

## **HTC Corporation and Subsidiaries**

**Consolidated Financial Statements for the  
Six Months Ended June 30, 2008 and 2009 and  
Independent Auditors' Report**

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Stockholders  
HTC Corporation

We have audited the accompanying consolidated balance sheets of HTC Corporation and subsidiaries (collectively, the "Company") as of June 30, 2008 and 2009, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the six months then ended, all expressed in New Taiwan dollars. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of HTC Corporation and subsidiaries as of June 30, 2008 and 2009, and the results of their operations and their cash flows for the six months then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

As discussed in Note 4 to the financial statements, the Company adopted Interpretation 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."

Our audits also comprehended the translation of the 2009 New Taiwan dollar amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 3. Such U.S. dollar amounts are presented solely for the convenience of readers.

July 22, 2009

Notice to Readers

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

*The auditors' report and the accompanying financial statements were originally presented in more than one set of Chinese reports. For the convenience of readers, the auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and 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 AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

JUNE 30, 2008 and 2009

(In Thousands, Except Par Value)

ASSETS	2008	2009		LIABILITIES AND STOCKHOLDERS' EQUITY	2008	2009	
	NT\$	NT\$	US\$ (Note 3)		NT\$	NT\$	US\$ (Note 3)
<b>CURRENT ASSETS</b>				<b>CURRENT LIABILITIES</b>			
Cash and cash equivalents (Notes 2 and 5)	\$ 74,647,445	\$ 68,903,724	\$ 2,100,083	Short-term borrowings (Note 16)	\$ -	\$ 35,000	\$ 1,067
Available-for-sale financial assets-current(Notes 2 and 7)	-	1,666,115	50,781	Financial liabilities at fair value through profit or loss (Notes 2, 6 and 26)	169,184	95,386	2,907
Notes and accounts receivable, net (Notes 2, 8 and 27)	18,965,548	29,397,423	895,990	Notes and accounts payable (Note 27)	20,992,413	23,647,235	720,733
Other current financial assets (Notes 9 and 27)	163,084	258,196	7,869	Income tax payable (Notes 2 and 24)	2,392,870	2,484,354	75,719
Inventories (Notes 2, 4 and 10)	6,575,235	5,580,233	170,077	Accrued expenses (Notes 3 and 17)	10,647,263	13,453,732	410,050
Prepayments (Note 11)	1,074,160	4,340,331	132,287	Payable for purchase of equipment	72,020	124,334	3,790
Deferred income tax assets (Notes 2 and 24)	414,494	618,046	18,837	Long-term bank loans - current portion (Note 19)	28,750	28,750	876
Other current assets	164,435	162,503	4,953	Other current liabilities (Notes 2, 18 and 27)	24,595,691	26,666,312	812,749
Total current assets	102,004,401	110,926,571	3,380,877	Total current liabilities	58,898,191	66,535,103	2,027,891
<b>LONG-TERM INVESTMENTS</b>				<b>LONG-TERM LIABILITIES</b>			
Available-for-sale financial assets - noncurrent (Notes 2 and 7)	912	521	16	Long-term bank loans, net of current portion (Note 19)	61,250	32,500	991
Financial assets carried at cost (Notes 2 and 12)	501,192	501,192	15,275	<b>OTHER LIABILITIES</b>			
Investments accounted for by the equity method (Notes 2 and 14)	39,780	38,380	1,170	Guarantee deposits received	633	1,117	34
Total long-term investments	541,884	540,093	16,461	Total liabilities	58,960,074	66,568,720	2,028,916
<b>PROPERTIES (Notes 2, 15 and 27)</b>				<b>EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF PARENT (Note 21)</b>			
Cost				Capital stock - NT\$10.00 par value			
Land	610,293	4,719,538	143,844	Authorized: 1,000,000 thousand shares			
Buildings and structures	2,260,585	2,897,684	88,317	Issued and outstanding: 573,134 thousand shares in 2008 and 745,394 thousand shares in 2009			
Machinery and equipment	4,196,376	4,676,613	142,536	Common stock	5,731,337	7,453,938	227,185
Molding equipment	187,425	195,355	5,954	Stock dividends for distribution	1,822,601	506,270	15,430
Computer equipment	321,809	404,733	12,336	Capital surplus			
Transportation equipment	3,118	4,606	140	Additional paid-in capital - issuance of shares in excess of par	4,374,244	4,316,337	131,555
Furniture and fixtures	230,862	470,076	14,327	Long-term equity investments	15,845	18,205	555
Leased assets	6,825	5,924	181	Merger	25,756	25,415	775
Leasehold improvements	149,568	201,533	6,143	Other	-	4,821,316	146,947
	7,966,861	13,576,062	413,778	Retained earnings			
Less: Accumulated depreciation	(3,921,896)	(4,660,443)	(142,043)	Legal reserve	7,410,139	10,273,674	313,126
Prepayments for construction-in-progress and equipment-in-transit	196,802	1,000,871	30,505	Accumulated earnings	29,550,423	29,391,769	895,817
Properties, net	4,241,767	9,916,490	302,240	Cumulative translation adjustments (Note 2)	(64,976)	121,156	3,693
<b>INTANGIBLE ASSETS</b>				Unrealized losses on financial instruments (Notes 2 and 7)	(1,059)	(1,450)	(44)
Goodwill (Note 2)	174,253	289,343	8,819	Total equity attributable to stockholders of the parent	48,864,310	56,926,630	1,735,039
Deferred pension cost	953	475	14	<b>MINORITY INTEREST IN SUBSIDIARIES</b>	103,033	36,903	1,124
Total intangible assets	175,206	289,818	8,833	Total stockholders' equity	48,967,343	56,963,533	1,736,163
<b>OTHER ASSETS</b>				<b>TOTAL</b>	\$ 107,927,417	\$ 123,532,253	\$ 3,765,079
Assets leased to others	-	282,800	8,619				
Refundable deposits	142,726	167,797	5,114				
Deferred charges (Note 2)	136,459	246,943	7,527				
Deferred income tax assets (Notes 2 and 24)	538,022	995,317	30,336				
Restricted assets - noncurrent (Notes 2 and 28)	41,761	38,886	1,185				
Others (Notes 2 and 20)	105,191	127,538	3,887				
Total other assets	964,159	1,859,281	56,668				
<b>TOTAL</b>	\$ 107,927,417	\$ 123,532,253	\$ 3,765,079				

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

(With Deloitte & Touche audit report dated July 22, 2009)

# HTC CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME SIX MONTHS ENDED JUNE 30, 2008 AND 2009 (In Thousands, Except Earnings Per Share)

	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	US\$ (Note 3)
REVENUES (Notes 2 and 27)	\$ 67,648,881	\$ 69,545,269	\$ 2,119,636
COST OF REVENUES (Notes 23 and 27)	<u>43,877,912</u>	<u>47,886,512</u>	<u>1,459,510</u>
GROSS PROFIT	<u>23,770,969</u>	<u>21,658,757</u>	<u>660,126</u>
OPERATING EXPENSES (Notes 23 and 27)			
Selling and marketing	3,969,241	4,322,079	131,731
General and administrative	1,271,164	1,094,470	33,358
Research and development	<u>4,449,625</u>	<u>4,340,445</u>	<u>132,290</u>
Total operating expenses	<u>9,690,030</u>	<u>9,756,994</u>	<u>297,379</u>
OPERATING INCOME	<u>14,080,939</u>	<u>11,901,763</u>	<u>362,747</u>
NONOPERATING INCOME AND GAINS			
Interest income	721,895	234,106	7,135
Gain on sale of investments	-	1,115	34
Exchange gains (Note 2)	278,926	506,023	15,423
Other	<u>135,556</u>	<u>283,283</u>	<u>8,634</u>
Total nonoperating income and gains	<u>1,136,377</u>	<u>1,024,527</u>	<u>31,226</u>
NONOPERATING EXPENSES AND LOSSES			
Interest expense	675	1,464	45
Losses on equity-method investments (Notes 2 and 14)	1,206	2,256	69
Losses on disposal of properties	1,255	4,969	151
Valuation losses on financial instruments, net (Notes 2 and 6)	169,184	95,386	2,907
Other	<u>8,708</u>	<u>247,338</u>	<u>7,538</u>
Total nonoperating expenses and losses	<u>181,028</u>	<u>351,413</u>	<u>10,710</u>
INCOME BEFORE INCOME TAX	15,036,288	12,574,877	383,263
INCOME TAX (Notes 2 and 24)	<u>(1,485,184)</u>	<u>(1,187,188)</u>	<u>(36,184)</u>
NET INCOME	<u>\$ 13,551,104</u>	<u>\$ 11,387,689</u>	<u>347,079</u>
ATTRIBUTABLE TO			
Stockholders of the parent	\$ 13,559,590	\$ 11,379,482	346,830
Minority interest	<u>(8,486)</u>	<u>8,207</u>	<u>249</u>
	<u>\$ 13,551,104</u>	<u>\$ 11,387,689</u>	<u>\$ 347,079</u>

