HTC Corporation

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 balance sheets of HTC Corporation (the "Company") as of June 30, 2008 and 2009 and the related statements of income, changes in stockholders' equity, and cash flows for the six months then ended, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements referred to above present fairly, in all material respects, the financial position of HTC Corporation as of June 30, 2008 and 2009, and the results of its operations and its cash flows for the six months then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

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

We have also audited the consolidated financial statements of HTC Corporation and subsidiaries as of and for the six months ended June 30, 2008 and 2009, and expressed an unqualified opinion with an explanatory paragraph and an unqualified opinion, respectively, on those statements.

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

<u>*Notice to Readers*</u>

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

For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language 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

BALANCE SHEETS
JUNE 30, 2008 and 2009
(In Thousands, Except Par Value)

	2008	2009	
ASSETS	**NT$**	**NT$**	**US$ (Note 3)**
CURRENT ASSETS			
Cash and cash equivalents (Notes 2 and 5)	$ 73,236,293	$ 66,838,610	$ 2,037,141
Available-for-sale financial assets - current (Notes 2 and 7)	-	1,666,115	50,781
Accounts receivable, net (Notes 2 and 8)	18,584,305	29,211,221	890,315
Accounts receivable from related parties, net (Notes 2 and 25)	692,019	616,796	18,799
Other current financial assets (Notes 9 and 25)	192,462	200,240	6,103
Inventories (Notes 2, 4 and 10)	5,525,477	4,455,839	135,808
Prepayments (Notes 11 and 25)	1,012,728	4,346,018	132,460
Deferred income tax assets (Notes 2 and 22)	404,508	623,734	19,010
Other current assets	160,971	159,450	4,860
Total current assets	99,808,763	108,118,023	3,295,277
INVESTMENTS			
Available-for-sale financial assets - noncurrent (Notes 2 and 7)	912	521	16
Financial assets carried at cost (Notes 2 and 12)	501,192	501,192	15,275
Investments accounted for by the equity method (Notes 2 and 14)	2,068,877	4,902,297	149,415
Total long-term investments	2,570,981	5,404,010	164,706
PROPERTIES (Notes 2, 15 and 25)			
Cost			
Land	610,293	4,719,538	143,844
Buildings and structures	2,257,667	2,894,517	88,221
Machinery and equipment	3,536,717	3,988,328	121,558
Molding equipment	172,632	172,632	5,262
Computer equipment	241,147	292,813	8,925
Transportation equipment	1,335	2,732	83
Furniture and fixtures	117,469	127,633	3,890
Leased assets	4,712	4,712	144
Leasehold improvements	72,760	95,255	2,903
	7,014,732	12,298,160	374,830
Less: Accumulated depreciation	(3,439,474)	(4,052,395)	(123,511)
Prepayments for construction-in-progress and equipment-in-transit	196,575	24,906	759
Properties, net	3,771,833	8,270,671	252,078
OTHER ASSETS			
Assets leased to others	-	282,800	8,619
Refundable deposits	94,475	117,208	3,572
Deferred charges (Note 2)	66,370	56,972	1,737
Deferred income tax assets (Notes 2 and 22)	524,588	994,200	30,302
Others (Notes 2 and 18)	106,100	127,710	3,892
Total other assets	791,533	1,578,890	48,122
TOTAL	$ 106,943,110	$ 123,371,594	$ 3,760,183

	2008	2009	
LIABILITIES AND STOCKHOLDERS' EQUITY	**NT$**	**NT$**	**US$ (Note 3)**
CURRENT LIABILITIES			
Financial liabilities at fair value through profit or loss (Notes 2, 6 and 24)	$ 169,184	$ 95,386	$ 2,907
Notes and accounts payable	19,893,205	22,956,054	699,666
Notes and accounts payable to related parties (Note 25)	26,090	47,042	1,434
Income tax payable (Notes 2 and 22)	2,330,125	2,429,071	74,035
Accrued expenses (Notes 4, 16 and 25)	10,805,598	13,883,631	423,153
Payable for purchase of equipment	64,935	78,558	2,394
Other current liabilities (Notes 2, 17 and 25)	24,789,035	26,954,105	821,521
Total current liabilities	58,078,172	66,443,847	2,025,110
OTHER LIABILITIES			
Guarantee deposits received	628	1,117	34
Total liabilities	58,078,800	66,444,964	2,025,144
STOCKHOLDERS' EQUITY (Note 19)			
Capital stock - NT$10.00 par value			
Authorized: 1,000,000 thousand shares			
Issued and outstanding: 573,134 thousand shares in 2008 and 745,394 thousand shares in 2009			
Common stock	5,731,337	7,453,938	227,185
Stock dividends for distribution	1,822,601	506,270	15,430
Capital surplus			
Additional paid-in capital - issuance of shares in excess of par	4,374,244	4,316,337	131,555
Long-term equity investments	15,845	18,205	555
Merger	25,756	25,415	775
Other	-	4,821,316	146,947
Retained earnings			
Legal reserve	7,410,139	10,273,674	313,126
Accumulated earnings	29,550,423	29,391,769	895,817
Cumulative translation adjustments (Note 2)	(64,976)	121,156	3,693
Unrealized losses on financial instruments (Notes 2 and 7)	(1,059)	(1,450)	(44)
Total stockholders' equity	48,864,310	56,926,630	1,735,039
TOTAL	$ 106,943,110	$ 123,371,594	$ 3,760,183

