HTC CORPORATION

3rd Q BUSINESS REVIEW

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smart mobility

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PRESENTATION OUTLINE

- THE 3rd Q BUSINESS REVIEW
- BUSINESS ENVIRONMENT
- MANAGEMENT INITIATIVES
- THE 3rd Q P&L – PRE- EMPLOYEE BONUS ADJUSTMENT
- THE 3rd Q P&L – POST EMPLOYEE BONUS ADJUSTMENT
- THE 3rd Q KEY FINANCIALS
- FACT SHEET UPDATE – BUSINESS STATUS
- THE 4th Q BUSINESS OUTLOOK
- QUESTIONS CONCERNED

THE 3rd Q 08' BUSINESS REVIEW

- The 3rd Q revenue YOY growth rate, 30.1%, came in line with the guidance provided. The 3rd Q GPM was 34.6%, higher than the guidance. The GPM difference between the 2nd Q and the 3rd Q level reflects the business mix change.

- The OPEX ratio excluding special items is 10.65%, 0.15 percentage point of revenue higher than the guidance. The special items compose
  1) The reclassification of the NT$146 million bad debt provision for one repair service vendor from the equity-method investment loss which was recognized in the 1st Q.
  2) The recognition of NT$97 million PSP(employee stock bonus) expenses for offshore entities for prior years.
  3) The addition of NT$75 million bad debt provision.

  The 1st item is an accounting entry adjustments from investment account to OPEX account and have no impact to the income statement. The 2nd item is a non cash item for historical expense recording. HTC has taken actions to manage the risk on the 3rd item and could recover the bad debt provision by NT$ 53 million up to date.

BUSINESS ENVIRONMENT

- The global credit crunch has impacted consumer purchase sentiment. The converging device industry is less impacted.
- HTC business momentum is sustained by market diversification, product mix and new product launch in the 4^{th} Q in different geographic area.
- The Diamond family sell-through momentum is on track.
- HTC together with Google and T-Mobile USA launched G1, the first Android based device, on September 23 in New York. The G1 is well positioned in the consumer mobile internet applications.

MANAGEMENT INTITIATIVES

- The Shanghai plant begins production in Oct.
- The board approved a 10 million shares treasury share buyback program with the NT$5 billion as the cap of buyback amount lasting to Dec. 7.
- The board approved to set up an offshore entity to facilitate the procurement process.

3rd Q '08 P&L – PRE-EMPLOYEE BONUS

(NT$ Bil.)	3Q 07	2Q 08	3Q 08	QOQ	YOY
REVENUES	29.11	34.62	37.86	9.4%	30.1%
GROSS PROFIT	9.91*1	12.10	13.09	8.1%	32.0%
RSGA EXPENSE	2.46	3.80	4.35*3	14.3%	76.8%
NOP	7.43	8.31	8.71*3	4.8%	17.2%
NPBT	8.03	8.69	9.18	5.6%	14.4%
NPAT	7.43	7.81	8.27	5.9%	11.3%
GPM(%)	34.1%	35.0%	34.6%		
RSGA RATIO(%)	8.4%	11.0%	11.5%		
EPS*2	12.97	13.62 (before ex-rights)	10.94		

*1 Warranty service and inventory scrap were recognized as opex and non-operating expenses respectively before 2008. NT$1.1bil in Q307 was adjusted into COGS.

*2 The EPS was calculated based on the outstanding shares at the time.

*3 Excluded 2 adjustments of NT$0.24bil for accounting entry adjustment and PSP expenses, the RSGA expense is NT$4.10bil (8.0% QoQ ,67.0% YoY) whereas RSGA% is 10.8% and NOP is NT$8.95bil (7.7% QoQ, 20.4% YoY) whereas OPM is 23.6%.

3rd Q '08 P&L – POST-EMPLOYEE BONUS (EB)

(NT$ Bil.)	3Q 07	2Q 08	3Q 08	QOQ	YOY
REVENUES	29.11	34.62	37.86	9.4%	30.1%
(EB ADJ in COGS)	0.19	0.14	0.16	6.3%	-20.0%
GROSS PROFIT	9.72*1	11.96	12.93	8.2%	33.0%
(EB ADJ in RSGA)	1.64	1.25	1.32	5.9%	-19.4%
RSGA EXPENSE	4.10	5.05	5.67*3	12.2%	38.3%
NOP	5.59	6.91	7.23*3	4.5%	29.2%
NPBT	6.19	7.30	7.70	5.6%	24.4%
NPAT	5.55	6.62	6.99	5.6%	25.9%
ADJ GPM(%)	33.4%	34.5%	34.2%		
ADJ RSGA RATIO(%)	14.1%	14.6%	15.0%		
ADJ EPS*2	9.68	11.54 (before ex-rights)	9.25		

*1Warranty service and inventory scrap were recognized as opex and non-operating expenses respectively before 2008. NT$1.1bil in Q307 was adjusted into COGS.

