High Tech Computer Corp.

Financial Statements for the
Years Ended December 31, 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 December 31, 2005, 2006 and 2007, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of High Tech Computer Corp. as of December 31, 2005, 2006 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

We have also audited the consolidated financial statements of High Tech Computer Corp. as of and for the years ended December 31, 2005, 2006 and 2007 and have expressed an unqualified opinion on those financial statements in our report dated January 18, 2008 (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.

January 18, 2008

<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
DECEMBER 31, 2005, 2006 AND 2007
(In Thousands, Except Par Value)

ASSETS	2005 NT$	2006 NT$	2007 NT$	2007 US$ (Note 3)
CURRENT ASSETS				
Cash (Note 5)	$ 16,196,448	$ 34,397,388	$ 55,036,232	$ 1,697,078
Financial assets at fair value through profit or loss (Notes 2, 4, 6 and 25)	60,085	-	-	-
Bond investments with no active market (Notes 2 and 13)	-	-	33,030	1,019
Notes receivable, net (Notes 2 and 8)	99,087	58,930	3,058	94
Accounts receivable, net (Notes 2 and 8)	14,212,815	18,317,979	18,943,867	584,146
Accounts receivable from related parties, net (Notes 2 and 26)	420,780	1,311,790	536,875	16,555
Other current financial assets (Notes 9 and 26)	54,994	368,497	284,051	8,759
Inventories (Notes 2 and 10)	4,837,553	4,983,891	6,119,413	188,696
Prepayments (Notes 11 and 26)	474,261	1,881,119	1,537,327	47,405
Deferred income tax assets (Notes 2 and 23)	229,826	428,077	562,025	17,330
Other current assets	30,325	63,101	116,841	3,603
Total current assets	36,616,174	61,810,772	83,172,719	2,564,685
LONG-TERM INVESTMENTS				
Available-for-sale financial assets - noncurrent (Notes 2 and 7)	836	1,733	784	24
Financial assets carried at cost (Notes 2 and 12)	1,192	1,192	501,192	15,455
Investments accounted for by the equity method (Notes 2 and 14)	323,505	559,877	2,397,133	73,917
Prepayments for long-term investments (Notes 2 and 14)	-	261,679	-	-
Total long-term investments	325,533	824,481	2,899,109	89,396
PROPERTIES (Notes 2, 15 and 26)				
Cost				
Land	610,293	610,293	610,293	18,819
Buildings and structures	1,073,560	1,083,065	2,239,919	69,069
Machinery and equipment	2,543,396	2,913,495	3,336,489	102,883
Molding equipment	201,567	201,247	201,247	6,206
Computer equipment	161,459	180,855	212,623	6,556
Transportation equipment	1,628	1,938	1,335	41
Furniture and fixtures	107,505	105,016	115,696	3,568
Leased assets	-	4,712	4,712	145
Leasehold improvements	22,816	22,816	44,487	1,372
Total cost	4,722,224	5,123,437	6,766,801	208,659
Less accumulated depreciation	(2,254,435)	(2,684,143)	(3,196,844)	(98,577)
Prepayments for construction-in-progress and equipment-in-transit	27,467	470,330	145,944	4,500
Properties, net	2,495,256	2,909,624	3,715,901	114,582
OTHER ASSETS				
Refundable deposits	35,278	36,991	93,437	2,881
Deferred charges (Note 2)	150,237	119,059	88,108	2,717
Deferred tax assets (Notes 2 and 23)	249,034	219,230	380,085	11,720
Prepaid pension cost (Notes 2 and 19)	49,760	74,020	95,187	2,935
Total other assets	484,309	449,300	656,817	20,253
TOTAL	$ 39,921,272	$ 65,994,177	$ 90,444,546	$ 2,788,916

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 25)	$ -	$ 76,470	$ 96,256	$ 2,968
Notes and accounts payable (Note 26)	13,796,693	16,847,039	22,020,118	679,005
Income tax payable (Notes 2 and 23)	616,863	1,758,717	2,514,394	77,533
Accrued expenses (Notes 16 and 26)	1,204,807	2,340,129	5,269,829	162,498
Payable for purchase of equipment	14,039	35,342	170,184	5,248
Other current liabilities (Notes 17 and 26)	1,302,768	2,363,622	4,297,358	132,512
Total current liabilities	16,935,170	23,421,319	34,368,139	1,059,764
OTHER LIABILITIES				
Guarantee deposits received	561	640	628	19
Total liabilities	16,935,731	23,421,959	34,368,767	1,059,783
STOCKHOLDERS' EQUITY (Note 20)				
Capital stock - NT$10.00 par value				
Authorized: 650,000 thousand shares				
Issued and outstanding: 357,016 thousand shares in 2005, 436,419 thousand shares in 2006 and 573,134 thousand shares in 2007				
Common stock	3,570,160	4,364,192	5,731,337	176,729
Capital surplus				
Additional paid-in capital - common stock	4,410,871	4,410,871	4,374,244	134,883
Long-term equity investments	-	15,845	15,845	489
From merger	25,972	25,972	25,756	794
Retained earnings				
Legal reserve	813,326	1,991,520	4,516,253	139,262
Special reserve	19,133	6,175	-	-
Unappropriated earnings	14,152,255	31,991,090	41,403,867	1,276,715
Cumulative translation adjustments (Note 2)	(5,041)	10,786	9,664	298
Unrealized loss on financial instruments (Notes 2, 4 and 7)	(1,135)	(238)	(1,187)	(37)
Treasury stock (Notes 2 and 21)	-	(243,995)	-	-
Total stockholders' equity	22,985,541	42,572,218	56,075,779	1,729,133
TOTAL	$ 39,921,272	$ 65,994,177	$ 90,444,546	$ 2,788,916

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

HIGH TECH COMPUTER CORP.

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2005, 2006 AND 2007
(In Thousands, Except Earnings Per Share)

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
REVENUES (Notes 2 and 26)	$ 72,768,522	$ 104,816,548	$ 118,579,958	$ 3,656,490
COST OF REVENUES (Notes 22 and 26)	54,758,040	70,779,066	72,880,172	2,247,307
GROSS PROFIT	18,010,482	34,037,482	45,699,786	1,409,183
UNREALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	(15,077)	(164,011)	(175,075)	(5,399)
REALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	6,289	15,077	164,011	5,057
REALIZED GROSS PROFIT	18,001,694	33,888,548	45,688,722	1,408,841
OPERATING EXPENSES (Notes 22 and 26)				
Selling ad marketing	2,111,023	3,721,640	9,871,469	304,393
General and administrative	650,877	660,515	927,680	28,606
Research and development	2,399,315	2,954,427	3,866,148	119,215
Total operating expenses	5,161,215	7,336,582	14,665,297	452,214
OPERATING INCOME	12,840,479	26,551,966	31,023,425	956,627
NONOPERATING INCOME AND GAINS				
Interest income	145,042	438,982	816,136	25,166
Gain on equity-method investments	-	-	103,997	3,207
Gain on sale of properties	5,372	41,361	2,120	65
Gain on physical inventory	2,074	-	-	-
Foreign exchange gain (Note 2)	-	603,127	658,247	20,298
Valuation gain on financial assets (Notes 2, 4 and 6)	60,085	-	-	-
Other	65,487	150,866	230,408	7,105
Total nonoperating income and gains	278,060	1,234,336	1,810,908	55,841
NONOPERATING EXPENSES AND LOSSES				
Interest expense	19,821	298	241	7
Losses on equity-method investments (Notes 2 and 14)	35,112	12,554	-	-
Losses on disposal of properties	2,521	3,377	662	20
Loss on physical inventory	-	2,032	409	13
Foreign exchange loss (Note 2)	299,005	-	-	-
Provision for loss on inventories	584,174	729,310	487,479	15,032
Valuation loss on financial liabilities (Notes 2, 4 and 6)	-	76,470	96,256	2,968
Other	21,967	4,383	97,989	3,022
Total nonoperating expenses and losses	962,600	828,424	683,036	21,062
INCOME BEFORE INCOME TAX	12,155,939	26,957,878	32,151,297	991,406
INCOME TAX (Notes 2 and 23)	(373,995)	(1,710,551)	(3,212,435)	(99,058)
NET INCOME	$ 11,781,944	$ 25,247,327	$ 28,938,862	$ 892,348

