HTC Corporation
(Formerly High Tech Computer Corporation)
and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2006, 2007 and 2008 and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
HTC Corporation

We have audited the accompanying consolidated balance sheets of HTC Corporation (formerly High Tech Computer Corporation) and subsidiaries (collectively, the "Company") as of December 31, 2006, 2007 and 2008, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, all expressed in New Taiwan dollars. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of HTC Corporation and subsidiaries as of December 31, 2006, 2007 and 2008, and the results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, 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."

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

January 17, 2009

Notice to Readers

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

The auditors' report and the accompanying financial statements were originally presented in more than one set of Chinese reports. For the convenience of readers, the auditors' report and the accompanying 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 auditors' report and consolidated 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
(Formerly High Tech Computer Corporation)
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2006, 2007 AND 2008
(In Thousands, Except Par Value)

ASSETS	2006 NT$	2007 NT$	2008 NT$	2008 US$ (Note 3)
CURRENT ASSETS				
Cash (Note 5)	$ 34,969,818	$ 56,490,185	$ 64,237,728	$ 1,958,467
Bond investments not quoted in an active market (Notes 2 and 13)	-	33,030	-	-
Notes receivable, net (Notes 2 and 8)	58,930	3,532	26,009	793
Accounts receivable, net (Notes 2, 8 and 27)	19,148,301	19,470,185	29,428,769	897,219
Other current financial assets (Notes 9 and 27)	260,228	176,328	316,524	9,650
Inventories (Notes 2, 4 and 10)	5,963,513	7,237,231	8,250,337	251,535
Prepayments (Note 11)	1,867,820	1,567,761	1,285,483	39,192
Deferred tax assets (Notes 2 and 24)	428,077	570,992	550,530	16,784
Other current assets	115,936	179,267	161,320	4,918
Total current assets	62,812,623	85,728,511	104,256,700	3,178,558
LONG-TERM INVESTMENTS				
Available-for-sale financial assets - noncurrent (Notes 2 and 7)	1,733	784	339	10
Financial assets carried at cost (Notes 2 and 12)	1,192	501,192	501,192	15,280
Investments accounted for by the equity method (Notes 2 and 14)	-	-	39,906	1,217
Total long-term investments	2,925	501,976	541,437	16,507
PROPERTIES (Notes 2 and 15)				
Cost				
Land	610,293	610,293	3,568,124	108,784
Buildings and structures	1,083,065	2,254,855	2,856,815	87,098
Machinery and equipment	3,103,327	3,966,723	4,579,241	139,611
Molding equipment	201,247	212,360	194,320	5,924
Computer equipment	226,903	284,260	350,118	10,675
Transportation equipment	3,141	3,195	4,605	140
Furniture and fixtures	139,647	213,934	462,157	14,090
Leased assets	4,712	4,712	5,336	163
Leasehold improvements	76,772	119,672	188,182	5,737
Total cost	5,449,107	7,670,004	12,208,898	372,222
Less: Accumulated depreciation	(2,752,680)	(3,598,267)	(4,243,837)	(129,385)
Prepayments for construction-in-progress and equipment-in-transit	473,971	149,225	951,289	29,003
Properties, net	3,170,398	4,220,962	8,916,350	271,840
INTANGIBLE ASSETS				
Goodwill (Note 2)	-	174,253	289,308	8,820
Deferred pension cost	-	953	475	15
Total intangible assets	-	175,206	289,783	8,835
OTHER ASSETS				
Assets leased to others	-	-	309,959	9,450
Refundable deposits	45,234	132,619	193,765	5,908
Deferred charges (Note 2)	135,060	136,273	253,121	7,717
Deferred tax assets (Notes 2 and 24)	223,164	392,174	822,893	25,088
Restricted assets (Note 28)	-	34,500	41,465	1,264
Others (Notes 2 and 20)	74,020	94,260	116,937	3,565
Total other assets	477,478	789,826	1,738,140	52,992
TOTAL	$ 66,463,424	$ 91,416,481	$ 115,742,410	$ 3,528,732

LIABILITIES AND STOCKHOLDERS' EQUITY	2006 NT$	2007 NT$	2008 NT$	2008 US$ (Note 3)
CURRENT LIABILITIES				
Short-term borrowings (Note 16)	$ -	$ -	$ 75,000	$ 2,286
Financial liabilities at fair value through profit or loss (Notes 2, 6 and 26)	76,470	96,256	514,083	15,673
Notes and accounts payable (Note 27)	17,276,571	23,201,620	28,569,935	871,035
Income tax payable (Notes 2 and 24)	1,758,717	2,558,703	4,039,613	123,159
Accrued expenses (Notes 4, 17 and 27)	2,935,078	5,126,409	15,348,770	467,950
Payable for purchase of equipment	49,058	179,280	314,086	9,576
Long-term liabilities - current portion (Note 19)	-	20,625	28,750	877
Other current liabilities (Notes 18 and 27)	1,662,003	3,970,032	6,108,696	186,240
Total current liabilities	23,757,897	35,152,925	54,998,933	1,676,796
LONG-TERM LIABILITIES				
Long-term bank loans, net of current portion (Note 19)	-	75,625	46,875	1,429
OTHER LIABILITIES				
Guarantee deposits received	640	633	6,420	196
Total liabilities	23,758,537	35,229,183	55,052,228	1,678,421
STOCKHOLDERS' EQUITY (Note 21)				
Capital stock - NT$10.00 par value				
Authorized: 1,000,000 thousand shares				
Issued and outstanding: 436,419 thousand shares in 2006, 573,134 thousand shares in 2007 and 755,394 thousand shares in 2008				
Common stock	4,364,192	5,731,337	7,553,938	230,303
Capital surplus				
Additional paid-in capital	4,410,871	4,374,244	4,374,244	133,361
Long-term equity investments	15,845	15,845	17,534	535
Merger	25,972	25,756	25,756	785
Retained earnings				
Legal reserve	1,991,520	4,516,253	7,410,139	225,919
Special reserve	6,175	-	-	-
Accumulated earnings	31,991,090	41,403,867	44,626,182	1,360,555
Cumulative translation adjustments (Note 2)	10,786	9,664	65,602	2,000
Unrealized valuation losses on financial instruments (Notes 2 and 7)	(238)	(1,187)	(1,632)	(50)
Treasury stock (Notes 2 and 22)	(243,995)	-	(3,410,277)	(103,972)
Equity attributable to stockholders of the parent	42,572,218	56,075,779	60,661,486	1,849,436
MINORITY INTEREST	132,669	111,519	28,696	875
Total Stockholders' equity	42,704,887	56,187,298	60,690,182	1,850,311
TOTAL	$ 66,463,424	$ 91,416,481	$115,742,410	$ 3,528,732

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

(With Deloitte & Touche audit report dated January 17, 2009)

HTC CORPORATION
(Formerly High Tech Computer Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In Thousands, Except Earnings Per Share)

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
REVENUES (Notes 2 and 27)	$ 105,358,397	$ 118,217,545	$ 152,353,176	$ 4,644,914
COST OF REVENUES (Notes 4, 23 and 27)	74,053,697	77,773,277	101,362,538	3,090,321
GROSS PROFIT	31,304,700	40,444,268	50,990,638	1,554,593
OPERATING EXPENSES (Notes 23 and 27)				
Selling and marketing	1,814,158	4,768,102	9,043,869	275,728
General and administrative	770,545	1,310,650	2,250,060	68,599
Research and development	2,974,003	3,705,261	9,351,439	285,105
Total operating expenses	5,558,706	9,784,013	20,645,368	629,432
OPERATING INCOME	25,745,994	30,660,255	30,345,270	925,161
NONOPERATING INCOME AND GAINS				
Interest income	445,121	828,012	1,401,127	42,717
Gains on disposal of properties	39,111	77	4,521	138
Foreign exchange gain (Note 2)	626,464	707,642	632,969	19,298
Other	173,356	236,115	280,872	8,563
Total nonoperating income and gains	1,284,052	1,771,846	2,319,489	70,716
NONOPERATING EXPENSES AND LOSSES				
Interest expense	298	1,212	10,441	319
Loss on equity-method investments (Notes 2 and 14)	-	-	6,151	188
Losses on disposal of properties	3,412	1,396	7,378	225
Valuation loss on financial instruments (Notes 2 and 6)	76,470	96,256	514,083	15,673
Other (Notes 18 and 27)	7,149	101,301	390,990	11,920
Total nonoperating expenses and losses	87,329	200,165	929,043	28,325
INCOME BEFORE INCOME TAX	26,942,717	32,231,936	31,735,716	967,552
INCOME TAX (Notes 2 and 24)	(1,708,375)	(3,314,224)	(3,183,190)	(97,048)
NET INCOME	$ 25,234,342	$ 28,917,712	$ 28,552,526	$ 870,504
ATTRIBUTABLE TO				
Stockholders of the parent	$ 25,247,327	$ 28,938,862	$ 28,635,349	$ 873,029
Minority interest	(12,985)	(21,150)	(82,823)	(2,525)
	$ 25,234,342	$ 28,917,712	$ 28,552,526	$ 870,504

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HTC CORPORATION
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CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In Thousands, Except Earnings Per Share)

	2006		2007		2008			
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax	Before Income Tax		After Income Tax	
	NT$	NT$	NT$	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
BASIC EARNINGS PER SHARE (Note 25)	$ 35.39	$ 33.15	$ 42.55	$ 38.30	$ 41.89	$ 1.28	$ 37.97	$ 1.16
DILUTED EARNINGS PER SHARE (Note 25)	$ 35.08	$ 32.85	$ 42.55	$ 38.30	$ 40.42	$ 1.23	$ 36.64	$ 1.12

(Concluded)

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

(With Deloitte & Touche audit report dated January 17, 2009)

HTC CORPORATION
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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In Thousands)

