

HTC Corporation and Subsidiaries

**Consolidated Financial Statements for the
Nine Months Ended September 30, 2008 and 2009 and
Independent Accountants' Review Report**

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
HTC Corporation

We have reviewed the accompanying consolidated balance sheets of HTC Corporation and subsidiaries (collectively, the "Company") as of September 30, 2008 and 2009, and the related consolidated statements of income and cash flows for the nine months then ended, all expressed in New Taiwan dollars. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our reviews.

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

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

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 - "Accounting for Inventories."

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

October 21, 2009

Notice to Readers

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

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

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2008 AND 2009 (In Thousands, Except Par Value) (Reviewed, Not Audited)

ASSETS	2008		2009		LIABILITIES AND STOCKHOLDERS' EQUITY	2008		2009	
	NT\$	NT\$	NT\$	US\$ (Note 3)		NT\$	NT\$	NT\$	US\$ (Note 3)
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 5)	\$ 66,328,808	\$ 55,878,298		\$ 1,737,239	Financial liabilities at fair value through profit or loss - current (Notes 2, 6 and 24)	\$ -	\$ 15,508		\$ 482
Financial assets at fair value through profit or loss - current (Notes 2, 6 and 24)	97,351	-		-	Short-term borrowings (Note 16)	139,763	40,000		1,244
Available-for-sale financial assets - current (Notes 2 and 7)	-	2,097,004		65,195	Notes and accounts payable (Note 25)	27,134,442	20,921,438		650,442
Notes and accounts receivable, net (Notes 2, 8 and 25)	21,213,061	23,991,236		745,881	Income tax payable (Notes 2 and 22)	3,052,067	3,339,837		103,835
Other current financial assets (Notes 9 and 25)	345,839	258,502		8,037	Accrued expenses (Notes 4, 17 and 25)	14,337,796	15,438,633		479,982
Inventories (Notes 2, 4 and 10)	8,468,227	5,178,528		160,999	Payable for purchase of equipment	155,510	75,003		2,332
Prepayments (Note 11)	1,181,115	4,328,610		134,575	Long-term liabilities - current portion (Note 19)	36,875	25,625		797
Deferred tax assets (Notes 2 and 22)	518,252	688,200		21,396	Other current liabilities (Notes 2, 18 and 25)	5,297,310	6,861,971		213,336
Other current assets	230,030	233,059		7,245					
Total current assets	98,382,683	92,653,437		2,880,567	Total current liabilities	50,153,763	46,718,015		1,452,450
LONG-TERM INVESTMENTS					LONG-TERM LIABILITIES				
Available-for-sale financial assets - noncurrent (Notes 2 and 7)	581	407		13	Long-term bank loans, net of current portion (Note 19)	45,938	28,438		884
Financial assets carried at cost (Notes 2 and 12)	501,192	565,522		17,582	OTHER LIABILITIES				
Investments accounted for by the equity method (Notes 2 and 14)	41,624	36,034		1,120	Guarantee deposits received	6,276	1,210		38
Total long-term investments	543,397	601,963		18,715	Total liabilities	50,205,977	46,747,663		1,453,372
PROPERTIES (Notes 2 and 15)					EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF PARENT (Note 20)				
Cost					Capital stock				
Land	822,027	4,719,538		146,729	Common stock at par value of NT\$10.00 each; authorized: 1,000,000 thousand shares; issued and outstanding: 755,394 thousand shares in 2008 and 796,021 thousand shares in 2009	7,553,938	7,960,208		247,480
Buildings and structures	2,768,833	3,164,196		98,373	Capital surplus				
Machinery and equipment	4,287,195	4,703,881		146,242	Additional paid-in capital - common stock	4,374,244	9,137,653		284,087
Molding equipment	188,280	195,877		6,090	Long-term equity investments	17,534	18,205		566
Computer equipment	333,954	407,229		12,661	Merger	25,756	25,415		790
Transportation equipment	3,185	4,582		142	Retained earnings				
Furniture and fixtures	245,297	462,228		14,371	Legal reserve	7,410,139	10,273,674		319,405
Leased assets	5,440	5,921		184	Accumulated earnings	36,535,875	35,087,257		1,090,852
Leasehold improvements	178,694	199,190		6,193	Other equity				
Less: Accumulated depreciation	(8,832,905)	(13,862,642)		(430,985)	Cumulative translation adjustments (Note 2)	80,248	44,747		1,391
Prepayments for construction-in-progress and equipment-in-transit	(4,112,557)	(4,880,992)		(151,749)	Unrealized losses on financial instruments (Notes 2 and 7)	(1,390)	(1,564)		(49)
	808,728	1,045,631		32,509	Treasury stock (Note 21)	-	(2,233,006)		(69,423)
Properties, net	5,529,076	10,027,281		311,745	Total equity attributable to stockholders of the parent	55,996,344	60,312,589		1,875,099
INTANGIBLE ASSETS					MINORITY INTEREST IN SUBSIDIARIES	66,983	33,908		1,054
Goodwill (Note 2)	174,253	238,721		7,422	Total stockholders' equity	56,063,327	60,346,497		1,876,153
Deferred pension cost	953	475		15					
Total intangible assets	175,206	239,196		7,437					
OTHER ASSETS									
Assets leased to others	358,044	47,639		1,481					
Refundable deposits	170,667	169,932		5,283					
Deferred charges (Note 2)	259,010	263,508		8,193					
Deferred tax assets (Notes 2 and 22)	698,634	944,006		29,349					
Restricted assets (Notes 2 and 26)	41,659	36,766		1,143					
Other (Notes 2 and 11)	110,928	2,110,432		65,612					
Total other assets	1,638,942	3,572,283		111,061					
TOTAL	\$ 106,269,304	\$ 107,094,160		\$ 3,329,525	TOTAL	\$ 106,269,304	\$ 107,094,160		\$ 3,329,525

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

(With Deloitte & Touche review report dated October 21, 2009)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2009 (In Thousands, Except Earnings Per Share) (Reviewed, Not Audited)

	2008	2009	
	NT\$	NT\$	US\$ (Note 3)
REVENUES (Notes 2 and 25)	\$ 105,279,115	\$ 103,426,224	\$ 3,215,490
COST OF REVENUES (Notes 4, 10 and 25)	<u>68,472,444</u>	<u>70,600,280</u>	<u>2,194,941</u>
GROSS PROFIT	36,806,671	32,825,944	1,020,549
OPERATING EXPENSES (Note 25)			
Selling and marketing	6,659,069	6,307,585	196,101
General and administrative	1,913,262	1,661,873	51,667
Research and development	<u>6,766,122</u>	<u>6,523,260</u>	<u>202,806</u>
Total operating expenses	<u>15,338,453</u>	<u>14,492,718</u>	<u>450,574</u>
OPERATING INCOME	<u>21,468,218</u>	<u>18,333,226</u>	<u>569,975</u>
NONOPERATING INCOME AND GAINS			
Interest income	1,081,560	303,231	9,427
Gain on sale of investments	-	2,004	62
Gain on sale of properties	63	-	-
Exchange gain (Note 2)	-	523,357	16,271
Rental income	2,519	5,328	166
Valuation gain on financial instruments, net (Notes 2 and 6)	97,351	-	-
Other	<u>179,828</u>	<u>332,003</u>	<u>10,322</u>
Total nonoperating income and gains	<u>1,361,321</u>	<u>1,165,923</u>	<u>36,248</u>
NONOPERATING EXPENSES AND LOSSES			
Interest expense	8,160	1,843	57
Losses on equity-method investments (Notes 2 and 14)	3,777	3,891	121
Loss on disposal of properties	1,333	4,940	154
Impairment loss (Note 2)	-	48,360	1,503
Exchange loss (Note 2)	15,389	-	-
Valuation loss on financial instruments, net (Notes 2 and 6)	-	15,508	482
Other	<u>37,146</u>	<u>318,336</u>	<u>9,897</u>
Total nonoperating expenses and losses	<u>65,805</u>	<u>392,878</u>	<u>12,214</u>

