HTC Corporation

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

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

Based on our reviews, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

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

We have also reviewed the consolidated financial statements of HTC Corporation and subsidiaries as of and for the nine months ended September 30, 2008 and 2009 and have issued an unqualified review report with an explanatory paragraph and an unqualified review report, respectively.

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

October 21, 2009

Notice to Readers

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

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

HTC CORPORATION

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

	2008	2009	
ASSETS	**NT$**	**NT$**	**US$ (Note 3)**
CURRENT ASSETS			
Cash and cash equivalents (Notes 2 and 5)	$ 63,937,741	$ 53,044,361	$ 1,649,133
Financial assets at fair value through profit or loss (Notes 2, 6 and 24)	97,351	-	-
Available-for-sale financial assets - current (Notes 2 and 7)	-	2,097,004	65,195
Notes and accounts receivable, net (Notes 2 and 8)	21,018,666	23,864,739	741,947
Accounts receivable from related parties, net (Notes 2 and 25)	534,281	430,852	13,395
Other current financial assets (Notes 9 and 25)	350,283	158,010	4,912
Inventories (Notes 2, 4 and 10)	7,876,045	4,292,992	133,468
Prepayments (Notes 11 and 25)	1,043,278	4,320,552	134,325
Deferred tax assets (Notes 2 and 22)	514,150	698,158	21,706
Other current assets	203,423	154,235	4,795
Total current assets	95,575,218	89,060,903	2,768,876
LONG-TERM INVESTMENTS			
Available-for-sale financial assets - noncurrent (Notes 2 and 7)	581	407	13
Financial assets carried at cost (Notes 2 and 12)	501,192	501,192	15,582
Investments accounted for by the equity method (Notes 2 and 14)	2,639,502	5,206,666	161,874
Prepayments for long-term investments (Notes 2 and 14)	1,461,360	262,320	8,155
Total long-term investments	4,602,635	5,970,585	185,624
PROPERTIES (Notes 2, 15 and 25)			
Cost			
Land	822,027	4,719,538	146,729
Buildings and structures	2,765,722	3,161,089	98,277
Machinery and equipment	3,611,830	4,008,587	124,626
Molding equipment	172,632	172,632	5,367
Computer equipment	248,792	299,915	9,324
Transportation equipment	1,335	2,732	85
Furniture and fixtures	123,309	127,838	3,974
Leased assets	4,712	4,712	146
Leasehold improvements	95,018	95,261	2,962
	7,845,377	12,592,304	391,490
Less: Accumulated depreciation	(3,581,053)	(4,210,925)	(130,916)
Prepayments for construction-in-progress and equipment-in-transit	209,066	62,684	1,949
Properties, net	4,473,390	8,444,063	262,523
OTHER ASSETS			
Assets leased to others	358,044	47,639	1,481
Refundable deposits	120,478	117,736	3,660
Deferred charges (Note 2)	59,247	82,442	2,564
Deferred tax assets (Notes 2 and 22)	686,967	942,556	29,304
Other (Notes 2, 11 and 18)	111,562	2,110,589	65,617
Total other assets	1,336,298	3,300,962	102,626
TOTAL	$ 105,987,541	$ 106,776,513	$ 3,319,649

	2008	2009	
LIABILITIES AND STOCKHOLDERS' EQUITY	**NT$**	**NT$**	**US$ (Note 3)**
CURRENT LIABILITIES			
Financial liabilities at fair value through profit or loss (Notes 2, 6 and 24)	$ -	$ 15,508	$ 482
Notes and accounts payable (Note 25)	26,389,706	20,443,228	635,573
Income tax payable (Notes 2 and 22)	2,980,689	3,195,679	99,353
Accrued expenses (Notes 4, 16 and 25)	15,025,508	15,399,055	478,752
Payable for purchase of equipment	151,805	68,432	2,128
Other current liabilities (Notes 2, 17 and 25)	5,437,213	7,340,812	228,224
Total current liabilities	49,984,921	46,462,714	1,444,512
OTHER LIABILITIES			
Guarantee deposits received	6,276	1,210	38
Total liabilities	49,991,197	46,463,924	1,444,550
STOCKHOLDERS' EQUITY (Note 19)			
Capital stock			
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
Capital surplus			
Additional paid-in capital	4,374,244	9,137,653	284,087
Long-term equity investments	17,534	18,205	566
Merger	25,756	25,415	790
Retained earnings			
Legal reserve	7,410,139	10,273,674	319,405
Accumulated earnings	36,535,875	35,087,257	1,090,852
Other equity			
Cumulative translation adjustments (Note 2)	80,248	44,747	1,391
Unrealized losses on financial instruments (Notes 2 and 7)	(1,390)	(1,564)	(49)
Treasury stock (Note 20)	-	(2,233,006)	(69,423)
Total stockholders' equity	55,996,344	60,312,589	1,875,099
TOTAL	$ 105,987,541	$ 106,776,513	$ 3,319,649

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

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

HTC CORPORATION

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)	$ 105,182,166	$ 103,799,074	$ 3,227,081
COST OF REVENUES (Notes 4, 10, 21 and 25)	68,637,527	71,072,728	2,209,629
GROSS PROFIT	36,544,639	32,726,346	1,017,452
UNREALIZED GAIN FROM INTERCOMPANY TRANSACTIONS	(151,389)	(142,003)	(4,415)
REALIZED GAIN FROM INTERCOMPANY TRANSACTIONS	175,075	134,091	4,169
REALIZED GROSS PROFIT	36,568,325	32,718,434	1,017,206
OPERATING EXPENSES (Notes 21 and 25)			
Selling and marketing	6,681,840	6,519,337	202,684
General and administrative	1,336,739	1,439,418	44,751
Research and development	6,951,553	6,702,653	208,384
Total operating expenses	14,970,132	14,661,408	455,819
OPERATING INCOME	21,598,193	18,057,026	561,387
NONOPERATING INCOME AND GAINS			
Interest income	1,057,423	293,798	9,134
Gains on equity-method investment (Notes 2 and 14)	-	131,235	4,080
Gains on sale of investments, net	-	2,004	62
Exchange gain (Note 2)	-	467,798	14,544
Rental income	2,519	5,328	166
Valuation gains on financial instruments, net (Notes 2 and 6)	97,351	-	-
Other	163,827	324,609	10,092
Total nonoperating income and gains	1,321,120	1,224,772	38,078
NONOPERATING EXPENSES AND LOSSES			
Interest expense	140	107	3
Losses on equity-method investments (Notes 2 and 14)	172,705	-	-
Exchange loss (Note 2)	59,488	-	-

