HTC Corporation

Financial Statements for the
Years Ended December 31, 2009 and 2010 and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
HTC Corporation

We have audited the accompanying balance sheets of HTC Corporation (the "Company") as of December 31, 2009 and 2010 and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HTC Corporation as of December 31, 2009 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

We have also audited the consolidated financial statements of HTC Corporation and subsidiaries as of and for the years ended December 31, 2009 and 2010, and expressed an unqualified opinion on those statements in our report dated January 18, 2011.

Our audits also comprehended the translation of the 2010 New Taiwan dollar amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 3. Such U.S. dollar amounts are presented solely for the convenience of readers.

January 18, 2011

Notice to Readers

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

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

HTC CORPORATION

BALANCE SHEETS
DECEMBER 31, 2009 AND 2010
(In Thousands, Except Par Value)

	2009	2010	
ASSETS	**NT$**	**NT$**	**US$ (Note 3)**
CURRENT ASSETS			
Cash and cash equivalents (Notes 2 and 4)	$ 61,676,464	$ 66,282,076	$ 2,275,389
Financial assets at fair value through profit or loss (Notes 2, 5 and 23)	18,132	450,276	15,457
Available-for-sale financial assets - current (Notes 2 and 6)	2,497,394	441,948	15,172
Accounts receivable, net (Notes 2 and 7)	25,326,228	35,179,038	1,207,657
Accounts receivable from related parties, net (Notes 2 and 24)	2,244,550	28,186,391	967,607
Other current financial assets (Notes 8 and 24)	234,201	717,636	24,635
Inventories (Notes 2 and 9)	5,217,193	21,920,492	752,506
Prepayments (Notes 10 and 24)	3,351,491	2,347,617	80,591
Deferred income tax assets (Notes 2 and 21)	811,240	925,579	31,774
Other current assets	126,780	457,054	15,690
Total current assets	101,503,673	156,908,107	5,386,478
LONG-TERM INVESTMENTS			
Available-for-sale financial assets - noncurrent (Notes 2 and 6)	313	538	18
Held-to-maturity financial assets - noncurrent (Notes 2 and 11)	-	207,946	7,139
Financial assets carried at cost - noncurrent (Notes 2 and 12)	501,192	515,861	17,709
Investments accounted for by the equity method (Notes 2 and 13)	5,549,766	9,900,410	339,870
Prepayments for long-term investments (Notes 2 and 13)	454,923	83,665	2,872
Total long-term investments	6,506,194	10,708,420	367,608
PROPERTIES (Notes 2, 14 and 24)			
Cost			
Land	4,719,538	5,690,718	195,356
Buildings and structures	3,174,986	3,504,669	120,312
Machinery and equipment	4,008,111	5,564,902	191,037
Molding equipment	172,632	172,632	5,926
Computer equipment	302,213	343,939	11,807
Transportation equipment	2,732	6,242	214
Furniture and fixtures	129,533	147,349	5,058
Leased assets	4,712	4,712	162
Leasehold improvements	96,014	151,716	5,208
Total cost	12,610,471	15,586,879	535,080
Less: Accumulated depreciation	(4,321,855)	(4,934,160)	(169,384)
Prepayments for construction-in-progress and equipment-in-transit	25,561	288,511	9,904
Properties, net	8,314,177	10,941,230	375,600
INTANGIBLE ASSETS (Note 2)			
Patents	-	208,581	7,160
OTHER ASSETS			
Assets leased to others	48,135	50,828	1,745
Refundable deposits	69,166	79,197	2,719
Deferred charges (Note 2)	69,773	27,658	949
Deferred income tax assets (Notes 2 and 21)	1,066,101	2,419,431	83,056
Restricted assets (Note 25)	63,900	63,900	2,194
Other (Notes 2, 10 and 17)	1,980,823	2,643,101	90,735
Total other assets	3,297,898	5,284,115	181,398
TOTAL	$ 119,621,942	$ 184,050,453	$ 6,318,244

	2009	2010	
LIABILITIES AND STOCKHOLDERS' EQUITY	**NT$**	**NT$**	**US$ (Note 3)**
CURRENT LIABILITIES			
Notes and accounts payable	$ 25,275,140	$ 58,420,924	$ 2,005,524
Accounts payable to related parties (Note 24)	85,676	1,346,981	46,240
Income tax payable (Notes 2 and 21)	4,152,624	6,416,667	220,277
Accrued expenses (Notes 15 and 24)	17,127,974	31,663,629	1,086,977
Payable for purchase of equipment (Note 24)	68,906	318,587	10,937
Other current liabilities (Notes 16 and 24)	7,269,962	11,168,543	383,403
Total current liabilities	53,980,282	109,335,331	3,753,358
OTHER LIABILITIES			
Guarantee deposits received	1,210	628	22
Total liabilities	53,981,492	109,335,959	3,753,380
STOCKHOLDERS' EQUITY (Note 18)			
Capital stock - NT$10.00 par value			
Authorized: 1,000,000 thousand shares			
Issued and outstanding: 788,936 thousand shares in 2009 and 817,653 thousand shares in 2010			
Common stock	7,889,358	8,176,532	280,691
Capital surplus			
Additional paid-in capital from share issuance in excess of par	9,056,323	10,777,623	369,984
Long-term equity investments	18,411	18,411	632
Merger	25,189	24,710	848
Retained earnings			
Legal reserve	10,273,674	10,273,674	352,684
Accumulated earnings	38,364,099	52,876,892	1,815,204
Cumulative translation adjustments (Note 2)	15,088	(579,849)	(19,906)
Net loss not recognized as pension cost	(34)	(121)	(4)
Unrealized valuation losses on financial instruments	(1,658)	(885)	(30)
Treasury stock (Notes 2 and 19)	-	(6,852,493)	(235,239)
Total stockholders' equity	65,640,450	74,714,494	2,564,864
TOTAL	$ 119,621,942	$ 184,050,453	$ 6,318,244

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

HTC CORPORATION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2009 AND 2010
(In Thousands, Except Earnings Per Share)

	2009	2010	
	NT$	NT$	US$ (Note 3)
REVENUES (Notes 2 and 24)	$ 144,880,715	$ 275,046,954	$ 9,442,051
COST OF REVENUES (Notes 9, 20 and 24)	99,018,232	195,489,982	6,710,950
GROSS PROFIT	45,862,483	79,556,972	2,731,101
UNREALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	(108,150)	(345,455)	(11,859)
REALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	134,091	108,150	3,713
REALIZED GROSS PROFIT	45,888,424	79,319,667	2,722,955
OPERATING EXPENSES (Notes 20 and 24)			
Selling and marketing	11,103,061	19,516,895	669,993
General and administrative	2,010,000	4,812,579	165,211
Research and development	8,600,369	12,694,850	435,800
Total operating expenses	21,713,430	37,024,324	1,271,004
OPERATING INCOME	24,174,994	42,295,343	1,451,951
NONOPERATING INCOME AND GAINS			
Interest income	348,693	286,610	9,839
Gains on equity-method investments (Notes 2 and 13)	273,811	1,457,395	50,031
Gain on disposal of properties	2,984	-	-
Gains on sale of investments, net	3,035	3,001	103
Exchange gain (Note 2)	513,650	-	-
Valuation gains on financial instruments, net (Notes 2 and 5)	18,132	450,276	15,457
Other (Note 24)	463,057	338,798	11,631
Total nonoperating income and gains	1,623,362	2,536,080	87,061
NONOPERATING EXPENSES AND LOSSES			
Interest expense	131	46	2
Loss on disposal of properties	-	139	5
Exchange loss (Note 2)	-	303,549	10,420
Impairment losses (Notes 2, 12 and 13)	30,944	1,192	41
Other	554,817	35,188	1,208
Total nonoperating expenses and losses	585,892	340,114	11,676

(Continued)

HTC CORPORATION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2009 AND 2010
(In Thousands, Except Earnings Per Share)

	2009	2010	
	NT$	NT$	US$ (Note 3)
INCOME BEFORE INCOME TAX	$ 25,212,464	$ 44,491,309	$ 1,527,336
INCOME TAX (Notes 2 and 21)	(2,603,562)	(4,957,709)	(170,193)
NET INCOME	$ 22,608,902	$ 39,533,600	$ 1,357,143

	2009		2010			
	Before Income Tax	After Income Tax	Before Income Tax		After Income Tax	
	NT$	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
BASIC EARNINGS PER SHARE (Note 22)	$ 30.50	$ 27.35	$ 54.57	$ 1.87	$ 48.49	$ 1.66
DILUTED EARNINGS PER SHARE (Note 22)	$ 29.95	$ 26.86	$ 53.90	$ 1.85	$ 47.89	$ 1.64

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

HTC CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2009 AND 2010
(In Thousands)

