

**High Tech Computer Corp. and  
Subsidiaries**

**Consolidated Financial Statements for the  
Three Months Ended March 31, 2008 and  
Independent Accountants' Review Report  
(With Comparative Data for the Three Months Ended  
March 31, 2007)**

## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders  
High Tech Computer Corp.

We have reviewed the accompanying consolidated balance sheets of High Tech Computer Corp. and subsidiaries (collectively, the "Company") as of March 31, 2008, and the related consolidated statements of income and cash flows for the three months then ended, all expressed in New Taiwan dollars. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our reviews. The financial statements of the Company for the three months ended March 31, 2007 were unreviewed and are presented herewith for comparative purposes only.

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

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and the order VI-0960064020 issued by Financial Supervisory Commission under the Executive Yuan as of November 15, 2007, and accounting principles generally accepted in the Republic of China.

As discussed in Note 4, the Company has adopted Interpretation 96-052 - "Accounting for Bonuses to Employees, Directors and Supervisors" of the Accounting Research and Development Foundation and adopted early on January 1, 2008 the newly revised Statement of Financial Accounting Standards No. 10 - "Accounting for Inventories."

In addition, the translation of the 2008 New Taiwan dollar amounts into U.S. dollars has been reviewed on the basis stated in Note 3 to the financial statements.

April 11, 2008

### Notice to Readers

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

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

# HIGH TECH COMPUTER CORP. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

MARCH 31, 2008

(With Comparative Data as of March 31, 2007)

(In Thousands, Except Par Value)

(Reviewed, Not Audited)

ASSETS	2007	2008		LIABILITIES AND STOCKHOLDERS' EQUITY	2007	2008	
	NT\$	NT\$	US\$ (Note 3)		NT\$	NT\$	US\$ (Note 3)
<b>CURRENT ASSETS</b>				<b>CURRENT LIABILITIES</b>			
Cash (Note 5)	\$ 39,573,522	\$ 64,809,713	\$ 2,131,898	Financial liabilities at fair value through profit or loss (Notes 2, 6 and 21)	\$ 49,910	\$ 348,155	\$ 11,452
Bond investments with no active market (Notes 2 and 13)	-	30,400	1,000	Notes and accounts payable (Note 22)	15,221,072	19,578,158	644,018
Notes receivable, net (Notes 2 and 8)	1,683	2,034	67	Income tax payable (Note 2)	2,388,343	3,212,195	105,664
Accounts receivable, net (Notes 2, 8 and 22)	16,494,420	16,575,047	545,232	Accrued expenses (Notes 4 and 15)	2,372,355	7,028,831	231,212
Other current financial assets (Notes 9 and 22)	108,576	182,294	5,997	Payable for purchase of equipment	18,258	127,511	4,194
Inventories (Notes 2, 4 and 10)	5,182,454	8,590,413	282,579	Long-term liabilities - current portion (Note 17)	12,500	24,688	812
Prepayments (Note 11)	1,680,449	1,294,072	42,568	Other current liabilities (Notes 16 and 22)	1,784,240	4,620,031	151,975
Deferred tax assets (Note 2)	492,609	553,679	18,213				
Other current assets	130,379	193,616	6,369	Total current liabilities	21,846,678	34,939,569	1,149,327
Total current assets	63,664,092	92,231,268	3,033,923				
<b>INVESTMENTS</b>				<b>LONG-TERM LIABILITIES</b>			
Available-for-sale financial assets - noncurrent (Notes 2 and 7)	1,500	731	24	Long-term bank loans, net of current portion (Note 17)	86,925	68,438	2,251
Financial assets carried at cost (Notes 2 and 12)	501,192	501,192	16,487				
Total investments	502,692	501,923	16,511	<b>OTHER LIABILITIES</b>			
				Guarantee deposits received	628	632	21
<b>PROPERTIES (Notes 2 and 14)</b>				Total liabilities	21,934,231	35,008,639	1,151,599
Cost				<b>STOCKHOLDERS' EQUITY (Note 18)</b>			
Land	610,293	610,293	20,075	Capital stock - NT\$10.00 par value			
Buildings and structures	1,086,762	2,247,707	73,938	Authorized: 650,000 thousand shares			
Machinery and equipment	3,527,173	4,079,017	134,178	Issued and outstanding: 436,419 thousand shares in 2007 and 573,134 thousand shares in 2008			
Molding equipment	201,247	212,930	7,004	Common stock	4,364,192	5,731,337	188,531
Computer equipment	239,784	313,172	10,302	Capital surplus			
Transportation equipment	3,823	3,120	103	Additional paid-in capital - common stock	4,410,871	4,374,244	143,890
Furniture and fixtures	163,781	223,773	7,361	Long-term equity investments	15,845	15,845	521
Leased assets	4,712	5,928	195	From merger	25,972	25,756	847
Leasehold improvements	82,205	128,183	4,216	Retained earnings			
	5,919,780	7,824,123	257,372	Legal reserve	1,991,520	4,516,253	148,561
Less accumulated depreciation	(3,126,160)	(3,770,397)	(124,026)	Special reserve	6,175	-	-
Prepayments for construction-in-progress and equipment-in-transit	697,922	126,401	4,158	Accumulated earnings	37,530,058	48,348,450	1,590,410
Properties, net	3,491,542	4,180,127	137,504	Cumulative translation adjustments (Note 2)	22,600	(78,934)	(2,597)
				Unrealized losses on financial instruments (Notes 2 and 7)	(471)	(1,240)	(41)
<b>INTANGIBLE ASSETS</b>				Treasury stock (Notes 2 and 19)	(1,991,755)	-	-
Goodwill (Note 2)	174,253	174,253	5,732	Equity attributable to stockholders of the parent	46,375,007	62,931,711	2,070,122
Deferred pension cost	-	953	31	<b>MINORITY INTEREST</b>	121,666	101,100	3,326
Total intangible assets	174,253	175,206	5,763	Total stockholders' equity	46,496,673	63,032,811	2,073,448
<b>OTHER ASSETS</b>							
Refundable deposits	62,698	132,058	4,344				
Deferred charges (Note 2)	136,643	142,916	4,701				
Deferred tax assets (Note 2)	312,374	406,838	13,383				
Restricted assets (Notes 2 and 23)	6,977	49,738	1,636				
Others (Note 2)	79,633	221,376	7,282				
Total other assets	598,325	952,926	31,346				
<b>TOTAL</b>	<b>\$ 68,430,904</b>	<b>\$ 98,041,450</b>	<b>\$ 3,225,047</b>	<b>TOTAL</b>	<b>\$ 68,430,904</b>	<b>\$ 98,041,450</b>	<b>\$ 3,225,047</b>

