

HTC Corporation and Subsidiaries

**Consolidated 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 consolidated balance sheets of HTC Corporation and subsidiaries (collectively, the "Company") as of December 31, 2009 and 2010, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, all expressed in New Taiwan dollars. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of HTC Corporation and subsidiaries as of December 31, 2009 and 2010, and the results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the Republic of China.

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

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

HTC CORPORATION AND SUBSIDIARIES

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

| ASSETS | 2009 | | | 2010 | | | LIABILITIES AND STOCKHOLDERS' EQUITY | 2009 | | | 2010 | | |
|---|-----------------------|-----------------------|---------------------|------|------|---------------|---|-----------------------|-----------------------|---------------------|------|------|---------------|
| | NT\$ | NT\$ | US\$ (Note 3) | NT\$ | NT\$ | US\$ (Note 3) | | NT\$ | NT\$ | US\$ (Note 3) | NT\$ | NT\$ | US\$ (Note 3) |
| CURRENT ASSETS | | | | | | | CURRENT LIABILITIES | | | | | | |
| Cash and cash equivalents (Notes 2 and 4) | \$ 64,638,290 | \$ 74,462,861 | \$ 2,556,226 | | | | Short-term borrowings (Note 15) | \$ 72,326 | \$ - | \$ - | | | |
| Financial assets at fair value through profit or loss (Notes 2, 5 and 25) | 18,132 | 450,276 | 15,457 | | | | Notes and accounts payable (Note 26) | 25,631,015 | 63,916,803 | 2,194,192 | | | |
| Available-for-sale financial assets - current (Notes 2 and 6) | 2,497,394 | 441,948 | 15,172 | | | | Income tax payable (Notes 2 and 23) | 4,270,962 | 6,809,417 | 233,760 | | | |
| Notes and accounts receivable, net (Notes 2, 7 and 26) | 27,125,609 | 61,614,355 | 2,115,151 | | | | Accrued expenses (Notes 16 and 26) | 16,963,888 | 33,426,028 | 1,147,478 | | | |
| Other current financial assets (Notes 8 and 26) | 258,474 | 783,540 | 26,898 | | | | Payable for purchase of equipment (Note 26) | 153,551 | 441,976 | 15,173 | | | |
| Inventories (Notes 2 and 9) | 6,036,207 | 26,413,747 | 906,754 | | | | Long-term liabilities - current portion (Note 18) | 22,500 | 12,188 | 418 | | | |
| Prepayments (Note 10) | 3,341,649 | 2,653,778 | 91,101 | | | | Other current liabilities (Notes 17 and 26) | 6,614,533 | 11,034,691 | 378,808 | | | |
| Deferred income tax assets (Notes 2 and 23) | 812,254 | 1,051,196 | 36,086 | | | | Total current liabilities | 53,728,775 | 115,641,103 | 3,969,829 | | | |
| Other current assets | 172,872 | 767,825 | 26,359 | | | | | | | | | | |
| Total current assets | 104,900,881 | 168,639,526 | 5,789,204 | | | | LONG-TERM LIABILITIES | | | | | | |
| | | | | | | | Long-term bank loans, net of current portion (Note 18) | 24,375 | 12,188 | 418 | | | |
| LONG-TERM INVESTMENTS | | | | | | | OTHER LIABILITIES | | | | | | |
| Available-for-sale financial assets - noncurrent (Notes 2 and 6) | 313 | 538 | 18 | | | | Guarantee deposits received | 1,210 | 13,959 | 479 | | | |
| Held-to-maturity financial assets - noncurrent (Notes 2 and 11) | - | 207,946 | 7,139 | | | | Total liabilities | 53,754,360 | 115,667,250 | 3,970,726 | | | |
| Financial assets carried at cost (Notes 2 and 12) | 565,172 | 975,596 | 33,491 | | | | | | | | | | |
| Prepayments for long-term investments (Notes 2, 12 and 13) | 245,000 | 48,065 | 1,650 | | | | STOCKHOLDERS' EQUITY (Note 20) | | | | | | |
| Total long-term investments | 810,485 | 1,232,145 | 42,298 | | | | Capital stock - NT\$10.00 par value | | | | | | |
| | | | | | | | Authorized: 1,000,000 thousand shares | | | | | | |
| PROPERTIES (Notes 2, 14 and 26) | | | | | | | Issued and outstanding: 788,936 thousand shares in 2009 and 817,653 thousand shares in 2010 | | | | | | |
| Cost | | | | | | | Common stock | 7,889,358 | 8,176,532 | 280,691 | | | |
| Land | 4,719,538 | 5,862,076 | 201,238 | | | | Capital surplus | | | | | | |
| Buildings and structures | 4,218,443 | 5,005,642 | 171,838 | | | | Additional paid-in capital from share issuance in excess of par | 9,056,323 | 10,777,623 | 369,984 | | | |
| Machinery and equipment | 4,702,420 | 7,236,349 | 248,416 | | | | Long-term equity investments | 18,411 | 18,411 | 632 | | | |
| Molding equipment | 199,392 | 172,632 | 5,926 | | | | Merger | 25,189 | 24,710 | 848 | | | |
| Computer equipment | 411,504 | 474,299 | 16,282 | | | | Retained earnings | | | | | | |
| Transportation equipment | 4,575 | 7,378 | 253 | | | | Legal reserve | 10,273,674 | 10,273,674 | 352,684 | | | |
| Furniture and fixtures | 462,664 | 245,041 | 8,412 | | | | Accumulated earnings | 38,364,099 | 52,876,892 | 1,815,204 | | | |
| Leased assets | 6,327 | 5,934 | 204 | | | | Cumulative translation adjustments (Note 2) | 15,088 | (579,849) | (19,906) | | | |
| Leasehold improvements | 199,416 | 305,073 | 10,473 | | | | Net loss not recognized as pension cost | (34) | (121) | (4) | | | |
| Total cost | 14,924,279 | 19,314,424 | 663,042 | | | | Unrealized valuation losses on financial instruments | (1,658) | (885) | (30) | | | |
| Less: Accumulated depreciation | (5,055,135) | (5,801,233) | (199,150) | | | | Treasury stock (Notes 2 and 21) | - | (6,852,493) | (235,239) | | | |
| Prepayments for construction-in-progress and equipment-in-transit | 30,664 | 511,138 | 17,547 | | | | Equity attributable to stockholders of the parent | 65,640,450 | 74,714,494 | 2,564,864 | | | |
| Properties, net | 9,899,808 | 14,024,329 | 481,439 | | | | MINORITY INTEREST | 34,207 | - | - | | | |
| | | | | | | | Total stockholders' equity | 65,674,657 | 74,714,494 | 2,564,864 | | | |
| INTANGIBLE ASSETS (Note 2) | | | | | | | | | | | | | |
| Patents | - | 208,581 | 7,160 | | | | | | | | | | |
| Goodwill | 239,992 | 497,803 | 17,089 | | | | | | | | | | |
| Deferred pension cost | 490 | 416 | 14 | | | | | | | | | | |
| Other | - | 228,850 | 7,857 | | | | | | | | | | |
| Total intangible assets | 240,482 | 935,650 | 32,120 | | | | | | | | | | |
| | | | | | | | | | | | | | |
| OTHER ASSETS | | | | | | | | | | | | | |
| Assets leased to others | 48,135 | 50,828 | 1,745 | | | | | | | | | | |
| Refundable deposits | 128,655 | 150,860 | 5,179 | | | | | | | | | | |
| Deferred charges (Note 2) | 245,996 | 243,249 | 8,350 | | | | | | | | | | |
| Deferred income tax assets (Notes 2 and 23) | 1,067,691 | 2,366,488 | 81,239 | | | | | | | | | | |
| Restricted assets (Note 27) | 106,252 | 95,688 | 3,285 | | | | | | | | | | |
| Other (Notes 2, 10 and 19) | 1,980,632 | 2,642,981 | 90,731 | | | | | | | | | | |
| Total other assets | 3,577,361 | 5,550,094 | 190,529 | | | | | | | | | | |
| | | | | | | | | | | | | | |
| TOTAL | \$ 119,429,017 | \$ 190,381,744 | \$ 6,535,590 | | | | TOTAL | \$ 119,429,017 | \$ 190,381,744 | \$ 6,535,590 | | | |