	Capital Stock	Capital Surplus			Retained Earnings						
New Taiwan Dollars	**Issued and Outstanding Common Stock**	**From Share Issuance in Excess of Par**	**Long-term Equity Investments**	**Merger**	**Legal Reserve**	**Accumulated Earnings**	**Cumulative Translation Adjustments**	**Net Loss Not Recognized as Pension Cost**	**Unrealized Valuation Losses on Financial Instruments**	**Treasury Stock**	**Total**
BALANCE, JANUARY 1, 2009	$ 7,553,938	$ 4,374,244	$ 17,534	$ 25,756	$ 7,410,139	$ 44,626,182	$ 65,602	$ -	$ (1,632)	$ (3,410,277)	$ 60,661,486
Appropriation of the 2008 net earnings											
Legal reserve	-	-	-	-	2,863,535	(2,863,535)	-	-	-	-	-
Stock dividends	372,697	-	-	-	-	(372,697)	-	-	-	-	-
Cash dividends	-	-	-	-	-	(20,125,634)	-	-	-	-	(20,125,634)
Transfer of employee bonuses to common stock	133,573	4,821,316	-	-	-	-	-	-	-	-	4,954,889
Net income in 2009	-	-	-	-	-	22,608,902	-	-	-	-	22,608,902
Translation adjustments on long-term equity investments	-	-	-	-	-	-	(47,783)	-	-	-	(47,783)
Unrealized loss on financial instruments	-	-	-	-	-	-	-	-	(26)	-	(26)
Adjustment due to changes in ownership percentage in investees and the movement of investees' other equity under equity method	-	-	877	-	-	(2,566)	(2,731)	(34)	-	-	(4,454)
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	(2,406,930)	(2,406,930)
Retirement of treasury stock	(170,850)	(139,237)	-	(567)	-	(5,506,553)	-	-	-	5,817,207	-
BALANCE, DECEMBER 31, 2009	7,889,358	9,056,323	18,411	25,189	10,273,674	38,364,099	15,088	(34)	(1,658)	-	65,640,450
Appropriation of the 2009 net earnings											
Stock dividends	386,968	-	-	-	-	(386,968)	-	-	-	-	-
Cash dividends	-	-	-	-	-	(20,122,332)	-	-	-	-	(20,122,332)
Transfer of employee bonuses to common stock	50,206	1,893,488	-	-	-	-	-	-	-	-	1,943,694
Net income in 2010	-	-	-	-	-	39,533,600	-	-	-	-	39,533,600
Translation adjustments on long-term equity investments	-	-	-	-	-	-	(594,937)	-	-	-	(594,937)
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	773	-	773
Adjustment due to the movement of investees' other equity under equity method	-	-	-	-	-	-	-	(87)	-	-	(87)
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	(11,686,667)	(11,686,667)
Retirement of treasury stock	(150,000)	(172,188)	-	(479)	-	(4,511,507)	-	-	-	4,834,174	-
BALANCE, DECEMBER 31, 2010	$ 8,176,532	$ 10,777,623	$ 18,411	$ 24,710	$ 10,273,674	$ 52,876,892	$ (579,849)	$ (121)	$ (885)	$ (6,852,493)	$ 74,714,494

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

HTC CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2009 AND 2010
(In Thousands)

	Capital Stock	Capital Surplus			Retained Earnings				Unrealized Valuation		
U.S. Dollars (Note 3)	Issued and Outstanding Common Stock	From Share Issuance in Excess of Par	Long-term Equity Investments	Merger	Legal Reserve	Accumulated Earnings	Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Losses on Financial Instruments	Treasury Stock	Total
BALANCE, JANUARY 1, 2010	$ 270,833	$ 310,893	$ 632	$ 865	$ 352,684	$ 1,316,996	$ 518	$ (1)	$ (57)	$ -	$ 2,253,363
Appropriation of the 2009 net earnings											
Stock dividends	13,284	-	-	-	-	(13,284)	-	-	-	-	-
Cash dividends	-	-	-	-	-	(690,777)	-	-	-	-	(690,777)
Transfer of employee bonuses to common stock	1,724	65,001	-	-	-	-	-	-	-	-	66,725
Net income in 2010	-	-	-	-	-	1,357,143	-	-	-	-	1,357,143
Translation adjustments on long-term equity investments	-	-	-	-	-	-	(20,424)	-	-	-	(20,424)
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	27	-	27
Adjustment due to the movement of investees' other equity under equity method	-	-	-	-	-	-	-	(3)	-	-	(3)
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	(401,190)	(401,190)
Retirement of treasury stock	(5,150)	(5,910)	-	(17)	-	(154,874)	-	-	-	165,951	-
BALANCE, DECEMBER 31, 2010	$ 280,691	$ 369,984	$ 632	$ 848	$ 352,684	$ 1,815,204	$ (19,906)	$ (4)	$ (30)	$ (235,239)	$ 2,564,864

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

HTC CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2010
(In Thousands)

	2009	2010	
	NT$	**NT$**	**US$ (Note 3)**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 22,608,902	$ 39,533,600	$ 1,357,143
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation (including depreciation of assets leased to others)	633,950	622,438	21,368
Amortization	39,847	58,621	2,012
Amortization of premium on financial assets	-	385	13
Prepaid pension costs	(20,515)	(21,293)	(731)
Gains on equity-method investments	(273,811)	(1,457,395)	(50,031)
Cash dividends received from equity-method investees	905	480	17
(Gain) loss on disposal of properties, net	(2,984)	139	5
Transfer of properties to expenses	7,021	532	18
Gains on sale of investments, net	(3,035)	(3,001)	(103)
Impairment losses	30,944	1,192	41
Deferred income tax assets	(503,703)	(1,467,669)	(50,383)
Net changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	(532,215)	(432,144)	(14,835)
Accounts receivable	3,534,014	(9,852,810)	(338,236)
Accounts receivable from related parties	(1,305,780)	(25,941,841)	(890,554)
Other current financial assets	41,305	(483,435)	(16,596)
Inventories	2,201,274	(16,703,299)	(573,405)
Prepayments	(2,095,767)	1,003,874	34,462
Other current assets	35,227	(330,274)	(11,338)
Other assets - other	(1,843,170)	(640,985)	(22,004)
Notes and accounts payable	(2,603,301)	33,145,784	1,137,858
Accounts payable - related parties	56,973	1,261,305	43,299
Income tax payable	214,879	2,264,043	77,722
Accrued expenses	6,432,196	16,322,342	560,327
Other current liabilities	888,452	3,955,215	135,778
Net cash provided by operating activities	27,541,608	40,835,804	1,401,847
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of available-for-sale financial assets	(8,105,512)	(3,551,180)	(121,908)
Proceeds of the sale of available-for-sale financial assets	5,611,153	5,610,175	192,591
Purchase of held-to-maturity financial assets	-	(208,331)	(7,152)
Increase in investments accounted for by the equity method	(1,164,135)	(3,031,907)	(104,082)
Purchase of properties and assets leased to others	(1,426,671)	(3,004,250)	(103,133)

(Continued)

HTC CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2010
(In Thousands)

	2009	2010	
	NT$	NT$	US$ (Note 3)
Proceeds of the sale of properties	$ 4,005	$ -	$ -
Decrease (increase) in refundable deposits	48,298	(10,031)	(344)
Increase in deferred charges	(57,495)	(4,144)	(142)
Increase in restricted assets	(63,900)	-	-
Increase in intangible assets	-	(220,943)	(7,585)
Net cash used in investing activities	(5,154,257)	(4,420,611)	(151,755)
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in guarantee deposits received	(5,196)	(582)	(20)
Cash dividends	(20,125,634)	(20,122,332)	(690,777)
Purchase of treasury stock	(2,406,930)	(11,686,667)	(401,190)
Net cash used in financing activities	(22,537,760)	(31,809,581)	(1,091,987)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(150,409)	4,605,612	158,105
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	61,826,873	61,676,464	2,117,284
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 61,676,464	$ 66,282,076	$ 2,275,389
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid during the year			
Interest (net of amounts capitalized)	$ 131	$ 46	$ 2
Income tax	$ 2,892,386	$ 4,161,335	$ 142,854
NONCASH INVESTING AND FINANCING ACTIVITIES			
Transfer of retained earnings to stock dividends for distribution	$ 372,697	$ 386,968	$ 13,284
Transfer of assets leased to others to properties	$ 261,824	$ 47,813	$ 1,641
Retirement of treasury stock	$ 5,817,207	$ 4,834,174	$ 165,952
Transfer of stock bonuses to employees to common stock and additional paid-in capital	$ 4,954,889	$ 1,943,694	$ 66,725
INCREASE IN LONG-TERM INVESTMENTS - EQUITY METHOD			
Increase in investments accounted for by the equity method	$ 1,137,873	$ 2,976,349	$ 102,175
Decrease in payable for purchase of investments	26,262	55,558	1,907
Cash paid for increase in long-term investments	$ 1,164,135	$ 3,031,907	$ 104,082

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HTC CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2010
(In Thousands)

	2009	2010	
	NT$	NT$	US$ (Note 3)
PURCHASE OF PROPERTIES AND ASSETS LEASED TO OTHERS			
Cost of properties and assets leased to others purchased	$ 1,336,787	$ 3,252,855	$ 111,667
Decrease (increase) in payable for purchase of equipment	88,880	(249,681)	(8,571)
Decrease in lease payable	1,004	1,076	37
Cash paid for purchase of properties and assets leased to others	$ 1,426,671	$ 3,004,250	$ 103,133

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

1. ORGANIZATION AND OPERATIONS

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

The Company had 7,284 and 10,843 employees as of December 31, 2009 and 2010, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

Current/Noncurrent Assets and Liabilities

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

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 plus transaction costs that are directly attributable to the acquisition. 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 similar 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 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.

Held-to-maturity Financial Assets

Held-to-maturity financial assets are carried at amortized cost using the effective interest method. Held-to-maturity financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. Profit or loss is recognized when the financial assets are derecognized, impaired, or amortized. All regular way purchases or sales of financial assets are accounted for using a trade date basis.