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

(With Deloitte & Touche review report dated April 11, 2008)

# HIGH TECH COMPUTER CORP. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

THREE MONTHS ENDED MARCH 31, 2008

(With Comparative Data for the Three Months Ended March 31, 2007)

(In Thousands, Except Earnings Per Share)

(Reviewed, Not Audited)

	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	US\$ (Note 3)
REVENUES (Notes 2 and 22)	\$ 23,705,172	\$ 32,681,989	\$ 1,075,065
COST OF REVENUES (Note 4)	<u>16,348,163</u>	<u>21,039,806</u>	<u>692,098</u>
GROSS PROFIT	7,357,009	11,642,183	382,967
OPERATING EXPENSES (Note 22)			
Selling and marketing	614,566	1,676,608	55,152
General and administrative	292,683	686,130	22,570
Research and development	<u>802,285</u>	<u>2,113,785</u>	<u>69,532</u>
Total operating expenses	<u>1,709,534</u>	<u>4,476,523</u>	<u>147,254</u>
OPERATING INCOME	<u>5,647,475</u>	<u>7,165,660</u>	<u>235,713</u>
NONOPERATING INCOME AND GAINS			
Interest income	141,850	319,262	10,502
Gain on sale of properties	-	30	1
Foreign exchange gain (Note 2)	248,674	449,211	14,777
Other	<u>34,182</u>	<u>72,105</u>	<u>2,372</u>
Total nonoperating income and gains	<u>424,706</u>	<u>840,608</u>	<u>27,652</u>
NONOPERATING EXPENSES AND LOSSES			
Interest expense	343	292	10
Loss on physical inventory	5,541	-	-
Valuation loss on financial instruments, net (Notes 2 and 6)	49,910	348,155	11,453
Other	<u>7,917</u>	<u>7,400</u>	<u>244</u>
Total nonoperating expenses and losses	<u>63,711</u>	<u>355,847</u>	<u>11,707</u>
INCOME BEFORE INCOME TAX	6,008,470	7,650,421	251,658
INCOME TAX EXPENSE (Note 2)	<u>(480,505)</u>	<u>(716,257)</u>	<u>(23,561)</u>
NET INCOME	<u>\$ 5,527,965</u>	<u>\$ 6,934,164</u>	<u>\$ 228,097</u>
ATTRIBUTABLE TO			
Stockholders of the parent	\$ 5,538,968	\$ 6,944,583	\$ 228,441
Minority interest	<u>(11,003)</u>	<u>(10,419)</u>	<u>(344)</u>
	<u>\$ 5,527,965</u>	<u>\$ 6,934,164</u>	<u>\$ 228,097</u>

(Continued)

# HIGH TECH COMPUTER CORP. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

THREE MONTHS ENDED MARCH 31, 2008

(With Comparative Data for the Three Months Ended March 31, 2007)

(In Thousands, Except Earnings Per Share)

(Reviewed, Not Audited)

	2007		2008			
	Before Income Tax	After Income Tax	Before Income Tax		After Income Tax	
	NT\$	NT\$	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)
BASIC EARNINGS PER SHARE (Note 20)	<u>\$ 10.49</u>	<u>\$ 9.65</u>	<u>\$ 13.36</u>	<u>\$ 0.44</u>	<u>\$ 12.12</u>	<u>\$ 0.40</u>
DILUTED EARNINGS PER SHARE (Note 20)	<u>\$ 10.37</u>	<u>\$ 9.54</u>	<u>\$ 13.36</u>	<u>\$ 0.44</u>	<u>\$ 12.12</u>	<u>\$ 0.40</u>

(Concluded)

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

(With Deloitte & Touche review report dated April 11, 2008)

# HIGH TECH COMPUTER CORP. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

THREE MONTHS ENDED MARCH 31, 2008

(With Comparative Data for the Three Months Ended March 31, 2007)

(In Thousands)

(Reviewed, Not Audited)

	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	US\$ (Note 3)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 5,527,965	\$ 6,934,164	\$ 228,097
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	194,441	176,312	5,800
Amortization	11,485	20,244	666
Gain on disposal of properties	-	(30)	(1)
Transfer of properties to expenses	-	2,375	78
Provision for exchanges loss on bond investments with no active market	-	2,630	87
Deferred income tax assets	(151,302)	2,649	87
Prepaid pension costs	(5,625)	(127,116)	(4,181)
Net changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	(26,560)	252,428	8,304
Notes receivable	57,247	1,498	49
Accounts receivable	2,689,843	2,895,138	95,235
Other current financial assets	267,588	(5,966)	(196)
Inventories	781,059	(1,353,711)	(44,530)
Prepayments	191,428	274,283	9,021
Other current assets	(130,197)	(14,349)	(472)
Notes and accounts payable	(2,062,373)	(3,623,462)	(119,193)
Income tax payable	629,626	653,492	21,496
Accrued expenses	(117,615)	1,902,422	62,580
Other current liabilities	<u>94,332</u>	<u>650,151</u>	<u>21,387</u>
Net cash provided by operating activities	<u>7,951,342</u>	<u>8,643,152</u>	<u>284,314</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of properties	(365,577)	(203,089)	(6,681)
Proceeds of the sale of properties	-	648	21
Increase in restricted assets	(6,977)	(15,238)	(501)
Increase in financial assets carried at cost	(500,000)	-	-
Acquisition of a subsidiary	(240,039)	-	-
(Increase) decrease in refundable deposits	(16,882)	561	18
Increase in deferred charges	<u>(12,696)</u>	<u>(27,371)</u>	<u>(900)</u>
Net cash used in investing activities	<u>(1,142,171)</u>	<u>(244,489)</u>	<u>(8,043)</u>

