High Tech Computer Corp.

Financial Statements for the Three Months Ended March 31, 2006, 2007 and 2008 and Independent Accountants' Review Report

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
High Tech Computer Corp.

We have reviewed the accompanying balance sheets of High Tech Computer Corp. (the "Company") as of March 31, 2006, 2007 and 2008, and the related statements of income and cash flows for the three months then ended, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our reviews.

Except as stated in the following paragraph, we conducted our reviews in accordance with the Statement of Auditing Standards No. 36 - "Review of Financial Statements" 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 financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

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

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.

We have also reviewed the consolidated financial statements of High Tech Computer Corp. as of and for the three months ended March 31, 2008 and have issued a report on those financial statements dated April 11, 2008 (not presented herewith).

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

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

HIGH TECH COMPUTER CORP.

BALANCE SHEETS
MARCH 31, 2006, 2007 AND 2008
(In Thousands, Except Par Value)
(Reviewed, Not Audited)

ASSETS	2006 NT$	2007 NT$	2008 NT$	2008 US$ (Note 3)
CURRENT ASSETS				
Cash (Note 5)	$ 20,969,314	$ 38,906,394	$ 63,471,783	$ 2,087,888
Bond investments with no active market (Notes 2 and 13)	-	-	30,400	1,000
Notes receivable, net (Notes 2 and 8)	705,420	1,683	17	-
Accounts receivable, net (Notes 2 and 8)	13,888,020	15,409,967	16,216,667	533,443
Accounts receivable from related parties (Notes 2 and 26)	242,606	1,275,220	450,915	14,833
Other current financial assets (Notes 9 and 26)	279,663	135,589	201,769	6,637
Inventories (Notes 2 and 10)	4,310,160	4,314,174	7,753,129	255,037
Prepayments (Notes 11 and 26)	865,439	1,703,413	1,376,839	45,291
Deferred tax assets (Notes 2 and 23)	357,949	492,466	550,349	18,104
Other current assets	29,822	79,564	177,771	5,846
Total current assets	41,648,393	62,318,470	90,229,639	2,968,079
INVESTMENTS				
Available-for-sale financial assets - noncurrent (Notes 2 and 7)	1,049	1,500	731	24
Financial assets carried at cost (Notes 2 and 12)	1,192	501,192	501,192	16,487
Investments accounted for by the equity method (Notes 2 and 14)	354,908	774,856	2,079,589	68,408
Prepayments for long-term investments (Notes 2 and 14)	137,761	261,679	-	-
Total investments	494,910	1,539,227	2,581,512	84,919
PROPERTIES (Notes 2, 15 and 26)				
Cost				
Land	610,293	610,293	610,293	20,075
Buildings and structures	1,073,903	1,086,762	2,244,849	73,844
Machinery and equipment	2,561,279	2,982,598	3,438,801	113,118
Molding equipment	201,567	201,247	201,247	6,620
Computer equipment	164,084	187,033	238,506	7,846
Transportation equipment	1,628	1,938	1,335	44
Furniture and fixtures	107,662	105,951	116,308	3,826
Leased assets	-	4,712	4,712	155
Leasehold improvements	22,816	22,816	48,370	1,591
	4,743,232	5,203,350	6,904,421	227,119
Less accumulated depreciation	(2,394,056)	(2,846,306)	(3,331,523)	(109,590)
Prepayments for construction-in-progress and equipment-in-transit	30,297	696,558	122,715	4,037
Properties, net	2,379,473	3,053,602	3,695,613	121,566
OTHER ASSETS				
Refundable deposits	35,305	36,891	94,334	3,103
Deferred charges (Note 2)	142,271	122,430	73,493	2,418
Deferred tax assets (Notes 2 and 23)	102,038	306,000	383,475	12,614
Prepaid pension costs (Notes 2 and 18)	56,255	79,633	100,694	3,312
Total other assets	335,869	544,954	651,996	21,447
TOTAL	$ 44,858,645	$ 67,456,253	$ 97,158,760	$ 3,196,011

LIABILITIES AND STOCKHOLDERS' EQUITY	2006 NT$	2007 NT$	2008 NT$	2008 US$ (Note 3)
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss (Notes 2, 6 and 25)	$ 36,116	$ 49,910	$ 348,155	$ 11,452
Notes and accounts payable (Note 26)	13,186,393	14,539,385	19,024,640	625,811
Income tax payable (Notes 2 and 23)	813,012	2,376,009	3,158,340	103,893
Accrued expenses (Notes 16 and 26)	1,037,445	2,237,616	6,897,380	226,888
Payable for purchase of equipment	14,715	12,556	109,721	3,609
Other current liabilities (Notes 17 and 26)	1,393,637	1,865,142	4,688,185	154,216
Total current liabilities	16,481,318	21,080,618	34,226,421	1,125,869
OTHER LIABILITIES				
Guarantee deposits received	591	628	628	20
Total liabilities	16,481,909	21,081,246	34,227,049	1,125,889
STOCKHOLDERS' EQUITY (Notes 19 and 20)				
Capital stock - NT$10.00 par value				
Authorized: 650,000 thousand shares				
Issued and outstanding: 357,016 thousand shares in 2006, 436,419 thousand shares in 2007 and 573,134 thousand shares in 2008				
Common stock	3,570,160	4,364,192	5,731,337	188,531
Capital surplus				
Additional paid-in capital - common stock	4,410,871	4,410,871	4,374,244	143,890
Long-term equity investments	-	15,845	15,845	521
From merger	25,972	25,972	25,756	847
Retained earnings				
Legal reserve	813,326	1,991,520	4,516,253	148,561
Special reserve	19,133	6,175	-	-
Accumulated earnings	19,545,630	37,530,058	48,348,450	1,590,410
Cumulative translation adjustments (Note 2)	(7,434)	22,600	(78,934)	(2,597)
Unrealized losses on financial instruments (Notes 2 and 7)	(922)	(471)	(1,240)	(41)
Treasury stock (Notes 2 and 21)	-	(1,991,755)	-	-
Total stockholders' equity	28,376,736	46,375,007	62,931,711	2,070,122
TOTAL	$ 44,858,645	$ 67,456,253	$ 97,158,760	$ 3,196,011

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

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

HIGH TECH COMPUTER CORP.

STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2006, 2007 AND 2008
(In Thousands, Except Earnings Per Share)
(Reviewed, Not Audited)

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
REVENUES (Notes 2 and 26)	$ 24,012,457	$ 23,601,325	$ 32,703,364	$ 1,075,769
COST OF REVENUES (Notes 22 and 26)	17,534,589	16,202,458	21,047,616	692,356
GROSS PROFIT	6,477,868	7,398,867	11,655,748	383,413
UNREALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	(27,709)	(155,441)	(128,942)	(4,242)
REALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	15,077	164,011	175,075	5,759
REALIZED GROSS PROFIT	6,465,236	7,407,437	11,701,881	384,930
OPERATING EXPENSES (Notes 22 and 26)				
Selling and marketing	290,965	644,326	1,652,794	54,368
General and administrative	245,422	216,931	421,878	13,877
Research and development	574,153	811,678	2,171,244	71,423
Total operating expenses	1,110,540	1,672,935	4,245,916	139,668
OPERATING INCOME	5,354,696	5,734,502	7,455,965	245,262
NONOPERATING INCOME AND GAINS				
Interest income	49,939	140,042	313,325	10,307
Equity in earnings of equity method investees (Notes 2 and 14)	33,796	-	-	-
Gain on sale of properties (Note 26)	4,449	-	-	-
Foreign exchange gain (Note 2)	131,854	245,299	399,613	13,145
Other	77,481	33,415	69,935	2,300
Total nonoperating income and gains	297,519	418,756	782,873	25,752
NONOPERATING EXPENSES AND LOSSES				
Interest expense	-	66	34	1
Equity in losses of equity method investees (Notes 2 and 14)	-	76,835	228,946	7,531
Loss on disposal of properties	2,047	-	-	-
Valuation loss on financial instruments, net (Notes 2 and 6)	36,116	49,910	348,155	11,453
Other	35	7,663	6,810	223
Total nonoperating expenses and losses	38,198	134,474	583,945	19,208
INCOME BEFORE INCOME TAX	5,614,017	6,018,784	7,654,893	251,806
INCOME TAX EXPENSE (Notes 2 and 23)	(220,642)	(479,816)	(710,310)	(23,365)
NET INCOME	$ 5,393,375	$ 5,538,968	$ 6,944,583	$ 228,441

(Continued)

HIGH TECH COMPUTER CORP.

STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2006, 2007 AND 2008
(In Thousands, Except Earnings Per Share)
(Reviewed, Not Audited)

	2006		2007		2008			
	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)	$ 9.71	$ 9.33	$ 10.49	$ 9.65	$ 13.36	$ 0.44	$ 12.12	$ 0.40
DILUTED EARNINGS PER SHARE (Note 24)	$ 9.62	$ 9.25	$ 10.37	$ 9.54	$ 13.36	$ 0.44	$ 12.12	$ 0.40

(Concluded)

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

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

HIGH TECH COMPUTER CORP.

STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2006, 2007 AND 2008
(In Thousands)
(Reviewed, Not Audited)

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$ 5,393,375	$ 5,538,968	$ 6,944,583	$ 228,441
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation	146,070	162,345	134,720	4,432
Transfer of properties to expenses	-	-	2,969	98
Provision for exchanges loss on bond investments with no active market	-	-	2,630	87
Amortization	7,966	7,933	14,615	481
Gain on disposal of properties	(2,402)	-	-	-
Equity in (earnings) losses of equity method investees	(33,796)	76,835	228,946	7,531
Deferred income tax assets	18,873	(151,159)	8,286	273
Prepaid pension costs	(6,495)	(5,613)	(5,507)	(181)
Net changes in operating assets and liabilities				
Financial instruments at fair value through profit or loss	96,201	(26,560)	251,899	8,286
Notes receivable	(606,333)	57,247	3,041	100
Accounts receivable	324,795	2,908,012	2,727,200	89,710
Accounts receivable from related parties	178,174	36,570	85,960	2,827
Other current financial assets	(224,669)	232,908	82,282	2,706
Inventories	527,393	669,717	(1,633,716)	(53,741)
Prepayments	(391,178)	177,706	160,488	5,279
Other current assets	503	(16,463)	(60,930)	(2,004)
Notes and accounts payable	(610,300)	(2,307,654)	(2,995,478)	(98,535)
Income tax payable	196,149	617,292	643,946	21,182
Accrued expenses	(167,362)	(102,513)	1,627,551	53,538
Other current liabilities	90,869	(47,267)	390,979	12,861
Net cash provided by operating activities	4,937,833	7,828,304	8,614,464	283,371
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of properties	(31,598)	(329,322)	(178,471)	(5,871)
Proceeds of the sale of properties	4,389	-	455	15
Increase in financial assets carried at cost	-	(500,000)	-	-
Increase in investments accounted for by the equity method	(137,761)	(280,000)	-	-
(Increase) decrease in refundable deposits	(27)	100	(897)	(29)
Increase in deferred charges	-	(11,304)	-	-
Net cash used in investing activities	(164,997)	(1,120,526)	(178,913)	(5,885)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase (decrease) in guarantee deposits received	30	(12)	-	-
Bonus to employees	-	(451,000)	-	-
Purchase of treasury stock	-	(1,747,760)	-	-
Net cash provided by (used in) financing activities	30	(2,198,772)	-	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,772,866	4,509,006	8,435,551	277,486

(Continued)

HIGH TECH COMPUTER CORP.

STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2006, 2007 AND 2008
(In Thousands)
(Reviewed, Not Audited)

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	$ 16,196,448	$ 34,397,388	$ 55,036,232	$ 1,810,402
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 20,969,314	$ 38,906,394	$ 63,471,783	$ 2,087,888
SUPPLEMENTAL CASH FLOW INFORMATION				
Cash paid during the period				
Interest (net of amounts capitalized)	$ -	$ 66	$ 34	$ 1
Income tax	$ 5,620	$ 13,683	$ 58,078	$ 1,910
PURCHASE OF PROPERTIES				
Cost of properties purchased	$ 32,274	$ 306,323	$ 117,856	$ 3,877
Decrease (increase) in payable for purchase of equipment	(676)	22,786	60,463	1,989
Decrease in lease payable	-	213	152	5
Cash paid for purchase of properties	$ 31,598	$ 329,322	$ 178,471	$ 5,871
BONUS TO EMPLOYEES AND DIRECTORS' REMUNERATION				
Appropriation of bonus to employees and directors' remuneration	$ -	$ -	$ -	$ -
Decrease in payable for employee bonus and directors' remuneration	-	451,000	-	-
Cash paid	$ -	$ 451,000	$ -	$ -

(Concluded)

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

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

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 4,079, 4,317 and 5,805 persons in its payroll as of March 31, 2006, 2007 and 2008, 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 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 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.

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.

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.

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 2006 and 2007 accounts have been reclassified to be consistent with the presentation of the financial statements as of and for the three months ended March 31, 2008.

3. TRANSLATION INTO U.S. DOLLARS

The 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$30.40 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						
	2006		2007		2008		
	Amount	%	Amount	%	Amount		%
	NT$		NT$		NT$	US$ (Note 3)	
Revenues	$24,012,457	100	$ 23,601,325	100	$ 32,703,364	$ 1,075,769	100
Cost of revenues	17,534,589	73	16,202,458	69	20,890,560	687,190	64
Gross profit	6,477,868	27	7,398,867	31	11,812,804	388,579	36
Unrealized profit from intercompany transactions	(27,709)	-	(155,441)	(1)	(128,942)	(4,242)	-
Realized profit from intercompany transactions	15,077	-	164,011	1	175,075	5,759	-
Realized gross profit	6,465,236	27	7,407,437	31	11,858,937	390,096	36
Operating expenses	1,110,540	5	1,672,935	7	2,913,558	95,840	9
Operating income	5,354,696	22	5,734,502	24	8,945,379	294,256	27
Nonoperating income and gains	297,519	1	418,756	2	782,873	25,752	3
Nonoperating expenses and losses	38,198	-	134,474	1	583,945	19,208	2
Income before income tax	5,614,017	23	6,018,784	25	9,144,307	300,800	28
Income tax	(220,642)	(1)	(479,816)	(2)	(826,533)	(27,188)	(3)
Net income	$ 5,393,375	22	$ 5,538,968	23	$ 8,317,774	$ 273,612	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						
	2006		2007		2008		
	Amount	%	Amount	%	Amount		%
	NT$		NT$		NT$	US$ (Note 3)	
Revenues	$24,012,457	100	$ 23,601,325	100	$ 32,703,364	$ 1,075,769	100
Cost of revenues	16,986,766	71	15,367,601	65	19,631,725	645,780	60
Gross profit	7,025,691	29	8,233,724	35	13,071,639	429,989	40
Unrealized profit from intercompany transactions	(27,709)	-	(155,441)	(1)	(128,942)	(4,242)	-
Realized profit from intercompany transactions	15,077	-	164,011	1	175,075	5,759	-
Realized gross profit	7,013,059	29	8,242,294	35	13,117,772	431,506	40
Operating expenses	1,579,517	6	2,122,658	9	5,451,202	179,315	17
Operating income	5,433,542	23	6,119,636	26	7,666,570	252,191	23
Nonoperating income and gains	297,519	1	418,756	1	782,873	25,752	2
Nonoperating expenses and losses	117,044	1	519,608	2	794,550	26,137	2
Income before income tax	5,614,017	23	6,018,784	25	7,654,893	251,806	23
Income tax	(220,642)	(1)	(479,816)	(2)	(710,310)	(23,365)	(2)
Net income	$ 5,393,375	22	$ 5,538,968	23	$ 6,944,583	$ 228,441	21

5. CASH

Cash as of March 31, 2006, 2007 and 2008 were as follows:

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
Cash on hand	$ 993	$ 1,000	$ 1,000	$ 33
Cash in banks	3,693,921	7,396,994	4,892,933	160,952
Time deposits	17,274,400	31,508,400	58,577,850	1,926,903
	$ 20,969,314	$ 38,906,394	$ 63,471,783	$ 2,087,888

On time deposits, interest rates ranged from 0.86% to 1.84%, 1.644% to 2.175% and 1.90% to 3.85% as of March 31, 2006, 2007 and 2008, respectively.

On preferential deposits, interest rates ranged from 2.20% to 4.70%, 2.30% to 5.25% and 1.00% to 4.00% as of March 31, 2006, 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, 2006, 2007 and 2008 were as follows:

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
Derivatives - financial liabilities				
Forward exchange contracts	$ 36,116	$ 49,910	$348,155	$11,452

The Company had derivative transactions during the three months ended March 31, 2006, 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 for the three months ended March 31, 2006, 2007 and 2008. Outstanding forward exchange as of March 31, 2006, 2007 and 2008 were as follows:

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

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

	2008			
	Buy/Sell	Currency	Expiry Date	Contract Amount
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), including 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, 2006, 2007 and 2008 were as follows:

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
VIA Technologies, Inc.	$ 1,049	$ 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, 2006, 2007 and 2008 were as follows:

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
Notes receivable	$ 705,420	$ 1,683	$ 17	$ -
Accounts receivable	13,893,207	15,419,836	16,508,975	543,058
Less allowance for doubtful accounts	(5,187)	(9,869)	(292,308)	(9,615)
	$ 14,593,440	$ 15,411,650	$ 16,216,684	$ 533,443

