

HTC Corporation
(Formerly High Tech Computer Corporation)

**Financial Statements for the
Six Months Ended June 30, 2006, 2007 and 2008 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
HTC Corporation

We have audited the accompanying balance sheets of HTC Corporation (the "Company," formerly High Tech Computer Corporation) as of June 30, 2006, 2007 and 2008 and the related statements of income, changes in stockholders' equity, and cash flows for the six months then ended, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HTC Corporation as of June 30, 2006, 2007 and 2008, and the results of its operations and its cash flows for the six months then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

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 audited the consolidated financial statements of HTC Corporation as of and for the six months ended June 30, 2006, 2007 and 2008 and have expressed a modified unqualified opinion on those financial statements in our report dated July 17, 2008 (not presented herewith).

Our audits also comprehended the translation of the 2008 New Taiwan dollar amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 3. Such U.S. dollar amounts are presented solely for the convenience of readers.

July 17, 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 audit such financial statements are those generally accepted and applied in the Republic of China.

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

HTC CORPORATION

BALANCE SHEETS

JUNE 30, 2006, 2007 AND 2008

(In Thousands, Except Par Value)

ASSETS	2006	2007	2008		LIABILITIES AND STOCKHOLDERS' EQUITY	2006	2007	2008	
	NT\$	NT\$	NT\$	US\$ (Note 3)		NT\$	NT\$	NT\$	US\$ (Note 3)
CURRENT ASSETS					CURRENT LIABILITIES				
Cash (Notes 2 and 5)	\$ 27,575,494	\$ 45,086,189	\$ 73,236,293	\$ 2,413,853	Financial liabilities at fair value through profit or loss (Notes 2, 6 and 24)	\$ -	\$ -	\$ 169,184	\$ 5,576
Financial assets at fair value through profit or loss (Notes 2, 6 and 24)	11,005	30,670	-	-	Notes and accounts payable	15,551,191	16,863,579	19,893,205	655,677
Bond investments not quoted in an active market (Notes 2 and 13)	-	33,030	-	-	Notes and accounts payable to related parties (Note 25)	14,983	58,845	26,090	860
Notes receivable, net (Notes 2 and 8)	515,932	1,520	-	-	Income tax payable (Notes 2 and 22)	763,575	1,859,458	2,330,125	76,800
Accounts receivable, net (Notes 2 and 8)	14,844,114	17,285,928	18,584,305	612,535	Accrued expenses (Notes 16 and 25)	1,976,103	4,688,287	10,805,598	356,150
Accounts receivable from related parties (Notes 2 and 25)	1,068,606	510,163	692,019	22,809	Payable for purchase of equipment	11,596	43,523	64,935	2,140
Other current financial assets (Notes 9 and 25)	115,596	134,016	192,462	6,343	Other current liabilities (Notes 17 and 25)	<u>6,610,702</u>	<u>13,599,841</u>	<u>24,789,035</u>	<u>817,041</u>
Inventories (Notes 2 and 10)	4,974,358	4,808,664	5,525,477	182,118	Total current liabilities	<u>24,928,150</u>	<u>37,113,533</u>	<u>58,078,172</u>	<u>1,914,244</u>
Prepayments (Notes 11 and 25)	894,411	1,442,991	1,012,728	33,379	OTHER LIABILITIES				
Deferred income tax assets (Notes 2 and 22)	268,630	458,213	404,508	13,332	Guarantee deposits received	<u>613</u>	<u>628</u>	<u>628</u>	<u>21</u>
Other current assets	<u>23,469</u>	<u>88,131</u>	<u>160,971</u>	<u>5,306</u>	Total liabilities	<u>24,928,763</u>	<u>37,114,161</u>	<u>58,078,800</u>	<u>1,914,265</u>
Total current assets	<u>50,291,615</u>	<u>69,879,515</u>	<u>99,808,763</u>	<u>3,289,675</u>	STOCKHOLDERS' EQUITY (Note 19)				
LONG-TERM INVESTMENTS					Capital stock - NT\$10.00 par value				
Available-for-sale financial assets - noncurrent (Notes 2 and 7)	1,201	1,485	912	30	Authorized: 650,000 thousand shares				
Financial assets carried at cost (Notes 2 and 12)	1,192	501,192	501,192	16,519	Issued and outstanding: 357,016 thousand shares in 2006, 432,795 thousand shares in 2007 and 573,134 thousand shares in 2008				
Investments accounted for by the equity method (Notes 2 and 14)	486,164	1,059,477	2,068,877	68,190	Common stock	3,570,160	4,327,952	5,731,337	188,904
Prepayments for long-term investments (Notes 2 and 14)	<u>78,216</u>	<u>605,746</u>	<u>-</u>	<u>-</u>	Stock dividend for distribution	794,032	1,403,385	1,822,601	60,073
Total long-term investments	<u>566,773</u>	<u>2,167,900</u>	<u>2,570,981</u>	<u>84,739</u>	Capital surplus				
PROPERTIES (Notes 2, 15 and 25)					Additional paid-in capital - issuance of shares in excess of par	4,410,871	4,374,244	4,374,244	144,174
Cost					Long-term equity investments	15,845	15,845	15,845	522
Land	610,293	610,293	610,293	20,115	From a merger	25,972	25,756	25,756	849
Buildings and structures	1,078,977	1,087,626	2,257,667	74,412	Retained earnings				
Machinery and equipment	2,644,184	3,037,666	3,536,717	116,570	Legal reserve	1,991,520	4,516,253	7,410,139	244,237
Molding equipment	201,567	172,632	172,632	5,690	Special reserve	6,175	-	-	-
Computer equipment	167,642	190,093	241,147	7,948	Accumulated earnings	17,873,984	23,980,153	29,550,423	973,975
Transportation equipment	1,938	1,335	1,335	44	Cumulative translation adjustments (Note 2)	(3,272)	19,777	(64,976)	(2,142)
Furniture and fixtures	100,391	100,624	117,469	3,872	Unrealized valuation losses on financial instruments (Notes 2 and 7)	(770)	(486)	(1,059)	(35)
Leased assets	4,712	4,712	4,712	155	Total stockholders' equity	<u>28,684,517</u>	<u>38,662,879</u>	<u>48,864,310</u>	<u>1,610,557</u>
Leasehold improvements	<u>22,816</u>	<u>22,816</u>	<u>72,760</u>	<u>2,398</u>					
Less accumulated depreciation	4,832,520	5,227,797	7,014,732	231,204					
Prepayments for construction-in-progress and equipment-in-transit	<u>(2,528,347)</u>	<u>(2,929,037)</u>	<u>(3,439,474)</u>	<u>(113,364)</u>					
Properties, net	<u>2,329,968</u>	<u>3,142,270</u>	<u>3,771,833</u>	<u>124,319</u>					
OTHER ASSETS									
Refundable deposits	35,625	40,100	94,475	3,114					
Deferred charges (Note 2)	134,534	188,548	66,370	2,188					
Deferred tax assets (Notes 2 and 22)	192,540	273,816	524,588	17,290					
Other (Notes 2 and 18)	<u>62,225</u>	<u>84,891</u>	<u>106,100</u>	<u>3,497</u>					
Total other assets	<u>424,924</u>	<u>587,355</u>	<u>791,533</u>	<u>26,089</u>					
TOTAL	<u>\$ 53,613,280</u>	<u>\$ 75,777,040</u>	<u>\$ 106,943,110</u>	<u>\$ 3,524,822</u>	TOTAL	<u>\$ 53,613,280</u>	<u>\$ 75,777,040</u>	<u>\$ 106,943,110</u>	<u>\$ 3,524,822</u>

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

(With Deloitte & Touche audit report dated July 17, 2008)

HTC CORPORATION

STATEMENTS OF INCOME SIX MONTHS ENDED JUNE 30, 2006, 2007 AND 2008 (In Thousands, Except Earnings Per Share)

	2006	2007	2008	
	NT\$	NT\$	NT\$	US\$ (Note 3)
REVENUES (Notes 2 and 25)	\$ 50,004,455	\$ 50,462,057	\$ 67,323,559	\$ 2,218,970
COST OF REVENUES (Notes 21 and 25)	<u>36,042,940</u>	<u>34,116,083</u>	<u>43,709,644</u>	<u>1,440,661</u>
GROSS PROFIT	13,961,515	16,345,974	23,613,915	778,309
UNREALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	(60,050)	(147,817)	(119,595)	(3,942)
REALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	<u>15,077</u>	<u>164,011</u>	<u>175,075</u>	<u>5,770</u>
REALIZED GROSS PROFIT	<u>13,916,542</u>	<u>16,362,168</u>	<u>23,669,395</u>	<u>780,137</u>
OPERATING EXPENSES (Notes 21 and 25)				
Selling and marketing	769,503	1,625,966	3,851,103	126,932
General and administrative	474,521	431,044	880,395	29,018
Research and development	<u>1,265,635</u>	<u>1,645,196</u>	<u>4,567,089</u>	<u>150,529</u>
Total operating expenses	<u>2,509,659</u>	<u>3,702,206</u>	<u>9,298,587</u>	<u>306,479</u>
OPERATING INCOME	<u>11,406,883</u>	<u>12,659,962</u>	<u>14,370,808</u>	<u>473,658</u>
NONOPERATING INCOME AND GAINS				
Interest income	165,700	335,419	708,319	23,346
Gains on equity-method investment (Notes 2 and 14)	7,284	-	-	-
Gain on sale of properties	4,818	2,120	-	-
Foreign exchange gain (Note 2)	196,446	236,439	217,328	7,163
Valuation gain on financial instruments, net (Notes 2 and 6)	11,005	30,670	-	-
Gain on physical inventory	-	-	27	1
Other	<u>108,808</u>	<u>82,880</u>	<u>125,282</u>	<u>4,129</u>
Total nonoperating income and gains	<u>494,061</u>	<u>687,528</u>	<u>1,050,956</u>	<u>34,639</u>
NONOPERATING EXPENSES AND LOSSES				
Interest expense	156	132	97	3
Losses on equity-method investments (Notes 2 and 14)	-	51,070	294,602	9,710
Losses on disposal of properties	2,452	661	-	-
Losses on physical inventory	2,210	-	-	-
Valuation loss on financial instruments, net (Notes 2 and 6)	-	-	169,184	5,576
Other	<u>3,834</u>	<u>40,824</u>	<u>7,679</u>	<u>253</u>
Total nonoperating expenses and losses	<u>8,652</u>	<u>92,687</u>	<u>471,562</u>	<u>15,542</u>
INCOME BEFORE INCOME TAX	11,892,292	13,254,803	14,950,202	492,755
INCOME TAX (Notes 2 and 22)	<u>(762,071)</u>	<u>(1,739,655)</u>	<u>(1,390,612)</u>	<u>(45,834)</u>
NET INCOME	<u>\$ 11,130,221</u>	<u>\$ 11,515,148</u>	<u>\$ 13,559,590</u>	<u>\$ 446,921</u>

