

HTC Corporation and Subsidiaries

**Consolidated Financial Statements for the
Three Months Ended March 31, 2009 and 2010 and
Independent Accountants' Review Report**

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
HTC Corporation

We have reviewed the accompanying consolidated balance sheets of HTC Corporation and subsidiaries (collectively, the "Company") as of March 31, 2009 and 2010, and the related consolidated statements of income and cash flows for the three months then ended, all expressed in New Taiwan dollars. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our reviews.

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

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

In addition, the translation of the 2010 New Taiwan dollar amounts into U.S. dollars has been reviewed on the basis stated in Note 3 to the financial statements.

April 20, 2010

Notice to Readers

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

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

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

MARCH 31, 2009 AND 2010

(In Thousands, Except Par Value)

(Reviewed, Not Audited)

ASSETS	2009			2010			LIABILITIES AND STOCKHOLDERS' EQUITY	2009			2010		
	NT\$	NT\$	US\$ (Note 3)	NT\$	NT\$	US\$ (Note 3)		NT\$	NT\$	US\$ (Note 3)	NT\$	NT\$	US\$ (Note 3)
CURRENT ASSETS							CURRENT LIABILITIES						
Cash and cash equivalents (Notes 2 and 4)	\$ 72,610,219	\$ 69,727,128	\$ 2,192,677				Short-term borrowings (Note 14)	\$ 75,000	\$ 67,326	\$ 2,117			
Financial assets at fair value through profit or loss (Notes 2, 5 and 22)	-	68,325	2,149				Financial liabilities at fair value through profit or loss (Notes 2, 5 and 22)	37,329	-	-			
Available-for-sale financial assets - current (Note 2 and 6)	1,365,115	2,158,855	67,889				Notes and accounts payable (Note 23)	21,389,650	27,150,656	853,794			
Notes and accounts receivable, net (Notes 2, 7 and 23)	17,279,493	26,732,912	840,657				Income tax payable (Note 2 and 20)	4,571,608	5,134,925	161,476			
Other current financial assets (Notes 8 and 23)	195,256	309,249	9,725				Accrued expenses (Notes 15 and 23)	15,631,653	20,438,346	642,715			
Inventories (Notes 2 and 9)	5,781,045	8,205,766	258,043				Payable for purchase of equipment	126,811	134,003	4,214			
Prepayments (Note 10)	2,911,649	3,104,409	97,623				Long-term liabilities - current portion (Note 17)	28,750	19,375	609			
Deferred tax assets (Note 2 and 20)	585,015	892,003	28,050				Other current liabilities (Notes 16 and 23)	5,909,529	7,425,306	233,501			
Other current assets	200,761	181,289	5,701				Total current liabilities	47,770,330	60,369,937	1,898,426			
Total current assets	100,928,553	111,379,936	3,502,514										
INVESTMENTS							LONG-TERM LIABILITIES						
Available-for-sale financial assets - noncurrent (Notes 2 and 5)	709	313	10				Long-term bank loans, net of current portion (Note 17)	39,688	20,313	639			
Financial assets carried at cost (Notes 2 and 11)	501,192	564,792	17,761										
Investments accounted for by the equity method (Notes 2 and 12)	40,598	-	-				OTHER LIABILITIES						
Total investments	542,499	565,105	17,771				Guarantee deposits received	2,141	1,572	49			
							Total liabilities	47,812,159	60,391,822	1,899,114			
PROPERTIES (Notes 2, 13 and 23)							STOCKHOLDERS' EQUITY (Note 18)						
Cost							Capital stock - NT\$10.00 par value						
Land	4,719,524	5,387,718	169,425				Authorized: 1,000,000 thousand shares Issued and outstanding:						
Buildings and structures	2,893,852	4,341,814	136,535				745,394 thousand shares in 2009 and 788,936 thousand shares in 2010	7,453,938	7,889,358	248,093			
Machinery and equipment	4,637,369	4,716,037	148,303				Capital surplus						
Molding equipment	194,403	199,752	6,282				Additional paid-in capital from share issuance in excess of par	4,316,337	9,056,323	284,790			
Computer equipment	356,194	414,013	13,018				Long-term equity investments	17,721	18,411	579			
Transportation equipment	4,646	4,568	144				From merger	25,415	25,189	792			
Furniture and fixtures	469,812	458,358	14,414				Retained earnings						
Leased assets	4,712	5,949	187				Legal reserve	7,410,139	10,273,674	323,072			
Leasehold improvements	195,096	203,961	6,414				Accumulated earnings	46,248,976	43,362,526	1,363,601			
	13,475,608	15,732,170	494,722				Cumulative translation adjustments (Note 2)	168,488	(23,456)	(738)			
Less: Accumulated depreciation	(4,431,401)	(5,263,774)	(165,527)				Net loss not recognized as pension cost	-	(34)	(1)			
Prepayments for construction-in-progress and equipment-in-transit	982,366	47,611	1,497				Unrealized losses on financial instruments (Notes 2 and 5)	(1,147)	(1,658)	(52)			
Properties, net	10,026,573	10,516,007	330,692				Treasury stock (Notes 2 and 19)	-	(4,834,174)	(152,018)			
							Equity attributable to stockholders of the parent	65,639,867	65,766,159	2,068,118			
INTANGIBLE ASSETS							MINORITY INTEREST	35,783	27,464	864			
Goodwill (Note 2)	293,202	239,983	7,547				Total stockholders' equity	65,675,650	65,793,623	2,068,982			
Deferred pension cost	475	490	15										
Total intangible assets	293,677	240,473	7,562										
OTHER ASSETS													
Assets leased to others	284,204	-	-										
Refundable deposits	192,209	123,927	3,897										
Deferred charges (Note 2)	249,217	227,742	7,161										
Deferred tax assets (Note 2 and 20)	812,326	1,141,965	35,911										
Restricted assets (Notes 2 and 24)	36,086	107,385	3,377										
Others (Notes 2 and 10)	122,465	1,882,905	59,211										
Total other assets	1,696,507	3,483,924	109,557										
TOTAL	\$ 113,487,809	\$ 126,185,445	\$ 3,968,096				TOTAL	\$ 113,487,809	\$ 126,185,445	\$ 3,968,096			

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

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME THREE MONTHS ENDED MARCH 31, 2009 AND 2010 (In Thousands, Except Earnings Per Share) (Reviewed, Not Audited)

	2009	2010	
	NT\$	NT\$	US\$ (Note 3)
REVENUES (Notes 2 and 23)	\$ 31,407,520	\$ 37,947,114	\$ 1,193,305
COST OF REVENUES (Notes 9 and 23)	<u>21,794,897</u>	<u>26,345,768</u>	<u>828,483</u>
GROSS PROFIT	<u>9,612,623</u>	<u>11,601,346</u>	<u>364,822</u>
OPERATING EXPENSES (Note 23)			
Selling and marketing	2,084,757	3,078,347	96,804
General and administrative	475,482	872,534	27,438
Research and development	<u>2,025,705</u>	<u>1,986,325</u>	<u>62,463</u>
Total operating expenses	<u>4,585,944</u>	<u>5,937,206</u>	<u>186,705</u>
OPERATING INCOME	<u>5,026,679</u>	<u>5,664,140</u>	<u>178,117</u>
NONOPERATING INCOME AND GAINS			
Interest income	167,960	66,130	2,080
Gain on disposal of properties	-	3	-
Gain on sale of investments	-	1,476	46
Exchange gain (Note 2)	398,708	-	-
Valuation gain on financial instruments, net (Notes 2 and 5)	-	68,325	2,149
Other	<u>105,974</u>	<u>16,352</u>	<u>514</u>
Total nonoperating income and gains	<u>672,642</u>	<u>152,286</u>	<u>4,789</u>
NONOPERATING EXPENSES AND LOSSES			
Interest expense	798	520	16
Loss on equity-method investment (Notes 2 and 12)	854	-	-
Losses on disposal of properties	1,939	1	-
Exchange loss (Note 2)	-	48,799	1,535
Valuation loss on financial instruments, net (Notes 2 and 5)	37,329	-	-
Other	<u>218,384</u>	<u>7,612</u>	<u>239</u>
Total nonoperating expenses and losses	<u>259,304</u>	<u>56,932</u>	<u>1,790</u>
INCOME BEFORE INCOME TAX	5,440,017	5,759,494	181,116
INCOME TAX (Note 2 and 20)	<u>(558,107)</u>	<u>(767,810)</u>	<u>(24,145)</u>
NET INCOME	<u>\$ 4,881,910</u>	<u>\$ 4,991,684</u>	<u>\$ 156,971</u>

