HTC Corporation

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

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

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

We have also reviewed the consolidated financial statements of HTC Corporation and subsidiaries as of and for the three months ended March 31, 2009 and 2010 and have issued unqualified review reports, respectively.

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

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

HTC CORPORATION

BALANCE SHEETS
MARCH 31, 2009 AND 2010
(In Thousands, Except Par Value)
(Reviewed, Not Audited)

	2009	2010	
ASSETS	**NT$**	**NT$**	**US$ (Note 3)**
CURRENT ASSETS			
Cash and cash equivalents (Notes 2 and 4)	$ 70,350,726	$ 66,058,377	$ 2,077,307
Financial assets at fair value through profit or loss (Notes 2, 5 and 22)	-	68,325	2,149
Available-for-sale financial assets - current (Notes 2 and 6)	1,365,115	2,158,855	67,889
Accounts receivable, net (Notes 2 and 7)	17,054,718	26,310,699	827,380
Accounts receivable from related parties, net (Notes 2 and 23)	501,242	635,948	19,998
Other current financial assets (Notes 8 and 23)	165,267	203,816	6,409
Inventories (Notes 2 and 9)	4,642,909	7,157,981	225,094
Prepayments (Notes 10 and 23)	2,913,674	3,112,414	97,875
Deferred income tax assets (Notes 2 and 20)	590,884	839,595	26,402
Other current assets	211,275	105,668	3,323
Total current assets	97,795,810	106,651,678	3,353,826
INVESTMENTS			
Available-for-sale financial assets - noncurrent (Notes 2 and 6)	709	313	10
Financial assets carried at cost (Notes 2 and 11)	501,192	501,192	15,761
Investments accounted for by the equity method (Notes 2 and 12)	4,938,948	6,364,512	200,142
Prepayments for long-term investments (Notes 2 and 12)	55,336	100,000	3,144
Total investments	5,496,185	6,966,017	219,057
PROPERTIES (Notes 2, 13 and 23)			
Cost			
Land	4,719,524	5,387,718	169,425
Buildings and structures	2,890,580	3,236,067	101,763
Machinery and equipment	3,947,499	4,019,535	126,401
Molding equipment	172,632	172,632	5,429
Computer equipment	265,096	305,921	9,620
Transportation equipment	2,732	2,732	86
Furniture and fixtures	127,440	132,669	4,172
Leased assets	4,712	4,712	148
Leasehold improvements	95,255	96,014	3,019
Total cost	12,225,470	13,358,000	420,063
Less: Accumulated depreciation	(3,890,382)	(4,476,285)	(140,764)
Prepayments for construction-in-progress and equipment-in-transit	22,109	46,555	1,464
Properties, net	8,357,197	8,928,270	280,763
OTHER ASSETS			
Assets leased to others	284,204	-	-
Refundable deposits	117,280	68,997	2,170
Deferred charges (Note 2)	45,002	57,263	1,801
Deferred income tax assets (Notes 2 and 20)	810,588	1,131,313	35,576
Restricted assets (Note 24)	-	63,900	2,009
Others (Notes 2, 10 and 16)	122,651	1,883,100	59,217
Total other assets	1,379,725	3,204,573	100,773
TOTAL	$ 113,028,917	$ 125,750,538	$ 3,954,419

	2009	2010	
LIABILITIES AND STOCKHOLDERS' EQUITY	**NT$**	**NT$**	**US$ (Note 3)**
CURRENT LIABILITIES			
Financial liabilities at fair value through profit or loss (Notes 2, 5 and 22)	$ 37,329	-	-
Notes and accounts payable (Note 23)	20,854,824	26,498,298	833,280
Income tax payable (Notes 2 and 20)	4,464,671	4,962,110	156,041
Accrued expenses (Notes 14 and 23)	15,674,297	20,487,523	644,262
Payable for purchase of equipment	59,604	66,205	2,082
Other current liabilities (Notes 2, 15 and 23)	6,296,184	7,969,033	250,598
Total current liabilities	47,386,909	59,983,169	1,886,263
OTHER LIABILITIES			
Guarantee deposits received	2,141	1,210	38
Total liabilities	47,389,050	59,984,379	1,886,301
STOCKHOLDERS' EQUITY (Note 17)			
Capital stock at par value of NT$10.00; authorized: 1,000,000 thousand shares; issued and outstanding: 745,394 thousand shares in 2009 and 788,936 thousand shares in 2010	7,453,938	7,889,358	248,093
Capital surplus			
Additional paid-in capital from share issuance in excess of par	4,316,337	9,056,323	284,790
Long-term equity investments	17,721	18,411	579
Merger	25,415	25,189	792
Retained earnings			
Legal reserve	7,410,139	10,273,674	323,072
Accumulated earnings	46,248,976	43,362,526	1,363,601
Cumulative translation adjustments (Note 2)	168,488	(23,456)	(738)
Net loss not recognized as pension cost	-	(34)	(1)
Unrealized losses on financial instruments (Notes 2 and 6)	(1,147)	(1,658)	(52)
Treasury stock (Notes 2 and 18)	-	(4,834,174)	(152,018)
Total stockholders' equity	65,639,867	65,766,159	2,068,118
TOTAL	$ 113,028,917	$ 125,750,538	$ 3,954,419