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HTC CORPORATION

STATEMENTS OF INCOME SIX MONTHS ENDED JUNE 30, 2006, 2007 AND 2008 (In Thousands, Except Earnings Per Share)

	2006		2007		2008			
	Before Income Tax NT\$	After Income Tax NT\$	Before Income Tax NT\$	After Income Tax NT\$	Before Income Tax NT\$ US\$ (Note 3)		After Income Tax NT\$ US\$ (Note 3)	
BASIC EARNINGS PER SHARE (Note 23)	<u>\$ 15.61</u>	<u>\$ 14.61</u>	<u>\$ 17.54</u>	<u>\$ 15.24</u>	<u>\$ 19.79</u>	<u>\$ 0.65</u>	<u>\$ 17.95</u>	<u>\$ 0.59</u>
DILUTED EARNINGS PER SHARE (Note 23)	<u>\$ 15.47</u>	<u>\$ 14.48</u>	<u>\$ 17.54</u>	<u>\$ 15.24</u>	<u>\$ 19.64</u>	<u>\$ 0.65</u>	<u>\$ 17.81</u>	<u>\$ 0.59</u>

(Concluded)

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

(With Deloitte & Touche audit report dated July 17, 2008)

HTC CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY SIX MONTHS ENDED JUNE 30, 2006, 2007 AND 2008 (In Thousands of New Taiwan Dollars)

	Issued and Outstanding Capital Stock		Capital Surplus			Retained Earnings			Cumulative Translation Adjustments	Unrealized Valuation Losses on Financial Instruments	Treasury Stock	Total
	Common Stock	Stock Dividend for Distribution	Additional Paid-in Capital - Issuance of Shares in Excess of Par	Long-Term Equity Investments	From a Merger	Legal Reserve	Special Reserve	Accumulated Earnings				
BALANCE, JANUARY 1, 2006	\$ 3,570,160	\$ -	\$ 4,410,871	\$ -	\$ 25,972	\$ 813,326	\$ 19,133	\$14,152,255	\$ (5,041)	\$ (1,135)	\$ -	\$22,985,541
Adjustments due to accounting changes	-	-	-	-	-	-	-	-	-	48	-	48
Appropriation of the 2005 net earnings												
Legal reserve	-	-	-	-	-	1,178,194	-	(1,178,194)	-	-	-	-
Special reserve	-	-	-	-	-	-	(12,958)	12,958	-	-	-	-
Stock dividends	-	714,032	-	-	-	-	-	(714,032)	-	-	-	-
Transfer of employee bonuses to capital stock	-	80,000	-	-	-	-	-	(80,000)	-	-	-	-
Employee bonuses	-	-	-	-	-	-	-	(451,000)	-	-	-	(451,000)
Cash dividends	-	-	-	-	-	-	-	(4,998,224)	-	-	-	(4,998,224)
Adjustment arising from changes in ownership percentage in investees	-	-	-	15,845	-	-	-	-	-	-	-	15,845
Net income in the six months ended June 30, 2006	-	-	-	-	-	-	-	11,130,221	-	-	-	11,130,221
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	1,769	-	-	1,769
Unrealized valuation losses on financial instruments	-	-	-	-	-	-	-	-	-	317	-	317
BALANCE, JUNE 30, 2006	\$ 3,570,160	\$ 794,032	\$ 4,410,871	\$ 15,845	\$ 25,972	\$ 1,991,520	\$ 6,175	\$17,873,984	\$ (3,272)	\$ (770)	\$ -	\$28,684,517
BALANCE, JANUARY 1, 2007	\$ 4,364,192	\$ -	\$ 4,410,871	\$ 15,845	\$ 25,972	\$ 1,991,520	\$ 6,175	\$31,991,090	\$ 10,786	\$ (238)	\$ (243,995)	\$42,572,218
Appropriation of the 2006 net earnings												
Legal reserve	-	-	-	-	-	2,524,733	-	(2,524,733)	-	-	-	-
Special reserve	-	-	-	-	-	-	(6,175)	6,175	-	-	-	-
Stock dividends	-	1,298,385	-	-	-	-	-	(1,298,385)	-	-	-	-
Transfer of employee bonuses to capital stock	-	105,000	-	-	-	-	-	(105,000)	-	-	-	-
Employee bonuses	-	-	-	-	-	-	-	(2,000,000)	-	-	-	(2,000,000)
Cash dividends	-	-	-	-	-	-	-	(11,685,470)	-	-	-	(11,685,470)
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	(1,747,760)	(1,747,760)
Retirement of treasury stock	(36,240)	-	(36,627)	-	(216)	-	-	(1,918,672)	-	-	1,991,755	-
Net income in the six months ended June 30, 2007	-	-	-	-	-	-	-	11,515,148	-	-	-	11,515,148
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	8,991	-	-	8,991
Unrealized valuation losses on financial instruments	-	-	-	-	-	-	-	-	-	(248)	-	(248)
BALANCE, JUNE 30, 2007	\$ 4,327,952	\$ 1,403,385	\$ 4,374,244	\$ 15,845	\$ 25,756	\$ 4,516,253	\$ -	\$23,980,153	\$ 19,777	\$ (486)	\$ -	\$38,662,879

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HTC CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY SIX MONTHS ENDED JUNE 30, 2006, 2007 AND 2008 (In Thousands)

	Issued and Outstanding Capital Stock		Capital Surplus			Retained Earnings			Cumulative Translation Adjustments	Unrealized Valuation Losses on Financial Instruments	Total
	Common Stock	Stock Dividend for Distribution	Additional Paid-in Capital - Issuance of Shares in Excess of Par	Long-Term Equity Investments	From a Merger	Legal Reserve	Special Reserve	Accumulated Earnings			
New Taiwan Dollars											
BALANCE, JANUARY 1, 2008	\$ 5,731,337	\$ -	\$ 4,374,244	\$ 15,845	\$ 25,756	\$ 4,516,253	\$ -	\$41,403,867	\$ 9,664	\$ (1,187)	\$56,075,779
Appropriation of the 2007 net earnings											
Legal reserve	-	-	-	-	-	2,893,886	-	(2,893,886)	-	-	-
Stock dividends	-	1,719,401	-	-	-	-	-	(1,719,401)	-	-	-
Transfer of employee bonuses to common stock	-	103,200	-	-	-	-	-	(103,200)	-	-	-
Employee bonuses	-	-	-	-	-	-	-	(1,210,000)	-	-	(1,210,000)
Cash dividends	-	-	-	-	-	-	-	(19,486,547)	-	-	(19,486,547)
Net income in the six months ended June 30, 2008	-	-	-	-	-	-	-	13,559,590	-	-	13,559,590
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	(74,640)	-	(74,640)
Unrealized loss on financial instruments	-	-	-	-	-	-	-	-	-	128	128
BALANCE, JUNE 30, 2008	<u>\$ 5,731,337</u>	<u>\$ 1,822,601</u>	<u>\$ 4,374,244</u>	<u>\$ 15,845</u>	<u>\$ 25,756</u>	<u>\$ 7,410,139</u>	<u>\$ -</u>	<u>\$29,550,423</u>	<u>\$ (64,976)</u>	<u>\$ (1,059)</u>	<u>\$48,864,310</u>
U.S. Dollars											
BALANCE, JANUARY 1, 2008	\$ 188,904	\$ -	\$ 144,174	\$ 522	\$ 849	\$ 148,855	\$ -	\$ 1,364,663	\$ 319	\$ (39)	\$ 1,848,247
Appropriation of the 2007 net earnings											
Legal reserve	-	-	-	-	-	95,382	-	(95,382)	-	-	-
Stock dividends	-	56,671	-	-	-	-	-	(56,671)	-	-	-
Transfer of employee bonuses to common stock	-	3,402	-	-	-	-	-	(3,402)	-	-	-
Employee bonuses	-	-	-	-	-	-	-	(39,881)	-	-	(39,881)
Cash dividends	-	-	-	-	-	-	-	(642,273)	-	-	(642,273)
Net income in the six months ended June 30, 2008	-	-	-	-	-	-	-	446,921	-	-	446,921
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	(2,461)	-	(2,461)
Unrealized loss on financial instruments	-	-	-	-	-	-	-	-	-	4	4
BALANCE, JUNE 30, 2008	<u>\$ 188,904</u>	<u>\$ 60,073</u>	<u>\$ 144,174</u>	<u>\$ 522</u>	<u>\$ 849</u>	<u>\$ 244,237</u>	<u>\$ -</u>	<u>\$ 973,975</u>	<u>\$ (2,142)</u>	<u>\$ (35)</u>	<u>\$ 1,610,557</u>

(Concluded)

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

(With Deloitte & Touche audit report dated July 17, 2008)

HTC CORPORATION

STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2006, 2007 AND 2008 (In Thousands)