(Continued)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME THREE MONTHS ENDED MARCH 31, 2009 AND 2010 (In Thousands, Except Earnings Per Share) (Reviewed, Not Audited)

	2009		2010		
	NT\$	NT\$	NT\$	US\$ (Note 3)	
ATTRIBUTABLE TO					
Stockholders of the parent	\$ 4,874,823	\$ 4,998,427	\$ 157,183		
Minority interest	<u>7,087</u>	<u>(6,743)</u>	<u>(212)</u>		
	<u>\$ 4,881,910</u>	<u>\$ 4,991,684</u>	<u>\$ 156,971</u>		
	2009		2010		
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax	
	NT\$	NT\$	NT\$	US\$ (Note 3)	NT\$
				US\$ (Note 3)	US\$ (Note 3)
BASIC EARNINGS PER SHARE (Note 21)	<u>\$ 6.89</u>	<u>\$ 6.23</u>	<u>\$ 7.30</u>	<u>\$ 0.23</u>	<u>\$ 6.38</u>
DILUTED EARNINGS PER SHARE (Note 21)	<u>\$ 6.86</u>	<u>\$ 6.20</u>	<u>\$ 7.27</u>	<u>\$ 0.23</u>	<u>\$ 6.35</u>

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

(Concluded)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS THREE MONTHS ENDED MARCH 31, 2009 AND 2010

(In Thousands)

(Reviewed, Not Audited)

	2009	2010	
	NT\$	NT\$	US\$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 4,881,910	\$ 4,991,684	\$ 156,971
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation (including depreciation of assets leased to others)	223,570	216,794	6,817
Amortization	14,179	19,366	609
Loss (gain) on disposal of properties, net	1,939	(2)	-
Transfer of properties to expenses	294	684	22
Gain on sale of investments, net	-	(1,476)	(46)
Loss on equity-method investments	854	-	-
Deferred income tax assets	(23,918)	(154,023)	(4,843)
Prepaid pension costs	(5,528)	(5,285)	(166)
Net changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	(476,754)	(50,193)	(1,578)
Notes and accounts receivable	12,175,285	392,697	12,350
Other current financial assets	121,268	(50,775)	(1,597)
Inventories	2,469,292	(2,648,053)	(83,272)
Prepayments	(1,626,166)	237,240	7,460
Other current assets	(39,436)	(8,417)	(265)
Other assets - other	-	103,012	3,239
Notes and accounts payable	(7,180,285)	1,998,135	62,834
Income tax payable	531,995	863,963	27,169
Accrued expenses	282,883	3,474,458	109,259
Other current liabilities	(198,922)	811,035	25,504
Net cash provided by operating activities	<u>11,152,460</u>	<u>10,190,844</u>	<u>320,467</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of properties	(1,515,880)	(816,331)	(25,671)
Proceeds of the sale of properties	63,142	28	1
Decrease (increase) in restricted assets	5,379	(1,133)	(36)
Net cash inflow on the acquisition of a subsidiary	-	245,000	7,704
Purchase of available-for-sale financial assets	(1,365,000)	(2,708,855)	(85,184)
Proceeds of the sale of available-for-sale financial assets	-	3,048,870	95,877
(Increase) decrease in refundable deposits	(790)	4,728	149
Increase in deferred charges	(5,254)	(613)	(19)
Net cash used in investing activities	<u>(2,818,403)</u>	<u>(228,306)</u>	<u>(7,179)</u>

(Continued)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS THREE MONTHS ENDED MARCH 31, 2009 AND 2010

(In Thousands)

(Reviewed, Not Audited)

	2009	2010	
	NT\$	NT\$	US\$ (Note 3)
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in short-term borrowings	\$ -	\$ (5,000)	\$ (157)
Decrease in long-term bank loans	(7,187)	(7,187)	(226)
(Decrease) increase in guarantee deposits received	(4,279)	362	11
Purchase of treasury stock	<u>-</u>	<u>(4,834,174)</u>	<u>(152,018)</u>
Net cash used in financing activities	<u>(11,466)</u>	<u>(4,845,999)</u>	<u>(152,390)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
	<u>49,900</u>	<u>(27,701)</u>	<u>(872)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,372,491	5,088,838	160,026
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>64,237,728</u>	<u>64,638,290</u>	<u>2,032,651</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 72,610,219</u>	<u>\$ 69,727,128</u>	<u>\$2,192,677</u>
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid during the period			
Interest (net of amounts capitalized)	\$ <u>813</u>	\$ <u>522</u>	\$ <u>16</u>
Income tax	\$ <u>50,030</u>	\$ <u>57,870</u>	\$ <u>1,820</u>
NONCASH INVESTING AND FINANCING ACTIVITIES			
Transfer of assets leased to others to properties	\$ <u>25,755</u>	\$ <u>48,135</u>	\$ <u>1,514</u>
Retirement of treasury stock	\$ <u>3,410,277</u>	\$ <u>-</u>	\$ <u>-</u>
PURCHASE OF PROPERTIES			
Cost of properties purchased	\$ 1,328,360	\$ 796,521	\$ 25,048
Decrease in payable for purchase of equipment	187,275	19,548	615
Decrease in lease payable	<u>245</u>	<u>262</u>	<u>8</u>
Cash paid for purchase of properties	<u>\$ 1,515,880</u>	<u>\$ 816,331</u>	<u>\$ 25,671</u>

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

(Concluded)

HTC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS THREE MONTHS ENDED MARCH 31, 2009 AND 2010 (In Thousands, Unless Stated Otherwise) (Reviewed, Not Audited)

1. ORGANIZATION AND OPERATIONS

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

HTC and its consolidated subsidiaries, hereinafter referred to as the “Company,” had 8,158 and 8,948 employees as of March 31, 2009 and 2010, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and the order VI-0960064020 issued by Financial Supervisory Commission under the Executive Yuan as of November 15, 2008, and accounting principles generally accepted in the Republic of China (“ROC”). In preparing consolidated financial statements in conformity with these guidelines and principles, the Company is required to make certain estimates and assumptions that could affect the amounts of allowance for doubtful accounts, allowance for inventory devaluation, property depreciation, royalty, accrued pension cost, and warranty liability. Actual results could differ from these estimates.