(Continued)

## HTC CORPORATION AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF INCOME SIX MONTHS ENDED JUNE 30, 2008 AND 2009 (In Thousands, Except Earnings Per Share)

	2008		2009			
	Before Income Tax	After Income Tax	Before Income Tax		After Income Tax	
	NT\$	NT\$	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)
BASIC EARNINGS PER SHARE (Note 20)	<u>\$ 18.85</u>	<u>\$ 17.10</u>	<u>\$ 15.96</u>	<u>\$ 0.49</u>	<u>\$ 14.52</u>	<u>\$ 0.44</u>
DILUTED EARNINGS PER SHARE (Note 20)	<u>\$ 18.71</u>	<u>\$ 16.97</u>	<u>\$ 15.84</u>	<u>\$ 0.48</u>	<u>\$ 14.42</u>	<u>\$ 0.44</u>

(Concluded)

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

(With Deloitte & Touche audit report dated July 22, 2009)

# HTC CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY SIX MONTHS ENDED JUNE 30, 2008 AND 2009 (In Thousands)

New Taiwan Dollars	Capital Stock		Capital Surplus				Retained Earnings		Cumulative Translation Adjustments	Unrealized Losses on Financial Instruments	Treasury Stock	Minority Interest	Total
	Issued and Outstanding Common Stock	Stock Dividends for Distribution	Issuance of Shares in Excess of Par	Long-Term Equity Investments	Merger	Other	Legal Reserve	Accumulated Earnings					
BALANCE, JANUARY 1, 2008	\$ 5,731,337	\$ -	\$ 4,374,244	\$ 15,845	\$ 25,756	\$ -	\$ 4,516,253	\$41,403,867	\$ 9,664	\$ (1,187)	\$ -	\$ 111,519	\$56,187,298
Appropriation of the 2007 net earnings													
Legal reserve	-	-	-	-	-	-	2,893,886	(2,893,886)	-	-	-	-	-
Stock dividends	-	1,719,401	-	-	-	-	-	(1,719,401)	-	-	-	-	-
Transfer of employee bonuses to common stock	-	103,200	-	-	-	-	-	(103,200)	-	-	-	-	-
Employee bonuses	-	-	-	-	-	-	-	(1,210,000)	-	-	-	-	(1,210,000)
Cash dividends	-	-	-	-	-	-	-	(19,486,547)	-	-	-	-	(19,486,547)
Net income in the six months ended June 30, 2008	-	-	-	-	-	-	-	13,559,590	-	-	-	(8,486)	13,551,104
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	(74,640)	-	-	-	(74,640)
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	-	128	-	-	128
BALANCE, JUNE 30, 2008	<u>\$ 5,731,337</u>	<u>\$ 1,822,601</u>	<u>\$ 4,374,244</u>	<u>\$ 15,845</u>	<u>\$ 25,756</u>	<u>\$ -</u>	<u>\$ 7,410,139</u>	<u>\$29,550,423</u>	<u>\$ (64,976)</u>	<u>\$ (1,059)</u>	<u>\$ -</u>	<u>\$ 103,033</u>	<u>\$48,967,343</u>
BALANCE, JANUARY 1, 2009	\$ 7,553,938	\$ -	\$ 4,374,244	\$ 17,534	\$ 25,756	\$ -	\$ 7,410,139	\$44,626,182	\$ 65,602	\$ (1,632)	\$ (3,410,277)	\$ 28,696	\$60,690,182
Appropriation of the 2008 net earnings													
Legal reserve	-	-	-	-	-	-	2,863,535	(2,863,535)	-	-	-	-	-
Stock dividends	-	372,697	-	-	-	-	-	(372,697)	-	-	-	-	-
Transfer of employee bonuses to common stock	-	133,573	-	-	-	4,821,316	-	-	-	-	-	-	4,954,889
Cash dividends	-	-	-	-	-	-	-	(20,125,634)	-	-	-	-	(20,125,634)
Net income in the six months ended June 30, 2009	-	-	-	-	-	-	-	11,379,482	-	-	-	8,207	11,387,689
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	55,554	-	-	-	55,554
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	-	182	-	-	182
Adjustment due to changes in ownership percentage in investees	-	-	-	671	-	-	-	-	-	-	-	-	671
Retirement of treasury stock	(100,000)	-	(57,907)	-	(341)	-	-	(3,252,029)	-	-	3,410,277	-	-
BALANCE, JUNE 30, 2009	<u>\$ 7,453,938</u>	<u>\$ 506,270</u>	<u>\$ 4,316,337</u>	<u>\$ 18,205</u>	<u>\$ 25,415</u>	<u>\$ 4,821,316</u>	<u>\$10,273,674</u>	<u>\$29,391,769</u>	<u>\$ 121,156</u>	<u>\$ (1,450)</u>	<u>\$ -</u>	<u>\$ 36,903</u>	<u>\$56,963,533</u>

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

(With Deloitte & Touche audit report dated July 22, 2009)

## HTC CORPORATION AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY SIX MONTHS ENDED JUNE 30, 2008 AND 2009 (In Thousands)

U.S. Dollars	Capital Stock		Capital Surplus				Retained Earnings		Cumulative Translation Adjustments	Unrealized Losses on Financial Instruments	Treasury Stock	Minority Interest	Total
	Issued and Outstanding Common Stock	Stock Dividends for Distribution	Issuance of Shares in Excess of Par	Long-Term Equity Investments	Merger	Other	Legal Reserve	Accumulated Earnings					
BALANCE, JANUARY 1, 2009	\$ 230,233	\$ -	\$ 133,320	\$ 534	\$ 785	\$ -	\$ 225,850	\$ 1,360,138	\$ 1,999	\$ (50)	\$ (103,940)	\$ 875	\$ 1,849,744
Appropriation of the 2008 net earnings													
Legal reserve	-	-	-	-	-	-	87,276	(87,276)	-	-	-	-	-
Stock dividends	-	11,359	-	-	-	-	-	(11,359)	-	-	-	-	-
Transfer of employee bonuses to common stock	-	4,071	-	-	-	146,947	-	-	-	-	-	-	151,018
Employee bonuses	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	(613,399)	-	-	-	-	(613,399)
Net income in the six months ended June 30, 2009	-	-	-	-	-	-	-	346,830	-	-	-	249	347,079
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	1,694	-	-	-	1,694
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	-	6	-	-	6
Adjustment due to changes in ownership percentage in investees	-	-	-	21	-	-	-	-	-	-	-	-	21
Retirement of treasury stock	(3,048)	-	(1,765)	-	(10)	-	-	(99,117)	-	-	103,940	-	-
BALANCE, JUNE 30, 2009	\$ 227,185	\$ 15,430	\$ 131,555	\$ 555	\$ 775	\$ 146,947	\$ 313,126	\$ 895,817	\$ 3,693	\$ (44)	\$ -	\$ 1,124	\$ 1,736,163

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

(With Deloitte & Touche audit report dated July 22, 2009)