	2006	2007	2008	
	NT\$	NT\$	NT\$	US\$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	\$ 11,130,221	\$ 11,515,148	\$ 13,559,590	\$ 446,921
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation	291,688	285,516	272,831	8,992
Transfer of properties to expenses	-	-	11,091	366
Foreign exchange loss on bond investments with no active market	-	-	2,670	88
Amortization	15,703	29,767	21,738	716
Gain on disposal of properties	(2,366)	(1,459)	-	-
(Gains) losses on equity-method investments	(7,284)	51,070	294,602	9,710
Deferred income tax assets	17,690	(84,722)	13,014	429
Prepaid pension costs	(12,465)	(10,871)	(10,913)	(360)
Net changes in operating assets and liabilities				
Financial instruments at fair value through profit or loss	49,080	(107,140)	72,928	2,404
Notes receivable	(416,845)	57,410	3,058	101
Accounts receivable	(631,299)	1,032,051	359,562	11,851
Accounts receivable from related parties	(647,826)	801,627	(155,144)	(5,114)
Other current financial assets	(60,602)	234,481	91,589	3,019
Inventories	(136,805)	175,227	593,936	19,576
Prepayments	(420,150)	438,128	524,599	17,291
Other current assets	6,856	(25,030)	(44,130)	(1,455)
Notes and accounts payable	1,810,796	30,594	(2,097,512)	(69,134)
Notes and accounts payable to related parties	(41,315)	44,791	(3,311)	(109)
Income tax payable	146,712	100,741	(184,269)	(6,073)
Accrued expenses	320,296	(1,651,842)	5,535,769	182,458
Other current liabilities	305,400	2,002,175	(204,409)	(6,737)
Net cash provided by operating activities	<u>11,717,485</u>	<u>14,917,662</u>	<u>18,657,289</u>	<u>614,940</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of properties	(126,935)	(514,103)	(446,018)	(14,701)
Proceeds of the sales of properties	4,768	5,155	454	15
Increase in long-term investments - equity method	(215,977)	(885,746)	(10,626)	(350)
Increase in financial assets carried at cost	-	(500,000)	-	-
Purchase of bond investments not quoted in an active market	-	(33,030)	-	-
Increase in refundable deposits	(347)	(3,109)	(1,038)	(34)
Increase in deferred charges	-	(99,256)	-	-
Net cash used in investing activities	<u>(338,491)</u>	<u>(2,030,089)</u>	<u>(457,228)</u>	<u>(15,070)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Purchase of treasury stock	-	(1,747,760)	-	-
Increase (decrease) in guarantee deposits received	52	(12)	-	-
Bonus to employees	-	(451,000)	-	-
Net cash provided by (used in) financing activities	<u>52</u>	<u>(2,198,772)</u>	<u>-</u>	<u>-</u>

(Continued)

HTC CORPORATION

STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2006, 2007 AND 2008 (In Thousands)

	2006	2007	2008	
	NT\$	NT\$	NT\$	US\$ (Note 3)
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 11,379,046	\$ 10,688,801	\$ 18,200,061	\$ 599,870
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>16,196,448</u>	<u>34,397,388</u>	<u>55,036,232</u>	<u>1,813,983</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 27,575,494</u>	<u>\$ 45,086,189</u>	<u>\$ 73,236,293</u>	<u>2,413,853</u>
SUPPLEMENTAL CASH FLOW INFORMATION				
Cash paid during the period				
Interest paid	\$ <u>156</u>	\$ <u>132</u>	\$ <u>97</u>	\$ <u>3</u>
Income tax	\$ <u>597,669</u>	\$ <u>1,723,636</u>	\$ <u>1,561,867</u>	\$ <u>51,479</u>
NONCASH INVESTING AND FINANCING ACTIVITIES				
Transfer of retained earnings and bonus to employees to stock dividends for distribution	\$ <u>794,032</u>	\$ <u>1,403,385</u>	\$ <u>1,822,601</u>	\$ <u>60,073</u>
Transfer of bond investment not quoted in an active market to investments accounted for by the equity method	\$ <u>-</u>	\$ <u>-</u>	\$ <u>33,030</u>	\$ <u>1,089</u>
PURCHASE OF PROPERTIES				
Cost of properties purchased	\$ 128,802	\$ 521,858	\$ 340,308	\$ 11,216
Decrease (increase) in payable for purchase of equipment	2,443	(8,181)	105,249	3,469
(Increase) decrease in lease payable	<u>(4,310)</u>	<u>426</u>	<u>461</u>	<u>16</u>
Cash paid for purchase of properties	\$ <u>126,935</u>	\$ <u>514,103</u>	\$ <u>446,018</u>	\$ <u>14,701</u>
CASH DIVIDENDS AND BONUSES TO EMPLOYEES				
Appropriation of cash dividends and bonuses to employees	\$ 5,449,224	\$ 13,685,470	\$ 20,696,547	\$ 682,154
Increase in payable for cash dividends and bonuses to employees	<u>(5,449,224)</u>	<u>(13,234,470)</u>	<u>(20,696,547)</u>	<u>(682,154)</u>
Cash paid	\$ <u>-</u>	\$ <u>451,000</u>	\$ <u>-</u>	\$ <u>-</u>

(Concluded)

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

(With Deloitte & Touche audit report dated July 17, 2008)

HTC CORPORATION

NOTES TO FINANCIAL STATEMENTS SIX MONTHS ENDED JUNE 30, 2006, 2007 AND 2008 (In Thousands, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

HTC Corporation (the “Company,” formerly High Tech Computer Corporation until June 13, 2008) 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 4,145, 4,879 and 6,441 employees as of June 30, 2006, 2007 and 2008, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

The accompanying financial statements were originally presented in more than one set of Chinese reports. For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail. However, the accompanying financial statements do not include the English translation of the additional footnote disclosures that are not required under ROC generally accepted accounting principles but are required by the Securities and Futures Bureau 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 which the Company holds 20 percent or more of the investees' voting shares or exercises significant influence over the investees' operating and financial policy decisions are accounted for by the equity method.

Prior to January 1, 2006, the difference between the acquisition cost and the Company's proportionate share in the investee's equity was amortized by the straight-line method over five years. Effective January 1, 2006, pursuant to the revised Statement of Financial Accounting Standard ("SFAS") No. 5, "Long-term Investments Accounted for by Equity Method", the acquisition cost is allocated to the assets acquired and liabilities assumed based on their fair values at the date of acquisition, and the excess of the acquisition cost over the fair value of the identifiable net assets acquired is recognized as goodwill. Goodwill is not being amortized. The excess of the fair value of the net identifiable assets acquired over the acquisition cost is used to reduce the fair value of each of the noncurrent assets acquired (except for financial assets other than investments accounted for by the equity method, noncurrent assets held for sale, deferred income tax assets, prepaid pension or other postretirement benefit) in proportion to the respective fair values of the noncurrent assets, with any excess recognized as an extraordinary gain. Effective January 1, 2006, the accounting treatment for the unamortized investment premium arising on acquisitions before January 1, 2006 is the same as that for goodwill and the premium is no longer being amortized. For any investment discount arising on acquisitions before January 1, 2006, the unamortized amount continues to be amortized over the remaining year.

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.

For long term equity investments for which the Company has significant influence but with no control, the carrying amount (including goodwill) of each investment is compared with its own recoverable amount for the purpose of impairment testing.

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

Pension cost under a defined benefit plan is determined by actuarial valuations. Contributions made under a defined contribution plan are recognized as pension cost during the year in which employees render services.

Curtailment or settlement gains or losses of the defined benefit plan are recognized as part of the net yearic pension cost for the year.

Under SFAS No. 23, "Interim Financial Reporting and Disclosures," the Company does not have to apply the requirement stated in SFAS No. 18 ("Accounting for Pensions") of remeasuring the minimum pension liability and pension cost of the current interim period.

Income Tax

The Company applies intra-year and inter-year allocations for its income tax, whereby (1) a portion of income tax expense is allocated to the cumulative effect of changes in accounting principles; and (2) deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused loss carryforward and unused tax credits. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

Tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures are recognized using the flow-through method.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the stockholders approve to retain the earnings.

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 six months ended June 30, 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\$30.34 to US\$1.00 quoted by the Bank of Taiwan on June 30, 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\$2,565,346 thousand (US\$ 84,553 thousand) in net income, including employee bonus payable of NT\$2,902,488 thousand (US\$95,665 thousand), minus the allocation to inventory of NT\$16,834 thousand (US\$555 thousand) and minus the tax saving of NT\$320,308 thousand (US\$10,557 thousand), and a decrease in after income tax basic earnings per share of NT\$3.40 for the six months ended June 30, 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:

	Six Months Ended June 30							
	2006		2007		2008			%
	Amount		Amount		Amount			
	NT\$		NT\$		NT\$	US\$		
					(Note 3)			
Revenues	\$ 50,004,455	100	\$ 50,462,057	100	\$ 67,323,559	\$ 2,218,970	100	
Cost of revenues	<u>36,042,940</u>	<u>72</u>	<u>34,116,083</u>	<u>68</u>	<u>43,406,914</u>	<u>1,430,683</u>	<u>64</u>	
Gross profit	13,961,515	28	16,345,974	32	23,916,645	788,287	36	
Unrealized profit from intercompany transactions	(60,050)	-	(147,817)	-	(119,595)	(3,942)	-	
Realized profit from intercompany transactions	<u>15,077</u>	<u>-</u>	<u>164,011</u>	<u>-</u>	<u>175,075</u>	<u>5,770</u>	<u>-</u>	
Realized gross profit	13,916,542	28	16,362,168	32	23,972,125	790,115	36	
Operating expenses	<u>2,509,659</u>	<u>5</u>	<u>3,702,206</u>	<u>7</u>	<u>6,715,663</u>	<u>221,347</u>	<u>10</u>	
Operating income	11,406,883	23	12,659,962	25	17,256,462	568,768	26	
Nonoperating income and gains	494,061	1	687,528	1	1,050,956	34,639	2	
Nonoperating expenses and losses	<u>8,652</u>	<u>-</u>	<u>92,687</u>	<u>-</u>	<u>471,562</u>	<u>15,542</u>	<u>1</u>	
Income before income tax	11,892,292	24	13,254,803	26	17,835,856	587,865	27	
Income tax	<u>(762,071)</u>	<u>(2)</u>	<u>(1,739,655)</u>	<u>(3)</u>	<u>(1,710,920)</u>	<u>(56,391)</u>	<u>(3)</u>	
Net income	<u>\$ 11,130,221</u>	<u>22</u>	<u>\$ 11,515,148</u>	<u>23</u>	<u>\$ 16,124,936</u>	<u>\$ 531,474</u>	<u>24</u>	