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

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

Principles of Consolidation

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

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

The consolidated entities as of March 31, 2009 and 2010 were as follows:

Investor	Investee	Main Businesses	% of Ownership		Remark
			2009	2010	
HTC Corporation	H.T.C. (B.V.I.) Corp.	Global investing activities	100.00	100.00	Incorporated in August 2000
	BandRich Inc.	Design, manufacture and sale of electronic devices	50.66	50.66	Incorporated in April 2006
	HTC HK, Limited	Global investing activities	100.00	-	Incorporated in August 2006, and transferred out for the reorganization in December 2009
	Communication Global Certification Inc.	Testing and certification services	100.00	100.00	Invested in January 2007
	High Tech Computer Asia Pacific Pte. Ltd.	Global investing activities, marketing, distribution and after-sales service	100.00	100.00	Incorporated in July 2007
	HTC Investment Corporation	General investing activities	100.00	100.00	Incorporated in July 2008
	PT. High Tech Computer Indonesia	Marketing, distribution and after-sales service	1.00	1.00	Incorporated in December 2007
	HTC I Investment Corporation	General investing activities	-	100.00	Incorporated in September 2009
	HTC Holding Cooperatief U.A.	Global investing activities	-	1.00	Incorporated in October 2009
	Huada Digital Corporation	"	-	100.00	Incorporated in January 2010
H.T.C. (B.V.I.) Corp.	HTC America Inc.	Marketing, repair and after-sales services	100.00	-	Incorporated in January 2003, and transferred out for the reorganization in November 2009
	HTC EUROPE CO., LTD.	"	100.00	-	Incorporated in July 2003, and transferred out for the reorganization in February 2010
	High Tech Computer Corp. (Suzhou)	Manufacture and sale of smart handheld devices	100.00	100.00	Incorporated in January 2003
	Exedea Inc.	Distribution and sales	100.00	100.00	Incorporated in December 2004 and invested in July 2005
	HTC NIPPON Corporation	Marketing, distribution and after-sales service	100.00	100.00	Incorporated in March 2006
	HTC BRASIL	"	99.99	-	Incorporated in October 2006, and transferred out for the reorganization in February 2010
	HTC Corporation (Shanghai WGQ)	Repair and after-sales service	100.00	-	Incorporated in July 2007, and transferred out for the reorganization in December 2009
	One & Company Design, Inc.	Design, research and development of application software	100.00	-	Invested in October 2008, and transferred out for the reorganization in November 2009
High Tech Computer Asia Pacific Pte. Ltd.	High Tech Computer Singapore Pte. Ltd.	Marketing, distribution and after-sales service	100.00	-	Incorporated in July 2007, and merged into High Tech Computer Asia Pacific Pte. Ltd. in February 2010
	High Tech Computer (H.K.) Limited	"	100.00	100.00	Incorporated in August 2007
	HTC (Australia and New Zealand) Pty. Ltd.	"	100.00	100.00	Incorporated in August 2007
	HTC Philippines Corporation	"	99.99	99.99	Incorporated in December 2007
	PT. High Tech Computer Indonesia	"	99.00	99.00	Incorporated in December 2007
	HTC (Thailand) Limited	"	100.00	100.00	Incorporated in November 2007 and invested in September 2008
	HTC India Private Ltd.	"	99.00	99.00	Incorporated in January 2008

(Continued)

Investor	Investee	Main Businesses	% of Ownership		Remark
			2009	2010	
High Tech Computer Asia Pacific Pte. Ltd.	HTC Electronics (Shanghai) Co., Ltd.	Manufacture and sale of smart handheld devices	100.00	-	Incorporated in January 2007, invested in July 2008, and transferred out for the reorganization in February 2010
	HTC Malaysia Sdn. Bhd.	Marketing, distribution and after-sales service	100.00	100.00	Incorporated in July 2008 and invested in January 2009
	HTC Innovation Limited	"	100.00	100.00	Incorporated in January 2009
	HTC Communication Co., Ltd.	The sale of smart handheld devices	100.00	100.00	Incorporated in December 2008 and invested in March 2009
	HTC Holding Cooperatief U.A.	Global investing activities	-	99.00	Incorporated in October 2009
	HTC America Inc.	Marketing, repair and after-sales services	-	100.00	Incorporated in January 2003, and transferred in for the reorganization in November 2009
	One & Company Design, Inc.	Design, research and development of application software	-	100.00	Incorporated in October 2008, and transferred in for the reorganization in November 2009
	HTC HK, Limited	Global investing activities	-	100.00	Incorporated in August 2006, and transferred in for the reorganization in December 2009
High Tech Computer Singapore Pte. Ltd.	HTC India Private Ltd.	Marketing, distribution and after-sales service	1.00	-	Incorporated in January 2008, and transferred out for the reorganization in February 2010
HTC HK, Limited	HTC Belgium BVBA/SPRL	Marketing, distribution and after-sales service	100.00	-	Incorporated in October 2006, and transferred out for the reorganization in March 2010
	HTC Corporation (Shanghai WGQ)	Repair and after-sales service	-	100.00	Incorporated in July 2007, and transferred in for the reorganization in December 2009
	HTC Electronics (Shanghai) Co., Ltd.	Manufacture and sale of smart handheld devices	-	100.00	Incorporated in January 2007, invested in July 2008, and transferred in for the reorganization in February 2010
HTC Holding Cooperatief U.A.	HTC Netherlands B.V.	Global investing activities	-	100.00	Incorporated in October 2009
	HTC India Private Ltd.	Marketing, distribution and after-sales service	-	1.00	Incorporated in January 2008, and transferred in for the reorganization in February 2010
HTC Netherlands B.V.	HTC EUROPE CO., LTD.	Marketing, repair and after-sales services	-	100.00	Incorporated in July 2003, and transferred in for the reorganization in February 2010
	HTC BRASIL	Marketing, distribution and after-sales service	-	99.99	Incorporated in October 2006, and transferred in for the reorganization in February 2010
	HTC Belgium BVBA/SPRL	"	-	100.00	Incorporated in October 2006, and transferred in for the reorganization in March 2010
HTC Belgium BVBA/SPRL	HTC Italia SRL	Marketing, distribution and after-sales service	100.00	100.00	Incorporated in February 2007

(Concluded)

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. Effective from 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.

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.

Intangible Assets

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

Deferred Charges

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

Asset Impairment

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

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

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

Accrued Marketing Expenses

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

Reserve for Warranty Expenses

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

Product-related Costs

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

Pension Plan

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

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

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

Income Tax

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

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

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

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

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

Treasury Stock

The Company adopted the Statement of Financial Accounting Standards No. 30 - "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 2009 accounts have been reclassified to be consistent with the presentation of the consolidated financial statements as of and for the three months ended March 31, 2010.

3. TRANSLATION INTO U.S. DOLLARS

The consolidated financial statements are stated in New Taiwan dollars. The translation of the 2010 New Taiwan dollar amounts into U.S. dollar amounts are included solely for the convenience of readers, using the noon buying rate of NT\$31.80 to US\$1.00 quoted by the Bank of Taiwan on March 31, 2010. 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. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of March 31, 2009 and 2010 were as follows:

	2009	2010	
	NT\$	NT\$	US\$ (Note 3)
Cash on hand	\$ 6,550	\$ 4,731	\$ 149
Cash in banks	1,583,983	3,510,060	110,379
Time deposits	70,902,686	66,212,337	2,082,149
Cash equivalents - repurchase bonds	<u>117,000</u>	<u>-</u>	<u>-</u>
	<u>\$ 72,610,219</u>	<u>\$ 69,727,128</u>	<u>\$ 2,192,677</u>

On time deposits, interest rates ranged from 0.10% to 2.05% and from 0.05% to 1.03% as of March 31, 2009 and 2010, respectively.

On preferential deposits, interest rates ranged from 0.10% to 0.50% and from 0.10% to 0.70% as of March 31, 2009 and 2010, respectively.