(Continued)

HTC CORPORATION

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)
Valuation loss on financial instruments, net (Notes 2 and 6)	$ -	$ 15,508	$ 482
Other	35,299	313,695	9,753
Total nonoperating expenses and losses	267,632	329,310	10,238
INCOME BEFORE INCOME TAX	22,651,681	18,952,488	589,227
INCOME TAX (Notes 2 and 22)	(2,106,639)	(1,877,518)	(58,371)
NET INCOME	$ 20,545,042	$ 17,074,970	$ 530,856

	2008		2009			
	Before Income Tax	After Income Tax	Before Income Tax		After Income Tax	
	NT$	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
EARNINGS PER SHARE (Note 23)						
Basic	$ 28.56	$ 25.90	$ 24.09	$ 0.75	$ 21.70	$ 0.67
Diluted	$ 28.11	$ 25.50	$ 23.73	$ 0.74	$ 21.38	$ 0.66

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

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

HTC CORPORATION

STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2009
(In Thousands)
(Reviewed, Not Audited)

	2008	2009	
	NT$	NT$	US$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 20,545,042	$ 17,074,970	$ 530,856
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation (including depreciation of assets leased to others)	415,107	481,257	14,962
Transfer of properties to expenses	14,087	437	14
Exchange loss on bond investments with no active market	2,670	-	-
Amortization	28,861	27,179	845
Gains on sale of investments, net	-	(2,004)	(62)
Loss (gain) on equity-method investments	172,705	(131,235)	(4,080)
Cash dividends received from equity - method investees	-	905	28
Distribution of bonuses to employees of subsidiaries	-	(17,731)	(551)
Deferred tax assets	(259,007)	(267,076)	(8,303)
Prepaid pension cost	(16,375)	(15,617)	(486)
Net changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	(193,607)	(498,575)	(15,501)
Notes and accounts receivable	(2,071,741)	4,995,503	155,308
Accounts receivable from related parties	2,594	507,918	15,791
Other current financial assets	(66,232)	117,496	3,653
Inventories	(1,756,632)	3,125,475	97,170
Prepayments	494,049	(3,082,921)	(95,847)
Other current assets	(86,582)	7,772	242
Other assets - other	-	(1,977,834)	(61,490)
Notes and accounts payable	4,369,588	(7,463,916)	(232,051)
Income tax payable	466,295	(742,066)	(23,071)
Accrued expenses	8,545,679	4,721,008	146,775
Other current liabilities	1,140,552	929,485	28,897
Net cash provided by operating activities	31,747,053	17,790,430	553,099
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of properties	(1,564,256)	(1,378,897)	(42,869)
Proceeds of the sale of properties	453	1,010	31
Purchase of available-for-sale financial assets	-	(5,458,119)	(169,691)
Proceeds of the sale of available-for-sale financial assets	-	3,363,119	104,558

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HTC CORPORATION

STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2009
(In Thousands)
(Reviewed, Not Audited)

	2008	2009	
	NT$	NT$	US$ (Note 3)
Increase in investments accounted for by the equity method	$ (1,773,801)	$ (678,451)	$ (21,093)
Increase in deferred charges	-	(57,496)	(1,788)
Increase in refundable deposits	(27,041)	(272)	(8)
Net cash used in investing activities	(3,364,645)	(4,209,106)	(130,860)
CASH FLOWS FROM FINANCING ACTIVITIES			
Purchase of treasury stock	-	(2,233,006)	(69,423)
Cash dividends	(19,486,547)	(20,125,634)	(625,700)
Increase (decrease) in guarantee deposits received	5,648	(5,196)	(162)
Net cash used in financing activities	(19,480,899)	(22,363,836)	(695,285)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,901,509	(8,782,512)	(273,046)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	55,036,232	61,826,873	1,922,179
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 63,937,741	$ 53,044,361	$1,649,133
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid during the period			
Interest	$ 140	$ 107	$ 3
Income tax	$ 1,899,351	$ 2,886,660	$ 89,745
NONCASH INVESTING AND FINANCING ACTIVITIES			
Transfer of bond investment not quoted in an active market to investments accounted for by the equity method	$ 33,030	$ -	$ -
Transfer of properties to assets leased to others	$ 358,044	$ -	$ -
Transfer of assets leased to others to properties	$ -	$ 262,320	$ 8,155
Transfer of retained earnings and accrued stock bonus to employees to common stock and additional paid-in capital	$ 1,822,601	$ 5,327,586	$ 165,633
Retirement of treasury stock	$ -	$ 3,410,277	$ 106,024

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HTC CORPORATION

STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2009
(In Thousands)
(Reviewed, Not Audited)

	2008	2009	
	NT$	NT$	US$ (Note 3)
PURCHASE OF PROPERTIES			
Cost of properties purchased	$ 1,545,180	$ 1,288,796	$ 40,068
Decrease in payable for purchase of equipment	18,379	89,354	2,777
Decrease in lease payable	697	747	24
Cash paid for purchase of properties	$ 1,564,256	$ 1,378,897	$ 42,869
INCREASE IN LONG-TERM INVESTMENTS			
Increase in investments accounted for by the equity method	$ 1,773,801	$ 681,749	$ 21,196
Increase in payable for purchase of investments	-	(3,298)	(103)
Cash paid for increase in long-term investments	$ 1,773,801	$ 678,451	$ 21,093

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

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

1. ORGANIZATION AND OPERATIONS

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

The Company had 7,866 and 7,168 employees as of September 30, 2008 and 2009, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

Current/Noncurrent Assets and Liabilities

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

Cash Equivalents

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

Financial Assets/Liabilities at Fair Value through Profit or Loss

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

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

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

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

Available-for-Sale Financial Assets

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

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

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

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

Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts

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

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

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

Inventories

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

Financial Assets Carried at Cost

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

Bond Investments Not Quoted in An Active Market

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

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

a. The bond investments have not been designated as at fair value through profit or loss.

b. The bond investments have not been designated as available for sale.