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HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2009 (In Thousands, Except Earnings Per Share) (Reviewed, Not Audited)

	2008		2009		
	NT\$	NT\$	NT\$	US\$	(Note 3)
INCOME BEFORE INCOME TAX	\$ 22,763,734	\$ 19,106,271	\$ 19,106,271	\$ 594,009	
INCOME TAX (Notes 2 and 22)	<u>(2,263,228)</u>	<u>(2,026,089)</u>	<u>(2,026,089)</u>	<u>(62,990)</u>	
NET INCOME	<u>\$ 20,500,506</u>	<u>\$ 17,080,182</u>	<u>\$ 17,080,182</u>	<u>\$ 531,019</u>	
ATTRIBUTABLE TO					
Stockholders of the parent	\$ 20,545,042	\$ 17,074,970	\$ 17,074,970	\$ 530,856	
Minority interest	<u>(44,536)</u>	<u>5,212</u>	<u>5,212</u>	<u>163</u>	
	<u>\$ 20,500,506</u>	<u>\$ 17,080,182</u>	<u>\$ 17,080,182</u>	<u>\$ 531,019</u>	
	2008	2009	2009	2009	2009
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax	After Income Tax
	NT\$	NT\$	NT\$	US\$ (Note 3)	US\$ (Note 3)
EARNINGS PER SHARE (Note 23)					
Basic	<u>\$ 28.56</u>	<u>\$ 25.90</u>	<u>\$ 24.09</u>	<u>\$ 0.75</u>	<u>\$ 21.70</u>
Diluted	<u>\$ 28.11</u>	<u>\$ 25.50</u>	<u>\$ 23.73</u>	<u>\$ 0.74</u>	<u>\$ 21.38</u>

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

(With Deloitte & Touche review report dated October 21, 2009)

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HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2009

(In Thousands)

(Reviewed, Not Audited)

	2008	2009	
	NT\$	NT\$	US\$ (Note 4)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 20,500,506	\$ 17,080,182	\$ 531,019
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation (including depreciation of assets leased to others)	542,245	680,513	21,157
Transfer of properties to expenses	14,341	724	23
Exchange loss on bond investments with no active market	2,670	-	-
Amortization	46,571	52,109	1,620
Gain on sale of investments, net	-	(2,004)	(62)
Loss on disposal of properties, net	1,270	4,940	154
Impairment Loss	-	48,360	1,503
Losses on equity-method investments	3,777	3,891	121
Deferred tax assets	(253,720)	(258,783)	(8,045)
Prepaid pension costs	(16,668)	(15,661)	(487)
Net changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	(193,078)	(498,575)	(15,501)
Notes and accounts receivable	(1,739,344)	5,463,542	169,859
Other current financial assets	(169,511)	58,022	1,804
Inventories	(1,231,525)	3,071,809	95,502
Prepayments	387,867	(3,044,501)	(94,653)
Other current assets	(50,763)	(71,739)	(2,230)
Other assets - other	-	(1,977,834)	(61,490)
Notes and accounts payable	3,932,822	(7,648,497)	(237,790)
Income tax payable	493,364	(699,776)	(21,756)
Accrued expenses	8,001,387	5,044,752	156,839
Other current liabilities	<u>1,327,975</u>	<u>754,022</u>	<u>23,442</u>
Net cash provided by operating activities	<u>31,600,186</u>	<u>18,045,496</u>	<u>561,029</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of properties	(2,213,716)	(1,858,311)	(57,775)
Proceeds of the sale of properties and deferred charges	856	64,735	2,013
Proceeds of the sale of available-for-sale financial assets	-	3,363,119	104,558
Purchase of available-for-sale financial assets	-	(5,458,119)	(169,691)
Increase in investments accounted for by the equity method	(10,626)	-	-
Increase in financial assets carried at cost	-	(64,330)	(2,000)
Increase in deferred charges	(158,535)	(66,471)	(2,067)

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HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2009

(In Thousands)

(Reviewed, Not Audited)

	2008	2009	
	NT\$	NT\$	US\$ (Note 4)
(Increase) decrease in restricted assets	\$ (7,159)	\$ 4,699	\$ 146
(Increase) decrease in refundable deposits	<u>(38,048)</u>	<u>21,534</u>	<u>670</u>
Net cash used in investing activities	<u>(2,427,228)</u>	<u>(3,993,144)</u>	<u>(124,146)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase (decrease) in short-term borrowings	139,763	(35,000)	(1,088)
Decrease in long-term bank loans	(13,437)	(21,562)	(671)
Cash dividends	(19,486,547)	(20,125,634)	(625,700)
Increase (decrease) in guarantee deposits received	5,643	(5,210)	(162)
Purchase of treasury stock	<u>-</u>	<u>(2,233,006)</u>	<u>(69,423)</u>
Net cash used in financing activities	<u>(19,354,578)</u>	<u>(22,420,412)</u>	<u>(697,044)</u>
EFFECT OF EXCHANGE RATE CHANGES	<u>20,243</u>	<u>8,630</u>	<u>269</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,838,623	(8,359,430)	(259,892)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>56,490,185</u>	<u>64,237,728</u>	<u>1,997,131</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 66,328,808</u>	<u>\$ 55,878,298</u>	<u>\$ 1,737,239</u>
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid during the period			
Interest	<u>\$ 8,085</u>	<u>\$ 1,883</u>	<u>\$ 59</u>
Income tax	<u>\$ 2,023,584</u>	<u>\$ 2,984,648</u>	<u>\$ 92,792</u>
NONCASH INVESTING AND FINANCING ACTIVITIES			
Transfer of bond investment not quoted in an active market to investments accounted for by the equity method	<u>\$ 33,030</u>	<u>\$ -</u>	<u>\$ -</u>
Transfer of properties to assets leased to others	<u>\$ 358,044</u>	<u>\$ -</u>	<u>\$ -</u>
Transfer of assets leased to others to properties	<u>\$ -</u>	<u>\$ 262,320</u>	<u>\$ 8,155</u>
Transfer of retained earnings and accrued stock bonus to employees to common stock and additional paid-in capital	<u>\$ 1,822,601</u>	<u>\$ 5,327,586</u>	<u>\$ 165,633</u>
Retirement of treasury stock	<u>\$ -</u>	<u>\$ 3,410,277</u>	<u>\$ 106,024</u>

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HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2009

(In Thousands)

(Reviewed, Not Audited)

	2008	2009	
	NT\$	NT\$	US\$ (Note 4)
PURCHASE OF PROPERTIES			
Cost of properties purchased	\$ 2,189,249	\$ 1,618,481	\$ 50,318
Decrease in payables for purchase of equipment	23,770	239,083	7,433
Decrease in lease payable	<u>697</u>	<u>747</u>	<u>24</u>
Cash paid for purchase of properties	<u>\$ 2,213,716</u>	<u>\$ 1,858,311</u>	<u>\$ 57,775</u>

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

(With Deloitte & Touche review report dated October 21, 2009)

(Concluded)

HTC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2009 (In Thousands, Unless Stated Otherwise) (Reviewed, Not Audited)