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

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

HTC CORPORATION

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

	2008	2009	
	NT$	NT$	US$ (Note 3)
REVENUES (Notes 2 and 25)	$ 67,323,559	$ 69,791,923	$ 2,127,154
COST OF REVENUES (Notes 4, 10, 21 and 25)	43,709,617	48,055,333	1,464,655
GROSS PROFIT	23,613,942	21,736,590	662,499
UNREALIZED GAIN FROM INTERCOMPANY TRANSACTIONS	(119,595)	(210,407)	(6,413)
REALIZED GAIN FROM INTERCOMPANY TRANSACTIONS	175,075	134,091	4,087
REALIZED GROSS PROFIT	23,669,422	21,660,274	660,173
OPERATING EXPENSES (Notes 21 and 25)			
Selling and marketing	3,851,103	4,509,412	137,440
General and administrative	880,395	938,250	28,596
Research and development	4,567,089	4,472,908	136,328
Total operating expenses	9,298,587	9,920,570	302,364
OPERATING INCOME	14,370,835	11,739,704	357,809
NONOPERATING INCOME AND GAINS			
Interest income	708,319	227,567	6,936
Gain on equity-method investments (Notes 2 and 14)	-	129,912	3,960
Gain on sale of investments, net	-	1,115	34
Exchange gains (Note 2)	217,328	469,764	14,318
Other	125,282	278,618	8,491
Total nonoperating income and gains	1,050,929	1,106,976	33,739
NONOPERATING EXPENSES AND LOSSES			
Interest expense	97	77	2
Loss on equity-method investments (Notes 2 and 14)	294,602	-	-
Valuation losses on financial instruments, net (Notes 2 and 6)	169,184	95,386	2,907
Other	7,679	245,464	7,482
Total nonoperating expenses and losses	471,562	340,927	10,391
INCOME BEFORE INCOME TAX	14,950,202	12,505,753	381,157
INCOME TAX (Notes 2 and 22)	(1,390,612)	(1,126,271)	(34,327)
NET INCOME	$ 13,559,590	$ 11,379,482	$ 346,830

(Continued)

HTC CORPORATION

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 23)	$ 18.85	$ 17.10	$ 15.96	$ 0.49	$ 14.52	$ 0.44
DILUTED EARNINGS PER SHARE (Note 23)	$ 18.71	$ 16.97	$ 15.84	$ 0.48	$ 14.42	$ 0.44

(Concluded)

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

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

HTC CORPORATION

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

	Capital Stock		Capital Surplus				Retained Earnings					
New Taiwan Dollars	**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**	**Cumulative Translation Adjustments**	**Unrealized Losses on Financial Instruments**	**Treasury Stock**	**Total**
BALANCE, JANUARY 1, 2008	$ 5,731,337	$ -	$ 4,374,244	$ 15,845	$ 25,756	$ -	$ 4,516,253	$41,403,867	$ 9,664	$ (1,187)	$ -	$56,075,779
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	-	-	-	13,559,590
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	(74,640)	-	-	(74,640)
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	-	128	-	128
BALANCE, JUNE 30, 2008	$ 5,731,337	$ 1,822,601	$ 4,374,244	$ 15,845	$ 25,756	$ -	$ 7,410,139	$29,550,423	$ (64,976)	$ (1,059)	$ -	$48,864,310
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)	$60,661,486
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	-	-	-	11,379,482
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	$ 7,453,938	$ 506,270	$ 4,316,337	$ 18,205	$ 25,415	$ 4,821,316	$10,273,674	$29,391,769	$ 121,156	$ (1,450)	$ -	$56,926,630

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

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

HTC CORPORATION

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

	Capital Stock		Capital Surplus				Retained Earnings					
U.S. Dollars	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	Cumulative Translation Adjustments	Unrealized Losses on Financial Instruments	Treasury Stock	Total
BALANCE, JANUARY 1, 2009	$ 230,233	$ -	$ 133,320	$ 534	$ 785	$ -	$ 225,850	$ 1,360,138	$ 1,999	$ (50)	$ (103,940)	$ 1,848,869
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	-	-	-	346,830
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)	$ -	$ 1,735,039