(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)	$ 21.20	$ 20.55	$ 46.65	$ 43.69	$ 56.08	$ 1.73	$ 50.48	$ 1.56
DILUTED EARNINGS PER SHARE (Note 24)	$ 21.02	$ 20.37	$ 46.11	$ 43.18	$ 56.08	$ 1.73	$ 50.48	$ 1.56

(Concluded)

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

HIGH TECH COMPUTER CORP.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2005, 2006 AND 2007
(In Thousands)

	Capital Stock		Capital Surplus			Retained Earnings						
New Taiwan Dollars	Issued and Outstanding Common Stock	Share Subscriptions Received in Advance	Additional Paid-in Capital - Common Stock	Long-Term Equity Investments	From Merger	Legal Reserve	Special Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Unrealized Loss 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 common stock	105,000	-	-	-	-	-	-	(105,000)	-	-	-	-
Employee bonuses	-	-	-	-	-	-	-	(206,000)	-	-	-	(206,000)
Cash dividends	-	-	-	-	-	-	-	(1,443,816)	-	-	-	(1,443,816)
Net income in 2005	-	-	-	-	-	-	-	11,781,944	-	-	-	11,781,944
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	12,824	-	-	12,824
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	-	133	-	133
Share subscriptions received in advance and transferred to common stocks	48,838	(48,838)	-	-	-	-	-	-	-	-	-	-
Convertible bonds converted to common stocks	124,519	-	1,346,515	-	-	-	-	-	-	-	-	1,471,034
BALANCE, DECEMBER 31, 2005	3,570,160	-	4,410,871	-	25,972	813,326	19,133	14,152,255	(5,041)	(1,135)	-	22,985,541
Adjustments due to accounting changes (Note 4)	-	-	-	-	-	-	-	-	-	48	-	48
Appropriation of the 2005 net earnings												
Legal reserve	-	-	-	-	-	1,178,194	-	(1,178,194)	-	-	-	-
Special reserve	-	-	-	-	-	-	(12,958)	12,958	-	-	-	-
Stock dividends	714,032	-	-	-	-	-	-	(714,032)	-	-	-	-
Transfer of employee bonuses to common stock	80,000	-	-	-	-	-	-	(80,000)	-	-	-	-
Employee bonuses	-	-	-	-	-	-	-	(451,000)	-	-	-	(451,000)
Cash dividends	-	-	-	-	-	-	-	(4,998,224)	-	-	-	(4,998,224)
Net income in 2006	-	-	-	-	-	-	-	25,247,327	-	-	-	25,247,327
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	15,827	-	-	15,827
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	-	849	-	849
Adjustment due to changes in ownership percentage in investees	-	-	-	15,845	-	-	-	-	-	-	-	15,845
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	(243,995)	(243,995)
BALANCE, DECEMBER 31, 2006	4,364,192	-	4,410,871	15,845	25,972	1,991,520	6,175	31,991,090	10,786	(238)	(243,995)	42,572,218
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 common stock	105,000	-	-	-	-	-	-	(105,000)	-	-	-	-
Employee bonuses	-	-	-	-	-	-	-	(2,000,000)	-	-	-	(2,000,000)
Cash dividends	-	-	-	-	-	-	-	(11,685,470)	-	-	-	(11,685,470)
Net income in 2007	-	-	-	-	-	-	-	28,938,862	-	-	-	28,938,862
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	(1,122)	-	-	(1,122)
Unrealized loss on financial instruments	-	-	-	-	-	-	-	-	-	(949)	-	(949)
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	-
BALANCE, DECEMBER 31, 2007	$ 5,731,337	$ -	$ 4,374,244	$ 15,845	$ 25,756	$ 4,516,253	$ -	$41,403,867	$ 9,664	$ (1,187)	$ -	$56,075,779

(Continued)

HIGH TECH COMPUTER CORP.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2005, 2006 AND 2007
(In Thousands)

U.S. Dollars	Capital Stock: Issued and Outstanding Common Stock	Capital Stock: Share Subscriptions Received in Advance	Capital Surplus: Additional Paid-in Capital - Common Stock	Capital Surplus: Long-Term Equity Investments	Capital Surplus: From Merger	Retained Earnings: Legal Reserve	Retained Earnings: Special Reserve	Retained Earnings: Unappropriated Earnings	Cumulative Translation Adjustments	Unrealized Loss on Financial Instruments	Treasury Stock	Total
BALANCE, JANUARY 1, 2007	$ 134,573	$ -	$ 136,012	$ 489	$ 801	$ 61,410	$ 190	$ 986,466	$ 333	$ (7)	$ (7,524)	$ 1,312,743
Appropriation of the 2005 net earnings												
Legal reserve	-	-	-	-	-	77,852	-	(77,852)	-	-	-	-
Special reserve	-	-	-	-	-	-	(190)	190	-	-	-	-
Stock dividends	40,036	-	-	-	-	-	-	(40,036)	-	-	-	-
Transfer of employee bonuses to common stock	3,238	-	-	-	-	-	-	(3,238)	-	-	-	-
Employee bonuses	-	-	-	-	-	-	-	(61,671)	-	-	-	(61,671)
Cash dividends	-	-	-	-	-	-	-	(360,329)	-	-	-	(360,329)
Net income in 2006	-	-	-	-	-	-	-	892,348	-	-	-	892,348
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	(35)	-	-	(35)
Unrealized loss on financial instruments	-	-	-	-	-	-	-	-	-	(30)	-	(30)
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	(53,893)	(53,893)
Retirement of treasury stock	(1,118)	-	(1,129)	-	(7)	-	-	(59,163)	-	-	61,417	-
BALANCE, DECEMBER 31, 2007	$ 176,729	$ -	$ 134,883	$ 489	$ 794	$ 139,262	$ -	$ 1,276,715	$ 298	$ (37)	$ -	$ 1,729,133

(Concluded)

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

HIGH TECH COMPUTER CORP.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005, 2006 AND 2007
(In Thousands)

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$ 11,781,944	$ 25,247,327	$ 28,938,862	$ 892,348
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation	582,367	601,382	525,055	16,190
Amortization	35,974	31,178	30,951	954
Gain on disposal of properties, net	(2,851)	(37,984)	(1,458)	(45)
Losses (gains) on equity-method investments	35,112	12,554	(103,997)	(3,207)
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	(256,170)	(168,447)	(294,803)	(9,090)
Prepaid pension costs	(42,097)	(24,260)	(21,167)	(653)
Net changes in operating assets and liabilities				
Financial instruments at fair value through profit or loss	(58,991)	136,555	19,786	610
Notes receivable	(27,331)	40,157	55,872	1,723
Accounts receivable	(5,826,625)	(4,105,164)	(625,888)	(19,299)
Accounts receivable from related parties	(342,567)	(891,010)	774,915	23,895
Other current financial assets	(6,667)	(313,503)	84,446	2,604
Inventories	(633,904)	(146,338)	(1,135,522)	(35,014)
Prepayments	(229,433)	(1,406,858)	343,792	10,601
Other current assets	17,390	(32,776)	(53,740)	(1,657)
Notes and accounts payable	5,854,811	3,050,346	5,173,079	159,515
Income tax payable	522,709	1,141,854	755,677	23,302
Accrued expenses	342,540	1,135,322	2,929,700	90,339
Other current liabilities	838,408	605,960	2,385,612	73,562
Net cash provided by operating activities	12,596,157	24,876,295	39,781,172	1,226,678
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of properties	(601,915)	(997,233)	(1,201,063)	(37,035)
Proceeds of the sales of properties	5,882	44,664	5,155	159
Acquisition of investments accounted for by the equity method	-	(478,933)	(1,472,702)	(45,412)
Acquisition of financial assets carried at cost	-	-	(500,000)	(15,418)
Acquisition of bond investments with no active market	-	-	(33,030)	(1,019)
Proceeds of the disposal of long-term investments	4,312	-	-	-
Increase in refundable deposits	(29,356)	(1,713)	(56,446)	(1,741)
Net cash used in investing activities	(621,077)	(1,433,215)	(3,258,086)	(100,466)
CASH FLOWS FROM FINANCING ACTIVITIES				
(Decrease) increase in guarantee deposits received	(272,517)	79	(12)	-
Cash dividends	(1,443,816)	(4,998,224)	(11,685,470)	(360,329)
Bonus to employees	(210,500)	-	(2,451,000)	(75,578)
Purchase of treasury stock	-	(243,995)	(1,747,760)	(53,893)
Net cash used in financing activities	(1,926,833)	(5,242,140)	(15,884,242)	(489,800)
NET INCREASE IN CASH	10,048,247	18,200,940	20,638,844	636,412
CASH, BEGINNING OF YEAR	6,148,201	16,196,448	34,397,388	1,060,666
CASH, END OF YEAR	$ 16,196,448	$ 34,397,388	$ 55,036,232	$ 1,697,078