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

Investments Accounted for by the Equity Method

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

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

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

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

Properties

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

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

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

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

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.

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

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

Income Tax

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

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

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

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

Treasury Stock

The Company adopted the Statement of Financial Accounting Standards No. 30 - "Treasury Stocks," which requires the treasury stock held by the Company to be accounted for by the cost method. The cost of treasury stock is shown as a deduction to arrive at stockholders' equity, while gain or loss from selling treasury stock is treated as an adjustment to capital surplus.

When treasury stocks are sold and the selling price is above the book value, the difference should be credited to the capital surplus - treasury stock transactions. If the selling price is below the book value, the difference should first be offset against capital surplus from the same class of treasury stock transactions, and any remainder should be debited to retained earnings. The carrying value of treasury stocks should be calculated using the weighted-average method.

When the Company's treasury stock is retired, the treasury stock account should be credited, and the capital surplus - premium on stock account and capital stock account should be debited proportionately according to the share ratio. The difference should be credited to capital surplus or debited to capital surplus and/or retained earnings.

Foreign Currencies

The financial statements of foreign operations are translated into New Taiwan dollars at the following exchange rates:

a. Assets and liabilities - at exchange rates prevailing on the balance sheet date;
b. Stockholders' equity - at historical exchange rates;
c. Dividends - at the exchange rate prevailing on the dividend declaration date; and
d. Income and expenses - at average exchange rates for the year.

Exchange differences arising from the translation of the financial statements of foreign operations are recognized as a separate component of stockholders' equity. Such exchange differences are recognized as gain or loss in the year in which the foreign operations are disposed of.

Nonderivative foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange differences arising from the settlement of foreign-currency assets and liabilities are recognized as gain or loss.

At the balance sheet date, foreign-currency monetary assets and liabilities are revalued using prevailing exchange rates and the exchange differences are recognized in profit or loss.

At the balance sheet date, foreign-currency nonmonetary assets (such as equity instruments) and liabilities that are measured at fair value are revalued using prevailing exchange rates, with the exchange differences treated as follows:

a. Recognized in stockholders' equity if the changes in fair value are recognized in stockholders' equity; and

b. Recognized in profit and loss if the changes in fair value is recognized in profit or loss.

Foreign-currency nonmonetary assets and liabilities that are carried at cost continue to be stated at exchange rates at the trade dates.

If the functional currency of an equity-method investee is a foreign currency, translation adjustments will result from the translation of the investee's financial statements into the reporting currency of the Company. These adjustments are accumulated and reported as a separate component of stockholders' equity.

Reclassifications

Certain 2008 accounts have been reclassified to be consistent with the presentation of the financial statements as of and for the 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 September 30, 2008 and 2009 were as follows:

	2008	2009	
	NT$	NT$	US$ (Note 3)
Cash on hand	$ 1,030	$ 1,000	$ 31
Cash in banks	7,544,117	4,464,827	138,810
Time deposits	56,392,594	48,061,534	1,494,218
Cash equivalents - repurchase bonds	-	517,000	16,074
	$ 63,937,741	$ 53,044,361	$ 1,649,133

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	$ 97,351	$ -	$ -
Derivatives - financial liabilities			
Exchange contracts	$ -	$ 15,508	$ 482

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:

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

8. NOTES AND ACCOUNTS RECEIVABLE

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

	2008	2009	
	NT$	NT$	US$ (Note 3)
Notes receivable	$ 21,618	$ -	$ -
Accounts receivable	21,536,456	24,611,603	765,167
Less: Allowance for doubtful accounts	(539,408)	(746,864)	(23,220)
	$ 21,018,666	$ 23,864,739	$ 741,947

9. OTHER CURRENT FINANCIAL ASSETS

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

	2008	2009	
	NT$	NT$	US$ (Note 3)
Other receivables	$ 233,068	$ 123,118	$ 3,827
Interest receivable	50,857	7,940	247
Other receivables from related parties (Note 25)	59,148	7,170	223
Agency payments	7,210	19,782	615
	$ 350,283	$ 158,010	$ 4,912

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:

	2008	2009	
	NT$	NT$	US$ (Note 3)
Finished goods	$ 534,955	$ 635,703	$ 19,764
Work-in-process	2,659,198	2,325,697	72,305
Raw materials	6,158,052	4,536,408	141,035
Goods in transit	-	23,053	717
	9,352,205	7,520,861	233,821
Less: Valuation allowance	(1,476,160)	(3,227,869)	(100,353)
	$ 7,876,045	$ 4,292,992	$ 133,468

The write-down of inventories to their net realizable value amounted to NT$684,472 and NT$1,848,901 thousand (US$57,482 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:

	2008	2009	
	NT$	NT$	US$ (Note 3)
Royalty	$ 739,944	$ 4,007,352	$ 124,588
Software and hardware maintenance	106,887	22,887	712
Molding equipment	95,860	115,911	3,604
Services	32,271	114,902	3,572
Others	68,316	59,500	1,849
	$ 1,043,278	$ 4,320,552	$ 134,325

Prepayments for royalty were primarily prepayments for discount purpose and classified as current or noncurrent based on their maturities. As of September 30, 2009, prepayments of NT$1,977,834 thousand (US$61,490 thousand) that were noncurrent were classified as other assets (Note 27 has more information).