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

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED 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 26) | \$ 144,492,518 | \$ 278,761,244 | \$ 9,569,559 |
| COST OF REVENUES (Notes 9, 22 and 26) | <u>98,329,537</u> | <u>194,892,505</u> | <u>6,690,440</u> |
| GROSS PROFIT | <u>46,162,981</u> | <u>83,868,739</u> | <u>2,879,119</u> |
| OPERATING EXPENSES (Notes 22 and 26) | | | |
| Selling and marketing | 10,863,175 | 21,757,601 | 746,914 |
| General and administrative | 2,304,364 | 5,038,543 | 172,967 |
| Research and development | <u>8,372,535</u> | <u>12,940,014</u> | <u>444,216</u> |
| Total operating expenses | <u>21,540,074</u> | <u>39,736,158</u> | <u>1,364,097</u> |
| OPERATING INCOME | <u>24,622,907</u> | <u>44,132,581</u> | <u>1,515,022</u> |
| NONOPERATING INCOME AND GAINS | | | |
| Interest income | 362,136 | 313,888 | 10,775 |
| Gains on disposal of properties | 2,984 | 879 | 30 |
| Gains on sale of investments | 3,035 | 3,001 | 103 |
| Exchange gain (Note 2) | 558,985 | - | - |
| Valuation gains on financial instruments, net (Notes 2 and 5) | 18,132 | 450,276 | 15,457 |
| Other | <u>474,814</u> | <u>374,900</u> | <u>12,871</u> |
| Total nonoperating income and gains | <u>1,420,086</u> | <u>1,142,944</u> | <u>39,236</u> |
| NONOPERATING EXPENSES AND LOSSES | | | |
| Interest expense | 2,174 | 3,562 | 122 |
| Loss on equity-method investments (Notes 2 and 13) | 3,891 | - | - |
| Losses on disposal of properties | 2,576 | 13,066 | 449 |
| Exchange loss (Note 2) | - | 214,679 | 7,370 |
| Impairment losses (Notes 2, 12 and 13) | 78,946 | 32,771 | 1,125 |
| Other | <u>558,994</u> | <u>47,059</u> | <u>1,615</u> |
| Total nonoperating expenses and losses | <u>646,581</u> | <u>311,137</u> | <u>10,681</u> |
| INCOME BEFORE INCOME TAX | 25,396,412 | 44,964,388 | 1,543,577 |
| INCOME TAX (Notes 2 and 23) | <u>(2,781,999)</u> | <u>(5,449,544)</u> | <u>(187,077)</u> |
| NET INCOME | <u>\$ 22,614,413</u> | <u>\$ 39,514,844</u> | <u>\$ 1,356,500</u> |

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HTC CORPORATION AND SUBSIDIARIES

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

| | 2009 | | 2010 | | |
|---|-------------------------|------------------------|-------------------------|------------------------|---------------------|
| | NT\$ | | NT\$ | | US\$ (Note 3) |
| ATTRIBUTABLE TO | | | | | |
| Stockholders of the parent | \$ 22,608,902 | | \$ 39,533,600 | | \$ 1,357,143 |
| Minority interest | <u>5,511</u> | | <u>(18,756)</u> | | <u>(643)</u> |
| | <u>\$ 22,614,413</u> | | <u>\$ 39,514,844</u> | | <u>\$ 1,356,500</u> |
| | 2009 | | 2010 | | |
| | Before Income Tax | After Income Tax | Before Income Tax | After Income Tax | |
| | NT\$ | NT\$ | NT\$ | US\$ (Note 3) | NT\$ |
| | | | | US\$ (Note 3) | US\$ (Note 3) |
| BASIC EARNINGS PER SHARE (Note 24) | <u>\$ 30.50</u> | <u>\$ 27.35</u> | <u>\$ 54.57</u> | <u>\$ 1.87</u> | <u>\$ 48.49</u> |
| DILUTED EARNINGS PER SHARE (Note 24) | <u>\$ 29.95</u> | <u>\$ 26.86</u> | <u>\$ 53.90</u> | <u>\$ 1.85</u> | <u>\$ 47.89</u> |

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

(Concluded)

HTC CORPORATION AND SUBSIDIARIES

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

| New Taiwan Dollars | Capital Stock | Capital Surplus | | | Retained Earnings | | Cumulative Translation Adjustments | Net Loss Not Recognized as Pension Cost | Unrealized Valuation Losses on Financial Instruments | Treasury Stock | Minority Interests | Total |
|--|-------------------------------------|--------------------------------------|------------------------------|------------------|----------------------|----------------------|------------------------------------|---|--|-----------------------|--------------------|----------------------|
| | Issued and Outstanding Common Stock | From Share Issuance in Excess of Par | Long-term Equity Investments | Merger | Legal Reserve | Accumulated Earnings | | | | | | |
| 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) | \$ 28,696 | \$ 60,690,182 |
| 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 | - | - | - | - | 5,511 | 22,614,413 |
| 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) | - | 34,207 | 65,674,657 |
| 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 | - | - | - | - | (18,756) | 39,514,844 |
| 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 | - | - |
| Change in minority interest | - | - | - | - | - | - | - | - | - | - | (15,451) | (15,451) |
| BALANCE, DECEMBER 31, 2010 | <u>\$ 8,176,532</u> | <u>\$ 10,777,623</u> | <u>\$ 18,411</u> | <u>\$ 24,710</u> | <u>\$ 10,273,674</u> | <u>\$ 52,876,892</u> | <u>\$ (579,849)</u> | <u>\$ (121)</u> | <u>\$ (885)</u> | <u>\$ (6,852,493)</u> | <u>\$ -</u> | <u>\$ 74,714,494</u> |

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

HTC CORPORATION AND SUBSIDIARIES

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

| U.S. Dollars | Capital Stock | Capital Surplus | | | Retained Earnings | | Cumulative Translation Adjustments | Net Loss Not Recognized as Pension Cost | Unrealized Valuation Losses on Financial Instruments | Treasury Stock | Minority Interests | Total |
|---|-------------------------------------|--------------------------------------|------------------------------|---------------|-------------------|----------------------|------------------------------------|---|--|---------------------|--------------------|---------------------|
| | Issued and Outstanding Common Stock | From Share Issuance in Excess of Par | Long-term Equity Investments | Merger | Legal Reserve | Accumulated Earnings | | | | | | |
| BALANCE, JANUARY 1, 2010 | \$ 270,833 | \$ 310,893 | \$ 632 | \$ 865 | \$ 352,684 | \$ 1,316,996 | \$ 518 | \$ (1) | \$ (57) | \$ - | \$ 1,173 | \$ 2,254,536 |
| 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 | - | - | - | - | (643) | 1,356,500 |
| 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 | - | - |
| Change in minority interest | - | - | - | - | - | - | - | - | - | - | (530) | (530) |
| BALANCE, DECEMBER 31, 2010 | <u>\$ 280,691</u> | <u>\$ 369,984</u> | <u>\$ 632</u> | <u>\$ 848</u> | <u>\$ 352,684</u> | <u>\$ 1,815,204</u> | <u>\$ (19,906)</u> | <u>\$ (4)</u> | <u>\$ (30)</u> | <u>\$ (235,239)</u> | <u>\$ -</u> | <u>\$ 2,564,864</u> |

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

HTC CORPORATION AND SUBSIDIARIES

CONSOLIDATED 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 | \$ 22,614,413 | \$ 39,514,844 | \$ 1,356,500 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | |
| Depreciation (including depreciation of assets leased to others) | 901,848 | 905,138 | 31,072 |
| Amortization | 72,614 | 97,196 | 3,337 |
| Amortization of premium on financial assets | - | 385 | 13 |
| Prepaid pension cost | (20,525) | (21,364) | (733) |
| Loss on equity-method investments | 3,891 | - | - |
| (Gain) loss on disposal of properties and deferred charges, net | (408) | 12,187 | 419 |
| Transfer of properties to expenses | 7,474 | 1,151 | 39 |
| Gains on sale of investments, net | (3,035) | (3,001) | (103) |
| Impairment losses | 78,946 | 32,771 | 1,125 |
| Deferred income tax assets | (506,522) | (1,537,739) | (52,789) |
| Net changes in operating assets and liabilities | | | |
| Financial instruments at fair value through profit or loss | (532,215) | (432,144) | (14,835) |
| Notes and accounts receivable | 2,329,169 | (34,472,524) | (1,183,403) |
| Other current financial assets | 58,050 | (547,932) | (18,810) |
| Inventories | 2,214,130 | (20,435,168) | (701,516) |
| Prepayments | (2,038,073) | 683,128 | 23,451 |
| Other current assets | (11,552) | (582,339) | (19,991) |
| Other assets - other | (1,843,170) | (640,985) | (22,004) |
| Notes and accounts payable | (2,938,920) | 38,346,267 | 1,316,384 |
| Income tax payable | 231,349 | 2,538,408 | 87,141 |
| Accrued expenses | 6,570,007 | 18,413,894 | 632,128 |
| Other current liabilities | 533,103 | 4,175,616 | 143,344 |
| Net cash provided by operating activities | <u>27,720,574</u> | <u>46,047,789</u> | <u>1,580,769</u> |
| 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 financial assets carried at cost | (64,330) | (234,575) | (8,053) |
| Increase in prepayments for long-term investments | (245,000) | (52,301) | (1,796) |
| Acquisition of a subsidiary | (26,262) | (78,272) | (2,687) |
| Purchase of properties and assets leased to others | (1,910,679) | (4,990,996) | (171,335) |
| Proceeds of the sale of properties and deferred charges | 70,682 | 20,064 | 689 |

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HTC CORPORATION AND SUBSIDIARIES