1. ORGANIZATION AND OPERATIONS

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

HTC and its consolidated subsidiaries, hereinafter referred to as the “Company,” had 8,765 and 8,154 employees as of September 30, 2008 and 2009, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

Principles of Consolidation

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

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

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

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

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Investor	Investee	Main Businesses	% of Ownership		Remark
			2008	2009	
	HTC Electronics (Shanghai) Co., Ltd.	Manufacture and sale of smart handheld devices	100.00	100.00	Incorporated in January 2007 and invested in July 2008
	HTC Malaysia Sdn. Bhd.	Marketing, distribution and after-sales service	-	100.00	Incorporated in July 2008 and invested in January 2009
	HTC Innovation Limited	"	-	100.00	Incorporated in January 2009
	HTC Communication Co., Ltd.	The sale of smart handheld devices	-	100.00	Incorporated in December 2008 and invested in March 2009
High Tech Computer Singapore Pte. Ltd.	HTC India Private Ltd.	Marketing, distribution and after-sales service	1.00	1.00	Incorporated in January 2008 (Concluded)

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

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

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

Current/Noncurrent Assets and Liabilities

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

Cash Equivalents

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

Financial Assets/Liabilities at Fair Value through Profit or Loss

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss (FVTPL) include financial assets or financial liabilities held for trading and those designated as at FVTPL on initial recognition. The Company recognizes a financial asset or a financial liability on its balance sheet when the Company becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognized when the Company has lost control of its contractual rights over the financial asset. A financial liability is derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired.

Financial instruments at FVTPL are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss. At each balance sheet date subsequent to initial recognition, financial assets or financial liabilities at FVTPL are remeasured at fair value, with changes in fair value recognized directly in profit or loss in the year in which they arise. Cash dividends received subsequently (including those received in the year of investment) are recognized as income for the year. On derecognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in profit or loss.

A derivative that does not meet the criteria for hedge accounting is classified as a financial asset or a financial liability held for trading. If the fair value of the derivative is positive, the derivative is recognized as a financial asset; otherwise, the derivative is recognized as a financial liability.

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: Publicly traded stocks - at closing prices; open-end mutual funds - at net asset values; bonds - at prices quoted by the Taiwan GreTai Securities Market; and financial assets and financial liabilities without quoted prices in an active market - at values determined using valuation techniques.

Available-for-Sale Financial Assets

Available-for-sale financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are remeasured at fair value, with changes in fair value recognized in equity until the financial assets are disposed of, at which time, the cumulative gain or loss previously recognized in equity is included in profit or loss for the year.

The recognition, derecognition and the fair value bases of available-for-sale financial assets are similar to those of financial assets at FVTPL.

Cash dividends are recognized on the stockholders' resolutions, except for dividends distributed from the pre-acquisition profit, which are treated as a reduction of investment cost. Stock dividends are not recognized as investment income but are recorded as an increase in the number of shares. The total number of shares subsequent to the increase is used for recalculation of cost per share.

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

Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts

Revenue from sales of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, primarily upon shipment, because the earnings process has been completed and the economic benefits associated with the transaction have been realized or are realizable.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts agreed between the Company and the customers for goods sold in the normal course of business, net of sales discounts and volume rebates. For trade receivables due within one year from the balance sheet date, as the nominal value of the consideration to be received approximates its fair value and transactions are frequent, fair value of the consideration is not determined by discounting all future receipts using an imputed rate of interest.

An allowance for doubtful accounts is provided on the basis of a review of the collectability of accounts receivable. The Company assesses the probability of collections of accounts receivable by examining the aging analysis of the outstanding receivables and assessing the value of the collateral provided by customers.

Inventories

Inventories consist of raw materials, supplies, finished goods and work-in-process. Before January 1, 2008, inventories were stated at the lower of cost or market value (replacement cost or net realizable value). Any write-down was made on a category by category basis. Market value meant replacement cost for raw materials and supplies and net realizable value for finished goods and work in process. As stated in note 4, effective January 1, 2008, inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made item by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Cost is determined using the moving- average method.

Financial Assets Carried at Cost

Investments in equity instruments with no quoted prices in an active market and with fair values that cannot be reliably measured, such as non-publicly traded stocks and stocks traded in the emerging stock market, are measured at their original cost. The accounting treatment for dividends on financial assets carried at cost is similar to that for dividends on available-for-sale financial assets. An impairment loss is recognized when there is objective evidence that the asset is impaired. A reversal of this impairment loss is disallowed.

Bond Investments Not Quoted in An Active Market

Bond investments not quoted in an active market are stated at amortized cost and are classified as current or noncurrent based on their maturities.

Bond investments not quoted in an active market- current are investments receiving fixed or determinable amounts. Other features of these bond investments are as follows:

- a. The bond investments have not been designated as at fair value through profit or loss.
- b. The bond investments have not been designated as available for sale.

Those investments that are noncurrent are classified as bond investment not quoted in an active market- noncurrent under funds and investments.

Investments Accounted for by the Equity Method

Investments in which the Company holds 20 percent or more of the investees' voting shares or exercises significant influence over the investees' operating and financial policy decisions are accounted for by the equity method.

Prior to January 1, 2006, the difference between the acquisition cost and the Company's proportionate share in the investee's equity was amortized by the straight-line method over five years. Effective January 1, 2006, pursuant to the revised Statement of Financial Accounting Standard (SFAS) No. 5, "Long-term Investments Accounted for by Equity Method", the acquisition cost is allocated to the assets acquired and liabilities assumed based on their fair values at the date of acquisition, and the excess of the acquisition cost over the fair value of the identifiable net assets acquired is recognized as goodwill. Goodwill is not being amortized. The excess of the fair value of the net identifiable assets acquired over the acquisition cost is used to reduce the fair value of each of the noncurrent assets acquired (except for financial assets other than investments accounted for by the equity method, noncurrent assets held for sale, deferred income tax assets, prepaid pension or other postretirement benefit) in proportion to the respective fair values of the noncurrent assets, with any excess recognized as an extraordinary gain. Effective January 1, 2006, the accounting treatment for the unamortized investment premium arising on acquisitions before January 1, 2006 is the same as that for goodwill and the premium is no longer being amortized. For any investment discount arising on acquisitions before January 1, 2006, the unamortized amount continues to be amortized over the remaining year.

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

When the Company subscribes for its investee's newly issued shares at a percentage different from its percentage of ownership in the investee, the Company records the change in its equity in the investee's net assets as an adjustment to investments, with a corresponding amount credited or charged to capital surplus. When the adjustment should be debited to capital surplus, but the capital surplus arising from long-term investments is insufficient, the shortage is debited to retained earnings.

Properties

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

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

Depreciation is calculated on a straight-line basis over the estimated service lives of the assets plus one additional year for salvage value: buildings (including auxiliary equipment) - 3 to 50 years; machinery and equipment - 3 to 5 years; office equipment - 3 to 5 years; transportation equipment - 5 years; and leasehold improvements - 3 years.

Properties still in use beyond their original estimated useful lives are further depreciated over their newly estimated useful lives.

The related cost (including revaluation increment) and accumulated depreciation 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, 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.

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

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

Income Tax

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

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

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

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

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

Treasury Stock

The Company adopted the Statement of Financial Accounting Standards No. 30 - "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 consolidated financial statements as of and for the nine months ended September 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\$32.165 to US\$1.00 quoted by the Bank of Taiwan on September 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\$3,845,328 thousand in net income, including employee bonus payable of NT\$4,390,267 thousand, minus the allocation to inventory of NT\$25,750 thousand and minus the tax saving of NT\$519,189 thousand, and a decrease in after income tax basic earnings per share of NT\$5.09 for the nine months ended September 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 nine months ended September 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 nine months ended September 30, 2008.