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

12. FINANCIAL ASSETS CARRIED AT COST

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

	2008	2009	
	NT$	NT$	US$ (Note 3)
Hua-Chuang Automobile Information Technical Center Co., Ltd.	$ 500,000	$ 500,000	$ 15,545
Answer Online, Inc.	1,192	1,192	37
	$ 501,192	$ 501,192	$ 15,582

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.

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 was as follows:

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

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

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

14. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

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

	2008		2009				
	Carrying Value	Ownership Percentage	Original Cost		Carrying Value		Ownership Percentage
	NT$		NT$	US$ (Note 3)	NT$	US$ (Note 3)	
Equity method							
H.T.C. (B.V.I.) Corp.	$ 1,267,619	100.00	$ 1,929,655	$ 59,992	$ 2,150,507	$ 66,859	100.00
BandRich Inc.	68,766	50.66	135,000	4,197	34,811	1,082	50.66
HTC HK, Limited	41,482	100.00	1,277	40	53,937	1,677	100.00
Communication Global Certification Inc.	275,115	100.00	280,000	8,705	286,684	8,913	100.00
High Tech Computer Asia Pacific Pte. Ltd.	644,701	100.00	2,079,110	64,639	2,049,266	63,711	100.00
Vitamin D Inc.	41,624	26.02	40,986	1,274	36,034	1,120	25.59
HTC Investment Corporation	300,135	100.00	300,000	9,327	300,469	9,342	100.00
PT. High Tech Computer Indonesia	60	1.00	62	2	62	2	1.00
HTC I Investment Corporation	-	-	295,000	9,172	294,896	9,168	100.00
Prepayments for long-term investments	1,461,360		262,320	8,155	262,320	8,155	
	$ 4,100,862		$ 5,323,410	$ 165,503	$ 5,468,986	$ 170,029	

In August 2000, the Company acquired 100% equity interest in H.T.C. (B.V.I.) Corp. for NT$12,834 thousand and accounted for this investment by the equity method. As of September 30, 2009 the Company had increased this investment to NT$1,929,655 thousand (US$59,992 thousand). H.T.C. (B.V.I.) Corp. makes investments on behalf of the Company.

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

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

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

In July 2007, the Company acquired 100% equity interest in High Tech Computer Asia Pacific Pte. Ltd. for NT$560,660 thousand and accounted for this investment by the equity method. As of September 30, 2009, the Company had increased the investment to NT$2,341,430 thousand (US$72,794 thousand). Because the registration of the investment was not completed on September 30, 2009, the amounts of NT$262,320 thousand (US$8,155 thousand) were temporarily accounted for as "prepayments for long-term investments."

In April 2008, the Company made a new investment of US$350 thousand and transferred its bond investment of US$1,000 thousand to convertible preferred stocks issued by Vitamin D Inc. As a result, the Company acquired 27.27% equity interest in Vitamin D Inc. for NT$40,986 thousand, enabling the Company to exercise significant influence over this investee. Thus, the Company accounts for this investment by the equity method. In September 2008, 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.

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

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

In September 2009, the Company acquired 100% equity interest in HTC I Investment Corporation for NT$295,000 (US$9,171 thousand) thousand and accounted for this investment by the equity method.

On its equity-method investments, the Company had a loss of NT$172,705 thousand and a gain NT$131,235 thousand (US$4,080 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.

Under orders VI-0960064017 and VI-0960064020 issued by Financial Supervisory Commission under the Executive Yuan, the Company included the accounts of all its direct and indirect subsidiaries in the consolidated financial statements as of and for the nine months ended September 30, 2008 and 2009. All significant intercompany balances and transactions have been eliminated.

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$	NT$	US$ (Note 3)
Land	$ 822,027	$ 4,719,538	$ -	$ 4,719,538	$ 146,729
Buildings and structures	2,270,309	3,161,089	620,920	2,540,169	78,973
Machinery and equipment	1,013,021	4,008,587	3,038,503	970,084	30,159

(Continued)

	2008	2009			
	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NT$	NT$	NT$	NT$	US$ (Note 3)
Molding equipment	$ -	$ 172,632	$ 172,632	$ -	$ -
Computer equipment	65,026	299,915	216,715	83,200	2,587
Transportation equipment	346	2,732	1,309	1,423	44
Furniture and fixtures	27,788	127,838	107,946	19,892	618
Leased assets	2,552	4,712	2,945	1,767	55
Leasehold improvements	63,255	95,261	49,955	45,306	1,409
Prepayments on equipment-in-transit	209,066	62,684	-	62,684	1,949
	$ 4,473,390	$12,654,988	$ 4,210,925	$ 8,444,063	$ 262,523

(Concluded)

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.

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

16. ACCRUED EXPENSES

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

	2008	2009	
	NT$	NT$	US$ (Note 3)
Marketing (Note 25)	$ 5,250,041	$ 6,634,709	$ 206,271
Bonus to employees	5,600,267	4,891,086	152,062
Salaries	1,290,361	1,277,033	39,703
Services (Note 25)	1,134,881	1,128,922	35,098
Export expenses	646,913	401,423	12,480
Research materials	256,053	244,101	7,589
Donation	267,811	230,454	7,165
Meals and welfare	80,213	98,478	3,062
Insurance	69,918	74,466	2,315
Research and development	-	49,200	1,530
Pension cost	44,472	48,423	1,505

(Continued)

	2008	2009	
	NT$	NT$	US$ (Note 3)
Repair and maintenance	$ 57,853	$ 45,296	$ 1,408
Travel	22,522	23,713	737
Freight	17,509	19,921	619
Others	286,694	231,830	7,208
	$ 15,025,508	$ 15,399,055	$ 478,752

(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	1,210,000	1,210,000	37,618
	$ 5,600,267	$ 4,891,086	$ 152,062

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.

