HTC Corporation and Subsidiaries

Consolidated 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 consolidated balance sheets of HTC Corporation and subsidiaries (collectively, the "Company") as of September 30, 2009 and 2010, and the related consolidated statements of income and cash flows for the nine months then ended, all expressed in New Taiwan dollars. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our reviews.

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

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

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

October 21, 2010

<u>*Notice to Readers*</u>

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

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

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2009 AND 2010
(In Thousands, Except Par Value)
(Reviewed, Not Audited)

	2009	2010	
ASSETS	**NT$**	**NT$**	**US$ (Note 3)**
CURRENT ASSETS			
Cash and cash equivalents (Notes 2 and 4)	$ 55,878,298	$ 68,477,628	$ 2,190,583
Available-for-sale financial assets - current (Notes 2 and 6)	2,097,004	401,400	12,841
Notes and accounts receivable, net (Notes 2, 7 and 23)	23,991,236	45,285,194	1,448,663
Other current financial assets (Notes 8 and 23)	258,502	837,506	26,792
Inventories (Notes 2 and 9)	5,540,409	17,304,891	553,579
Prepayments (Notes 10 and 23)	4,328,610	2,355,676	75,357
Deferred tax assets (Notes 2 and 20)	688,200	1,065,173	34,075
Other current assets	233,059	415,599	13,294
Total current assets	93,015,318	136,143,067	4,355,184
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)	565,522	734,681	23,502
Investments accounted for by the equity method (Notes 2 and 12)	36,034	-	-
Prepayments for long-term investments (Notes 2 and 11)	-	43,764	1,400
Total long-term investments	601,963	778,881	24,916
PROPERTIES (Notes 2, 13 and 23)			
Cost			
Land	4,719,538	5,387,718	172,352
Buildings and structures	3,164,196	4,360,171	139,481
Machinery and equipment	4,932,294	5,633,605	180,218
Molding equipment	195,877	172,632	5,522
Computer equipment	407,229	436,850	13,975
Transportation equipment	4,582	3,913	125
Furniture and fixtures	233,815	245,341	7,848
Leased assets	5,921	6,009	192
Leasehold improvements	199,190	193,029	6,175
	13,862,642	16,439,268	525,888
Less: Accumulated depreciation	(4,880,992)	(5,594,550)	(178,968)
Prepayments for construction-in-progress and equipment-in-transit	1,045,631	702,617	22,477
Properties, net	10,027,281	11,547,335	369,397
INTANGIBLE ASSETS			
Goodwill (Note 2)	238,721	689,529	22,058
Deferred pension cost	475	490	16
Total intangible assets	239,196	690,019	22,074
OTHER ASSETS			
Assets leased to others	47,639	-	-
Refundable deposits	169,932	135,203	4,325
Deferred charges (Note 2)	263,508	204,907	6,555
Deferred tax assets (Notes 2 and 20)	944,006	1,722,899	55,115
Restricted assets (Notes 2 and 24)	36,766	93,662	2,996
Other (Notes 2 and 10)	2,110,432	1,415,895	45,294
Total other assets	3,572,283	3,572,566	114,285
TOTAL	$ 107,456,041	$ 152,731,868	$ 4,885,856

	2009	2010	
LIABILITIES AND STOCKHOLDERS' EQUITY	**NT$**	**NT$**	**US$ (Note 3)**
CURRENT LIABILITIES			
Financial liabilities at fair value through profit or loss - current (Notes 2, 5 and 22)	$ 15,508	$ 411,269	$ 13,156
Short-term borrowings (Note 14)	40,000	-	-
Notes and accounts payable (Note 23)	21,433,035	47,398,867	1,516,279
Income tax payable (Notes 2 and 20)	3,339,837	4,184,104	133,848
Accrued expenses (Notes 15 and 23)	15,438,633	26,577,128	850,196
Payable for purchase of equipment	75,003	216,049	6,911
Long-term liabilities - current portion (Note 17)	25,625	16,250	520
Other current liabilities (Notes 2, 16 and 23)	6,712,255	9,458,775	302,585
Total current liabilities	47,079,896	88,262,442	2,823,495
LONG-TERM LIABILITIES			
Long-term bank loans, net of current portion (Note 17)	28,438	12,188	390
OTHER LIABILITIES			
Guarantee deposits received	1,210	949	30
Total liabilities	47,109,544	88,275,579	2,823,915
EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF PARENT (Note 18)			
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 - common stock	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)
Unrealized losses on financial instruments (Notes 2 and 6)	(1,564)	(1,535)	(49)
Net loss not recognized as pension cost	-	(34)	(1)
Treasury stock (Notes 2 and 19)	(2,233,006)	(2,865,990)	(91,682)
Total equity attributable to stockholders of the parent	60,312,589	64,456,289	2,061,941
MINORITY INTEREST IN SUBSIDIARIES	33,908	-	-
Total stockholders' equity	60,346,497	64,456,289	2,061,941
TOTAL	$ 107,456,041	$ 152,731,868	$ 4,885,856

