

HTC Corporation
(Formerly High Tech Computer Corporation)
and Subsidiaries

**Consolidated Financial Statements for the
Nine Months Ended September 30, 2008 and
Independent Accountants' Review Report
(With Comparative Data for the Nine Months Ended
September 30, 2007)**

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
HTC Corporation

We have reviewed the accompanying consolidated balance sheets of HTC Corporation (formerly High Tech Computer Corporation) and subsidiaries (collectively, the "Company") as of September 30, 2008, and the related consolidated statements of income and cash flows for the nine months then ended, all expressed in New Taiwan dollars. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our reviews. The financial statements of the Company for the nine months ended September 30, 2007 were unreviewed and are presented herewith for comparative purposes only.

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

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

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

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

October 15, 2008

Notice to Readers

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

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

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2008 (With Comparative Data as of September 30, 2007) (In Thousands, Except Par Value) (Reviewed, Not Audited)

ASSETS	2007	2008		LIABILITIES AND STOCKHOLDERS' EQUITY	2007	2008	
	NT\$	NT\$	US\$ (Note 3)		NT\$	NT\$	US\$ (Note 3)
CURRENT ASSETS				CURRENT LIABILITIES			
Cash (Note 5)	\$ 42,000,315	\$ 66,328,808	\$ 2,061,822	Financial liabilities at fair value through profit or loss (Notes 2, 6 and 24)	\$ 204,449	\$ -	\$ -
Financial assets measured at fair value through profit or loss current (Notes 2, 6 and 24)	-	97,351	3,026	Short-term borrowings (Note 16)	-	139,763	4,344
Bond investments not quoted in an active market (Notes 2 and 13)	33,030	-	-	Notes and accounts payable (Note 25)	19,630,069	27,134,442	843,471
Notes receivable, net (Notes 2 and 8)	10,415	52,019	1,617	Income tax payable (Notes 2 and 22)	2,401,081	3,052,067	94,873
Accounts receivable, net (Notes 2, 8 and 25)	19,527,788	21,161,042	657,788	Accrued expenses (Notes 4 and 17)	6,463,698	14,337,796	445,688
Other current financial assets (Notes 9 and 25)	105,138	345,839	10,750	Payable for purchase of equipment	134,830	155,510	4,834
Inventories (Notes 2, 4 and 10)	7,715,025	8,468,227	263,234	Long-term liabilities - current portion (Note 19)	12,500	36,875	1,146
Prepayments (Note 11)	1,845,313	1,181,115	36,715	Other current liabilities (Notes 2, 18 and 25)	2,212,603	5,297,310	164,666
Deferred tax assets (Notes 2 and 22)	433,914	518,252	16,110				
Other current assets	230,258	230,030	7,150	Total current liabilities	31,059,230	50,153,763	1,559,022
Total current assets	71,901,196	98,382,683	3,058,212				
LONG-TERM INVESTMENTS				LONG-TERM LIABILITIES			
Available-for-sale financial assets - noncurrent (Notes 2 and 7)	1,004	581	18	Long-term bank loans, net of current portion (Note 19)	86,875	45,938	1,428
Financial assets carried at cost (Notes 2 and 12)	501,192	501,192	15,579				
Investments accounted for by the equity method (Notes 2 and 14)	-	41,624	1,294	OTHER LIABILITIES			
Total long-term investments	502,196	543,397	16,891	Guarantee deposits received	628	6,276	195
				Total liabilities	31,146,733	50,205,977	1,560,645
PROPERTIES (Notes 2 and 15)				EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF PARENT (Note 20)			
Cost				Capital stock - NT\$10.00 par value; authorized: 1,000,000 thousand shares; issued and outstanding: 573,134 thousand shares in 2007 and 755,394 thousand shares in 2008	5,731,337	7,553,938	234,813
Land	610,293	822,027	25,553	Common stock			
Buildings and structures	2,193,394	2,768,833	86,069	Capital surplus			
Machinery and equipment	3,681,898	4,287,195	133,267	Additional paid-in capital - common stock	4,374,244	4,374,244	135,973
Molding equipment	179,915	188,280	5,853	Long-term equity investments	15,845	17,534	545
Computer equipment	264,685	333,954	10,381	From merger	25,756	25,756	801
Transportation equipment	3,202	3,185	99	Retained earnings			
Furniture and fixtures	165,452	245,297	7,625	Legal reserve	4,516,253	7,410,139	230,343
Leased assets	4,712	5,440	169	Special reserve	-	-	-
Leasehold improvements	85,178	178,694	5,554	Accumulated earnings	31,411,931	36,535,875	1,135,713
Less accumulated depreciation	(3,403,212)	(4,112,557)	(127,838)	Cumulative translation adjustments (Note 2)	25,705	80,248	2,494
Prepayments for construction-in-progress and equipment-in-transit	249,786	808,728	25,139	Unrealized losses on financial instruments (Notes 2 and 7)	(967)	(1,390)	(43)
Properties, net	4,035,303	5,529,076	171,871	Total equity attributable to stockholders of the parent	46,100,104	55,996,344	1,740,639
INTANGIBLE ASSETS				MINORITY INTEREST IN SUBSIDIARIES	108,896	66,983	2,082
Goodwill (Note 2)	174,253	174,253	5,416	Total stockholders' equity	46,209,000	56,063,327	1,742,721
Deferred pension cost	891	953	30				
Total intangible assets	175,144	175,206	5,446				
OTHER ASSETS							
Assets leased to others	-	358,044	11,130				
Refundable deposits	70,218	170,667	5,305				
Deferred charges (Note 2)	268,791	259,010	8,051				
Deferred tax assets (Notes 2 and 22)	270,257	698,634	21,717				
Restricted assets (Notes 2 and 26)	43,509	41,659	1,295				
Others (Note 2)	89,119	110,928	3,448				
Total other assets	741,894	1,638,942	50,946				
TOTAL	\$ 77,355,733	\$ 106,269,304	\$ 3,303,366	TOTAL	\$ 77,355,733	\$ 106,269,304	\$ 3,303,366

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

(With Deloitte & Touche review report dated October 15, 2008)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

NINE MONTHS ENDED SEPTEMBER 30, 2008

(With Comparative Data for the Nine Months Ended September 30, 2007)

(In Thousands, Except Earnings Per Share)

(Reviewed, Not Audited)