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 six months ended June 30, 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 six months ended June 30, 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:

	Six Months Ended June 30						
	2006		2007		2008		
	Amount	%	Amount	%	Amount		%
	NT\$		NT\$		NT\$	US\$ (Note 3)	
Revenues	\$ 50,004,455	100	\$ 50,462,057	100	\$ 67,323,559	\$ 2,218,970	100
Cost of revenues	<u>34,503,576</u>	<u>69</u>	<u>32,276,701</u>	<u>64</u>	<u>40,835,504</u>	<u>1,345,929</u>	<u>61</u>
Gross profit	15,500,879	31	18,185,356	36	26,488,055	873,041	39
Unrealized profit from intercompany transactions	(60,050)	-	(147,817)	-	(119,595)	(3,942)	-
Realized profit from intercompany transactions	<u>15,077</u>	<u>-</u>	<u>164,011</u>	<u>-</u>	<u>175,075</u>	<u>5,770</u>	<u>-</u>
Realized gross profit	15,455,906	31	18,201,550	36	26,543,535	874,869	39
Operating expenses	<u>3,486,999</u>	<u>7</u>	<u>5,054,109</u>	<u>10</u>	<u>11,779,614</u>	<u>388,254</u>	<u>17</u>
Operating income	11,968,907	24	13,147,441	26	14,763,921	486,615	22
Nonoperating income and gains	494,061	1	687,528	1	1,050,956	34,639	1
Nonoperating expenses and losses	<u>570,676</u>	<u>1</u>	<u>580,166</u>	<u>1</u>	<u>864,675</u>	<u>28,499</u>	<u>1</u>
Income before income tax	11,892,292	24	13,254,803	26	14,950,202	492,755	22
Income tax	<u>(762,071)</u>	<u>(2)</u>	<u>(1,739,655)</u>	<u>(3)</u>	<u>(1,390,612)</u>	<u>(45,834)</u>	<u>(2)</u>
Net income	<u>\$ 11,130,221</u>	<u>22</u>	<u>\$ 11,515,148</u>	<u>23</u>	<u>\$ 13,559,590</u>	<u>\$ 446,921</u>	<u>20</u>

5. CASH

Cash as of June 30, 2006, 2007 and 2008 were as follows:

	2006	2007	2008	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Cash on hand	\$ 900	\$ 1,000	\$ 1,010	\$ 33
Cash in banks	3,794,194	5,726,789	2,861,670	94,320
Time deposits	<u>23,780,400</u>	<u>39,358,400</u>	<u>70,373,613</u>	<u>2,319,500</u>
	<u>\$ 27,575,494</u>	<u>\$ 45,086,189</u>	<u>\$ 73,236,293</u>	<u>\$ 2,413,853</u>

On time deposits, interest rates ranged from 1.30% to 2.005%, 1.844% to 2.20% and 1.65% to 2.475% as of June 30, 2006, 2007 and 2008, respectively.

On preferential deposit, interest rates ranged from 2.43% to 4.97%, 2.95% to 5.00% and 0.20% to 7.00% as of June 30, 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 June 30, 2006, 2007 and 2008 were as follows:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Derivatives - financial assets				
Forward exchange contracts	\$ 11,005	\$ 30,670	\$ -	\$ -
Derivatives - financial liabilities				
Forward exchange contracts	\$ -	\$ -	\$ 169,184	\$ 5,576

The Company entered into derivative transactions during the six months ended June 30, 2006, 2007 and 2008 to manage exposures related to foreign exchange rate fluctuations. The derivative transactions entered into by the Company did not meet the criteria for hedge accounting prescribed by SFAS No. 34. Therefore, the Company hadn't adopted hedge accounting. Outstanding forward exchange and currency option contracts as of June 30, 2006, 2007 and 2008 were as follows:

Forward Exchange Contracts

<u>2006</u>				
	Buy/Sell	Currency	Expiry Date	Contract Amount
Forward exchange contracts	Sell	USD/NTD	2006.07.05~2006.09.06	US\$ 89,000
Forward exchange contracts	Sell	EUR/USD	2006.07.05~2006.09.27	EUR€ 93,000
Forward exchange contracts	Sell	EUR/JPY	2006.07.07	EUR€ 250
Forward exchange contracts	Sell	USD/JPY	2006.07.07	US\$ 800
Forward exchange contracts	Sell	GBP/USD	2006.07.14	GBP£ 500
<u>2007</u>				
	Buy/Sell	Currency	Expiry Date	Contract Amount
Forward exchange contracts	Sell	USD/NTD	2007.07.04~2007.07.18	US\$ 33,000
Forward exchange contracts	Sell	EUR/USD	2007.07.13~2007.09.07	EUR€ 130,000
Forward exchange contracts	Sell	GBP/USD	2007.07.13	GBP£ 150
Forward exchange contracts	Sell	JPY/USD	2007.08.24	JP¥ 70,000
<u>2008</u>				
	Buy/Sell	Currency	Expiry Date	Contract Amount
Forward exchange contracts	Sell	EUR/USD	2008.07.01~2008.09.05	EUR€ 162,000
Forward exchange contracts	Sell	GBP/USD	2008.07.11~2008.08.22	GBP£ 7,530
Forward exchange contracts	Sell	JPY/NTD	2008.07.23	JP¥ 131,000
Forward exchange contracts	Sell	USD/NTD	2008.07.01~2008.07.07	US\$ 24,100
Forward exchange contracts	Buy	USD/JPY	2008.07.23~2008.08.01	US\$ 13,017

Net loss on derivative financial instruments for the six months ended June 30, 2008 was NT\$551,267 thousand (US\$18,170 thousand), including realized settlement loss of NT\$382,083 thousand (US\$12,594 thousand) and valuation loss of NT\$169,184 thousand (US\$5,576 thousand).

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets as of June 30, 2006, 2007 and 2008 were as follows:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
VIA Technologies, Inc.	\$ 1,201	\$ 1,485	\$ 912	\$ 30

In December 1999, the Company invested NT\$1,971 thousand in VIA Technologies, Inc. and accounted for it as available-for-sale financial asset.

8. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable as of June 30, 2006, 2007 and 2008 were as follows:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Notes receivable	\$ 515,932	\$ 1,520	\$ -	\$ -
Accounts receivable	14,847,947	17,294,864	18,902,928	623,037
Less allowance for doubtful accounts	<u>(3,833)</u>	<u>(8,936)</u>	<u>(318,623)</u>	<u>(10,502)</u>
	<u>\$ 15,360,046</u>	<u>\$ 17,287,448</u>	<u>\$ 18,584,305</u>	<u>\$ 612,535</u>

9. OTHER CURRENT FINANCIAL ASSETS

Other current financial assets as of June 30, 2006, 2007 and 2008 were as follows:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Other receivables from related parties (Note 25)	\$ 70,275	\$ 62,178	\$ 86,938	\$ 2,865
Interest receivable	12,916	33,737	66,272	2,184
Other receivables	23,233	22,103	31,966	1,054
Others	<u>9,172</u>	<u>15,998</u>	<u>7,286</u>	<u>240</u>
	<u>\$ 115,596</u>	<u>\$ 134,016</u>	<u>\$ 192,462</u>	<u>\$ 6,343</u>

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 June 30, 2006, 2007 and 2008 were as follows:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Finished goods	\$ 661,433	\$ 514,355	\$ 441,497	\$ 14,551
Work-in-process	1,586,557	1,521,818	1,938,785	63,902
Raw materials	<u>3,719,451</u>	<u>3,819,296</u>	<u>4,329,997</u>	<u>142,716</u>
	5,967,441	5,855,469	6,710,279	221,169
Less valuation allowance	<u>(993,083)</u>	<u>(1,046,805)</u>	<u>(1,184,802)</u>	<u>(39,051)</u>
	<u>\$4,974,358</u>	<u>\$4,808,664</u>	<u>\$5,525,477</u>	<u>\$182,118</u>

The write-down of inventories to net realizable value amounted to NT\$393,113 thousand (US\$12,957 thousand) and was recognized as cost of sales for the six months ended June 30, 2008.

11. PREPAYMENTS

Prepayments as of June 30, 2006, 2007 and 2008 were as follows:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Royalty	\$ 688,356	\$ 1,272,333	\$ 740,218	\$ 24,397
Software and hardware maintenance	18,878	36,683	102,215	3,369
Services	47,306	61,874	21,128	696
Prepayments for materials purchases	265	1,273	3,214	106
Others	<u>139,606</u>	<u>70,828</u>	<u>145,953</u>	<u>4,811</u>
	<u>\$ 894,411</u>	<u>\$ 1,442,991</u>	<u>\$ 1,012,728</u>	<u>\$ 33,379</u>

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

12. FINANCIAL ASSETS CARRIED AT COST

Financial assets carried at cost as of June 30, 2006, 2007 and 2008 were as follows:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Hua-Chuang Automobile Information Technical Center Co., Ltd.	\$ -	\$ 500,000	\$ 500,000	\$ 16,480
Answer Online, Inc.	<u>1,192</u>	<u>1,192</u>	<u>1,192</u>	<u>39</u>
	<u>\$ 1,192</u>	<u>\$ 501,192</u>	<u>\$ 501,192</u>	<u>\$ 16,519</u>

In January 2007, the Company acquired 10% equity interest in Hua-Chuang Automobile Information Technical Center Co., Ltd. for NT\$500,000 thousand. The Company also signed a joint venture agreement with Yulon Group, the main stockholder of Hua-Chuang. Under the agreement, the Company and Yulon Group may, between January 1, 2010 and December 31, 2011, submit written requests to each other for Yulon Group to buy back NT\$300,000 thousand at original price, some of Hua-Chuang's shares bought by the Company.

