

**HTC Corporation**  
**(Formerly High Tech Computer Corporation)**  
**and Subsidiaries**

**Consolidated Financial Statements for the  
Three Months Ended March 31, 2008 and 2009 and  
Independent Accountants' Review Report  
(With Comparative Data for the Three Months Ended  
March 31, 2007)**

## **INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

The Board of Directors and Stockholders  
HTC Corporation

We have reviewed the accompanying consolidated balance sheets of HTC Corporation (formerly High Tech Computer Corporation) and subsidiaries (collectively, the "Company") as of March 31, 2008 and 2009, and the related consolidated statements of income and cash flows for the three months then ended, all expressed in New Taiwan dollars. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our reviews. The financial statements of the Company for the three months ended March 31, 2007 were unreviewed and are presented herewith for comparative purposes only.

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

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

As discussed in Note 4 to the financial statements, the Company adopted Interpretation 2007-052 - "Accounting for Bonuses to Employees, Directors and Supervisors" of the Accounting Research and Development Foundation and adopted early on January 1, 2008 the newly revised Statement of Financial Accounting Standards No. 10 - "Inventories."

In addition, the translation of the 2009 New Taiwan dollar amounts into U.S. dollars has been reviewed on the basis stated in Note 3 to the financial statements.

April 17, 2009

Notice to Readers

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

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

**HTC CORPORATION**  
**(Formerly High Tech Computer Corporation)**  
**AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**  
**MARCH 31, 2008 AND 2009**  
**(With Comparative Data as of March 31, 2007)**  
**(In Thousands, Except Par Value)**  
**(Reviewed, Not Audited)**

ASSETS	2007	2008	2009		LIABILITIES AND STOCKHOLDERS' EQUITY	2007	2008	2009	
	NT\$	NT\$	NT\$	US\$ (Note 3)		NT\$	NT\$	NT\$	US\$ (Note 3)
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and cash equivalents (Note 5)	\$ 39,573,522	\$ 64,809,713	\$ 72,610,219	2,141,263	Short-term borrowings (Note 16)	\$ -	\$ -	\$ 75,000	2,211
Available-for-sale financial assets - current (Note 2 and 7)	-	-	1,365,115	40,257	Financial liabilities at fair value through profit or loss (Notes 2, 6 and 24)	49,910	348,155	37,329	\$ 1,101
Bond investments not quoted in an active market (Notes 2 and 13)	-	30,400	-	-	Notes and accounts payable (Note 25)	15,221,072	19,578,158	21,389,650	630,777
Notes and accounts receivable, net (Notes 2, 8 and 25)	16,496,103	16,577,081	17,279,493	509,569	Income tax payable (Note 2 and 22)	2,388,343	3,212,195	4,571,608	134,816
Other current financial assets (Notes 9 and 25)	108,576	182,294	195,256	5,758	Accrued expenses (Notes 4 and 17)	2,372,355	7,028,831	15,631,653	460,975
Inventories (Notes 2, 4 and 10)	5,182,454	8,590,413	5,781,045	170,482	Payable for purchase of equipment	18,258	127,511	126,811	3,740
Prepayments (Note 11)	1,680,449	1,294,072	2,911,649	85,864	Long-term liabilities - current portion (Note 19)	12,500	24,688	28,750	848
Deferred tax assets (Note 2 and 22)	492,609	553,679	585,015	17,252	Other current liabilities (Notes 18 and 25)	1,784,240	4,620,031	5,909,529	174,271
Other current assets	130,379	193,616	200,761	5,920					
Total current assets	63,664,092	92,231,268	100,928,553	2,976,365	Total current liabilities	21,846,678	34,939,569	47,770,330	1,408,739
<b>INVESTMENTS</b>					<b>LONG-TERM LIABILITIES</b>				
Available-for-sale financial assets - noncurrent (Notes 2 and 7)	1,500	731	709	21	Long-term bank loans, net of current portion (Note 19)	86,925	68,438	39,688	1,170
Financial assets carried at cost (Notes 2 and 12)	501,192	501,192	501,192	14,780					
Investments accounted for by the equity method (Notes 2 and 14)	-	-	40,598	1,197	<b>OTHER LIABILITIES</b>				
Total investments	502,692	501,923	542,499	15,998	Guarantee deposits received	628	632	2,141	63
<b>PROPERTIES (Notes 2, 15 and 25)</b>					Total liabilities	21,934,231	35,008,639	47,812,159	1,409,972
Cost					<b>STOCKHOLDERS' EQUITY (Note 20)</b>				
Land	610,293	610,293	4,719,524	139,178	Capital stock - NT\$10.00 par value				
Buildings and structures	1,086,762	2,247,707	2,893,852	85,339	Authorized: 1,000,000 thousand shares				
Machinery and equipment	3,527,173	4,079,017	4,637,369	136,755	Issued and outstanding: 436,419 thousand shares in 2007, 573,134 thousand shares in 2008 and 745,394 thousand shares in 2009				
Molding equipment	201,247	212,930	194,403	5,733	Common stock	4,364,192	5,731,337	7,453,938	219,815
Computer equipment	239,784	313,172	356,194	10,504	Capital surplus				
Transportation equipment	3,823	3,120	4,646	137	Additional paid-in capital from share issuance in excess of par	4,410,871	4,374,244	4,316,337	127,288
Furniture and fixtures	163,781	223,773	469,812	13,855	Long-term equity investments	15,845	15,845	17,721	523
Leased assets	4,712	5,928	4,712	139	From merger	25,972	25,756	25,415	749
Leasehold improvements	82,205	128,183	195,096	5,753	Retained earnings				
Less: Accumulated depreciation	(3,126,160)	(3,770,397)	(4,431,401)	(130,681)	Legal reserve	1,991,520	4,516,253	7,410,139	218,524
Prepayments for construction-in-progress and equipment-in-transit	697,922	126,401	982,366	28,970	Special reserve	6,175	-	-	-
Properties, net	3,491,542	4,180,127	10,026,573	295,682	Accumulated earnings	37,530,058	48,348,450	46,248,976	1,363,874
<b>INTANGIBLE ASSETS</b>					Cumulative translation adjustments (Note 2)	22,600	(78,934)	168,488	4,969
Goodwill (Note 2)	174,253	174,253	293,202	8,646	Unrealized losses on financial instruments (Notes 2 and 7)	(471)	(1,240)	(1,147)	(34)
Deferred pension cost	-	953	475	14	Treasury stock (Notes 2 and 21)	(1,991,755)	-	-	-
Total intangible assets	174,253	175,206	293,677	8,660	Equity attributable to stockholders of the parent	46,375,007	62,931,711	65,639,867	1,935,708
<b>OTHER ASSETS</b>					<b>MINORITY INTEREST</b>				
Assets leased to others	-	-	284,204	8,381		121,666	101,100	35,783	1,055
Refundable deposits	62,698	132,058	192,209	5,668	Total stockholders' equity	46,496,673	63,032,811	65,675,650	1,936,763
Deferred charges (Note 2)	136,643	142,916	249,217	7,350					
Deferred tax assets (Note 2 and 22)	312,374	406,838	812,326	23,955					
Restricted assets (Notes 2 and 26)	6,977	49,738	36,086	1,064					
Others (Note 2)	79,633	221,376	122,465	3,612					
Total other assets	598,325	952,926	1,696,507	50,030					
<b>TOTAL</b>	<b>\$ 68,430,904</b>	<b>\$ 98,041,450</b>	<b>\$ 113,487,809</b>	<b>\$ 3,346,735</b>	<b>TOTAL</b>	<b>\$ 68,430,904</b>	<b>\$ 98,041,450</b>	<b>\$ 113,487,809</b>	<b>\$ 3,346,735</b>

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

(With Deloitte & Touche review report dated April 17, 2009)

