HTC Corporation

Financial Statements for the
Nine Months Ended September 30, 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 September 30, 2009 and 2010 and the related statements of income and cash flows for the nine months then ended, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our reviews.

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

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

We have also reviewed the consolidated financial statements of HTC Corporation and subsidiaries as of and for the nine months ended September 30, 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.

October 21, 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
SEPTEMBER 30, 2009 AND 2010
(In Thousands, Except Par Value)
(Reviewed, Not Audited)

ASSETS	2009 NT$	2010 NT$	2010 US$ (Note 3)
CURRENT ASSETS			
Cash and cash equivalents (Notes 2 and 4)	$ 53,044,361	$ 60,509,634	$ 1,935,689
Available-for-sale financial assets - current (Notes 2 and 6)	2,097,004	401,400	12,841
Accounts receivable, net (Notes 2 and 7)	23,864,739	23,283,575	744,836
Accounts receivable from related parties, net (Notes 2 and 23)	430,852	22,934,589	733,672
Other current financial assets (Notes 8 and 23)	158,010	730,283	23,362
Inventories (Notes 2 and 9)	4,654,873	16,638,667	532,267
Prepayments (Notes 10 and 23)	4,320,552	2,134,512	68,283
Deferred tax assets (Notes 2 and 20)	698,158	971,529	31,079
Other current assets	154,235	312,553	9,997
Total current assets	89,422,784	127,916,742	4,092,026
LONG-TERM INVESTMENTS			
Available-for-sale financial assets - noncurrent (Notes 2 and 6)	407	436	14
Financial assets carried at cost (Notes 2 and 11)	501,192	515,861	16,502
Investments accounted for by the equity method (Notes 2 and 12)	5,206,666	7,485,111	239,447
Prepayments for long-term investments (Notes 2 and 12)	262,320	2,299,815	73,571
Total long-term investments	5,970,585	10,301,223	329,534
PROPERTIES (Notes 2, 13 and 23)			
Cost			
Land	4,719,538	5,387,718	172,352
Buildings and structures	3,161,089	3,251,318	104,009
Machinery and equipment	4,008,587	4,148,114	132,697
Molding equipment	172,632	172,632	5,522
Computer equipment	299,915	324,035	10,366
Transportation equipment	2,732	2,732	87
Furniture and fixtures	127,838	139,510	4,463
Leased assets	4,712	4,712	151
Leasehold improvements	95,261	98,646	3,156
	12,592,304	13,529,417	432,803
Less: Accumulated depreciation	(4,210,925)	(4,762,043)	(152,337)
Prepayments for construction-in-progress and equipment-in-transit	62,684	636,389	20,358
Properties, net	8,444,063	9,403,763	300,824
OTHER ASSETS			
Assets leased to others	47,639	-	-
Refundable deposits	117,736	71,309	2,281
Deferred charges (Note 2)	82,442	29,083	930
Deferred tax assets (Notes 2 and 20)	942,556	1,707,259	54,615
Restricted assets - noncurrent (Note 24)	-	63,900	2,044
Other (Notes 2, 10 and 16)	2,110,589	1,416,133	45,302
Total other assets	3,300,962	3,287,684	105,172
TOTAL	$ 107,138,394	$ 150,909,412	$ 4,827,556

LIABILITIES AND STOCKHOLDERS' EQUITY	2009 NT$	2010 NT$	2010 US$ (Note 3)
CURRENT LIABILITIES			
Financial liabilities at fair value through profit or loss (Notes 2, 5 and 22)	$ 15,508	$ 411,269	$ 13,156
Notes and accounts payable	20,929,817	45,043,096	1,440,919
Notes and accounts payable to related parties (Note 23)	25,008	1,667,197	53,333
Income tax payable (Notes 2 and 20)	3,195,679	3,904,760	124,912
Accrued expenses (Notes 14 and 23)	15,399,055	25,444,891	813,976
Payable for purchase of equipment	68,432	140,580	4,497
Other current liabilities (Notes 2, 15 and 23)	7,191,096	9,840,702	314,802
Total current liabilities	46,824,595	86,452,495	2,765,595
OTHER LIABILITIES			
Guarantee deposits received	1,210	628	20
Total liabilities	46,825,805	86,453,123	2,765,615
STOCKHOLDERS' EQUITY (Note 17)			
Capital stock			
Common stock at par value of NT$10.00 each; authorized: 1,000,000 thousand shares; issued and outstanding: 796,021 thousand shares in 2009 and 817,653 thousand shares in 2010	7,960,208	8,176,532	261,565
Capital surplus			
Additional paid-in capital	9,137,653	10,777,623	344,774
Long-term equity investments	18,205	18,411	589
Merger	25,415	24,710	790
Retained earnings			
Legal reserve	10,273,674	10,273,674	328,652
Accumulated earnings	35,087,257	38,080,198	1,218,176
Other equity			
Cumulative translation adjustments (Note 2)	44,747	(27,300)	(873)
Net loss not recognized as pension cost	-	(34)	(1)
Unrealized losses on financial instruments (Notes 2 and 6)	(1,564)	(1,535)	(49)
Treasury stock (Note 18)	(2,233,006)	(2,865,990)	(91,682)
Total stockholders' equity	60,312,589	64,456,289	2,061,941
TOTAL	$ 107,138,394	$ 150,909,412	$ 4,827,556

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

HTC CORPORATION

STATEMENTS OF INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2010
(In Thousands, Except Earnings Per Share)
(Reviewed, Not Audited)

	2009	2010	
	NT$	NT$	US$ (Note 3)
REVENUES (Notes 2 and 23)	$ 103,799,074	$ 172,179,859	$ 5,507,993
COST OF REVENUES (Notes 9, 19 and 23)	71,072,728	122,126,295	3,906,792
GROSS PROFIT	32,726,346	50,053,564	1,601,201
UNREALIZED GAIN FROM INTERCOMPANY TRANSACTIONS	(142,003)	(84,224)	(2,694)
REALIZED GAIN FROM INTERCOMPANY TRANSACTIONS	134,091	108,150	3,460
REALIZED GROSS PROFIT	32,718,434	50,077,490	1,601,967
OPERATING EXPENSES (Notes 19 and 23)			
Selling and marketing	6,519,337	12,783,025	408,926
General and administrative	1,439,418	3,007,019	96,194
Research and development	6,702,653	7,999,913	255,915
Total operating expenses	14,661,408	23,789,957	761,035
OPERATING INCOME	18,057,026	26,287,533	840,932
NONOPERATING INCOME AND GAINS			
Interest income	293,798	210,834	6,745
Gains on equity-method investment (Notes 2 and 12)	131,235	790,476	25,287
Gains on sale of investments, net	2,004	3,001	96
Exchange gain (Note 2)	467,798	728,381	23,301
Other	329,937	263,446	8,427
Total nonoperating income and gains	1,224,772	1,996,138	63,856
NONOPERATING EXPENSES AND LOSSES			
Interest expense	107	38	1
Loss on disposal of properties	-	139	4
Impairment loss (Notes 2 and 11)	-	1,192	38
Valuation losses on financial instruments, net (Notes 2 and 6)	15,508	411,269	13,156
Other	313,695	26,699	855
Total nonoperating expenses and losses	329,310	439,337	14,054

