

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

**Financial Statements for the Three Months  
Ended March 31, 2007, 2008 and 2009 and  
Independent Accountants' Review Report**

## **INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

The Board of Directors and Stockholders  
HTC Corporation

We have reviewed the accompanying balance sheets of HTC Corporation (the "Company," formerly High Tech Computer Corporation) as of March 31, 2007, 2008 and 2009, and the related statements of income and cash flows for the three months then ended, all expressed in New Taiwan dollars. These 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.

Except as stated in the following paragraph, 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 financial statements taken as a whole. Accordingly, we do not express such an opinion.

The calculation of investments accounted for by the equity method as of and for the three months ended March 31, 2007 was based on the investees' unreviewed financial statements of the same reporting periods as those of the Company. These investments amounted to NT\$774,856 thousand as of March 31, 2007. The loss on equity-method investments for the three months ended March 31, 2007 was NT\$76,835 thousand.

Based on our reviews, except for the effects of adjustments that might have been disclosed had the investees' financial statements mentioned in the preceding paragraph been reviewed, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As discussed in Note 4 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."

We have also reviewed the consolidated financial statements of HTC Corporation and subsidiaries as of and for the three months ended March 31, 2008 and 2009 and have issued an unqualified review report with an explanatory paragraph and an unqualified review report, respectively.

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

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

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

**BALANCE SHEETS**  
**MARCH 31, 2007, 2008 AND 2009**  
**(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)
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Note 5)	\$ 38,906,394	\$ 63,471,783	\$ 70,350,726	\$ 2,074,631	Financial liabilities at fair value through profit or loss (Notes 2, 6 and 24)	\$ 49,910	\$ 348,155	\$ 37,329	\$ 1,101
Available-for-sale financial assets - current (Notes 2 and 7)	-	-	1,365,115	40,257	Notes and accounts payable (Note 25)	14,539,385	19,024,640	20,854,824	615,005
Bond investments not quoted in an active market (Notes 2 and 13)	-	30,400	-	-	Income tax payable (Notes 2 and 22)	2,376,009	3,158,340	4,464,671	131,662
Notes and accounts receivable, net (Notes 2 and 8)	15,411,650	16,216,684	17,054,718	502,941	Accrued expenses (Notes 4, 16 and 25)	2,237,616	6,897,380	15,674,297	462,232
Accounts receivable from related parties, net (Notes 2 and 25)	1,275,220	450,915	501,242	14,781	Payable for purchase of equipment	12,556	109,721	59,604	1,758
Other current financial assets (Notes 9 and 25)	135,589	201,769	165,267	4,874	Other current liabilities (Notes 17 and 25)	<u>1,865,142</u>	<u>4,688,185</u>	<u>6,296,184</u>	<u>185,674</u>
Inventories (Notes 2, 4 and 10)	4,314,174	7,753,129	4,642,909	136,918	Total current liabilities	<u>21,080,618</u>	<u>34,226,421</u>	<u>47,386,909</u>	<u>1,397,432</u>
Prepayments (Notes 11 and 25)	1,703,413	1,376,839	2,913,674	85,924	OTHER LIABILITIES				
Deferred tax assets (Notes 2 and 22)	492,466	550,349	590,884	17,425	Guarantee deposits received	<u>628</u>	<u>628</u>	<u>2,141</u>	<u>63</u>
Other current assets	<u>79,564</u>	<u>177,771</u>	<u>211,275</u>	<u>6,230</u>	Total liabilities	<u>21,081,246</u>	<u>34,227,049</u>	<u>47,389,050</u>	<u>1,397,495</u>
Total current assets	<u>62,318,470</u>	<u>90,229,639</u>	<u>97,795,810</u>	<u>2,883,981</u>	STOCKHOLDERS' EQUITY (Note 19)				
INVESTMENTS					Capital stock - NT\$10.00 par value				
Available-for-sale financial assets - noncurrent (Notes 2 and 7)	1,500	731	709	21	Authorized: 1,000,000 thousand shares				
Financial assets carried at cost (Notes 2 and 12)	501,192	501,192	501,192	14,780	Issued and outstanding: 436,419 thousand shares in 2007, 573,134 thousand shares in 2008 and 745,394,thousand shares in 2009				
Investments accounted for by the equity method (Notes 2 and 14)	774,856	2,079,589	4,938,948	145,649	Common stock	4,364,192	5,731,337	7,453,938	219,815
Prepayments for long-term investments (Notes 2 and 14)	<u>261,679</u>	<u>-</u>	<u>55,336</u>	<u>1,632</u>	Capital surplus				
Total investments	<u>1,539,227</u>	<u>2,581,512</u>	<u>5,496,185</u>	<u>162,082</u>	Additional paid-in capital from share issuance in excess of par	4,410,871	4,374,244	4,316,337	127,288
PROPERTYIES (Notes 2, 15 and 25)					Long-term equity investments	15,845	15,845	17,721	523
Cost					Merger	25,972	25,756	25,415	749
Land	610,293	610,293	4,719,524	139,178	Retained earnings				
Buildings and structures	1,086,762	2,244,849	2,890,580	85,243	Legal reserve	1,991,520	4,516,253	7,410,139	218,524
Machinery and equipment	2,982,598	3,438,801	3,947,499	116,411	Special reserve	6,175	-	-	-
Molding equipment	201,247	201,247	172,632	5,091	Accumulated earnings	37,530,058	48,348,450	46,248,976	1,363,874
Computer equipment	187,033	238,506	265,096	7,818	Cumulative translation adjustments (Note 2)	22,600	(78,934)	168,488	4,969
Transportation equipment	1,938	1,335	2,732	80	Unrealized losses on financial instruments (Notes 2 and 7)	(471)	(1,240)	(1,147)	(34)
Furniture and fixtures	105,951	116,308	127,440	3,758	Treasury stock (Notes 2 and 20)	<u>(1,991,755)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Leased assets	4,712	4,712	4,712	139	Total stockholders' equity	<u>46,375,007</u>	<u>62,931,711</u>	<u>65,639,867</u>	<u>1,935,708</u>
Leasehold improvements	<u>22,816</u>	<u>48,370</u>	<u>95,255</u>	<u>2,809</u>					
Total cost	5,203,350	6,904,421	12,225,470	360,527					
Less: Accumulated depreciation	(2,846,306)	(3,331,523)	(3,890,382)	(114,727)					
Prepayments for construction-in-progress and equipment-in-transit	<u>696,558</u>	<u>122,715</u>	<u>22,109</u>	<u>652</u>					
Properties, net	<u>3,053,602</u>	<u>3,695,613</u>	<u>8,357,197</u>	<u>246,452</u>					
OTHER ASSETS									
Assets leased to others	-	-	284,204	8,381					
Refundable deposits	36,891	94,334	117,280	3,459					
Deferred charges (Note 2)	122,430	73,493	45,002	1,327					
Deferred tax assets (Notes 2 and 22)	306,000	383,475	810,588	23,904					
Others (Notes 2 and 18)	<u>79,633</u>	<u>100,694</u>	<u>122,651</u>	<u>3,617</u>					
Total other assets	<u>544,954</u>	<u>651,996</u>	<u>1,379,725</u>	<u>40,688</u>					
TOTAL	<u>\$ 67,456,253</u>	<u>\$ 97,158,760</u>	<u>\$ 113,028,917</u>	<u>\$ 3,333,203</u>	TOTAL	<u>\$ 67,456,253</u>	<u>\$ 97,158,760</u>	<u>\$ 113,028,917</u>	<u>\$ 3,333,203</u>