**HTC CORPORATION**  
**(Formerly High Tech Computer Corporation)**  
**AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME**  
**THREE MONTHS ENDED MARCH 31, 2008 AND 2009**  
**(With Comparative Data for the Three Months Ended March 31, 2007)**  
**(In Thousands, Except Earnings Per Share)**  
**(Reviewed, Not Audited)**

	2007	2008	2009	
	NT\$	NT\$	NT\$	US\$ (Note 3)
REVENUES (Notes 2 and 25)	\$ 23,705,172	\$ 32,681,989	\$ 31,407,520	\$ 926,202
COST OF REVENUES (Notes 4, 10 and 25)	<u>16,353,704</u>	<u>21,039,806</u>	<u>21,794,897</u>	<u>642,728</u>
GROSS PROFIT	<u>7,351,468</u>	<u>11,642,183</u>	<u>9,612,623</u>	<u>283,474</u>
OPERATING EXPENSES (Note 25)				
Selling and marketing	614,566	1,676,608	2,084,757	61,479
General and administrative	292,683	686,130	475,482	14,022
Research and development	<u>802,285</u>	<u>2,113,785</u>	<u>2,025,705</u>	<u>59,738</u>
Total operating expenses	<u>1,709,534</u>	<u>4,476,523</u>	<u>4,585,944</u>	<u>135,239</u>
OPERATING INCOME	<u>5,641,934</u>	<u>7,165,660</u>	<u>5,026,679</u>	<u>148,235</u>
NONOPERATING INCOME AND GAINS				
Interest income	141,850	319,262	167,960	4,953
Gain on sale of properties	-	30	-	-
Foreign exchange gain (Note 2)	248,674	449,211	398,708	11,758
Other	<u>34,182</u>	<u>72,105</u>	<u>105,974</u>	<u>3,125</u>
Total nonoperating income and gains	<u>424,706</u>	<u>840,608</u>	<u>672,642</u>	<u>19,836</u>
NONOPERATING EXPENSES AND LOSSES				
Interest expense	343	292	798	24
Losses on equity-method investment (Notes 2 and 14)	-	-	854	25
Losses on disposal of properties	-	-	1,939	57
Valuation loss on financial instruments, net (Notes 2 and 6)	49,910	348,155	37,329	1,101
Other	<u>7,917</u>	<u>7,400</u>	<u>218,384</u>	<u>6,440</u>
Total nonoperating expenses and losses	<u>58,170</u>	<u>355,847</u>	<u>259,304</u>	<u>7,647</u>
INCOME BEFORE INCOME TAX	6,008,470	7,650,421	5,440,017	160,424
INCOME TAX (Note 2 and 22)	<u>(480,505)</u>	<u>(716,257)</u>	<u>(558,107)</u>	<u>(16,458)</u>
NET INCOME	<u>\$ 5,527,965</u>	<u>\$ 6,934,164</u>	<u>\$ 4,881,910</u>	<u>\$ 143,966</u>
ATTRIBUTABLE TO				
Stockholders of the parent	\$ 5,538,968	\$ 6,944,583	\$ 4,874,823	\$ 143,758
Minority interest	<u>(11,003)</u>	<u>(10,419)</u>	<u>7,087</u>	<u>208</u>
	<u>\$ 5,527,965</u>	<u>\$ 6,934,164</u>	<u>\$ 4,881,910</u>	<u>\$ 143,966</u>

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**HTC CORPORATION**  
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**CONSOLIDATED STATEMENTS OF INCOME**  
**THREE MONTHS ENDED MARCH 31, 2008 AND 2009**  
**(With Comparative Data for the Three Months Ended March 31, 2007)**  
**(In Thousands, Except Earnings Per Share)**  
**(Reviewed, Not Audited)**

	2007		2008		2009			
	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 23)	<u>\$ 7.96</u>	<u>\$ 7.32</u>	<u>\$ 10.13</u>	<u>\$ 9.19</u>	<u>\$ 7.23</u>	<u>\$ 0.21</u>	<u>\$ 6.54</u>	<u>\$ 0.19</u>
DILUTED EARNINGS PER SHARE (Note 23)	<u>\$ 7.89</u>	<u>\$ 7.26</u>	<u>\$ 10.09</u>	<u>\$ 9.16</u>	<u>\$ 7.20</u>	<u>\$ 0.21</u>	<u>\$ 6.51</u>	<u>\$ 0.19</u>

(Concluded)

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

(With Deloitte & Touche review report dated April 17, 2009)

**HTC CORPORATION**  
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**AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**THREE MONTHS ENDED MARCH 31, 2008 AND 2009**  
**(With Comparative Data for the Three Months Ended March 31, 2007)**  
**(In Thousands)**  
**(Reviewed, Not Audited)**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income	\$ 5,527,965	\$ 6,934,164	\$ 4,881,910	\$ 143,966
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation (including depreciation of assets leased to others)	194,441	176,312	223,570	6,593
Amortization	11,485	20,244	14,179	418
(Gain) loss on disposal of properties, net	-	(30)	1,939	57
Transfer of properties to expenses	-	2,375	294	9
Foreign exchange loss on bond investments not quoted in an active market	-	2,630	-	-
Loss on equity-method investments	-	-	854	25
Deferred income tax assets	(151,302)	2,649	(23,918)	(705)
Prepaid pension costs	(5,625)	(127,116)	(5,528)	(163)
Net changes in operating assets and liabilities				
Financial instruments at fair value through profit or loss	(26,560)	252,428	(476,754)	(14,059)
Notes and accounts receivable	2,747,090	2,896,636	12,175,285	359,047
Other current financial assets	267,588	(5,966)	121,268	3,576
Inventories	781,059	(1,353,711)	2,469,292	72,819
Prepayments	191,428	274,283	(1,626,166)	(47,955)
Other current assets	(130,197)	(14,349)	(39,436)	(1,163)
Notes and accounts payable	(2,062,373)	(3,623,462)	(7,180,285)	(211,745)
Income tax payable	629,626	653,492	531,995	15,688
Accrued expenses	(117,615)	1,902,422	282,883	8,342
Other current liabilities	<u>94,332</u>	<u>650,151</u>	<u>(198,922)</u>	<u>(5,866)</u>
Net cash provided by operating activities	<u>7,951,342</u>	<u>8,643,152</u>	<u>11,152,460</u>	<u>328,884</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of properties	(365,577)	(203,089)	(1,515,880)	(44,702)
Proceeds of the sale of properties	-	648	63,142	1,862
(Increase) decrease in restricted assets	(6,977)	(15,238)	5,379	159
Increase in financial assets carried at cost	(500,000)	-	-	-
Acquisition of a subsidiary	(240,039)	-	-	-
Purchase of available-for-sale financial assets	-	-	(1,365,000)	(40,254)
(Increase) decrease in refundable deposits	(16,882)	561	(790)	(23)
Increase in deferred charges	<u>(12,696)</u>	<u>(27,371)</u>	<u>(5,254)</u>	<u>(155)</u>
Net cash used in investing activities	<u>(1,142,171)</u>	<u>(244,489)</u>	<u>(2,818,403)</u>	<u>(83,113)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Decrease in long-term bank loans	(13,056)	(3,124)	(7,187)	(212)
Decrease in guarantee deposits received	(12)	(1)	(4,279)	(126)
Bonus to employees	(451,000)	-	-	-
Purchase of treasury stock	<u>(1,747,760)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash used in financing activities	<u>(2,211,828)</u>	<u>(3,125)</u>	<u>(11,466)</u>	<u>(338)</u>