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

HTC CORPORATION

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)	$ 31,590,366	$ 37,697,395	$ 1,185,453
COST OF REVENUES (Notes 9, 19 and 23)	22,089,581	26,256,921	825,689
GROSS PROFIT	9,500,785	11,440,474	359,764
UNREALIZED GAIN ON INTERCOMPANY TRANSACTIONS	(152,494)	(142,158)	(4,470)
REALIZED GAIN ON INTERCOMPANY TRANSACTIONS	134,091	108,150	3,400
REALIZED GROSS PROFIT	9,482,382	11,406,466	358,694
OPERATING EXPENSES (Notes 19 and 23)			
Selling and marketing	2,153,577	3,039,623	95,585
General and administrative	403,530	810,985	25,503
Research and development	2,079,766	2,044,417	64,290
Total operating expenses	4,636,873	5,895,025	185,378
OPERATING INCOME	4,845,509	5,511,441	173,316
NONOPERATING INCOME AND GAINS			
Interest income	164,278	61,797	1,943
Gains on equity-method investments (Notes 2 and 12)	175,331	113,064	3,555
Gain on sale of investments	-	1,476	46
Exchange gain (Note 2)	357,954	-	-
Valuation gain on financial instruments, net (Notes 2 and 5)	-	68,325	2,149
Other (Note 23)	103,505	13,346	420
Total nonoperating income and gains	801,068	258,008	8,113
NONOPERATING EXPENSES AND LOSSES			
Interest expense	46	17	1
Exchange loss (Note 2)	-	41,886	1,317
Valuation loss on financial instruments, net (Notes 2 and 5)	37,329	-	-
Other	217,183	7,002	220
Total nonoperating expenses and losses	254,558	48,905	1,538

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HTC CORPORATION

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)
INCOME BEFORE INCOME TAX	$ 5,392,019	$ 5,720,544	$ 179,891
INCOME TAX (Notes 2 and 20)	(517,196)	(722,117)	(22,708)
NET INCOME	$ 4,874,823	$ 4,998,427	$ 157,183

	2009		2010			
	Before Income Tax	After Income Tax	Before Income Tax		After Income Tax	
	NT$	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
EARNINGS PER SHARE (Note 21)						
Basic	$ 6.89	$ 6.23	$ 7.30	$ 0.23	$ 6.38	$ 0.20
Diluted	$ 6.86	$ 6.20	$ 7.27	$ 0.23	$ 6.35	$ 0.20

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

HTC CORPORATION

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	$ 4,874,823	$ 4,998,427	$ 157,183
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation (including depreciation of assets leased to others)	163,402	152,803	4,805
Transfer of properties to expenses	157	511	16
Amortization	7,123	12,510	393
Gain on sale of investments, net	-	(1,476)	(46)
Gains on equity-method investments	(175,331)	(113,064)	(3,555)
Deferred income tax assets	(27,834)	(93,567)	(2,942)
Prepaid pension costs	(5,513)	(5,289)	(166)
Net changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	(476,754)	(50,193)	(1,578)
Accounts receivable	11,805,524	(984,471)	(30,958)
Accounts receivable from related parties	437,528	1,608,602	50,585
Other current financial assets	110,239	30,385	955
Inventories	2,775,558	(2,419,282)	(76,078)
Prepayments	(1,676,043)	239,077	7,518
Other current assets	(49,268)	21,112	664
Other assets - other	-	103,012	3,239
Notes and accounts payable	(7,052,320)	1,615,976	50,816
Income tax payable	526,926	809,486	25,456
Accrued expenses	41,361	3,359,549	105,646
Other current liabilities	(119,989)	698,733	21,973
Net cash provided by operating activities	11,159,589	9,982,841	313,926
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of properties	(1,218,697)	(722,235)	(22,712)
Proceeds of the sale of properties	920	-	-
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 in investments accounted for by the equity method	(48,878)	(384,703)	(12,098)
Decrease in refundable deposits	184	169	5
Net cash used in investing activities	(2,631,471)	(766,754)	(24,112)

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HTC CORPORATION

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 guarantee deposits received	$ (4,265)	$ -	$ -
Purchase of treasury stock	-	(4,834,174)	(152,018)
Net cash used in financing activities	(4,265)	(4,834,174)	(152,018)
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,523,853	4,381,913	137,796
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	61,826,873	61,676,464	1,939,511
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 70,350,726	$ 66,058,377	$2,077,307
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid during the period			
Interest (net of amounts capitalized)	$ 46	$ 17	$ 1
Income tax	$ 18,104	$ 6,198	$ 195
NONCASH INVESTING AND FINANCING ACTIVITIES			
Transfer of assets leased to others to properties	$ 25,755	$ 48,135	$ 1,514
Retirement of treasury stock	$ 3,410,277	$ -	$ -
INCREASE IN INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD			
Increase in investments accounted for by the equity method	$ 56,520	$ 385,303	$ 12,117
Increase in payable for purchase of investments	(7,642)	(600)	(19)
Cash paid	$ 48,878	$ 384,703	$ 12,098
PURCHASE OF PROPERTIES			
Cost of properties purchased	$ 1,120,270	$ 719,272	$ 22,619
Decrease in payable for purchase of equipment	98,182	2,701	85
Decrease in lease payable	245	262	8
Cash paid for purchase of properties	$ 1,218,697	$ 722,235	$ 22,712

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

1. ORGANIZATION AND OPERATIONS

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

The Company had 7,132 and 8,023 employees as of March 31, 2009 and 2010, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

Current/Noncurrent Assets and Liabilities

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

Cash Equivalents

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

Financial Assets/Liabilities at Fair Value through Profit or Loss

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

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

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

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

Available-for-sale Financial Assets

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

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

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

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

Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts

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

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

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

Inventories

Inventories consist of raw materials, supplies, finished goods and work-in-process. Before January 1, 2008, inventories were stated at the lower of cost or market value (replacement cost or net realizable value). Any write-down was made on a category by category basis. Market value meant replacement cost for raw materials and supplies and net realizable value for finished goods and work in process. 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.

Deferred Charges

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

Asset Impairment

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

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

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

Accrued Marketing Expenses

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

Reserve for Warranty Expenses

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

Product-related Costs

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

Pension Plan

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

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

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

Income Tax

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

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

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

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

Treasury Stock

The Company adopted the Statement of Financial Accounting Standards No. 30 - "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 financial statements as of and for the three months ended March 31, 2010.