(Continued)

# HIGH TECH COMPUTER CORP. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

THREE MONTHS ENDED MARCH 31, 2008

(With Comparative Data for the Three Months Ended March 31, 2007)

(In Thousands)

(Reviewed, Not Audited)

	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	US\$ (Note 3)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Decrease in long-term bank loans	\$ (13,056)	\$ (3,124)	\$ (103)
Decrease in guarantee deposits received	(12)	(1)	-
Bonus to employees	(451,000)	-	-
Purchase of treasury stock	<u>(1,747,760)</u>	<u>-</u>	<u>-</u>
Net cash used in financing activities	<u>(2,211,828)</u>	<u>(3,125)</u>	<u>(103)</u>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>			
	<u>6,361</u>	<u>(76,010)</u>	<u>(2,500)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	4,603,704	8,319,528	273,668
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>			
	<u>34,969,818</u>	<u>56,490,185</u>	<u>1,858,230</u>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u>\$39,573,522</u>	<u>\$64,809,713</u>	<u>\$2,131,898</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>			
Cash paid during the period			
Interest (net of amounts capitalized)	<u>\$ 343</u>	<u>\$ 292</u>	<u>\$ 10</u>
Income tax	<u>\$ 2,181</u>	<u>\$ 60,116</u>	<u>\$ 1,978</u>
<b>PURCHASE OF PROPERTIES</b>			
Cost of properties purchased	\$ 334,564	\$ 151,168	\$ 4,973
Decrease payable for purchase of equipment	30,800	51,769	1,703
Decrease in lease payable	<u>213</u>	<u>152</u>	<u>5</u>
Cash paid for purchase of properties	<u>\$ 365,577</u>	<u>\$ 203,089</u>	<u>\$ 6,681</u>
<b>BONUS TO EMPLOYEES</b>			
Appropriation of bonus to employees	\$ -	\$ -	\$ -
Decrease in payable for employee	<u>451,000</u>	<u>-</u>	<u>-</u>
Cash paid	<u>\$ 451,000</u>	<u>\$ -</u>	<u>\$ -</u>

(Concluded)

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

(With Deloitte & Touche review report dated April 11, 2008)

# **HIGH TECH COMPUTER CORP. AND SUBSIDIARIES**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **THREE MONTHS ENDED MARCH 31, 2007 AND 2008**

**(With Comparative Data for the Three Months Ended March 31, 2007)**

**(In Thousands, Unless Stated Otherwise)**

**(Reviewed, Not Audited)**

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## **1. ORGANIZATION AND OPERATIONS**

High Tech Computer Corp. (HTCC) 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, HTCC had an initial public offering and, in March 2002, had its stock listed on the Taiwan Stock Exchange. On November 19, 2003, HTCC started trading Global Depositary Receipts on the Luxembourg Stock Exchange.

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

HTCC and its consolidated subsidiaries, hereinafter referred to as the "Company," had 5,554 and 7,473 employees as of March 31, 2007 and 2008, respectively.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of Presentation**

The accompanying consolidated financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and the order VI-0960064020 issued by Financial Supervisory Commission under the Executive Yuan as of November 15, 2007, and accounting principles generally accepted in the Republic of China (ROC). In preparing consolidated 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.

For the convenience of readers, the accompanying consolidated 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 consolidated financial statements shall prevail. However, the accompanying consolidated 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 for their oversight purposes.

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

## Principles of Consolidation

The accompanying consolidated financial statements include the accounts of all the direct and indirect subsidiaries of HTCC and the accounts of investees that are not majority owned by HTCC but in which HTCC has controlling interests.

All significant intercompany balances and transactions were eliminated upon consolidation. Minority interest was presented separately in the financial statements.

The consolidated entities as of March 31, 2007 and 2008 were as follows:

Investor	Investee	Main Businesses	% of Ownership		Remark	
			2007	2008		
High Tech Computer Corp.	H.T.C. (B.V.I.) Corp.	Global investing activities	100	100	Incorporated in August 2000	
	Band Rich Inc.	Design, manufacture and sale of electronic devices	51	51	Incorporated in April 2006	
	HTC HK, Limited	Global investing activities	100	100	Incorporated in August 2006	
	Communication Global Certification Inc.	Testing and certification services	100	100	Invested in January 2007	
	HTC Asia Pacific Pte. Ltd.	Global investing activities	-	100	Incorporated in July 2007	
H.T.C. (B.V.I.) Corp.	HTEK	Marketing and engineering support activities	100	-	Incorporated in August 2000 and liquidated in 2007	
	HTC America Inc.	Marketing , repair and after-sales services	100	100	Incorporated in January 2003	
	HTC EUROPE CO., LTD.	"	100	100	Incorporated in July 2003	
	High Tech Computer Corp. (Suzhou)	Manufacture and sale of smart handheld devices	100	100	Incorporated in January 2003	
	Exedea Inc.	Distribution and sales	100	100	Incorporated in December 2004 and invested in July 2005	
	HTC NIPPON Corporation	Marketing, distribution and after-sales service	100	100	Incorporated in March 2006	
	HTC BRASIL	"	100	100	Incorporated in October 2006	
	High Tech Computer Corp. (WGQ)	Repair and after-sales service	-	100	Incorporated in July 2007	
	HTC HK, Limited	HTC Belgium BVBA/SPRL	Marketing, distribution and after-sales service	100	100	Incorporated in October 2006
	HTC Belgium BVBA/SPRL	HTC Italia SRL	"	100	100	Incorporated in February 2007
HTC Asia Pacific Pte. Ltd.	HTC Singapore Pte. Ltd.	"	-	100	Incorporated in July 2007	
	HTC (H.K.) Limited	"	-	100	Incorporated in August 2007	
	HTC (Australia and New Zealand) Pty. Ltd.	"	-	100	Incorporated in August 2007	
	HTC Philippines Corp.	"	-	100	Incorporated in December 2007	
	PT. HTC Indonesia	"	-	100	Incorporated in October 2007	
	HTC India Private Ltd.	"	-	100	Incorporated in January 2008	