# HTC CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2008 AND 2009 (In Thousands)

	2008	2009	
	NT\$	NT\$	US\$ (Note 3)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$13,551,104	\$11,387,689	\$ 347,079
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation (including depreciation of assets leased to others)	357,783	451,746	13,769
Transfer of properties to expenses	11,303	537	16
Exchange loss on a bond investment with no active market	2,670	-	-
Amortization	33,404	31,941	974
Gain on sale of investments, net	-	(1,115)	(34)
Losses on equity-method investments	1,206	2,256	69
Losses on disposal of properties	1,255	4,969	151
Deferred income tax assets	10,650	(239,940)	(7,313)
Prepaid pension costs	(10,931)	(10,601)	(323)
Net changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	73,457	(418,697)	(12,761)
Notes and accounts receivable	508,169	57,355	1,748
Other current financial assets	13,244	58,328	1,778
Inventories	661,467	2,670,104	81,381
Prepayments	494,699	(3,054,848)	(93,107)
Other current assets	14,832	1,336	41
Notes and accounts payable	(2,209,207)	(4,922,700)	(150,037)
Income tax payable	(165,833)	(1,555,259)	(47,402)
Accrued expenses	5,520,854	3,059,851	93,260
Other current liabilities	(70,427)	432,476	13,181
Net cash provided by operating activities	<u>18,799,699</u>	<u>7,955,428</u>	<u>242,470</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of available-for-sale financial assets	-	(3,331,115)	(101,527)
Proceeds of the sale of available-for-sale financial assets	-	1,666,115	50,781
Purchase of properties	(510,710)	(1,675,563)	(51,068)
Proceeds of the sale of properties	648	60,624	1,848
Increase in investments accounted for by equity method	(10,626)	-	-
(Increase) decrease in refundable deposits	(10,107)	23,651	720
Increase in deferred charges	(31,351)	(28,344)	(864)
(Increase) decrease in restricted assets	(7,261)	2,579	78
Net cash used in investing activities	<u>(569,407)</u>	<u>(3,282,053)</u>	<u>(100,032)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Decrease in short-term borrowings	-	(40,000)	(1,219)
Decrease in long-term bank loans	(6,250)	(14,375)	(438)
Decrease in guarantee deposits received	-	(5,303)	(162)
Net cash used in financing activities	<u>(6,250)</u>	<u>(59,678)</u>	<u>(1,819)</u>

(Continued)

# HTC CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2008 AND 2009 (In Thousands)

	2008	2009	
	NT\$	NT\$	US\$ (Note 3)
EFFECT OF EXCHANGE RATE CHANGES	\$ (66,782)	\$ 52,299	\$ 1,594
NET INCREASE IN CASH AND CASH EQUIVALENTS	18,157,260	4,665,996	142,213
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>56,490,185</u>	<u>64,237,728</u>	<u>1,957,870</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$74,647,445</u>	<u>\$68,903,724</u>	<u>\$2,100,083</u>
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid during the period			
Interest	\$ 675	\$ 1,535	\$ 47
Income tax	<u>\$ 1,640,367</u>	<u>\$ 2,982,387</u>	<u>\$ 90,899</u>
NONCASH INVESTING AND FINANCING ACTIVITIES			
Transfer of bond investment not quoted in an active market to investments accounted for by the equity method			
	\$ 33,030	\$ -	\$ -
Transfer of assets leased to others to properties			
	\$ -	\$ 27,159	\$ 828
Transfer of accrued stock bonus to employees to stock dividends for distribution and other capital surplus			
	\$ 103,200	\$ 4,954,889	\$ 151,018
Transfer of retained earnings to stock dividends for distribution			
	\$ 1,719,401	\$ 372,697	\$ 11,359
Retirement of treasury stock			
	\$ -	\$ 3,410,277	\$ 103,940
PURCHASE OF PROPERTIES			
Cost of properties purchased			
	\$ 402,989	1,485,317	\$ 45,270
Decrease in payables for the purchase of equipment			
	107,260	189,752	5,783
Decrease in lease payable			
	<u>461</u>	<u>494</u>	<u>15</u>
Cash paid for purchase of properties			
	<u>\$ 510,710</u>	<u>\$ 1,675,563</u>	<u>\$ 51,068</u>
CASH DIVIDENDS AND BONUSES TO EMPLOYEES			
Appropriation of cash dividends and bonuses to employees			
	\$20,696,547	\$20,125,634	\$ 613,399
Increase in payable for cash dividends and bonuses to employees			
	<u>(20,696,547)</u>	<u>(20,125,634)</u>	<u>(613,399)</u>
Cash paid			
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(Concluded)

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

(With Deloitte & Touche audit report dated July 22, 2009)

# HTC CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SIX MONTHS ENDED JUNE 30, 2008 AND 2009 (In Thousands, Unless Stated Otherwise)

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### 1. ORGANIZATION AND OPERATIONS

HTC Corporation (“HTC”) was incorporated on May 15, 1997 under the Company Law of the Republic of China to design, manufacture and sell smart handheld devices. In 1998, HTC had an initial public offering and, in March 2002, had its stock listed on the Taiwan Stock Exchange. On November 19, 2003, HTC started trading Global Depositary Receipts on the Luxembourg Stock Exchange.

For HTC to have synergies with companies in similar industries, lower operating costs and expenses, and enhance competitiveness and research and development capabilities, the HTC’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.

HTC and its consolidated subsidiaries, hereinafter referred to as the “Company, had 8,192 and 8,111 employees as of June 30, 2008 and 2009, respectively.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Presentation**

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

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

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

#### **Principles of Consolidation**

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

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

The consolidated entities as of June 30, 2008 and 2009 were as follows:

Investor	Investee	Main Businesses	% of Ownership		Remark	
			2008	2009		
HTC Corporation	H.T.C. (B.V.I.) Corp.	Global investing activities	100.00	100.00	Incorporated in August 2000	
	BandRich Inc.	Design, manufacture and sale of electronic devices	50.66	50.66	Incorporated in April 2006	
	HTC HK, Limited	Global investing activities	100.00	100.00	Incorporated in August 2006	
	Communication Global Certification Inc.	Testing and certification services	100.00	100.00	Invested in January 2007	
	High Tech Computer Asia Pacific Pte. Ltd.	Global investing activities	100.00	100.00	Incorporated in July 2007	
	HTC Investment Corporation	General investing activities	-	100.00	Incorporated in July 2008	
	PT. High Tech Computer Indonesia	Marketing, distribution and after-sales service	1.00	1.00	Incorporated in December 2007	
	H.T.C. (B.V.I.) Corp.	HTC America Inc.	Marketing, repair and after-sales services	100.00	100.00	Incorporated in January 2003
		HTC EUROPE CO., LTD.	"	100.00	100.00	Incorporated in July 2003
		High Tech Computer Corp. (Suzhou)	Manufacture and sale of smart handheld devices	100.00	100.00	Incorporated in January 2003
Exedea Inc.		Distribution and sales	100.00	100.00	Incorporated in December 2004 and invested in July 2005	
HTC NIPPON Corporation		Marketing, distribution and after-sales service	100.00	100.00	Incorporated in March 2006	
HTC BRASIL		"	99.99	99.99	Incorporated in October 2006	
HTC Corporation (Shanghai WGQ)		Repair and after-sales service	100.00	100.00	Incorporated in July 2007	
One & Company Design, Inc.		Design, research and development of application software	-	100.00	Invested in October 2008	
HTC HK, Limited		HTC Belgium BVBA/SPRL	Marketing, distribution and after-sales service	100.00	100.00	Incorporated in October 2006
		HTC Italia SRL	"	100.00	100.00	Incorporated in February 2007
	HTC Belgium BVBA/SPRL	High Tech Computer Asia Pacific Pte. Ltd.	"	100.00	100.00	Incorporated in July 2007
		High Tech Computer (H.K.) Limited	"	100.00	100.00	Incorporated in August 2007
	High Tech Computer Asia Pacific Pte. Ltd.	HTC (Australia and New Zealand) Pty. Ltd.	"	100.00	100.00	Incorporated in August 2007
		HTC Philippines Corporation	"	99.99	99.99	Incorporated in December 2007
	PT. High Tech Computer Indonesia	HTC (Thailand) Limited	"	99.00	99.00	Incorporated in December 2007
		HTC (Thailand) Limited	"	100.00	100.00	Incorporated in November 2007 and invested in September 2008
	HTC India Private Ltd.	"	99.00	99.00	Incorporated in January 2008	
	HTC HK, Limited	HTC Electronics (Shanghai) Co., Ltd.	Manufacture and sale of smart handheld devices	-	100.00	Incorporated in January 2007 and invested in July 2008
HTC Malaysia Sdn. Bhd.		Marketing, distribution and after-sales service	-	100.00	Incorporated in July 2008 and invested in January 2009	
HTC Innovation Limited		"	-	100.00	Incorporated in January 2009	