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**HTC CORPORATION**  
**(Formerly High Tech Computer Corporation)**  
**AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**THREE MONTHS ENDED MARCH 31, 2008 AND 2009**  
**(With Comparative Data for the Three Months Ended March 31, 2007)**  
**(In Thousands)**  
**(Reviewed, Not Audited)**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	\$ 6,361	\$ (76,010)	\$ 49,900	\$ 1,472
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,603,704	8,319,528	8,372,491	246,905
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>34,969,818</u>	<u>56,490,185</u>	<u>64,237,728</u>	<u>1,894,358</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 39,573,522</u>	<u>\$ 64,809,713</u>	<u>\$ 72,610,219</u>	<u>\$ 2,141,263</u>
SUPPLEMENTAL CASH FLOW INFORMATION				
Cash paid during the period				
Interest (net of amounts capitalized)	\$ 343	\$ 292	\$ 813	\$ 24
Income tax	<u>\$ 2,181</u>	<u>\$ 60,116</u>	<u>\$ 50,030</u>	<u>\$ 1,475</u>
NONCASH INVESTING AND FINANCING ACTIVITIES				
Transfer of assets leased to others to properties	\$ -	\$ -	\$ 25,755	\$ 760
Retirement of treasury stock	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,410,277</u>	<u>\$ 100,568</u>
PURCHASE OF PROPERTIES				
Cost of properties purchased	\$ 334,564	\$ 151,168	\$ 1,328,360	\$ 39,173
Decrease payable for purchase of equipment	30,800	51,769	187,275	552
Decrease in lease payable	<u>213</u>	<u>152</u>	<u>245</u>	<u>7</u>
Cash paid for purchase of properties	<u>\$ 365,577</u>	<u>\$ 203,089</u>	<u>\$ 1,515,880</u>	<u>\$ 39,732</u>
BONUS TO EMPLOYEES				
Appropriation of bonus to employees	\$ -	\$ -	\$ -	\$ -
Decrease in payable for employee	<u>451,000</u>	<u>-</u>	<u>-</u>	<u>\$ -</u>
Cash paid	<u>\$ 451,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(Concluded)

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

(With Deloitte & Touche review report dated April 17, 2009)



**HTC CORPORATION**  
**(Formerly High Tech Computer Corporation)**  
**AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE MONTHS ENDED MARCH 31, 2008 AND 2009**  
**(With Comparative Data for the Three Months Ended March 31, 2007)**  
**(In Thousands, Unless Stated Otherwise)**  
**(Reviewed, Not Audited)**

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**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 5,554, 6,756 and 8,158 employees as of March 31, 2007, 2008 and 2009, respectively.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

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

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

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

## Principles of Consolidation

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

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

The consolidated entities as of March 31, 2007, 2008 and 2009 were as follows:

Investor	Investee	Main Businesses	% of Ownership			Remark
			2007	2008	2009	
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	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	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	Invested in October 2008
	HTC HK, Limited	HTC Belgium BVBA/SPRL	Marketing, distribution and after-sales service	100.00	100.00	100.00
HTC Belgium BVBA/SPRL	HTC Italia SRL	"	100.00	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

Investor	Investee	Main Businesses	% of Ownership			Remark
			2007	2008	2009	
	High Tech Computer (H.K.) Limited	Marketing, distribution and after-sales service	-	100.00	100.00	Incorporated in August 2007
	HTC (Australia and New Zealand) Pty. Ltd.	"	-	100.00	100.00	Incorporated in August 2007
	HTC Philippines Corporation	"	-	99.99	99.99	Incorporated in December 2007
	PT. High Tech Computer Indonesia	"	-	99.00	99.00	Incorporated in December 2007
	HTC (Thailand) Limited	"	-	100.00	100.00	Incorporated in November 2007 and invested in September 2008
	HTC India Private Ltd.	"	-	99.00	99.00	Incorporated in January 2008
	HTC Electronics (Shanghai) Co., Ltd.	Manufacture and sale of smart handheld devices	-	-	100.00	Incorporated in January 2007 and invested in July 2008
	HTC Malaysia Sdn. Bhd.	Marketing, distribution and after-sales service	-	-	100.00	Incorporated in July 2008 and invested in January 2009
	HTC Innovation Limited	"	-	-	100.00	Incorporated in January 2009
	HTC Communication Co., Ltd.	The sale of smart handheld devices	-	-	100.00	Incorporated in December 2008 and invested in March 2009
High Tech Computer Singapore Pte. Ltd.	HTC India Private Ltd.	Marketing, distribution and after-sales service	-	1.00	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 fair values of net assets were as follows:

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

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

### **Current/Noncurrent Assets and Liabilities**

Current assets include cash, cash equivalents, and those assets held primarily for trading purposes or to be realized, sold or consumed within one year from the balance sheet date. All other assets such as 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. Cost is determined using the moving-average method.

### **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 on the defined benefit plan are recognized as part of the net pension cost for the year.

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

### **Income Tax**

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

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

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

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



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

### **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 2007 and 2008 accounts have been reclassified to be consistent with the presentation of the consolidated financial statements as of and for the three months ended March 31, 2009.

## **3. TRANSLATION INTO U.S. DOLLARS**

The consolidated financial statements are stated in New Taiwan dollars. The translation of the 2009 New Taiwan dollar amounts into U.S. dollar amounts are included solely for the convenience of readers, using the noon buying rate of NT\$33.91 to US\$1.00 quoted by the Bank of Taiwan on March 31, 2009. 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 2007-052 - "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. This accounting change resulted in a decrease of NT\$1,373,191 thousand in net income, including employee bonus payable of NT\$1,497,199 thousand, minus the allocation to inventory of NT\$7,785 thousand and minus the tax saving of NT\$116,223 thousand, and a decrease in after income tax basic earnings per share of NT\$2.40 for the three months ended March 31, 2008.

- b. SFAS No. 39 - "Share-based Payment"

On January 1, 2008, the Company adopted the newly released Statement of Financial Accounting Standards (SFAS) No. 39 - "Share-based Payment." This accounting change had no material effect on the Company's financial statements as of and for the three months ended March 31, 2008.

- c. SFAS No. 10 - "Inventories"

On January 1, 2008, the Company adopted early the newly revised SFAS No. 10 - "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. This accounting change had no material effect on the Company's financial statements as of and for the three months ended March 31, 2008.

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

## 5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of March 31, 2007, 2008 and 2009 were as follows:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Cash on hand	\$ 1,722	\$ 155,383	\$ 6,550	\$ 193
Cash in banks	7,843,400	5,748,135	1,583,983	46,712
Time deposits	31,728,400	58,906,195	70,902,686	2,090,908
Cash equivalents - repurchase bonds	-	-	117,000	3,450
	<u>\$ 39,573,522</u>	<u>\$ 64,809,713</u>	<u>\$ 72,610,219</u>	<u>\$ 2,141,263</u>

On time deposits, interest rates ranged from 1.644% to 2.175%, 1.90% to 3.85% and 0.10% to 2.05% as of March 31, 2007, 2008 and 2009, respectively.

On preferential deposits, interest rates ranged from 2.30% to 5.25%, 1.00% to 4.00% and 0.10% to 0.50% as of March 31, 2007, 2008 and 2009, respectively.

On cash equivalents, interest rate was 0.18 % as of March 31, 2009.