3. TRANSLATION INTO U.S. DOLLARS

The 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	$ 1,000	$ 880	$ 28
Cash in banks	330,881	1,377,996	43,333
Time deposits	69,901,845	64,679,501	2,033,946
Cash equivalents - repurchase bonds	117,000	-	-
	$ 70,350,726	$ 66,058,377	$ 2,077,307

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	$ -	$ 68,325	$ 2,149
Derivatives - financial liabilities			
Exchange contracts	$ 37,329	$ -	$ -

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:

Forward Exchange Contracts

	2009			
	Buy/Sell	Currency	Expiry 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	Expiry 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	(1,365,115)	(2,158,855)	(67,889)
	$ 709	$ 313	$ 10

7. ACCOUNTS RECEIVABLE

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

	2009	2010	
	NT$	NT$	US$ (Note 3)
Accounts receivable	$ 17,801,581	$ 27,319,190	$ 859,094
Less: Allowance for doubtful accounts	(746,863)	(1,008,491)	(31,714)
	$ 17,054,718	$ 26,310,699	$ 827,380

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	$ 129,806	$ 171,304	$ 5,387
Agency payments	1,639	11,519	362
Interest receivable	23,245	10,985	345
Other receivables from related parties (Note 23)	10,577	10,008	315
	$ 165,267	$ 203,816	$ 6,409

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	$ 425,941	$ 843,595	$ 26,528
Work-in-process	1,594,548	2,253,774	70,874
Raw materials	2,622,420	3,949,940	124,212
Goods in transit	-	110,672	3,480
	$ 4,642,909	$ 7,157,981	$ 225,094

As of March 31, 2009 and 2010, the allowance for inventory devaluation was NT$2,345,490 thousand and NT$$3,015,299 thousand (US$94,821 thousand), respectively.

The write-down of inventories to their net realizable value amounted to NT$722,264 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$109,962 thousand (US$3,458 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
Services	97,833	109,909	3,456
Software and hardware maintenance	53,208	62,689	1,971
Molding equipment	139,324	25,604	805
Others	23,826	50,230	1,580
	$ 2,913,674	$ 3,112,414	$ 97,875

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 rent, travel and insurance expenses.

11. FINANCIAL ASSETS CARRIED AT COST

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

	2009	2010	
	NT$	NT$	US$ (Note 3)
Hua-Chuang Automobile Information Technical Center Co., Ltd.	$ 500,000	$ 500,000	$ 15,723
Answer Online, Inc.	1,192	1,192	38
	$ 501,192	$ 501,192	$ 15,761

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

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

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

12. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

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

	2009		2010				
	Carrying Value	Ownership Percentage	Original Cost		Carrying Value		Ownership Percentage
	NT$		NT$	US$ (Note 3)	NT$	US$ (Note 3)	
Equity method							
H.T.C. (B.V.I.) Corp.	$ 2,134,503	100.00	$ 1,462,456	$ 45,989	$ 1,795,321	$ 56,457	100.00
BandRich Inc.	36,736	50.66	135,000	4,246	28,195	887	50.66
HTC HK, Limited	39,029	100.00	-	-	-	-	-
Communication Global Certification Inc.	273,142	100.00	280,000	8,805	281,435	8,850	100.00
High Tech Computer Asia Pacific Pte. Ltd.	2,113,668	100.00	3,364,273	105,795	3,418,622	107,504	100.00
Vitamin D Inc.	40,598	25.90	40,986	1,289	-	-	25.59
HTC Investment Corporation	301,210	100.00	300,000	9,434	300,661	9,455	100.00
PT. High Tech Computer Indonesia	62	1.00	62	2	62	2	1.00
HTC I Investment Corporation	-	-	295,000	9,277	295,238	9,284	100.00
HTC Holding Cooperatief U.A.	-	-	13	-	13	-	1.00
Huada Digital Corporation	-	-	245,000	7,704	244,965	7,703	100.00
Prepayments for long-term investments	55,336		100,000	3,144	100,000	3,144	
	$ 4,994,284		$ 6,222,790	$ 195,685	$ 6,464,512	$ 203,286	

In August 2000, the Company acquired 100% equity interest in H.T.C. (B.V.I.) Corp. for NT$12,834 thousand and accounted for this investment by the equity method. The Company increased this investment by NT$385,749 thousand in 2009. The 2009 additional investment consisted of NT$316,656 thousand transferred from prepayments for long-term investments because the registration of the related investment had been completed by the beginning of 2009 and of a new investment amount of NT$69,093 thousand.

In addition, the Company reorganized its overseas subsidiaries' investment structure in the fourth quarter of 2009. Thus, H.T.C. (B.V.I.) Corp. transferred some of its subsidiaries to High Tech Computer Asia Pacific Pte. Ltd and HTC HK, Limited and reduced its capital by NT$751,134 thousand. Also, The Company increased this investment by NT$284,115 thousand (US$8,934 thousand) in 2010. As of March 31, 2010, the Company's investment in H.T.C. (B.V.I.) Corp. amounted to NT$1,462,456 thousand (US$45,989 thousand). H.T.C. (B.V.I.) Corp. makes investments on behalf of the Company.

In April 2006, the Company acquired 92% equity interest in BandRich Inc. for NT$135,000 thousand and accounted for this investment by the equity method. In May 2006, BandRich Inc. issued 12,000 thousand common shares at NT$12.50 per share, of which the Company did not buy any shares. Thus, the Company's ownership percentage declined from 92% to 50.66%, resulting in capital surplus - long-term equity investments of NT$15,845 thousand.

In September 2006, the Company acquired 100% equity interest in HTC HK, Limited for NT$1,277 thousand and accounted for this investment by the equity method. In December 2009, HTC HK, Limited was sold to High Tech Computer Asia Pacific Pte. Ltd. in line with the reorganization of the Company's overseas subsidiaries' investment structure.