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

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED 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)	$ 103,426,224	$ 174,756,046	$ 5,590,405
COST OF REVENUES (Notes 9 and 23)	70,600,280	122,099,169	3,905,924
GROSS PROFIT	32,825,944	52,656,877	1,684,481
OPERATING EXPENSES (Note 23)			
Selling and marketing	6,307,585	13,853,810	443,180
General and administrative	1,661,873	3,142,627	100,532
Research and development	6,523,260	8,243,024	263,692
Total operating expenses	14,492,718	25,239,461	807,404
OPERATING INCOME	18,333,226	27,417,416	877,077
NONOPERATING INCOME AND GAINS			
Interest income	303,231	229,570	7,344
Gains on sale of investments	2,004	3,001	96
Gain on sale of properties	-	890	28
Exchange gain (Note 2)	523,357	729,923	23,350
Rental income	5,328	879	28
Other	332,003	288,072	9,216
Total nonoperating income and gains	1,165,923	1,252,335	40,062
NONOPERATING EXPENSES AND LOSSES			
Interest expense	1,843	3,345	107
Loss on equity-method investments (Notes 2 and 12)	3,891	-	-
Losses on disposal of properties	4,940	8,787	281
Impairment losses (Note 2)	48,360	33,161	1,061
Valuation losses on financial instruments, net (Notes 2 and 5)	15,508	411,269	13,156
Other	318,336	34,463	1,103
Total nonoperating expenses and losses	392,878	491,025	15,708
INCOME BEFORE INCOME TAX	19,106,271	28,178,726	901,431
INCOME TAX (Notes 2 and 20)	(2,026,089)	(3,460,575)	(110,703)
NET INCOME	$ 17,080,182	$ 24,718,151	$ 790,728

(Continued)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED 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)
ATTRIBUTABLE TO			
Stockholders of the parent	$ 17,074,970	$ 24,736,906	$ 791,328
Minority interest	5,212	(18,755)	(600)
	$ 17,080,182	$ 24,718,151	$ 790,728

	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 consolidated financial statements. (Concluded)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED 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	$ 17,080,182	$ 24,718,151	$ 790,728
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation (including depreciation of assets leased to others)	680,513	647,898	20,726
Amortization	52,109	70,235	2,247
Prepaid pension costs	(15,661)	(15,906)	(509)
Loss on equity-method investments	3,891	-	-
Losses on disposal of properties and deferred charges, net	4,940	7,897	253
Transfer of properties to expenses	724	1,130	36
Gains on sale of investments, net	(2,004)	(3,001)	(96)
Impairment Losses	48,360	33,161	1,061
Deferred tax assets	(258,783)	(908,127)	(29,051)
Net changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	(498,575)	429,401	13,736
Notes and accounts receivable	5,463,542	(18,143,363)	(580,401)
Other current financial assets	58,022	(601,898)	(19,255)
Inventories	3,071,809	(11,804,806)	(377,633)
Prepayments	(3,044,501)	980,195	31,356
Other current assets	(71,739)	(230,114)	(7,361)
Other assets - other	(1,977,834)	580,643	18,575
Notes and accounts payable	(7,648,497)	22,306,825	713,590
Income tax payable	(699,776)	(86,905)	(2,780)
Accrued expenses	5,044,752	11,564,993	369,961
Other current liabilities	754,022	2,654,982	84,932
Net cash provided by operating activities	18,045,496	32,201,391	1,030,115
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 financial assets carried at cost	(64,330)	(203,211)	(6,500)
Expected net cash outflow on the acquisition of a subsidiary	-	(133,830)	(4,281)
Purchase of properties	(1,858,311)	(2,240,096)	(71,660)
Proceeds of the sale of properties and deferred charges	64,735	3,011	96
Decrease (increase) in refundable deposits	21,534	(6,160)	(197)

(Continued)

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED 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 deferred charges	$ (66,471)	$ (15,616)	$ (500)
Decrease in restricted assets	4,699	12,590	403
Net cash used in investing activities	(3,993,144)	(484,317)	(15,493)
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in minority interest	-	(15,451)	(494)
Decrease in short-term borrowings	(35,000)	(42,326)	(1,354)
Decrease in long-term bank loans	(21,562)	(18,437)	(590)
Cash dividends	(20,125,634)	(20,122,332)	(643,709)
Decrease in guarantee deposits received	(5,210)	(261)	(8)
Purchase of treasury stock	(2,233,006)	(7,700,164)	(246,326)
Net cash used in financing activities	(22,420,412)	(27,898,971)	(892,481)
EFFECT OF EXCHANGE RATE CHANGES	8,630	21,235	679
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(8,359,430)	3,839,338	122,820
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	64,237,728	64,638,290	2,067,763
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 55,878,298	$ 68,477,628	$ 2,190,583
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid during the period			
Interest	$ 1,883	$ 2,051	$ 66
Income tax	$ 2,984,648	$ 4,455,560	$ 142,532
NONCASH INVESTING AND FINANCING ACTIVITIES			
Transfer of assets leased to others to properties	$ 262,320	$ 48,135	$ 1,540
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 accrued stock bonus to employees to common stock and additional paid-in capital	$ 4,954,889	$ 1,943,694	$ 62,178

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HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED 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			
Cost of properties purchased	$ 1,618,481	$ 2,301,794	$ 73,634
Decrease (increase) in payables for purchase of equipment	239,083	(62,498)	(1,999)
Decrease in lease payable	747	800	25
Cash paid for purchase of properties	$ 1,858,311	$ 2,240,096	$ 71,660
ACQUISITION OF A SUBSIDIARY			
Expected net cash outflow on the acquisition of a subsidiary	$ -	$ 245,927	$ 7,867
Increase in other payable	-	(112,097)	(3,586)
Cash paid for acquisition of a subsidiary	$ -	$ 133,830	$ 4,281

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

1. ORGANIZATION AND OPERATIONS

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

HTC and its consolidated subsidiaries, hereinafter referred to as the "Company," had 8,154 and 11,569 employees as of September 30, 2009 and 2010, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