	2007	2008	
	NT\$	NT\$	US\$ (Note 3)
REVENUES (Notes 2 and 25)	\$ 79,468,782	\$105,279,115	\$ 3,272,587
COST OF REVENUES (Notes 4 and 25)	<u>53,025,197</u>	<u>68,471,325</u>	<u>2,128,422</u>
GROSS PROFIT	26,443,585	36,807,790	1,144,165
OPERATING EXPENSES (Note 25)			
Selling and marketing	2,893,741	6,659,069	206,996
General and administrative	872,917	1,913,262	59,473
Research and development	<u>2,537,136</u>	<u>6,766,122</u>	<u>210,324</u>
Total operating expenses	<u>6,303,794</u>	<u>15,338,453</u>	<u>476,793</u>
OPERATING INCOME	<u>20,139,791</u>	<u>21,469,337</u>	<u>667,372</u>
NONOPERATING INCOME AND GAINS			
Interest income	549,193	1,081,560	33,620
Gain on sale of properties	74	63	2
Foreign exchange gain (Note 2)	740,796	-	-
Rent income	-	2,519	78
Valuation gain on financial instruments, net (Notes 2 and 6)	-	97,351	3,026
Other	<u>105,949</u>	<u>179,828</u>	<u>5,590</u>
Total nonoperating income and gains	<u>1,396,012</u>	<u>1,361,321</u>	<u>42,316</u>
NONOPERATING EXPENSES AND LOSSES			
Interest expense	910	8,160	254
Losses on equity-method investments (Notes 2 and 14)	-	3,777	117
Loss on disposal of properties	672	1,333	41
Loss on physical inventories	5,272	1,119	35
Foreign exchange loss (Note 2)	-	15,389	478
Valuation loss on financial instruments, net (Notes 2 and 6)	204,449	-	-
Other	<u>42,260</u>	<u>37,146</u>	<u>1,155</u>
Total nonoperating expenses and losses	<u>253,563</u>	<u>66,924</u>	<u>2,080</u>
INCOME BEFORE INCOME TAX	21,282,240	22,763,734	707,608
INCOME TAX EXPENSE (Notes 2 and 22)	<u>(2,359,043)</u>	<u>(2,263,228)</u>	<u>(70,352)</u>
NET INCOME	<u>\$ 18,923,197</u>	<u>\$ 20,500,506</u>	<u>\$ 637,256</u>

(Continued)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

NINE MONTHS ENDED SEPTEMBER 30, 2008

(With Comparative Data for the Nine Months Ended September 30, 2007)

(In Thousands, Except Earnings Per Share)

(Reviewed, Not Audited)

	2007	2008	
	NT\$	NT\$	US\$ (Note 3)
ATTRIBUTABLE TO			
Stockholders of the parent	\$ 18,946,926	\$ 20,545,042	\$ 638,640
Minority interest	<u>(23,729)</u>	<u>(44,536)</u>	<u>(1,384)</u>
	<u>\$ 18,923,197</u>	<u>\$ 20,500,506</u>	<u>\$ 637,256</u>

	2007		2008			
	Before Income Tax	After Income Tax	Before Income Tax		After Income Tax	
	NT\$	NT\$	NT\$	US\$	NT\$	US\$
				(Note 3)		(Note 3)
BASIC EARNINGS PER SHARE (Note 23)	<u>\$ 28.16</u>	<u>\$ 25.07</u>	<u>\$ 29.99</u>	<u>\$ 0.93</u>	<u>\$ 27.20</u>	<u>\$ 0.85</u>
DILUTED EARNINGS PER SHARE (Note 23)	<u>\$ 28.16</u>	<u>\$ 25.07</u>	<u>\$ 29.49</u>	<u>\$ 0.92</u>	<u>\$ 26.75</u>	<u>\$ 0.83</u>

(Concluded)

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

(With Deloitte & Touche review report dated October 15, 2008)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

NINE MONTHS ENDED SEPTEMBER 30, 2008

(With Comparative Data for the Nine Months Ended September 30, 2007)

(In Thousands)

(Reviewed, Not Audited)

	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	US\$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$18,923,197	\$20,500,506	\$ 637,256
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation (including depreciation of assets leased to others)	507,626	542,245	16,856
Transfer of properties to expenses	-	14,341	446
Provision for exchanges loss on bond investments not quoted in an active market	-	2,670	83
Amortization	27,182	46,571	1,447
Loss on disposal of properties - net	598	1,270	39
Losses on equity-method investments	-	3,777	117
Deferred income tax assets	(50,490)	(253,720)	(7,887)
Prepaid pension costs	(16,002)	(16,668)	(518)
Net changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	127,979	(193,078)	(6,002)
Notes receivable	48,515	(48,487)	(1,507)
Accounts receivable	(343,525)	(1,690,857)	(52,560)
Other current financial assets	155,090	(169,511)	(5,269)
Inventories	(1,751,512)	(1,231,525)	(38,282)
Prepayments	26,564	387,867	12,057
Other current assets	(114,140)	(50,763)	(1,578)
Notes and accounts payable	2,346,624	3,932,822	122,251
Income tax payable	642,364	493,364	15,336
Accrued expenses	1,973,728	8,001,387	248,722
Other current liabilities	<u>523,133</u>	<u>1,327,975</u>	<u>41,280</u>
Net cash provided by operating activities	<u>23,026,931</u>	<u>31,600,186</u>	<u>982,287</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of properties	(1,111,255)	(2,213,716)	(68,814)
Proceeds of the sale of properties and deferred charges	8,549	856	27
Acquisition of investments accounted for by equity-method	-	(10,626)	(330)
Increase in financial assets carried at cost	(500,000)	-	-
Increase in bond investments not quoted in an active market	(33,030)	-	-
Acquisition of a subsidiary	(240,039)	-	-
Increase in deferred charges	(160,242)	(158,535)	(4,928)
Increase in restricted assets	(43,509)	(7,159)	(222)
Increase in refundable deposits	<u>(24,402)</u>	<u>(38,048)</u>	<u>(1,183)</u>
Net cash used in investing activities	<u>(2,103,928)</u>	<u>(2,427,228)</u>	<u>(75,450)</u>

(Continued)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

NINE MONTHS ENDED SEPTEMBER 30, 2008

(With Comparative Data for the Nine Months Ended September 30, 2007)

(In Thousands)

(Reviewed, Not Audited)

	2007	2008	
	NT\$	NT\$	US\$ (Note 3)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in short-term borrowings	\$ -	\$ 139,763	4,345
Decrease in long-term bank loans	(13,106)	(13,437)	(418)
Cash dividends	(11,685,470)	(19,486,547)	(605,737)
Bonuses to employees	(451,000)	-	-
(Decrease) increase in guarantee deposits received	(12)	5,643	176
Purchase of treasury stock	<u>(1,747,760)</u>	<u>-</u>	<u>-</u>
Net cash used in financing activities	<u>(13,897,348)</u>	<u>(19,354,578)</u>	<u>(601,634)</u>
EFFECT OF EXCHANGE RATE CHANGES			
	<u>4,842</u>	<u>20,243</u>	<u>629</u>
NET INCREASE IN CASH	7,030,497	9,838,623	305,832
CASH, BEGINNING OF PERIOD	<u>34,969,818</u>	<u>56,490,185</u>	<u>1,755,990</u>
CASH, END OF PERIOD	<u>\$42,000,315</u>	<u>\$66,328,808</u>	<u>\$2,061,822</u>
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid during the period			
Interest	<u>\$ 910</u>	<u>\$ 8,085</u>	<u>\$ 251</u>
Income tax	<u>\$ 1,767,169</u>	<u>\$ 2,023,584</u>	<u>\$ 62,903</u>
NONCASH INVESTING AND FINANCING ACTIVITIES			
Transfer of bond investment not quoted in an active market to investments accounted for by the equity method	<u>\$ -</u>	<u>\$ 33,030</u>	<u>1,027</u>
Transfer of properties to assets leased to others	<u>\$ -</u>	<u>\$ 358,044</u>	<u>11,130</u>
PURCHASE OF PROPERTIES			
Cost of properties purchased	\$ 1,196,376	\$ 2,189,249	\$ 68,053
(Increase) decrease in payables for purchase of equipment	(85,772)	23,770	739
Decrease in lease payable	<u>651</u>	<u>697</u>	<u>22</u>
Cash paid for purchase of properties	<u>\$ 1,111,255</u>	<u>\$ 2,213,716</u>	<u>\$ 68,814</u>
BONUSES TO EMPLOYEES			
Appropriation of bonuses to employees	\$ 2,000,000	\$ 1,210,000	\$ 37,613
Decrease in payable of bonuses to employees	<u>(1,549,000)</u>	<u>(1,210,000)</u>	<u>(37,613)</u>
Cash paid	<u>\$ 451,000</u>	<u>\$ -</u>	<u>-</u>

