HTC Corporation

Financial Statements for the
Years Ended December 31, 2008 and 2009 and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
HTC Corporation

We have audited the accompanying balance sheets of HTC Corporation (the "Company") as of December 31, 2008 and 2009 and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HTC Corporation as of December 31, 2008 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

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

We have also audited the consolidated financial statements of HTC Corporation and subsidiaries as of and for the years ended December 31, 2008 and 2009, and expressed in our report dated January 18, 2010 an unqualified opinion with an explanatory paragraph and an unqualified opinion, respectively, on those statements.

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

January 18, 2010

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 audit such financial statements are those generally accepted and applied in the Republic of China.

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

HTC CORPORATION

BALANCE SHEETS
DECEMBER 31, 2008 and 2009
(In Thousands, Except Par Value)

	2008	2009	
ASSETS	**NT$**	**NT$**	**US$ (Note 3)**
CURRENT ASSETS			
Cash and cash equivalents (Notes 2 and 5)	$ 61,826,873	$ 61,676,464	$ 1,927,992
Financial assets at fair value through profit or loss (Notes 2, 6 and 24)	-	18,132	567
Available-for-sale financial assets - current (Notes 2 and 7)	-	2,497,394	78,068
Notes and accounts receivable, net (Notes 2 and 8)	28,860,242	25,326,228	791,692
Accounts receivable from related parties, net (Notes 2 and 25)	938,770	2,244,550	70,164
Other current financial assets (Notes 9 and 25)	275,506	234,201	7,321
Inventories (Notes 2, 4 and 10)	7,418,467	4,738,699	148,131
Prepayments (Notes 11 and 25)	1,237,631	3,351,491	104,767
Deferred income tax assets (Notes 2 and 22)	552,494	811,240	25,359
Other current assets	162,007	126,780	3,963
Total current assets	101,271,990	101,025,179	3,158,024
LONG-TERM INVESTMENTS			
Available-for-sale financial assets - noncurrent (Notes 2 and 7)	339	313	10
Financial assets carried at cost (Notes 2 and 12)	501,192	501,192	15,667
Investments accounted for by the equity method (Notes 2 and 14)	4,342,704	5,549,766	173,484
Prepayments for long-term investments (Notes 2 and 14)	316,656	454,923	14,221
Total long-term investments	5,160,891	6,506,194	203,382
PROPERTIES (Notes 2, 15 and 25)			
Cost			
Land	3,568,124	4,719,538	147,532
Buildings and structures	2,853,645	3,174,986	99,249
Machinery and equipment	3,927,100	4,003,941	125,162
Molding equipment	172,632	172,632	5,397
Computer equipment	264,248	302,213	9,447
Transportation equipment	2,732	2,732	86
Furniture and fixtures	127,202	129,533	4,049
Leased assets	4,712	4,712	147
Leasehold improvements	95,208	96,014	3,001
Total cost	11,015,603	12,606,301	394,070
Less: Accumulated depreciation	(3,728,827)	(4,321,855)	(135,100)
Prepayments for construction-in-progress and equipment-in-transit	88,875	29,731	929
Properties, net	7,375,651	8,314,177	259,899
OTHER ASSETS			
Assets leased to others	309,959	48,135	1,505
Refundable deposits	117,464	69,166	2,163
Deferred charges (Note 2)	52,125	69,773	2,181
Deferred income tax assets (Notes 2 and 22)	821,144	1,066,101	33,326
Restricted assets (Notes 2 and 26)	-	63,900	1,997
Other (Notes 2, 11 and 18)	117,138	1,980,823	61,920
Total other assets	1,417,830	3,297,898	103,092
TOTAL	$ 115,226,362	$ 119,143,448	$ 3,724,397

	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)	$ 514,083	$ -	$ -
Notes and accounts payable (Note 25)	27,907,144	24,882,322	777,816
Income tax payable (Notes 2 and 22)	3,937,745	4,152,624	129,810
Accrued expenses (Notes 4, 16 and 25)	15,632,936	17,127,974	535,417
Payable for purchase of equipment	157,786	68,906	2,154
Other current liabilities (Notes 2, 17 and 25)	6,408,776	7,269,962	227,257
Total current liabilities	54,558,470	53,501,788	1,672,454
OTHER LIABILITIES			
Guarantee deposits received	6,406	1,210	38
Total liabilities	54,564,876	53,502,998	1,672,492
STOCKHOLDERS' EQUITY (Note 19)			
Capital stock			
Common stock at par value of NT$10.00; authorized: 1,000,000 thousand shares; issued and outstanding: 755,394 thousand shares in 2008 and 788,936 thousand shares in 2009	7,553,938	7,889,358	246,620
Capital surplus			
Additional paid-in capital from share issuance in excess of par	4,374,244	9,056,323	283,099
Long-term equity investments	17,534	18,411	576
Merger	25,756	25,189	787
Retained earnings			
Legal reserve	7,410,139	10,273,674	321,152
Accumulated earnings	44,626,182	38,364,099	1,199,253
Cumulative translation adjustments (Note 2)	65,602	15,088	471
Net loss not recognized as pension cost	-	(34)	(1)
Unrealized valuation losses on financial instruments (Notes 2 and 7)	(1,632)	(1,658)	(52)
Treasury stock (Notes 2 and 20)	(3,410,277)	-	-
Total stockholders' equity	60,661,486	65,640,450	2,051,905
TOTAL	$ 115,226,362	$ 119,143,448	$ 3,724,397

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

(With Deloitte & Touche audit report dated January 18, 2010)

HTC CORPORATION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2008 AND 2009
(In Thousands, Except Earnings Per Share)

	2008	2009	
	NT$	NT$	US$ (Note 3)
REVENUES (Notes 2 and 25)	$ 152,558,766	$ 144,880,715	$ 4,528,938
COST OF REVENUES (Notes 4, 10, 21 and 25)	101,916,912	99,018,232	3,095,287
GROSS PROFIT	50,641,854	45,862,483	1,433,651
UNREALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	(134,091)	(108,150)	(3,381)
REALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	175,075	134,091	4,192
REALIZED GROSS PROFIT	50,682,838	45,888,424	1,434,462
OPERATING EXPENSES (Notes 21 and 25)			
Selling and marketing	9,009,785	11,103,061	347,079
General and administrative	1,798,900	2,010,000	62,832
Research and development	9,617,768	8,600,369	268,846
Total operating expenses	20,426,453	21,713,430	678,757
OPERATING INCOME	30,256,385	24,174,994	755,705
NONOPERATING INCOME AND GAINS			
Interest income	1,368,322	348,693	10,900
Gain on equity-method investments (Notes 2 and 14)	-	273,811	8,559
Gains on disposal of properties (Note 25)	5,631	2,984	93
Gain on sale of investments	-	3,035	95
Exchange gains (Note 2)	660,765	513,650	16,057
Valuation gain on financial instruments, net (Notes 2 and 6)	-	18,132	567
Other	265,300	463,057	14,475
Total nonoperating income and gains	2,300,018	1,623,362	50,746

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HTC CORPORATION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2008 AND 2009
(In Thousands, Except Earnings Per Share)

	2008	2009	
	NT$	NT$	US$ (Note 3)
NONOPERATING EXPENSES AND LOSSES			
Interest expense	$ 232	$ 131	$ 4
Loss on equity-method investments (Notes 2 and 14)	57,289	-	-
Losses on disposal of properties	5,931	-	-
Impairment loss (Notes 2 and 14)	-	30,944	967
Valuation loss on financial instruments, net (Notes 2 and 6)	514,083	-	-
Other (Notes 17 and 25)	388,389	554,817	17,344
Total nonoperating expenses and losses	965,924	585,892	18,315
INCOME BEFORE INCOME TAX	31,590,479	25,212,464	788,136
INCOME TAX (Notes 2 and 22)	(2,955,130)	(2,603,562)	(81,387)
NET INCOME	$ 28,635,349	$ 22,608,902	$ 706,749

	2008		2009			
	Before Income Tax	After Income Tax	Before Income Tax		After Income Tax	
	NT$	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
BASIC EARNINGS PER SHARE (Note 23)	$ 39.89	$ 36.16	$ 32.02	$ 1.00	$ 28.71	$ 0.90
DILUTED EARNINGS PER SHARE (Note 23)	$ 38.56	$ 34.95	$ 31.42	$ 0.98	$ 28.18	$ 0.88