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

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

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

**STATEMENTS OF INCOME**  
**THREE MONTHS ENDED MARCH 31, 2007, 2008 AND 2009**  
(In Thousands, Except Earnings Per Share)  
(Reviewed, Not Audited)

	2007	2008	2009	
	NT\$	NT\$	NT\$	US\$ (Note 3)
REVENUES (Notes 2 and 25)	\$ 23,601,325	\$ 32,703,364	\$ 31,590,366	\$ 931,594
COST OF REVENUES (Notes 4, 21 and 25)	<u>16,202,458</u>	<u>21,047,616</u>	<u>22,089,581</u>	<u>651,418</u>
GROSS PROFIT	7,398,867	11,655,748	9,500,785	280,176
UNREALIZED GAIN ON INTERCOMPANY TRANSACTIONS	(155,441)	(128,942)	(152,494)	(4,497)
REALIZED GAIN ON INTERCOMPANY TRANSACTIONS	<u>164,011</u>	<u>175,075</u>	<u>134,091</u>	<u>3,955</u>
REALIZED GROSS PROFIT	<u>7,407,437</u>	<u>11,701,881</u>	<u>9,482,382</u>	<u>279,634</u>
OPERATING EXPENSES (Notes 21 and 25)				
Selling and marketing	644,326	1,652,794	2,153,577	63,509
General and administrative	216,931	421,878	403,530	11,900
Research and development	<u>811,678</u>	<u>2,171,244</u>	<u>2,079,766</u>	<u>61,332</u>
Total operating expenses	<u>1,672,935</u>	<u>4,245,916</u>	<u>4,636,873</u>	<u>136,741</u>
OPERATING INCOME	<u>5,734,502</u>	<u>7,455,965</u>	<u>4,845,509</u>	<u>142,893</u>
NONOPERATING INCOME AND GAINS				
Interest income	140,042	313,325	164,278	4,845
Gains on equity-method investments (Notes 2 and 14)	-	-	175,331	5,170
Foreign exchange gain (Note 2)	245,299	399,613	357,954	10,556
Other	<u>33,415</u>	<u>69,935</u>	<u>103,505</u>	<u>3,053</u>
Total nonoperating income and gains	<u>418,756</u>	<u>782,873</u>	<u>801,068</u>	<u>23,624</u>
NONOPERATING EXPENSES AND LOSSES				
Interest expense	66	34	46	1
Losses on equity-method investments (Notes 2 and 14)	76,835	228,946	-	-
Valuation loss on financial instruments, net (Notes 2 and 6)	49,910	348,155	37,329	1,101
Other	<u>7,663</u>	<u>6,810</u>	<u>217,183</u>	<u>6,405</u>
Total nonoperating expenses and losses	<u>134,474</u>	<u>583,945</u>	<u>254,558</u>	<u>7,507</u>
INCOME BEFORE INCOME TAX	6,018,784	7,654,893	5,392,019	159,010
INCOME TAX (Notes 2 and 22)	<u>(479,816)</u>	<u>(710,310)</u>	<u>(517,196)</u>	<u>(15,252)</u>
NET INCOME	<u>\$ 5,538,968</u>	<u>\$ 6,944,583</u>	<u>\$ 4,874,823</u>	<u>\$ 143,758</u>

(Continued)

**HTC CORPORATION**  
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**STATEMENTS OF INCOME**  
**THREE MONTHS ENDED MARCH 31, 2007, 2008 AND 2009**  
**(In Thousands, Except Earnings Per Share)**  
**(Reviewed, Not Audited)**

	<b>2007</b>		<b>2008</b>		<b>2009</b>			
	<b>Before Income Tax</b>	<b>After Income Tax</b>	<b>Before Income Tax</b>	<b>After Income Tax</b>	<b>Before Income Tax</b>		<b>After Income Tax</b>	
	<b>NT\$</b>	<b>NT\$</b>	<b>NT\$</b>	<b>NT\$</b>	<b>NT\$</b>	<b>US\$ (Note 3)</b>	<b>NT\$</b>	<b>US\$ (Note 3)</b>
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 financial statements.

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

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

**STATEMENTS OF CASH FLOWS**  
**THREE MONTHS ENDED MARCH 31, 2007, 2008 AND 2009**  
**(In Thousands)**  
**(Reviewed, Not Audited)**

	2007	2008	2009	
	NT\$	NT\$	NT\$	US\$ (Note 3)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income	\$ 5,538,968	\$ 6,944,583	\$ 4,874,823	\$ 143,758
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation (including depreciation of assets leased to others)	162,345	134,720	163,402	4,819
Transfer of properties to expenses	-	2,969	157	4
Foreign exchange loss on bond investments not quoted in an active market	-	2,630	-	-
Amortization	7,933	14,615	7,123	210
Losses (gains) on equity-method investments	76,835	228,946	(175,331)	(5,170)
Deferred income tax assets	(151,159)	8,286	(27,834)	(821)
Prepaid pension costs	(5,613)	(5,507)	(5,513)	(163)
Net changes in operating assets and liabilities				
Financial instruments at fair value through profit or loss	(26,560)	251,899	(476,754)	(14,059)
Notes and accounts receivable	2,965,259	2,730,241	11,805,524	348,143
Accounts receivable from related parties	36,570	85,960	437,528	12,903
Other current financial assets	232,908	82,282	110,239	3,251
Inventories	669,717	(1,633,716)	2,775,558	81,851
Prepayments	177,706	160,488	(1,676,043)	(49,426)
Other current assets	(16,463)	(60,930)	(49,268)	(1,453)
Notes and accounts payable	(2,307,654)	(2,995,478)	(7,052,320)	(207,972)
Income tax payable	617,292	643,946	526,926	15,539
Accrued expenses	(102,513)	1,627,551	41,361	1,220
Other current liabilities	(47,267)	390,979	(119,989)	(3,539)
Net cash provided by operating activities	<u>7,828,304</u>	<u>8,614,464</u>	<u>11,159,589</u>	<u>329,095</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of properties	(329,322)	(178,471)	(1,218,697)	(35,939)
Proceeds of the sale of properties	-	455	920	27
Purchase of available-for-sale financial assets	-	-	(1,365,000)	(40,254)
Increase in financial assets carried at cost	(500,000)	-	-	-
Increase in investments accounted for by the equity method	(280,000)	-	(48,878)	(1,441)
Decrease (increase) in refundable deposits	100	(897)	184	5
Increase in deferred charges	(11,304)	-	-	-
Net cash used in investing activities	<u>(1,120,526)</u>	<u>(178,913)</u>	<u>(2,631,471)</u>	<u>(77,602)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Decrease in guarantee deposits received	(12)	-	(4,265)	(126)
Bonus to employees	(451,000)	-	-	-
Purchase of treasury stock	(1,747,760)	-	-	-
Net cash used in financing activities	<u>(2,198,772)</u>	<u>-</u>	<u>(4,265)</u>	<u>(126)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>4,509,006</u>	<u>8,435,551</u>	<u>8,523,853</u>	<u>251,367</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<u>34,397,388</u>	<u>55,036,232</u>	<u>61,826,873</u>	<u>1,823,264</u>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u>\$ 38,906,394</u>	<u>\$ 63,471,783</u>	<u>\$ 70,350,726</u>	<u>\$ 2,074,631</u>