	Capital Stock	Capital Surplus			Retained Earnings							
New Taiwan Dollars	Issued and Outstanding Common Stock	Additional Paid-in Capital	Long-Term Equity Investments	Merger	Legal Reserve	Special Reserve	Accumulated Earnings	Cumulative Translation Adjustments	Unrealized Valuation Losses on Financial Instruments	Treasury Stock	Minority Interests	Total
BALANCE, JANUARY 1, 2006	$ 3,570,160	$ 4,410,871	$ -	$ 25,972	$ 813,326	$ 19,133	$ 14,152,255	$ (5,041)	$ (1,135)	$ -	$ -	$ 22,985,541
Adjustments due to accounting changes (Note 4)	-	-	-	-	-	-	-	-	48	-	-	48
Appropriation of the 2005 net earnings												
Legal reserve	-	-	-	-	1,178,194	-	(1,178,194)	-	-	-	-	-
Special reserve	-	-	-	-	-	(12,958)	12,958	-	-	-	-	-
Stock dividends	714,032	-	-	-	-	-	(714,032)	-	-	-	-	-
Transfer of employee bonuses to common stock	80,000	-	-	-	-	-	(80,000)	-	-	-	-	-
Employee bonuses	-	-	-	-	-	-	(451,000)	-	-	-	-	(451,000)
Cash dividends	-	-	-	-	-	-	(4,998,224)	-	-	-	-	(4,998,224)
Net income in 2006	-	-	-	-	-	-	25,247,327	-	-	-	(12,985)	25,234,342
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	15,827	-	-	-	15,827
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	849	-	-	849
Adjustment due to changes in ownership percentage in investees	-	-	15,845	-	-	-	-	-	-	-	-	15,845
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	(243,995)	-	(243,995)
Increase in minority interests	-	-	-	-	-	-	-	-	-	-	145,654	145,654
BALANCE, DECEMBER 31, 2006	4,364,192	4,410,871	15,845	25,972	1,991,520	6,175	31,991,090	10,786	(238)	(243,995)	132,669	42,704,887
Appropriation of the 2006 net earnings												
Legal reserve	-	-	-	-	2,524,733	-	(2,524,733)	-	-	-	-	-
Special reserve	-	-	-	-	-	(6,175)	6,175	-	-	-	-	-
Stock dividends	1,298,385	-	-	-	-	-	(1,298,385)	-	-	-	-	-
Transfer of employee bonuses to common stock	105,000	-	-	-	-	-	(105,000)	-	-	-	-	-
Employee bonuses	-	-	-	-	-	-	(2,000,000)	-	-	-	-	(2,000,000)
Cash dividends	-	-	-	-	-	-	(11,685,470)	-	-	-	-	(11,685,470)
Net income in 2007	-	-	-	-	-	-	28,938,862	-	-	-	(21,150)	28,917,712
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	(1,122)	-	-	-	(1,122)
Unrealized loss on financial instruments	-	-	-	-	-	-	-	-	(949)	-	-	(949)
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	(1,747,760)	-	(1,747,760)
Retirement of treasury stock	(36,240)	(36,627)	-	(216)	-	-	(1,918,672)	-	-	1,991,755	-	-
BALANCE, DECEMBER 31, 2007	5,731,337	4,374,244	15,845	25,756	4,516,253	-	41,403,867	9,664	(1,187)	-	111,519	56,187,298
Appropriation of the 2007 net earnings												
Legal reserve	-	-	-	-	2,893,886	-	(2,893,886)	-	-	-	-	-
Stock dividends	1,719,401	-	-	-	-	-	(1,719,401)	-	-	-	-	-
Transfer of employee bonuses to common stock	103,200	-	-	-	-	-	(103,200)	-	-	-	-	-
Employee bonuses	-	-	-	-	-	-	(1,210,000)	-	-	-	-	(1,210,000)
Cash dividends	-	-	-	-	-	-	(19,486,547)	-	-	-	-	(19,486,547)
Net income in 2008	-	-	-	-	-	-	28,635,349	-	-	-	(82,823)	28,552,526
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	55,938	-	-	-	55,938
Unrealized loss on financial instruments	-	-	-	-	-	-	-	-	(445)	-	-	(445)
Adjustment due to changes in ownership percentage in investees	-	-	1,689	-	-	-	-	-	-	-	-	1,689
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	(3,410,277)	-	(3,410,277)
BALANCE, DECEMBER 31, 2008	$ 7,553,938	$ 4,374,244	$ 17,534	$ 25,756	$ 7,410,139	$ -	$ 44,626,182	$ 65,602	$ (1,632)	$ (3,410,277)	$ 28,696	$ 60,690,182

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HTC CORPORATION
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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In Thousands)

	Capital Stock	Capital Surplus			Retained Earnings							
U.S. Dollars	Issued and Outstanding Common Stock	Additional Paid-in Capital	Long-Term Equity Investments	Merger	Legal Reserve	Special Reserve	Accumulated Earnings	Cumulative Translation Adjustments	Unrealized Valuation Losses on Financial Instruments	Treasury Stock	Minority Interests	Total
BALANCE, JANUARY 1, 2008	$ 174,736	$ 133,361	$ 483	$ 785	$ 137,691	$ -	$ 1,262,313	$ 295	$ (36)	$ -	$ 3,400	$ 1,713,028
Appropriation of the 2007 net earnings												
Legal reserve	-	-	-	-	88,228	-	(88,228)	-	-	-	-	-
Stock dividends	52,421	-	-	-	-	-	(52,421)	-	-	-	-	-
Transfer of employee bonuses to common stock	3,146	-	-	-	-	-	(3,146)	-	-	-	-	-
Employee bonuses	-	-	-	-	-	-	(36,890)	-	-	-	-	(36,890)
Cash dividends	-	-	-	-	-	-	(594,102)	-	-	-	-	(594,102)
Net income in 2008	-	-	-	-	-	-	873,029	-	-	-	(2,525)	870,504
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	1,705	-	-	-	1,705
Unrealized loss on financial instruments	-	-	-	-	-	-	-	-	(14)	-	-	(14)
Adjustment due to changes in ownership percentage in investees	-	-	52	-	-	-	-	-	-	-	-	52
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	(103,972)	-	(103,972)
BALANCE, DECEMBER 31, 2008	$ 230,303	$ 133,361	$ 535	$ 785	$ 225,919	$ -	$ 1,360,555	$ 2,000	$ (50)	$ (103,972)	$ 875	$ 1,850,311

(Concluded)

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

(With Deloitte & Touche audit report dated January 17, 2009)

HTC CORPORATION
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AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In Thousands)

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$ 25,234,342	$ 28,917,712	$ 28,552,526	$ 870,504
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation (including depreciation of assets leased to others)	638,353	681,257	746,472	22,758
Transfer of properties to expenses	-	-	18,103	552
Foreign exchange loss on bond investments not quoted in an active market	-	-	2,670	81
Amortization	40,516	51,862	61,777	1,883
(Gain) loss on disposal of properties and deferred charges, net	(35,699)	1,319	2,857	87
Loss on equity-method investments	-	-	6,151	188
Deferred income tax assets	(172,381)	(309,485)	(409,268)	(12,478)
Prepaid pension cost	(24,260)	(20,252)	(22,677)	(691)
Net changes in operating assets and liabilities				
Financial instruments at fair value through profit or loss	136,555	19,786	418,356	12,755
Notes and accounts receivable	(4,719,321)	(230,524)	(9,970,016)	(303,964)
Other current financial assets	(85,611)	83,900	(140,196)	(4,274)
Inventories	(645,482)	(1,273,718)	(1,013,635)	(30,904)
Prepayments	(1,449,856)	304,116	282,622	8,617
Other current assets	(192,527)	(63,149)	17,947	547
Notes and accounts payable	3,199,690	5,918,175	5,366,753	163,621
Income tax payable	1,141,854	799,986	1,469,214	44,793
Accrued expenses	1,241,816	2,636,439	10,221,198	311,622
Other current liabilities	459,756	2,280,787	2,016,103	61,466
Net cash provided by operating activities	24,767,745	39,798,211	37,626,957	1,147,163
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of properties	(1,166,408)	(1,424,307)	(5,639,163)	(171,926)
Proceeds of the sales of properties and deferred charges	44,701	6,552	76,857	2,343
Increase in long-term investments - equity method	-	-	(10,626)	(324)
Increase in restricted assets	-	(34,500)	(6,965)	(212)
Increase in financial assets carried at cost	-	(500,000)	-	-
Purchase of bond investments not quoted in an active market	-	(33,030)	-	-
Acquisition of a subsidiary	-	(240,039)	(6,297)	(192)
Increase in refundable deposits	(8,642)	(86,803)	(59,949)	(1,828)
Increase in deferred charges	(19,401)	(52,019)	(167,866)	(5,118)
Net cash used in investing activities	(1,149,750)	(2,364,146)	(5,814,009)	(177,257)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase in short-term borrowings	-	-	75,000	2,287
Decrease in long-term bank loans	-	(16,231)	(20,625)	(629)
Increase (decrease) in guarantee deposits received	79	(7)	5,787	176
Cash dividends	(4,998,224)	(11,685,470)	(19,486,547)	(594,102)
Bonus to employees	-	(2,451,000)	(1,210,000)	(36,890)
Purchase of treasury stock	(243,995)	(1,747,760)	(3,410,277)	(103,972)
Increase in minority interest	161,499	-	-	-
Net cash used in financing activities	(5,080,641)	(15,900,468)	(24,046,662)	(733,130)

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HTC CORPORATION
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CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In Thousands)