Principles of Consolidation

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

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

The consolidated entities as of September 30, 2009 and 2010 were as follows:

Investor	Investee	Main Businesses	% of Ownership 2009	% of Ownership 2010	Remark
HTC Corporation	H.T.C. (B.V.I.) Corp.	International holding	100.00	100.00	Incorporated in August 2000
	BandRich Inc.	Design, manufacture and sale of electronic devices	50.66	18.08	Incorporated in April 2006, lost significant influence in July, 2010
	HTC HK, Limited	International holding	100.00	-	Incorporated in August 2006, and transferred out for the reorganization in December 2009
	Communication Global Certification Inc.	Testing and certification services	100.00	100.00	Invested in January 2007
	High Tech Computer Asia Pacific Pte. Ltd.	Global investing activities, marketing, distribution and after-sales service	100.00	100.00	Incorporated in July 2007
	HTC Investment Corporation	General investing activities	100.00	100.00	Incorporated in July 2008
	PT. High Tech Computer Indonesia	Marketing, distribution and after-sales service	1.00	1.00	Incorporated in December 2007
	HTC I Investment Corporation	General investing activities	100.00	100.00	Incorporated in September 2009
	HTC Holding Cooperatief U.A.	International holding	-	1.00	Incorporated in October 2009
	Huada Digital Corporation	Software service	-	100.00	Incorporated in January 2010
H.T.C. (B.V.I.) Corp.	HTC America Inc.	Marketing, repair and after-sales services	100.00	-	Incorporated in January 2003, and transferred out for the reorganization in November 2009
	HTC Europe Co., Ltd.	〃	100.00	-	Incorporated in July 2003, and transferred out for the reorganization in February 2010
	High Tech Computer Corp. (Suzhou)	Manufacture and sale of smart handheld devices	100.00	100.00	Incorporated in January 2003
	Exedea Inc.	Distribution and sales	100.00	100.00	Incorporated in December 2004 and invested in July 2005
	HTC NIPPON Corporation	Marketing, distribution and after-sales service	100.00	-	Incorporated in March 2006, and transferred out for the reorganization in April 2010
	HTC BRASIL	〃	99.99	-	Incorporated in October 2006, and transferred out for the reorganization in February 2010
	HTC Corporation (Shanghai WGQ)	Repair and after-sales service	100.00	-	Incorporated in July 2007, and transferred out for the reorganization in December 2009
	One & Company Design, Inc.	Design, research and development of application software	100.00	-	Invested in October 2008, and transferred out for the reorganization in November 2009
High Tech Computer Asia Pacific Pte. Ltd.	High Tech Computer Singapore Pte. Ltd.	Marketing, distribution and after-sales service	100.00	-	Incorporated in July 2007, and merged into High Tech Computer Asia Pacific Pte. Ltd. in February 2010
	High Tech Computer (H.K.) Limited	〃	100.00	100.00	Incorporated in August 2007
	HTC (Australia and New Zealand) Pty. Ltd.	〃	100.00	100.00	Incorporated in August 2007
	HTC Philippines Corporation	〃	99.99	99.99	Incorporated in December 2007
	PT. High Tech Computer Indonesia	〃	99.00	99.00	Incorporated in December 2007
	HTC India Private Ltd.	〃	99.00	99.00	Incorporated in January 2008

(Continued)

Investor	Investee	Main Businesses	% of Ownership 2009	2010	Remark
	HTC (Thailand) Limited	〃	100.00	100.00	Incorporated in November 2007 and invested in September 2008
High Tech Computer Asia Pacific Pte. Ltd.	HTC Electronics (Shanghai) Co., Ltd.	Manufacture and sale of smart handheld devices	100.00	-	Incorporated in January 2007, invested in July 2008, and transferred out for the reorganization in February 2010
	HTC Malaysia Sdn. Bhd.	Marketing, distribution and after-sales service	100.00	100.00	Incorporated in July 2008 and invested in January 2009
	HTC Innovation Limited	〃	100.00	100.00	Incorporated in January 2009
	HTC Communication Co., Ltd.	The sale of smart handheld devices	100.00	100.00	Incorporated in December 2008 and invested in March 2009
	HTC America Inc.	Marketing, repair and after-sales services	-	-	Incorporated in January 2003, transferred in for the reorganization in November 2009, and transferred out for the reorganization in April 2010
	One & Company Design, Inc.	Design, research and development of application software	-	-	Invested in October 2008, transferred in for the reorganization in November 2009, and transferred out for the reorganization in April 2010
	HTC HK, Limited	International holding	-	100.00	Incorporated in August 2006, and transferred in for the reorganization in December 2009
	HTC Holding Cooperatief U.A.	International holding	-	99.00	Incorporated in October 2009
High Tech Computer Singapore Pte. Ltd.	HTC India Private Ltd.	Marketing, distribution and after-sales service	1.00	-	Incorporated in January 2008, and transferred out for the reorganization in February 2010
HTC HK, Limited	HTC Belgium BVBA/SPRL	Marketing, distribution and after-sales service	100.00	-	Incorporated in October 2006, and transferred out for the reorganization in March 2010
	HTC Corporation (Shanghai WGQ)	Repair and after-sales service	-	100.00	Incorporated in July 2007, and transferred in for the reorganization in December 2009
	HTC Electronics (Shanghai) Co., Ltd.	Manufacture and sale of smart handheld devices	-	100.00	Incorporated in January 2007, invested in July 2008, and transferred in for the reorganization in February 2010
HTC Holding Cooperatief U.A.	HTC Netherlands B.V.	International holding	-	100.00	Incorporated in October 2009
	HTC India Private Ltd.	Marketing, distribution and after-sales service	-	1.00	Incorporated in January 2008, and transferred in for the reorganization in February 2010
	HTC South Eastern Europe Limited liability Company	Marketing, repair and after-sales services	-	0.67	Incorporated in June 2010
HTC Netherlands B.V.	HTC Europe Co., Ltd.	Marketing, repair and after-sales services	-	100.00	Incorporated in July 2003, and transferred in for the reorganization in February 2010