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HTC CORPORATION

STATEMENTS OF INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2010
(In Thousands, Except Earnings Per Share)
(Reviewed, Not Audited)

	2009	2010	
	NT$	NT$	US$ (Note 3)
INCOME BEFORE INCOME TAX	$ 18,952,488	$ 27,844,334	$ 890,734
INCOME TAX (Notes 2 and 22)	(1,877,518)	(3,107,428)	(99,406)
NET INCOME	$ 17,074,970	$ 24,736,906	$ 791,328

	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	$ 22.94	$ 20.67	$ 34.09	$ 1.09	$ 30.28	$ 0.97
Diluted	$ 22.61	$ 20.37	$ 33.75	$ 1.08	$ 29.98	$ 0.96

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

HTC CORPORATION

STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2010
(In Thousands)
(Reviewed, Not Audited)

	2009	2010	
	NT$	NT$	US$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 17,074,970	$ 24,736,906	791,328
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation (including depreciation of assets leased to others)	481,257	450,217	14,402
Amortization	27,179	40,690	1,302
Distribution of bonuses to employees of subsidiaries	(17,731)	(157,007)	(5,023)
Prepaid pension cost	(15,617)	(15,953)	(510)
Gain on equity-method investments	(131,235)	(790,476)	(25,287)
Cash dividends received from equity - method investees	905	480	15
Loss on disposal of properties, net	-	139	4
Transfer of properties to expenses	437	532	17
Gains on sale of investments, net	(2,004)	(3,001)	(96)
Impairment loss	-	1,192	38
Deferred tax assets	(267,076)	(801,447)	(25,638)
Net changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	(498,575)	429,401	13,736
Accounts receivable	4,995,503	2,042,653	65,344
Accounts receivable from related parties	507,918	(20,690,039)	(661,869)
Other current financial assets	117,496	(496,082)	(15,870)
Inventories	2,763,594	(11,899,968)	(380,677)
Prepayments	(3,082,921)	1,216,979	38,931
Other current assets	7,772	(185,773)	(5,943)
Other assets - other	(1,977,834)	580,643	18,575
Notes and accounts payable	(6,948,624)	20,246,450	647,679
Notes and accounts payable to related parties	(3,695)	1,581,521	50,592
Income tax payable	(742,066)	(247,864)	(7,929)
Accrued expenses	4,721,008	10,260,611	328,235
Other current liabilities	779,769	2,569,528	82,199
Net cash provided by operating activities	17,790,430	28,870,332	923,555
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of available-for-sale financial assets	(5,458,119)	(3,511,180)	(112,322)
Proceeds of the sale of available-for-sale financial assets	3,363,119	5,610,175	179,468
Increase in investments accounted for by the equity method	(678,451)	(2,889,471)	(92,433)

(Continued)

HTC CORPORATION

STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2010
(In Thousands)
(Reviewed, Not Audited)

	2009	2010	
	NT$	NT$	US$ (Note 3)
Purchase of properties	$ (1,378,897)	$ (1,421,465)	$ (45,472)
Proceeds of the sale of properties	1,010	-	-
Increase in refundable deposits	(272)	(2,143)	(69)
Increase in deferred charges	(57,496)	-	-
Net cash used in investing activities	(4,209,106)	(2,214,084)	(70,828)
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in guarantee deposits received	(5,196)	(582)	(19)
Cash dividends	(20,125,634)	(20,122,332)	(643,709)
Purchase of treasury stock	(2,233,006)	(7,700,164)	(246,326)
Net cash used in financing activities	(22,363,836)	(27,823,078)	(890,054)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(8,782,512)	(1,166,830)	(37,327)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	61,826,873	61,676,464	1,973,016
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 53,044,361	$ 60,509,634	$1,935,689
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid during the period			
Interest	$ 107	$ 38	$ 1
Income tax	$ 2,886,660	$ 4,156,739	$ 132,973
NONCASH INVESTING AND FINANCING ACTIVITIES			
Transfer of retained earnings to stock dividends for distribution	$ 372,697	$ 386,968	$ 12,379
Retirement of treasury stock	$ 3,410,277	$ 4,834,174	$ 154,644
Transfer of assets leased to others to properties	$ 262,320	$ 48,135	$ 1,540
Transfer of accrued stock bonus to employees to common stock and additional paid-in capital	$ 4,954,889	$ 1,943,694	$ 62,178
PURCHASE OF PROPERTIES			
Cost of properties purchased	$ 1,288,796	$ 1,492,339	$ 47,740
Decrease (increase) in payable for purchase of equipment	89,354	(71,674)	(2,293)
Decrease in lease payable	747	800	25
Cash paid for purchase of properties	$ 1,378,897	$ 1,421,465	$ 45,472

(Continued)

HTC CORPORATION

STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2010
(In Thousands)
(Reviewed, Not Audited)

	2009	2010	
	NT$	NT$	US$ (Note 3)
INCREASE IN LONG-TERM INVESTMENTS			
Increase in investments accounted for by the equity method	$ 681,749	$ 2,891,483	$ 92,497
Increase in payable for purchase of investments	(3,298)	(2,012)	(64)
Cash paid for increase in long-term investments	$ 678,451	$ 2,889,471	$ 92,433

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 7,168 and 10,444 employees as of September 30, 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, laws and principles, certain estimates and assumptions have been used for the allowance for doubtful accounts, allowance for loss on inventories, depreciation of properties, income tax, 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 approximates 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. 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 nine months ended September 30, 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$31.26 to US$1.00 quoted by the Bank of Taiwan on September 30, 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 September 30, 2009 and 2010 were as follows:

	2009	2010	
	NT$	NT$	US$ (Note 3)
Cash on hand	$ 1,000	$ 1,000	$ 32
Cash in banks	4,464,827	8,587,132	274,700
Time deposits	48,061,534	51,921,502	1,660,957
Cash equivalents - repurchase bonds	517,000	-	-
	$ 53,044,361	$ 60,509,634	$ 1,935,689

On time deposits, interest rates ranged from 0.10% to 0.855% and 0.10% to 1.03% as of September 30, 2009 and 2010, respectively.

On preferential deposits, interest rates ranged from 0.10% to 0.70% and 0.08% to 4.20% as of September 30, 2009 and 2010, respectively.