On cash equivalents, interest rate was 0.18 % as of March 31, 2009

5. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets and liabilities at fair value through profit or loss as of March 31, 2009 and 2010 were as follows:

	2009	2010	
	NT\$	NT\$	US\$ (Note 3)
Derivatives - financial assets			
Exchange contracts	<u>\$ -</u>	<u>\$ 68,325</u>	<u>\$ 2,149</u>
Derivatives - financial liabilities			
Forward exchange contracts	<u>\$ 37,329</u>	<u>\$ -</u>	<u>\$ -</u>

The Company had derivative transactions during the three months ended March 31, 2009 and 2010 to manage exposures related to exchange rate fluctuations. However, these transactions did not meet the criteria for hedge accounting under Statement of Financial Accounting Standards No. 34 - "Financial Instruments: Recognition and Measurement." Thus, the Company had no hedge accounting for the three months ended March 31, 2009 and 2010. Outstanding forward exchange contracts as of March 31, 2009 and 2010 were as follows:

	2009			
	Buy/Sell	Currency	Settlement Period/Date	Contract Amount
Forward exchange contracts	Sell	GBP/USD	2009.04.15	GBP 2,000
Forward exchange contracts	Sell	EUR/USD	2009.04.15-2009.05.29	EUR 74,000
Forward exchange contracts	Sell	USD/NTD	2009.04.08-2009.04.24	US\$ 40,000
Forward exchange contracts	Buy	USD/JPY	2009.04.10-2009.05.29	US\$ 5,690

2010				
	Buy/Sell	Currency	Settlement Period/Date	Contract Amount
Forward exchange contracts	Sell	EUR/USD	2010.04.21-2010.05.26	EUR 88,000

Net gain on derivative financial instruments for the three months ended March 31, 2010 was NT\$233,161 thousand (US\$7,332 thousand), including realized settlement gain of NT\$164,836 thousand (US\$5,183 thousand) and valuation gain of NT\$68,325 thousand (US\$2,149 thousand).

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets as of March 31, 2009 and 2010 were as follows:

	2009	2010	
	NT\$	NT\$	US\$ (Note 3)
Mutual funds	\$ 1,365,115	\$ 2,158,855	\$ 67,889
Domestic quoted stocks	709	313	10
Less: Current portion	<u>(1,365,115)</u>	<u>(2,158,855)</u>	<u>(67,889)</u>
	<u>\$ 709</u>	<u>\$ 313</u>	<u>\$ 10</u>

7. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable as of March 31, 2009 and 2010 were as follows:

	2009	2010	
	NT\$	NT\$	US\$ (Note 3)
Notes receivable	\$ 8,854	\$ 5,338	\$ 168
Accounts receivable	18,050,235	27,718,432	871,648
Accounts receivable - related parties	-	18,220	573
Less: Allowance for doubtful accounts	<u>(779,596)</u>	<u>(1,009,078)</u>	<u>(31,732)</u>
	<u>\$ 17,279,493</u>	<u>\$ 26,732,912</u>	<u>\$ 840,657</u>

8. OTHER CURRENT FINANCIAL ASSETS

Other current financial assets as of March 31, 2009 and 2010 were as follows:

	2009	2010	
	NT\$	NT\$	US\$ (Note 3)
Other receivables	\$ 162,161	\$ 257,897	\$ 8,110
Interest receivables	23,417	11,468	361
Agency payments	<u>9,678</u>	<u>39,884</u>	<u>1,254</u>
	<u>\$ 195,256</u>	<u>\$ 309,249</u>	<u>\$ 9,725</u>

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

9. INVENTORIES

Inventories as of March 31, 2009 and 2010 were as follows:

	2009	2010	
	NT\$	NT\$	US\$ (Note 3)
Finished goods	\$ 665,568	\$ 1,092,861	\$ 34,367
Work-in-process	1,768,524	2,479,536	77,973
Raw materials	3,346,953	4,492,656	141,278
Inventory in transit	<u>-</u>	<u>140,713</u>	<u>4,425</u>
	<u>\$ 5,781,045</u>	<u>\$ 8,205,766</u>	<u>\$ 258,043</u>

As of March 31, 2009 and 2010, the allowance for inventory devaluation was NT\$2,566,025 thousand and NT\$3,156,024 thousand (US\$99,246 thousand), respectively.

The write-down of inventories to their net realizable value amounted to NT\$645,748 thousand and was recognized as cost of sales for the three months ended March 31, 2009. The cost of inventories recognized as cost of goods sold in the three months ended March 31, 2010 included a decrease of NT\$109,717 thousand (US\$3,450 thousand), which was due to the reversal of write-downs of inventories.

10. PREPAYMENTS

Prepayments as of March 31, 2009 and 2010 were as follows:

	2009	2010	
	NT\$	NT\$	US\$ (Note 3)
Royalty	\$ 2,599,483	\$ 2,722,547	\$ 85,615
Marketing	-	141,435	4,448
Software and hardware maintenance	72,111	76,543	2,407
Suppliers	11,357	30,344	954
Molding equipment	139,324	25,604	805
Net input VAT	22,593	21,978	691
Rent	9,085	15,776	496
Insurance	841	7,768	244
Service	7,218	388	12
Others	<u>49,637</u>	<u>62,026</u>	<u>1,951</u>
	<u>\$ 2,911,649</u>	<u>\$ 3,104,409</u>	<u>\$ 97,623</u>

Prepayments for royalty were primarily for discount purposes and were classified as current or noncurrent on the basis of their maturities. As of March 31, 2010, noncurrent prepayments of NT\$1,740,158 thousand (US\$54,722 thousand) had been classified as other assets (Note 26 has more information).

Prepayments for others were primarily travel expenses.

11. FINANCIAL ASSETS CARRIED AT COST

Financial assets carried at cost as of March 31, 2009 and 2010 were as follows:

	<u>2009</u>	<u>2010</u>	
	NT\$	NT\$	US\$ (Note 3)
Hua-Chuang Automobile Information Technical Center Co., Ltd.	\$ 500,000	\$ 500,000	\$ 15,723
Melodis Corporation	-	63,600	2,000
Answer Online, Inc.	<u>1,192</u>	<u>1,192</u>	<u>38</u>
	<u>\$ 501,192</u>	<u>\$ 564,792</u>	<u>\$ 17,761</u>

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

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

In July 2009, the Company acquired 4.37% equity interest in Melodis Corporation for US\$2,000 thousand (NT\$63,600 thousand).

These unquoted equity instruments were not carried at fair value because their fair value could not be reliably measured; thus, the Company accounted for these investments by the cost method.

12. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

The investment accounted for by the equity method as of March 31, 2009 and 2010 were as follows:

	<u>2009</u>		<u>2010</u>				
	Carrying Value	Ownership Percentage	Original Cost		Carrying Value		Ownership Percentage
	NT\$		NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	
Equity method Vitamin D Inc.	<u>\$ 40,598</u>	25.90	<u>\$ 40,986</u>	<u>\$ 1,289</u>	<u>\$ -</u>	<u>\$ -</u>	25.59

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

On its equity-method investments, the Company had a loss of NT\$854 thousand for the three months ended March 31, 2009.

The financial statements of equity-method investees for the three months ended March 31, 2009 had been reviewed by the independent accountants.

13. PROPERTIES

Properties as of March 31, 2009 and 2010 were as follows:

	2009		2010		
	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NT\$	NT\$	NT\$	NT\$	US\$ (Note 3)
Land	\$ 4,719,524	\$ 5,387,718	\$ -	\$ 5,387,718	\$ 169,425
Buildings and structures	2,338,445	4,341,814	706,051	3,635,763	114,332
Machinery and equipment	1,433,002	4,716,037	3,705,895	1,010,142	31,766
Molding equipment	12,599	199,752	189,603	10,149	319
Computer equipment	114,983	414,013	288,135	125,878	3,958
Transportation equipment	1,591	4,568	3,314	1,254	39
Furniture and fixtures	296,564	458,358	256,487	201,871	6,348
Leased assets	2,160	5,949	3,644	2,305	73
Leasehold improvements	125,339	203,961	110,645	93,316	2,935
Prepayments for construction-in-progress and equipment-in-transit	982,366	47,611	-	47,611	1,497
	<u>\$ 10,026,573</u>	<u>\$ 15,779,781</u>	<u>\$ 5,263,774</u>	<u>\$ 10,516,007</u>	<u>\$ 330,692</u>

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. The Company had paid 80% and 20% purchase price and completed the transfer registration of the relative portion of land in December 2008 and January 2010, respectively.