(Continued)

Investor	Investee	Main Businesses	% of Ownership 2009	2010	Remark
	HTC BRASIL	〃	-	99.99	Incorporated in October 2006, and transferred in for the reorganization in February 2010
	HTC Belgium BVBA/SPRL	Marketing, repair and after-sales services	-	100.00	Incorporated in October 2006, and transferred in for the reorganization in March 2010
	HTC NIPPON Corporation	〃	-	100.00	Incorporated in March 2006, and transferred in for the reorganization in April 2010
	HTC France Corporation	〃	-	100.00	Incorporated in April 2010
	HTC South Eastern Europe Limited liability Company	〃	-	99.33	Incorporated in June 2010
		〃			
HTC Belgium BVBA/SPRL	HTC Italia SRL	Marketing, distribution and after-sales service	100.00	100.00	Incorporated in February 2007
	HTC Nordic ApS.	〃	-	100.00	Incorporated in July 2010
HTC Europe Co., Ltd.	HTC America Holding Inc.	International holding	-	100.00	Incorporated in April 2010
HTC France Corporation	Abaxia SAS	Design, research and development of application software	-	100.00	Invested in July 2010
HTC America Holding Inc.	HTC America Inc.	Marketing, repair and after-sales services	-	100.00	Incorporated in January 2003, and transferred in for the reorganization in April 2010
	One & Company Design, Inc.	Design, research and development of application software	-	100.00	Invested in October 2008, and transferred in for the reorganization in April 2010
Abaxia SAS	BLR Soft	Design, research and development of application software	-	100.00	Invested in July 2010

(Concluded)

In January and July 2010, the Company wholly acquired the shares issued by Huada Digital Corporation and Abaxia SAS. However, the Company lost its significant influence of BandRich Inc. in July 2010. The net assets of these companies were as follows:

	Abaxia SAS	BandRich Inc.	Huada Digital Corporation (Note)	Total
Cash in hand and in banks	$ 93,848	$ 34,181	$ 245,000	$ 373,029
Other current assets	62,626	117,589	-	180,215
Properties	4,813	38,960	-	43,773
Other assets	14,041	1,155	-	15,196
Current liabilities	(140,043)	(160,572)	-	(300,615)
Total consideration	$ 35,285	$ 31,313	$ 245,000	$ 311,598
Cash consideration/cash at the beginning of period	$ 530,446	$ 88,510	$ -	$ 618,956
Cash at the acquisition date/losing significant influence date	(93,848)	(34,181)	(245,000)	(373,029)
Expected net cash outflow (inflow) on the acquisition of a subsidiary	$ 436,598	$ 54,329	$ (245,000)	$ 245,927

Note: Huada Digital Corporation was included in the consolidated financial statement beginning January, 2010. And before that, it was booked on prepayments for long-term investments on December 31, 2009.

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.

Intangible Assets

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

Deferred Charges

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

Asset Impairment

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

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

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

Accrued Marketing Expenses

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

Reserve for Warranty Expenses

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

Product-related Costs

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

Pension Plan

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

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

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

Income Tax

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

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

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

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

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

Treasury Stock

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

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

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

Foreign Currencies

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

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

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

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

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

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

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

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

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

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

Reclassifications

Certain 2009 accounts have been reclassified to be consistent with the presentation of the consolidated financial statements as of and for the nine months ended September 30, 2010.

3. TRANSLATION INTO U.S. DOLLARS

The consolidated financial statements are stated in New Taiwan dollars. The translation of the 2010 New Taiwan dollar amounts into U.S. dollar amounts are included solely for the convenience of readers, using the noon buying rate of NT$31.26 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	$ 4,076	$ 5,698	$ 182
Cash in banks	6,198,557	14,195,358	454,106
Time deposits	49,158,665	54,276,572	1,736,295
Cash equivalents - repurchase bonds	517,000	-	-
	$ 55,878,298	$ 68,477,628	$ 2,190,583

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)
Notes receivable	$ 7,683	$ -	$ -
Accounts receivable	24,777,695	46,293,712	1,480,925
Accounts receivable - related parties	119	53	2
Less: Allowance for doubtful accounts	(794,261)	(1,008,571)	(32,264)
	$ 23,991,236	$ 45,285,194	$ 1,448,663

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	$ 210,767	$ 624,325	$ 19,972
Agency payments	38,419	199,803	6,392
Interest receivables	8,074	11,706	374
Others	1,242	1,672	54
	$ 258,502	$ 837,506	$ 26,792

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	$ 610,930	$ 1,413,450	$ 45,216
Work-in-process	1,524,257	3,676,298	117,604
Raw materials	3,332,449	12,011,042	384,230
Goods in transit	72,773	204,101	6,529
	$ 5,540,409	$ 17,304,891	$ 553,579

As of September 30, 2009 and 2010, the allowance for inventory devaluation was NT$3,037,636 thousand and NT$3,132,706 thousand (US$100,215 thousand), respectively.