9. OTHER CURRENT FINANCIAL ASSETS

Other current financial assets as of March 31, 2006, 2007 and 2008 were as follows:

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
Other receivables from related parties (Note 26)	$ 220,707	$ 38,369	$ 92,750	$ 3,051
Interest receivable	9,279	28,047	60,478	1,989
Other receivable	37,899	28,042	41,820	1,376
Agency payments	11,778	41,131	6,721	221
	$ 279,663	$ 135,589	$ 201,769	$ 6,637

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

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, 2006, 2007 and 2008 were as follows:

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
Finished goods	$ 451,524	$ 702,435	$ 487,290	$ 16,029
Work-in-process	2,020,766	1,630,854	2,624,274	86,325
Raw materials	2,503,443	3,257,682	5,768,457	189,752
	4,975,733	5,590,971	8,880,021	292,106
Less valuation allowance	(665,573)	(1,276,797)	(1,126,892)	(37,069)
	$4,310,160	$4,314,174	$7,753,129	$255,037

The write-down of inventories to net realizable value amounted to NT$210,605 thousand and was recognized as cost of sales for the three months ended March 31, 2008.

11. PREPAYMENTS

Prepayments as of March 31, 2006, 2007 and 2008 were as follows:

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
Royalty	$ 647,455	$1,418,471	$ 945,838	$ 31,113
Marketing	-	-	129,906	4,273
Molding equipment	89,154	73,879	124,998	4,112
Software and hardware maintenance	9,176	58,438	92,541	3,044
Services	65,920	65,640	46,793	1,539
Travel	27,139	55,730	8,790	289
Others	26,595	31,255	27,973	921
	$ 865,439	$1,703,413	$1,376,839	$ 45,291

12. FINANCIAL ASSETS CARRIED AT COST

Financial assets carried at cost as of March 31, 2006, 2007 and 2008 were as follows:

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
Hua-Chuang Automobile Information Technical Center Co., Ltd.	$ -	$500,000	$500,000	$16,448
Answer Online, Inc.	1,192	1,192	1,192	39
	$ 1,192	$501,192	$501,192	$16,487

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, the Company had the following investment in bonds not quoted in an active market:

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
Bond investment	$ -	$ -	$ 33,030	$ 1,087
Provision for exchange loss	-	-	(2,630)	(87)
Less current portion			(30,400)	(1,000)
	$ -	$ -	$ -	$ -

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. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Investments accounted for by the equity method as of March 31, 2006, 2007 and 2008 were as follows:

	2006		2007		2008				
	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.	$ 354,908	100	$ 350,348	100	$ 1,402,835	$ 46,146	$ 1,137,159	$ 37,407	100
Band Rich Inc.	-	-	124,904	51	135,000	4,441	103,792	3,414	51
HTC HK, Limited	-	-	783	100	1,277	42	13,126	432	100
Communication Global Certification Inc.	-	-	298,821	100	280,000	9,210	266,828	8,777	100
HTC Asia Pacific Pte. Ltd.	-	-	-	-	560,660	18,443	558,684	18,378	100
Prepayments for long-term investments	137,761	-	261,679	-	-	-	-	-	-
	$ 492,669		$ 1,036,535		$ 2,379,772	$ 78,282	$ 2,079,589	$ 68,408	

In August 2000, the Company acquired 100% equity interest in H.T.C. (B.V.I.) Corp. for NT$12,834 thousand and accounted for this investment by the equity method. As of March 31, 2008, the Company had increased this investment to NT$1,402,835 thousand (US$46,146 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 Band Rich Inc. for NT$135,000 thousand and accounted for this investment by the equity method. In May 2006, Band Rich 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 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 and accounted for this investment by the equity method.

On its equity-method investments, the Company had a gain of NT$33,796 thousand and losses of NT$76,835 thousand and NT$228,946 (US$7,531 thousand) for the three months ended March 31, 2006, 2007 and 2008, respectively.

The financial statements of equity-method investees for the three months ended March 31, 2008 had been reviewed by the Company's independent accountants, but those for the three months ended March 31, 2006 and 2007 were unreviewed.

Under orders VI-0960064017 and VI-0960064020 issued by Financial Supervisory Commission under the Executive Yuan, the Company included the accounts of all its direct and indirect subsidiaries in the consolidated financial statements as of and for the three months ended March 31, 2008. The Company retroactively restated its consolidated financial statements as of and for the three months ended March 31, 2007 for comparative purposes. All significant intercompany balances and transactions have been eliminated.

15. PROPERTIES

Properties as of March 31, 2006, 2007 and 2008 were as follows:

	2006	2007	2008			
	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	$ 20,075
Buildings and structures	779,650	721,664	2,244,849	446,397	1,798,452	59,160
Machinery and equipment	892,235	954,739	3,438,801	2,397,774	1,041,027	34,244
Molding equipment	-	-	201,247	201,247	-	-
Computer equipment	34,076	42,319	238,506	168,454	70,052	2,304
Transportation equipment	558	650	1,335	907	428	14
Furniture and fixtures	27,471	21,685	116,308	89,564	26,744	880
Leased assets		3,730	4,712	1,767	2,945	97
Leasehold improvements	4,893	1,964	48,370	25,413	22,957	755
Prepayments for construction-in-progress and equipment-in-transit	30,297	696,558	122,715	-	122,715	4,037
	$ 2,379,473	$ 3,053,602	$ 7,027,136	$ 3,331,523	$ 3,695,613	$121,566

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.

16. ACCRUED EXPENSES

Accrued expenses as of March 31, 2006, 2007 and 2008 were as follows:

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
Marketing	$ 108,597	$ 1,293,171	$ 3,560,633	$ 117,126
Bonus to employees	-	-	1,497,199	49,250
Salaries	248,291	405,759	693,905	22,826
Professional fees	36,512	76,390	594,878	19,568
Research materials	79,773	85,032	220,452	7,252
Donation	165,751	55,988	82,585	2,717
Export expenses	196,695	77,708	57,712	1,898
Meals and welfare	35,570	27,213	54,704	1,800
Insurance	52,578	41,321	50,919	1,675
Travel	18,440	68,480	28,519	938
Repairs and maintenance	9,192	8,955	17,644	580
Others	86,046	97,599	38,230	1,258
	$ 1,037,445	$ 2,237,616	$ 6,897,380	$ 226,888

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.