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

(With Deloitte & Touche audit report dated January 18, 2010) (Concluded)

HTC CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2008 AND 2009
(In Thousands)

New Taiwan Dollars	Capital Stock: Issued and Outstanding Common Stock	Capital Surplus: From Share Issuance in Excess of Par	Capital Surplus: Long-term Equity Investments	Capital Surplus: Merger	Retained Earnings: Legal Reserve	Retained Earnings: Accumulated Earnings	Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Unrealized Valuation Losses on Financial Instruments	Treasury Stock	Total
BALANCE, JANUARY 1, 2008	$ 5,731,337	$ 4,374,244	$ 15,845	$ 25,756	$ 4,516,253	$ 41,403,867	$ 9,664	$ -	$ (1,187)	$	$ 56,075,779
Appropriation of the 2007 net earnings											
Legal reserve	-	-	-	-	2,893,886	(2,893,886)	-	-	-	-	-
Stock dividends	1,719,401	-	-	-	-	(1,719,401)	-	-	-	-	-
Transfer of employee bonuses to common stock	103,200	-	-	-	-	(103,200)	-	-	-	-	-
Employee bonuses	-	-	-	-	-	(1,210,000)	-	-	-	-	(1,210,000)
Cash dividends	-	-	-	-	-	(19,486,547)	-	-	-	-	(19,486,547)
Net income in 2008	-	-	-	-	-	28,635,349	-	-	-	-	28,635,349
Translation adjustments on long-term equity investments	-	-	-	-	-	-	55,938	-	-	-	55,938
Unrealized loss on financial instruments	-	-	-	-	-	-	-	-	(445)	-	(445)
Adjustment due to changes in ownership percentage in investees	-	-	1,689	-	-	-	-	-	-	-	1,689
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	(3,410,277)	(3,410,277)
BALANCE, DECEMBER 31, 2008	7,553,938	4,374,244	17,534	25,756	7,410,139	44,626,182	65,602	-	(1,632)	(3,410,277)	60,661,486
Appropriation of the 2008 net earnings											
Legal reserve	-	-	-	-	2,863,535	(2,863,535)	-	-	-	-	-
Stock dividends	372,697	-	-	-	-	(372,697)	-	-	-	-	-
Cash dividends	-	-	-	-	-	(20,125,634)	-	-	-	-	(20,125,634)
Transfer of employee bonuses to common stock	133,573	4,821,316	-	-	-	-	-	-	-	-	4,954,889
Net income in 2009	-	-	-	-	-	22,608,902	-	-	-	-	22,608,902
Translation adjustments on long-term equity investments	-	-	-	-	-	-	(47,783)	-	-	-	(47,783)
Unrealized loss on financial instruments	-	-	-	-	-	-	-	-	(26)	-	(26)
Adjustment due to changes in ownership percentage in investees and the movement of investees' other equity under equity method	-	-	877	-	-	(2,566)	(2,731)	(34)	-	-	(4,454)
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	(2,406,930)	(2,406,930)
Retirement of treasury stock	(170,850)	(139,237)	-	(567)	-	(5,506,553)	-	-	-	5,817,207	-
BALANCE, DECEMBER 31, 2009	$ 7,889,358	$ 9,056,323	$ 18,411	$ 25,189	$ 10,273,674	$ 38,364,099	$ 15,088	$ (34)	$ (1,658)	$ -	$ 65,640,450

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

(With Deloitte & Touche audit report dated January 18, 2010)

HTC CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2008 AND 2009
(In Thousands)

U.S. Dollars	Capital Stock Issued and Outstanding Common Stock	Capital Surplus From Share Issuance in Excess of Par	Capital Surplus Long-term Equity Investments	Capital Surplus Merger	Retained Earnings Legal Reserve	Retained Earnings Accumulated Earnings	Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Unrealized Valuation Losses on Financial Instruments	Treasury Stock	Total
BALANCE, JANUARY 1, 2009	$ 236,135	$ 136,738	$ 549	$ 805	$ 231,639	$ 1,395,004	$ 2,051	$ -	$ (51)	$ (106,604)	$ 1,896,266
Appropriation of the 2008 net earnings											
Legal reserve	-	-	-	-	89,513	(89,513)	-	-	-	-	-
Stock dividends	11,650	-	-	-	-	(11,650)	-	-	-	-	-
Cash dividends	-	-	-	-	-	(629,123)	-	-	-	-	(629,123)
Transfer of employee bonuses to common stock	4,175	150,713	-	-	-	-	-	-	-	-	154,888
Net income in 2009	-	-	-	-	-	706,749	-	-	-	-	706,749
Translation adjustments on long-term equity investments	-	-	-	-	-	-	(1,495)	-	-	-	(1,495)
Unrealized loss on financial instruments	-	-	-	-	-	-	-	-	(1)	-	(1)
Adjustment due to changes in ownership percentage in investees and the movements of investees' other equity under equity method	-	-	27	-	-	(80)	(85)	(1)	-	-	(139)
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	(75,240)	(75,240)
Retirement of treasury stock	(5,340)	(4,352)	-	(18)	-	(172,134)	-	-	-	181,844	-
BALANCE, DECEMBER 31, 2009	$ 246,620	$ 283,099	$ 576	$ 787	$ 321,152	$ 1,199,253	$ 471	$ (1)	$ (52)	$ -	$ 2,051,905

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

(With Deloitte & Touche audit report dated January 18, 2010)

HTC CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2009
(In Thousands)

	2008	2009	
	NT$	NT$	US$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 28,635,349	$ 22,608,902	$ 706,749
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation (including depreciation of assets leased to others)	568,208	633,950	19,817
Transfer of properties to expenses	18,059	7,021	219
Exchange loss on bond investments not quoted in an active market	2,670	-	-
Amortization	35,983	39,847	1,246
Gain on sale of investments, net	-	(3,035)	(95)
Loss (gain) on disposal of properties, net	300	(2,984)	(93)
Cash dividends received from equity-method investees	-	905	28
Loss (gain) on equity-method investments	57,289	(273,811)	(8,559)
Distribution of bonuses to employees of subsidiaries	-	(17,731)	(554)
Impairment loss	-	30,944	967
Deferred income tax assets	(431,528)	(503,703)	(15,746)
Prepaid pension costs	(21,951)	(20,515)	(641)
Net changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	417,827	(532,215)	(16,637)
Notes and accounts receivable	(9,913,317)	3,534,014	110,472
Accounts receivable from related parties	(401,895)	(1,305,780)	(40,818)
Other current financial assets	8,545	41,305	1,291
Inventories	(1,299,054)	2,679,768	83,769
Prepayments	299,696	(2,095,767)	(65,513)
Other current assets	(45,166)	35,227	1,101
Other assets - other	-	(1,843,170)	(57,617)
Notes and accounts payable	5,887,026	(3,024,822)	(94,555)
Income tax payable	1,423,351	214,879	6,717
Accrued expenses	10,363,107	6,449,927	201,623
Other current liabilities	1,989,656	888,452	27,773
Net cash provided by operating activities	37,594,155	27,541,608	860,944
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of available-for-sale financial assets	-	(8,105,512)	(253,376)
Proceeds of the sale of available-for-sale financial assets	-	5,611,153	175,403
Purchase of properties	(4,577,491)	(1,426,671)	(44,597)

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HTC CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2009
(In Thousands)

	2008	2009	
	NT$	NT$	US$ (Note 3)
Proceeds of the sale of properties	$ 7,879	$ 4,005	$ 125
Increase in investments accounted for by the equity method	(2,108,829)	(1,164,135)	(36,391)
Increase in restricted assets	-	(63,900)	(1,997)
Increase in deferred charges	-	(57,495)	(1,797)
Increase (decrease) in refundable deposits	(24,027)	48,298	1,509
Net cash used in investing activities	(6,702,468)	(5,154,257)	(161,121)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase (decrease) in guarantee deposits received	5,778	(5,196)	(162)
Cash dividends	(19,486,547)	(20,125,634)	(629,123)
Bonus to employees	(1,210,000)	-	-
Purchase of treasury stock	(3,410,277)	(2,406,930)	(75,240)
Net cash used in financing activities	(24,101,046)	(22,537,760)	(704,525)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,790,641	(150,409)	(4,702)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	55,036,232	61,826,873	1,932,694
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 61,826,873	$ 61,676,464	$ 1,927,992
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid during the year			
Interest (net of amounts capitalized)	$ 232	$ 131	$ 4
Income tax	$ 1,963,307	$ 2,892,386	$ 90,415
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	$ 309,959	$ -	$ -
Transfer of assets leased to others to properties	$ -	$ 261,824	$ 8,185
Transfer of retained earnings and accrued stock bonuses to employees to common stock and additional paid-in capital	$ 1,822,601	$ 5,327,586	$ 166,538
Retirement of treasury stock	$ -	$ 5,817,207	$ 181,844