The write-down of inventories to their net realizable value amounted to NT$1,856,593 thousand and NT$206,772 thousand (US$6,615 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
Net input VAT	21,665	200,740	6,422
Software and hardware maintenance	37,224	122,169	3,908
Prepayments for materials purchases	22,850	40,042	1,281

(Continued)

	2009	2010	
	NT$	NT$	US$ (Note 3)
Marketing	$ 26,692	$ 32,704	$ 1,046
Molding equipment	115,912	28,865	923
Rental	15,578	10,096	323
Others	81,337	89,865	2,875
	$ 4,328,610	$ 2,355,676	$ 75,357

(Concluded)

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 service, travel expenses 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
GSUO Inc.	-	156,300	5,000
SoundHound Inc.	64,330	62,520	2,000
BandRich Inc.	-	15,861	507
Answer Online, Inc.	1,192	-	-
Prepaid for long-term investments	-	43,764	1,400
	$ 565,522	$ 778,445	$ 24,902

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 July 2009, the Company acquired 4.37% equity interest in SoundHound Inc. (formerly Melodis Corporation until May 2010) for US$2,000 thousand (NT$62,520 thousand).

In May 2010, the Company acquired 11.11% equity interest in GSUO Inc. for US$5,000 thousand (NT$156,300 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.

In July 2010, the Company invested Felicis Ventures II LP for US$500 thousand (NT$15,630 thousand). However, because the registration of this investment had not been completed as of September 30, 2010, the investment was temporarily accounted for under "prepayments for long-term investments."

In August 2010, the Company invested WI Harper Fund VII for US$900 thousand (NT$28,134 thousand). However, because the registration of this investment had not been completed as of September 30, 2010, the investment was temporarily accounted for under "prepayments for long-term investments."

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							
Vitamin D Inc.	$ 36,034	25.59	$ 40,986	$ 1,311	$ -	$ -	25.59

In April 2008, the Company made a new investment of US$350 thousand and transferred its bond investment of US$1,000 thousand to convertible preferred stocks issued by Vitamin D Inc. As a result, the Company acquired 27.27% equity interest in Vitamin D Inc. for NT$40,986 thousand, enabling the Company to exercise significant influence over this investee. Thus, the Company accounts for this investment by the equity method. In September 2008, January 2009 and June 2009, Vitamin D Inc. issued new convertible preferred shares, but the Company did not buy any of these shares. The Company's ownership percentage thus declined from 27.27% to 25.59%, and there was a capital surplus - long-term equity investments of NT$1,689 thousand, NT$671 thousand in 2008 and 2009, respectively. In addition, the Company determined that the recoverable amount of this investment in 2009 was less than its carrying amount and thus recognized an impairment loss of NT$30,944 thousand.

On its equity-method investments, the Company had a loss of NT$3,891 thousand for the nine months ended September 30, 2009.

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

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	2,532,224	4,360,171	777,213	3,582,958	114,618
Machinery and equipment	1,396,032	5,633,605	4,036,474	1,597,131	51,092
Molding equipment	10,264	172,632	172,632	-	-
Computer equipment	142,632	436,850	301,188	135,662	4,340
Transportation equipment	1,423	3,913	2,454	1,459	47
Furniture and fixtures	69,397	245,341	179,748	65,593	2,098
Leased assets	2,915	6,009	4,308	1,701	54
Leasehold improvements	107,225	193,029	120,533	72,496	2,319
Prepayments for construction-in-progress and equipment-in-transit	1,045,631	702,617	-	702,617	22,477
	$ 10,027,281	$ 17,141,885	$ 5,594,550	$ 11,547,335	$ 369,397

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.

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

As of September 30, 2010, prepayments for construction-in-progress and equipment-in-transit were mainly 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. SHORT-TERM BORROWINGS

Short-term borrowings as of September 30, 2009 and 2010 were as follows:

	2009	2010	
	NT$	NT$	US$ (Note 3)
Working capital loans	$ 40,000	$ -	$ -

As of September 30, 2009, short-term borrowing was for BandRich Inc.'s raising working capital and material purchase. However, because the Company lost its significant influence in BandRich Inc. in July 2010, BandRich Inc. was not included in the consolidated financial statements as of and for the nine months ended September 30, 2010.

15. ACCRUED EXPENSES

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

	2009	2010	
	NT$	NT$	US$ (Note 3)
Marketing	$ 6,977,543	$ 14,025,329	$ 448,667
Bonus to employees	4,891,086	5,641,902	180,483
Salaries and bonuses	1,468,153	2,504,242	80,110
Services	449,446	1,381,941	44,208
Export expenses	439,101	990,250	31,678
Research materials	397,400	648,631	20,750
Donation	230,454	442,800	14,165
Duties	53,181	263,643	8,434
Meals and welfare	99,341	160,563	5,136
Repairs and maintenance	45,344	133,324	4,265
Insurance	76,442	111,160	3,556
Pension cost	49,559	67,730	2,167
Travel	24,193	41,031	1,312
Research and development	49,200	28,358	907
Others	188,190	136,224	4,358
	$ 15,438,633	$ 26,577,128	$ 850,196

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.

16. 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	$ 5,463,402	$ 8,089,564	$ 258,783
Agency receipts	483,539	399,692	12,786
Other payable	387,256	320,082	10,240
Advance receipts	232,155	258,429	8,267
Others	145,903	391,008	12,509
	$ 6,712,255	$ 9,458,775	$ 302,585

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

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

Other payables were payables for treasury stock and others. 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.