17. OTHER CURRENT LIABILITIES

Other current liabilities as of March 31, 2006, 2007 and 2008 were as follows:

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
Reserve for warranty expenses	$ 1,119,561	$ 1,440,497	$ 4,022,878	$ 132,332
Agency receipts	114,135	156,328	242,311	7,971
Deferred credits - profit from intercompany transactions	27,709	155,441	128,942	4,242
Advance receipts	80,361	38,423	105,139	3,458
Other payable to related parties (see Note 26)	17,568	43,511	37,398	1,230
Directors' remuneration	21,842	21,842	21,842	718
Other	12,461	9,100	129,675	4,265
	$ 1,393,637	$ 1,865,142	$ 4,688,185	$ 154,216

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.

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

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

18. 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 for the three months ended March 31, 2006, 2007 and 2008 were NT$19,897 thousand, NT$25,075 thousand, and NT$32,094 thousand (US$1,055 thousand), respectively.

Under the Law, which provides for a defined benefit pension plan, retirement payments should be made according to the years of service, with a payment of two units for each year of service but only one unit per year after the 15th year; however, total units should not exceed 45. On January 1, 2004, the rate of the Company's contributions to a pension fund increased from 2% to 8% of employees' salaries and wages and then decreased to 2% after the Act took effect. The fund is deposited in the Central Trust of China, a government-designated custodian of pension funds, and managed by the Pension Fund Administration Committee. The pension fund balances were NT$283,996 thousand, NT$321,029 thousand and NT$355,299 thousand (US$11,687 thousand) as of March 31, 2006, 2007 and 2008, respectively.

Based on the Statement of Financial Accounting Standards No. 18 - "Accounting for Pensions," issued by the Accounting Research and Development Foundation of the ROC, changes of prepaid pension cost under the defined benefit plans for the three months ended March 31, 2006, 2007 and 2008 as follows:

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
Balance, beginning of period	$ 49,760	$ 74,020	$ 95,187	$ 3,131
Contributions	(1,512)	(1,681)	(1,353)	(45)
Payments	8,007	7,294	6,860	226
Balance, end of period	$ 56,255	$ 79,633	$ 100,694	$ 3,312

19. STOCKHOLDERS' EQUITY

Capital Stock

The Company's outstanding common stock as of January 1, 2006 amounted to NT$3,570,160 thousand, divided into 357,016 thousand shares at NT$10.00 par value. In August 2006, the stockholders approved the transfer of retained earnings amounting to NT$714,032 thousand and employee bonuses amounting to NT$80,000 thousand to capital stock. As a result, the amount of the Company's outstanding common stock as of December 31, 2006 increased to NT$4,364,192 thousand, divided into 436,419 thousand common shares at NT$10.00 par value.

In April 2007, the Company retired 3,624 thousand treasury shares (NT$36,240 thousand). 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, 2006. In April 2007, the retirement of treasury stock caused a decrease of additional paid-in capital amounted to 36,627 thousand. As a result, the additional paid-in capital as of March 31, 2008 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 the Company did not subscribe for the 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).

20. APPROPRIATION OF RETAINED EARNINGS AND DIVIDEND POLICY

Based on the Company Law of the ROC and the Company's Articles of Incorporation, 10% of the Company's annual net income less any deficit should first be appropriated as legal reserve until this reserve equals its 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 March 31, 2008, 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.

As of April 11, 2008, the date of the accompanying independent accountants' 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.

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

22. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Function / Expense Item	2006			2007		
	NT$			NT$		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses	$314,758	$350,205	$664,963	$313,753	$662,847	$976,600
Salary	260,949	296,898	557,847	256,732	591,837	848,569
Insurance	16,764	18,430	35,194	16,843	24,575	41,418
Pension cost	7,485	13,924	21,409	8,468	18,288	26,756
Other	29,560	20,953	50,513	31,710	28,147	59,857
Depreciation	88,267	57,803	146,070	98,362	63,983	162,345
Amortization	-	7,966	7,966	195	7,738	7,933

Function / Expense Item	2008					
	NT$			US$(Note 3)		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses	$433,521	$2,028,426	$2,461,947	$14,261	$66,724	$80,985
Salary	366,268	1,931,745	2,298,013	12,049	63,544	75,593
Insurance	22,227	35,272	57,499	731	1,160	1,891
Pension cost	9,752	23,695	33,447	321	779	1,100
Other	35,274	37,714	72,988	1,160	1,241	2,401
Depreciation	64,566	70,154	134,720	2,124	2,308	4,432
Amortization	-	14,615	14,615	-	481	481

23. INCOME TAX

The government enacted the Alternative Minimum Tax Act (the "AMT Act"), which became effective on January 1, 2006. The alternative minimum tax ("AMT") imposed under the AMT Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law is below the minimum amount prescribed under the AMT Act. The taxable income for calculating the AMT includes most of the income that is exempted from income tax under various laws and statutes. The Company has considered the impact of the AMT Act in the determination of its tax liabilities.