On cash equivalents, interest rate was 0.13% as of September 30, 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 September 30, 2009 and 2010 were as follows:

	2009	2010	
	NT$	NT$	US$ (Note 3)
Derivatives - financial liabilities			
Exchange contracts	$ 15,508	$ 411,269	$ 13,156

The Company had derivative transactions during the nine months ended September 30, 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 nine months ended September 30, 2009 and 2010. Outstanding forward exchange contracts as of September 30, 2009 and 2010 were as follows:

Forward Exchange Contracts

	2009			
	Buy/Sell	**Currency**	**Expiry Date**	**Contract Amount**
Forward exchange contracts	Sell	EUR/USD	2009.10.14-2009.11.27	EUR 103,000
Forward exchange contracts	Sell	GBP/USD	2009.10.21-2009.11.20	GBP 3,300
Forward exchange contracts	Sell	USD/NTD	2009.10.14-2009.11.27	US$ 111,500
Forward exchange contracts	Buy	USD/JPY	2009.10.09-2009.11.18	US$ 16,477

	2010			
	Buy/Sell	**Currency**	**Expiry Date**	**Contract Amount**
Forward exchange contracts	Sell	EUR/USD	2010.10.06-2010.11.26	EUR 221,000
Forward exchange contracts	Sell	GBP/USD	2010.10.13-2010.11.10	GBP 7,500
Forward exchange contracts	Sell	USD/NTD	2010.10.08-2010.11.17	US$ 123,000
Forward exchange contracts	Buy	USD/JPY	2010.10.20-2010.11.24	US$ 6,979

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

Net loss on derivative financial instruments for the nine months ended September 30, 2010 was NT$42,240 thousand (US$1,351 thousand), including realized settlement gain of NT$369,029 thousand (US$11,805 thousand) and valuation loss of NT$411,269 thousand (US$13,156 thousand). Note 22 has more information.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets as of September 30, 2009 and 2010 were as follows:

	2009	2010	
	NT$	**NT$**	**US$ (Note 3)**
Mutual funds	$ 2,097,004	$ 401,400	$ 12,841
Domestic quoted stocks	407	436	14
Less: Current portion	(2,097,004)	(401,400)	(12,841)
	$ 407	$ 436	$ 14

7. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable as of September 30, 2009 and 2010 were as follows:

	2009	2010	
	NT$	NT$	US$ (Note 3)
Accounts receivable	$ 24,611,603	$ 24,292,066	$ 777,097
Less: Allowance for doubtful accounts	(746,864)	(1,008,491)	(32,261)
	$ 23,864,739	$ 23,283,575	$ 744,836

8. OTHER CURRENT FINANCIAL ASSETS

Other current financial assets as of September 30, 2009 and 2010 were as follows:

	2009	2010	
	NT$	NT$	US$ (Note 3)
Other receivables	$ 123,118	$ 530,166	$ 16,960
Interest receivable	7,940	11,173	357
Other receivables from related parties (Note 23)	7,170	9,587	307
Agency payments	19,782	179,357	5,738
	$ 158,010	$ 730,283	$ 23,362

Other receivables were primarily prepayments on behalf of vendors or customers, withholding income tax of employees' bonuses, and other compensation.

9. INVENTORIES

Inventories as of September 30, 2009 and 2010 were as follows:

	2009	2010	
	NT$	NT$	US$ (Note 3)
Finished goods	$ 392,710	$ 1,370,790	$ 43,851
Work-in-process	1,436,714	3,285,764	105,111
Raw materials	2,802,396	11,844,437	378,901
Goods in transit	23,053	137,676	4,404
	$ 4,654,873	$ 16,638,667	$ 532,267

As of September 30, 2009 and 2010, the allowance for inventory devaluation was NT$2,865,988 thousand and NT$3,007,981 thousand (US$96,225 thousand), respectively.

The write-down of inventories to their net realizable value amounted to NT$1,848,901 thousand and NT$162,142 thousand (US$5,187 thousand) and was recognized as cost of sales for the nine months ended September 30, 2009 and 2010, respectively.

10. PREPAYMENTS

Prepayments as of September 30, 2009 and 2010 were as follows:

	2009	2010	
	NT$	NT$	US$ (Note 3)
Royalty	$ 4,007,352	$ 1,831,195	$ 58,579
Software and hardware maintenance	22,887	119,773	3,832
Services	109,718	63,514	2,032
Marketing	5,184	32,704	1,046
Molding equipment	115,911	28,865	923
Others	59,500	58,461	1,871
	$ 4,320,552	$ 2,134,512	$ 68,283

Prepayments for royalty were primarily prepayments for discount purpose and classified as current or noncurrent based on their maturities. As of September 30, 2009 and 2010, the noncurrent prepayments were NT$1,977,834 thousand and NT$1,262,528 thousand (US$40,388 thousand) were classified as other assets, respectively (Note 26 has more information).

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

11. FINANCIAL ASSETS CARRIED AT COST

Financial assets carried at cost as of September 30, 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	$ 15,995
BandRich Inc.	-	15,861	507
Answer Online, Inc.	1,192	-	-
	$ 501,192	$ 515,861	$ 16,502

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

In March 2004, the Company merged with IA Style, Inc. and acquired 1.82% equity interest in Answer Online, Inc. as a result of the merger. In addition, the Company determined that the recoverable amount of this investment in 2010 was less than its carrying amount and thus recognized an impairment loss of NT$1,192 thousand (US$38 thousand).

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 and July 2010, BandRich Inc. issued common shares and the Company did not buy any shares. The Company's ownership percentage declined from 92% to 18.08% and lost its significant influence. As a result, the Company transferred this investment to "financial assets carried at cost" using book value at the time of its ownership percentage changed in July 2010.

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 September 30, 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.	$ 2,150,507	100.00	$ 1,665,667	$ 53,284	$ 1,919,910	$ 61,417	100.00
BandRich Inc.	34,811	50.66	-	-	-	-	-
HTC HK, Limited	53,937	100.00	-	-	-	-	-
Communication Global Certification Inc.	286,684	100.00	380,000	12,156	395,286	12,645	100.00
High Tech Computer Asia Pacific Pte. Ltd.	2,049,266	100.00	3,367,428	107,723	4,328,248	138,460	100.00
Vitamin D Inc.	36,034	25.59	40,986	1,311	-	-	25.59
HTC Investment Corporation	300,469	100.00	300,000	9,597	300,575	9,615	100.00
PT. High Tech Computer Indonesia	62	1.00	62	2	62	2	1.00
HTC I Investment Corporation	294,896	100.00	295,000	9,437	295,606	9,456	100.00
HTC Holding Cooperatief U.A.	-	-	13	1	13	1	1.00
Huada Digital Corporation	-	-	245,000	7,837	245,411	7,851	100.00
Prepayments for long-term investments	262,320		2,299,815	73,571	2,299,815	73,571	
	$ 5,468,986		$ 8,593,971	$ 274,919	$ 9,784,926	$ 313,018	

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, consisting 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$751,314 thousand. Also, The Company increased this investment by NT$487,326 thousand (US$15,589 thousand) in 2010. As of September 30, 2010, the Company's investment in H.T.C. (B.V.I.) Corp. amounted to NT$1,665,667 thousand (US$53,284 thousand).

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 July 2010 the Company lost its significant influence and accounted for this investment by the cost method (Note 11 has more information).

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$3,199 thousand) in 2010. As of September 30, 2010, the Company's investment in Communication Global Certification Inc. amounted to NT$380,000 thousand (US$12,156 thousand).

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$2,304,158 thousand (US$73,709 thousand) in 2010. As of September 30, 2010, the Company's investment in High Tech Asia had amounted to NT$5,667,243 thousand (US$181,294 thousand). However, because the registration of this investment had not been completed as of September 30, 2010, an amount of NT$2,299,815 thousand (US$73,571 thousand) was temporarily accounted for under "prepayments for long-term investments."

