / Expense Item	2005			2006		
	NT$			NT$		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses	850,162	930,838	1,781,000	991,789	1,088,306	2,080,095
Salary	691,752	781,430	1,473,182	822,822	910,488	1,733,310
Insurance	44,730	53,628	98,358	51,516	62,772	114,288
Pension cost	34,179	40,842	75,021	23,882	46,309	70,191
Other	79,501	54,938	134,439	93,569	68,737	162,306
Depreciation	270,396	165,797	436,193	266,997	172,109	439,106
Amortization	539	26,966	27,505	-	23,441	23,441

Expense Item \ Function	2007					
	NT$			US$ (Note 3)		
	Operating Costs	**Operating Expenses**	**Total**	**Operating Costs**	**Operating Expenses**	**Total**
Personnel expenses	1,044,022	2,119,565	3,163,587	32,005	64,978	96,983
Salary	862,805	1,886,802	2,749,607	26,450	57,842	84,292
Insurance	56,847	81,364	138,211	1,743	2,494	4,237
Pension cost	26,891	58,538	85,429	824	1,795	2,619
Other	97,479	92,861	190,340	2,988	2,847	5,835
Depreciation	219,627	181,176	400,803	6,733	5,554	12,287
Amortization	49,682	23,213	72,895	1,523	712	2,235

22. INCOME TAX

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

The income tax returns through 2003, except for 2002, had been examined by the tax authorities. The Company disagreed with the 2003 tax assessment notice and applied for a recheck of the assessment. Nevertheless, the Company adjusted its tax expense for the tax shortage stated in the tax assessment notice for conservative reasons.

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

Items Granted Exemption from Corporate Income Tax	Tax Exemption Period
Sales of pocket PCs and Smartphones	2001.04.26-2006.04.25
Sales of pocket PCs (wireless) and Smartphones	2002.01.01-2006.12.31
Sales of Win CE products	2003.01.01-2007.12.31
Sales of pocket PCs, pocket PCs (wireless) and Smartphones	2004.09.15-2009.09.14
Sales of pocket PCs (wireless) and Smartphones	2004.11.30-2009.11.29
Sales of pocket PCs (wireless) and Smartphones	2005.12.20-2010.12.19
Sales of wireless or Smartphone which has 3G or GPS function	2006.12.20-2011.12.19

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

	2005	2006	2007	
	NT$	**NT$**	**NT$**	**US$ (Note 3)**
Income before income tax	$ 6,956,364	$ 18,947,320	$ 21,282,626	$ 652,441
Permanent differences				
Losses (gains) on equity-method investments	34,844	88,635	(72,802)	(2,232)
Other	18,215	25,994	29,366	899
Temporary differences				
Realized pension cost	(34,549)	(18,439)	(15,989)	(490)
Unrealized loss on decline in value of inventory	130,721	455,642	155,142	4,756
Unrealized royalties	707,553	1,460,302	1,421,962	43,592
Realized depreciation	(9,044)	-	-	-
Unrealized foreign exchange losses (gains), net	60,180	(55,058)	(278,157)	(8,527)
Unrealized marketing expense	-	-	1,168,345	35,817
Unrealized warranty expense	422,338	409,084	371,960	11,403
Unrealized valuation (gain) loss on financial instruments	(3,677)	(18,957)	204,449	6,268
Unrealized profit from intercompany transactions	10,778	127,292	9,319	286
Other	5,462	(15,881)	29,740	912
Total income	8,299,185	21,405,934	24,305,961	745,125
Less tax-exempt income tax	(5,129,604)	(15,241,139)	(16,057,280)	(492,253)
Taxable income	3,169,581	6,164,795	8,248,681	252,872
Tax rate	25%	25%	25%	25%
	792,395	1,541,199	2,062,170	63,218
Income tax credit	(10)	(10)	(10)	-
Estimated income tax provision	792,385	1,541,189	2,062,160	63,218
Unappropriated earnings (additional 10% income tax)	144,006	436,049	571,507	17,520
Less investment research and development tax credits	(583,872)	(852,745)	(373,531)	(11,451)
Current income tax expense	352,519	1,124,493	2,260,136	69,287
Less prepaid and withheld income tax	(8,285)	(27,398)	(52,697)	(1,615)
Tax shortage stated in the tax assessment notice	-	67,731	193,642	5,936
Income tax payable	$ 344,234	$ 1,164,826	$ 2,401,081	$ 73,608