(Continued)

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

**STATEMENTS OF CASH FLOWS**  
**THREE MONTHS ENDED MARCH 31, 2007, 2008 AND 2009**  
**(In Thousands)**  
**(Reviewed, Not Audited)**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>				
Cash paid during the period				
Interest (net of amounts capitalized)	\$ <u>66</u>	\$ <u>34</u>	\$ <u>46</u>	\$ <u>1</u>
Income tax	\$ <u>13,683</u>	\$ <u>58,078</u>	\$ <u>18,104</u>	\$ <u>534</u>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>				
Transfer of assets leased to others to properties	\$ <u>-</u>	\$ <u>-</u>	\$ <u>25,755</u>	\$ <u>760</u>
Retirement of treasury stock	\$ <u>-</u>	\$ <u>-</u>	\$ <u>3,410,277</u>	\$ <u>100,568</u>
<b>INCREASE IN INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD</b>				
Increase in investments accounted for by the equity method	\$ <u>280,000</u>	\$ <u>-</u>	\$ <u>56,520</u>	\$ <u>1,666</u>
Increase in payable for purchase of investments	<u>-</u>	<u>-</u>	<u>(7,642)</u>	<u>(225)</u>
Cash paid	\$ <u>280,000</u>	\$ <u>-</u>	\$ <u>48,878</u>	\$ <u>1,441</u>
<b>PURCHASE OF PROPERTIES</b>				
Cost of properties purchased	\$ <u>306,323</u>	\$ <u>117,856</u>	\$ <u>1,120,270</u>	\$ <u>33,037</u>
Decrease in payable for purchase of equipment	<u>22,786</u>	<u>60,463</u>	<u>98,182</u>	<u>2,895</u>
Decrease in lease payable	<u>213</u>	<u>152</u>	<u>245</u>	<u>7</u>
Cash paid for purchase of properties	\$ <u>329,322</u>	\$ <u>178,471</u>	\$ <u>1,218,697</u>	\$ <u>35,939</u>
<b>BONUS TO EMPLOYEES AND DIRECTORS' REMUNERATION</b>				
Appropriation of bonus to employees and directors' remuneration	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	<u>-</u>
Decrease in payable for employee bonus and directors' remuneration	<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 financial statements.

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



# **HTC CORPORATION**

**(Formerly High Tech Computer Corporation)**

## **NOTES TO FINANCIAL STATEMENTS**

### **THREE MONTHS ENDED MARCH 31, 2007, 2008 AND 2009**

**(In Thousands, Unless Stated Otherwise)**  
**(Reviewed, Not Audited)**

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#### **1. ORGANIZATION AND OPERATIONS**

HTC Corporation (the “Company,” formerly High Tech Computer Corporation until June 13, 2008) was incorporated on May 15, 1997 under the Company Law of the Republic of China to design, manufacture and sell smart handheld devices. In March 2002, the Company’s stock was listed on the Taiwan Stock Exchange. On November 19, 2003, the Company started trading Global Depositary Receipts on the Luxembourg Stock Exchange.

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

The Company had 4,317, 5,857 and 7,132 persons in its payroll as of March 31, 2007, 2008 and 2009, respectively.

#### **2. SIGNIFICANT ACCOUNTING POLICIES**

##### **Basis of Presentation**

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

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

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

##### **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.

Profits from downstream transactions with an equity-method investee are eliminated in proportion to the Company's percentage of ownership in the investee; however, if the Company has control over the investee, all the profits are eliminated. Profits from upstream transactions with an equity-method investee are eliminated in proportion to the Company's percentage of ownership in the investee.

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.

### **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.

## **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 financial statements as of and for the three months ended March 31, 2009.

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

The 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	\$ 1,000	\$ 1,000	\$ 1,000	\$ 29
Cash in banks	7,396,994	4,892,933	330,881	9,758
Time deposits	31,508,400	58,577,850	69,901,845	2,061,394
Cash equivalents - repurchase bonds	-	-	117,000	3,450
	<u>\$ 38,906,394</u>	<u>\$ 63,471,783</u>	<u>\$ 70,350,726</u>	<u>\$ 2,074,631</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:

			<u>2007</u>		
	Buy/Sell	Currency	Expiry Period/Date	Contract Amount	
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:

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

	<b>2007</b>	<b>2008</b>	<b>2009</b>	
	<b>NT\$</b>	<b>NT\$</b>	<b>NT\$</b>	<b>US\$</b>
				<b>(Note 3)</b>
Notes receivable	\$ 1,683	\$ 17	\$ -	\$ -
Accounts receivable	15,419,836	16,508,975	17,801,581	524,966
Less: Allowance for doubtful accounts	(9,869)	(292,308)	(746,863)	(22,025)
	<u>\$ 15,411,650</u>	<u>\$ 16,216,684</u>	<u>\$ 17,054,718</u>	<u>\$ 502,941</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	\$ 28,042	\$ 41,820	\$ 129,806	\$ 3,828
Interest receivables	28,047	60,478	23,245	685
Other receivables from related parties (Note 25)	38,369	92,750	10,577	312
Agency payments	<u>41,131</u>	<u>6,721</u>	<u>1,639</u>	<u>49</u>
	<u>\$ 135,589</u>	<u>\$ 201,769</u>	<u>\$ 165,267</u>	<u>\$ 4,874</u>

Other receivables from related parties were agency payments for related parties.

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	\$ 702,435	\$ 487,290	\$ 641,117	\$ 18,906
Work-in-process	1,630,854	2,624,274	2,400,076	70,778
Raw materials	<u>3,257,682</u>	<u>5,768,457</u>	<u>3,947,206</u>	<u>116,402</u>
	5,590,971	8,880,021	6,988,399	206,086
Less: Valuation allowance	<u>(1,276,797)</u>	<u>(1,126,892)</u>	<u>(2,345,490)</u>	<u>(69,168)</u>
	<u>\$ 4,314,174</u>	<u>\$ 7,753,129</u>	<u>\$ 4,642,909</u>	<u>\$ 136,918</u>

The write-down of inventories to their net realizable value amounted to NT\$210,605 and NT\$722,264 thousand (US\$21,299 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\$385,134 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>	
	<u>NT\$</u>	<u>NT\$</u>	<u>NT\$</u>	<u>US\$</u> (Note 3)
Royalty	\$ 1,418,471	\$ 945,838	\$ 2,599,483	\$ 76,658
Molding equipment	73,879	124,998	139,324	4,109
Service	65,640	46,793	97,833	2,885
Software and hardware maintenance	58,438	92,541	53,208	1,569
Travel	55,730	8,790	1,529	46
Marketing	-	129,906	-	-
Others	31,255	27,973	22,297	657
	<u>\$ 1,703,413</u>	<u>\$ 1,376,839</u>	<u>\$ 2,913,674</u>	<u>\$ 85,924</u>

Prepayments for royalty were primarily prepayments for discount purposes (Note 27 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>	
	<u>NT\$</u>	<u>NT\$</u>	<u>NT\$</u>	<u>US\$</u> (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\$	US\$ (Note 3)
Bond investment	\$ -	\$ 33,030	\$ -	\$ -
Provision for exchange loss	-	(2,630)	-	-
Less: Current portion		(30,400)	-	-
	<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 27.27% equity interest in Vitamin D Inc. and can exercise significant influence over this investee. The Company accounts for this investment by the equity method.