In April 2008, the Company made a new investment of US$350 thousand and transferred its bond investment of US$1,000 thousand to convertible preferred stocks issued by Vitamin D Inc. As a result, the Company acquired 27.27% equity interest in Vitamin D Inc. for NT$40,986 thousand, enabling the Company to exercise significant influence over this investee. Thus, the Company accounts for this investment by the equity method. In September 2008, January 2009 and June 2009, Vitamin D Inc. issued new convertible preferred shares, but the Company did not buy any of these shares. The Company's ownership percentage thus declined from 27.27% to 25.59%, and there was a capital surplus - long-term equity investments of NT$1,689 thousand, NT$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$131,235 thousand and NT$790,476 thousand (US$25,287 thousand) for the nine months ended September 30, 2009 and 2010, respectively.

The financial statements of equity-method investees for the nine months ended September 30, 2009 and 2010 had been reviewed by the Company's independent accountants.

Under orders VI-0960064017 and VI-0960064020 issued by Financial Supervisory Commission under the Executive Yuan, the Company included the accounts of all its direct and indirect subsidiaries in the consolidated financial statements as of and for the nine months ended September 30, 2009 and 2010. All significant intercompany balances and transactions have been eliminated.

13. PROPERTIES

Properties as of September 30, 2009 and 2010 were as follows:

	2009	2010			
	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NT$	NT$	NT$	NT$	US$ (Note 3)
Land	$ 4,719,538	$ 5,387,718	$ -	$ 5,387,718	$ 172,352
Buildings and structures	2,540,169	3,251,318	747,261	2,504,057	80,104
Machinery and equipment	970,084	4,148,114	3,408,133	739,981	23,672
Molding equipment	-	172,632	172,632	-	-
Computer equipment	83,200	324,035	248,380	75,655	2,420
Transportation equipment	1,423	2732	1,646	1,086	35
Furniture and fixtures	19,892	139,510	113,206	26,304	841
Leased assets	1,767	4,712	3,730	982	31
Leasehold improvements	45,306	98,646	67,055	31,591	1,011
Prepayments for construction-in-progress and equipment-in-transit	62,684	636,389	-	636,389	20,358
	$ 8,444,063	$14,165,806	$ 4,762,043	$ 9,403,763	$ 300,824

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% of the purchase price and completed the transfer registration of the relative portion of land in December 2008 and January 2010, respectively.

Prepayments for construction-in-progress and equipment-in-transit were prepayments for the construction of Taipei R&D headquarter and miscellaneous equipments.

There were no interests capitalized for the nine months ended September 30, 2009 and 2010, respectively.

14. ACCRUED EXPENSES

Accrued expenses as of September 30, 2009 and 2010 were as follows:

	2009	2010	
	NT$	NT$	US$ (Note 3)
Marketing	$ 6,634,709	$ 13,069,745	$ 418,098
Bonus to employees	4,891,086	5,641,902	180,483
Services	1,128,922	2,231,968	71,400
Salaries	1,277,033	2,019,417	64,601
Export expenses	401,423	715,350	22,884
Donation	230,454	442,800	14,165
Research materials	244,101	357,358	11,432
Meals and welfare	98,478	149,174	4,772
Repair and maintenance	45,296	122,270	3,911
Freight	19,921	115,256	3,687
Insurance	74,466	110,292	3,528
Pension cost	48,423	62,698	2,006
Travel	23,713	38,012	1,216
Research and development	49,200	23,445	750
Others	231,830	345,204	11,043
	$ 15,399,055	$ 25,444,891	$ 813,976

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 September 30, 2009 and 2010 were as follows:

	2009	2010	
	NT$	**NT$**	**US$ (Note 3)**
Accrued bonus to employees for current year	$ 3,681,086	$ 5,298,729	$ 169,505
Cash bonuses approved by the stockholders for prior years	1,210,000	343,173	10,978
	$ 4,891,086	$ 5,641,902	$ 180,483

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 marketing activities, research and design and business consulting services provided by related parties.

15. OTHER CURRENT LIABILITIES

Other current liabilities as of September 30, 2009 and 2010 were as follows:

	2009	2010	
	NT$	**NT$**	**US$ (Note 3)**
Reserve for warranty expenses	$ 5,458,037	$ 8,068,423	$ 258,107
Other payable (Note 23)	809,003	700,619	22,413
Deferred credits - profit from intercompany transactions	142,003	84,224	2,694
Advance receipts	131,602	243,449	7,788
Agency receipts (Note 23)	516,516	371,337	11,879
Other	133,935	372,650	11,921
	$ 7,191,096	$ 9,840,702	$ 314,802

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 treasury stock.

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

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

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 nine months ended September 30, 2009 and 2010 were NT$137,391 thousand and NT$154,270 thousand (US$4,935 thousand), respectively.

Under the Law, which provides for a defined benefit pension plan, retirement payments should be made according to the years of service, with a payment of two units for each year of service but only one unit per year after the 15th year; however, total units should not exceed 45. The rate of the Company's contributions to a pension fund is 2% after the Act took effect. The pension fund is deposited in the Bank of Taiwan in the committee's name. The pension fund balances were NT$407,918 thousand and NT$438,943 (US$14,042 thousand) as of September 30, 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, the movement of prepaid pension cost under the defined benefit plans for the nine months ended September 30, 2009 and 2010 were as follows:

	2009	2010	
	NT$	NT$	US$ (Note 3)
Balance, beginning of period	$ 117,138	$ 137,653	$ 4,403
Contributions	(3,659)	(2,377)	(76)
Payments	19,276	18,329	587
Balance, end of period	$ 132,755	$ 153,605	$ 4,914

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. Also, in June 2009, the stockholders approved the transfer of retained earnings amounting to NT$372,697 thousand and employee bonuses amounting to NT$133,573 thousand to capital stock. As a result, the amount of the Company's outstanding common stock as of September 30, 2009 increased to NT$7,960,208 thousand, divided into 796,021 thousand common shares at NT$10.00 par value.

In November 2009 and April 2010, the Company retired 7,085 thousand and 15,000 thousand treasury shares at NT$70,850 thousand and NT$150,000 thousand (US$4,798 thousand), respectively. Also, in June 2010, the stockholders approved the transfer of retained earnings amounting to NT$386,968 thousand (US$12,379 thousand) and employee bonuses amounting to NT$50,206 thousand (US$1,606 thousand) to capital stock. As a result, the amount of the Company's outstanding common stock as of September 30, 2010 increased to NT$8,176,532 thousand (US$261,565 thousand), divided into 817,653 thousand common shares at NT$10.00 (US$0.32) 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 8,804.8 thousand units (35,219.1 thousand shares). The holders of these GDRs requested the Company to redeem the GDRs to get the Company's common shares. As of September 30, 2010, there were 1,958.2 thousand units of GDRs redeemed, representing 7,832.9 thousand common shares, and the outstanding GDRs represented 27,386.2 thousand common shares or 3.37% 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 2009, the retirement of treasury stock caused a decrease of additional paid-in capital amounted to NT$57,907 thousand. The bonus to employees of NT$6,164,889 thousand for 2008 was approved in the stockholders' meeting in June 2009. Of the approved amount, NT$4,954,889 thousand, representing 13,357 thousand, which was determined by fair value, would be distributed by common stock in 2009. The difference between par value and fair value of NT$4,821,316 thousand was accounted for as additional paid-in capital in 2009. As a result, the additional paid-in capital as of September 30, 2009 was NT$9,137,653 thousand.