(Continued)

HIGH TECH COMPUTER CORP.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005, 2006 AND 2007
(In Thousands)

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
SUPPLEMENTAL CASH FLOW INFORMATION				
Cash paid during the year				
Interest (net of amounts capitalized)	$ -	$ 298	$ 241	$ 7
Income tax	$ 107,456	$ 737,145	$ 2,751,561	$ 84,846
NONCASH INVESTING AND FINANCING ACTIVITIES				
Transfer of convertible bonds to common stock and additional paid-in capital	$ 1,471,034	$ -	$ -	-
Transfer of retained earnings and employee bonuses to common stock	$ 682,527	$ 794,032	$ 1,403,385	43,274
Retirement of treasury stock	$ -	$ -	$ 1,991,755	61,417
PURCHASE OF PROPERTIES				
Cost of properties purchased	$ 561,712	$ 1,022,430	$ 1,335,029	$ 41,166
Decrease (increase) in payable for purchase of equipment	40,203	(21,303)	(134,842)	(4,158)
Increase in lease payable	-	(3,894)	876	27
Cash paid for purchase of properties	$ 601,915	$ 997,233	$ 1,201,063	$ 37,035
BONUS TO EMPLOYEES				
Appropriation of bonus to employees	$ 206,000	$ 451,000	$ 2,000,000	$ 61,671
Decrease (increase) in payable for employee bonus	4,500	(451,000)	451,000	13,907
Cash paid	$ 210,500	$ -	$ 2,451,000	$ 75,578

(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.

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

The Company had 4,108, 4,590 and 5,569 employees as of December 31, 2005, 2006 and 2007, respectively.

2. 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 include cash, cash equivalents, and those assets held primarily for trading purposes or to be realized, sold or consumed within one year from the balance sheet date. All other assets such as property, plant and equipment and intangible assets are classified as noncurrent. Current liabilities are obligations incurred for trading purposes or to be settled within one year from the balance sheet date. All other liabilities are classified as noncurrent.

Financial Assets/Liabilities at Fair Value through Profit or Loss

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss (FVTPL) include financial assets or financial liabilities held for trading and those designated as at FVTPL on initial recognition. The Company recognizes a financial asset or a financial liability in the balance sheet when the Company becomes a party to a financial instrument contract. A financial asset is derecognized when the Company loses its contractual rights to the financial asset. A financial liability is derecognized when the relevant contract ends or is discharged or canceled.

Financial instruments at FVTPL are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss. After the initial recognition, financial assets or financial liabilities at FVTPL are remeasured at fair value at the balance sheet date, with changes in fair value recognized as current gains or losses. Cash dividends received are recognized as income for the year. On the derecognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received or receivable or consideration paid or payable is recognized as gain or loss.

A derivative that does not meet the criteria for hedge accounting is classified as a financial asset or a financial liability held for trading. If the fair value of the derivative is positive, the derivative is recognized as a financial asset; otherwise, the derivative is recognized as a financial liability.

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: publicly traded stocks - at closing prices; open-end mutual funds - at net asset values; bonds - at prices quoted by the Taiwan GreTai Securities Market; and financial assets and financial liabilities without quoted prices in an active market - at values determined using valuation techniques.

Available-for-Sale Financial Assets

Available-for-sale financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. After the initial recognition, available-for-sale financial assets are remeasured at fair value at the balance sheet date, with changes in fair value recognized in equity until the financial assets are disposed of. On asset disposal, the cumulative gain or loss previously recognized under equity is included in gain or loss for the year.

The recognition, derecognition and the fair value bases of available-for-sale financial assets are similar to those of financial assets at FVTPL.

Cash dividends are recognized on the stockholders' declaration under resolutions, except for dividends distributed from the pre-acquisition earnings, which are treated as a reduction of investment cost. Stock dividends are not recognized as investment income but are recorded as an increase in the number of shares. The total number of shares held after this increase is used to recalculate cost per share. The difference between the initial cost of a debt instrument and its maturity amount is amortized using the effective interest method, with the amortized interest recognized as gain or loss.

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

Revenue from the sale of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, primarily upon shipment, because the earnings process has been completed and the economic benefits associated with the transaction have been realized or are realizable.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts agreed between the Company and the customers for goods sold in the normal course of business, net of sales discounts and volume rebates. For trade receivables due within one year from the balance sheet date, since the nominal value of the consideration to be received approximates its fair value and sales transactions are frequent, the fair value of the consideration is not determined by discounting all future receipts using an imputed rate of interest.

An allowance for doubtful accounts is provided on the basis of a review of the collectibility of accounts receivable. The Company assesses the probability of the collection of accounts receivable by aging analysis and assessing the value of the collaterals provided by customers.

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 in equity instruments with no quoted prices in an active market and with fair values that cannot be reliably measured, such as non-publicly traded stocks and stocks traded in the emerging stock market, are measured at their original cost. The accounting treatment for dividends on financial assets carried at cost is similar to that for dividends on available-for-sale financial assets. An impairment loss is recognized when there is objective evidence that the asset is impaired. A reversal of this impairment loss is disallowed.

Bond Investments with No Active Market

Bond investments with no active market are stated at amortized cost and are classified as current or noncurrent based on their maturities.

Bond investments with no active market - current are investments paying fixed or determinable amounts. Other features of these bond investments are as follows:

a. The bond investments have not been designated as at fair value through profit or loss.

b. The bond investments have not been designated as available for sale.

Those investments that are noncurrent are classified as bond investments with no active market - noncurrent under funds and investments.

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 the 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 at the lower of their fair value at the start 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 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

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is charged to earnings unless the asset is carried at a revalued amount, in which case the impairment loss is treated as a deduction to the unrealized revaluation increment.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased accordingly, but the increased carrying amount may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized in earnings, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as an increase in the unrealized revaluation increment. A reversal of an impairment loss on goodwill is disallowed.

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 on the basis of management's evaluation of the products under warranty, past warranty experience, and 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 at 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 from the issuance date to the maturity date. On the 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.

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 of 10% on unappropriated earnings is expensed in the year of stockholder approval, which is the year right after the year of earnings generation.

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 and the selling price is above the book value, the difference should be credited to the capital surplus - treasury stock transactions. 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 any remainder should be debited to retained earnings. The carrying value of treasury stocks should be calculated using the weighted-average method.

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 Currencies

The financial statements of foreign operations are translated into New Taiwan dollars at the following exchange rates:

a. Assets and liabilities - at exchange rates prevailing on the balance sheet date;
b. Stockholders' equity - at historical exchange rates;
c. Dividends - at the exchange rate prevailing on the dividend declaration date; and
d. Income and expenses - at average exchange rates for the year.

Exchange differences arising from the translation of the financial statements of foreign operations are recognized as a separate component of stockholders' equity. Such exchange differences are recognized as gain or loss in the year in which the foreign operations are disposed of.

Nonderivative foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange differences arising from the settlement of foreign-currency assets and liabilities are recognized as gain or loss.

At the balance sheet date, foreign-currency monetary assets and liabilities are revalued at prevailing exchange rates, and the exchange differences are recognized as gain or loss.

At the balance sheet date, foreign-currency nonmonetary assets (such as equity instruments) and liabilities that are measured at fair value are revalued at prevailing exchange rates, with the exchange differences recognized as follows:

a. Under stockholders' equity if the changes in fair value are recognized in stockholders' equity;

b. As gain or loss if the change in fair value is recognized as gain or loss.

Foreign-currency nonmonetary assets and liabilities that are carried at cost continue to be stated at exchange rates at the trade dates.

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

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 year ended December 31, 2007.

3. TRANSLATION INTO U.S. DOLLARS

The financial statements are stated in New Taiwan dollars. The translation of the 2007 New Taiwan dollar amounts into U.S. dollar amounts are included solely for the convenience of readers, using the noon buying rate of NT$ 32.43 to US$1.00 quoted by the Bank of Taiwan on December 31, 2007. The convenience translation should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other exchange rate.