### 14. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Investments accounted for by the equity method as of March 31, 2007, 2008 and 2009 were as follows:

	2007		2008		2009				Ownership Percentage
	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage	Original Cost		Carrying Value		
	NT\$		NT\$		NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	
Equity method									
H.T.C. (B.V.I.) Corp.	\$ 350,348	100.00	\$ 1,137,159	100.00	\$ 1,861,746	\$ 54,903	\$ 2,134,503	\$ 62,946	100.00
Band Rich Inc.	124,904	50.66	103,792	50.66	135,000	3,981	36,736	1,083	50.66
HTC HK, Limited	783	100.00	13,126	100.00	1,277	38	39,029	1,151	100.00
Communication Global Certification Inc.	298,821	100.00	266,828	100.00	280,000	8,257	273,142	8,055	100.00
High Tech Computer Asia Pacific Pte. Ltd.	-	-	558,684	100.00	2,023,774	59,681	2,113,668	62,332	100.00
Vitamin D Inc.	-	-	-	-	40,986	1,209	40,598	1,197	25.90
HTC Investment Corporation	-	-	-	-	300,000	8,847	301,210	8,883	100.00
PT. High Tech Computer Indonesia	-	-	-	-	62	2	62	2	1.00
Prepayments for long-term investments	261,679	-	-	-	55,336	1,632	55,336	1,632	
	\$ 1,036,535		\$ 2,079,589		\$ 4,698,181	\$ 138,550	\$ 4,994,284	\$ 147,281	

In August 2000, the Company acquired 100% equity interest in H.T.C. (B.V.I.) Corp. for NT\$12,834 thousand and accounted for this investment by the equity method. As of March 31, 2009 the Company had increased this investment to NT\$1,861,746 thousand (US\$54,903 thousand). H.T.C. (B.V.I.) Corp. makes investments on behalf of the Company.

In April 2006, the Company acquired 92% equity interest in BandRich Inc. for NT\$135,000 thousand and accounted for this investment by the equity method. In May 2006, BandRich Inc. issued 12,000 thousand shares of common stock at a price of NT\$12.50 per share of which the Company didn't purchase. The Company's ownership percentage declined from 92% to 50.66% and resulted in capital surplus - long term equity investments of NT\$15,845 thousand.

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

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

In July 2007, the Company acquired 100% equity interest in High Tech Computer Asia Pacific Pte. Ltd. for NT\$560,660 thousand and accounted for this investment by the equity method. As of March 31, 2009, the Company had increased this investment to NT\$2,079,110 thousand (US\$61,313 thousand). Because the registration of this investment was not completed on March 31, 2009, the amounts of NT\$55,336 thousand (US\$1,632 thousand) were temporarily accounted for as “prepayments for long-term investments.”

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.

In July 2008, the Company acquired 100% equity interest in HTC Investment Corporation for NT\$300,000 thousand and accounted for this investment by the equity method.

In December 2007, the Company and its subsidiary, High Tech Computer Asia Pacific Pte. Ltd., acquired 1% and 99%, respectively, equity interest in PT. High Tech Computer Indonesia for NT\$62 thousand and NT\$6,122 thousand, respectively. As a result, the Company accounted for this investment by the equity method.

On its equity-method investments, the Company had losses of NT\$76,835 thousand and NT\$228,946 and a gain of NT\$175,331 thousand (US\$5,170 thousand) for the three months ended March 31, 2007, 2008 and 2009, respectively.

The financial statements of equity-method investees for the three months ended March 31, 2008 and 2009 had been reviewed by the independent accountants, but those for the three months ended March 31, 2007 were unreviewed.

Under orders VI-0960064017 and VI-0960064020 issued by Financial Supervisory Commission under the Executive Yuan, the Company included the accounts of all its direct and indirect subsidiaries in the consolidated financial statements as of and for the three months ended March 31, 2008 and 2009. The Company retroactively restated its consolidated financial statements as of and for the three months ended March 31, 2007 for comparative purposes. All significant intercompany balances and transactions have been eliminated.

## 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	1,798,452	2,890,580	554,618	2,335,962	68,887
Machinery and equipment	954,739	1,041,027	3,947,499	2,817,016	1,130,483	33,338
Molding equipment	-	-	172,632	172,632	-	-
Computer equipment	42,319	70,052	265,096	199,353	65,743	1,939
Transportation equipment	650	428	2,732	1,141	1,591	47
Furniture and fixtures	21,685	26,744	127,440	101,962	25,478	751
Leased assets	3,730	2,945	4,712	2,552	2,160	63
Leasehold improvements	1,964	22,957	95,255	41,108	54,147	1,597
Prepayments for construction-in-progress and equipment-in-transit	696,558	122,715	22,109	-	22,109	652
	<u>\$ 3,053,602</u>	<u>\$ 3,695,613</u>	<u>\$ 12,247,579</u>	<u>\$ 3,890,382</u>	<u>\$ 8,357,197</u>	<u>\$ 246,452</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.

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

## 16. 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)
Bonus to employees	\$ -	\$ 1,497,199	\$ 7,207,515	\$ 212,548
Marketing	1,293,171	3,560,633	5,005,814	147,621
Services	76,390	594,878	1,112,882	32,819
Salaries	405,759	693,905	823,566	24,287
Research materials	85,032	220,452	560,983	16,543
Export expenses	77,708	57,712	316,561	9,335
Insurance	41,321	50,919	70,175	2,069
Meals and welfare	27,213	54,704	67,544	1,992
Donation	55,988	82,585	59,194	1,746
Research and development	-	-	49,200	1,451
Pension cost	27,405	34,817	48,835	1,440
Repairs and maintenance	8,955	17,644	46,786	1,380
Travel	68,480	28,519	22,923	676
Others	70,194	3,413	282,319	8,325
	<u>\$ 2,237,616</u>	<u>\$ 6,897,380</u>	<u>\$ 15,674,297</u>	<u>\$ 462,232</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.

## 17. 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	\$ 4,843,896	\$ 142,846
Other payable (see Note 25)	43,511	37,398	595,322	17,556
Agency receipts	156,328	242,311	313,545	9,246
Advance receipts	38,423	105,139	284,645	8,394
Deferred credits - gains on intercompany transactions	155,441	128,942	152,494	4,497
Directors' remuneration	21,842	21,842	21,842	644
Other	9,100	129,675	84,440	2,491
	<u>\$ 1,865,142</u>	<u>\$ 4,688,185</u>	<u>\$ 6,296,184</u>	<u>\$ 185,674</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.

Other payables to related parties were payables for investments accounted for by the equity method, miscellaneous expenses of overseas sales offices and repair materials.

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.

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

## 18. PENSION PLAN

The Labor Pension Act (the "Act"), which provides for a new defined contribution plan, took effect on July 1, 2005. Employees covered by the Labor Standards Law (the "Law") before the enforcement of the Act were allowed to choose to remain to be subject to the defined benefit pension mechanism under the Law or to be subject instead to the Act. Based on the Act, the rate of the Company's required monthly contributions to the employees' individual pension accounts is at least 6% of monthly wages and salaries, and these contributions are recognized as pension expense in the income statement. The pension fund contributions for the three months ended March 31, 2007, 2008 and 2009 were NT\$25,075 thousand, NT\$32,094 thousand, and NT\$45,868 thousand (US\$1,353 thousand), respectively.