In March 2004, the Company merged with IA Style, Inc. (Note 1) and acquired 1.82% equity interest in Answer Online, Inc. as a result of the merger.

These unquoted equity instruments were not carried at fair value because their fair value could not be reliably measured; thus, the Company accounted for these investments by the cost method.

13. BOND INVESTMENT NOT QUOTED IN AN ACTIVE MARKET

As of June 30, 2008, the Company had the following investment in bonds not quoted in an active market:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Bond investment	\$ -	\$ 33,030	\$ -	\$ -
Less current portion	<u>-</u>	<u>(33,030)</u>	<u>-</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The Company bought 12-month bond issued by Vitamin D Inc. with 6% annual interest for NT\$33,030 thousand (US\$1,000 thousand). The unquoted debt instrument was not carried at fair value because its fair value could not be reliably measured

In April 2008, the Company made a new investment of US\$300 thousand and transferred its bond investment and related interest income of US\$1,050 thousand to convertible preferred stocks issued by Vitamin D Inc. As a result, the Company acquired 27% equity interest in Vitamin D Inc. and can exercise significant influence over this investee. The Company accounts for this investment by the equity method.

14. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Investments accounted for by the equity method as of June 30, 2006, 2007 and 2008 were as follows:

	<u>2006</u>		<u>2007</u>		<u>2008</u>				Ownership Percentage
	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage	Original Cost		Carrying Value		
	NT\$		NT\$		NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	
Equity method									
H.T.C. (B.V.I.) Corp.	\$ 337,914	100	\$ 653,987	100	\$ 1,402,835	\$ 46,237	\$ 1,083,997	\$ 35,729	100
BandRich Inc.	148,250	51	116,720	51	135,000	4,450	105,775	3,486	51
HTC HK, Limited	-	-	1,828	100	1,277	42	20,335	670	100
Communication Global Certification Inc.	-	-	286,942	100	280,000	9,229	261,088	8,606	100
High Tech Computer Asia Pacific Pte. Ltd.	-	-	-	-	560,660	18,479	557,902	18,388	100
Vitamin D Inc.	-	-	-	-	40,986	1,351	39,780	1,311	27
Prepayments for long-term investments	<u>78,216</u>	-	<u>605,746</u>	-	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	-
	<u>\$ 564,380</u>		<u>\$ 1,665,223</u>		<u>\$ 2,420,758</u>	<u>\$ 79,788</u>	<u>\$ 2,068,877</u>	<u>\$ 68,190</u>	

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 June 30, 2008, the Company had increased this investment to NT\$1,402,835 thousand (US\$46,237 thousand). H.T.C. (B.V.I.) Corp. makes investments on behalf of the Company.

In April 2006, the Company acquired 92% equity interest in BandRich Inc. for NT\$135,000 thousand and accounted for this investment by the equity method. In May 2006, BandRich Inc. issued 12,000 thousand shares of common stock at a price of NT\$12.50 per share of which the Company didn't purchase. The Company's ownership percentage declined from 92% to 51% and resulted in capital surplus - long term equity investments of NT\$15,845 thousand.

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

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

In June 2007, the Company acquired 100% equity interest in High Tech Computer Asia Pacific Pte. Ltd. for NT\$560,660 thousand and accounted for this investment by the equity method.

In April 2008, the Company made a new investment of US\$300 thousand and transferred its bond investment and related interest income of US\$1,050 thousand to convertible preferred stocks issued by Vitamin D Inc. As a result, the Company acquired 27% equity interest in Vitamin D Inc. for NT\$40,986 thousand and can exercise significant influence over this investee. The Company accounts for this investment by the equity method.

On its equity-method investments, the Company had a gain of NT\$7,284 thousand and losses of NT\$51,070 thousand and NT\$294,602 thousand (US\$9,710 thousand) for the six months ended June 30, 2006, 2007 and 2008, respectively.

The financial statements of equity-method investees had been examined by the Company's independent auditors.

Under the revised Statement of Financial Accounting Standards No. 7, "Consolidated Financial Statements," which took effect on January 1, 2005, the Company included the accounts of all its direct and indirect subsidiaries in the consolidated financial statements as of and for the six months ended June 30, 2006, 2007 and 2008. All significant intercompany balances and transactions have been eliminated.

15. PROPERTIES

Properties as of June 30, 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	\$ 20,115	
Buildings and structures	767,105	705,439	2,257,667	470,005	1,787,662	58,921	
Machinery and equipment	857,651	917,409	3,536,717	2,498,076	1,038,641	34,233	
Molding equipment	-	-	172,632	172,632	-	-	
Computer equipment	35,089	40,795	241,147	175,516	65,631	2,163	
Transportation equipment	817	595	1,335	963	372	12	
Furniture and fixtures	24,765	19,016	117,469	92,413	25,056	826	
Leased assets	4,319	3,534	4,712	1,963	2,749	91	
Leasehold improvements	4,134	1,679	72,760	27,906	44,854	1,479	
Prepayments for construction-in-progress and equipment-in-transit	25,795	843,510	196,575	-	196,575	6,479	
	<u>\$2,329,968</u>	<u>\$3,142,270</u>	<u>\$7,211,307</u>	<u>\$3,439,474</u>	<u>\$3,771,833</u>	<u>\$ 124,319</u>	

The construction of a new office building was completed in September 2007, and prepayments for construction in progress were transferred to buildings and structures.

16. ACCRUED EXPENSES

Accrued expenses as of June 30, 2006, 2007 and 2008 were as follows:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Bonus to employees	\$ 451,000	\$ 2,000,000	\$ 4,112,488	\$ 135,547
Marketing	267,305	1,343,864	3,698,039	121,887
Salaries	319,417	593,244	986,528	32,516
Services	27,756	117,838	954,537	31,461
Research materials	121,082	136,212	249,294	8,217
Donation	300,000	120,402	179,256	5,908
Export expenses	220,212	108,028	256,802	8,464
Meals and welfare	60,733	49,394	72,034	2,374
Insurance	66,166	22,124	53,673	1,769
Travel	41,005	18,188	30,896	1,018
Others	101,427	178,993	212,051	6,989
	<u>\$ 1,976,103</u>	<u>\$ 4,688,287</u>	<u>\$ 10,805,598</u>	<u>\$ 356,150</u>

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 an employee bonus payable of NT\$2,902,488 thousand (US\$95,665 thousand). Based on a resolution passed by the Company's board of directors in February 2008, the employee bonus payable should be appropriated at 18% of net income less employee bonus expenses.

Also, in June 2006, 2007 and 2008, the stockholders approved the appropriation from the net earnings of 2005, 2006 and 2007, and the employee bonuses were NT\$451,000 thousand, NT\$2,000,000 thousand and NT\$1,210,000 thousand (US\$39,882 thousand), respectively.

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

For the six months ended June 30, 2006, 2007 and 2008, the Company accrued the donation of NT\$300,000 thousand, NT\$120,402 thousand and NT\$179,256 thousand (US\$5,908 thousand) based on its social welfare policy to the HTC Foundation for Social Welfare Charity or HTC Education Foundation to help disadvantaged minorities, teenagers and other people in need.

17. OTHER CURRENT LIABILITIES

Other current liabilities as of June 30, 2006, 2007 and 2008 were as follows:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Cash dividend payable	\$ 4,998,224	\$11,685,470	\$ 19,486,547	\$ 642,272
Reserve for warranty expenses	1,144,979	1,319,395	4,599,917	151,612
Agency receipts	112,568	107,254	169,151	5,575
Other payable to related parties (Note 25)	68,909	74,210	165,042	5,440
Deferred credits - profit from intercompany transactions	60,050	147,817	119,595	3,942
Advance receipts	96,555	69,016	87,595	2,887
Directors' remuneration	21,842	21,842	21,842	720
Other	<u>107,575</u>	<u>174,837</u>	<u>139,346</u>	<u>4,593</u>
	<u>\$ 6,610,702</u>	<u>\$ 13,599,841</u>	<u>\$ 24,789,035</u>	<u>\$ 817,041</u>

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

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

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

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

18. PENSION PLAN

The pension plan under the Labor Pension Act (the "LPA") is a defined contribution plan. Based on the LPA, the Company makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. Such pension costs were NT\$41,987 thousand, NT\$51,830 thousand and NT\$70,695 thousand (US\$2,330 thousand) for the six months ended June 30, 2006, 2007 and 2008, 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. The rate of the Company's contributions to a pension fund is 2%. The pension fund is deposited in the Bank of Taiwan (the Central Trust of China merged with the Bank of Taiwan in July 2007, with the Bank of Taiwan as the survivor entity) and managed by the Pension Fund Administration Committee. The pension fund balances were NT\$291,477 thousand, NT\$327,968 thousand and NT\$366,566 thousand (US\$12,082 thousand) as of June 30, 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 six months ended June 30, 2006, 2007 and 2008 as follows:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Balance, beginning of period	\$ 49,760	\$ 74,020	\$ 95,187	\$ 3,137
Contributions	(3,024)	(3,362)	(2,707)	(89)
Payments	<u>15,489</u>	<u>14,233</u>	<u>13,620</u>	<u>449</u>
Balance, end of period	<u>\$ 62,225</u>	<u>\$ 84,891</u>	<u>\$ 106,100</u>	<u>\$ 3,497</u>

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 May 2006, the stockholders approved the transfer of retained earnings amounting to NT\$714,032 thousand and employee bonuses amounting to NT\$80,000 thousand to capital stock. The amounts to be distributed were accounted for as "stock dividend for distribution" temporarily as of June 30, 2006.