Investor	Investee	Main Businesses	% of Ownership		Remark
			2008	2009	
	HTC Communication Co., Ltd.	The sale of smart handheld devices	-	100.00	Incorporated in December 2008 and invested in March 2009
High Tech Computer Singapore Pte. Ltd.	HTC India Private Ltd.	Marketing, distribution and after-sales service	1.00	1.00	Incorporated in January 2008

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

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

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

### Current/Noncurrent Assets and Liabilities

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

### Cash Equivalents

Cash equivalents, consisting of repurchase agreements collateralized by bonds, are highly liquid financial instruments with maturities of three months or less when acquired and with carrying amounts that approximate their fair values.

## **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.

### **Intangible Assets**

Intangible assets acquired are initially recorded at cost and are amortized on a straight-line basis over their estimated useful lives. Effective January 1, 2006, based on a newly released SFAS No. 37, goodwill arising on acquisitions of other companies is no longer amortized and instead is tested for impairment annually. If circumstances show that the fair value of goodwill has become lower than its carrying amount, an impairment loss is recognized. A reversal of this impairment loss is not allowed.

### **Deferred Charges**

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

### **Asset Impairment**

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

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

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

### **Accrued Marketing Expenses**

The Company accrues marketing expenses on the basis of agreements, management's judgment, and any known factors that would significantly affect the accruals. In addition, depending on the nature of relevant events, the accrued marketing expenses are accounted for as an increase in marketing expenses or as a decrease in revenues.

### **Reserve for Warranty Expenses**

The Company provides warranty service for one to two years depending on the contract with customers. The warranty liability is estimated on the basis of management's evaluation of the products under warranty, past warranty experience, and pertinent factors.

## **Product-Related Costs**

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

## **Pension Plan**

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

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

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

## **Income Tax**

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

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

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

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

## **Treasury Stock**

The Company adopted the Statement of Financial Accounting Standards No. 30 - "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 2008 accounts have been reclassified to be consistent with the presentation of the financial statements as of and for the six months ended June 30, 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\$32.81 to US\$1.00 quoted by the Bank of Taiwan on June 30, 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. The adoption of this interpretation resulted in a decrease of NT\$2,565,346 thousand in net income, including employee bonus payable of NT\$2,902,488 thousand, minus the allocation to inventory of NT\$16,834 thousand and minus the tax saving of NT\$320,308 thousand, and a decrease in after income tax basic earnings per share of NT\$3.40 for the six months ended June 30, 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 Payments.” Except as mentioned above, this accounting change had no material effect on the Company’s financial statements as of and for the six months ended June 30, 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 six months ended June 30, 2008.

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

#### 5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2008 and 2009 were as follows

	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	US\$ (Note 3)
Cash on hand	\$ 123,058	\$ 4,322	\$ 132
Cash in banks	3,841,533	2,036,127	62,058
Time deposits	70,682,854	66,346,275	2,022,136
Cash equivalents - repurchase bonds	-	517,000	15,757
	<u>\$ 74,647,445</u>	<u>\$ 68,903,724</u>	<u>\$ 2,100,083</u>

On time deposits, interest rates ranged from 1.65% to 2.475% and 0.10% to 0.855% as of June 30, 2008 and 2009, respectively.

On preferential deposit, interest rates ranged from 0.20% to 7.00% and 0.10% to 0.80% as of June 30, 2008 and 2009, respectively.

On cash equivalents, interest rate ranged from 0.13% to 0.16% as of June 30, 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 June 30, 2008 and 2009 were as follows:

	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	US\$ (Note 3)
Derivatives - financial liabilities			
Forward exchange contracts	\$ 169,184	\$ 95,386	\$ 2,907

The Company had derivative transactions during the six months ended June 30, 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 six months ended June 30, 2008 and 2009. Outstanding forward exchange contracts as of June 30, 2008 and 2009 were as follows:

### Forward Exchange Contracts

	Buy/Sell	Currency	<u>2008</u>	
			Expiry Date	Contract Amount
Forward exchange contracts	Sell	EUR/USD	2008.07.01~2008.09.05	EUR€ 162,000
Forward exchange contracts	Sell	GBP/USD	2008.07.11~2008.08.22	GBP£ 7,530
Forward exchange contracts	Sell	JPY/NTD	2008.07.23	JP¥ 131,000
Forward exchange contracts	Sell	USD/NTD	2008.07.01~2008.07.07	US\$ 24,100
Forward exchange contracts	Buy	USD/JPY	2008.07.23~2008.08.01	US\$ 13,017
<u>2009</u>				
	Buy/Sell	Currency	Expiry Date	Contract Amount
Forward exchange contracts	Sell	EUR/USD	2009.07.10~2009.08.28	EUR€ 155,000
Forward exchange contracts	Sell	GBP/USD	2009.08.07~2009.08.28	GBP£ 4,200
Forward exchange contracts	Sell	USD/NTD	2009.07.10~2009.08.19	US\$ 116,000
Forward exchange contracts	Buy	USD/JPY	2009.07.24~2009.08.28	US\$ 24,941

Net loss on derivative financial instruments for the six months ended June 30, 2009 was NT\$625,052 thousand (US\$19,051 thousand), including realized settlement loss of NT\$529,666 thousand (US\$16,144 thousand) and valuation loss of NT\$95,386 thousand (US\$2,907 thousand).

## 7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets as of June 30, 2008 and 2009 were as follows:

	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	US\$ (Note 3)
Mutual funds	\$ -	\$ 1,666,115	\$ 50,781
Domestic quoted stocks	912	521	16
Less: Current portion	<u>-</u>	<u>(1,666,115)</u>	<u>(50,781)</u>
	<u>\$ 912</u>	<u>\$ 521</u>	<u>\$ 16</u>

## 8. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable as of June 30, 2008 and 2009 were as follows:

	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	US\$ (Note 3)
Notes receivable	\$ -	\$ 3,601	\$ 110
Accounts receivable	19,461,552	30,187,507	920,070
Less: Allowance for doubtful accounts	<u>(496,004)</u>	<u>(793,685)</u>	<u>(24,190)</u>
	<u>\$ 18,965,548</u>	<u>\$ 29,397,423</u>	<u>\$ 895,990</u>

## 9. OTHER CURRENT FINANCIAL ASSETS

Other current financial assets as of June 30, 2008 and 2009 were as follows:

	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	US\$ (Note 3)
Other receivables	\$ 74,952	\$ 213,106	\$ 6,495
Interest receivable	66,272	11,073	337
Agency payments	15,328	33,139	1,010
Others	<u>6,532</u>	<u>878</u>	<u>27</u>
	<u>\$ 163,084</u>	<u>\$ 258,196</u>	<u>\$ 7,869</u>

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

## 10. INVENTORIES

Inventories as of June 30, 2008 and 2009 were as follows:

	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	US\$ (Note 3)
Finished goods	\$ 764,973	\$ 1,089,912	\$ 33,219
Work-in-process	2,153,684	2,015,122	61,418
Raw materials	5,308,735	5,229,951	159,401
Goods in transit	<u>-</u>	<u>227,613</u>	<u>6,937</u>
	8,227,392	8,562,598	260,975
Less: valuation allowance	<u>(1,652,157)</u>	<u>(2,982,365)</u>	<u>(90,898)</u>
	<u>\$ 6,575,235</u>	<u>\$ 5,580,233</u>	<u>\$ 170,077</u>

The write-down of inventories to their net realizable value amounted to NT\$648,002 thousand and NT\$1,336,588 thousand (US\$40,737 thousand) and was recognized as cost of sales for the six months ended June 30, 2008 and 2009.

