# HTC CORPORATION

## 2nd Q 2008 BUSINESS REVIEW

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smart mobility

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# 2nd Q 08' BUSINESS REVIEW

- The 2nd Q revenue, GPM, OPEX and NOP margins came in line with the guidance provided. Tax rate is lower than our guidance due to tax shelter from the employee bonus expense.
- Diamond shipment went as planned with product transition from Touch products resulting lower May revenue number as expected. Sale through momentum of Diamond is within expectation. To date, Diamond launched in more than 30 countries or 50 operators globally.
- The non ODM business GPM dropped by 0.6 percentage point caused by increasing provision for MDF (marketing development fund) to promote HTC brand product in the operator market. Inventory provision accounted for around 0.5 percentage point of margin decline.

# BUSINESS ENVIRONMENT

- The growth momentum of converging devices remains healthy despite of the global economic weakness.
- Shipment volume of Diamond up to date confirms our view that the market has enough appetite to take products with good values. Diamond is considered one of the best alternative converging devices by our business partners to balance the 3G iPhone. The total cost of the device and the aggregated contractual monthly payments for data services for Diamond against 3G iPhone commands good value proposition in most major operators.
- The supply chain situation is stable in terms of component availability and cost down trend.

# MANAGEMENT INITIATIVES

- The launch of Diamond represents the delivery of HTC brand value, not just a product introduction. The product design is based on consumer oriented form factor, friendly user interface and excellent mobile internet experience on top of technology innovation.
- The management is committed to build two core competence, one the software capability especially in the user interface and the other, the brand value. HTC leads the industry to launch 3D user interface and will continue to enhance this user experience. HTC establishes local sale presence in all major countries and sells under our own brand in more than 50 countries and 70 operators.
- The management team expands from RD centric organization to diversified professional depth in the last two years, many of whom command international operational experiences in their respective field.
- HTC's brand strategy has successfully attracted global talents who share the same vision and are integrated with HTC culture with the passion to change the industry landscape.

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# MANAGEMENT INITIATIVES (continued)

- Production in Shanghai expects to begin in the 4th Q.
- Ex-dividend date was July 15 and cash dividend payout on Aug. 11.
- The board approved up to NT$1.0 billion expenditure to purchase two land lots adjacent to present HQ to accommodate the current shortage of supporting facilities such as office space, parking lots, dormitory etc.
- The board approved US$8 million investment in China to support the marketing activities of local distributor partner in the operator market.
- The board promoted Mr. Fred Liu to Senior Executive VP and COO to recognize his contribution to the company.

# 2nd Q '08 P&L – PRE-EMPLOYEE BONUS

| (NT$ Bil.) | 2Q 07 | 1Q 08 | 2Q 08 | QOQ | YOY |
|---|---|---|---|---|---|
| **REVENUES** | 26.86 | 32.70 | 34.62 | 5.9% | 28.9% |
| **GROSS PROFIT** | 8.95*1 | 11.81 | 12.10 | 2.5% | 35.3% |
| **RSGA EXPENSE** | 2.03 | 2.91 | 3.80 | 30.5% | 87.4% |
| **NOP** | 6.92 | 8.95 | 8.31 | -7.1% | 20.0% |
| **NPBT** | 7.24 | 9.14 | 8.69 | -5.0% | 20.1% |
| **NPAT** | 5.98 | 8.32 | 7.81 | -6.1% | 30.6% |
| **GPM(%)** | 33.3% | 36.1% | 35.0% | | |
| **RSGA RATIO(%)** | 7.6% | 8.9% | 11.0% | | |
| **EPS** | 10.42 | 14.51*2 | 13.62*2 (before ex-rights) | | |

*1 Warranty service and inventory scrap were recognized as opex and non-operating expenses respectively before 2008. NT$1.0bil in Q207 was adjusted into COGS.
*2 The EPS was calculated based on the outstanding shares at the time.

# 2nd Q '08 P&L – POST-EMPLOYEE BONUS (EB)

| (NT$ Bil.) | 2Q 07 | 1Q 08 | 2Q 08 | QOQ | YOY |
|---|---|---|---|---|---|
| REVENUES | 26.86 | 32.70 | 34.62 | 5.9% | 28.9% |
| (EB ADJ in COGS) | 0.16 | 0.16 | 0.14 | -7.2% | -6.9% |
| GROSS PROFIT | 8.79*1 | 11.66 | 11.96 | 2.6% | 36.0% |
| (EB ADJ in RSGA) | 1.33 | 1.33 | 1.25 | -6.1% | -5.8% |
| RSGA EXPENSE | 3.36 | 4.25 | 5.05 | 19.0% | 50.5% |
| NOP | 5.44 | 7.46 | 6.91 | -7.3% | 27.1% |
| NPBT | 5.75 | 7.65 | 7.30 | -4.7% | 26.8% |
| NPAT | 4.48 | 6.94 | 6.62 | -4.7% | 47.6% |
| ADJ GPM(%) | 32.7% | 35.6% | 34.5% | | |
| ADJ RSGA RATIO(%) | 12.5% | 13.0% | 14.6% | | |
| ADJ EPS*2 | 7.82 | 12.12 | 11.54 (before ex-rights) | | |