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 2001 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 March 31, 2006, 2007 and 2008 were computed as follows:

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
Income before income tax	$ 5,614,017	$ 6,018,784	$ 7,654,893	$ 251,806
Permanent differences				
Equity in (earnings) losses of equity method investees	(33,796)	76,835	228,946	7,531
Other	7,732	5,324	6,666	219
Temporary differences				
Realized pension cost	(6,495)	(5,613)	(5,507)	(181)
Unrealized loss on decline in value of inventory	78,846	385,134	210,605	6,928
Unrealized royalties	432,691	446,832	437,300	14,385
Unrealized marketing expenses	-	310,083	553,612	18,211
Unrealized foreign exchange (gain) loss, net	(198,366)	67,049	(836,180)	(27,506)
Unrealized valuation loss on financial instruments	36,116	49,910	348,155	11,452
Unrealized warranty expense	160,547	46,502	552,921	18,188
Other	6,366	(8,004)	(89,174)	(2,933)
Total income	6,097,658	7,392,836	9,062,237	298,100
Less tax-exempt income tax	(4,370,658)	(4,865,386)	(7,954,559)	(261,663)
Taxable income	1,727,000	2,527,450	1,107,678	36,437
Tax rate	×25%	×25%	×25%	×25%
	431,750	631,863	276,920	9,109
Income tax credit	(10)	(10)	(10)	-
Estimated income tax provision	431,740	631,853	276,910	9,109
Less investment research and development tax credits	(229,971)	(126,789)	(138,455)	(4,554)
Income tax payable determined pursuant to the Income Tax Law	$ 201,769	$ 505,064	$ 138,455	$ 4,555

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
Alternative minimum tax	$ 201,769	$ 505,064	$ 702,024	$ 23,093
Less prepaid and withheld income tax	(5,620)	(13,683)	(30,327)	(997)
Less paid for prior years' tax	-	-	(27,751)	(913)
Add income tax payable, beginning balance	616,863	1,758,717	2,514,394	82,710
Tax shortage stated in the tax assessment notice	-	125,911	-	-
Income tax payable	$ 813,012	$ 2,376,009	$ 3,158,340	$ 103,893

The tax effects of deductible temporary differences and loss and tax credit carryforwards that gave rise to deferred tax assets as of March 31, 2006, 2007 and 2008 were as follows:

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
Temporary differences				
Provision for loss on decline in value of inventory	$ 166,393	$ 319,199	$ 281,723	$ 9,267
Unrealized reserve for warranty expense	279,890	360,124	1,005,720	33,083
Unrealized royalties	567,729	1,053,806	1,119,172	36,815
Unrealized marketing expenses	-	323,293	890,158	29,282
Unrealized valuation loss on financial instruments	9,029	12,478	87,039	2,863
Other	45,245	57,704	58,768	1,933
Tax credit carryforwards	259,159	-	393,865	12,956
Total deferred tax asset	1,327,445	2,126,604	3,836,445	126,199
Less valuation allowance	(825,580)	(1,286,738)	(2,649,757)	(87,163)
Total deferred tax asset, net	501,865	839,866	1,186,688	39,036
Deferred tax liability				
Unrealized foreign exchange gain, net	(28,372)	(21,492)	(227,691)	(7,490)
Unrealized pension cost	(13,506)	(19,908)	(25,173)	(828)
	459,987	798,466	933,824	30,718
Less current portion	(357,949)	(492,466)	(550,349)	(18,104)
Deferred tax assets, noncurrent	$ 102,038	$ 306,000	$ 383,475	$ 12,614

Details of the tax credit carryforwards were as follows:

Year Occur	Validity Period	2006 NT$	2007 NT$	2008 NT$	2008 US$ (Note 3)
2001	2001-2005	$ -	$ -	$ -	$ -
2002	2002-2006	42,304	-	-	-
2003	2003-2007	58,500	-	-	-
2004	2004-2008	-	-	-	-
2005	2005-2009	102,908	-	-	-
2006	2006-2010	55,447	-	-	-
2008	2008-2012	-	-	393,865	12,956
		$259,159	$ -	$393,865	$12,956

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

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

The income tax expenses for the three months ended March 31, 2006, 2007 and 2008 were as follows:

	2006 NT$	2007 NT$	2008 NT$	2008 US$ (Note 3)
Current income tax expense	$201,769	$505,064	$702,024	$23,093
Decrease (increase) in deferred income tax assets	18,873	(151,159)	8,286	272
Underestimation of prior year's income tax	-	125,911	-	-
Income tax expense	$220,642	$479,816	$710,310	$23,365

The integrated income tax information is as follows:

	2006 NT$	2007 NT$	2008 NT$	2008 US$ (Note 3)
Balance of imputation credit account	$ 107,322	$ 495,425	$ 1,915,463	$ 63,009
Unappropriated earnings from 1998	19,545,630	37,530,058	48,348,450	1,590,410
Expected creditable ratio (including income tax payable)	4.71%	7.65%	10.49%	10.49%

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 577,950 thousand shares, 573,821 thousand shares and 573,134 thousand shares for the three months ended March 31, 2006, 2007 and 2008, respectively. The EPS for the three months ended March 31, 2006 and 2007 were calculated after the average number of shares outstanding which was adjusted retroactively for the effect of stock dividend distribution in 2007.

The employee stock options had dilutive effects on the EPS for the three months ended March 31, 2006, 2007 and 2008. The related information is as follows:

	2006				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax NT$	Income after Income Tax NT$	Shares (Thousand)	Income before Income Tax NT$	Income after Income Tax NT$
Basic EPS	$5,614,017	$5,393,375	577,950	$ 9.71	$ 9.33
Employee stock options	-	-	5,349		
Diluted EPS	$5,614,017	$5,393,375	583,299	$ 9.62	$ 9.25

	2007				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax NT$	Income after Income Tax NT$	Shares (Thousand)	Income before Income Tax NT$	Income after Income Tax NT$
Basic EPS	$6,018,784	$5,538,968	573,821	$10.49	$ 9.65
Employee stock options	-	-	6,606		
Diluted EPS	$6,018,784	$5,538,968	580,427	$10.37	$ 9.54

	2008				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax NT$	Income after Income Tax NT$	Shares (Thousand)	Income before Income Tax NT$	Income after Income Tax NT$
Basic EPS	$7,654,893	$6,944,583	573,134	$13.36	$12.12
Employee stock options	-	-	-		
Diluted EPS	$7,654,893	$6,944,583	573,134	$13.36	$12.12