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

| | 2009 | 2010 | |
|--|----------------------|----------------------|---------------------|
| | NT\$ | NT\$ | US\$ (Note 3) |
| Decrease (increase) in refundable deposits | \$ 62,828 | \$ (21,817) | \$ (749) |
| Increase in deferred charges | (70,099) | (90,721) | (3,114) |
| (Increase) decrease in restricted assets | (64,787) | 10,564 | 363 |
| Increase in intangible assets | <u>-</u> | <u>(220,943)</u> | <u>(7,585)</u> |
| Net cash used in investing activities | <u>(4,742,006)</u> | <u>(3,808,333)</u> | <u>(130,736)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Decrease in short-term borrowings | (2,674) | (42,326) | (1,453) |
| Decrease in long-term bank loans | (28,750) | (22,499) | (772) |
| (Decrease) increase in guarantee deposits received | (5,210) | 12,749 | 437 |
| Cash dividends | (20,125,634) | (20,122,332) | (690,777) |
| Purchase of treasury stock | (2,406,930) | (11,686,667) | (401,190) |
| Decrease in minority interest | <u>-</u> | <u>(15,451)</u> | <u>(530)</u> |
| Net cash used in financing activities | <u>(22,569,198)</u> | <u>(31,876,526)</u> | <u>(1,094,285)</u> |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | <u>(8,808)</u> | <u>(538,359)</u> | <u>(18,482)</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 400,562 | 9,824,571 | 337,266 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>64,237,728</u> | <u>64,638,290</u> | <u>2,218,960</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 64,638,290</u> | <u>\$ 74,462,861</u> | <u>\$ 2,556,226</u> |
| SUPPLEMENTAL CASH FLOW INFORMATION | | | |
| Cash paid during the year | | | |
| Interest | <u>\$ 2,219</u> | <u>\$ 2,386</u> | <u>\$ 82</u> |
| Income tax | <u>\$ 3,057,172</u> | <u>\$ 4,448,828</u> | <u>\$ 152,723</u> |
| NONCASH INVESTING AND FINANCING ACTIVITIES | | | |
| Transfer of retained earnings to stock dividends for distribution | <u>\$ 372,697</u> | <u>\$ 386,968</u> | <u>\$ 13,284</u> |
| Transfer of assets leased to others to properties | <u>\$ 261,824</u> | <u>\$ 47,813</u> | <u>\$ 1,641</u> |
| Retirement of treasury stock | <u>\$ 5,817,207</u> | <u>\$ 4,834,174</u> | <u>\$ 165,952</u> |
| Transfer of stock bonuses to employees to common stock and additional paid-in capital | <u>\$ 4,954,889</u> | <u>\$ 1,943,694</u> | <u>\$ 66,725</u> |

(Continued)

HTC CORPORATION AND SUBSIDIARIES

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

| | <u>2009</u> | <u>2010</u> | |
|---|---------------------|---------------------|-------------------|
| | NT\$ | NT\$ | US\$ (Note 3) |
| PURCHASE OF PROPERTIES AND ASSETS LEASED TO OTHERS | | | |
| Cost of properties and assets leased to others purchased | \$ 1,749,140 | \$ 5,278,345 | \$ 181,200 |
| Decrease (increase) in payable for purchase of equipment | 160,535 | (288,425) | (9,902) |
| Decrease in lease payable | <u>1,004</u> | <u>1,076</u> | <u>37</u> |
| Cash paid for purchase of properties and assets leased to others | <u>\$ 1,910,679</u> | <u>\$ 4,990,996</u> | <u>\$ 171,335</u> |
| ACQUISITION OF A SUBSIDIARY | | | |
| Increase in investments accounted for by the equity method | \$ - | \$ 245,927 | \$ 8,442 |
| Decrease (increase) in other payable | <u>26,262</u> | <u>(167,655)</u> | <u>(5,755)</u> |
| Cash paid for acquisition of a subsidiary | <u>\$ 26,262</u> | <u>\$ 78,272</u> | <u>\$ 2,687</u> |

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

(Concluded)

HTC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2009 AND 2010 (In Thousands, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

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

HTC and its consolidated subsidiaries, hereinafter referred to as the “Company,” had 8,249 and 12,575 employees as of December 31, 2009 and 2010, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the Republic of China (ROC). Under these guidelines, 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 consolidated financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language consolidated financial statements shall prevail. However, the accompanying consolidated financial statements do not include the English translation of the additional footnote disclosures that are not required under ROC generally accepted accounting principles but are required by the Securities and Futures Bureau for their oversight purposes.

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

Principles of Consolidation

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

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

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

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

(Continued)

| Investor | Investee | Main Businesses | % of Ownership | | Remark |
|--|--|--|----------------|--------|--|
| | | | 2009 | 2010 | |
| | HTC Malaysia Sdn. Bhd. | Marketing, repair and after-sales services | 100.00 | 100.00 | Incorporated in July 2008 and invested in January 2009 |
| | HTC Innovation Limited | " | 100.00 | 100.00 | Incorporated in January 2009 |
| | HTC Communication Co., Ltd. | The sale of smart handheld devices | 100.00 | 100.00 | Incorporated in December 2008 and invested in March 2009 |
| | HTC America Inc. | Marketing, repair and after-sales services | 100.00 | - | Incorporated in January 2003, transferred in for the reorganization in November 2009, and transferred out for the reorganization in April 2010 |
| | One & Company Design, Inc. | Design, research and development of application software | 100.00 | - | Invested in October 2008, transferred in for the reorganization in November 2009, and transferred out for the reorganization in April 2010 |
| | HTC HK, Limited | International holding | 100.00 | 100.00 | Incorporated in August 2006, and transferred in for the reorganization in December 2009 |
| | HTC Holding Cooperatief U.A. | International holding | 99.00 | 99.00 | Incorporated in October 2009 |
| High Tech Computer Singapore Pte. Ltd. | HTC India Private Ltd. | Marketing, repair and after-sales services | 1.00 | - | Incorporated in January 2008, and transferred out for the reorganization in February 2010 |
| HTC HK, Limited | HTC Belgium BVBA/SPRL | Marketing, repair and after-sales services | 100.00 | - | Incorporated in October 2006, and transferred out for the reorganization in March 2010 |
| | HTC Corporation (Shanghai WGQ) | Repair and after-sales service | 100.00 | 100.00 | Incorporated in July 2007, and transferred in for the reorganization in December 2009 |
| | HTC Electronics (Shanghai) Co., Ltd. | Manufacture and sale of smart handheld devices | - | 100.00 | Incorporated in January 2007, invested in July 2008, and transferred in for the reorganization in February 2010 |
| HTC Holding Cooperatief U.A. | HTC Netherlands B.V. | International holding | - | 100.00 | Incorporated in October 2009 |
| | HTC India Private Ltd. | Marketing, repair and after-sales services | - | 1.00 | Incorporated in January 2008, and transferred in for the reorganization in February 2010 |
| | HTC South Eastern Europe Limited liability Company | " | - | 0.67 | Incorporated in June 2010 |
| HTC Netherlands B.V. | HTC Europe Co., Ltd. | Marketing, repair and after-sales services | - | 100.00 | Incorporated in July 2003, and transferred in for the reorganization in February 2010 |
| | HTC BRASIL | " | - | 99.99 | Incorporated in October 2006, and transferred in for the reorganization in February 2010 |
| | HTC Belgium BVBA/SPRL | " | - | 100.00 | Incorporated in October 2006, and transferred in for the reorganization in March 2010 |
| HTC Netherlands B.V. | HTC NIPPON Corporation | Marketing, repair and after-sales services | - | 100.00 | Incorporated in March 2006, and transferred in for the reorganization in April 2010 |
| | HTC France Corporation | " | - | 100.00 | Incorporated in April 2010 |
| | HTC South Eastern Europe Limited liability Company | " | - | 99.33 | Incorporated in June 2010 |

(Continued)

| Investor | Investee | Main Businesses | % of Ownership | | Remark |
|--------------------------|-----------------------------|--|----------------|--------|---|
| | | | 2009 | 2010 | |
| | HTC Nordic ApS. | " | - | 100.00 | Incorporated in July 2006, and transferred in for the reorganization in October 2010 |
| | HTC Italia SRL | " | - | 100.00 | Incorporated in February 2007, and transferred in for the reorganization in October 2010 |
| | HTC Germany GmbH | " | - | 100.00 | Incorporated in October 2010 |
| | HTC Iberia, S.L. | " | - | 100.00 | Incorporated in October 2010 |
| | HTC Poland sp. z.o.o. | " | - | 100.00 | Incorporated in October 2010 |
| HTC Belgium BVBA/SPRL | HTC Italia SRL | " | 100.00 | - | Incorporated in February 2007, and transferred out for the reorganization in October 2010 |
| | HTC Nordic ApS. | " | - | - | Incorporated in July 2010, and transferred out for the reorganization in October 2010 |
| HTC Europe Co., Ltd. | HTC America Holding Inc. | International holding | - | 100.00 | Incorporated in April 2010 |
| HTC France Corporation | ABAXIA SAS | Design, research and development of application software | - | 100.00 | Invested in July 2010 |
| HTC America Holding Inc. | HTC America Inc. | Marketing, repair and after-sales services | - | 100.00 | Incorporated in January 2003, and transferred in for the reorganization in April 2010 |
| | One & Company Design, Inc. | Design, research and development of application software | - | 100.00 | Invested in October 2008, and transferred in for the reorganization in April 2010 |
| | HTC America Innovation Inc. | " | - | 100.00 | Incorporated in April 2010, and invested in October 2010 |
| ABAXIA SAS | BLR Soft | Design, research and development of application software | - | 100.00 | Invested in July 2010 |

(Concluded)

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

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

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

Current/Noncurrent Assets and Liabilities

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

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 or the regulations of subsidiaries' respective local governments.