An impairment loss is recognized when there is objective evidence that the investment is impaired. The impairment loss is reversed if an increase in the investment's recoverable amount is due to an event which occurred after the impairment loss was recognized; however, the adjusted carrying amount of the investment may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the investment in prior years.

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. Patents are amortized on a straight-line basis over 5 to 10 years.

Deferred Charges

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

Asset Impairment

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

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

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

Accrued Marketing Expenses

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

Reserve for Warranty Expenses

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

Product-related Costs

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

Pension Plan

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

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

Income Tax

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

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

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

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

Treasury Stock

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

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

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

Foreign Currencies

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

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

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

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

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

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

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

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

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

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

Reclassifications

Certain 2009 accounts have been reclassified to be consistent with the presentation of the financial statements as of and for the year ended December 31, 2010.

3. TRANSLATION INTO U.S. DOLLARS

The financial statements are stated in New Taiwan dollars. The translation of the 2010 New Taiwan dollar amounts into U.S. dollar amounts are included solely for the convenience of readers, using the noon buying rate of NT$29.13 to US$1.00 quoted by the Bank of Taiwan on December 31, 2010. The convenience translation should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other exchange rate.

4. CASH AND CASH EQUIVALENTS

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

	2009	2010	
	NT$	NT$	US$ (Note 3)
Cash on hand	$ 1,000	$ 1,000	$ 34
Cash in banks	561,516	15,491,311	531,800
Time deposits	61,113,948	50,789,765	1,743,555
	$ 61,676,464	$ 66,282,076	$ 2,275,389

On time deposits, interest rates ranged from 0.10% to 1.03% and from 0.14% to 1.50%, as of December 31, 2009 and 2010, respectively.

On preferential deposits, interest rates ranged from 0.10% to 0.70% and from 0.15% to 0.70% as of December 31, 2009 and 2010, respectively.

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 December 31, 2009 and 2010 were as follows:

	2009	2010	
	NT$	NT$	US$ (Note 3)
Derivatives - financial assets			
Exchange contracts	$ 18,132	$ 450,276	$ 15,457

The Company had derivative transactions in 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 in 2009 and 2010. Outstanding forward exchange contracts as of December 31, 2009 and 2010 were as follows:

Forward Exchange Contracts

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

	2010			
	Buy/Sell	Currency	Settlement Period/Date	Contract Amount
Forward exchange contracts	Buy	USD/CAD	2011.01.26	USD 250
Forward exchange contracts	Buy	USD/JPY	2011.01.12-2011.02.23	USD 18,187
Forward exchange contracts	Sell	EUR/USD	2011.01.05-2011.03.18	EUR 531,000
Forward exchange contracts	Sell	GBP/USD	2011.01.12-2011.03.25	GBP 57,400
Forward exchange contracts	Sell	USD/TWD	2011.01.03-2010.01.31	USD 447,000

Net loss on derivative financial instruments in 2009 was NT$749,476 thousand, including realized settlement loss of NT$767,608 thousand and valuation gain of NT$18,132 thousand.

Net gain on derivative financial instruments in 2010 was NT$759,889 thousand (US$26,086 thousand), including realized settlement gain of NT$309,613 thousand (US$10,629 thousand) and valuation gain of NT$450,276 thousand (US$15,457 thousand). Note 23 has more information.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	2009	2010	
	NT$	NT$	US$ (Note 3)
Mutual funds	$ 2,497,394	$ 441,948	$ 15,172
Domestic quoted stocks	313	538	18
Less: Current portion	(2,497,394)	(441,948)	(15,172)
	$ 313	$ 538	$ 18

7. ACCOUNTS RECEIVABLE

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

	2009	2010	
	NT$	NT$	US$ (Note 3)
Accounts receivable	$ 26,334,719	$ 36,187,529	$ 1,242,277
Less: Allowance for doubtful accounts	(1,008,491)	(1,008,491)	(34,620)
	$ 25,326,228	$ 35,179,038	$ 1,207,657

8. OTHER CURRENT FINANCIAL ASSETS

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

	2009	2010	
	NT$	NT$	US$ (Note 3)
Other receivables	$ 118,321	$ 641,609	$ 22,026
Other receivables from related parties (Note 24)	81,137	36,185	1,242
Agency payments	23,517	28,610	982
Interest receivables	11,226	11,232	385
	$ 234,201	$ 717,636	$ 24,635

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 December 31, 2009 and 2010 were as follows:

	2009	2010	
	NT$	NT$	US$ (Note 3)
Finished goods	$ 779,104	$ 809,469	$ 27,788
Work-in-process	1,132,685	5,408,003	185,651
Raw materials	2,687,391	11,272,675	386,978
Goods in transit	618,013	4,430,345	152,089
	$ 5,217,193	$ 21,920,492	$ 752,506

As of December 31, 2009 and 2010, the allowance for inventory devaluation was NT$2,646,767 thousand and NT$3,436,697 thousand (US$117,978 thousand), respectively.

The write-down of inventories to their net realizable value amounted to NT$1,934,360 thousand and NT$1,297,811 thousand (US$44,552 thousand) and was recognized as cost of sales for the years ended December 31, 2009 and 2010, respectively.

10. PREPAYMENTS

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

	2009	2010	
	NT$	NT$	US$ (Note 3)
Royalty	$ 3,044,563	$ 1,870,381	$ 64,208
Services	121,600	166,781	5,725
Marketing	10,410	66,295	2,276
Software and hardware maintenance	68,937	94,871	3,257
Molding equipment	37,052	91,058	3,126
Others	68,929	58,231	1,999
	$ 3,351,491	$ 2,347,617	$ 80,591

Prepayments for royalty were primarily prepayments for discount purpose and classified as current or noncurrent based on their maturities. As of December 31, 2009 and 2010, the noncurrent prepayments were NT$1,843,170 thousand and NT$2,484,156 thousand (US$85,279 thousand) were classified as other assets, respectively (Note 27 has more information).

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

11. HELD-TO-MATURITY FINANCIAL ASSETS

Held-to-maturity financial assets as of December 31, 2009 and 2010 were as follows:

	2009	2010	
	NT$	NT$	US$ (Note 3)
Corporate bonds	$ -	$ 207,946	$ 7,139

In 2010, the Company bought the corporate bonds issued by Nan Ya Plastics Corporation and maturing in 2013 with an effective interest rate of 0.90%.

12. FINANCIAL ASSETS CARRIED AT COST

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

	2009	2010	
	NT$	NT$	US$ (Note 3)
Hua-Chuang Automobile Information Technical Center Co., Ltd.	$ 500,000	$ 500,000	$ 17,164
BandRich Inc.	-	15,861	545
Answer Online, Inc.	1,192	-	-
	$ 501,192	$ 515,861	$ 17,709

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$41 thousand).

In April 2006, the Company acquired 92% equity interest in BandRich Inc. for NT$135,000 thousand and accounted for this investment by the equity method. In May 2006 and July 2010, BandRich Inc. issued common shares and the Company did not buy any shares. The Company's ownership percentage declined from 92% to 18.08% and lost its significant influence. As a result, the Company transferred this investment to "financial assets carried at cost" using book value at the time of its ownership percentage changed in July 2010.

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

13. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

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

	2009		2010				
	Carrying Value	Ownership Percentage	Original Cost		Carrying Value		Ownership Percentage
	NT$		NT$	US$ (Note 3)	NT$	US$ (Note 3)	
Equity method							
H.T.C. (B.V.I.) Corp.	$ 1,408,470	100.00	$ 772,161	$ 26,507	$ 973,231	$ 33,410	100.00
BandRich Inc.	35,117	50.66	-	-	-	-	-
HTC HK, Limited	-	-	-	-	-	-	-
Communication Global Certification Inc.	286,957	100.00	380,000	13,045	399,496	13,714	100.00
High Tech Computer Asia Pacific Pte. Ltd.	3,223,526	100.00	6,561,949	225,264	7,685,469	263,833	100.00
Vitamin D Inc.	-	25.59	-	-	-	-	-
HTC Investment Corporation	300,563	100.00	300,000	10,299	300,789	10,326	100.00
PT. High Tech Computer Indonesia	62	1.00	62	2	62	2	1.00
HTC I Investment Corporation	295,071	100.00	295,000	10,127	295,782	10,154	100.00
HTC Holding Cooperatief U.A.	-	-	13	1	13	1	1.00
Huada Digital Corporation	-	-	245,000	8,410	245,568	8,430	100.00
Prepayments for long-term investments	454,923		83,665	2,872	83,665	2,872	
	$ 6,004,689		$ 8,637,850	$ 296,527	$ 9,984,075	$ 342,742	

In August 2000, the Company acquired 100% equity interest in H.T.C. (B.V.I.) Corp. for NT$12,834 thousand and accounted for this investment by the equity method. The Company increased this investment by NT$385,749 thousand in 2009, consisting of NT$316,656 thousand transferred from prepayments for long-term investments because the registration of the related investment had been completed by the beginning of 2009 and of a new investment amount of NT$69,093 thousand. Then, the Company reorganized its overseas subsidiaries' investment structure in the fourth quarter of 2009. H.T.C. (B.V.I.) Corp. transferred some of its subsidiaries to High Tech Computer Asia Pacific Pte. Ltd. and HTC HK, Limited and reduced its capital by NT$751,314 thousand.