(Concluded)

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

(With Deloitte & Touche review report dated October 15, 2008)

HTC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2008

(With Comparative Data for the Nine months Ended September 30, 2007)

(In Thousands, Unless Stated Otherwise)

(Reviewed, Not Audited)

1. ORGANIZATION AND OPERATIONS

HTC Corporation (“HTC,” 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, HTC had an initial public offering and, in March 2002, had its stock listed on the Taiwan Stock Exchange. On November 19, 2003, HTC started trading Global Depository Receipts on the Luxembourg Stock Exchange.

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

HTC and its consolidated subsidiaries, hereinafter referred to as the “Company,” had 7,104 and 8,765 employees as of September 30, 2007 and 2008, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and the order VI-0960064020 issued by Financial Supervisory Commission under the Executive Yuan as of November 15, 2007, and accounting principles generally accepted in the Republic of China (“ROC”). In preparing consolidated financial statements in conformity with these guidelines and principles, the Company is required to make certain estimates and assumptions that could affect the amounts of allowance for doubtful accounts, allowance for inventory devaluation, property depreciation, royalty, accrued pension cost, and warranty liability. Actual results could differ from these estimates.

For the convenience of readers, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language consolidated financial statements shall prevail. However, the accompanying consolidated financial statements do not include the English translation of the additional footnote disclosures that are not required under ROC generally accepted accounting principles but are required by the Securities and Futures Bureau for their oversight purposes.

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

Principles of Consolidation

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

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

The consolidated entities as of September 30, 2007 and 2008 were as follows:

Investor	Investee	Main Businesses	% of Ownership		Remark	
			2007	2008		
HTC Corporation	H.T.C. (B.V.I.) Corp.	Global investing activities	100	100	Incorporated in August 2000	
	Band Rich Inc.	Design, manufacture and sale of electronic devices	51	51	Incorporated in April 2006	
	HTC HK, Limited	Global investing activities	100	100	Incorporated in August 2006	
	Communication Global Certification Inc.	Testing and certification services	100	100	Invested in January 2007	
	HTC Asia Pacific Pte. Ltd.	Global investing activities	100	100	Incorporated in July 2007	
	HTC Investment Corporation	General investing activities	-	100	Incorporated in July 2008	
	PT. High Tech Computer Indonesia	Marketing, distribution and after-sales service	-	1	Incorporated in December 2007	
H.T.C. (B.V.I.) Corp.	HTEK	Marketing and engineering support activities	100	-	Incorporated in August 2000 and liquidated in 2007	
	HTC America Inc.	Marketing , repair and after-sales services	100	100	Incorporated in January 2003	
	HTC EUROPE CO., LTD.	"	100	100	Incorporated in July 2003	
	HTC Corporation (Suzhou)	Manufacture and sale of smart handheld devices	100	100	Incorporated in January 2003	
	Exedea Inc.	Distribution and sales	100	100	Incorporated in December 2004 and invested in July 2005	
	HTC NIPPON Corporation	Marketing, distribution and after-sales service	100	100	Incorporated in March 2006	
	HTC BRASIL	"	100	100	Incorporated in October 2006	
	HTC Corporation (WGQ)	Repair and after-sales service	100	100	Incorporated in July 2007	
	HTC HK, Limited	HTC Belgium BVBA/SPRL	Marketing, distribution and after-sales service	100	100	Incorporated in October 2006
	HTC Belgium BVBA/SPRL	HTC Italia SRL	"	100	100	Incorporated in February 2007
HTC Asia Pacific Pte. Ltd.	High Tech Computer Singapore Pte. Ltd.	"	100	100	Incorporated in July 2007	
	High Tech Computer (H.K.) Limited	"	100	100	Incorporated in August 2007	
	HTC (Australia and New Zealand) Pty. Ltd.	"	100	100	Incorporated in August 2007	
	HTC Philippines Corp.	"	-	100	Incorporated in December 2007	
	PT. HTC Indonesia	"	-	99	Incorporated in December 2007	

Investor	Investee	Main Businesses	% of Ownership		Remark
			2007	2008	
	HTC (Thailand) Ltd.	"	-	100	Incorporated in November 2007
	HTC India Private Ltd.	"	-	99	Incorporated in January 2008
	HTC Electronics (Shanghai) Co., Ltd.	Design and sale of smart handheld devices	-	100	Incorporated in January 2007 and invested in July 2008
High Tech Computer Singapore Pte. Ltd.	HTC India Private Ltd.	Marketing, distribution and after-sales service	-	1	Incorporated in January 2008

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

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

As mentioned in Note 1, HTC and the foregoing subsidiaries are hereinafter referred to collectively as the "Company."

Current/Noncurrent Assets and Liabilities

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

Financial Assets/Liabilities at Fair Value through Profit or Loss

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

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

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

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

Available-for-Sale Financial Assets

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

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

Cash dividends are recognized on the stockholders' declaration under resolutions, except for dividends distributed from the pre-acquisition earnings, which are treated as a reduction of investment cost. Stock dividends are not recognized as investment income but are recorded as an increase in the number of shares. The total number of shares held after this increase is used to recalculate cost per share.

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 not quoted in an active market

Bond investments not quoted in an active market are stated at amortized cost and are classified as current or noncurrent based on their maturities.

Bond investments not quoted in an active market - current are investments receiving 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 not quoted in an 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 equipment) - 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.

Properties still in use beyond their original estimated useful lives are further depreciated over their newly estimated useful lives. Depreciation of revaluated assets is provided on a straight-line basis over their remaining estimated useful lives determined at the time of revaluation.

The related cost (including revaluation increment), accumulated depreciation, accumulated impairment losses and any unrealized revaluation increment of an item of properties are derecognized from the balance sheet upon its disposal. Any gain or loss on disposal of the asset is included in nonoperating gains or losses in the year of disposal.

If the properties are leased to others, the related costs and accumulated depreciation would be transferred from properties to other assets - assets leased to others.

Goodwill

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

Deferred Charges

Deferred charges are telephone installation charges, computer software costs and deferred license fees. Installation charges and computer software are amortized on a straight-line basis over 3 years, and deferred license fees, over 10 years.

Asset Impairment

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

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

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.

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

Stock-Based Employee Compensation Plans

When the grant date of stock-based employee compensation plans is on or after January 1, 2004, the Company applies the accounting guidelines for stock-based compensation issued by the Accounting Research and Development Foundation of the ROC. Under these guidelines, the fair value of option compensation is recorded initially as an asset. This asset is expensed ratably over the service period, which is generally the period over which the options vest.