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

Financial assets and liabilities at fair value through profit or loss as of March 31, 2007, 2008 and 2009 were as follows:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Derivatives - financial liabilities				
Forward exchange contracts	<u>\$ 49,910</u>	<u>\$ 348,155</u>	<u>\$ 37,329</u>	<u>\$ 1,101</u>

The Company had derivative transactions during the three months ended March 31, 2007, 2008 and 2009 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 - "Financial Instruments: Recognition and Measurement." Thus, the Company had no hedge accounting for the three months ended March 31, 2007, 2008 and 2009. Outstanding forward exchange contracts as of March 31, 2007, 2008 and 2009 were as follows:

<b>2007</b>				
	<b>Buy/Sell</b>	<b>Currency</b>	<b>Expiry Period/Date</b>	<b>Contract Amount</b>
Forward exchange contracts	Sell	USD/NTD	2007.04.04~2007.04.20	US\$ 44,000
Forward exchange contracts	Sell	EUR/USD	2007.04.04~2007.05.23	EUR€ 87,500
Forward exchange contracts	Buy	USD/JPY	2007.04.13~2007.04.20	US\$ 10,000
Forward exchange contracts	Sell	GBP/USD	2007.04.11~2007.04.25	GBP£ 1,776
Forward exchange contracts	Sell	JPY/NTD	2007.04.18~2007.06.22	JPY 418,000
Forward exchange contracts	Sell	CAD/NTD	2007.04.18	CAD 108
Forward exchange contracts	Sell	CAD/USD	2007.04.18	CAD 1,700
<b>2008</b>				
	<b>Buy/Sell</b>	<b>Currency</b>	<b>Expiry Period/Date</b>	<b>Contract Amount</b>
Forward exchange contracts	Sell	USD/NTD	2008.04.18~2008.04.24	US\$ 29,000
Forward exchange contracts	Sell	EUR/USD	2008.04.09~2008.05.30	EUR€ 155,500
Forward exchange contracts	Buy	USD/CAD	2008.05.21	US\$ 293
Forward exchange contracts	Sell	GBP/USD	2008.04.11~2008.05.28	GBP£ 5,300
Forward exchange contracts	Sell	JPY/NTD	2008.05.21	JPY 355,000
Forward exchange contracts	Buy	USD/JPY	2008.05.09~2008.05.23	US\$ 9,642
<b>2009</b>				
	<b>Buy/Sell</b>	<b>Currency</b>	<b>Expiry Period/Date</b>	<b>Contract Amount</b>
Forward exchange contracts	Sell	GBP/USD	2009.04.15	GBP£ 2,000
Forward exchange contracts	Sell	EUR/USD	2009.04.15~2009.05.29	EUR€ 74,000
Forward exchange contracts	Sell	USD/NTD	2009.04.08~2009.04.24	US\$ 40,000
Forward exchange contracts	Buy	USD/JPY	2009.04.10~2009.05.29	US\$ 5,690

Net loss on derivative financial instruments for the three months ended March 31, 2009 was NT\$261,219 thousand (US\$7,703 thousand), consisting of realized settlement losses of NT\$223,890 thousand (US\$6,602 thousand) and valuation losses of NT\$37,329 thousand (US\$1,101 thousand).

## 7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets as of March 31, 2007, 2008 and 2009 were as follows:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Mutual funds	\$ -	\$ -	\$ 1,365,115	\$ 40,257
Domestic quoted stocks	1,500	731	709	21
Less: Current portion	<u>-</u>	<u>-</u>	<u>(1,365,115)</u>	<u>(40,257)</u>
	<u>\$ 1,500</u>	<u>\$ 731</u>	<u>\$ 709</u>	<u>\$ 21</u>

## 8. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable as of March 31, 2007, 2008 and 2009 were as follows:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Notes receivable	\$ 1,683	\$ 2,034	\$ 8,854	\$ 261
Accounts receivable	16,534,465	17,018,694	18,050,235	532,298
Accounts receivable - related parties	-	20,977	-	-
Less: Allowance for doubtful accounts	<u>(40,045)</u>	<u>(464,624)</u>	<u>(779,596)</u>	<u>(22,990)</u>
	<u>\$ 16,496,103</u>	<u>\$ 16,577,081</u>	<u>\$ 17,279,493</u>	<u>\$ 509,569</u>

## 9. OTHER CURRENT FINANCIAL ASSETS

Other current financial assets as of March 31, 2007, 2008 and 2009 were as follows:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Other receivables	\$ 32,319	\$ 105,816	\$ 162,161	\$ 4,782
Interest receivables	28,047	60,479	23,417	691
Agency payments	47,066	12,879	9,678	285
Others	<u>1,144</u>	<u>3,120</u>	<u>-</u>	<u>-</u>
	<u>\$ 108,576</u>	<u>\$ 182,294</u>	<u>\$ 195,256</u>	<u>\$ 5,758</u>

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

## 10. INVENTORIES

Inventories as of March 31, 2007, 2008 and 2009 were as follows:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Finished goods	\$ 1,048,452	\$ 710,107	\$ 960,993	\$ 28,340
Work-in-process	1,846,158	3,031,155	2,553,517	75,303
Raw materials	<u>3,677,519</u>	<u>6,295,074</u>	<u>4,832,560</u>	<u>142,511</u>
	6,572,129	10,036,336	8,347,070	246,154
Less valuation allowance	<u>(1,389,675)</u>	<u>(1,445,923)</u>	<u>(2,566,025)</u>	<u>(75,672)</u>
	<u>\$ 5,182,454</u>	<u>\$ 8,590,413</u>	<u>\$ 5,781,045</u>	<u>\$ 170,482</u>

The write-down of inventories to their net realizable value amounted to NT\$311,106 and NT\$645,748 thousand (US\$19,043 thousand) and was recognized as cost of sales for the three months ended March 31, 2008 and 2009. For consistency with the presentation of the

financial statements for the three months ended March 31, 2008 and 2009, the Company reclassified “provision for loss on inventories” amounting to NT\$414,237 thousand for the three months ended March 31, 2007 to “cost of sales.”

## 11. PREPAYMENTS

Prepayments as of March 31, 2007, 2008 and 2009 were as follows:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	NT\$	US\$
				(Note 3)
Royalty	\$ 1,418,471	\$ 945,838	\$ 2,599,483	\$ 76,658
Molding equipment	73,879	124,998	139,324	4,109
Software and hardware maintenance	58,438	92,541	72,111	2,127
Net input VAT	3,751	23,818	22,593	666
Suppliers	1,694	3,719	11,357	335
Rent	2,266	10,996	9,085	268
Service	3,111	3,149	7,218	213
Travel	55,730	8,790	1,761	52
Others	<u>63,109</u>	<u>80,223</u>	<u>48,717</u>	<u>1,436</u>
	<u>\$ 1,680,449</u>	<u>\$ 1,294,072</u>	<u>\$ 2,911,649</u>	<u>\$ 85,864</u>

Prepayments for royalty were primarily prepayments for discount purposes (Note 28 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 March 31, 2007, 2008 and 2009 were as follows:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	NT\$	US\$
				(Note 3)
Hua-Chuang Automobile Information Technical Center Co., Ltd.	\$ 500,000	\$ 500,000	\$ 500,000	\$ 14,745
Answer Online, Inc.	<u>1,192</u>	<u>1,192</u>	<u>1,192</u>	<u>35</u>
	<u>\$ 501,192</u>	<u>\$ 501,192</u>	<u>\$ 501,192</u>	<u>\$ 14,780</u>

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

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

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

### 13. BOND INVESTMENTS NOT QUOTED IN AN ACTIVE MARKET

Bond investment not quoted in an active market as of March 31, 2007, 2008 and 2009 were as follows:

	2007		2008		2009	
	NT\$	NT\$	NT\$	NT\$	US\$	US\$
Bond investment	\$ -	\$ 33,030	\$ -	\$ -	\$ -	\$ -
Provision for exchange loss	-	(2,630)	-	-	-	-
Less current portion	-	(30,400)	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

In April 2008, the Company made a new investment of US\$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 March 31, 2009 was as follows:

	2007		2008		2009				Ownership Percentage
	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage	Original Cost		Carrying Value		
	NT\$		NT\$		NT\$	US\$	NT\$	US\$	
Equity method									
Vitamin D Inc.	<u>\$ -</u>	-	<u>\$ -</u>	-	<u>\$ 40,986</u>	<u>\$ 1,209</u>	<u>\$ 40,598</u>	<u>\$ 1,197</u>	25.90

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 27.27% equity interest in Vitamin D Inc. for NT\$40,986 thousand, enabling the Company to exercise significant influence over this investee. Thus, the Company accounts for this investment by the equity method. In September 2008 and January 2009, Vitamin D Inc. issued 2,375 thousand and 250 thousand convertible preferred shares, but the Company did not buy any of these shares. The Company's ownership percentage declined from 27.27% to 25.90%, and there was a capital surplus - long term equity investments of NT\$1,689 thousand and NT\$187 thousand (US\$6 thousand) in September 2008 and January 2009, respectively.