In April 2007, the Company retired 3,624 thousand treasury shares (NT\$36,240 thousand). 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. The amounts to be distributed were accounted for as "stock dividend for distribution" temporarily. As a result, the amount of the Company's outstanding common stock as of June 30, 2007 was NT\$4,327,952 thousand, divided into 432,795 thousand common shares at NT\$10.00 par value.

Also, in June 2008, the stockholders approved the transfer of retained earnings amounting to NT\$1,719,401 thousand and employee bonuses amounting to NT\$103,200 thousand to capital stock. The amounts to be distributed were accounted for as "stock dividend for distribution" temporarily. As a result, the amount of the Company's outstanding common stock as of June 30, 2008 increased to NT\$5,731,337 thousand (US\$188,904 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 the right up to 35% of the granted option units no earlier than two years from the grant date. After three years from the grant date, the holders can exercise their right at up to 70% of the granted option units. After four years from the grant date, the option holders are eligible to exercise their rights on all the options owned. The exercise period is five years. As of June 30, 2008, the Company had issued 3,000 thousand units of the stock options to employees 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, 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 same rights and obligation with the stockholders of the Company. However, the distribution of the offering and sales of GDRs and the shares represented thereby in certain jurisdictions may be restricted by law. The GDRs offered hereby and the shares represented thereby are not transferable except in accordance with the restrictions described in the GDRs offering circular and related laws applied in Taiwan. The holders should through the depositary's custodian in Taiwan exercise these rights as follows:

- a. Voting right, and
- b. Entitlement to receive dividends and participate in new share issuance for cash subscription.

Taking into account the effect of stock dividends, the GDRs increased to 7,833.3 thousand units (31,333.2 thousand shares). The holders of these GDRs requested the Company to redeem the GDRs to get the Company's common shares. As of June 30, 2008, there were 6,063.5 thousand units of GDRs redeemed, representing 24,254 thousand common shares, and the outstanding GDRs represented 7,079 thousand common shares or 1.24% of the Company's common shares.

Capital Surplus

Under the Company Law, capital surplus can only be used to offset a deficit. However, the capital surplus from share issued in excess of par (additional paid-in capital from issuance of common shares, conversion of bonds and treasury stock transactions) and donations may be capitalized, which however is limited to a certain percentage of the Company's paid-in capital. Also, the capital surplus from long-term investments may not be used for any purpose.

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 June 30, 2008 was NT\$4,374,244 thousand (US\$144,174 thousand). Under the Company Law, the Company may transfer the capital surplus to common stock if there is no accumulated deficit.

When the Company did not subscribe for the new shares issued by BandRich Inc., an adjustment of NT\$15,845 thousand was made to the investment's carrying value and capital surplus.

The additional paid-in capital from a merger (Note 1), which took effect on March 1, 2004, was NT\$25,972 thousand. Then, because of treasury stock retirement in April 2007, the additional paid-in capital from a merger decreased to NT\$25,756 thousand (US\$849 thousand).

Appropriation of Retained Earnings and Dividend Policy

Based on the Company Law of the ROC and the Company's Articles of Incorporation, 10% of the Company's annual net income less any deficit should first be appropriated as legal reserve until this reserve equals its capital. From the remainder, there should be appropriations of not more than 3% 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 at least 50% 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.

Had the Company recognized the employees' bonuses of NT\$1,313,200 thousand as expenses in 2007, the pro forma earnings per share in 2007 would have decreased from NT\$50.48 to NT\$48.19, which were not adjusted retroactively for the effect of stock dividend distribution in the following year.

Based on a resolution passed by the Company's board of directors in February 2008, the employee bonus payable should be appropriated at 18% of net income less employee bonus expenses.

Material differences between such estimated amounts and the amounts proposed by the Board of Directors in the following year are retroactively adjusted for in the current year. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate. If bonus shares are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day preceding the stockholders' meeting.

20. TREASURY STOCK

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

21. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Expense Item	Function	2006			2007		
		NT\$			NT\$		
		Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses		641,973	766,955	1,408,928	669,255	1,322,556	1,991,811
Salary		532,180	662,708	1,194,888	551,199	1,177,209	1,728,408
Insurance		33,594	40,082	73,676	36,379	51,067	87,446
Pension cost		15,354	29,657	45,011	17,705	37,487	55,192
Other		60,845	34,508	95,353	63,972	56,793	120,765
Depreciation		176,692	114,996	291,688	163,370	122,146	285,516
Amortization		-	15,703	15,703	14,292	15,475	29,767

Expense Item	Function	2008					
		NT\$			US\$ (Note 3)		
		Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses		1,199,008	4,086,569	5,285,577	39,519	134,692	174,211
Salary		1,061,436	3,871,667	4,933,103	34,985	127,609	162,594
Insurance		44,267	72,023	116,290	1,459	2,374	3,833
Pension cost		20,966	52,436	73,402	691	1,728	2,419
Other		72,339	90,443	162,782	2,384	2,981	5,365
Depreciation		129,680	143,151	272,831	4,274	4,718	8,992
Amortization		-	21,738	21,738	-	716	716

22. INCOME TAX

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, 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
Sales of wireless or smartphone which has 3G or GPS function	2007.12.20~2012.12.19

Income taxes payable as of June 30, 2006, 2007 and 2008 were computed as follows:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Income before income tax	\$ 11,892,292	\$ 13,254,803	\$ 14,950,202	\$ 492,755
Permanent differences				
(Gains) losses on equity-method investments	(7,284)	51,070	294,602	9,710
Other	6,942	14,966	25,372	836
Temporary differences				
Realized pension cost	(12,465)	(10,871)	(10,913)	(360)
Unrealized bad debt expenses	-	-	55,584	1,832
Unrealized loss on decline in value of inventory	406,356	155,142	268,514	8,850
Unrealized royalties	911,156	1,007,449	910,116	29,997
Unrealized foreign exchange (gains) losses, net	(166,494)	145,481	(676,493)	(22,297)
Unrealized valuation (gains) losses on financial instruments	(11,005)	(30,670)	169,184	5,576
Unrealized (realized) warranty expense	180,476	(74,600)	1,129,959	37,243
Unrealized marketing expense	-	360,776	754,813	24,878
Unrealized (realized) profit from intercompany transactions	44,973	(16,194)	(55,480)	(1,828)
Other	(2,133)	4,656	(35,909)	(1,184)
Total income	<u>13,242,814</u>	<u>14,862,008</u>	<u>17,779,551</u>	<u>586,008</u>
Less tax-exempt income	<u>(9,224,622)</u>	<u>(9,425,991)</u>	<u>(15,149,792)</u>	<u>(499,334)</u>
Taxable income	4,018,192	5,436,017	2,629,759	86,674
Tax rate	<u>×25%</u>	<u>×25%</u>	<u>×25%</u>	<u>×25%</u>
Current income tax	1,004,548	1,359,004	657,440	21,669
Income tax credit	<u>(10)</u>	<u>(10)</u>	<u>(10)</u>	<u>-</u>
Estimated income tax provision	1,004,538	1,358,994	657,430	21,669
Unappropriated earnings (additional 10% income tax)	436,049	571,507	352,583	11,621
Less investment research and development tax credits	<u>(727,910)</u>	<u>(232,035)</u>	<u>(352,583)</u>	<u>(11,621)</u>
Income tax payable determined pursuant to the Income Tax Law	<u>\$ 712,677</u>	<u>\$ 1,698,466</u>	<u>\$ 657,430</u>	<u>\$ 21,669</u>
Alternative minimum tax	\$ 712,677	\$ 1,698,466	\$ 1,377,598	\$ 45,405
Less prepaid and withheld income tax	(16,833)	(32,650)	(69,093)	(2,277)
Prior years' income tax payable	<u>67,731</u>	<u>193,642</u>	<u>1,021,620</u>	<u>33,672</u>
Income tax payable	<u>\$ 763,575</u>	<u>\$ 1,859,458</u>	<u>\$ 2,330,125</u>	<u>\$ 76,800</u>

Based on the Alternative Minimum Tax Act, if the amount of income tax payable determined pursuant to the Income Tax Law is less than the amount of alternative minimum tax, the amount of income tax payable should also include the difference of the amount of alternative minimum tax and regular income tax. As a result, current income tax payable as of June 30, 2008 should be NT\$1,377,598 thousand (US\$45,405 thousand).

The tax effects of deductible temporary differences and loss and tax credit carryforwards that gave rise to deferred tax assets as of June 30, 2006, 2007 and 2008 were as follows:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	NT\$	US\$
				(Note 3)
Temporary differences				
Unrealized foreign exchange loss, net	\$ -	\$ 17,233	\$ -	\$ -
Provision for loss on decline in value of inventory	248,271	261,701	296,200	9,763
Unrealized royalties	687,345	1,193,960	1,237,377	40,784
Capitalize expense	34,532	35,302	40,266	1,327
Unrealized reserve for warranty expense	286,245	329,849	1,149,979	37,903
Unrealized marketing expense	-	335,966	924,510	30,472
Unrealized valuation loss on financial instruments	-	-	42,296	1,394
Other	1,075	21,519	52,073	1,716
Tax credit carryforwards	<u>-</u>	<u>-</u>	<u>942,991</u>	<u>31,081</u>
Total deferred tax assets	1,257,468	2,195,530	4,685,692	154,440
Less valuation allowance	<u>(745,875)</u>	<u>(1,434,611)</u>	<u>(3,542,302)</u>	<u>(116,754)</u>
Total deferred tax asset, net	511,593	760,919	1,143,390	37,686
Deferred tax liability				
Unrealized pension cost	(14,998)	(21,223)	(26,525)	(875)
Unrealized valuation gain on financial instruments	(2,751)	(7,667)	-	-
Unrealized foreign exchange gain, net	<u>(32,674)</u>	<u>-</u>	<u>(187,769)</u>	<u>(6,189)</u>
	461,170	732,029	929,096	30,622
Less current portion	<u>(268,630)</u>	<u>(458,213)</u>	<u>(404,508)</u>	<u>(13,332)</u>
Deferred tax assets, noncurrent	<u>\$ 192,540</u>	<u>\$ 273,816</u>	<u>\$ 524,588</u>	<u>\$ 17,290</u>