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

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

HTC CORPORATION

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

	2008	2009	
	NT$	NT$	US$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$13,559,590	$11,379,482	$ 346,830
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation (including depreciation of assets leased to others)	272,831	327,204	9,973
Transfer of properties to expenses	11,091	308	9
Exchange loss on bond investments with no active market	2,670	-	-
Amortization	21,738	15,643	477
Gain on sale of investments, net	-	(1,115)	(34)
Loss (gain) on equity-method investments	294,602	(129,912)	(3,960)
Deferred income tax assets	13,014	(244,296)	(7,446)
Prepaid pension costs	(10,913)	(10,572)	(322)
Net changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	72,928	(418,697)	(12,761)
Notes receivable	3,058	3,456	105
Accounts receivable	359,562	(354,435)	(10,803)
Accounts receivable from related parties	(155,144)	321,974	9,813
Other current financial assets	91,589	76,171	2,322
Inventories	593,936	2,962,628	90,296
Prepayments	524,599	(3,108,387)	(94,739)
Other current assets	(44,130)	2,557	78
Notes and accounts payable	(2,097,512)	(4,922,387)	(150,027)
Notes and accounts payable to related parties	(3,311)	18,339	559
Income tax payable	(184,269)	(1,508,674)	(45,982)
Accrued expenses	5,535,769	3,205,584	97,702
Other current liabilities	(204,409)	415,570	12,666
Net cash provided by operating activities	18,657,289	8,030,441	244,756
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of available-for-sale financial assets	-	(3,331,115)	(101,528)
Proceeds of the sale of available-for-sale financial assets	-	1,666,115	50,781
Purchase of properties	(446,018)	(1,276,016)	(38,891)
Proceeds of the sale of properties	454	921	28
Increase in investments accounted for by the equity method	(10,626)	(53,086)	(1,618)
(Increase) decrease in refundable deposits	(1,038)	256	8
Increase in deferred charges	-	(20,490)	(625)
Net cash used in investing activities	(457,228)	(3,013,415)	(91,845)
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in guarantee deposits received	-	(5,289)	(161)

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HTC CORPORATION

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

	2008	2009	
	NT$	NT$	US$ (Note 3)
NET INCREASE IN CASH AND CASH EQUIVALENTS	$18,200,061	$ 5,011,737	$ 152,750
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	55,036,232	61,826,873	1,884,391
CASH AND CASH EQUIVALENTS, END OF PERIOD	$73,236,293	$66,838,610	$2,037,141
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid during the period			
Interest paid	$ 97	$ 77	$ 2
Income tax	$ 1,561,867	$ 2,879,241	$ 87,755
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	$ 340,308	$ 1,196,294	$ 36,461
Decrease in payable for purchase of equipment	105,249	79,228	2,415
Decrease in lease payable	461	494	15
Cash paid for purchase of properties	$ 446,018	$ 1,276,016	38,891
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	(20,696,547)	(20,125,634)	(613,399)
Cash paid	$ -	$ -	$ -
CASH DIVIDENDS RECEIVED FROM INVESTEE			
Cash dividends appropriated from investee	$ -	$ 905	$ 28
Increase in other receivables	-	(905)	(28)
Cash received	$ -	$ -	$ -

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HTC CORPORATION

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

	2008	2009	
	NT$	**NT$**	**US$ (Note 3)**
INCREASE IN LONG-TERM INVESTMENTS			
Increase in investments accounted for by the equity method	$ 10,626	$ 57,705	$ 1,759
Increase in payable for purchase of investments	-	(4,619)	(141)
Cash paid for increase in long-term investments	$ 10,626	$ 53,086	$ 1,618

(Concluded)

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

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

1. ORGANIZATION AND OPERATIONS

HTC Corporation (the "Company") 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, the Company had an initial public offering and, in March 2002, the Company's stock was listed on the Taiwan Stock Exchange. On November 19, 2003, the Company started trading Global Depositary Receipts on the Luxembourg Stock Exchange.

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

The Company had 6,374 and 7,103 employees as of June 30, 2008 and 2009, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

Current/Noncurrent Assets and Liabilities

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

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.

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:

	2008	2009	
	NT$	NT$	US$ (Note 3)
Cash on hand	$ 1,010	$ 1,000	$ 30
Cash in banks	2,861,670	944,353	28,783
Time deposits	70,373,613	65,376,257	1,992,571
Cash equivalents - repurchase bonds	-	517,000	15,757
	$ 73,236,293	$ 66,838,610	$ 2,037,141

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:

	2008	2009	
	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

	2008			
	Buy/Sell	Currency	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

	2009			
	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:

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

8. ACCOUNTS RECEIVABLE

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

	2008	2009	
	NT$	NT$	US$ (Note 3)
Accounts receivable	$ 18,902,928	$ 29,958,085	$ 913,078
Less: Allowance for doubtful accounts	(318,623)	(746,864)	(22,763)
	$ 18,584,305	$ 29,211,221	$ 890,315

9. OTHER CURRENT FINANCIAL ASSETS

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

	2008	2009	
	NT$	NT$	US$ (Note 3)
Other receivables (Note 25)	$ 118,904	$ 165,121	$ 5,033
Interest receivable	66,272	10,824	330
Agency payments	7,286	24,295	740
	$ 192,462	$ 200,240	$ 6,103

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:

	2008	2009	
	NT$	NT$	US$ (Note 3)
Finished goods	$ 441,497	$ 676,521	$ 20,619
Work-in-process	1,938,785	1,948,034	59,373
Raw materials	4,329,997	4,395,340	133,963
Goods in transit	-	227,613	6,938
	6,710,279	7,247,508	220,893
Less: Valuation allowance	(1,184,802)	(2,791,669)	(85,085)
	$ 5,525,477	$ 4,455,839	$ 135,808

The write-down of inventories to their net realizable value amounted to NT$393,113 and NT$1,412,701 thousand (US$43,057 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:

	2008	2009	
	NT$	NT$	US$ (Note 3)
Royalty	$ 740,218	$ 4,017,842	$ 122,458
Software and hardware maintenance	102,215	35,335	1,077
Molding equipment	76,735	138,057	4,208
Service	21,128	113,580	3,462
Others	72,432	41,204	1,255
	$ 1,012,728	$ 4,346,018	$ 132,460

Prepayments for royalty were primarily prepayments for discount purposes (Note 27 has more information).