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

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Temporary differences				
Unrealized depreciation	$ 754	$ -	$ -	$ -
Provision for loss on decline in value of inventory	119,373	260,592	261,701	8,023
Unrealized marketing expense	-	-	537,858	16,489
Capitalize expense	42,992	33,814	46,165	1,415
Unrealized reserve for warranty expense	186,760	343,397	441,489	13,534
Unrealized royalties	340,446	824,632	1,297,588	39,779
Unrealized valuation gain on financial instruments	-	-	51,112	1,567
Other	3,911	16,949	23,306	714
Tax credit carryforwards	560,876	-	-	-
Total deferred tax asset	1,255,112	1,479,384	2,659,219	81,521
Less valuation allowance	(909,879)	(929,418)	(1,850,387)	(56,725)
Total deferred tax asset, net	345,233	549,966	808,832	24,796
Deferred tax liability				
Unrealized pension cost	(9,995)	(16,492)	(22,502)	(690)
Unrealized foreign currency exchange gain, net	(18,234)	(7,566)	(88,676)	(2,718)
	317,004	525,908	697,654	21,388
Less current portion	(162,697)	(302,202)	(433,771)	(13,298)
Deferred tax assets, noncurrent	$ 154,307	$ 223,706	$ 263,883	$ 8,090

The tax credit carryforwards were as follows:

Year of Occurrence	Validity Period	2005 NT$	2006 NT$	2007 NT$	2007 US$ (Note 3)
2000	2000-2004	$ -	$ -	$ -	$ -
2001	2001-2005	38,559	-	-	-
2002	2002-2006	56,405	-	-	-
2003	2003-2007	179,061	-	-	-
2004	2004-2008	109,476	-	-	-
2005	2005-2009	177,375	-	-	-
		$560,876	$ -	$ -	$ -

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

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

The income tax expenses for the nine months ended September 30, 2005, 2006 and 2007 were as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Current income tax expense	$ 352,519	$ 1,124,493	$ 2,260,136	$ 69,287
Decrease in deferred income tax assets	(94,314)	(47,048)	(50,347)	(1,543)
Under (over) under estimation of prior year's income tax	211	31,704	125,911	3,859
Income tax expense	$ 258,416	$ 1,109,149	$ 2,335,700	$ 71,603

The integrated income tax information is as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Balance of imputation credit account	$ 96,896	$ 352,831	$ 850,056	$ 26,059
Unappropriated earnings from 1998	9,068,259	24,581,934	31,411,931	962,966
Expected creditable ratio (including income tax payable)	4.86%	6.17%	10.35%	10.35%

23. EARNINGS PER SHARE

Earnings per share ("EPS") before tax and after tax are calculated by dividing net income by the weighted average number of common shares outstanding during each year. The weighted average number of shares used in EPS calculation was 571,910 thousand shares, 577,933 thousand shares and 573,355 thousand shares for the nine months ended September 30, 2005, 2006 and 2007, respectively. EPS for the nine months ended September 30, 2004 and 2005 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 nine months ended September 30, 2005, 2006 and 2007. The related information is as follows:

	2005				
	Numerator		Denominator	Earnings Per Share	
	Income before Income Tax	Income after Income Tax	Shares (Thousands)	Income before Income Tax	Income after Income Tax
	NT$	NT$		NT$	NT$
Basic earnings per share	$ 6,956,364	$ 6,697,948	571,910	$ 12.16	$ 11.71
Employee stock options	-	-	4,685		
Diluted earnings per share	$ 6,956,364	$ 6,697,948	576,595	$ 12.06	$ 11.62

	2006				
	Numerator		Denominator	Earnings Per Share	
	Income before Income Tax NT$	Income after Income Tax NT$	Shares (Thousands)	Income before Income Tax NT$	Income after Income Tax NT$
Basic earnings per share	$18,947,320	$17,838,171	577,933	$ 32.78	$ 30.87
Employee stock options	-	-	6,770		
Diluted earnings per share	$18,947,320	$17,838,171	584,703	$ 32.41	$ 30.51