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

5. CASH AND CASH EQUIVALENTS

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

	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	US\$ (Note 3)
Cash on hand	\$ 107,735	\$ 4,076	\$ 127
Cash in banks	9,027,867	6,198,557	192,711
Time deposits	57,193,206	49,158,665	1,528,328
Cash equivalents - repurchase bonds	<u>-</u>	<u>517,000</u>	<u>16,073</u>
	<u>\$ 66,328,808</u>	<u>\$ 55,878,298</u>	<u>\$ 1,737,239</u>

On time deposits, interest rates ranged from 1.65% to 2.475% and 0.1% to 0.855% as of September 30, 2008 and 2009, respectively.

On preferential deposits, interest rates ranged from 0.13% to 6.88% and 0.10% to 0.70% as of September 30, 2008 and 2009, respectively.

On cash equivalents, interest rate was 0.13% as of September 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 September 30, 2008 and 2009 were as follows:

	2008	2009	
	NT\$	NT\$	US\$ (Note 3)
Derivatives - financial assets			
Exchange contracts	\$ <u>97,351</u>	\$ <u>-</u>	\$ <u>-</u>
Derivatives - financial liabilities			
Exchange contracts	\$ <u>-</u>	\$ <u>15,508</u>	\$ <u>482</u>

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

Forward Exchange Contracts

	2008			
	Buy/Sell	Currency	Expiry Date	Contract Amount
Forward exchange contracts	Sell	EUR/USD	2008.10.01-2008.11.28	EUR 155,000
Forward exchange contracts	Sell	GBP/USD	2008.10.08-2008.11.21	GBP 10,970
Forward exchange contracts	Sell	JPY/NTD	2008.10.17	JPY 17,000
Forward exchange contracts	Sell	USD/NTD	2008.10.01	US\$ 21,000
Forward exchange contracts	Buy	USD/CAD	2008.10.17	US\$ 477
	2009			
	Buy/Sell	Currency	Expiry Date	Contract Amount
Forward exchange contracts	Sell	EUR/USD	2009.10.14-2009.11.27	EUR 103,000
Forward exchange contracts	Sell	GBP/USD	2009.10.21-2009.11.20	GBP 3,300
Forward exchange contracts	Sell	USD/NTD	2009.10.14-2009.11.27	US\$ 111,500
Forward exchange contracts	Buy	USD/JPY	2009.10.09-2009.11.18	US\$ 16,477

Net loss on derivative financial instruments for the nine months ended September 30, 2009 was NT\$760,151 thousand (US\$23,633 thousand), including realized settlement loss of NT\$744,643 thousand (US\$23,151 thousand) and valuation loss of NT\$ 15,508 thousand (US\$482 thousand).

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	US\$ (Note 3)
Mutual funds	\$ -	\$ 2,097,004	\$ 65,195
Domestic quoted stocks	581	407	13
Less: Current portion	<u>-</u>	<u>(2,097,004)</u>	<u>(65,195)</u>
	<u>\$ 581</u>	<u>\$ 407</u>	<u>\$ 13</u>

8. NOTES AND ACCOUNTS RECEIVABLE

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

	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	US\$ (Note 3)
Notes receivable	\$ 52,019	\$ 7,683	\$ 239
Accounts receivable	21,774,470	24,777,814	770,335
Less: Allowance for doubtful accounts	<u>(613,428)</u>	<u>(794,261)</u>	<u>(24,693)</u>
	<u>\$ 21,213,061</u>	<u>\$ 23,991,236</u>	<u>\$ 745,881</u>

9. OTHER CURRENT FINANCIAL ASSETS

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

	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	US\$ (Note 3)
Other receivables	\$ 271,635	\$ 210,767	\$ 6,553
Agency payments	14,932	38,419	1,194
Interest receivables	51,278	8,074	251
Others	<u>7,994</u>	<u>1,242</u>	<u>39</u>
	<u>\$ 345,839</u>	<u>\$ 258,502</u>	<u>\$ 8,037</u>

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

10. INVENTORIES

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

	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	US\$ (Note 3)
Finished goods	\$ 872,087	\$ 950,343	\$ 29,547
Work-in-process	2,911,199	2,371,084	73,716
Raw materials	6,757,106	5,183,845	161,164
Goods in transit	<u>-</u>	<u>72,773</u>	<u>2,262</u>
	10,540,392	8,578,045	266,689
Less: Valuation allowance	<u>(2,072,165)</u>	<u>(3,399,517)</u>	<u>(105,690)</u>
	<u>\$ 8,468,227</u>	<u>\$ 5,178,528</u>	<u>\$ 160,999</u>

The write-down of inventories to their net realizable value amounted to NT\$1,013,080 thousand and NT\$1,856,593 thousand (US\$57,721 thousand) and was recognized as cost of sales for the nine months ended September 30, 2008 and 2009.

11. PREPAYMENTS

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

	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	US\$ (Note 3)
Royalty	\$ 739,944	\$ 4,007,352	\$ 124,587
Software and hardware maintenance	106,938	37,224	1,157
Molding equipment	95,860	115,912	3,604
Marketing	41,896	26,692	830
Prepayments for materials purchases	52,091	22,850	710
Net input VAT	51,080	21,665	674
Rent	16,165	15,578	484
Others	<u>77,141</u>	<u>81,337</u>	<u>2,529</u>
	<u>\$ 1,181,115</u>	<u>\$ 4,328,610</u>	<u>\$ 134,575</u>

Prepayments for royalty were primarily prepayments for discount purpose and classified as current or noncurrent based on their maturities. Prepayments of NT\$1,977,834 thousand (US\$61,490 thousand) that were noncurrent were classified as other assets (Note 28 has more information).

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

12. FINANCIAL ASSETS CARRIED AT COST

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

	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	US\$ (Note 3)
Hua-Chuang Automobile Information Technical Center Co., Ltd.	\$ 500,000	\$ 500,000	\$ 15,545
Melodis Corporation	-	64,330	2,000
Answer Online, Inc.	<u>1,192</u>	<u>1,192</u>	<u>37</u>
	<u>\$ 501,192</u>	<u>\$ 565,522</u>	<u>\$ 17,582</u>

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

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

In July 2009, the Company acquired 4.37% equity interest in Melodis Corporation for NT\$64,330 thousand (US\$2,000 thousand).

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 INVESTMENT NOT QUOTED IN AN ACTIVE MARKET

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

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

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

In April 2008, the Company made a new investment of US\$350 thousand and transferred its bond investment of US\$1,000 thousand to convertible preferred stocks issued by Vitamin D Inc. As a result, the Company acquired 27.27% equity interest in Vitamin D Inc. and can exercise significant influence over this investee. The Company accounts for this investment by the equity method.

14. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Investments accounted for by the equity method as of September 30, 2008 and 2009 were as follows:

	2008		2009				Ownership Percentage
	Carrying Value	Ownership Percentage	Original Cost		Carrying Value		
	NT\$		NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	
Equity method							
Vitamin D Inc.	\$ 41,624	26.02	\$ 40,986	\$ 1,274	\$ 36,034	\$ 1,120	25.59

In April 2008, the Company made a new investment of US\$350 thousand and transferred its bond investment of US\$1,000 thousand to convertible preferred stocks issued by Vitamin D Inc. As a result, the Company acquired 27.27% equity interest in Vitamin D Inc. for NT\$40,986 thousand, enabling the Company to exercise significant influence over this investee. Thus, the Company accounts for this investment by the equity method. In September 2008, January 2009 and June 2009, Vitamin D Inc. issued new convertible preferred shares, but the Company did not buy any of these shares. The Company's ownership percentage thus declined from 27.27% to 25.59%, and there was a capital surplus - long-term equity investments of NT\$1,689 thousand and NT\$671 (US\$21 thousand) thousand in September 2008, January and June 2009, respectively.