Prepayments for others were primarily for rent and insurance expenses.

12. FINANCIAL ASSETS CARRIED AT COST

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

	2008	2009	
	NT$	NT$	US$ (Note 3)
Hua-Chuang Automobile Information Technical Center Co., Ltd.	$ 500,000	$ 500,000	$ 15,239
Answer Online, Inc.	1,192	1,192	36
	$ 501,192	$ 501,192	$ 15,275

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:

	2008	2009	
	NT$	NT$	US$ (Note 3)
Bond investment	$ -	$ -	$ -
Less: Current portion	-	-	-
	$ -	$ -	$ -

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				
	Carrying Value	Ownership Percentage	Original Cost		Carrying Value		Ownership Percentage
	NT$		NT$	US$ (Note 3)	NT$	US$ (Note 3)	
Equity method							
H.T.C. (B.V.I.) Corp.	$ 1,083,997	100.00	$ 1,862,931	$ 56,779	$ 2,095,695	$ 63,874	100.00
BandRich Inc.	105,775	50.66	135,000	4,115	37,885	1,155	50.66
HTC HK, Limited	20,335	100.00	1,277	39	47,062	1,434	100.00
Communication Global Certification Inc.	261,088	100.00	280,000	8,534	296,752	9,045	100.00
High Tech Computer Asia Pacific Pte. Ltd.	557,902	100.00	2,079,110	63,368	2,086,073	63,580	100.00
Vitamin D Inc.	39,780	27.27	40,986	1,249	38,380	1,170	25.59
HTC Investment Corporation	-	-	300,000	9,144	300,388	9,155	100.00
PT. High Tech Computer Indonesia	-	-	62	2	62	2	1.00
	$ 2,068,877		$ 4,699,366	$ 143,230	$ 4,902,297	$ 149,415	

In August 2000, the Company acquired 100% equity interest in H.T.C. (B.V.I.) Corp. for NT$12,834 thousand and accounted for this investment by the equity method. As of June 30, 2009 the Company had increased this investment to NT$1,862,931 thousand (US$56,779 thousand). H.T.C. (B.V.I.) Corp. makes investments on behalf of the Company.

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

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

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

In July 2007, the Company acquired 100% equity interest in High Tech Computer Asia Pacific Pte. Ltd. for NT$560,660 thousand and accounted for this investment by the equity method. As of June 30, 2009, the Company had increased this investment to NT$2,079,110 thousand (US$63,368 thousand).

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.

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

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

On its equity-method investments, the Company had a loss of NT$294,602 thousand and a gain NT$129,912 thousand (US$3,960 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.

Under the revised Statement of Financial Accounting Standards No. 7, "Consolidated Financial Statements," which took effect on January 1, 2005, the Company included the accounts of all its direct and indirect subsidiaries in the consolidated financial statements as of and for the six months ended June 30, 2008 and 2009. All significant intercompany balances and transactions have been eliminated.

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	1,787,662	2,894,517	584,656	2,309,861	70,402
Machinery and equipment	1,038,641	3,988,328	2,932,861	1,055,467	32,169
Molding equipment	-	172,632	172,632	-	-
Computer equipment	65,631	292,813	207,670	85,143	2,595
Transportation equipment	372	2,732	1,225	1,507	46
Furniture and fixtures	25,056	127,633	105,021	22,612	689
Leased assets	2,749	4,712	2,749	1,963	60
Leasehold improvements	44,854	95,255	45,581	49,674	1,514
Prepayments for construction-in-progress and equipment-in-transit	196,575	24,906	-	24,906	759
	$ 3,771,833	$ 12,323,066	$ 4,052,395	$ 8,270,671	$ 252,078

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.

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

16. ACCRUED EXPENSES

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

	2008	2009	
	NT$	**NT$**	**US$ (Note 3)**
Bonus to employees	$ 4,112,488	$ 3,643,267	$ 111,041
Marketing (Note 25)	3,698,039	6,073,733	185,118
Salaries	986,528	1,056,917	32,213
Services (Note 25)	954,537	1,728,373	52,678
Research materials	249,294	299,844	9,139
Donation	179,256	136,025	4,146
Export expenses	256,802	342,602	10,442
Meals and welfare	72,034	87,331	2,662
Insurance	53,673	73,120	2,229
Research and development	-	49,200	1,500
Pension cost	41,269	48,936	1,491
Repairs and maintenance	29,030	38,656	1,178
Travel	30,896	19,329	589
Others	141,752	286,298	8,727
	$ 10,805,598	$ 13,883,631	$ 423,153

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:

	2008	2009	
	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	1,210,000	1,210,000	36,879
	$ 4,112,488	$ 3,643,267	$ 111,041

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.