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

17. OTHER CURRENT LIABILITIES

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

	2008	2009	
	NT$	NT$	US$ (Note 3)
Reserve for warranty expenses	$ 4,855,370	$ 5,458,037	$ 169,689
Other payable (Note 25)	52,091	958,719	29,806
Agency receipts	157,258	516,516	16,058
Deferred credits - profit from intercompany transactions	151,389	142,003	4,415
Advance receipts	131,955	131,602	4,092
Directors' remuneration	21,842	-	-
Other	67,308	133,935	4,164
	$ 5,437,213	$ 7,340,812	$ 228,224

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

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

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

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

18. PENSION PLAN

The Labor Pension Act (the "Act), which provides for a new defined contribution plan, took effect on July 1, 2005. Employees covered by the Labor Standards Law (the "Law") before the enforcement of the Act were allowed to choose to remain to be subject to the defined benefit pension mechanism under the Law or to be subject instead to the Act. Based on the Act, the rate of the Company's required monthly contributions to the employees' individual pension accounts is at least 6% of monthly wages and salaries, and these contributions are recognized as pension expense in the income statement. The pension fund contributions for the nine months ended September 30, 2008, and 2009 were NT$112,469 thousand, and NT$137,391 thousand (US$4,271 thousand), respectively.

Under the Law, which provides for a defined benefit pension plan, retirement payments should be made according to the years of service, with a payment of two units for each year of service but only one unit per year after the 15th year; however, total units should not exceed 45. The rate of the Company's contributions to a pension fund is 2% after the Act took effect. The pension fund is deposited in the Bank of Taiwan in the committee's name. The pension fund balances were NT$373,382 thousand and NT$407,918 (US$12,682 thousand) as of September 30, 2008 and 2009, respectively.

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

	2008	2009	
	NT$	NT$	US$ (Note 3)
Balance, beginning of period	$ 95,187	$ 117,138	$ 3,642
Contributions	(4,060)	(3,659)	(114)
Payments	20,435	19,276	599
Balance, end of period	$ 111,562	$ 132,755	$ 4,127

19. STOCKHOLDERS' EQUITY

Capital Stock

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

20. TREASURY STOCK

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

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.

(In Thousands of Shares)

Purpose	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.

21. PERSONNEL EXPENSE, DEPRECIATION AND AMORTIZATION

Function / Expense Item	2008			2009					
	NT$			NT$			US$ (Note 3)		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses	$1,918,631	$6,261,066	$8,179,697	$2,008,973	$5,235,295	$7,244,268	$62,458	$162,764	$225,222
Salary	1,690,139	5,924,297	7,614,436	1,716,547	4,841,991	6,558,538	53,367	150,536	203,903
Insurance	75,122	114,099	189,221	115,253	132,162	247,415	3,583	4,109	7,692
Pension cost	33,844	82,685	116,529	44,484	96,566	141,050	1,383	3,002	4,385
Other	119,526	139,985	259,511	132,689	164,576	297,265	4,125	5,117	9,242
Depreciation	196,980	217,431	414,411	223,126	254,633	477,759	6,937	7,916	14,853
Amortization	-	28,861	28,861	5,811	21,368	27,179	181	664	845

22. INCOME TAX

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

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

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

Income tax payable as of September 30, 2008 and 2009 were computed as follows:

	2008	2009	
	NT$	NT$	US$ (Note 3)
Income before income tax	$ 22,651,681	$ 18,952,488	$ 589,227
Permanent differences			
Loss (gain) on equity-method investments	172,705	(131,235)	(4,080)
Other	37,267	(12,500)	(389)
Temporary differences			
Realized pension cost	(16,376)	(15,617)	(486)
Unrealized loss on decline in value of inventory	559,873	1,604,643	49,888
Unrealized royalties	1,431,103	1,624,384	50,502
Unrealized exchange losses, net	262,526	711,510	22,121
Unrealized marketing expense	2,466,232	1,202,004	37,370
Unrealized warranty expense	1,385,412	232,175	7,218
Unrealized bad debt expenses	251,382	249,014	7,742
Unrealized valuation gain on financial instruments	(97,351)	(498,575)	(15,501)

(Continued)

	2008	2009	
	NT$	NT$	US$ (Note 3)
(Realized) unrealized profit from intercompany transactions	$ (23,686)	$ 7,912	$ 246
Other	(54,150)	13,641	424
Total income	29,026,618	23,939,844	744,282
Less: Tax-exempt income	(24,049,661)	(19,757,257)	(614,247)
Taxable income	4,976,957	4,182,587	130,035
Tax rate	25%	25%	25%
	1,244,239	1,045,647	32,509
Income tax credit	(10)	(10)	-
Estimated income tax provision	1,244,229	1,045,637	32,509
Unappropriated earnings (additional 10% income tax)	352,583	202,145	6,285
Less: Investment research and development tax credits	(352,583)	(202,145)	(6,285)
Income tax payable determined pursuant to the Income Tax Law	$ 1,244,229	$ 1,045,637	$ 32,509
Alternative minimum tax	$ 2,375,405	$ 2,248,892	$ 69,917
Less: Prepaid and withheld income tax	(406,576)	(33,288)	(1,034)
Prior years' income tax payable	1,011,860	980,075	30,470
Income tax payable	$ 2,980,689	$ 3,195,679	$ 99,353

(Concluded)

The alternative minimum tax (AMT) imposed under the AMT Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law is below the minimum amount prescribed under the AMT Act. The taxable income for calculating the AMT includes most of the income that is exempted from income tax under various laws and statutes. The Company has considered the impact of the AMT Act in the determination of its tax liabilities. As a result, the current income tax payable as of September 30, 2008 and 2009 should be NT$2,375,405 thousand and NT$2,248,892 thousand (US$69,917 thousand), respectively.