Details of the tax credit carryforwards are as follows:

Year of Occurrence	Validity Period	<u>2006</u>	<u>2007</u>	<u>2008</u>	
		NT\$	NT\$	NT\$	US\$
					(Note 3)
2007	2007-2011	\$ -	\$ -	\$ 201,506	\$ 6,642
2008	2008-2012	<u>-</u>	<u>-</u>	<u>741,485</u>	<u>24,439</u>
		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 942,991</u>	<u>\$ 31,081</u>

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

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

The income tax expenses for the six months ended June 30, 2006, 2007 and 2008 were as follows:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Current income tax expense	\$ 712,677	\$ 1,698,466	\$ 1,377,598	\$ 45,405
Decrease (increase) in deferred income tax assets	17,690	(84,722)	13,014	429
Under estimation of prior years' income tax	<u>31,704</u>	<u>125,911</u>	<u>-</u>	<u>-</u>
Income tax expense	<u>\$ 762,071</u>	<u>\$ 1,739,655</u>	<u>\$ 1,390,612</u>	<u>\$ 45,834</u>

The integrated income tax information is as follows:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Balance of imputation credit account	\$ 342,267	\$ 830,009	\$ 1,240,483	\$ 40,886
Unappropriated earnings from 1998	17,873,984	23,980,153	29,550,423	973,975
Expected creditable ratio (including income tax payable)	6.19%	11.12%	12.08%	12.08%

23. EARNINGS PER SHARE

Earnings per share ("EPS") before tax and after tax are calculated by dividing net income by the weighted average number of common shares outstanding which includes the deduction of the effect of treasury stock during each year. The weighted average number of shares used in EPS calculation was 761,738 thousand shares, 755,831 thousand shares and 755,394 thousand shares for the six months ended June 30, 2006, 2007 and 2008, respectively. EPS for the six months ended June 30, 2006 and 2007 were calculated after the average number of shares outstanding was adjusted retroactively for the effect of stock dividend distribution in 2008.

The Company presumes that the bonus to employees will be settled in shares and the resulting potential shares will be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the amount of bonus by the closing price of the shares of the balance sheet date. The dilutive effect of the shares needs to be considered until the stockholders resolve the number of shares to be distributed to employees in their meeting in the following year. The related information is as follows:

	2006				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax	Income after Income Tax	Shares (Thousands)	Income before Income Tax	Income after Income Tax
	NT\$	NT\$		NT\$	NT\$
Basic EPS	\$ 11,892,292	\$ 11,130,221	761,738	\$ 15.61	\$ 14.61
Employee stock options	-	-	6,771		
Diluted EPS	\$ 11,892,292	\$ 11,130,221	768,509	\$ 15.47	\$ 14.48

	2007				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax	Income after Income Tax	Shares (Thousands)	Income before Income Tax	Income after Income Tax
	NT\$	NT\$		NT\$	NT\$
Basic EPS	\$ 13,254,803	\$ 11,515,148	755,831	\$ 17.54	\$ 15.24
Employee stock options	-	-	-		
Diluted EPS	\$ 13,254,803	\$ 11,515,148	755,831	\$ 17.54	\$ 15.24

	2008				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax	Income after Income Tax	Shares (Thousands)	Income before Income Tax	Income after Income Tax
	NT\$	NT\$		NT\$	NT\$
Basic EPS	\$ 14,950,202	\$ 13,559,590	755,394	\$ 19.79	\$ 17.95
Bonus to employees			5,897		
Diluted EPS	\$ 14,950,202	\$ 13,559,590	761,291	\$ 19.64	\$ 17.81

	2008				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax	Income after Income Tax	Shares (Thousands)	Income before Income Tax	Income after Income Tax
	US\$ (Note 3)	US\$ (Note 3)		US\$ (Note 3)	US\$ (Note 3)
Basic EPS	\$ 492,755	\$ 446,921	755,394	\$ 0.65	\$ 0.59
Bonus to employees			5,897		
Diluted EPS	\$ 492,755	\$ 446,921	761,291	\$ 0.65	\$ 0.59

24. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

Nonderivative Financial Instruments

	June 30								
	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	\$ 1,201	\$ 1,201	\$ 1,485	\$ 1,485	\$ 912	\$ 30	\$ 912	\$ 30	
Financial assets carried at cost	1,192	1,192	501,192	501,192	501,192	16,519	501,192	16,519	
Bond investments not quoted in an active market	-	-	33,030	33,030	-	-	-	-	
Investments accounted for by the equity method	564,380	564,380	1,665,223	1,665,223	2,068,877	68,190	2,068,877	68,190	

Derivative Financial Instruments

	June 30								
	2005		2006		2007				
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount		Fair Value		
	NT\$	NT\$	NT\$	NT\$	NT\$	US\$	NT\$	US\$ (Note 3)	
Assets									
Financial assets at fair value through profit or loss	\$ 11,005	\$ 11,005	\$ 30,670	\$ 30,670	\$ -	\$ -	\$ -	\$ -	
Liabilities									
Financial liabilities at fair value through profit or loss	-	-	-	-	169,184	5,576	169,184	5,576	

Methods and Assumptions Used in Determining Fair Values of Financial Instruments

Not subject to SFAS No. 34 are cash, 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 refundable deposits nor guarantee deposits. The fair values of 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			
	June 30				June 30			
	2006	2007	2008	US\$	2006	2007	2008	US\$
	NT\$	NT\$	NT\$	(Note 3)	NT\$	NT\$	NT\$	(Note 3)
Assets								
Financial assets at fair value through profit or loss	\$ 11,005	\$ 30,670	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Available-for-sale financial assets - noncurrent	1,201	1,485	912	30	-	-	-	-
Financial assets carried at cost	-	-	-	-	1,192	501,192	501,192	16,519
Bond investments not quoted in an active market	-	-	-	-	-	33,030	-	-
Investments accounted for by the equity method	-	-	-	-	564,380	1,665,223	2,068,877	68,190
Liabilities								
Financial liabilities at fair value through profit or loss	-	-	169,184	5,576	-	-	-	-

There was no loss or gain recognized for the six months ended June 30, 2006, 2007, and 2008 on the fair value changes of derivatives estimated using valuation techniques. The Company recognized unrealized gains (losses) of NT\$317 thousand, NT\$(248) thousand and NT\$128 thousand (US\$4 thousand) in stockholders' equity for the changes in fair value of available-for-sale financial assets for the six months ended June 30, 2006, 2007 and 2008, respectively.

As of June 30, 2006, 2007 and 2008, financial assets exposed to cash flow interest rate risk amounted to NT\$23,780,400 thousand, NT\$39,358,400 thousand and NT\$70,373,613 (US\$2,319,500 thousand), respectively.

Financial Risks

Market Risk

The Company uses derivative contracts for hedging purposes, i.e., to reduce any adverse effect of exchange rate fluctuations of accounts receivable/payable. The gains or losses on these contracts almost offset the gains or losses on the hedged items. Thus, market risk is not material.

Credit Risk

The Company deals only with banks with good credit standing based on the banks' reputation and takes into account past experience with them. Moreover, the Company has a series of control procedures for derivative transactions. Management believes its exposure to counter-parties' default on contracts is low.

Cash Flow Risk

The Company has sufficient working capital to settle derivative contracts. However, there are no future cash requirements for contract settlement.

25. RELATED-PARTY TRANSACTIONS

The 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
High Tech Computer Asia Pacific Pte. Ltd.	Subsidiary
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.
High Tech Computer Singapore Pte. Ltd.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC (H.K.) Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC (Australia and New Zealand) Pty. Ltd.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC India Private Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.

Major transactions with related parties are summarized below:

Purchases of Inventories and Services

Related Party	Six Months Ended June 30						
	2006		2007		2008		% to Total Net Purchases
	Amount	% of Total Net Purchases	Amount	% of Total Net Purchases	Amount	US\$ (Note 3)	
	NT\$		NT\$	NT\$	US\$		
High Tech Computer Corp. (Suzhou)	\$ 4,746	-	\$ 21,508	-	\$ 35,999	\$ 1,187	-
BandRich Inc.	-	-	610	-	-	-	-
Chander Electronics Corp.	72,175	-	-	-	-	-	-
	<u>\$ 76,921</u>	<u>-</u>	<u>\$ 22,118</u>	<u>-</u>	<u>\$ 35,999</u>	<u>\$ 1,187</u>	<u>-</u>

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

Sales and Services Provided

Related Party	Six Months Ended June 30						
	2006		2007		2008		
	Amount	% to Total	Amount	% to Total	Amount		% to Total
	NT\$	Revenues	NT\$	Revenues	NT\$	US\$	Revenues
					(Note 3)		
HTC America Inc.	\$ 264,924	1	\$ 395,955	1	\$ 616,618	\$ 20,324	1
BandRich Inc.	-	-	15,758	-	259,438	8,551	-
Xander International Corp.	-	-	-	-	93,383	3,078	-
HTC Europe Co., Ltd.	128,757	-	301,688	1	78,256	2,579	-
High Tech Computer Singapore Pte. Ltd.	-	-	-	-	31,070	1,024	-
HTC (H.K.) Limited	-	-	-	-	30,009	989	-
First International Computer, Inc. (FIC)	-	-	58,523	-	24,221	798	-
Exedeia Inc.	1,016,049	2	191,897	-	-	-	-
Comserve Network Netherlands B.V.	-	-	37,587	-	-	-	-
HTC Nippon Corporation	-	-	4,313	-	18	1	-
Others	785	-	104	-	36,736	1,211	-
	<u>\$1,410,515</u>	<u>3</u>	<u>\$1,005,825</u>	<u>2</u>	<u>\$1,169,749</u>	<u>\$ 38,555</u>	<u>1</u>

The selling prices and collection terms for products sold to related parties were similar to those sold to third parties, except those for HTC America Inc., HTC Europe Co., Ltd. and Exedeia Inc.