## 11. PREPAYMENTS

Prepayments as of June 30, 2008 and 2009 were as follows:

	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	US\$ (Note 3)
Royalty	\$ 740,218	\$ 4,017,842	\$ 122,458
Molding equipment	76,735	138,057	4,208
Software and hardware maintenance	102,215	46,414	1,415
Rental	14,107	31,495	960
Prepayments for materials purchases	17,872	24,563	748
Net input VAT	48,317	23,283	710
Others	<u>74,696</u>	<u>58,677</u>	<u>1,788</u>
	<u>\$ 1,074,160</u>	<u>\$ 4,340,331</u>	<u>\$ 132,287</u>

Prepayments for royalty were primarily prepayments for the future discount purpose (Note 30 has more information).

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

## 12. FINANCIAL ASSETS CARRIED AT COST

Financial assets carried at cost as of June 30, 2008 and 2009 were as follows:

	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	US\$ (Note 3)
Hua-Chuang Automobile Information Technical Center Co., Ltd.	\$ 500,000	\$ 500,000	\$ 15,239
Answer Online, Inc.	<u>1,192</u>	<u>1,192</u>	<u>36</u>
	<u>\$ 501,192</u>	<u>\$ 501,192</u>	<u>\$ 15,275</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. The buy-back proposed by Yulon Group becomes effective with a consensus from 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

A bond investment not quoted in an active market as of June 30, 2008 and 2009 was as follows:

	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	US\$ (Note 3)
Bond investment	\$ -	\$ -	\$ -
Less: Current portion	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The Company bought a 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 June 30, 2008 and 2009 were as follows:

	2008		2009				Ownership Percentage
	Carrying Value	Ownership Percentage	Original Cost		Carrying Value		
	NT\$		NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	
Equity method							
Vitamin D Inc.	\$ 39,780	27.27	\$ 40,986	\$ 1,249	\$ 38,380	\$ 1,170	25.59

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, January 2009 and June 2009, Vitamin D Inc. issued new convertible preferred shares, but the Company did not buy any of these shares. The Company's ownership percentage thus declined from 27.27% to 25.59%, and there was a capital surplus - long term equity investments of NT\$ 1,689 thousand and NT\$ 671 thousand (US\$21 thousand) in September 2008 and June 2009, respectively.

On its equity-method investments, the Company had losses of NT\$1,206 thousand and NT\$2,256 thousand (US\$69 thousand) for the six months ended June 30, 2008 and 2009, respectively.

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

## 15. PROPERTIES

Properties as of June 30, 2008 and 2009 were as follows:

	2008		2009			
	Carrying Value		Cost	Accumulated Depreciation	Carrying Value	
	NT\$		NT\$	NT\$	NT\$	US\$ (Note 3)
Land	\$ 610,293		\$ 4,719,538	\$ -	\$ 4,719,538	\$ 143,844
Buildings and structures	1,790,271		2,897,684	585,561	2,312,123	70,470
Machinery and equipment	1,317,370		4,676,613	3,348,303	1,328,310	40,485
Molding equipment	10,334		195,355	183,677	11,678	356
Computer equipment	113,843		404,733	253,669	151,064	4,604
Transportation equipment	458		4,606	3,099	1,507	46
Furniture and fixtures	97,420		470,076	199,346	270,730	8,252
Leased assets	4,862		5,924	2,749	3,175	97
Leasehold improvements	100,114		201,533	84,039	117,494	3,581
Prepayments for construction-in-progress and equipment-in-transit	196,802		1,000,871	-	1,000,871	30,505
	<u>\$ 4,241,767</u>		<u>\$ 14,576,933</u>	<u>\$ 4,660,443</u>	<u>\$ 9,916,490</u>	<u>\$ 302,240</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.

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 June 30, 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\$24,136 thousand) from a related party, Syuda Construction Company, to expand factory area.

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

There were no interests capitalized for the six months ended June 30, 2008 and 2009, respectively.

## 16. SHORT-TERM BORROWINGS

As of June 30, 2009, the Company had the following short-term borrowings:

	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	US\$ (Note 3)
Working capital loans, annual interest at 1.80%~2.20%	\$ -	\$ 35,000	\$ 1,067

## 17. ACCRUED EXPENSES

Accrued expenses as of June 30, 2008 and 2009 were as follows:

	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	US\$ (Note 3)
Marketing	\$ 4,022,769	\$ 6,591,475	\$ 200,898
Bonus to employees	4,112,488	3,643,267	111,041
Salaries and bonuses	1,142,654	1,204,771	36,719
Research materials	249,706	527,653	16,082
Services	279,438	476,533	14,524
Export expenses	275,354	344,921	10,513
Donation	179,256	136,025	4,146
Meals and welfare	72,034	89,114	2,716
Insurance	53,932	80,108	2,442
Pension cost	42,361	50,092	1,527
Research and development	-	49,200	1,500
Repairs and maintenance	31,341	38,864	1,185
Travel	31,912	18,647	568
Others	154,018	203,062	6,189
	<u>\$ 10,647,263</u>	<u>\$ 13,453,732</u>	<u>\$ 410,050</u>

Based on the resolution passed by the Company's board of directors in February, 2009, the employee bonuses for 2009 should be appropriated at 18% of net income before deducting employee bonus expenses. Accrued bonuses to employees as of June 30, 2008 and 2009 were as follows:

	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	US\$ (Note 3)
Accrued bonus to employees for current year	\$ 2,902,488	\$ 2,433,267	\$ 74,162
Cash bonuses approved by the stockholders for prior years	<u>1,210,000</u>	<u>1,210,000</u>	<u>36,879</u>
	<u>\$ 4,112,488</u>	<u>\$ 3,643,267</u>	<u>\$ 111,041</u>

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

For the six months ended June 30, 2008 and 2009, the Company accrued the donation of NT\$179,256 thousand and NT\$136,025 thousand (US\$4,146 thousand) based on its social welfare policy to the HTC Foundation for Social Welfare Charity or HTC Education Foundation to help disadvantaged minorities, teenagers and other people in need.

## 18. OTHER CURRENT LIABILITIES

Other current liabilities as of June 30, 2008 and 2009 were as follows:

	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	US\$ (Note 3)
Cash dividend payable	\$ 19,486,547	\$ 20,125,634	\$ 613,399
Reserve for warranty expenses	4,597,930	5,282,665	161,008
Other payable	21,674	508,790	15,507
Agency receipts	172,840	411,748	12,549
Advance receipts	153,332	171,906	5,239
Directors' remuneration	21,842	21,842	666
Others	<u>141,526</u>	<u>143,727</u>	<u>4,381</u>
	<u>\$ 24,595,691</u>	<u>\$ 26,666,312</u>	<u>\$ 812,749</u>

In June 2008 and June 2009, the stockholders approved the appropriation of cash dividends of NT\$19,486,547 thousand and NT\$20,125,634 thousand, respectively. The amounts to be distributed were temporarily accounted for as "cash dividend payable" as of June 30, 2008 and 2009.

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

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

In December 2008, the Company also estimated a contingent liability of NT\$125,663 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.

In October 2008, H.T.C. (B.V.I.) Corp. acquired 100% equity interest of One & Company Design, Inc., and paid the investment to the original stockholders of One & Company Design, Inc. in several installments based on the agreement. Of the investment, NT\$127,319 thousand (US\$3,880 thousand) had not been paid as of June 30, 2009.