In January 2007, the Company acquired 100% equity interest in Communication Global Certification Inc. for NT$280,000 thousand and accounted for this investment by the equity method. The Company increased this investment by NT$100,000 thousand (US$3,145) thousand in 2010. As of March 31, 2010, the Company's investment in Communication Global Certification Inc. amounted to NT$380,000 thousand (US$11,950 thousand). However, because the registration of this investment had not been completed as of March 31, 2010, an amount of NT$100,000 thousand (US$3,145 thousand) was temporarily accounted for under "prepayments for long-term investments."

In July 2007, the Company acquired 100% equity interest in High Tech Computer Asia Pacific Pte. Ltd. ("High Tech Asia") for NT$560,660 thousand and accounted for this investment by the equity method. In 2009, High Tech Asia increased its capital by NT$1,339,311 thousand because of the Company's new cash investment and a transfer-in due to the reorganization of the Company's overseas subsidiaries' investment structure. Also, The Company increased this investment by NT$1,188 thousand (US$37 thousand) in 2010. As of March 31, 2010, the Company's investment in High Tech Asia had amounted to NT$3,364,273 thousand (US$105,795 thousand).

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

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

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

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

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

In December 2009, the Company acquired 100% equity interest in Huada Digital Corporation for NT$245,000 thousand and accounted for this investment by the equity method.

On its equity-method investments, the Company had gains of NT$175,331 thousand and NT$113,064 thousand (US$3,555 thousand) for the three months ended March 31, 2009 and 2010, respectively.

The financial statements of equity-method investees for the three months ended March 31, 2009 and 2010 had been reviewed by the independent accountants.

Under orders VI-0960064017 and VI-0960064020 issued by Financial Supervisory Commission under the Executive Yuan, the Company included the accounts of all its direct and indirect subsidiaries in the consolidated financial statements as of and for the three months ended March 31, 2009 and 2010. All significant intercompany balances and transactions have been eliminated.

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	2,335,962	3,236,067	686,136	2,549,931	80,187
Machinery and equipment	1,130,483	4,019,535	3,208,321	811,214	25,510
Molding equipment	-	172,632	172,632	-	-
Computer equipment	65,743	305,921	232,897	73,024	2,296
Transportation equipment	1,591	2,732	1,478	1,254	39
Furniture and fixtures	25,478	132,669	113,001	19,668	619
Leased assets	2,160	4,712	3,338	1,374	43
Leasehold improvements	54,147	96,014	58,482	37,532	1,180
Prepayments on equipment-in-transit	22,109	46,555	-	46,555	1,464
	$ 8,357,197	$13,404,555	$ 4,476,285	$ 8,928,270	$ 280,763

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.

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

14. ACCRUED EXPENSES

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

	2009	2010	
	NT$	NT$	US$ (Note 3)
Marketing (Note 23)	$ 5,005,814	$ 10,578,210	$ 332,648
Bonus to employees	7,207,515	5,932,503	186,557
Services (Note 23)	1,112,882	1,407,171	44,251
Salaries	823,566	846,610	26,623
Export expenses	316,561	504,064	15,851
Research materials	560,983	327,690	10,305
Donation	59,194	327,601	10,302
Meals and welfare	67,544	109,328	3,438
Insurance	70,175	75,278	2,367
Repair and maintenance	46,786	71,363	2,244
Pension cost	48,835	48,462	1,524
Freight	42,675	46,120	1,450
Travel	22,923	28,428	894
Research and development	49,200	24,870	782
Others	239,644	159,825	5,026
	$ 15,674,297	$ 20,487,523	$ 644,262

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	6,164,889	4,859,236	152,806
	$ 7,207,515	$ 5,932,503	$ 186,557

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.

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

15. OTHER CURRENT LIABILITIES

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

	2009	2010	
	NT$	NT$	US$ (Note 3)
Reserve for warranty expenses	$ 4,843,896	$ 6,005,746	$ 188,860
Other payables (Note 23)	595,322	939,769	29,552
Agency receipts (Note 23)	313,545	407,189	12,805
Advance receipts	284,645	251,806	7,918
Deferred credits - profit from intercompany transactions	152,494	142,158	4,470
Directors' remuneration	21,842	-	-
Other	84,440	222,365	6,993
	$ 6,296,184	$ 7,969,033	$ 250,598

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

Other payables were payables for investments accounted for by the equity method, miscellaneous expenses of overseas sales offices, repair materials and contingent loss of purchase orders which was recognized as other loss.

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

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

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

16. PENSION PLAN

The Labor Pension Act (the "Act"), which provides for a new defined contribution plan, took effect on July 1, 2005. Employees covered by the Labor Standards Law (the "Law") before the enforcement of the Act were allowed to choose to remain to be subject to the defined benefit pension mechanism under the Law or to be subject instead to the Act. Based on the Act, the rate of the Company's required monthly contributions to the employees' individual pension accounts is at least 6% of monthly wages and salaries, and these contributions are recognized as pension expense in the income statement. The pension fund contributions for the three months ended March 31, 2009 and 2010 were NT$45,868 thousand and NT$45,218 thousand (US$1,422 thousand), respectively.

Under the Law, which provides for a defined benefit pension plan, retirement payments should be made according to the years of service, with a payment of two units for each year of service but only one unit per year after the 15th year; however, total units should not exceed 45. The rate of the Company's contributions to a pension fund was 2% after the Act took effect. The pension fund is deposited in the Bank of Taiwan in the committee's name. The pension fund balances were NT$395,375 thousand and NT$426,695 thousand (US$13,418 thousand) as of March 31, 2009 and 2010, respectively.