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HTC CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2009
(In Thousands)

	2008	2009	
	NT$	**NT$**	**US$ (Note 3)**
INCREASE IN LONG-TERM INVESTMENTS - EQUITY METHOD			
Increase in investments accounted for by the equity method	$ 2,231,529	$ 1,137,873	$ 35,570
(Increase) decrease in payable for purchase of investments	(122,700)	26,262	821
Cash paid for increase in long-term investments	$ 2,108,829	$ 1,164,135	$ 36,391
PURCHASE OF PROPERTIES			
Cost of properties purchased	$ 4,564,155	$ 1,336,787	$ 41,788
Decrease in payable for purchase of equipment	12,398	88,880	2,778
Decrease in lease payable	938	1,004	31
Cash paid for purchase of properties	$ 4,577,491	$ 1,426,671	$ 44,597

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

(With Deloitte & Touche audit report dated January 18, 2010) (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 8,285 and 7,284 employees as of December 31, 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 the same with 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 on the basis of 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.

Income Tax

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

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

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

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

Treasury Stock

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

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

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

Foreign Currencies

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

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

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

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

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

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

a. Recognized in stockholders' equity if the changes in fair value are recognized in stockholders' equity; 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 year ended December 31, 2009.

3. TRANSLATION INTO U.S. DOLLARS

The financial statements are stated in New Taiwan dollars. The translation of the 2009 New Taiwan dollar amounts into U.S. dollar amounts are included solely for the convenience of readers, using the noon buying rate of NT$31.99 to US$1.00 quoted by the Bank of Taiwan on December 31, 2009. The convenience translation should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other exchange rate.

4. ACCOUNTING CHANGES

a. Interpretation 2007-052 - "Accounting for Bonuses to Employees, Directors and Supervisors"

In March 2007, the Accounting Research and Development Foundation issued an interpretation that requires companies to recognize as compensation expenses bonuses paid to employees and remuneration to directors and supervisors beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. This accounting change resulted in a decrease of NT$5,614,036 thousand in net income, including an employee bonus payable of NT$6,164,889 thousand, minus the allocation to inventory of NT$34,550 thousand and minus the tax savings of NT$516,303 thousand; and a decrease of NT$7.44 in after income tax basic earnings per share for the year ended December 31, 2008.

b. SFAS No. 39 - "Share-based Payment"

On January 1, 2008, the Company adopted the newly released Statement of Financial Accounting Standards (SFAS) No. 39 - "Share-based Payment." Except as mentioned above, this accounting change had no material effect on the Company's financial statements as of and for the year ended December 31, 2008.

c. SFAS No. 10 - “Inventories”

On January 1, 2008, the Company adopted early the newly revised SFAS No. 10- “Inventories.” The main revisions are (1) inventories are stated at the lower of cost or net realizable value, and inventories are written down to net realizable value item-by-item except when the grouping of similar or related items is appropriate; (2) unallocated overheads are recognized as expenses in the period in which they are incurred; and (3) abnormal costs, write-downs of inventories and any reversal of write-downs are recorded as cost of goods sold for the period. This accounting change had no material effect on the Company’s financial statements as of and for the year ended December 31, 2008.

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

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2008 and 2009 were as follows:

	2008	2009	
	NT$	NT$	US$ (Note 3)
Cash on hand	$ 930	$ 1,000	$ 31
Cash in banks	1,774,195	561,516	17,553
Time deposits	60,051,748	61,113,948	1,910,408
	$ 61,826,873	$ 61,676,464	$ 1,927,992

On time deposits, interest rates ranged from 0.30% to 2.41% and from 0.10% to 1.03%, as of December 31, 2008 and 2009, respectively.

On preferential deposits, interest rates ranged from 0.02% to 2.71% and from 0.10% to 0.70% as of December 31, 2008 and 2009, respectively.

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 December 31, 2008 and 2009 were as follows:

	2008	2009	
	NT$	NT$	US$ (Note 3)
Derivatives - financial assets			
Exchange contracts	$ -	$ 18,132	$ 567
Derivatives - financial liabilities			
Exchange contracts	$ 514,083	$ -	$ -

The Company had derivative transactions in 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 in 2008 and 2009. Outstanding forward exchange contracts as of December 31, 2008 and 2009 were as follows:

Forward Exchange Contracts

	2008				
	Buy/Sell	**Currency**	**Settlement Period/Date**	**Contract Amount**	
Forward exchange contracts	Sell	AUD/USD	2009.01.07-2009.01.16	AUD	17,000
Forward exchange contracts	Sell	EUR/USD	2009.01.07-2009.02.27	EUR	141,000
Forward exchange contracts	Sell	GBP/USD	2009.01.07-2009.02.18	GBP	3,870
Forward exchange contracts	Sell	JPY/NTD	2009.01.16	JPY	95,000
Forward exchange contracts	Buy	USD/JPY	2009.01.07-2009.02.13	US$	16,726
Forward exchange contracts	Sell	USD/NTD	2009.01.07-2009.01.23	US$	37,000
Forward exchange contracts	Buy	USD/CAD	2009.01.16	US$	618

	2009				
	Buy/Sell	**Currency**	**Settlement Period/Date**	**Contract Amount**	
Forward exchange contracts	Sell	EUR/USD	2010.01.15-2010.02.26	EUR	76,000

Net loss on derivative financial instruments in 2009 was NT$749,476 thousand (US$23,428 thousand), including realized settlement loss of NT$767,608 thousand (US$23,995 thousand) and valuation gain of NT$18,132 thousand (US$567 thousand).

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets as of December 31, 2008 and 2009 were as follows:

	2008	2009	
	NT$	**NT$**	**US$ (Note 3)**
Mutual funds	$ -	$ 2,497,394	$ 78,068
Domestic quoted stocks	339	313	10
Less: Current portion	-	(2,497,394)	(78,068)
	$ 339	$ 313	$ 10

8. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable as of December 31, 2008 and 2009 were as follows:

	2008	2009	
	NT$	NT$	US$ (Note 3)
Notes receivable	$ 3,456	$ -	$ -
Accounts receivable	29,407,383	26,334,719	823,217
Less: Allowance for doubtful accounts	(550,597)	(1,008,491)	(31,525)
	$ 28,860,242	$ 25,326,228	$ 791,692

9. OTHER CURRENT FINANCIAL ASSETS

Other current financial assets as of December 31, 2008 and 2009 were as follows:

	2008	2009	
	NT$	NT$	US$ (Note 3)
Other receivables	$ 193,092	$ 118,321	$ 3,699
Interest receivables	40,026	11,226	351
Agency payments	28,519	23,517	735
Other receivables from related parties (Note 25)	13,869	81,137	2,536
	$ 275,506	$ 234,201	$ 7,321

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 December 31, 2008 and 2009 were as follows:

	2008	2009	
	NT$	NT$	US$ (Note 3)
Finished goods	$ 1,302,917	$ 1,227,468	$ 38,371
Work-in-process	2,435,581	1,784,531	55,784
Raw materials	5,303,195	4,233,948	132,352
Goods in transit	-	618,013	19,319
	9,041,693	7,863,960	245,826
Less: Valuation allowance	(1,623,226)	(3,125,261)	(97,695)
	$ 7,418,467	$ 4,738,699	$ 148,131

The write-down of inventories to their net realizable value amounted to NT$1,111,843 and NT$1,934,360 thousand (US$60,468 thousand) and was recognized as cost of sales for the years ended December 31, 2008 and 2009, respectively.

11. PREPAYMENTS

Prepayments as of December 31, 2008 and 2009 were as follows:

	2008	2009	
	NT$	NT$	US$ (Note 3)
Royalty	$ 976,824	$ 3,044,563	$ 95,173
Services	89,181	121,600	3,801
Molding equipment	80,420	37,052	1,158
Software and hardware maintenance	73,218	68,937	2,155
Export	6,420	21,219	663
Others	11,568	58,120	1,817
	$ 1,237,631	$ 3,351,491	$ 104,767

Prepayments for royalty were primarily for discount purposes and were classified as current or noncurrent on the basis of their maturities. As of December 31, 2009, noncurrent prepayments of NT$1,843,170 thousand (US$57,617 thousand) had been classified as other assets (Note 28 has more information).