## 19. LONG-TERM BANK LOANS

	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	US\$ (Note 3)
Secured loans (Note 28)			
NT\$50,000, repayable from July 2006 in 16 quarterly installments; 1% annual interest	\$ 25,000	\$ 12,500	\$ 381
NT\$65,000 thousand, repayable from July 2008 in 16 quarterly installments; 1% annual interest	65,000	48,750	1,486
Less: current portion	<u>(28,750)</u>	<u>(28,750)</u>	<u>(876)</u>
	<u>\$ 61,250</u>	<u>\$ 32,500</u>	<u>\$ 991</u>

## 20. PENSION PLAN

The Labor Pension Act (the "Act"), which provides for a new defined contribution plan, took effect on July 1, 2005. Employees covered by the Labor Standards Law (the "Law") before the enforcement of the Act were allowed to choose to remain to be subject to the defined benefit pension mechanism under the Law or to be subject instead to the Act. Based on the Act, the rate of the Company's required monthly contributions to the employees' individual pension accounts is at least 6% of monthly wages and salaries, and these contributions are recognized as pension expense in the income statement. The pension fund contributions for the six months ended June 30, 2008, and 2009 were NT\$72,839 thousand, and NT\$94,321 thousand (US\$2,875 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 is 2% after the Act took effect. The pension fund is deposited in the Bank of Taiwan in the committee's name. The pension fund balances were NT\$367,050 thousand and NT\$402,297 thousand (US\$12,261 thousand) as of June 30, 2008 and 2009, respectively.

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

Under their respective local government regulations, other subsidiaries have defined contribution pension plans covering all eligible employees. The pension fund contributions for the six months ended June 30, 2008 and 2009 were NT\$21,610 thousand and NT\$23,939 thousand (US\$729 thousand). The remaining subsidiaries have no pension plans.

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 in prepaid

pension cost under the defined benefit plans for the six months ended June 30, 2008 and 2009 were as follows:

	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	US\$ (Note 3)
Balance, beginning of period	\$ 94,260	\$ 116,937	\$ 3,564
Effect of first inclusion for consolidation of subsidiaries	-	-	-
Contributions	(2,759)	(2,480)	(76)
Payments	<u>13,690</u>	<u>13,081</u>	<u>399</u>
Balance, end of period	<u>\$ 105,191</u>	<u>\$ 127,538</u>	<u>\$ 3,887</u>

## 21. STOCKHOLDERS' EQUITY

### Capital Stock

The Company's outstanding common stock as of January 1, 2008 amounted to NT\$5,731,337 thousand, divided into 573,134 thousand common shares at NT\$10.00 par value. In June 2008, the stockholders approved the transfer of retained earnings amounting to NT\$1,719,401 thousand and employee bonuses amounting to NT\$103,200 thousand to capital stock. The amounts to be distributed were accounted for as "stock dividend for distribution" temporarily as of June 30, 2008.

In January 2009, the Company retired 10,000 thousand treasury shares at NT\$100,000 thousand (US\$3,048 thousand). Also, in June 2009, the stockholders approved the transfer of retained earnings amounting to NT\$372,697 thousand (US\$11,359 thousand) and employee bonuses amounting to NT\$133,573 thousand (US\$4,071 thousand) to capital stock. The amounts to be distributed were accounted for as "stock dividend for distribution" temporarily. As a result, the amount of the Company's outstanding common stock as of June 30, 2009 increased to NT\$7,453,938 thousand (US\$227,185 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 June 30, 2009, there were 5,145.1 thousand units of GDRs redeemed, representing 20,580 thousand common shares, and the outstanding GDRs represented 12,708 thousand common shares or 1.70% 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\$4,374,244 thousand as of January 1, 2008. The retirement of treasury stock caused a decrease of additional paid-in capital amounted to 57,907 thousand (US\$1,765 thousand) in January 2009. As a result, the additional paid-in capital as of June 30, 2009 was NT\$4,316,337 thousand (US\$131,555 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, 2008. When the Company did not subscribe for the new shares issued by Vitamin D Inc. in September 2008, January and June 2009, adjustments of NT\$1,689 thousand and NT\$671 thousand (US\$21 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 June 30, 2009 was NT\$18,205 thousand (US\$555 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\$775 thousand).

The bonus to employees of NT\$6,164,889 thousand for 2008 were approved in the stockholders' meeting in June 2009. Of the approved amount, NT\$4,954,889 thousand, representing 13,357 thousand common shares which was determined by fair value, would be distributed by common stock. The difference between par value and fair value was temporarily accounted for as "capital surplus- other" as of June 30, 2009.

### **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. 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\$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.

The bonus to employees of NT\$6,164,889 thousand for 2008 were approved in the stockholders' meeting in June 2009. The bonus to employees included a cash bonus of NT\$1,210,000 thousand and a share bonus of NT\$4,954,889 thousand. The number of shares of 13,357 thousand was determined by dividing the amount of share bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting. The approved amounts of the bonus to employees were the same as the accrued amounts.

Based on a resolution passed by the Company's board of directors in February 2009, the employee bonus for 2009 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 immediately preceding the stockholders' meeting.

Information about the bonus to employees, directors and supervisors is available on the Market Observation Post System website of the Taiwan Stock Exchange.

## 22. TREASURY STOCK

On October 7, 2008, the Company's board of directors passed a resolution to buy back 10,000 thousand Company shares from the open market. The repurchase period was between October 8, 2008 and December 7, 2008, and the repurchase price ranged from NT\$400 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	Increase	Decrease	As of
	January 1, 2009			June 30, 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.

## 23. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Function Expense Item	2008			2009					
	NT\$			NT\$			US\$ (Note 3)		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses	1,475,748	4,858,455	6,334,203	1,630,758	4,638,722	6,269,480	49,703	141,381	191,084
Salary	1,317,223	4,558,005	5,875,228	1,415,695	4,268,457	5,684,152	43,148	130,096	173,244
Insurance	45,377	92,494	137,871	81,806	104,524	186,330	2,493	3,186	5,679
Pension cost	26,670	70,538	97,208	34,740	86,000	120,740	1,059	2,621	3,680
Other	86,478	137,418	223,896	98,517	179,741	278,258	3,003	5,478	8,481
Depreciation	184,115	173,668	357,783	234,431	214,262	448,693	7,145	6,530	13,675
Amortization	9,901	23,503	33,404	11,582	20,359	31,941	353	621	974

## 24. INCOME TAX

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

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

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

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

Provision for income tax (benefit) for the six months ended June 30, 2008 and 2009, deferred tax assets (liabilities) and income tax payable (receivable) as of June 30, 2008 and 2009 were as follows:

	2008		
	Income Tax Expense (Benefit) NT\$	Income Tax Payable NT\$	Deferred Tax Assets NT\$ (Note 3)
HTC Corporation	\$ 1,390,612	\$ 2,330,125	\$ 929,096
BandRich Inc.	-	-	9,826
Communication Global Certification Inc.	(776)	-	3,063
HTC America Inc.	81,540	9,102	-
HTC Europe Co., Ltd.	-	27,791	-
HTC Nippon Corporation	8,740	7,752	-
HTC Belgium BVBA/SPRL	675	1,990	-
High Tech Computer Singapore Pte. Ltd.	1,064	1,179	-
High Tech Computer (H.K.) Limited	389	3,827	2,835
HTC India Private Limited	841	213	-
HTC (Australia and New Zealand) Pty. Ltd.	2,099	10,891	7,696
	<u>\$ 1,485,184</u>	<u>\$ 2,392,870</u>	<u>\$ 952,516</u>



	<b>2009</b>					
	<b>Income Tax Expense (Benefit)</b>		<b>Income Tax Payable (Receivable)</b>		<b>Deferred Tax Assets (Liabilities)</b>	
	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)
HTC Corporation	\$ 1,126,271	\$ 34,327	\$ 2,429,071	\$ 74,034	\$ 1,617,934	\$ 49,312
BandRich Inc.	-	-	-	-	(245)	(8)
Communication Global Certification Inc.	1,295	39	466	14	1,496	46
HTC Investment Corporation	96	3	6	-	47	1
HTC America Inc.	19,681	600	(52,537)	(1,601)	26	1
HTC Europe Co., Ltd.	19,012	579	86,074	2,623	-	-
HTC Nippon Corporation	3,171	97	2,954	90	-	-
HTC BRASIL	5,211	159	(6,011)	(183)	-	-
HTC Corporation (Shanghai WGQ)	(883)	(27)	811	25	-	-
One & Company Design, Inc.	2,510	77	1,303	40	(5,819)	(177)
HTC Belgium BVBA/SPRL	7,755	236	20,385	621	-	-
High Tech Computer Singapore Pte. Ltd.	546	17	96	3	(455)	(14)
High Tech Computer (H.K.) Limited	-	-	(485)	(15)	-	-
HTC (Australia and New Zealand) Pty. Ltd.	1,100	34	549	17	55	2
HTC India Private Limited	868	26	420	13	-	-
HTC (Thailand) Limited	384	12	386	12	-	-
HTC Malaysia Sdn. Bhd.	133	4	828	25	324	10
HTC Innovation Limited	38	1	38	1	-	-
	<u>\$ 1,187,188</u>	<u>\$ 36,184</u>	<u>\$ 2,484,354</u>	<u>\$ 75,719</u>	<u>\$ 1,613,363</u>	<u>\$ 49,173</u>