Under the Law, which provides for a defined benefit pension plan, retirement payments should be made according to the years of service, with a payment of two units for each year of service but only one unit per year after the 15th year; however, total units should not exceed 45. The rate of the Company's contributions to a pension fund was 2% after the Act took effect. The pension fund is deposited in the Bank of Taiwan (the Central Trust of China merged with the Bank of Taiwan in 2007, with the Bank of Taiwan as the survivor entity) in the committee's name. The pension fund balances were NT\$321,029 thousand, NT\$355,299 thousand and NT\$395,375 thousand (US\$11,660 thousand) as of March 31, 2007, 2008 and 2009, respectively.

Based on the Statement of Financial Accounting Standards No. 18 - "Accounting for Pensions," issued by the Accounting Research and Development Foundation of the ROC, changes of prepaid pension cost under the defined benefit plans for the three months ended March 31, 2007, 2008 and 2009 were as follows:

	2007		2008		2009		US\$
	NT\$		NT\$		NT\$		(Note 3)
Balance, beginning of period	\$ 74,020	\$	95,187	\$	117,138	\$	3,454
Contributions	(1,681)		(1,353)		(1,220)		(36)
Payments	7,294		6,860		6,733		199
Balance, end of period	<u>\$ 79,633</u>	\$	<u>100,694</u>	\$	<u>122,651</u>	\$	<u>3,617</u>

## **19. 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.

## 20. 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.

(In thousands of shares)

Purpose	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.

## 21. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Expense Item	Function	2007			2008		
		NT\$			NT\$		
		Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses		313,753	662,847	976,600	588,058	2,028,426	2,616,484
Salary		256,732	591,837	848,569	520,805	1,931,745	2,452,550
Insurance		16,843	24,575	41,418	22,227	35,272	57,499
Pension cost		8,468	18,288	26,756	9,752	23,695	33,447
Other		31,710	28,147	59,857	35,274	37,714	72,988
Depreciation		98,362	63,983	162,345	64,566	70,154	134,720
Amortization		195	7,738	7,933	-	14,615	14,615

Expense Item	Function	2009					
		NT\$			US\$(Note 3)		
		Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses		690,937	1,727,747	2,418,684	20,376	50,951	71,327
Salary		593,916	1,599,966	2,193,882	17,514	47,183	64,697
Insurance		37,983	43,053	81,036	1,121	1,269	2,390
Pension cost		14,841	32,247	47,088	438	951	1,389
Other		44,197	52,481	96,678	1,303	1,548	2,851
Depreciation		75,773	85,846	161,619	2,234	2,532	4,766
Amortization		-	7,123	7,123	-	210	210

## 22. INCOME TAX

The Company's income tax returns through 2003 had been examined by the tax authorities. However, the Company disagreed with the tax authorities' assessment on its returns for 2001 to 2003 and applied for the administrative appeal and litigation of its returns. Nevertheless, under the conservatism guideline, the Company adjusted its income tax for the tax shortfall stated in the tax assessment notices.

Under the Statute for Upgrading Industries, the Company was granted exemption from corporate income tax as follows:

Item Exempt from Corporate Income Tax	Exemption Period
Sales of pocket PCs, pocket PCs (wireless) and Smartphones	2004.09.15-2009.09.14
Sales of pocket PCs (wireless) and Smartphones	2004.11.30-2009.11.29
Sales of pocket PCs (wireless) and Smartphones	2005.12.20-2010.12.19
Sales of wireless or smartphone which has 3G or GPS function	2006.12.20-2011.12.19
Sales of wireless or smartphone which has 3G or GPS function	2007.12.20-2012.12.19

Income tax payable as of March 31, 2007, 2008 and 2009 were as follows:

	2007	2008	2009	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Income before income tax	\$ 6,018,784	\$ 7,654,893	\$ 5,392,019	\$ 159,010
Permanent differences				
Losses (gains) on equity-method investments	76,835	228,946	(175,331)	(5,170)
Other	5,324	6,666	(62,830)	(1,853)
Temporary differences				
Realized pension cost	(5,613)	(5,507)	(5,514)	(163)
Unrealized loss on decline in value of inventory	385,134	210,605	722,264	21,299
Unrealized royalties	446,832	437,300	193,333	5,701
Unrealized (realized) marketing expenses	310,083	553,612	(804,718)	(23,731)
Unrealized foreign exchange loss (gain), net	67,049	(739,925)	689,856	20,344
Unrealized bad debt expenses	-	-	316,727	9,340
Expense capitalization	-	4,273	9,755	288
(Realized) unrealized gross profit on sales	-	(46,133)	18,403	543
Unrealized (realized) valuation loss on financial instruments	49,910	251,900	(476,754)	(14,059)
Unrealized (realized) warranty expense	46,502	552,921	(381,966)	(11,264)
Other	(8,004)	(47,314)	185,756	5,477
Total income	7,392,836	9,062,237	5,621,000	165,762
Less: Tax-exempt income tax	(4,865,386)	(7,954,559)	(4,191,574)	(123,608)
Taxable income	2,527,450	1,107,678	1,429,426	42,154
Tax rate	×25%	×25%	×25%	25%

	<u>2007</u>	<u>2008</u>	<u>2009</u>	
	<u>NT\$</u>	<u>NT\$</u>	<u>NT\$</u>	<u>US\$</u> (Note 3)
Income tax credit	631,863 <u>(10)</u>	276,920 <u>(10)</u>	357,357 <u>(10)</u>	10,538 <u>-</u>
Estimated income tax provision	631,853	276,910	357,347	10,538
Less: Investment research and development tax credits	<u>(126,789)</u>	<u>(138,455)</u>	<u>-</u>	<u>-</u>
Income tax payable determined pursuant to the Income Tax Law	<u>\$ 505,064</u>	<u>\$ 138,455</u>	<u>\$ 357,347</u>	<u>\$ 10,538</u>
Alternative minimum tax	\$ 505,064	\$ 702,024	\$ 545,030	\$ 16,073
Less: Prepaid and withheld income tax	(13,683)	(30,327)	(18,104)	(534)
Less: Paid for prior years' tax	-	(27,751)	-	-
Add income tax payable, beginning balance	1,758,717	2,514,394	3,937,745	116,123
Tax shortage stated in the tax assessment notice	<u>125,911</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income tax payable	<u>\$ 2,376,009</u>	<u>\$ 3,158,340</u>	<u>\$ 4,464,671</u>	<u>\$ 131,662</u>

The alternative minimum tax ("AMT") imposed under the AMT Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law is below the minimum amount prescribed under the AMT Act. The taxable income for calculating the AMT includes most of the income that is exempted from income tax under various laws and statutes. The Company has considered the impact of the AMT Act in the determination of its tax liabilities. As a result, the current income tax payable as of March 31, 2007, 2008 and 2009 should be NT\$505,064 thousand, NT\$702,024 thousand and NT\$545,030 thousand (US\$16,073 thousand), respectively.