In January 2007, the Company wholly acquired the shares issued by Communication Global Certification Inc. for NT\$280,000 thousand in cash. The net assets acquired were as follows:

	<u>2007</u> NT\$
Cash on hand and in banks	\$ 39,961
Other current assets	40,201
Property	175,940
Intangible assets	174,253
Other assets	3,913
Current liabilities	(63,315)
Long-term bank loans	(90,050)
Other liabilities	<u>(903)</u>
 Total consideration	 <u>\$ 280,000</u>
 Cash consideration	 \$ 280,000
Cash on hand and in banks	<u>(39,961)</u>
 Net cash outflow on the acquisition of a subsidiary	 <u>\$ 240,039</u>

As mentioned in Note 1, HTCC and the foregoing subsidiaries are hereinafter referred to collectively as the “Company.”

#### **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 consist of raw materials, supplies, finished goods and work-in-process. Before January 1, 2008, inventories were stated at the lower of cost or market value. Any write-down was made on a category by category basis. Market value meant replacement cost for raw materials and supplies and net realizable value for finished goods and work in process. As stated in note 4, effective January 1, 2008, inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made item by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded and adjusted to approximate weighted-average cost on the balance sheet date.

## **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.

## **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.

### **Goodwill**

Goodwill is the consideration paid for an acquisition in excess of the fair value of identifiable net assets acquired. Before January 1, 2006, goodwill was amortized using the straight-line method over the estimated life of 10 years. Effective January 1, 2006, based on the newly revised Statement of Financial Accounting Standards No. 25 - "Business Combinations - Accounting Treatment under the Purchase Method," goodwill is no longer amortized and is instead tested for impairment annually. If circumstances show that the fair value of goodwill has become lower than its carrying amount, an impairment loss is recognized. A reversal of this impairment loss is not allowed.

### **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.

### **Product-Related Costs**

The cost of revenues consists of costs of goods sold, unallocated overheads, abnormal costs, write-downs of inventories and the reversal of write-downs. The provisions for product warranty are estimated and recorded under cost of revenues when sales are recognized.

### **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.

All subsidiaries file income tax returns based on the regulations of their respective local governments. In addition, there is no material difference in the accounting principles on income taxes between the parent company and those of its subsidiaries.

## **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 2007 accounts have been reclassified to be consistent with the presentation of the consolidated financial statements as of and for the year ended March 31, 2008.

## **3. TRANSLATION INTO U.S. DOLLARS**

The consolidated financial statements are stated in New Taiwan dollars. The translation of the 2008 New Taiwan dollar amounts into U.S. dollar amounts are included solely for the convenience of readers, using the noon buying rate of NT\$30.4 to US\$1.00 quoted by the Bank of Taiwan on March 31, 2008. 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. Interpretation 96-052 - "Accounting for Bonuses to Employees, Directors and Supervisors"

In March 2007, the Accounting Research and Development Foundation issued an interpretation that requires companies to recognize as compensation expenses bonuses paid to employees and remuneration to directors and supervisors beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. The adoption of this interpretation resulted in a decrease of NT\$1,373,191 thousand (US\$45,171 thousand) in net income, including employee bonus payable of NT\$1,497,199 thousand (US\$49,250 thousand), minus the allocation to inventory of NT\$ 7,785 thousand (US\$256 thousand) and minus the tax saving of NT\$116,223 thousand (US\$3,823 thousand), and a decrease in after income tax basic earnings per share of NT\$2.40 for the three months ended March 31, 2008.

Had the bonuses to employees and remuneration to directors and supervisors not been recognized as compensation expenses, net income would have been calculated as follows:

	Three Months Ended March 31				
	2007		2008		
	Amount	%	Amount		%
	NT\$		NT\$	US\$ (Note 3)	
Revenues	\$ 23,705,172	100	\$ 32,681,989	\$ 1,075,065	100
Cost of revenues	16,348,163	69	20,882,750	686,932	64
Gross profit	7,357,009	31	11,799,239	388,133	36
Operating expenses	1,709,534	7	3,144,165	103,426	10
Operating income	5,647,475	24	8,655,074	284,707	26
Nonoperating income and gains	424,706	2	840,608	27,652	3
Nonoperating expenses and losses	63,711	1	355,847	11,707	1
Income before income tax	6,008,470	25	9,139,835	300,652	28
Income tax	(480,505)	(2)	(832,480)	(27,384)	(3)
Net income	\$ 5,527,965	23	\$ 8,307,355	\$ 273,268	25

b. SFAS No. 39, “Accounting for Share-based Payment”

On January 1, 2008, the Company adopted the newly released Statement of Financial Accounting Standards (SFAS) No. 39 - “Accounting for Share-based Payments.” Except as mentioned above, the adoption resulted in no material effect on the Company’s financial statements as of and for the three months ended March 31, 2008.

c. SFAS No. 10 - “Accounting for Inventories”

On January 1, 2008, the Company adopted early the newly revised SFAS No. 10, “Accounting for Inventories”. The main revisions are (1) inventories are stated at the lower of cost or net realizable value, and inventories are written down to net realizable value item-by-item except when the grouping of similar or related items is appropriate; (2) unallocated overheads are recognized as expenses in the period in which they are incurred; and (3) abnormal costs, write-downs of inventories and any reversal of write-downs are recorded as cost of goods sold for the period. The adoption had no material effect on the Company’s financial statements as of and for the three months ended March 31, 2008.