Treasury Stock

The Company adopted the Statement of Financial Accounting Standards No. 30 - "Accounting for Treasury Stocks," which requires the treasury stock held by the Company to be accounted for by the cost method. The cost of treasury stock is shown as a deduction to arrive at stockholders' equity, while gain or loss from selling treasury stock is treated as an adjustment to capital surplus.

When treasury stocks are sold and the selling price is above the book value, the difference should be credited to the capital surplus - treasury stock transactions. If the selling price is below the book value, the difference should first be offset against capital surplus from the same class of treasury stock transactions, and any remainder should be debited to retained earnings. The carrying value of treasury stocks should be calculated using the weighted-average method.

When the Company's treasury stock is retired, the treasury stock account should be credited, and the capital surplus - premium on stock account and capital stock account should be debited proportionately according to the share ratio. The difference should be credited to capital surplus or debited to capital surplus and/or retained earnings.

Foreign Currencies

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

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

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

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

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

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

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

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

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

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

Mergers

The Company's acquisition of IA Style, Inc. was accounted for using the Statement of Financial Accounting Standards No. 25 - "Business Combinations - Accounting Treatment under the Purchase Method," and measured at the fair value of the business acquired. The net assets and net liabilities of the acquired entity were accounted for in the balance sheet as an increase in additional paid-in capital from merger (credit) and as a decrease in retained earnings (debit), respectively.

Reclassifications

Certain 2007 accounts have been reclassified to be consistent with the presentation of the financial statements as of and for the nine months ended September 30, 2008.

3. TRANSLATION INTO U.S. DOLLARS

The consolidated financial statements are stated in New Taiwan dollars. The translation of the 2008 New Taiwan dollar amounts into U.S. dollar amounts are included solely for the convenience of readers, using the noon buying rate of NT\$32.17 to US\$1.00 quoted by the Bank of Taiwan on September 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\$3,845,328 thousand (US\$119,531 thousand) in net income, including employee bonus payable of NT\$4,390,267 thousand (US\$136,471 thousand), minus the allocation to inventory of NT\$ 25,750 thousand (US\$800 thousand) and minus the tax saving of NT\$519,189 thousand (US\$16,140 thousand), and a decrease in after income tax basic earnings per share of NT\$5.09 for the Nine months ended September 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:

	Nine months Ended September 30					
	2007		2008			
	Amount	%	Amount		%	
	NT\$		NT\$	US\$ (Note 3)		
Revenues	\$ 79,468,782	100	\$ 105,279,115	\$ 3,272,587	100	
Cost of revenues	53,025,197	67	68,013,706	2,114,197	65	
Gross profit	26,443,585	33	37,265,409	1,158,390	35	
Operating expenses	6,303,794	8	11,431,555	355,348	10	
Operating income	20,139,791	25	25,833,854	803,042	25	
Nonoperating income and gains	1,396,012	2	1,361,321	42,316	1	
Nonoperating expenses and losses	253,563	-	66,924	2,080	-	
Income before income tax	21,282,240	27	27,128,251	843,278	26	
Income tax	(2,359,043)	(3)	(2,782,417)	(86,491)	(3)	
Net income	\$ 18,923,197	24	\$ 24,345,834	\$ 756,787	23	

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 Nine months ended September 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 Nine months ended September 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:

	Nine months Ended September 30					
	2007		2008			
	Amount	%	Amount		%	
	NT\$		NT\$	US\$ (Note 3)		
Revenues	\$ 79,468,782	100	\$ 105,279,115	\$ 3,272,587	100	
Cost of revenues	49,952,984	63	63,568,629	1,976,022	60	
Gross profit	29,515,798	37	41,710,486	1,296,565	40	
Operating expenses	8,776,350	11	19,228,069	597,702	18	
Operating income	20,739,448	26	22,482,417	698,863	22	
Nonoperating income and gains	1,396,012	2	1,361,321	42,316	1	
Nonoperating expenses and losses	853,220	1	1,080,004	33,572	1	
Income before income tax	21,282,240	27	22,763,734	707,607	22	
Income tax	(2,359,043)	(3)	(2,263,228)	(70,352)	(2)	
Net income	\$ 18,923,197	24	\$ 20,500,506	\$ 637,255	20	

5. CASH

Cash as of September 30, 2007 and 2008 consisted of the following:

	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	US\$ (Note 3)
Cash on hand	\$ 1,689	\$ 107,735	\$ 3,349
Cash in banks	6,937,090	9,027,867	280,630
Time deposits	<u>35,061,536</u>	<u>57,193,206</u>	<u>1,777,843</u>
	<u>\$42,000,315</u>	<u>\$66,328,808</u>	<u>\$2,061,822</u>

On time deposits, interest rates ranged from 1.76% to 2.185% and 1.65% to 2.475%, as of September 30, 2007 and 2008, respectively.

On preferential deposits, interest rates ranged from 3.05%% to 4.75% and 0.13% to 6.88%, as of September 30, 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 September 30, 2007 and 2008 were as follows:

	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	US\$ (Note 3)
Derivatives - financial assets			
Forward exchange contracts	\$ -	\$ 97,351	\$ 3,026
Derivatives - financial liabilities			
Forward exchange contracts	<u>\$ 204,449</u>	<u>\$ -</u>	<u>\$ -</u>

The Company had derivative transactions in 2007 and 2008 to manage exposures related to exchange rate fluctuations. However, these transactions did not meet the criteria for hedge accounting under Statement of Financial Accounting Standards No. 34 - "Accounting for Financial Instruments." Thus, the Company had no hedge accounting in 2007 and 2008. Outstanding forward exchange as of September 30, 2007 and 2008 were as follows:

Forward Exchange Contracts

	<u>2007</u>			
	Buy/Sell	Currency	Settlement Period/ Date	Contract Amount
Forward exchange contracts	Sell	USD/NTD	2007.10.02~2007.10.26	US\$ 37,500
Forward exchange contracts	Sell	EUR/USD	2007.10.05~2007.12.28	EUR€ 152,000
Forward exchange contracts	Sell	GBP/USD	2007.10.17~2007.11.30	GBP£ 3,100
Forward exchange contracts	Sell	JPY/NTD	2007.11.09~2007.11.21	JP¥ 1,830,000
Forward exchange contracts	Buy	CAD/USD	2007.10.12	US\$ 1,872

2008				
	Buy/Sell	Currency	Expiry Date	Contract Amount
Forward exchange contracts	Sell	EUR/USD	2008.10.01~2008.11.28	EUR€ 155,000
Forward exchange contracts	Sell	GBP/USD	2008.10.08~2008.11.21	GBP£ 10,970
Forward exchange contracts	Sell	JPY/NTD	2008.10.17	JPY 17,000
Forward exchange contracts	Sell	USD/NTD	2008.10.01	US\$ 21,000
Forward exchange contracts	Buy	USD/CAD	2008.10.17	US\$ 477

Net gain on derivative financial instruments for the nine months ended September 30, 2008 was NT\$196,240 thousand (US\$6,100 thousand), including realized settlement gain of NT\$98,889 thousand (US\$3,074 thousand) and valuation gain of NT\$97,351 thousand (US\$3,026 thousand).