*1 Warranty service and inventory scrap were recognized as opex and non-operating expenses respectively before 2008. NT$1.0bil in Q207 was adjusted into COGS.

*2 The EPS was calculated based on the outstanding shares at the time.

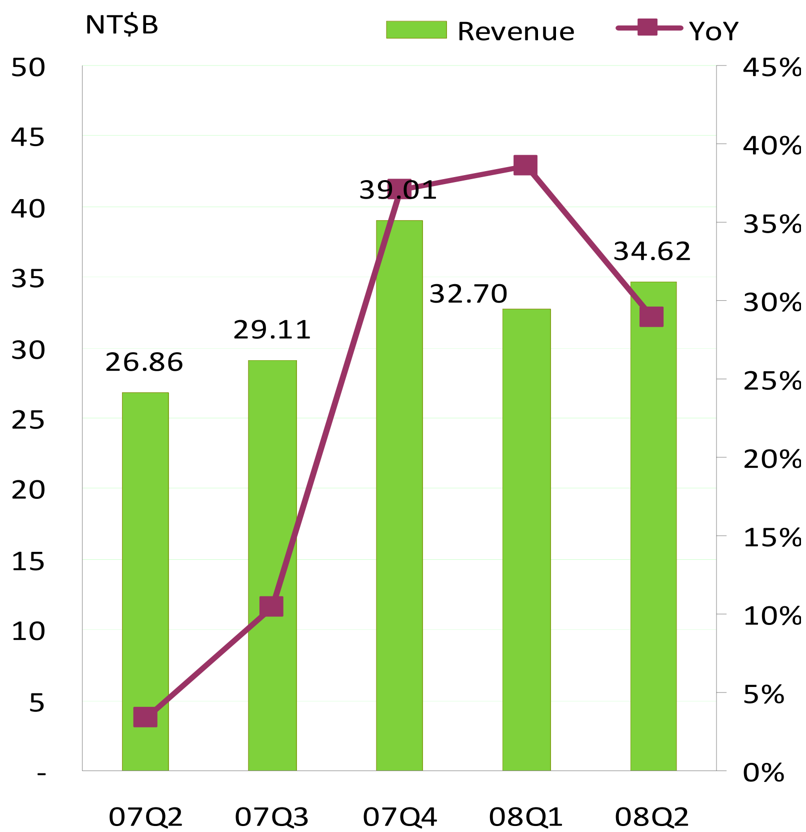
# 2nd Q '08 KEY FINANCIALS

| (NT$ Bil.) | 2Q 07 | 1Q 08 | 2Q 08 | QOQ | YOY |
|---|---|---|---|---|---|
| CASH | 45.09 | 63.47 | 73.24 | 15.4% | 62.4% |
| AR | 17.80 | 16.67 | 19.28 | 15.7% | 8.3% |
| INVENTORY | 4.81 | 7.75 | 5.53 | -28.7% | 14.9% |
| NET WORTH | 38.66 | 62.93 | 48.86*1 | -22.4% | 26.4% |
| INVENTORY PROVISON | 1.05 | 1.13 | 1.18 | 5.1% | 13.2% |
| AR PROVISION | 0.01 | 0.29 | 0.32 | 9.0% | -- |
| WARRANTY PROVISION | 1.32 | 4.02 | 4.60 | 14.3% | 248.6% |