On its equity-method investments, the Company had a loss of NT\$854 thousand (US\$25 thousand) for the three months ended March 31, 2009.

The financial statements of equity-method investee for the three months ended March 31, 2009 had been reviewed by the independent accountant.

## 15. PROPERTIES

Properties as of March 31, 2007, 2008 and 2009 were as follows:

	2007		2008		2009	
	Carrying Value	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NT\$	NT\$	NT\$	NT\$	NT\$	US\$
						(Note 3)
Land	\$ 610,293	\$ 610,293	\$ 4,719,524	\$ -	\$ 4,719,524	\$ 139,178
Buildings and structures	721,664	1,801,136	2,893,852	555,407	2,338,445	68,960
Machinery and equipment	1,262,765	1,329,207	4,637,369	3,204,367	1,433,002	42,259
Molding equipment	-	8,315	194,403	181,804	12,599	371
Computer equipment	77,761	116,845	356,194	241,211	114,983	3,391
Transportation equipment	1,078	578	4,646	3,055	1,591	47
Furniture and fixtures	64,611	99,953	469,812	173,248	296,564	8,746
Leased assets	3,730	4,161	4,712	2,552	2,160	64
Leasehold improvements	51,718	83,238	195,096	69,757	125,339	3,696
Prepayments for construction-in-progress and equipment-in-transit	697,922	126,401	982,366	-	982,366	28,970
	<u>\$ 3,491,542</u>	<u>\$ 4,180,127</u>	<u>\$ 14,457,974</u>	<u>\$ 4,431,401</u>	<u>\$ 10,026,573</u>	<u>\$ 295,682</u>

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 to have more office space and to build parking lots, dormitory, etc.

In December 2008, the Company bought land - about 8.3 thousand square meters - from Yulon Motors Ltd. for NT\$3,335,000 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 March 31, 2009. 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. Besides, in January 2009, the Company acquired another land - about 39 thousand square meters - near the Company in Taoyuan for NT\$791,910 thousand (US\$23,353 thousand) from a related party, Syuda Construction Company, to have more office space, parking lots, dormitory, etc.

Prepayments for construction-in-progress and equipment-in-transit were prepayments mainly for building construction and employees' dormitory in HTC Electronics (Shanghai).

There were no interests capitalized for the three months ended March 31, 2007, 2008 and 2009, respectively.

## 16. SHORT-TERM BORROWINGS

As of March 31, 2009, the Company had the following short-term borrowings:

	2007	2008	2009	
	NT\$	NT\$	NT\$	US\$
				(Note 3)
Working capital loans, annual interest at 2.20%~4.40%	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75,000</u>	<u>\$ 2,211</u>



## 17. ACCRUED EXPENSES

Accrued expenses as of March 31, 2007, 2008 and 2009 were as follows:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Employees' bonus	\$ -	\$ 1,497,199	\$ 7,207,515	\$ 212,548
Marketing	1,293,171	3,756,403	5,293,079	156,092
Salaries	451,877	777,781	953,081	28,106
Research materials	85,032	220,452	728,335	21,478
Services	76,578	256,671	436,412	12,870
Export expenses	77,708	57,712	375,733	11,080
Insurance	41,321	50,919	72,308	2,132
Meals and welfare	27,213	54,703	71,604	2,112
Donation	55,988	82,585	59,194	1,746
Pension for contribution plan	28,098	35,934	50,013	1,475
Research and development	-	-	49,200	1,451
Repairs and maintenance	8,955	17,644	47,537	1,402
Travel	68,480	28,519	23,871	704
Others	157,934	192,309	263,771	7,779
	<u>\$ 2,372,355</u>	<u>\$ 7,028,831</u>	<u>\$ 15,631,653</u>	<u>\$ 460,975</u>

Based on a resolution passed by the Company's board of directors in February of 2008 and 2009, the employee bonus payable should be appropriated at 18% of net income before deducting employee bonus expenses. As a result, the Company accrued an employee bonus payable of NT\$1,497,199 thousand and NT\$1,042,626 thousand (US\$30,747 thousand) for the three months ended March 31, 2008 and 2009, respectively. Besides, there was an employee bonus payable of NT\$6,164,889 thousand (US\$181,801 thousand) in 2008 because it had not been approved by the stockholders and not distributed to employees.

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 March 31, 2007, 2008 and 2009 were as follows:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Reserve for warranty expenses	\$ 1,440,497	\$ 4,022,878	\$ 4,847,526	\$ 142,953
Agency receipts	200,723	382,501	411,581	12,137
Other payable	210	19,808	340,177	10,032
Advance receipts	115,289	169,383	285,870	8,430
Directors' remuneration	21,842	21,842	21,842	644
Others	5,679	3,619	2,533	75
	<u>\$ 1,784,240</u>	<u>\$ 4,620,031</u>	<u>\$ 5,909,529</u>	<u>\$ 174,271</u>

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

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\$3,618 thousand) had not been paid as of March 31, 2009.

In December 2008, the Company also estimated a contingent liability of NT\$205,296 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

	<u>2007</u>	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Secured loans (Note 26)				
NT\$50,000 thousand, repayable from July 2006 in 16 quarterly installments; 1% annual interest	\$ 34,425	\$ 28,126	\$ 15,625	\$ 461
NT\$65,000 thousand, repayable from July 2008 in 16 quarterly installments; 1% annual interest	65,000	65,000	52,813	1,557
Less: Current portion	<u>(12,500)</u>	<u>(24,688)</u>	<u>(28,750)</u>	<u>(848)</u>
	<u>\$ 86,925</u>	<u>\$ 68,438</u>	<u>\$ 39,688</u>	<u>\$ 1,170</u>

## 20. STOCKHOLDERS' EQUITY

### Capital Stock

The Company's outstanding common stock as of January 1, 2007 amounted 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 March 31, 2008 increased to NT\$5,731,337 thousand, divided into 573,134 thousand common shares at NT\$10.00 par value.

Also, in June 2008, the stockholders approved the transfer of retained earnings amounting to NT\$1,719,401 thousand and employee bonuses amounting to NT\$103,200 thousand to capital stock. In January 2009, the Company retired 10,000 thousand treasury shares at NT\$100,000 thousand (US\$2,949 thousand). As a result, the amount of the Company's outstanding common stock as of March 31, 2009 increased to NT\$7,453,938 thousand (US\$219,815 thousand), divided into 745,394 thousand common shares at NT\$10.00 (US\$0.30) par value.

## **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 March 31, 2009, there were 5,379.9 thousand units of GDRs redeemed, representing 21,520 thousand common shares, and the outstanding GDRs represented 11,768 thousand common shares or 1.58% 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, 2007. The retirements of treasury stock caused a decrease of additional paid-in capital amounted to 36,627 thousand and 57,907 thousand (US\$1,708 thousand) in April 2007 and January 2009, respectively. As a result, the additional paid-in capital as of March 31, 2009 was NT\$4,316,337 thousand (US\$127,288 thousand). Under the Company Law, the Company may transfer the capital surplus to common stock if there is no accumulated deficit.

The capital surplus from long-term equity investments was NT\$15,845 thousand as of January 1, 2007. When the Company did not subscribe for the new shares issued by Vitamin D Inc. in September 2008 and January 2009, adjustments of NT\$1,689 thousand and NT\$187 thousand (US\$6 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 March 31, 2009 was NT\$17,721 thousand (US\$523 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 and January 2009, the additional paid-in capital from a merger decreased to NT\$25,415 thousand (US\$749 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\$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 and 2009, the employee bonus payable should be appropriated at 18% of net income before deducting 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 April 17, 2009, the date of the accompanying independent accountants' 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.

## 21. 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 to NT\$500 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 during the repurchase period and retired them in January 2009.