On its equity-method investments, the Company had losses of NT\$3,777 thousand and NT\$3,891 thousand (US\$121 thousand) for the nine months ended September 30, 2008 and 2009, respectively.

The financial statements of equity-method investees for the nine months ended September 30, 2008 and 2009 had been reviewed by the independent accountants.

15. PROPERTIES

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

	2008		2009		
	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NT\$			NT\$	NT\$
Land	\$ 822,027	\$ 4,719,538	\$ -	\$ 4,719,538	\$ 146,729
Buildings and structures	2,272,950	3,164,196	631,972	2,532,224	78,725
Machinery and equipment	1,275,268	4,703,881	3,483,094	1,220,787	37,954
Molding equipment	9,902	195,877	185,613	10,264	319
Computer equipment	113,035	407,229	264,597	142,632	4,434
Transportation equipment	376	4,582	3,159	1,423	44
Furniture and fixtures	101,204	462,228	217,586	244,642	7,606
Leased assets	3,280	5,921	3,006	2,915	91
Leasehold improvements	122,306	199,190	91,965	107,225	3,334
Prepayments for construction-in-progress and equipment-in-transit	808,728	1,045,631	-	1,045,631	32,509
	<u>\$ 5,529,076</u>	<u>\$14,908,273</u>	<u>\$ 4,880,992</u>	<u>\$10,027,281</u>	<u>\$ 311,745</u>

In August 2008, the Company acquired from Runtop Inc. land and building, with areas of approximately 10.6 thousand square meters and 40 thousand square meters, respectively, for NT\$900,000 thousand to have more office space.

In December 2008, the Company bought land - about 8.3 thousand square meters - from Yulon Motors Ltd. for NT\$3,335,000 thousand to build the Taipei R&D headquarters in Xindian City. Of the purchase price, 80% had been paid and 80% of ownership of the land had been transferred to the Company as of September 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\$24,620 thousand) from a related party, Syuda Construction Company, to expand factory area.

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

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

16. SHORT-TERM BORROWINGS

Short-term borrowings as of September 30, 2008 and 2009 were as follows:

	2008	2009	
	NT\$	NT\$	US\$ (Note 3)
Working capital loans	\$ 119,840	\$ 40,000	\$ 1,244
Material purchased borrowings	<u>19,923</u>	<u>-</u>	<u>-</u>
	<u>\$ 139,763</u>	<u>\$ 40,000</u>	<u>\$ 1,244</u>

On working capital loans, annual interest rates ranged from 2.80% to 3.24% and 2.20% to 3.00% as of September 30, 2008 and 2009, respectively.

On material purchased borrowings, annual interest rates ranged from 3.86% to 5.40% as of September 30, 2008.

17. ACCRUED EXPENSES

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

	2008	2009	
	NT\$	NT\$	US\$ (Note 3)
Marketing	\$ 5,239,044	\$ 6,977,543	\$ 216,930
Bonus to employees	5,600,267	4,891,086	152,062
Salaries	1,439,417	1,468,153	45,644
Services	125,420	449,446	13,973
Export expenses	664,422	439,101	13,652
Research materials	438,114	397,400	12,355
Donation	267,811	230,454	7,165
Meals and welfare	80,213	99,341	3,088

(Continued)

	2008	2009	
	NT\$	NT\$	US\$ (Note 3)
Insurance	\$ 71,122	\$ 76,442	\$ 2,377
Pension cost	49,712	49,559	1,541
Research and development	-	49,200	1,530
Repairs and maintenance	57,853	45,344	1,410
Travel	22,913	24,193	752
Others	<u>281,488</u>	<u>241,371</u>	<u>7,503</u>
	<u>\$ 14,337,796</u>	<u>\$ 15,438,633</u>	<u>\$ 479,982</u> (Concluded)

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 September 30, 2008 and 2009 were as follows:

	2008	2009	
	NT\$	NT\$	US\$ (Note 3)
Accrued bonus to employees for current year	\$ 4,390,267	\$ 3,681,086	\$ 114,444
Cash bonuses approved by the stockholders for prior years	<u>1,210,000</u>	<u>1,210,000</u>	<u>37,618</u>
	<u>\$ 5,600,267</u>	<u>\$ 4,891,086</u>	<u>\$ 152,062</u>

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

In September, 2009, the Company's board of directors resolved to donate NT\$300,000 thousand (US\$9,327 thousand) for 2009, including estimated building donation of NT\$217,800 thousand (US\$6,771 thousand) in the second and third floor of Taipei R&D headquarter, and cash donation of NT\$82,200 thousand (US\$2,556 thousand) to HTC Education Foundation. This donation excludes the land ownership because the land ownership remains with the Company. The difference between the estimated building donation and the actual construction cost will be treated as an adjustment amount in the year when the donated building is actually delivered.

18. OTHER CURRENT LIABILITIES

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

	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	US\$ (Note 3)
Reserve for warranty expenses	\$ 4,850,169	\$ 5,463,402	\$ 169,855
Other payable	12,396	536,972	16,694
Agency receipts	161,644	483,539	15,033
Advance receipts	178,947	232,155	7,218
Directors' remuneration	21,842	-	-
Others	<u>72,312</u>	<u>145,903</u>	<u>4,536</u>
	<u>\$ 5,297,310</u>	<u>\$ 6,861,971</u>	<u>\$ 213,336</u>

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.

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

Other payables were payables for treasury stock, and contingent loss of purchase orders which was recognized as other loss.

In December 2008, the Company also estimated a contingent liability of NT\$125,663 thousand due to an increased financial risk from the customer. If the customer cannot pay its payments, the upstream firms might dun the Company for the customer's liabilities. The Company is still negotiating with the customer to resolve this issue.

In October 2008, H.T.C. (B.V.I.) Corp. acquired 100% equity interest of One & Company Design, Inc., and paid the investment to the original stockholders of One & Company Design, Inc. in several installments based on the agreement. Of the investment, NT\$125,998 thousand (US\$3,917 thousand) had not been paid as of September 30, 2009.

19. LONG-TERM BANK LOANS

Long-term bank loans as of September 30, 2008 and 2009 were as follows:

	<u>2008</u>	<u>2009</u>	
	NT\$	NT\$	US\$ (Note 3)
Secured loans (Note 26)			
NT\$50,000 thousand, repayable from July 2006 in 16 quarterly installments; 1% annual interest	\$ 21,875	\$ 9,375	\$ 291
NT\$65,000 thousand, repayable from July 2008 in 16 quarterly installments; 1% annual interest	60,938	44,688	1,390
Less: Current portion	<u>(36,875)</u>	<u>(25,625)</u>	<u>(797)</u>
	<u>\$ 45,938</u>	<u>\$ 28,438</u>	<u>\$ 884</u>

20. 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. As a result, the amount of the Company's outstanding common stock as of September 30, 2008 increased to NT\$7,553,938 thousand, divided into 755,394 thousand common shares at NT\$10.00 par value.