The construction of a new office building and employees' dormitory on HTC Electronics (Shanghai)'s land was completed in December 2009. As a result, a construction amount of NT\$894,252 thousand was transferred to "buildings and structures" from "prepayments for construction-in-progress and equipment-in-transit".

There were no interests capitalized for the three months ended March 31, 2009 and 2010, respectively.

14. SHORT-TERM BORROWINGS

Short-term borrowings as of March 31, 2009 and 2010 were as follows:

	2009	2010	
	NT\$	NT\$	US\$ (Note 3)
Working capital loans, annual interest at 1.27%-3.00%	<u>\$ 75,000</u>	<u>\$ 67,326</u>	<u>\$ 2,117</u>

15. ACCRUED EXPENSES

Accrued expenses as of March 31, 2009 and 2010 were as follows:

	2009	2010	
	NT\$	NT\$	US\$ (Note 3)
Marketing	\$ 5,293,079	\$ 10,854,306	\$ 341,330
Employees' bonus	7,207,515	5,932,503	186,557
Salaries	953,081	940,230	29,567
Services	436,412	793,644	24,957
Export expenses	375,733	517,350	16,269
Research materials	728,335	328,084	10,317
Donation	59,194	327,601	10,302
Meals and welfare	71,604	111,982	3,521
Freight	42,675	109,994	3,459
Insurance	72,308	75,796	2,383
Repairs and maintenance	47,537	73,253	2,304
Pension for contribution plan	50,013	54,245	1,706
Travel	23,871	31,449	989
Research and development	49,200	24,870	782
Others	<u>221,096</u>	<u>263,039</u>	<u>8,272</u>
	<u>\$ 15,631,653</u>	<u>\$ 20,438,346</u>	<u>\$ 642,715</u>

Based on the resolutions passed by the Company's board of directors in February 2009 and January 2010, the employee bonuses for 2009 and 2010 should be appropriated at 18% of net income before deducting employee bonus expenses. Accrued bonus as of March 31, 2009 and 2010 were as follows:

	2009	2010	
	NT\$	NT\$	US\$ (Note 3)
Accrued bonus to employees for current year	\$ 1,042,626	\$ 1,073,267	\$ 33,751
Accrued bonus to employees for prior years	<u>6,164,889</u>	<u>4,859,236</u>	<u>152,806</u>
	<u>\$ 7,207,515</u>	<u>\$ 5,932,503</u>	<u>\$ 186,557</u>

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

In September 2009, the Company's board of directors resolved to donate to the HTC Cultural and Educational Foundation NT\$300,000 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, and (b) cash of NT\$82,200 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 Cultural and Educational Foundation.

16. OTHER CURRENT LIABILITIES

Other current liabilities as of March 31, 2009 and 2010 were as follows:

	<u>2009</u>	<u>2010</u>	
	NT\$	NT\$	US\$ (Note 3)
Reserve for warranty expenses	\$ 4,847,526	\$ 6,013,641	\$ 189,108
Agency receipts	317,360	371,593	11,685
Other payable	340,177	456,917	14,369
Advance receipts	285,870	359,517	11,306
Directors' remuneration	21,842	-	-
Others	<u>96,754</u>	<u>223,638</u>	<u>7,033</u>
	<u>\$ 5,909,529</u>	<u>\$ 7,425,306</u>	<u>\$ 233,501</u>

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

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

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

In October 2008, H.T.C. (B.V.I.) Corp. acquired 100% equity interest of One & Company Design, Inc., and paid the investment to the original stockholders of One & Company Design, Inc. in several installments based on the agreement. In November 2009, One & Company Design, Inc. was sold to High Tech Computer Asia Pacific Pte. Ltd. in line with the reorganization of the Company's overseas subsidiaries' investment structure. Related liabilities between One & Company Design, Inc. and H.T.C. (B.V.I.) Corp. were transferred as well. Of the investment, NT\$97,038 thousand (US\$3,052 thousand) had not been paid as of March 31, 2010.

17. LONG-TERM BANK LOANS

Long-term bank loans as of March 31, 2009 and 2010 were as follows:

	<u>2009</u>	<u>2010</u>	
	NT\$	NT\$	US\$ (Note 3)
Secured loans (Note 24)			
NT\$50,000 thousand, repayable from July 2006 in 16 quarterly installments; 1% annual interest	\$ 15,625	\$ 3,125	\$ 98
NT\$65,000 thousand, repayable from July 2008 in 16 quarterly installments; 1% annual interest	52,813	36,563	1,150
Less: Current portion	<u>(28,750)</u>	<u>(19,375)</u>	<u>(609)</u>
	<u>\$ 39,688</u>	<u>\$ 20,313</u>	<u>\$ 639</u>

18. STOCKHOLDERS' EQUITY

Capital Stock

The Company's outstanding common stock as of January 1, 2009 amounted to NT\$7,553,938 thousand, divided into 755,394 thousand common shares at NT\$10.00 par value. In January 2009, the Company retired 10,000 thousand treasury shares at NT\$100,000 thousand. As a result, the amount of the Company's outstanding common stock as of March 31, 2009 decreased to NT\$7,453,938 thousand, divided into 745,394 thousand common shares at NT\$10.00 par value.

In June 2009, the stockholders approved the transfer of retained earnings amounting to NT\$372,697 thousand (US\$11,720 thousand) and employee bonuses amounting to NT\$133,573 (US\$4,200 thousand) thousand to capital stock. Also, in November 2009, the Company retired 7,085 thousand treasury shares at NT\$70,850 thousand (US\$2,228 thousand). As a result, the amount of the Company's outstanding common stock as of March 31, 2010 increased to NT\$7,889,358 thousand (US\$248,093 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 March 31, 2010, there were 3,388.6 thousand units of GDRs redeemed, representing 13,554.4 thousand common shares, and the outstanding GDRs represented 20,417 thousand common shares or 2.59% 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, 2009. In January and November 2009, the retirement of treasury stock caused a decrease of additional paid-in capital amounted to NT\$57,907 thousand and NT\$81,330 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 was accounted for as additional paid-in capital. As a result, the additional paid-in capital as of March 31, 2010 was NT\$9,056,323 thousand (US\$284,790 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\$17,534 thousand as of January 1, 2009. When the Company did not subscribe for the new shares issued by Vitamin D Inc. in January 2009 and June 2009, adjustments of NT\$187 thousand and NT\$484 thousand were made to the investment carrying value and capital surplus, respectively. In December 2009, 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 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. As of March 31, 2010, the total capital surplus from long-term equity-method investments was NT\$18,411 thousand (US\$579 thousand).

The additional paid-in capital from a merger was NT\$25,756 thousand as of January 1, 2009. In January and November 2009, the retirement of treasury stock caused a decrease of additional paid-in capital from a merger amounted to NT\$341 thousand and NT\$226 thousand, respectively. As a result, the additional paid-in capital from a merger as of March 31, 2010 was NT\$25,189 thousand (US\$792 thousand).

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.

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 and 2010, the employee bonus for 2009 and 2010 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 April 20, 2010, the date of the accompanying independent accountants' 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.