	2008				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax US$ (Note 3)	Income after Income Tax US$ (Note 3)	Shares (Thousand)	Income before Income Tax US$ (Note 3)	Income after Income Tax US$ (Note 3)
Basic EPS	$ 251,806	$ 228,441	573,134	$ 0.44	$ 0.40
Employee stock options	-	-	-		
Diluted EPS	$ 251,806	$ 228,441	573,134	$ 0.44	$ 0.40

25. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

Nonderivative Financial Instruments

	March 31							
	2006		2007		2008			
	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	$ 1,049	$ 1,049	$ 1,500	$ 1,500	$ 731	$ 24	$ 731	$ 24
Financial assets carried at cost	1,192	1,192	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
Investments accounted for using equity method	492,669	492,669	1,036,535	1,036,535	2,079,589	68,408	2,079,589	68,408

Derivative Financial Instruments

	March 31							
	2006		2007		2008			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NT$	NT$	NT$	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
Liabilities								
Financial liabilities at fair value through profit or loss	36,116	36,116	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.

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			
	2006	2007	2008		2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)	NT$	NT$	NT$	US$ (Note 3)
Assets								
Available-for-sale financial assets - noncurrent	$ 1,049	$ 1,500	$ 731	$ 24	$ -	$ -	$ -	$ -
Financial assets carried at cost	-	-	-	-	1,192	501,192	501,192	16,487
Bond investments with no active market	-	-	-	-	-	-	30,400	1,000
Investments accounted for using equity method	-	-	-	-	492,669	1,036,535	2,079,589	68,408
Liabilities								
Financial liabilities at fair value through profit or loss	36,116	49,910	348,155	11,452	-	-	-	-

There was no loss or gain recognized for the three months ended March 31, 2006, 2007 and 2008 on the fair value changes of derivatives estimated using valuation techniques. The Company recognized unrealized a gain of NT$213 thousand and 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 months ended March 31, 2006, 2007 and 2008, respectively.

As of March 31, 2006, 2007 and 2008, financial assets exposed to cash flow interest rate risk amounted to NT$17,274,400 thousand, NT$31,508,400 thousand and NT$58,577,850 thousand (US$1,926,903 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.

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
Band Rich 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.
HTC Brasil	Subsidiary of H.T.C. (B.V.I.) Corp.
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.
HTC India Private Limited	Subsidiary of HTC Asia Pacific Pte. Ltd.

Major transactions with related parties are summarized below:

Purchases of Inventories and Services

	Three Months Ended March 31						
	2006		2007		2008		
Related Party	Amount NT$	% of Total Net Purchases	Amount NT$	% of Total Net Purchases	Amount NT$	Amount US$ (Note 3)	% of Total Net Purchases
High Tech Computer Corp. (Suzhou)	$ 3,946	-	$ 5,261	-	$ 1,289	$ 42	-
Chander Electronics Corp.	75,161	1	-	-	-	-	-
Others	-	-	104	-	-	-	-
	$ 79,107	1	$ 5,365	-	$ 1,289	$ 42	-

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

Sales and Services Provided

	Three Months Ended March 31						
	2006		2007		2008		
Related Party	Amount NT$	% of Total Net Sales	Amount NT$	% of Total Net Sales	Amount NT$	Amount US$ (Note 3)	% of Total Net Sales
HTC America Inc.	$ 74,036	1	$ 197,558	1	$ 259,019	$ 8,520	1
HTC Europe Co., Ltd.	54,270	-	124,167	-	84,979	2,795	-
Xander International Corp.	-	-	-	-	75,962	2,499	-
Band Rich Inc.	-	-	1,644	-	19,236	633	-
HTC (H.K.) Limited	-	-	-	-	17,431	573	-
Exedea Inc.	-		191,897	1	-	-	-
Others	262	-	1,842	-	35,809	1,178	-
	$ 128,568	1	$ 517,108	2	$ 492,436	$ 16,198	1

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

Notes and Accounts Receivable

	March 31						
	2006		2007		2008		
Related Party	Amount NT$	% of Total Notes and Accounts Receivable	Amount NT$	% of Total Notes and Accounts Receivable	Amount NT$	Amount US$ (Note 3)	% of Total Notes and Accounts Receivable
Accounts receivable							
HTC America Inc.	$ 107,519	1	$ 538,736	3	$ 259,293	$ 8,529	2
HTC Europe Co., Ltd.	133,948	1	435,772	3	138,152	4,545	1
Xander International Corp.	-	-	-	-	20,271	667	-
Exedea Inc.	-	-	296,841	2	-	-	-
Others	1,139	-	3,871	-	33,199	1,092	-
	$ 242,606	2	$1,275,220	8	$ 450,915	$ 14,833	3

Notes and Accounts Payable

	March 31						
	2006		2007		2008		
Related Party	Amount NT$	% of Total Notes and Accounts Payable	Amount NT$	% of Total Notes and Accounts Payable	Amount NT$	Amount US$ (Note 3)	% of Total Notes and Accounts Payable
High Tech Computer Corp. (Suzhou)	$ 31,790	-	$ 15,096	-	$ 40,275	$ 1,325	-
Chander Electronics Corp.	105,742	1	-	-	-	-	-
Others	494	-	494	-	1,092	36	-
	$ 138,026	1	$ 15,590	-	$ 41,367	$ 1,361	-

Other Receivables

Related Party	March 31 2006 Amount NT$	2006 % of Total Other Receivable	2007 Amount NT$	2007 % of Total Other Receivable	2008 Amount NT$	2008 Amount US$ (Note 3)	2008 % of Total Other Receivable
HTC Belgium BVBA/SPRL	$ -	-	$ -	-	$ 44,661	$ 1,469	33
High Tech Computer Corp. (Suzhou)	4,241	2	18,866	29	20,644	679	15
HTC Nippon Corporation	-	-	16,203	24	16,013	527	12
HTC America Inc	120,019	46	789	1	795	26	1
HTC Europe Co., Ltd.	96,447	37	2,476	4	-	-	
Others	-	-	35	-	10,637	350	8
	$ 220,707	85	$ 38,369	58	$ 92,750	$ 3,051	69