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

12. FINANCIAL ASSETS CARRIED AT COST

Financial assets carried at cost as of December 31, 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	$ 15,630
Answer Online, Inc.	1,192	1,192	37
	$ 501,192	$ 501,192	$ 15,667

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 INVESTMENTS NOT QUOTED IN AN ACTIVE MARKET

A bond investment not quoted in an active market as of December 31, 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 December 31, 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.	$ 1,557,022	100.00	$ 1,178,341	$ 36,834	$ 1,408,470	$ 44,028	100.00
BandRich Inc.	29,460	50.66	135,000	4,220	35,117	1,098	50.66
HTC HK, Limited	46,743	100.00	-	-	-	-	-
Communication Global Certification Inc.	273,583	100.00	280,000	8,753	286,957	8,970	100.00
High Tech Computer Asia Pacific Pte. Ltd.	2,094,922	100.00	3,153,175	98,567	3,223,526	100,767	100.00
Vitamin D Inc.	39,906	26.02	40,986	1,281	-	-	25.59
HTC Investment Corporation	301,006	100.00	300,000	9,378	300,563	9,395	100.00
PT. High Tech Computer Indonesia	62	1.00	62	2	62	2	1.00
HTC I Investment Corporation	-	100.00	295,000	9,222	295,071	9,224	100.00
Prepayments for long-term investments	316,656		454,923	14,221	454,923	14,221	
	$ 4,659,360		$ 5,837,487	$ 182,478	$ 6,004,689	$ 187,705	

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. The Company increased this investment by NT$457,727 thousand in 2008 and NT$385,749 thousand (US$12,059 thousand) in 2009. The 2009 additional investment consisted of NT$316,656 thousand (US$9,899 thousand) transferred from prepayments for long-term investments because the registration of the related investment had been completed by the beginning of 2009 and of a new investment amount of NT$69,093 thousand (US$2,160 thousand).

In addition, the Company reorganized its overseas subsidiaries' investment structure in the fourth quarter of 2009. Thus, H.T.C. (B.V.I) Corp. transferred some of its subsidiaries to High Tech Computer Asia Pacific Pte. Ltd and HTC HK, Limited and reduced its capital by NT$751,134 thousand (US$23,480 thousand). As of December 31, 2009, the Company's investment in H.T.C. (B.V.I.) Corp. amounted to NT$1,178,341 thousand (US$36,834 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 common shares at NT$12.50 per share, of which the Company did not buy any shares. Thus, the Company's ownership percentage declined from 92% to 50.66%, resulting 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 December 2009, HTC HK, Limited was sold to High Tech Computer Asia Pacific Pte. Ltd. in line with the reorganization of the Company's overseas subsidiaries' investment structure.

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. ("High Tech Asia") for NT$560,660 thousand and accounted for this investment by the equity method. The Company made a new investment of NT$1,463,114 thousand in 2008. In 2009, High Tech Asia increased its capital by NT$1,339,311 thousand (US$41,867 thousand) because of the Company's new cash investment and a transfer-in due to the reorganization of the Company's overseas subsidiaries' investment structure. As of December 31, 2009, the Company's investment in High Tech Asia had amounted to NT$3,363,085 thousand (US$105,129 thousand). However, because the registration of this investment had not been completed as of December 31, 2009, an amount of NT$209,910 thousand (US$6,562 thousand) was temporarily accounted for under "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, NT$187 thousand (US$6 thousand) and NT$484 thousand (US$15 thousand) in September 2008, January 2009 and June 2009, respectively. In addition, the Company determined that the recoverable amount of this investment in 2009 was less than its carrying amount and thus recognized an impairment loss of NT$30,944 thousand (US$967 thousand).

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 thousand (US$9,222 thousand) and accounted for this investment by the equity method.

In October 2009, the Company and its subsidiary, High Tech Computer Asia Pacific Pte. Ltd., acquired 1% and 99%, respectively, equity interest in HTC Holding Cooperatief U.A. for NT$13 thousand (US$0 thousand) and NT$1,325 thousand (US$41 thousand), respectively. As a result, the Company accounted for this investment by the equity method.

In December 2009, the Company invested in Huada Digital Corporation for NT$245,000 thousand (US$7,659 thousand). Because the registration of the investment was not completed on December 31, 2009, the investment was temporarily accounted for as "prepayments for long-term investments."

On its equity-method investments, the Company had a loss of NT$57,289 thousand and a gain of NT$273,811 thousand (US$8,559 thousand) in 2008 and 2009, respectively.

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

Under the revised Statement of Financial Accounting Standards No. 7, "Consolidated Financial Statements," which took effect on January 1, 2005, the Company included the accounts of all its direct and indirect subsidiaries in the consolidated financial statements as of and for the years ended December 31, 2008 and 2009. All significant intercompany balances and transactions have been eliminated.

15. PROPERTIES

Properties as of December 31, 2008 and 2009 were as follows:

	2008	2009			
	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NT$	NT$	NT$	NT$	US$ (Note 3)
Land	$ 3,568,124	$ 4,719,538	$ -	$ 4,719,538	$ 147,532
Buildings and structures	2,329,081	3,174,986	652,346	2,522,640	78,857
Machinery and equipment	1,226,172	4,003,941	3,103,473	900,468	28,148
Molding equipment	-	172,632	172,632	-	-
Computer equipment	72,187	302,213	224,299	77,914	2,436
Transportation equipment	1,675	2,732	1,394	1,338	42
Furniture and fixtures	28,409	129,533	110,330	19,203	600
Leased assets	2,356	4,712	3,141	1,571	49
Leasehold improvements	58,772	96,014	54,240	41,774	1,306
Prepayments for land, construction-in-progress and equipment-in-transit	88,875	29,731	-	29,731	929
	$ 7,375,651	$ 12,636,032	$ 4,321,855	$ 8,314,177	$ 259,899

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 headquarter 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 December 31, 2009. Under a revised agreement signed in December 2009, Yulon Motors Ltd. should transfer to the Company the remaining 20% of ownership of the land by March 31, 2010 instead of by December 20, 2009. The Company should pay the remaining 20% purchase price 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$24,755 thousand) from a related party, Syuda Construction Company, to expand factory area.

There were no interests capitalized for the years ended December 31, 2008 and 2009, respectively.

16. ACCRUED EXPENSES

Accrued expenses as of December 31, 2008 and 2009 were as follows:

	2008	2009	
	NT$	NT$	US$ (Note 3)
Marketing	$ 5,810,533	$ 8,572,963	$ 267,989
Bonus to employees	6,164,889	4,859,236	151,899
Services	1,180,716	1,115,099	34,858
Salaries and bonuses	1,012,048	820,342	25,644
Export	447,814	460,401	14,392
Research materials	397,075	405,916	12,689
Donation	-	217,800	6,808
Meals and welfare	99,952	111,745	3,493
Insurance	69,978	74,607	2,332
Repairs and maintenance	76,171	63,957	1,999
Research and development	65,600	49,200	1,538
Pension cost	48,405	47,860	1,496
Freight	13,808	27,312	854
Travel	30,714	22,325	698
Others	215,233	279,211	8,728
	$ 15,632,936	$ 17,127,974	$ 535,417

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.

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 to the HTC Education Foundation NT$300,000 thousand (US$9,378 thousand), consisting of (a) the second and third floors of Taipei's R&D headquarters, with these two floors to be built at an estimated cost of NT$217,800 thousand (US$6,808 thousand), and (b) cash of NT$82,200 thousand (US$2,570 thousand). This donation excludes the land, of which the ownership remains with the Company. The difference between the estimated building donation and the actual construction cost will be treated as an adjustment in the year when the completed floors are actually turned over to the HTC Education Foundation.

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 December 31, 2008 and 2009 were as follows:

	2008	2009	
	NT$	NT$	US$ (Note 3)
Reserve for warranty expenses	$ 5,225,862	$ 5,287,562	$ 165,288
Other payables (Note 25)	634,417	905,908	28,318
Agency receipts	255,853	576,891	18,033
Deferred credits - profit from intercompany transactions	134,091	108,150	3,381
Advance receipts	120,504	195,678	6,117
Directors' remuneration	21,842	-	-
Others	16,207	195,773	6,120
	$ 6,408,776	$ 7,269,962	$ 227,257

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 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 years ended December 31, 2008 and 2009 were NT$158,050 thousand and NT$182,271 thousand (US$5,698 thousand), respectively.