4. ACCOUNTING CHANGES

a. SFAS Nos. 37 and 38

Effective January 1, 2007, the Company adopted the newly released Statements of Financial Accounting Standards (“Statements” or SFAS) No. 37 - “Intangible Assets” and No. 38 - “Noncurrent 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 year ended December 31, 2007.

b. SFAS Nos. 34 and 36

On January 1, 2006, the Company adopted the newly released 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 of 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 financial instruments 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 year ended December 31, 2006.

c. SFAS Nos. 1, 5 and 25

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

5. CASH

Cash as of December 31, 2005, 2006 and 2007 consisted of the following:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Cash on hand	$ 993	$ 1,000	$ 1,000	$ 31
Cash in banks	6,478,555	4,137,988	8,776,552	270,631
Time deposits	9,716,900	30,258,400	46,258,680	1,426,416
	$ 16,196,448	$ 34,397,388	$ 55,036,232	$ 1,697,078

On time deposits, interest rates ranged from 1.315% to 1.840%, 1.610% to 2.145% and 1.809% to 4.400%, as of December 31, 2005, 2006 and 2007, respectively.

On preferential deposits, interest rates ranged from 2.00% to 4.45%, 2.30% to 5.25% and 3.05% to 4.15% as of December 31, 2005, 2006 and 2007, respectively.

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

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

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Derivatives - financial assets				
Forward exchange contracts	$ 60,085	$ -	$ -	$ -
Derivatives - financial liabilities				
Forward exchange contracts	$ -	$ 76,470	$ 96,256	$ 2,968

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

Forward Exchange Contracts

	2005			
	Buy/Sell	Currency	Settlement Period/ Date	Contract Amount
Forward exchange contracts	Sell	USD/NTD	2006.01.02-2006.01.27	US$ 167,000
Forward exchange contracts	Sell	EUR/USD	2006.01.02-2006.02.22	EUR€ 79,000
Forward exchange contracts	Sell	GBP/USD	2006.01.25	GBP£ 3,000

	2006			
	Buy/Sell	Currency	Settlement Period/ Date	Contract Amount
Forward exchange contracts	Sell	USD/NTD	2007.01.05-2007.03.28	US$ 78,000
Forward exchange contracts	Sell	EUR/USD	2007.01.05-2007.03.09	EUR€ 108,000
Forward exchange contracts	Buy	USD/JPY	2007.01.12-2007.03.09	US$ 11,000
Forward exchange contracts	Sell	GBP/USD	2007.01.05-2007.02.16	GBP£ 6,150
Forward exchange contracts	Sell	JPY/NTD	2007.01.12-2007.03.28	JP¥ 427,750
Forward exchange contracts	Sell	JPY/USD	2007.01.17-2007.03.28	JP¥ 810,626

	2007			
	Buy/Sell	Currency	Settlement Period/ Date	Contract Amount
Forward exchange contracts	Sell	USD/NTD	2008.01.04-2008.01.30	US$ 63,000
Forward exchange contracts	Sell	EUR/USD	2008.01.09-2008.03.05	EUR€ 201,500
Forward exchange contracts	Buy	USD/CAD	2008.01.11-2008.02.22	US$ 5,146
Forward exchange contracts	Sell	GBP/USD	2008.01.11-2008.01.30	GBP£ 3,725
Forward exchange contracts	Sell	JPY/NTD	2008.01.09	JP¥ 425,000

Net loss on derivative financial instruments in 2007 was NT$679,996 thousand (US$20,968 thousand), consisting of realized settlement losses of NT$583,740 thousand (US$18,000 thousand) and valuation losses of NT$96,256 thousand (US$2,968 thousand)

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets as of December 31, 2005, 2006 and 2007 consisted of an investment in VIA Technologies, Inc., as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
VIA Technologies, Inc.	$ 836	$ 1,733	$ 784	$ 24

The Company's original investment in VIA Technologies, Inc. was NT$1,971 thousand, made in December 1999.

8. NOTES AND ACCOUNTS RECEIVABLE

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

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Notes receivable	$ 99,087	$ 58,930	$ 3,058	$ 94
Accounts receivable	14,221,725	18,320,329	19,215,152	592,511
Less allowance for doubtful accounts	(8,910)	(2,350)	(271,285)	(8,365)
	$ 14,311,902	$ 18,376,909	$ 18,946,925	$ 584,240

9. OTHER CURRENT FINANCIAL ASSETS

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

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Other receivables from related parties	$ 3,004	$ 130,990	$ 171,901	$ 5,301
Interest receivables	15,566	24,854	50,444	1,555
Other receivables	20,230	22,676	47,625	1,469
Agency payments	16,194	189,977	14,081	434
	$ 54,994	$ 368,497	$ 284,051	$ 8,759

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

Agency payments were primarily royalty and other prepayments on behalf of vendors and customers.

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

10. INVENTORIES

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

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Finished goods	$ 625,943	$ 753,426	$ 405,952	$ 12,518
Work-in-process	1,801,220	1,207,886	1,641,460	50,615
Raw materials	2,997,117	3,914,242	4,988,289	153,817
	5,424,280	5,875,554	7,035,701	216,950
Less valuation allowance	(586,727)	(891,663)	(916,288)	(28,254)
	$ 4,837,553	$ 4,983,891	$ 6,119,413	$ 188,696

11. PREPAYMENTS

Prepayments as of December 31, 2005, 2006 and 2007 referred to the following items:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Royalty (Note 28)	$ 274,489	$ 1,631,513	$ 1,232,901	$ 38,017
Software and hardware maintenance	22,984	80,517	76,732	2,366
Service	83,352	50,606	32,241	994
Travel	16,034	47,298	6,542	202
Molding equipment	57,700	40,088	158,280	4,881
Materials purchases	2,820	1,479	1,838	57
Others	16,882	29,618	28,793	888
	$ 474,261	$ 1,881,119	$ 1,537,327	$ 47,405

12. FINANCIAL ASSETS CARRIED AT COST

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

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Hua-Chuang Automobile Information Technical Center Co., Ltd.	$ -	$ -	$ 500,000	$ 15,418
Answer Online, Inc.	1,192	1,192	1,192	37
	$ 1,192	$ 1,192	$ 501,192	$ 15,455

In January 2007, the Company acquired 10% equity interest in Hua-Chuang Automobile Information Technical Center Co., Ltd. for NT$500,000 thousand (US$15,418 thousand). The Company also signed a joint venture agreement with Yulon Group, the main stockholder of Hua-Chuang. Under the agreement, the Company and Yulon Group may, between January 1, 2010 and December 31, 2011, submit written requests to each other for Yulon Group to buy back NT$300,000 thousand at original price, some of Hua-Chuang's 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 were not carried at fair value because their fair value could not be reliably measured; thus, the Company accounted for these investments by the cost method.

13. BOND INVESTMENTS WITH NO ACTIVE MARKET

As of December 31, 2007, the Company had the following investment in bonds not quoted in an active market:

	NT$	US$ (Note 3)
Bond investment	$ 33,030	$ 1,019
Less current portion	(33,030)	(1,019)
	$ -	$ -

The above 12-month bond investment, with 6% annual interest, 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 December 31, 2005, 2006 and 2007 were as follows:

	2005		2006		2007				
	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage	Original Cost		Carrying Value		Ownership Percentage
	NT$		NT$		NT$	US$ (Note 3)	NT$	US$ (Note 3)	
Equity method									
H.T.C. (B.V.I.) Corp.	$ 323,505	100	$ 422,788	100	$ 1,402,835	$ 43,257	$ 1,427,492	$ 44,017	100
BandRich Inc.	-		136,200	51	135,000	4,163	114,487	3,530	51
HTC HK, Limited	-	-	889	100	1,277	40	8,034	248	100
Communication Global Certification Inc.	-	-	-	100	280,000	8,634	281,621	8,684	100
HTC Asia Pacific Pte. Ltd.	-	-	-	100	560,660	17,288	565,499	17,438	100
Prepayments for long-term investments	-	-	261,679	-	-	-	-	-	-
	$ 323,505		$ 821,556		$ 2,379,772	$ 73,382	$ 2,397,133	$ 73,917	

In August 2000, the Company acquired 100% equity interest in H.T.C. (B.V.I.) Corp. for NT$12,834 thousand and accounted for this investment by the equity method. As of December 31, 2007, the Company had increased this investment to NT$1,402,835 thousand (US$43,257 thousand). 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$8,634 thousand) and accounted for this investment by the equity method.