Also in November 2009 and April 2010, the retirement of treasury stock caused a decrease of additional paid-in capital amounted to NT$81,330 thousand and NT$172,188 thousand (US$5,508 thousand), respectively. The bonus to employees of NT$4,859,236 thousand (US$155,446 thousand) for 2009 were approved in the stockholders' meeting in June 2010. Of the approved amount, NT$1,943,694 thousand (US$62,178 thousand), representing 5,021 thousand common shares which was determined by fair value, would be distributed by common stock in 2010. The difference between par value and fair value of NT$1,893,488 (US$60,572 thousand) was accounted for as additional paid-in capital in 2010, respectively. As a result, the additional paid-in capital as of September 30, 2010 was NT$10,777,623 thousand (US$344,774 thousand).

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 September 30, 2010, the total capital surplus from long-term equity-method investments was NT$18,411 thousand (US$589 thousand).

The additional paid-in capital from a merger was NT$25,756 thousand as of January 1, 2009. In January 2009, November 2009 and April 2010, the retirement of treasury stock caused a decrease of additional paid-in capital from a merger amounted to NT$341 thousand, NT$226 thousand and NT$479 thousand (US$15 thousand), respectively. As a result, the additional paid-in capital from a merger as of September 30, 2010 was NT$24,710 thousand (US$790 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.

The bonus to employees of NT$4,859,236 thousand for 2009 were approved in the stockholders' meeting in June 2010. The bonus to employees included a cash bonus of NT$2,915,542 thousand and a share bonus of NT$1,943,694 thousand. The number of shares of 5,021 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.

Information about the bonus to employees, directors and supervisors is available on the Market Observation Post System website of the Taiwan Stock Exchange.

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 6,585 thousand shares for NT$2,233,006 thousand as of September 30, 2009. And 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$154,644 thousand) during the repurchase period and retired them in April 2010.

On July 11, 2010, 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 July 13, 2010 and September 12, 2010, and the repurchase price ranged from NT$526 to NT$631 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 4,786 thousand shares for NT$2,865,990 thousand (US$91,682 thousand) during the repurchase period. The related treasury stock information for the nine months ended September 30, 2009 and 2010 was as follows:

(In Thousands of Shares)

Purpose of Treasury Stock	Number of Shares, Beginning of Period	Addition During the Period	Reduction During the Period	Number of Shares, End of Period
Nine months ended September 30, 2009				
To maintain the Company's credibility and shareholders' interest	10,000	6,585	10,000	6,585
Nine months ended September 30, 2010				
To maintain the Company's credibility and shareholders' interest	-	15,000	15,000	-
For transferring shares to the Company's employees	-	4,786	-	4,786
		19,786	15,000	4,786

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	$2,008,973	$5,235,295	$7,244,268	$2,754,290	$7,641,801	$10,396,091	$88,109	$244,459	$332,568
Salary	1,716,547	4,841,991	6,558,538	2,362,304	7,210,413	9,572,717	75,570	230,659	306,229
Insurance	115,253	132,162	247,415	139,639	153,841	293,480	4,467	4,921	9,388
Pension cost	44,484	96,566	141,050	53,404	103,243	156,647	1,708	3,303	5,011
Other	132,689	164,576	297,265	198,943	174,304	373,247	6,364	5,576	11,940
Depreciation	223,126	254,633	477,759	211,532	238,364	449,896	6,767	7,625	14,392
Amortization	5,811	21,368	27,179	19,322	21,368	40,690	618	684	1,302

20. INCOME TAX

The Company's income tax returns through 2007 had been examined by the tax authorities. However, the Company disagreed with the tax authorities' assessment on its returns for 2001 to 2003 and applied for the administrative litigation of its returns. Nevertheless, under the conservatism guideline, the Company adjusted its income tax for the tax shortfall stated in the tax assessment notices.

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

Item Exempt from Corporate Income Tax	Exemption Period
Sales of pocket PCs, pocket PCs (wireless) and smartphones	2004.09.15-2009.09.14
Sales of pocket PCs (wireless) and smartphones	2004.11.30-2009.11.29
Sales of pocket PCs (wireless) and smartphones	2005.12.20-2010.12.19
Sales of wireless or smartphone which has 3G or GPS function	2006.12.20-2011.12.19
Sales of wireless or smartphone which has 3G or GPS function	2007.12.20-2012.12.19
Sales of wireless or smartphone which has 3.5G function	2010.01.01-2014.12.31

In May 2009, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduced a profit-seeking enterprise's income tax rate from 25% to 20%, effective January 1, 2010. In May 2010, 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 20% to 17%, effective January 1, 2010. Income tax payable as of September 30, 2009 and 2010 were computed as follows:

	2009	2010	
	NT$	NT$	US$ (Note 3)
Income before income tax	$ 18,952,488	$ 27,844,334	$ 890,734
Unrealized royalties	1,624,384	4,766,717	152,486
Unrealized marketing expense	1,202,004	4,460,720	142,697
Unrealized warranty expense	232,175	2,780,860	88,959
Unrealized exchange loss (gain), net	711,510	(1,094,738)	(35,020)
Gains on equity-method investments	(131,235)	(790,476)	(25,287)
Unrealized contingent loss of purchase orders	96,248	509,819	16,309
Unrealized valuation (gain) loss on financial instruments	(498,575)	429,401	13,736
Unrealized (realized) bad debt expenses	249,014	(186,294)	(5,960)
Unrealized loss (gain) on decline in value of inventory	1,604,643	(117,280)	(3,752)
Unrealized gain on reversal of contingent loss	(155,502)	-	-
Meal expenses in excess of limited amount regulated by tax law	47,606	86,235	2,759
Realized pension cost	(15,617)	(15,953)	(510)
Other	20,701	35,516	1,136
Total income	23,939,844	38,708,861	1,238,287
Less: Tax-exempt income	(19,757,257)	(35,028,046)	(1,120,539)
Taxable income	4,182,587	3,680,815	117,748
Tax rate	25%	17%	17%
	1,045,647	625,739	20,017
Income tax credit	(10)	-	-
Estimated income tax provision	1,045,637	625,739	20,017
Unappropriated earnings (additional 10% income tax)	202,145	-	-
Less: Investment research and development tax credits	(202,145)	-	-
Income tax payable determined pursuant to the Income Tax Law	$ 1,045,637	$ 625,739	$ 20,017

(Continued)

	2009	2010	
	NT$	NT$	US$ (Note 3)
Alternative minimum tax	$ 2,248,892	$ 3,844,496	$ 122,985
Less: Prepaid and withheld income tax	(33,288)	(21,070)	(674)
Prior years' income tax payable	980,075	81,334	2,601
Income tax payable	$ 3,195,679	$ 3,904,760	$ 124,912

(Concluded)

The alternative minimum tax (AMT) imposed under the AMT Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law is below the minimum amount prescribed under the AMT Act. The taxable income for calculating the AMT includes most of the income that is exempted from income tax under various laws and statutes. The Company has considered the impact of the AMT Act in the determination of its tax liabilities. As a result, the current income tax payable as of September 30, 2009 and 2010 should be NT$2,248,892 thousand and NT$3,844,496 thousand (US$122,985 thousand), respectively.