For an enhanced presentation of product-related costs, the cost of revenues consists of costs of goods sold, unallocated overheads, abnormal costs, write-downs of inventories and the reversal of write-downs. The provisions for product warranty are estimated and recorded under cost of revenues when sales are recognized.

Had the newly revised SFAS No. 10 not been applied retroactively, net income would have been calculated as follows:

	Three Months Ended March 31				
	2007		2008		
	Amount	%	Amount		%
	NT\$		NT\$	US\$ (Note 3)	
Revenues	\$ 23,705,172	100	\$ 32,681,989	\$ 1,075,065	100
Cost of revenues	15,687,098	66	19,894,773	654,434	61
Gross profit	8,018,074	34	12,787,216	420,631	39
Operating expenses	1,956,362	8	5,310,450	174,686	16
Operating income	6,061,712	26	7,476,766	245,945	23
Nonoperating income and gains	424,706	1	840,608	27,652	2
Nonoperating expenses and losses	477,948	2	666,953	21,939	2
Income before income tax	6,008,470	25	7,650,421	251,658	23
Income tax	(480,505)	(2)	(716,257)	(23,561)	(2)
Net income	\$ 5,527,965	23	\$ 6,934,164	\$ 228,097	21

## 5. CASH

Cash as of March 31, 2007 and 2008 consisted of the following:

	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	US\$ (Note 3)
Cash on hand	\$ 1,722	\$ 155,383	\$ 5,111
Cash in banks	7,843,400	5,748,135	189,083
Time deposits	<u>31,728,400</u>	<u>58,906,195</u>	<u>1,937,704</u>
	<u>\$ 39,573,522</u>	<u>\$ 64,809,713</u>	<u>\$ 2,131,898</u>

On time deposits, interest rates ranged from 1.644% to 2.175% and 1.90% to 3.85%, as of March 31, 2007 and 2008, respectively.

On preferential deposits, interest rates ranged from 2.30% to 5.25% and 1.00% to 4.00%, as of March 31, 2007 and 2008, respectively.

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

Financial assets and liabilities at fair value through profit or loss as of March 31, 2007 and 2008 were as follows:

	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	US\$ (Note 3)
Derivatives - financial liabilities			
Forward exchange contracts	<u>\$ 49,910</u>	<u>\$ 348,155</u>	<u>\$ 11,452</u>

The Company had derivative transactions in 2007 and 2008 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 2007 and 2008. Outstanding forward exchange and currency option contracts as of March 31, 2007 and 2008 were as follows:

### Forward Exchange Contracts

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

<b>2008</b>				
	<b>Buy/Sell</b>	<b>Currency</b>	<b>Expiry Date</b>	<b>Contract Amount</b>
Forward exchange contracts	Sell	USD/NTD	2008.04.18~2008.04.24	US\$ 29,000
Forward exchange contracts	Sell	EUR/USD	2008.04.09~2008.05.30	EUR€ 155,500
Forward exchange contracts	Buy	USD/CAD	2008.05.21	US\$ 293
Forward exchange contracts	Sell	GBP/USD	2008.04.11~2008.05.28	GBP£ 5,300
Forward exchange contracts	Sell	JPY/NTD	2008.05.21	JPY 355,000
Forward exchange contracts	Buy	USD/JPY	2008.05.09~2008.05.23	US\$ 9,642

Net loss on derivative financial instruments for the three months ended March 31, 2008 was NT\$603,064 thousand (US\$19,838 thousand), consisting of realized settlement losses of NT\$254,909 thousand (US\$8,385 thousand) and valuation losses of NT\$348,155 thousand (US\$11,453 thousand).

## 7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets as of March 31, 2007 and 2008 consisted of an investment in VIA Technologies, Inc., as follows:

	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	US\$ (Note 3)
VIA Technologies, Inc.	\$ 1,500	\$ 731	\$ 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 March 31, 2007 and 2008 were as follows:

	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	US\$ (Note 3)
Notes receivable	\$ 1,683	\$ 2,034	\$ 67
Accounts receivable	16,534,465	17,018,694	559,825
Accounts receivable - related parties	-	20,977	690
Less allowance for doubtful accounts	(40,045)	(464,624)	(15,283)
	<u>\$ 16,496,103</u>	<u>\$ 16,577,081</u>	<u>\$ 545,299</u>

## 9. OTHER CURRENT FINANCIAL ASSETS

Other current financial assets as of March 31, 2007 and 2008 were as follows:

	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	US\$ (Note 3)
Agency payments	\$ 47,066	\$ 12,879	\$ 424
Other receivables	32,319	105,816	3,481
Interest receivables	28,047	60,479	1,989
Others	<u>1,144</u>	<u>3,120</u>	<u>103</u>
	<u>\$ 108,576</u>	<u>\$ 182,294</u>	<u>\$ 5,997</u>

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 March 31, 2007 and 2008 were as follows:

	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	US\$ (Note 3)
Finished goods	\$ 1,048,452	\$ 710,107	\$ 23,359
Work-in-process	1,846,158	3,031,155	99,709
Raw materials	<u>3,677,519</u>	<u>6,295,074</u>	<u>207,075</u>
	6,572,129	10,036,336	330,143
Less valuation allowance	<u>(1,389,675)</u>	<u>(1,445,923)</u>	<u>(47,564)</u>
	<u>\$ 5,182,454</u>	<u>\$ 8,590,413</u>	<u>\$ 282,579</u>

The write-down of inventories to net realizable value amounted to NT\$311,106 thousand and was recognized as cost of sales for the three months ended March 31, 2008.