Services fees accrued were mainly from authorizing related parties to do marketing activities and research and design and provide consulting services.

17. OTHER CURRENT LIABILITIES

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

	2008	2009	
	NT$	NT$	US$ (Note 3)
Cash dividend payable	$ 19,486,547	$ 20,125,634	$ 613,399
Reserve for warranty expenses	4,599,917	5,277,269	160,843
Other payables (Note 25)	165,042	597,035	18,197
Agency receipts	169,151	481,625	14,679
Deferred credits - profit from intercompany transactions	119,595	210,407	6,413
Advance receipts	87,595	107,795	3,286
Directors' remuneration	21,842	21,842	666
Others	139,346	132,498	4,038
	$ 24,789,035	$ 26,954,105	$ 821,521

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 contract with our customers. The warranty liability is estimated based on management's evaluation of the products under warranty and recognized as warranty liability.

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

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

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

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

18. PENSION PLAN

The Labor Pension Act (the "Act), which provides for a new defined contribution plan, took effect on July 1, 2005. Employees covered by the Labor Standards Law (the "Law") before the enforcement of the Act were allowed to choose to remain to be subject to the defined benefit pension mechanism under the Law or to be subject instead to the Act. Based on the Act, the rate of the Company's required monthly contributions to the employees' individual pension accounts is at least 6% of monthly wages and salaries, and these contributions are recognized as pension expense in the income statement. The pension fund contributions for the six months ended June 30, 2008, and 2009 were NT$70,695 thousand, and NT$91,968 thousand (US$2,803thousand), 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$366,566 thousand and NT$ 401,653(US$12,242thousand) as of June 30, 2008 and 2009, respectively.

Based on the Statement of Financial Accounting Standards No. 18 - "Accounting for Pensions" issued by the Accounting Research and Development Foundation of the ROC, changes in prepaid pension cost under the defined benefit plans for the six months ended June 30, 2008 and 2009 were as follows:

	2008	2009	
	NT$	NT$	US$ (Note 3)
Balance, beginning of period	$ 95,187	$ 117,138	$ 3,570
Contributions	(2,707)	(2,439)	(74)
Payments	13,620	13,011	396
Balance, end of period	$ 106,100	$ 127,710	$ 3,892

19. 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.

20. TREASURY STOCK

On October 7, 2008, the Company's board of directors passed a resolution to buy back 10,000 thousand Company shares from the open market. The repurchase period was between October 8, 2008 and December 7, 2008, and the repurchase price ranged from NT$400 to NT$500 per share. If the Company's share price was lower than this price range, the Company might continue to buy back its shares.

The Company bought back 10,000 thousand shares for NT$3,410,277 thousand during the repurchase period and retired them in January 2009.

(In thousands of shares)

Purpose	As of January 1, 2009	Increase	Decrease	As of 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.

21. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Function	2008			2009					
	NT$			NT$			US$ (Note 2)		
Expense Item	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses	1,199,008	4,086,569	5,285,577	1,378,426	3,765,825	5,144,251	42,012	114,777	156,789
Salary	1,061,436	3,871,667	4,933,103	1,183,885	3,505,555	4,689,440	36,083	106,844	142,927
Insurance	44,267	72,023	116,290	79,568	88,464	168,032	2,425	2,696	5,121
Pension cost	20,966	52,436	73,402	30,100	64,307	94,407	917	1,960	2,877
Other	72,339	90,443	162,782	84,873	107,499	192,372	2,587	3,277	5,864
Depreciation	129,680	143,151	272,831	150,164	173,987	324,151	4,577	5,303	9,880
Amortization	-	21,738	21,738	1,398	14,245	15,643	43	434	477

22. INCOME TAX

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

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

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

Income taxes payable as of June 30, 2008 and 2009 were as follows:

	2008	2009	
	NT$	NT$	US$ (Note 3)
Income before income tax	$ 14,950,202	$ 12,505,753	$ 381,157
Permanent differences			
Loss (gain)on equity-method investments	294,602	(129,912)	(3,960)
Other	25,372	80,582	2,456
Temporary differences			
Realized pension cost	(10,913)	(10,572)	(322)
Unrealized bad debt expenses	55,584	184,245	5,616
Unrealized loss on decline in value of inventory	268,514	1,168,444	35,612
Unrealized royalties	910,116	1,058,423	32,259
Unrealized exchange (gain) loss, net	(676,493)	324,168	9,880
Unrealized valuation loss (gain) on financial instruments	169,184	(418,697)	(12,761)
Unrealized warranty expense	1,129,959	51,407	1,567
Unrealized marketing expense	754,813	632,326	19,272
(Realized) unrealized gain from intercompany transactions	(55,480)	76,316	2,326
Other	(35,909)	31,196	951
Total income	17,779,551	15,553,679	474,053
Less: Tax-exempt income	(15,149,792)	(13,082,419)	(398,733)
Taxable income	2,629,759	2,471,260	75,320
Tax rate	×25%	×25%	×25%
Current income tax	657,440	617,815	18,830
Income tax credit	(10)	(10)	-
Estimated income tax provision	657,430	617,805	18,830
Unappropriated earnings (additional 10% income tax)	352,583	202,145	6,161
Less: Investment research and development tax credits	(352,583)	(202,145)	(6,161)
Income tax payable determined pursuant to the Income Tax Law	$ 657,430	$ 617,805	$ 18,830
Alternative minimum tax	$ 1,377,598	$ 1,474,865	$ 44,952
Less: Prepaid and withheld income tax	(69,093)	(25,869)	(788)
Prior years' income tax payable	1,021,620	980,075	29,871
Income tax payable	$ 2,330,125	$ 2,429,071	$ 74,035