Under the Law, which provides for a defined benefit pension plan, retirement payments should be made according to the years of service, with a payment of two units for each year of service but only one unit per year after the 15th year; however, total units should not exceed 45. The rate of the Company's contributions to a pension fund was 2% after the Act took effect. The pension fund is deposited in the Bank of Taiwan in the committee's name. The pension fund balances were NT$388,641 thousand and NT$416,688 thousand (US$13,025 thousand) as of December 31, 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, pension cost under a defined benefit pension plan should be calculated by the actuarial method. Related disclosure is as follows:

The Company's net pension costs under the defined benefit plan in 2008 and 2009 were as follows:

	2008	2009	
	NT$	NT$	US$ (Note 3)
Service cost	$ 5,194	$ 5,255	$ 164
Interest cost	8,699	9,351	293
Projected return on plan assets	(9,967)	(11,076)	(346)
Amortization of unrecognized net transition obligation, net	-	-	-
Amortization of net pension benefit	1,487	1,349	42
Net pension cost	$ 5,413	$ 4,879	$ 153

The reconciliations between pension fund status and prepaid pension cost as of December 31, 2008 and 2009 were as follows:

	2008	2009	
	NT$	NT$	US$ (Note 3)
Present actuarial value of benefit obligation			
Vested benefit obligation	$ -	$ 1,334	$ 42
Non-vested benefit obligation	163,438	177,557	5,550
Accumulated benefit obligation	163,438	178,891	5,592
Additional benefits on future salaries	176,609	148,040	4,628
Projected benefit obligation	340,047	326,931	10,220
Fair value of plan assets	(388,641)	(416,688)	(13,025)
Funded status	(48,594)	(89,757)	(2,805)
Unrecognized pension loss	(68,544)	(47,896)	(1,498)
Prepaid pension cost	$ (117,138)	$ (137,653)	$ (4,303)

Assumptions used in actuarially determining the present value of the projected benefit obligation were as follows:

	2008	2009
Weighted-average discount rate	2.75%	2.00%
Assumed rate of increase in future compensation	4.00%	3.50%
Expected long-term rate of return on plan assets	2.75%	2.00%

The vested benefits as of December 31, 2008 and 2009 amounted to NT$0 thousand and NT$1,511 thousand (US$47 thousand), respectively.

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 December 31, 2008 increased to NT$7,553,938 thousand, divided into 755,394 thousand common shares at NT$10.00 par value.

In January and November 2009, the Company retired 10,000 thousand treasury shares at NT$100,000 thousand (US$3,126 thousand) and 7,085 thousand treasury shares at NT$70,850 thousand (US$2,214 thousand), respectively. Also, in June 2009, the stockholders approved the transfer of retained earnings amounting to NT$372,697 thousand (US$11,650 thousand) and employee bonuses amounting to NT$133,573 thousand (US$4,175 thousand) to capital stock. As a result, the amount of the Company's outstanding common stock as of December 31, 2009 increased to NT$7,889,358 thousand (US$246,620 thousand), divided into 788,936 thousand common shares at NT$10.00 (US$0.31) 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 December 31, 2009, there were 3,067.4 thousand units of GDRs redeemed, representing 12,270 thousand common shares, and the outstanding GDRs represented 21,702 thousand common shares or 2.75% 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. In January and November 2009, the retirement of treasury stock caused a decrease of additional paid-in capital amounted to NT$57,907 thousand (US$1,810 thousand) and NT$81,330 thousand (US$2,542 thousand), respectively. 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$150,713 thousand) was accounted for as additional paid-in capital. As a result, the additional paid-in capital as of December 31, 2009 was NT$9,056,323 thousand (US$283,099 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 2009 and June 2009, adjustments of NT$1,689 thousand, NT$187 thousand (US$6 thousand) and NT$484 thousand (US$15 thousand) were made to the investment carrying value and capital surplus, respectively. The Company also determined that the recoverable amount of this investment was less than its carrying amount and recognized an impairment loss on its carrying value. As a result, the carrying value of this investment became zero and the Company reversed a capital surplus of NT$2,360 thousand (US$74 thousand) that was recognized in prior years for the movement of Vitamin D's capital surplus in proportion to the Company's equivalent stock. Also recognized was the movement of other investees' capital surplus amounting to NT$2,566 thousand (US$80 thousand). As of December 31, 2009, the total capital surplus from long-term equity-method investments was NT$18,411 thousand (US$576 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 and November 2009, the additional paid-in capital from a merger decreased to NT$25,189 thousand (US$787 thousand) as of December 31, 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.

As of January 18, 2010, the date of the accompanying independent auditors' report, the appropriation of the 2009 earnings had not been proposed by the Board of Directors. Information on earnings appropriation can be accessed online through the Market Observation Post System on the Web site.

20. TREASURY STOCK

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

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 7,085 thousand shares for NT$2,406,930 thousand (US$75,240 thousand) during the repurchase period and retired them in November 2009.

(In Thousands of Shares)

Purpose	As of January 1, 2009	Increase	Decrease	As of December 31, 2009
For maintaining the Company's credit and stockholders' equity	10,000	7,085	17,085	-

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 EXPENSES, 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	$ 2,960,403	$ 8,421,017	$ 11,381,420	$ 2,498,640	$ 6,743,119	$ 9,241,759	$ 78,108	$ 210,788	$ 288,896
Salary	2,602,602	7,961,251	10,563,853	2,110,277	6,209,064	8,319,341	65,967	194,094	260,061
Insurance	123,335	147,065	270,400	150,925	178,655	329,580	4,718	5,584	10,302
Pension cost	48,583	114,880	163,463	57,183	129,967	187,150	1,788	4,063	5,851
Other	185,883	197,821	383,704	180,255	225,433	405,688	5,635	7,047	12,682
Depreciation	271,168	294,434	565,602	294,601	335,536	630,137	9,209	10,489	19,698
Amortization	-	35,983	35,983	11,357	28,490	39,847	355	891	1,246

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 taxes payable as of December 31, 2008 and 2009 were computed as follows:

	2008	2009	
	NT$	NT$	US$ (Note 3)
Income before income tax	$ 31,590,479	$ 25,212,464	$ 788,136
Permanent differences			
Loss (gain) on equity-method investments	57,289	(273,811)	(8,559)
Impairment loss	-	30,944	967
Other	372,219	82,485	2,579
Temporary differences			
Realized pension cost	(21,951)	(20,515)	(641)
Unrealized loss on decline in value of inventory	706,938	1,502,036	46,953
Unrealized royalties	2,104,308	2,312,014	72,273
Unrealized exchange losses, net	6,928	942,915	29,475
Unrealized bad debt expenses	180,011	503,089	15,727
Capitalized expense	74,251	(29,095)	(910)
Unrealized warranty expense	1,755,905	61,700	1,929
Unrealized marketing expenses	2,867,307	3,037,905	94,964
Unrealized valuation loss (gain) on financial instruments	417,827	(532,215)	(16,637)
Realized profit from intercompany transactions	(40,984)	(25,941)	(811)
Other	(74,922)	196,431	6,140
Total income	39,995,605	33,000,406	1,031,585
Less: Tax-exempt income	(31,976,991)	(26,204,796)	(819,156)
Taxable income	8,018,614	6,795,610	212,429
Tax rate	25%	25%	25%
	2,004,654	1,698,903	53,107
Income tax credit	(10)	(10)	-
Estimated income tax provision	2,004,644	1,698,893	53,107
Unappropriated earnings (additional 10% income tax)	352,583	202,145	6,319
Less: Investment research and development tax credits	(352,583)	(202,145)	(6,319)
Income tax payable determined pursuant to the Income Tax Law	$ 2,004,644	$ 1,698,893	$ 53,107

(Continued)

	2008	2009	
	NT$	NT$	US$ (Note 3)
Alternative minimum tax	$ 3,396,417	$ 3,211,563	$ 100,393
Less: Prepaid and withheld income tax	(438,747)	(39,014)	(1,220)
Prior years' income tax payable	980,075	980,075	30,637
Income tax payable	$ 3,937,745	$ 4,152,624	$ 129,810