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	US\$ (Note 3)
VIA Technologies, Inc.	\$ 1,004	\$ 581	\$ 18

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

8. NOTES AND ACCOUNTS RECEIVABLE

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

	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	US\$ (Note 3)
Notes receivable	\$ 10,415	\$ 52,019	\$ 1,617
Accounts receivable	19,682,876	21,774,183	676,847
Accounts receivable - related parties	4,002	287	9
Less allowance for doubtful accounts	(159,090)	(613,428)	(19,068)
	<u>\$ 19,538,203</u>	<u>\$ 21,213,061</u>	<u>\$ 659,405</u>

9. OTHER CURRENT FINANCIAL ASSETS

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

	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	US\$ (Note 3)
Other receivables	\$ 19,649	\$ 271,635	\$ 8,444
Interest receivables	39,058	51,278	1,594
Agency payments	46,303	14,932	464
Others	128	7,994	248
	<u>\$ 105,138</u>	<u>\$ 345,839</u>	<u>\$ 10,750</u>

Other receivables were primarily overseas value-added tax receivables from customers, prepayment for withholding income tax of employees' bonus and travel expenses and proceeds of the sales of properties.

10. INVENTORIES

Inventories as of September 30, 2007 and 2008 were as follows:

	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	US\$ (Note 3)
Finished goods	\$ 740,400	\$ 872,087	\$ 27,109
Work-in-process	2,762,740	2,911,199	90,494
Raw materials	<u>5,487,178</u>	<u>6,757,106</u>	<u>210,044</u>
	8,990,318	10,540,392	327,647
Less valuation allowance	<u>(1,275,293)</u>	<u>(2,072,165)</u>	<u>(64,413)</u>
	<u>\$ 7,715,025</u>	<u>\$ 8,468,227</u>	<u>\$ 263,234</u>

The write-down of inventories to their net realizable value amounted to NT\$1,013,080 thousand (US\$31,491 thousand) and was recognized as cost of sales for the nine months ended September 30, 2008. For consistency with the presentation of the financial statements for the nine months ended September 30, 2008, the Company reclassified "provision for loss on inventories" amounting to NT\$599,657 thousand for the nine months ended September 30, 2007 to "cost of sales."

11. PREPAYMENTS

Prepayments as of September 30, 2007 and 2008 were as follows:

	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	US\$ (Note 3)
Royalty	\$ 1,622,429	\$ 739,944	\$ 23,001
Software and hardware maintenance	42,922	106,938	3,324
Molding equipment	46,912	95,860	2,980
Suppliers	8,515	52,091	1,619
Net input VAT	2,050	51,080	1,588
Marketing	-	41,896	1,302
Rent	29,715	16,165	503
Travel	10,744	3,430	107
Others	<u>82,026</u>	<u>73,711</u>	<u>2,291</u>
	<u>\$ 1,845,313</u>	<u>\$ 1,181,115</u>	<u>\$ 36,715</u>

Prepayments for royalty were primarily prepayments for discount purpose. (Note 28 has more information)

Prepayments for marketing were primarily for marketing of oversea.

Prepayments for others were primarily for insurance expenses and other expenses.

12. FINANCIAL ASSETS CARRIED AT COST

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

	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	US\$ (Note 3)
Hua-Chuang Automobile Information Technical Center Co., Ltd.	\$500,000	\$500,000	\$15,542
Answer Online, Inc.	<u>1,192</u>	<u>1,192</u>	<u>37</u>
	<u>\$501,192</u>	<u>\$501,192</u>	<u>\$15,579</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 September 30, 2007 the Company had the following investment in bonds not quoted in an active market:

	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	US\$ (Note 3)
Bond investment	\$ 33,030	\$ -	\$ -
Less current portion	<u>(33,030)</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 September 30, 2008 were as follows:

	2007		2008				Ownership Percentage
	Carrying Value	Ownership Percentage	Original Cost		Carrying Value		
	NT\$		NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	
Equity method Vitamin D Inc.	\$ -	-	\$ 40,986	\$ 1,274	\$ 41,624	\$ 1,294	26

In April 2008, the Company invested US\$300 thousand in, 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, enabling the Company to exercise significant influence over this investee. Thus, the Company accounts for this investment by the equity method. In September 2008, Vitamin D Inc. issued 2,375 thousand convertible preferred shares, but the Company did not buy any of these shares. Thus, the Company's ownership percentage declined from 27% to 26%, and there was a capital surplus - long term equity investments of NT\$ 1,689 thousand (US\$53 thousand).

On its equity-method investments, the Company had a loss of NT\$3,777 thousand (US\$117 thousand) for the nine months ended September 30, 2008.

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

15. PROPERTIES

Properties as of September 30, 2007 and 2008 were as follows:

	2007		2008		
	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NT\$			NT\$	US\$
Land	\$ 610,293	\$ 822,027	\$ -	\$ 822,027	\$ 25,553
Buildings and structures	1,793,066	2,768,833	495,883	2,272,950	70,654
Machinery and equipment	1,177,038	4,287,195	3,011,927	1,275,268	39,641
Molding equipment	6,980	188,280	178,378	9,902	308
Computer equipment	86,352	333,954	220,919	113,035	3,514
Transportation equipment	820	3,185	2,809	376	12
Furniture and fixtures	60,552	245,297	144,093	101,204	3,146
Leased assets	3,338	5,440	2,160	3,280	102
Leasehold improvements	47,078	178,694	56,388	122,306	3,802
Prepayments for construction-in-progress and equipment-in-transit	249,786	808,728	-	808,728	25,139
	<u>\$4,035,303</u>	<u>\$9,641,633</u>	<u>\$4,112,557</u>	<u>\$5,529,076</u>	<u>\$ 171,871</u>

In July 2008, the Company acquired from Runtop Inc. land and building, with areas of approximately 10.6 thousand square meters and 40 thousand square meters, respectively, for NT\$900,000 thousand (US\$27,976 thousand) to have more office space, parking lots, dormitory, etc.

16. SHORT-TERM BORROWINGS

	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	US\$ (Note 3)
Working capital loans, annual interest at 2.80%~3.24%	\$ -	\$ 119,840	\$ 3,725
Usance letters of credit, annual interest at 3.86%~5.40%	<u>-</u>	<u>19,923</u>	<u>619</u>
	<u>\$ -</u>	<u>\$ 139,763</u>	<u>\$ 4,344</u>

17. ACCRUED EXPENSES

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

	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	US\$ (Note 3)
Bonus to employees	\$ 2,000,000	\$ 5,600,267	\$ 174,084
Marketing	2,374,116	5,239,044	162,855
Salaries	844,667	1,439,417	44,744
Export expenses	140,400	664,422	20,653
Research materials	129,577	438,114	13,619
Donation	197,600	267,811	8,325
Services	315,199	125,420	3,899
Meals and welfare	55,494	80,213	2,493
Insurance	47,425	71,122	2,211
Repairs and maintenance	16,329	57,853	1,798
Others	<u>342,891</u>	<u>354,113</u>	<u>11,007</u>
	<u>\$ 6,463,698</u>	<u>\$ 14,337,796</u>	<u>\$ 445,688</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\$4,390,267 thousand (US\$136,471 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 the stockholders' meetings of 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\$37,613 thousand), respectively.