Deductible temporary differences and tax credit carryforwards that gave rise to deferred tax assets as of September 30, 2009 and 2010 were as follows:

	2009	2010	
	NT$	NT$	US$ (Note 3)
Temporary differences			
Provision for loss on decline in value of inventory	$ 645,574	$ 511,357	$ 16,358
Unrealized royalties	1,553,617	2,247,813	71,907
Unrealized marketing expense	1,326,942	2,221,857	71,077
Unrealized reserve for warranty expense	1,091,607	1,371,632	43,878
Capitalize expense	46,945	92,965	2,974
Unrealized bad-debt expenses	101,982	93,533	2,992
Unrealized exchange loss	109,520	-	-
Unrealized valuation loss on financial instruments	3,102	69,916	2,237
Other	14,795	37,973	1,215
Tax credit carryforwards	2,812,492	3,141,129	100,484
Total deferred tax asset	7,706,576	9,788,175	313,122
Less: Valuation allowance	(6,039,311)	(6,901,735)	(220,785)
Total deferred tax asset, net	1,667,265	2,886,440	92,337
Deferred tax liability			
Unrealized pension cost	(26,551)	(26,114)	(836)
Unrealized exchange gain	-	(181,538)	(5,807)
	1,640,714	2,678,788	85,694
Less: Current portion	(698,158)	(971,529)	(31,079)
Deferred tax assets, noncurrent	$ 942,556	$ 1,707,259	$ 54,615

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	$ -	$ -
2009	2009-2012	831,154	831,154	26,588
2010	2010-2013	1,779,832	2,309,975	73,896
		$ 2,812,492	$ 3,141,129	$ 100,484

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

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

The income tax expenses for the nine months ended September 30, 2009 and 2010 were as follows:

	2009 NT$	2010 NT$	2010 US$ (Note 3)
Current income tax	$ 2,248,892	$ 3,844,496	$ 122,985
Increase in deferred income tax assets	(267,076)	(801,447)	(25,638)
(Overestimation) underestimation of prior years' income tax	(104,298)	64,379	2,059
Income tax	$ 1,877,518	$ 3,107,428	$ 99,406

The integrated income tax information is as follows:

	2009 NT$	2010 NT$	2010 US$ (Note 3)
Balance of imputation credit account	$ 1,934,072	$ 3,094,056	$ 98,978
Unappropriated earnings from 1998	35,087,257	38,080,198	1,218,176
Expected creditable ratio (including income tax payable)	14.62%	18.17%	18.17%

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 826,178 thousand shares and 816,895 thousand shares for the nine months ended September 30, 2009 and 2010, respectively. EPS for the nine months ended September 30, 2009 were calculated after the average number of shares outstanding was adjusted retroactively for the effect of stock dividend distribution in 2010.

The Accounting Research and Development Foundation issued Interpretation 2007-052 that requires companies to recognize bonuses paid to employees, directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. If the Company may settle the bonus to employees by cash or shares, the Company should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the entire amount of the bonus by the closing price of the shares at the balance sheet date. Such dilutive effects of the potential shares needs to be included in the calculation of diluted EPS until the stockholders resolve the number of shares to be distributed to employees at their meeting in the following year. The related EPS information for the nine months ended September 30, 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$
Nine months ended September 30, 2009					
Basic EPS	$ 18,952,488	$ 17,074,970	826,178	$ 22.94	$ 20.67
Bonus to employees	-	-	11,874		
Diluted EPS	$ 18,952,488	$ 17,074,970	838,052	$ 22.61	$ 20.37

	Amount (Numerator)			EPS	
	Before Income Tax	After Income Tax	Shares (Denominator) (In Thousands)	Before Income Tax	After Income Tax
	NT$	NT$		NT$	NT$
Nine months ended September 30, 2010					
Basic EPS	$ 27,844,334	$ 24,736,906	816,895	$ 34.09	$ 30.28
Bonus to employees	-	-	8,159		
Diluted EPS	$ 27,844,334	$ 24,736,906	825,054	$ 33.75	$ 29.98

	Amount (Numerator)			EPS	
	Before Income Tax	After Income Tax	Shares (Denominator) (In Thousands)	Before Income Tax	After Income Tax
	US$ (Note 3)	US$ (Note 3)		US$ (Note 3)	US$ (Note 3)
Nine months ended September 30, 2010					
Basic EPS	$ 890,734	$ 791,328	816,895	$ 1.09	$ 0.97
Bonus to employees	-	-	8,159		
Diluted EPS	$ 890,734	$ 791,328	825,054	$ 1.08	$ 0.96

22. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

a. Nonderivative financial instruments

	September 30					
	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	$ 72	$ 72	$ -	$ -	$ -	$ -
Available-for-sale financial assets - current	2,097,004	2,097,004	401,400	12,841	401,400	12,841
Available-for-sale financial assets - noncurrent	407	407	436	14	436	14
Financial assets carried at cost	501,192	501,192	515,861	16,502	515,861	16,502

b. Derivative financial instruments

	September 30					
	2009		2010			
	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NT$	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
Liabilities						
Financial liabilities at fair value through profit or loss - current	$ 15,580	$ 15,580	$ 411,269	$ 13,156	$ 411,269	$ 13,156

Outstanding spot and forward exchange contracts was NT$72 thousand and (NT$15,580) thousand and NT$0 thousand and (NT$411,269) thousand (US$13,156 thousand) as of September 30, 2009 and 2010, respectively. The net amount on derivative financial instruments was recognized as financial liabilities at fair value through profit or loss - current.

Methods and Assumptions Used in Determining Fair Values of Financial Instruments

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

The financial instruments neither include refundable deposits nor guarantee deposits. The fair values of refundable deposits and guarantee deposits received are based on the present value of future cash flows discounted at the average interest rates for time deposits with maturities similar to those of the financial instruments.

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

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

Methodology Used to Determine the Fair Values of Financial Instruments

	Quoted Market Prices			Measurement Method		
	September 30			September 30		
	2009	2010		2009	2010	
	NT$	NT$	US$ (Note 3)	NT$	NT$	US$ (Note 3)
Assets						
Available-for-sale financial assets - current	$ 2,097,004	$ 401,400	$ 12,841	$ -	$ -	$ -
Available-for-sale financial assets - noncurrent	407	436	14	-	-	-
Financial assets carried at cost	-	-	-	501,192	515,861	16,502
Liabilities						
Financial liabilities at fair value through profit or loss - current	15,508	411,269	13,156	-	-	-

There was no loss or gain recognized for the nine months ended September 30, 2009 and 2010 on the fair value changes of derivatives estimated using valuation techniques. The Company recognized unrealized gains of NT$68 thousand and NT$123 thousand (US$4 thousand) in stockholders' equity for the changes in fair value of available-for-sale financial assets for the nine months ended September 30, 2009 and 2010, respectively.

As of September 30, 2009 and 2010, financial assets exposed to cash flow interest rate risk amounted to NT$48,578,534 thousand and NT$51,985,402 thousand (US$1,663,001 thousand), respectively.

Financial Risks

a. Market risk

The Company uses derivative contracts for hedging purposes, i.e., to reduce any adverse effect of exchange rate fluctuations of accounts receivable/payable. The gains or losses on these contracts almost offset the gains or losses on the hedged items. Thus, market risk is not material.

b. Credit risk

The Company deals only with banks with good credit standing based on the banks' reputation and takes into account past experience with them. Moreover, the Company has a series of control procedures for derivative transactions. Management believes its exposure to counter-parties' default on contracts is low.

c. Cash flow risk

The Company's operating funds are deemed sufficient to meet the cash flow demand, therefore, liquidity risk is not considered to be significant.