Purpose	(In thousands of shares)			
	As of January 1, 2009	Increase	Decrease	As of March 31, 2009
For maintaining the Company's credit and stockholders' equity	10,000	-	10,000	-

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

## 22. INCOME TAX

HTC's income tax returns through 2003 had been examined by the tax authorities. However, HTC disagreed with the tax authorities' assessment on its returns for 2001 to 2003 and applied for the 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 for the three months ended March 31, 2007, 2008 and 2009, income tax payable, income tax refund receivables and deferred tax assets (liabilities) as of March 31, 2007, 2008 and 2009 were as follows:

	2007				2008			
	Income Tax Expense (Benefit)	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	\$ 479,816	\$ 2,376,009	\$ -	\$ 798,466	\$ 710,310	\$ 3,158,340	\$ -	\$ 933,824
BandRich Inc.	-	-	-	3,934	(3,042)	-	-	13,307
Communication Global Certification Inc.	-	-	38	2,583	(378)	-	86	2,664
HTC America Inc.	(298)	362	-	-	6,618	6,080	-	-
HTC BRASIL	-	-	-	-	38	36	-	-
HTC EUROPE CO., LTD.	-	11,266	-	-	-	27,707	-	-
Exedea Inc.	987	-	-	-	-	-	-	-
HTC NIPPON Corporation	-	706	-	-	2	105	-	-
HTC Belgium BVBA/SPRL	-	-	-	-	138	999	-	-
High Tech Computer Singapore Pte. Ltd.	-	-	-	-	411	912	-	-
High Tech Computer (H.K.) Limited	-	-	-	-	540	3,981	-	2,846
HTC (Australia and New Zealand) Pty. Ltd.	-	-	-	-	1,048	9,892	-	7,876
HTC India Private Limited	-	-	-	-	572	4,143	-	-
	<u>\$ 480,505</u>	<u>\$ 2,388,343</u>	<u>\$ 38</u>	<u>\$ 804,983</u>	<u>\$ 716,257</u>	<u>\$ 3,212,195</u>	<u>\$ 86</u>	<u>\$ 960,517</u>

	2009									
	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	\$ 517,196	\$ 15,252	\$ 4,464,671	\$ 131,662	\$ -	\$ -	\$ 1,401,472	\$ 41,329		
BandRich Inc.	-	-	-	-	-	-	(245)	(7)		
Communication Global Certification Inc.	(12)	-	98	3	-	-	2,240	66		
HTC America Inc.	20,875	615	3,391	100	-	-	27	1		
HTC EUROPE CO., LTD.	12,243	361	80,243	2,366	-	-	-	-		
HTC NIPPON Corporation	2,082	61	1,834	54	-	-	-	-		
HTC BRASIL One & Company Design, Inc.	6,180	182	1,797	53	-	-	-	-		
HTC Corporation (Shanghai WGQ)	1,220	36	1,072	32	-	-	(6,014)	(178)		
HTC Belgium BAVA/SPRL	-	-	3,158	93	-	-	-	-		
High Tech Computer Singapore Pte. Ltd.	(3,375)	(100)	7,176	212	-	-	-	-		
High Tech Computer (H.K.) Limited	255	8	253	7	-	-	-	-		
HTC (Australia and New Zealand) Pty. Ltd.	-	-	-	-	502	15	-	-		
HTC India Private Limited	576	17	3,962	117	-	-	(198)	(6)		
HTC (Thailand) Limited	463	14	2,396	71	-	-	-	-		
HTC Malaysia Sdn. Bhd.	167	5	764	23	-	-	-	-		
HTC Investment Corporation	182	5	549	16	-	-	-	-		
	55	2	244	7	-	-	59	2		
	<u>\$ 558,107</u>	<u>\$ 16,458</u>	<u>\$ 4,571,608</u>	<u>\$ 134,816</u>	<u>\$ 502</u>	<u>\$ 15</u>	<u>\$ 1,397,341</u>	<u>\$ 41,207</u>		

The tax effects of deductible temporary differences and loss and tax credit carryforwards that gave rise to deferred tax assets as of March 31, 2007, 2008 and 2009 were as follows:

	2007 NT\$	2008 NT\$	2009	
			NT\$	US\$ (Note 3)
Temporary differences				
Provision for loss on decline in value of inventory	\$ 319,199	\$ 281,723	\$ 596,927	\$ 17,603
Unrealized marketing expenses	323,293	890,158	1,251,454	36,905
Unrealized reserve for warranty expense	360,124	1,005,720	1,211,882	35,738
Capitalized expense	34,087	41,418	61,807	1,823
Unrealized royalties	1,053,806	1,119,172	1,584,258	46,720
Unrealized bad-debt expenses	-	-	144,405	4,259
Unrealized valuation loss on financial instruments	12,478	87,039	9,332	275
Unrealized foreign exchange loss	-	-	130,272	3,842
Other	29,094	29,997	83,666	2,467
Loss carryforwards	12,699	33,356	50,201	1,480
Tax credit carryforwards	30,721	455,086	2,658,173	78,389
Total deferred tax assets	2,175,501	3,943,669	7,782,377	229,501
Less: Valuation allowance	(1,323,495)	(2,726,089)	(6,347,041)	(187,173)
Total deferred tax assets, net	852,006	1,217,580	1,435,336	42,328
Deferred tax liabilities				
Unrealized pension cost	(19,905)	(25,182)	(30,735)	(907)
Unrealized foreign exchange gain, net	(21,492)	(227,691)		
Unrealized depreciation	(5,626)	(4,190)	(7,260)	(214)
	804,983	960,517	1,397,341	41,207
Less: Current portion	(492,609)	(553,679)	(585,015)	(17,252)
Deferred tax assets - noncurrent	<u>\$ 312,374</u>	<u>\$ 406,838</u>	<u>\$ 812,326</u>	<u>\$ 23,955</u>

Details of the tax credit carryforwards were as follows:

Credit Grant Year	Validity Period	2007	2008	2009	
		NT\$	NT\$	NT\$	US\$ (Note 3)
2003	2003-2007	\$ 1,852	\$ -	\$ -	\$ -
2004	2004-2008	6,965	6,965	-	-
2005	2005-2009	6,479	6,479	6,305	186
2006	2006-2010	15,425	15,475	15,475	456
2007	2007-2011	-	18,565	220,270	6,496
2008	2008-2012	-	407,602	2,039,632	60,148
2009	2009-2013	-	-	376,491	11,103
		<u>\$ 30,721</u>	<u>\$ 455,086</u>	<u>\$ 2,658,173</u>	<u>\$ 78,389</u>

Details of the loss carryforwards were as follows:

Loss Year	Validity Period	2007	2008	2009	
		NT\$	NT\$	NT\$	US\$ (Note 3)
2005	2006-2010	\$ 95	\$ 95	\$ -	\$ -
2006	2007-2011	50,702	50,703	-	-
2007	2008-2012	-	58,016	-	-
2008	2009-2013	-	24,608	-	-
2005	2006-2015	-	-	95	3
2006	2007-2016	-	-	49,326	1,455
2007	2008-2017	-	-	48,885	1,442
2008	2009-2018	-	-	102,497	3,022
		<u>\$ 50,797</u>	<u>\$ 133,422</u>	<u>\$ 200,803</u>	<u>\$ 5,922</u>

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 in accordance with the Company's financial forecasts.