In January 2009, the Company retired 10,000 thousand treasury shares at NT\$100,000 thousand (US\$3,109 thousand). Also, in June 2009, the stockholders approved the transfer of retained earnings amounting to NT\$372,697 thousand (US\$11,587 thousand) and employee bonuses amounting to NT\$133,573 thousand (US\$4,153 thousand) to capital stock. As a result, the amount of the Company's outstanding common stock as of September 30, 2009 increased to NT\$7,960,208 thousand (US\$247,480 thousand), divided into 796,021 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 8,493 thousand units (33,971.9 thousand shares). The holders of these GDRs requested the Company to redeem the GDRs to get the Company's common shares. As of September 30, 2009, there were 3,366.8 thousand units of GDRs redeemed, representing 13,467 thousand common shares, and the outstanding GDRs represented 20,505 thousand common shares or 2.58% of the Company's common shares.

Capital Surplus

Under the Company Law, capital surplus can only be used to offset a deficit. However, the capital surplus from share issued in excess of par (additional paid-in capital from issuance of common shares, conversion of bonds and treasury stock transactions) and donations may be capitalized, which however is limited to a certain percentage of the Company's paid-in capital. Also, the capital surplus from long-term investments may not be used for any purpose.

The additional paid-in capital was NT\$4,374,244 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\$1,800 thousand) in January 2009. In addition, 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 of NT\$4,821,316 thousand (US\$149,893 thousand) was accounted for as additional paid-in capital. As a result, the additional paid-in capital as of September 30, 2009 was NT\$9,137,653 thousand (US\$284,087 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 September 30, 2009 was NT\$18,205 thousand (US\$566 thousand).

The additional paid-in capital from a merger was NT\$25,756 thousand as of January 1, 2008. Then because of treasury stock retirement in January 2009, the additional paid-in capital from a merger decreased to NT\$25,415 thousand (US\$790 thousand) as of September 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.

21. TREASURY STOCK

On October 7, 2008, the Company's board of directors passed a resolution to buy back 10,000 thousand Company shares from the open market. The repurchase period was between October 8, 2008 and December 7, 2008, and the repurchase price ranged from NT\$400 to NT\$500 per share. If the Company's share price was lower than this price range, the Company might continue to buy back its shares. The Company bought back 10,000 thousand shares for NT\$3,410,277 thousand during the repurchase period and retired them in January 2009.

On July 31, 2009, the Company's board of directors passed a resolution to buy back 13,000 thousand Company shares from the open market. The repurchase period was between August 3, 2009 and October 2, 2009, and the repurchase price ranged from NT\$300 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 6,585 thousand shares for NT\$2,233,006 thousand (US\$69,423 thousand) as of September 30, 2009.

Purpose	(In Thousands of Shares)			
	As of January 1, 2009	Increase	Decrease	As of September 30, 2009
For maintaining the Company's credit and stockholders' equity	10,000	6,585	10,000	6,585

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

22. INCOME TAX

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

The income tax returns of BandRich Inc. and Communication Global Certification Inc. through 2007 had been examined by the tax authorities.

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

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

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

	2008		
	Income Tax (Benefit)	Income Tax Payable (Receivable)	Deferred Tax Assets (Liabilities)
	NT\$	NT\$	NT\$
HTC Corporation	\$ 2,106,639	\$ 2,980,689	\$ 1,201,117
BandRich Inc.	-	-	9,826
Communication Global Certification Inc.	(213)	-	2,833
HTC America Inc.	129,993	16,085	-
HTC Europe Co., Ltd.	-	26,668	-
HTC Nippon Corporation	10,422	10,072	-
HTC Corporation (Shanghai WGQ)	3,352	2,530	-
HTC Belgium BVBA/SPRL	7,699	6,733	-
High Tech Computer Singapore Pte. Ltd.	721	1,081	-
High Tech Computer (H.K.) Limited	(241)	400	-
HTC India Private Limited	1,316	368	-
HTC BRASIL	-	1,020	-
HTC (Thailand.) Ltd.	511	289	-
HTC (Australia and New Zealand) Pty. Ltd.	3,029	6,132	3,110
	<u>\$ 2,263,228</u>	<u>\$ 3,052,067</u>	<u>\$ 1,216,886</u>

	2009					
	Income Tax (Benefit)		Income Tax Payable (Receivable)		Deferred Tax Assets (Liabilities)	
	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)
HTC Corporation	\$ 1,877,518	\$ 58,371	\$ 3,195,679	\$ 99,353	\$ 1,640,714	\$ 51,009
BandRich Inc.	(245)	(8)	-	-	-	-
Communication Global Certification Inc.	238	7	(92)	(3)	2,002	63
HTC Investment Corporation	109	3	(240)	(8)	-	-
HTC America Inc.	50,016	1,555	(42,025)	(1,307)	26	1
HTC Europe Co., Ltd.	64,955	2,020	110,209	3,427	-	-
HTC Nippon Corporation	13,193	410	13,316	414	-	-
HTC Corporation (Shanghai WGQ)	(320)	(10)	538	17	-	-
One & Company Design, Inc.	4,474	139	2,785	87	(10,442)	(325)
HTC Belgium BVBA/SPRL	11,254	350	14,342	446	-	-
High Tech Computer Singapore Pte. Ltd.	86	3	77	2	(456)	(14)
High Tech Computer (H.K.) Limited	860	27	355	11	-	-
HTC India Private Limited	1,182	37	288	9	-	-
HTC BRASIL	-	-	(9,434)	(293)	-	-
HTC (Thailand.) Ltd.	509	16	234	7	-	-
HTC Malaysia Sdn. Bhd.	548	17	647	20	322	10
HTC Innovation Limited	40	1	43	1	-	-
HTC (Australia and New Zealand) Pty. Ltd.	1,672	52	1,324	41	40	1
	<u>\$ 2,026,089</u>	<u>\$ 62,990</u>	<u>\$ 3,288,046</u>	<u>\$102,224</u>	<u>\$ 1,632,206</u>	<u>\$ 50,745</u>

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

	2008	2009	
	NT\$	NT\$	US\$ (Note 3)
Temporary differences			
Capitalize expense	\$ 41,372	\$ 46,945	\$ 1,460
Provision for loss on decline in value of inventory	377,996	651,318	20,249
Unrealized royalties	1,367,623	1,553,617	48,301
Unrealized marketing expenses	1,312,510	1,328,728	41,310
Unrealized valuation loss on financial instruments	-	3,102	96
Unrealized reserve for warranty expense	1,214,337	1,092,680	33,971
Unrealized bad-debt expenses	34,117	101,982	3,171
Unrealized exchange loss, net	47,433	109,517	3,405
Other	24,804	13,648	424
Prior years' loss carryforwards	37,261	42,543	1,323
Tax credit carryforwards	<u>1,577,652</u>	<u>2,896,792</u>	<u>90,060</u>
Total deferred tax assets	6,035,105	7,840,872	243,770
Less: Valuation allowance	<u>(4,763,506)</u>	<u>(6,171,288)</u>	<u>(191,863)</u>
Total deferred tax asset, net	1,271,599	1,669,584	51,907
Deferred tax liability			
Unrealized pension cost	(27,905)	(26,615)	(827)
Unrealized depreciation	(2,470)	(10,763)	(335)
Unrealized value gain on financial instruments	<u>(24,338)</u>	<u>-</u>	<u>-</u>
	1,216,886	1,632,206	50,745
Less: Current portion	<u>(518,252)</u>	<u>(688,200)</u>	<u>(21,396)</u>
Deferred tax assets - noncurrent	<u>\$ 698,634</u>	<u>\$ 944,006</u>	<u>\$ 29,349</u>

Details of the tax credit carryforwards are as follows:

Year of Occurrence	Validity Period	2008	2009	
		NT\$	NT\$	US\$ (Note 3)
2004	2004-2008	\$ 6,965	\$ -	\$ -
2005	2005-2009	6,479	6,479	201
2006	2006-2010	15,475	15,475	481
2007	2007-2011	220,270	220,249	6,847
2008	2008-2012	1,328,463	874,619	27,192
2009	2009-2013	<u>-</u>	<u>1,779,970</u>	<u>55,339</u>
		<u>\$ 1,577,652</u>	<u>\$ 2,896,792</u>	<u>\$ 90,060</u>

Detail of the loss carryforwards are as follows:

Year of Occurrence	Validity Period	2008	2009	
		NT\$	NT\$	US\$ (Note 3)
2005	2006-2015	\$ 95	\$ 95	\$ 3
2006	2007-2016	50,703	49,326	1,534
2007	2008-2017	48,885	48,885	1,520
2008	2009-2018	49,361	103,864	3,229
2009	2010-2019	-	10,546	327
		<u>\$ 149,044</u>	<u>\$ 212,716</u>	<u>\$ 6,613</u>

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

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

The income tax for the nine months ended September 30, 2008 and 2009 were as follows:

	2008	2009	
	NT\$	NT\$	US\$ (Note 3)
Current income tax expense	\$ 2,526,707	\$ 2,376,122	\$ 73,872
Increase in deferred income tax assets	(253,720)	(258,783)	(8,045)
Overestimation of prior year's income tax	<u>(9,759)</u>	<u>(91,250)</u>	<u>(2,837)</u>
Income tax expense	<u>\$ 2,263,228</u>	<u>\$ 2,026,089</u>	<u>\$ 62,990</u>

The integrated income tax information is as follows:

	2008	2009	
	NT\$	NT\$	US\$ (Note 3)
Balance of imputation credit account	\$ 1,577,966	\$ 1,934,072	\$ 60,130
Unappropriated earnings from 1998	36,535,875	35,087,257	1,090,852
Expected creditable ratio (including income tax payable)	12.48%	14.62%	14.62%

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 786,836 thousand shares for the nine months ended September 30, 2008 and 2009, respectively. EPS for the nine months ended September 30, 2008 were calculated after the average number of shares outstanding 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 nine months ended September 30, 2008 and 2009 was as follows:

	<u>Amount (Numerator)</u>		<u>Shares (Denominator) (In Thousands)</u>	<u>EPS</u>	
	<u>Before Income Tax</u>	<u>After Income Tax</u>		<u>Before Income Tax</u>	<u>After Income Tax</u>
	<u>NT\$</u>	<u>NT\$</u>		<u>NT\$</u>	<u>NT\$</u>
<u>Nine months ended September 30, 2008</u>					
Basic EPS	\$ 22,651,681	\$ 20,545,042	793,164	<u>\$ 28.56</u>	<u>\$ 25.90</u>
Bonus to employees	-	-	12,671		
Diluted EPS	<u>\$ 22,651,681</u>	<u>\$ 20,545,042</u>	<u>805,835</u>	<u>\$ 28.11</u>	<u>\$ 25.50</u>
	<u>Amount (Numerator)</u>		<u>Shares (Denominator) (In Thousands)</u>	<u>EPS</u>	
	<u>Before Income Tax</u>	<u>After Income Tax</u>		<u>Before Income Tax</u>	<u>After Income Tax</u>
	<u>NT\$</u>	<u>NT\$</u>		<u>NT\$</u>	<u>NT\$</u>
<u>Nine months ended September 30, 2009</u>					
Basic EPS	\$ 18,952,488	\$ 17,074,970	786,836	<u>\$ 24.09</u>	<u>\$ 21.70</u>
Bonus to employees	-	-	11,874		
Diluted EPS	<u>\$ 18,952,488</u>	<u>\$ 17,074,970</u>	<u>798,710</u>	<u>\$ 23.73</u>	<u>\$ 21.38</u>
	<u>Amount (Numerator)</u>		<u>Shares (Denominator) (In Thousands)</u>	<u>EPS</u>	
	<u>Before Income Tax</u>	<u>After Income Tax</u>		<u>Before Income Tax</u>	<u>After Income Tax</u>
	<u>US\$</u>	<u>US\$</u>		<u>US\$</u>	<u>US\$</u>
<u>Nine months ended September 30, 2009</u>					
Basic EPS	\$ 589,227	\$ 530,856	786,836	<u>\$ 0.75</u>	<u>\$ 0.67</u>
Bonus to employees			11,874		
Diluted EPS	<u>\$ 589,227</u>	<u>\$ 530,856</u>	<u>798,710</u>	<u>\$ 0.74</u>	<u>\$ 0.66</u>

24. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

a. Nonderivative financial instruments

	September 30					
	2008		2009			
	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
NT\$	NT\$	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	
Assets						
Financial assets at fair value through profit or loss - current	\$ 682	\$ 682	\$ 72	\$ 2	\$ 72	\$ 2
Available-for-sale financial assets - current	-	-	2,097,004	65,195	2,097,004	65,195
Available-for-sale financial assets - noncurrent	581	581	407	13	407	13
Financial assets carried at cost	501,192	501,192	565,522	17,582	565,522	17,582

b. Derivative financial instruments

	September 30					
	2008		2009			
	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
NT\$	NT\$	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	
Assets						
Financial assets at fair value through profit or loss - current	\$ 96,669	\$ 96,669	\$ -	\$ -	\$ -	\$ -
Liabilities						
Financial liabilities at fair value through profit or loss - current	-	-	15,580	484	15,580	484

Outstanding spot and forward exchange contracts was NT\$682 thousand and NT\$96,669 thousand and NT\$72 thousand (US\$2 thousand) and (NT\$15,580) thousand (US\$484 thousand) as of September 30, 2008 and 2009, respectively. The net amount on derivative financial instruments was recognized as financial assets at fair value through profit or loss - current and financial liabilities at fair value through profit or loss - current.

Methods and Assumptions Used in Determining Fair Values of Financial Instruments

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

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

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

Financial assets carried at cost are investments in unquoted shares, which have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Therefore, no fair value is presented.

Methodology Used to Determine the Fair Values of Financial Instruments

	Quoted Market Prices			Measurement Method		
	September 30			September 30		
	2008	2009	US\$	2008	2009	US\$
	NT\$	NT\$	(Note 3)	NT\$	NT\$	(Note 3)
Assets						
Financial assets at fair value through profit or loss - current	\$ 97,351	\$ -	\$ -	\$ -	\$ -	\$ -
Available-for-sale financial assets - current	-	2,097,004	65,195	-	-	-
Available-for-sale financial assets - noncurrent	581	407	13	-	-	-
Financial assets carried at cost	-	-	-	501,192	565,522	17,582
Liabilities						
Financial liabilities at fair value through profit or loss - current	-	15,508	482	-	-	-

There was no loss or gain recognized for the nine months ended September 30, 2008 and 2009 on the fair value changes of derivatives estimated using valuation techniques. The Company recognized an unrealized loss of NT\$203 thousand and an unrealized gain of NT\$68 thousand (US\$2 thousand) under stockholders' equity for the changes in fair value of available-for-sale financial assets for the nine months ended September 30, 2008 and 2009, respectively.

As of September 30, 2008 and 2009, financial assets exposed to cash flow interest rate risk amounted to NT\$57,234,865 and NT\$49,712,431 thousand (US\$1,545,544 thousand), respectively.

As of September 30, 2008 and 2009, financial assets and liabilities exposed to fair value interest rate risk were NT\$82,813 thousand and NT\$54,063 thousand (US\$1,681 thousand), respectively.

Financial Risks

a. 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.

b. 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.