Properties still in use beyond their original estimated useful lives are further depreciated over their newly estimated useful lives.

The related cost (including revaluation increment) and accumulated depreciation are derecognized from the balance sheet upon its disposal. Any gain or loss on disposal of the asset is included in nonoperating gains or losses in the year of disposal.

If the properties are leased to others, the related costs and accumulated depreciation would be transferred from properties to other assets - assets leased to others.

Intangible Assets

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

Deferred Charges

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

Asset Impairment

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

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

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

Accrued Marketing Expenses

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

Reserve for Warranty Expenses

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

Product-related Costs

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

Pension Plan

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

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

Income Tax

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

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

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

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

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

Treasury Stock

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

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

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

Foreign Currencies

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

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

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

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

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

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

- a. Recognized in stockholders' equity if the changes in fair value are recognized in stockholders' equity; and
- b. Recognized in profit and loss if the changes in fair value is recognized in profit or loss.

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

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

Reclassifications

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

3. TRANSLATION INTO U.S. DOLLARS

The consolidated financial statements are stated in New Taiwan dollars. The translation of the 2010 New Taiwan dollar amounts into U.S. dollar amounts are included solely for the convenience of readers, using the noon buying rate of NT\$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 following:

| | 2009 | 2010 | |
|---------------|----------------------|----------------------|---------------------|
| | NT\$ | NT\$ | US\$ (Note 3) |
| Cash on hand | \$ 5,412 | \$ 4,304 | \$ 148 |
| Cash in banks | 2,129,500 | 22,343,340 | 767,022 |
| Time deposits | <u>62,503,378</u> | <u>52,115,217</u> | <u>1,789,056</u> |
| | <u>\$ 64,638,290</u> | <u>\$ 74,462,861</u> | <u>\$ 2,556,226</u> |

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 | <u>\$ 18,132</u> | <u>\$ 450,276</u> | <u>\$ 15,457</u> |

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 25 has more information.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

7. NOTES AND ACCOUNTS RECEIVABLE

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

| | <u>2009</u> | <u>2010</u> | |
|--|----------------------|----------------------|---------------------|
| | NT\$ | NT\$ | US\$ (Note 3) |
| Notes receivable | \$ 2,337 | \$ - | \$ - |
| Accounts receivable | 28,146,109 | 62,620,703 | 2,149,697 |
| Accounts receivable from related parties | 792 | 2,143 | 74 |
| Less: Allowance for doubtful accounts | <u>(1,023,629)</u> | <u>(1,008,491)</u> | <u>(34,620)</u> |
| | <u>\$ 27,125,609</u> | <u>\$ 61,614,355</u> | <u>\$ 2,115,151</u> |

8. OTHER CURRENT FINANCIAL ASSETS

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

| | <u>2009</u> | <u>2010</u> | |
|----------------------|-------------------|-------------------|------------------|
| | NT\$ | NT\$ | US\$ (Note 3) |
| Other receivables | \$ 207,054 | \$ 747,983 | \$ 25,677 |
| Interest receivables | 11,463 | 11,376 | 391 |
| Agency payments | 37,531 | 22,139 | 760 |
| Others | <u>2,426</u> | <u>2,042</u> | <u>70</u> |
| | <u>\$ 258,474</u> | <u>\$ 783,540</u> | <u>\$ 26,898</u> |

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 | \$ 1,002,841 | \$ 1,859,010 | \$ 63,818 |
| Work-in-process | 1,210,132 | 6,707,423 | 230,258 |
| Raw materials | 3,173,012 | 13,075,800 | 448,877 |
| Inventory in transit | <u>650,222</u> | <u>4,771,514</u> | <u>163,801</u> |
| | <u>\$ 6,036,207</u> | <u>\$ 26,413,747</u> | <u>\$ 906,754</u> |

As of December 31, 2009 and 2010, the allowance for inventory devaluation was NT\$2,770,551 thousand and NT\$3,535,521 thousand (US\$121,370 thousand), respectively.

The write-down of inventories to their net realizable value amounted to NT\$1,853,579 thousand and NT\$2,686,168 thousand (US\$92,213 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 |
| Net input VAT | 15,301 | 361,152 | 12,398 |
| Software and hardware maintenance | 85,797 | 115,425 | 3,962 |
| Molding equipment | 37,052 | 91,058 | 3,126 |
| Marketing | 41,707 | 66,295 | 2,276 |
| Rent | 15,318 | 40,812 | 1,401 |
| Materials purchases | 13,084 | 38,990 | 1,338 |
| Others | <u>88,827</u> | <u>69,665</u> | <u>2,392</u> |
| | <u>\$ 3,341,649</u> | <u>\$ 2,653,778</u> | <u>\$ 91,101</u> |

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 29 has more information).

Prepayments for others were primarily for service, 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:

| | <u>2009</u> | <u>2010</u> | |
|-----------------|-------------|-------------|------------------|
| | 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:

| | <u>2009</u> | <u>2010</u> | |
|--|-------------------|---------------------|------------------|
| | NT\$ | NT\$ | US\$ (Note 3) |
| Hua-Chuang Automobile Information Technical Center Co., Ltd. | \$ 500,000 | \$ 500,000 | \$ 17,164 |
| GSUO Inc. | - | 145,650 | 2,000 |
| NETQIN MOBILE Inc. | - | 72,825 | 2,500 |
| SoundHound Inc. | 63,980 | 58,260 | 5,000 |
| BandRich Inc. | - | 15,861 | 545 |
| Answer Online, Inc. | 1,192 | - | - |
| Luminous Optical Technology Co., Ltd. | - | 183,000 | 6,282 |
| Prepayments for long-term investments | - | 48,065 | 1,650 |
| | <u>\$ 565,172</u> | <u>\$ 1,023,661</u> | <u>\$ 35,141</u> |

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

In July 2009, the Company acquired 4.37% equity interest in SoundHound Inc. (formerly Melodis Corporation until May 2010) for US\$2,000 thousand (NT\$58,260 thousand).

In December 2010, the Company acquired 1.60% equity interest in NETQIN MOBILE Inc. for US\$2,500 thousand (NT\$72,825 thousand).

In May 2010, the Company acquired 11.11% equity interest in GSUO Inc. for US\$5,000 thousand (NT\$145,650 thousand).

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

In 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 December 2010, the Company acquired 10.00% equity interest in Luminous Optical Technology Co., Ltd. for NT\$183,000 thousand (US\$6,282 thousand).

In July 2010, the Company invested Felicis Ventures II LP for US\$750 thousand (NT\$23,220 thousand). However, because the registration of this investment had not been completed as of December 31, 2010, the investment was temporarily accounted for under "prepayments for long-term investments."

In August 2010, the Company invested WI Harper Fund VII for US\$900 thousand (NT\$28,134 thousand). However, because the registration of this investment had not been completed as of December 31, 2010, the investment was temporarily accounted for under "prepayments for long-term investments."

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

13. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

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

| | 2009 | | 2010 | | | | |
|------------------------------------|-------------------|----------------------|---------------|------------------|----------------|------------------|----------------------|
| | Carrying Value | Ownership Percentage | Original Cost | | Carrying Value | | Ownership Percentage |
| | NT\$ | | NT\$ | US\$ (Note 3) | NT\$ | US\$ (Note 3) | |
| Vitamin D Inc. | \$ - | 25.59 | \$ - | \$ - | \$ - | \$ - | - |
| Prepayment of long-term investment | <u>245,000</u> | | - | - | - | - | |
| | <u>\$ 245,000</u> | | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | |

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 December 2009, the Company invested in Huada Digital Corporation for NT\$245,000 thousand. Because the registration of the investment was not completed on December 31, 2009, the investment was temporarily accounted for as "prepayments for long-term investments."

On its equity-method investments, the Company had a loss of NT\$3,891 thousand in 2009.

The financial statements of equity-method investees for the year ended December 31, 2009 had been examined by the Company's independent auditors.