(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 December 31, 2008 and 2009 should be NT$3,396,417 thousand and NT$3,211,563 thousand (US$100,393 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. Deductible temporary differences and tax credit carryforwards that gave rise to deferred tax assets as of December 31, 2008 and 2009 were as follows:

	2008	2009	
	NT$	NT$	US$ (Note 3)
Temporary differences			
Provision for loss on decline in value of inventory	$ 405,806	$ 625,052	$ 19,539
Unrealized marketing expenses	1,452,633	1,714,593	53,598
Unrealized reserve for warranty expense	1,306,466	1,057,512	33,057
Capitalized expense	58,190	40,734	1,273
Unrealized royalties	1,535,925	1,691,142	52,865
Unrealized bad-debt expenses	26,503	147,309	4,605
Unrealized exchange loss, net	-	155,801	4,870
Unrealized valuation loss on financial instruments	128,521	-	-
Other	12,465	43,237	1,352
Tax credit carryforwards	2,196,808	3,056,328	95,540
Total deferred tax assets	7,123,317	8,531,708	266,699
Less: Valuation allowance	(5,679,417)	(6,623,210)	(207,040)
Total deferred tax assets, net	1,443,900	1,908,498	59,659
Deferred tax liabilities			
Unrealized pension cost	(29,284)	(27,531)	(861)
Unrealized valuation gain on financial instruments	-	(3,626)	(113)
Unrealized exchange gain, net	(40,978)	-	-
	1,373,638	1,877,341	58,685
Less: Current portion	(552,494)	(811,240)	(25,359)
Deferred tax assets - noncurrent	$ 821,144	$ 1,066,101	$ 33,326

Details of the tax credit carryforwards were as follows:

Year of Occurrence	Validity Period	2008 NT$	2009 NT$	2009 US$ (Note 3)
2007	2007-2011	$ 201,506	$ 201,506	$ 6,299
2008	2008-2012	1,995,302	831,154	25,982
2009	2009-2013	-	2,023,668	63,259
		$ 2,196,808	$ 3,056,328	$ 95,540

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

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

The income taxes in 2008 and 2009 were as follows:

	2008 NT$	2009 NT$	2009 US$ (Note 3)
Current income tax	$ 3,396,417	$ 3,211,563	$ 100,393
Increase in deferred income tax assets	(431,528)	(503,703)	(15,746)
Overestimation of prior year's income tax	(9,759)	(104,298)	(3,260)
Income tax	$ 2,955,130	$ 2,603,562	$ 81,387

The integrated income tax information is as follows:

	2008 NT$	2009 NT$	2009 US$ (Note 3)
Balance of imputation credit account (ICA)	$ 4,365,460	$ 1,702,246	$ 53,212
Unappropriated earnings generated from 1998	44,626,182	38,364,099	1,199,253
Actual/estimated creditable ratio (including income tax payable)	10.55% (Actual ratio)	12.71% (Estimated ratio)	12.71% (Estimated ratio)

For distribution of earnings generated on or after January 1, 1998, the ratio for the imputation credits allocated to stockholders of the Company is based on the balance of the ICA as of the date of dividend distribution. The expected creditable ratio for the 2009 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution.

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 791,855 thousand shares and 787,367 thousand shares for the years ended December 31, 2008 and 2009, respectively. EPS for the year ended December 31, 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 years ended December 31, 2008 and 2009 was as follows:

	2008				
	Amount (Numerator)			**EPS (In Dollars)**	
	Before Income Tax	**After Income Tax**	**Shares (Denominator) (In Thousands)**	**Before Income Tax**	**After Income Tax**
	NT$	**NT$**		**NT$**	**NT$**
Basic EPS	$ 31,590,479	$ 28,635,349	791,855	$ 39.89	$ 36.16
Bonus to employees	-	-	27,400		
Diluted EPS	$ 31,590,479	$ 28,635,349	819,255	$ 38.56	$ 34.95

	2009				
	Amount (Numerator)			**EPS (In Dollars)**	
	Before Income Tax	**After Income Tax**	**Shares (Denominator) (In Thousands)**	**Before Income Tax**	**After Income Tax**
	NT$	**NT$**		**NT$**	**NT$**
Basic EPS	$ 25,212,464	$ 22,608,902	787,367	$ 32.02	$ 28.71
Bonus to employees	-	-	15,044		
Diluted EPS	$ 25,212,464	$ 22,608,902	802,411	$ 31.42	$ 28.18

	2009				
	Amount (Numerator)			**EPS (In Dollars)**	
	Before Income Tax	**After Income Tax**	**Shares (Denominator) (In Thousands)**	**Before Income Tax**	**After Income Tax**
	US$ (Note 3)	**US$ (Note 3)**		**US$ (Note 3)**	**US$ (Note 3)**
Basic EPS	$ 788,136	$ 706,749	787,367	$ 1.00	$ 0.90
Bonus to employees	-	-	15,044		
Diluted EPS	$ 788,136	$ 706,749	802,411	$ 0.98	$ 0.88

24. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

a. Nonderivative financial instruments

	December 31					
	2008		2009			
	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NT$	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
Assets						
Available-for-sale financial assets - current	$ -	$ -	$ 2,497,394	$ 78,068	$ 2,497,394	$ 78,068
Available-for-sale financial assets - noncurrent	339	339	313	10	313	10
Financial assets carried at cost	501,192	501,192	501,192	15,667	501,192	15,667
Liabilities						
Financial liabilities at fair value through profit or loss - current	6	6	-	-	-	-

b. Derivative financial instruments

	December 31					
	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	$ -	$ -	$ 18,132	$ 567	$ 18,132	$ 567
Liabilities						
Financial liabilities at fair value through profit or loss - current	514,077	514,077	-	-	-	-

Outstanding spot and forward exchange contracts amounted to NT$6 thousand and NT$514,077 thousand, respectively, as of December 31, 2008. Outstanding forward exchange contracts amounted to NT$18,132 thousand (US$567 thousand) as of December 31, 2009. The net amounts on derivative financial instruments were recognized as financial assets at fair value through profit or loss - current or 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

	Fair Values Based on Quoted Market Prices			Fair Values Based on Valuation Methods		
	December 31			December 31		
	2008	2009		2008	2009	
	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)	US$ (Note 3)
Assets						
Financial assets at fair value through profit or loss - current	$ -	$ 18,132	$ 567	$ -	$ -	$ -
Available-for-sale financial assets - current	-	2,497,394	78,068	-	-	-
Available-for-sale financial assets - noncurrent	339	313	10	-	-	-
Financial assets carried at cost	-	-	-	501,192	501,192	15,667
Liabilities						
Financial liabilities at fair value through profit or loss - current	514,083	-	-	-	-	-

There was no loss or gain recognized for the years ended December 31, 2008 and 2009 on the fair value changes of derivatives with fair values estimated using valuation techniques. However, the Company recognized unrealized losses of NT$445 thousand and NT$26 thousand (US$1 thousand) under stockholders' equity for the changes in fair value of available-for-sale financial assets for the years ended December 31, 2008 and 2009, respectively.

As of December 31, 2008 and 2009, financial assets exposed to cash flow interest rate risk amounted to NT$60,051,748 thousand and 61,177,848 thousand (US$1,912,405 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. There are no immediate future cash requirements for contract settlement.