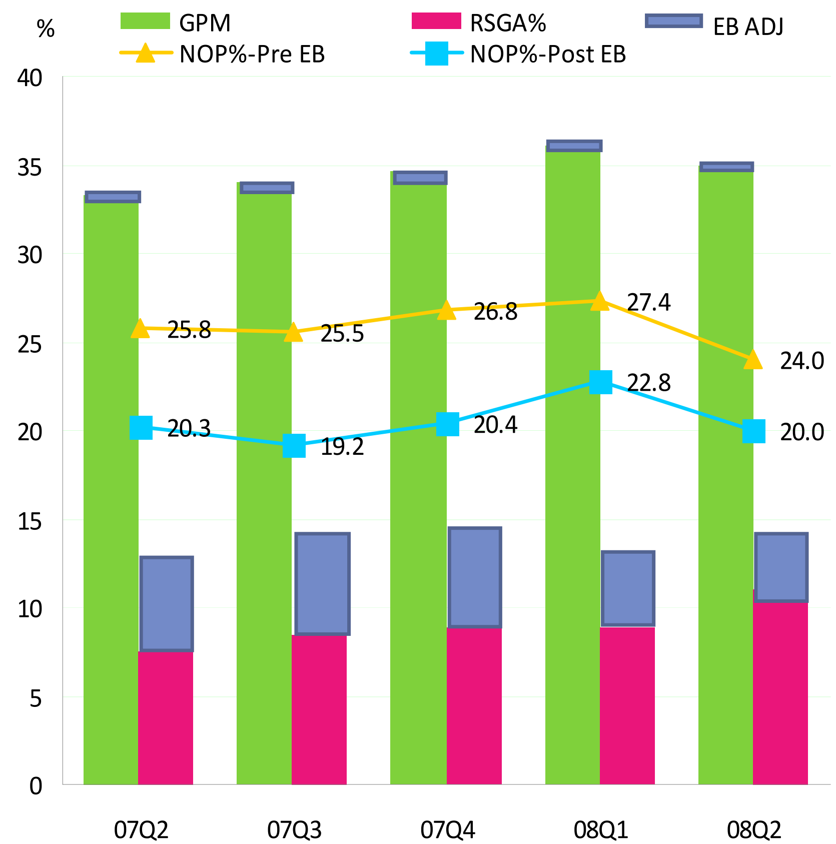
*1 After the deduction of cash dividend of $34 per share (NT$19.48 bil.) and employee cash bonus of $1.21bil. Ex-dividend date was July 15, 2008. The cash dividend payout date is Aug. 11, 2008.

# FACT SHEET UPDATES – BUSINESS STATUS

## REVENUE




## MARGIN*1




*1 Warranty service and inventory scrap were recognized as opex and non-operating expenses respectively before 2008. For comparison purpose, all margins in 2007 were adjusted to the same accounting criteria.

# 3rd Q '08 BUSINESS GUIDANCE

- Revenue expects to grow around 30 percent YOY. GPM expects to be around 34% to 35%. RSGA expense ratio expects to be around 10.5%.
- Four to five Diamond family products will be introduced to fill the product portfolio in either form factor, technology platform or ASP consideration in the 2nd H.
- The ODM business contribution expects to grow which accounts for around one percentage point GPM decline in this quarter.
- Our annual business guidance in either revenue growth or OPEX ratio remain unchanged.

# QUESTIONS CONCERNED

- Q: When is the Android device launch time?
  - A:  The first Android device is expected to make commercial shipment in the 4th Q as planned.
- Q: Please comment the market potential of Android platform, especially to HTC in Y09.
  - A: The Android platform is aimed to grow the mobile internet applications. The market potential will correlate with the adoption of mobile internet. We will have better visibility when we see the sale through result from our 1st device shipment.
- Q: Which vendors create the pricing pressure to you, Apple or others?
  - A: The pricing situation come as a result of our engagement into the mass consumer market and the global economic healthiness. We believe that our cost structure is competitive to others and will continue to drive better cost structure to expand the market size. We will take the challenge to manage the price erosion and margin issues.
- Q: Would HTC be in a less competitive position to drive BOM cost down due to smaller scale of volume?
  - A: The converging devices market is still a niche market relative to the total handset market. We think that we have reasonable economic scale in this market. Our relationship with vendors are long term partnership that cost competitiveness is the key consideration for us and our vendors. We recognize that competitive cost structure is one of the key competence to win in the converging device market.

# QUESTIONS CONCERNED

- Q: Please elaborate the 3G iPhone impact to HTC and to the market.
    - A: We always take the competitors' moves as both challenge and opportunity. The issue always come to fast response to the market change and sound execution.  We believe that other vendors' participation in the converging device market space accelerate the market expansion and we need to gain our fair shares through innovation and good cost control.
- Q: There are too much street rumors, most of which did not address to your core business strategy or operations, but add unnecessary price volatility to your shares. Can you comment on this?
    - A: We respect the different comments from the investment community either from sell or buy sides provided they represent good reasoning with solid information sources. We noticed that our share price was impacted by certain street rumors or subjective assumptions which added unnecessary share price volatility. Please track these comments against our business guidance and our operational result to filter the noises from the actual picture.