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 | \$ 5,862,076 | \$ - | \$ 5,862,076 | \$ 201,238 |
| Buildings and structures | 3,550,890 | 5,005,642 | 812,785 | 4,192,857 | 143,936 |
| Machinery and equipment | 1,121,524 | 7,236,349 | 4,201,382 | 3,034,967 | 104,187 |
| Molding equipment | 11,620 | 172,632 | 172,632 | - | - |
| Computer equipment | 136,161 | 474,299 | 310,657 | 163,642 | 5,618 |
| Transportation equipment | 1,338 | 7,378 | 2,669 | 4,709 | 162 |
| Furniture and fixtures | 226,285 | 245,041 | 175,352 | 69,689 | 2,392 |
| Leased assets | 2,986 | 5,934 | 4,536 | 1,398 | 48 |
| Leasehold improvements | 98,802 | 305,073 | 121,220 | 183,853 | 6,311 |
| Prepayments for construction-in-progress and equipment-in-transit | 30,664 | 511,138 | - | 511,138 | 17,547 |
| | <u>\$ 9,899,808</u> | <u>\$ 19,825,562</u> | <u>\$ 5,801,233</u> | <u>\$ 14,024,329</u> | <u>\$ 481,439</u> |

In December 2008, the Company bought land - about 8.3 thousand square meters - from Yulon Motors Ltd. for NT\$3,335,000 thousand to build the Taipei R&D headquarter in Xindian City. The Company had paid 80% and 20% 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 mainly prepayments for the construction of Taipei R&D headquarter and building construction and employees' dormitory in HTC Electronics (Shanghai).

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

15. SHORT-TERM BORROWINGS

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

| | 2009 | 2010 | |
|-----------------------|------------------|-------------|------------------|
| | NT\$ | NT\$ | US\$ (Note 3) |
| Working capital loans | <u>\$ 72,326</u> | <u>\$ -</u> | <u>\$ -</u> |

As of December 31, 2009, short-term borrowing was for BandRich Inc.'s raising working capital and material purchase. The Company lost its significant influence in BandRich Inc. in July 2010, BandRich Inc. was not included in the consolidated financial statements as of and for the year ended December 31, 2010.

16. ACCRUED EXPENSES

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

| | <u>2009</u> | <u>2010</u> | |
|-------------------------|----------------------|----------------------|---------------------|
| | NT\$ | NT\$ | US\$ (Note 3) |
| Marketing | \$ 8,784,378 | \$ 17,323,446 | \$ 594,694 |
| Bonus to employees | 4,859,236 | 8,491,704 | 291,511 |
| Salaries and bonuses | 1,001,358 | 2,642,916 | 90,728 |
| Services | 458,735 | 1,843,017 | 63,269 |
| Freight | 501,588 | 1,321,198 | 45,355 |
| Research materials | 529,935 | 780,501 | 26,794 |
| Repairs and maintenance | 64,893 | 250,638 | 8,604 |
| Donation | 217,800 | 217,800 | 7,477 |
| Meals and welfare | 114,030 | 197,590 | 6,783 |
| Insurance | 78,411 | 127,905 | 4,391 |
| Pension cost | 48,939 | 69,610 | 2,390 |
| Travel | 24,385 | 49,691 | 1,706 |
| Others | <u>280,200</u> | <u>110,012</u> | <u>3,776</u> |
| | <u>\$ 16,963,888</u> | <u>\$ 33,426,028</u> | <u>\$ 1,147,478</u> |

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.

17. OTHER CURRENT LIABILITIES

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

| | <u>2009</u> | <u>2010</u> | |
|-------------------------------|--------------|--------------|------------------|
| | NT\$ | NT\$ | US\$ (Note 3) |
| Reserve for warranty expenses | \$ 5,265,463 | \$ 9,104,973 | \$ 312,563 |
| Other payable | 474,908 | 269,045 | 9,236 |
| | | | (Continued) |

| | <u>2009</u> | <u>2010</u> | |
|------------------|---------------------|----------------------|----------------------------------|
| | NT\$ | NT\$ | US\$ (Note 3) |
| Agency receipts | \$ 524,156 | \$ 476,948 | \$ 16,373 |
| Advance receipts | 152,907 | 805,838 | 27,664 |
| Others | <u>197,099</u> | <u>377,887</u> | <u>12,972</u> |
| | <u>\$ 6,614,533</u> | <u>\$ 11,034,691</u> | <u>\$ 378,808</u> (Concluded) |

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.

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

Other payables were payables for 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.

In October 2008, H.T.C. (B.V.I.) Corp. acquired 100% equity interest of One & Company Design, Inc., and paid the investment to the original stockholders of One & Company Design, Inc. in several installments based on the agreement. In November 2009, One & Company Design, Inc. was sold to High Tech Computer Asia Pacific Pte. Ltd. in line with the reorganization of the Company's overseas subsidiaries' investment structure. Related liabilities between One & Company Design, Inc. and H.T.C. (B.V.I.) Corp. were transferred as well. Of the investment, NT\$40,880 thousand (US\$1,403 thousand) had not been paid as of December 31, 2010.

In July 2010, HTC France Corporation acquired 100% equity interest of ABAXIA SAS, and paid the investment to the original stockholders of ABAXIA SAS in several installments based on the agreement. Of the investment, NT\$102,502 thousand (US\$3,519 thousand) had not been paid as of December 31, 2010.

18. LONG-TERM BANK LOANS

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

| | <u>2009</u> | <u>2010</u> | |
|--|------------------|------------------|------------------|
| | NT\$ | NT\$ | US\$ (Note 3) |
| Secured loans (Note 27) | | | |
| NT\$50,000 thousand, repayable from July 2006 in 16 quarterly installments; 1% annual interest | \$ 6,250 | \$ - | \$ - |
| NT\$65,000 thousand, repayable from July 2009 in 16 quarterly installments; 1% annual interest | 40,625 | 24,376 | 836 |
| Less: Current portion | <u>(22,500)</u> | <u>(12,188)</u> | <u>(418)</u> |
| | <u>\$ 24,375</u> | <u>\$ 12,188</u> | <u>\$ 418</u> |

19. 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 were NT\$186,811 thousand in 2009 and NT\$220,769 thousand (US\$7,579 thousand) in 2010.

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\$417,407 thousand and NT\$448,631 thousand (US\$15,401 thousand) as of December 31, 2009 and 2010, respectively.

H.T.C. (B.V.I.) Corp., HTC HK, Limited, and High Tech Computer Asia Pacific Pte. Ltd. have no pension plans.

Under their respective local government regulations, other subsidiaries have defined contribution pension plans covering all eligible employees. The pension fund contributions were NT\$38,234 thousand in 2009 and NT\$72,115 thousand (US\$2,475 thousand) in 2010.

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 | 9,377 | 6,560 | 225 |
| Projected return on plan assets | (11,094) | (8,598) | (295) |
| Amortization of unrecognized net transition obligation, net | 74 | 74 | 3 |
| Amortization | <u>1,349</u> | <u>305</u> | <u>10</u> |
| Net pension cost | <u>\$ 4,961</u> | <u>\$ 3,256</u> | <u>\$ 112</u> |

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 benefits | \$ 1,334 | \$ 1,525 | \$ 52 |
| Non-vested benefits | <u>178,468</u> | <u>191,930</u> | <u>6,589</u> |
| Accumulated benefit obligation | 179,802 | 193,455 | 6,641 |
| Additional benefits on future salaries | <u>148,200</u> | <u>150,645</u> | <u>5,172</u> |
| Projected benefit obligation | 328,002 | 344,100 | 11,813 |
| Plan assets at fair value | <u>(417,407)</u> | <u>(448,631)</u> | <u>(15,401)</u> |
| Funded status | (89,405) | (104,531) | (3,588) |
| Unrecognized net transitional obligation | (490) | (416) | (14) |
| Unrecognized pension loss | (48,090) | (54,414) | (1,868) |
| Additional minimum pension liability | <u>523</u> | <u>536</u> | <u>18</u> |
| Prepaid pension cost | <u>\$ (137,462)</u> | <u>\$ (158,825)</u> | <u>\$ (5,452)</u> |

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 | 2.0%-3.5% | 2.00%-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.

20. 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.

21. 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:

| Purpose of Treasury Stock | (In Thousands of Shares) | | | |
|--|--|--------------------------------|---------------------------------|--|
| | Number of Shares, Beginning of Year | Addition During the Year | Reduction During the Year | Number of Shares, End of Year |
| <u>Year ended December 31, 2009</u> | | | | |
| To maintain the Company's credibility and shareholders' interest | <u>10,000</u> | <u>7,085</u> | <u>17,085</u> | <u>-</u> |

(Continued)

| Purpose of Treasury Stock | Number of Shares, Beginning of Year | Addition During the Year | Reduction During the Year | Number of Shares, End of Year |
|--|--|--------------------------------|---------------------------------|--|
| <u>Year ended December 31, 2010</u> | | | | |
| To maintain the Company's credibility and shareholders' interest | - | 15,000 | 15,000 | - |
| For transferring shares to the Company's employees | <u>-</u> | <u>9,786</u> | <u>-</u> | <u>9,786</u> |
| | <u>-</u> | <u>24,786</u> | <u>15,000</u> | <u>9,786</u> |
| | | | | (Concluded) |

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.