Based on the Statement of Financial Accounting Standards No. 18 - "Accounting for Pensions," issued by the Accounting Research and Development Foundation of the ROC, changes of prepaid pension cost under the defined benefit plans for the three months ended March 31, 200 and 2010 were as follows:

	2009	2010	
	NT$	NT$	US$ (Note 3)
Balance, beginning of period	$ 117,138	$ 137,653	$ 4,329
Contributions	(1,220)	(792)	(25)
Payments	6,733	6,081	191
Balance, end of period	$ 122,651	$ 142,942	$ 4,495

17. 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 January 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.

18. 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
2009				
For maintaining the Company's credit and stockholders' equity	10,000	-	10,000	-
2010				
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.

19. PERSONNEL EXPENSE, DEPRECIATION AND AMORTIZATION

Function / Expense Item	2009			2010					
	NT$			NT$			US$ (Note 3)		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses	$ 690,937	$ 1,727,747	$ 2,418,684	$ 637,683	$ 1,801,959	$ 2,439,642	$ 20,053	$ 56,665	$ 76,718
Salary	593,916	1,599,966	2,193,882	542,085	1,677,298	2,219,383	17,047	52,745	69,792
Insurance	38,879	44,398	83,277	35,658	45,873	81,531	1,121	1,443	2,564
Pension cost	14,841	32,247	47,088	12,876	33,134	46,010	405	1,042	1,447
Other	43,301	51,136	94,437	47,064	45,654	92,718	1,480	1,435	2,915
Depreciation	75,773	85,846	161,619	71,922	80,560	152,482	2,262	2,533	4,795
Amortization	-	7,123	7,123	5,388	7,122	12,510	169	224	393

20. INCOME TAX

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

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

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

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. Income tax payable as of March 31, 2009 and 2010 were computed as follows:

	2009	2010	
	NT$	NT$	US$ (Note 3)
Income before income tax	$ 5,392,019	$ 5,720,544	$ 179,891
Permanent differences			
Gains on equity-method investments	(175,331)	(113,064)	(3,555)
Other	(62,830)	6,084	191
Temporary differences			
Realized pension cost	(5,514)	(5,289)	(166)
Unrealized (realized) loss on decline in value of inventory	722,264	(109,962)	(3,458)
Unrealized royalties	193,333	664,858	20,907
Unrealized (realized) exchange losses, net	689,856	(630,754)	(19,835)
(Realized) Unrealized marketing expense	(804,718)	2,005,247	63,058
(Realized) Unrealized warranty expense	(381,966)	718,183	22,584
Unrealized bad debt expenses	316,727	6,241	196
Capitalized expense	9,755	(8,640)	(272)
Realized valuation loss on financial instruments	(476,754)	(50,193)	(1,578)
Unrealized profit from intercompany transactions	18,403	34,008	1,070
Other	185,756	2,656	84
Total income	5,621,000	8,239,919	259,117
Less: Tax-exempt income	(4,191,574)	(7,358,310)	(231,393)
Taxable income	1,429,426	881,609	27,724
Tax rate	25%	20%	20%
	357,357	176,322	5,545
Income tax credit	(10)	-	-
Estimated income tax provision	357,347	176,322	5,545

(Continued)

	2009	2010	
	NT$	NT$	US$ (Note 3)
Unappropriated earnings (additional 10% income tax)	$ -	$ -	$ -
Less: Investment research and development tax credits	-	-	-
Income tax payable determined pursuant to the Income Tax Law	$ 357,347	$ 176,322	$ 5,545
Alternative minimum tax	$ 545,030	$ 815,684	$ 25,650
Less: Prepaid and withheld income tax	(18,104)	(6,198)	(195)
Prior years' income tax payable	3,937,745	4,152,624	130,586
Income tax payable	$ 4,464,671	$ 4,962,110	$ 156,041

(Concluded)

The alternative minimum tax (AMT) imposed under the AMT Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law is below the minimum amount prescribed under the AMT Act. The taxable income for calculating the AMT includes most of the income that is exempted from income tax under various laws and statutes. The Company has considered the impact of the AMT Act in the determination of its tax liabilities. As a result, the current income tax payable as of March 31, 2009 and 2010 should be NT$545,030 thousand and NT$815,684 thousand (US$25,650 thousand), respectively.

Deductible temporary differences 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	$ 586,372	$ 603,060	$ 18,964
Unrealized marketing expense	1,251,454	2,115,642	66,530
Capitalize expense	60,629	38,575	1,213
Unrealized reserve for warranty expense	1,210,974	1,201,149	37,772
Unrealized royalties	1,584,258	1,824,114	57,362
Unrealized bad-debt expenses	144,405	148,547	4,671
Unrealized exchange loss	131,486	29,650	933
Unrealized valuation loss on financial instruments	9,332	-	-
Other	83,799	50,568	1,590
Tax credit carryforwards	2,573,299	3,056,328	96,111
Total deferred tax asset	7,636,008	9,067,633	285,146
Less: Valuation allowance	(6,203,873)	(7,054,471)	(221,839)
Total deferred tax asset, net	1,432,135	2,013,162	63,307
Deferred tax liability			
Unrealized pension cost	(30,663)	(28,589)	(899)
Unrealized valuation gain on financial instruments	-	(13,665)	(430)
	1,401,472	1,970,908	61,978
Less: Current portion	(590,884)	(839,595)	(26,402)
Deferred tax assets, noncurrent	$ 810,588	$ 1,131,313	$ 35,576

Details of the tax credit carryforwards are as follows:

Year of Occurrence	Validity Period	2009 NT$	2010 NT$	2010 US$ (Note 3)
2007	2007-2011	$ 201,506	$ 201,506	$ 6,337
2008	2008-2012	1,995,302	831,154	26,137
2009	2009-2013	376,491	2,023,668	63,637
		$ 2,573,299	$ 3,056,328	$ 96,111

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

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

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

	2009 NT$	2010 NT$	2010 US$ (Note 3)
Current income tax	$ 545,030	$ 815,684	$ 25,650
Increase in deferred income tax assets	(27,834)	(93,567)	(2,942)
Income tax	$ 517,196	$ 722,117	$ 22,708