19. 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 during the repurchase period and retired them in November 2009.

On February 9, 2010, the Company's board of directors passed a resolution to buy back 15,000 thousand Company shares from the open market. The repurchase period was between February 10, 2010 and April 9, 2010, and the repurchase price ranged from NT\$280 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 15,000 thousand shares for NT\$4,834,174 thousand (US\$152,018 thousand) during the repurchase period. The related treasury stock information for the three months ended March 31, 2009 and 2010 was as follows:

(In Thousands of Shares)				
Purpose	As of January 1	Increase	Decrease	As of March 31
<u>2009</u>				
For maintaining the Company's credit and stockholders' equity	10,000	-	10,000	-
<u>2010</u>				
For maintaining the Company's credit and stockholders' equity	-	15,000	-	15,000

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

20. INCOME TAX

HTC's income tax returns through 2004 had been examined by the tax authorities. However, HTC disagreed with the tax authorities' assessment on its returns for 2001 to 2003 and applied for the administrative litigation of its returns. Also, HTC disagreed with the tax authorities' assessment on its 2004 return and applied for the reexamination. Nevertheless, under the conservatism guideline, HTC adjusted its income tax for the tax shortfall stated in the tax assessment notices.

The income tax returns of BandRich Inc. and Communication Global Certification Inc. through 2008 had been examined by the tax authorities.

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

<u>Item Exempt from Corporate Income Tax</u>	<u>Exemption Period</u>
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

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 January 1, 2010. Provision for income tax expense (benefit) for the three months ended March 31, 2009 and 2010, income tax payable, income tax receivables and deferred tax assets (liabilities) as of March 31, 2009 and 2010 were as follows:

	2009			
	Income Tax	Income Tax	Income Tax	Deferred Tax
	Expense	Tax	Tax	Assets
	(Benefit)	Payable	Receivable	(Liabilities)
	NT\$	NT\$	NT\$	NT\$
HTC Corporation	\$ 517,196	\$ 4,464,671	\$ -	\$ 1,401,472
BandRich Inc.	-	-	-	(245)
Communication Global Certification Inc.	(12)	98	-	2,240
HTC America Inc.	20,875	3,391	-	27
HTC EUROPE CO., LTD.	12,243	80,243	-	-
HTC NIPPON Corporation	2,082	1,834	-	-
HTC BRASIL	6,180	1,797	-	-
One & Company Design, Inc.	1,220	1,072	-	(6,014)
HTC Corporation (Shanghai WGQ)	-	3,158	-	-
HTC Belgium BVBA/SPRL	(3,375)	7,176	-	-
High Tech Computer Singapore Pte. Ltd.	255	253	-	-

(Continued)

2009

	Income Tax Expense (Benefit)	Income Tax Payable	Income Tax Receivable	Deferred Tax Assets (Liabilities)
	NT\$	NT\$	NT\$	NT\$
High Tech Computer (H.K.) Limited	-	-	502	-
HTC (Australia and New Zealand) Pty. Ltd.	576	3,962	-	(198)
HTC India Private Limited	463	2,396	-	-
HTC (Thailand) Limited	167	764	-	-
HTC Malaysia Sdn. Bhd.	182	549	-	-
HTC Investment Corporation	<u>55</u>	<u>244</u>	<u>-</u>	<u>59</u>
	<u>\$ 558,107</u>	<u>\$ 4,571,608</u>	<u>\$ 502</u>	<u>\$ 1,397,341</u> (Concluded)

2010

	Income Tax Expense (Benefit)		Income Tax Payable		Income Tax Receivable		Deferred Tax Assets (Liabilities)	
	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)	NT\$	US\$ (Note 3)
HTC Corporation	\$ 722,117	\$ 22,708	\$ 4,962,110	\$ 156,041	\$ -	\$ -	\$ 1,970,908	\$ 61,978
BandRich Inc.	-	-	-	-	4,211	132	-	-
Communication Global Certification Inc.	(104)	(3)	-	-	28	1	1,681	53
HTC Investment Corporation	24	1	-	-	210	7	-	-
HTC I Investment Corporation	42	1	14	-	-	-	-	-
Huada Digital Corporation	-	-	-	-	7	-	-	-
High Tech Computer Asia Pacific Pte. Ltd.	179	6	426	13	-	-	(327)	(10)
HTC America Inc.	3,568	112	36,414	1,145	-	-	46,142	1,451
HTC EUROPE CO., LTD.	16,885	531	85,615	2,692	-	-	-	-
Exedea Inc.	25,867	813	28,586	899	-	-	2,735	86
HTC NIPPON Corporation	558	17	-	-	5,336	168	-	-
HTC BRASIL One & Company Design, Inc.	(6,273)	(197)	-	-	7,414	233	6,283	197
HTC Corporation (Shanghai WGQ)	(47)	(1)	1,587	50	-	-	(3,085)	(97)
HTC Belgium BAVA/SPRL	370	12	369	12	255	8	-	-
HTC Belgium BAVA/SPRL	3,090	97	13,506	425	-	-	-	-
High Tech Computer (H.K.) Limited	81	2	80	3	-	-	-	-
HTC (Australia and New Zealand) Pty. Ltd.	746	23	3,408	107	-	-	3	-
HTC India Private Limited	241	8	53	2	-	-	-	-
HTC (Thailand) Limited	147	5	607	19	-	-	-	-
HTC Malaysia Sdn. Bhd.	304	10	537	17	-	-	(30)	(1)
HTC Innovation Limited	15	-	9	-	-	-	-	-
HTC Electronics (Shanghai) Co., Ltd.	-	-	1,604	51	-	-	9,658	304
	<u>\$ 767,810</u>	<u>\$ 24,145</u>	<u>\$ 5,134,925</u>	<u>\$ 161,476</u>	<u>\$ 17,461</u>	<u>\$ 549</u>	<u>\$ 2,033,968</u>	<u>\$ 63,961</u>

The tax effects of deductible temporary differences and loss and tax credit carryforwards that gave rise to deferred tax assets as of March 31, 2009 and 2010 were as follows:

	2009	2010	
	NT\$	NT\$	US\$ (Note 3)
Temporary differences			
Provision for loss on decline in value of inventory	\$ 596,927	\$ 624,619	\$ 19,642
Unrealized marketing expenses	1,251,454	2,147,959	67,546
Unrealized reserve for warranty expense	1,211,882	1,202,594	37,818
Capitalized expense	61,807	44,466	1,398
Unrealized royalties	1,584,258	1,824,114	57,362
Unrealized bad-debt expenses	144,405	170,362	5,357
Unrealized valuation loss on financial instruments	9,332	-	-
Unrealized exchange loss	130,272	29,653	933
Unrealized Service expenses	-	4,675	147
Excess of book over tax depreciation and amortization	-	2,291	72
Other	83,666	64,107	2,016
Loss carryforwards	50,201	57,176	1,798
Tax credit carryforwards	<u>2,658,173</u>	<u>3,157,393</u>	<u>99,289</u>
Total deferred tax assets	7,782,377	9,329,409	293,378
Less: Valuation allowance	<u>(6,347,041)</u>	<u>(7,253,187)</u>	<u>(228,088)</u>
Total deferred tax assets, net	1,435,336	2,076,222	65,290
Deferred tax liabilities			
Unrealized pension cost	(30,735)	(28,589)	(899)
Unrealized valuation gain on financial instruments	-	(13,665)	(430)
Unrealized depreciation	<u>(7,260)</u>	<u>-</u>	<u>-</u>
	1,397,341	2,033,968	63,961
Less: Current portion	<u>(585,015)</u>	<u>(892,003)</u>	<u>(28,050)</u>
Deferred tax assets - noncurrent	<u>\$ 812,326</u>	<u>\$ 1,141,965</u>	<u>\$ 35,911</u>