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

For the nine months ended September 30, 2007 and 2008, the Company accrued the donation of NT\$197,600 thousand and NT\$267,811 thousand (US\$8,325 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.

18. OTHER CURRENT LIABILITIES

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

	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	US\$ (Note 3)
Reserve for warranty expenses	\$ 1,765,955	\$ 4,850,169	\$ 150,767
Advance receipts	188,182	178,947	5,562
Agency receipts	119,626	161,644	5,025
Temporary receipts	112,581	69,397	2,157
Directors' remuneration	21,842	21,842	679
Others	4,417	15,311	476
	<u>\$ 2,212,603</u>	<u>\$ 5,297,310</u>	<u>\$ 164,666</u>

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

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

19. LONG-TERM BANK LOANS

	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	US\$ (Note 3)
Secured loans (Note 26)			
NT\$50,000 thousand, repayable from July 2006 in 16 quarterly installments; 1% annual interest	\$ 34,375	\$ 21,875	\$ 680
NT\$65,000 thousand, repayable from July 2008 in 16 quarterly installments; 1% annual interest	65,000	60,938	1,894
Less current portion	<u>(12,500)</u>	<u>(36,875)</u>	<u>(1,146)</u>
	<u>\$ 86,875</u>	<u>\$ 45,938</u>	<u>\$ 1,428</u>

20. 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 common shares at NT\$10.00 par value. In May 2006, the stockholders approved the transfer of retained earnings of NT\$714,032 thousand and employee bonuses of NT\$80,000 thousand to capital stock. As a result, the amount of the Company's outstanding common stock as of September 30, 2006 increased to NT\$4,364,192 thousand, divided into 436,419 thousand common shares at NT\$10.00 par value.

In April 2007, the Company retired 3,624 thousand treasury shares (NT\$36,240 thousand). In June 2007, the stockholders approved the transfer of retained earnings amounting to NT\$1,298,385 thousand and employee bonuses amounting to NT\$105,000 thousand to capital stock. As a result, the amount of the Company's outstanding common stock as of September 30, 2007 was NT\$5,731,337 thousand, divided into 573,134 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. As a result, the amount of the Company's outstanding common stock as of September 30, 2008 increased to NT\$7,553,938 thousand (US\$234,813 thousand), divided into 755,394 thousand common shares at NT\$10.00 (US\$0.31) 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. 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 September 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 8,322 thousand units (33,287.9 thousand shares). The holders of these GDRs requested the Company to redeem the GDRs to get the Company's common shares. As of September 30, 2008, there were 5,729.4 thousand units of GDRs redeemed, representing 22,918 thousand common shares, and the outstanding GDRs represented 10,370 thousand common shares or 1.37% 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 September 30, 2008 was NT\$4,374,244 thousand (US\$135,973 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. and Vitamin D Inc., adjustments of NT\$15,845 thousand and NT\$1,689 thousand (US\$53 thousand) were made to the investment's carrying value and capital surplus, respectively. As a result, the capital surplus from long-term equity investments as of September 30, 2008 was NT\$17,534 thousand (US\$545 thousand).

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\$801 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.

21. TREASURY STOCK

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

During the repurchase period, the Company bought back 3,624 thousand shares, which were approved to be retired by the Company's board of directors in April 2007, for NT\$1,991,755 thousand.

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

22. INCOME TAX

HTC's income tax returns through 2003 had been examined by the tax authorities. However, HTC disagreed with the tax authorities' assessment on its returns for 2001 to 2003 and applied for the reexamination of its returns and administrative appeals. Nevertheless, under the conservatism guideline, HTC 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

Provision for income tax for the nine months ended September 30, 2007 and 2008, deferred tax assets and income tax payable as of September 30, 2007 and 2008 were as follows:

	2007		
	Income Tax Expense (Gain)	Income Tax Payable	Deferred Tax Asset
HTC Corporation	\$ 2,335,700	\$ 2,401,081	\$ 697,654
BandRich Inc.	-	-	3,934
Communication Global Certification Inc.	-	-	2,583
HTC America Inc.	20,684	-	-
HTC Europe Co., Ltd.	993	-	-
Exedeia Inc.	1,651	-	-
HTC Belgium BVBA/SPRL	15	-	-
	<u>\$ 2,359,043</u>	<u>\$ 2,401,081</u>	<u>\$ 704,171</u>

	2008					
	Income Tax Expense		Income Tax Payable		Deferred Tax Assets	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
		(Note 3)		(Note 3)		(Note 3)
HTC Corporation	\$ 2,106,639	\$ 65,485	\$ 2,980,689	\$ 92,654	\$ 1,201,117	\$ 37,337
BandRich Inc.	-	-	-	-	9,826	305
Communication Global Certification Inc.	(213)	(7)	-	-	2,833	88
HTC America Inc.	129,993	4,041	16,085	500	-	-
HTC Europe Co., Ltd.	-	-	26,668	829	-	-
HTC Nippon Corporation	10,422	324	10,072	313	-	-
HTC Corporation (WGQ)	3,352	104	2,530	79	-	-
HTC Belgium BVBA/SPRL	7,699	239	6,733	209	-	-
High Tech Computer Singapore Pte. Ltd.	721	22	1,081	34	-	-
High Tech Computer (H.K.) Limited	(241)	(7)	400	12	-	-
HTC India Private Limited	1,316	41	368	11	-	-
HTC BRASIL	-	-	1,020	32	-	-
HTC (Thailand.) Ltd.	511	16	289	9	-	-
HTC (Australia and New Zealand) Pty. Ltd.	3,029	94	6,132	191	3,110	97
	<u>\$ 2,263,228</u>	<u>\$ 70,352</u>	<u>\$ 3,052,067</u>	<u>\$ 94,873</u>	<u>\$ 1,216,886</u>	<u>\$ 37,827</u>

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

	<u>2007</u>	<u>2008</u>	
	NT\$	NT\$	US\$ (Note 3)
Temporary differences			
Capitalize expense	\$ 46,563	\$ 41,372	\$ 1,286
Provision for loss on decline in value of inventory	261,701	377,996	11,750
Unrealized royalties	1,297,588	1,367,623	42,513
Unrealized marketing expenses	537,858	1,312,510	40,800
Unrealized valuation loss on financial instruments	51,112	-	-
Unrealized reserve for warranty expense	441,489	1,214,337	37,747
Unrealized foreign exchange loss, net	-	47,433	1,474
Other	23,306	58,921	1,832
Prior years' loss carryforwards	10,585	37,261	1,158
Tax credit carryforwards	<u>30,721</u>	<u>1,577,652</u>	<u>49,041</u>
 Total deferred tax assets	 2,700,923	 6,035,105	 187,601
Less valuation allowance	<u>(1,880,236)</u>	<u>(4,763,506)</u>	<u>(148,073)</u>
 Total deferred tax asset, net	 820,687	 1,271,599	 39,528
Deferred tax liability			
Unrealized pension cost	(22,502)	(27,905)	(867)
Unrealized depreciation	(5,338)	(2,470)	(77)
Unrealized foreign currency exchange gain, net	(88,676)	-	-
Unrealized value gain on financial instruments	<u>-</u>	<u>(24,338)</u>	<u>(757)</u>
 Less current portion	 704,171 <u>(433,914)</u>	 1,216,886 <u>(518,252)</u>	 37,827 <u>(16,110)</u>
 Deferred tax assets, noncurrent	 <u>\$ 270,257</u>	 <u>\$ 698,634</u>	 <u>\$ 21,717</u>