In 2010, the Company made a new investment of NT$570,991 thousand (US$19,601 thousand), and reorganized its overseas subsidiaries' investment structure again. Thus, H.T.C. (B.V.I.) Corp. transferred some of its subsidiaries to High Tech Computer Asia Pacific Pte. Ltd. and reduced its capital by NT$893,506 thousand (US$30,673 thousand). As of December 31, 2010, the Company's investment in H.T.C. (B.V.I.) Corp. amounted to NT$855,826 thousand (US$29,379 thousand). However, because the registration of this investment had not been completed as of December 31, 2010, an amount of NT$83,665 thousand (US$2,872 thousand) was temporarily accounted for under "prepayments for long-term investments."

In April 2006, the Company acquired 92% equity interest in BandRich Inc. for NT$135,000 thousand and accounted for this investment by the equity method. In July 2010 the Company lost its significant influence and accounted for this investment by the cost method (Note 12 has more information).

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

In January 2007, the Company acquired 100% equity interest in Communication Global Certification Inc. for NT$280,000 thousand and accounted for this investment by the equity method. The Company increased this investment by NT$100,000 thousand (US$3,433 thousand) in 2010. As of December 31, 2010, the Company's investment in Communication Global Certification Inc. amounted to NT$380,000 thousand (US$13,045 thousand).

In July 2007, the Company acquired 100% equity interest in High Tech Computer Asia Pacific Pte. Ltd. ("High Tech Asia") for NT$560,660 thousand and accounted for this investment by the equity method. In 2009 and 2010, High Tech Asia increased its capital by NT$1,339,311 thousand and NT$3,198,864 thousand (US$109,813 thousand), respectively, because of the Company's new cash investment and a transfer-in due to the reorganization of the Company's overseas subsidiaries' investment structure. As of December 31, 2010, the Company's investment in High Tech Computer Asia Pacific Pte. Ltd. had amounted to NT$6,561,949 thousand (US$225,264 thousand).

In April 2008, the Company made a new investment of US$350 thousand and transferred its bond investment of US$1,000 thousand to convertible preferred stocks issued by Vitamin D Inc. As a result, the Company acquired 27.27% equity interest in Vitamin D Inc. for NT$40,986 thousand, enabling the Company to exercise significant influence over this investee. Thus, the Company accounts for this investment by the equity method. In September 2008, January 2009 and June 2009, Vitamin D Inc. issued new convertible preferred shares, but the Company did not buy any of these shares. The Company's ownership percentage thus declined from 27.27% to 25.59%, and there was a capital surplus - long-term equity investments of NT$1,689 thousand, NT$671 thousand in 2008 and 2009, respectively. In addition, the Company determined that the recoverable amount of this investment in 2009 was less than its carrying amount and thus recognized an impairment loss of NT$30,944 thousand. Vitamin D was dissolved in August 2010.

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

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

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

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

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

On its equity-method investments, the Company had gains of NT$273,811 thousand and NT$1,457,395 thousand (US$50,031 thousand) in 2009 and 2010, respectively.

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

Under the revised Statement of Financial Accounting Standards No. 7, "Consolidated Financial Statements," which took effect on January 1, 2005, the Company included the accounts of all its direct and indirect subsidiaries in the consolidated financial statements as of and for the years ended December 31, 2009 and 2010. All significant intercompany balances and transactions have been eliminated.

14. PROPERTIES

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

	2009	2010			
	Carrying Value	Cost	Accumulated Depreciation	Carrying Value	
	NT$	NT$	NT$	NT$	US$ (Note 3)
Land	$ 4,719,538	$ 5,690,718	$ -	$ 5,690,718	$ 195,356
Buildings and structures	2,522,640	3,504,669	779,721	2,724,948	93,544
Machinery and equipment	900,468	5,564,902	3,528,924	2,035,978	69,893
Molding equipment	-	172,632	172,632	-	-
Computer equipment	77,914	343,939	258,527	85,412	2,932
Transportation equipment	1,338	6,242	1,835	4,407	151
Furniture and fixtures	19,203	147,349	116,629	30,720	1,055
Leased assets	1,571	4,712	3,927	785	27
Leasehold improvements	41,774	151,716	71,965	79,751	2,738
Prepayments for land, construction-in-progress and equipment-in-transit	29,731	288,511	-	288,511	9,904
	$ 8,314,177	$ 15,875,390	$ 4,934,160	$ 10,941,230	$ 375,600

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.

In November 2010, the Company bought land and building for NT$404,000 thousand (US$13,869 thousand) from a related party, VIA Technologies, Inc. to have more office space in Xindian. The transaction price had been paid except for NT$20,200 thousand (US$693 thousand), which was accounted for as payable for purchase of equipment.

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

There were no interests capitalized for the years ended December 31, 2009 and 2010, respectively.

15. ACCRUED EXPENSES

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

	2009	2010	
	NT$	NT$	US$ (Note 3)
Marketing	$ 8,572,963	$ 15,742,853	$ 540,434
Bonus to employees	4,859,236	8,491,704	291,511
Services	1,115,099	2,770,306	95,101
Salaries and bonuses	820,342	2,089,517	71,731
Import, export and freight	487,713	1,060,399	36,402
Research materials	405,916	367,487	12,615
Donation	217,800	217,800	7,477
Meals and welfare	111,745	162,337	5,573
Repairs and maintenance	63,957	138,747	4,763
Insurance	74,607	122,947	4,221
Pension cost	47,860	69,296	2,379
Travel	22,325	43,396	1,490
Others	328,411	386,840	13,280
	$ 17,127,974	$ 31,663,629	$ 1,086,977

Based on the resolution passed by the Company's board of directors, the employee bonuses for 2009 and 2010 should be appropriated at 18% of net income before deducting employee bonus expenses.

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

In September 2009, the Company's board of directors resolved to donate to the HTC Cultural and Educational Foundation NT$300,000 thousand, consisting of (a) the second and third floors of Taipei's R&D headquarters, with these two floors to be built at an estimated cost of NT$217,800 thousand, and (b) cash of NT$82,200 thousand. This donation excludes the land, of which the ownership remains with the Company. The difference between the estimated building donation and the actual construction cost will be treated as an adjustment in the year when the completed floors are actually turned over to the HTC Cultural and Educational Foundation.

Services fees accrued were mainly marketing activities, research and design and business consulting services provided by related parties.

16. OTHER CURRENT LIABILITIES

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

	2009	2010	
	NT$	NT$	US$ (Note 3)
Reserve for warranty expenses	$ 5,287,562	$ 9,057,050	$ 310,918
Other payables (Note 24)	905,908	601,717	20,656
Agency receipts	576,891	459,156	15,762
Deferred credits - profit from intercompany transactions	108,150	345,455	11,859
Advance receipts	195,678	333,282	11,441
Others	195,773	371,883	12,767
	$ 7,269,962	$ 11,168,543	$ 383,403

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

Other payables were payables for investments accounted for by the equity method, miscellaneous expenses of overseas sales offices and repair materials.

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

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

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

17. PENSION PLAN

The Labor Pension Act (the "Act), which provides for a new defined contribution plan, took effect on July 1, 2005. Employees covered by the Labor Standards Law (the "Law") before the enforcement of the Act were allowed to choose to remain to be subject to the defined benefit pension mechanism under the Law or to be subject instead to the Act. Based on the Act, the rate of the Company's required monthly contributions to the employees' individual pension accounts is at least 6% of monthly wages and salaries, and these contributions are recognized as pension expense in the income statement. The pension fund contributions for the years ended December 31, 2009 and 2010 were NT$182,271 thousand and NT$219,565 thousand (US$7,537 thousand), respectively.

Under the Law, which provides for a defined benefit pension plan, retirement payments should be made according to the years of service, with a payment of two units for each year of service but only one unit per year after the 15th year; however, total units should not exceed 45. The rate of the Company's contributions to a pension fund was 2% after the Act took effect. The pension fund is deposited in the Bank of Taiwan in the committee's name. The pension fund balances were NT$416,688 thousand and NT$447,728 thousand (US$15,370 thousand) as of December 31, 2009 and 2010, respectively.

Based on the Statement of Financial Accounting Standards No. 18 - "Accounting for Pensions," issued by the Accounting Research and Development Foundation of the ROC, pension cost under a defined benefit pension plan should be calculated by the actuarial method.

The Company’s net pension costs under the defined benefit plan in 2009 and 2010 were as follows:

	2009	2010	
	NT$	NT$	US$ (Note 3)
Service cost	$ 5,255	$ 4,915	$ 169
Interest cost	9,351	6,539	224
Projected return on plan assets	(11,076)	(8,582)	(294)
Amortization of unrecognized net transition obligation, net	-	-	-
Amortization of net pension benefit	1,349	297	10
Net pension cost	$ 4,879	$ 3,169	$ 109

The reconciliations between pension fund status and prepaid pension cost as of December 31, 2009 and 2010 were as follows:

	2009	2010	
	NT$	NT$	US$ (Note 3)
Present actuarial value of benefit obligation			
Vested benefit obligation	$ 1,334	$ 1,525	$ 52
Non-vested benefit obligation	177,557	190,908	6,554
Accumulated benefit obligation	178,891	192,433	6,606
Additional benefits on future salaries	148,040	150,480	5,166
Projected benefit obligation	326,931	342,913	11,772
Fair value of plan assets	(416,688)	(447,728)	(15,370)
Funded status	(89,757)	(104,815)	(3,598)
Unrecognized pension loss	(47,896)	(54,130)	(1,858)
Prepaid pension cost	$ (137,653)	$ (158,945)	$ (5,456)

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

	2009	2010
Weighted-average discount rate	2.00%	2.00%
Assumed rate of increase in future compensation	3.50%	3.75%
Expected long-term rate of return on plan assets	2.00%	2.00%

The vested benefits as of December 31, 2009 and 2010 amounted to NT$1,511 thousand and NT$1,702 thousand (US$58 thousand), respectively.