Details of the tax credit carryforwards were as follows:

Credit Grant Year	Validity Period	2009	2010	
		NT\$	NT\$	US\$ (Note 3)
2005	2005-2009	\$ 6,305	\$ -	\$ -
2006	2006-2010	15,475	15,475	487
2007	2007-2011	220,270	220,249	6,926
2008	2008-2012	2,039,632	874,619	27,504
2009	2009-2013	<u>376,491</u>	<u>2,047,050</u>	<u>64,372</u>
		<u>\$ 2,658,173</u>	<u>\$ 3,157,393</u>	<u>\$ 99,289</u>

Details of the loss carryforwards were as follows:

Loss Year	Validity Period	2009	2010	
		NT\$	NT\$	US\$ (Note 3)
2005	2006-2015	\$ 95	\$ -	\$ -
2006	2007-2016	49,326	48,999	1,541
2007	2008-2017	48,885	48,885	1,537
2008	2009-2018	102,497	102,497	3,223
2009	2010-2019	-	16,519	520
2010	2011-2020	-	18,922	595
		<u>\$ 200,803</u>	<u>\$ 235,822</u>	<u>\$ 7,416</u>

The loss carryforwards of HTC Electronics (Shanghai) Co., Ltd. that gave rise to deferred tax assets in People's Republic of China were NT\$5,020 thousand (US\$158 thousand) and could be carried forward for four years.

The loss carryforwards of HTC BRASIL that gave rise to deferred tax assets in the Federative Republic of Brazil were NT\$4,992 thousand (US\$157 thousand). Taxation could be made on its net income after deduction of losses incurred in the preceding years, but the deduction cannot exceed 30% of the taxable income in current year.

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

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

The income taxes for the three months ended March 31, 2009 and 2010 were as follows:

	2009	2010	
	NT\$	NT\$	US\$ (Note 3)
Current income tax	\$ 586,046	\$ 920,722	\$ 28,953
Increase in deferred income tax assets (Overestimation) underestimation of prior year's income tax	(23,918) <u>(4,021)</u>	(154,023) <u>1,111</u>	(4,843) <u>35</u>
Income tax	<u>\$ 558,107</u>	<u>\$ 767,810</u>	<u>\$ 24,145</u>

The integrated income tax information of HTC is as follows:

	2009	2010	
	NT\$	NT\$	US\$ (Note 3)
Balance of imputation credit account (ICA)	\$ 1,530,185	\$ 1,708,445	\$ 53,725
Unappropriated earnings generated from 1998	46,248,976	43,362,526	1,363,601
Estimated creditable ratio (including income tax payable)	10.84%	13.12%	13.12%

21. 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 782,664 thousand shares and 783,430 thousand shares for the three months ended March 31, 2009 and 2010, respectively. EPS for the three months ended March 31, 2009 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 three months ended March 31, 2009 and 2010 was as follows:

	2009				
	Amount (Numerator)		Shares (Denominator) (In Thousands)	EPS (In Dollars)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
	NT\$	NT\$		NT\$	NT\$
	Basic EPS	\$ 5,392,019	\$ 4,874,823	782,664	<u>\$ 6.89</u>
Bonus to employees	-	-	3,534		
Diluted EPS	<u>\$ 5,392,019</u>	<u>\$ 4,874,823</u>	<u>786,198</u>	<u>\$ 6.86</u>	<u>\$ 6.20</u>

	2010				
	Amount (Numerator)		Shares (Denominator) (In Thousands)	EPS (In Dollars)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
	NT\$	NT\$		NT\$	NT\$
	Basic EPS	\$ 5,720,544	\$ 4,998,427	783,430	<u>\$ 7.30</u>
Bonus to employees	-	-	3,276		
Diluted EPS	<u>\$ 5,720,544</u>	<u>\$ 4,998,427</u>	<u>786,706</u>	<u>\$ 7.27</u>	<u>\$ 6.35</u>

	2010				
	Amount (Numerator)		Shares (Denominator) (In Thousands)	EPS (In Dollars)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
	US\$ (Note 3)	US\$ (Note 3)		US\$ (Note 3)	US\$ (Note 3)
	Basic EPS	\$ 179,891	\$ 157,183	783,430	<u>\$ 0.23</u>
Bonus to employees	-	-	3,276		
Diluted EPS	<u>\$ 179,891</u>	<u>\$ 157,183</u>	<u>786,706</u>	<u>\$ 0.23</u>	<u>\$ 0.20</u>

22. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

a. Nonderivative financial instruments

	March 31					
	2009		2010			
	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	\$ 779	\$ 779	\$ -	\$ -	\$ -	\$ -
Available-for-sale financial assets - current	1,365,115	1,365,115	2,158,855	67,889	2,158,855	67,889
Available-for-sale financial assets - noncurrent	709	709	313	10	313	10
Financial assets carried at cost	501,192	501,192	564,792	17,761	564,792	17,761

b. Derivative financial instruments

	March 31					
	2009		2010			
	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	\$ -	\$ -	\$ 68,325	\$ 2,149	\$ 68,325	\$ 2,149
Liabilities						
Financial liabilities at fair value through profit or loss - current	38,108	38,108	-	-	-	-

Outstanding spot and forward exchange contracts amounted to NT\$779 thousand and NT\$(38,108) thousand, respectively, as of March 31, 2009. Outstanding forward exchange contracts amounted to NT\$68,325 thousand (US\$2,149 thousand) as of March 31, 2010. 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, guarantee deposits, nor long-term bank loans. The fair values of aforementioned financial instruments were based on the present value of future cash flows discounted at the average interest rates for time deposits with maturities similar to those of the financial instruments.

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

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

Methodology Used to Determine the Fair Values of Financial Instruments

	Quoted Market Prices			Measurement Method		
	March 31			March 31		
	2009	2010	US\$	2009	2010	US\$
	NT\$	NT\$	(Note 3)	NT\$	NT\$	(Note 3)
Assets						
Financial assets at fair value through profit or loss - current	\$ -	\$ 68,325	\$ 2,149	\$ -	\$ -	\$ -
Available-for-sale financial assets - current	1,365,115	2,158,855	67,889	-	-	-
Available-for-sale financial assets - noncurrent	709	313	10	-	-	-
Financial assets carried at cost	-	-	-	501,192	564,792	17,761
Liabilities						
Financial liabilities at fair value through profit or loss - current	37,329	-	-	-	-	-

There was no loss or gain recognized for the three months ended March 31, 2009 and 2010 on the fair value changes of derivatives with fair values estimated using valuation techniques. However, the Company recognized a gain of NT\$485 thousand under stockholders' equity for the changes in fair value of available-for-sale financial assets for the three months ended March 31, 2009.

As of March 31, 2009 and 2010, financial assets exposed to cash flow interest rate risk amounted to NT\$70,938,772 thousand and NT\$66,319,722 thousand (US\$2,085,526 thousand), respectively.

As of March 31, 2009 and 2010, financial liabilities exposed to cash flow interest rate risk amounted to NT\$68,438 thousand and NT\$39,688 thousand (US\$1,248 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.