## 11. PREPAYMENTS

Prepayments as of March 31, 2007 and 2008 referred to the following items:

	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	US\$ (Note 3)
Royalty (Note 24)	\$ 1,418,471	\$ 945,838	\$ 31,113
Molding equipment	73,879	124,998	4,112
Software and hardware maintenance	58,438	92,541	3,044
Net input VAT	3,751	23,818	783
Rent	2,266	10,996	362
Travel	55,730	8,790	289
Suppliers	1,694	3,719	122
Service	3,111	3,149	104
Others	<u>63,109</u>	<u>80,223</u>	<u>2,639</u>
	<u>\$ 1,680,449</u>	<u>\$ 1,294,072</u>	<u>\$ 42,568</u>

## 12. FINANCIAL ASSETS CARRIED AT COST

Financial assets carried at cost as of March 31, 2007 and 2008 were as follows:

	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	US\$ (Note 3)
Hua-Chuang Automobile Information Technical Center Co., Ltd.	\$ 500,000	\$ 500,000	\$ 16,448
Answer Online, Inc.	<u>1,192</u>	<u>1,192</u>	<u>39</u>
	<u>\$ 501,192</u>	<u>\$ 501,192</u>	<u>\$ 16,487</u>

In January 2007, the Company acquired 10% equity interest in Hua-Chuang Automobile Information Technical Center Co., Ltd. for NT\$500,000 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 March 31, 2007 and 2008, the Company had the following investment in bonds not quoted in an active market:

	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	US\$ (Note 3)
Bond investment	\$ -	\$ 33,030	\$ 1,087
Provision for exchange loss	-	(2,630)	(87)
Less current portion	<u>-</u>	<u>(30,400)</u>	<u>(1,000)</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The above 12-month bond investment, with 6% annual interest, was acquired by the Company for NT\$33,030 thousand. The unquoted debt instrument was not carried at fair value because its fair value could not be reliably measured.

## 14. PROPERTIES

Properties as of March 31, 2007 and 2008 were as follows:

	2007		2008		
	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NT\$	NT\$	NT\$	NT\$	US\$ (Note 3)
Land	\$ 610,293	\$ 610,293	\$ -	\$ 610,293	\$ 20,075
Buildings and structures	721,664	2,247,707	446,571	1,801,136	59,248
Machinery and equipment	1,262,765	4,079,017	2,749,810	1,329,207	43,724
Molding equipment	-	212,930	204,615	8,315	273
Computer equipment	77,761	313,172	196,327	116,845	3,844
Transportation equipment	1,078	3,120	2,542	578	19
Furniture and fixtures	64,611	223,773	123,820	99,953	3,288
Leased assets	3,730	5,928	1,767	4,161	137
Leasehold improvements	51,718	128,183	44,945	83,238	2,738
Prepayments for construction-in-progress and equipment-in-transit	697,922	126,401	-	126,401	4,158
	<u>\$3,491,542</u>	<u>\$7,950,524</u>	<u>\$3,770,397</u>	<u>\$4,180,127</u>	<u>\$137,504</u>

The construction of a new office building was completed in September 2007, and a construction amount of NT\$933,546 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.

## 15. ACCRUED EXPENSES

Accrued expenses as of March 31, 2007 and 2008 were as follows:

	2007	2008	
	NT\$	NT\$	US\$ (Note 3)
Marketing	\$ 1,293,171	\$ 3,756,403	\$ 123,566
Employees' bonus	-	1,497,199	49,250
Salaries	451,877	777,781	25,585
Research materials	85,032	220,452	7,252
Professional fees	76,578	256,671	8,443
Export expenses	77,708	57,712	1,898
Meals and welfare	27,213	54,703	1,800
Insurance	41,321	50,919	1,675
Travel	68,480	28,519	938
Donation	55,988	82,585	2,717
Repairs and maintenance	8,955	17,644	580
Others	186,032	228,243	7,508
	<u>\$2,372,355</u>	<u>\$7,028,831</u>	<u>\$ 231,212</u>

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

As discussed in Note 4 to the financial statements, the Company adopted Interpretation 96-052 - "Accounting for Bonuses to Employees, Directors and Supervisors." As a result, the Company accrued as employee bonus payable. The employee bonus payable are proposed by the Company's board of directors to be appropriated at 18% of net income excluding employee bonus expenses under their resolution passed in February 2008.

## 16. OTHER CURRENT LIABILITIES

Other current liabilities as of March 31, 2007 and 2008 were as follows:

	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	US\$ (Note 3)
Reserve for warranty expenses	\$ 1,440,497	\$ 4,022,878	\$132,332
Agency receipts	158,642	245,710	8,083
Advance receipts	115,289	169,383	5,572
Temporary receipts	42,081	136,791	4,500
Directors' remuneration	21,842	21,842	718
Others	5,889	23,427	770
	<u>\$ 1,784,240</u>	<u>\$ 4,620,031</u>	<u>\$ 151,975</u>

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.