In June 2007, the Company acquired 100% equity interest in HTC Asia Pacific Pte. Ltd. for NT$560,660 thousand (US$17,288 thousand) and accounted for this investment by the equity method.

On its equity-method investments, the Company had losses of NT$35,112 thousand, NT$12,554 thousand and a gain of NT$103,997 (US$3,207 thousand) in 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 years ended December 31, 2005, 2006 and 2007. All significant intercompany balances and transactions have been eliminated.

15. PROPERTIES

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

	2005	2006	2007			
	Carrying Value	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NT$	NT$	NT$	NT$	NT$	US$ (Note 3)
Land	$ 610,293	$ 610,293	$ 610,293	$ -	$ 610,293	$ 18,818
Buildings and structures	797,981	735,785	2,239,919	423,030	1,816,889	56,025
Machinery and equipment	987,009	1,020,799	3,336,489	2,298,998	1,037,491	31,992
Molding equipment	-	-	201,247	201,247	-	-
Computer equipment	35,397	41,304	212,623	161,355	51,268	1,581
Transportation equipment	626	706	1,335	851	484	15
Furniture and fixtures	30,640	23,824	115,696	86,641	29,055	896
Leased assets	-	3,927	4,712	1,571	3,141	97
Leasehold improvements	5,843	2,656	44,487	23,151	21,336	658
Prepayments for construction-in-progress and equipment-in-transit	27,467	470,330	145,944	-	145,944	4,500
	$2,495,256	$2,909,624	$6,912,745	$3,196,844	$3,715,901	$114,582

The construction of a new office building was completed in September 2007, and a construction amount of NT$933,546 thousand (US$28,786 thousand) was transferred from prepayments for construction in progress to buildings and structures. Prepayments for equipment-in-transit and construction-in-progress referred to building construction and miscellaneous equipment.

16. ACCRUED EXPENSES

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

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Marketing	$ -	$ 983,088	$ 3,007,021	$ 92,723
Salaries and bonuses	698,818	762,942	914,062	28,186
Professional fees	39,445	49,221	615,365	18,975
Research materials	48,013	119,075	189,469	5,843
Export expenses	183,060	162,221	127,867	3,943
Meals and welfare	36,978	57,436	58,287	1,797
Insurance	45,307	40,398	46,967	1,448
Travel	23,689	58,027	40,777	1,257
Repairs and maintenance	23,690	23,759	32,564	1,004
Others	105,807	83,962	237,450	7,322
	$ 1,204,807	$ 2,340,129	$ 5,269,829	$ 162,498

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

17. OTHER CURRENT LIABILITIES

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

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Reserve for warranty expenses	$ 964,503	$ 1,393,995	$ 3,469,957	$ 106,998
Employee bonus payable	-	451,000	-	-
Deferred credits - profit from intercompany transactions	15,077	164,011	175,075	5,399
Agency receipts	86,467	122,897	107,618	3,318
Other payables to related parties (Note 26)	89,777	110,617	244,094	7,527
Advance receipts	112,641	37,340	105,424	3,251
Directors' remuneration	21,842	21,842	21,842	674
Others	12,461	61,920	173,348	5,345
	$ 1,302,768	$ 2,363,622	$ 4,297,358	$ 132,512

The Company provides warranty service for one to two years, depending on the contracts with our customers. The warranty liability is estimated 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 the 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 the 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 covered by the Labor Standards Law (the “Law”) before the enforcement of the Act were allowed to choose to remain to be subject to the defined benefit pension mechanism under the Law or to be subject instead to the Act. Based on the Act, the rate of the Company’s required monthly contributions to the employees’ individual pension accounts is at least 6% of monthly wages and salaries, and these contributions are recognized as pension expense in the income statement. The pension fund contributions were NT$40,152 thousand in 2005, NT$89,723 thousand in 2006 and NT$110,723thousand (US$3,415 thousand) in 2007.

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$274,197 thousand, NT$311,532 thousand and NT$348,439 (US$10,744 thousand) as of December 31, 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, pension cost under a defined benefit pension plan should be calculated by the actuarial method. Related disclosure is as follows:

The Company's net pension costs under the defined benefit plan in 2005, 2006 and 2007 were as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Service cost	$ 44,766	$ 5,259	$ 4,930	$ 152
Interest cost	10,042	9,400	8,591	265
Projected return on plan assets	(5,782)	(10,320)	(8,979)	(277)
Amortization of unrecognized net transition obligation, net	-	-	-	-
Amortization of net pension benefit	6,154	1,708	2,182	67
Net pension cost	$ 55,180	$ 6,047	$ 6,724	$ 207

The reconciliation between pension fund status and prepaid pension cost as of December 31, 2005, 2006 and 2007 is as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Present actuarial value of benefit obligation				
Vested benefits	$ 792	$ -	$ -	$ -
Non-vested benefits	127,313	153,371	170,751	5,265
Accumulated benefit obligation	128,105	153,371	170,751	5,265
Additional benefits on future salaries	161,127	159,023	145,588	4,489
Projected benefit obligation	289,232	312,394	316,339	9,754
Plan assets at fair value	(274,197)	(311,532)	(348,439)	(10,744)
Funded status	15,035	862	(32,100)	(990)
Unrecognized pension loss	(64,795)	(74,882)	(63,087)	(1,945)
Prepaid pension cost	$ (49,760)	$ (74,020)	$ (95,187)	$ (2,935)

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

	2005	2006	2007
Weighted-average discount rate	3.25%	2.75%	2.75%
Assumed rate of increase in future compensation	4.75%	4.25%	4.00%
Expected long-term rate of return on plan assets	3.25%	2.75%	2.75%

The vested benefits as of December 31, 2005, 2006 and 2007 amounted to NT$962 thousand, NT$0 thousand and NT$0 thousand, respectively.

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 their holdings into 12,452 thousand shares (NT$124,519 thousand). In June 2005, the stockholders approved the transfer of retained earnings amounting to NT$577,527 thousand and employee bonuses amounting to NT$105,000 thousand to capital stock. As a result, the amount of the Company's outstanding common stock as of December 31, 2005 increased to NT$3,570,160 thousand, divided into 357,016 thousand common shares at NT$10.00 par value.

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.

In April 2007, the Company retired 3,624 thousand treasury shares (NT$36,240 thousand, or US$1,118 thousand). Also, in June 2007, the stockholders approved the transfer of retained earnings amounting to NT$1,298,385 thousand (US$40,036 thousand) and employee bonuses amounting to NT$105,000 thousand (US$3,238 thousand) to capital stock. As a result, the amount of the Company's outstanding common stock as of December 31, 2007 increased to NT$5,731,337 thousand (US$176,729 thousand), divided into 573,134 thousand common shares at NT$10.00 (US$0.30) 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 their right for 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 their right for at up to 70% of the granted option units. After four years from the grant date, the option holders are eligible to exercise their rights on all the options owned. The exercise period is five years. As of December 31, 2007, the Company had issued to employees 3,000 thousand units of stock options, 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 in 2007, there were 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 common shares corresponding to 3,600 thousand units of Global Depositary Receipts (GDRs). For this GDR issuance, the Company's stockholders, including Via Technologies, Inc., also issued 12,878.4 thousand common shares, corresponding to 3,219.6 thousand GDR units. Thus, the entire offering consisted of 6,819.6 thousand GDR units. Each GDR represents four common shares, with par value of NT$131.1. For this common share issuance, net of related expenses, NT$1,696,855 thousand was accounted for as capital surplus. This share issuance for cash was completed and registered on November 19, 2003.

The holders of these GDRs have the same rights and obligations as 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. In addition, the GDRs offered and the shares represented are not transferable, except in accordance with the restrictions described in the GDR offering circular and related laws applied in Taiwan. Through the depositary custodian in Taiwan, GDR holders are entitled to exercise these rights:

a. To vote; and
b. To receive dividends and participate in new share issuance for cash subscription.