23. RELATED-PARTY TRANSACTIONS

The related parties were as follows:

Related Party	Relationship with the Company
Xander International Corp.	Chairperson is an immediate relative of HTC's chairperson
VIA Technologies, Inc.	Same chairperson with HTC
Chander Electronics Corp.	Same chairperson with HTC
Way-Lien Technology Inc.	Same chairperson with HTC
Syuda Construction Company	The only juridical stockholder whose chairperson is the same person with HTC
Comserve Network Netherlands B.V.	Main director is an immediate relative of the chairperson of HTC
Employees' Welfare Committee	Employees' Welfare Committee of HTC
HTC Cultural and Educational 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	Three Months Ended March 31			
	2009		2010	
	Amount	% to Total Net Purchases	Amount	% to Total Net Purchases
	NT\$		NT\$	US\$ (Note 3)
Chander Electronics Corp.	\$ 5,968	-	\$ 28,383	\$ 893
				-

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

Sales and Services Provided

Related Party	Three Months Ended March 31			
	2009		2010	
	Amount	% to Total Revenues	Amount	% to Total Revenues
	NT\$		NT\$	US\$ (Note 3)
Employees' Welfare Committee	\$ 6,910	-	\$ 26,991	\$ 849
Other	190	-	693	22
	\$ 7,100	-	\$ 27,684	\$ 871

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

Notes and Accounts Receivable

Related Party	March 31				% to Total Notes and Accounts Receivable
	2009		2010		
	Amount NT\$	% to Total Notes and Accounts Receivable	Amount NT\$	US\$ (Note 3)	
Employees' Welfare Committee	\$ -	-	\$ 18,082	\$ 569	-
Other	-	-	138	4	-
	<u>\$ -</u>	<u>-</u>	<u>\$ 18,220</u>	<u>\$ 573</u>	<u>-</u>

Notes and Accounts Payable

Related Party	March 31				% to Total Notes and Accounts Payable
	2009		2010		
	Amount NT\$	% to Total Notes and Accounts Payable	Amount NT\$	US\$ (Note 3)	
Chander Electronics Corp.	<u>\$ 12,656</u>	<u>-</u>	<u>\$ 33,649</u>	<u>\$ 1,058</u>	<u>-</u>

Other Receivables

Related Party	March 31				% to Total Other Receivable
	2009		2010		
	Amount NT\$	% to Total Other Receivable	Amount NT\$	US\$ (Note 3)	
Chander Electronics Corp.	\$ 72	-	\$ 30	\$ 1	-
Other	<u>32</u>	<u>-</u>	<u>74</u>	<u>2</u>	<u>-</u>
	<u>\$ 104</u>	<u>-</u>	<u>\$ 104</u>	<u>\$ 3</u>	<u>-</u>

Other Payables to Related Parties

Related Party	March 31				% to Total Other Payables
	2009		2010		
	Amount NT\$	% to Total Other Payables	Amount NT\$	US\$ (Note 3)	
Chander Electronics Corp.	\$ -	-	\$ 33	\$ 1	-
Way-Lien Technology Inc.	<u>410</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 410</u>	<u>-</u>	<u>\$ 33</u>	<u>\$ 1</u>	<u>-</u>

Accrued Expenses

Related Party	March 31				% to Total Other Payables
	2009		2010		
	Amount NT\$	% to Total Other Payables	Amount NT\$	US\$ (Note 3)	
HTC Cultural and Educational Foundation	\$ -	-	\$ 217,800	\$ 6,849	1
VIA Technologies Inc.	-	-	5,126	161	-
Way-Lien Technology Inc.	<u>-</u>	<u>-</u>	<u>200</u>	<u>7</u>	<u>-</u>
	<u>\$ -</u>	<u>-</u>	<u>\$ 223,126</u>	<u>\$ 7,017</u>	<u>1</u>

Advance Receipts

Related Party	March 31				% to Total Advance Receipts
	2009		2010		
	Amount NT\$	% to Total Advance Receipts	Amount NT\$	US\$ (Note 3)	
Employees' Welfare Committee	<u>\$ 15</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>

Service Warranty Expense

Related Party	Three Months Ended March 31				
	2009		2010		
	Amount	% to Total	Amount	% to Total	
	Warranty		Warranty		
	Expenses	Expenses	Expenses	Expenses	
	NT\$		NT\$	US\$	
				(Note 3)	
Comserve Network Netherlands B.V.	\$ 368	-	\$ -	\$ -	-

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

Service Fees

Related Party	Three Months Ended March 31				
	2009		2010		
	Amount	% to Total	Amount	% to Total	
	Service	Service	Service		
	Expenses	Expenses	Expenses	Expenses	
	NT\$		NT\$	US\$	
				(Note 3)	
Way-Lien Technology Inc.	\$ 600	-	\$ 200	\$ 6	-

Leasing - Lessee

Operating expenses - rental expenses

Related Party	Three Months Ended March 31				
	2009		2010		
	Amount	% to Total	Amount	% to Total	
	Rental	Rental	Rental		
	Expenses	Expenses	Expenses	Expenses	
	NT\$		NT\$	US\$	
				(Note 3)	
VIA Technologies Inc.	\$ 1,299	3	\$ 3,120	\$ 98	6

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

Property Transaction

In January 2009, HTC acquired land from a related party, Syuda Construction Company, for NT\$791,910 thousand. It was about 39 thousand square meters, located near HTC in Taoyuan, and the land price was based on appraisal reports. It will be used to expand factory area.

24. PLEDGED ASSETS

As of March 31, 2009 and 2010, the Company had provided time deposits of NT\$36,086 thousand and NT\$107,385 thousand (US\$3,377 thousand), respectively, as collateral for the secured loans, rental deposits and 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.

25. COMMITMENTS AND CONTINGENCIES

HTC provided NT\$477,000 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 March 31, 2010.

26. SIGNIFICANT CONTRACTS

Patent Agreements

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

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

(Continued)

Contractor	Contract Term	Description
Nokia Corporation	January 1, 2003 to the expiry dates of these patents.	Authorization to use wireless technology, like GSM; royalty payment based on agreement.
InterDigital Technology Corporation.	December 31, 2003 to the expiry dates of these patents.	Authorization to use TDMA and CDMA technology; royalty payment based on agreement.
KONINKLIJKE PHILIPS ELECTRONICS N.V.	January 5, 2004 to the expiry dates of these patents	GSM/DCS 1800/1900 Patent License; royalty payment based on agreement.
Motorola, Inc.	December 23, 2003 to the latest of the following dates: a. Expiry dates of patents b. Any time when the Company is not using any of Motorola's intellectual property,	TDMA, NARROWBAND CDMA, WIDEBAND CDMA or TD/CDMA Standards patent license or technology; royalty payment based on agreement.
ALCATEL 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)

27. OTHER EVENTS

Lawsuit

- a. 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. For one of claims, patent A, IPCom requested the court to issue an injunction to prevent the Company from exporting to and selling in Germany devices made using IPCom's patent. 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 ruled that it will stay the proceedings on patent B 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. Also, on February 12, 2010, the District Court of Mannheim further ruled that the Company had not infringed ICom's patent C. As of April 20, 2010, the date of the accompanying independent accountants' review report, there had been no further hearing nor had a court decision been made on other patent claims.

- b. In March 2010, Apple Inc. ("Apple") filed a lawsuit against the Company concurrently with the U.S. International Trade Commission ("ITC") and U.S. District Court in Delaware ("Delaware court"), alleging that the Company infringed its patents. Apple requested ITC and Delaware court to prevent the Company from exporting to and selling in United States devices made using Apple's patents and damage compensation, respectively. The Company evaluated that there was indirect association between the patents used by the Company's devices and those claimed by Apple. The Company believes the lawsuits have limited impact on its financial results or sales activities. As of April 20, 2010, the date of the accompanying independent accountants' review report, there had been no further hearing nor had a court decision been made.
- c. 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.

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\$106,289 thousand) for a total floor space of 92 thousand square meters. Construction is scheduled to be completed by August 31, 2011 (Note 13 has more information).

Retirement of Treasury Stock

The board of directors has approved to retire 15,000 thousand shares treasure stocks, and has completed the registration on April 13, 2010.