The alternative minimum tax (AMT) imposed under the AMT Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law is below the minimum amount prescribed under the AMT Act. The taxable income for calculating the AMT includes most of the income that is exempted from income tax under various laws and statutes. The Company has considered the impact of the AMT Act in the determination of its tax liabilities. As a result, the current income tax payable as of June 30, 2008 and 2009 should be NT$1,377,598 thousand and NT$1,474,865 thousand (US$44,952 thousand), respectively.

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 tax credit carryforwards that gave rise to deferred tax assets as of June 30, 2008 and 2009 were as follows:

	2008	2009	
	NT$	**NT$**	**US$ (Note 3)**
Temporary differences			
Provision for loss on decline in value of inventory	$ 296,200	$ 558,334	$ 17,017
Unrealized royalties	1,237,377	1,440,424	43,902
Capitalized expense	40,266	48,208	1,469
Unrealized reserve for warranty expense	1,149,979	1,055,454	32,169
Unrealized marketing expense	924,510	1,214,747	37,024
Unrealized valuation loss on financial instruments	42,296	19,077	581
Unrealized bad-debt expenses	34,117	89,028	2,713
Unrealized exchange loss	-	32,051	977
Other	17,956	28,985	884
Tax credit carryforwards	942,991	3,414,703	104,075
Total deferred tax assets	4,685,692	7,901,011	240,811
Less: Valuation allowance	(3,542,302)	(6,257,535)	(190,720)
Total deferred tax assets, net	1,143,390	1,643,476	50,091
Deferred tax liability			
Unrealized pension cost	(26,525)	(25,542)	(779)
Unrealized foreign exchange gain, net	(187,769)	-	-
	929,096	1,617,934	49,312
Less: Current portion	(404,508)	(623,734)	(19,010)
Deferred tax assets - noncurrent	$ 524,588	$ 994,200	$ 30,302

Details of the tax credit carryforwards are as follows:

		2008	2009	
Year of Occurrence	**Validity Period**	**NT$**	**NT$**	**US$ (Note 3)**
2007	2007-2011	$ 201,506	$ 201,506	$ 6,142
2008	2008-2012	741,485	2,658,153	81,016
2009	2009-2013	-	555,044	16,917
		$ 942,991	$ 3,414,703	$ 104,075

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

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

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

	2008	2009	
	NT$	**NT$**	**US$ (Note 3)**
Current income tax expense	$ 1,377,598	$ 1,474,865	$ 44,952
Decrease (increase)in deferred income tax assets	13,014	(244,296)	(7,446)
Overestimation of prior years' income tax	-	(104,298)	(3,179)
Income tax expense	$ 1,390,612	$ 1,126,271	$ 34,327

The integrated income tax information is as follows:

	2008	2009	
	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%

23. EARNINGS PER SHARE

Earnings per share (EPS) before tax and after tax are calculated by dividing net income by the weighted average number of common shares outstanding which includes the deduction of the effect of treasury stock during each year. The weighted average number of shares used in EPS calculation was 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 NT$	Income after Income Tax NT$	Shares (Thousands)	Income before Income Tax NT$	Income after Income Tax 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 NT$	Income after Income Tax NT$	Shares (Thousands)	Income before Income Tax NT$	Income after Income Tax 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 US$ (Note 3)	Income after Income Tax US$ (Note 3)	Shares (Thousands)	Income before Income Tax US$ (Note 3)	Income after Income Tax 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

24. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

Nonderivative Financial Instruments

	June 30					
	2008		2009			
	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	
	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 nor guarantee deposits. The fair values of refundable deposits and guarantee deposits received are based on the present value of future cash flows discounted at the average interest rates for time deposits with maturities similar to those of the financial instruments.

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

Methodology Used to Determine the Fair Values of Financial Instruments

	Quoted Market Prices			Measurement Method		
	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$182 (US$ 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$70,373,613 and NT$65,893,257 (US$2,008,328 thousand), respectively.