In October 2008, H.T.C. (B.V.I.) Corp. acquired 100% equity interest of One & Company Design, Inc., and paid the investment to the original stockholders of One & Company Design, Inc. in several installments based on the agreement. In November 2009, One & Company Design, Inc. was sold to High Tech Computer Asia Pacific Pte. Ltd. in line with the reorganization of the Company's overseas subsidiaries' investment structure. Related liabilities between One & Company Design, Inc. and H.T.C. (B.V.I.) Corp. were transferred as well. Of the investment, NT$98,450 thousand (US$3,149 thousand) had not been paid as of September 30, 2010.

In July 2010, HTC France Corporation acquired 100% equity interest of Abaxia SAS, and paid the investment to the original stockholders of Abaxia SAS in several installments based on the agreement. Of the investment, NT$112,097 thousand (US$3,586 thousand) had not been paid as of September 30, 2010.

17. LONG-TERM BANK LOANS

Long-term bank loans as of September 30, 2009 and 2010 were as follows:

	2009	2010	
	NT$	NT$	US$ (Note 3)
Secured loans (Note 24)			
NT$50,000 thousand, repayable from July 2006 in 16 quarterly installments; 1% annual interest	$ 9,375	$ -	$ -
NT$65,000 thousand, repayable from July 2009 in 16 quarterly installments; 1% annual interest	44,688	28,438	910
Less: Current portion	(25,625)	(16,250)	(520)
	$ 28,438	$ 12,188	$ 390

18. STOCKHOLDERS' EQUITY

Capital Stock

The Company's outstanding common stock as of January 1, 2009 amounted to NT$7,553,938 thousand, divided into 755,394 thousand common shares at NT$10.00 par value. In January 2009, the Company retired 10,000 thousand treasury shares at NT$100,000 thousand. 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.

19. TREASURY STOCK

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

On July 31, 2009, the Company's board of directors passed a resolution to buy back 13,000 thousand Company shares from the open market. The repurchase period was between August 3, 2009 and October 2, 2009, and the repurchase price ranged from NT$300 to NT$500 per share. If the Company's share price was lower than this price range, the Company might continue to buy back its shares. The company bought back 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.

20. INCOME TAX

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

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

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

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. Provision for income tax expense (benefit) for the nine months ended September 30, 2009 and 2010, income tax payable, income tax receivables and deferred tax assets (liabilities) as of September 30, 2009 and 2010 were as follows:

	2009			
	Income Tax Expense (Benefit)	Income Tax Payable	Income Tax Receivable	Deferred Tax Assets (Liabilities)
	NT$	NT$	NT$	NT$
HTC Corporation	$ 1,877,518	$ 3,195,679	$ -	$ 1,640,714
BandRich Inc.	(245)	-	-	-
Communication Global Certification Inc.	238	-	92	2,002
HTC Investment Corporation	109	-	240	-
HTC America Inc.	50,016	-	42,025	26
HTC Europe Co., Ltd.	64,955	110,209	-	-
HTC Nippon Corporation	13,193	13,316	-	-
HTC BRASIL	-	-	9,434	-
HTC Corporation (Shanghai WGQ)	(320)	538	-	-
One & Company Design, Inc.	4,474	2,785	-	(10,442)
HTC Belgium BVBA/SPRL	11,254	14,342	-	-
High Tech Computer Singapore Pte. Ltd.	86	77	-	(456)
High Tech Computer (H.K.) Limited	860	355	-	-
HTC (Australia and New Zealand) Pty. Ltd.	1,672	1,324	-	40
HTC India Private Limited	1,182	288	-	-

(Continued)

	2009							
	Income Tax Expense (Benefit)		Income Tax Payable		Income Tax Receivable		Deferred Tax Assets (Liabilities)	
	NT$		NT$		NT$		NT$	
HTC (Thailand.) Ltd.	$	509	$	234	$	-	$	-
HTC Malaysia Sdn. Bhd.		548		647		-		322
HTC Innovation Limited		40		43		-		-
	$	2,026,089	$	3,339,837	$	51,791	$	1,632,206

(Concluded)

	2010							
	Income Tax Expense (Benefit)		Income Tax Payable		Income Tax Receivable		Deferred Tax Assets (Liabilities)	
	NT$	US$ (Note 3)	NT$	US$ (Note 3)	NT$	US$ (Note 3)	NT$	US$ (Note 3)
HTC Corporation	$ 3,107,428	$ 99,406	$ 3,904,760	$ 124,912	$ -	$ -	$ 2,678,788	$ 85,694
Communication Global Certification Inc.	218	7	-	-	44	1	1,358	43
HTC Investment Corporation	88	3	-	-	225	7	-	-
HTC I Investment Corporation	123	4	28	1	-	-	-	-
Huada Digital Corporation	84	3	24	1	-	-	-	-
High Tech Computer Asia Pacific Pte. Ltd.	905	29	566	18	-	-	38	1
HTC Communication Corporation	8,073	258	8,047	257	-	-	-	-
HTC America Inc.	218,477	6,989	110,326	3,529	-	-	89,905	2,876
HTC Europe Co., Ltd.	74,756	2,391	107,571	3,441	-	-	-	-
Exedea Inc.	21,610	691	-	-	3,265	105	2,688	86
HTC NIPPON Corporation	1,743	56	1,802	58	-	-	-	-
HTC BRASIL	(5,258)	(168)	-	-	3,941	126	6,469	207
HTC Corporation (Shanghai WGQ)	518	17	237	8	256	8	-	-
One & Company Design, Inc.	(5,810)	(186)	-	-	1,626	52	529	17
HTC Belgium BAVA/SPRL	12,615	404	14,899	477	-	-	831	27
High Tech Computer (H.K.) Limited	894	28	877	28	-	-	-	-
HTC (Australia and New Zealand) Pty. Ltd.	3,545	113	390	12	-	-	(622)	(20)
HTC India Private Limited	1,346	43	6,852	219	23	1	-	-
HTC (Thailand) Limited	776	25	324	10	-	-	-	-
HTC Electronics (Shanghai) Co., Ltd.	15,141	484	24,704	790	-	-	7,760	248
HTC Malaysia Sdn. Bhd.	808	26	(734)	(23)	-	-	328	11
HTC Innovation Limited	683	22	676	22	-	-	-	-
HTC Netherlands B. V.	395	13	1,314	42	-	-	-	-
HTC France Corporation	1,293	41	1,315	42	-	-	-	-
HTC South Eastern Europe Limited liability Company	124	4	126	4	-	-	-	-
	$ 3,460,575	$ 110,703	$ 4,184,104	$ 133,848	$ 9,380	$ 300	$ 2,788,072	$ 89,190