*2The EPS was calculated based on the outstanding shares at the time.

*3Excluded 2 adjustments of NT$0.24bil for accounting entry adjustment and PSP expenses, the RSGA expense is NT$5.43bil (7.4% QoQ ,32.4% YoY) whereas RSGA% is 14.3% and NOP is NT$7.47bil (8.0% QoQ, 33.5% YoY) whereas OPM is 19.7%.

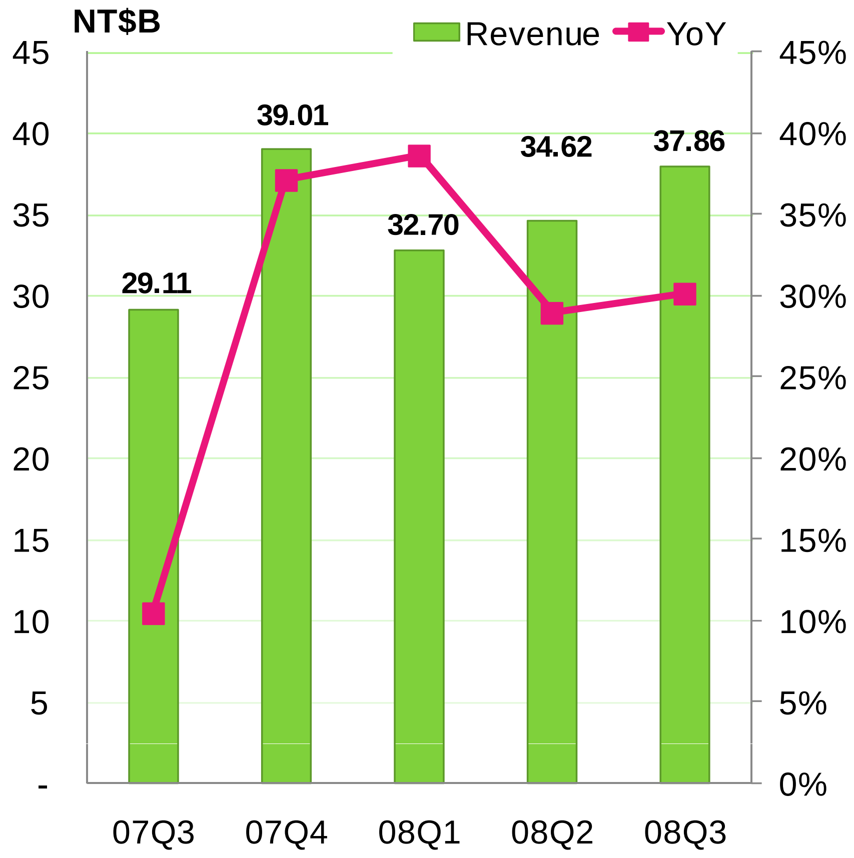
3rd Q '08 KEY FINANCIALS

(NT$ Bil.)	3Q 07	2Q 08	3Q 08	QOQ	YOY
CASH	40.61	73.24	63.94	-12.7%	57.4%
AR	20.03	19.28	21.55	11.8%	7.6%
INVENTORY	5.92	5.53	7.88	42.5%	33.0%
NET WORTH	46.10	48.86*1	56.00	14.6%	21.5%
INVENTORY PROVISON	1.05	1.18	1.48	24.6%	41.0%
AR PROVISION	0.16	0.32	0.54*2	69.3%	239.4%
WARRANTY PROVISION	1.77	4.60	4.86	5.6%	174.9%