25. RELATED-PARTY TRANSACTIONS

The related parties were as follows:

Related Party	Relationship with the Company
First International Computer, Inc. (FIC)	Chairperson is an immediate relative of the Company's chairperson
Xander International Corp.	Chairperson is an immediate relative of the Company's chairperson
VIA Technologies, Inc.	Same chairperson
Chander Electronics Corp.	Same chairperson
Syuda Construction Company	The only juridical stockholder whose chairperson is the same person with the Company
Comserve Network Netherlands B.V.	Main director is an immediate relative of the Company's chairperson
H.T.C. (B.V.I.) Corp.	Subsidiary
BandRich Inc.	Subsidiary
Communication Global Certification Inc.	Subsidiary
High Tech Computer Asia Pacific Pte. Ltd.	Subsidiary
HTC Europe Co., Ltd.	Subsidiary of H.T.C. (B.V.I.) Corp.
High Tech Computer Corp. (Suzhou)	Subsidiary of H.T.C. (B.V.I.) Corp.
HTC Brasil	Subsidiary of H.T.C. (B.V.I.) Corp.
Exedea Inc.	Subsidiary of H.T.C. (B.V.I.) Corp.
HTC Nippon Corporation	Subsidiary of H.T.C. (B.V.I.) Corp.
HTC HK, Limited.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Belgium BVBA/SPRL	Subsidiary of HTC HK, Limited.
HTC Corporation (Shanghai WGQ) (formerly High Tech Computer Corp. (WGQ) until December 2008)	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 America Inc.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
One & Company Design, Inc.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
Employees' Welfare Committee	Employees' Welfare Committee of HTC Corporation
HTC Education Foundation for Social Welfare Charity	A non-profit organization of which the funds donated from the Company exceeds one third of the non-profit organization's total funds
High Tech Computer Foundation	A non-profit organization of which the funds donated from the Company exceeds one third of the non-profit organization's total funds

Major transactions with related parties are summarized below:

Purchases of Inventories and Services

Related Party	2008 Amount	2008 % to Total Net Purchases	2009 Amount		2009 % to Total Net Purchases
	NT$		NT$	US$ (Note 3)	
High Tech Computer Corp. (Suzhou)	$ 167,775	-	$ 32,361	$ 1,012	-
HTC Electronics (Shanghai)	13,975	-	78,835	2,464	-
Chander Electronics Corp.	19,041	-	28,606	894	-
BandRich Inc.	-	-	41,318	1,292	-
	$ 200,791	-	$ 181,120	$ 5,662	-

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

Sales and Services Provided

Related Party	2008 Amount	2008 % to Total Revenues	2009 Amount		2009 % to Total Revenues
	NT$		NT$	US$ (Note 3)	
Exedea Inc.	$ -	-	$ 1,844,513	$ 57,659	1
HTC America Inc.	1,524,385	2	1,118,794	34,973	1
HTC Europe Co., Ltd.	198,346	-	298,267	9,324	-
High Tech Computer (H.K.) Limited	78,703	-	55,123	1,723	-
High Tech Computer Singapore Pte. Ltd.	59,422	-	34,840	1,089	-
BandRich Inc.	266,166	-	20,028	626	-
Employees' Welfare Committee	101,195	-	9,666	302	
Xander International Corp.	93,923	-	198	6	-
First International Computer, Inc. (FIC)	24,222	-	-	-	-
Others	17,375	-	20,307	635	-
	$ 2,363,737	2	$ 3,401,736	$ 106,337	2

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

Notes and Accounts Receivable

Related Party	December 31 2008 Amount	2008 % to Total Accounts Receivable	2009 Amount		2009 % to Total Accounts Receivable
	NT$		NT$	US$ (Note 3)	
Accounts receivable					
Exedea Inc.	$ -	-	$ 1,820,281	$ 56,902	7
HTC America Inc.	761,193	3	378,584	11,834	1
HTC Europe Co., Ltd.	81,917	-	25,333	792	-
High Tech Computer (H.K.) Limited	9,893	-	7,887	246	-
Employees' Welfare Committee.	69,238	-	-	-	-
Others	16,529	-	12,465	390	-
	$ 938,770	3	$ 2,244,550	$ 70,164	8

Notes and Accounts Payable

Related Party	December 31 2008 Amount	2008 % to Total Accounts Payable	2009 Amount		2009 % to Total Accounts Payable
	NT$		NT$	US$ (Note 3)	
HTC Electronics (Shanghai)	$ 7,626	-	$ 67,245	$ 2,102	-
Chander Electronics Corp.	19,041	-	13,479	421	-
High Tech Computer Corp. (Suzhou)	1,427	-	-	-	-
Others	609	-	4,952	155	-
	$ 28,703	-	$ 85,676	$ 2,678	-

Other Receivables

Related Party	December 31 2008 Amount	2008 % to Total Other Receivable	2009 Amount		2009 % to Total Other Receivable
	NT$		NT$	US$ (Note 3)	
HTC America Inc.	$ 1,666	1	$ 77,930	$ 2,436	40
HTC Europe Co., Ltd.	373	-	1,988	62	1
HTC Corporation (Shanghai WGQ)	6,064	3	-	-	-
Others	5,766	3	1,219	38	-
	$ 13,869	7	$ 81,137	$ 2,536	41

Prepaid Expenses

Related Party	December 31, 2008 Amount NT$	2008 % to Total Prepayment	2009 Amount NT$	2009 Amount US$ (Note 3)	2009 % to Total Prepayment
HTC America Inc.	$ -	-	$ 94,223	$ 2,945	3
HTC NIPPON Corporation	24,249	2	23,976	750	1
One & Company Design, Inc.	13,412	1	3,850	120	-
Communication Global Certification Inc	24,947	2	-	-	-
HTC India Private Limited	12,138	1	-	-	-
Others	12,157	1	-	-	-
	$ 86,903	7	$ 122,049	$ 3,815	4

Accrued Expenses

Related Party	December 31, 2008 Amount NT$	2008 % to Total Accrued Expenses	2009 Amount NT$	2009 Amount US$ (Note 3)	2009 % to Total Accrued Expenses
HTC Europe Co., Ltd.	$ 692,159	4	$ 458,233	$ 14,324	3
HTC America Inc.	448,740	3	401,564	12,553	3
HTC Education Foundation for Social Welfare Charity	-	-	217,800	6,808	1
High Tech Computer Asia Pacific Pte. Ltd.	65,600	1	47,985	1,500	-
HTC Belgium BVBA/SPRL	-	-	39,436	1,233	
High Tech Computer (H.K.) Limited	26,772	-	26,798	838	-
High Tech Computer Singapore Pte. Ltd.	67,564	1	22,550	705	-
HTC India Private Limited	39,400	-	16,546	517	-
HTC (Australia and New Zealand) Pty. Ltd.	17,969	-	13,513	423	-
HTC (Thailand) Limited	-	-	9,064	283	-
HTC Nippon Corporation	46,092	-	1,127	35	-
Others	19,658	-	22,589	706	-
	$ 1,423,954	9	$ 1,277,205	$ 39,925	7

Other Payables to Related Parties

Related Party	December 31 2008 Amount NT$	2008 % to Total Other Payables	2009 Amount NT$	2009 Amount US$ (Note 3)	2009 % to Total Other Payables
HTC America Inc.	$ 210,389	33	$ 317,708	$ 9,931	35
High Tech Computer Asia Pacific Pte. Ltd.	-	-	96,438	3,015	11
HTC EUROPE CO, LTD.	-	-	83,509	2,610	9
HTC Corporation (Shanghai WGQ)	5,564	1	15,470	484	2
HTC Nippon Corporation	20,011	3	7,069	221	1
High Tech Computer (H.K.) Limited	-	-	6,776	212	1
H.T.C. (B.V.I.) Corp.	122,700	20	-	-	-
Communication Global Certification Inc.	14,972	2	-	-	-
Others	1,331	-	4,797	150	-
	$ 374,967	59	$ 531,767	$ 16,623	59

Advance Receipts

Related Party	December 31 2008 Amount NT$	2008 % to Total Advance Receipts	2009 Amount NT$	2009 Amount US$ (Note 3)	2009 % to Total Advance Receipts
BandRich Inc.	$ -	-	$ 61,358	$ 1,918	11

Outsourcing Expenses

Related Party	2008 Amount NT$	2008 % to Total Out-sourcing Expenses	2009 Amount NT$	2009 Amount US$ (Note 3)	2009 % to Total Out-sourcing Expenses
HTC Electronics (Shanghai)	$ 9,084	2	$ 306,410	$ 9,578	95
High Tech Computer Corp. (Suzhou)	281,470	58	3,775	118	1
	$ 290,554	60	$ 310,185	$ 9,696	96

Service Warranty Expenses

Related Party	2008 Amount	2008 % to Total Warranty Expenses	2009 Amount		2009 % to Total Warranty Expenses
	NT$		NT$	US$ (Note 3)	
HTC America Inc.	$ 1,105,226	19	$ 1,211,149	$ 37,860	22
HTC Europe Co., Ltd.	564,780	10	319,210	9,979	6
HTC Corporation (Shanghai WGQ)	87,317	1	89,358	2,793	2
High Tech Computer (H.K.) Limited	29,738	-	48,179	1,506	1
High Tech Computer Singapore Pte. Ltd.	18,292	-	29,985	937	-
Comserve Network Netherlands B.V.	14,491	-	1,203	38	-
	$ 1,819,844	30	$ 1,699,084	$ 53,113	31