Details of the tax credit carryforwards are as follows:

Year of Occurrence	Validity Period	<u>2007</u>	<u>2008</u>	
		NT\$	NT\$	US\$ (Note 3)
2003	2003-2007	\$ 1,852	\$ -	\$ -
2004	2004-2008	6,965	6,965	217
2005	2005-2009	6,479	6,479	201
2006	2006-2010	15,425	15,475	481
2007	2007-2011	-	220,270	6,847
2008	2008-2012	<u>-</u>	<u>1,328,463</u>	<u>41,295</u>
		<u>\$ 30,721</u>	<u>\$ 1,577,652</u>	<u>\$ 49,041</u>

Detail of the loss carryforwards are as follows:

Year Occur	Validity Period	2007	2008	
		NT\$	NT\$	US\$ (Note 3)
2005	2006~2010	\$ -	\$ 95	\$ 3
2006	2007~2011	42,341	50,703	1,576
2007	2008~2012	-	48,885	1,520
2008	2009~2013	-	49,361	1,534
		\$ 42,341	\$ 149,044	\$ 4,633

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

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

The income tax expenses for the nine months ended September 30, 2007 and 2008 were as follows:

	2007	2008	
	NT\$	NT\$	US\$ (Note 3)
Current income tax expense	\$2,283,622	\$2,526,707	\$ 78,542
Increase in deferred income tax assets	(50,490)	(253,720)	(7,887)
Underestimation (overestimation) of prior year's income tax	125,911	(9,759)	(303)
Income tax expense	\$2,359,043	\$2,263,228	\$ 70,352

The integrated income tax information is as follows:

	2007	2008	
	NT\$	NT\$	US\$ (Note 3)
Balance of imputation credit account	\$ 850,056	\$ 1,577,966	\$ 49,051
Unappropriated earnings from 1998	31,411,931	36,535,875	1,135,713
Expected creditable ratio (including income tax payable)	10.35%	12.48%	12.48%

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 755,682 thousand shares and 755,394 thousand shares for the nine months ended September 30, 2007 and 2008, respectively. EPS for the nine months ended September 30, 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:

	2007				
	Numerator		Denominator	Earnings Per Share	
	Income before Income Tax	Income after Income Tax	Shares (Thousands)	Income before Income Tax	Income after Income Tax
	NT\$	NT\$		NT\$	NT\$
Basic EPS	\$21,282,626	\$18,946,926	755,682	\$ 28.16	\$ 25.07
Employee stock options	-	-	-		
Diluted EPS	\$21,282,626	\$18,946,926	755,682	\$ 28.16	\$ 25.07
	2008				
	Numerator		Denominator	Earnings Per Share	
	Income before Income Tax	Income after Income Tax	Shares (Thousands)	Income before Income Tax	Income after Income Tax
	NT\$	NT\$		NT\$	NT\$
Basic EPS	\$22,651,681	\$20,545,042	755,394	\$ 29.99	\$ 27.20
Employee stock options	-	-	12,671		
Diluted EPS	\$22,651,681	\$20,545,042	768,065	\$ 29.49	\$ 26.75
	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	\$ 704,125	\$ 638,640	755,394	\$ 0.93	\$ 0.85
Employee stock options	-	-	12,671		
Diluted EPS	\$ 704,125	\$ 638,640	768,065	\$ 0.92	\$ 0.83

24. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

Nonderivative Financial Instruments

	September 30					
	2007		2008			
	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
NT\$	NT\$	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	
Assets						
Available-for-sale financial assets - noncurrent	\$ 1,004	\$ 1,004	\$ 581	\$ 18	\$ 581	\$ 18
Financial assets carried at cost	501,192	501,192	501,192	15,579	501,192	15,579
Bond investments not quoted in an active market	33,030	33,030	-	-	-	-
Investments accounted for by the equity method	-	-	41,624	1,294	41,624	1,294

Derivative Financial Instruments

	September 30					
	2007		2008			
	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
NT\$	NT\$	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	
Assets						
Financial assets at fair value through profit or loss	\$ -	\$ -	\$ 97,351	\$ 3,026	\$ 97,351	\$ 3,026
Liabilities						
Financial liabilities at fair value through profit or loss	204,449	204,449	-	-	-	-

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, guarantee deposits nor long-term bank loans. The fair values of aforementioned financial instruments were based on the present value of expected cash flows, which approximates their carrying amount.

The fair values of financial instruments at fair value through profit or loss and available-for-sale financial assets are based on quoted market prices in an active market, and their fair values can be reliably measured. If the securities do not have market prices, fair value is measured on the basis of financial or other information. The Company uses estimates and assumptions that are consistent with information that market participants would use in setting a price for these securities.

Methodology Used to Determine the Fair Values of Financial Instruments

	Quoted Market Prices			Measurement Method		
	September 30			September 30		
	2007	2008	US\$ (Note 3)	2007	2008	US\$ (Note 3)
	NT\$	NT\$	US\$ (Note 3)	NT\$	NT\$	US\$ (Note 3)
Assets						
Financial assets at fair value through profit or loss	\$ -	\$ 97,351	\$ 3,026	\$ -	\$ -	\$ -
Available-for-sale financial assets - noncurrent	1,004	581	18	-	-	-
Financial assets carried at cost	-	-	-	501,192	501,192	15,579
Bond investments not quoted in an active market	-	-	-	33,030	-	-
Investments accounted for by the equity method	-	-	-	-	41,624	1,294
Liabilities						
Financial liabilities at fair value through profit or loss	204,449	-	-	-	-	-

There was no loss or gain recognized for the three month ended September 30, 2007 and 2008 on the fair value changes of derivatives estimated using valuation techniques. The Company recognized unrealized losses of NT\$729 thousand and NT\$203 thousand (US\$6 thousand) in stockholders' equity for the changes in fair value of available-for-sale financial assets for the three month ended September 30, 2007 and 2008 respectively.

As of September 30, 2007 and 2008, financial assets exposed to cash flow interest rate risk amounted to NT\$35,105,045 thousand and NT\$57,234,865 thousand (US\$1,779,138 thousand), respectively.

As of September 30, 2007, financial assets and liabilities exposed to fair value interest rate risk was NT\$33,030 thousand.