Notes and Accounts Receivable

Related Party	June 30						
	2006		2007		2008		
	Amount	% to Total	Amount	% to Total	Amount		% to Total
	NT\$	Notes and Accounts Receivable	NT\$	Notes and Accounts Receivable	NT\$	US\$	Notes and Accounts Receivable
					(Note 3)		
Accounts receivable							
HTC America Inc.	\$ 239,441	2	\$ 229,682	1	\$ 439,617	\$ 14,490	2
BandRich Inc.	-	-	6,265	-	106,831	3,521	1
HTC Europe Co., Ltd.	121,553	1	192,736	1	79,689	2,627	-
HTC (H.K.) Limited	-	-	-	-	31,201	1,028	-
High Tech Computer Singapore Pte. Ltd.	-	-	-	-	30,947	1,020	-
First International Computer, Inc. (FIC)	-	-	59,717	-	-	-	-
Exedeia Inc.	706,304	4	12,177	-	-	-	-
Comserve Network Netherlands B.V.	-	-	4,896	-	-	-	-
HTC Nippon Corporation	-	-	4,686	-	1,472	48	-
Other	1,308	-	4	-	2,262	75	-
	<u>\$1,068,606</u>	<u>7</u>	<u>\$ 510,163</u>	<u>2</u>	<u>\$ 692,019</u>	<u>\$ 22,809</u>	<u>3</u>

Notes and Accounts Payable

Related Party	June 30						
	2006		2007		2008		
	Amount	% to Total	Amount	% to Total	Amount		% to Total
	NT\$	Notes and Accounts Payable	NT\$	Notes and Accounts Payable	NT\$	US\$	Notes and Accounts Payable
					(Note 3)		
High Tech Computer Corp. (Suzhou)	\$ 14,265	-	\$ 58,351	-	\$ 25,446	\$ 839	-
Chander Electronics Corp.	224	-	-	-	-	-	-
Others	494	-	494	-	644	21	-
	<u>\$ 14,983</u>	<u>-</u>	<u>\$ 58,845</u>	<u>-</u>	<u>\$ 26,090</u>	<u>\$ 860</u>	<u>-</u>

Other Receivable

Related Party	June 30						
	2006		2007		2008		
	Amount	% to Total Other Receivable	Amount	% to Total Other Receivable	Amount		% to Total Other Receivable
					NT\$	US\$	
						(Note 3)	
HTC Belgium BVBA/SPRL	\$ -	-	\$ -	-	\$ 44,661	\$ 1,472	38
High Tech Computer Corp. (Suzhou)	16,313	17	40,894	48	20,644	680	17
HTC Nippon Corporation	-	-	19,113	23	15,942	525	14
HTC Europe Co., Ltd.	35,453	38	1,310	2	3,569	118	3
HTC America Inc.	18,509	20	792	1	485	16	-
Others	-	-	69	-	1,637	54	1
	<u>\$ 70,275</u>	<u>75</u>	<u>\$ 62,178</u>	<u>74</u>	<u>\$ 86,938</u>	<u>\$ 2,865</u>	<u>73</u>

Prepaid Expenses

Related Party	June 30						
	2006		2007		2008		
	Amount	% to Total Prepayment	Amount	% to Total Prepayment	Amount		% to Total Prepayment
					NT\$	US\$	
						(Note 3)	
HTC Europe Co., Ltd.	\$ 17,610	2	\$ 24,066	2	\$ 23,318	\$ 769	2
Communication Global Certification Inc.	-	-	-	-	21,128	696	2
High Tech Computer Singapore Pte. Ltd.	-	-	-	-	8,209	270	1
HTC Nippon Corporation	-	-	15,789	1	8,182	270	1
HTC America Inc.	19,857	2	19,857	1	-	-	-
HTC (Australia and New Zealand) Pty. Ltd.	-	-	-	-	2,967	98	-
	<u>\$ 37,467</u>	<u>4</u>	<u>\$ 59,712</u>	<u>4</u>	<u>\$ 63,804</u>	<u>\$ 2,103</u>	<u>6</u>

Accrued Expenses

Related Party	June 30						
	2006		2007		2008		
	Amount	% to Total Accrued Expenses	Amount	% to Total Accrued Expenses	Amount		% to Total Accrued Expenses
					NT\$	US\$	
						(Note 3)	
HTC Europe Co., Ltd.	\$ -	-	\$ 17,736	1	\$ 244,066	\$ 8,044	2
HTC America Inc.	-	-	60,640	1	185,475	6,113	2
HTC Nippon Corporation	-	-	-	-	66,611	2,195	1
High Tech Computer Singapore Pte. Ltd.	-	-	-	-	65,205	2149	1
HTC Belgium BVBA/SPRL	-	-	-	-	41,643	1,373	-
HTC BRASIL	-	-	-	-	26,054	859	-
HTC (Australia and New Zealand) Pty. Ltd.	-	-	-	-	27,130	894	-
HTC (H.K.) Limited	-	-	-	-	26,877	886	-
HTC India Private Limited	-	-	-	-	19,984	659	-
	<u>\$ -</u>	<u>-</u>	<u>\$ 78,376</u>	<u>2</u>	<u>\$ 703,045</u>	<u>\$ 23,172</u>	<u>6</u>

Other Payables to Related Parties

Related Party	June 30						
	2006		2007		2008		
	Amount	% to Total Other Payables	Amount	% to Total Other Payables	Amount		% to Total Other Payables
					NT\$	US\$ (Note 3)	
HTC Europe Co., Ltd.	\$ 24,974	36	\$ 23,246	31	\$ 112,422	\$ 3,705	68
HTC America Inc.	28,348	41	26,949	36	20,411	673	12
HTC Belgium BVBA/SPRL	-	-	-	-	16,505	544	10
HTC Nippon Corporation	-	-	14,790	20	14,652	483	9
Exedea Inc.	15,567	23	-	-	-	-	-
Communication Global Certification Inc.	-	-	8,516	12	-	-	-
Others	20	-	709	1	1,052	35	1
	<u>\$ 68,909</u>	<u>100</u>	<u>\$ 74,210</u>	<u>100</u>	<u>\$ 165,042</u>	<u>\$ 5,440</u>	<u>100</u>

Outsourcing Expenses

Related Party	Six Months Ended June 30						
	2006		2007		2008		
	Amount	% to Total Out- Sourcing Expenses	Amount	% to Total Out- Sourcing Expenses	Amount		% to Total Out- Sourcing Expenses
					NT\$	US\$ (Note 3)	
High Tech Computer Corp. (Suzhou)	\$ 39,388	10	\$ 107,087	50	\$ 169,156	\$ 5,575	92

Service Warranty Expense

Related Party	Six Months Ended June 30						
	2006		2007		2008		
	Amount	% to Warranty Expenses	Amount	% to Warranty Expenses	Amount		% to Warranty Expenses
					NT\$	US\$ (Note 3)	
HTC America Inc.	\$ 108,069	11	\$ 438,270	32	\$ 398,600	\$ 13,138	16
HTC Europe Co., Ltd.	153,171	16	152,024	11	169,293	5,580	7
High Tech Computer Corp. (WGQ)	-	-	-	-	25,454	839	1
Comserve Network Netherlands B.V.	-	-	188,740	14	13,192	435	-
HTC (H.K.) Limited	-	-	-	-	521	17	-
	<u>\$ 261,240</u>	<u>27</u>	<u>\$ 779,034</u>	<u>57</u>	<u>\$ 607,060</u>	<u>\$ 20,009</u>	<u>24</u>

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

Service Fees

Related Party	Six Months Ended June 30						
	2006		2007		2008		
	Amount	% to Total Professional Fees	Amount	% to Total Professional Fees	Amount		% to Total Professional Fees
					NT\$	US\$	
						(Note 3)	
HTC America Inc.	\$ 118,610	28	\$ 539,525	32	\$ 855,312	\$ 28,191	31
HTC EUROPE Co., Ltd.	89,930	21	332,318	20	621,314	20,478	23
HTC Belgium BVBA/SPRL	-	-	-	-	234,098	7,716	9
HTC Nippon Corporation	-	-	127,108	8	174,315	5,745	6
HTC BRASIL	-	-	-	-	130,063	4,287	5
High Tech Computer Singapore Pte. Ltd.	-	-	-	-	97,854	3,225	4
HTC India Private Limited	-	-	-	-	59,346	1,956	2
Communication Global Certification Inc.	-	-	42,118	3	51,669	1,703	2
HTC (Australia and New Zealand) Pty. Ltd.	-	-	-	-	57,512	1,896	2
HTC (H.K.) Limited	-	-	-	-	46,210	1,523	2
VIA Technologies, Inc.	1,200	-	1,200	-	1,000	33	-
HTEK	21,685	5	-	-	-	-	-
Exedea Inc.	15,567	4	-	-	-	-	-
	<u>\$ 246,992</u>	<u>58</u>	<u>\$1,042,269</u>	<u>63</u>	<u>\$2,328,693</u>	<u>\$ 76,753</u>	<u>86</u>

Property Transaction

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

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

26 COMMITMENTS AND CONTINGENCIES

As of June 30, 2008, unused letters of credit amounted to US\$500 thousand.

27. 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.

28. OTHER EVENT

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.

In January and February 2008, the board of directors of the Company resolved to invest in Wei-Hon Electronics (Shanghai) Ltd. through increasing the capital of High Tech Computer Asia Pacific Pte. Ltd. by US\$48,000 thousand which will subsequently then be used to increase the capital held in Wei-Hon Electronics (Shanghai) Ltd. for factory construction and purchasing equipment.

In February 2008, the board of directors of the Company resolved to buy land for building the Taipei R&D headquarter in Taipei County in Xindian City for NT\$3.35 billion (US\$110,415 thousand).