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	$ 7,238	$ (13,230)	$ (18,743)	$ (571)
NET INCREASE IN CASH AND CASH EQUIVALENTS	18,544,592	21,520,367	7,747,543	236,205
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	16,425,226	34,969,818	56,490,185	1,722,262
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 34,969,818	$ 56,490,185	$ 64,237,728	$ 1,958,467
SUPPLEMENTAL CASH FLOW INFORMATION				
Cash paid during the year				
Interest	$ 298	$ 1,212	$ 10,354	$ 316
Income tax	$ 738,902	$ 2,823,723	$ 2,111,548	$ 64,376
NONCASH INVESTING AND FINANCING ACTIVITIES				
Transfer of bond investment not quoted in an active market to investments accounted for by the equity method	$ -	$ -	$ 33,030	$ 1,007
Transfer of properties to assets leased to others	$ -	$ -	$ 309,959	9,450
Transfer of retained earnings and employee bonuses to common stock	$ 794,032	$ 1,403,385	$ 1,822,601	$ 55,567
Retirement of treasury stock	$ -	$ 1,991,755	$ -	$ -
PURCHASE OF PROPERTIES				
Cost of properties purchased	$ 1,199,315	$ 1,553,653	$ 5,773,031	$ 176,007
Increase in payable for purchase of equipment	(29,013)	(130,222)	(134,806)	(4,110)
(Increase) decrease in lease payable	(3,894)	876	938	29
Cash paid for purchase of properties	$ 1,166,408	$ 1,424,307	$ 5,639,163	$ 171,926
BONUS TO EMPLOYEES				
Appropriation of bonus to employees	$ 451,000	$ 2,000,000	$ 1,210,000	$ 36,890
(Increase) decrease in payable for employee bonus	(451,000)	451,000	-	-
Cash paid	$ -	$ 2,451,000	$ 1,210,000	$ 36,890
ACQUISITION OF A SUBSIDIARY				
Expected net cash outflow on the acquisition of a subsidiary	$ -	$ 240,039	$ 128,997	$ 3,933
Increase in other payable	-	-	(122,700)	(3,741)
Cash paid for acquisition of a subsidiary	$ -	$ 240,039	$ 6,297	$ 192

(Concluded)

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

(With Deloitte & Touche audit report dated January 17, 2009)

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 Depositary 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 5,654, 6,427 and 9,353 employees as of December 31, 2006, 2007 and 2008, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the Republic of China ("ROC"). Under these guidelines, and principles, certain estimates and assumptions have been used for the allowance for doubtful accounts, allowance for loss on inventories, depreciation of Properties, royalty, pension cost, allowance for product warranties, bonuses to employees, etc. Actual results may differ from these estimates.

The consolidated financial statements were originally presented in more than one set of Chinese reports. For readers' convenience, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If inconsistencies arise between the English version and the Chinese version or if differences arise in the interpretations between the two versions, the Chinese version of the financial statements shall prevail. However, the accompanying financial statements do not include the English translation of the additional footnote disclosures that are not required under ROC generally accepted accounting principles but are required by the Securities and Futures Bureau for their oversight purposes.

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

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 December 31, 2006, 2007 and 2008 were as follows:

			% of Ownership			
Investor	**Investee**	**Main Businesses**	**2006**	**2007**	**2008**	**Remark**
HTC Corporation	H.T.C. (B.V.I.) Corp.	Global investing activities	100.00	100.00	100.00	Incorporated in August 2000
	BandRich Inc.	Design, manufacture and sale of electronic devices	50.66	50.66	50.66	Incorporated in April 2006
	HTC HK, Limited	Global investing activities	100.00	100.00	100.00	Incorporated in August 2006
	Communication Global Certification Inc.	Testing and certification services	-	100.00	100.00	Invested in January 2007
	High Tech Computer Asia Pacific Pte. Ltd.	Global investing activities	-	100.00	100.00	Incorporated in July 2007
	HTC Investment Corporation	General investing activities	-	-	100.00	Incorporated in July 2008
	PT. High Tech Computer Indonesia	Marketing, distribution and after-sales service	-	1.00	1.00	Incorporated in December 2007
H.T.C. (B.V.I.) Corp.	HTEK	Marketing and engineering support activities	100.00	-	-	Incorporated in August 2000 and liquidated in 2007
	HTC America Inc.	Marketing , repair and after-sales services	100.00	100.00	100.00	Incorporated in January 2003
	HTC EUROPE CO., LTD.	〃	100.00	100.00	100.00	Incorporated in July 2003
	High Tech Computer Corp. (Suzhou)	Manufacture and sale of smart handheld devices	100.00	100.00	100.00	Incorporated in January 2003
	Exedea Inc.	Distribution and sales	100.00	100.00	100.00	Incorporated in December 2004 and invested in July 2005
	HTC NIPPON Corporation	Marketing, distribution and after-sales service	100.00	100.00	100.00	Incorporated in March 2006
	HTC BRASIL	〃	-	99.99	99.99	Incorporated in October 2006
	HTC Corporation (Shanghai WGQ)	Repair and after-sales service	-	100.00	100.00	Incorporated in July 2007
	One & Company Design, Inc.	Design, research and development of application software	-	-	100.00	Incorporated in October 2008
HTC HK, Limited	HTC Belgium BVBA/SPRL	Marketing, distribution and after-sales service	100.00	100.00	100.00	Incorporated in October 2006
HTC Belgium BVBA/SPRL	HTC Italia SRL	〃	-	100.00	100.00	Incorporated in February 2007
High Tech Computer Asia Pacific Pte. Ltd.	High Tech Computer Singapore Pte. Ltd.	〃	-	100.00	100.00	Incorporated in July 2007
	High Tech Computer (H.K.) Limited	〃	-	100.00	100.00	Incorporated in August 2007
	HTC (Australia and New Zealand) Pty. Ltd.	〃	-	100.00	100.00	Incorporated in August 2007

Investor	Investee	Main Businesses	% of Ownership 2006	2007	2008	Remark
	HTC Philippines Corp.	Marketing, distribution and after-sales service	-	99.99	99.99	Incorporated in December 2007
	PT. High Tech Computer Indonesia	〃	-	99.00	99.00	Incorporated in December 2007
	HTC (Thailand) Ltd.	〃	-	-	100.00	Incorporated in November 2007 and invested in September 2008
	HTC India Private Ltd.	〃	-	-	99.00	Incorporated in January 2008
	HTC Electronics (Shanghai) Co., Ltd.	Design, manufacture and sale of smart handheld devices	-	-	100.00	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	-	-	1.00	Incorporated in January 2008

In January 2007 and October 2008, the Company wholly acquired the shares issued by Communication Global Certification Inc. and One & Company Design, Inc. The net assets acquired were as follows:

	Communication Global Certification Inc.	One & Company Design, Inc.	
	NT$	NT$	US$ (Note 3)
Cash on hand and in banks	$ 39,961	$ 7,336	$ 224
Other current assets	40,201	12,378	377
Property	175,940	16,620	507
Intangible assets	174,253	115,055	3,508
Other assets	3,913	164	5
Current liabilities	(63,315)	(15,220)	(464)
Long-term bank loans	(90,050)	-	-
Other liabilities	(903)	-	-
Total consideration	$ 280,000	$ 136,333	$ 4,157
Cash consideration	$ 280,000	$ 136,333	$ 4,157
Cash on hand and in banks	(39,961)	(7,336)	(224)
Expected net cash outflow on the acquisition of a subsidiary	$ 240,039	$ 128,997	$ 3,933

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 properties 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 on its balance sheet when the Company becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognized when the Company has lost control of its contractual rights over the financial asset. A financial liability is derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired.

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. At each balance sheet date subsequent to initial recognition, financial assets or financial liabilities at FVTPL are remeasured at fair value, with changes in fair value recognized directly in profit or loss in the year in which they arise. Cash dividends received subsequently (including those received in the year of investment) are recognized as income for the year. On derecognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in profit 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. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are remeasured at fair value, with changes in fair value recognized in equity until the financial assets are disposed of, at which time, the cumulative gain or loss previously recognized in equity is included in profit 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' resolutions, except for dividends distributed from the pre-acquisition profit, 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 subsequent to the increase is used for recalculation of cost per share.

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. Any subsequent decrease in impairment loss for an equity instrument classified as available-for-sale is recognized directly in equity.

Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts

Revenue from sales 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, as the nominal value of the consideration to be received approximates its fair value and transactions are frequent, 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 collectability of accounts receivable. The Company assesses the probability of collections of accounts receivable by examining the aging analysis of the outstanding receivables and assessing the value of the collateral 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 (replacement cost or net realizable 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 investment 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 its investee's newly issued shares at a percentage different from its percentage of ownership in the investee, the Company records the change in its equity in the investee's net assets as an adjustment to investments, with a corresponding amount credited or charged to capital surplus. When the adjustment should be debited to capital surplus, but the capital surplus arising from long-term investments is insufficient, the shortage is debited to retained earnings.

Properties

Properties are stated at cost less accumulated depreciation. Borrowing costs directly attributable to the acquisition or construction of Properties are capitalized as part of the cost of those assets. Major additions and improvements to Properties are capitalized, while costs of repairs and maintenance are expensed currently.

Assets held under capital leases are initially recognized as assets of the Company at the lower of their fair value at the inception of the lease or the present value of the minimum lease payments; the corresponding liability is included in the balance sheet as obligations under capital leases. The interest included in lease payments is expensed when paid.

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.

Intangible Assets

Intangible assets acquired are initially recorded at cost and are amortized on a straight-line basis over their estimated useful lives. Effective January 1, 2006, based on a newly released SFAS No. 37, goodwill arising on acquisitions of other companies is no longer amortized and instead is 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.

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

Employee stock options granted between January 1, 2004 and December 31, 2007 were accounted for under the interpretations issued by the Accounting Research and Development Foundation ("ARDF"). The Company adopted the intrinsic value method, under which compensation cost was recognized on a straight-line basis over the vesting period.