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

## 17. LONG-TERM BANK LOANS

	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	US\$ (Note 3)
Secured loans (Note 22)			
NT\$50,000 thousand, repayable from July 2006 in 16 quarterly installments; 1% annual interest	\$ 34,425	\$ 28,126	\$ 925
NT\$65,000 thousand, repayable in quarterly installments from the completion date of the loan plan; 1% annual interest; the loan plan had not been completed as of March 31, 2008	65,000	65,000	2,138
Less current portion	<u>(12,500)</u>	<u>(24,688)</u>	<u>(812)</u>
	<u>\$ 86,925</u>	<u>\$ 68,438</u>	<u>\$ 2,251</u>

## 18. STOCKHOLDERS' EQUITY

### Capital Stock

The Company's outstanding common stock as of January 1, 2007 amounted to NT\$4,364,192 thousand, divided into 436,419 thousand common shares at NT\$10.00 par value. In April 2007, the Company retired 3,624 thousand treasury shares (NT\$36,240 thousand). Also, in June 2007, the stockholders approved the transfer of retained earnings amounting to NT\$1,298,385 thousand and employee bonuses amounting to NT\$105,000 thousand to capital stock. As a result, the amount of the Company's outstanding common stock as of March 31, 2008 increased to NT\$5,731,337 thousand (US\$188,531 thousand), divided into 573,134 thousand common shares at NT\$10.00 (US\$0.33) 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 March 31, 2008, 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 some of their GDRs to get the Company's common shares. As of March 31, 2008, there were 4,832.8 thousand units of GDRs redeemed, representing 19,331 thousand common shares, and the outstanding GDRs represented 12,002 thousand common shares or 2.09% of the Company's common shares.

### **Capital Surplus**

The additional paid-in capital was NT\$4,410,871 thousand as of January 1, 2007. In April 2007, NT\$36,627 thousand from the retirement of treasury stock resulted in the increase in additional paid-in capital. As a result, the additional paid-in capital as of March 31, 2007 was NT\$4,374,244 thousand (US\$143,890 thousand). Under the Company Law, the Company may transfer the capital surplus to common stock if there is no accumulated deficit.

When HTCC did not subscribe for new shares issued by Band Rich 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\$847 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, HTCC 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. HTCC's dividend policy stipulates that only up to 95% of total dividends may be distributed as cash dividends.

Had HTCC 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 HTCC 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 March 31, 2008, the employee bonus payable are proposed by HTCC's board of directors to be appropriated at 18% of net income excluding employee bonus expenses under their resolution passed in February 2008.

As of April 11, 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.

## **19. TREASURY STOCK**

On December 12, 2006, HTCC'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, HTCC 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.

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.

## 20. 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 573,821 thousand shares in 2007 and 573,134 thousand shares in 2008. The EPS in 2007 was calculated after the average number of shares outstanding was adjusted retroactively for the effect of stock dividend distribution in 2008.

The employee stock options had dilutive effects for the three month ended March 31, 2007 and 2008. The related information is as follows:

	<b>2007</b>				
	<b>Numerators</b>		<b>Denominator</b>	<b>EPS (In Dollars)</b>	
	<b>Income before Income Tax</b>	<b>Income after Income Tax</b>	<b>Shares (Thousands)</b>	<b>Income before Income Tax</b>	<b>Income after Income Tax</b>
	<b>NT\$</b>	<b>NT\$</b>		<b>NT\$</b>	<b>NT\$</b>
Basic EPS	\$ 6,018,784	\$ 5,538,968	573,821	<u>\$10.49</u>	<u>\$ 9.65</u>
Employee stock options	-	-	6,606		
Diluted EPS	<u>\$ 6,018,784</u>	<u>\$ 5,538,968</u>	<u>580,427</u>	<u>\$10.37</u>	<u>\$ 9.54</u>
	<b>2008</b>				
	<b>Numerators</b>		<b>Denominator</b>	<b>EPS (In Dollars)</b>	
	<b>Income before Income Tax</b>	<b>Income after Income Tax</b>	<b>Shares (Thousands)</b>	<b>Income before Income Tax</b>	<b>Income after Income Tax</b>
	<b>NT\$</b>	<b>NT\$</b>		<b>NT\$</b>	<b>NT\$</b>
Basic EPS	\$7,654,893	\$6,944,583	573,134	<u>\$13.36</u>	<u>\$12.12</u>
Employee stock options	-	-	-		
Diluted EPS	<u>\$7,654,893</u>	<u>\$6,944,583</u>	<u>573,134</u>	<u>\$13.36</u>	<u>\$12.12</u>
	<b>2008</b>				
	<b>Numerators</b>		<b>Denominator</b>	<b>EPS (In Dollars)</b>	
	<b>Income before Income Tax</b>	<b>Income after Income Tax</b>	<b>Shares (Thousands)</b>	<b>Income before Income Tax</b>	<b>Income after Income Tax</b>
	<b>US\$ (Note 3)</b>	<b>US\$ (Note 3)</b>		<b>US\$ (Note 3)</b>	<b>US\$ (Note 3)</b>
Basic EPS	\$ 251,806	\$ 228,441	573,134	<u>\$ 0.44</u>	<u>\$ 0.40</u>
Employee stock options	-	-	-		
Diluted EPS	<u>\$ 251,806</u>	<u>\$ 228,441</u>	<u>573,134</u>	<u>\$ 0.44</u>	<u>\$ 0.40</u>

## 21. FINANCIAL INSTRUMENTS

### Fair Value of Financial Instruments

#### *Nonderivative Financial Instruments*

	March 31					
	2007		2008			
	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
NT\$	NT\$	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	
Assets						
Available-for-sale financial assets - noncurrent	\$ 1,500	\$ 1,500	\$ 731	\$ 24	\$ 731	\$ 24
Financial assets carried at cost	501,192	501,192	501,192	16,487	501,192	16,487
Bond investments with no active market	-	-	30,400	1,000	30,400	1,000

#### *Derivative Financial Instruments*

	March 31					
	2007		2008			
	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
NT\$	NT\$	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	
Liabilities						
Financial liabilities at fair value through profit or loss	\$ 49,910	\$ 49,910	\$ 348,155	\$ 11,452	\$ 348,155	\$ 11,452

### 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.

Fair values of long-term bank loans were based on the present value of expected cash flows, which approximates their carrying amount.