Taking into account the effect of stock dividends, the GDRs increased to 7,833.3 thousand units (31,333.2 thousand shares). The holders of these GDRs requested the Company to redeem the GDRs to get the Company's common shares. As of December 31, 2007, there were 5,156.6 thousand units of GDRs redeemed, representing 20,627 thousand common shares, and the outstanding GDRs represented 10,707 thousand common shares or 1.87% 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, two transactions resulted in the following increases in additional paid-in capital: (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$1,129 thousand) from the retirement of treasury stock in April 2007. As a result, the additional paid-in capital as of December 31, 2007 was NT$4,374,244 thousand (US$134,883 thousand). Under the Company Law, the Company may transfer the capital surplus to common stock if there is no accumulated deficit.

When the Company did not subscribe for the new shares issued by BandRich Inc., an adjustment of NT$15,845 thousand was made to the investment'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$794 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 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 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, which were not adjusted retroactively for the effect of stock dividend distribution in later years.

Had the Company recognized the employees' bonuses of NT$2,105,000 thousand as expenses in 2006, the pro forma earnings per share in 2006 would have decreased from NT$57.85 to NT$53.03, which were not adjusted retroactively for the effect of stock dividend distribution in the following year.

As of January 18, 2008, the date of the accompanying independent auditors' report, the appropriation of the 2007 earnings had not been proposed by the Board of Directors. Information on earnings appropriation can be accessed online through the Market Observation Post System on the Web site of the Taiwan Stock Exchange.

21. TREASURY STOCK

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

During the repurchase period, the Company bought back 3,624 thousand shares, which were approved to be retired by the Company's board of directors in April 2007, for NT$1,991,755 thousand (US$61,417 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 December 31, 2007
For maintaining the Company's credit and stockholders' equity	374	3,250	3,624	-

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

22. PERSONNEL EXPENSES, DEPRECIATION AND AMORTIZATION

Function / Expense Item	2005			2006		
	NT$			NT$		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
Personnel expenses	1,253,363	1,460,432	2,713,795	1,399,381	1,980,666	3,380,047
Salary	1,077,001	1,266,704	2,343,705	1,167,170	1,736,364	2,903,534
Insurance	62,775	74,798	137,573	70,395	86,345	156,740
Pension	40,987	54,345	95,332	32,485	63,285	95,770
Others	72,600	64,585	137,185	129,331	94,672	224,003
Depreciation expense	361,055	221,312	582,367	367,879	233,503	601,382
Amortization	660	35,314	35,974	-	31,178	31,178

Expense Item \ Function	2007					
	NT$			US$ (Note 3)		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
Personnel expenses	1,511,827	2,357,008	3,868,835	46,618	72,680	119,298
Salary	1,261,420	2,029,616	3,291,036	38,896	62,585	101,481
Insurance	79,743	114,041	193,784	2,459	3,516	5,975
Pension	36,610	80,837	117,447	1,129	2,493	3,622
Others	134,054	132,514	266,568	4,134	4,086	8,220
Depreciation expense	279,752	245,303	525,055	8,626	7,564	16,190
Amortization	-	30,951	30,951	-	954	954

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 the BIT had been taken into account by the Company in its tax calculation.

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 for 2002 to 2003 and applied for the reexamination of its returns. Nevertheless, under the conservatism guideline, the Company adjusted its income tax for the tax shortfall stated in the tax assessment notices.

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

Item Exempt from Corporate Income 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 December 31, 2005, 2006 and 2007 were computed as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Income before income tax	$ 12,155,939	$ 26,957,878	$ 32,151,297	$ 991,406
Permanent differences				
Losses (gains) on equity-method investments	35,112	12,554	(103,997)	(3,207)
Other	31,012	36,625	45,745	1,411
Temporary differences				
Realized pension cost	(42,098)	(24,260)	(21,166)	(653)
Unrealized bad debt expenses	-	-	64,603	1,992
Unrealized loss on decline in value of inventory	239,955	304,936	24,625	759
Unrealized royalties	1,183,995	1,930,164	271,000	8,356
Realized depreciation	(12,058)	-	-	-
Unrealized foreign exchange losses (gains), net	217,995	(177,812)	(94,291)	(2,908)
Unrealized warranty expense	639,801	429,492	2,075,962	64,014
Unrealized marketing expenses	-	983,087	2,023,933	62,409
Unrealized profit from intercompany transactions	8,788	148,934	11,064	342
Unrealized valuation (gain) loss on financial instruments	(60,085)	76,470	96,256	2,968
Capitalized expense	2,698	(19,414)	30,767	949
Other	30,877	(1,292)	43,593	1,344
Total income	14,431,931	30,657,362	36,619,391	1,129,182
Less tax-exempt income tax	(8,734,397)	(20,914,039)	(22,787,534)	(702,668)
Taxable income	5,697,534	9,743,323	13,831,857	426,514
Tax rate	25%	25%	25%	25%
	1,424,384	2,435,831	3,457,964	106,628
Income tax credit	(10)	(10)	(10)	-
Estimated income tax provision	1,424,374	2,435,821	3,457,954	106,628
Unappropriated earnings (additional 10% income tax)	144,006	436,049	571,507	17,623
Less investment research and development tax credits	(938,425)	(1,024,576)	(648,134)	(19,986)
Current income tax	629,955	1,847,294	3,381,327	104,265
Less prepaid and withheld income tax	(13,092)	(156,308)	(1,060,575)	(32,703)
Tax shortage stated in the tax assessment notice	-	67,731	193,642	5,971
Income tax payable	$ 616,863	$ 1,758,717	$ 2,514,394	$ 77,533

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

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Temporary differences				
Unrealized marketing expenses	$ -	$ 245,772	$ 751,755	$ 23,181
Unrealized bad debt expenses	-	-	16,151	498
Provision for loss on decline in value of inventory	146,682	222,916	229,072	7,064
Unrealized royalties	459,556	942,097	1,009,848	31,139
Capitalized expense	39,571	31,936	39,628	1,222
Unrealized reserve for warranty expense	241,126	348,499	867,489	26,750
Unrealized value loss on financial instruments	-	19,117	24,064	742
Unrealized foreign exchange loss, net	21,220	-	-	-
Other	16,348	27,770	41,434	1,277
Tax credit carryforwards	378,236	-	-	-
Total deferred tax assets	1,302,739	1,838,107	2,979,441	91,873
Less valuation allowance	(796,976)	(1,134,041)	(1,970,824)	(60,772)
Total deferred tax assets, net	505,763	704,066	1,008,617	31,101
Deferred tax liabilities				
Unrealized pension cost	(11,882)	(18,505)	(23,797)	(734)
Unrealized valuation gain on financial instruments	(15,021)	-	-	-
Unrealized foreign exchange gain, net	-	(38,254)	(42,710)	(1,317)
	478,860	647,307	942,110	29,050
Less current portion	(229,826)	(428,077)	(562,025)	(17,330)
Deferred tax assets - noncurrent	$ 249,034	$ 219,230	$ 380,085	$ 11,720

Details of the tax credit carryforwards were as follows:

Credit Grant Year	Validity Period	2005	2006	2007	
		NT$	NT$	NT$	US$ (Note 3)
2001	2001-2005	$ -	$ -	$ -	$ -
2002	2002-2006	56,405	-	-	-
2003	2003-2007	58,500	-	-	-
2004	2004-2008	-	-	-	-
2005	2005-2009	263,331	-	-	-
		$378,236	$ -	$ -	$ -

Based on the Income Tax Act 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 taxes in 2005, 2006 and 2007 were as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Current income tax	$ 629,955	$ 1,847,294	$ 3,381,327	$ 104,265
Increase in deferred income tax assets	(256,170)	(168,447)	(294,803)	(9,090)
Underestimation of prior year's income tax	210	31,704	125,911	3,883
Income tax	$ 373,995	$ 1,710,551	$ 3,212,435	$ 99,058

The integrated income tax information is as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Balance of imputation credit account	$ 101,702	$ 481,742	$ 1,857,935	$ 57,291
Unappropriated earnings generated from 1998	14,152,255	31,991,090	41,403,867	1,276,715
Expected creditable ratio (including income tax payable)	5.08%	7.00%	10.56%	10.56%

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 573,414 thousand shares in 2005; 577,919 thousand shares in 2006; and 573,299 thousand shares in 2007. The EPS in 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 employee stock options had dilutive effects on the 2005 and 2006 EPS. The related information is as follows:

	2005				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax	Income after Income Tax	Shares (Thousands)	Income before Income Tax	Income after Income Tax
	NT$	NT$		NT$	NT$
Basic EPS	$12,155,939	$11,781,944	573,414	$ 21.20	$ 20.55
Employee stock options	-	-	4,846		
Diluted EPS	$12,155,939	$11,781,944	578,260	$ 21.02	$ 20.37