The integrated income tax information is as follows:

	2009 NT$	2010 NT$	2010 US$ (Note 3)
Balance of imputation credit account (ICA)	$ 1,530,185	$ 1,708,445	$ 53,725
Unappropriated earnings from 1998	46,248,976	43,362,526	1,363,601
Expected 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:

	Amount (Numerator)			**EPS**	
	Before Income Tax	**After Income Tax**	**Shares (Denominator) (In Thousands)**	**Before Income Tax**	**After Income Tax**
	NT$	**NT$**		**NT$**	**NT$**
Three months ended March 31, 2009					
Basic EPS	$ 5,392,019	$ 4,874,823	782,664	$ 6.89	$ 6.23
Bonus to employees	-	-	3,534		
Diluted EPS	$ 5,392,019	$ 4,874,823	786,198	$ 6.86	$ 6.20

	Amount (Numerator)			**EPS**	
	Before Income Tax	**After Income Tax**	**Shares (Denominator) (In Thousands)**	**Before Income Tax**	**After Income Tax**
	NT$	**NT$**		**NT$**	**NT$**
Three months ended March 31, 2010					
Basic EPS	$ 5,720,544	$ 4,998,427	783,430	$ 7.30	$ 6.38
Bonus to employees	-	-	3,276		
Diluted EPS	$ 5,720,544	$ 4,998,427	786,706	$ 7.27	$ 6.35

	Amount (Numerator)			**EPS**	
	Before Income Tax	**After Income Tax**	**Shares (Denominator) (In Thousands)**	**Before Income Tax**	**After Income Tax**
	US$	**US$**		**US$**	**US$**
Three months ended March 31, 2010					
Basic EPS	$ 179,891	$ 157,183	783,430	$ 0.23	$ 0.20
Bonus to employees	-	-	3,276		
Diluted EPS	$ 179,891	$ 157,183	786,706	$ 0.23	$ 0.20

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	501,192	15,761	501,192	15,761

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

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

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

Methodology Used to Determine the Fair Values of Financial Instruments

	Quoted Market Prices			Measurement Method		
	March 31			March 31		
	2009	2010		2009	2010	
	NT$	NT$	US$ (Note 3)	NT$	NT$	US$ (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	501,192	15,761
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$69,901,845 thousand and 64,743,401 thousand (US$2,035,955 thousand), respectively.

As of March 31, 2009, financial assets exposed to fair value interest rate risk amounted to NT$117,000 thousand.

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 the Company's chairperson
VIA Technologies, Inc.	Same chairperson
Chander Electronics Corp.	Same chairperson
Syuda Construction Company	The only juridical stockholder whose chairperson is the same person with the Company
Comserve Network Netherlands B.V.	Main director is an immediate relative of the Company's chairperson
H.T.C. (B.V.I.) Corp.	Subsidiary
BandRich Inc.	Subsidiary
Communication Global Certification Inc.	Subsidiary
High Tech Computer Asia Pacific Pte. Ltd.	Subsidiary
High Tech Computer Corp. (Suzhou)	Subsidiary of H.T.C. (B.V.I.) Corp.
Exedea Inc.	Subsidiary of H.T.C. (B.V.I.) Corp.
HTC Nippon Corporation	Subsidiary of H.T.C. (B.V.I.) Corp.
HTC HK, Limited.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
High Tech Computer Singapore Pte. Ltd. (Merged into High Tech Computer Asia Pacific Pte. Ltd. in February 2010)	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
High Tech Computer (H.K.) Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC (Australia and New Zealand) Pty. Ltd.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC India Private Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC (Thailand) Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC America Inc.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Malaysia Sdn. Bhd.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
One & Company Design Inc.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Europe Co., Ltd.	Subsidiary of HTC. Netherlands B.V.
HTC Brasil	Subsidiary of HTC. Netherlands B.V.
HTC Belgium BVBA/SPRL	Subsidiary of HTC. Netherlands B.V.
HTC Electronics (Shanghai)	Subsidiary of HTC HK, Limited.
HTC Corporation (Shanghai WGQ)	Subsidiary of HTC HK, Limited.
Employees' Welfare Committee	Employees' Welfare Committee of HTC Corporation
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

	Three Months Ended March 31				
	2009		2010		
Related Party	**Amount**	**% of Total Net Purchases**	**Amount**		**% of Total Net Purchases**
	NT$		**NT$**	**US$ (Note 3)**	
HTC Electronics (Shanghai)	$ 17,136	-	$ 33,869	$ 1,065	-
Chander Electronics Corp.	5,968	-	28,383	893	-
High Tech Computer Corp. (Suzhou)	15,633	-	-	-	-
	$ 38,737	-	$ 62,252	$ 1,958	-

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

Sales and Services Provided

	Three Months Ended March 31				
	2009		2010		
Related Party	**Amount**	**% of Total Revenues**	**Amount**		**% of Total Revenues**
	NT$		**NT$**	**US$ (Note 3)**	
HTC America Inc.	$ 387,174	1	$ 243,373	$ 7,653	1
Exedea Inc.	-	-	213,478	6,713	1
HTC Europe Co., Ltd.	51,772	-	41,625	1,309	-
Employees' Welfare Committee	6,910	-	26,991	849	-
High Tech Computer (H.K.) Limited	13,906	-	13,122	413	-
High Tech Computer Singapore Pte. Ltd.	10,428	-	6,155	194	-
BandRich Inc.	60	-	6,735	212	-
Others	11,428	-	4,726	148	-
	$ 481,678	1	$ 556,205	$ 17,491	2