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 and November 2009, the Company retired 10,000 thousand and 7,085 thousand treasury shares at NT$100,000 thousand and NT$70,850 thousand, respectively. 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 December 31, 2009 increased to NT$7,889,358 thousand, divided into 788,936 thousand common shares at NT$10.00 par value.

In April 2010, the Company retired 15,000 thousand treasury shares at NT$150,000 thousand (US$5,150 thousand). Also, in June 2010, the stockholders approved the transfer of retained earnings amounting to NT$386,968 thousand (US$13,284 thousand) and employee bonuses amounting to NT$50,206 thousand (US$1,724 thousand) to capital stock. As a result, the amount of the Company's outstanding common stock as of December 31, 2010 increased to NT$8,176,532 thousand (US$280,691 thousand), divided into 817,653 thousand common shares at NT$10.00 (US$0.34) 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 December 31, 2010, there were 3,131.9 thousand units of GDRs redeemed, representing 12,527.5 thousand common shares, and the outstanding GDRs represented 22,691.6 thousand common shares or 2.81% of the Company's common shares.

Capital Surplus

Under the Company Law, capital surplus can only be used to offset a deficit. However, the capital surplus from share issued in excess of par (additional paid-in capital from issuance of common shares, conversion of bonds and treasury stock transactions) and donations may be capitalized, which however is limited to a certain percentage of the Company's paid-in capital. Also, the capital surplus from long-term investments may not be used for any purpose.

The additional paid-in capital was NT$4,374,244 thousand as of January 1, 2009. In January and November 2009, the retirement of treasury stock caused a decrease of additional paid-in capital amounted to NT$57,907 thousand and NT$81,330 thousand, respectively. 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 December 31, 2009 was NT$9,056,323 thousand.

Also in April 2010, the retirement of treasury stock caused a decrease of additional paid-in capital amounted to NT$172,188 thousand (US$5,910 thousand). The bonus to employees of NT$4,859,236 thousand (US$166,812 thousand) for 2009 were approved in the stockholders' meeting in June 2010. Of the approved amount, NT$1,943,694 thousand (US$66,725 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 thousand (US$65,001 thousand) was accounted for as additional paid-in capital in 2010. As a result, the additional paid-in capital as of December 31, 2010 was NT$10,777,623 thousand (US$369,984 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. The Company also recognized the movement of other investees' capital surplus amounting to NT$2,566 thousand. As of December 31, 2010, the total capital surplus from long-term equity-method investments was NT$18,411 thousand (US$632 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$17 thousand), respectively. As a result, the additional paid-in capital from a merger as of December 31, 2010 was NT$24,710 thousand (US$848 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, the employee bonus for 2009 and 2010 should be appropriated at 18% of net income before deducting employee bonus expenses. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate. If bonus shares are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting.

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

19. TREASURY STOCK

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

On July 31, 2009, the Company's board of directors passed a resolution to buy back 13,000 thousand Company shares from the open market. The repurchase period was between August 3, 2009 and October 2, 2009, and the repurchase price ranged from NT$300 to NT$500 per share. If the Company's share price was lower than this price range, the Company might continue to buy back its shares. The Company bought back 7,085 thousand shares for NT$2,406,930 thousand during the repurchase period and retired them in November 2009.

On February 9, 2010, the Company's board of directors passed a resolution to buy back 15,000 thousand Company shares from the open market. The repurchase period was between February 10, 2010 and April 9, 2010, and the repurchase price ranged from NT$280 to NT$500 per share. If the Company's share price was lower than this price range, the Company might continue to buy back its shares. The Company bought back 15,000 thousand shares for NT$4,834,174 thousand (US$165,951 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$98,387 thousand) during the repurchase period.

On October 29, 2010, the Company's board of directors passed a resolution to buy back 10,000 thousand and 10,000 thousand Company shares from the open market between November 1, 2010 and November 30, 2010, and between December 1, 2010 and December 31, 2010, respectively, with the repurchase price ranging from NT$565 to NT$850 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 5,000 thousand shares for NT$3,986,503 thousand (US$136,852 thousand) during the repurchase period. The related treasury stock information for the years ended December 31, 2009 and 2010 was as follows:

(In Thousands of Shares)

Purpose of Treasury Stock	Number of Shares, Beginning of Year	Addition During the Year	Reduction During the Year	Number of Shares, End of Year
Year ended December 31, 2009				
To maintain the Company's credibility and shareholders' interest	10,000	7,085	17,085	-
Year ended December 31, 2010				
To maintain the Company's credibility and shareholders' interest	-	15,000	15,000	-
For transferring shares to the Company's employees	-	9,786	-	9,786
	-	24,786	15,000	9,786

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. PERSONNEL EXPENSES, DEPRECIATION AND AMORTIZATION

Function / Expense Item	2009			2010					
	NT$			NT$			US$ (Note 3)		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses	$ 2,498,640	$ 6,743,119	$ 9,241,759	$ 4,599,227	$ 12,688,670	$ 17,287,897	$ 157,886	$ 435,588	$ 593,474
Salary	2,110,277	6,209,064	8,319,341	3,995,447	12,103,004	16,098,451	137,159	415,483	552,642
Insurance	154,384	183,942	338,326	204,932	212,854	417,786	7,035	7,307	14,342
Pension cost	57,183	129,967	187,150	80,857	141,877	222,734	2,776	4,870	7,646
Other	176,796	220,146	396,942	317,991	230,935	548,926	10,916	7,928	18,844
Depreciation	294,601	335,536	630,137	299,285	322,728	622,013	10,274	11,079	21,353
Amortization	11,357	28,490	39,847	34,987	23,634	58,621	1,201	811	2,012

21. INCOME TAX

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

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

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

In May 2009, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduced a profit-seeking enterprise's income tax rate from 25% to 20%, effective January 1, 2010. In May 2010, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduced a profit-seeking enterprise's income tax rate from 20% to 17%, also effective January 1, 2010. Income taxes payable as of December 31, 2009 and 2010 were computed as follows:

	2009	2010	
	NT$	NT$	US$ (Note 3)
Income before income tax	$ 25,212,464	$ 44,491,309	$ 1,527,337
Gains on equity-method investments	(273,811)	(1,457,395)	(50,031)
Impairment losses	30,944	1,192	41
Realized investment loss	-	(101,268)	(3,476)
Realized pension cost	(20,515)	(21,293)	(731)
Unrealized losses on decline in value of inventory	1,502,036	789,930	27,117
Unrealized royalties	2,312,014	8,482,060	291,180
Unrealized (realized) exchange losses, net	942,915	(156,772)	(5,382)
Unrealized (realized) bad debt expenses	503,089	(357,947)	(12,288)
Capitalized expense	(29,095)	(49,924)	(1,714)
Unrealized warranty expense	61,700	3,769,488	129,402
Unrealized marketing expenses	3,037,905	7,169,890	246,134
Unrealized valuation gains on financial instruments	(532,215)	(432,144)	(14,835)
Unrealized contingent losses of purchase orders	725,704	1,216,443	41,759
(Realized) unrealized profit from intercompany transactions	(25,941)	237,305	8,146
Other	(446,788)	(281,695)	(9,670)
Total income	33,000,406	63,299,179	2,172,989
Less: Tax-exempt income	(26,204,796)	(56,137,044)	(1,927,121)
Taxable income	6,795,610	7,162,135	245,868
Tax rate	25%	17%	17%
	1,698,903	1,217,563	41,798
Income tax credit	(10)	-	-
Estimated income tax provision	1,698,893	1,217,563	41,798
Unappropriated earnings (additional 10% income tax)	202,145	-	-
Less: Investment research and development tax credits	(202,145)	-	-
Income tax payable determined pursuant to the Income Tax Law	$ 1,698,893	$ 1,217,563	$ 41,798

	2009	2010	
	NT$	NT$	US$ (Note 3)
Alternative minimum tax	$ 3,211,563	$ 6,330,018	$ 217,303
Less: Prepaid and withheld income tax	(39,014)	(28,685)	(985)
Prior years' income tax payable	980,075	115,334	3,959
Income tax payable	$ 4,152,624	$ 6,416,667	$ 220,277

The alternative minimum tax (AMT) imposed under the AMT Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law is below the minimum amount prescribed under the AMT Act. The taxable income for calculating the AMT includes most of the income that is exempted from income tax under various laws and statutes. The Company has considered the impact of the AMT Act in the determination of its tax liabilities. As a result, the current income tax payable as of December 31, 2009 and 2010 should be NT$3,211,563 thousand and NT$6,330,018 thousand (US$217,303 thousand), respectively.