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

	<u>2007</u>	<u>2008</u>	<u>2009</u>	
	<u>NT\$</u>	<u>NT\$</u>	<u>NT\$</u>	<u>US\$</u> (Note 3)
Temporary differences				
Provision for loss on decline in value of inventory	\$ 319,199	\$ 281,723	\$ 586,372	\$ 17,292
Unrealized reserve for warranty expense	360,124	1,005,720	1,210,974	35,711
Capitalized expense	-	40,696	60,629	1,788
Unrealized royalties	1,053,806	1,119,172	1,584,258	46,719
Unrealized marketing expenses	323,293	890,158	1,251,454	36,905
Unrealized valuation loss on financial instruments	12,478	87,039	9,332	275
Unrealized bad-debt expenses	-	-	144,405	4,258
Unrealized foreign exchange loss	-	-	131,486	3,878
Other	57,704	18,072	83,799	2,472
Tax credit carryforwards	<u>-</u>	<u>393,865</u>	<u>2,573,299</u>	<u>75,887</u>

	<u>2007</u>	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Total deferred tax assets	2,126,604	3,836,445	7,636,008	225,185
Less: Valuation allowance	<u>(1,286,738)</u>	<u>(2,649,757)</u>	<u>(6,203,873)</u>	<u>(182,952)</u>
Total deferred tax assets, net	839,866	1,186,688	1,432,135	42,233
Deferred tax liability				
Unrealized foreign exchange gain, net	(21,492)	(227,691)	-	-
Unrealized pension cost	<u>(19,908)</u>	<u>(25,173)</u>	<u>(30,663)</u>	<u>(904)</u>
	798,466	933,824	1,401,472	41,329
Less: Current portion	<u>(492,466)</u>	<u>(550,349)</u>	<u>(590,884)</u>	<u>(17,425)</u>
Deferred tax assets, noncurrent	<u>\$ 306,000</u>	<u>\$ 383,475</u>	<u>\$ 810,588</u>	<u>\$ 23,904</u>

Details of the tax credit carryforwards were as follows:

<b>Credit</b>		<u>2007</u>	<u>2008</u>	<u>2009</u>	
<b>Grant Year</b>	<b>Validity Period</b>	NT\$	NT\$	NT\$	US\$ (Note 3)
2007	2007-2011	\$ -	\$ -	\$ 201,506	\$ 5,942
2008	2008-2012	-	393,865	1,995,302	58,841
2009	2009-2013	-	-	376,491	11,104
		<u>\$ -</u>	<u>\$ 393,865</u>	<u>\$ 2,573,299</u>	<u>\$ 75,887</u>

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

Valuation allowance is based on management's evaluation of the amount of tax credits that can be carried forward for four years 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:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	NT\$	US\$ (Note 3)
Current income tax	\$505,064	\$702,024	\$545,030	\$16,073
(Increase) decrease in deferred income tax assets	(151,159)	8,286	(27,834)	(821)
Underestimation of prior year's income tax	<u>125,911</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income tax	<u>\$479,816</u>	<u>\$710,310</u>	<u>\$517,196</u>	<u>\$15,252</u>

The integrated income tax information is as follows:

	2007	2008	2009	
	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
Expected 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:

			2007		
	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	\$6,018,784	\$5,538,968	756,296	\$ 7.96	\$ 7.32
Employee stock options	-	-	6,606		
Diluted EPS	\$6,018,784	\$5,538,968	762,902	\$ 7.89	\$ 7.26



	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	1,036,535	1,036,535	2,079,589	2,079,589	4,994,284	147,281	4,994,284	147,281

## 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	-	-	-	-	1,036,535	2,079,589	4,994,284	147,281
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\$31,508,400 thousand, NT\$58,577,850 thousand and NT\$69,901,845 thousand (US\$2,061,394 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 (US\$3,450 thousand).

## **Financial Risks**

### ***Market Risk***

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

### ***Credit Risk***

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

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

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

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

The related parties were as follows:

<b>Related Party</b>	<b>Relationship with the Company</b>
First International Computer, Inc. (FIC)	Chairperson is an immediate relative of the Company's chairperson
Xander International Corp.	Chairperson is an immediate relative of the Company's chairperson
Comserve Network Netherlands B.V.	Main director is an immediate relative of the Company's chairperson
Syuda Construction Company	The only juridical stockholder whose chairperson is the same person with the Company
VIA Technologies, Inc.	Same chairperson
Chander Electronics Corp.	Same chairperson
H.T.C. (B.V.I.) Corp.	Subsidiary
Band Rich Inc.	Subsidiary
Communication Global Certification Inc.	Subsidiary
High Tech Computer Asia Pacific Pte. Ltd.	Subsidiary
HTC America Inc.	Subsidiary of H.T.C. (B.V.I.) Corp.
HTC Europe Co., Ltd.	Subsidiary of H.T.C. (B.V.I.) Corp.
High Tech Computer Corp. (Suzhou)	Subsidiary of H.T.C. (B.V.I.) Corp.
HTC Corporation (Shanghai WGQ)	Subsidiary of H.T.C. (B.V.I.) Corp.
HTC Brasil	Subsidiary of H.T.C. (B.V.I.) Corp.
Exedea Inc.	Subsidiary of H.T.C. (B.V.I.) Corp.
HTC Nippon Corporation	Subsidiary of H.T.C. (B.V.I.) Corp.
HTC Belgium BVBA/SPRL	Subsidiary of HTC HK, Limited.
High Tech Computer Singapore Pte. Ltd.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.

<b>Related Party</b>	<b>Relationship with the Company</b>
High Tech Computer (H.K.) Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC (Australia and New Zealand) Pty. Ltd.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC India Private Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC (Thailand) Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Electronics (Shanghai)	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Malaysia Sdn. Bhd.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
One & Company Design, Inc.	Subsidiary of H.T.C. (B.V.I.) Corp.
Employees' Welfare Committee	Employees' Welfare Committee of HTC Corporation

Major transactions with related parties are summarized below:

#### **Purchases of Inventories and Services**

<b>Related Party</b>	<b>Three Months Ended March 31</b>					
	<b>2007</b>		<b>2008</b>		<b>2009</b>	
	<b>% to</b>	<b>Total Net Purchases</b>	<b>% to</b>	<b>Total Net Purchases</b>	<b>% to Total</b>	
	<b>Amount</b>		<b>Amount</b>		<b>Net Purchases</b>	
	<b>NT\$</b>		<b>NT\$</b>		<b>NT\$</b>	<b>US\$</b>
					<b>(Note 3)</b>	
HTC Electronics (Shanghai)	\$ -	-	\$ -	-	\$ 17,136	\$ 505
High Tech Computer Corp. (Suzhou)	5,261	-	1,289	-	15,633	461
Chander Electronics Corp.	-	-	-	-	5,968	176
Others	104	-	-	-	-	-
	<u>\$ 5,365</u>	<u>-</u>	<u>\$ 1,289</u>	<u>-</u>	<u>\$ 38,737</u>	<u>\$ 1,142</u>