In May 2009, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduces a profit-seeking enterprise's income tax rate from 25% to 20%, effective 2010. The Company recalculated its deferred tax assets and liabilities in accordance with the amended Article and recorded the resulting difference as a deferred income tax benefit or expense. The tax effects of deductible temporary differences and loss and tax credit carryforwards that gave rise to deferred tax assets as of June 30, 2008 and 2009 were as follows:

	<b>2008</b>	<b>2009</b>	
	NT\$	NT\$	US\$ (Note 3)
Temporary differences			
Capitalized expense	\$ 41,956	\$ 48,208	\$ 1,469
Provision for loss on decline in value of inventory	296,693	566,139	17,255
Unrealized reserve for warranty expense	1,150,327	1,056,803	32,210
Unrealized royalties	1,237,377	1,440,424	43,902
Unrealized marketing expenses	935,041	1,214,671	37,021
Unrealized valuation loss on financial instruments	42,296	19,077	582
Unrealized bad-debt expenses	34,117	89,028	2,713
Unrealized exchange loss, net	-	30,986	945
Other	17,956	39,467	1,203
Prior years' loss carryforwards	31,164	37,567	1,145
Tax credit carryforwards	<u>1,003,003</u>	<u>3,497,155</u>	<u>106,588</u>
Total deferred tax assets	4,789,930	8,039,525	245,033
Less: Valuation allowance	<u>(3,619,563)</u>	<u>(6,393,920)</u>	<u>(194,877)</u>
Total deferred tax assets, net	1,170,367	1,645,605	50,156

	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	US\$ (Note 3)
Deferred tax liability			
Unrealized pension cost	\$ (26,536)	\$ (25,618)	\$ (781)
Unrealized depreciation	(3,330)	(6,624)	(202)
Unrealized foreign currency exchange gain, net	<u>(187,985)</u>	<u>-</u>	<u>-</u>
	952,516	1,613,363	49,173
Less: Current portion	<u>(414,494)</u>	<u>(618,046)</u>	<u>(18,837)</u>
Deferred tax assets - noncurrent	<u>\$ 538,022</u>	<u>\$ 995,317</u>	<u>\$ 30,336</u>

Details of the tax credit carryforwards are as follows:

Year of Occurrence	Validity Period	<u>2008</u>	<u>2009</u>	
		NT\$	NT\$	US\$ (Note 3)
2004	2004~2008	\$ 6,965	\$ -	\$ -
2005	2005~2009	6,479	4,610	141
2006	2006~2010	15,475	15,475	472
2007	2007~2011	220,270	220,270	6,713
2008	2008~2012	753,814	2,701,618	82,341
2009	2009~2013	<u>-</u>	<u>555,182</u>	<u>16,921</u>
		<u>\$ 1,003,003</u>	<u>\$ 3,497,155</u>	<u>\$ 106,588</u>

Detail of the loss carryforwards are as follows:

Year of Occurrence	Validity Period	<u>2008</u>	<u>2009</u>	
		NT\$	NT\$	US\$ (Note 3)
2005	2006~2015	\$ 94	\$ -	\$ -
2006	2007~2016	50,703	30,096	917
2007	2008~2017	48,885	48,885	1,490
2008	2009~2018	24,973	103,864	3,166
2009	2010~2019	<u>-</u>	<u>4,991</u>	<u>152</u>
		<u>\$ 124,655</u>	<u>\$ 187,836</u>	<u>\$ 5,725</u>

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

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

The income tax expenses for the six months ended June 30, 2008 and 2009 were as follows:

	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	US\$ (Note 3)
Current income tax expense	\$ 1,474,534	\$ 1,520,990	\$ 46,358
Decrease (increase) in deferred income tax assets	10,650	(239,940)	(7,313)
Overestimation of prior year's income tax	-	(93,862)	(2,861)
	<u>\$ 1,485,184</u>	<u>\$ 1,187,188</u>	<u>\$ 36,184</u>

The integrated income tax information is as follows:

	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	US\$ (Note 3)
Balance of imputation credit account	\$ 1,240,483	\$ 1,926,653	\$ 58,722
Unappropriated earnings from 1998	29,550,423	29,391,769	895,817
Expected creditable ratio (including income tax payable)	12.08%	14.82%	14.82%

## 25. EARNINGS PER SHARE

Earnings per share (EPS) before tax and after tax are calculated by dividing net income by the weighted average number of common shares outstanding which includes the deduction of the effect of treasury stock during each year. The weighted average number of shares used in EPS calculation was 793,164 thousand shares and 783,550 thousand shares for the six months ended June 30, 2008 and 2009, respectively. The EPS for the six months ended June 30, 2008 were calculated after the average number of shares outstanding which was adjusted retroactively for the effect of stock dividend distribution in 2009.

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 six months ended June 30, 2008 and 2009 was as follows:

	2008				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax	Income after Income Tax	Shares (Thousands)	Income before Income Tax	Income after Income Tax
	NT\$	NT\$		NT\$	NT\$
Basic EPS	\$ 14,950,202	\$ 13,559,590	793,164	\$ 18.85	\$ 17.10
Bonus to employees			5,897		
Diluted EPS	\$ 14,950,202	\$ 13,559,590	799,061	\$ 18.71	\$ 16.97

	2009				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax	Income after Income Tax	Shares (Thousands)	Income before Income Tax	Income after Income Tax
	NT\$	NT\$		NT\$	NT\$
Basic EPS	\$ 12,505,753	\$ 11,379,482	783,550	\$ 15.96	\$ 14.52
Bonus to employees	-	-	5,849		
Diluted EPS	\$ 12,505,753	\$ 11,379,482	789,399	\$ 15.84	\$ 14.42

	2009				
	Numerators		Denominator	EPS (In Dollars)	
	Income before Income Tax	Income after Income Tax	Shares (Thousands)	Income before Income Tax	Income after Income Tax
	US\$ (Note 3)	US\$ (Note 3)		US\$ (Note 3)	US\$ (Note 3)
Basic EPS	\$ 381,157	\$ 346,830	783,550	\$ 0.49	\$ 0.44
Bonus to employees	-	-	5,849		
Diluted EPS	\$ 381,157	\$ 346,830	789,399	\$ 0.48	\$ 0.44

## 26. FINANCIAL INSTRUMENTS

### Fair Value of Financial Instruments

#### *Nonderivative Financial Instruments*

	June 30					
	2008		2009			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	NT\$	NT\$	NT\$	US\$	NT\$	US\$
Assets						
Available-for-sale financial assets - current	\$ -	\$ -	\$ 1,666,115	\$ 50,781	\$ 1,666,115	\$ 50,781
Available-for-sale financial assets - noncurrent	912	912	521	16	521	16
Financial assets carried at cost	501,192	501,192	501,192	15,275	501,192	15,275

## Derivative Financial Instruments

	June 30					
	2008		2009			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
NT\$	NT\$	NT\$	US\$	NT\$	US\$	
Liabilities						
Financial liabilities at fair value through profit or loss	\$ 169,184	\$ 169,184	\$ 95,386	\$ 2,907	\$ 95,386	\$ 2,907

### Methods and Assumptions Used in Determining Fair Values of Financial Instruments

Not subject to Statement of Financial Accounting Standards No. 34 - "Financial Instruments: Recognition and Measurement" are cash, receivables, other current financial assets, payables, accrued expenses and other current financial liabilities, which have carrying amounts that approximate their fair values.