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

Commission Expenses

Related Party	2008 Amount	2008 % to Total Commission Expenses	2009 Amount		2009 % to Total Commission Expenses
	NT$		NT$	US$ (Note 3)	
HTC Europe Co., Ltd.	$ -	-	$ 2,547,351	$ 79,630	86
HTC Belgium BVBA/SPRL	-	-	424,299	13,263	14
	$ -	-	$ 2,971,650	$ 92,893	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	2008 Amount NT$	2008 % to Total Service Expenses	2009 Amount NT$	2009 Amount US$ (Note 3)	2009 % to Total Service Expenses
HTC America Inc.	$ 1,846,017	27	$ 2,541,746	$ 79,454	33
HTC NIPPON Corporation	336,913	5	211,502	6,612	3
Communication Global Certification Inc.	139,200	2	175,930	5,500	2
HTC Brasil	219,394	3	173,325	5,418	2
High Tech Computer Singapore Pte. Ltd.	171,054	2	166,508	5,205	2
One & Company Design, Inc.	9,792	-	157,246	4,915	2
HTC Europe Co., Ltd.	2,030,696	29	142,260	4,447	2
HTC Belgium BVBA/SPRL	600,114	9	142,164	4,444	2
High Tech Computer (H.K.) Limited	94,322	1	94,256	2,946	1
HTC (Australia and New Zealand) Pty. Ltd.	111,902	2	92,283	2,885	1
HTC India Private Limited	118,461	2	63,051	1,971	1
HTC (Thailand) Limited	34,755	1	40,669	1,271	1
High Tech Computer Asia Pacific Pte. Ltd.	65,600	1	-	-	-
Others	4,650	-	46,273	1,447	1
	$ 5,782,870	84	$ 4,047,213	$ 126,515	53

Other Revenues

Related Party	2008 Amount NT$	2008 % to Total Other Revenues	2009 Amount NT$	2009 Amount US$ (Note 3)	2009 % to Total Other Revenues
BandRich Inc.	$ 1,200	-	$ 1,200	$ 38	-

Leasing - Lessee

Operating expenses - rental expenses

Related Party	2008 Amount	2008 % to Total Rental Expenses	2009 Amount		2009 % to Total Rental Expenses
	NT$		NT$	US$ (Note 3)	
VIA Technologies Inc.	$ 3,661	8	$ 9,035	$ 282	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.

Donation Expense

Related Party	2008 Amount	2008 % to Total Donation Expenses	2009 Amount		2009 % to Total Donation Expenses
	NT$		NT$	US$ (Note 3)	
HTC Education Foundation for Social Welfare Charity	$ 300,000	92	$ 300,000	$ 9,378	92
High Tech Computer Foundation.	20,000	6	25,000	781	7
	$ 320,000	98	$ 325,000	$ 10,159	99

The Company donated NT$325,000 thousand in 2008 and NT$325,500 thousand (US$10,175 thousand) in 2009 to help disadvantaged minorities, teenagers and other people in need. Of these donations, NT$5,000 thousand in 2008 and NT$500 thousand (US$16 thousand) in 2009 went to unrelated parties (Note 16 has more information).

Other Losses

Related Party	2008 Amount NT$	2008 % to Total Other Losses	2009 Amount NT$	2009 Amount US$ (Note 3)	2009 % to Total Other Losses
Xander International Corp.	$ 37,500	10	$ -	$ -	-

In 2008, the Company shared part of the moving expenses with Xander International Corp. because the Company rented the office which was originally rented by Xander International Corp.

Property Transactions

In January 2009, the Company acquired land from a related party, Syuda Construction Company, for NT$791,910 thousand (US$24,755 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 2008 and 2009, the Company sold equipment to HTC Corporation (Shanghai WGQ) for NT$7,106 thousand and NT$496 thousand (US$16 thousand), resulting in a gain of NT$1,175 thousand and NT$0 thousand gain on these sales, respectively.

Endorsement/Guarantee Provided

Note 27 has more information.

Compensation of Directors, Supervisors and Management Personnel

	2008 NT$	2009 NT$	2009 US$ (Note 3)
Salaries	$ 77,345	$ 78,556	$ 2,456
Incentives	19,163	46,799	1,463
Special compensation	15	12	-
Bonus	562,724	(Note)	(Note)
	$ 659,247	$ 125,367	$ 3,919

Note: The appropriation of the 2009 earnings is not shown because the Board of Directors had not yet made the related proposal.

The Company's disclosure of the compensation of directors, supervisors and management personnel for the years ended December 31, 2008 and 2009 was in compliance with Order VI-0970053275 issued by the Financial Supervisory Commission under the Executive Yuan.

The compensation of directors, supervisors and management personnel for the year ended December 31, 2008 included the bonuses appropriated from the earnings of 2008, which had been approved by stockholders in their annual meeting in 2009.

26. PLEDGED ASSETS

As of December 31, 2009, the Company had provided time deposits of NT$63,900 thousand (US$1,997 thousand) to the National Tax Administration of Northern Taiwan Province as part of the requirements for the Company to get a certificate stating that it had no pending income tax.

27. COMMITMENTS AND CONTINGENCIES

As of December 31, 2009, unused letters of credit amounted to JPY7,835 thousand.

The Company provided NT$479,850 thousand (US$15,000 thousand) guarantee for HTC Electronics (Shanghai)'s bank loans. HTC Electronics (Shanghai) has drawn down $0 thousand from banks within the guarantee amount as of December 31, 2009.

28. SIGNIFICANT CONTRACTS

Patent Agreements

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

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

(Continued)

Contractor	Contract Term	Description
Telefonaktiebolaget LM Ericsson	December 15, 2008 - December 14, 2013	Authorization to use platform patent license agreement; royalty payment based on agreement.
Nokia Corporation	January 1, 2003 to the expiry dates of these patents.	Authorization to use wireless technology, like GSM; royalty payment based on agreement.
InterDigital Technology Corporation.	December 31, 2003 to the expiry dates of these patents.	Authorization to use TDMA and CDMA technology; royalty payment based on agreement.
KONINKLIJKE PHILIPS ELECTRONICS N.V.	January 5, 2004 to the expiry dates of these patents	GSM/DCS 1800/1900 Patent License; royalty payment based on agreement.
Motorola, Inc.	December 23, 2003 to the latest of the following dates: a. Expiry dates of patents b. Any time when the Company is not using any of Motorola's intellectual property,	TDMA, NARROWBAND CDMA, WIDEBAND CDMA or TD/CDMA Standards patent license or technology; royalty payment based on agreement.
ALCATEL LUCENT	November 2009 - November 2012	Authorization to use 2G (GSM/GPRS/EDGE/CDMA), 3G (CDMA2000/WCDMA), HTML, MPEG, AMR 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.

(Concluded)

29. OTHER EVENTS

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 was 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, the amount of the required security bond. Thus, the Company has continued to ship products regularly to Germany.

On December 18, 2009, the District Court of Mannheim further ruled that it will stay the proceedings on one of IPCom's claims of breach of patents because of the Court's doubts about its validity. The case will remain suspended pending the end of the claim invalidity proceedings at the European Patent Office and the German Federal Patents Court. As of January 18, 2010, the date of the accompanying independent auditors' report, there had been no further hearing nor had a court decision been made.

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 concluded that the amounts of contingent assets or liabilities were appropriately accounted.

b. 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$105,658 thousand) for a total floor space of 92 thousand square meters. Construction is scheduled to be completed by August 31, 2011 (Note 15 has more information).

30. SEGMENT INFORMATION

Industry Type

The Company mainly manufactures and sells smart handheld devices.

Foreign Operations

The Company does not have any foreign operations.

Export Sales

Export sales in 2008 and 2009 were as follows:

	2008	2009	
	NT$	NT$	US$ (Note 3)
Asia	$ 22,520,501	$ 19,291,108	$ 603,036
North America	54,981,628	70,729,422	2,210,985
Europe	60,022,831	44,000,227	1,375,437
Others	11,401,069	6,218,621	194,393
	$ 148,926,029	$ 140,239,378	$ 4,383,851

Major Customers

Sales to major customers were as follows:

Customer	2008 NT$	2009 NT$	2009 US$ (Note 3)
A	$ 21,631,630	$ 28,815,938	$ 900,779
B	21,371,515	27,213,647	850,692
C	26,866,585	12,662,556	395,829
	$ 69,869,730	$ 68,692,141	$ 2,147,300