22. 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 | \$ 2,980,449 | \$ 8,964,593 | \$ 11,945,042 | \$ 5,265,747 | \$ 15,813,869 | \$ 21,079,616 | \$ 180,767 | \$ 542,872 | \$ 723,639 |
| Salary | 2,551,772 | 8,180,903 | 10,732,675 | 4,544,387 | 14,879,114 | 19,423,501 | 156,004 | 510,783 | 666,787 |
| Insurance | 155,481 | 253,081 | 408,562 | 224,738 | 446,621 | 671,359 | 7,715 | 15,332 | 23,047 |
| Pension cost | 66,029 | 163,977 | 230,006 | 101,749 | 194,391 | 296,140 | 3,493 | 6,673 | 10,166 |
| Other | 207,167 | 366,632 | 573,799 | 394,873 | 293,743 | 688,616 | 13,555 | 10,084 | 23,639 |
| Depreciation | 476,585 | 421,450 | 898,035 | 469,145 | 435,568 | 904,713 | 16,105 | 14,953 | 31,058 |
| Amortization | 34,561 | 38,053 | 72,614 | 36,244 | 60,952 | 97,196 | 1,244 | 2,093 | 3,337 |

23. INCOME TAX

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

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

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

| <u>Item Exempt from Corporate Income Tax</u> | <u>Exemption Period</u> |
|--|-------------------------|
| Sales of pocket PCs, pocket PCs (wireless) and smartphones | 2004.09.15-2009.09.14 |
| Sales of pocket PCs (wireless) and smartphones | 2004.11.30-2009.11.29 |
| Sales of pocket PCs (wireless) and smartphones | 2005.12.20-2010.12.19 |
| Sales of wireless or smartphone which has 3G or GPS function | 2006.12.20-2011.12.19 |
| Sales of wireless or smartphone which has 3G or GPS function | 2007.12.20-2012.12.19 |
| 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. Provision for income tax expense (benefit) in 2009 and 2010; income tax payable, income tax receivables and deferred tax assets (liabilities) as of December 31, 2009 and 2010 were as follows:

| | 2009 | | | |
|--|---|-------------------------------|----------------------------------|--|
| | Income Tax Expense (Benefit) | Income Tax Payable | Income Tax Receivable | Deferred Tax Assets (Liabilities) |
| | NT\$ | NT\$ | NT\$ | NT\$ |
| HTC Corporation | \$ 2,603,562 | \$ 4,152,624 | \$ - | \$ 1,877,341 |
| BandRich Inc. | (245) | - | 72 | - |
| Communication Global Certification Inc. | 664 | - | 23 | 1,576 |
| HTC Investment Corporation | 141 | - | 225 | - |
| HTC I Investment Corporation | 19 | - | 2 | - |
| High Tech Computer Asia Pacific Pte. Ltd. | 77 | - | - | - |
| HTC America Inc. | 72,449 | - | 15,074 | 26 |
| HTC EUROPE CO., LTD. | 77,102 | 96,613 | - | - |
| Exedea Inc. | 46 | 1,215 | - | - |
| HTC NIPPON Corporation | 7,354 | - | 5,981 | - |
| HTC BRASIL | 4,240 | - | 7,846 | - |
| One & Company Design, Inc. | 2,538 | 2,018 | - | (8,478) |
| HTC Corporation (Shanghai WGQ) | (583) | - | 256 | - |
| HTC Belgium BAVA/SPRL | 19,314 | 14,312 | - | - |
| High Tech Computer Singapore Pte. Ltd. | 389 | 511 | - | (328) |
| HTC (Australia and New Zealand) Pty. Ltd. | 2,295 | 2,746 | - | 123 |
| HTC India Private Limited | 1,216 | - | 25 | - |
| HTC (Thailand) Limited | 725 | 449 | - | - |
| HTC Malaysia Sdn. Bhd. | 669 | 417 | - | (29) |
| HTC Innovation Limited | 54 | 57 | - | - |
| HTC Electronics (Shanghai) Co., Ltd. | (10,027) | - | - | 9,714 |
| | <u>\$ 2,781,999</u> | <u>\$ 4,270,962</u> | <u>\$ 29,504</u> | <u>\$ 1,879,945</u> |

| | 2010 | | | | | | | |
|--|-------------------------------------|--------------------------|---------------------------|--------------------------|------------------------------|--------------------------|--|--------------------------|
| | Income Tax Expense (Benefit) | | Income Tax Payable | | Income Tax Receivable | | Deferred Tax Assets (Liabilities) | |
| | NT\$ | US\$ (Note 3) | NT\$ | US\$ (Note 3) | NT\$ | US\$ (Note 3) | NT\$ | US\$ (Note 3) |
| HTC Corporation | \$ 4,957,709 | \$ 170,193 | \$ 6,416,667 | \$ 220,277 | \$ - | \$ - | \$ 3,345,010 | \$ 114,830 |
| Communication Global Certification Inc. | 500 | 17 | 735 | 25 | 23 | 1 | 1,843 | 63 |
| HTC Investment Corporation | 132 | 5 | - | - | 216 | 7 | - | - |
| HTC I Investment Corporation | 159 | 6 | 32 | 1 | - | - | - | - |
| Huada Digital Corporation | 116 | 4 | 28 | 1 | - | - | - | - |
| High Tech Computer Asia Pacific Pte. Ltd. | 1,016 | 35 | 287 | 10 | - | - | 36 | 1 |
| HTC Communication Co. Ltd | (17,031) | (585) | 80,600 | 2,767 | - | - | 56,370 | 1,935 |

(Continued)

2010

| | Income Tax Expense (Benefit) | | Income Tax Payable | | Income Tax Receivable | | Deferred Tax Assets (Liabilities) | |
|--|------------------------------|-------------------|---------------------|-------------------|-----------------------|-----------------|--------------------------------------|-------------------|
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| | | (Note 3) | | (Note 3) | | (Note 3) | | (Note 3) |
| HTC America Inc. | \$ 213,608 | \$ 7,333 | \$ - | \$ - | \$ 59,070 | \$ 2,028 | \$ 27,787 | \$ 954 |
| HTC EUROPE CO., LTD. | 138,709 | 4,762 | 137,426 | 4,718 | - | - | 8,612 | 296 |
| Exedea Inc. | 19,356 | 665 | - | - | 4,894 | 168 | 2,505 | 86 |
| HTC NIPPON Corporation | 4,028 | 138 | 3,692 | 127 | - | - | - | - |
| HTC BRASIL Corporation (Shanghai WGQ) One & Company Design, Inc. | 5,006 | 172 | 3,575 | 123 | - | - | 2,607 | 89 |
| HTC Belgium BAVA/SPRL | 1,533 | 53 | 949 | 33 | - | - | - | - |
| High Tech Computer (H.K.) | (5,034) | (173) | - | - | 2,416 | 83 | (319) | (11) |
| HTC (Australia and New Zealand) Pty. Ltd. | 10,468 | 359 | 11,005 | 378 | - | - | 733 | 25 |
| HTC India Private Limited | 1,435 | 49 | 640 | 22 | - | - | - | - |
| HTC (Thailand) Limited | 6,292 | 216 | 5,132 | 176 | - | - | (1,189) | (41) |
| HTC Electronics (Shanghai) Co., Ltd. | 1,837 | 63 | 5,929 | 203 | 21 | 1 | 16 | 1 |
| HTC Malaysia Sdn. Bhd. | 1,206 | 41 | 720 | 25 | - | - | - | - |
| HTC Innovation Limited | 86,172 | 2,958 | 123,994 | 4,257 | 63,647 | 2,185 | 46,288 | 1,589 |
| HTC Netherlands B.V. | 1,334 | 46 | (227) | (8) | - | - | 256 | 9 |
| HTC France Corporation | 1,060 | 36 | 1,005 | 34 | - | - | - | - |
| HTC South Eastern Europe Limited liability Company | 1,029 | 35 | 958 | 33 | - | - | - | - |
| HTC Germany GmbH | 2,074 | 71 | 3,155 | 108 | - | - | (78,724) | (2,702) |
| HTC Spain, S.L. | 456 | 16 | 424 | 14 | - | - | - | - |
| HTC Italia SRL | 2,502 | 86 | 605 | 21 | - | - | - | - |
| HTC Nordic ApS. | 757 | 26 | 419 | 14 | - | - | - | - |
| HTC Poland sp. z.o.o. | 3,705 | 127 | (1,263) | (43) | - | - | - | - |
| HTC HK, Limited | 1,092 | 37 | 275 | 9 | - | - | (55) | (2) |
| HTC America Innovation Inc. | 225 | 8 | - | - | - | - | 734 | 25 |
| | 58 | 2 | 54 | 2 | - | - | - | - |
| | 8,035 | 276 | 12,601 | 433 | - | - | 5,174 | 178 |
| | <u>\$ 5,449,544</u> | <u>\$ 187,077</u> | <u>\$ 6,809,417</u> | <u>\$ 233,760</u> | <u>\$ 130,287</u> | <u>\$ 4,473</u> | <u>\$ 3,417,684</u> | <u>\$ 117,325</u> |

(Concluded)