23. RELATED-PARTY TRANSACTIONS

The names and relationships of related parties are 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
Comserve Network Netherlands B.V.	Main director is an immediate relative of the Company's chairperson
Syuda Construction Company	The only juridical stockholder whose chairperson is the same person with the Company
H.T.C. (B.V.I.) Corp.	Subsidiary
BandRich Inc.	Subsidiary
Communication Global Certification Inc.	Subsidiary
High Tech Computer Asia Pacific Pte. Ltd.	Subsidiary
HTC America Inc.	Subsidiary of HTC America Holding, Inc.
HTC Europe Co., Ltd.	Subsidiary of HTC. Netherlands B.V.
High Tech Computer Corp. (Suzhou)	Subsidiary of H.T.C. (B.V.I.) Corp.
HTC Nippon Corporation	Subsidiary of HTC. Netherlands B.V.
HTC Brasil	Subsidiary of HTC. Netherlands B.V.
Exedea Inc.	Subsidiary of H.T.C. (B.V.I.) Corp.
HTC Corporation (Shanghai WGQ)	Subsidiary of HTC HK, Limited.
HTC Belgium BVBA/SPRL	Subsidiary of HTC. Netherlands B.V.
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 Electronics (Shanghai)	Subsidiary of HTC HK, Limited.
HTC Malaysia Sdn. Bhd.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
One & Company Design Inc.	Subsidiary of HTC America Holding, Inc.
HTC Innovation Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC South Eastern Europe Limited liability Company	Subsidiary of HTC. Netherlands B.V.
HTC France Corporation	Subsidiary of HTC. Netherlands B.V.
Abaxia SAS	Subsidiary of HTC France Corporation
HTC Communication Co., Ltd.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
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

Related Party	Nine Months Ended September 30				
	2009		2010		
	Amount	% of Total Net Purchases	Amount		% of Total Net Purchases
	NT$		NT$	US$ (Note 3)	
HTC Electronics (Shanghai)	$ 70,998	-	$ 179,686	$ 5,748	-
Chander Electronics Corp.	15,475	-	173,539	5,551	-
High Tech Computer Corp. (Suzhou)	32,183	-	39,876	1,276	-
BandRich Inc.	28,872	-	-	-	-
	$ 147,528	-	$ 393,101	$ 12,575	-

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

Sales and Services Provided

Related Party	Nine Months Ended September 30				
	2009		2010		
	Amount	% of Total Revenues	Amount		% of Total Revenues
	NT$		NT$	US$ (Note 3)	
HTC America Inc.	$ 925,491	1	$ 45,673,395	$ 1,461,081	27
Exedea Inc.	-	-	1,120,555	35,846	1
HTC Communication Co., Ltd.	-	-	559,610	17,902	-
HTC Europe Co., Ltd.	248,447	-	132,989	4,254	-
HTC Employees' Welfare Committee	9,638	-	34,112	1,091	-
High Tech Computer (H.K.) Limited	40,191	-	14,915	477	-
High Tech Computer Asia Pacific Pte. Ltd.	-	-	11,965	383	-
High Tech Computer Singapore Pte. Ltd.	25,255	-	6,155	197	-
Others	19,170	-	16,640	533	-
	$ 1,268,192	1	$ 47,570,336	$ 1,521,764	28

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

Accounts Receivable

Related Party	September 30				
	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.	$ 396,238	2	$ 22,294,525	$ 713,197	48
HTC Communication Co., Ltd.	-	-	548,437	17,544	1
HTC Europe Co., Ltd.	19,506	-	73,477	2,351	-
High Tech Computer (H.K.) Limited	5,881	-	1,021	33	-
High Tech Computer Asia Pacific Pte. Ltd.	-	-	5,769	185	-
Others	9,227	-	11,360	362	-
	$ 430,852	2	$ 22,934,589	$ 733,672	49

Accounts Payable

Related Party	September 30				
	2009		2010		
	Amount	% of Total Notes and Accounts Payable	Amount		% of Total Notes and Accounts Payable
	NT$		NT$	US$ (Note 3)	
HTC Electronics (Shanghai)	$ 9,795	-	$ 1,523,131	$ 48,725	3
Chander Electronics Corp.	3,754	-	104,831	3,353	-
High Tech Computer Corp. (Suzhou)	92	-	39,222	1,254	-
BandRich Inc.	10,783	-	-	-	-
Others	584	-	13	1	-
	$ 25,008	-	$ 1,667,197	$ 53,333	3

Other Receivable

Related Party	September 30				
	2009		2010		
	Amount	% of Total Other Receivable	Amount		% of Total Other Receivable
	NT$		NT$	US$ (Note 3)	
Exedea Inc.	$ -	-	$ 7,949	$ 254	1
HTC America Inc.	4,492	3	364	12	-
Others	2,678	2	1,274	41	-
	$ 7,170	5	$ 9,587	$ 307	1

Prepaid Expenses

Related Party	September 30				
	2009		2010		
	Amount	% of Total Prepayment	Amount		% of Total Prepayment
	NT$		NT$	US$ (Note 3)	
HTC NIPPON Corporation	$ 23,976	-	$ 48,776	$ 1,560	2
HTC South Eastern Europe Limited Liability Company	-	-	10,645	341	1
HTC America Inc.	80,975	2	-	-	-
Others	4,768	-	4,181	134	-
	$ 109,719	2	$ 63,602	$ 2,035	3

Accrued Expenses

Related Party	September 30				
	2009		2010		
	Amount	% of Total Accrued Expenses	Amount		% of Total Accrued Expenses
	NT$		NT$	US$ (Note 3)	
HTC Europe Co., Ltd.	$ 412,238	3	$ 602,108	$ 19,261	3
HTC Cultural and Educational Foundation	-	-	217,800	6,968	2
HTC Innovation Limited	1,215	-	93,316	2,985	1
High Tech Computer Asia Pacific Pte. Ltd.	49,200	-	79,528	2,544	-
HTC (Australia and New Zealand) Pty. Ltd.	15,544	-	77,925	2,493	-
HTC Belgium BVBA/SPRL	85,644	1	70,278	2,248	-
High Tech Computer (H.K.) Limited	14,954	-	67,552	2,161	-
HTC India Private Limited	20,226	-	61,333	1,962	-
Communication Global Certification Inc.	5,921	-	50,701	1,622	-
HTC Brasil	7,003	-	37,037	1,185	-
Abaxia SAS	-	-	25,210	806	-
HTC (Thailand.) Ltd.	8,916	-	21,045	673	-
HTC France Corporation	-	-	12,921	413	-
HTC America Inc.	319,398	2	-	-	-
High Tech Computer Singapore Pte. Ltd.	23,229	-	-	-	-
Others	31,001	-	43,726	1,399	-
	$ 994,489	6	$ 1,460,480	$ 46,720	6