The income taxes for the three months ended March 31, 2007, 2008 and 2009 were as follows:

	2007	2008	2009	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Current income tax	\$ 505,896	\$ 713,608	\$ 586,046	\$ 17,282
(Increase) decrease in deferred income tax assets	(151,302)	2,649	(23,918)	(705)
Underestimation (overestimation) of prior year's income tax	<u>125,911</u>	<u>-</u>	<u>(4,021)</u>	<u>(119)</u>
Income tax	<u>\$ 480,505</u>	<u>\$ 716,257</u>	<u>\$ 558,107</u>	<u>\$ 16,458</u>

The integrated income tax information of HTC is as follows:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Balance of imputation credit account (ICA)	\$ 495,425	\$ 1,915,463	\$ 1,530,185	\$ 45,125
Unappropriated earnings generated from 1998	37,530,058	48,348,450	46,248,976	1,363,874
Estimated creditable ratio (including income tax payable)	7.65%	10.49%	12.96%	12.96%

### 23. EARNINGS PER SHARE

Earnings per share (EPS) before tax and after tax are calculated by dividing net income by the weighted average number of common shares outstanding which includes the deduction of the effect of treasury stock during each year. The weighted average number of shares used in EPS calculation was 756,296 thousand shares, 755,391 thousand shares and 745,394 thousand shares for the three months ended March 31, 2007, 2008 and 2009, respectively. The EPS for the three months ended March 31, 2007 and 2008 were calculated after the average number of shares outstanding which 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 three months ended March 31, 2007, 2008 and 2009 was as follows:

	<u>2007</u>		<u>2007</u>		
	<u>Numerators</u>		<u>Denominator</u>	<u>EPS (In Dollars)</u>	
	<u>Income before Income Tax</u> NT\$	<u>Income after Income Tax</u> NT\$	Shares (Thousand)	<u>Income before Income Tax</u> NT\$	<u>Income after Income Tax</u> NT\$
Basic EPS	\$6,018,784	\$5,538,968	756,296	<u>\$ 7.96</u>	<u>\$ 7.32</u>
Employee stock options	-	-	6,606		
Diluted EPS	<u>\$6,018,784</u>	<u>\$5,538,968</u>	<u>762,902</u>	<u>\$ 7.89</u>	<u>\$ 7.26</u>



	2008				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax	Income after Income Tax	Shares (Thousand)	Income before Income Tax	Income after Income Tax
	NT\$	NT\$		NT\$	NT\$
Basic EPS	\$7,654,893	\$6,944,583	755,391	\$10.13	\$ 9.19
Bonus to employees	-	-	2,965		
Diluted EPS	\$7,654,893	\$6,944,583	758,356	\$10.09	\$ 9.16
	2009				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax	Income after Income Tax	Shares (Thousand)	Income before Income Tax	Income after Income Tax
	NT\$	NT\$		NT\$	NT\$
Basic EPS	\$5,392,019	\$4,874,823	745,394	\$ 7.23	\$ 6.54
Bonus to employees		-	3,534		
Diluted EPS	\$5,392,019	\$4,874,823	748,928	\$ 7.20	\$ 6.51
	2009				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax	Income after Income Tax	Shares (Thousand)	Income before Income Tax	Income after Income Tax
	US\$ (Note 3)	US\$ (Note 3)		US\$ (Note 3)	US\$ (Note 3)
Basic EPS	\$ 159,010	\$ 143,758	745,394	\$ 0.21	\$ 0.19
Bonus to employees			3,534		
Diluted EPS	\$ 159,010	\$ 143,758	748,928	\$ 0.21	\$ 0.19

## 24. FINANCIAL INSTRUMENTS

### Fair Value of Financial Instruments

#### *Nonderivative Financial Instruments*

	March 31							
	2007		2008		2009			
	Carrying Amount	Fair Value	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 - current	\$ -	\$ -	\$ -	\$ -	\$1,365,115	\$ 40,257	\$1,365,115	\$ 40,257
Available-for-sale financial assets - noncurrent	1,500	1,500	731	731	709	21	709	21
Financial assets carried at cost	501,192	501,192	501,192	501,192	501,192	14,780	501,192	14,780
Bond investments not quoted in an active market	-	-	30,400	30,400	-	-	-	-
Investments accounted for by the equity method	-	-	-	-	40,598	1,197	40,598	1,197

## Derivative Financial Instruments

	March 31							
	2007		2008		2009			
	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	\$ 49,910	\$ 49,910	\$ 348,155	\$ 348,155	\$ 37,329	\$ 1,101	\$ 37,329	\$ 1,101

### 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 nor guarantee deposits. The fair values of refundable deposits and guarantee deposits received are based on the present value of future cash flows discounted at the average interest rates for time deposits with maturities similar to those of the financial instruments.

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

### Methodology Used to Determine the Fair Values of Financial Instruments

	Quoted Market Prices				Measurement Method			
	March 31				March 31			
	2007	2008	2009		2007	2008	2009	
	NT\$	NT\$	NT\$	US\$ (Note 3)	NT\$	NT\$	NT\$	US\$ (Note 3)
Assets								
Available-for-sale financial assets - current	\$ -	\$ -	\$ 1,365,115	\$ 40,257	\$ -	\$ -	\$ -	\$ -
Available-for-sale financial assets - noncurrent	1,500	731	709	21	-	-	-	-
Financial assets carried at cost	-	-	-	-	501,192	501,192	501,192	14,780
Bond investments not quoted in an active market	-	-	-	-	-	30,400	-	-
Investments accounted for by the equity method	-	-	-	-	-	-	40,598	1,197
Liabilities								
Financial liabilities at fair value through profit or loss	49,910	348,155	37,329	1,101	-	-	-	-

There was no loss or gain recognized for the three months ended March 31, 2007, 2008 and 2009 on the fair value changes of derivatives estimated using valuation techniques. The Company recognized unrealized losses of NT\$233 thousand and NT\$53 thousand and a gain of NT\$485 thousand (US\$14 thousand) in stockholders' equity for the changes in fair value of available-for-sale financial assets for the three months ended March 31, 2007, 2008 and 2009, respectively.

As of March 31, 2007, 2008 and 2009, financial assets exposed to cash flow interest rate risk amounted to NT\$31,735,377 thousand, NT\$58,955,933 thousand and NT\$70,938,772 thousand (US\$2,091,972 thousand), respectively.

As of March 31, 2008 and 2009, financial assets exposed to fair value interest rate risk amounted to NT\$30,400 thousand and NT\$117,000 thousand (US\$3,450 thousand), respectively.

## **Financial Risks**

### ***Market Risk***

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

### ***Credit Risk***

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

### ***Cash Flow Risk***

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

## **25. RELATED-PARTY TRANSACTIONS**

The related parties were as follows:

<b>Related Party</b>	<b>Relationship with the Company</b>
First International Computer, Inc. (FIC)	Chairperson is an immediate relative of the chairperson of HTC
Xander International Corp.	Chairperson is an immediate relative of the chairperson of HTC
VIA Technologies, Inc.	Same chairperson with HTC
Chander Electronics Corp.	Same chairperson with HTC
Way-Lien Technology Inc.	Same chairperson with HTC
Syuda Construction Company	The only juridical person shareholder, and the same chairperson
Comserve Network Netherlands B.V.	Main director is an immediate relative of the chairperson of HTC
Employees' Welfare Committee	Employees' Welfare Committee of HTC

Major transactions with related parties are summarized below:

### Purchases of Inventories and Services

Related Party	Three Months Ended March 31						
	2007		2008		2009		
	Amount	% to Total Net Purchases	Amount	% to Total Net Purchases	Amount	% to Total Net Purchases	
NT\$		NT\$		NT\$	US\$		
					(Note 3)		
Chander Electronics Corp.	\$ -	-	\$ -	-	\$ 5,968	\$ 176	-

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

### Sales and Services Provided

Related Party	Three Months Ended March 31						
	2007		2008		2009		
	Amount	% to Total Revenues	Amount	% to Total Revenues	Amount	% to Total Revenues	
NT\$		NT\$		NT\$	US\$		
					(Note 3)		
Employees' Welfare Committee	\$ 70	-	\$ 35,088	-	\$ 6,910	\$ 203	-
Xander International Corp.	-	-	75,962	-	128	4	-
VIA Technologies Inc.	-	-	253	-	-	-	-
Other	-	-	-	-	62	2	-
	\$ 70	-	\$ 111,303	-	\$ 7,100	\$ 209	-