The tax effects of deductible temporary differences and loss 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	$ 651,318	$ 517,187	$ 16,545
Unrealized royalties	1,553,617	2,247,813	71,907
Unrealized marketing expenses	1,328,728	2,287,195	73,167
Unrealized reserve for warranty expense	1,092,680	1,371,632	43,878
Capitalize expense	46,945	93,397	2,988
Unrealized bad-debt expenses	101,982	93,533	2,992
Unrealized exchange loss, net	109,517	-	-
Unrealized valuation loss on financial instruments	3,102	69,916	2,236
Excess of book depreciation over tax depreciation	-	4,843	155
Unrealized service expenses	-	15,358	491
Other	13,648	50,846	1,627
Prior years' loss carryforwards	42,543	4,027	129
Tax credit carryforwards	2,896,792	3,154,007	100,896
Total deferred tax assets	7,840,872	9,909,754	317,011
Less: Valuation allowance	(6,171,288)	(6,913,947)	(221,176)
Total deferred tax asset, net	1,669,584	2,995,807	95,835
Deferred tax liability			
Unrealized pension cost	(26,615)	(26,177)	(837)
Unrealized value gain on financial instruments	-	(181,558)	(5,808)
Unrealized depreciation	(10,763)	-	-
	1,632,206	2,788,072	89,190
Less: Current portion	(688,200)	(1,065,173)	(34,075)
Deferred tax assets - noncurrent	$ 944,006	$ 1,722,899	$ 55,115

Details of the tax credit carryforwards are as follows:

Year of Occurrence	Validity Period	2009	2010	
		NT$	NT$	US$ (Note 3)
2005	2005-2009	$ 6,479	$ -	$ -
2006	2006-2010	15,475	5,851	187
2007	2007-2011	220,249	4,404	141
2008	2008-2012	874,619	833,163	26,653
2009	2009-2013	1,779,970	2,310,589	73,915
		$ 2,896,792	$ 3,154,007	$ 100,896

Detail of the loss carryforwards are as follows:

Year of Occurrence	Validity Period	2009 NT$	2010 NT$	2010 US$ (Note 3)
2005	2006-2015	$ 95	$ -	$ -
2006	2007-2016	49,326	1,895	61
2007	2008-2017	48,885	-	-
2008	2009-2018	103,864	-	-
2009	2010-2019	10,546	-	-
		$ 212,716	$ 1,895	$ 61

The loss carryforwards of HTC BRASIL that gave rise to deferred tax assets in the Federative Republic of Brazil were NT$3,705 thousand (US$119 thousand). Taxation could be made on its net income after deduction of losses incurred in the preceding years, but the deduction cannot exceed 30% of the taxable income in current year.

Based on the Income Tax 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 for the nine months ended September 30, 2009 and 2010 were as follows:

	2009 NT$	2010 NT$	2010 US$ (Note 3)
Current income tax	$ 2,376,122	$ 4,303,026	$ 137,653
Increase in deferred income tax assets	(258,783)	(908,127)	(29,051)
(Overestimation) underestimation of prior year's income tax	(91,250)	65,676	2,101
Income tax	$ 2,026,089	$ 3,460,575	$ 110,703

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	565,522	565,522	778,445	24,902	778,445	24,902

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, guarantee deposits nor long-term bank loans. The fair values of aforementioned financial instruments were based on the present value of future cash flows discounted at the average interest rates for time deposits with maturities similar to those of the financial instruments.

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

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

Methodology Used to Determine the Fair Values of Financial Instruments

	Quoted Market Prices			Measurement Method		
	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	-	-	-	565,522	778,445	24,902
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$49,712,431 and NT$54,370,234 thousand (US$1,739,291 thousand), respectively.

As of September 30, 2009 and 2010, financial assets and liabilities exposed to fair value interest rate risk amounted to NT$54,063 thousand and NT$28,438 thousand (US$910 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 related parties were as follows:

Related Party	Relationship with the Company
Xander International Corp.	Chairperson is an immediate relative of HTC's chairperson
VIA Technologies, Inc.	Same chairperson with HTC
Syuda Construction Company	The only juridical stockholder whose chairperson is the same person with HTC
Chander Electronics Corp.	Same chairperson with HTC
Way-Lien Technology Inc.	Same chairperson with HTC
Captec Partners Management Corp.	Main director is the chairperson of HTC
Comserve Network Netherlands B.V.	Main director is an immediate relative of HTC's chairperson
Employees' Welfare Committee	Employees' Welfare Committee of HTC
HTC Cultural and Educational Foundation	A non-profit organization of which the funds donated from the Company exceeds one third of the non-profit organization's total funds

Major transactions with related parties are summarized below:

Purchases of Inventories and Services

	Nine Months Ended September 30				
	2009		2010		
Related Party	Amount	% to Total Revenues	Amount		% to Total Revenues
	NT$		NT$	US$ (Note 3)	
Chander Electronics Corp.	$ 15,475	-	$ 173,539	$ 5,551	-

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

Sales and Services Provided

	Nine Months Ended September 30				
	2009		2010		
Related Party	Amount	% to Total Revenues	Amount		% to Total Revenues
	NT$		NT$	US$ (Note 3)	
Employees' Welfare Committee	$ 9,638	-	$ 34,112	$ 1,091	-
Xander International Corp.	192	-	411	13	-
Others	504	-	1,433	46	-
	$ 10,334	-	$ 35,956	$ 1,150	-

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

Notes and Accounts Receivable

	September 30				
	2009		2010		
Related Party	Amount	% to Total Notes and Accounts Receivable	Amount		% to Total Notes and Accounts Receivable
	NT$		NT$	US$ (Note 3)	
VIA Technologies Inc.	$ 100	-	$ 22	$ 1	-
Others	19	-	31	1	-
	$ 119	-	$ 53	$ 2	-

Notes and Accounts Payable

	September 30				
	2009		2010		
Related Party	Amount	% to Total Notes and Accounts Payable	Amount		% to Total Notes and Accounts Payable
	NT$		NT$	US$ (Note 3)	
Chander Electronics Corp.	$ 3,754	-	$ 104,831	$ 3,353	-

Other Receivable

	September 30				
	2009		2010		
Related Party	Amount	% to Total Other Receivable	Amount		% to Total Other Receivable
	NT$		NT$	US$ (Note 3)	
Chander Electronics Corp.	$ 30	-	$ 30	$ 1	-
VIA Technologies Inc.	-	-	11	-	-
Others	35	-	101	3	-
	$ 65	-	$ 142	$ 4	-

Prepaid Expenses

	September 30				
	2009		2010		
Related Party	Amount	% of Total Prepaid Expenses	Amount		% of Total Prepaid Expenses
	NT$		NT$	US$ (Note 3)	
VIA Technologies Inc.	$ -	-	$ 87	3	-

Accrued Expenses

	September 30				
	2009		2010		
Related Party	Amount	% of Total Accrued Expenses	Amount		% of Total Accrued Expenses
	NT$		NT$	US$ (Note 3)	
HTC Cultural and Education Foundation	$ -	-	$ 217,800	$ 6,968	1
Way-Lien Technology Inc.	-	-	200	6	-
VIA Technologies Inc.	2,134	-	-	-	-
	$ 2,134	-	$ 218,000	$ 6,974	1

Other Payables to Related Parties

	September 30				
	2009		2010		
Related Party	Amount	% to Total Other Payables	Amount		% to Total Other Payables
	NT$		NT$	US$ (Note 3)	
Chander Electronics Corp.	$ 229	-	$ 14	$ 1	-
Way-Lien Technology Inc.	200	-	-	-	-
	$ 429	-	$ 14	$ 1	-

Warranty Expenses

	Nine Months Ended September 30				
	2009		2010		
Related Party	Amount	% to Total Warranty Expenses	Amount		% to Total Warranty Expenses
	NT$		NT$	US$ (Note 3)	
Comserve Network Netherlands B.V.	$ 1,203	-	$ -	$ -	-

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

Service Fees

Related Party	Nine Months Ended September 30				
	2009		2010		
	Amount	% to Total Service Fees	Amount		% to Total Service Fees
	NT$		NT$	US$ (Note 3)	
Captec Partners Management Corp.	$ 1,200	-	$ 1,400	$ 45	-
Way-Lien Technology Inc.	1,673	-	-	-	-
	$ 2,873	-	$ 1,400	$ 45	-

Leasing - Lessee

Operating expense - rental expense

Related Party	Nine Months Ended September 30				
	2009		2010		
	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 and Investment 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.

24. PLEDGED ASSETS

As of September 30, 2009 and 2010, the Company had provided time deposits of NT$36,766 thousand and NT$93,662 thousand (US$2,996 thousand) respectively, as collateral for the secured loans, rental deposits and to the National Tax Administration of Northern Taiwan Province as part of the requirements for the Company to get a certificate stating that it had no pending income tax.

25. COMMITMENTS AND CONTINGENCIES

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

HTC provided NT$468,900 thousand (US$15,000 thousand) guarantee for HTC Electronics (Shanghai)'s bank loans. HTC Electronics (Shanghai) has drawn down $405 thousand (US$13 thousand) from banks within the guarantee amount as of September 30, 2010.

26. SIGNIFICANT CONTRACTS

Patent Agreement

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

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

(Continued)

Contractor	Contract Term	Description
Motorola, Inc.	December 23, 2003 to the latest of the following dates: a. Expiry dates of patents b. Any time when the Company is not using any of Motorola's intellectual property,	TDMA, NARROWBAND CDMA, WIDEBAND CDMA or TD/CDMA Standards patent license or technology; royalty payment based on agreement.
ALCATEL LUCENT	November 2009 - November 2012	Authorization to use 2G (GSM/GPRS/EDGE/CDMA), 3G (CDMA2000/WCDMA), HTML, MPEG, AMR patent license or technology; royalty payment based on agreement.
Siemens Aktiengesellschaft	July 1, 2004 to the expiry dates of these patents.	Authorization to use GSM, GPRS or EDGE patent license or technology; royalty payment based on agreement.

(Concluded)

27. OTHER EVENT

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 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).