Other Payables to Related Parties

Related Party	September 30				
	2009		2010		
	Amount	% of Total Other Payables	Amount		% of Total Other Payables
	NT$		NT$	US$ (Note 3)	
HTC America Inc.	$ 248,714	27	$ 380,366	$ 12,168	54
High Tech Computer Asia Pacific Pte. Ltd.	-	-	104,422	3,340	15
HTC Europe Co., Ltd.	50,162	5	44,781	1,433	6
HTC Corporation (Shanghai WGQ)	10,350	1	20,377	652	3
HTC NIPPON Corporation	78,821	8	6,441	206	1
H.T.C. (B.V.I.) Corp.	125,998	13	-	-	-
HTC Brasil	18,475	2	-	-	-
Others	9,701	1	18,023	576	3
	$ 542,221	57	$ 574,410	$ 18,375	82

Advance Receipts

Related Party	September 30				
	2009		2010		
	Amount	% of Total Advance Receipts	Amount		% of Total Advance Receipts
	NT$		NT$	US$ (Note 3)	
BandRich Inc.	$ 35,712	7	$ -	$ -	-

Outsourcing Expenses

Related Party	Nine Months Ended September 30				
	2009		2010		
	Amount	% of Total Outsourcing Expenses	Amount		% of Total Outsourcing Expenses
	NT$		NT$	US$ (Note 3)	
HTC Electronics (Shanghai)	$ 167,063	93	$ 5,303,312	$ 169,652	94
High Tech Computer Corp. (Suzhou)	3,802	2	-	-	-
	$ 170,865	95	$ 5,303,312	$ 169,652	94

Warranty Expenses

Related Party	Nine Months Ended September 30							
	2009			2010				
	Amount		% of Warranty Expenses	Amount				% of Warranty Expenses
	NT$			NT$		US$ (Note 3)		
HTC America Inc.	$	945,136	26	$	778,292	$	24,897	12
HTC Europe Co., Ltd.		238,281	7		164,835		5,273	3
HTC Corporation (Shanghai WGQ)		67,791	2		75,514		2,416	1
High Tech Computer (H.K.) Limited		35,982	1		35,712		1,143	1
High Tech Computer Asia Pacific Pte. Ltd.		-	-		31,476		1,007	1
Comserve Network Netherlands B.V.		21,809	1		23,479		751	-
	$	1,308,999	37	$	1,109,308	$	35,487	18

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

Commission Expenses

Related Party	Nine Months Ended September 30							
	2009			2010				
	Amount		% of Commission Expenses	Amount				% of Commission Expenses
	NT$			NT$		US$ (Note 3)		
HTC Europe Co., Ltd.	$	1,885,952	84	$	2,320,249	$	74,224	81
HTC Belgium BVBA/SPRL		362,815	16		452,285		14,469	16
HTC France Corporation		-	-		37,479		1,199	1
Others		-	-		70,677		2,261	2
	$	2,248,767	100	$	2,880,690	$	92,153	100

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

Service and Marketing Fees

	Nine Months Ended September 30				
	2009		2010		
Related Party	Amount	% of Total Service Fees	Amount		% of Total Service Fees
	NT$		NT$	US$ (Note 3)	
HTC America Inc.	$ 1,812,707	42	$ 2,276,534	$ 72,825	24
High Tech Computer Asia Pacific Pte. Ltd.	-	-	205,235	6,565	3
HTC (Australia and New Zealand) Pty. Ltd.	71,380	2	167,705	5,365	2
HTC Innovation Limited	5,663	-	147,035	4,704	2
HTC Brasil	128,943	3	137,885	4,411	1
High Tech Computer (H.K.) Limited	65,345	1	135,349	4,330	1
One & Company Design, Inc.	130,808	3	125,840	4,025	1
Communication Global Certification Inc.	135,132	3	124,364	3,978	1
HTC India Private Limited	47,555	1	104,695	3,349	1
HTC NIPPON Corporation	208,076	5	74,044	2,369	1
HTC Malaysia Sdn. Bhd.	26,723	1	51,786	1,657	1
HTC (Thailand.) Ltd.	29,789	1	49,097	1,571	1
High Tech Computer Singapore Pte. Ltd.	125,224	3	13,996	448	-
HTC Europe Co., Ltd.	142,260	3	-	-	-
HTC Belgium BVBA/SPRL	96,807	2	-	-	-
Others	2,873	-	27,575	882	-
	$ 3,029,285	70	$ 3,641,140	$ 116,479	39

Other Revenues

	Nine Months Ended September 30				
	2009		2010		
Related Party	Amount	% to Total Other Revenues	Amount		% to Total Other Revenues
	NT$		NT$	US$ (Note 3)	
BandRich Inc.	$ 900	-	$ 200	$ 6	-

Leasing - Lessee

Operating expense - rental expense

	Nine Months Ended September 30				
	2009		2010		
Related Party	Amount	% of Rental Expense	Amount		% of Rental Expense
	NT$		NT$	US$ (Note 3)	
VIA Technologies Inc.	$ 6,254	17	$ 9,343	$ 299	20

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

Property Transaction

In January 2009, the Company acquired land from a related party, Syuda Construction Company, for NT$791,910 thousand. 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 September 30, 2010, the Company had provided time deposits of NT$63,900 thousand (US$2,044 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

As of September 30, 2010, unused letters of credit amounted to US$276 thousand and JPY1, 748,765 thousand.

The Company provided NT$468,900 thousand (US$15,000 thousand) guarantee for HTC Electronics (Shanghai)'s bank loans. HTC Electronics (Shanghai) has drawn down NT$405 thousand (US$13 thousand) from banks within the guarantee amount as of September 30, 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.

(Continued)

Contractor	Contract Term	Description
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.
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.

(Continued)

Contractor	Contract Term	Description
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. In February 2009, the court granted a ruling on patent #100 (EP 186189B1) which granted IPCom's request for an injunction to prevent the Company from importing devices into Germany, 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 court of Appeal in Karlsruhe and requested a stay of the injunction pending the outcome of this appeal. In May 2009, the court of Appeal in Karlsruhe 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.

   In December 2009, the District Court of Mannheim ruled that it will stay the proceedings on patent #107 (EP 122782) because of the Court's doubts about its validity. The case was therefore stayed pending the decision of the EPO opposition division on validity. The EPO subsequently revoked the patent #107 (EP 122782) for all designated states in June 2010. Also, in February 2010, the District Court of Mannheim further ruled that the Company had not infringed IPCom's patent #173 (EP 1018849).

   In October 2010, IPCom filed a new complaint against the Company alleging patent infringement of patent #114 (EP 1226692B1) in District Court of Dusseldorf. The Company has previously filed patent invalidity action against patent #114 (EP 1226692B1) in EPO and patent #114 (EP 1226692B1) has already been revoked by EPO and IPCom is appealing EPO's decision. The risk of this newly asserted patent is very low. As of October 21, 2010, the date of the accompanying independent accountants' report, there had been no critical hearing nor had a court decision been made.

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. (“the Company’) concurrently with the U.S. International Trade Commission (“ITC”) and U.S. District Court in Delaware (“Delaware court”), alleging that the Company infringed its patents. Apple requested ITC and Delaware court to prevent the Company from importing to and selling devices in the United States and damage compensation, respectively. The Company subsequently filed ITC investigation and filed counterclaim with Delaware court against Apple for patent infringements. The Company requested ITC and Delaware court to prevent Apple from importing and selling devices in the United States 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 October 21, 2010, the date of the accompanying independent accountants’ report, there had been no critical hearing nor had a court decision been made.

c. 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 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).