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

Major transactions with related parties are summarized below:

Purchases of Inventories and Services

Related Party	Nine Months Ended September 30			
	2008		2009	
	Amount NT\$	% to Total Revenues	Amount NT\$	US\$ (Note 3)
Chander Electronics Corp.	\$ 5,036	-	\$ 15,475	\$ 481
		-		-

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

Sales and Services Provided

Related Party	Nine Months Ended September 30			
	2008		2009	
	Amount NT\$	% to Total Revenues	Amount NT\$	US\$ (Note 3)
Employees' Welfare Committee	\$ 35,189	-	\$ 9,638	\$ 300
Xander International Corp.	93,567	-	192	6
First International Computer, Inc. (FIC)	24,221	-	-	-
Others	521	-	504	15
	<u>\$ 153,498</u>	<u>-</u>	<u>\$ 10,334</u>	<u>\$ 321</u>

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

Notes and Accounts Receivable

Related Party	September 30				% to Total Notes and Accounts Receivable
	2008		2009		
	Amount NT\$	% to Total Notes and Accounts Receivable	Amount NT\$	US\$ (Note 3)	
VIA Technologies Inc.	\$ 192	-	\$ 100	\$ 3	-
Others	<u>95</u>	<u>-</u>	<u>19</u>	<u>1</u>	<u>-</u>
	<u>\$ 287</u>	<u>-</u>	<u>\$ 119</u>	<u>\$ 4</u>	<u>-</u>

Notes and Accounts Payable

Related Party	September 30				% to Total Notes and Accounts Payable
	2008		2009		
	Amount NT\$	% to Total Notes and Accounts Payable	Amount NT\$	US\$ (Note 3)	
Chander Electronics Corp.	<u>\$ 5,036</u>	<u>-</u>	<u>\$ 3,754</u>	<u>\$ 117</u>	<u>-</u>

Other Receivables

Related Party	September 30				% to Total Other Receivable
	2008		2009		
	Amount NT\$	% to Total Other Receivable	Amount NT\$	US\$ (Note 3)	
Chander Electronics Corp	\$ 72	-	\$ 30	\$ 1	-
VIA Technologies Inc.	255	-	-	-	-
Others	<u>-</u>	<u>-</u>	<u>35</u>	<u>1</u>	<u>-</u>
	<u>\$ 327</u>	<u>-</u>	<u>\$ 65</u>	<u>\$ 2</u>	<u>-</u>

Accrued Expenses

Related Party	September 30				% of Total Accrued Expenses
	2008		2009		
	Amount NT\$	% of Total Accrued Expenses	Amount NT\$	US\$ (Note 3)	
VIA Technologies Inc.	\$ -	-	\$ 2,134	\$ 66	-

Other Payables to Related Parties

Related Party	September 30				% to Total Other Payables
	2008		2009		
	Amount NT\$	% to Total Other Payables	Amount NT\$	US\$ (Note 3)	
Chander Electronics Corp	\$ -	-	\$ 229	\$ 7	-
Way-Lien Technology Inc.	210	-	200	6	-
Xander International Corp.	55	-	-	-	-
Others	265	-	-	-	-
	<u>\$ 530</u>	<u>-</u>	<u>\$ 429</u>	<u>\$ 13</u>	<u>-</u>

Warranty Expenses

Related Party	Nine Months Ended September 30				% to Total Warranty Expenses
	2008		2009		
	Amount NT\$	% to Total Warranty Expenses	Amount NT\$	US\$ (Note 3)	
Comserve Network Netherlands B.V.	\$ 14,184	-	\$ 1,203	\$ 37	-

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

Service Fees

Related Party	Nine Months Ended September 30				% to Total Service Fees
	2008		2009		
	Amount	% to Total Service Fees	Amount	US\$	
	NT\$		(Note 3)		
Captec Partners Management Corp.	\$ -	-	\$ 1,673	\$ 52	-
Way-Lien Technology Inc.	<u>1,600</u>	<u>-</u>	<u>1,200</u>	<u>37</u>	<u>-</u>
	<u>\$ 1,600</u>	<u>-</u>	<u>\$ 2,873</u>	<u>\$ 89</u>	<u>-</u>

Leasing - Lessee

Operating expense - rental expense

Related Party	Nine Months Ended September 30				% of Rental Expense
	2008		2009		
	Amount	% of Rental Expense	Amount	US\$	
	NT\$		(Note 3)		
VIA Technologies, Inc.	<u>\$ 2,288</u>	<u>2</u>	<u>\$ 6,254</u>	<u>\$ 194</u>	<u>4</u>

The Company leased offices and parking space owned by VIA Technologies, Inc. at one-year renewable operating lease agreements, and the rental payment was determined at the prevailing rates in the surrounding area.

Property And Investment Transaction

In January 2009, the Company acquired land from a related party, Syuda Construction Company, for NT\$791,910 thousand (US\$24,620 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 July 2008, HTC acquired 100% equity interest of Wei-Hon Electronics (Shanghai) Ltd. from Landtek Corporation (BVI) by increasing the capital amounting to US\$5,041 thousand of High Tech Computer Asia Pacific Pte. Ltd.

26. PLEDGED ASSETS

As of September 30, 2008 and 2009, the Company had provided time deposits of NT\$41,659 thousand and NT\$36,766 thousand (US\$1,143 thousand) as collateral for the secured loans, respectively.

27. COMMITMENTS AND CONTINGENCIES

As of September 30, 2009, unused letters of credit amounted to JPY7,835 thousand.

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 September 30, 2009 the Company wholly owned HTC Electronics (Shanghai) indirectly.

28. SIGNIFICANT CONTRACTS

Patent Agreements

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

<u>Contractor</u>	<u>Contract Term</u>	<u>Description</u>
Microsoft	February 1, 2009 - January 31, 2011	Authorization to use embedded operating system; royalty payment based on agreement.
Texas Instruments France	January 14, 2000 - January 13, 2010	Authorization to use GSM system software; royalty payment based on agreement.
Qualcomm Incorporated	December 20, 2000 to the following dates: a. If the Company materially breaches any covenant and fails to take remedial action within 30 days after Qualcomm's issuance of a written notice, the Company will be prohibited from using Qualcomm's property or patents. b. Any time when the Company is not using any of Qualcomm's intellectual property, the Company may terminate this agreement upon 60 days' prior written notice to Qualcomm.	Authorization to use CDMA technology to manufacture and sell units; royalty payment based on agreement.
Ericsson Mobile Platform AB	April 2003 - March 2011	Authorization to use EDGE reference design license and support agreement; royalty payment based on agreement.
Telefonaktiebolaget LM Ericsson	December 15, 2008 - December 14, 2013	Authorization to use platform patent license agreement; royalty payment based on agreement.

(Continued)

Contractor	Contract Term	Description
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.

(Concluded)

29. OTHER EVENT

a. Lawsuit

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 October 21, 2009, the date of the accompanying independent accountants' review 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.

b. Treasury stock

The scheduled period for the buyback plan of treasury stock ranged from August 3, 2009 and October 2, 2009. At the date of expiry of the repurchase period, cumulative shares held by the Company were 7,085 thousand shares at the cost of NT\$2,406,930 thousand (US\$74,831 thousand). Of the amount, NT\$2,233,006 thousand (US\$69,423 thousand) was bought back before September 30, 2009.

c. Construction for Taipei R&D headquarter

In September 2009, the Company's board of directors resolved to build the Taipei R&D headquarter in Xindian City and the land was bought from Yulon Motors Ltd. The estimated budget for the construction is NT\$3,380,000 thousand (US\$105,083 thousand) with a total floor space of 92 thousand square meters. Construction is scheduled to begin on October 31, 2009 and be completed by August 31, 2011.