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 | \$ 536,717 | \$ 596,374 | \$ 20,473 |
| Unrealized marketing expenses | 1,716,445 | 2,705,547 | 92,879 |
| Unrealized reserve for warranty expense | 1,058,820 | 1,539,698 | 52,856 |
| Capitalized expense | 40,747 | 74,433 | 2,555 |
| Unrealized royalties | 1,691,142 | 2,879,421 | 98,847 |
| Unrealized bad-debt expenses | 147,309 | 64,353 | 2,209 |
| Unrealized contingent losses of purchase orders | 95,699 | 206,795 | 7,099 |
| Unrealized exchange losses | 155,790 | 30,482 | 1,047 |
| Other | 43,497 | 66,947 | 2,298 |

(Continued)

| | <u>2009</u> | <u>2010</u> | |
|--|---------------------|---------------------|---------------------------------|
| | NT\$ | NT\$ | US\$ (Note 3) |
| Loss carryforwards | \$ 48,556 | \$ 1,523 | \$ 52 |
| Tax credit carryforwards | <u>3,157,393</u> | <u>3,148,156</u> | <u>108,073</u> |
| Total deferred tax assets | 8,692,115 | 11,313,729 | 388,388 |
| Less: Valuation allowance | <u>(6,772,111)</u> | <u>(7,788,708)</u> | <u>(267,378)</u> |
| Total deferred tax assets, net | 1,920,004 | 3,525,021 | 121,010 |
| Deferred tax liabilities | | | |
| Unrealized pension cost | (27,597) | (27,063) | (929) |
| Unrealized valuation gain on financial instruments | (3,626) | (76,547) | (2,628) |
| Unrealized depreciation | <u>(8,836)</u> | <u>(3,727)</u> | <u>(128)</u> |
| | 1,879,945 | 3,417,684 | 117,325 |
| Less: Current portion | <u>(812,254)</u> | <u>(1,051,196)</u> | <u>(36,086)</u> |
| Deferred tax assets - noncurrent | <u>\$ 1,067,691</u> | <u>\$ 2,366,488</u> | <u>\$ 81,239</u> (Concluded) |

Details of the tax credit carryforwards were as follows:

| Credit Grant | | <u>2009</u> | <u>2010</u> | |
|--------------|-----------------|---------------------|---------------------|-------------------|
| Year | Validity Period | NT\$ | NT\$ | US\$ (Note 3) |
| 2006 | 2006-2010 | \$ 15,475 | \$ - | \$ - |
| 2007 | 2007-2011 | 220,249 | 4,404 | 151 |
| 2008 | 2008-2012 | 874,619 | 833,163 | 28,602 |
| 2009 | 2009-2013 | <u>2,047,050</u> | <u>2,310,589</u> | <u>79,320</u> |
| | | <u>\$ 3,157,393</u> | <u>\$ 3,148,156</u> | <u>\$ 108,073</u> |

Details of the loss carryforwards were as follows:

| Loss Year | Validity Period | <u>2009</u> | <u>2010</u> | |
|-----------|-----------------|-------------------|-------------|------------------|
| | | NT\$ | NT\$ | US\$ (Note 3) |
| 2006 | 2007-2016 | \$ 49,635 | \$ - | \$ - |
| 2007 | 2008-2017 | 48,885 | - | - |
| 2008 | 2009-2018 | 102,497 | - | - |
| 2009 | 2010-2019 | <u>16,519</u> | <u>-</u> | <u>-</u> |
| | | <u>\$ 217,536</u> | <u>\$ -</u> | <u>\$ -</u> |

The loss carryforwards of HTC BRASIL that gave rise to deferred tax assets in the Federative Republic of Brazil were NT\$1,523 thousand (US\$52 thousand). Taxation could be made on its net income after deduction of losses incurred in the preceding years, but the deduction cannot exceed 30% of the taxable income in current year.

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:

| | <u>2009</u> | <u>2010</u> | |
|---|---------------------|---------------------|-------------------|
| | NT\$ | NT\$ | US\$ (Note 3) |
| Current income tax | \$ 3,383,532 | \$ 6,890,038 | \$ 236,527 |
| Increase in deferred income tax assets | (506,522) | (1,537,739) | (52,789) |
| (Overestimation) underestimation of prior year's income tax | <u>(95,011)</u> | <u>97,245</u> | <u>3,339</u> |
| Income tax | <u>\$ 2,781,999</u> | <u>\$ 5,449,544</u> | <u>\$ 187,077</u> |

The integrated income tax information is as follows:

| | <u>2009</u> | <u>2010</u> | |
|--|--------------------------|--------------------------|--------------------------|
| | NT\$ | NT\$ | 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% (Estimated ratio) | 18% (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.

24. 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) | | Shares (Denominator) (In Thousands) | EPS (In Dollars) | |
| | Before Income Tax | After Income Tax | | Before Income Tax | After Income Tax |
| | NT\$ | NT\$ | NT\$ | NT\$ | NT\$ |
| Basic EPS | \$ 25,212,464 | \$ 22,608,902 | 826,735 | <u>\$ 30.50</u> | <u>\$ 27.35</u> |
| Bonus to employees | - | - | 15,044 | | |
| Diluted EPS | <u>\$ 25,212,464</u> | <u>\$ 22,608,902</u> | <u>841,779</u> | <u>\$ 29.95</u> | <u>\$ 26.86</u> |

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

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

25. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

a. Nonderivative financial instruments

| | December 31 | | | | | |
|---|--------------------|---------------|--------------------|---------------|--------------------|---------------|
| | 2009 | | 2010 | | | |
| | Carrying Amount | Fair Value | 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 | 565,172 | 565,172 | 1,023,661 | 35,141 | 1,023,661 | 35,141 |

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

The fair values of financial instruments at fair value through profit or loss, 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 | | | | | |
| | 2009 | 2010 | US\$ (Note 3) | 2009 | 2010 | US\$ (Note 3) |
| | NT\$ | NT\$ | US\$ (Note 3) | NT\$ | US\$ (Note 3) | 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 | - | - | - | 565,172 | 1,023,661 | 35,141 |

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\$62,609,630 thousand and NT\$52,210,905 thousand (US\$1,792,341 thousand), respectively, financial liabilities exposed to fair value interest rate risk amounted to NT\$46,875 thousand and NT\$24,376 thousand (US\$836 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.

26. RELATED-PARTY TRANSACTIONS

The related parties were as follows:

| Related Party | Relationship with the Company |
|--|--|
| Xander International Corp. VIA Technologies, Inc. Syuda Construction Company | Chairperson is an immediate relative of HTC's chairperson Same chairperson with HTC The only juridical stockholder whose chairperson is the same person with HTC at the transaction date |
| Chander Electronics Corp. Way-Lien Technology Inc. | Same chairperson with HTC Same chairperson with HTC |
| Captec Partners Management Corp. Comserve Network Netherlands B.V. | Main director is the chairperson of HTC Main director is an immediate relative of HTC's chairperson |
| Employees' Welfare Committee HTC Cultural and Educational Foundation | Employees' Welfare Committee of HTC 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 | | 2010 | | % to Total Net Purchases |
|---------------------------|-----------|--------------------------|------------|---------------|--------------------------|
| | Amount | % to Total Net Purchases | Amount | | |
| | NT\$ | | NT\$ | US\$ (Note 3) | |
| Chander Electronics Corp. | \$ 28,606 | - | \$ 270,931 | \$ 9,301 | - |

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

Sales and Services Provided

| Related Party | 2009 | | 2010 | | % to Total Revenues |
|------------------------------|-----------|---------------------|-----------|---------------|---------------------|
| | Amount | % to Total Revenues | Amount | | |
| | NT\$ | | NT\$ | US\$ (Note 3) | |
| Employees' Welfare Committee | \$ 9,666 | - | \$ 34,138 | \$ 1,172 | - |
| VIA Technologies, Inc. | 794 | - | 2,353 | 81 | - |
| Others | 714 | - | 1,701 | 58 | - |
| | \$ 11,174 | - | \$ 38,192 | \$ 1,311 | - |

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

Accounts Receivable

| Related Party | December 31 | | | | % to Total Notes and Accounts Receivable |
|------------------------|-------------|--|----------|---------------|--|
| | 2009 | | 2010 | | |
| | Amount | % to Total Notes and Accounts Receivable | Amount | | |
| | NT\$ | | NT\$ | US\$ (Note 3) | |
| VIA Technologies, Inc. | \$ 506 | - | \$ 2,113 | \$ 73 | - |
| Others | 286 | - | 30 | 1 | - |
| | \$ 792 | - | \$ 2,143 | \$ 74 | - |

Accounts Payable

| Related Party | December 31 | | | | % to Total Notes and Accounts Payable |
|---------------------------|----------------|--|----------------|------------------|--|
| | 2009 | | 2010 | | |
| | Amount NT\$ | % to Total Notes and Accounts Payable | Amount NT\$ | US\$ (Note 3) | |
| Chander Electronics Corp. | \$ 13,479 | — | \$ 126,093 | \$ 4,329 | — |