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 using prevailing exchange rates and the exchange differences are recognized in profit 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 using prevailing exchange rates, with the exchange differences treated as follows:

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

b. Recognized in profit and loss if the changes in fair value is recognized in profit 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.

Reclassifications

Certain 2006 and 2007 accounts have been reclassified to be consistent with the presentation of the consolidated financial statements as of and for the year ended December 31, 2008.

3. TRANSLATION INTO U.S. DOLLARS

The consolidated financial statements are stated in New Taiwan dollars. The translation of the 2008 New Taiwan dollar amounts into U.S. dollar amounts are included solely for the convenience of readers, using the noon buying rate of NT$ 32.80 to US$1.00 quoted by the Bank of Taiwan on December 31, 2008. The convenience translation should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other exchange rate.

4. ACCOUNTING CHANGES

a. Interpretation 96-052 - "Accounting for Bonuses to Employees, Directors and Supervisors"

In March 2007, the Accounting Research and Development Foundation issued an interpretation that requires companies to recognize as compensation expenses bonuses paid to employees and remuneration to directors and supervisors beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. The adoption of this interpretation resulted in a decrease of NT$5,614,036 thousand (US$171,160 thousand) in net income, including employee bonus payable of NT$6,164,889 thousand (US$187,954 thousand), minus the allocation to inventory of NT$34,550 thousand (US$1,053 thousand) and minus the tax saving of NT$516,303 thousand (US$15,741 thousand), and a decrease in after income tax basic earnings per share of NT$7.44 for the year ended December 31, 2008.

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

	Years Ended December 31						
	2006		2007		2008		
	Amount	%	Amount	%	Amount		%
	NT$		NT$		NT$	US$ (Note 3)	
Revenues	$ 105,358,397	100	$ 118,217,545	100	$ 152,353,176	$ 4,644,914	100
Cost of revenues	74,053,697	70	77,773,277	66	100,718,334	3,070,681	66
Gross profit	31,304,700	30	40,444,268	34	51,634,842	1,574,233	34
Operating expenses	5,558,706	5	9,784,013	8	15,159,233	462,171	10
Operating income	25,745,994	25	30,660,255	26	36,475,609	1,112,062	24
Nonoperating income and gains	1,284,052	1	1,771,846	1	2,319,489	70,716	2
Nonoperating expenses and losses	87,329	-	200,165	-	929,043	28,325	1
Income before income tax	26,942,717	26	32,231,936	27	37,866,055	1,154,453	25
Income tax	(1,708,375)	(2)	(3,314,224)	(3)	(3,699,493)	(112,789)	(2)
Net income	$ 25,234,342	24	$ 28,917,712	24	$ 34,166,562	$ 1,041,664	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 year ended December 31, 2008.

c. SFAS No. 10 - "Accounting for Inventories"

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

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

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

	Years Ended December 31						
	2006		2007		2008		
	Amount NT$	%	Amount NT$	%	Amount NT$	Amount US$ (Note 3)	%
Revenues	$ 105,358,397	100	$ 118,217,545	100	$ 152,353,176	$ 4644,914	100
Cost of revenues	72,066,150	68	73,393,757	62	95,907,253	2924,002	63
Gross profit	33,292,247	32	44,823,788	38	56,445,923	1720,912	37
Operating expenses	6,770,188	7	13,504,377	12	24,842,505	757,393	16
Operating income	26,522,059	25	31,319,411	26	31,603,418	963,519	21
Nonoperating income and gains	1,284,052	1	1,797,384	1	2,319,489	70,716	2
Nonoperating expenses and losses	863,394	-	884,859	-	2,187,191	66,683	2
Income before income tax	26,942,717	26	32,231,936	27	31,735,716	967,552	21
Income tax	(1,708,375)	(2)	(3,314,224)	(3)	(3,183,190)	(97,048)	(2)
Net income	$ 25,234,342	24	$ 28,917,712	24	$ 28,552,526	$ 870,504	19

5. CASH

Cash as of December 31, 2006, 2007 and 2008 was as following:

	2006 NT$	2007 NT$	2008 NT$	2008 US$ (Note 3)
Cash on hand	$ 1,505	$ 2,405	$ 3,022	$ 92
Cash in banks	4,499,913	9,908,345	3,375,899	102,924
Time deposits	30,468,400	46,579,435	60,858,807	1,855,451
	$ 34,969,818	$ 56,490,185	$ 64,237,728	$ 1,958,467

On time deposits, interest rates ranged from 1.610% to 2.145%, 1.809% to 4.400% and 0.30% to 2.41%, as of December 31, 2006, 2007 and 2008, respectively.

On preferential deposits, interest rates ranged from 2.30% to 5.25%, 3.05% to 4.15% and 0.02% to 2.71% as of December 31, 2006, 2007 and 2008, respectively.

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

Financial assets and liabilities at fair value through profit or loss as of December 31, 2006, 2007 and 2008 were as follows:

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
Derivatives - financial liabilities				
Forward exchange contracts	$ 76,470	$ 96,256	$ 514,083	$ 15,673

The Company had derivative transactions in 2006, 2007 and 2008 to manage exposures related to exchange rate fluctuations. However, these transactions did not meet the criteria for hedge accounting under Statement of Financial Accounting Standards No. 34 - "Accounting for Financial Instruments." Thus, the Company had no hedge accounting in 2006, 2007 and 2008. Outstanding forward exchange and currency option contracts as of December 31, 2006, 2007 and 2008 were as follows:

Forward Exchange Contracts

	2006			
	Buy/Sell	Currency	Settlement Period/ Date	Contract Amount
Forward exchange contracts	Sell	USD/NTD	2007.01.05-2007.03.28	US$ 78,000
Forward exchange contracts	Sell	EUR/USD	2007.01.05-2007.03.09	EUR€ 108,000
Forward exchange contracts	Buy	USD/JPY	2007.01.12-2007.03.09	US$ 11,000
Forward exchange contracts	Sell	GBP/USD	2007.01.05-2007.02.16	GBP£ 6,150
Forward exchange contracts	Sell	JPY/NTD	2007.01.12-2007.03.28	JP¥ 427,750
Forward exchange contracts	Sell	JPY/USD	2007.01.17-2007.03.28	JP¥ 810,626

	2007			
	Buy/Sell	Currency	Settlement Period/ Date	Contract Amount
Forward exchange contracts	Sell	USD/NTD	2008.01.04-2008.01.30	US$ 63,000
Forward exchange contracts	Sell	EUR/USD	2008.01.09-2008.03.05	EUR€ 201,500
Forward exchange contracts	Buy	USD/CAD	2008.01.11-2008.02.22	US$ 5,146
Forward exchange contracts	Sell	GBP/USD	2008.01.11-2008.01.30	GBP£ 3,725
Forward exchange contracts	Sell	JPY/NTD	2008.01.09	JP¥ 425,000

	2008			
	Buy/Sell	Currency	Settlement Period/ Date	Contract Amount
Forward exchange contracts	Sell	AUD/USD	2009.01.07-2009.01.16	AUD$ 17,000
Forward exchange contracts	Sell	EUR/USD	2009.01.07-2009.02.27	EUR€ 141,000
Forward exchange contracts	Sell	GBP/USD	2009.01.07-2009.02.18	GBP£ 3,870
Forward exchange contracts	Sell	JPY/NTD	2009.01.16	JP¥ 95,000
Forward exchange contracts	Buy	USD/JPY	2009.01.07-2009.02.13	US$ 16,726
Forward exchange contracts	Sell	USD/NTD	2009.01.07-2009.01.23	US$ 37,000
Forward exchange contracts	Buy	USD/CAD	2009.01.16	US$ 618

Net gain on derivative financial instruments in 2008 was NT$311,946 thousand (US$9,511 thousand), including realized settlement gain of NT$826,029 thousand (US$25,184 thousand) and valuation loss of NT$514,083 thousand (US$15,673 thousand).

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets as of December 31, 2006, 2007 and 2008 were as follows:

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
VIA Technologies, Inc.	$ 1,733	$ 784	$ 339	$ 10

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

8. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable as of December 31, 2006, 2007 and 2008 were as follows:

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
Notes receivable	$ 58,930	$ 3,532	$ 26,009	$ 793
Accounts receivable	19,176,850	19,747,487	29,937,446	912,727
Accounts receivable from related parties	3,685	507	69,520	2,120
Less: Allowance for doubtful accounts	(32,234)	(277,809)	(578,197)	(17,628)
	$ 19,207,231	$ 19,473,717	$ 29,454,778	$ 898,012

9. OTHER CURRENT FINANCIAL ASSETS

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

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
Other receivables	$ 25,297	$ 102,344	$ 238,053	$ 7,258
Interest receivables	24,854	50,444	40,474	1,234
Agency payments	210,077	23,540	37,997	1,158
	$ 260,228	$ 176,328	$ 316,524	$ 9,650

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 December 31, 2006, 2007 and 2008 were as follows:

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
Finished goods	$1,217,864	$ 582,984	$1,666,089	$ 50,795
Work-in-process	1,274,719	2,034,715	2,472,925	75,394
Raw materials	4,445,963	5,741,329	6,019,910	183,534
	6,938,546	8,359,028	10,158,924	309,723
Less: Valuation allowance	(975,033)	(1,121,797)	(1,908,587)	(58,188)
	$5,963,513	$7,237,231	$8,250,337	$251,535

The write-down of inventories to their net realizable value amounted to NT$1,258,148 thousand (US$38,358 thousand) and was recognized as cost of sales for the year ended December 31, 2008. For consistency with the presentation of the financial statements for the year ended December 31, 2008, the Company reclassified “provision for loss on inventories” amounting to NT$774,944 thousand and NT$684,694 thousand for the years ended December 31, 2006 and 2007, respectively, to “cost of sales.”