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

#### **Sales and Services Provided**

<b>Related Party</b>	<b>Three Months Ended March 31</b>					
	<b>2007</b>		<b>2008</b>		<b>2009</b>	
	<b>% to</b>	<b>Total Net Purchases</b>	<b>% to</b>	<b>Total Net Purchases</b>	<b>% to Total</b>	
	<b>Amount</b>		<b>Amount</b>		<b>Net Purchases</b>	
	<b>NT\$</b>		<b>NT\$</b>		<b>NT\$</b>	<b>US\$</b>
					<b>(Note 3)</b>	
HTC America Inc.	\$ 197,558	1	\$ 259,019	1	\$ 387,174	\$ 11,418
HTC Europe Co., Ltd.	124,167	-	84,979	-	51,772	1,527
High Tech Computer (H.K.) Limited	-	-	17,431	-	13,906	410
High Tech Computer Singapore Pte. Ltd.	-	-	136	-	10,428	307
Xander International Corp.	-	-	75,962	-	128	4
Band Rich Inc.	1,644	-	19,236	-	60	2
Exedea Inc.	191,897	1	-	-	-	-
Others	1,842	-	35,673	-	18,110	534
	<u>\$ 517,108</u>	<u>2</u>	<u>\$ 492,436</u>	<u>1</u>	<u>\$ 481,578</u>	<u>\$ 14,202</u>

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

## Accounts Receivable

Related Party	March 31						
	2007		2008		2009		
	Amount	% to Total Notes and Accounts Receivable	Amount	% to Total Notes and Accounts Receivable			% to Total Notes and Accounts Receivable
					Amount		
					NT\$	US\$ (Note 3)	
Accounts receivable							
HTC America Inc.	\$ 538,736	3	\$ 259,293	2	\$ 446,749	\$ 13,175	3
HTC Europe Co., Ltd.	435,772	3	138,152	1	33,302	982	-
High Tech Computer (H.K.) Limited			18,623		7,387	218	-
High Tech Computer Singapore Pte. Ltd.			37		3,180	94	-
HTC (Australia and New Zealand) Pty. Ltd.			232		1,166	33	-
Xander International Corp.	-	-	20,271	-	-	-	-
Exedea Inc.	296,841	2	-	-	-	-	-
Others	3,871	-	14,307	-	9,458	279	-
	\$ 1,275,220	8	\$ 450,915	3	\$ 501,242	\$ 14,781	3

## Accounts Payable

Related Party	March 31						
	2007		2008		2009		
	Amount NT\$	% to Total Notes and Accounts Payable	Amount NT\$	% to Total Notes and Accounts Payable			% to Total Notes and Accounts Payable
					Amount		
					NT\$	US\$ (Note 3)	
HTC Electronics (Shanghai)	\$ -	-	\$ -	-	\$ 33,591	\$ 991	-
Chander Electronics Corp.	-	-	-	-	12,656	373	-
High Tech Computer Corp. (Suzhou)	15,096	-	40,275	-	1,964	58	-
Others	494	-	1,092	-	584	17	-
	\$ 15,590	-	\$ 41,367	-	\$ 48,795	\$ 1,439	-

## Other Receivables

Related Party	March 31						
	2007		2008		2009		
	Amount	% to Total Other Receivable	Amount	% to Total Other Receivable	% to Total Other Receivable		
					Amount		
					NT\$	US\$	
(Note 3)							
HTC Electronics (Shanghai)	\$	-	\$	-	\$ 4,723	\$ 139	3
HTC Nippon Corporation	16,203	24	16,013	12	2,098	62	2
HTC Europe Co., Ltd.	2,476	4	-	-	1,011	30	1
HTC Corporation (Shanghai WGQ)	-	-	1,123	1	869	26	-
High Tech Computer Singapore Pte. Ltd.	-	-	-	-	608	18	-
HTC Belgium BVBA/SPRL	-	-	44,661	33	-	-	-
High Tech Computer Corp. (Suzhou)	18,866	29	20,644	15	-	-	-
HTC America Inc	789	1	-	-	-	-	-
Others	35	-	10,309	8	1,268	37	1
	\$ 38,369	58	\$ 92,750	69	\$ 10,577	\$ 312	7

## Prepaid Expenses

Related Party	March 31						
	2007		2008		2009		
	% to Total		% to Total		Amount		% to Total
	Amount	Prepayment	Amount	Prepayment	NT\$	US\$	Prepayment
	NT\$		NT\$		(Note 3)		
HTC America Inc.	\$ 19,857	1	\$ 129,906	9	\$ 31,197	\$ 920	1
HTC Nippon Corporation	18,606	1	9,159	1	23,976	707	1
Communication Global Certification Inc.	-	-	22,201	2	23,834	703	1
One & Company Design, Inc.	-	-	-	-	15,507	457	-
HTC Europe Co., Ltd.	24,066	2	12,284	1	846	25	-
Others	-	-	8,209	-	-	-	-
	<u>\$ 62,529</u>	<u>4</u>	<u>\$ 181,759</u>	<u>13</u>	<u>\$ 95,360</u>	<u>\$ 2,812</u>	<u>3</u>

## Accrued Expenses

Related Party	March 31						
	2007		2008		2009		
	% to Total		% to Total		Amount		% to Total
	Amount	Accrued Expenses	Amount	Accrued Expenses	NT\$	US\$	Accrued Expenses
	NT\$		NT\$		(Note 3)		
HTC EUROPE CO., LTD.	\$ -	-	\$ 96,936	1	\$ 331,548	\$ 9,777	2
HTC America Inc.	-	-	55,293	1	286,343	8,444	2
HTC Belgium BVBA/SPRL	-	-	12,551	-	71,780	2,117	1
High Tech Computer Asia Pacific Pte. Ltd.	-	-	-	-	49,200	1,451	-
HTC Singapore Pte. Ltd.	-	-	65,206	1	26,650	786	-
HTC India Private Limited	-	-	56,332	1	18,809	555	-
HTC (Australia and New Zealand) Pty. Ltd.	-	-	33,390	-	16,953	500	-
HTC BRASIL	-	-	-	-	16,706	493	-
High Tech Computer (H.K.) Limited	-	-	21,859	-	11,818	349	-
HTC Nippon Corporation	-	-	53,735	1	9,229	272	-
HTC Malaysia Sdn. Bhd.	-	-	-	-	7,955	235	-
HTC (Thailand) Limited	-	-	-	-	7,028	206	-
Others	210	-	-	-	-	-	-
	<u>\$ 210</u>	<u>-</u>	<u>\$ 395,302</u>	<u>5</u>	<u>\$ 854,019</u>	<u>\$ 25,185</u>	<u>5</u>

## Other Payables to Related Parties

Related Party	March 31						
	2007		2008		2009		
	% to Total		% to Total		Amount		% to Total
	Amount	Other Payables	Amount	Other Payables	NT\$	US\$	Other Payables
	NT\$		NT\$		(Note 3)		
HTC America Inc.	\$ 6,320	15	\$ 34,031	91	\$ 138,065	\$ 4,072	23
H.T.C. (B.V.I) Corp.	-	-	-	-	130,342	3,844	22
HTC Europe Co., Ltd.	11,858	27	-	-	64,445	1,900	11
HTC Nippon Corporation	-	-	18	-	20,091	592	3
Communication Global Certification Inc.	24,952	58	-	-	12,017	354	2
Band Rich Inc.	-	-	-	-	10,181	300	2
HTC Corporation (Shanghai WGQ)	-	-	2,574	7	7,703	227	1
High Tech Computer (H.K.) Limited	-	-	-	-	3,489	103	1
High Tech Computer Singapore Pte. Ltd.	-	-	-	-	2,533	75	-
Others	381	-	775	2	478	15	-
	<u>\$ 43,511</u>	<u>100</u>	<u>\$ 37,398</u>	<u>100</u>	<u>\$ 389,344</u>	<u>\$ 11,482</u>	<u>65</u>