Other Receivables

| Related Party | December 31 | | | | % to Total Other Receivable |
|---------------------------|----------------|-----------------------------------|----------------|------------------|-----------------------------------|
| | 2009 | | 2010 | | |
| | Amount NT\$ | % to Total Other Receivable | Amount NT\$ | US\$ (Note 3) | |
| Chander Electronics Corp. | \$ 30 | - | \$ 20 | \$ 1 | - |
| Others | 63 | - | 107 | 3 | - |
| | \$ 93 | — | \$ 127 | \$ 4 | — |

Accrued Expenses

| Related Party | December 31 | | | | % to Total Accrued Expenses |
|--|----------------|-----------------------------------|----------------|------------------|-----------------------------------|
| | 2009 | | 2010 | | |
| | Amount NT\$ | % to Total Accrued Expenses | Amount NT\$ | US\$ (Note 3) | |
| HTC Cultural and Educational Foundation | \$ 217,800 | 1 | \$ 217,800 | \$ 7,477 | 1 |
| Way-Lien Technology Inc. | — | — | 400 | 14 | — |
| | \$ 217,800 | 1 | \$ 218,200 | \$ 7,491 | 1 |

Other Payables to Related Parties

| Related Party | December 31 | | | | % to Total Other Payables |
|----------------------------|----------------|---------------------------|----------------|------------------|---------------------------|
| | 2009 | | 2010 | | |
| | Amount NT\$ | % to Total Other Payables | Amount NT\$ | US\$ (Note 3) | |
| Way-Lien Technology Inc. | \$ 420 | - | \$ - | \$ - | - |
| Chander Electronics Corp. | 81 | - | - | - | - |
| Xander International Corp. | 38 | - | - | - | - |
| | <u>\$ 539</u> | <u>-</u> | <u>\$ -</u> | <u>\$ -</u> | <u>-</u> |

Warranty Expense

| Related Party | 2009 | | 2010 | | % to Total Warranty Expenses |
|---------------|--------------------------------------|------------------------------|----------------|------------------|------------------------------|
| | Amount NT\$ | % to Total Warranty Expenses | Amount NT\$ | US\$ (Note 3) | |
| | Comserve Network Netherlands B.V. | \$ 1,203 | - | \$ - | |

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

Service Fees

| Related Party | 2009 | | 2010 | | % to Total Service Expenses |
|-------------------------------------|--------------------------|-----------------------------|-----------------|------------------|-----------------------------|
| | Amount NT\$ | % to Total Service Expenses | Amount NT\$ | US\$ (Note 3) | |
| | Way-Lien Technology Inc. | \$ 2,400 | - | \$ 2,000 | |
| Captec Partners Management Corp. | 3,222 | - | - | - | - |
| | <u>\$ 5,622</u> | <u>-</u> | <u>\$ 2,000</u> | <u>\$ 69</u> | <u>-</u> |

Leasing - Lessee

Operating expenses - rental expenses

| Related Party | 2009 | | 2010 | | % to Total Rental Expenses |
|-----------------------|-----------------|----------------------------|------------------|----------------------------|----------------------------|
| | Amount | % to Total Rental Expenses | Amount | % to Total Rental Expenses | |
| | NT\$ | | NT\$ | US\$ (Note 3) | |
| VIA Technologies Inc. | <u>\$ 9,035</u> | <u>4</u> | <u>\$ 12,212</u> | <u>\$ 419</u> | <u>5</u> |

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 | | 2010 | | % to Total Donation Expenses |
|---|-------------------|------------------------------|-------------------|------------------------------|------------------------------|
| | Amount | % to Total Donation Expenses | Amount | % 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 | <u>25,000</u> | <u>7</u> | <u>150,000</u> | <u>5,150</u> | <u>49</u> |
| | <u>\$ 325,000</u> | <u>99</u> | <u>\$ 300,000</u> | <u>\$ 10,300</u> | <u>98</u> |

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 16 has more information).

Property and Investment Transaction

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.

Compensation of Directors, Supervisors and Management Personnel

| | 2009 | 2010 | |
|----------------------|------------|------------|------------------|
| | NT\$ | NT\$ | US\$ (Note 3) |
| Salaries | \$ 94,140 | \$ 111,318 | \$ 3,822 |
| Incentives | 51,300 | 349,011 | 11,981 |
| Special compensation | 12 | 3 | - |
| Bonus | 747,834 | (Note) | (Note) |
| | \$ 893,286 | \$ 460,332 | \$ 15,803 |

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.

27. PLEDGED ASSETS

As of December 31, 2009 and 2010, the Company had provided time deposits of NT\$106,252 thousand and NT\$95,688 thousand (US\$3,285 thousand), respectively, as collateral for the secured loans, rental deposits and to the National Tax Administration of Northern Taiwan Province as part of the requirements for the Company to get a certificate stating that it had no pending income tax.

28. COMMITMENTS AND CONTINGENCIES

As of December 31, 2010, unused letters of credit amounted to EUR86 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.

29. SIGNIFICANT CONTRACTS

Patent Agreements

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

| Contractor | Contract Term | Description |
|------------|-------------------------------------|---|
| Microsoft | February 1, 2009 - January 31, 2011 | Authorization to use embedded operating system; royalty payment based on agreement. |

(Continued)

| Contractor | Contract Term | Description |
|--------------------------------------|--|---|
| Qualcomm Incorporated | December 20, 2000 to the following dates: a. If the Company materially breaches any covenant and fails to take remedial action within 30 days after Qualcomm's issuance of a written notice, the Company will be prohibited from using Qualcomm's property or patents. b. Any time when the Company is not using any of Qualcomm's intellectual property, the Company may terminate this agreement upon 60 days' prior written notice to Qualcomm. | Authorization to use CDMA technology to manufacture and sell units; royalty payment based on agreement. |
| Ericsson Mobile Platform AB | April 2003 - March 2011 | Authorization to use EDGE reference design license and support agreement; royalty payment based on agreement. |
| Telefonaktiebolaget LM Ericsson | December 15, 2008 - December 14, 2013 | Authorization to use platform patent license agreement; royalty payment based on agreement. |
| Nokia Corporation | January 1, 2003 to the expiry dates of these patents. | Authorization to use wireless technology, like GSM; royalty payment based on agreement. |
| InterDigital Technology Corporation. | December 31, 2003 to the expiry dates of these patents. | Authorization to use TDMA and CDMA technology; royalty payment based on agreement. |
| KONINKLIJKE PHILIPS ELECTRONICS N.V. | January 5, 2004 to the expiry dates of these patents | GSM/DCS 1800/1900 Patent License; royalty payment based on agreement. |
| Motorola, Inc. | December 23, 2003 to the latest of the following dates: a. Expiry dates of patents b. Any time when the Company is not using any of Motorola's intellectual property, | TDMA, NARROWBAND CDMA, WIDEBAND CDMA or TD/CDMA Standards patent license or technology; royalty payment based on agreement. |

(Continued)

| Contractor | Contract Term | Description |
|--|--|--|
| ALCATEL LUCENT | November 2009 - November 2012 | Authorization to use 2G (GSM/GPRS/EDGE/CDMA), 3G (CDMA2000/WCDMA), HTML, MPEG, AMR patent license or technology; royalty payment based on agreement. |
| Siemens Aktiengesellschaft | July 1, 2004 to the expiry dates of these patents. | Authorization to use GSM, GPRS or EDGE patent license or technology; royalty payment based on agreement. |
| IV International Licensing Netherlands, B.V. | November 2010 - June 2020 | Authorization to use wireless technology; royalty payment based on agreement. (Concluded) |

30. 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 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).

31. SEGMENT INFORMATION

Industry Type

The Company mainly manufactures and sells smart handheld devices.

Foreign Operations

Because sales to unaffiliated customers and identifiable assets of foreign segments were less than 10 percent of that of the Company, the Company was exempt from disclosing information on foreign operations.

Export Revenues

Export revenues in 2009 and 2010 were as follows:

| | <u>2009</u> | <u>2010</u> | |
|---------------|-----------------------|-----------------------|---------------------|
| | NT\$ | NT\$ | US\$ (Note 3) |
| Asia | \$ 19,310,968 | \$ 28,126,618 | \$ 965,555 |
| North America | 69,711,852 | 141,027,352 | 4,841,310 |
| Europe | 44,021,684 | 90,115,532 | 3,093,564 |
| Others | <u>6,620,411</u> | <u>11,867,133</u> | <u>407,385</u> |
| | <u>\$ 139,664,915</u> | <u>\$ 271,136,635</u> | <u>\$ 9,307,814</u> |

Major Customers

Sales to major customers were as follows:

| Customer | 2009 | 2010 | |
|----------|----------------------|-----------------------|---------------------|
| | NT\$ | NT\$ | US\$ (Note 3) |
| A | \$ 28,816,033 | \$ 51,646,672 | \$ 1,772,972 |
| B | 8,110,798 | 47,500,397 | 1,630,635 |
| C | <u>27,213,647</u> | <u>38,544,296</u> | <u>1,323,182</u> |
| | <u>\$ 64,140,478</u> | <u>\$ 137,691,365</u> | <u>\$ 4,726,789</u> |