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

	2008	2009	
	NT$	NT$	US$ (Note 3)
Temporary differences			
Provision for loss on decline in value of inventory	$ 369,040	$ 645,574	$ 20,071
Unrealized marketing expense	1,312,510	1,326,942	41,254
Capitalize expense	39,917	46,945	1,460
Unrealized reserve for warranty expense	1,213,842	1,091,607	33,938

(Continued)

	2008	2009	
	NT$	NT$	US$ (Note 3)
Unrealized royalties	$ 1,367,623	$ 1,553,617	$ 48,301
Unrealized bad-debt expenses	34,117	101,982	3,170
Unrealized exchange loss	46,986	109,520	3,405
Unrealized valuation loss on financial instruments	-	3,102	96
Other	21,694	14,795	460
Tax credit carryforwards	1,507,595	2,812,492	87,440
Total deferred tax asset	5,913,324	7,706,576	239,595
Less: Valuation allowance	(4,659,978)	(6,039,311)	(187,760)
Total deferred tax asset, net	1,253,346	1,667,265	51,835
Deferred tax liability			
Unrealized pension cost	(27,891)	(26,551)	(825)
Unrealized valuation gain on financial instruments	(24,338)	-	-
	1,201,117	1,640,714	51,010
Less: Current portion	(514,150)	(698,158)	(21,706)
Deferred tax assets, noncurrent	$ 686,967	$ 942,556	$ 29,304

(Concluded)

Details of the tax credit carryforwards are as follows:

Year of Occurrence	Validity Period	2008	2009	
		NT$	NT$	US$ (Note 3)
2007	2007-2011	$ 201,506	$ 201,506	$ 6,265
2008	2008-2012	1,306,089	831,154	25,840
2009	2009-2013	-	1,779,832	55,335
		$ 1,507,595	$ 2,812,492	$ 87,440

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

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

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

	2008	2009	
	NT$	NT$	US$ (Note 3)
Current income tax expense	$ 2,375,405	$ 2,248,892	$ 69,917
Increase in deferred income tax assets	(259,007)	(267,076)	(8,303)
Overestimation of prior years' income tax	(9,759)	(104,298)	(3,243)
Income tax expense	$ 2,106,639	$ 1,877,518	$ 58,371

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:

	Amount (Numerator)			EPS	
	Before Income Tax	After Income Tax	Shares (Denominator) (in Thousands)	Before Income Tax	After Income Tax
	NT$	NT$		NT$	NT$
Nine months ended September 30, 2008					
Basic EPS	$ 22,651,681	$ 20,545,042	793,164	$ 28.56	$ 25.90
Bonus to employees	-	-	12,671		
Diluted EPS	$ 22,651,681	$ 20,545,042	805,835	$ 28.11	$ 25.50

	Amount (Numerator)			EPS	
	Before Income Tax	After Income Tax	Shares (Denominator) (in Thousands)	Before Income Tax	After Income Tax
	NT$	NT$		NT$	NT$
Nine months ended September 30, 2009					
Basic EPS	$ 18,952,488	$ 17,074,970	786,836	$ 24.09	$ 21.70
Bonus to employees	-	-	11,874		
Diluted EPS	$ 18,952,488	$ 17,074,970	798,710	$ 23.73	$ 21.38

	Amount (Numerator)		Shares	EPS	
	Before Income Tax	After Income Tax	(Denominator) (in Thousands)	Before Income Tax	After Income Tax
	US$	US$		US$	US$
Nine months ended September 30, 2009					
Basic EPS	$ 589,227	$ 530,856	786,836	$ 0.75	$ 0.67
Bonus to employees			11,874		
Diluted EPS	$ 589,227	$ 530,856	798,710	$ 0.74	$ 0.66

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	501,192	15,582	501,192	15,582

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

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

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		2008	2009	
	NT$	NT$	US$ (Note 3)	NT$	NT$	US$ (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	501,192	15,582
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$56,392,594 thousand and NT$48,578,534 (US$1,510,292 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 names and relationships of related parties are as follows:

Related Party	Relationship with the Company
First International Computer, Inc. (FIC)	Chairperson is an immediate relative of the Company's chairperson
Xander International Corp.	Chairperson is an immediate relative of the Company's chairperson
Comserve Network Netherlands B.V.	Main director is an immediate relative of the Company's chairperson
Syuda Construction Company	The only juridical stockholder whose chairperson is the same person with the Company
VIA Technologies, Inc.	Same chairperson
Chander Electronics Corp.	Same chairperson
H.T.C. (B.V.I.) Corp.	Subsidiary
HTC HK, Limited.	Subsidiary
Band Rich Inc.	Subsidiary
Communication Global Certification Inc.	Subsidiary
High Tech Computer Asia Pacific Pte. Ltd.	Subsidiary
HTC America Inc.	Subsidiary of H.T.C. (B.V.I.) Corp.
HTC Europe Co., Ltd.	Subsidiary of H.T.C. (B.V.I.) Corp.
HTC Nippon Corporation	Subsidiary of H.T.C. (B.V.I.) Corp.
High Tech Computer Corp. (Suzhou)	Subsidiary of H.T.C. (B.V.I.) Corp.
HTC Corporation (Shanghai WGQ) (formerly High Tech Computer Corp. (WGQ) until December 2008)	Subsidiary of H.T.C. (B.V.I.) Corp.
HTC Brasil	Subsidiary of H.T.C. (B.V.I.) Corp.
One & Company Design, Inc.	Subsidiary of H.T.C. (B.V.I.) Corp.
HTC Belgium BVBA/SPRL	Subsidiary of HTC HK, Limited.
High Tech Computer Singapore Pte. Ltd.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
High Tech Computer (H.K.) Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC (Australia and New Zealand) Pty. Ltd.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC India Private Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC (Thailand) Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Electronics (Shanghai)	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Malaysia Sdn. Bhd.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Innovation Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.