Deductible temporary differences and tax credit carryforwards that gave rise to deferred tax assets as of December 31, 2009 and 2010 were as follows:

	2009	2010	
	NT$	NT$	US$ (Note 3)
Temporary differences			
Provision for loss on decline in value of inventory	$ 529,353	$ 584,238	$ 20,056
Unrealized marketing expenses	1,714,593	2,676,285	91,874
Unrealized reserve for warranty expense	1,057,512	1,539,698	52,856
Capitalized expense	40,734	74,045	2,542
Unrealized royalties	1,691,142	2,879,421	98,847
Unrealized contingent losses of purchase orders	95,699	206,795	7,099
Unrealized bad-debt expenses	147,309	64,353	2,209
Unrealized exchange losses, net	155,801	30,472	1,046
Other	43,237	12,570	432
Tax credit carryforwards	3,056,328	3,141,129	107,832
Total deferred tax assets	8,531,708	11,209,006	384,793
Less: Valuation allowance	(6,623,210)	(7,760,428)	(266,407)
Total deferred tax assets, net	1,908,498	3,448,578	118,386
Deferred tax liabilities			
Unrealized pension cost	(27,531)	(27,021)	(928)
Unrealized valuation gains on financial instruments	(3,626)	(76,547)	(2,628)
	1,877,341	3,345,010	114,830
Less: Current portion	(811,240)	(925,579)	(31,774)
Deferred tax assets - noncurrent	$ 1,066,101	$ 2,419,431	$ 83,056

Details of the tax credit carryforwards were as follows:

Year of Occurrence	Validity Period	2009 NT$	2010 NT$	2010 US$ (Note 3)
2007	2007-2011	$ 201,506	$ -	$ -
2008	2008-2012	831,154	831,154	28,533
2009	2009-2013	2,023,668	2,309,975	79,299
		$ 3,056,328	$ 3,141,129	$ 107,832

Before January 1, 2010, the investment and research and development tax credits can be carried forward for four years based on the related regulations of Income Tax Act in the ROC. The total credits used in each year cannot exceed half of the estimated income tax provision.

Under Article 10 of the Statute for Industrial Innovation (SII) passed by the Legislative Yuan in April 2010, a profit-seeking enterprise may deduct up to 15% of its research and development expenditures from its income tax payable for the fiscal year in which these expenditures are incurred, but this deduction should not exceed 30% of the income tax payable for that fiscal year. This incentive took effect from January 1, 2010 and is effective till December 31, 2019.

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

The income taxes in 2009 and 2010 were as follows:

	2009 NT$	2010 NT$	2010 US$ (Note 3)
Current income tax	$ 3,211,563	$ 6,330,018	$ 217,303
Increase in deferred income tax assets	(503,703)	(1,467,669)	(50,384)
(Overestimation) underestimation of prior year's income tax	(104,298)	95,360	3,274
Income tax	$ 2,603,562	$ 4,957,709	$ 170,193

The integrated income tax information is as follows:

	2009 NT$	2010 NT$	2010 US$ (Note 3)
Balance of imputation credit account (ICA)	$ 1,702,246	$ 3,098,652	$ 106,373
Unappropriated earnings generated from 1998	38,364,099	52,876,892	1,815,204
Actual/estimated creditable ratio (including income tax payable)	13.85% (Actual ratio)	18.00% (Estimated ratio)	18.00% (Estimated ratio)

For distribution of earnings generated on or after January 1, 1998, the ratio for the imputation credits allocated to stockholders of the Company is based on the balance of the ICA as of the date of dividend distribution. The expected creditable ratio for the 2010 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution.

22. 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 826,735 thousand shares and 815,239 thousand shares for the years ended December 31, 2009 and 2010, respectively. EPS for the year ended December 31, 2009 was 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 years ended December 31, 2009 and 2010 were as follows:

	2009				
	Amount (Numerator)			**EPS (In Dollars)**	
	Before Income Tax	**After Income Tax**	**Shares (Denominator) (In Thousands)**	**Before Income Tax**	**After Income Tax**
	NT$	**NT$**		**NT$**	**NT$**
Basic EPS	$ 25,212,464	$ 22,608,902	826,735	$ 30.50	$ 27.35
Bonus to employees	-	-	15,044		
Diluted EPS	$ 25,212,464	$ 22,608,902	841,779	$ 29.95	$ 26.86

	2010				
	Amount (Numerator)			**EPS (In Dollars)**	
	Before Income Tax	**After Income Tax**	**Shares (Denominator) (In Thousands)**	**Before Income Tax**	**After Income Tax**
	NT$	**NT$**		**NT$**	**NT$**
Basic EPS	$ 44,491,309	$ 39,533,600	815,239	$ 54.57	$ 48.49
Bonus to employees	-	-	10,201		
Diluted EPS	$ 44,491,309	$ 39,533,600	825,440	$ 53.90	$ 47.89

	2010				
	Amount (Numerator)			**EPS (In Dollars)**	
	Before Income Tax	**After Income Tax**	**Shares (Denominator) (In Thousands)**	**Before Income Tax**	**After Income Tax**
	US$ (Note 3)	**US$ (Note 3)**		**US$ (Note 3)**	**US$ (Note 3)**
Basic EPS	$ 1,527,336	$ 1,357,143	815,239	$ 1.87	$ 1.66
Bonus to employees	-	-	10,201		
Diluted EPS	$ 1,527,336	$ 1,357,143	825,440	$ 1.85	$ 1.64

23. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

a. Nonderivative financial instruments

	December 31					
	2009		2010			
	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NT$	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
Assets						
Available-for-sale financial assets - current	$ 2,497,394	$ 2,497,394	$ 441,948	$ 15,172	$ 441,948	$ 15,172
Available-for-sale financial assets - noncurrent	313	313	538	18	538	18
Held-to-maturity financial assets - noncurrent	-	-	207,946	7,139	207,467	7,122
Financial assets carried at cost	501,192	501,192	515,861	17,709	515,861	17,709

b. Derivative financial instruments

	December 31					
	2009		2010			
	Carrying Amount	Fair Value	Carrying Amount		Fair Value	
	NT$	NT$	NT$	US$ (Note 3)	NT$	US$ (Note 3)
Assets						
Financial assets at fair value through profit or loss - current	$ 18,132	$ 18,132	$ 450,276	$ 15,457	$ 450,276	$ 15,457

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

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

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

Methodology Used to Determine the Fair Values of Financial Instruments

	Fair Values Based on Quoted Market Prices			Fair Values Based on Valuation Methods		
	December 31			December 31		
	2009	2010		2009	2010	
	NT$	NT$	US$ (Note 3)	NT$	NT$	US$ (Note 3)
Assets						
Financial assets at fair value through profit or loss - current	$ 18,132	$ 450,276	$ 15,457	$ -	$ -	$ -
Available-for-sale financial assets - current	2,497,394	441,948	15,172	-	-	-
Available-for-sale financial assets - noncurrent	313	538	18	-	-	-
Held-to-maturity financial assets - noncurrent	-	207,467	7,122	-	-	-
Financial assets carried at cost	-	-	-	501,192	515,861	17,709

There was no loss or gain recognized for the years ended December 31, 2009 and 2010 on the fair value changes of derivatives with fair values estimated using valuation techniques. However, the Company recognized an unrealized loss of NT$26 thousand and an unrealized gain of NT$773 thousand (US$27 thousand) under stockholders' equity for the changes in fair value of available-for-sale financial assets for the years ended December 31, 2009 and 2010, respectively.

As of December 31, 2009 and 2010, financial assets exposed to fair value interest rate risk amounted to NT$0 thousand and NT$207,946 thousand (US$7,139 thousand), respectively; financial assets exposed to cash flow interest rate risk amounted to NT$61,177,848 thousand and NT$50,853,665 thousand (US$1,745,749 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.

24. RELATED-PARTY TRANSACTIONS

The names and relationships of related parties are as follows:

Related Party	Relationship with the Company
Xander International Corp.	Chairperson is an immediate relative of the Company's chairperson
VIA Technologies, Inc.	Same chairperson
Chander Electronics Corp.	Same chairperson
Comserve Network Netherlands B.V.	Main director is an immediate relative of the Company's chairperson
Syuda Construction Company	The only juridical stockholder whose chairperson is the same person with the Company at the transaction date
H.T.C. (B.V.I.) Corp.	Subsidiary
BandRich Inc.	Originally a subsidiary of the Company until July 2010 because of losing significant influence
Communication Global Certification Inc.	Subsidiary
High Tech Computer Asia Pacific Pte. Ltd.	Subsidiary
HTC Holding Cooperatief U.A.	Subsidiary
HTC. Netherlands B.V.	Subsidiary of HTC Holding Cooperatief U.A.
HTC Europe Co., Ltd.	Subsidiary of HTC. Netherlands B.V.
HTC America Holding Inc.	Subsidiary of HTC Europe Co., Ltd.
HTC America Inc.	Subsidiary of HTC America Holding, Inc.
High Tech Computer Corp. (Suzhou)	Subsidiary of H.T.C. (B.V.I.) Corp.
HTC Nippon Corporation	Subsidiary of HTC. Netherlands B.V.
HTC Brasil	Subsidiary of HTC. Netherlands B.V.
Exedea Inc.	Subsidiary of H.T.C. (B.V.I.) Corp.
HTC Corporation (Shanghai WGQ)	Subsidiary of HTC HK, Limited.
HTC Belgium BVBA/SPRL	Subsidiary of HTC. Netherlands B.V.
High Tech Computer Singapore Pte. Ltd. (Merged into High Tech Computer Asia Pacific Pte. Ltd. in February 2010)	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
High Tech Computer (H.K.) Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC (Australia and New Zealand) Pty. Ltd.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC India Private Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC (Thailand) Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Electronics (Shanghai)	Subsidiary of HTC HK, Limited.
HTC Malaysia Sdn. Bhd.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
HTC Innovation Limited	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
One & Company Design Inc.	Subsidiary of HTC America Holding, Inc.
HTC France Corporation	Subsidiary of HTC. Netherlands B.V.
HTC South Eastern Europe Limited liability Company	Subsidiary of HTC. Netherlands B.V.
Abaxia SAS	Subsidiary of HTC France Corporation
HTC Nordic ApS.	Subsidiary of HTC. Netherlands B.V.
HTC America Innovation Inc.	Subsidiary of HTC America Holding, Inc.
HTC Communication Co., Ltd.	Subsidiary of High Tech Computer Asia Pacific Pte. Ltd.
Employees' Welfare Committee	Employees' Welfare Committee of HTC Corporation
HTC Cultural and Educational Foundation	A non-profit organization of which the funds donated from the Company exceeds one third of the non-profit organization's total funds
HTC Social Welfare and Charity Foundation	A non-profit organization of which the funds donated from the Company exceeds one third of the non-profit organization's total funds