11. PREPAYMENTS

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

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
Royalty	$1,631,513	$1,232,901	$ 976,824	$ 29,781
Software and hardware maintenance	81,322	76,732	88,554	2,700
Molding equipment	40,088	158,280	80,420	2,452
Net input VAT	975	23,818	35,517	1,083
Service	10,039	28,513	27,322	833
Materials purchases	4,281	3,719	16,440	501
Others	99,602	43,798	60,406	1,842
	$1,867,820	$1,567,761	$1,285,483	$ 39,192

Prepayments for royalty were primarily prepayments for discount purposes (Note 30 has more information).

Prepayments for others were primarily for rent and insurance expenses.

12. FINANCIAL ASSETS CARRIED AT COST

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

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
Hua-Chuang Automobile Information Technical Center Co., Ltd.	$ -	$ 500,000	$ 500,000	$ 15,244
Answer Online, Inc.	1,192	1,192	1,192	36
	$ 1,192	$ 501,192	$ 501,192	$ 15,280

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

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

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

13. BOND INVESTMENTS NOT QUOTED IN AN ACTIVE MARKET

As of December 31, 2007 the Company had the following bond investment, which had no quoted price in an active market:

	2007	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
Bond investment	$ -	$ 33,030	$ -	$ -
Less: Current portion	-	(33,030)	-	-
	$ -	$ -	$ -	$ -

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$350 thousand and transferred its bond investment of US$1,000 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

The investment accounted for by the equity method as of December 31, 2008 was as follows:

	2006		2007		2008				
	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage	Original Cost		Carrying Value		Ownership Percentage
	NT$		NT$		NT$	US$ (Note 3)	NT$	US$ (Note 3)	
Equity method									
Vitamin D Inc.	$ -	-	$ -	-	$ 40,986	$ 1,250	$ 39,906	$ 1,217	26

In April 2008, the Company made a new investment of US$350 thousand and transferred its bond investment of US$1,000 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, (US$1,250 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$52 thousand).

On its equity-method investments, the Company had a loss of NT$6,151 thousand (US$188 thousand) for the year ended December 31, 2008.

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

15. PROPERTIES

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

	2006	2007	2008			
	Carrying Value	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NT$	NT$	NT$	NT$	NT$	US$ (Note 3)
Land	$ 610,293	$ 610,293	$3,568,124	$ -	$3,568,124	$108,784
Buildings and structures	735,785	1,831,765	2,856,815	525,185	2,331,630	71,086
Machinery and equipment	1,170,572	1,339,950	4,579,241	3,086,203	1,493,038	45,519
Molding equipment	-	11,113	194,320	179,994	14,326	437
Computer equipment	73,830	97,374	350,118	229,329	120,789	3,683
Transportation equipment	1,167	703	4,605	3,012	1,593	49
Furniture and fixtures	51,056	98,092	462,157	154,811	307,346	9,370
Leased assets	3,927	3,141	5,336	2,356	2,980	91
Leasehold improvements	49,797	79,306	188,182	62,947	125,235	3,818
Prepayments for construction-in-progress and equipment-in-transit	473,971	149,225	951,289	-	951,289	29,003
	$3,170,398	$4,220,962	$13,160,187	$4,243,837	$8,916,350	$271,840

In August 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$27,439 thousand) to have more office space and to build parking lots, dormitory, etc.

In December 2008, the Company bought the land - about 8.3 thousand square meters - from Yulon Motors Ltd. for NT$3,335,000 thousand (US$101,677 thousand) to build the Taipei R&D headquarters in Xindian City. Of the purchase price, 80% had been paid and 80% of ownership of the land had been transferred to the Company as of December 31, 2008. Yulon Motors Ltd. should transfer the remaining 20% of ownership of the land before December 20, 2009, and the Company should pay the remaining 20% after completing the land transfer registration.

In December 2008, the Company's board of directors resolved to participate in the third auction held by Taiwan Financial Asset Service Corporation ("TFASC") and acquired the land - about 16.5 thousand square meters - from Hualon Corporation for NT$355,620 thousand (US$10,842 thousand). Of the purchase price, NT$71,130 thousand (US$2,169 thousand) had been paid by the end of 2008, and the remaining NT$284,490 thousand (US$8,673 thousand) was paid on January 7, 2009.

16. SHORT-TERM BORROWINGS

Short-term borrowings as of December 31, 2008 were as follows:

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
Working capital loans, annual interest at 2.80%~4.40%	$ -	$ -	$ 75,000	$ 2,286
	$ -	$ -	$ 75,000	$ 2,286

17. ACCRUED EXPENSES

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

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
Bonus to employees	$ 451,000	$ -	$ 6,164,889	$ 187,954
Marketing	983,088	3,190,918	5,790,466	176,539
Salaries & bonuses	828,071	989,143	1,220,533	37,211
Services	53,074	148,815	520,383	15,865
Export expenses	200,083	139,512	460,724	14,047
Research materials	128,505	193,859	539,071	16,435
Meals and welfare	57,598	58,287	101,563	3,096
Repairs and maintenance	23,759	33,686	82,096	2,503
Insurance	42,403	47,460	74,061	2,258
Research and development	-	-	65,600	2,000
Pension for contribution plan	26,781	33,870	49,630	1,513
Travel	58,027	40,777	32,507	991
Others	82,689	250,082	247,247	7,538
	$ 2,935,078	$ 5,126,409	$ 15,348,770	$ 467,950

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$6,164,889 thousand (US$187,954 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 2006, 2007 and 2008, the stockholders approved the appropriation from the net earnings of 2005, 2006 and 2007, and the employee bonuses were NT$451,000 thousand, NT$2,000,000 thousand and NT$1,210,000 thousand (US$36,890 thousand), respectively. Only employee bonus payable of NT$451,000 thousand had not been paid on December 31, 2006.

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

18. OTHER CURRENT LIABILITIES

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

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
Reserve for warranty expenses	$ 1,393,995	$ 3,469,957	$ 5,228,603	$ 159,408
Other payable	38,699	66,755	389,103	11,863
Agency receipts	145,373	226,124	285,914	8,717
Advance receipts	57,426	177,150	180,504	5,503
Directors' remuneration	21,842	21,842	21,842	666
Others	4,668	8,204	2,730	83
	$ 1,662,003	$ 3,970,032	$ 6,108,696	$ 186,240

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.

In October 2008, H.T.C. (B.V.I.) Corp. acquired 100% equity interest of One & Company Design, Inc., and paid the investment to the original stockholders of One & Company Design, Inc. in several installments based on the agreement. Of the investment, NT$122,700 thousand (US$3,741 thousand) had not been paid as of December 31, 2008.

The Company also estimated a contingent liability of NT$259,450 thousand (US$7,910 thousand) due to an increased financial risk from the customer. If the customer cannot pay its payments, the upstream firms might dun the Company for the customer's liabilities. The Company is still negotiating with the customer to resolve this issue.

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

19. LONG-TERM BANK LOANS

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
Secured loans (Note 28)				
NT$50,000 thousand, repayable from July 2006 in 16 quarterly installments; 1% annual interest	$ -	$ 31,250	$ 18,750	$ 572
NT$65,000 thousand, repayable from July 2008 in 16 quarterly installments; 1% annual interest	-	65,000	56,875	1,734
Less: Current portion	-	(20,625)	(28,750)	(877)
	$ -	$ 75,625	$ 46,875	$ 1,429

20. PENSION PLAN

The Labor Pension Act (the "Act), which provides for a new defined contribution plan, took effect on July 1, 2005. Employees covered by the Labor Standards Law (the "Law") before the enforcement of the Act were allowed to choose to remain to be subject to the defined benefit pension mechanism under the Law or to be subject instead to the Act. Based on the Act, the rate of the Company's required monthly contributions to the employees' individual pension accounts is at least 6% of monthly wages and salaries, and these contributions are recognized as pension expense in the income statement. The pension fund contributions were NT$90,488 thousand in 2006, NT$113,985 thousand in 2007 and NT$162,692 (US$4,960 thousand) in 2008.

Under the Law, which provides for a defined benefit pension plan, retirement payments should be made according to the years of service, with a payment of two units for each year of service but only one unit per year after the 15th year; however, total units should not exceed 45. The rate of the Company's contributions to a pension fund was 2% after the Act took effect. The pension fund is deposited in the Bank of Taiwan (the Central Trust of China merged with the Bank of Taiwan in 2007, with the Bank of Taiwan as the survivor entity) in the committee's name. The pension fund balances were NT$311,532 thousand, NT$348,853 thousand and NT$389,216 thousand (US$11,866 thousand) as of December 31, 2006, 2007 and 2008, respectively.

H.T.C. (B.V.I.) Corp., HTC HK, Limited, and High Tech Computer Asia Pacific Pte. Ltd. have no pension plans.

Under their respective local government regulations, other subsidiaries have defined contribution pension plans covering all eligible employees. The pension fund contributions were NT$3,006 thousand in 2006 NT$15,728 thousand in 2007 and NT$41,827 (US$1,275 thousand) in 2008.

Based on the Statement of Financial Accounting Standards No. 18 - "Accounting for Pensions" issued by the Accounting Research and Development Foundation of the ROC, pension cost under a defined benefit pension plan should be calculated by the actuarial method.