	2007				
	Numerator		Denominator	Earnings Per Share	
	Income before Income Tax NT$	Income after Income Tax NT$	Shares (Thousands)	Income before Income Tax NT$	Income after Income Tax NT$
Basic earnings per share	$21,282,626	$18,946,926	573,355	$ 37.12	$ 33.05
Employee stock options	-	-	-		
Diluted earnings per share	$21,282,626	$18,946,926	573,355	$ 37.12	$ 33.05

	2007				
	Numerator		Denominator	Earnings Per Share	
	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 earnings per share	$ 652,441	$ 580,838	573,355	$ 1.14	$ 1.01
Employee stock options	-	-	-		
Diluted earnings per share	$ 652,441	$ 580,838	573,355	$ 1.14	$ 1.01

24. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

Nonderivative Financial Instruments

	September 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	$ 876	$ 876	$ 1,087	$ 1,087	$ 1,004	$ 31	$ 1,004	$ 31
Financial assets carried at cost	1,192	1,192	1,192	1,192	501,192	15,365	501,192	15,365
Bond investment with no quoted price in an active market	-	-	-	-	33,030	1,013	33,030	1,013
Investments accounted for by the equity method	327,975	327,975	481,644	481,644	2,381,979	73,022	2,381,979	73,022

Derivative Financial Instruments

	September 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								
Financial assets at fair value through profit or loss	$ 3,677	$ 3,677	$ 18,957	$ 18,957	$ -	$ -	$ -	$ -
Liabilities								
Financial liabilities at fair value through profit or loss	-	-	-	-	204,449	6,268	204,449	6,268

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 3.

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			
	September 30				September 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	$ 3,677	$ 18,957	$ -	$ -	$ -	$ -	$ -	$ -
Available-for-sale financial assets - noncurrent	876	1,087	1,004	31	-	-	-	-
Financial assets carried at cost	-	-	-	-	1,192	1,192	501,192	15,365
Bond investment with no quoted price in an active market	-	-	-	-	-	-	33,030	1,013
Investments accounted for by the equity method	-	-	-	-	327,975	481,644	2,381,979	73,022
Liabilities								
Financial liabilities at fair value through profit or loss	-	-	204,449	6,268	-	-	-	-

There was no loss or gain recognized for the nine months ended September 30, 2005, 2006 and 2007 on the fair value changes of derivatives estimated using valuation techniques. However, the Company recognized unrealized gains of NT$173 thousand and NT$251 thousand and a loss of NT$729 thousand (US$22 thousand) under stockholders' equity for the changes in fair value of available-for-sale financial assets in the nine months ended September 30, 2005, 2006 and 2007, respectively.

As of September 30, 2005, 2006 and 2007, financial assets exposed to cash flow interest rate risk amounted to NT$8,083,000 thousand, NT$24,808,400 thousand and NT$34,927,000 (US$ 1,070,723 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.

25. RELATED-PARTY TRANSACTIONS

The names and relationships of related parties are 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

	Nine Months Ended September 30						
	2005		2006		2007		
Related Party	Amount	% of Total Net Purchases	Amount	% of Total Net Purchases	Amount		% of Total Net Purchases
	NT$		NT$		NT$	US$ (Note 3)	
High Tech Computer Corp. (Suzhou)	$ -	-	$ 12,290	-	$ 44,563	$ 1,366	-
BandRich Inc.	-	-	-	-	610	19	-
Chander Electronics Corp.	546,436	2	72,290	-	-	-	-
	$ 546,436	2	$ 84,580	-	$ 45,173	$ 1,385	-