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

Notes and Accounts Receivable

Related Party	March 31				
	2009		2010		
	Amount	% of Total Notes and Accounts Receivable	Amount		% of Total Notes and Accounts Receivable
	NT$		NT$	US$ (Note 3)	
Accounts receivable					
HTC America Inc.	$ 446,749	3	$ 331,384	$ 10,421	1
Exedea Inc.	-		207,027	6,510	1
HTC Europe Co., Ltd.	33,302	-	61,546	1,935	-
Employees' Welfare Committee	-	-	18,082	569	-
High Tech Computer (H.K.) Limited	7,387	-	9,262	291	-
High Tech Computer Asia Pacific Pte. Ltd.	-	-	7,339	231	-
HTC (Australia and New Zealand) Pty. Ltd.	1,166	-	476	15	-
High Tech Computer Singapore Pte. Ltd.	3,180	-	-	-	-
Others	9,458	-	832	26	-
	$ 501,242	3	$ 635,948	$ 19,998	2

Notes and Accounts Payable

Related Party	March 31				
	2009		2010		
	Amount	% of Total Notes and Accounts Payable	Amount		% of Total Notes and Accounts Payable
	NT$		NT$	US$ (Note 3)	
Chander Electronics Corp.	$ 12,656	-	$ 33,649	$ 1,058	-
HTC Electronics (Shanghai)	33,591	-	5,786	182	-
High Tech Computer Corp. (Suzhou)	1,964	-	-	-	-
Others	584	-	683	22	-
	$ 48,795	-	$ 40,118	$ 1,262	-

Other Receivable

Related Party	March 31				
	2009		2010		
	Amount	% of Total Other Receivable	Amount		% of Total Other Receivable
	NT$		NT$	US$ (Note 3)	
HTC America Inc.	$ 1,133	1	$ 9,188	$ 289	5
HTC Europe Co., Ltd.	1,011	1	193	6	-
HTC Electronics (Shanghai)	4,723	3	159	5	-
HTC NIPPON Corporation	2,098	2	4	-	-
HTC Corporation (Shanghai WGQ)	869	-	-	-	-
High Tech Computer Singapore Pte. Ltd.	608	-	-	-	-
Others	135	-	464	15	-
	$ 10,577	7	$ 10,008	$ 315	5

Prepaid Expenses

Related Party	March 31				
	2009		2010		
	Amount	% of Total Prepayment	Amount		% of Total Prepayment
	NT$		NT$	US$ (Note 3)	
HTC America Inc.	$ 31,197	1	$ 81,693	$ 2,569	3
HTC NIPPON Corporation	23,976	1	24,552	772	1
One & Company Design Inc.	15,507	-	3,276	103	-
Communication Global Certification Inc	23,834	1	-	-	-
HTC Europe Co., Ltd.	846	-	-	-	
Others	-	-	388	12	-
	$ 95,360	3	$ 109,909	$ 3,456	4

Accrued Expenses

	March 31				
	2009		2010		
Related Party	**Amount**	**% of Total Accrued Expenses**	**Amount**		**% of Total Accrued Expenses**
	NT$		**NT$**	**US$ (Note 3)**	
HTC Europe Co., Ltd.	$ 331,548	2	$ 555,843	$ 17,479	3
HTC Cultural and Educational Foundation	-	-	217,800	6,849	1
HTC America Inc.	286,343	2	192,216	6,045	1
High Tech Computer Asia Pacific Pte. Ltd.	49,200	-	83,035	2,611	1
High Tech Computer (H.K.) Limited	11,818	-	45,408	1,428	-
HTC Belgium BVBA/SPRL	71,780	1	39,913	1,255	-
HTC India Private Limited	18,809	-	27,627	869	-
HTC (Australia and New Zealand) Pty. Ltd.	16,953	-	23,313	733	-
Communication Global Certification Inc	-	-	16,436	517	-
HTC Malaysia Sdn. Bhd.	7,955	-	15,885	500	-
HTC (Thailand) Ltd.	7,028	-	13,546	426	-
HTC Brasil	16,706	-	6,462	203	-
HTC Nippon Corporation	9,229	-	3,066	96	-
High Tech Computer Singapore Pte. Ltd.	26,650	-	-	-	-
Others	-	-	6,727	212	-
	$ 854,019	5	$ 1,247,277	$ 39,223	6

Other Payables to Related Parties

	March 31				
	2009		2010		
Related Party	**Amount**	**% of Total Other Payables**	**Amount**		**% of Total Other Payables**
	NT$		**NT$**	**US$ (Note 3)**	
HTC America Inc.	$ 138,065	23	$ 410,481	$ 12,908	43
High Tech Computer Asia Pacific Pte. Ltd.	-	-	99,068	3,115	11
HTC Europe Co., Ltd.	64,445	11	41,508	1,305	4
HTC Corporation (Shanghai WGQ)	7,703	1	7,531	237	1
HTC NIPPON Corporation	20,091	3	5,164	163	1
High Tech Computer (H.K.) Limited	3,489	1	4,449	140	-
H.T.C. (B.V.I.) Corp.	130,342	22	-	-	-

(Continued)

Related Party	March 31				
	2009		2010		
	Amount	% of Total Other Payables	Amount		% of Total Other Payables
	NT$		NT$	US$ (Note 3)	
Communication Global Certification Inc	$ 12,017	2	$ -	$ -	-
BandRich Inc.	10,181	2	-	-	-
Others	3,011	-	72	2	-
	$ 389,344	65	$ 568,273	$ 17,870	60

(Concluded)

Agency Receipts

Related Party	March 31				
	2009		2010		
	Amount	% of Total Advance Receipts	Amount		% of Total Advance Receipts
	NT$		NT$	US$ (Note 3)	
BandRich Inc.	$ 72,973	23	$ 41,643	$ 1,310	10

Outsourcing Expenses

Related Party	Three Months Ended March 31				
	2009		2010		
	Amount	% of Total Out-sourcing Expenses	Amount		% of Total Out-sourcing Expenses
	NT$		NT$	US$ (Note 3)	
HTC Electronics (Shanghai)	$ 47,148	87	$ 58,115	$ 1,828	68
High Tech Computer Corp. (Suzhou)	1,906	4	-	-	-
	$ 49,054	91	$ 58,115	$ 1,828	68