Prepaid Expenses

Related Party	March 31 2006 Amount NT$	2006 % of Total Prepayment	2007 Amount NT$	2007 % of Total Prepayment	2008 Amount NT$	2008 Amount US$ (Note 3)	2008 % of Total Prepayment
HTC America Inc.	$ 26,405	3	$ 19,857	1	$ 129,906	$ 4,273	9
HTEK	10,843	1	-	-	-	-	-
HTC Europe Co., Ltd.	23,466	3	24,066	2	12,284	404	1
HTC Nippon Corporation	-	-	18,606	1	9,159	301	1
Others	-	-	-	-	30,410	1,001	2
	$ 60,714	7	$ 62,529	4	$ 181,759	$ 5,979	13

Accrued Expenses

Related Party	March 31 2006 Amount NT$	2006 % of Total Accrued Expenses	2007 Amount NT$	2007 % of Total Accrued Expenses	2008 Amount NT$	2008 Amount US$ (Note 3)	2008 % of Total Accrued Expenses
HTC EUROPE CO., LTD.	$ -	-	$ -	-	$ 96,936	$ 3,189	1
HTC Singapore Pte. Ltd.	-	-	-	-	65,206	2,145	1
HTC America Inc.	-	-	-	-	55,293	1,819	1
HTC Nippon Corporation	-	-	-	-	53,735	1,767	1
HTC India Private Limited	-	-	-	-	56,332	1,853	1
HTC (Australia and New Zealand) Pty. Ltd.	-	-	-	-	33,390	1,098	-
HTC (H.K.) Limited	-	-	-	-	21,859	719	-
HTC Belgium BVBA/SPRL	-	-	-	-	12,551	413	-
Others	-	-	210	-	-	-	-
	$ -	-	$ 210	-	$ 395,302	$ 13,003	5

Other Payables to Related Parties

Related Party	March 31 2006 Amount NT$	2006 % to Total Other Payables	2007 Amount NT$	2007 % to Total Other Payables	2008 Amount NT$	2008 Amount US$ (Note 3)	2008 % to Total Other Payables
HTC America Inc.	$ 5,488	32	$ 6,320	15	$ 34,031	$ 1,119	91
Communication Global Certification Inc.	-	-	24,952	58	-	-	-
HTC Europe Co., Ltd.	11,870	68	11,858	27	-	-	-
Others	210	-	381	-	3,367	111	9
	$ 17,568	100	$ 43,511	100	$ 37,398	$ 1,230	100

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

Outsourcing Expenses

Related Party	Three Months Ended March 31 2006 Amount NT$	2006 % of Total Out-Sourcing Expenses	2007 Amount NT$	2007 % of Total Out-Sourcing Expenses	2008 Amount NT$	2008 Amount US$ (Note 3)	2008 % of Total Out-Sourcing Expenses
High Tech Computer Corp. (Suzhou)	$ 37,964	19	$ 46,730	43	$ 63,537	$ 2,090	87

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

Service Warranty Expense

Related Party	Three Months Ended March 31 2006 Amount NT$	2006 % of Warranty Expenses	2007 Amount NT$	2007 % of Warranty Expenses	2008 Amount NT$	2008 Amount US$ (Note 3)	2008 % of Warranty Expenses
HTC America Inc.	$ 21,603	4	$ 148,295	32	$ 238,099	$ 7,832	20
HTC Europe Co., Ltd.	88,144	19	54,600	12	121,168	3,986	10
Comserve Network Netherlands B.V.	-	-	28,783	6	9,745	320	1
High Tech Computer Corp. (WGQ)	-	-	-	-	12,092	398	1
	$ 109,747	23	$ 231,678	50	$ 381,104	$ 12,536	32

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

Service Fees

Related Party	2006 Amount NT$	2006 % to Total Service Expenses	2007 Amount NT$	2007 % to Total Service Expenses	2008 Amount NT$	2008 Amount US$ (Note 3)	2008 % to Total Service Expenses
HTC America Inc.	$ -	-	$ 46,501	17	$ 315,566	$ 10,380	26
HTC Europe Co., Ltd.	-	-	8,900	3	300,922	9,899	25
HTC Belgium BVBA/SPRL	-	-	-	-	107,358	3,532	8
HTC Nippon Corporation	-	-	31,442	12	87,726	2,886	7
HTC Singapore Pte. Ltd.	-	-	-	-	57,297	1,885	5
HTC BRASIL	-	-	-	-	46,400	1,526	4
HTC India Private Limited	-	-	-	-	39,351	1,294	3
HTC (Australia and New Zealand) Pty. Ltd.	-	-	-	-	33,390	1,098	3
HTC (H.K.) Limited	-	-	-	-	21,859	719	2
Communication Global Certification Inc.	-	-	24,952	9	21,514	708	2
VIA Technologies Inc.	600	1	600	-	400	13	-
HTEK	10,843	11	-	-	-	-	-
	$ 11,443	12	$ 112,395	41	$1,031,783	$ 33,940	85

Three Months Ended March 31

Property Transaction

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

27. COMMITMENTS AND CONTINGENCIES

As of March 31, 2008, unused letters of credit amounted to US$1,450 thousand and GBP£114 thousand.

28. SIGNIFICANT CONTRACT

Patent Agreements

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

Contractor	Contract Term	Description
Microsoft	January 1, 2007 - January 31, 2009	Authorization to use embedded operating system; royalty payment based on agreement.
Texas Instruments France	January 14, 2000 - January 13, 2010	Authorization to use GSM system software; royalty payment based on agreement.
Qualcomm Incorporated	December 20, 2000 to the following dates:	

Contractor	Contract Term	Description
	(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.
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

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.