Financial Risks

Market Risk

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

Credit Risk

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

Cash Flow Risk

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

25. RELATED-PARTY TRANSACTIONS

The related parties were as follows:

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

Related Party	Relationship with the Company
HTC (Australia and New Zealand) Pty. Ltd.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC India Private Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC (Thailand) Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Electronics (Shanghai)	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Malaysia Sdn. Bhd.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Innovation Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
Employees' Welfare Committee	Employees' Welfare Committee of HTC Corporation

Major transactions with related parties are summarized below:

Purchases of Inventories and Services

	Six Months Ended June 30				
	2008		2009		
Related Party	Amount	% to Total Purchases	Amount		% to Total Purchases
	NT$		NT$	US$ (Note 3)	
High Tech Computer Corp. (Suzhou)	$ 35,999	-	$ 25,884	$ 789	-
HTC Electronics (Shanghai)	-	-	21,395	652	-
BandRich Inc.	-	-	18,089	551	-
Chander Electronics Corp.	-	-	12,939	395	-
	$ 35,999	-	$ 78,307	$ 2,387	-

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

Sales and Services Provided

	Six Months Ended June 30				
	2008		2009		
Related Party	Amount	% to Total Revenues	Amount		% to Total Revenues
	NT$		NT$	US$ (Note 3)	
HTC America Inc.	$ 616,618	1	$ 702,982	$ 21,426	1
HTC Europe Co., Ltd.	78,256	-	166,811	5,084	-
High Tech Computer (H.K.) Limited	30,009	-	29,416	897	-
High Tech Computer Singapore Pte. Ltd.	31,070	-	17,675	539	-
Xander International Corp.	93,383	-	166	5	-
BandRich Inc.	259,438	-	60	2	-
First International Computer, Inc. (FIC)	24,221	-	-	-	-
Others	36,754	-	26,910	819	-
	$ 1,169,749	1	$ 944,020	$ 28,772	1

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

Accounts Receivable

Related Party	June 30				
	2008		2009		
	Amount	% to Total Accounts Receivable	Amount		% to Total Accounts Receivable
	NT$		NT$	US$ (Note 3)	
Accounts receivable					
HTC America Inc.	$ 439,617	2	$ 520,848	$ 15,875	2
BandRich Inc.	106,831	1	-	-	-
HTC Europe Co., Ltd.	79,689	-	86,571	2,639	-
High Tech Computer (H.K.) Limited	31,201	-	4,811	147	-
High Tech Computer Singapore Pte. Ltd.	30,947	-	3,183	97	-
Others	3,734	-	1,383	41	-
	$ 692,019	3	$ 616,796	$ 18,799	2

Accounts Payable

Related Party	June 30				
	2008		2009		
	Amount	% to Total Accounts Payable	Amount		% to Total Accounts Payable
	NT$		NT$	US$ (Note 3)	
HTC Electronics (Shanghai)	$ -	-	$ 19,682	$ 600	-
BandRich Inc.	-	-	18,089	551	-
High Tech Computer Corp. (Suzhou)	25,446	-	-	-	-
Chander Electronics Corp.	-	-	8,688	265	-
Others	644	-	583	18	-
	$ 26,090	-	$ 47,042	$ 1,434	-

Other Receivable

Related Party	June 30				
	2008		2009		
	Amount	% to Total Other Receivable	Amount		% to Total Other Receivable
	NT$		NT$	US$ (Note 3)	
HTC Nippon Corporation	$ 15,942	14	$ 2,658	$ 81	2
High Tech Computer Corp. (Suzhou)	20,644	17	397	12	-
HTC Belgium BVBA/SPRL	44,661	38	-	-	-
Others	5,691	4	3,412	104	1
	$ 86,938	73	$ 6,467	$ 197	3

Prepaid Expenses

Related Party	June 30 2008 Amount NT$	2008 % to Total Prepayment	June 30 2009 Amount NT$	2009 Amount US$ (Note 3)	2009 % to Total Prepayment
HTC America Inc.	$ -	-	$ 83,773	$ 2,553	2
HTC Nippon Corporation	8,182	1	23,975	731	1
One & Company Design, Inc.	-	-	4,985	152	-
HTC Europe Co., Ltd.	23,318	2	846	26	-
Communication Global Certification Inc.	21,128	2	-	-	-
High Tech Computer Singapore Pte. Ltd.	8,209	1	-	-	-
HTC (Australia and New Zealand) Pty. Ltd.	2,967	-	-	-	-
	$ 63,804	6	$ 113,579	$ 3,462	3

Accrued Expenses

Related Party	June 30 2008 Amount NT$	2008 % to Total Accrued Expenses	June 30 2009 Amount NT$	2009 Amount US$ (Note 3)	2009 % to Total Accrued Expenses
HTC Europe Co., Ltd.	$ 244,066	2	$ 835,757	$ 25,473	6
HTC America Inc.	185,475	2	498,425	15,191	4
HTC Belgium BVBA/SPRL	41,643	-	73,613	2,244	1
High Tech Computer Asia Pacific Pte. Ltd.	-	-	49,200	1,500	-
Communication Global Certification Inc.	-	-	30,515	930	-
High Tech Computer Singapore Pte. Ltd.	65,205	1	28,578	871	-
High Tech Computer (H.K.) Limited	26,877	-	18,482	563	-
HTC (Australia and New Zealand) Pty. Ltd.	27,130	-	14,742	449	-
HTC India Private Limited	19,984	-	13,670	417	-
HTC Nippon Corporation	66,611	1	13,621	415	-
HTC BRASIL	26,054	-	9,258	282	-
Others	-	-	15,324	467	-
	$ 703,045	6	$ 1,601,185	$ 48,802	11