Service Warranty Expenses

Related Party	Three Months Ended March 31				
	2009		2010		
	Amount	% of Warranty Expenses	Amount		% of Warranty Expenses
	NT$		NT$	US$ (Note 3)	
HTC America Inc.	$ 417,860	64	$ 90,344	$ 2,841	6
HTC Europe Co., Ltd.	36,575	6	58,291	1,833	3
High Tech Computer (H.K.) Limited	10,810	2	15,366	483	1
HTC Corporation (Shanghai WGQ)	19,899	3	12,922	407	1
High Tech Computer Asia Pacific Pte. Ltd.	-	-	10,401	327	1
High Tech Computer Singapore Pte. Ltd.	6,581	1	504	16	-
Comserve Network Netherlands B.V.	367	-	-	-	-
	$ 492,092	76	$ 187,828	$ 5,907	12

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

Commission Expenses

Related Party	Three Months Ended March 31				
	2009		2010		
	Amount	% of Commission Expenses	Amount		% of Commission Expenses
	NT$		NT$	US$ (Note 3)	
HTC Europe Co., Ltd.	$ 499,020	83	$ 604,209	19,000	81
HTC Belgium BVBA/SPRL	99,887	17	139,534	4,388	19
	$ 598,907	100	$ 743,743	$ 23,388	100

Commission expenses resulted from the basis of the nature of services rendered by the related parties.

Service and Marketing Fees

	Three Months Ended March 31				
	2009		2010		
Related Party	**Amount**	**% of Total Service Fees**	**Amount**		**% of Total Service Fees**
	NT$		**NT$**	**US$ (Note 3)**	
HTC America Inc.	$ 527,996	44	$ 692,950	$ 21,791	29
High Tech Computer Asia Pacific Pte. Ltd.	-	-	58,164	1,829	3
High Tech Computer (H.K.) Limited	16,885	1	40,199	1,264	2
HTC (Australia and New Zealand) Pty. Ltd.	20,680	2	30,322	954	1
HTC Brasil	60,142	5	30,066	945	1
Communication Global Certification Inc.	37,374	3	28,797	906	1
HTC NIPPON Corporation	55,219	5	27,036	850	1
HTC India Private Limited	8,214	-	26,170	823	1
One & Company Design Inc.	34,655	3	25,861	813	1
HTC Malaysia Sdn. Bhd.	8,642	1	16,648	524	1
High Tech Computer Singapore Pte. Ltd.	33,504	3	13,996	440	1
HTC (Thailand) Ltd.	10,153	1	13,974	439	1
HTC Europe Co., Ltd.	-	-	6,640	209	-
HTC Belgium BVBA/SPRL	42,082	3	-	-	-
Others	600	-	3,944	124	-
	$ 856,146	71	$ 1,014,767	$ 31,911	43

Other Revenues

	Three Months Ended March 31				
	2009		2010		
Related Party	**Amount**	**% to Total Other Revenues**	**Amount**		**% to Total Other Revenues**
	NT$		**NT$**	**US$ (Note 3)**	
BandRich Inc.	$ 300	-	$ 200	$ 6	-

Leasing - Lessee

Operating expense - rental expense

	Three Months Ended March 31				
	2009		2010		
Related Party	Amount	% of Rental Expense	Amount		% of Rental Expense
	NT$		NT$	US$ (Note 3)	
VIA Technologies Inc.	$ 1,299	9	$ 3,120	$ 98	23

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 Transactions

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

In 2009, the Company sold equipment to HTC Corporation (Shanghai WGQ) for NT$496 thousand, and resulting in NT$0 gain or loss on this sale.

Endorsement/Guarantee Provided

Note 25 has more information.

24. PLEDGED ASSETS

As of March 31, 2010, the Company had provided time deposits of NT$63,900 thousand (US$2,009 thousand) to the National Tax Administration of Northern Taiwan Province as part of the requirements for the Company to get a certificate stating that it had no pending income tax.

25. COMMITMENTS AND CONTINGENCIES

The Company 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:

Contractor	Contract Term	Description
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.	Authorization to use CDMA technology to manufacture and sell units; royalty payment based on agreement.
	b. Any time when the Company is not using any of Qualcomm's intellectual property, the Company may terminate this agreement upon 60 days' prior written notice to Qualcomm.	
Ericsson Mobile Platform AB	April 2003 - March 2011	Authorization to use EDGE reference design license and support agreement; royalty payment based on agreement.
Telefonaktiebolaget LM Ericsson	December 15, 2008 - December 14, 2013	Authorization to use platform patent license agreement; royalty payment based on agreement.
Nokia Corporation	January 1, 2003 to the expiry dates of these patents.	Authorization to use wireless technology, like GSM; royalty payment based on agreement.
InterDigital Technology Corporation.	December 31, 2003 to the expiry dates of these patents.	Authorization to use TDMA and CDMA technology; royalty payment based on agreement.
KONINKLIJKE PHILIPS ELECTRONICS N.V.	January 5, 2004 to the expiry dates of these patents	GSM/DCS 1800/1900 Patent License; royalty payment based on agreement.

(Continued)

Contractor	Contract Term	Description
Motorola, Inc.	December 23, 2003 to the latest of the following dates: a. Expiry dates of patents b. Any time when the Company is not using any of Motorola's intellectual property,	TDMA, NARROWBAND CDMA, WIDEBAND CDMA or TD/CDMA Standards patent license or technology; royalty payment based on agreement.
ALCATEL 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 IPCom'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, H.T.C. (B.V.I.) Corp., HTC America, Inc. and Exedea, Inc. concurrently with the U.S. International Trade Commission ("ITC") and U.S. District Court in Delaware ("Delaware court"), alleging that these companies 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.