Major transactions with related parties are summarized below:

Purchases of Inventories and Services

Related Party	2009 Amount	2009 % to Total Net Purchases	2010 Amount		2010 % to Total Net Purchases
	NT$		NT$	US$ (Note 3)	
HTC Electronics (Shanghai)	$ 78,835	-	$ 298,526	$ 10,248	-
Chander Electronics Corp.	28,606	-	270,931	9,301	-
High Tech Computer Corp. (Suzhou)	32,361	-	39,876	1,369	-
BandRich Inc.	41,318	-	-	-	-
	$ 181,120	-	$ 609,333	$ 20,918	-

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

Sales and Services Provided

Related Party	2009 Amount	2009 % to Total Revenues	2010 Amount		2010 % to Total Revenues
	NT$		NT$	US$ (Note 3)	
HTC America Inc.	$ 1,118,794	1	$ 86,510,154	$ 2,969,796	32
HTC Communication Co., Ltd.	-	-	2,565,782	88,080	1
Exedea Inc.	1,844,513	1	1,126,078	38,657	-
HTC Europe Co., Ltd.	298,267	-	172,235	5,913	-
Employees' Welfare Committee	9,666		34,138	1,172	
High Tech Computer (H.K.) Limited	55,123	-	16,399	563	-
High Tech Computer Singapore Pte. Ltd.	34,840	-	6,155	211	-
BandRich Inc.	20,028	-	6,735	231	-
Others	20,505	-	31,023	1,065	-
	$ 3,401,736	2	$ 90,468,699	$ 3,105,688	33

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

Accounts Receivable

Related Party	December 31 2009 Amount NT$	2009 % to Total Accounts Receivable	2010 Amount NT$	2010 Amount US$ (Note 3)	2010 % to Total Accounts Receivable
Accounts receivable					
HTC America Inc.	$ 378,584	1	$ 26,738,921	$ 917,917	42
HTC Communication Co., Ltd.	-	-	1,388,612	47,669	2
HTC Europe Co., Ltd.	25,333	-	54,993	1,888	-
Exedea Inc.	1,820,281	7	-	-	-
Others	20,352	-	3,865	133	-
	$ 2,244,550	8	$ 28,186,391	$ 967,607	44

Accounts Payable

Related Party	December 31 2009 Amount NT$	2009 % to Total Accounts Payable	2010 Amount NT$	2010 Amount US$ (Note 3)	2010 % to Total Accounts Payable
HTC Electronics (Shanghai)	$ 67,245	-	$ 1,184,262	$ 40,654	2
Chander Electronics Corp.	13,479	-	126,093	4,328	-
High Tech Computer Corp. (Suzhou)	-	-	36,550	1,255	-
Others	4,952	-	76	3	-
	$ 85,676	-	$ 1,346,981	$ 46,240	2

Other Receivables

Related Party	December 31 2009 Amount NT$	2009 % to Total Other Receivable	2010 Amount NT$	2010 Amount US$ (Note 3)	2010 % to Total Other Receivable
HTC America Inc.	$ 77,930	40	$ 34,034	$ 1,168	5
HTC Europe Co., Ltd.	1,988	1	1,697	58	-
Others	1,219	-	454	16	-
	$ 81,137	41	$ 36,185	$ 1,242	5

Prepaid Expenses

	December 31				
	2009		2010		
Related Party	Amount	% to Total Prepayment	Amount		% to Total Prepayment
	NT$		NT$	US$ (Note 3)	
HTC America Innovation Inc.	$ -	-	$ 66,989	$ 2,300	3
HTC NIPPON Corporation	23,976	1	42,984	1,475	2
HTC Brasil	-	-	35,035	1,203	2
HTC India Private Limited	-	-	10,927	375	-
HTC South Eastern Europe Limited liability Company	-	-	3,892	134	-
One & Company Design, Inc.	3,850	-	44	1	-
HTC America Inc.	94,223	3	-	-	-
Others	-	-	87	3	-
	$ 122,049	4	$ 159,958	$ 5,491	7

Accrued Expenses

	December 31				
	2009		2010		
Related Party	Amount	% to Total Accrued Expenses	Amount		% to Total Accrued Expenses
	NT$		NT$	US$ (Note 3)	
HTC Europe Co., Ltd.	$ 458,233	3	$ 610,022	$ 20,941	2
HTC Cultural and Educational Foundation	217,800	1	217,800	7,477	1
HTC (Australia and New Zealand) Pty. Ltd.	13,513	-	150,526	5,167	1
High Tech Computer Asia Pacific Pte. Ltd.	47,985	-	100,001	3,433	-
High Tech Computer (H.K.) Limited	26,798	-	85,871	2,948	-
HTC Innovation Limited	-	-	73,009	2,506	-
HTC India Private Limited	16,546	-	68,655	2,357	-
HTC Belgium BVBA/SPRL	39,436	-	40,374	1,386	-
HTC Brasil	-	-	37,462	1,286	-
Communication Global Certification Inc.	-	-	31,886	1,095	-
HTC Nordic ApS.	-	-	30,803	1,057	-
HTC America Innovation Inc.	-	-	27,484	944	-
HTC (Thailand) Limited	9,064	-	18,903	649	-

(Continued)

Related Party	December 31 2009 Amount NT$	2009 % to Total Accrued Expenses	2010 Amount NT$	2010 Amount US$ (Note 3)	2010 % to Total Accrued Expenses
HTC America Inc.	$ 401,564	3	$ -	$ -	-
High Tech Computer Singapore Pte. Ltd.	22,550	-	-	-	-
Others	23,716	-	129,218	4,436	1
	$ 1,277,205	7	$ 1,622,014	$ 55,682	5

(Concluded)

Other Payables to Related Parties

Related Party	December 31 2009 Amount NT$	2009 % to Total Other Payables	2010 Amount NT$	2010 Amount US$ (Note 3)	2010 % to Total Other Payables
HTC America Inc.	$ 317,708	35	$ 173,961	$ 5,972	28
HTC America Innovation Inc.	-	-	113,407	3,893	19
HTC EUROPE CO, LTD.	83,509	9	87,266	2,996	15
High Tech Computer Asia Pacific Pte. Ltd.	96,438	11	47,335	1,625	8
HTC Corporation (Shanghai WGQ)	15,470	2	25,802	886	4
HTC Nippon Corporation	7,069	1	7,084	243	1
High Tech Computer (H.K.) Limited	6,776	1	183	6	-
Others	4,797	-	21,198	728	4
	$ 531,767	59	$ 476,236	$ 16,349	79

Advance Receipts

Related Party	December 31 2009 Amount NT$	2009 % to Total Advance Receipts	2010 Amount NT$	2010 Amount US$ (Note 3)	2010 % to Total Advance Receipts
BandRich Inc.	$ 61,358	11	$ -	$ -	-

Outsourcing Expenses

Related Party	2009 Amount	2009 % to Total Outsourcing Expenses	2010 Amount		2010 % to Total Outsourcing Expenses
	NT$		NT$	US$ (Note 3)	
HTC Electronics (Shanghai)	$ 306,410	95	$ 11,010,333	$ 377,972	95
High Tech Computer Corp. (Suzhou)	3,775	1	-	-	-
	$ 310,185	96	$ 11,010,333	$ 377,972	95

Warranty Expenses

Related Party	2009 Amount	2009 % to Total Warranty Expenses	2010 Amount		2010 % to Total Warranty Expenses
	NT$		NT$	US$ (Note 3)	
HTC America Inc.	$ 1,211,149	22	$ 793,998	$ 27,257	8
HTC Europe Co., Ltd.	319,210	6	275,025	9,441	3
HTC Corporation (Shanghai WGQ)	89,358	2	104,176	3,576	1
High Tech Computer Asia Pacific Pte. Ltd.	-	-	62,068	2,131	1
High Tech Computer (H.K.) Limited	48,179	1	40,707	1,398	-
Others	31,188	-	37,698	1,294	-
	$ 1,699,084	31	$ 1,313,672	$ 45,097	13

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

Commission Expenses

Related Party	2009 Amount	2009 % to Total Commission Expenses	2010 Amount		2010 % to Total Commission Expenses
	NT$		NT$	US$ (Note 3)	
HTC Europe Co., Ltd.	$ 2,547,351	86	$ 3,674,661	$ 126,147	81
HTC Belgium BVBA/SPRL	424,299	14	528,017	18,126	12
HTC Nordic ApS.	-	-	91,146	3,129	2
HTC FRANCE CORPORATION	-	-	76,889	2,640	2
Others	-	-	151,249	5,192	3
	$ 2,971,650	100	$ 4,521,962	$ 155,234	100