Other Payables to Related Parties

Related Party	June 30 2008 Amount NT$	2008 % to Total Other Payables	June 30 2009 Amount NT$	2009 Amount US$ (Note 3)	2009 % to Total Other Payables
H.T.C. (B.V.I.) Corp.	$ -	-	$ 127,319	$ 3,880	21
HTC America Inc.	20,411	12	34,222	1,043	6
High Tech Computer Corp. (WGQ)	-	-	18,354	559	3
HTC Europe Co., Ltd.	112,422	68	15,578	475	3
HTC Brasil	-	-	8,247	251	1
HTC Nippon Corporation	14,652	9	7,842	239	1
HTC Belgium BVBA/SPRL	16,505	10	-	-	-
Others	1,052	1	7,146	219	1
	$ 165,042	100	$ 218,708	$ 6,666	36

Advance Receipts

	June 30				
	2008		2009		
Related Party	Amount	% to Total Advance Receipts	Amount		% to Total Advance Receipts
	NT$		NT$	US$ (Note 3)	
BandRich Inc.	$ -	-	$ 96,037	$ 2,927	20

Outsourcing Expenses

	Six Months Ended June 30				
	2008		2009		
Related Party	Amount	% to Total Out-Sourcing Expenses	Amount		% to Total Out-Sourcing Expenses
	NT$		NT$	US$ (Note 3)	
HTC Electronics (Shanghai)	$ -	-	$ 86,757	$ 2,644	88
High Tech Computer Corp. (Suzhou)	169,156	92	1,906	58	2
	$ 169,156	92	$ 88,663	$ 2,702	90

Warranty Expenses

	Six Months Ended June 30				
	2008		2009		
Related Party	Amount	% to Warranty Expenses	Amount		% to Warranty Expenses
	NT$		NT$	US$ (Note 3)	
HTC America Inc.	$ 398,600	16	$ 637,715	$ 19,437	29
HTC Europe Co., Ltd.	169,293	7	91,379	2,785	4
High Tech Computer Corp. (WGQ)	25,454	1	43,935	1,339	2
High Tech Computer (H.K.) Limited	521	-	22,110	674	1
High Tech Computer Singapore Pte. Ltd.	-	-	11,755	358	1
Comserve Network Netherlands B.V.	13,192	-	429	13	-
	$ 607,060	24	$ 807,323	$ 24,606	37

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

Commission Expenses

	Six Months Ended June 30				
	2008		2009		
Related Party	Amount	% to Commission Expenses	Amount		% to Commission Expenses
	NT$		NT$	US$ (Note 3)	
HTC Europe Co., Ltd.	$ -	-	$ 1,288,839	$ 39,282	86
HTC Belgium BVBA/SPRL	-	-	206,675	6,299	14
	$ -	-	$ 1,495,514	$ 45,581	100

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

Service and Marketing Fees

Related Party	Six Months Ended June 30				
	2008		2009		
	Amount	% to Total Service and marketing Fees	Amount		% to Total Service and marketing Fees
	NT$		NT$	US$ (Note 3)	
HTC America Inc.	$ 855,312	31	$ 1,102,035	$ 33,588	41
HTC EUROPE Co., Ltd.	621,314	23	142,259	4,336	5
Communication Global Certification Inc.	51,669	2	109,482	3,337	4
HTC BRASIL	130,063	5	88,190	2,688	3
HTC Nippon Corporation	174,315	6	87,055	2,653	3
High Tech Computer Singapore Pte. Ltd.	97,854	4	81,969	2,498	3
HTC Belgium BVBA/SPRL	234,098	9	68,961	2,102	3
One & Company Design, Inc.	-	-	62,864	1,916	2
HTC (Australia and New Zealand) Pty. Ltd.	57,512	2	46,910	1,430	2
High Tech Computer (H.K.) Limited	46,210	2	42,601	1,298	2
HTC India Private Limited	59,346	2	27,326	833	1
Others	1,000	-	41,467	1,264	1
	$ 2,328,693	86	$ 1,901,119	$ 57,943	70

Other Revenues

Related Party	Six Months Ended June 30				
	2008		2009		
	Amount	% to Total other revenues	Amount		% to Total other revenues
	NT$		NT$	US$ (Note 3)	
BandRich Inc.	$ 600	-	$ 600	$ 18	-

Leasing - Lessee

Operating Expense - Rental Expenses

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

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.

In the first quarter of 2009, the Company sold equipment to HTC Corporation (Shanghai WGQ) for NT$496 thousand (US$15 thousand); there was no gain or loss on this sale.

26 COMMITMENTS AND CONTINGENCIES

An indirect subsidiary of the Company, HTC Electronics (Shanghai), applied to Citibank for banking facilities of US$15,000 thousand. For these banking facilities, the Company signed a comfort letter in September 2008, assuring Citibank that the Company would supervise the management of HTC Electronics (Shanghai) and oversee the meeting by HTC Electronics (Shanghai) of its financial obligations. As of June 30, 2009, the Company wholly owned HTC Electronics (Shanghai) indirectly.

27. SIGNIFICANT CONTRACTS

Patent Agreements

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

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

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

28. OTHER 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.