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		
	March 31			March 31		
	2007	2008	US\$ (Note 3)	2007	2008	US\$ (Note 3)
	NT\$	NT\$	US\$ (Note 3)	NT\$	NT\$	US\$ (Note 3)
Assets						
Available-for-sale financial assets - noncurrent	\$ 1,500	\$ 731	\$ 24	\$ -	\$ -	\$ -
Financial assets carried at cost	-	-	-	501,192	501,192	16,487
Bond investments with no active market	-	-	-	-	30,400	1,000
Liabilities						
Financial liabilities at fair value through profit or loss	49,910	348,155	11,452	-	-	-

There was no loss or gain recognized for the three month ended March 31, 2007 and 2008 on the fair value changes of derivatives estimated using valuation techniques. The Company recognized unrealized losses of NT\$233 thousand and NT\$53 thousand (US\$2 thousand) in stockholders' equity for the changes in fair value of available-for-sale financial assets for the three month ended March 31, 2007 and 2008 respectively.

As of March 31, 2007 and 2008, financial assets exposed to cash flow interest rate risk amounted to NT\$31,735,377 thousand and NT\$58,955,933 thousand (US\$1,939,340 thousand), respectively.

As of March 31, 2008, financial assets exposed to fair value interest rate risk amounted to NT\$30,400 thousand (US\$1,000 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.

## **22. RELATED-PARTY TRANSACTIONS**

The related parties were as follows:

<b>Related Party</b>	<b>Relationship with the Company</b>
First International Computer, Inc. (FIC)	Chairperson is an immediate relative of the chairperson of HTCC
Xander International Corp.	Chairperson is an immediate relative of the chairperson of HTCC
VIA Technologies, Inc.	Same chairperson with HTCC
Chander Electronics Corp.	Same chairperson with HTCC
Comserve Network Netherlands B.V.	Main director is an immediate relative of the chairperson of HTCC
Employees' Welfare Committee	Employees' Welfare Committee of HTCC

Major transactions with related parties are summarized below:

### Sales and Services Provided

Related Party	Three Months Ended March 31				% to Total Revenues
	2007		2008		
	Amount NT\$	% to Total Revenues	Amount NT\$	US\$ (Note 3)	
Xander International Corp.	\$ -	-	\$ 75,962	\$ 2,499	-
Employees' Welfare Committee	70	-	35,088	1,154	-
VIA Technologies Inc.	-	-	253	8	-
	<u>\$ 70</u>	<u>-</u>	<u>\$ 111,303</u>	<u>\$ 3,661</u>	<u>-</u>

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

### Notes and Accounts Receivable

Related Party	Three Months Ended March 31				% to Total Notes and Accounts Receivable
	2007		2008		
	Amount NT\$	% to Total Notes and Accounts Receivable	Amount NT\$	US\$ (Note 3)	
Xander International Corp.	\$ -	-	\$ 20,271	\$ 667	-
VIA Technologies Inc.	1	-	706	23	-
	<u>\$ 1</u>	<u>-</u>	<u>\$ 20,977</u>	<u>\$ 690</u>	<u>-</u>

### Notes and Accounts Payable

Related Party	Three Months Ended March 31				% to Total Notes and Accounts Payable
	2007		2008		
	Amount NT\$	% to Total Notes and Accounts Payable	Amount NT\$	US\$ (Note 3)	
First International Computer, Inc.	\$ -	-	\$ 521	\$ 17	-
	<u>\$ -</u>	<u>-</u>	<u>\$ 521</u>	<u>\$ 17</u>	<u>-</u>

### Other Receivables

Related Party	Three Months Ended March 31				% to Total Other Receivable
	2007		2008		
	Amount NT\$	% to Total Other Receivable	Amount NT\$	US\$ (Note 3)	
Chander Electronics Corp	\$ 25	-	\$ 82	\$ 3	-
VIA Technologies Inc.	10	-	25	1	-
Xander International Corp.	-	-	38	1	-
	<u>\$ 35</u>	<u>-</u>	<u>\$ 145</u>	<u>\$ 5</u>	<u>-</u>

## Other Payables to Related Parties

Related Party	Three Months Ended March 31				
	2007		2008		
	Amount NT\$	% to Total Other Payables	Amount		% to Total Other Payables
		NT\$	US\$ (Note 3)		
VIA Technologies Inc.	\$ 210	-	\$ -	\$ -	-

## Service Warranty Expense

Related Party	Three Months Ended March 31				
	2007		2008		
	Amount NT\$	% to Total Warranty Expenses	Amount		% to Total Warranty Expenses
		NT\$	US\$ (Note 3)		
Comserve Network Netherlands B.V.	\$ 28,783	6	\$ 9,745	\$ 321	1

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

## Administrative and Selling Expenses - Service Fees

Related Party	Three Months Ended March 31				
	2007		2008		
	Amount NT\$	% to Total Service Expenses	Amount		% to Total Service Expenses
		NT\$	US\$ (Note 3)		
VIA Technologies Inc.	\$ 600	-	\$ 400	\$ 13	-

## 22. MORTGAGED OR PLEDGED ASSETS

As of March 31, 2007 and 2008, the Company had provided time deposits of NT\$6,977 thousand and NT\$49,738 (US\$1,636 thousand) as collateral for the secured loans.

## 23. COMMITMENTS AND CONTINGENCIES

As of March 31, 2008, unused letters of credit amounted to US\$1,450 thousand and GBPS114 thousand.

## 24. 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.

<b>Contractor</b>	<b>Contract Term</b>	<b>Description</b>
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.

## **25. OTHER EVENTS**

### **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 the assets of Dopod's subsidiaries.

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 the subsidiaries' assets to the Company was completed and the purchase price was paid at US\$12.2 million (not including tax) in February 2008.