The financial instruments neither include refundable deposits, guarantee deposits nor long-term bank loans. The fair values of aforementioned financial instruments were based on the present value of future cash flows discounted at the average interest rates for time deposits with maturities similar to those of the financial instruments.

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

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

	Quoted Market Prices			Measurement Method		
	June 30			June 30		
	2008	2009		2008	2009	
NT\$	NT\$	US\$ (Note 3)	NT\$	NT\$	US\$ (Note 3)	
Assets						
Available-for-sale financial assets - current	\$ -	\$ 1,666,115	\$ 50,781	\$ -	\$ -	\$ -
Available-for-sale financial assets - noncurrent	912	521	16	-	-	-
Financial assets carried at cost	-	-	-	501,192	501,192	15,275
Liabilities						
Financial liabilities at fair value through profit or loss	169,184	95,386	2,907	-	-	-

There was no loss or gain recognized for the six months ended June 30, 2008 and 2009 on the fair value changes of derivatives estimated using valuation techniques. The Company recognized unrealized gains of NT\$128 thousand and NT\$182 thousand (US\$6 thousand) in stockholders' equity for the changes in fair value of available-for-sale financial assets for the six months ended June 30, 2008 and 2009, respectively.

As of June 30, 2008 and 2009, financial assets exposed to cash flow interest rate risk amounted to NT\$70,724,615 and NT\$66,902,161 thousand (US\$2,039,078 thousand), respectively.

As of June 30, 2008 and 2009, financial assets and liabilities exposed to fair value interest rate risk were NT\$90,000 thousand and NT\$61,250 thousand (US\$1,867 thousand), respectively.

## Financial Risks

### *Market Risk*

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

### *Credit Risk*

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

### *Cash Flow Risk*

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

## 27. RELATED-PARTY TRANSACTIONS

The related parties were as follows:

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

Major transactions with related parties are summarized below:

### Purchases of Inventories and Services

Related Party	Six Months Ended June 30			
	2008		2009	
	Amount NT\$	% to Total Purchases	Amount NT\$	US\$ (Note 3)
Chander Electronics Corp.	\$ -	-	\$ 12,939	\$ 394

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

## Sales and Services Provided

Related Party	Six Months Ended June 30				
	2008		2009		% to Total Revenues
	Amount	% to Total Revenues	Amount		
NT\$		NT\$	US\$ (Note 3)		
Employees' Welfare Committee	\$ 35,147		\$ 9,604	\$ 293	-
Xander International Corp.	93,383	-	166	5	-
First International Computer, Inc.	24,221	-	-	-	-
Others	338	-	174	5	-
	<u>\$ 153,089</u>	<u>-</u>	<u>\$ 9,944</u>	<u>\$ 303</u>	<u>-</u>

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

## Notes and Accounts Receivable

Related Party	June 30				
	2008		2009		% to Total Notes and Accounts Receivable
	Amount	% to Total Notes and Accounts Receivable	Amount		
NT\$		NT\$	US\$ (Note 3)		
VIA Technologies, Inc.	\$ 223	-	\$ 19	\$ 1	-
Xander International Corp.	201	-	-	-	-
	<u>\$ 424</u>	<u>-</u>	<u>\$ 19</u>	<u>\$ 1</u>	<u>-</u>

## Notes and Accounts Payable

Related Party	June 30				
	2008		2009		% to Total Notes and Accounts Payable
	Amount	% to Total Notes and Accounts Payable	Amount		
NT\$		NT\$	US\$ (Note 3)		
Chander Electronics Corp.	\$ -	-	\$ 8,688	\$ 265	-
	<u>-</u>	<u>-</u>	<u>8,688</u>	<u>265</u>	<u>-</u>

## Other Receivable

Related Party	June 30				
	2008		2009		% to Total Other Receivable
	Amount	% to Total Other Receivable	Amount		
NT\$		NT\$	US\$ (Note 3)		
Chander Electronics Corp.	\$ 72	-	\$ 72	\$ 2	-
Others	8	-	20	1	-
	<u>\$ 80</u>	<u>-</u>	<u>92</u>	<u>3</u>	<u>-</u>

## Other Payables to Related Parties

Related Party	June 30			
	2008		2009	
	Amount NT\$	% to Total Other Payables	Amount NT\$	US\$ (Note 3)
Way-Lien Technology Inc.	\$ -	-	\$ 200	\$ 6
VIA Technologies Inc.	-	-	151	5
	<u>\$ -</u>	<u>-</u>	<u>\$ 351</u>	<u>\$ 11</u>

## Warranty Expenses

Related Party	Six Months Ended June 30			
	2008		2009	
	Amount NT\$	% to Warranty Expenses	Amount NT\$	US\$ (Note 3)
Conserve Network Netherlands B.V.	\$ 13,192	1	\$ 429	\$ 13
	<u>\$ 13,192</u>	<u>1</u>	<u>\$ 429</u>	<u>\$ 13</u>

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

## Service Fees

Related Party	Six Months Ended June 30			
	2008		2009	
	Amount NT\$	% to Total Service Fees	Amount NT\$	US\$ (Note 3)
Captec Partners Management Corp.	\$ -	-	\$ 1,673	\$ 51
Way-Lien Technology Inc.	-	-	1,200	37
VIA Technologies Inc.	1,000	-	-	-
	<u>\$ 1,000</u>	<u>-</u>	<u>\$ 2,873</u>	<u>\$ 88</u>

## Leasing - Lessee

### Operating Expense - Rental Expenses

Related Party	Six Months Ended June 30			
	2008		2009	
	Amount NT\$	% to Total Rental Expenses	Amount NT\$	US\$ (Note 3)
VIA Technologies Inc.	\$ 835	-	\$ 3,361	\$ 102
	<u>\$ 835</u>	<u>-</u>	<u>\$ 3,361</u>	<u>\$ 102</u>

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\$24,136 thousand). It was about 39 thousand square meters, located near the Company in Taoyuan, and the land price was based on appraisal reports. It will be used to expand factory area.

## 28. PLEDGED ASSETS

As of June 30, 2008 and 2009, the Company had provided time deposits of NT\$41,761 thousand and NT\$38,886 thousand (US\$1,185 thousand) as collateral for the secured loans, respectively.

## 29. COMMITMENTS AND CONTINGENCIES

An indirect subsidiary of the Company, HTC Electronics (Shanghai), applied to Citibank for banking facilities of US\$15,000 thousand. For these banking facilities, the Company signed a comfort letter in September 2008, assuring Citibank that the Company would supervise the management of HTC Electronics (Shanghai) and oversee the meeting by HTC Electronics (Shanghai) of its financial obligations. As of March 31, 2009 the Company wholly owned HTC Electronics (Shanghai) indirectly.

## 30. SIGNIFICANT CONTRACTS

### Patent Agreement

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.

### **31. OTHER EVENT**

In April 2008, IPCom GMBH & CO., KG ("IPCom") filed a multi-claim lawsuit against the Company with the District Court of Mannheim in Germany, alleging that the Company infringed IPCom's patents. IPCom requested the court to issue an injunction to prevent the Company from exporting to and selling in Germany devices made using IPCom's patents. In March 2009, the Company was served with the court decision that were in favor of some of IPCom's claims. The court also granted IPCom's request for an injunction, with the serving of this injunction pending IPCom's placement with the court of a security bond of €1 million. The Company appealed this decision to the German Federal Patents Court in Munich and requested a stay of the injunction pending the outcome of this appeal. In May 2009, the court of appeals issued a stay of the injunction and enforced this stay after the Company submitted to the court a bank guarantee amounting to €7.5 million, as the amount of the required security bond. Thus, the Company has continued to ship products regularly to Germany. As of July 22, 2009, the date of the accompanying independent auditors' report, there was no further hearing to be held or court decision to be issued.

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 final court decision has limited impact on its financial results or sales activities.

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