## Advance Receipts

Related Party	March 31						
	2007		2008		2009		
	Amount	% to Total Outsourcing Expenses	Amount	% to Total Outsourcing Expenses	Amount		% to Total Outsourcing Expenses
					NT\$	US\$	
	NT\$		NT\$		(Note 3)		
Band Rich Inc.	\$ -	-	\$ -	-	\$ 72,973	\$ 2,152	26
Others	-	-	-	-	289	8	-
	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ 73,262</u>	<u>\$ 2160</u>	<u>26</u>

## Outsourcing Expenses

Related Party	Three Months Ended March 31						
	2007		2008		2009		
	Amount	% to Total Outsourcing Expenses	Amount	% to Total Outsourcing Expenses	Amount		% to Total Outsourcing Expenses
					NT\$	US\$	
	NT\$		NT\$		(Note 3)		
HTC Electronics (Shanghai)	\$ -	-	\$ -	-	\$ 47,148	\$ 1,390	87
High Tech Computer Corp. (Suzhou)	46,730	43	63,537	87	1,906	56	4
	<u>\$ 46,730</u>	<u>43</u>	<u>\$ 63,537</u>	<u>87</u>	<u>\$ 49,054</u>	<u>\$ 1,446</u>	<u>91</u>

## Service Warranty Expense

Related Party	Three Months Ended March 31						
	2007		2008		2009		
	Amount	% to Warranty Expenses	Amount	% to Warranty Expenses	Amount		% to Warranty Expenses
					NT\$	US\$	
	NT\$		NT\$		(Note 3)		
HTC America Inc.	\$ 148,295	32	\$ 238,099	20	\$ 417,860	\$ 12,323	64
HTC Europe Co., Ltd.	54,600	12	121,168	10	36,575	1,078	6
HTC Corporation (Shanghai WGQ)	-	-	12,092	1	19,899	587	3
High Tech Computer (H.K.) Limited	-	-	-	-	10,810	319	2
High Tech Computer Singapore Pte. Ltd.	-	-	-	-	6,581	194	1
Comserve Network Netherlands B.V.	28,783	6	9,745	1	367	11	-
	<u>\$ 231,678</u>	<u>50</u>	<u>\$ 381,104</u>	<u>32</u>	<u>\$ 492,092</u>	<u>\$ 14,512</u>	<u>76</u>

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

## Commission Expenses

Related Party	Three Months Ended March 31						
	2007		2008		2009		
	Amount NT\$	% to Warranty Expenses	Amount NT\$	% to Warranty Expenses	Amount		% to Warranty Expenses
		NT\$		US\$ (Note 3)	NT\$	US\$ (Note 3)	
HTC EUROPE CO., LTD.	\$ -	-	\$ -	-	\$ 499,020	\$ 14,716	83
HTC Belgium BVBA/SPRL	-	-	-	-	99,887	2,946	17
	\$ -	-	\$ -	-	\$ 598,907	\$ 17,662	100

In 2009, the Company changed the calculation method on the basis of the nature of services rendered by the related parties.

## Service and Marketing Fees

Related Party	Three Months Ended March 31						
	2007		2008		2009		
	Amount	% to Total Service Expenses	Amount	% to Total Service Expenses			% to Total Service Expenses
					Amount		
					NT\$	US\$ (Note 3)	
HTC America Inc.	\$ 46,501	17	\$ 315,566	26	\$ 527,996	\$ 15,571	44
HTC BRASIL	-	-	46,400	4	60,142	1,774	5
HTC Nippon Corporation	31,442	12	87,726	7	55,219	1,628	5
HTC Belgium BVBA/SPRL	-	-	107,358	8	42,082	1,241	3
Communication Global Certification Inc.	24,952	9	21,514	2	37,374	1,102	3
One & Company Design, Inc.	-	-	-	-	34,655	1,022	3
HTC Singapore Pte. Ltd.	-	-	57,297	5	33,504	988	3
HTC (Australia and New Zealand) Pty. Ltd.	-	-	33,390	3	20,680	610	2
High Tech Computer (H.K.) Limited	-	-	21,859	2	16,885	498	1
HTC (Thailand) Limited	-	-	-	-	10,153	299	1
HTC Malaysia Sdn. Bhd.	-	-	-	-	8,642	255	1
HTC India Private Limited	-	-	39,351	3	8,214	242	-
HTC Europe Co., Ltd.	8,900	3	300,922	25	-	-	-
VIA Technologies Inc.	600	-	-	-	-	-	-
Others	-	-	400	-	600	18	-
	\$ 112,395	41	\$1,031,783	85	\$ 856,146	\$ 25,248	71

## Leasing - Lessee

### Operating Expense - Rental Expense

Related Party	Three Months Ended March 31						
	2007		2008		2009		
	Amount	% to Warranty Expenses	Amount	% to Warranty Expenses			% to Warranty Expenses
					Amount		
					NT\$	US\$ (Note 3)	
VIA Technologies Inc.	\$ -	-	\$ -	-	\$ 1,299	\$ 38	9

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.

In the first quarter of 2009, the Company sold equipment to HTC Corporation (Shanghai WGQ) for NT\$920 thousand (US\$27 thousand), resulting in no gain or loss.

## 26. 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.

## 27. SIGNIFICANT CONTRACT

### Patent Agreements

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

Contractor	Contract Term	Description
Microsoft	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.

<b>Contractor</b>	<b>Contract Term</b>	<b>Description</b>
Ericsson Mobile Platform AB	April 2003-March 2011	Authorization to use EDGE reference design license and support agreement; royalty payment based on agreement.
Telefonaktiebolaget LM Ericsson	December 15, 2008 -December 14, 2013	Authorization to use platform patent license agreement; royalty payment based on agreement.
Nokia Corporation	January 1, 2003 to the expiry dates of these patents.	Authorization to use wireless technology, like GSM; royalty payment based on agreement.
InterDigital Technology Corporation.	December 31, 2003 to the expiry dates of these patents.	Authorization to use TDMA and CDMA technology; royalty payment based on agreement.
KONINKLIJKE PHILIPS ELECTRONICS N.V.	January 5, 2004 to the expiry dates of these patents	GSM/DCS 1800/1900 Patent License; royalty payment based on agreement.
Motorola, Inc.	December 23, 2003 to the latest of the following dates: (a) Expiry dates of patents (b) Any time when the Company is not using any of Motorola's intellectual property,	TDMA, NARROWBAND CDMA, WIDEBAND CDMA or TD/CDMA Standards patent license or technology; royalty payment based on agreement.
ALCATEL/TCL & Alcatel	July 1, 2004-June 30, 2009	Authorization to use GSM, GPRS or EDGE patent license or technology; royalty payment based on agreement.
Siemens Aktiengesellschaft	July 1, 2004 to the expiry dates of these patents.	Authorization to use GSM, GPRS or EDGE patent license or technology; royalty payment based on agreement.
Lucent Technologies GRL LLC	July 1, 2004-June 30, 2009	Authorization to use GSM, GPRS, EDGE, CDMA or WCDMA patent license or technology; royalty payment based on agreement.

## **28. 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.