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

Sales and Services Provided

	Nine Months Ended September 30						
	2005		2006		2007		
Related Party	Amount	% of Total Revenues	Amount	% of Total Revenues	Amount		% of Total Revenues
	NT$		NT$		NT$	US$ (Note 3)	
HTC American Inc.	$ 184,205	1	$ 540,719	1	$ 801,787	$ 24,580	1
HTC Europe Co., Ltd.	151,984	-	248,058	-	453,334	13,897	1
Exedea Inc.	-	-	1,605,585	2	191,897	5,883	-
BandRich Inc.	-	-	-	-	73,542	2,254	-
First International Computer, Inc.	-	-	-	-	59,858	1,835	-
Comserve Network Netherlands B.V.	72,168	-	-	-	37,587	1,152	-
HTC NIPPON Corporation	-	-	-	-	7,040	216	-
Others	1,584	-	838	-	2,278	70	-
	$ 409,941	1	$2,395,200	3	$1,627,323	$ 49,887	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

	September 30						
	2005		2006		2007		
Related Party	Amount	% of Total Notes and Accounts Receivable	Amount	% of Total Notes and Accounts Receivable	Amount		% of Total Notes and Accounts Receivable
	NT$		NT$		NT$	US$ (Note 3)	
Accounts receivable							
HTC American Inc.	$ 176,681	2	$ 534,688	3	$ 459,576	$ 14,089	2
HTC Europe Co., Ltd.	151,992	1	236,536	2	175,463	5,379	1
BandRich Inc.	-	-	-	-	44,145	1,353	-
First International Computer, Inc.	-	-	-	-	3,970	122	-
HTC NIPPON Corporation	-	-	-	-	3,727	114	-
Exedea Inc.	-	-	650,698	4	22	1	-
Comserve Network Netherlands B.V.	6,324	-	-	-	-	-	
Others	61	-	152	-	2,135	65	-
	$ 335,058	3	$1,422,074	9	$ 689,038	$ 21,123	3

Notes and Accounts Payable

Related Party	September 30 2005 Amount NT$	2005 % of Total Notes and Accounts Payable	2006 Amount NT$	2006 % of Total Notes and Accounts Payable	2007 Amount NT$	2007 Amount US$ (Note 3)	2007 % of Total Notes and Accounts Payable
High Tech Computer Corp. (Suzhou)	$ -	-	$ 9,187	-	$ 44,847	$ 1,375	-
Chander Electronics Corp.	61,905	1	132	-	-	-	-
Others	5,187	-	493	-	494	15	-
	$ 67,092	1	$ 9,812	-	$ 45,341	$ 1,390	-

Other Receivable

Related Party	September 30 2005 Amount NT$	2005 % of Total Other Receivable	2006 Amount NT$	2006 % of Total Other Receivable	2007 Amount NT$	2007 Amount US$ (Note 3)	2007 % of Total Other Receivable
High Tech Computer Corp. (Suzhou)	$ -	-	$ 16,248	13	$ 36,370	$ 1,115	42
HTC NIPPON Corporation	-	-	-	-	17,014	522	20
HTC American Inc.	1,858	7	48,499	40	10,179	312	12
HTC Europe Co., Ltd.	1,300	5	41,936	34	3,841	118	4
Others	541	2	44		4,849	148	6
	$ 3,699	14	$ 106,727	87	$ 72,253	$ 2,215	84

Prepaid Expenses

Related Party	September 30 2005 Amount NT$	2005 % of Total Prepayment	2006 Amount NT$	2006 % of Total Prepayment	2007 Amount NT$	2007 Amount US$ (Note 3)	2007 % of Total Prepayment
HTC NIPPON Corporation	$ -	-	$ 3,100	-	$ 15,789	$ 484	1
HTC American Inc.		-	19,857	3	-	-	-
HTC Europe Co., Ltd.	-	-	17,610	2	-	-	-
HTEK	9,266	1	-	-	-	-	-
	$ 9,266	1	$ 40,567	5	$ 15,789	$ 484	1

Accrued Expenses

Related Party	September 30 2005 Amount NT$	2005 % of Total Accrued Expenses	2006 Amount NT$	2006 % of Total Accrued Expenses	2007 Amount NT$	2007 Amount US$ (Note 3)	2007 % of Total Accrued Expenses
VIA Technologies, Inc.	$ -	-	$ 210	-	$ -	$ -	-