Major transactions with related parties are summarized below:

Purchases of Inventories and Services

Related Party	Nine Months Ended September 30				
	2008		2009		
	Amount	% of Total Net Purchases	Amount		% of Total Net Purchases
	NT$		NT$	US$ (Note 3)	
HTC Electronics (Shanghai)	$ -	-	$ 70,998	$ 2,207	-
High Tech Computer Corp. (Suzhou)	48,631	-	32,183	1,001	-
BandRich Inc.	-	-	28,872	898	-
Chander Electronics Corp.	5,036	-	15,475	481	-
	$ 53,667	-	$ 147,528	$ 4,587	-

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	% of Total Revenues	Amount		% of Total Revenues
	NT$		NT$	US$ (Note 3)	
HTC America Inc.	$ 988,420	1	$ 925,491	$ 28,773	1
HTC Europe Co., Ltd.	139,529	-	248,447	7,724	-
High Tech Computer (H.K.) Limited	53,564	-	40,191	1,250	-
High Tech Computer Singapore Pte. Ltd.	47,488	-	25,255	785	-
HTC NIPPON Corporation	219	-	8,349	260	-
Xander International Corp.	93,567	-	192	6	-
BandRich Inc.	267,312	-	60	2	-
First International Computer, Inc. (FIC)	24,221	-	-	-	-
Others	40,076	-	20,207	628	-
	$ 1,654,396	1	$ 1,268,192	$ 39,428	1

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

Notes and Accounts Receivable

Related Party	September 30 2008 Amount	2008 % of Total Notes and Accounts Receivable	2009 Amount		2009 % of Total Notes and Accounts Receivable
	NT$		NT$	US$ (Note 3)	
Accounts receivable					
HTC America Inc.	$ 417,302	2	$ 396,238	$ 12,319	2
HTC Europe Co., Ltd.	85,820	-	19,506	606	-
High Tech Computer (H.K.) Limited	11,731	-	5,881	183	-
High Tech Computer Singapore Pte. Ltd.	8,257	-	4,963	154	-
BandRich Inc.	1,138	-	-	-	-
Others	10,033	-	4,264	133	-
	$ 534,281	2	$ 430,852	$ 13,395	2

Notes and Accounts Payable

Related Party	September 30 2008 Amount	2008 % of Total Notes and Accounts Payable	2009 Amount		2009 % of Total Notes and Accounts Payable
	NT$		NT$	US$ (Note 3)	
BandRich Inc.	$ -	-	$ 10,783	$ 335	-
HTC Electronics (Shanghai)	-	-	9,795	305	-
Chander Electronics Corp.	5,036	-	3,754	116	-
High Tech Computer Corp. (Suzhou)	10,808	-	92	3	-
Others	1,058	-	584	18	-
	$ 16,902	-	$ 25,008	$ 777	-

Other Receivable

Related Party	September 30				
	2008		2009		
	Amount	% of Total Other Receivable	Amount		% of Total Other Receivable
	NT$		NT$	US$ (Note 3)	
HTC America Inc.	$ 1,310	-	$ 4,492	$ 140	3
HTC NIPPON Corporation	17,825	6	1,911	59	2
High Tech Computer Corp. (Suzhou)	20,604	7	397	12	-
HTC Europe Co., Ltd.	4,795	2	127	4	-
BandRich Inc.	13,661	5	105	3	-
Others	953	-	138	5	-
	$ 59,148	20	$ 7,170	$ 223	5

Prepaid Expenses

Related Party	September 30				
	2008		2009		
	Amount	% of Total Prepayment	Amount		% of Total Prepayment
	NT$		NT$	US$ (Note 3)	
HTC America Inc.	$ -	-	$ 80,975	$ 2,518	2
HTC NIPPON Corporation	6,796	1	23,976	745	-
One & Company Design, Inc.	-	-	4,768	148	-
Communication Global Certification Inc	24,062	2	-	-	-
Others	8,209	1	-	-	-
	$ 39,067	4	$ 109,719	$ 3,411	2

Accrued Expenses

Related Party	September 30 2008 Amount	2008 % of Total Accrued Expenses	2009 Amount		2009 % of Total Accrued Expenses
	NT$		NT$	US$ (Note 3)	
HTC Europe Co., Ltd.	$ 543,529	4	$ 412,238	$ 12,816	3
HTC America Inc.	604,261	4	319,398	9,930	2
HTC Belgium BVBA/SPRL	56,405	-	85,644	2,663	1
High Tech Computer Asia Pacific Pte. Ltd.	-	-	49,200	1,530	-
High Tech Computer Singapore Pte. Ltd.	71,048	1	23,229	722	-
HTC Nippon Corporation	86,098	1	20,462	636	-
HTC India Private Limited	14,470	-	20,226	629	-
HTC (Australia and New Zealand) Pty. Ltd.	25,571	-	15,544	483	-
High Tech Computer (H.K.) Limited	22,025	-	14,954	465	-
HTC (Thailand.) Ltd.	31,200	-	8,916	277	-
HTC Brasil	10,841	-	7,003	218	-
Others	-	-	17,675	549	-
	$ 1,465,448	10	$ 994,489	$ 30,918	6

Other Payables to Related Parties

Related Party	September 30 2008 Amount	2008 % of Total Other Payables	2009 Amount		2009 % of Total Other Payables
	NT$		NT$	US$ (Note 3)	
HTC America Inc.	$ 2,123	4	$ 248,714	$ 7,732	27
H.T.C. (B.V.I.) Corp.	-	-	125,998	3,917	13
HTC NIPPON Corporation	14,087	27	78,821	2,451	8
HTC Europe Co., Ltd.	30,992	59	50,162	1,560	5
HTC Brasil	-	-	18,475	574	2
HTC Corporation (Shanghai WGQ)	3,731	7	10,350	322	1
Others	1,158	3	9,701	301	1
	$ 52,091	100	$ 542,221	$ 16,857	57