The Company's net pension costs under the defined benefit plan in 2006, 2007 and 2008 were as follows:

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
Service cost	$ 5,259	$ 4,930	$ 5,194	$ 158
Interest cost	9,400	8,629	8,743	267
Projected return on plan assets	(10,320)	(8,988)	(9,980)	(304)
Amortization	1,708	2,256	1,561	47
Curtailment gain	-	-	(211)	(6)
Net pension cost	$ 6,047	$ 6,827	$ 5,307	$ 162

The reconciliations between pension fund status and prepaid pension cost as of December 31, 2006, 2007 and 2008 were as follows:

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
Present actuarial value of benefit obligation				
Vested benefits	$ -	$ -	$ -	$ -
Non-vested benefits	153,371	172,092	164,214	5,006
Accumulated benefit obligation	153,371	172,092	164,214	5,006
Additional benefits on future salaries	159,023	145,809	176,784	5,390
Projected benefit obligation	312,394	317,901	340,998	10,396
Plan assets at fair value	(311,532)	(348,853)	(389,216)	(11,866)
Funded status	862	(30,952)	(48,218)	(1,470)
Unrecognized net transitional obligation	-	(1,032)	(564)	(17)
Unrecognized pension loss	(74,882)	(63,229)	(68,630)	(2,092)
Additional minimum pension liability	-	953	475	14
Prepaid pension cost	$ (74,020)	$ (94,260)	$(116,937)	$ (3,565)

Assumptions used in actuarially determining the present value of the projected benefit obligation were as follows:

	2006	2007	2008
Weighted-average discount rate	2.75%	2.75%	2.75%
Assumed rate of increase in future compensation	4.25%	2%-4%	2%-4%
Expected long-term rate of return on plan assets	2.75%	2.75%	2.75%

The vested benefits as of December 31, 2006, 2007 and 2008 all amounted to NT$0 thousand.

21. 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 amounting to NT$714,032 thousand and employee bonuses amounting to NT$80,000 thousand to capital stock. As a result, the amount of the Company's outstanding common stock as of December 31, 2006 increased to NT$4,364,192 thousand, divided into 436,419 thousand common shares at NT$10.00 par value.

In April 2007, the Company retired 3,624 thousand treasury shares (NT$36,240 thousand). 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 December 31, 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 (US$52,421 thousand) and employee bonuses amounting to NT$103,200 thousand (US$3,146 thousand) to capital stock. As a result, the amount of the Company's outstanding common stock as of December 31, 2008 increased to NT$7,553,938 thousand (US$230,303 thousand), divided into 755,394 thousand common shares at NT$10.00 (US$0.30) 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. 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 in the first and second quarter of 2007, there were no employee stock options outstanding as of June 20, 2007, the date of stockholders' meeting. The remaining employee stock options which were not issued, amounting to 4,000 thousand units, expired on December 25, 2003.

Global Depositary Receipts

The Company issued 14,400 thousand common shares corresponding to 3,600 thousand units of Global Depositary Receipts (GDRs). For this GDR issuance, the Company's stockholders, including Via Technologies, Inc., also issued 12,878.4 thousand common shares, corresponding to 3,219.6 thousand GDR units. Thus, the entire offering consisted of 6,819.6 thousand GDR units. Each GDR represents four common shares, with par value of NT$131.1. For this common share issuance, net of related expenses, NT$1,696,855 thousand was accounted for as capital surplus. This share issuance for cash was completed and registered on November 19, 2003.

The holders of these GDRs have the same rights and obligations as the stockholders of the Company. However, the distribution of the offering and sales of GDRs and the shares represented thereby in certain jurisdictions may be restricted by law. In addition, the GDRs offered and the shares represented are not transferable, except in accordance with the restrictions described in the GDR offering circular and related laws applied in Taiwan. Through the depositary custodian in Taiwan, GDR holders are entitled to exercise these rights:

a. To vote; and
b. To receive dividends and participate in new share issuance for cash subscription.

Taking into account the effect of stock dividends, the GDRs increased to 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 December 31, 2008, there were 6,623.1 thousand units of GDRs redeemed, representing 26,492 thousand common shares, and the outstanding GDRs represented 6,796 thousand common shares or 0.90% 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 December 31, 2008 was NT$4,374,244 thousand (US$133,361 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. in May 2006 and Vitamin D Inc. in September 2008, adjustments of NT$15,845 thousand and NT$1,689 thousand (US$52 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 December 31, 2008 was NT$17,534 thousand (US$535 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$785 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. 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.

As of January 17, 2009, the date of the accompanying independent auditors' report, the appropriation of the 2008 earnings had not been proposed by the Board of Directors. Information on earnings appropriation can be accessed online through the Market Observation Post System on the Web site.

22. TREASURY STOCK

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. The repurchase period was between October 8, 2008 and December 7, 2008, and the repurchase price ranged from NT$400 (US$12) to NT$500 (US$15) per share. If the Company's share price was lower than this price range, the Company might continue to buy back its shares.

The Company bought back 10,000 thousand shares for NT$3,410,277 thousand (US$103,972 thousand) during the repurchase period.

(In thousands of shares)

Purpose	As of January 1, 2008	Increase	Decrease	As of December 31, 2008
For maintaining the Company's credit and stockholders' equity	-	10,000	-	10,000

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.

23. PERSONNEL EXPENSES, DEPRECIATION AND AMORTIZATION

Function / Expense Item	2006			2007		
	NT$			NT$		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
Personnel expenses	1,747,869	2,195,829	3,943,698	2,026,408	3,482,283	5,508,691
Salary	1,503,540	1,942,094	3,445,634	1,740,812	3,075,796	4,816,608
Insurance	70,395	87,463	157,858	80,707	163,098	243,805
Pension	35,036	64,505	99,541	45,258	91,282	136,540
Others	138,898	101,767	240,665	159,631	152,107	311,738
Depreciation expense	384,241	254,112	638,353	393,581	287,676	681,257
Amortization	7,319	33,197	40,516	14,006	37,856	51,862

Function / Expense Item	2008					
	NT$			US$ (Note 3)		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
Personnel expenses	3,504,723	10,041,645	13,546,368	106,851	306,148	412,999
Salary	3,099,263	9,377,620	12,476,883	94,490	285,903	380,393
Insurance	126,199	198,891	325,090	3,847	6,064	9,911
Pension	59,935	149,891	209,826	1,827	4,570	6,397
Others	219,326	315,243	534,569	6,687	9,611	16,298
Depreciation expense	378,836	365,029	743,865	11,550	11,129	22,679
Amortization	20,617	41,160	61,777	628	1,255	1,883

24. 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 administrative appeal and litigation of its returns. Nevertheless, under the conservatism guideline, HTC adjusted its income tax for the tax shortfall stated in the tax assessment notices.

The income tax returns of BandRich Inc. and Communication Global Certification Inc. through 2006 had been examined by the tax authorities.

Under the Statute for Upgrading Industries, HTC 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 in 2006, 2007 and 2008; and income tax payable, income tax refund receivables and deferred tax assets (liabilities) as of December 31, 2006, 2007 and 2008 were as follows:

	2006				2007			
	Income Tax Expense	**Income Tax Payable**	**Income Tax Receivable**	**Deferred Tax Assets**	**Income Tax Expense (Benefit)**	**Income Tax Payable**	**Income Tax Receivable**	**Deferred Tax Assets**
	NT$	**NT$**	**NT$**	**NT$**	**NT$**	**NT$**	**NT$**	**NT$**
HTC Corporation	$ 1,710,551	$ 1,758,717	$ -	$ 647,307	$ 3,212,435	$ 2,514,394	$ -	$ 942,110
BandRich Inc.	(3,934)	-	201	3,934	(5,892)	-	-	9,826
Communication Global Certification Inc.	-	-	-	-	292	-	-	2,286
HTC America Inc.	294	-	-	-	61,401	-	-	-
Exedea Inc.	1,464	-	-	-	7,948	-	-	-
HTC EUROPE CO., LTD.	-	-	-	-	31,082	29,705	-	-
HTC NIPPON Corporation	-	-	-	-	489	90	-	-
HTC Belgium BVBA/SPRL	-	-	-	-	4,231	3,361	-	-
High Tech Computer Singapore Pte. Ltd.	-	-	-	-	526	519	-	-
High Tech Computer (H.K.) Limited	-	-	-	-	661	3,682	-	3,029
HTC (Australia and New Zealand) Pty. Ltd.	-	-	-	-	1,051	6,952	-	5,915
	$ 1,708,375	$ 1,758,717	$ 201	$ 651,241	$ 3,314,224	$ 2,558,703	$ -	$ 963,166

	2008							
	Income Tax Expense (Benefit)		**Income Tax Payable**		**Income Tax Receivable**		**Deferred Tax Assets (Liabilities)**	
	NT$	**US$ (Note 3)**	**NT$**	**US$ (Note 3)**	**NT$**	**US$ (Note 3)**	**NT$**	**US$ (Note 3)**
HTC Corporation	$ 2,955,130	$ 90,096	$ 3,937,745	$ 120,053	$ -	$ -	$ 1,373,638	$ 41,879
BandRich Inc.	10,071	307	-	-	-	-	(245)	(8)
Communication Global Certification Inc.	539	16	178	5	-	-	2,228	68
HTC America Inc.	100,493	3,064	-	-	16,400	500	-	-
HTC EUROPE CO., LTD.	77,956	2,377	63,547	1,938	-	-	-	-
HTC NIPPON Corporation	11,642	355	12,364	377	-	-	-	-
HTC BRASIL	4,505	137	-	-	1,882	57	-	-
One & Company Design, Inc.	(2,933)	(89)	2,489	76	-	-	(4,922)	(150)
HTC Corporation (Shanghai WGQ)	4,583	140	3,808	116	-	-	-	-
HTC Belgium BAVA/SPRL	9,976	304	9,146	279	-	-	-	-
High Tech Computer Singapore Pte. Ltd.	142	4	494	15	-	-	-	-
High Tech Computer (H.K.) Limited	(245)	(7)	409	12	-	-	-	-
HTC (Australia and New Zealand) Pty. Ltd.	3,823	116	6,129	187	-	-	2,661	81
HTC India Private Limited	6,177	188	2,470	75	-	-	-	-
HTC (Thailand.) Ltd.	1,002	30	591	18	-	-	-	-
HTC Investment Corporation	329	10	243	8	-	-	63	2
	$ 3,183,190	$ 97,048	$ 4,039,613	$ 123,159	$ 18,282	$ 557	$ 1,373,423	$ 41,872