Financial Risks

Market Risk

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

Credit Risk

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

Cash Flow Risk

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

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 chairperson of HTC
Xander International Corp.	Chairperson is an immediate relative of the chairperson of HTC
VIA Technologies, Inc.	Same chairperson with HTC
Chander Electronics Corp.	Same chairperson with HTC
Way-Lien Technology Inc.	Same chairperson with HTC
Comserve Network Netherlands B.V.	Main director is an immediate relative of the chairperson of HTC
Employees' Welfare Committee	Employees' Welfare Committee of HTC
Landtek Corporation (BVI)	Affiliate

Major transactions with related parties are summarized below:

Purchases of Inventories and Services

Related Party	Nine months Ended September 30			
	2007		2008	
	Amount NT\$	% to Total Revenues	Amount NT\$	US\$ (Note 3)
Chander Electronics Corp.	\$ 610	-	\$ 5,036	\$157

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

Sales and Services Provided

Related Party	Nine months Ended September 30			
	2007		2008	
	Amount NT\$	% to Total Revenues	Amount NT\$	US\$ (Note 3)
Xander International Corp.	\$ -	-	\$ 93,567	\$ 2,908
Employees' Welfare Committee	177	-	35,189	1,094
First International Computer, Inc. (FIC)	59,858	-	24,221	753
VIA Technologies, Inc.	-	-	521	16
Comserve Network Netherlands B.V.	37,587	-	-	-
	\$ 97,622	-	\$ 153,498	4,771

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

Notes and Accounts Receivable

Related Party	September 30			
	2007		2008	
	Amount NT\$	% to Total Notes and Accounts Receivable	Amount NT\$	US\$ (Note 3)
VIA Technologies Inc.	\$ 28	-	\$ 192	\$ 6
Xander International Corp.	-	-	95	3
First International Computer, Inc. (FIC)	3,970	-	-	-
Employees' Welfare Committee	4	-	-	-
	\$ 4,002	-	\$ 287	\$ 9

Notes and Accounts Payable

Related Party	September 30			
	2007		2008	
	Amount NT\$	% to Total Notes and Accounts Payable	Amount NT\$	US\$ (Note 3)
First International Computer, Inc.	\$ -	-	\$ 5,036	\$ 157

Other Receivables

Related Party	September 30				
	2007		2008		
	Amount NT\$	% to Total Other Receivable	Amount NT\$	US\$ (Note 3)	% to Total Other Receivable
VIA Technologies Inc.	\$ 33	-	\$ 255	\$ 8	-
Chander Electronics Corp	21	-	72	2	-
	<u>\$ 54</u>	<u>-</u>	<u>\$ 327</u>	<u>10</u>	<u>-</u>

Other Payables to Related Parties

Related Party	September 30				
	2007		2008		
	Amount NT\$	% to Total Other Payables	Amount NT\$	US\$ (Note 3)	% to Total Other Payables
Way-Lien Technology Inc.	\$ -	-	\$ 210	\$ 7	-
Xander International Corp.	-	-	55	2	-
others	210	-	265	8	-
	<u>\$ 210</u>	<u>-</u>	<u>\$ 530</u>	<u>17</u>	<u>-</u>

Service Warranty Expense

Related Party	Nine months Ended September 30				
	2007		2008		
	Amount NT\$	% to Total Warranty Expenses	Amount NT\$	US\$ (Note 3)	% to Total Warranty Expenses
Comserve Network Netherlands B.V.	\$ 201,457	8	\$ 14,184	\$ 441	-

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

Service Fees

Related Party	Nine months Ended September 30				
	2007		2008		
	Amount NT\$	% to Total Service Fees	Amount NT\$	US\$ (Note 3)	% to Total Service Fees
VIA Technologies Inc.	\$ 1,600	-	\$ -	\$ -	-
Way-Lien Technology Inc.	-	-	1,600	\$ 50	-
	<u>\$ 1,600</u>	<u>-</u>	<u>\$ 1,600</u>	<u>\$ 50</u>	<u>-</u>

Leasing - Lessee

Operating Expense - Rental Expense

Related Party	Nine Months Ended September 30			
	2007		2008	
	Amount NT\$	% of Rental Expense	Amount NT\$	US\$ (Note 3)
VIA Technologies, Inc.	\$ -	-	\$ 2,288	\$ 71
				2

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

Investment Transaction

In July 2008, HTC acquired 100% equity interest of Wei-Hon Electronics (Shanghai) Ltd. from Landtek Corporation (BVI) by increasing the capital amounting to US\$5,041 thousand of High Tech Computer Asia Pacific Pte. Ltd.

26. MORTGAGED OR PLEDGED ASSETS

As of September 30, 2007 and 2008, the Company had provided time deposits of NT\$43,509 thousand and NT\$41,659 (US\$1,295 thousand) as collateral for the secured loans.

27. COMMITMENTS AND CONTINGENCIES

As of September 30, 2008, unused letters of credit amounted to US\$1,850 thousand.

An indirect subsidiary of the Company, HTC Electronics (Shanghai), applied to Citibank for banking facilities of US\$15,000 thousand. For these banking facilities, the Company signed a comfort letter in September 2008, assuring Citibank that the Company would supervise the management of HTC Electronics (Shanghai) and oversee the meeting by HTC Electronics (Shanghai) of its financial obligations. As of September 30, 2008 the Company wholly owned HTC Electronics (Shanghai) indirectly.

28. SIGNIFICANT CONTRACTS

Patent Agreements

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

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

Contractor	Contract Term	Description
	(a) If the Company materially breaches any covenant and fails to take remedial action within 30 days after Qualcomm's issuance of a written notice, the Company will be prohibited from using Qualcomm's property or patents. (b) Any time when the Company is not using any of Qualcomm's intellectual property, the Company may terminate this agreement upon 60 days' prior written notice to Qualcomm.	Authorization to use CDMA technology to manufacture and sell units; royalty payment based on agreement.
Ericsson Mobile Platform AB	April 2003-March 2011	Authorization to use EDGE reference design license and support agreement; royalty payment based on agreement.
Telefonaktiebolaget LM Ericsson	December 15, 2003 to the expiry dates of these patents, and no longer than December 14, 2008	Authorization to use platform patent license agreement; royalty payment based on agreement.
Nokia Corporation	January 1, 2003 to the expiry dates of these patents.	Authorization to use wireless technology, like GSM; royalty payment based on agreement.
InterDigital Technology Corporation.	December 31, 2003 to the expiry dates of these patents.	Authorization to use TDMA and CDMA technology; royalty payment based on agreement.
Koninklijke Philips Electronics N.V.	January 5, 2004 to the expiry dates of these patents	GSM/DCS 1800/1900 Patent License; royalty payment based on agreement.
Motorola, Inc.	December 23, 2003 to the latest of the following dates: (a) Expiry dates of patents (b) Any time when the Company is not using any of Motorola's intellectual property,	TDMA, NARROWBAND CDMA, WIDEBAND CDMA or TD/CDMA Standards patent license or technology; royalty payment based on agreement.
ALCATEL/TCL & Alcatel	July 1, 2004-June 30, 2009	Authorization to use GSM, GPRS or EDGE patent license or technology; royalty payment based on agreement.
Siemens Aktiengesellschaft	July 1, 2004 to the expiry dates of these patents.	Authorization to use GSM, GPRS or EDGE patent license or technology; royalty payment based on agreement.
Lucent Technologies GRL LLC	July 1, 2004-June 30, 2009	Authorization to use GSM, GPRS, EDGE, CDMA or WCDMA patent license or technology; royalty payment based on agreement.

29. OTHER EVENTS

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 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).

On October 7, 2008, the Company’s board of directors passed a resolution to buy back 10,000 thousand Company shares from the open market and retire them eventually for the purpose of protecting its credit and shareholders’ interests. The repurchase period is between October 8, 2008 and December 7, 2008, and the repurchase price will range from NT\$400.00 to NT\$500.00 per share. If the Company’s share price goes lower than this price range, the Company might continue to buy back its shares.