Advance Receipts

Related Party	September 30 2008 Amount	2008 % of Total Advance Receipts	2009 Amount		2009 % of Total Advance Receipts
	NT$		NT$	US$ (Note 3)	
BandRich Inc.	$ -	-	$ 35,712	$ 1,110	7

Outsourcing Expenses

Related Party	Nine Months Ended September 30 2008 Amount	2008 % of Total Out-sourcing Expenses	2009 Amount		2009 % of Total Out-sourcing Expenses
	NT$		NT$	US$ (Note 3)	
HTC Electronics (Shanghai)	$ -	-	$ 167,063	$ 5,194	93
High Tech Computer Corp. (Suzhou)	244,704	85	3,802	118	2
	$ 244,704	85	$ 170,865	$ 5,312	95

Warranty Expenses

Related Party	Nine Months Ended September 30 2008 Amount	2008 % of Warranty Expenses	2009 Amount		2009 % of Warranty Expenses
	NT$		NT$	US$ (Note 3)	
HTC America Inc.	$ 767,255	20	$ 945,136	$ 29,384	26
HTC Europe Co., Ltd.	487,319	13	238,281	7,408	7
HTC Corporation (Shanghai WGQ)	39,288	1	67,791	2,108	2
High Tech Computer (H.K.) Limited	15,801	-	35,982	1,119	1
High Tech Computer Singapore Pte. Ltd.	11,550	-	20,606	640	1
Comserve Network Netherlands B.V.	14,184	-	1,203	37	-
	$ 1,335,397	34	$ 1,308,999	$ 40,696	37

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

Commission Expenses

Related Party	Nine Months Ended September 30				
	2008		2009		
	Amount	% of Commission Expenses	Amount		% of Commission Expenses
	NT$		NT$	US$ (Note 3)	
HTC Europe Co., Ltd.	$ -	-	$ 1,885,952	58,634	84
HTC Belgium BVBA/SPRL	-	-	362,815	11,279	16
	$ -	-	$ 2,248,767	$ 69,913	100

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

Service and Marketing Fees

Related Party	Nine Months Ended September 30				
	2008		2009		
	Amount	% of Total Service Fees	Amount		% of Total Service Fees
	NT$		NT$	US$ (Note 3)	
HTC America Inc.	$ 1,371,997	30	$ 1,812,707	$ 56,357	42
HTC NIPPON Corporation	247,487	5	208,076	6,469	5
HTC Europe Co., Ltd.	1,143,462	25	142,260	4,423	3
Communication Global Certification Inc.	98,322	2	135,132	4,201	3
One & Company Design, Inc.	-	-	130,808	4,067	3
HTC Brasil	196,934	4	128,943	4,009	3
High Tech Computer Singapore Pte. Ltd.	130,534	3	125,224	3,893	3
HTC Belgium BVBA/SPRL	416,021	9	96,807	3,010	2
HTC (Australia and New Zealand) Pty. Ltd.	77,154	2	71,380	2,219	2
High Tech Computer (H.K.) Limited	67,199	1	65,345	2,032	1
HTC India Private Limited	79,024	2	47,555	1,478	1
HTC (Thailand.) Ltd.	21,379	-	29,789	926	1
HTC Malaysia Sdn. Bhd.	-	-	26,723	831	1
Others	1,600	-	8,536	265	-
	$ 3,851,113	83	$ 3,029,285	$ 94,180	70

Other Revenues

	Nine Months Ended September 30				
	2008		2009		
Related Party	Amount	% to Total Other Revenues	Amount		% to Total Other Revenues
	NT$		NT$	US$ (Note 3)	
BandRich Inc.	$ 900	-	$ 900	$ 28	-

Leasing - Lessee

Operating expense - rental expense

	Nine Months Ended September 30				
	2008		2009		
Related Party	Amount	% of Rental Expense	Amount		% of Rental Expense
	NT$		NT$	US$ (Note 3)	
VIA Technologies Inc.	$ 2,288	5	$ 6,254	$ 194	17

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

Property Transaction

In January 2009, the Company acquired land from a related party, Syuda Construction Company, for NT$791,910 thousand (US$24,620 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 the first quarter of 2009, the Company sold equipment to HTC Corporation (Shanghai WGQ) for NT$496 thousand (US$15 thousand); there was no gain or loss on this sale.

26. COMMITMENTS AND CONTINGENCIES

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.

27. SIGNIFICANT CONTRACT

Patent Agreements

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

Contractor	Contract Term	Description
Microsoft	February 1, 2009 - January 31, 2011	Authorization to use embedded operating system; royalty payment based on agreement.
Texas Instruments France	January 14, 2000 - January 13, 2010	Authorization to use GSM system software; royalty payment based on agreement.
Qualcomm Incorporated	December 20, 2000 to the following dates: a. If the Company materially breaches any covenant and fails to take remedial action within 30 days after Qualcomm's issuance of a written notice, the Company will be prohibited from using Qualcomm's property or patents. b. Any time when the Company is not using any of Qualcomm's intellectual property, the Company may terminate this agreement upon 60 days' prior written notice to Qualcomm.	Authorization to use CDMA technology to manufacture and sell units; royalty payment based on agreement.
Ericsson Mobile Platform AB	April 2003 - March 2011	Authorization to use EDGE reference design license and support agreement; royalty payment based on agreement.
Telefonaktiebolaget LM Ericsson	December 15, 2008 - December 14, 2013	Authorization to use platform patent license agreement; royalty payment based on agreement.
Nokia Corporation	January 1, 2003 to the expiry dates of these patents.	Authorization to use wireless technology, like GSM; royalty payment based on agreement.
InterDigital Technology Corporation.	December 31, 2003 to the expiry dates of these patents.	Authorization to use TDMA and CDMA technology; royalty payment based on agreement.
KONINKLIJKE PHILIPS ELECTRONICS N.V.	January 5, 2004 to the expiry dates of these patents	GSM/DCS 1800/1900 Patent License; royalty payment based on agreement.

(Continued)

Contractor	Contract Term	Description
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)

28. 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.