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

### Notes and Accounts Receivable

Related Party	March 31						
	2007		2008		2009		
	Amount	% to Total Notes and Accounts Receivable	Amount	% to Total Notes and Accounts Receivable	Amount	% to Total Notes and Accounts Receivable	
NT\$		NT\$		NT\$	US\$		
					(Note 3)		
Xander International Corp.	\$ -	-	\$ 20,271	-	\$ -	\$ -	-
VIA Technologies Inc.	1	-	706	-	-	-	-
	\$ 1	-	\$ 20,977	-	\$ -	\$ -	-

### Notes and Accounts Payable

Related Party	March 31						
	2007		2008		2009		
	Amount	% to Total Notes and Accounts Payable	Amount	% to Total Notes and Accounts Payable	Amount	% to Total Notes and Accounts Payable	
NT\$		NT\$		NT\$	US\$		
					(Note 3)		
Chander Electronics Corp.	\$ -	-	\$ -	-	\$ 12,656	\$ 373	-
First International Computer, Inc.	-	-	521	-	-	-	-
	\$ -	-	\$ 521	-	\$ 12,656	\$ 373	-

## Other Receivables

Related Party	March 31						
	2007		2008		2009		
	Amount NT\$	% to Total Other Receivable	Amount NT\$	% to Total Other Receivable	Amount		% to Total Other Receivable
				NT\$	US\$ (Note 3)		
Chander Electronics Corp	\$ 25	-	\$ 82	-	\$ 72	\$ 2	-
Xander International Corp.	-	-	38	-	-	-	-
VIA Technologies Inc.	10	-	25	-	-	-	-
Other	-	-	-	-	32	1	-
	<u>\$ 35</u>	<u>-</u>	<u>\$ 145</u>	<u>-</u>	<u>\$ 104</u>	<u>\$ 3</u>	<u>-</u>

## Other Payables to Related Parties

Related Party	March 31						
	2007		2008		2009		
	Amount NT\$	% to Total Other Payables	Amount NT\$	% to Total Other Payables	Amount		% to Total Other Payables
				NT\$	US\$ (Note 3)		
Way-Lien Technology Inc.	\$ -	-	\$ -	-	\$ 410	\$ 12	-
VIA Technologies Inc.	210	-	-	-	-	-	-
	<u>\$ 210</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ 410</u>	<u>\$ 12</u>	<u>-</u>

## Advance Receipts

Related Party	March 31						
	2007		2008		2009		
	Amount NT\$	% to Total Advance Receipts	Amount NT\$	% to Total Advance Receipts	Amount		% to Total Advance Receipts
				NT\$	US\$ (Note 3)		
Employees' Welfare Committee	\$ -	-	\$ -	-	\$ 15	\$ 1	-

## Service Warranty Expense

Related Party	Three Months Ended March 31						
	2007		2008		2009		
	Amount NT\$	% to Total Warranty Expenses	Amount NT\$	% to Total Warranty Expenses	Amount		% to Total Warranty Expenses
				NT\$	US\$ (Note 3)		
Comserve Network Netherlands B.V.	\$ 28,783	6	\$ 9,745	1	\$ 368	\$ 11	-

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

## Administrative and Selling Expenses - Service Fees

Related Party	Three Months Ended March 31						
	2007		2008		2009		
	Amount NT\$	% to Total Service Expenses	Amount NT\$	% to Total Service Expenses	Amount NT\$      US\$ (Note 3)		
Way-Lien Technology Inc.	\$ -	-	\$ -	-	\$ 600	\$ 18	-
VIA Technologies Inc.	600	-	400	-	-	-	-
	<u>\$ 600</u>	<u>-</u>	<u>\$ 400</u>	<u>-</u>	<u>\$ 600</u>	<u>\$ 18</u>	<u>-</u>

## Leasing - Lessee

### Operating Expense - Rental Expense

Related Party	Three Months Ended March 31						
	2007		2008		2009		
	Amount NT\$	% to Total Rental Expense	Amount NT\$	% to Total Rental Expense	Amount NT\$      US\$ (Note 3)		
VIA Technologies Inc.	\$ -	-	\$ -	-	\$ 1,299	\$ 38	3

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.

## Property Transaction

In January 2009, the Company acquired land from a related party, Syuda Construction Company, for NT\$791,910 thousand (US\$23,353 thousand). It was about 39 thousand square meters, located near the Company in Taoyuan, and priced on appraisal reports. It will be used to build more offices, parking lots, dormitory, etc.

## 26. MORTGAGED OR PLEDGED ASSETS

As of March 31, 2007, 2008 and 2009, the Company had provided time deposits of NT\$6,977 thousand, NT\$49,738 and NT\$36,086 (US\$1,064 thousand) as collateral for the secured loans.

## 27. 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 March 31, 2009 the Company wholly owned HTC Electronics (Shanghai) indirectly.

## 28. SIGNIFICANT CONTRACTS

### Patent Agreements

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

<b>Contractor</b>	<b>Contract Term</b>	<b>Description</b>
Microsoft	February 1, 2009-January 31, 2011	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. (b) Any time when the Company is not using any of Qualcomm's intellectual property, the Company may terminate this agreement upon 60 days' prior written notice to Qualcomm.	Authorization to use CDMA technology to manufacture and sell units; royalty payment based on agreement.
Ericsson Mobile Platform AB	April 2003-March 2011	Authorization to use EDGE reference design license and support agreement; royalty payment based on agreement.
Telefonaktiebolaget LM Ericsson	December 15, 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.

<b>Contractor</b>	<b>Contract Term</b>	<b>Description</b>
Motorola, Inc.	December 23, 2003 to the latest of the following dates: (a) Expiry dates of patents (b) Any time when the Company is not using any of Motorola's intellectual property,	TDMA, NARROWBAND CDMA, WIDEBAND CDMA or TD/CDMA Standards patent license or technology; royalty payment based on agreement.
ALCATEL/TCL & Alcatel	July 1, 2004-June 30, 2009	Authorization to use GSM, GPRS or EDGE patent license or technology; royalty payment based on agreement.
Siemens Aktiengesellschaft	July 1, 2004 to the expiry dates of these patents.	Authorization to use GSM, GPRS or EDGE patent license or technology; royalty payment based on agreement.
Lucent Technologies GRL LLC	July 1, 2004-June 30, 2009	Authorization to use GSM, GPRS, EDGE, CDMA or WCDMA patent license or technology; royalty payment based on agreement.

## 29. OTHER EVENTS

IPCom GMBH & CO., KG ("IPCom") filed a lawsuit against the Company in the District Court of Mannheim Germany in April 2008, alleging that the Company infringed IPCom's patents. In March 2009, the Company was served with the court decision from which the court has found partially in favor of IPCom. The court granted IPCom's request, with the release of this injunction pending IPCom's placement with the court of a security bond of €1 million. Once effective, the injunction will prevent the Company from selling or exporting its mobile devices to Germany. The Company appealed the decision and requested a stay of the injunction pending the outcome of the appeal filed with the German Federal Patents Court in Munich. As of April 17, 2009, the date of the accompanying independent accountants' report, the Company had gotten from the court an order for the preliminary stay in enforcement of the injunction until the final decision on this case is handed down in the next months.

The technology allegedly infringed by the Company refers to the baseband chipset component supplied by the Company's chipset vendor and does not involve the Company's technology or intellectual property. This patent infringement lawsuit will not impact the Company's core competency, current customers in Germany or devices already on sale in Germany. The Company is working with its chipset supplier to identify an alternative solution and believes the court decision has limited impact on its financial results or sales activities.

On other contingent lawsuits, the Company had examined related information, including past experiences, expert opinions, the circumstances involved, results of the evaluation of contingencies and estimation of the degree of actual occurrence, and the amounts of contingent assets or liabilities.