	2006				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax	Income after Income Tax	Shares (Thousands)	Income before Income Tax	Income after Income Tax
	NT$	NT$		NT$	NT$
Basic EPS	$26,957,878	$25,247,327	577,919	$ 46.65	$ 43.69
Employee stock options	-	-	6,763		
Diluted EPS	$26,957,878	$25,247,327	584,682	$ 46.11	$ 43.18

	2007				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax	Income after Income Tax	Shares (Thousands)	Income before Income Tax	Income after Income Tax
	NT$	NT$		NT$	NT$
Basic EPS	$32,151,297	$28,938,862	573,299	$ 56.08	$ 50.48
Employee stock options	-	-	-		
Diluted EPS	$32,151,297	$28,938,862	573,299	$ 56.08	$ 50.48

	2007				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax	Income after Income Tax	Shares (Thousands)	Income before Income Tax	Income after Income Tax
	US$ (Note 3)	US$ (Note 3)		US$ (Note 3)	US$ (Note 3)
Basic EPS	$ 991,406	$ 892,348	573,299	$ 1.73	$ 1.56
Employee stock options	-	-	-		
Diluted EPS	$ 991,406	$ 892,348	573,299	$ 1.73	$ 1.56

25. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

Nonderivative Financial Instruments

	December 31							
	2005		2006		2007			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NT$	NT$	NT$	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
Assets								
Available-for-sale financial assets - noncurrent	$ 836	$ 836	$ 1,733	$ 1,733	$ 784	$ 24	$ 784	$ 24
Financial assets carried at cost	1,192	1,192	1,192	1,192	501,192	15,455	501,192	15,455
Bond investments with no active market	-	-	-	-	33,030	1,019	33,030	1,019
Investments accounted for using equity method	323,505	323,505	821,556	821,556	2,397,133	73,917	2,397,133	73,917

Derivative Financial Instruments

	December 31							
	2005		2006		2007			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NT$	NT$	NT$	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
Assets								
Financial assets at fair value through profit or loss	$ 60,085	$ 60,085	$ -	$ -	$ -	$ -	$ -	$ -
Liabilities								
Financial liabilities at fair value through profit or loss	-	-	76,470	76,470	96,256	2,968	96,256	2,968

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 34 - "Accounting for Financial Instruments" effective 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

Not subject to SFAS No. 34 are cash and cash equivalents, receivables, other current financial assets, payables, accrued expenses and other current financial liabilities, which have carrying amounts that approximate their fair values.

The financial instruments neither include bonds payable and 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			
	December 31				December 31			
	2005	2006	2007		2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)	NT$	NT$	NT$	US$ (Note 3)
Assets								
Financial assets at fair value through profit or loss	$ 60,085	$ -	$ -	$-	$ -	$ -	$ -	$ -
Available-for-sale financial assets - noncurrent	836	1,733	784	24	-	-	-	-
Financial assets carried at cost	-	-	-	-	1,192	1,192	501,192	15,455
Bond investments with no active market	-	-	-	-	-	-	33,030	1,019
Investments accounted for using equity method	-	-	-	-	323,505	821,556	2,397,133	73,917
Liabilities								
Financial liabilities at fair value through profit or loss	-	76,470	96,256	2,968	-	-	-	-

There was no loss or gain recognized in 2007 on the fair value changes of derivatives estimated using valuation techniques. The Company recognized unrealized gains of NT$133 thousand and NT$849 thousand and a loss of NT$949 thousand (US$30 thousand) in stockholders' equity for the changes in fair value of available-for-sale financial assets for 2005, 2006 and 2007, respectively.

As of December 31, 2005, 2006 and 2007, financial assets exposed to cash flow interest rate risk amounted to NT$9,716,900 thousand, NT$30,258,400 thousand and NT$46,258,680 (US$1,426,416 thousand), respectively.

As of December 31, 2007, financial assets exposed to fair value interest rate risk amounted to NT$33,030 thousand (US$1,019 thousand).

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
Xander International Corp.	Chairperson is an immediate relative of the Company's chairperson
Comserve Network Netherlands B.V.	Main director is an immediate relative of the Company's chairperson
VIA Technologies, Inc.	Same chairperson
Chander Electronics Corp.	Same chairperson
H.T.C. (B.V.I.) Corp.	Subsidiary
HTC HK, Limited.	Subsidiary
BandRich Inc.	Subsidiary
Communication Global Certification Inc.	Subsidiary
HTC Asia Pacific Pte. Ltd.	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.
Exedea Inc.	Subsidiary of H.T.C. (B.V.I.) Corp.
HTC Nippon Corporation	Subsidiary of H.T.C. (B.V.I.) Corp.
High Tech Computer Corp. (Suzhou)	Subsidiary of H.T.C. (B.V.I.) Corp.
High Tech Computer Corp. (WGQ)	Subsidiary of H.T.C. (B.V.I.) Corp.

Related Party	Relationship with the Company
HTC Belgium BVBA/SPRL	Subsidiary of HTC HK, Limited.
HTC Singapore Pte. Ltd.	Subsidiary of HTC Asia Pacific Pte. Ltd.
HTC (H.K.) Limited	Subsidiary of HTC Asia Pacific Pte. Ltd.
HTC (Australia and New Zealand) Pty. Ltd.	Subsidiary of HTC Asia Pacific Pte. Ltd.

Major transactions with related parties are summarized below:

Purchases of Inventories and Services

Related Party	2005 Amount NT$	2005 % to Total Net Purchases	2006 Amount NT$	2006 % to Total Net Purchases	2007 Amount NT$	2007 Amount US$ (Note 3)	2007 % to Total Net Purchases
High Tech Computer Corp. (Suzhou)	$ -	-	$ 16,069	-	$ 160,399	$ 4,946	-
BandRich Inc.	-	-	-	-	104	3	-
Chander Electronics Corp.	$ 588,024	1	$ 72,290	-	$ -	$ -	-
	$ 588,024	1	$ 88,359	-	$ 160,503	$ 4,949	-

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

Sales and Services Provided

Related Party	2005 Amount NT$	2005 % to Total Revenues	2006 Amount NT$	2006 % to Total Revenues	2007 Amount NT$	2007 Amount US$ (Note 3)	2007 % to Total Revenues
HTC America Inc.	$ 233,757	-	$ 953,579	1	$1,094,791	$ 33,759	1
HTC Europe Co., Ltd.	263,779	1	389,302	-	687,451	21,198	1
Exedea Inc.	-	-	2,080,052	2	191,897	$ 5,917	-
BandRich Inc.	-	-	-	-	116,693	3,598	-
First International Computer, Inc. (FIC)	-	-	-	-	55,408	1,708	-
Xander International Corp.	-	-	-	-	39,893	1,230	-
Comserve Network Netherlands B.V.	72,168	-	-	-	37,587	1,159	-
Others	3,262	-	2,157	-	10,981	339	-
	$ 572,966	1	$3,425,090	3	$2,234,701	$ 68,908	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

Related Party	December 31, 2005 Amount NT$	2005 % to Total Notes and Accounts Receivable	2006 Amount NT$	2006 % to Total Notes and Accounts Receivable	2007 Amount NT$	2007 Amount US$ (Note 3)	2007 % to Total Notes and Accounts Receivable
Accounts receivable							
HTC America Inc.	$ 171,177	1	$ 444,099	2	$ 273,472	$ 8,433	2
HTC Europe Co., Ltd.	247,885	2	263,376	1	248,903	7,675	1
Exedea Inc.	-	-	603,021	3	-	-	-
Others	1,718	-	1,294	-	14,500	447	-
	$ 420,780	3	$1,311,790	6	$ 536,875	$ 16,555	3

Notes and Accounts Payable

Related Party	December 31						
	2005		2006		2007		
	Amount	% to Total Notes and Accounts Payable	Amount	% to Total Notes and Accounts Payable	Amount		% to Total Notes and Accounts Payable
	NT$		NT$		NT$	US$ (Note 3)	
High Tech Computer Corp. (Suzhou)	$ -	-	$ 13,560	-	$ 28,386	$ 875	-
Chander Electronics Corp.	55,804	-	-	-	-	-	-
Others	494	-	494	-	1,015	32	-
	$ 56,298	-	$ 14,054	-	$ 29,401	$ 907	-