Other Payables to Related Parties

Related Party	2005 Amount NT$	2005 % of Total Other Payables	2006 Amount NT$	2006 % of Total Other Payables	2007 Amount NT$	2007 Amount US$ (Note 3)	2007 % of Total Other Payables
	September 30						
HTC America Inc.	$ -	-	$ 71,607	71	$ 128,306	$ 3,933	68
HTC NIPPON Corporation	-	-	-	-	43,803	1,343	23
HTC Europe Co., Ltd.	-	-	29,439	29	11,730	360	6
Communication Global Certification Inc.	-	-	-	-	4,761	146	3
High Tech Computer Corp. (Suzhou)	-	-	-	-	261	8	-
Others	-	-	20	-	-	-	-
	$ -	-	$ 101,066	100	$ 188,861	$ 5,790	100

Outsourcing Expenses

Related Party	2005 Amount NT$	2005 % of Total Out-Sourcing Expenses	2006 Amount NT$	2006 % of Total Out-Sourcing Expenses	2007 Amount NT$	2007 Amount US$ (Note 3)	2007 % of Total Out-Sourcing Expenses
	Nine Months Ended September 30						
High Tech Computer Corp. (Suzhou)	$ 33,371	10	$ 57,820	10	$ 268,757	$ 8,239	60
First International Computer Inc.	7,350	2	-	-	-	-	-
	$ 40,721	12	$ 57,820	10	$ 268,757	$ 8,239	60

Service Warranty Expense

Related Party	2005 Amount NT$	2005 % of Warranty Expenses	2006 Amount NT$	2006 % of Warranty Expenses	2007 Amount NT$	2007 Amount US$ (Note 3)	2007 % of Warranty Expenses
	Nine Months Ended September 30						
HTC USA Inc.	$ 66,507	7	$ 179,729	12	$ 625,431	$ 19,173	25
HTC Europe Co., Ltd.	42,503	5	220,384	15	232,717	7,134	9
Comserve Network Netherlands B.V.	86,430	10	-	-	201,457	6,176	8
	$ 195,440	22	$ 400,113	27	$ 1,059,605	$ 32,483	42

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

Administrative and Selling Expenses - Service Fees

Related Party	2005 Amount NT$	2005 % of Total Professional Fees	2006 Amount NT$	2006 % of Total Professional Fees	2007 Amount NT$	2007 Amount US$ (Note 3)	2007 % of Total Professional Fees
HTC America Inc.	$ -	-	$ 75,661	37	$ 105,927	$ 3,247	10
Communication Global Certification Inc.	-	-	-	-	60,579	1,857	6
HTC NIPPON Corporation	-	-	-	-	51,634	1,583	5
HTC Europe Co., Ltd.	-	-	9,425	5	42,296	1,297	4
VIA Technologies, Inc.	3,000	6	1,800	1	1,600	49	-
HTEK	12,378	27	21,685	10	-	-	-
Exedea Inc.	-	-	15,567	7	-	-	-
	$ 15,378	33	$ 124,138	60	$ 262,036	$ 8,033	25

Nine Months Ended September 30

Leasing - Lessee

Operating Expense - Rental Expense

Related Party	2005 Amount NT$	2005 % of Rental Expense	2006 Amount NT$	2006 % of Rental Expense	2007 Amount NT$	2007 Amount US$ (Note 3)	2007 % of Rental Expense
VIA Technologies, Inc.	$ 7,663	59	$ -	-	$ -	$ -	-

Nine Months Ended September 30

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 Income - Rental Revenue

The rental income on the Company's leased office and parking spaces under operating lease contracts that expired in 2006 was as follows:

Related Party	2005 Amount NT$	2005 % of Total Rental Revenue	2006 Amount NT$	2006 % of Total Rental Revenue	2007 Amount NT$	2007 Amount US$ (Note 3)	2007 % of Total Rental Revenue
VIA Technologies, Inc.	$ 339	100	$ -	-	$ -	$ -	-

Nine Months Ended September 30

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.

26. COMMITMENTS AND CONTINGENCIES

As of September 30, 2007, unused letters of credit amounted to US$68 thousand and EUR€116 thousand.

27. SIGNIFICANT CONTRACTS

Patent Agreement

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.

28. 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.