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

Service and Marketing Fees

Related Party	2009 Amount	2009 % to Total Service Expenses	2010 Amount		2010 % to Total Service Expenses
	NT$		NT$	US$ (Note 3)	
HTC America Inc.	$ 2,541,746	33	$ 2,276,534	$ 78,151	16
HTC (Australia and New Zealand) Pty. Ltd.	92,283	1	332,085	11,400	2
High Tech Computer Asia Pacific Pte. Ltd.	-	-	312,685	10,734	2
HTC America Innovation Inc.	-	-	278,890	9,574	2
High Tech Computer (H.K.) Limited	94,256	1	192,255	6,600	2
HTC Innovation Limited	-	-	188,065	6,456	1
HTC Brasil	173,325	2	175,816	6,036	1
Communication Global Certification Inc.	175,930	2	163,565	5,615	1
One & Company Design, Inc.	157,246	2	160,473	5,509	1
HTC India Private Limited	63,051	1	149,498	5,132	1
HTC NIPPON Corporation	211,502	3	106,811	3,667	1
HTC (Thailand) Limited	40,669	1	70,248	2,411	1
ABAXIA SAS	-	-	56,751	1,948	-
High Tech Computer Singapore Pte. Ltd.	166,508	2	13,996	480	-
HTC Europe Co., Ltd.	142,260	2	-	-	-
HTC Belgium BVBA/SPRL	142,164	2	-	-	-
Others	46,273	1	79,604	2,733	-
	$ 4,047,213	53	$ 4,557,276	$ 156,446	31

Other Revenues

Related Party	2009 Amount	2009 % to Total Other Revenues	2010 Amount		2010 % to Total Other Revenues
	NT$		NT$	US$ (Note 3)	
BandRich Inc.	$ 1,200	-	$ 200	$ 7	

Leasing - Lessee

Operating expenses - rental expenses

Related Party	2009 Amount	2009 % to Total Rental Expenses	2010 Amount		2010 % to Total Rental Expenses
	NT$		NT$	US$ (Note 3)	
VIA Technologies Inc.	$ 9,035	17	$ 12,212	$ 419	16

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

Donation Expense

Related Party	2009 Amount	2009 % to Total Donation Expenses	2010 Amount		2010 % to Total Donation Expenses
	NT$		NT$	US$ (Note 3)	
HTC Cultural and Educational Foundation	$ 300,000	92	$ 150,000	$ 5,150	49
HTC Social Welfare and Charity Foundation	25,000	7	150,000	5,150	49
	$ 325,000	99	$ 300,000	$ 10,300	98

The Company donated NT$325,500 thousand in 2009 and NT$305,500 thousand (US$10,487 thousand) in 2010 to help disadvantaged minorities, teenagers and other people in need. Of these donations, NT$500 thousand in 2009 and NT$5,500 thousand (US$189 thousand) in 2010 went to unrelated parties (Note 15 has more information).

Property Transactions

In November 2010, the Company bought land and building for NT$404,000 thousand (US$13,869 thousand) from a related party, VIA Technologies, Inc. to have more office space in Xindian. The transaction price had been paid except for NT$20,200 thousand (US$693 thousand), which was accounted for as payable for purchase of equipment.

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

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

Endorsement/Guarantee Provided

Note 26 has more information.

Compensation of Directors, Supervisors and Management Personnel

	2009	2010	
	NT$	**NT$**	**US$ (Note 3)**
Salaries	$ 78,556	$ 79,745	$ 2,738
Incentives	46,799	244,333	8,387
Special compensation	12	3	-
Bonus	669,412	(Note)	(Note)
	$ 794,779	$ 324,081	$ 11,125

Note: The appropriation of the 2010 earnings is not shown because the Board of Directors had not yet made the related proposal.

The Company's disclosure of the compensation of directors, supervisors and management personnel for the years ended December 31, 2009 and 2010 was in compliance with Order VI-0970053275 issued by the Financial Supervisory Commission under the Executive Yuan.

The compensation of directors, supervisors and management personnel for the year ended December 31, 2009 included the bonuses appropriated from the earnings of 2009, which had been approved by stockholders in their annual meeting in 2010.

25. PLEDGED ASSETS

As of December 31, 2009 and 2010, the Company had provided time deposits of NT$63,900 thousand and NT$63,900 thousand (US$2,194 thousand) to the National Tax Administration of Northern Taiwan Province as part of the requirements for the Company to get a certificate stating that it had no pending income tax.

26. COMMITMENTS AND CONTINGENCIES

As of December 31, 2010, unused letters of credit amounted to EUR 86 thousand.

The Company provided NT$436,950 thousand (US$15,000 thousand) guarantee for HTC Electronics (Shanghai)'s bank loans. HTC Electronics (Shanghai) has drawn down NT$78,195 thousand (US$2,684 thousand) from banks within the guarantee amount as of December 31, 2010.

27. SIGNIFICANT CONTRACTS

Patent Agreements

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

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

(Continued)

Contractor	Contract Term	Description
Motorola, Inc.	December 23, 2003 to the latest of the following dates: a. Expiry dates of patents b. Any time when the Company is not using any of Motorola's intellectual property,	TDMA, NARROWBAND CDMA, WIDEBAND CDMA or TD/CDMA Standards patent license or technology; royalty payment based on agreement.
ALCATEL LUCENT	November 2009 - November 2012	Authorization to use 2G (GSM/GPRS/EDGE/CDMA), 3G (CDMA2000/WCDMA), HTML, MPEG, AMR patent license or technology; royalty payment based on agreement.
Siemens Aktiengesellschaft	July 1, 2004 to the expiry dates of these patents.	Authorization to use GSM, GPRS or EDGE patent license or technology; royalty payment based on agreement.
IV International Licensing Netherlands, B.V.	November 2010 - June 2020	Authorization to use wireless technology; royalty payment based on agreement.

(Concluded)

28. OTHER EVENTS

Lawsuit

a. In April 2008, IPCom GMBH & CO., KG ("IPCom") filed a multi-claim lawsuit against the Company with the District Court of Mannheim in Germany, alleging that the Company infringed IPCom's patents. In February 2009, the court granted a ruling on patent #100 (EP 186189B1) which granted IPCom's request for an injunction to prevent the Company from importing devices into Germany, with the serving of this injunction pending IPCom's placement with the court of a security bond of €1 million. The Company appealed this decision to the court of Appeal in Karlsruhe and requested a stay of the injunction pending the outcome of this appeal. In May 2009, the court of Appeal in Karlsruhe issued a stay of the injunction and enforced this stay after the Company submitted to the court a bank guarantee amounting to €7.5 million, the amount of the required security bond. Thus, the Company has continued to ship products regularly to Germany.

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

In October 2010, IPCom filed a new complaint against the Company alleging patent infringement of patent #114 (EP 1226692B1) in District Court of Dusseldorf. The Company has previously filed patent invalidity action against patent #114 (EP 1226692B1) in EPO and patent #114 (EP 1226692B1) has already been revoked by EPO and IPCom is appealing EPO's decision. In December 2010, the #100 (EP 186189B1) was upheld in the Federal Patents Court; however, the chances of IPCom proving infringement are very low because the revised claim is very restricted. The risk of this newly asserted patent is very low. As of January 18, 2011, the date of the accompanying independent auditors' report, there had been no further hearing nor had a court decision been made.

b. In March 2010, Apple Inc. ("Apple") filed a lawsuit against the Company, H.T.C. (B.V.I.) Corp., HTC America, Inc. and Exedea, Inc. ("the Company') concurrently with the U.S. International Trade Commission ("ITC") and U.S. District Court in Delaware ("Delaware court"), alleging that the Company infringed its patents. Apple requested ITC and Delaware court to prevent the Company from importing to and selling devices in the United States and damage compensation, respectively. The Company, subsequently filed ITC investigation and filed counterclaim with Delaware court against Apple for patent infringements. The Company requested ITC and Delaware court to prevent Apple from importing and selling devices in the United States and damage compensation, respectively. The Company evaluated that there was indirect association between the patents used by the Company's devices and those claimed by Apple. The Company believes the lawsuits have limited impact on its financial results or sales activities. As of January 18, 2011, the date of the accompanying independent auditors' report, there had been no further 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 14 has more information).

29. SEGMENT INFORMATION

Industry Type

The Company mainly manufactures and sells smart handheld devices.

Foreign Operations

The Company does not have any foreign operations.

Export Sales

Export sales in 2009 and 2010 were as follows:

	2009	2010	
	NT$	NT$	US$ (Note 3)
Asia	$ 19,291,108	$ 28,505,519	$ 978,562
North America	70,729,422	137,284,600	4,712,825
Europe	44,000,227	90,094,743	3,092,851
Others	6,218,621	11,867,647	407,403
	$ 140,239,378	$ 267,752,509	$ 9,191,641

Major Customers

Sales to major customers were as follows:

	2009	2010	
Customer	NT$	NT$	US$ (Note 3)
A	$ 1,118,794	$ 86,510,154	$ 2,969,796
B	28,815,938	26,341,261	904,266
C	27,213,647	11,156,997	383,007
	$ 57,148,379	$ 124,008,412	$ 4,257,069