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

	2006	2007	2008	
	NT$	**NT$**	**NT$**	**US$ (Note 3)**
Temporary differences				
Provision for loss on decline in value of inventory	$ 222,916	$ 229,072	$ 418,861	$ 12,770
Unrealized marketing expenses	245,772	757,691	1,456,074	44,393
Unrealized reserve for warranty expense	348,499	867,489	1,307,151	39,852
Capitalized expense	31,936	39,628	59,474	1,813
Unrealized royalties	942,097	1,009,848	1,535,925	46,827
Unrealized bad-debt expenses	-	16,072	26,503	808
Unrealized valuation loss on financial instruments	19,117	24,064	128,521	3,918
Other	27,770	45,345	11,711	357
Loss carryforwards	7,868	25,293	50,545	1,541
Tax credit carryforwards	9,574	47,484	2,281,856	69,569
Total deferred tax assets	1,855,549	3,061,986	7,276,621	221,848
Less: Valuation allowance	(1,147,549)	(2,026,939)	(5,826,064)	(177,624)
Total deferred tax assets, net	708,000	1,035,047	1,450,557	44,224
Deferred tax liabilities				
Unrealized pension cost	(18,505)	(23,797)	(29,353)	(895)
Unrealized foreign exchange gain, net	(38,254)	(43,035)	(41,249)	(1,258)
Unrealized depreciation	-	(5,049)	(6,532)	(199)
	651,241	963,166	1,373,423	41,872
Less: Current portion	(428,077)	(570,992)	(550,530)	(16,784)
Deferred tax assets - noncurrent	$ 223,164	$ 392,174	$ 822,893	$ 25,088

Details of the tax credit carryforwards were as follows:

Credit Grant Year	Validity Period	2006 NT$	2007 NT$	2008 NT$	2008 US$ (Note 3)
2004	2004-2008	$ -	$ 6,965	$ -	$ -
2005	2005-2009	-	6,479	6,479	198
2006	2006-2010	9,574	15,475	15,475	472
2007	2007-2011	-	18,565	220,270	6,715
2008	2008-2012	-	-	2,039,632	62,184
		$ 9,574	$ 47,484	$ 2,281,856	$ 69,569

Details of the loss carryforwards were as follows:

Loss Year	Validity Period	2006 NT$	2007 NT$	2008 NT$	2008 US$ (Note 3)
2005	2006-2010	$ -	$ 95	$ 95	$ 3
2006	2007-2011	31,474	50,703	50,703	1,546
2007	2008-2012	-	50,372	48,885	1,490
2008	2009-2013	-	-	102,497	3,125
		$ 31,474	$ 101,170	$ 202,180	$ 6,164

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

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

The income taxes in 2006, 2007 and 2008 were as follows:

	2006 NT$	2007 NT$	2008 NT$	2008 US$ (Note 3)
Current income tax	$ 1,849,052	$ 3,497,798	$ 3,602,387	$ 109,799
Increase in deferred income tax assets	(172,381)	(309,485)	(410,257)	(12,508)
Underestimation (overestimation) of prior year's income tax	31,704	125,911	(8,940)	(243)
Income tax	$ 1,708,375	$ 3,314,224	$ 3,183,190	$ 97,048

The integrated income tax information of HTC is as follows:

	2006 NT$	2007 NT$	2008 NT$	2008 US$ (Note 3)
Balance of imputation credit account (ICA)	$ 1,772,897	$ 3,005,386	$ 5,568,676	$ 169,777
Unappropriated earnings generated from 1998	31,991,090	41,403,867	44,626,182	1,360,555
Actual/ estimated creditable ratio (including income tax payable)	5.54 % (actual ratio)	7.26% (actual ratio)	12.48% (estimated ratio)	12.48% (estimated ratio)

For distribution of earnings generated on or after January 1, 1998, the ratio for the imputation credits allocated to stockholders of the Company is based on the balance of the ICA as of the date of dividend distribution. The expected creditable ratio for the 2008 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution.

25. EARNINGS PER SHARE

Earnings per share (EPS) before tax and after tax are calculated by dividing net income by the weighted average number of common shares outstanding which includes the deduction of the effect of treasury stock during each year. The weighted average number of shares used in EPS calculation was 761,697 thousand shares, 755,608 thousand shares and 754,148 thousand shares for the years ended December 31, 2006, 2007 and 2008, respectively. EPS for the years ended December 31, 2006 and 2007 were calculated after the average number of shares outstanding was adjusted retroactively for the effect of stock dividend distribution in 2008.

The Accounting Research and Development Foundation issued Interpretation 2007-052 that requires companies to recognize bonuses paid to employees, directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. If the Company may settle the bonus to employees by cash or shares, the Company should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should 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 entire amount of the bonus by the closing price of the shares at the balance sheet date. Such dilutive effects of the potential shares needs to be included in the calculation of diluted EPS until the stockholders resolve the number of shares to be distributed to employees at their meeting in the following year. The related EPS information for the years ended December 31, 2006, 2007 and 2008 are as follows:

	2006				
	Numerators		**Denominator**	**EPS (In Dollars)**	
	Income before Income Tax	**Income after Income Tax**	**Shares (Thousands)**	**Income before Income Tax**	**Income after Income Tax**
	NT$	**NT$**		**NT$**	**NT$**
Basic EPS	$26,957,878	$25,247,327	761,697	$ 35.39	$ 33.15
Employee stock options	-	-	6,763		
Diluted EPS	$26,957,878	$25,247,327	768,460	$ 35.08	$ 32.85

	2007				
	Numerators		**Denominator**	**EPS (In Dollars)**	
	Income before Income Tax	**Income after Income Tax**	**Shares (Thousands)**	**Income before Income Tax**	**Income after Income Tax**
	NT$	**NT$**		**NT$**	**NT$**
Basic EPS	$32,151,297	$28,938,862	755,608	$ 42.55	$ 38.30
Employee stock options	-	-	-		
Diluted EPS	$32,151,297	$28,938,862	755,608	$ 42.55	$ 38.30

	2008				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax	Income after Income Tax	Shares (Thousands)	Income before Income Tax	Income after Income Tax
	NT$	NT$		NT$	NT$
Basic EPS	$31,590,479	$28,635,349	754,148	$ 41.89	$ 37.97
Bonus to employees	-	-	27,400		
Diluted EPS	$31,590,479	$28,635,349	781,548	$ 40.42	$ 36.64

	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	$ 963,125	$ 873,029	754,148	$ 1.28	$ 1.16
Employees' bonus	-	-	27,400		
Diluted EPS	$ 963,125	$ 873,029	781,548	$ 1.23	$ 1.12

26. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

Nonderivative Financial Instruments

	December 31							
	2006		2007		2008			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NT$	NT$	NT$	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
Assets								
Available-for-sale financial assets - noncurrent	$ 1,733	$ 1,733	$ 784	$ 784	$ 339	$ 10	$ 339	$ 10
Financial assets carried at cost	1,192	1,192	501,192	501,192	501,192	15,280	501,192	15,280
Bond investments not quoted in an active market	-	-	33,030	33,030	-	-	-	-
Investments accounted for using equity method	-	-	-	-	39,906	1,217	39,906	1,217

Derivative Financial Instruments

	December 31							
	2006		2007		2008			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NT$	NT$	NT$	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
Liabilities								
Financial liabilities at fair value through profit or loss	76,470	76,470	96,256	96,256	514,083	15,673	514,083	15,673

Methods and Assumptions Used in Determining Fair Values of Financial Instruments

Not subject to Statement of Financial Accounting Standards No. 34 - "Financial Instruments: Recognition and Measurement" 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 future cash flows discounted at the average interest rates for time deposits with maturities similar to those of the financial instruments.

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

Methodology Used to Determine the Fair Values of Financial Instruments

	Quoted Market Prices				Measurement Method			
	December 31				December 31			
	2006	2007	2008		2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)	NT$	NT$	NT$	US$ (Note 3)
Assets								
Available-for-sale financial assets - noncurrent	$ 1,733	$ 784	$ 339	$ 10	$ -	$ -	$ -	$ -
Financial assets carried at cost	-	-	-	-	1,192	501,192	501,192	15,280
Bond investments not quoted in an active market	-	-	-	-	-	33,030	-	-
Investments accounted for using equity method	-	-	-	-	-	-	39,906	1,217
Liabilities								
Financial liabilities at fair value through profit or loss	76,470	96,256	514,083	15,673	-	-	-	-

There was no loss or gain recognized for the years ended December 31, 2006, 2007 and 2008 on the fair value changes of derivatives with fair values estimated using valuation techniques. However, on the changes in fair value of available-for-sale financial assets, the Company recognized an unrealized gain of NT$849 thousand, an unrealized loss of NT$949 thousand and another unrealized loss of NT$445 thousand (US$14 thousand) under stockholders' equity in the years ended December 31, 2006, 2007 and 2008, respectively.

As of December 31, 2006, 2007 and 2008, financial assets exposed to cash flow interest rate risk amounted to NT$30,468,400 thousand, NT$46,613,935 thousand and NT$60,900,272 thousand (US$1,856,715 thousand), respectively.

As of December 31, 2007, financial assets 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.