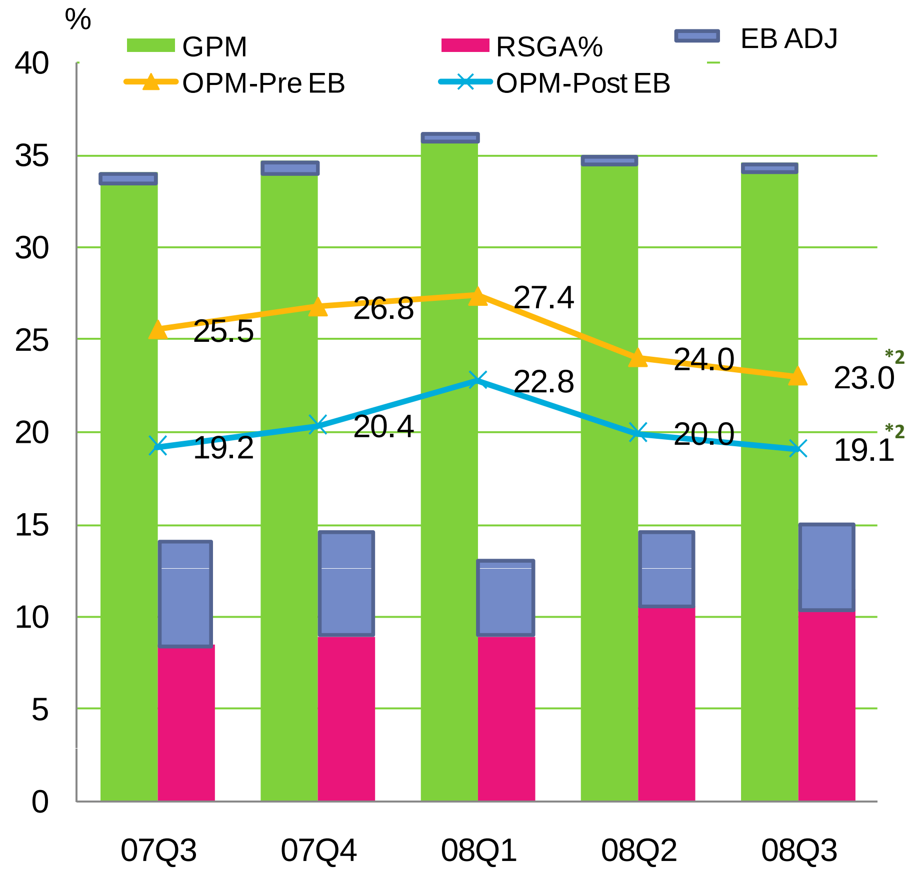
*1 After the deduction of cash dividend of $34 per share (NT$19.48 bil.) and employee cash bonus of $1.21bil. Ex-dividend date was July 15, 2008. The cash dividend payout date was Aug. 11, 2008.
*2 Excluded the accounting entry adjustments of NT$146 mil, the AR provision is NT$0.39bil (23.5% QoQ ,147.6% YoY)

FACT SHEET UPDATES – BUSINESS STATUS

REVENUE



MARGIN*1



*[1]Warranty service and inventory scrap were recognized as opex and non-operating expenses respectively before 2008. For comparison purpose, all margins in 2007 were adjusted to the same accounting criteria.

*[2]Excluded 2 adjustments of NT$0.24bil for accounting entry adjustment and PSP expenses, the RSGA PRE-EB expense is NT$4.10bil (8.0% QoQ ,67.0% YoY) whereas RSGA% PRE-EB is 10.8% and NOP PRE-EB is NT$8.95bil (7.7% QoQ, 20.4% YoY) whereas 0PM PRE-EB is 23.6%.

THE 4th Q 08' BUSINESS OUTLOOK

- The 4th Q revenue expects to grow around mid 20% on YOY basis, or around NT$48 billion. The annual revenue YOY growth rate is expected to be around 29%.
- The gross profits growth trend continues, a mid 10% QOQ growth rate. The management team has executed an operational efficiency plan to achieve the 31% ± 1% GPM. The margin deviation could be caused by either FX or product mix change. The GPM on the core business excluding the FX impact is sustained. The GPM is influenced by
    1) The business mix change and
    2) The EU € depreciated against NT$.

THE 4th Q 08' BUSINESS OUTLOOK

- The OPEX ratio (excluding the PSP adjustment):
  - The OPEX ratio will be down to around 8.7%.
  - The operating profit margin expects to be around 21.3% to 23.3%.
- The pro-forma financial reporting OPEX ratio (including the PSP adjustment):
  - The pro-forma financial reporting OPEX ratio expects to be around 10%.
  - The operating profit margin expects to be around 20% to 22%.
- Additional NT$616 million PSP expenses are added in the 4th Q OPEX. This PSP adjustment is an accounting entry reclassification that the same amount of the equity-method investment gain will be booked.
- The annual OPEX ratio excluding the PSP adjustment in the 3rd and 4th Qs is around 10%, in line with the guidance.

QUESTIONS CONCERNED

- Q: Please explain FX impact on the margin.
  - A: Revenue denominated in the US$ is roughly naturally hedged against the expenses denominated in the US$. The EU€ exchange rate against the NT$ is stable for the first 3 quarters staying at the level of 46 to 47. The EU€ depreciated against the NT$ since late Sept from NT$ 46.5 to NT$ 42.0 per EU€. The EU€ denominated business accounts for around 30% to 35% of HTC’s total business.
- Q: Please comment the margin on the Android platform.
  - A: The margin on the Android platform is expected to be in line with that of the WM platform. G1 carries less margin due to the first strategic investment.
- Q: Please comment the product competitiveness of the Y09.
  - A: HTC will continue to deliver innovative products to the market in both WM and Android platforms. Based on the feedback from our business partners, HTC is confident with the product strength in Y09.

QUESTIONS CONCERNED

- Q: Please provide guidance on GPM and OPEX trend of Y09.
  - A: HTC provides GPM guidance on quarterly basis as HTC needs to maintain the responsiveness to the market environment changes.
- Q: Please elaborate the impact on the adoption of the SFAS No 10 Inventories to HTC.
  - A: HTC has adopted the SFAS No 10 since the beginning of Y08 that there is no incremental one time impact to HTC's income statement.