Other Receivables

Related Party	December 31						
	2005		2006		2007		
	Amount	% to Total Other Receivable	Amount	% to Total Other Receivable	Amount		% to Total Other Receivable
	NT$		NT$		NT$	US$ (Note 3)	
HTC Belgium BVBA/SPRL	$ -	-	-	-	$ 106,024	$ 3,269	48
High Tech Computer Corp. (Suzhou)	304	1	19,273	12	41,163	1,269	19
HTC Nippon Corporation	-	-	27,249	18	16,917	522	8
HTC Europe Co., Ltd.	1,318	6	84,055	55	6,445	199	3
Others	1,382	6	413	-	1,352	42	-
	$ 3,004	13	$ 130,990	85	$ 171,901	$ 5,301	78

Prepaid Expenses

Related Party	December 31						
	2005		2006		2007		
	Amount	% to Total Prepayment	Amount	% to Total Prepayment	Amount		% to Total Prepayment
	NT$		NT$		NT$	US$ (Note 3)	
HTC Nippon Corporation	$ -	-	$ 3,245	-	$ 15,789	$ 487	1
High Tech Computer Corp. (WGQ)	-	-	-	-	9,576	295	-
Communication Global Certification Inc.	-	-	-	-	3,728	115	-
HTC America Inc.	19,977	4	19,857	1	-	-	-
HTC Europe Co., Ltd.	23,466	5	17,610	1	-	-	-
HTEK	21,685	5	-	-	-	-	-
	$ 65,128	14	$ 40,712	2	$ 29,093	$ 897	1

Accrued Expenses

Related Party	December 31						
	2005		2006		2007		
	Amount	% to Total Prepayment	Amount	% to Total Prepayment	Amount		% to Total Prepayment
	NT$		NT$		NT$	US$ (Note 3)	
HTC Singapore Pte. Ltd.	$ -	-	$ -	-	$ 150,017	$ 4,626	3
HTC Belgium BVBA/SPRL	-	-	-		145,926	4,500	3
HTC (H.K.) Limited	-	-	-	-	75,792	2,337	1
HTC (Australia and New Zealand) Pty. Ltd.	-	-	-	-	60,314	1,860	1
HTC Nippon Corporation	-	-	-		31,280	964	1
Others	-	-	210	-	7,976	246	-
	$ -	-	$ 210	-	$ 471,305	$ 14,533	9

Other Payables to Related Parties

Related Party	December 31 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.	$ 33,357	37	$ 72,404	66	$ 102,152	$ 3,150	42
HTC Europe Co., Ltd.	56,420	63	23,354	21	72,340	2,231	30
HTC Belgium BVBA/SPRL	-	-	-	-	51,266	1,581	21
HTC Nippon Corporation	-	-	11,526	10	16,978	523	7
Others	-	-	3,333	3	1,358	42	-
	$ 89,777	100	$ 110,617	100	$ 244,094	$ 7,527	100

Outsourcing Expenses

Related Party	2005 Amount NT$	2005 % to Total Outsourcing Expenses	2006 Amount NT$	2006 % to Total Outsourcing Expenses	2007 Amount NT$	2007 Amount US$ (Note 3)	2007 % to Total Outsourcing Expenses
High Tech Computer Corp. (Suzhou)	$ 28,212	5	$ 159,134	19	$ 347,180	$ 10,706	66
First International Computer Inc.	7,350	1	-	-	-	-	-
	$ 35,562	6	$ 159,134	19	$ 347,180	$ 10,706	66

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

Service Warranty Expense

Related Party	2005 Amount NT$	2005 % to Total Warranty Expenses	2006 Amount NT$	2006 % to Total Warranty Expenses	2007 Amount NT$	2007 Amount US$ (Note 3)	2007 % to Total Warranty Expenses
HTC America Inc.	$ 96,558	7	$ 463,474	23	$ 970,411	$ 29,923	19
HTC Europe Co., Ltd.	120,981	8	308,187	15	329,461	10,159	7
Comserve Network Netherlands B.V.	86,430	6	11,470	1	221,884	6,842	4
	$ 303,969	21	$ 783,131	39	$1,521,756	$ 46,924	30

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

Service and Marketing Fees

Related Party	2005 Amount NT$	2005 % to Total Service Expenses	2006 Amount NT$	2006 % to Total Service Expenses	2007 Amount NT$	2007 Amount US$ (Note 3)	2007 % to Total Service Expenses
HTC America Inc.	$ -	-	$ 464,321	32	$1,336,085	$ 41,199	30
HTC Europe Co., Ltd.	-	-	302,919	21	1,327,623	40,938	30
HTC Nippon Corporation	-	-	31,478	2	247,967	7,646	7
HTC Belgium BVBA/SPRL	-	-	-	-	232,447	7,168	5
HTC Singapore Pte. Ltd.	-	-	-	-	150,017	4,626	3
Communication Global Certification Inc.	-	-	34,814	2	115,253	3,554	3
HTC (H.K.) Limited	-	-	-	-	75,792	2,337	2
HTC (Australia and New Zealand) Pty. Ltd.	-	-	-	-	60,314	1,860	1
HTEK	21,983	14	21,685	1	-		-
Exedea Inc.	-	-	15,567	1	-	-	-
VIA Technologies Inc.	3,600	3	2,400	-	2,400	74	-
	$ 25,583	17	$ 873,184	59	$3,547,898	$109,402	81

Leasing - Lessee

Operating Expense - Rental Expense

Related Party	2005 Amount	2005 % to Total Rental Expense	2006 Amount	2006 % to Total Rental Expense	2007 Amount		2007 % to Total Rental Expense
	NT$		NT$		NT$	US$ (Note 3)	
VIA Technologies Inc.	$ 7,663	37	$ -	-	$ -	$ -	-

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

Nonoperating Income - Rental Revenue

Related Party	2005 Amount	2005 % to Total Rental Revenue	2006 Amount	2006 % to Total Rental Revenue	2007 Amount		2007 % to Total Rental Revenue
	NT$		NT$		NT$	US$ (Note 3)	
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, resulting in a gain of NT$2 thousand.

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

In 2007, the Company sold equipment to High Tech Computer Corp. (Suzhou) for NT$5,080 thousand, resulting in a gain of NT$2,046 thousand.

27. COMMITMENTS AND CONTINGENCIES

As of December 31, 2007, unused letters of credit amounted to £47 thousand.

28. SIGNIFICANT CONTRACTS

Patent Agreements

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

Contractor	Contract Term	Description
Microsoft	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.
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.

Contractor	Contract Term	Description
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 EVENTS

Donation

The Company donated NT$300 million in 2005 and NT$300 million in 2006 to the High Tech Computer Foundation; and NT$300 million (US$9,251 thousand) in 2007 to the HTC Education Foundation for Social Welfare Charity to help the disadvantaged minority, teenagers and other people in need.

The Purchase of Assets of Dopod International Inc.

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, 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. On July 1, 2007, the transfer of all of the subsidiaries' assets to the Company was completed. Although the purchase price had not been proposed by the Board of Directors as of January 18, 2008, the date of the accompanying independent auditors' report, the purchase price is estimated at US$12.2 million.

30. SEGMENT INFORMATION

Industry Type

The Company mainly manufactures and sells smart handheld devices.

Foreign Operations

The Company does not have any foreign operations.

Export Sales

Export sales in 2005, 2006 and 2007 were as follows:

	2005	2006	2007	
	NT$	NT$	NT$	US$ (Note 3)
Asia	$ 6,833,891	$ 6,317,593	$ 11,679,026	$ 360,130
America	28,733,781	49,644,601	49,815,760	1,536,101
Europe	29,056,263	38,917,132	47,040,613	1,450,528
Others	5,574,579	6,771,781	7,770,334	239,603
	$ 70,198,514	$ 101,651,107	$ 116,305,733	$ 3,586,362

Major Customers

Sales to major customers were as follows:

	2005	2006	2007	
Customer	NT$	NT$	NT$	US$ (Note 3)
A	$ 8,518,175	$ 13,328,177	$ 19,633,294	$ 605,405
B	14,965,913	17,738,373	16,931,462	522,093
C	5,067,341	12,304,976	15,901,462	490,332
D	7,448,551	10,335,852	12,592,382	388,294
	$ 35,999,980	$ 53,707,378	$ 65,058,600	$ 2,006,124