27. 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
FIC (Suzhou) Inc.	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
Captec Partners Management Corp.	Main director is the chairperson of 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)	Main director is the chairperson of HTC
HTC Education Foundation for Social Welfare Charity	a non-profit organization of which the funds donated from the Company exceeds one third of the non-profit organization's total funds
High Tech Computer Foundation	a non-profit organization of which the funds donated from the Company exceeds one third of the non-profit organization's total funds

Major transactions with related parties are summarized below:

Purchases of Inventories and Services

	2006		2007		2008		
Related Party	**Amount**	**% to Total Net Purchases**	**Amount**	**% to Total Net Purchases**	**Amount**		**% to Total Net Purchases**
	NT$		**NT$**		**NT$**	**US$ (Note 3)**	
Chander Electronics Corp.	$ 72,290	-	$ -	-	$ 19,041	$ 581	-

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

Sales and Services Provided

Related Party	2006 Amount NT$	2006 % to Total Revenues	2007 Amount NT$	2007 % to Total Revenues	2008 Amount NT$	2008 Amount US$ (Note 3)	2008 % to Total Revenues
Employees' Welfare Committee	$ 228	-	$ 212	-	$ 101,195	$ 3,085	-
Xander International Corp.	-	-	39,893	-	93,923	2,864	-
First International Computer, Inc. (FIC)	-	-	55,408	-	24,222	738	-
VIA Technologies, Inc.	1,160		537		1,578	48	
Comserve Network Netherlands B.V.	-	-	37,587	-	-	-	-
Others	-	-	501	-	-	-	-
	$ 1,388	-	$ 134,138	-	$ 220,918	$ 6,735	-

The selling prices and collection terms for products sold to related parties were similar to those sold to third parties, except those for Employees' Welfare Committee.

Accounts Receivable

Related Party	December 31 2006 Amount NT$	2006 % to Total Notes and Accounts Receivable	2007 Amount NT$	2007 % to Total Notes and Accounts Receivable	2008 Amount NT$	2008 Amount US$ (Note 3)	2008 % to Total Notes and Accounts Receivable
Employees' Welfare Committee	$ -	-	$ -	-	$ 69,238	$ 2,111	-
FIC (Suzhou) Inc.	3,180	-	-	-	-	-	-
Others	505	-	507	-	282	9	-
	$ 3,685	-	$ 507	-	$ 69,520	$ 2,120	-

Accounts Payable

Related Party	December 31 2006 Amount NT$	2006 % to Total Notes and Accounts Payable	2007 Amount NT$	2007 % to Total Notes and Accounts Payable	2008 Amount NT$	2008 Amount US$ (Note 3)	2008 % to Total Notes and Accounts Payable
Chander Electronics Corp.	$ -	-	$ -	-	$ 19,041	$ 581	-
First International Computer, Inc.	-	-	521	-	-	-	-
	$ -	-	$ 521	-	$ 19,041	$ 581	-

Other Receivables

Related Party	December 31 2006 Amount NT$	2006 % to Total Other Receivable	2007 Amount NT$	2007 % to Total Other Receivable	2008 Amount NT$	2008 Amount US$ (Note 3)	2008 % to Total Other Receivable
VIA Technologies Inc.	$ 19	-	$ 13	-	$ -	$ -	-
Chander Electronics Corp	17	-	82	-	72	2	-
	$ 36	-	$ 95	-	$ 72	$ 2	-

Accrued Expenses

	December 31						
	2006		2007		2008		
Related Party	Amount NT$	% to Total Accrued Expenses	Amount NT$	% to Total Accrued Expenses	Amount NT$	Amount US$ (Note 3)	% to Total Accrued Expenses
VIA Technologies Inc.	$ 210	-	$ -	-	$ -	$ -	-
Way-Lien Technology Inc.	-	-	-	-	200	6	-
	$ 210	-	$ -	-	$ 200	$ 6	-

Other Payables to Related Parties

	December 31						
	2006		2007		2008		
Related Party	Amount NT$	% to Total Other Payables	Amount NT$	% to Total Other Payables	Amount NT$	Amount US$ (Note 3)	% to Total Other Payables
Xander International Corp.	$ 24	-	$ 94	-	$ -	$ -	-

Service Warranty Expense

	2006		2007		2008		
Related Party	Amount NT$	% to Total Warranty Expenses	Amount NT$	% to Total Warranty Expenses	Amount NT$	Amount US$ (Note 3)	% to Total Warranty Expenses
Comserve Network Netherlands B.V.	$ 11,470	1	$ 221,884	6	$ 14,491	$ 442	-

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

Service Fees

	2006		2007		2008		
Related Party	Amount NT$	% to Total Service Expenses	Amount NT$	% to Total Service Expenses	Amount NT$	Amount US$ (Note 3)	% to Total Service Expenses
Way-Lien Technology Inc.	$ -	-	$ -	-	$ 2,400	$ 73	-
Captec Partners Management Corp.	-	-	-	-	2,250	69	-
VIA Technologies Inc.	2,400	1	2,400	-	-	-	-
	$ 2,400	1	$ 2,400	-	$ 4,650	$ 142	-

Leasing - Lessee

Operating Expense - Rental Expense

	2006		2007		2008		
Related Party	Amount NT$	% to Total Rental Expense	Amount NT$	% to Total Rental Expense	Amount NT$	Amount US$ (Note 3)	% to Total Rental Expense
VIA Technologies Inc.	$ -	-	$ -	-	$ 3,661	$ 112	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.

Related Party	2006 Amount NT$	2006 % to Total Donation Expenses	2007 Amount NT$	2007 % to Total Donation Expenses	2008 Amount NT$	2008 Amount US$ (Note 3)	2008 % to Total Donation Expenses
HTC Education Foundation for Social Welfare Charity	$ -	-	$ 300,000	100	$ 300,000	$ 9,146	92
High Tech Computer Foundation.	300,000	100	-	-	20,000	610	6
	$ 300,000	100	$ 300,000	100	$ 320,000	$ 9,756	98

The Company donated NT$300,000 thousand in 2006, NT$300,000 thousand in 2007 and NT$325,000 thousand (US$9,909 thousand) in 2008 to help disadvantaged minorities, teenagers and other people in need. Of these donations, NT$5,000 thousand (US$152 thousand) went to an unrelated party.

Other Losses

Related Party	2006 Amount NT$	2006 % to Total Other Losses	2007 Amount NT$	2007 % to Total Other Losses	2008 Amount NT$	2008 Amount US$ (Note 3)	2008 % to Total Other Losses
Xander International Corp.	$ -	-	$ -	-	$ 37,500	$ 1,143	10

The Company shared part of the moving expenses with Xander International Corp. because the Company rented the office which was originally rented by Xander International Corp.

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.

Compensation of Directors, Supervisors and Management Personnel

	2006 NT$	2007 NT$	2008 NT$	2008 US$ (Note 3)
Salaries	$ 28,594	$ 76,697	$ 93,215	$ 2,842
Incentives	14,186	33,063	23,026	702
Special compensation	-	12	15	1
Bonus	511,747	714,077	(Note)	(Note)
	$ 554,527	$ 823,849	$ 116,256	$ 3,545

Note: The appropriation of the 2008 earnings is not shown because the Board of Directors had not yet made the related proposal.

The Company's disclosure of the compensation of directors, supervisors and management personnel for the years ended December 31, 2006, 2007 and 2008 was in compliance with Order VI-0970053275 issued by the Financial Supervisory Commission under the Executive Yuan.

The compensation of directors, supervisors and management personnel for the years ended December 31, 2006 and 2007 included the bonuses appropriated from the earnings of 2006 and 2007, which had been approved by stockholders in their annual meetings in 2007 and 2008, respectively.

28. MORTGAGED OR PLEDGED ASSETS

As of December 31, 2007 and 2008, the Company had provided time deposits of NT$34,500 thousand and NT$41,465 (US$1,264 thousand) as collateral for the secured loans.

29. COMMITMENTS AND CONTINGENCIES

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 December 31, 2008 the Company wholly owned HTC Electronics (Shanghai) indirectly.

30. SIGNIFICANT CONTRACTS

Patent Agreements

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

Contractor	Contract Term	Description
Microsoft	January 1, 2007-January 31, 2009	Authorization to use embedded operating system; royalty payment based on agreement.
Texas Instruments France	January 14, 2000-January 13, 2010	Authorization to use GSM system software; royalty payment based on agreement.
Qualcomm Incorporated	December 20, 2000 to the following dates:	
	(a) If the Company materially breaches any covenant and fails to take remedial action within 30 days after Qualcomm's issuance of a written notice, the Company will be prohibited from using Qualcomm's property or patents.	Authorization to use CDMA technology to manufacture and sell units; royalty payment based on agreement.

Contractor	Contract Term	Description
	(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.	
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, 2008 -December 14, 2013	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.

31. OTHER EVENTS

In December 2008, the Company's board of directors resolved to buy a land near the Company in Taoyuan for NT$791,910 thousand (US$24,144 thousand) from a related party, Syuda Construction Company, to have more office space, parking lots, dormitory, etc. Both parties agreed to pay and transfer the ownership of the land at the same time before January 31, 2009.

32. SEGMENT INFORMATION

Industry Type

The Company mainly manufactures and sells smart handheld devices.

Foreign Operations

Because sales to unaffiliated customers and identifiable assets of foreign segments were less than 10 percent of that of the Company, the Company was exempt from disclosing information on foreign operations.

Export Revenues

Export revenues in 2006, 2007 and 2008 were as follows:

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 3)
Asia	$ 7,683,450	$ 11,697,068	$ 22,772,833	$ 694,294
America	48,865,122	49,395,639	53,916,578	1,643,798
Europe	38,873,000	47,018,610	60,176,261	1,834,642
Others	6,771,781	7,770,119	11,532,155	351,590
	$ 102,193,353	$ 115,881,436	$ 148,397,827	$ 4,524,324

Major Customers

Sales to major customers were as follows:

	2006	2007	2008	
Customer	NT$	NT$	NT$	US$ (Note 3)
A	$ 13,372,184	$ 19,710,823	$ 26,859,037	$ 818,873
B	12,326,693	15,942,551	21,639,592	659,744
C	10,335,852	12,592,997	21,375,563	651,694
D	17,839,399	16,931,462	4,414,395	134,585
	$ 53,874,128	$ 65,177,833	$ 74,288,587	$ 2,264,896